THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, AN UPDATE

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, JULY 14, 2010

Serial No. 111–29

Printed for the use of the Committee on the Budget

Available on the Internet:
http://www.gpoaccess.gov/congress/house/budget/index.html

U.S. GOVERNMENT PRINTING OFFICE

57–735 PDF WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
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THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, AN UPDATE

WEDNESDAY, JULY 14, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 1:00 p.m. in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Kaptur, Becerra, Doggett, McGovern, Etheridge, DeLauro, Edwards, Scott, Langevin, Connolly, Schrader, Ryan, Hensarling, Garrett, Diaz-Balart, Campbell, Jordan, and Djou.

Chairman SPRATT. I am going to call the hearing to order. Secretary Vilsack, welcome. We look forward to your testimony.

We have a vote on the floor and what we propose to do is do opening statements, go vote, come back and proceed with the hearing if that is agreeable with you.

We are here today for an update on the Recovery Act and our economy.

The baseline in which we begin is January, 2009, the month prior to passage of the Recovery Act. The economy was shrinking an annualized rate of 5.4 percent; 779,000 jobs were lost in that month alone, 2 million in the previous quarter.

The deficit at that starting point was projected to be $1.3 trillion for fiscal 2009. Now, after adoption of the Recovery Act and after 18 months of other fiscal and monetary relief, the economy is in its third straight quarter of growth and a net of nearly 900,000 jobs have been created since January 2010.

Because of the economy and the aggressive measures we took to deal with the worst recession since the Depression, the deficit rose to $1.4 trillion for 2009. That is far more than we can sustain, but it is not substantially more than CBO foresaw in January of 2009.

Most economists agree that it is counterproductive to try and balance the Federal budget in the midst of a recession. But we have been taking steps to make sure that the budget recovers as the economy recovers. We have made pay-as-you-go statutory; created a fiscal commission; and approved in the House a discretionary spending cap for 2001 at a level that is $7 billion below the President's request.

This is the third hearing that this committee has held to examine the State of the economy and the recovery. In June, Federal Reserve Chairman Ben Bernanke testified that the Fed anticipates that real gross domestic product will grow in the neighborhood of

1—3.5 percent over the course of the coming year as a whole and maybe at a somewhat faster pace next year.

When I asked Chairman Bernanke whether TARP and the Recovery Act had been necessary to rescue the financial system and our economy, Bernanke replied, "Certainly, we have averted what I think would have been, absent these interventions, an extraordinarily severe downturn, perhaps a great depression"—that from a man who is characteristically understated.

Two weeks ago, we heard from a panel of economists, including Mark Zandi. Zandi said that, by his estimate, the economy will grow nearly twice as fast over the course of 2010 as it would have fared without the Recovery Act. The Congressional Budget Office has estimated the Recovery Act is contributing significantly to economic turnaround, raising GDP by 1.7 to 4.2 percentage points in the first quarter of 2010 and increasing employment by between 1.2 million and 2.8 million jobs in that quarter alone.

Yet, the economic recovery is not proceeding as fast and as steadily as we would like. And for too many Americans, jobs are still scarce and hard to find, and credit is still tight and hard to get.

So, we hold today's hearing to examine the impact the Recovery Act has had on the economy and consider impacts that it may have yet. We are pleased to have to testify representatives from two Cabinet departments that have responsibility for a considerable portion of the Recovery Act funding. First, we will hear from Secretary Tom Vilsack from the Department of Agriculture.

We had originally been scheduled to hear from the Energy Secretary Steven Chu as well, but a last-minute scheduling issue kept him from being here, and he will be represented by Matt Rogers, who is his senior adviser. We will hear testimony from Mr. Rogers after we hear Secretary Vilsack's testimony and members have had a chance to ask questions. We will hear from both witnesses in detail about the impact of the funding and tax provisions contained in the Recovery Act.

After hearing from our Administration witnesses, we will then turn to economists from the Economic Policy Institute and the Mercatus Center at George Mason University. But before we go to Secretary Vilsack, let me recognize the Ranking Member, Mr. Ryan, for his opening statement.

Mr. Ryan.

Mr. RYAN. Thank you, Chairman.

Thank you for calling this hearing to assess the stimulus and its impact on the economy and the Federal budget. I also want to extend a warm welcome to our witness again.

Secretary Vilsack, good to have you again. Thanks for taking time out of your busy schedule.

I also want to take a moment to recognize Veronique de Rugy—I just took a little time to practice that name, I think I got it right—who will join the next panel.

Veronique is a distinguished economist and senior research fellow at the Mercatus Center at George Mason University, and she has done a tremendous amount of work on tracking stimulus spending.

Over a year ago, Congress enacted a stimulus bill that spread huge spending increases across the government. By every objective measure, from jobs and economic growth to the rising price tag, the stimulus has failed.

It has failed to create the jobs promised. Rather than save or create 3 to 4 million jobs, the economy has shed 2.7 million jobs since the stimulus passed. It has failed to keep the unemployment rate below 8 percent as promised. Unemployment still hovers near 10 percent. It has failed to revive the economy, as growth remains sluggish and there are growing fears of a double-dip recession.

A year ago, we were told that the stimulus would cost us $787 billion. That cost has risen in the latest estimate to $862 billion. The total price eclipses $1 trillion when you include the borrowing costs.

Rather than acknowledge the limitations of this borrow-and-spend approach, the Administration and this Congress have opted to move goal posts and to double down. We will be likely told today, as Americans have been lectured throughout the so-called "Recovery Summer" campaign blitz, that those promises were based on miscalculations of the severity of the situation. The proponents will tell us that we should all be grateful that the pain isn't more acute and that it is not fair to hold policymakers accountable for the failures of their policies.

The economic models that were overpromising on the stimulus were clearly wrong, yet the Administration relies on these same economic models to make the case to double down on this failed borrow-and-spend economic experiment. The failed stimulus is unfortunately typical of Washington's destructive economic agenda. The government cannot spend, tax, and regulate its way into economic prosperity, but that is exactly the policy course this majority has chosen.

Washington's economic overreach is paralyzing investment and growth. It is fostering an environment of anxiety and uncertainty and further eroding the American people's trust in their elected leaders.

From health care and the financial sector to the auto industry and the costly cap-and-trade national energy tax, this Administration and this Congress seem to believe that the answer to every problem is to explode the size of government and to centralize power in Washington. And while the Administration will be quick to highlight what it sees as its accomplishments from deficit spending on its stimulus program, we still have no budget.

We just learned that the Administration's budget and economic update, which was due tomorrow, will be delayed this year. We still haven't received the Trustees' report on Medicare and Social Security's financial health, which we usually receive in April. The American people are fed up with the relentless push to spend money we don't have, add to our crushing burden of debt, and evade accountability for the dismal results.

We need to chart a new course. Let's cancel the remaining stimulus funds. Let's get a grip on runaway Federal spending, and let's advance pro-growth economic policies. We need to spur sustained job creation, rebuild confidence in our future, and restart the American engine of prosperity.

Thanks again to all of our witnesses. Obviously, we have differences of opinion, and I look forward to your testimony.

Chairman SPRATT. I think we have framed the issues adequately for the forthcoming hearing. We will be back as quickly as possible. Thank you, again, Secretary Vilsack, for your indulgence.

[Recess.]

Chairman SPRATT. I call the committee back to order, and before proceeding to hear from our witnesses, I would simply ask unanimous consent that all Members be allowed to submit an opening statement for the record at this point.

Without objection, so ordered.

I also welcome again our witnesses and would tell each of them that their statements have been filed and will be made part of the record in their entirety, so they can summarize as they see fit.

Secretary Vilsack, thanks for coming. We look forward to your testimony, the floor is yours.

STATEMENT OF HON. THOMAS J. VILSACK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary VILSACK. Mr. Chairman, thank you very much.

And to Representative Ryan and other members of the committee, thank you for the opportunity to be here today to speak to you briefly about the American Recovery and Reinvestment Act.

The chair has done a good job of discussing the role that the Recovery and Reinvestment Act has played in helping to rescue our economy from a potentially serious depression, as reflected in increased growth in our gross domestic product and in private-sector job numbers.

I would like to direct the committee's attention for just a few minutes to the state of rural America and the impact that the Recovery Act has had and will continue to have on a resurgence and revitalization in rural America.

This is an area, Mr. Chairman, where we have seen high unemployment, significant poverty, income disparities, aging populations and declining populations, not for the last couple of years but for a number of decades.

The Recovery and Reinvestment Act, in my view, provides a real shot in the arm for rural America, and it is the linchpin to a revitalization of the economy. Consider what we have been able to do at USDA with the Recovery and Reinvestment dollars. Today over 800 communities have seen improvement in community facilities as a result of projects funded through the Recovery and Reinvestment Act. Our Community Facility Grant Program has allowed us to expand hospitals, libraries, police stations and fire stations, creating jobs and providing strengthened communities that will impact and affect over 10 million Americans.

The same is also true for the reinvestments that have been done in wastewater and sewer projects. Again, over 800 projects have been impacted already by the recovery dollars. This has allowed us to improve water quality for over 2 million Americans, reducing the threat of water-borne illness, and more importantly and perhaps as importantly, creating an opportunity for these communities across the country to be able to attract real economic development because they have the capacity to fulfill water needs of growing and expanding businesses.

Speaking of growing and expanding businesses, the Recovery and Reinvestment Act has provided an opportunity for us to assist over 1,000 rural businesses, helping to create and retain jobs that are so vital to our recovery. Nine hundred business and industry loans have already been made by USDA and more to come. A hundred and eighty-eight projects under the Rural Enterprise Grant Program have been funded, spurring entrepreneurial opportunity.

At the same time this is taking place, we are also working aggressively to expand broadband access in rural and remote areas across the country. To date, 137 projects have been funded and obligated. This will provide broadband coverage to over 500,000 households, over 100,000 businesses, well on the way to reaching our goal of 1.2 million households positively impacted by having access to broadband and over 230,000 businesses being able to access the opportunity this presents. Small businesses will be able to expand markets. Farmers and ranchers will be able to have real-time information. Homeowners will be able to access online education without having to leave their homes. In addition, anchor institutions, 7,800 anchor institutions, will be assisted in expanding opportunities in schools with class opportunities for small rural schools that are unable to hire teachers but can have access to online courses.

At the same time, we are working hard through the Forest Service to impact and affect the 193 million acres of our forest and grassland properties. With the Recovery and Reinvestment Act, we have already been able to improve 8,400 miles of roads, an additional 1,900 miles of trails, and 25,000 acres have been improved in terms of soil and water conservation. This, in addition to the fact that we have expanded the opportunity for the American dream of homeownership to 89,000 individuals across the country through our Direct and Guaranteed Loan Programs.

All of this will help create opportunity today and, as importantly, will continue progress in creating a more vibrant and revitalized rural economy tomorrow. This goes along with the recovery aspect of the Recovery and Reinvestment Act, where we have already provided over 2,600 farm families with direct loan assistance to allow them to maintain their farms; $350 million in disaster assistance has been provided under the Recovery Act; and over 40 million Americans are currently receiving SNAP payments. Thousands of school children will also receive assistance, as will those who are food bank recipients, as a result of the recovery and reinvestment.

At the same time, Mr. Chairman, that we are trying to revitalize the economy, we want to make sure that what we do is transparent and that we are held accountable, and so we have actively involved our staff in working together to try to create interactive maps, such as the one I am holding up in my hand here on housing.

We have similar sheets on our Web site that will tell people exactly what is taking place within their State. We are also keeping track of contract performance. This book is a series of contract performance measures to make sure that we are continually on track, to make sure that projects move forward, creating the jobs and opportunities that were promised through the Recovery and Reinvestment Act.

We received $28 billion in the form of appropriations: $17.2 billion has been obligated; $14.1 billion has been outlaid; and we are awaiting projects in the Forest Service and broadband to expand on those numbers.

With that, Mr. Chairman, I would be happy to answer questions that the committee has.

[The prepared statement of Secretary Vilsack follows:]

PREPARED STATEMENT OF HON. THOMAS J. VILSACK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear here today before the House Committee on the Budget to provide an update and highlight the many successes of the American Recovery and Reinvestment Act of 2009 (Recovery Act) for the United States Department of Agriculture (USDA). I am pleased to be here, along with Secretary Chu, to report that the Recovery Act is working. The investments we are making are not only creating jobs and economic stability, but also funding the technology and infrastructure that will lay the groundwork for future economic growth.

I am pleased to be here this morning to report that the Recovery Act is accomplishing even more. It is restoring America in terms of economic growth and vitality and building a new sense of community across our nation. And at the most fundamental level, the Recovery Act is enabling Americans to own homes and is preserving housing for the people all across our country. This is the very core of the American Dream—and supports and renews the very values that our nation was founded upon.

THE RECOVERY ACT IN RURAL AMERICA

Mr. Chairman, it is especially important to highlight what the Recovery Act means specifically to Rural America. While the economic downturn in the past two years was more severe than any other in generations, the difficulties experienced by Rural America have been more acute and long lasting. From all perspectives, Rural America has been in a state of recession for more than two decades. As such, rural communities have struggled to maintain the population and businesses needed for economic growth, and income growth rates have suffered accordingly. The Recovery Act addressed these issues facing Rural America, by funding critical infrastructure and providing new economic opportunities.

The Obama Administration moved quickly to provide immediate relief for hard-hit families and businesses. The short-term rescue funding provided through the Recovery Act was necessary to get Americans back on their feet and get our economy growing again.

At the same time we began making targeted investments in critical infrastructure projects like expanded broadband access and a smart energy grid that help to lay the foundation for economic growth in the 21st century.

Today, both public and private economists say the Recovery Act is a driving force behind recent GDP growth and is responsible for millions of jobs. The Recovery Act has pulled us back from an economic crisis and put us on a path toward economic growth.

STATUS OF RECOVERY ACT IMPLEMENTATION

In just over one year, USDA has announced all of the $28 billion of ARRA funds provided to the Department. As of June 30, we have obligated $17.2 billion and outlayed $14.1 billion of the funds provided to the Department.

Last year we were in the "rescue" phase. We were funding many of our relief programs to help families get back on their feet. For example, over 40 million Americans now receive a 13.6 percent increase in benefits under the Supplemental Nutrition Assistance Program (SNAP, formerly named Food Stamps). For most families of four, this is an extra eighty dollars per month at the grocery store, totaling $800 million a month in direct stimulus to the economy. Our estimates show that money spent on SNAP may have even larger effects on economic activity than other types of government spending. And further, our data indicates that 97 percent of funding received through this program is spent within 30 days of receipt. Not only does this assistance allow families to provide more nutritious and abundant meals for families, it is also a direct form of stimulus to our economy and goes to people who are already certified as being in need.

With the rescue phase of Recovery Act implementation fully underway, we have now been able to focus more on the "recovery and reinvestment" phase this year. With most of our funding fully obligated and projects now underway or beginning, more jobs and additional economic growth are being realized. For example, this summer approximately 800 Water and Waste Treatment projects will be underway, as compared to 370 last summer. With more than twice as many projects underway, the full possibilities of the Recovery Act are beginning to take shape. Similarly, about 500 rural businesses will receive loans this summer compared to 100 last summer—or a five-fold increase. Even more important than the shear scope and magnitude of the Recovery Act projects, it is also important to consider the qualitative impact on communities. Loans for businesses and industry mean the development of better paying jobs, and jobs with benefits and future occupational opportunities. For Rural America, this is absolutely vital in maintaining the fabric of a community and providing young people the prospect of a better future. Recovery Act dollars are being put to work, making long-overdue infrastructure improvements, creating new opportunities for local economic growth and supporting well-paid jobs.

UNITED STATES DEPARTMENT OF AGRICULTURE ACHIEVEMENTS IN RECOVERY ACT IMPLEMENTATION

As a result of the Recovery Act, we are building stronger, healthier communities and laying the groundwork for a new 21st century economy in Rural America.

The Recovery Act also provided critical emergency funding to help our farmers and ranchers keep their operations going strong, and to better enable USDA to support production agriculture in field offices across the country. Within 24 hours after the signing of the Recovery Act, USDA had disbursed $173 million in additional Direct Farm Operating Loans authorized under the Act; this helped more than 2,600 farmers and ranchers across the United States buy the fuel, feed and other supplies they needed to continue day-to-day operations. The Recovery Act provided $50 million to help aquaculture producers offset the dramatically-rising feed costs that threatened to force them out of business, and extended much-needed disaster assistance totaling $744 million to help farmers weather devastating losses due to natural disaster. Finally, by providing $50 million for critical modernization of Farm Service Agency information technology systems, the Recovery Act will help USDA's dedicated field staff to deliver services faster and easier to farmers and ranchers in our Service Centers around the country.

Through the Recovery Act, significant resources have been dedicated to help increase access to critical health, safety, and educational resources. For example, with ARRA funding from USDA, over 800 essential community facilities including libraries, hospitals, and fire stations will be built or repaired in Rural America and over 9,000 rural businesses will receive loans or grants to help start a new business or prevent one from failing. Additionally, over 85,000 rural Americans will receive the assistance they need to purchase or repair a home. As a result of this investment, fire fighters will have the resources they need to keep communities safe, rural Americans will be closer to critical health care needs, and businesses will have the resources they need to stay competitive. Access to these vital community facilities and assistance to buy a home will help Rural America become a place where younger generations will want to stay and raise a family.

Moreover, USDA has committed to using $100 million in loans and grants of ARRA funding to build or repair libraries in Rural America, which will provide increased educational access to 2.5 million rural residents. Such access will provide increased educational opportunities and therefore increased economic competitiveness for Rural Americans. Libraries not only play a vital role in educating their patrons, they also enhance the economic vitality of a rural community. Rural businesses are able to access an array of informational resources, including new state of the art communications tools and technologies that often aren't otherwise available in their community. Libraries are also a source for connecting people to the internet. Many rural Americans don't have computers at home and wouldn't be able to afford monthly internet fees even if they did. Public libraries offer free internet access and computer training—keys to bridging the digital divide and improving the quality of life in Rural America. Recognizing this significance, USDA is using the Broadband Improvement Program, funded through ARRA, to help advance this commitment. Specific funding has been set aside and is available to allow applicants to request grant funds to reimburse the associated costs for connecting any rural library in their proposed funded service area with funding from an award from USDA's Community Facilities program. Because of this commitment, rural communities will have increased educational and economic opportunities.

Building a critical infrastructure is imperative to the future of Rural America. Without access to clean, safe water supply, or access to new competitive technologies, Rural America will continue to experience population loss. As a result of Recovery Act funding, communities in Rural America are getting the infrastructure needed to become competitive in a 21st century economy. For example, approximately 2 million rural residents will benefit from new or improved water and waste treatment systems provided by USDA's Water and Environmental Program. As a result of this ARRA investment, over 800 rural communities will have clean drinking water, safe waste disposal, and reduced environmental impact from their sewer systems. The health-related improvements from these projects to Rural Americans are worth the investment-alone. On average these projects will reduce each rural population's potential for water-borne illness by 6 percent. But even further, the water-related projects are essential to rural economies. Water and waste water initiatives are absolutely essential in attracting new business opportunities to these areas, as businesses place access to clean and abundant water as a prerequisite in site selection for growth and expansion.

In addition, nearly 400 Natural Resources Conservation Service projects, totaling $340 million in Recovery Act funding, will provide significant public and environmental benefits to Rural America through the restoration of floodplains and investments in watershed improvements, including critical infrastructure. Nearly $230 million has been obligated towards these projects to date and approximately 170 projects have commenced construction or are in the process of restoration. These projects will protect communities from potential loss of life and property from natural disasters, as well as help develop better green infrastructure by restoring natural vegetation and riparian corridors. These investments will create quality, green jobs connected to environmental restoration and protection of areas safe for new business development.

The Forest Service has already funded 705 Recovery Act projects across the nation. Forest Service Recovery Act projects will provide multiple resource benefits including healthy ecosystems; reduced fire risk; clean abundant water; safe accessible recreation opportunities; energy-efficient facilities; and technology to convert wood to clean energy on federal, as well as state, private, and tribal owned lands.

This summer, as field season kicks into high gear, the investments made last year will transform dollars to action with thousands of projects beginning and others dramatically ramping up hiring and activity. Already, we are seeing a tremendous increase in accomplishments on the ground when compared to last field season. For example, last summer we maintained 128 miles of trail; this field season already, we have treated over 1,770 miles of trail. Last summer, we maintained 427 miles of roads; this field season, we have already treated over 7,170.miles of roads. Last summer, we treated 33,874 acres of forest to reduce wildfire risk; this field season we have already treated over 266,000 acres to reduce wildfire threat. Much more will be accomplished by the end of this field season

Also, with funding from the Recovery Act, we are making the investment to bring broadband to rural communities for the first time ever. The Recovery Act will bring broadband to an estimated 1.2 million households, 230,000 businesses, and 7,800 anchor institutions. As a result of this investment, many individuals, schools, libraries, and healthcare facilities will obtain broadband capabilities for the first time. Farmers will have access to real time market information, businesses will have the tools to compete in a global marketplace, and rural residents will have increased educational and medical opportunities.

The Recovery Act provided clear direction and a historic opportunity to bring broadband into rural areas that otherwise would not have the resources to install broadband. Rural areas are most often the areas that are not considered good investments by companies installing broadband. We have an opportunity to give communities that might otherwise be overlooked a chance to be positioned for the next generation of technology and the next phase of U.S. economic growth. Broadband technology is essential to job growth in Rural America since broadband connections provide a platform for rural Americans to be connected to their counterparts in urban areas of the U.S. and beyond. This connection would help business owners tighten their distribution channels, increase efficiency in their processes and reach a larger market. Furthermore, American farmers will be able to use broadband connections to watch product prices, obtain weather forecasts, buy and sell commodity futures, track the progress of supplies ordered or products shipped, and find markets.

As Broadband reaches Rural Americans, who would not have been served otherwise, it is easy to see the kind of transformational impact that the Recovery Act is having on our Nation. The result is a new sense of community in rural areas, who can now communicate more effectively with their neighbors, with the nation, and with the rest of the world. Young people will be able to grow up and become more competitive with youth from around the globe, in terms of educational capacity, but also as part of a global community.

Access to broadband in rural communities will also likely enhance the attractiveness of these locations to firms able to operate remotely. Rural communities linked to broadband will be able to host call centers, information technology hotlines and other industries that require remote connection to businesses. Extending broadband access to Rural America means better and quicker access to information and the infrastructure to operate and compete in a 21st century economy. And the capacity of rural communities to provide highly skilled and highly technical information technology-related jobs in the future will be vitally important to attracting young people to Rural America as a place to live and work.

A NEW WAY OF DOING BUSINESS

In the past, government policies have not been strategic or focused on long-term economic growth and sustainability. Rural communities have suffered as a result. However, the enactment and implementation of the Recovery Act created an opportunity to reexamine how government operates and begin making necessary changes to ensure every dollar being spent is achieving its maximum potential. A priority for President Obama is to restore the trust of the American people in their government.

Transparency and accountability with government spending is of vital importance so taxpayers can ensure their money is being spent in the best way possible. These principles are also important to guarantee government takes a close look at where and how money is being spent. Starting with the Recovery Act, this Administration set a new standard for transparency and accountability with government spending. Recovery Act projects go through several layers of approval before getting funded. Wasteful or unwise projects are rooted out and rejected up front. Moreover, all Recovery Act spending is tracked and recorded so the public can see where each dollar is being spent.

RURAL AMERICA: PRESENT AND FUTURE

Mr. Chairman, the American Recovery and Reinvestment Act has provided Rural America with the funding necessary to withstand the economic devastation caused by our nation's financial crisis. Through Recovery Act rescue funding, struggling rural Americans, who lost their jobs, could not afford food, housing or proper health care have been transitioned from tough times to better times.

But the Recovery Act is accomplishing so much more than just rescuing our economy. The Recovery Act allowed us to look forward—making unprecedented investments in rural communities. The Recovery Act invested in infrastructure, industries, and new ventures well-positioned to make the most of the strategic assets found in Rural America, ensuring the long-term vitality of these communities and America's economy more broadly.

While there is certainly much work to be done to bring jobs and new businesses to communities that have been shedding both for decades, the Recovery Act has taken a giant first step forward. I am certainly proud of the efforts of USDA and all of the Executive Branch team who serve day in and day out to ensure the promise of the Recovery Act is realized. But I also want to point out that absolutely none of the accomplishments could be possible without the partnership and tenacious commitment of state and local governments and all of the hard work of individuals and groups at the local level across Rural America. It is their dedication and commitment that embody the spirit and heart of our nation.

Mr. Chairman, I believe that our Nation's experience in Recovery Act implementation embody the very principles and ideals of the United States. Time and time again, our country has proven that when difficult times and hardship affect our nation, we come back stronger and even more resilient for the future. Americans have always been up to the challenges that have been presented to them, and have overcome every obstacle that has emerged over our history. We are at our best as a nation when we work together to rise up to meet and overcome new challenges. Mr. Chairman, I view our nation's response to the global financial crisis and our concerted efforts to rescue, renew, and revitalize America through the Recovery Act as prime examples of what our country is capable of. It is our dedication to the American Dream and the single-minded focus that we can adapt, transform, and emerge better prepared as a nation and become stronger than ever.

Mr. Chairman, I am proud to be part of this effort and I look forward to responding to any questions that members of the Committee might have.

Chairman SPRATT. Governor Vilsack, you have been—well, I just said that, Governor Vilsack; that is how we originally knew you. You have been Governor. You have been Secretary of Agriculture, and you have seen, I know, many of these projects throughout the country.

Are you satisfied, first of all, that they are worthwhile investments and, secondly, that they are doing something beyond the communities where they are spent to boost the economy?

Secretary VILSACK. Mr. Chairman, in addition to being a Governor for eight years and a State senator for six, I was also mayor of a small town for five years. I can assure you, just take the wastewater projects, for example, I can assure you that the 800 communities that have received assistance to improve water quality are in a much better position to attract people, young couples, housing developments, and business developments as a result of these investments.

They will not only impact and affect the community in which these investments are made, but they will also have a positive impact on economic opportunity within the region of that community. Many of these communities are county seat towns that are basically the economic hub for their county and their region.

To the extent that we have helped over a thousand businesses retain jobs or create jobs and expanded opportunity, that, too, will have a positive impact for some time.

Perhaps the one thing that has the greatest potential is the work that is being done in broadband. I mean, I am excited, having come from a State that had a statewide fiber optic system that was developed a number of years ago, I saw, firsthand, the impact that that has had on small-town schools; on hospitals being able to link up to tertiary care centers; our National Guard; our library systems being able to expand dramatically their services and operations; businesses that will absolutely be able to expand markets from their local market to regional and global markets. The ability of farmers and ranchers to have real-time information makes a real difference in terms of their bottom line. And I will tell you, to the extent that you have got homeowners who are taking care of children who want to expand their educational opportunity, access to online courses makes a difference.

There is no question that this Recovery Act has made a significant impact in the lives of 89,000 families who would otherwise, but for this act, would not have had the homeownership opportunities that we have created through USDA. And I suspect that there are similar stories and indications throughout the various Departments of the Federal Government that were impacted by the Recovery and Reinvestment Act.

Chairman SPRATT. How much in the way of funding do you still have left to commit or distribute?

Secretary VILSACK. As I indicated, we had $28 billion of announced, the $28 billion in our appropriation, that has all been announced. We have outlaid it, roughly half of that. We have obligated about $17 million, so there is another $11 million or so to obligate. A lot of that is in SNAP, which is, as you know, spaced out over a period of some time.

And I might add that even SNAP has an economic benefit. The reality is, for every $5 we invest in SNAP, there is $9.20 of economic activity. When more people can buy more food, somebody has got to stock that food, someone has got to shelve it, someone has got to truck it, someone's got to process it, someone's got to pack it, someone has to produce it. All of that equates to potential job opportunities, both saved and increased.

We also have additional resources with broadband that will be obligated before the September 30th deadline.

Chairman SPRATT. Where do you think the money is likely to be spent, the money yet to be obligated and spent? Which of these programs is it likely to be invested in?

Secretary VILSACK. There are still resources available in broadband, which we had over a thousand applications in our second round of funding. We have reviewed those applications, and we are in the process of finalizing decisions. We have already made announcements with one group. We have two more sets of announcements to make very shortly, and then there will be ongoing announcements over the summer.

In addition, there are still some resources left in the Community Facilities Grant Program and some resources in the business and industry programs, but those will all be committed before September 30. We are on track to make sure that these resources are obligated, and then we will make sure that they create the kinds of opportunities by tracking them.

Sometimes, it doesn't look as if the money has been paid out because we are waiting, based on our programs, for projects to be completed. We get the sign from a city that is involved in the wastewater facility project, for example, that they have finished the project. That is—at that point in time, we cut the check and reimburse the city for their costs. So, a number of these projects are currently working, and as soon as they are completed, we will pay out the resource.

There is still additional money to be spent on the Forest Service, which has also a profound economic impact. We now know from a recent study that there are 173.5 million people that visit our forests, over 300 million people who drive through it, and that they have collectively about a $27 billion impact on economies within 50 miles of forests. So, as we improve trails, roads, and so forth, we increase opportunity for outdoor recreation.

All of this is going to take place as a result of what we have invested through the Recovery and Reinvestment Act through the USDA.

Chairman SPRATT. Mr. Secretary, thank you for your excellent testimony and your time in being here.

I turn now to Mr. Ryan.

Mr. RYAN. Hi, Mr. Secretary. We are starting to see some of the Democratic leaders here in the House come around to kind of our way of thinking on unspent stimulus funds. The Majority Leader Hoyer the other day said that spending fatigue is occurring across the country, and Congress ought to look at redirecting some of that money. The House's war supplemental took some money from unspent stimulus funds to offset some of the war supplemental spending.

Does the Administration share this change of heart? Are you looking at possible ways of rescinding unspent stimulus money to go toward deficit reduction?

Secretary VILSACK. Representative, thank you for that question. It is an important question, and I know a serious debate will take place. Let me say that, at USDA, we do take deficit reduction seriously. It is one of the reasons why we recently completed negotiations with the reinsurance, standard reinsurance agreement for crop insurance. As a result of that re-negotiation, we essentially saved $6 billion, $4 billion of it which we dedicated to deficit reduction.

So, we are already taking steps at USDA. I would say that it would be shortsighted as it relates to USDA programs, particularly the reinvestment part of the USDA programs, to take resources away, given the opportunities that these programs create for benefits today and in the long term.

We will, obviously, work with Congress to do whatever has to be done within the parameters that you all set, but I would say that USDA is stepping up on deficit reduction in a very meaningful way with the $4 billion from the Recovery and Reinvestment Act.

Mr. RYAN. Let me take a stab at bipartisanship then. Do you think, with the $1.5 trillion deficit, we ought to be offering subsidies to wealthy farmers? I think we agree on this. You are an Iowa guy, and I am a Wisconsin guy. I think we agree on some of these things.

Secretary VILSACK. I think there are opportunities for us to continue to look at ways in which we can utilize our resources within USDA and the safety net to do what the safety net is designed to do.

If I might say, though, I see rural development and job growth and creation in rural America as part of the safety net. That is why I am insisting on trying to save as much of this resource as possible.

Here is why: 45 to 50 percent of our farm families require off-farm income in order to keep the farm. So, it is really important for us to maintain that part of the safety net.

Can there be adjustments? As you well know, we have proposed, in a number of budgets, reductions to some of the farmers in the top tier. We obviously support that. The President supports that. We would appreciate your help in getting that done.

Mr. RYAN. Yes, I mean, I would say the term "safety net" implies targeting and focusing on those who need a safety net. And so, I think there is an area where we ought to be able to agree. I hope you are forceful with OMB in its submission of the next budget, and we can work on that.

There is a specific thing I want to ask you. I sent a letter, along with Congressman Flake, Ron Kind, and Barney Frank, a bipartisan letter, to the President on April 22nd dealing with the Brazil-WTO cotton dispute.

Secretary VILSACK. Yes.

Mr. RYAN. We are, I think, shelling out, under this agreement, $147 million a year to Brazilian agribusiness so we can continue paying about $3 billion a year to large U.S. agri-businesses. This is an unsustainable position.

We were facing large tariff retaliation against a whole slew of American businesses. Obviously, when we enter into agreements, we should fulfill those agreements. It is tough to expect the same from other countries when we don't do it ourselves.

We haven't gotten a response from this letter yet. Would you— I would like to ask unanimous consent to submit it for the record.

Chairman SPRATT. Without objection.

[The information follows:]

Congress of the United States
Washington, DC 20515

April 22, 2010

President Barack Obama
The White House
1600 Pennsylvania Ave NW
Washington, D.C. 20500

Dear President Obama:

With the World Trade Organization (WTO) Arbitrator's final ruling of the trade dispute brought by Brazil to the WTO late last year and the subsequent negotiations, the need to overhaul the U.S. cotton program is more apparent than ever. With the current fiscal environment and unprecedented nature of the cross-retaliatory threats to the intellectual property of U.S. companies, we are frustrated by the interim negotiated agreement between the United States and Brazil. The U.S. cotton program is a barrier to trade and economic growth and must be reformed. In light of this ruling, we urge you to take a strong stance in working to reform these egregious subsidies.

Since 2002, the U.S. cotton programs have been openly disputed by Brazil to the WTO. Congress had the opportunity to completely reform or repeal these programs during the reauthorization of the farm bill in 2007-2008, but it chose not to. Now, because of Congress' inability to reform the subsidy programs in the farm bill, a wide array of American businesses can be used as a lever against the U.S. in its authorized retaliation. In addition to traditional tariff measures, the retaliatory countermeasures authorized by the WTO included cross-retaliation such as the suspension of U.S. intellectual property rights. Brazil's threat against U.S. intellectual property would impede our efforts to open international markets and negatively impact products ranging from chemicals to music to software. If the precedent set in the Brazilian case practice spills over to other disputes, it could have a painful effect on American businesses.

This unprecedented attempt by the Brazilian government to subject about 102 American goods to stiff import tariffs is concerning. Though the U.S. Trade Administration and the U.S. Department of Agriculture were able to reach an agreement with the Brazilian government where Brazil would postpone these retaliatory measures, the agreement is only a temporary solution. Should we fail to effectively reform this program now, American businesses and workers will pay the price because we refused to write a law that complies with our international obligations. We cannot expect our trading partners to play by the rules if we are not willing to do the same.

From this ruling, it is clear that our agricultural subsidies are grossly outdated and are quickly becoming a liability for future trade growth. Instead of effectively reforming our programs, we are electing to pay $147.3 million annually to Brazilian agribusiness so that we can continue to pay around $3 billion a year to large U.S. agribusiness. This policy distorts the marketplace and is fiscally irresponsible. By the time we reform the cotton programs in 2012 farm bill, the U.S.

will have spent close to a half a billion dollars in "technical assistance" to Brazilian agribusiness. With the current fiscal environment, we need to focus on reforming our programs so that they responsibly use taxpayer dollars now.

We urge you to utilize all of your resources to reform the agricultural subsidy programs, and in particular, the cotton program. There are significant federal budget savings associated with eliminating or reforming the cotton program. For example, it is imperative to restructure the GSM-102 Export Credit Guarantee Program, which fails to cover its operating costs and effectively serves as an illegal export subsidy. While the U.S. agreed to make some near-term modifications to the program's operation, further reform is necessary to ensure the program is fiscally responsible and WTO compliant. Based on historical program costs, raising the fee structure of the GSM-102 program to fully offset operating costs could bring the program into WTO compliance and would contribute approximately $300 million per year in federal budget savings depending on annual participation and default rates.

In addition to setting premium rates high enough to cover the long-run GSM-102 program operating costs, adjustments are needed to bring price contingent cotton programs into compliance. The support prices (i.e. the loan rate and the target price) for the marketing loan program benefits and the counter-cyclical program payments are currently set too far above market prices. This has encouraged greater production and exports than the market demands, which has distorted the marketplace and lowered world market prices. Eliminating cotton subsidies wholesale or at least lowering cotton program price triggers to levels more reflective of market conditions would mitigate market distortions and could save an average of $1.8 billion per year in federal program costs at a minimum. Addressing changes such as these will help bring our nation into compliance with the WTO dispute settlement ruling as well as improve our fiscal, trade and agricultural policies.

We are eager to work closely with your administration to adjust the agricultural subsidy programs so that they will help rather than hinder international trade.

Sincerely,

Ron Kind
Member of Congress

Jeff Flake
Member of Congress

Barney Frank
Member of Congress

Paul Ryan
Member of Congress

Mr. RYAN. But would you comment on this?

Secretary VILSACK. Sure.

Mr. RYAN. Where is your thinking on this? What are you going to propose to do? Are we going to wait until the next farm bill to revisit this issue, or can we get on with reforming the cotton program, save taxpayer dollars, stop paying $147 million a year, and make some sense out of this and get some deficit reduction?

Secretary VILSACK. I think it is important to characterize this as a situation that we inherited.

Mr. RYAN. No two ways about it, absolutely.

Secretary VILSACK. Okay, and we were confronted with the fact that Brazil, because of a WTO ruling, had the capacity to penalize American farm interests and business interests to the tune of $850 million annually. It would have increased over time well north of a billion dollars on an annual basis.

What was of deep concern was their capacity to actually look at technical information and trade secrets and that type of opportunity to open up to the world things that we were trying to protect under our patent laws. So, we felt it was necessary to do something in the short term to ensure that that did not happen. That is the reason we negotiated the agreement we did.

It required us to do three things, two of which we have, I believe, done and one of which we are currently working on. One was that we had to look at certain regulatory decisions that we had to make within APHIS as it related to Brazilian goods, which we are in the process of doing, so that markets could be more open.

Secondly, we needed to look at the GSM Export Assistance Program, and we have made changes to that. The WTO did not take that into consideration. We think that they ought to take that into consideration, because we believe, by the changes that we have made to that program, that we have addressed the concern expressed in the case.

Mr. RYAN. So the price triggers are set at market-based levels?

Secretary VILSACK. We believe that we have done what needs to be done in that particular program. I will tell you I am not confident enough with the details of the specifics, but I have just been advised that we are fairly confident the GSM issue is in the process of a resolution.

The issue, as you have mentioned, is the cotton program. I do think there has been a reluctance on the part of both Democrats and Republicans to reopen the farm bill on a variety of occasions and circumstances. We would stand ready to provide assistance to whatever committee or group, if that is something that folks want to reopen. I suspect, given the fact that we have begun 2012 farm bill discussions, that it will most likely be adjudicated and resolved in that discussion.

Mr. RYAN. So, I understand why you did it, the 147, you got dealt this card. But if we are trying to project this out, it is 147 a year until a new farm bill, perhaps, changes it, until 2012. Is that kind of what we should be expecting here?

Secretary VILSACK. Well, if Congress wants to reopen the 2008 farm bill, we will be happy to assist in that effort. I have not seen any indication from anyone on either side of the aisle that there is an appetite for that.

Mr. RYAN. That is a fair assessment. Thank you.

Chairman SPRATT. Mr. Becerra.

I don't believe Mr. Becerra is here.

Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here today.

Much of my district is small towns and rural areas. It is probably more representative of America—maybe only one other district in the country, because one of the test sites for the Census was in my district several years ago, and they have been hit pretty hard by the recession.

We have seen some pretty bad policies over recent years that sort of got us in this ditch, and we are still struggling to get out of it. As a matter of fact, folks in my district have paid a pretty heavy price.

But we have worked hard here in Congress to put in place what I think are some common-sense policies to help turn this around and put people back to work. And the Recovery Act we are talking about today is a big part of that, and it has played a central role.

Every county, save one, in my district has been above the national average, and unemployment numbers are still terribly high. That is significant, but they are coming down. As a matter of fact, today, every county is lower, the unemployment rates are lower than they were a year ago, so I happen to believe that the Act had something to do with it.

Mr. Secretary, would you comment a little bit more on the farm-operating direct loans, which have had a real impact on districts like mine, that were included in the Recovery Act as well? You touched on it, but could you get into more detail about how many have been made, do we still have funds to make some more for some of these folks who are now hurting, need them to operate with, and what impacts they have had on the farm economy across this country?

And finally, how is USDA using recovery funds to improve public services? You touched on the community issues, but here I am talking about fire departments, rescue squads. In these rural areas, you know, we have the nicest hospital in the world, but if you don't arrive alive, you can't survive, and that is a critical piece of that process.

Secretary VILSACK. Representative, we essentially expended all of the direct loan resources under the Recovery and Reinvestment Act to assist 2,636 farm families with the direct loan portion. We then transitioned to our regular programming resource to provide assistance and help, and we have seen, frankly, a rather significant increase in the interest in both our Direct and Guaranteed Loan Programs.

We will, and, very shortly, reach the maximum capabilities with reference to the Guaranteed Loan Program and very shortly will also do the same in our Direct Loan Program, which is why we have asked for some assistance in taking a look at those programs and seeing if there is a way in which greater authority can be given to us. If it requires structuring the fees so that there is no impact on the budget, we understand and appreciate that. But we are now becoming more and more the lender of first resort as opposed to the lender of last resort.

Mr. ETHERIDGE. Mr. Secretary, do you have any idea how many of these people were first-timer folks coming to USDA, given the economic situation?

Secretary VILSACK. Oh, I would say a significant percentage. And the reason why I say that is, historically, we were looking at Direct and Guaranteed Loan numbers about a half of what we have today. We saw a dramatic increase in 2009. We increased it under the

2010 budget, what we thought would be enough. We went through that in the first 5 or 6 months of the fiscal year.

So, there is a tightening of the credit at the commercial lending level. We have tried to speak to commercial banks about the necessity of working with us. We have also worked within our own systems to restructure loans, to extend payments, to look for ways in which we could provide some assistance, short of voluntary or forced liquidation, which we don't want to do. We want to keep people on the farm. We want to repopulate the rural communities. We don't want to continue to see a decline.

You mentioned the public services aspect of our mission area. I think the Community Facilities Grant Program has done a good job of responding to the need of the communities for ambulances, for fire trucks, for fire stations, for police stations, for police cruisers. Those projects have been funded, not just through the Recovery and Reinvestment Act, but also through our regular program.

We have tried not to focus on just simply the Recovery Act. We have tried to do as best we can to utilize our regular programming resources as well. So, we are seeing community facility projects in addition to the 800 that I mentioned in the Recovery Act.

We have also seen an opportunity that was not taken in the previous administration to expand dramatically assistance to libraries. Libraries are the campfire of the 21st century. It is the place where folks who don't have access to computer technology can access it. It is the place where grandparents can connect with their grandchildren, who potentially are far away. It is an opportunity for us to really provide a learning center, and we have seen a rather significant commitment in this Administration to libraries.

Mr. ETHERIDGE. Thank you.

Thank you, Mr. Secretary.

Thank you, Mr. Chairman, I yield back.

Chairman SPRATT. Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman.

I am certainly glad that you have called this hearing, although I do lament that, unfortunately, it is obviously not to have a budget markup. We continue to be a Budget Committee without a budget, 3 months and counting.

I think you, Mr. Chairman, probably said it best, and that is, if you can't budget, you can't govern.

I hope sometime before the next recess comes, we will actually have an opportunity to come here and mark up a budget, instead of debating spending discipline and budget priorities, as I wish we could.

I fear that we may be having a debate today about, in many respects, how to take the largest deficits in history, the largest debt in history, and make them even larger with yet another stimulus plan. I hope that is not our purpose here.

I respectfully disagree with those of my colleagues and the Secretary who believe that the stimulus act has been effective. I personally see the only thing that it has stimulated is a larger deficit and a larger debt.

We know, over the break, we just learned that we had the third largest 1-day increase of the national debt in our Nation's history. I know there are a number of reasons for that, timing reasons, but at $168 billion, it should still weigh very heavily upon our minds. That, of course, is worse than the entire deficit for fiscal year 2007.

We just learned that we just passed the $1 trillion deficit mark for this year, which will be our second year in a row and the second time ever to have a trillion dollar deficit, on the way to $1.5 trillion.

Mr. Chairman, you know, along with the Ranking Member and myself, and I don't know if Mr. Becerra is here, that those of us who serve on the President's Fiscal Responsibility Commission have heard testimony that when a nation's gross debt to GDP approaches 90 percent, bad things happen. Historically, you can lose a percentage of GDP, which, in our case, means we could go from 3 to 2 percent of GDP, lose an entire third of our economic growth. And we know, Mr. Chairman, that today, the U.S. stands at 89 percent gross debt to GDP.

And so, I have no doubt that any time you spend money, you can do good things with it, but there are also bad things that happen with it.

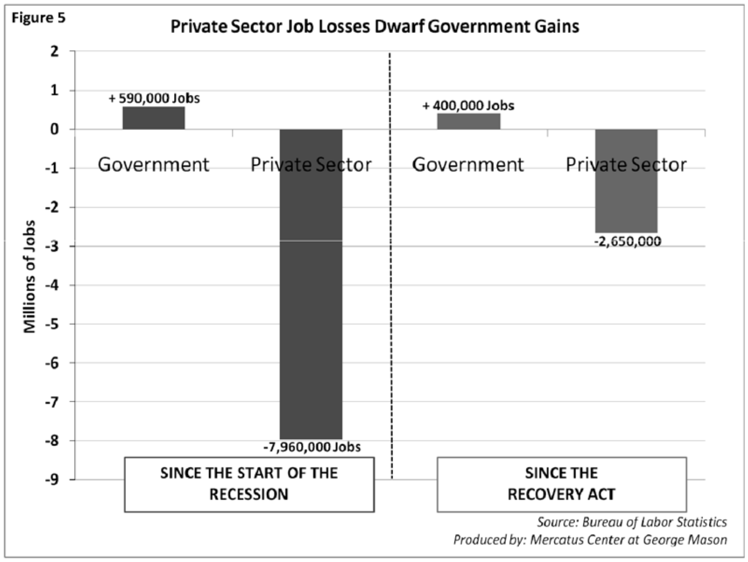
We just had a vote on the House floor as part of the "YouCut" program, dealing with all of this signage around the Nation about the stimulus act.

Unfortunately, it went down in defeat. I sometimes think that better verbiage on the signs might be, we are borrowing 43 cents on the dollar, mainly from the Chinese and sending the bill to our children and our grandchildren.

I continue to believe that the biggest problem impeding job creation today is not so much a lack of capital, but more so a lack of confidence. I certainly hear it from the small business people in my district.

And most recently, I must admit, I have heard it on national television when I woke up the other morning to the Ranking Member, who clearly got up earlier than I did. But the chief economist for the NFIB, the largest small business organization in the Nation, apparently was being interviewed and I will quote from that interview: "It is not just expectations on the tax rates, per se, but just the cost of carrying labor under the health care bill, the promise and heavy discussion on a VAT. The deficit scares us to death. We don't understand how we can keep doing this, so everyone you look at, everything that Congress seems to be thinking about is not helpful for small business, and they don't see it as helpful to the economies. There is no stimulus here; it is just drawing resources out and deploying them in the government sector, not helping the private sector."

In fact, may I have chart 5, please? It shows that since the stimulus act was passed, we have lost about 2.6 million private-sector jobs. Certainly we have had a gain in government jobs.



So, I don't see all the benefit, Mr. Secretary, that I know you do.

In the remaining seconds that I have, I don't want to talk so much about what the government may be doing to create uncertainty, but maybe what the government is not doing, and privately, before we started, I had a chance to mention this to you.

I represent a lot of agricultural interests, particularly beef interests, in east Texas. One thing we could to do to create jobs is to pass some free trade agreements around here with Colombia, Panama, and South Korea. And I am just curious when the Administration and the President is going to demand that Congress take a vote on these free trade agreements.

Secretary VILSACK. Representative, I appreciate that question.

Let me preface it by saying that we are enjoying a fairly robust ag export year at USDA. We anticipate it will be the second best export year we have had since we began keeping records; well, an increase of $8 billion increase in additional exports over last year.

That is a broad range of commodities that are being exported, and we have, consistent with the President's export initiative, redoubled our efforts to make sure that we have aggressive opportunities in all parts of the world.

Heartened by the President's directive to Ambassador Kirk to complete discussions with Korea on issues relating to both a wider opportunity for beef, as you and I privately discussed before the hearing, the importance of that to your constituents and to all of agriculture, as well as making sure that whatever deal is struck is appropriate and fair to the auto manufacturers of this country and the consumers of this country.

As it relates to Colombia and Panama, we continue to fine tune the negotiations on that. I know that there are still some environmental issues that need to be resolved, but there is a commitment to getting those resolved and getting those to Congress.

As the President indicated, he is hopeful of having the Korean agreement before he has the opportunity to travel to Korea. And I would anticipate and expect that shortly after that, Congress will have the opportunity to take a look at it. We are certainly supportive of it.

In the meantime, we are aggressively promoting expanded opportunities in China, Japan, as you and I talked about, trying to make sure that the Taiwanese live up to their responsibilities, reopening the pork and poultry markets, which were very important in both China and Russia. The President's involvement, specifically and personally, in reopening the poultry market in Russia is an $800 million to $900 million opportunity for us to expand trade.

So, while we still have work to do, we are hopeful, given the numbers, and we know that every billion dollars of ag trade represents somewhere between 800,000 and 900,000 jobs, so we are very, very focused on this at USDA.

Chairman SPRATT. Mr. McGovern.

Mr. MCGOVERN. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being here.

Like all of my colleagues, I am concerned about the state of the economy and the direction of the recovery. My friends on the other side of the aisle sometimes let hyperbole get in the way of the facts, so let me state the obvious.

President Obama inherited the worst economy since the Great Depression. President Bush increased the size of the government and the size of the deficit in astronomical amounts. Republicans passed tax cut after tax cut, mostly for the rich, without paying for them. They decided to use America's credit card to finance two wars. These same Republicans abdicated any oversight responsibility of the financial industry, all of which led to the recession that we have yet to recover from. And all of this is what led to the need for the passage of the American Recovery and Reinvestment Act.

According to CBO, there are 1.8 million to 2.8 million more jobs in America as a result of the Recovery Act. That is a start, but clearly, it is not enough. Yet, my Republican colleagues continue to attack the Recovery Act as wasteful spending.

Ironically, many of them have no problem promoting the Recovery Act in their own districts, as 114 Republicans who voted against the Recovery Act have taken credit for its successes back in their home districts. So, I should point out to my colleague from Texas that in his district alone, there was over $110 million worth of projects funded, from energy efficiency to senior centers to public transportation to buses to police officers—I could go on and on and on and on and on. I don't know whether he wants to send all that money back and negate all those projects, but nonetheless——

Mr. HENSARLING. Will the gentleman yield?

Mr. MCGOVERN. I yield to the gentleman.

Mr. HENSARLING. The answer is, if we will use it to pay off the national debt, absolutely.

Mr. MCGOVERN. In other words, the gentleman would like all of these projects in his district unfunded.

Mr. HENSARLING. If we will pay off the national debt, the answer is, yes.

Mr. McGOVERN. The answer is fewer police officers. I can go on, less money for schools.

But anyway, my Republican friends have no problem for calling for an extension for the Bush tax cuts, even as they have the audacity to say the tax cuts don't have to be paid for.

It is ironic, however, and it is callous and cruel that they have found fiscal religion when it comes to programs like unemployment, that directly help our recovery and the people who are suffering most during this recession.

Our Republican friends seem to have forgotten that extending the Bush tax cuts will increase the deficit by $3.7 trillion.

One of the more important parts of the Recovery Act are the safety net provisions, programs that help people keep their health care, have a steady income while they look for work and put food on their table.

I am particularly pleased with the SNAP provisions that provided a boost of 13.6 percent in the maximum food stamp benefit. This means that most households received about $40 to $50 more per month in 2009 as a result of the increase provided in the Recovery Act. This means families who are struggling with losing their job or less income had a little more money for groceries because Congress passed the Recovery Act.

In addition, these provisions provided the biggest bang for their buck. As the Secretary stated, economist Mark Zandi, an adviser to John McCain, said that an increase of $1 in SNAP results in $1.86 in economic activity. But now, Republicans are refusing to pass extensions for unemployment without providing an offset. These are the same Republicans, mind you, who refused to offset trillions of dollars of tax cuts.

One of the offsets proposed in the Senate was to sunset these SNAP provisions included in the Recovery Act. While some may say that this is just unspent money, improperly referring to this as a slush fund, this is really a $9 billion cut in SNAP benefits, and it will result in deep cuts for families and seniors currently on SNAP. In other words, supporters of this offset would make it harder for families to put food on their table at a time when jobs are still scarce and incomes are still stagnant.

Now personally, I think this is wrong in every sense of the word to take food away from hungry families, which is what this cut would do. It is also important to note that the number of people enrolled in SNAP will go down as the economy improves.

So, Secretary Vilsack, I have just a few questions, and I will ask them all at once. First, how has the Recovery Act affected people who have struggled to put food on their table? And do you consider this funding successful?

Second, addressing this potential cut in SNAP benefits, has Congress, under any party leadership, ever enacted SNAP cuts this big? Has Congress ever enacted cuts that will reduce benefits to every single household on the program?

Third, can you explain to me how taking away $45 a month in SNAP benefits from low-income working families might affect the Administration's commitment to eliminate childhood hunger by the year 2015? And what do you think the impact will be on food and security here in America if 20 million children see their food stamps cut over the next few years?

Secretary VILSACK. Representative, I would certainly indicate to you that the families who have been benefited from the SNAP increase are appreciative of that, and I think it is, I think it is important for us to discuss this, not in terms of solely expenditure but also investment. I mean, the reality, as you indicated, is that SNAP benefits have a tendency to turn around in the economy more quickly; 97 percent of the SNAP benefits are invested and spent by those families within 30 days. So, if you talk about something to stimulate the economy and get things rolling and to get things going, there is no quicker stimulus than what you see in a SNAP program.

And as I said earlier, when you increase the opportunities for families to buy more, they, in fact, buy more, which means that grocery stores have to shelve more, they have to truck more, they have to process more, they have to package more. All of that is related in some way, shape or form to job creation and saving jobs. Depending upon the multiplier you use, we are talking about tens of thousands of jobs that are impacted by this. So, I think it is important to take a look at SNAP in that context.

Obviously, the hope that I have is that we will continue to see private job growth, as we have the last several months. We will continue to see an expanded GDP, as we have the last several quarters. And as we do, more and more people will have the confidence; more and more investment will take place by the private sector; and we will begin to see unemployment numbers come down and the need for SNAP hopefully reduced.

I would say that there are ways in which we can do a better job of utilizing the SNAP education dollars. If you are looking for an opportunity to take a look at how we might be able to better utilize, we have proposed a new partnership with States that could potentially increase SNAP-Ed but at the same time potentially reduce the overall cost of the program, without impacting and affecting the beneficiaries of the program. There are some States, obviously, that need to do an even better job of expanding awareness about SNAP. There are, unfortunately, States today where a little bit over 50 percent of the people who qualify for SNAP are actually taking the benefits of SNAP. We would like to see that, obviously, increased.

As it relates to the issue of childhood hunger, I think every American shares the goal that the President articulated during the campaign and has reminded people of recently, which is that we do need to make a concerted effort to eliminate childhood hunger. We also have to, as the First Lady has indicated, deal with childhood obesity. We at the USDA are committed to doing both of those. You will see over the course of the next couple of weeks that we are engaging the private sector as well in a real effort to try to eliminate childhood hunger.

Mr. MCGOVERN. But as it relates to the offsets that are being talked about in the Senate, that is what I am concerned about; is that the offsets that have been proposed by some in the Senate to pay for the tax extenders and the unemployment compensation, their point of taking money out of the Recovery Act that is directed toward SNAP, but I am concerned that that might have an adverse impact on the issues that we are talking about.

Secretary VILSACK. Well, I would just simply say that if there is a conversation about offsets, that it ought to be in the context of improving nutritional opportunities, and I think that there is a tremendous opportunity with the reauthorization act of the Child Nutrition Act. That is a discussion I would like to have with you in terms of where we can best utilize resources and address this issue of childhood hunger.

Chairman SPRATT. Mr. Garrett.

Mr. GARRETT. And, I thank the chairman.

And before I begin, in reference to the gentleman from Massachusetts' opening remarks, lamenting the fact that our President inherited a worsening economic climate and increasing deficit picture; a week or so ago, we had another gentleman sitting in your chair, a great economist, Chairman of the Federal Reserve. I had the chart up here at the time. But I asked him a question. I put up a chart at that time, and I said, can you tell us which direction the deficit was going around, up until around 2006 or so? And he sort of smiled, and he said, well, it is going down. And I said, can you tell us where the direction of the deficit is going from 2007 forward? He said, well, that is going up.

And so, to the gentleman from Massachusetts, you are right, our President did inherit a worsening economy and a worsening deficit. Unfortunately, he inherited it from you and your party, because it was your party who controlled this House and this committee with the budget process, and the chairman sat here, was the author of the budget, which saw those——

Mr. MCGOVERN. I didn't vote for those tax cuts that added trillions of dollars.

Mr. GARRETT. Well, reclaiming my time, which I didn't yield, so just remember where all appropriation bills begin, by the Constitution, and it is here in this House. And it was this committee, under this chairman, and under these, your side of the aisle, that saw the worsening of the economy.

But to the point, Mr. Secretary, on the bill, or on your Department, one area I just want to talk about, you spoke a little bit about, and that is the broadband stimulus funding. Broadband stimulus funding, as I have been looking at it recently and talking to some folks, is very capital-intensive in order to execute properly.

Now, what I hear is that many private providers have already sunk, whether it is millions or billions of dollars, into projects to bring broadband technology to consumers and to consumers in rural areas as well. So, I am troubled when I heard that a number of the stimulus projects, rather than providing the broadband to unserved areas, were actually building on top of existing networks, where broadband service had already begun to be implemented.

So, when you think about it, the last thing that we need to be doing with limited Federal dollars—although it seems from this Administration those dollars are unlimited—but to the extent they are limited, is allocating taxpayers' resources to compete against private businesses where, as I said, broadband is already in the process of being established.

When you do that, you basically deprive the underserved communities where the money should be going of limited Federal resources; and you are doing something that we saw on Financial Services as well—some of us serve on that committee—where you are picking winners and losers. In essence, you are using taxpayer dollars to pick who is going to win and who is going to lose in theirs.

And another problem with doing that is you create disincentives. If we are going to start building out in areas that building has already begun, you create a disincentive for any other private enterprise to go into those areas and provide additional services going forward. Actually, you create disincentives for future broadband investment.

So, first of all, for a moment, could you just comment on the overlying development that you are seeing in certain areas?

Secretary VILSACK. Well, we made a concerted effort, Representative, to focus on rural and remote areas that were underserved or not served at all by broadband with the application process in both the first and second round. Most of our projects that we are funding are our last-mile projects, which is to say that there may be an existing enterprise but they have not connected to the home, they have not connected to the anchor institution, they have not connected to the business. That last mile is extremely important, particularly in rural areas; and so our focus has been on making sure that those connections are made.

The Commerce Department is focusing on middle mile, linking up existing systems so that there is greater, expanded coverage.

I would be happy to work with you, but I think you will find, at least within USDA, that there is not the significant overlap that you have suggested, that in fact we have really made a concerted effort to avoid that. This is not about driving the cost down. This is really about expanding the service.

Mr. GARRETT. And I only have limited time, so there are just two other questions on this. One is, we hear you say that you want to go into underserved areas and more rural areas; and yet I understand that some of the service areas that we have seen in the past, such as Mount Washington Ski Resort in Bretton Woods, New Hampshire, were to compete against the Eagle Communications in Hays, Kansas, so there at least I saw a couple of examples where maybe we are not looking at the most rural areas and areas where we should be questioning whether USDA should be doing it on.

And the second question is——

Secretary VILSACK. Can I just mention—respond to that?

Mr. GARRETT. Yes.

Secretary VILSACK. The one area that you mentioned had one of the highest unemployment rates in that State, the ski area, and it did meet the definition of "rural" based on the broadband application process.

Mr. GARRETT. And very quickly, in my last two seconds, the USDA has only obligated $480 million out of the $2.5 billion appropriated. I guess you are authorized to the end of September.

Secretary VILSACK. I don't think that is accurate, sir. I think we actually have announced projects totaling $1.7 billion.

Mr. GARRETT. You have obligated that?

Secretary VILSACK. We have identified projects and have made announcements of those projects. There are 137 projects that we have announced we are going to fund; and with the announcements that we are going to make in the next week or so, it totals about $1.7 billion.

Mr. GARRETT. Because we were told by the leadership on the other side of the aisle that we have to spend this money and vote on this bill immediately; and that, of course, was last year. And so, if we are just announcing yet not fully obligating spending until somewhere down the road, maybe we didn't need to rush to judgment on it?

Secretary VILSACK. I don't think that is accurate, especially as it relates to broadband, because there were literally thousands of applications. In USDA, we had close to 3,000 applications. These are very technical applications that have to be reviewed, both on a technical and a financial respect. I think we will obligate the resources before September 30th, all the resources that you have provided; and the potential impact of this, as we said earlier, 1.2 million households, 230,000 businesses are going to be impacted and affected and 7,800 anchor institutions. I think that is a significant commitment and an important commitment, particularly in rural areas.

Mr. GARRETT. My time is up. Thank you.

Chairman SPRATT. Mr. Edwards.

Mr. EDWARDS. Mr. Chairman, thank you.

I just want to comment. I came here to hear the Secretary but must comment in response to Mr. Garrett and my friend and colleague and neighbor from Texas, Mr. Hensarling's, comments. I share their concern about the deficit. I think it is genuine. And I want to give the three gentlemen credit. I think they believe it is important to reduce the deficit, as we all do in this room. But I just cannot share the fiction that today's deficits are primarily the fault of Democrats.

Mr. Garrett's chart—I have seen it. I wish we had it here—kind of reminds me of the person who drives the car off the cliff and the other passenger in the car says, "How are we doing?" And he says, "So far so well," but hands him the keys and says, "Now, if we have a wreck, it is your fault."

The facts are that when President Clinton left office we had the largest surpluses in American history. The fact is that when President Bush came into office, OMB and CBO were projecting a $4 to $5 trillion surplus during that 8-year period. The fact is at the end of that 8-year period—during which the Republicans controlled the Congress in 6 of those 8 years—Republicans passed the 2001 and 2003 tax cut bills, not paid for, on a partisan basis and a prescription drug bill at least half as expensive as the entire health care reform bill. They did that on a partisan basis, and in doing so they helped drive our economy and the deficits off the cliff.

They, through predominantly partisan budgets, turned the largest surpluses in American history into the largest deficits in American history. And the reality is, the fact is that when President Bush left office, after those 8 years of predominantly Republican-driven budgets, we were losing 700,000 jobs a month.

Now, I hear some people say, Mr. Secretary, Mr. Chairman, that Democrats' efforts at recovery haven't done a thing, haven't created a job. Well, I don't know what the numbers were last month, but I know in, I believe, in April or May we were creating over 300,000 jobs a month, many of those private-sector jobs. That is a turnaround of over 1 million jobs a month. I don't think that is nothing. I think for 1 million Americans that makes a huge difference in their day-to-day lives.

The fact is that after 8 years of the Bush administration, supported by the Republicans on this committee and their budget proposals, tax cuts for the wealthiest, from August 29 to October 10, 2008, the stock market went down 27 percent. Households, seniors, families saving for their children's college education fund lost 27 percent of their savings because of the predominantly Republican-driven partisan budgets of that decade.

The fact is—it is an inconvenient fact, perhaps—but the fact is when President Obama was sworn into office the deficit projected for 2009 was $1.3 trillion. Before President Obama did a single thing, the deficit left by the previous Republican administration was going to be $1.3 trillion. At the end of that year of efforts, stimulus recovery efforts, I believe the total deficit was about $1.4 trillion. So, where does the majority of the blame lie there?

I wish we could get away from the blame game. I think Mr. Hensarling, Mr. Ryan, and Mr. Garrett are genuine about wanting to reduce the deficit. I disagree. I think their conference, when they had control of this House for 12 years—by the way, during 4 of those 12 years they failed to pass a budget through the House and Senate and final passage of a budget, and I didn't hear the partisan attacks on themselves during those 4 years when they were in control and did not pass a budget.

I wish we could get past some of that partisanship. I wish we could work together, but I don't want to be a part of putting back in place the captain of the economic Titanic if he is just simply going to put back in place the same sailing lessons that wrecked that Titanic. Perhaps working together we can find some bipartisan common ground—I hope so—but we won't find it if those who were the architects of the greatest recession since the Great Depression and the architects of partisan budgets that turned the largest surpluses into the largest deficits just simply try to cover their tracks and point fingers at Democrats.

I will be critical of Democrats and I have voted against some Democratic funding because I thought that funding was not affordable, given our present deficits, but I would like to see some bipartisanship on both sides of the aisle here to reduce this deficit and to get our economy back on solid ground.

Mr. Secretary, thank you for your service to our country and your work during these difficult times.

Chairman SPRATT. Thank you, Mr. Edwards.

Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you, Mr. Chairman.

I want to thank Mr. Edwards for saying that we really need to stop this blame game, and the way to do that is to move forward. We do know where we are at, by the way. The co-chairman of the President's, what is it, Fiscal Responsibility Commission, Mr.

Bowles, said that we are basically going towards bankruptcy, the country is bankrupt. That is a new phenomenon. It is a recent phenomenon. We can blame or not blame. But the way to deal with it, by the way, is to just mark up a budget.

Now, this is the first time, however, that we are not even attempting to mark up a budget, and you have got to ask the question, why? Because the numbers are, frankly, so out of whack that I guess we are trying to hide it from the American people? I don't know. But that is a new phenomenon as well. And the way to get over the blame game and to get bipartisan is to mark up a budget. And this is the first Congress clearly since I have been here where there is not even an attempt to mark up the budget. That is not showing good bipartisan effort.

But we have the honor to have the Secretary here, and I want to mention, I want to thank you for mentioning exports. You talk about China and Japan. The President himself said in the State of the Union—in fact, I have it here, so I may quote it. He said, "We will double our exports over the next 5 years, an increase that will support 2 million jobs in America." And I support that, and that makes sense.

Now, over the last 5 years, one of our Nation's closest allies, a democracy that just had elections, transparent elections, they are fighting these narcoterrorists, narcotraffickers, Colombia, has been the largest market for U.S. agricultural exports in South America, exports totaling $4.3 billion. Those have been declining steadily because we haven't passed a free trade deal with Colombia. And it is ready to go. In the meantime, while we haven't done it, Colombia has signed free trade deals with six other nations, including our neighbor, Canada.

So, Mr. Secretary, here is an issue. You talked about exports. The President talked about exports. Getting this free trade deal pushed—the President brought it over to Congress and then helped us try to get the votes to push it, and I think the votes were here in a bipartisan fashion—would immediately create jobs. You mentioned exports. You mentioned—actually, I don't remember the number that you put out there, how many jobs are created per billion dollars of ag exports, to our best ally, it is ready to go.

And with all due respect, sir, it doesn't cost one penny of the taxpayers' money. Colombia already has preferential treatment for their exports coming to the United States. It would even the playing field. And with all due respect, sir, other than, you know, nice words, where is the effort? Where is the lobbying effort? Where are the members of the Cabinet lobbying the Speaker, going to every office of Congress pushing for this effort, which wouldn't cost one penny, which would help our ally, which would help our economy, which would immediately create jobs, and would do exactly what you are saying? Where are your efforts on the Colombia free trade deal?

Secretary VILSACK. Well, Representative, let me say that we are working with Ambassador Kirk to finalize that agreement. As the President indicated, he wants the Ambassador to focus on the Korea Free Trade Agreement because there is a real opportunity for us to get that done. That would obviously be significant for American agriculture.

Let me say that as important as free trade agreements are—and they are and we support them—that is just one aspect of an overall effort in terms of trade. We have aggressively tried to reopen markets that have been shut down because of nonscientific barriers that have been created. We have aggressively looked for opportunities for engagement in multilateral discussions, which is why the President is focused on the Trans-Pacific partnership, which we are also engaged in.

I have traveled on a number of occasions to China and Japan, designed in part to reopen markets, to expand markets. China right now is now the third leading market for us in the first half of the year, fiscal year. It was the number one market for the first time ever in terms of trade.

And we are seeing an increase in ag trade. I think you will continue to see a commitment on the part of this Administration to focus on trade. We understand in agriculture there is a trade surplus——

Mr. DIAZ-BALART. Colombia, specifically Colombia.

Secretary VILSACK. Specifically Colombia, as I said, Ambassador Kirk still has work to do. There are still aspects of that agreement that have not been finalized. It is part of the negotiations. It is in the process of being negotiated. And as soon as that is completed, I can assure you that we will be very much interested in encouraging participation by the Congress and passage by the Congress.

Mr. DIAZ-BALART. Any idea of when we are looking at? When, roughly? We are obviously not looking at this Congress, so are we looking at the beginning of next Congress? Any idea?

Secretary VILSACK. Well, obviously, sooner rather than later. And as the President indicated, he clearly wants the Korean agreement to be completed before he travels to Korea.

So, there is work being done on Korea. There is work being done on Colombia. There is work being done on Panama. There is work being done on removing barriers. There is work being done on reopening markets that have been shut down. There is work being done in international forums to make sure that the rules are fair to the United States. There is work being done to expand opportunities for biotechnology crops. There is work being done in increasing our commitment to collaborators in country. There is work being done on research.

There is a holistic and comprehensive approach that is being taken. It is not just one single aspect of this that is a silver bullet. We have to do all of this, and we are engaged.

Mr. DIAZ-BALART. I appreciate that. I would just respectfully ask that you please start focusing a little bit more on Colombia. It is ready to go. You know, it's—every day losing market share, including to our neighbor to the north, Canada. Colombia is our best ally, they are ready to go, and it just seems to me that there are always excuses why that just doesn't come up. And this is not a couple of months. It has been years now. It frankly doesn't cost a penny.

I would just respectfully request that you all look at that and kind of emphasize that, because we have an ally that is ready to go. We are losing market share. It doesn't cost a penny. It would create jobs. And, frankly, it just seems like there are all these reasons and excuses why it just doesn't happen, and we have heard them before, and I just would respectfully ask that you please look at that.

Chairman SPRATT. Ms. DeLauro.

Ms. DELAURO. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. It is a delight to have you here today; And thank you for your outstanding work on all fronts, whether it is nutrition, whether it is rural development, and indeed trying to help to open markets.

I would suggest to my friend, Mr. Diaz-Balart, that one way in which we could immediately increase imports and exports, quite frankly, is lift the embargo on Cuba; and our agricultural interests would certainly—who are clamoring for new markets—it would open up an area which is very close by us. And as far as the last time that I looked, Cuba had not been engaged and participated in killing maybe 50 or more union leaders.

So, let's get real. Let's open up markets. Let's look to Cuba so our agricultural interests can really get off the ground. And if you take a look at the recent newspapers, you will see that American farmers are asking for this to get done.

I would also add, with regard to the budget, as far as I know, Democrats voted for a budget $7 billion below the President's call for discretionary spending, in addition to which we have not seen a Republican budget come forward in any way.

Let me move to rural development, which is, I know, an area of your passion, Secretary Vilsack. We are appreciative of your work in this area.

Under ARRA, USDA was appropriated $4.3 billion toward rural development programs, expanding opportunities for broadband loans and grants to rural communities, providing 80,000 home loans in rural areas, constructing and repairing rural water waste treatment facilities, protecting and conserving our farmland, improving the economic and environmental climate in rural communities.

I am going to ask you to highlight the progress the Department has made in improving rural economies through ARRA. But before I do that—I am sure you have read it. My colleagues ought to look at it and read it—is that in the Saturday, July 10th's, business section of the New York Times: "High speed for the sparsely wired. Stimulus projects widen access to broadband."

I want to talk about Cynthia Wegner and her husband, owners of a farm and horse breeding business in western Kansas, will be able to upload a photograph of a horse to show a potential buyer in seconds, not the 20 or 30 minutes they now need with dial-up service. "I just cannot begin to tell you how frustrating it is to do anything with it," she said.

I will just go to the jump page and read what the Chairman of the FCC said: "The extension of Internet service was a significant moment in communications. Extending broadband in rural America is as important to jobs and growth in the 21st century as extending electricity was in the 20th century," he said.

By all accounts, if you take a look at this and what has happened with broadband and extending it to rural America, we have been—you have been successful, Mr. Secretary; and I would ask you to comment on some of the areas in rural development and the progress that we are making there.

Secretary VILSACK. Thank you. I am not sure whether I am supposed to refer to you as Madam Chairman or Representative.

Ms. DELAURO. In this body, it is Representative. The chair is there.

Secretary VILSACK. I appreciate the opportunity to sort of expound on my opening remarks.

Let me give you some percentages in terms of the resources that have been obligated and that are currently working in the rural development area.

With reference to rural water and waste disposal programs, 80 percent of the resources made available to the Department have been obligated. In terms of the community facility program, 70 percent have been obligated. The single-family housing guarantee, 99 percent have been obligated. The direct housing guarantee, 69 percent have been closed. The rural enterprise grants, 99 percent. And the Business and Industry Loan Program, 93 percent.

So, in terms of broadband, as I explained earlier, we have committed to 137 projects, about $1.7 billion of the resource made available to us. We will meet the September 30th deadline in terms of commitments on that resource.

The impact of these funds are as follows: Eight hundred community facility projects have been funded, and there are more to come. Eight hundred wastewater and sewer projects have been funded, more to come. Nine hundred businesses have received help from the Business and Industry Loan Program, and 188 projects have been funded through the Rural Enterprise Loan Program. Eighty-nine thousand home loans have been closed, expanding the American dream of homeownership to those folks. And we are currently working on broadband, 137 projects, as I indicated, helping over 500,000 households, 100,000 businesses, and several thousand anchor institutions. And I think when it is all said and done, we will positively impact 1.2 million households, 230,000 businesses, and 7,800 anchor institutions.

Representative, I think this is, in my view, a very, very significant framework that you all have put in place. When you combine it with the energy title of the farm bill that we are in the process of implementing together with work we are doing at USDA, I think what you have is the framework for a revitalized and a new rural economy, and it is long, long overdue.

With due respect to the concerns expressed here today about the recession—and they are real—rural America has expressed and experienced this for decades, high unemployment, high poverty. Ninety percent of persistent poverty counties in this country are located in rural America, 90 percent. Aging populations, declining populations, income disparities, this is the shot in the arm that rural America needed. It is an indication that someone is paying attention to those good folks.

And this is why it is important, if I could just have 30 seconds. It is important because the value system of this country is rooted in rural communities. One-sixth of the population of the country lives in rural America, but 45 percent of the people who serve us in uniform come from rural America. And it is because those young men and women are taught something at a very early age, and that is that you can't keep taking. You obviously have to replenish the soil in order for the soil to continue to give you bounty. The same thing is true of a country. And the ability to create opportunities for those young people to come back, live, work, and raise their families in the same small communities that raised them I think is very, very important.

So, we are working night and day with our regular programming and with this recovery and reinvestment resources to try to build a revitalized rural economy. And as long as I am Secretary, that is going to be an important focus of what we do at the USDA.

Ms. DELAURO. I want to say thank you, Mr. Secretary, again and say that I would like to work with you so that when this information gets out, as it should get out, that really rural America knows who is on their side. Thank you for being on the side of rural America.

Chairman SPRATT. Mr. Djou.

Mr. DJOU. Thank you very much, Mr. Chairman; and thank you very much, Mr. Secretary.

Mr. Secretary, I have two sets of questions. I am, of course, concerned—as I am sure the Administration is—about our ballooning budget deficits and our languishing economy. And here thus far this afternoon we have heard more than enough blame to go around here. I am far more concerned about fixing things and looking forward in the future than continuing to lay partisan blame.

So, I have two sets of questions for you. The first set of questions that I have is, I hear your testimony and I fully understand and appreciate that the Administration's testimony is that we are not hearing enough of the so-called "good news" from the stimulus, that there are more things happening out there that is just not being reported properly. From my perspective, I guess, as a freshman, it sounds a lot like to me what the Bush Administration was saying about the war in Iraq in 2004 and 2005. But I think what turned things around when General Petraeus took over was he set out some very clear metrics and standards, dates and targets and goals.

So, my first question actually to you is, when can the American people see unemployment reduced below 8 percent? Or maybe I will ask a little bit more open-ended. What specific targets do you think are realistic to achieve and by what date? When can unemployment and real economic recovery——

Secretary VILSACK. Representative, to the 2 to 3 million people whose jobs have been saved or whose jobs have been created as a result of the Recovery and Reinvestment Act, the recovery has come to them. There are obviously still tens of millions of Americans who are impacted and many Americans who are concerned about the future. We deal with this in rural development all the time. And I think it is important to note that what you have done with the Recovery and Reinvestment Act is to create a sense of momentum, which I think you will see build over the course of the next year or two.

Mr. DJOU. So by this time next year, will unemployment be below 8 percent?

Secretary VILSACK. Well, that obviously depends in large part upon the confidence that the private sector has. It depends on circumstances. I don't think it is appropriate for me to talk about hypothetical circumstances. I can only tell you about what is happening today. And what is happening today is that there is at least a sense of opportunity that did not exist in rural communities prior to——

Mr. DJOU. Mr. Secretary, what I am trying to pin you down on is what tangible metric do you think can be achieved and by when? Because that is what I really think turned things around in Iraq.

Secretary VILSACK. I think the tangible marker was 3 to 4 million jobs being created as a result of the Recovery and Reinvestment Act, and we are on our way to meeting that goal. And we will meet it by the end of the process, in terms of the monies being distributed and put into effect. So, I think in the next 12 months you are going to see a continued drop, a number of job growth related to the Recovery and Reinvestment Act. Depending upon which number you look at today, it is somewhere between 2 and 3 million. I think you will see it somewhere between 3 and 4 million.

Mr. DJOU. My second set of questions relates to the amount of stimulus money that has already been spent. I hear from your testimony—correct me if I am wrong—about 50 percent has been outlaid so far that was allocated to the Department of Agriculture; is that correct?

Secretary VILSACK. That is correct.

Mr. DJOU. With 50 percent still to go, does this mean that there is no need for further fiscal stimulus?

Secretary VILSACK. I think it is really important to understand how this works in the rural development sphere. When you have a community facility grant, you can essentially obligate that grant, but that grant is the last dollar that is paid. So, it requires a city, for example, to design a wastewater treatment project, to get a contractor, to have the contractor build the facility, to have interim financing by the city put in place; and then, ultimately, the contractor is paid, the project is approved, and the signoff occurs. At that point in time, our resources are outlaid. These resources are committed, but it will take some time before they are actually paid out.

Mr. DJOU. So, I guess my question is, is there any need for another stimulus package beyond what was already allocated in 2009? Are you confident that—I mean, with 50 percent still to go, is there any reason that we need more stimulus?

Secretary VILSACK. Let me suggest to you that I think it is imperative that there be some attention paid to the unemployed and that benefits are provided to the unemployed and continued benefits are provided because these families that are currently cut off from unemployment, they are really struggling. What are they to do?

Mr. DJOU. Okay. That actually goes back to my first point. When are we going to see the unemployment rate drop below 8 percent or 7 percent?

Secretary VILSACK. Well, the Recovery Act's responsibility was to generate somewhere between 3 and 4 million jobs. That will be done. I think it is imperative that we approach the future with greater confidence, frankly. I think the fact that we are having conversations about deficits are an important and positive step in sending a message to the market. I think the stock market's improvement is a message. I think the private-sector job growth over the last several months is an indication. That has to continue.

I am confident in the capacity of this Recovery Act to continue to create job opportunities. I am confident in the capacity to meet the goal which we set, somewhere between 3 and 4 million jobs retained and saved. We are well on our way to doing that. I think that is very important. And I am very confident in the capacity of the investments that you are making in rural America to have long-standing benefits to rural America.

When you look at return on investment, I think it is important to look at the long term; and I think you are going to see a significant return on the investment in broadband, in business expansion, and new opportunities for education. I think you are going to see a return on investment for community facilities in wastewater.

Take a town in Missouri recently who needed this wastewater treatment facility in order to restart a hospital project that was shut down because they didn't have access to clean water. Our recovery and reinvestment resources investing is going to allow that wastewater treatment facility to be built and also that hospital to be completed. How many lives will be saved as a result?

I think that is the kind of thing that I think we have to look longer term. I think there is going to be tremendous benefit in rural America as a result of what you all have done here.

Mr. DJOU. Great. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Langevin.

Mr. LANGEVIN. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here; and let me just say how much I appreciate the hard work that you and the other members of the Administration are doing to try to get this economy turned around. And, as Mr. Djou has pointed out, we hope that we are going to be able to create the jobs in the very near future. They are going to get us to where we know our economy should be performing and can be performing.

I also think it is important to understand and reflect on how we got here so that we can look forward and we don't repeat the mistakes that got us into the mess that we are in in the first place. We look back at the years of the Clinton administration and we see all the positive things that were put in place that allowed for job growth and record budget surpluses, and then the administration after that that allowed for a great deal in terms of tax cuts and such but heaped on the national debt and didn't have an accounting of how we paid for these kinds of things.

Thankfully, under the leadership of this committee, the Chairman, and this Congress, we have put PAYGO legislation back in place, which was a major factor in the Clinton years of why we had a balanced budget, and it led to surpluses and job growth. That PAYGO legislation expired in 2002, and it was just made permanent again this year, so that for every dollar of increased spending or every kind of a tax cut that there is an offset in either spending cuts somewhere else or tax increases in order to account for that.

So, we have laid the foundation for solid growth in the future in responsible budgeting. It is my hope in the very near future that, once we have this economy turned around, we have things back on track, then I know we are going to also turn our attention aggressively to getting our fiscal house in order and getting our budget deficits under control.

In the meantime, let me talk about some of the important work that is being done under the American Recovery and Reinvestment Act, particularly in essential benefits getting people through this time, the SNAP program.

My home State of Rhode Island was hit really hard by this economic recession. Right now, we currently have the fourth highest unemployment rate in the country. And from the beginning of the recession in June, 2008, until June, 2010, the number of Rhode Islanders enrolled in SNAP increased 66 percent, from 87,285 people to 145,361 individuals. Just shocking numbers in so many ways, and it speaks to the need right now and the types of essential support that things like the Recovery Act are helping to provide right now to get people through this difficult time.

The Recovery Act provided critical assistance to Rhode Islanders by increasing the amount of SNAP benefits which directly stimulated our State's economy. So, it was about helping people, but it was also about stimulating the economy. And according to the Rhode Island Community Food Bank, this is the greatest demand that officials have seen in the organization's 28-year history.

So, my questions are, given these circumstances: do you believe that the $20 billion of the Recovery Act allocated for nutrition assistance is enough to meet the sustained demand until we have gotten ourselves out of this situation right now in the current downturn? What effect would a decrease in SNAP benefits have at this point in the recovery?

And then the second half of that question is, has the total amount for nutrition assistance in the Recovery Act been exhausted?

And then, finally, if so, what additional steps are being taken or are needed to continue assisting families that are really hit hard by the recession?

Secretary VILSACK. Let me answer the last question.

The total amount of resources available to SNAP—actually, the way it was structured is to be stretched out over another year or so. So the total amount has not been expended, but we are on track, obviously, to do that.

We work very closely with States to try to encourage greater participation in SNAP. As I said—I believe I said earlier that there are some States that do a very good job of getting the people who qualify for SNAP aware of SNAP program and participating in the SNAP program. There are others who still have work to do; and we have been aggressively trying to work with States to improve their outreach, to improve the education component under SNAP-Ed to make sure people understand. That is one of the reasons why we suggested a move to category eligibility to make it a little bit easier to qualify for SNAP so that there aren't bureaucratic barriers to participation.

We will do the job as best we can with the resources that you all provide. As I indicated, I think there are ways in which we could probably use the SNAP-Ed dollars more effectively to leverage greater opportunities for education and at the same time potentially save resources.

Representative, we take deficit reduction at USDA very seriously, as reflected in the work that we did on the standard reinsurance agreement for crop insurance, where we negotiated a significant savings and used $4 billion of that savings to reduce the deficit. So, we are cognizant, we are working, we are constantly looking for ways within USDA to more effectively and efficiently use resources; and we are going to continue to work with States to make sure that we get to as many people who qualify for SNAP as possible.

Mr. LANGEVIN. I appreciate it.

Can you just answer that last part of the question of what effect a decrease in the SNAP benefits would have at this point in the recovery?

Secretary VILSACK. Well, if you were to decrease benefits right now, obviously, it would mean that people who are currently receiving benefits would receive less. That would have a rippling effect. They would obviously be able to purchase less at the grocery store. And that, as I said earlier, does have a ripple effect. If you are selling less, then perhaps you don't have to shelve as much, you don't have to process as much, you don't have to package as much, you don't have to truck as much, you don't have to produce as much. All of that impacts, in terms of the supply chain, potential employment opportunities for people. And so, longer term, our hope is that an improved economy requires less of a dependence and need for SNAP.

I would say, as I said earlier, I think it is imperative that we not only focus on SNAP but that we also look for opportunities to extend unemployment compensation to those who have been out of work for an extended period of time. Because, without that, they really have very, very little hope of being able to keep their home or take care of their families.

Mr. LANGEVIN. Mr. Secretary, thank you for the job you are doing.

Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman; and thank you, Mr. Secretary.

Just a couple comments.

First, to the gentlelady who is no longer here from New York, some of her comments and her questioning. I have introduced a balanced budget on behalf of the Republican Study Committee. I would appreciate it that the Secretary gets a chance to take a look at that.

We think it does the right things. It protects Social Security. It keeps the tax cuts in place that are set to expire this January. It does the right thing with national defense but also cuts some spending which, frankly, we have to do around this place.

Also, I would just mention I think there is a big difference between trading with Colombia and trading with Cuba. Cuba is a state sponsor of terror. Their former leader just this week made the ridiculous statement that somehow he believes the United States is responsible for the South Korean military vessel that was sunk. So, I think we have got to keep all that in mind.

I do appreciate the Secretary's comments when he talks about the values of rural America. I have the privilege of representing west central and north central Ohio, many strong ag counties in the 11 counties I get to represent there.

But I was just curious, because you made another statement, Mr. Secretary. Let me ask it this way. Do you think that government policies can actually undermine the values that I believe that rural America encourages? And specifically, you talked about the unemployment compensation. Do you ever think that we can go with something too long where we are maybe encouraging the wrong kind of behavior and not rewarding the proper behavior?

Secretary VILSACK. Representative, in my capacity in public life—again, as a Mayor, a State Senator, a Governor, and now as Secretary of Agriculture—I have talked to a lot of folks who have lost their jobs and lost their farms——

Mr. JORDAN. I understand that. My question goes to the 99 weeks, almost 2 years of assistance. Do you ever think we can go maybe too far with that and we undermine the same values that you and I both believe are important to America, in particular rural America?

Secretary VILSACK. If this were a normal situation and not as severe and deep a recession as we have suffered, your point might be well taken. But I think this is an unusual circumstance.

Mr. JORDAN. Is there ever a time when it should end?

Secretary VILSACK. Yeah, when——

Mr. JORDAN. No, no, no, no, no. Should we continue to extend it further than 99 weeks? Is there a time you would cut it off?

Secretary VILSACK. I think you extend it for the time necessary to get people back on their feet.

Mr. JORDAN. That is not what I asked. Do you think it should go further than 99 weeks or do you think 99 weeks is when it should stop?

Secretary VILSACK. I think there should be a current extension for those who have been unemployed in terms of chronic——

Mr. JORDAN. Have you had any employers, as I have, come up to you and say, you know what? We have actually had people hired. They found out that the extension kicks in; and they said, you know what? We are not going to take the job because we can get by by not working and get money from the taxpayer in compensation.

Secretary VILSACK. If that is true, then under——

Mr. JORDAN. Have you had anyone say that to you? I have had people say that to me.

Secretary VILSACK. No. But as I understand it, if that were to take place, then they would potentially be disqualified from receiving unemployment.

Mr. JORDAN. Okay. Let me ask a line of questioning. I did this when we had Secretary Duncan in here with the Department of Education.

How many people work at the Department of Agriculture?

Secretary VILSACK. Roughly 103,000 to 104,000, somewhere in that neighborhood.

Mr. JORDAN. And is that number higher this year than last year? What is the trend?

Secretary VILSACK. Well, we are in the process, actually, of taking a look at how we might be able to restructure——

Mr. JORDAN. Is it up or down?

Secretary VILSACK. I think it is about the same.

Mr. JORDAN. And what is the average salary of folks who work at the Department of Agriculture?

Secretary VILSACK. You know, I don't know a specific number. I would be happy to get that to you.

Mr. JORDAN. Can you hazard a guess?

Secretary VILSACK. I would be reluctant to do that.

Mr. JORDAN. What is the average salary of a farmer across the country?

Secretary VILSACK. It depends on the size of the farm.

Mr. JORDAN. Our staff has said approximately $63,000.

Would the average salary for the Department of Agriculture be higher than the average salary of a farmer of $63,000.

Secretary VILSACK. I think it would be comparable, perhaps less.

Mr. JORDAN. Do you know how many people at the Department make over $100,000?

Secretary VILSACK. I don't know that number.

Mr. JORDAN. Will you be able to get that to us?

Secretary VILSACK. Sure.

And let me just say what we are trying to do. We are taking a look at the supervisor to front line worker ratio as a way to figure out how we will be able to deal with the President's directive to us to reduce our discretionary spending, as we did—we kept our discretionary spending at about $1 billion less with the budget that was proposed for 2011 as the President instructed us to do. And as I indicated further, we have discovered $4 billion in savings through the Standard Reinsurance Agreement.

So, we are constantly looking for ways. We are taking a look at our buildings, trying to figure out how we might be able to consolidate our building holdings to save resources. So, we are constantly involved in trying to figure out ways to do a better job——

Mr. JORDAN. I have 5 seconds. I want to get one other question if I could, Mr. Chairman.

The GAO did a study looking at dollars that the organization Planned Parenthood gets. In that study—I was actually part of a press conference. Representative Olson from Texas had called for this study. In there—I forget what page, and I wish I would have brought the document with me—the Department of Agriculture actually gave some money to Planned Parenthood. Do you know if that in fact is the case—according to GAO, it was—and if so, what was the money for?

Secretary VILSACK. You would have to be more specific in terms of time, in terms of date. It could very well be that a facility, a health care facility, could have received a community facility grant that leased property to Planned Parenthood. I don't know.

Mr. JORDAN. Does it strike you as sort of strange that your Department would be using taxpayer dollars and awarding those dollars to an organization like Planned Parenthood? I mean, the Department of Agriculture giving money to Planned Parenthood, does that strike you as strange just on the surface?

Secretary VILSACK. Not necessarily. Because if you understand the rural development component of our mission area and the impact that we have with community facility grants on expanding health care coverage and expansion——

Mr. JORDAN. Do you think most farmers in America would be comfortable with you giving dollars to Planned Parenthood?

Secretary VILSACK. I think it is important for people to understand the significance of health care in rural America and how difficult it was and is to get care in rural America.

Mr. JORDAN. Would you answer that question? Do you think most farmers would be comfortable with dollars going from the Department of Agriculture to Planned Parenthood?

Secretary VILSACK. I think if they understood the connection with health care and they understood the connection of their own family planning efforts, they might very well understand that.

Mr. JORDAN. Really? Okay. Thank you, Mr. Secretary.

Chairman SPRATT. Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman.

Mr. Secretary, thank you so very much for being here. Thank you for being the most important lifeline to America's families right now who are enduring unemployment and this very difficult economy. Truly, you are their vital link.

And I want to thank you on behalf of the people of Ohio where we have—counting the over 670,000 still unemployed, many working in part-time jobs, and those that have fallen out of the workforce—I would say, out of 11 million people, we have 1 million people on the bubble; and without the Department of Agriculture, I honestly don't know where we would be. So I want to thank you. You have a tremendous burden.

I really don't understand my colleague, who represents some districts south of me, how he can even say some of what he said here today during this session. We ought to be supporting the value of work in this country, and those people that have worked and are unemployed through no fault of their own, as he and his colleagues voted to outsource jobs to China and Mexico and everyplace else, we are at risk of losing the value of work. People are starting not to believe that you can earn a living in this country anymore. That unemployment check is a lifeline.

And the food that you provide from the Department on behalf of the American people, we simply couldn't get along without it in our area. In fact, our food pantries and feeding sites are stressed right now, Mr. Secretary. And the TFAT program, the Commodity Supplemental Food Program, we need more right now. We have nearly 350 feeding sites around our region. People are having to swallow their pride and go in for bags of food, and it is not a very pretty picture out there. So, the situation faced by our food banks is dire. And with donations down and demands up, I just am very concerned about the next several months.

And I am interested, from your perspective nationally, what you are hearing from our food banks and from our helpers around the country that are holding life and limb together for our families?

Secretary VILSACK. Representative, I have actually been to a number of food banks in a number of cities and communities across the country, and I think your observations are correct. They have a tremendous need. They feel a great deal of stress. They were very appreciative of the resources made available through the Recovery and Reinvestment Act. It was a lifeline. It allowed them to assist us in helping to offset some of the problems that we experienced in some of our markets when other countries shut down access to pork, to poultry. It gave us some opportunity for us to purchase surplus product. And the need, obviously, continues. We are working as best we can to provide the resources and the assistance that we can. But I will tell you that they were very, very, very appreciative of what was done in the Recovery and Reinvestment Act. It was clearly an important thing to do.

Ms. KAPTUR. Mr. Secretary, I don't know if you have any ability to put in a good word on this, but for the last several years, as our employment rate has ticked up, we have been gleaning fields, harvesting fields in the fall. The Ohio Farm Bureau even helped us on this by helping us harvest cabbage and corn and so forth.

In Ohio, if farmers in places like Ohio where the unemployment rate is so high, this fall, as food remains in the field, encouraging through the USDA, not-for-profit groups, church groups, religious groups, other groups, student groups, to go out and help us glean the fields, move that product through our food banks—Ohio Farm Bureau was able to help us pick up lots of cabbage, acres of cabbage that were left.

I went to every major food bank in Ohio. And where we can grow some of our own food, we are plowing under lots of it just because we don't have these gleaners networks in place. But just in one food bank in our area we collected 769,000 pounds last year, up from about 350,000. This year, we want to go over 1 million pounds.

I don't know who at USDA might take an interest in that at your Farm Service Agencies or whatever, but I am telling you in the Midwest where unemployment is so high, gleaning those fields is another piece of the answer for us.

Secretary VILSACK. I would say two things.

First of all, we would be happy to participate in that.

Secondly, we have our own effort to try to collect over 1 million pounds of food to donate through USDA employees to food banks across the country since we have offices in virtually every county. So, there is a collection process under way. And we have over 450 people's gardens, some of which are producing produce which is being made available to food banks. I know the one we have at USDA's Washington, D.C., office, our main office, is helping to fund the Central Kitchen here in Washington, D.C.

Ms. KAPTUR. I think that is so important. In our community of Toledo, we have over 100 community gardens now. We are ratcheting up production. I know USDA is taking an interest in these food short areas and these food desert areas. I would encourage you on in those efforts, and thank you so very much for your leadership during a critical time for our country.

Chairman SPRATT. Secretary Vilsack, thank you very much for your forthright answers, your excellent information, and not the least your equanimity. We appreciate your forbearance as we made our way through this. It has been a very helpful hearing, and we appreciate your participation.

For our other witnesses, we will be back as quickly as we can. We have three votes, one momentarily and two following that. And we will be back just as soon as we can. We are sorry to hold you up.

[Recess.]

Chairman SPRATT. Mr. Rogers, we appreciate your forbearance and patience. You are here today to testify as the pinch hitter, so to speak, for the Secretary, who could not be here due to the fact that he has been detained in Texas.

We welcome you here. We will make your full statement part of the record so that you can summarize it, but the floor is yours to proceed.

STATEMENT OF MATT ROGERS, SENIOR ADVISOR TO THE SECRETARY, U.S. DEPARTMENT OF ENERGY

Mr. ROGERS. Thank you, Mr. Chairman; and I will try to make a very brief statement.

Chairman Spratt, Ranking Member Ryan, members of the committee, thank you for the opportunity to testify today on the importance and good work of the American Recovery and Reinvestment Act.

As you know, Secretary Chu had to stay in Houston longer than expected to help with work on the BP oil spill, and he sends his regrets. Hopefully, I will prove an acceptable substitute.

I also want to thank Secretary Vilsack for his good work. The collaboration between DOE and USDA on biofuels, on "Feds Feed Families," and on a variety of rural development issues has been quite exceptional.

When President Obama took office, we were facing the greatest economic crisis since the Great Depression, and today a Council of Economic Adviser's report estimates that between 2.4 and 3.6 million jobs have been created already with the Recovery and Reinvestment Act. This is a start, obviously not enough, but a very important start on rebuilding the economy.

What the Recovery Act did was it put a floor under an economy in free fall. It restarted job reaction, and it laid the foundation for long-term economic growth and prosperity.

The CEA report today also highlights the critical role that the Recovery Act is playing in bringing private capital off the sidelines and back into high-return, job-creating projects.

The Recovery Act made a $90 billion down payment on our clean energy future with historic investments in energy efficiency, renewable energy, transportation electrification, carbon capture and storage, environmental cleanup, breakthrough innovation, and smarter electric grids. We have been working to invest the Department of Energy's share of this funding quite quickly and wisely; and I am pleased to report that these projects are creating good jobs today, reducing pollution, and laying the foundation for the United States to establish global leadership in multiple high-technology, clean energy sectors.

Mr. Chairman, let me give you three specific examples.

First, an advanced vehicle industry is beginning to take root in America. One year ago, American businesses had just 2 percent of the global market for advanced batteries that will power the vehicles of the future. Over the next 5 years, thanks to the Recovery Act, American factories are projected to have up to 40 percent of the world's capacity to produce these batteries. In fact, President Obama will be on the ground at a ground-breaking for Compact Power in Holland, Michigan, tomorrow to highlight this momentum and the new jobs that come with it.

Second, because of the Recovery Act programs that we administer with Treasury, we are on track to double America's renewable energy generation and, perhaps more importantly, our clean energy manufacturing capacity by 2012. The Recovery Act is contributing to making the United States once again a great place to invest in manufacturing.

Third, we are jump-starting a new home weatherization industry in America. After a slow start due to the difficulty of taking a program up by 10 times, the Weatherization Assistance Program is delivering on its promise, improving the energy efficiency of between 25,000 and 30,000 homes across America every month.

Mr. Chairman, the Department of Energy has been accelerating performance while minimizing risk to taxpayers. We have already made selections for 98 percent of the Department's $32.7 billion in contract and grant authority. We have obligated 90 percent of these funds, accelerating job creation across the country.

As our partners ramp up their projects, we reimburse them for the projects made and the projects complete. We reimbursed $472 million in March, $569 million in April, $695 million in May, $747 million in June, and in July we expect to hit our target run rate of between $800 million and $1 billion every month of outlays to our recipients.

We think about this as the zone between 55 miles an hour and 65 miles an hour. At $800 million a month, we are running at highway speed, creating jobs as rapidly as these projects can. At above $1 billion a month, we begin to be worried that perhaps we are going too fast and creating too much risk.

We are also approaching our top rate of job creation. In the first quarter of this year, the Department's investments created or saved nearly 30,000 jobs. We expect the final numbers will show that we created or saved more than 40,000 jobs in the April to June quarter just finished. We expect to create or save 50,000 to 60,000 jobs for the July to September quarter and to remain at this rate of job creation through the spring of 2012.

Not included in these quarterly numbers reported in to Federalreporting.gov are the more than 45,000 additional jobs created through the tax programs and even more jobs created up and down the supply chain of the clean energy economy that we are building.

Mr. Chairman, the Recovery Act projects demonstrate how core American values—innovation and entrepreneurship, discipline and team work, self-determination and competition—are bringing America back, allowing this country once again to assert global leadership in industries where we, in fact, can produce the best products in the world. If we can pass comprehensive energy and climate legislation this year, we can unlock funds that are trapped on the sidelines in the private sector, bringing those funds off the sidelines to create even more jobs and building on the momentum that has been created by the Recovery Act.

Thank you very much for this opportunity to testify today, and I am very pleased to take any questions that you may have.

[The prepared statement of Matt Rogers follows:]

Statement of Matt Rogers
Senior Advisor to the Secretary of Energy
Before the
House Committee on the Budget

Recovery Act Implementation Hearing
July 14, 2010

Chairman Spratt, Ranking Member Ryan, and Members of the Committee, thank you for the opportunity to appear before you today to report on the progress of the American Recovery and Reinvestment Act (the Recovery Act). I want to thank the Committee for your leadership on this legislation.

Impact of the Recovery Act

When President Obama took office last January, we were facing the greatest economic crisis since the Great Depression. This crisis demanded a quick and forceful response, and Congress acted by passing the Recovery Act. Although we still have a long way to go, our economy is now growing again, and we have seen the economy create private sector jobs for six months in a row. A new Council of Economic Advisors report being released today estimates that about 3 million jobs have been created or saved by the Recovery Act.

The Recovery Act came in three pieces that were designed to have an impact at different times. The first part was direct tax cuts for the American people. The second part was emergency relief for families, businesses, and state governments. The third part, reinvesting in America's economic infrastructure, required longer lead times and was designed to pay off as the first two pieces receded. That is the period we are in now.

Contained in that third part of the Recovery Act were the seeds of a clean energy economy. The legislation made a $90 billion down payment on our clean energy future, with historic investments in energy efficiency, renewable energy, transportation, carbon capture and storage, and a smarter electric grid. We have been working to invest the Department of Energy's share of this funding quickly and wisely, and I'm pleased to report that we are beginning to see the green shoots of a green economy along with the strong clean energy job creation the Act envisioned.

Let me give you three examples.

First, an advanced vehicle industry is beginning to take root in America. One year ago, American businesses had just 2 percent of the market for the advanced batteries that will power the vehicles of the future. Over the next five years, thanks to the Recovery Act, American factories are projected to have up to 40 percent of the world's capacity to produce these batteries. We are supporting 10 battery plants, 20 component plants and 3 electric-drive vehicle plants. President Obama will be at Compact Power in Holland, Michigan tomorrow, and Secretary Chu will visit Delphi Automotive in

Kokomo, Indiana on Friday as part of a day of travel by Cabinet members to highlight this momentum.

Second, a renewable energy industry that was being battered by tight credit markets is bouncing back and growing again. Because of the Recovery Act, we are on track to double America's renewable energy generation capacity by 2012 and to dramatically increase domestic clean energy manufacturing. By partnering with private industry, the Department of Treasury and the Department of Energy have already funded renewable energy projects with enough capacity to power more than one million homes; that is enough clean energy to power the homes of everyone living in Boston, Seattle, Atlanta, Kansas City, and Cincinnati combined. Factories are whirring to life to manufacture the parts these projects require.

Third, we are jumpstarting a new home weatherization industry in America. After a slow start due to the difficulty of expanding a program ten-fold, the Weatherization Assistance Program is now approaching its target of improving the energy efficiency of 25,000 - 30,000 homes per month. More than 10,000 Americans were directly hired as a result of retrofitting homes through the Recovery Act in the first quarter of this year, and that number continues to grow. Many of these people were trained with the help of Recovery Act-sponsored grants.

Across the country, the Recovery Act is putting Americans to work making our homes and businesses more energy efficient, increasing the use of clean and renewable electricity, cutting our dependence on oil, and modernizing the electric grid. We are also accelerating the clean-up of Cold War legacy nuclear sites, and supporting technological and scientific innovation.

We are approaching our top rate of job creation. In the first quarter of this year, the Department's investments created or saved nearly 30,000 jobs. We expect final numbers will show we created or saved more than 40,000 full-time equivalent direct jobs last quarter. We expect to create or save 50,000 - 60,000 jobs per quarter this summer and to remain at this rate through Spring of 2011. Meanwhile, nearly 23,000 additional jobs were reported by recipients who received grants-in-lieu of tax credits for renewable energy projects.

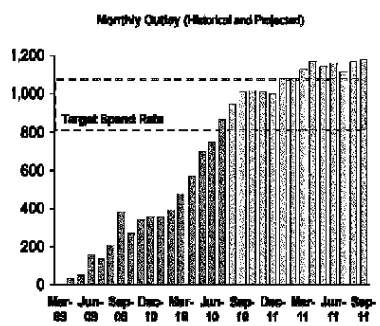
Status of Recovery Act Implementation

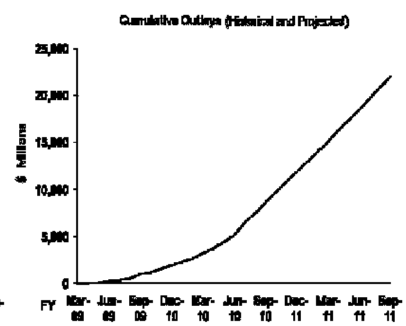
Overall, Congress entrusted the Department of Energy with $36.7 billion in appropriations and $6.5 billion in power marketing administration borrowing authority through the Recovery Act. The Recovery Act also directed the Department to work with Treasury to provide clean energy manufacturing tax credits and generation tax grants; to date these have amounted to more than $7 billion.

We have already made selections for 98 percent ($32 billion) of the Department's $32.7 billion in contract and grant authority. We have obligated 90 percent ($29.4 billion) of this money. For remaining obligations, we are using a "SWAT Team" approach that was piloted in the early days of competitive selections. At times, there have been 125 people working out of the basement of the Department, talking directly on the phone with any applicant who seeks assistance to minimize bureaucratic back and forth. For example, a small group of finance and program staff work with applicants to ensure adequately detailed budgets and financing plans are submitted right from the start, and our lawyers and environmental compliance officers work directly with applicants to expedite environmental impact determinations. Twenty-five headquarters staff traveled to the site offices of the "Retrofit Ramp-up" selectees of the Energy Efficiency and Conservation Block Grant Program to complete all final required documentation. These efforts allowed $450 million in Retrofit Ramp-up funds to be obligated in just five weeks, instead of the expected five months. SWAT Teams are now being used across the Department to finish selections in a timely manner and to obligate every dollar entrusted to us by Congress.

The SWAT Teams are just one example of how we have used the Recovery Act as an opportunity for Department-wide innovation. We have also overhauled our competitive processes by drawing upon the leading experts in their fields to help select the most worthy projects. We have streamlined our operating processes across the board and have placed a new emphasis on sharing best practices internally. We are providing unprecedented transparency through public reporting on recovery.gov and energy.gov/recovery, and we are insisting that projects come in on time and on budget with strict accountability.

The Department has outlayed more than 16 percent ($5.2 billion) of our Recovery Act funds, and our primary focus now is accelerating our outlay rates to our 5,000 recipients. Our outlays have been steadily increasing: we spent $472 million in March, $569 million in April, $695 million in May, and $747 million in June. We will soon be operating at our target rate of $800 million a month. You might think of this process as analogous to accelerating onto the highway: go too quickly and you risk a mistake; go too slowly and you won't get to your destination on time. At our optimal pace, we will be at able to minimize risk to taxpayers, while maximizing their return in jobs created or saved and projects accomplished. By the end of the fiscal year, we expect to have outlayed about $8 billion.





A few programs are performing above expectations. In recent months, the vehicles program has ramped up significantly, and the battery manufacturing grant program is now spending at its target rate. The Weatherization program has had a remarkable turnaround. Office of Science construction projects have been performing well consistently. Several of the Cold War legacy clean-up projects in the Environmental Management program are coming in under budget, allowing the program to reallocate these funds to additional projects.

We are working with all of our 5,000 recipients to achieve our agreed-upon goals, and we are addressing three programs in particular that have notable challenges. The State Energy Program has been successful in obligating funds but slow to outlay due to the states' reimbursement processes. The Loan Guarantee Program has been making great strides but can do even better. The carbon capture and storage projects in the Fossil Energy program are moving at a slower pace than we would like. These issues have my and the Department's full attention.

Finally, I want to mention the strong and close collaboration we have had with the Department of Treasury. Together, we have awarded nearly $4.7 billion in grants-in-lieu of tax credits for renewable energy installations (the 1603 program) and $2.3 billion in tax credits for renewable energy manufacturing (the 48C program). We have seen overwhelming demand for these initiatives.

The remainder of this statement provides additional details on key areas of the Recovery Act.

Energy Efficiency

Under the Recovery Act, we are making an historic investment in low-income home energy efficiency. The Recovery Act provided $5 billion for the Weatherization Assistance Program to fund local agencies to perform home energy audits and weatherization services for low-income families. This program had a slow start, but I am pleased to report that we are now meeting our targets for both homes weatherized and monthly spending. Since last September, the monthly pace of Recovery Act-funded home weatherization has increased ten-fold. We are now approaching between 25,000 - 30,000 homes weatherized per month and expect to weatherize nearly 600,000 homes with Recovery Act funds by March of 2012. This March, the program spent its targeted $125 million per month and is now spending $150 million each month.

The Recovery Act also provided $3.2 billion to fund the Energy Efficiency and Conservation Block Grant program for the first time. This injection of funding is helping more than 2,300 cities, counties, states, territories and Indian tribes develop their own efficiency programs, including building code development, energy audits and retrofits, efficient public lighting, and landfill gas capture. Payments for this program have increased significantly, and we doubled payments from May to June. The program is now 99 percent obligated, and it is creating jobs now while making a meaningful difference in energy usage at the local level. Our nation's mayors have been especially diligent in getting this funding out into their communities.

We are particularly excited about the competitive portion of the Energy Efficiency and Conservation Block Grant program, known as Retrofit Ramp up. The leading projects under this program will define new approaches to make energy efficiency services available to all Americans at significantly lower cost. Vice President Biden kicked off the White House's Earth Day activities this year by announcing the 25 communities that received the $452 million in awards.

The Recovery Act also included $3.1 billion for the State Energy Program. This program is poised to make significant contributions through innovative state-level projects. For example, Michigan is supporting 14 manufacturers to fill gaps in the clean energy supply chain. Indiana is supporting nearly 500 wind manufacturing jobs. Idaho is improving energy efficiency in 210 K-12 schools across the state, putting money back into school budgets.

However, the program has been slower to outlay than we would like. We have obligated all of the funding to the states, and the states have obligated $2.1 billion of that money to their competitive grant recipients. Each state runs its own competitive process and only reimburses once projects are complete, making outlay rates a lagging indicator. We are focused on accelerating the outlay rate of the SEP program with our state partners and are holding weekly stakeholder calls with the National Governors Association, the National Association of State Energy Officials, and state representatives to ensure we address issues as they happen. We expect to see an acceleration of outlay rates this summer.

The states also received $300 million for energy efficient appliance rebates. All of the states have their funds, and most have completed their program offerings.

These programs have created additional opportunities to improve the performance of the Department of Energy. Our expanded call center has handled more than 30,000 calls from formula grant recipients. We have provided service continuity by assigning dedicated account representatives for each state. We collaborate with the national weatherization and state energy organizations weekly. These improvements are helping accelerate Recovery Act programs, and they will also make a lasting difference in the Department's operations.

Renewable Energy

Recovery Act investments and incentives have put us on track to double our renewable electricity generating capacity (excluding conventional hydropower) by 2012. As we deploy more renewable technologies, we are also quickly expanding high technology, clean energy manufacturing in the U.S.

One of the Administration's most successful programs under the Recovery Act has been the payments-in-lieu of tax credits program (1603), which pays developers as soon as a renewable energy project is placed in service. Working with the Department of Energy, the Department of Treasury has provided $4.7 billion in payments to nearly

1,400 renewable energy generation projects across the country. The projects will have the capacity to produce enough electricity to power more than one million homes; that is enough clean energy to power the homes of everyone living in Boston, Seattle, Atlanta, Kansas City, and Cincinnati combined. The projects are expected to create nearly 23,000 jobs.

We are also supporting our domestic clean energy manufacturers companies that are making solar panels, wind turbines, geothermal equipment, nuclear plant components, and energy efficient building products. With Treasury, we have awarded $2.3 billion in tax credits for 183 clean energy manufacturing projects in 43 states under the 48C program. This investment will be matched by as much as $5.4 billion in private sector funding, and these projects will generate more than 25,000 jobs.

For example, Cardinal Fastener in Bedford Heights, Ohio, received a $480,000 tax credit to produce bolts for wind turbines and will double its workforce within the next year. Itron in West Union, South Carolina received more than $5 million in tax credits to help it reequip its plant to keep up with the demand for advanced smart meters. CalStar Products received $2.4 million in tax credits for a plant in Caledonia, Wisconsin, to manufacture bricks and pavers that have 40 percent post-industrial recycled content and use almost 90 percent less energy than traditional products.

The interest in this program was extraordinary, with almost four times as much in funding for worthy projects requested as we had tax credits to offer. The Administration has asked Congress for an additional $5 billion to expand the program. These funds could be deployed quickly to create jobs and drive clean energy development.

We are also supporting clean energy deployment through the loan guarantee program. When President Obama took office, the program had not made a single loan guarantee offer in two years of being funded. We were able to make the first offer within two months of taking office and have made a total of $23 billion in conditional commitments over the past 18 months. Some of those commitments are for nuclear and auto loans outside of the Recovery Act.

We have announced more than $4.1 billion in loans or conditional commitments to build renewable energy and grid electrification projects, such as BrightSource (CA), Abound (CO), Beacon (NY), First Wind (HI) and Blue Mountain (NV). These commitments have proven effective in bringing private capital off the sidelines and into the market. Last week, the Department made a conditional commitment to Abengoa Solar, Inc. in Arizona to finance the construction of a concentrating solar power generation facility that will have 250 MW of capacity using parabolic trough solar collectors and innovative thermal energy storage system.

Still, the program is not moving fast enough and is not yet flexible enough to handle smaller projects. We will continue to improve the program and accelerate its pace.

We are also investing more than $600 million in grants toward the research, development, and deployment of renewable energy. We are working to accelerate innovation in the marketplace by supporting large-scale user facilities, including a biofuels facility at the National Renewable Energy Laboratory; a wind turbine blade testing facility in Boston; batteries facilities at Argonne and Idaho National Laboratories; and a net-zero buildings research facility at Lawrence Berkeley National Laboratory.

Reducing Oil Use

Our dependence on fossil fuels is a drain on our economy and a risk to our security and our environment. The BP oil spill has underscored the urgent need to reduce our reliance on oil.

Through $3.9 billion from the Recovery Act and $8.4 billion from Department's Advanced Technology Vehicle Manufacturing loan program, we are supporting a broad portfolio of transportation technologies. We are investing in everything from plug-in hybrids and all-electric vehicles to natural gas vehicles, advanced biofuels, hydrogen, and improvements in internal combustion engine efficiency. We're supporting manufacturers like Tesla, Ford, Fisker, and Nissan through the ATVM program and component suppliers like A123, Enerdel, and Celgard through battery manufacturing grants.[1]

These investments are creating jobs and helping to boost the U.S. auto manufacturing industry. In the coming years, we expect to construct the first-ever electric vehicle plants in the United States, as well as 30 new battery and electric-vehicle component manufacturing plants. By 2015, these plants should be able to produce 250,000 electric-drive cars and batteries to power 500,000 plug-in hybrid electric vehicles. To support these advanced vehicles, the Department is also helping put in place the necessary infrastructure, including more than 20,000 charging locations in a dozen cities.

Additionally, the Department has awarded $300 million in Clean Cities grants to help 25 cities expand their efforts to cut oil consumption by using high-efficiency cars, trucks, and buses that run on alternative fuels. These cities will deploy more than 9,000 alternative-fuel vehicles 70 percent of which will run on natural gas. The Recovery Act also includes $100 million for projects that will improve the efficiency of heavy-duty trucks and passenger vehicles.

To meet our energy challenges, we must also develop new, clean, domestic sources of fuel. That is why the Recovery Act included funding to help develop the next generation of biofuels. More than $700 million from the Recovery Act has been obligated to support 19 bio-refinery projects. For example, Enerkem received $50 million to build a plant in Pontotoc, Mississippi to convert waste into biofuels that will create 210 construction jobs and 130 permanent jobs. Enerkem's process reduces the volume of waste going to the landfill by 90 percent while creating useful fuels.

[1] Ford, Nissan, Tesla and Fisker are funded by the Advanced Technology Vehicle Manufacturing Program,

I'm pleased to appear today with Secretary Vilsack. Our agencies have been working together closely to advance the biofuels industry in America. Our goal is to more than triple America's biofuels production in the next twelve years, cutting oil imports by $41 billion.

Smart Grid

The more than $4 billion in Recovery Act Smart Grid investments are helping modernize our grid. Our grid wastes too much energy, and it is too susceptible to outages and blackouts. By modernizing our grid we can increase reliability and efficiency, allow smart metering, enable two-way flows of electricity, and accommodate larger amounts of energy from intermittent renewable sources such as solar and wind power.

Matched by more than $5.7 billion in private sector funding, we are supporting 132 projects that will increase reliability and give consumers more choice and control over their energy use. We're funding the installation of more than 850 sensors to improve reliability and security and provide visibility and control across the entire U.S. transmission system. 200,000 new smart transformers and nearly 700 automated substations will prevent failures and allow power companies to respond more effectively when power lines are knocked down by bad weather. By 2013, we expect to more than double the number of smart meters to 18 million nationally through a combination of public and private investment.

There were initial delays in obligating the Smart Grid investment awards over discussion on tax treatment for grantees. We worked expeditiously with the Treasury Department to clarify the tax status and determine they are non-taxable. Since the March resolution of the tax issue with Treasury, we have almost fully obligated the Smart Grid awards.

Carbon Capture and Storage

The Recovery Act included an unprecedented $3.4 billion investment in carbon capture and storage technologies. By attracting significant private capital, we are pursuing projects that will capture more than 10 million tons of CO_2 annually by 2015 and help demonstrate the economic viability of carbon capture and storage by 2020.

We've selected five projects to accelerate the development of advanced coal technologies with carbon capture and storage at commercial-scale. For example, American Electric Power is demonstrating a chilled ammonia process that is expected to effectively capture at least 90 percent of the CO2 from a flue gas stream. As part of our industrial carbon capture program, Archer Daniels Midland is demonstrating an advanced amine process to capture CO2 from industrial flue gases and sequester the CO2 in a sandstone reservoir. We're also exploring converting captured CO2 into products such as chemicals, fuels, building materials, and other commodities.

It must be noted that these projects are not moving as quickly as we had hoped. We received fewer applications than expected, and the selected projects are facing significant market barriers, including constrained capital markets and the difficulty inherent in financing a new technology without a long-term price on carbon.

Cold War Legacy Clean-up

The Department of Energy is also charged with cleaning up the legacy of our nation's nuclear weapons program. Our Office of Environmental Management (EM) received $6 billion in the Recovery Act to accelerate cleanup work at 17 sites, reducing the lifecycle costs to taxpayers. The EM projects were among the first to start, and more than 90 percent of the funds have been obligated and more than 40 percent has been spent. Several of the projects are coming in under budget, allowing the program to reallocate these funds to additional projects.

In the first quarter of 2010, EM projects created or saved more than 5,600 direct jobs at the prime contractor level in communities like Hanford, Washington; Savannah River, South Carolina; and Oak Ridge, Tennessee. Thousands of additional jobs have been reported to EM by subcontractors and vendors. We are on track to permanently dispose of nearly 8,400 cubic meters of transuranic waste and nearly 73,000 cubic meters of low-level waste; more than 3 million square feet of contaminated facilities will be demolished. By September, we will have reduced the footprint of land and structures requiring cleanup by 20 percent, and our goal is to reduce the footprint by 40 percent by September 2011.

This program has contracted with a particularly high number of small businesses. In Fiscal Year 2009, EM Prime Small Business contractors were awarded about $396 million, far exceeding EM's goal of $288 million. The program and site prime contractors have obligated approximately $1.4 billion in Recovery Act Small Business contracts.

Science and Technology

The Recovery Act included $1.6 billion to advance basic research through the Department's Office of Science. We are accelerating work on key priorities, including the National Synchrotron Light Source II at Brookhaven National Laboratory, a new Continuous Electron Beam Accelerator Facility at The Thomas Jefferson National Accelerator Facility, and new battery user facilities at Argonne National Laboratory. We are supporting 16 new "Energy Frontier Research Centers" and upgrades to the world's fastest supercomputer at Oak Ridge National Laboratory. And we are increasing funding for promising early career scientists. This funding is nearly 95 percent obligated, and the program has spent 31 percent of its funds.

The Recovery Act also included $400 million for high-risk, high reward research through the Advanced Research Projects Agency Energy (ARPA-E). ARPA-E is pursuing truly transformational solutions to our energy problems. With ARPA-E, we are swinging from the heels and trying to hit home runs, not just base hits.

We have completed three rounds of funding through ARPA-E. The first round was a broad call for the best ideas in any area that could have a transformational impact on energy. We funded 37 projects ranging from as an all-liquid metal battery that could provide grid-scale storage and cut costs by 90 percent to a novel carbon capture process that emulates the processes of the human body. The second funding solicitation focused on developing better batteries, carbon capture processes, and "electrofuels," which use microorganisms to harness energy and convert carbon dioxide into liquid fuels. We funded an additional 37 projects.

On Monday, we announced the final round of awards for work in grid-scale energy storage, highly efficient cooling technologies and air conditioners, and advanced power converters. We funded 43 projects.

To date, we have obligated 82 percent of first and second round funding. We will obligate all ARPA-E awards by September. Award recipients from the first funding round have already begun conversations on establishing manufacturing facilities in the U.S., and we are highly optimistic about the future return on these investments.

Conclusion

The bottom line is that the Department of Energy is on track to deliver on the goals of the Recovery Act. We have been steadily ramping up our activities, while minimizing risk to the taxpayers. We are now poised to reach our optimal rate of spending, project performance, and job creation, and we expect to maintain that pace consistently for the next year and a half. These projects are driving economic growth now, while laying the foundation for our long term prosperity through a clean energy economy.

We are off to a good start, but this momentum will need to be sustained when the Recovery Act is finished. To truly transform how we use and produce energy, we will need comprehensive energy and climate legislation that will provide stable, long-term incentives that will unleash America's inventors, entrepreneurs, and industries. Indeed, it is the private sector that will ultimately drive this revolution and bring it to scale.

I commend the House of Representatives for passing comprehensive legislation last year. As you know, there are now several different pieces of legislation before the Senate. President Obama has called for an approach that puts a price on carbon pollution and makes clean energy the profitable kind of energy. Only comprehensive legislation will give industry the direction and certainty it needs to start creating jobs today, while guiding investments over a generation.

I look forward to working with this Congress and this Committee in the weeks and months ahead. Thank you, and I'm happy to take any questions.

# # #

Chairman SPRATT. In your position of reviewing grants, grant applications, do you get out in the field and actually see and witness these projects taking shape?

Mr. ROGERS. One of the great privileges of this role has been to be able to go out across the country and to look at these projects as they take shape.

I was out in Colorado a couple weeks ago with the Vice President at UQM, which is an electric drive manufacturer for electric vehicles. And what was powerful about that was to see the workers going back to work in a facility, a set of folks who had gotten laid off who get to go back to work now to make the most competitive products in the world. And the pride with which those workers were able to come back because of this kind of Recovery Act funding is the kind of thing that motivates what I do every day.

Chairman SPRATT. I was in Charlotte, North Carolina, when the President came there for that very purpose of unique components in lithium batteries. Would you expound a little bit on the technology that's being developed there? What is the industrial policy that underlies your approach to using government funding to build private-sector capacity?

Mr. ROGERS. Let's take the batteries and transportation electrification awards where North Carolina, and Celgard, has been a very important player in that.

Chairman SPRATT. Let me interrupt you. As I recall, that was a dollar-for-dollar match, too. The company put up a dollar for every dollar you awarded.

Mr. ROGERS. That is correct. So, for every dollar that the Department of Energy has under the Recovery Act, we have been matched more than dollar for dollar by private-sector funds coming into these projects.

These are a set of projects where the United States across the last decade or more missed a product cycle. All of a sudden, we allowed Asia to take over the manufacturing base for advanced technology batteries.

The great opportunity that we have is to reestablish the linkage between innovation, manufacturing, and deployment in a strong and vibrant domestic marketplace. Where we do that, we create attractive, high-paying, long-term jobs, and we create the kind of growth that we expect in our economy.

We take batteries as a simple one. We expect these markets to be growing in the order of 7 percent every year, as opposed to in a world that perhaps is growing 2 to 3 percent a year. So, we have a very high-growth marketplace where the United States only had 2 percent of the world capacity because we had allowed it to go overseas.

The great news is, with U.S. innovation, we can bring that base back; and because of the investments we have made under the Recovery Act, the United States has the potential to have 40 percent of the world's market share in batteries by 2012. This kind of investment reestablishes the United States as a major competitor in a very high-growth market where our innovations are the best in the world.

Chairman SPRATT. Are there other technologies to which you have made this dramatic a commitment?

Mr. ROGERS. There are a broad range of technologies. The great opportunity that I have had a chance to witness in this is the power of innovation in the United States to establish global leadership positions. So, we will take a company in North Carolina, Cree, that makes a set of light bulbs that take about 5 percent of the energy as the light bulbs in this room. This is a technology that the United States invented where a set of the manufacturing went across to Asia, where we are now bringing that kind of manufacturing capacity back here to the United States. And the great opportunity we have is we have about a dozen different companies who are beneficiaries under the Recovery Act who are inventing the most efficient and most competitive products in the world in that particular area.

We take a look at the smart grid, another area where the United States has a great chance to lead the globe. Itron, which is a company that is based in Washington State and in South Carolina, has substantially increased its employment because of our build-out of the smart grid activities. We now have 138 different projects in 48 different States across the country.

And one of the things that we are doing as part of this, this is just a down payment on an investment in U.S. infrastructure that, frankly, hasn't happened in the grid since I was 5 years old; and the opportunity that we have by investing in these projects is to have U.S. manufacturers like Itron develop the capabilities to serve a very rapidly growing U.S. domestic market and, frankly, take positions on a global basis. The United States has the best technology; and if we can combine that with manufacturing in a vibrant domestic market, we are really on our way. And that is what the Recovery Act has allowed us to do.

Chairman SPRATT. Five billion dollars has gone to help low-income families make their homes more efficient, heating efficient and cooling efficient. In South Carolina, my home State, I understand the allocation is $59 million to scale up existing efforts. Will that money be regranted to State-wide beneficiaries?

Mr. ROGERS. That is correct. So, the State receives the funds, and then we actually deploy it through a network of 916 community action agencies across the country. So, in South Carolina there is a portfolio of community action agencies in the local community who understand where the local centers of poverty are, where the elderly are most in need. The opportunity that the weatherization program gives us is the ability to create jobs, to make homes more livable, to put money back in the pockets of hardworking homeowners, and then to make sure that we actually reduce pollution in our communities.

This weatherization program is one of the great success stories of the Recovery Act, now delivering again between 25,000 and 30,000 homes every month of weatherization assistance across the country.

Chairman SPRATT. Thank you very much for your testimony; and thank you, too, again for your patience.

Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman.

Mr. Rogers, I didn't quite catch it in your testimony, but is it roughly $30 billion that your Department has under the stimulus bill?

Mr. ROGERS. That is correct. We have a total of appropriations of $36.7 billion, of which $32.7 is contract and grant authority.

Mr. HENSARLING. And then I think you said that the Department has outlaid 16 percent of that; is that correct?

Mr. ROGERS. The Department has outlaid cumulatively 16 percent of that. We are outlaying it now, as of June, at a rate of $800 million a month.

Mr. HENSARLING. Well, I am certainly not an adherent to Keynesian economics, but for those who are, doesn't it have something to do with the timing and the essentially shovel-ready nature of the projects? And so, I am just curious, when you talk about all the benefits, it doesn't seem to comport with Keynesian theory that so little of this money has actually gone out the door.

Mr. ROGERS. Well, again, I think that Secretary Vilsack talked about this at some level. Our primary task is to make sure that the funds move out the door to projects that create jobs and have a long-term economic, positive economic impact. If you look at the infrastructure investments, the primary event is the event of obligating those funds, and we have obligated 90 percent of those funds. We have actually selected 98 percent of the projects.

When the funds are obligated, people—you start ordering capital equipment, and people get hired. We then reimburse the recipients after they hit major milestones or after they complete the project. And so what you see then is the outlay rate as a lagging indicator.

Mr. HENSARLING. Let me ask about these milestones. As I understand it, the bulk of this money appears to be going to the Office of Energy Efficiency and Renewable Energy, $16 billion, I think that is kind of the centerpiece of your green energy initiative, is that correct?

Mr. ROGERS. The Office of Energy Efficiency and Renewable Energy did administer about $16 billion of the funds, which then go out to a portfolio of private companies.

Mr. HENSARLING. Well, let me ask you this question and you can tell me whether or not they are behind the power curve, but if you go to the Web site of recovery.gov, under this particular program, percent of funds obligated, it says no data available; number of homes weatherized, no data available; estimated energy savings from projects, no data available; schedules and milestones to be determined. I think this information was accurate as of the last 24 or 48 hours, unless you can disabuse me of the notion.

Mr. ROGERS. I will have to go look at recovery.gov. If you go to our Web site, you can see exactly the answers to each of those questions that are posted on our Web site every day.

Mr. HENSARLING. Okay, well, perhaps, one part of the Administration might do a little better of communicating with the other part of the Administration.

In your mind, and I am curious about how your department thinks about this, but when you are talking about all these great things that you are doing with this stimulus money, where do you think the stimulus money is coming from?

Mr. ROGERS. The stimulus money comes from America's taxpayers, and we take our stewardship of the taxpayers' dollars very, very seriously. What we are working to do is to lay a foundation for America's economic future by investing in a portfolio of projects and technologies that hold the potential for long-term economic growth and job creation.

I think that is what we have been able to do under the Recovery Act, and I think the American taxpayer gets a great return on this investment.

Mr. HENSARLING. The American taxpayer is drowning in debt. We are looking at the single largest deficits we have ever seen in our Nation's history. We just hit a trillion dollar deficit milestone. We have got trillion dollar deficits as far as the eye can see. Our gross debt to GDP is now approaching the danger zone of 90 percent.

Greece is at 110 percent. They are having to sell sovereign territory to pay for their debt.

So, listen, I understand you take pride in your work. I have no doubt that good things can be done with what seemingly looks like free money, but sooner or later, you have got to live within a budget. Unfortunately, we have passed no budget. We appear not to be on track to pass any budget, first time in the history of the House, as I understand it, that we would not have passed a budget.

But I have got to tell you, at least in the folks I talk to in my neck of the woods in East Alice and rural east Texas, there is a huge concern about this wave of debt, and it is one of the reasons—again, it is not a lack of capital we are seeing as much as it is a lack of confidence.

You, yourself, talked about funds on the sideline. By most estimates, there is $2 trillion of capital sitting on the sidelines that would come into the economy if there was any confidence in the policies of the Administration. I just hope at some time that people will recalibrate—I know we continue to have debates on who to blame here, whether it be Bush, Ford, Nixon, Coolidge, Harding, Grant, Lincoln, I don't know who—but I just have a hard time seeing, by any discernible measure, that this thing is working.

I don't even know how you come up with your jobs-saved figure. What I know is that since this bill has passed, we are still essentially mired in almost double-digit unemployment, the highest level in a generation, and all I see and most of my constituents see is a wave of debt. Now, you know, you can borrow 43 cents on the dollar from mainly the Chinese and send the bill to our children and grandchildren; I am sure you can do a few good things with it now.

But I certainly don't think it is worth the cost, and I think that entrepreneurs, small businesses, investors are living in fear of this debt, as they well should, and I know you are not the decisionmaker here, but somebody in this administration had better put forth a plan to deal with this long-term structural debt and do it quickly, or all this capital will continue to sit on the sidelines, and whatever efforts you are doing at the Department of Energy will be all for naught.

And one of the things that was leading to uncertainty is the increased rhetoric on your cap-and-trade, which I believe, if I recall right, it has been a while, but at least the House-passed version, I think had about an $800 billion price tag to the economy. I think that is the CBO number. Maybe it is $600 billion. Maybe it is $800 billion.

But how that is going to create jobs at a time when we have historic unemployment is beyond me.

Anyway, I know we have another panel. I will yield back, Mr. Chairman.

Chairman SPRATT. Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. Rogers, not to belabor an issue, but—and I know you don't purport necessarily to be an expert on how the budget works, but is it your understanding, as it is mine, that the unpaid Bush tax cuts cost about $700 billion roughly? Is that your understanding?

Mr. ROGERS. Again, I am not a good budget economist. I am trying to drive a whole set of energy projects through the system, so I will regrettably have to pass.

Mr. CONNOLLY. Well, let's stipulate for the record, that is about right. And is it your impression, just as a layman, watching the economic record of previous Congresses controlled by the other party and the Bush administration, that that $700 billion investment, which was promised to lift all boats in a rising tide and create unprecedented prosperity and numerous jobs, did it work?

Mr. ROGERS. Across the last decade, in the markets that I know the best, we have had two fundamental challenges. We confused arbitrage for innovation, and we lost track of the core innovative spirit of the United States of America. And we ended up allowing a whole series of industries to move overseas. We allowed a whole set of renewable industries to move to Europe, allowed batteries and transportation to move to Asia, because we forgot the core basis around manufacturing.

So, innovation and manufacturing, if we can keep our focus there, as opposed to where it has been for the last decade, we will be much better off.

Mr. CONNOLLY. And to the point you are making, would it surprise you then to learn that if you measured job growth with those promised prosperity from those tax cuts that, in fact, the net job growth from March of 2001 to March of 2009 was a negative 430,000? Would that surprise you?

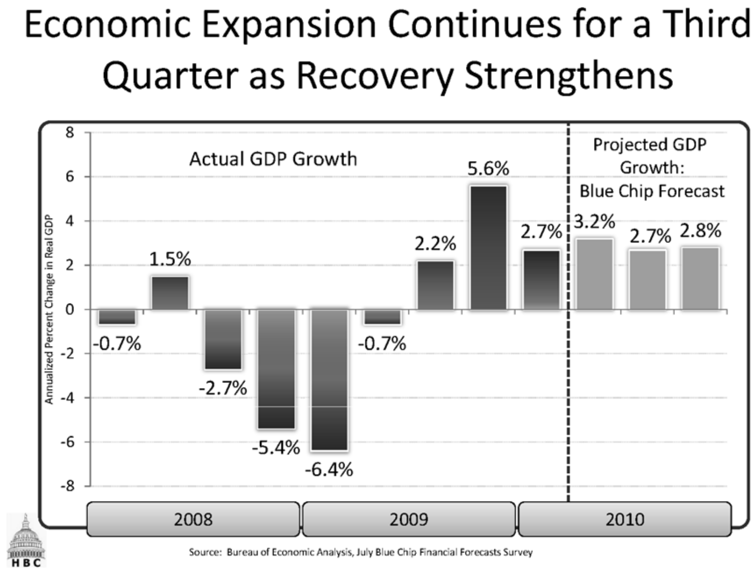
Mr. ROGERS. That would not surprise me.

Mr. CONNOLLY. And what has been the net negative job situation growth or negative growth since we passed the recovery bill?

Mr. ROGERS. Well, since the—if you take a look at this year, we have seen positive job growth in 6 out of the last 7 months. And I think the important part to some of the earlier dialogue is, certainly in the energy projects that I deal with, substantially all the job growth that we are seeing is private-sector jobs.

What we are doing is, every time the Federal Government is putting out a dollar, we are being matched more than 1 for 1 by private dollars, and these projects are ending up creating a foundation for long-term competitiveness that I think we can all be proud of.

Mr. CONNOLLY. Mr. Chairman, can we put up the graph on economic expansion in the third quarter that shows current and projected GDP growth? I don't know what chart number that is—yes.



Now, Mr. Rogers, if I am looking at GDP and, again, the promise of those who want to criticize the Recovery Act, who were great champions of the Bush tax cuts that weren't paid for and that created huge holes in the deficit that they now say they decry, produced that kind of economic record in terms of GDP growth. Is that your understanding?

Mr. ROGERS. Yes, if you look at, again, at the Recovery Act, what makes me excited is to see the Recovery Act again delivering 3 million jobs already, clearly on the way to the 3 to 4 million that CEA originally projected and contributing to a turnaround in GDP growth. If the United States can grow at that kind of rate with the kind of innovation that we see, all of a sudden, our ability to create wealth for all Americans grows dramatically.

Mr. CONNOLLY. And some seem to have trouble with the idea of, you know, that there is spending and then there are investments, investments involved with up-front expenditure, but they have a return on them.

I was intrigued to hear you talk about the Advanced Battery. You said, if I heard you correctly, that we were reduced to like 2 percent of the world market.

Mr. ROGERS. Two percent.

Mr. CONNOLLY. Two percent, and you said that, by 2012, because of the investments we are making through the recovery, we are on track to get 40 percent by 2012; is that correct?

Mr. ROGERS. We will have the capacity to deliver 40 percent.

Mr. CONNOLLY. And could you just give us real quickly, what was the investment? And what is the—any kind of projected economic value to that 40 percent by 2012?

Mr. ROGERS. So we invested $2.4 billion of taxpayer funds in these projects. We were matched more than dollar-for-dollar by the private sector to create a total of more than $4.8 billion of projects. These projects then are growing at, again, the expected rate for these markets is to grow at 7 percent a year, so we get a set of jobs today, and we get more jobs tomorrow, and we get more jobs the year after that.

It is those kinds of investments that I think, a decade from now, as we look back at the Recovery Act, that we will say, we saw an inflection point in the way the United States uses energy, and we saw an inflection point in the way the U.S. thought about infrastructure and innovation.

Mr. CONNOLLY. Mr. Chairman, my time is up, but I do think that this concept of a return on investment is well worth exploring because sometimes, in our debate here, to make political points, we descend into sort of a mindless view about all expenditures being the same. Investments are not the same, and many of them have incredible returns on them that make them very worthwhile and create jobs and expand the U.S. economy.

Thank you, I yield back.

Mr. ROGERS. Mr. Djou.

Mr. DJOU. Thank you, Mr. Chairman.

Mr. Rogers, my questioning also is similar to the Secretary of Agriculture's, earlier today and that is, I want to see some clear metrics. You are spending a lot of money. You are saying it is helping. I think this is all good. We all, I think, have the same objective, Republicans and Democrats. We want to see the American economy turned around. We want to see Americans put back to work.

The amount of money being spent by the stimulus, by the Department of Energy, can you give me some clear, tangible metrics in terms of when and how much you are going to see—what rate, are we going to see the unemployment rate go down? When are we going to see it?

And I will leave it open-ended to the Administration to give me a clear benchmark to gauge success.

Mr. ROGERS. So, I spent 25 years in the private sector before I took on this role a year and a half ago. When I came in——

Mr. DJOU. I know, McKinsey is very well-known for that, and I will leave McKinsey to do the benchmarking here.

Mr. ROGERS. When I came in, the mantra that we established for the Department was accountability every day. This is about accountability and making sure that we move these funds out in a timely way with great stewardship of the taxpayers' resources. We took the funding that we received from the Federal Government and turned that into 144 different projects, each of which have a very clear set of milestones and the tasks that we have. We now have 5,000 individual recipients.

For each recipient we have a very clear set of milestones. We think about them as earned-value milestones, that you get paid when you hit your earned-value milestones, and we have to make sure that we are hitting those marks on time, on budget.

The very good news is that we continue to hit all of our marks on time, on budget, and what we are seeing is a rate of innovation that is faster, I think, than we would have expected.

If we take a look at your State of Hawaii, where substantially all of the power is generated by fossil fuel, by the import of crude oil, so you have among the highest energy costs in the whole country.

We started yesterday, the first wind Kahuku wind project, which is funded by a loan from the Department of Energy. It is a great project to reduce the amount of oil required in Hawaii. We are doing the same thing in biofuels in Hawaii, where there are some great opportunities both for algae biofuels as well as for cane biofuels. And the ability to take a State like Hawaii and significantly reduce its exposure to the imports of crude oil, enormously important for the health of the economy, not to mention the immediate and direct jobs that you are receiving under the Recovery Act.

Mr. DJOU. Well, Mr. Rogers, my follow-up question, then, is do you have enough? Do you need more? Is what we have already allocated and appropriated to the Department of Energy sufficient? Are we going to hit all of these milestones?

Mr. ROGERS. So, we continue to hit all the milestones on time, on budget. What we have faced is the fact that, for every dollar we had, we were oversubscribed 5-1. So, every time we made an award, I got to turn down 80 percent of the people while the Secretary came out and made awards to the 20 percent who were successful.

You take a look at programs like the 48C tax credits for clean energy manufacturing, $2.3 billion; 181 different projects across the country, terrific stories, and yet we were oversubscribed in that case by 3 to 5 to 1.

The President has asked for another $5 billion to reestablish U.S. leadership in industry after industry. And those kinds of funds are among the highest return funds that Congress can provide.

Mr. DJOU. Now, okay, my final question, do any of these projects, all of these billions of dollars that were spent, do you believe that it has any impact on the unemployment rate? And, if it does, is it a positive effect on the unemployment rate? And if it does have a positive effect on the unemployment rate, when will we start seeing the unemployment rate go down?

Mr. ROGERS. If you look across the portfolio of projects that we have funded under the Department of Energy and with our colleagues at Treasury in the energy arena, these are having a clear and demonstrable impact on employment in these sectors. You are seeing employment in clean energy technologies grow quite rapidly, and we are very proud of the kinds of jobs we have created, both in deployment but also in the manufacturing of the technologies further up the supply chain. And those kinds of pieces are all pieces of the puzzle that are contributing to the 3 to 4 million jobs that CEA is expecting, the 3 million jobs that we believe have already been created, according to the Council of Economic Advisers, under the Recovery Act.

So we are seeing the kind of job creation—clearly, in a world where we lost 89 million jobs in the course of the great recession, 3 million doesn't solve the problem. But what we are doing is we are turning the corner. And what you are seeing is the private markets now beginning to go take up the pace. The engine is turning over, and we are moving in the right direction.

Mr. DJOU. So, will we see the unemployment rate go down, and if so, when, because of the stimulus package?

Mr. ROGERS. What I can see in the energy arena is the employment going up consistently. And I think you can ask Christy Romer as to exactly how that translates into the national accounts. But from a Recovery Act standpoint, it is unquestionable that the Recovery Act is working and is creating jobs, even, and beginning to turn the GDP growth around in a way that is exactly what we were looking for.

Mr. DJOU. Thank you.

Thank you, Mr. Chairman.

Chairman SPRATT. Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman.

And welcome, Mr. Rogers. Thank you so much for coming today. I can tell you there couldn't be any department more important than yours to the region that I represent in northern Ohio, the southern rim of Lake Erie from Toledo to Cleveland, where energy rates are sky high. It is the biggest job killer we have.

We have worked hard over the last quarter century to spawn a solar industry. We now feel we have—with companies like First Solar. We feel we probably have 6,000 jobs related to solar manufacturing that pivots off of our very well-known glass industry in our region, and we would like five times that many jobs overnight in our area.

The Obama Administration inherited a country in shambles and a Department of Energy stuck in the 20th century, and I want to thank you for spending part of your life in helping America move into this new century and new opportunity.

The other day, there was a story—it was reported in our local paper—that over in Switzerland, a pilot had actually flown a solar plane for 24 hours, and I am glad a Swiss pilot did that. I wish it had been an American pilot here on our soil, but to remain aloft for 24 hours with the batteries charged by the sun was, it kind of reminded me of the modern day Wright brothers, an analogy for that.

So, my question of you really is, to expand on your Department's perspective on job creation in this new emerging energy sector, what more can you tell us about that, the chief engines of growth? How do I make sure that a region like mine, which is suffering from such high unemployment, accesses all the important programs that we can propel innovation that produces jobs, as we are beginning to do in the solar sector?

Are there ways for the Department to move funding out more quickly? I don't know how much of the recovery dollars are actually committed at this point from the Department, but I think it is probably fair to say that my region doesn't apply as aggressively as places that have MIT and Stanford and, you know, sort of the typical places. How can we better connect to you?

Mr. ROGERS. I think Ohio provides a wonderful microcosm of how the energy story is beginning to play out. One of the things that we have seen over the last 18 months is how the United States can really lead in a global clean energy economy. You take a company like First Solar, which drives a set of fundamental innovations in thin-film solar panels and has among the most competitive products in the world. Their challenge is, how do you make sure that it is competitive to manufacture in the United States? And what they did was they applied for a 48C Clean Energy Manufacturing Tax Credit from the U.S. Treasury; were awarded that because of their level of innovation, and then their customers are benefiting from the 1603 program, the tax grants for renewable energy deployment.

Over the last decade, we forgot that we actually have to have a vibrant domestic demand market. We have to actually invest in manufacturing. We thought that maybe we could just innovate and then arbitrage, and that was, kind of, you know, that was all that it really took to grow an economy.

And I think what First Solar demonstrates, what Cardinal Fastener in Ohio demonstrates, is that if we drive the innovation through manufacturing and through a vibrant domestic demand market, all of a sudden, we can grow entire industries that not only can compete in the United States but can compete all the way around the world. I mean, First Solar is very competitive in the Middle East, in Europe. It is a terrific story. And there are multiple companies like that in Ohio and around the country.

If you look at our Recovery Act funding, again, 98 percent of our grants are done. We moved that money out the door very, very quickly. We still have a few—some money available still for loans and have a very attractive loan pipeline as we move forward.

But as we look forward, I think the key is to establish the rules of the road so that we have long-term incentives for manufacturing, that we have long-term incentives for renewable energy deployment in this country and that we continue marrying innovation with it. If you look at some of the great institutions in Ohio, if you look, Ohio State was one of the recipients of one of our science awards. And the ability to start all the way back at the basic science and then move all the way through to new products, manufacturing and out into the marketplace, that is the story of growth that we are committed to in the Department of Energy. And that is the story of growth that you can see in each of the projects that we have been able to fund.

Ms. KAPTUR. I would cordially invite you to the only renewable energy campus in America at the University of Toledo, up in our area, and if you ever have the time, if you are flying over that part of the country, Ohio, we would love to welcome you, introduce you to some of our companies. And perhaps you could talk about the Department's perspective, what you are trying to encourage, to make sure that we are tooling up in every possible way, because we do view ourselves as leaders in this new energy world. So, I would cordially extend that invitation to you and your colleagues.

Mr. ROGERS. Thank you.

Chairman SPRATT. One last question from me.

Once this technology has been developed and brought to maturity and demonstrated, how do we assure ourselves that it won't then be outsourced overseas in some manufacturing country like China?

Mr. ROGERS. I think there are two answers to that question. This notion of making sure that the innovations that we have stay here and really build industries here in the United States is enormously important to the Department, to the Secretary, to the President.

If you look at the most exciting projects that we are funding under the Advanced Research Projects Agency for Energy, ARPA-

E, which is, if you will, for energy, the equivalent of what DARPA for the Defense Department, one of the things that we are requiring is that when those projects, when that technology reaches maturity, that they build their manufacturing here in the United States. Because what we don't want to be doing is funding, all of a sudden, a set of bench research, and then when it goes to manufacturing, all of a sudden we are moving abroad.

What we are observing though, and the thing that gives me the greatest degree of confidence, is the rate of innovation is so high, that the United States can be very, very competitive. So, we funded, on Monday, a set of projects around power conversion devices, right; these are things that are transformers, if you think about it. The United States owned the global market for transformers all the way from the end of World War II into the middle of the 1970s, and then we gave it up. We lost it to Europe, and then we lost it to Asia. The innovations that U.S. companies are now driving in that area are between 10 and 100 times more efficient than the current products on the market today.

If I drive a performance improvement of tenfold versus what the Chinese competitor has, frankly, I can manufacture here in the United States because there is no labor cost difference that can make up for a tenfold innovation performance, improvement difference. So, that is the opportunity that we have, is to take that innovation, and then we have to be thoughtful about our manufacturing incentives here in the United States.

If you go around the world, this is a global competition for manufacturing centers. And what we have observed under the Recovery Act is we have seen investors from all over the world bring their manufacturing base here to the United States. In renewable energy alone, we have seen $10 billion of foreign direct investment into the United States, where companies that have the choice to build anywhere in the world choose to build their manufacturing in the United States.

Nissan is going to, for example, begin building their Leaf technology, their new electric car, in Smyrna, Tennessee. Why are they building in it in Smyrna, Tennessee? Because we had the Advanced Technology Vehicles Manufacturing Program here that made it attractive to manufacture in the United States, one of the most competitive cars in the world.

The great opportunity that we have is to make the United States a source of innovation and manufacturing excellence because we do, in fact, have a vibrant local demand market. But I do think it is very, very important to think about that linkage and to work the entire supply chain. That is what we have had the opportunity to do under the Recovery Act.

I think we can learn some lessons from how the Recovery Act has worked as we think about policy on a long-term basis.

Chairman SPRATT. Mr. Hensarling.

Ms. Kaptur.

Ms. KAPTUR. Mr. Chairman, I had a follow-up question, if the gentleman would yield, on what you had asked. I had a follow-up question. Would that be all right?

Chairman SPRATT. Yes, if you confine it to that, I would recognize you for that purpose, but we do have another panel waiting to testify.

Ms. KAPTUR. All right. I wanted to follow on your question with a concern and ask Mr. Rogers what his thoughts are on this. I talked about the company First Solar, and their successes are very well-known, but they recently have worked with the government of China and will be building a facility there. And one of my questions is, how does one, when one manufactures in another country, especially a country like China, how does one assure that no interest there would actually assume your intellectual property?

How does a U.S. company function in an environment like China and then not have the chief counterfeiter of the world, industries in China, steal our technology and duplicate that? How does the company protect itself?

Mr. ROGERS. This is a very important question. It is one that Secretary Locke is spending a good deal of time on in Commerce, making sure that we think about protecting U.S. intellectual property on a global basis. My observation, again from my time in the private sector, was that many companies, a company like General Electric, will do some manufacturing in China but won't actually take another block of manufacturing into China where their most important intellectual property resides.

The reason for that is, it is very, very hard to protect trade secrets, because innovation occurs at two different levels. It occurs in the product, but it also occurs in the manufacturing process.

If you move that to another country, it is very, very easy. I mean, you go back, Thomas Jefferson was actually very, very good at taking technology from England and bringing it to the United States. So, it is very easy to take that kind of process technology and product technology when you manufacture in another place.

And I think, again, many companies are very, very good at managing that. It is something that Commerce takes very, very seriously. But it is one of the advantages of making the United States an attractive place to invest in innovation and in manufacturing.

If we create the kinds of platforms from which we can export to a global marketplace, it is much easier to protect your intellectual property here than it is anywhere else in the world.

Ms. KAPTUR. I want to thank also Congressman Hensarling for allowing me that question. I truly appreciate it.

Chairman SPRATT. Mr. Rogers, thank you very much for your responsive answers, your excellent presentation. We very much appreciate it, and we appreciate, once again, your patience today.

Mr. ROGERS. Thank you.

Chairman SPRATT. Thank you very much indeed.

Now we have a final panel, Josh Bivens with the Economic Policy Institute; and Veronique de Rugy of the Mercatus Center of George Mason University.

STATEMENTS OF VERONIQUE DE RUGY, PH.D., SENIOR RESEARCH FELLOW, MERCATUS CENTER, GEORGE MASON UNIVERSITY; AND JOSH BIVENS, PH.D., MACROECONOMIST, ECONOMIC POLICY INSTITUTE

Chairman SPRATT. Ms. de Rugy, we will allow you to go first if that is your preference.

STATEMENT OF VERONIQUE DE RUGY, PH.D.

Ms. DE RUGY. Good afternoon, Chairman Spratt, Ranking Member Ryan and member of the committee.

My name is Veronique de Rugy. I am a senior research fellow at the Mercatus Center at George Mason University where I study tax and fiscal policy, the Federal budget process, and the implication of government spending for economic growth.

It is an honor to be here today to discuss what stimulus means for the long-term economic health of our country. I would like to focus my testimony on two main areas. First, I would like to discuss why government spending to stimulate the economy does not work. Second, I will summarize some preliminary findings from my quarterly report on stimulus spending data that will further illustrate why stimulus spending doesn't work.

When President Obama signed into law the American Recovery and Reinvestment Act at a cost of $787 billion, he promised that it would create or save 3.5 million jobs over the next 2 years, 90 percent of these jobs in the private sector. The Administration also claimed that, without the Recovery Act, the unemployment rate would reach 8.8 percent, while with the Act, it would begin to decline.

Since then, the U.S. economy has shed another 2.5 million jobs and the unemployment rate has climbed to 9.5 percent. That is higher than the White House predicted it would have reached even without the stimulus.

The Administration and its team can repeat as much as they want that the stimulus is working and has created 3 million jobs. It won't make it true.

The actual data, the actual data, tells a very different story. The American people want to know why the economy is still weak, why they don't have jobs. After all, the Administration promised that, if only the government spent money, it would create much more than originally invested in economic growth. Why spend the money otherwise, right?

This increasing gross domestic product is what economists call the multiplier effect, but academics disagree. Harvard professor Dr. Robert Barro and Charles Redlick explain the historical value of the multiplier in the United States. Their work shows that in the best-case scenario, a dollar of government spending produces much less than a dollar in economic growth, between 40 cents and 70 cents. Imagine if that were the return on our private sector's investment; America would not be the economic engine of the world.

Moreover, Barro also calculates the impact on the economy if the government funds this spending with taxes. He found, based, again, on actual data, that if the government spends a dollar and raises taxes to pay for it, the economy will shrink by $1.10. In other words, greater spending financed by taxes hurts the economy.

The stimulus isn't working, because it is based on faulty economic theory.

Now, let me tell you what I found looking at actual recovery data. Using the tens of thousands of stimulus recipients reports published on recovery.gov each quarter and economic and political data from the Bureau of Labor Statistics, the Census Bureau, GovTrack.us and others, my preliminary findings are the following:

First, the total number of jobs claimed from the stimulus is 682,000, not 3 million. Four out of five jobs were created in the public sector, not the private sector, as promised. The average cost of each job created or saved is $282,000. That is a lot of money.

Now, you would expect that the government would invest relatively more money in districts that have the highest unemployment rate and less money in districts with lower unemployment rates, but it does not appear to be the case. The data shows no correlation between how the money is spent and unemployment rates.

The understandable temptation to take action in times of recession should not lead lawmakers to take counterproductive measures. The data shows the stimulus has not worked. The American people know the stimulus has not worked.

But if stimulus funds are about investment, is there anything policymakers can do to help the economy? Yes, there is. The first step in real job creation is for government to acknowledge its limitations. Private businesses are the true drivers of job creation. They flourish when they have a reasonable expectation that the government will be noninvasive, nonburdensome and fiscally responsible. By creating a stable economic environment, which isn't the case right now, the Federal Government would do more to aid job creation than any stimulus package could.

I am happy to answer any questions you may have. Thank you.

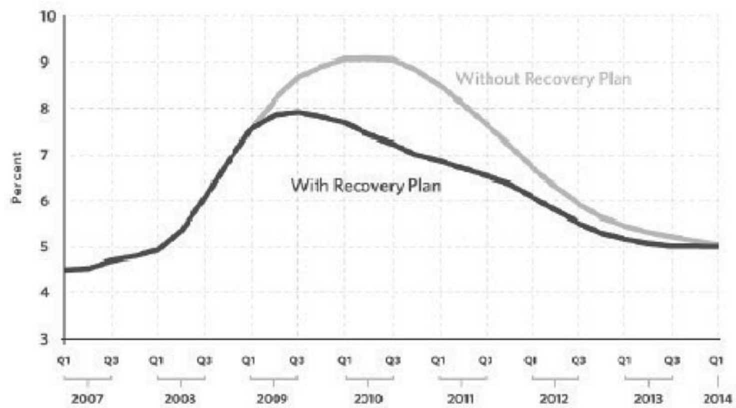
[The prepared statement of Ms. de Rugy follows:]

PREPARED STATEMENT OF VERONIQUE DE RUGY, SENIOR RESEARCH FELLOW, MERCATUS CENTER, GEORGE MASON UNIVERSITY

Good afternoon Chairman Spratt, Ranking Member Ryan, and members of the committee. My name is Veronique de Rugy, I am a senior research fellow at the Mercatus Center at George Mason University where I study tax and fiscal policy, the federal budget process, and the implications of government spending for economic growth.

Since the Great Recession began in December 2007, employment has shrunk by 7.5 million jobs,[1] long-term unemployment is higher now than in any previous recession,[2] and real GDP has plummeted to 2006 levels.[3] The understandable temptation to take action in time of recession however should not lead lawmakers to take counterproductive actions. On February 13th 2009, President Obama signed into law the American Recovery and Reinvestment Act (ARRA) at a cost of $787 billion with the promise that it would "create or save" 3.5 million jobs over the next two years, mostly in the private sector.[4] What's more, based on a study by Christina Romer, the Chairman of the Council of Economic Advisors, and Jared Bernstein, the administration claimed that without the Recovery Act unemployment rate would reach 8.8 percent while with the act it would immediately start declining (see figure 1).[5]

FIGURE 1: UNEMPLOYMENT RATE WITH AND WITHOUT THE RECOVERY PLAN



Since the president signed the stimulus package into law, the U.S. economy has shed another 2.5 million jobs and the unemployment rate has climbed to 9.7 percent from 7 percent, higher than the White House predicted it would have reached even without the stimulus.

While the stimulus may have appeared to have been a wise investment when it was made, it was really no wiser than a junk-rated mortgage-backed security: though the stimulus claimed a good rate of return, in reality it appears to have lost money by destroying growth. At best, it shifted jobs from privately funded to publicly funded ones.

The first step in real job creation is government to acknowledge its limitations. Private businesses are the true drivers of job creation; they flourish when they have a reasonable expectation that the government will be noninvasive, non-burdensome, and fiscally responsible. By creating such an environment, the federal government would do more to aid job creation than any stimulus package could.

PROMISES, PROMISES

The stimulus bill draws on the views of economist John Maynard Keynes. In Keynesian thought, a fall in economic demand causes a fall in spending. Since one person's spending is someone else's income, a fall in demand makes a nation poorer. When that poorer nation prudently cuts back on spending, it sets off yet another wave of falling income. So a big shock to consumer spending or business confidence sets off waves of job losses and layoffs.

Can anything stop this cycle? Keynesians say yes: government spending can take the place of private spending during a crisis. If the government increases its own spending, it will create new employment. These new workers should consume more, and businesses should then buy more machines and equipment to meet the government's and the revitalized public's demands.

This increase in gross domestic product is what economists call the multiplier effect. It means that one dollar of government spending will end up creating more than a dollar of new national income.

THE THEORY OF MULTIPLIERS

It is difficult to get solid evidence on the economy's response to changes in government spending. Direct reporting measures—such as those employed by Recovery.gov, the U.S. government's website for tracking stimulus spending—capture the direct and observable effects of government spending on economic activity. These measures can be helpful, but they fail to account for the indirect, less-easily observable effects of government spending. To capture the big-picture effect of government spending, economists turn to the spending multiplier.

As explained above, the multiplier effect or spending multiplier refers to the idea that an initial amount of government spending leads to a change in the activity of the larger economy. In other words, an initial change in the total demand for goods and services (what economists term aggregate demand) causes a change in total output for the economy that is a multiple of the initial change. For example, if the government spends one dollar and, as a result of this spending, the economy (as expressed by the Gross Domestic Product, or GDP) grows by $2, the spending multiplier is 2. If the economy grows by $1.50, the spending multiplier is 1.5. However, if the economy only grows by 50 cents (a loss from the original $1 spent), the spending multiplier is 0.5.

THE SPENDING MULTIPLIER DEBATES

The theory sounds pat, but economists have been debating aspects of government spending multipliers for years. One crucial debate centers on how to measure a multiplier's value. Some economists find spending multipliers that are smaller than 1.[6] Other economists, however, assert that spending multipliers are much larger.[7] Still others argue that multipliers can't even be credibly measured.[8]

Another debate surrounds the implications of spending multipliers. For Keynesians, consumption is the ultimate goal of government spending, and even with a multiplier smaller than 1, spending can still increase GDP. Thus Keynesians argue that, during a recession, when people tend to save their money rather than investing it in the private market,[9] a small increase in GDP is better than nothing.

Simple Keynesian macroeconomics assumes that in times of high unemployment, the government is better than the private market at guiding idle resources to create economic output. Government spending puts unemployed labor and capital to work at zero social cost.[10] When the government puts this previously unemployed labor and capital to work, the mobilized labor and capital produce added goods and services that private sector was unable to create.

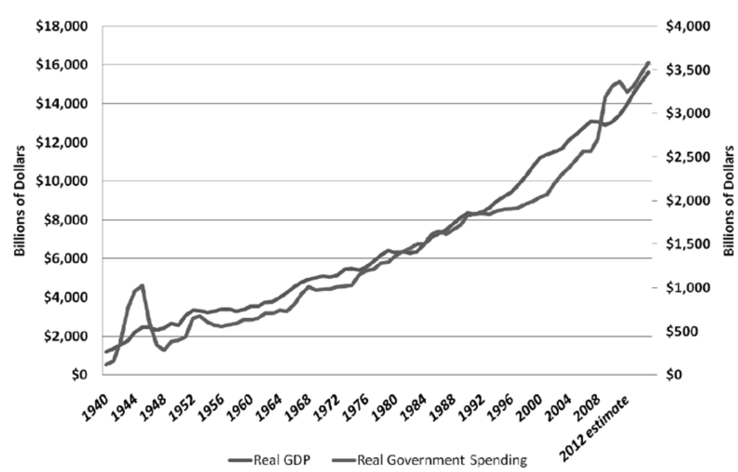
A New Classical understanding of the multiplier starts with the idea that government spending has some social cost (i.e. a rise in government spending requires a fall in other parts of GDP, such as consumption and investment). As such, the value of the public projects (bridge construction or roads) needs to justify that social cost. This view doesn't assume that an increase in consumption at any cost is a good thing: if the multiplier's value is less than 1, then government spending has crowded out the private investment and spending that would have otherwise happened.

Even government spending where the multiplier is higher than 1 could still be a poor use of taxpayer dollars. For instance, though $1 in government spending could lead to a GDP boost of $1.50 in the short run, it could also make it harder to solve the longer-term debt problem.

THE DATA OF DEFENSE

So what is the historical value of the multiplier in the United States? A new study by Harvard professor Dr. Robert Barro and Charles Redlick answer this question in details by using defense spending as a proxy for overall government spending.[11]

FIGURE 2: REAL GOVERNMENT SPENDING AND REAL GDP

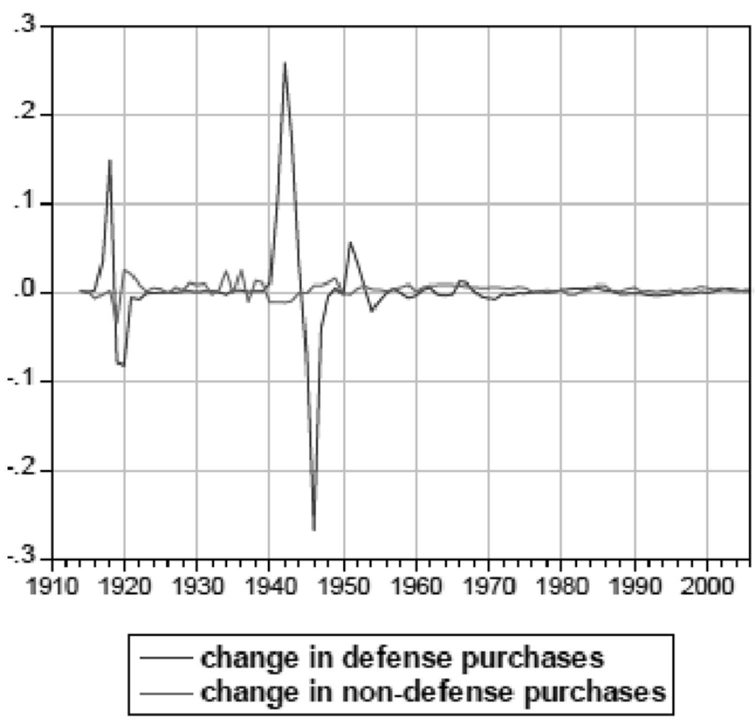


Source: Office of Management and Budget, Historical Tables

First, the economists explain that in order to understand the effects of government spending on the economy, one must know how much of the economic change is due to government spending and how much is due to other factors. Unfortunately, it is impossible to figure this out with general government spending, since the level of government spending often expands and contracts along with the economy.[12] When the economy grows, income and tax receipts increase. This, in turn, leads to increased government spending (see figure 2).

However, they argue that there is a useful, much more isolated proxy for overall government spending: defense spending. Using defense spending as a proxy has several advantages.[13] First, government does not set defense spending levels based on the state of the economy. Non-economic factors drive defense spending. Second, changes in defense spending are very large and include sharply positive and negative values (see figure 3). Finally, the historical data on defense spending covers periods of high unemployment. Thus this data set should reveal whether government spending creates increased economic growth in a slack economy.

FIGURE 3: CHANGES IN DEFENSE AND NON-DEFENSE GOVERNMENT PURCHASES, 1914–2006 (EXPRESSED AS RATIOS TO THE PREVIOUS YEAR'S GDP)



Moreover, studying the effects of defense spending on the economy gives the best-case scenario of the spending-multiplier effect of government spending on the economy because defense spending leads to economic growth in ways that general government spending does not. For example, in times of war, the government mandates the increased production of particular goods, and the scarcity of domestic labor due to military enlistment and resources also forces economic resources to go to innovative and productive uses that did not exist before the war.[14]

Barro and Redlick's research estimates that the multiplier for changes in defense spending that people think will be temporary—spending for the Iraq war, for example—is between 0.4 and 0.5 at the time of the spending and between 0.6 and 0.7 over two years. If the change in defense spending becomes permanent, then these multipliers increase by 0.1 to 0.2.[15] Over time, this is a maximum multiplier of 0.9. Thus even in the government's best-case spending scenario, all of the estimated multipliers are significantly less than one. This means greater government spending crowds out other components of GDP, particularly investment.

In addition, they calculate the impact on the economy if the government funds the spending with taxes. They find that the tax multiplier—the effect on GDP of an increase in taxes—is—1.1. This means that if the government raises taxes by $1, the economy will shrink by $1.1. When this tax multiplier is combined with the effects of the spending multiplier, the overall effect is negative. Barro and Redlick write that, "Since the tax multiplier is larger in magnitude than the spending multipliers, our estimates imply that GDP declines in response to higher defense spending and correspondingly higher tax revenue." [16] Thus, they conclude that greater government spending financed by tax increases hurts the economy.

MORE DATA

Other economist have also calculated defense spending multipliers of less than or equal to 1.[17] Economists Bob Hall and Susan Woodward recently examined spending increases from World War II and the Korean War and found that the government spending multiplier is about 1.[18] Economist Valerie Ramey's work on how U.S. military spending influences GDP gives a multiplier estimate of 1.2 in the short term, but in the long term, she finds that consumer and business spending fall after a rise in government purchases, offsetting the initial effect of the government spending.[19]

In a recent blog post over at Neighborhood Effects, my colleague Matt Mitchell reports on a number of peer-reviewed studies have also examined the relationship between government size, somehow measured, and economic growth.

"Here is a sample: Barro (1991 and 1989); Folster and Henrekson (2001); Romero-Avila and Strauch (2008); Afonso and Furceri (2008); Chobanov and Mladenova (2009); Roy (2009); and Bergh and Karlsson (2010). Each of these studies finds a strong, statistically significant, negative relationship between the size of government and economic growth.

What about the short run? Here again the evidence seems weak at best. Consider new research by Harvard's Robert Barro and Charles Redlick. They find that for every dollar the government spends on the military (read: takes out of the private economy), the economy gains just 40 to 70 cents. Spending a dollar to obtain 40 to 70 cents does not a good deal make. Or consider another study by Harvard's Laruen Cohen, Joshua Coval and Christopher Malloy. They rely on the fact that the federal government tends to spend more money in districts whose congressional members are chairs of powerful committees than in districts whose members are just rank-and-file. They find that firms actually cut capital expenditures by 15 percent following the ascendency of a congressman to the chairmanship. Moreover, firms seem to scale back employment and experience declines in sales." [20]

JOB CREATING OR JUST JOB SHIFTING?

It's obvious that the government can hire people. But how many of these jobs will be taken by people already working in the private sector? This is a statistic that desperately needs to be calculated. After all, if most stimulus jobs are taken by people just switching over from privately funded jobs to publicly funded ones, that hurts any short-run Keynesian stimulus effect. In fact, in the last year, some people have switched from private to public sector jobs. According to the Boston Globe, these people were willing to take a cut in pay because they valued the security and fringe benefits of a government job.[21] Every worker who switches to a government job for the good benefits hurts the Keynesian story.

In a 2007 paper, economists Quadrini and Trigari posed another important question: if a government routinely hires more workers during a recession, will the unemployed intentionally stay unemployed longer, in hopes of getting a good government job? [22] Since government jobs and stimulus-funded Davis-Bacon prevailing wage jobs tend to have high wages and good benefits, there might be a strong incentive for unemployed workers to search a bit longer before settling for a private-sector job. In a simulation, Quadrini and Trigari found that when government spending stimulates the economy during a recession, it makes the typical recession worse. Many of the unemployed stay unemployed a few weeks longer, in the hopes of finding a high-paying, secure, stimulus-funded job. Common sense for an unemployed worker—searching for the best job possible—means a longer recession for all of us. So the Quadrini/Trigari multiplier isn't just zero: It's negative, even in the short run.

If stimulus jobs paid market wages rather than high Davis-Bacon wages, this would be less of a problem, but a problem it is.[23] And it's a problem that only points in one direction: a smaller multiplier. Perhaps it won't push the short-run multiplier down to zero (or less than zero) but a multiplier between zero and one starts to sound much more plausible. And if that's the case, then fiscal "stimulus" grows the government at the cost of shrinking the private sector.

WHY DOES IT MATTER?

Getting the multiplier wrong has big consequences when understanding the effects of fiscal stimulus on the economy. The government uses multipliers to estimate the widely cited projections of unemployment, job creation, and economic output. In the time leading up to the passage of the ARRA, Council of Economic Advisors (CEA) economists Christina Romer and Jared Bernstein used spending multipliers greater than 1 to promote the economic effects of the fiscal stimulus package.[24] In the months following the implementation of this package, the Congressional Budget Office (CBO) used estimates of a spending multiplier between 1.0 and 2.5,[25] relying on macroeconomic models that ignore the possibility that the growth of the economy may be affecting the level of government spending and not the reverse.[26] By extrapolating from these multipliers, CBO and CEA have made important projections about the effects of fiscal stimulus on the economy. These projections, however, have been largely wrong.

For example, in their January 2009 report,[27] Romer and Bernstein used multipliers of between 1.0 and 1.55 to determine the effect of the proposed stimulus spending (then $775 billion) would have on GDP and job creation. They assumed that each 1 percent increase in real GDP would create an additional 1 million jobs. Based on that assumption and their estimated spending multiplier, they estimated that the fiscal stimulus would create 3.5 million jobs by the end of 2010. While we cannot be certain how many jobs would have been lost or created without a stimulus package, we do know that since February 2009, 2.55 million jobs have been lost.[28]

THE WORST-POSSIBLE STIMULUS

Leaving the multiplier debate aside, there are other important reasons why the stimulus bill will have deleterious consequences for the economy. The Recovery Act took the form of increased government spending through federal and state bureaucracies, going to areas such as education, infrastructure, and energy spending.

For months now then, the stimulus bill has routed the bulk of the stimulus money through various government bureaucracies. As economist Keith Hennessey explains, this spending will be "inefficient—It will be inefficient in two senses. The spending represents the policy preferences of legislators (and all their ugly legislative deals and compromises), rather than the choices of hundreds of millions of Americans who presumably know better how they would like money spent on them. The spending will also be wasteful, and we are starting to see signs of this in the press."[29]

The spending is also occurring very slowly. According to the recovery.org data, 16 months after the adoption of the Recovery Act, agencies, firms, and citizens spent some $190 billion in grants and contracts—that is a mere 60 percent of discretionary spending in the bill (highways, mass transit, energy efficiency, broadband, education, state aid).[30] And only $20 billion in additional spending was reported during the last quarter of the 2010 for which the data is available. Congress has expended most of the $267 billion for set aside for entitlement spending (food stamps, unemployment, and Medicare refundable tax credits), but the bulk of that sum went to Medicaid spending, which flows to the states, not into the private economy. Spending in states defers, not mitigates, the economic impact of the recession. By extending unsustainable spending programs, this spending has simply prolonged the lag time until needed spending adjustments occur, not created jobs.

Thus even if you believe that Keynesian aggregate demand theory is correct in saying increased government spending stimulates the economy—in this case of this "stimulus," the spending is happening so slowly and inefficiently that it does not even meet the conditions for a Keynesian economic stimulus, regardless of whether you believe one would have worked in the first place.

This spending may increase elements reported as part of GDP: increasing cash in people's pockets might produce some increase in consumer spending. Throwing more money at roads might lead to more investment. Bailing out the states will yield more state spending. But, unless you believe that federal spending magically conjures up purchasing power, the total GDP will remain unchanged, because the federal government has to borrow the stimulus money from either domestic or foreign sources. This borrowing in turn reduces other areas of demand and/or increases the net trade deficit. In the end, the stimulus spending does not increase total demand it just reshuffles it, leaving the economy just as weak—if not weaker because the national debt is higher—as before.

STIMULUS FACTS

Using the tens of thousands of stimulus recipient reports published on recovery.gov each quarter and economic and political data from the Bureau of Labor Statistics, the Census Bureau, GovTrack.us, and others, I am writing a series of quarterly reports that put this aggregate information into a larger context.

I am about to release the third of that series. Today I would like to highlight some preliminary findings based on this data. (The data and results presented here encompass the first quarter of the calendar year 2010 reports of Recovery Act contracts and grants only. The complete dataset used for this report will be available for download at Mercatus.org when the full report is released at the end of July 2010.)

First, in the third quarter for which Recovery.gov reports are available, federal agencies awarded over 69,717 contracts and grants. Total spending reached over $192.2 billion. That is roughly $22 billion more reported received than in the previous quarter. At that rate, the government should be done awarding stimulus dollars by 2020. In other words, the money is being spent very slowly.

Second, the total number of jobs the stimulus has created or saved is claimed to be 679,814. However, it is hard to know what these jobs represent since the administration recently changed how it counts jobs. According to the new rules, the administration no longer keeps a cumulative tally of jobs created and saved by the stimulus. Instead, it posts only a count of jobs for each quarter. Also, instead of counting only created and saved jobs, it counts any person who works on a project funded with stimulus money—even if that person never lost his or her original job.[31]

These changes highlight the near impossibility of accounting for how many jobs were saved by the (expenditure or allocation of) stimulus funds, but what we do know from these numbers is that of the 679,814 jobs reported created or saved, four times as many of these jobs were in the public rather than the private sector.

Total jobs “created or saved” in public entities: 550,749

Total jobs “created or saved” in private entities: 127,306

Third, the average cost of each job created or saved is $282,000. However, the average cost per private sector job created or saved is over $647,000.

Fourth, controlling for the percentage of the district employed in the construction industry, which is often used as a proxy for the vulnerability to recession of a district, the preliminary results find no statistical correlation between all relevant unemployment indicators and the allocation of funds. This preliminary result, which is similar to the ones in the two previous reports, suggests that unemployment, at least thus far, has not been the factor leading the awards. Also, I found no correlation between other economic indicators, such income, and stimulus funding. As the main argument for enacting the $787 billion stimulus bill was that if government spends money where it is the most needed, that expenditure would create jobs and trigger economic growth, one would have expected the government would invest relatively more money in districts that have the highest unemployment rates and less money in districts with lower unemployment rates. Such does not appear to be the case.

CONCLUSION

The understandable temptation to take action in time of recession should not lead lawmakers to take counterproductive actions. Economists have shown that stimulus by government spending is not productive, and Barro and Redlick’s data show that the CBO’s multiplier overestimates the return on government spending almost by a factor of two.

What’s more, the stimulus’s effect on job creation is unclear. Did it create productive jobs? Is the stimulus money simply funding public jobs for some who had jobs in the private sector but switched over for reasons of security? Is the stimulus simply funding pay raises that would have happened stimulus money or not? Is the stimulus money simply funding jobs that existed and were not at risk?

Unfortunately, we cannot know. In fact, a recent report by the Government Accountability Office highlights that Recovery.gov is not transparent and the data displayed on it doesn’t promote the transparency agenda of the Obama administration.[32]

If stimulus funds are a bad investment, is there anything Congress can do to help the economy? A few years ago, Christina and David Romer looked at the impact of tax cuts on the economy and concluded that the tax multiplier is about three: a dollar of tax cuts raises GDP by about three dollars.[33] Their finding suggests that the economy might get more bang for the buck with tax cuts rather than spending hikes.

ENDNOTES

[1] Statistics from the Bureau of Labor Statistics National Current Employment Statistics survey at *http://bls.gov*. Job loss calculated by author using non-farm payroll employment change from December 2007 to June 2010.

[2] Randy Ilg, "Long-Term Unemployment Experience of the Jobless," Issues in Labor Statistics, Summary 10-05 (2010).

[3] Author's calculation based on data from NIPA Table 1.1.6. Real Gross Domestic Product, Chained Dollars from the Bureau of Economic Analysis.

[4] Barack Obama, "Address to Joint Session of Congress" (speech, The United States Capitol, Washington, D.C., February 24, 2009), *http://www.whitehouse.gov/the—press—office/remarks-of-president-barack-obama-address-to-joint-session-of-congress/*.

[5] Christina Romer and Jared Bernstein, " The Job Impact of the American Recovery and Reinvestment Plan", news release, January 9, 2009.

[6] Robert Barro, "Government Spending Is No Free Lunch," Wall Street Journal, January 22, 2009, *http://online.wsj.com/article/SB123258618204604599.html*.

[7] For estimates of multipliers greater than 1, see Marianne Baxter and Robert G. King, "Fiscal Policy in General Equilibrium," American Economic Review 83, no. 3 (1993): 315—334; Christina Romer, Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," news release, January 10, 2009, and Andrew Mountford and Harald Uhlig, "What are the Effects of Fiscal Policy Shocks" (working paper no. 14551, National Bureau of Economic Research, December 2008).

[8] Murray Rothbard, "Money and Its Purchasing Power," in Man, Economy and State, With Power and Market, *http://mises.org/rothbard/mes/chap11a.asp*.

[9] Michael Woodford, "Simple Analytics of the Government Expenditure Multiplier" (working paper, Columbia University, January 27, 2010), 43, *http://www.columbia.edu/?mw2230/G—ASSA.pdf*.

[10] Another way to think of this is that there is something wrong with the price system. To learn more about why this is not the case in a world with rational actors, see Robert Barro, "Long-term contracting, sticky prices, and monetary policy," Journal of Monetary Economics 3, no. 3 (July 1977): 305—316.

[11] Robert Barro and Charles Redlick, "Macroeconomic Effects from Government Purchases and Taxes" (working paper, Mercatus Center at George Mason University, Arlington, VA, 2010).

[12] Zvi Hercowitz and Michel Strawczynski, "Cyclical Ratcheting in Government Spending: Evidence from the OECD," The Review of Economics and Statistics 86, no. 1 (February 2004): 353—361 and Graciela L. Kaminsky, Carmen M. Reinhart, and Carlos A. Végh, "When It Rains, It Pours: Procyclical Capital Flows and Macroeconomic Policies," NBER Macroeconomics Annual 19, (2004): 11—53.

[13] The use of defense spending as an exogenous shock to study the effect of government spending has been explored in-depth in Roberto Perrotti, "In Search of the Transmission Mechanism of Fiscal Policy," (working paper 13143, National Bureau of Economic Research). In addition, it has been used as an econometric tool to study the effects of fiscal stimulus on the economy in a number of studies. including Olivier Blanchard and Roberto Perotti, "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending," Quarterly Journal of Economics 107, no. 4 (November 2002): 1329—1368 and Miguel Almunia and others, "From Great Depression to Great Credit Crisis: similarities, differences and lessons" Economic Policy 25, no. 62 (2010): 219—265, among others.

[14] Robert Barro and Charles Redlick, "Macroeconomic Effects from Government Purchases and Taxes," 32.

[15] Ibid, 44.

[16] Ibid, 29.

[17] See Olivier Blanchard and Roberto Perotti, "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output," and Robert E. Hall, "By How Much Does GDP Rise If the Government Buys More Output?" Brookings Papers on Economic Activity, forthcoming.

[18] Bob Hall and Susan Woodward, "Measuring the Effect of Infrastructure Spending on GDP," in Financial Crisis and Recession, *http://woodwardhall.wordpress.com/2008/12/11/measuring-the-effect-of-infrastructure-spending-on-gdp/*.

[19] Valerie Ramey, "Identifying Government Spending Shocks: It's All in the Timing," unpublished, University of California San Diego, October 2009.

[20] Matt Mitchell, "Why This Isn't The Time to Worry that Government Is Spending Too Little," Neighborhood Effects, June 30 2010. *http://neighborhoodeffects.mercatus.org/2010/06/30/why-this-isnt-a-time-to-worry-that-government-is-spending-too-little/*

[21] Megan Woolhouse, "Now hiring, your Uncle Sam," Boston Globe, May 30, 2009, *http://www.boston.com/jobs/news/articles/2009/05/30/unlike—rest—of—us—federal—government—is—hiring—a—lot/*.

[22] Quadrini and Trigari, (2007) "Public Employment and the Business Cycle," *http://www-rcf.usc.edu/?quadrini/papers/PublicEmployPap.pdf,* later published in Economic Inquiry.

[23] Indeed, if government jobs paid market wages, then recessions would be a great time to build roads and hospitals at a much lower cost than usual: Taxpayers could save money, hiring employees who were waiting for the private-sector to improve.

[24] Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," 12.

[25] Congressional Budget Office, Estimated Impact of the American Recovery and Reinvestment Act, January 2010 through March 2010 (Washington, DC: Congressional Budget Office, May 2010), *http://www.cbo.gov/ftpdocs/115xx/doc11525/05-25-ARRA.pdf*.

[26] Ibid, Appendix. For an example of models operating under similar assumptions, see R. C. Fair, "Estimated Macroeconomic Effects of the U.S. Stimulus Bill," unpublished, Yale University, March 2010.
[27] Christina Romer and Jared Bernstein, The Job Impact of the American Recovery and Reinvestment Act (January 9, 2009), *http://otrans.3cdn.net/45593e8ecbd339d074—l3m6bt1te.pdf.*
[28] Authors' calculations using data from the Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics Survey, total change in nonfarm payroll employment, January 2009 to June 2010.
[29] Keith Hennessey, "Will the Stimulus Come Too Late," June 3, 2009. *http://keithhennessey.com/2009/06/03/will-the-stimulus-come-too-late/print/*
[30] Congressional Budget Office, Implementation Lags of Fiscal Policy: *http://www.cbo.gov/ftpdocs/102xx/doc10255/06-02-IMF.pdf*
[31] For example: When Chrysler reported a $53 million contract to build 3,000 government vehicles last fall, it listed zero jobs because it used existing employees to fill the orders. But under the new rules, those workers would have counted. Also, now recipients can count pay raises as stimulus jobs as long as they are counted as fractions of a job
[32] Government Accountability office, "Increasing the Public's Understanding of What Funds are being Spent on and What Outcomes are Expected," May 2010. *http://www.gao.gov/highlights/d10581high.pdf* full report: *http://www.gao.gov/new.items/d10581.pdf*
[33] Christina D. Romer and David H. Romer, "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks," (working paper, University of California—Berkeley, March 2007), *http://www.econ.berkeley.edu/?cromer/RomerDraft307.pdf.*

Chairman SPRATT. Let's turn next to Dr. Bivens, and then we will put questions to the panel.

Dr. Bivens.

STATEMENT OF JOSH BIVENS, PH.D.

Mr. BIVENS. Thank you, I would like to thank the committee for the opportunity to testify today. I am Josh Bivens, an economist at the Economic Policy Institute here in Washington D.C.

In assessing the American Recovery and Reinvestment Act, I want to make four arguments today, and I will try to make them very quickly, in my opening statement.

First, it was badly needed. I think we can get through that. Most people agree the economy in late 2008 or early 2009 was in a tough spot; something needed to be done.

Second, contrary to a lot of criticism, it worked essentially as advertised. What was not advertised was the depth of the downturn, which was much more worse than people thought, and I would be happy to talk a little bit more about this in Q&A.

Third, it was cheap. The sticker price of the Recovery Act was estimated at $787 billion when it was passed. It is often characterized as enormous. It was less than half as large as the tax cuts enacted during 2000; smaller than the cost of wars in Iraq and Afghanistan; and, most importantly, small relative to the economic shock it was meant to absorb.

Further, because it spurred economic activity and tax collections reduced the need for safety net spending, its net budgetary income impact was probably less than half the headline figure.

Lastly, despite the millions of jobs created or saved by the act, unemployment does sit at 9.5 percent today and will surely rise to over 10 percent again in the coming year. We should provide further fiscal support.

Quickly, argument one, it was needed. People talked about this a lot. I just want to make one statement here. I mean, the negative shock to private-sector spending due to the bursting housing bubble was, by most macroeconomists' estimation, larger than the economic shock that led to the Great Depression. This was a once-in-a-generation economic shock facing the U.S. economy.

By February 2009, the month that the Recovery Act was passed, the U.S. economy was losing 750,000 jobs per month, and this is crucial, even though the Federal Reserve had kept interest rates below 1 percent for the previous 21 months. This is crucial. This is why you needed something like the Recovery Act. The primary tool most people use or most people think should be used when the economy faces recession is to lower short-term interest rates. We had done that. Nothing had happened. The Fed was out of conventional ammunition. Something else had to be done.

That is why economists like me, we don't argue for a stimulus package every 5 years or so or every time there is a hiccup in the economy; we argue for it when there is a once-in-a-generation economic shock.

Argument two is that it worked. I mean, the estimates of the Recovery Act were that it would create about 3 to 4 million jobs. If you look at private sector, macroeconomic forecasts, people whose salary relies on being closer to their competitors in forecasting economic trends, they are essentially unanimous that the Recovery Act will add 2 to 3 million jobs before it is over. The Congressional Budget Office concurs.

This is firmly in line with what mainstream economic theory teaches is the effect of fiscal stimulus when interest rates are near zero. And the timing of the Recovery Act coincides perfectly with the halt in the downward spiral, both in economic output and unemployment.

I will just give you one example, in the 6 months before the Act took effect, GDP contracted by almost 6 percent at an annualized rate. In the 6 months after, the economy grew at a slightly less than 1 percent annualized rate, and the growth has just gotten better since then.

Argument three, it was cheap. It is clear the country faces real, long-run budget challenges. It is also equally clear that the Recovery Act adds almost nothing to those long-run budget challenges, and further fiscal support today would add very little to it. I mean, one example, if you are a true budget pessimist and you believe that the alternative fiscal scenario identified by CBO in their latest long-term budget outlook is the most likely future trajectory of deficits—I am not such a pessimist, but it is a pessimistic outlook—if you believe that, this would imply that the Recovery Act was responsible for about 1 percent of the long-run fiscal gap facing the country. The big drivers of the long-run fiscal gap are health care costs and revenue as a share of GDP, not the support we provided in response to the once-in-a-generation economic shock.

Another issue besides its purely budgetary cost, which also was cheaper because the economic activity it spurred actually created more tax collections and reduced the need for public sector public safety net spending, its overall economic opportunity cost was low. And we know it was low because interest rates have not risen in any appreciable fashion since it was passed.

For the people who say increased public-sector spending necessarily crowds out private spending, the mechanism through which that works has to be rising interest rates. If you don't see interest rates rise, you will not see crowding out of private-sector spending. Interest rates have not risen, so the overall crowd out of private-sector activity from the Recovery Act just hasn't happened.

Also, one piece of evidence that the Recovery Act worked is actually that the turnaround in GDP was driven by a turnaround in consumer spending. Contrary to most presentations of the Recovery Act, that is what you should expect. Two-thirds of the act were not direct purchase of goods and services by the government; they were instead tax cuts and transfer payments to households to allow them to increase their consumer spending. So, that should be where you look for the footprint of the jobs and the economic activity created.

Lastly, I will just wrap up quickly. Despite the 3 to 4 million jobs the Recovery Act will create or save, today's economic situation remains unacceptable. We have got a 9.5 percent unemployment rate, and the CBO says that even in 2013, the unemployment rate is going to average 6.3 percent, which is higher than the peak unemployment rate reached during the last recession. So that will be 6 years from the onset of the recession, we are still going to have an unemployment rate higher than the peak of the previous recession. That is unacceptable, and more support should be given to the economy.

I will just note one thing, 30 months ago, Congress passed a $160 billion stimulus package, the Economic Stimulus Act of 2008, to avoid the prospect of unemployment rising from 5 to 6 percent. We now stand at 9.5 percent unemployment. Gross domestic product is lower today than when that act was passed 30 months after the fact, and yet no further fiscal support to the economy seems to be forthcoming.

I have tried to make the case that there is no compelling economic reason to think that anything has changed in the past 30 months so as to make further fiscal support unwise. Fiscal support provided by the Recovery Act was needed. It was effective, and it was much cheaper than is commonly advertised, and further support is also clearly needed.

Thank you, I would be happy to take your questions.

[The prepared statement of Mr. Bivens follows:]

PREPARED STATEMENT OF JOSH BIVENS, PH.D., MACROECONOMIST, ECONOMIC POLICY INSTITUTE

Thank you Chairman Spratt and members of the committee for the opportunity to testify today. I am Josh Bivens, a macroeconomist at the Economic Policy Institute in Washington, DC.

In assessing the economic impact of the American Recovery and Reinvestment Act (ARRA, the Recovery Act henceforth) there are essential four arguments I'd like to make today:

- First, the Recovery Act was needed, and badly. The American economy at the end of 2008 and the beginning of 2009 was essentially in freefall and all other policy tools that had been tried had little effect in arresting the decline.
- Second, it worked as advertised. It has created almost 5 million full-time equivalent jobs and kept the unemployment rate from sitting well over 11% today. Unfortunately, the economic crisis that it was meant to address called for much stronger medicine than the Recovery Act by itself could provide.
- Third, it was cheap. While the sticker-price of the Recovery Act (estimated at $787 billion when passed) is often characterized in press accounts as enormous, it was less than half as large as the full-cost of the tax cuts enacted during the 2000s, smaller than the cost of wars in Iraq and Afghanistan, and, most importantly, small relative to the economic shock it was meant to absorb. Further, because it spurred

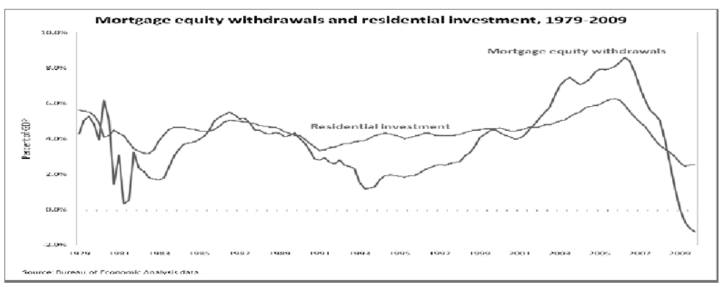
economic activity and tax collections and reduced the need for safety net spending, its net budgetary impact was likely less than half the $787 billion amount.

• Fourth, lessons learned from the passage of the Recovery Act should be heeded: More fiscal support should be provided to prop up the economy and spur a genuine recovery in the jobs-market. While the Recovery Act worked as advertised and the economy today would be worse off if it had not been passed, unemployment still sits at 9.5% today and will surely rise above 10% over the coming year, returning to pre-recession levels only several years from now unless more fiscal support is provided.

IT WAS NEEDED

The root of the current recession is simple to identify: the bursting of the housing bubble and its fallout. Between 1997 and 2006, the real price of homes in the U.S. economy, which had been roughly flat for many decades, almost doubled. Given that the stock of housing in the U.S. is enormous, this led to a huge increase in wealth. Because so few influential economists correctly pointed out that this wealth increase was sure to be ephemeral, U.S. households began borrowing against the value of their homes to support current consumption. When the housing bubble popped, these same households realized that meeting long-run wealth targets (planning for retirement or sending their kids to college) could no longer be financed out of rising housing wealth, so they began saving. As households began saving, businesses, seeing a threat to new sales, stopped investing to expand their own capacity.

This negative shock to private sector spending was enormous—between the end of 2006 and the beginning of 2009, the private sector went from borrowing 3.6% of GDP to saving 5.6% of GDP. This 9.2% swing in private sector spending was a larger economic shock than the one that led to the Great Depression. Figure A below shows two concrete measures of this fallout: mortgage equity withdrawals that allowed households to extract wealth out of their homes and increase their purchasing and residential investment—the economic activity generated by the act of building homes. Both are expressed as shares of GDP, both soared during the housing bubble, and both collapsed when this bubble burst.



Luckily, the U.S. economy is different now than compared to the 1930s. In particular, today's economy has a larger public sector and one that contains many "automatic stabilizers"—including progressive tax collections that fall more rapidly than private sector incomes and safety net spending (like unemployment insurance and food stamps and Medicaid) that provides increased transfers to households when the economy slows. These automatic stabilizers kicked in as private spending slowed. This led to a purely mechanical rise in the deficit—roughly $329 billion of the increase in the deficit between 2007 and 2009 can in fact be attributed to this purely mechanical effect of automatic stabilizers, according to the Congressional Budget Office.

And this large increase in the deficit was a very good thing. The increase in public spending power leaned hard against the rapid decline in private spending power, and contributed to keeping the economy from entering another Depression.

Of course, the increase in the deficit was not the only thing that helped support the economy—at the same time the Federal Reserve was aggressively fighting the downturn by cutting interest rates and supplying liquidity to the financial sector.

Still, automatic stabilizers and Federal Reserve action were not enough to forestall a rapid economic deterioration. By February 2009, the economy had seen monthly job-loss that averaged 653,000 in each of the past 6 months, despite the fact that the short-term interest rates controlled by the Federal Reserve had been below 1% for 21 months.

When an economy continues to spiral downward even when the monetary authority has reached the limit of what conventional policy can do to arrest the fall, it is often referred to as a liquidity trap. Essentially, the economy "needs" short-term interest rates that are steeply negative in order to boost business investment and consumer spending on durables sufficiently to exit the recession. But, interest rates cannot go below zero. Even worse, as the economy suffers from a dearth of spending, this creates pressure for disinflation—as firms cannot sell output and new jobs are scarce, prices and wages are all-but-impossible to raise. This disinflation actually raises the "real", or inflation-adjusted, interest rates facing businesses and consumers, even as the Fed's control over nominal rates is bound at zero.

In short, because the primary tool that national policymakers use to fight recessions—lowering short-term interest rates—had been rendered ineffective, something else had to be done. This something was the Recovery Act, a deficit-financed combination of a roughly equal measure of tax cuts, transfer payments and direct government grants to support demand for goods and services and blunt the recession.

It should be remembered that the size and composition of the Recovery Act was a compromise. Many, including myself, thought the overall size of the package would be too small to bring the economy back to recovery without further action. Many (also including myself) also thought tax cuts had too large a weight in the final package and that many of them (particularly the fix to the alternative minimum tax, or AMT) were ill-suited for short-term stimulus. Because of these compromises on the size and composition of the Act, many believed that it would not be sufficient by itself to provide the economic boost needed to the get the American job-market back to health in an acceptably rapid time-frame.

All this said, passage of the Recovery Act was a serious response to the nation's economic crisis, and even with its somewhat-compromised composition, its forecasted impact was large—the best estimates were that it would create between 2-4 million jobs and boost GDP by roughly 5% over the first 2 years of its implementation.

IT WORKED

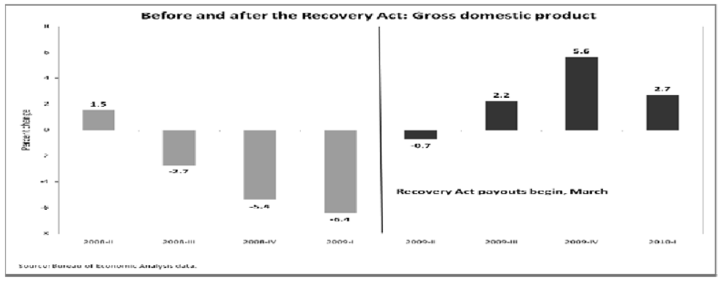
And this estimate has been spot-on. For those most convinced by appeals to authority let's start with what private sector macroeconomic forecasters say about the Recovery Act. These are, remember, people whose salary relies on being closer than their competitors in forecasting economic trends. As a group, they are in near-universal agreement that the Recovery Act added roughly 3 percent to GDP by the end of June and that it created or saved between 2-3 million jobs. The non-partisan Congressional Budget Office (CBO) concurs, calculating that the Recovery Act contributed between $240 billion to $645 billion to the economy by the end of June, creating or saving up to 5.3 million full-time equivalent jobs and keeping the unemployment rate up to 2 points lower than it would have been in the absence of the act.

There are a number of factors that explain the near-unanimity among forecasters who have examined the impact of ARRA.

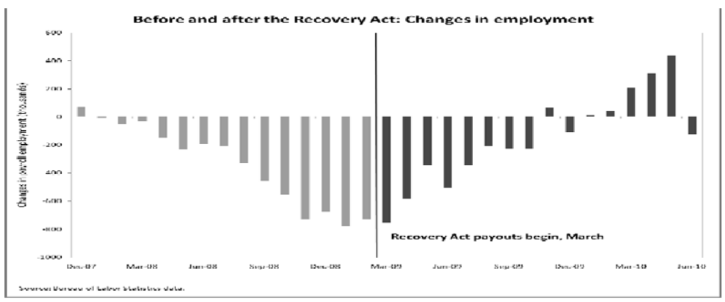
First, it is firmly in line with what mainstream economic theory teaches is the likely effect of deficit-financed tax cuts, transfers and spending in an economy that has high unemployment even in the presence of rock-bottom interest rates (i.e., is in a liquidity trap). The effect of increasing deficits to finance tax cuts, transfers and spending in a healthy economy is ambiguous and there are many complications to assessing it. However, in a liquidity trap these complications fade away and the impact of these policy maneuvers become quite straightforward; they unambiguously push the economy closer to its potential, lowering the unemployment rate.

Second, the timing of the Recovery Act coincides perfectly with the halt in the downward spiral of both economic output and employment.[1] In the 6 months before the Act began paying out funds, gross domestic product contracted at a −5.9% annualized rate while in the 6 months after its passage the economy grew at a 0.75% annualized rate. In the first 3 months of 2010 it grew at an annualized rate of 2.7%. In the 6 months before the Recovery Act took effect, average monthly employment declined by 653,000 while in the 6 months after its passage it average declines fell nearly in half to 369,000. In the first 6 months of this year average monthly employment has actually grown by 147,000. Figures B and C present growth in GDP and employment, respectively, in the periods before and after the onset of Recovery Act spending. The pattern is clear—the downward spiral is stopped and even reversed almost immediately after the onset of the Act.

[1] In what follows I date the effect of the Recovery Act as beginning April 1, 2009. While it was passed in late February and some money was spent before this, April 2009 is the first month that saw significant amounts of money being spent.

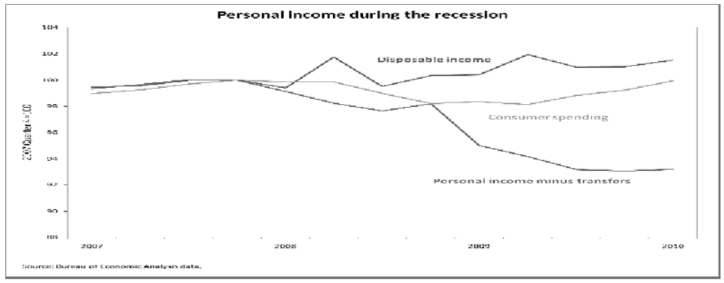


Third, the turnaround in GDP growth between the 6 months before and the 6 months after the passage of the Recovery Act was driven predominantly by a reversal in consumer spending. This portion of GDP (accounting for almost 70% of the total) contracted by −1.25% in the 6 months before the Act and actually grew by 0.95% in the six months after the Act's passage. Contrary to most descriptions of the Recovery Act, this is actually exactly what one would have expected if it was working. Two-thirds of the Act's provisions (the tax cuts and transfer payments) go directly to boosting the purchasing power of households, not in directly purchasing goods and services for the government. This boost to household disposable income helped to arrest the steep fall in consumer spending.[2] Figure D shows the before and after Recovery Act comparisons of consumption spending.



If one looks at total personal incomes (wages, profits, rental payments) and strips out the influence of government transfers, one can get a decent proxy for how robustly the private sector is generating income growth for households. This measure, personal income minus transfers, fell by 7.5% from peak to trough during the recession—the largest decline since World War II. Yet, consumer spending fell by less than a third as much—less than 2%. The wedge between these two can largely be explained by looking at personal disposable incomes—incomes after-taxes and after-transfers. This measure actually never fell more than 2.2% peak-to-trough during the recession and is actually a bit higher today than it was immediately before the recession. This is largely due to the Recovery Act, though some of this is also the automatic stabilizers mentioned earlier. Figure E shows each of these series in the period before and after the recession began, with each normalized at 100 in the last quarter before the recession hit.

[2] See the appendix to this report for evidence that the Recovery Act actually has not led to outsized growth in government expenditures.



This evidence—the preponderance of opinion of macroeconomic forecasters, the timing of the Recovery Act taking effect and the reversal of the downward spiral in the middle of 2009, and the very large footprint of the Recovery Act provisions on personal disposable income and its correlation with consumer spending—adds up to an overwhelming case that the Recovery Act worked as advertised.

Essentially, without it, GDP would be $600 billion lower today, there would 3 million fewer jobs in the economy, and the unemployment rate would be nearly 2% higher even with fewer Americans in the labor force. While there remains much to be done to make sure that all Americans looking for a job have a decent chance of finding one, it is clear that we would be digging out of a much deeper hole today had the Recovery Act not passed.

IT WAS CHEAP

Besides a general misunderstanding about its effectiveness, the primary resistance to providing more fiscal stimulus to today's economy, even in the face of historically high unemployment, is concerns about the federal budget deficit. This section will argue that in the context of the nation's actual challenge concerning the national debt—budget deficits that are forecast to rise in coming decades even during periods of healthy economic growth—the costs of the Recovery Act and further fiscal support to the economy are minimal. It further argues that a broader view of the Act's costs—not just its cost in terms of the federal budget but in terms of overall economic opportunity costs—show that these costs are actually negative; that is the Act resulted in greater, not less, private investment and employment.

It is clear that the country faces long-run budget challenges that will require policy action in coming decades. A close look at the economics, however, shows that these budget challenges have nothing to do with the Recovery Act that was passed nor would they be appreciably exacerbated at all if more fiscal support was provided to the economy today.

For example, the Recovery Act added between 0.1 to 0.2% to the long-run (50-year) fiscal gap.[3] If one is a true budget pessimist and believes that the alternative fiscal scenario identified by CBO in their latest report on the long-run budget outlook is a good forecast of the most likely trajectory of deficits (I'm not, for the record, such a pessimist) then this would imply that the Recovery Act was responsible for less than about 1-2% of the long-run fiscal gap facing the country.

The reason for this non-effect of the Recovery Act on long-run budget challenges is simple: the Act is temporary and the main drivers of long-run deficits remain rising health care costs and low revenues as a share of GDP.

Another reason why the Recovery Act was cheap (and why further fiscal action aimed at spurring the economy would be cheap) is that its headline cost ($787 billion in the case of Recovery Act) is actual far greater than its actual net impact on the budget deficit. Because the Recovery Act saved jobs and wage incomes, it generated new tax revenue. And because it kept people working, it kept them out of public safety net programs.

Say that the overall multiplier of the Recovery Act was 1.25—this is the boost to total GDP per dollar increase in the deficit. The more effective parts of the Act (extensions of unemployment insurance and other safety net programs and investments in the nation's infrastructure and aid to fiscally strapped state and local governments) actually have multipliers significantly higher than this, but because the Recovery Act also included items like the AMT fix that provided very little bang-for-

[3] The fiscal gap is a short-hand measure of the long-run fiscal imbalance. Essentially, it tells one how much some combination of tax increases and/or spending cuts (expressed as a share of GDP, enacted immediately, would be needed to close the long-run budget deficits.

buck, the overall multiplier was lower. Given a multiplier of 1.25, the $600 billion in Recovery Act spending that is set to occur before the end of calendar year 2010 will result in GDP that is higher by roughly $750 billion by the end of this year.

Other data from the Congressional Budget Office suggests that each $1 increase in GDP relative to potential yields a $0.35 decrease in the deficit as revenues rise and spending falls. Multiplying the $750 billion in extra output by this $0.35 indicates that the economic activity spurred by the Recovery Act actually recoups just under $330 billion—more than half the headline price tag of $600 billion. In short, well-designed policies aimed at spurring economic activity come with a built-in and significant offset to their total costs.

This exercise also drives home the importance of designing stimulus packages well. Take the high and low-end of Recovery Act provisions in terms of bang-for-buck provided by Moody's Economy.com. If the entire Act consisted of provisions with a bang-for-buck as low as that provided by corporate tax cuts or providing the opportunity of businesses to "carryback" past losses against future taxes, the budget offset provided by the act would be less than $80 billion. If instead the entire Act consisted of provisions with bang-for-buck comparable to safety net expansions and infrastructure spending, the budget offset approaches $400 billion. Simple design of stimulus packages can make their final impact on the deficit differ by literally hundreds of billions of dollars. Besides just not providing effective stimulus, the less well-designed parts of the Act should have been excluded on the basis of fiscal responsibility.

It has been rightly pointed out by some that one could overstate the degree to which additional support would provide built-in offsets to its net addition the national debt. In a given year, it is highly unlikely that economic multipliers are large enough to allow additional fiscal support to be entirely self-financing. Because of this, many commentators have warned against supporters of more support engaging in hyperbole similar to that of supply-side tax advocates who claim that cutting tax rates can spur enough economic activity to bring in sufficient additional revenue so as to make these rate-cuts self-financing.

While this caution may be useful, it should be made clear that the case for full self-financing over time of temporary fiscal support in an economy stuck in a liquidity trap is actually not totally implausible, while the prospect of self-financing permanent cuts in tax rates is indeed totally implausible.

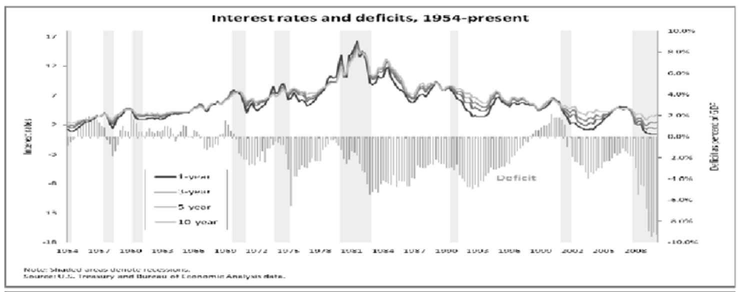
If fiscal support pushes the economy back to levels of GDP that are characterized by full-employment much quicker than in the absence of this support, then it is indeed possible for it to be all-but-totally self-financing. The economists' jargon for this is avoiding hysteresis in labor and product markets, but the insight is pretty simple—if fiscal support generates additional economic activity not only in the year of its implementation but also allows the economy to much more quickly reach its potential—this represents multiple years of additional revenue and less safety net spending and could indeed lower overall ratios of debts and deficits to GDP.

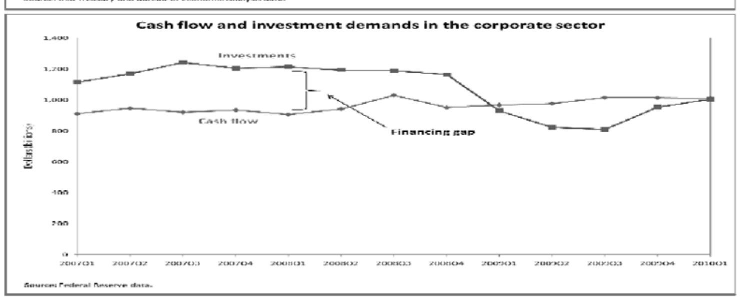
How likely such a full offset is depends largely on how effectively the fiscal support is structured and how much time it shaves off the wait for the economy to regain its potential. Given that many of the mechanisms that tend to push recessed economies back to trend levels seem weak or inoperative in the current economy, it seems quite likely to me that the net fiscal cost of particularly well-structured fiscal support is essentially zero over the medium and long-term. And it is budget deficits over this medium and long-term which are forecast to rise even during times of healthy economic growth that are the proper focus of concern.

Besides having a minimal impact on the stock of outstanding national debt, the Recovery Act was financed in an economic context of historically low long-term interest rates for government debt. These low rates are no fluke—they are low precisely because private spending and borrowing is at historic lows (i.e., the recession). Further fiscal support could also be financed at very low rates, as excess capacity and little competition for loanable funds continues to characterize the economy. Additionally, upward interest rate pressure stemming from Federal Reserve actions is extremely unlikely, given both the weakness of the overall economy and their stated intention to keep rates low until the economy has begun a robust recovery.

While low interest rates contribute much to the relative cheapness of the Recovery Act, they also provide the clearest indication that the Act is also cheap in its broader economic opportunity costs. The most well-pedigreed argument against increasing budget deficits in healthy economies is the fear that increased government borrowing causes interest rates to rise as public demand competes with private demand for fixed savings of households and businesses. These rising interest rates spurred by growing deficits results in private investment "crowding out" private capital formation and the lower value of the private capital stock leads to lower future growth. When economic commentators make arguments disparaging the ability of the Recovery Act (or government spending of any kind) to create jobs, they generally make variants of this crowding-out argument.

The general failure of interest rates to rise in response to the increase in budget deficits, and to the Recovery Act in particular, is a prime piece of evidence that no crowding out of private investment is occurring, making the Recovery Act not just cheap, but essentially free in terms of its overall economic opportunity cost.[4] This is, again, not unexpected. Economic theory teaches that increased public borrowing during a liquidity trap does not crowd-out private sector activity. Figure F shows the relationship between deficits, interest rates and recessions. It shows clearly that during recessions deficits rise (both due to automatic stabilizers as well as policy responses) while interest rates fall (in part due to Federal Reserve efforts to fight the recession but also because private demand for new loanable funds fall). Figure G shows that corporate demand for new debt has fallen so much since the latest recession began that essentially all new desired corporate investments could be financed out of internal funds—in the jargon, the corporate "financing gap" has turned negative.





It is worth stressing this "crowding out" mechanism, given that many Recovery Act detractors have pointed to very low rates of overall investment as some sign that private activity is being stunted by increased public sector activity. The textbook presentation of the effects of fiscal policy requires higher interest rates as the mechanism through which private investment may be stunted by increased public borrowing in a healthy economy. Without the rise in interest rates, there is no way to link increased public borrowing and lower private investment.

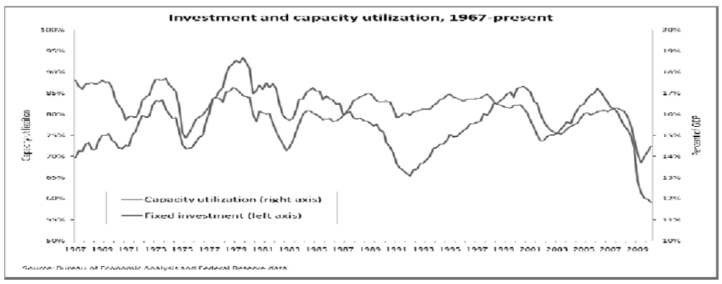
Some commentators, having neither theory nor evidence on their side in making the argument that increased public spending must by definition reduce private spending, have done the economic equivalent of banging the table—insisting that vague concerns about "uncertainty" spurred by the economic policy actions of the administration explain the reduction in private investment. This is supremely unconvincing, for a few reasons.

First, there is no particular reason to think that private investment is actually abnormally low at the moment. Numerous academic studies suggest that the prime determinant of private investment is in fact the simple state of the economy. Given

[4] There is an additional channel through which increasing federal budget deficits in a healthy economy can lead to slower domestic income growth—if the increased borrowing spurred by them leads to greater borrowing from foreign investors. Very few (if any) detractors of the Recovery Act have made the argument that this has happened—and correctly so. The mechanism for this channel to work would have to be a rise in the trade deficit. But, the trade deficit fell significantly over the course of this recession.

that we are just emerging from the steepest and longest recession in post World War II history, it is far from surprising that investment spending is low.

Further, the capacity utilization rate (think of this as the employment rate of factories instead of people) reached historic lows in the past year. With current capacity far from being fully utilized, why would businesses seek to spend money to build more of this capacity? Finally, it should be remembered that investment in structures, both residential and non-residential, is an important component (just under half) of overall investment. Given the massive overbuilding in the residential housing sector for the past decade and the sharply rising vacancy rates in commercial real estate, it is again hard to imagine why businesses would seek to expand investments in structures. Figure H demonstrates the tight relationship between capacity utilization and investment as a share of GDP.



Second, there is very little evidence that economic uncertainty of any kind provides a the kind of sharp shock to private investment that would explain the very large fall-off in investment that characterized the worst phases of the last recession.[5]

Lastly, given that overall economic activity is a prime determinant of private investment and that the Recovery Act assuredly spurred greater activity, it is very likely that the Recovery Act actually "crowded in" private investment—actually made the fall-off in private investment less steep that it would have been absent the Act's effects. Evidence for this can be seen in a number of papers that find very large multiplier effects of fiscal support when an economy is a liquidity trap.[6]

IT SHOULD BE REPEATED

So, while the Recovery Act saved the U.S. economy from a worse economic fate—today's economic fate is still poor. Today's unemployment rate stands at 9.5% and a series of economic overhangs—the overhang of average hours decline, the overhang of the "missing labor force" (the 2 million workers who withdrew from the labor force since the recession began and who will certainly return looking for work in coming years), and the overhang of business and consumer debt that will keep spending in both sectors cautious in coming years—mean that, absent further support to the economy, it will take an agonizingly long time to bring it down to levels seen before the recession began. For example, the Congressional Budget Office (CBO) has forecast the unemployment rate will average 6.3% in 2013—this is higher than the peak rate reached during the recession and jobless recovery in the early 2000s recession. Figure I presents the simplest presentation of the current state of the labor market, documenting how many jobs are needed to return the unemployment rate even to its rather undistinguished level of December 2007.

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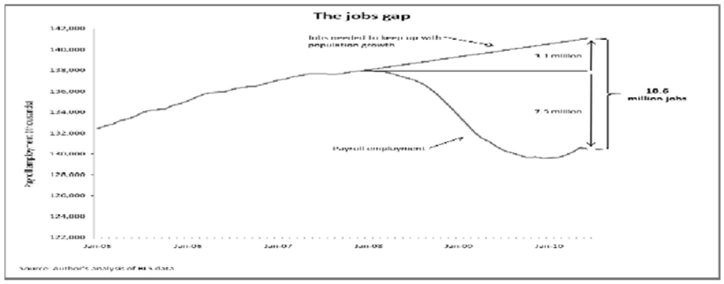
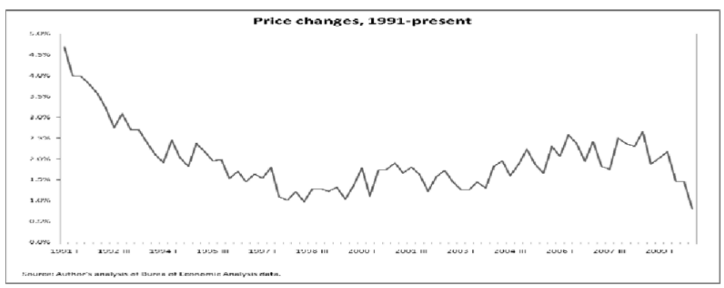
[5] See Bachman, Elstner and Sims (2010) for the very low short-run impacts of business uncertainty on investment.

[6] See Eggerston (2010), Woodford (2009) and Hall (2009) for representatives of this finding.



Further, even this grim forecast for unemployment assumes the economy grows consistently in the next couple of years. Given recent headwinds that have picked up steam in the past few months, even this cannot be assured. The most recent monthly employment situation demonstrated that the pace of private-sector hiring has decelerated and wages actually fell in inflation-adjusted terms. State and local spending has actually contracted in each of the past 3 quarters—only the 4th time in the post-war period that this has happened.[7] Given that state and local budget holes look set to widen in coming years, this means that this important sector will be dragging on growth for quite some time. Lastly, many of the major trading partners of the United States have embraced fiscal austerity; this means that net exports will not be a source of strength moving forward either.

Economic data in the form of rapidly decelerating prices and wages is also sending strong signals that excess capacity in the economy is threatening to grow again. Essentially all indicators of overall price pressure in the economy show rapidly decelerating price growth, and several show outright deflation (falling prices) in recent months. Figure J shows one of the most reliable and well-measured of these series—the market-based deflator for personal consumption expenditures excluding food and energy. This is not only a symptom of poor economic performance, this disinflation also causes real interest rates to rise just when we want them to fall. In short, this disinflation not only signals slower growth, it also adds to the growth headwinds facing the economy.



Perhaps most distressing, the boost to growth provided by the Recovery Act is actually fading—and fast. The current quarter (the third quarter of 2010) is probably the last time the Act will contribute 1% to annualized GDP growth. By the last quarter of this year, it will be contributing next to nothing. Given that GDP growth in the past 3 quarters would have likely been zero without the influence of Recovery Act spending—it seems clear that more support is needed to provide the bridge to the period where private incomes and spending can generate economic growth on their own.

CONCLUSION

The Recovery Act worked just as advertised, creating nearly 5 million full-time equivalent jobs in the economy when such growth was desperately needed. However, the bulk of its effect has passed—and millions of jobs remain desperately needed.

[7] See the appendix for evidence on the poor performance of state and local spending since the recession began.

It seems amazing now, but 30 months ago Congress acted quickly to pass a $160 billion stimulus package to avoid the prospect of unemployment rising from 5 to 6%. The unemployment rate now stands at 9.5% and further fiscal support does not seem to be forthcoming. This testimony tried to make the case that there is no economic reason to believe things have so changed in the past 30 months as to make further fiscal support unwise.

The fiscal support provided by the Recovery Act was needed, effective, and cheap. Further support is clearly needed and, if structured well, could be very effective and cheap as well.

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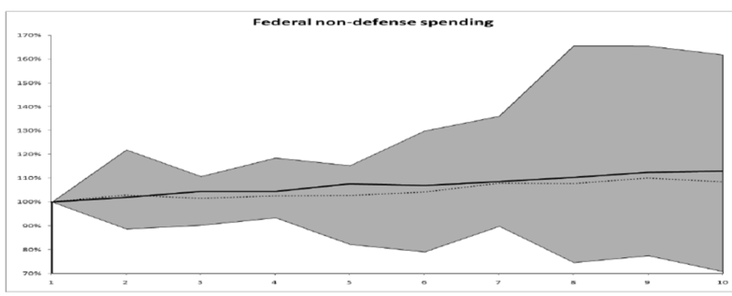
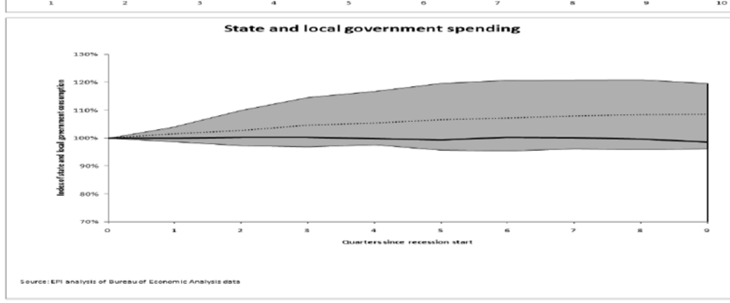
APPENDIX

A common misunderstanding of the Recovery Act is that it has led to a "flood of government spending". In fact, federal non-defense spending has actually grown essentially exactly in line with historical averages following recessions. Figure A1 below shows the growth of federal spending in this recession (solid black line) compared to the average growth following recessions in all business cycles since World War II (dashed line). The figure also shows (shaded gray areas) the highest and lowest episodes of federal non-defense spending. The clear takeaway from this figure is that there has been no historic "flood" of federal government spending following the onset of the most recent recession.

Figure A2 shows that there also has been no flood of state and local spending. Even with the significant support provided to state governments through the Recovery Act, state and local spending has actually been at near-lows relative to other business cycles.





Chairman SPRATT. Thank you very much.
Mr. Hensarling.
Mr. HENSARLING. Thank you, Mr. Chairman.

Dr. Bivens, I have no doubt you have stellar economic credentials. I think your marketing skills are going to, unfortunately, need a little polish here. You have got a very great challenge in front of you trying to convince the American people that this act has worked largely as advertised, because what I heard the President of the United States say was that, if we pass this, then we weren't going to have unemployment exceed 8 percent, and we are still hovering around almost double-digit unemployment.

I think you know that the underemployment figures are even worse. And, frankly, if it wasn't for our fellow citizens giving up ever finding employment and leaving the labor force, the unemployment rate would be even larger.

When you said it was cheap, with the interest factor at $1.2 trillion, I hope I am never in this town so long that I can conclude that $1.2 trillion is cheap.

I have got to tell you, I have tried to study this as close as I can. I don't have a Ph.D. in economics. I have an undergraduate degree in economics.

I have no idea where the citation of these 3 million jobs created or saved comes from. It certainly is not reflected in the President's own Department of Labor data. I just have no—I hear the number repeated. I think some people think if they repeat it often enough, somebody will believe it. I don't think the American people are believing it.

So, again, you have got a bit of a challenge there, as do other proponents. What I, again, what I see all over my part of America is people who are still struggling trying to see what good this has done.

Dr. de Rugy, is that how I pronounce it?

Ms. DE RUGY. Yes.

Mr. HENSARLING. Is that close enough? Sorry.

Ms. DE RUGY. Close enough.

Mr. HENSARLING. Sorry. I didn't see it in your testimony, but someone had told me that you had studied the Japanese experience with their "lost decade." We all know that they faced a similar real estate bubble burst. Theirs was commercial; ours, unfortunately, may still yet be commercial, but it has started out as residential.

Have you studied their experience with various stimulus plans?

Ms. DE RUGY. Well, I mean, I have looked at the aggregate history of Japan and that area, and they had a different stimulus bill. And they spent a gigantic amount of money, and pretty much all they have to show for this is very nice roads—I will concede that—but a pile of debt that won't go away and pretty much no economic growth. This is why it is called the "lost decade."

Mr. HENSARLING. Aren't we really working in Japan on the second lost decade now?

Ms. DE RUGY. Yes.

Mr. HENSARLING. I mean, they essentially had flat economic growth for 15, 16 years now.

Ms. DE RUGY. Yes, probably. But they themselves call it the "lost decade." And so, they are not just labeled by Americans. They have had—they have tried stimulus. It has been a gigantic amount of money. They have massive amount of debt, way more——

Mr. HENSARLING. Don't they have the largest, I believe, the largest debt per capita of any industrialized nation in the world?

Ms. DE RUGY. Yes.

Mr. HENSARLING. And isn't it also true, as they embarked upon this stimulus mania that they have gone, I believe, from the second highest per capita GDP to, I believe, tenth? Do you know the data?

Ms. DE RUGY. I don't know. I mean, I can't remember exactly what their ranking is, but, I mean, not growing will do that to your economy. You will be passed by a lot of countries.

And by the way, I come from France. I have a lot of experience, firsthand, of what government spending does to a country, and I would like to not see this happen to America.

In the last 10 years, France, which is a bigger country than the U.K., has actually seen not only the U.K. pass them by in terms of income per capita, but also for GDP overall, and that is because the size of the French government has been gigantic for many years.

Mr. HENSARLING. Speaking of the size of government, can I have chart number 5, please?

Doctor, did I hear you in your testimony say that, according to your analysis, at least of the jobs that actually appear in the hard data, that four out of five of these are government jobs; is that correct?

Ms. DE RUGY. Yes, that is correct.

Mr. HENSARLING. Which, to some extent, may help account for the increase of 400,000 jobs since the stimulus act was passed versus the 2.6 million that have been lost in the private sector?

Ms. DE RUGY. Yes.

Mr. HENSARLING. And did I also understand you say that, according to your analysis—I don't have that portion of your testimony.

Ms. DE RUGY. Can I add something about this?

Mr. HENSARLING. Please.

Ms. DE RUGY. This morning, I read actually an academic peer-reviewed study that actually looked at a selection of countries, OECD countries, and they looked at data for 40 years, and they looked at the impact of increasing public employment that it would have, the impact on unemployment rates, and what they find—and this is, again, peer-reviewed articles, and I am happy to send it to everyone if you want it.

What they show is that for every hundred jobs of government jobs created, the private sector lost 150 jobs.

They also have this data point which means the more the private sector grows—the public sector grows, you can basically track for 100, you have 33 percent increase in unemployment rate.

I mean, these, it has consequences. It is not one job for one job. It is not like, well, it is okay; you lose a job in the private sector, and you gain a job in the public sector.

In fact, what this study shows is that actually when you gain a job in the public sector, you lose more than one job in the private sector.

Mr. HENSARLING. Just a couple of more questions, and then I will yield back. I don't have the quote right in front of me, but recently it got a fair amount of national air play when Speaker Pelosi said, and I hope I do the quote justice, that one of the best ways to create jobs is to send out more unemployment checks. And, again, I don't quite have the quote at my fingertips. I hope—I believe that to be a fair representation of what the Speaker said.

Are you familiar with her comments? And in your studies as a professional economist, how valid of an economic theory do you believe that to be?

Ms. DE RUGY. What the American people who are unemployed need more than anything else is a job, and it is not until we get these people a job, a sustainable job, one that doesn't rely on the Federal Government keeping, pumping money in the economy——

Mr. HENSARLING. So, unemployment checks financed with more national debt does not sustain long-term paychecks?

Ms. DE RUGY. Well, it doesn't, and I understand that this is relief for the people who are unemployed, but this has a cost. We need to acknowledge that government spending has a cost, and that is because the Federal Government doesn't have a magic wand that actually produces money.

When the government spends a dollar, it has to take it first out of the economy in the first place. And, in fact, what Robert Barro at Harvard has shown, it is not only that it needs to take a dollar out of the economy, but when they tax it—and by the way, it is kind of the same thing when you borrow it, because then you have to tax it again, and that is also money that is not available for the private sector to borrow, capital to borrow—what happens is that the economy shrinks by $1.10. It has true consequences, and we need to actually look at the data.

Mr. HENSARLING. Last question: can you elaborate on what you see as the long-term adverse consequences to this act, since it appears that some in Congress are wanting to pass yet another stimulus act? Clearly, we need to appreciate what the long-term cost and impact of the first act will be.

Ms. DE RUGY. Spending more stimulus will be like doubling down on a bad bet. We have to understand what the stimulus is doing. I mean, I am not saying that the people who are getting this money are not feeling the benefit of it when they are doing it. But imagine if I have a broken arm, and instead of the doctor fixing my arm or giving me the proper treatment, he was giving me morphine. I would feel better, surely, for a while. But it wouldn't change anything. When the morphine ran out, my arm would hurt again. And, worse, it might actually fix itself in a very unreversible way. The stimulus does this.

You hear all the time about all the money that went to the States went to finance jobs that would have been lost in the public sector otherwise. What it did is allow State budgets that have, States who have real spending problems and budget gaps, to actually prolong the mistake of their past. This is what the stimulus is doing, and we should not, we should not allow this to continue.

And moreover, the business community has acknowledged, the Business Roundtable has sent a letter—the Business Roundtable, that has been a very strong ally of President Obama, sent a letter to him to say that the business community is not creating jobs because of the policy of this Administration. They are not.

All the government is doing right now is injecting uncertainty. And businesses and families, and American families, cannot move and won't move, create jobs, invest, or do anything, as long as the economic climate is so uncertain.

Mr. HENSARLING. Dr. de Rugy, thank you very much, and clearly, France's loss is America's gain.

Ms. DE RUGY. Thank you.

Chairman SPRATT. Dr. Bivens, would you like to respond to that?

Mr. BIVENS. Sure. There are a lot of points raised there, and I would like to just get to a couple of them. One I will absolutely concede; I am probably the world's worst marketer. That said, I think there is plenty of evidence and citations that I can give you have that supports this number of 3 to 4 million jobs; I mean, Congressional Budget Office for one, numerous private macroeconomic forecasters.

And I will say one thing, I think the other witness, with all due respect, has made the common mistake of looking at recovery.gov to see the full impact of the Recovery Act. I have got some, essentially—the direct spending on infrastructure and direct purchase of goods and services by government, that has been about one-eighth of the money that has gone out before.

I mean, let's take a look at the Recovery Act. The Recovery Act was essentially one-third tax cuts, one-third transfer payments, one-third direct spending. The tax cuts and the transfer payments were in there to get out the door first. Spending takes some time to open the pipeline and get the projects up, especially when you are trying to be really scrupulous about making sure the money is not poorly spent.

And so, the Recovery Act essentially so far has been tax cuts and transfer payments. And if you look at recovery.gov for those, you are not going to find them. If you look at recovery.gov over the next couple of months, what the Administration has called "Recovery Summer," you are going to see that ramping up because, finally, that infrastructure part of it is now coming online. The tax cuts and transfers are actually fading out, which is a problem, because they are going to be fading out in the second half of this year when the economy needs more support, and the infrastructure projects will be ramping back up.

The footprint of the Recovery Act in supporting the economy really should be seen in disposable personal income of households, and that is easy to see. Look at the macroeconomic data, the wedge between personal income minus transfers, minus government transfers, that is kind of the private sector incomes that are being generated in the economy, versus disposable personal income, that is more than $700 billion at this point. About $200 billion of that is due to the Recovery Act. The rest is just due to automatic stabilizers as people's incomes fall, tax collections fall, people start qualifying for programs for safety net spending. So, the footprint for the Recovery Act should be looked for in disposable personal income, and it is as clear as day there.

It will start showing up more robustly on recovery.gov pretty soon, but so far, the Recovery Act has been mostly tax cuts and transfers.

And I will just say one thing, every academic study that looks at data to say what does deficit finance, government spending, and tax cuts do to an economy? If it does not separate out periods where interest rates are at rock-bottom levels, like today, you should not listen to it.

Because in 2005, I was not saying we should have a $1 trillion deficit to spur the economy because, in 2005, the unemployment rate was maybe a little too high for my taste, but it was not a once-in-a-generation crisis, and interest rates were high enough that we could lower them if the economy did enter a crisis.

When you look at the effect of a big stimulus package like the Recovery Act, and you look through history, you need to look at those episodes, like the Great Depression, like Japan in the 1990s, where interest rates have been at rock bottom.

And I will say one thing about Japan, because it is often pointed to as a failure for fiscal policy. It turns out, they never committed to fiscal stimulus. I mean, they were completely stop and go. They would have the stimulus package in 1993. They would raise taxes in 1994 and close the gap. They would have a stimulus package in 1995. Then, they would raise taxes in 1996.

Adam Posen, who used to be at the Institute for International Economics—now he is on the Monetary Policy Committee of the Bank of England—pretty much the world's biggest expert on what happened in the Japanese macro economy in the 1990s, he said the clear lesson for that was fiscal policy worked when it was tried.

And you see the same lesson from our own history. You had increased deficit spending helping pull the economy out of the Great Depression in the '30s, until 1937, when President Roosevelt listened to the people spreading fears about deficits, pulled back the spending, targeted the surplus, the economy fell right back into recession. We shouldn't make the same mistake twice.

Ms. DE RUGY. So, taxes shouldn't be increased, then.

Mr. BIVENS. Eventually they should, yes. But, no, in the next two years—or I would say this, if the question is about, should the Bush tax cuts be allowed to expire? Absolutely, on the top end, they should, and we should then inject more purchasing power in the economy with things like unemployment compensation, food stamps, infrastructure spending.

Mr. JORDAN. Would the gentleman yield?

Chairman SPRATT. Ms. Kaptur is next. Then, I will come to you right after.

Mr. JORDAN. I will wait.

Chairman SPRATT. Let me go to Ms. Kaptur and then Mr. Jordan.

Ms. KAPTUR. Thank you, this is a very good exchange, Mr. Chairman.

Good witnesses. Thank you both.

Let me just ask you, on the trade deficit of the United States and its impact on GDP. Neither of you focused on that, as I can tell, in your testimonies, but I think, last year and this year, we will accumulate another trillion dollars of trade imbalance with the world in our country. And I have read different studies that talk about how many points that reduces GDP.

Do either of you have a comment on that? And then looking back over a decade of trade deficits in our country that probably total close to $9 trillion to $10 trillion, could you discuss the impact of that on an economy over time?

Mr. BIVENS. Do you care who goes first?

Ms. KAPTUR. No.

Mr. BIVENS. Thank you.

Yes. I would say a couple things. I mean, one troubling chronic figure of the U.S. economy over the past decade has been exactly the trade imbalances you are talking about. Throughout the—after the onset of the recession that began at the end of 2007, the trade balance actually played a stabilizing role. We saw the trade deficit fall from about 6 percent of GDP to about 3 percent at the peak, and that was pretty much the only bright spot in gross domestic product over the past, say, 30 months.

That is one reason why I am very worried about the future. I think a serious headwind facing the U.S. economy today is precisely that we are not going to be able to rely on positive contributions from the trade balance as we go forward. And the main reason for that is many of our trading partners have embraced austerity. They have clamped down. They are going to target balanced budgets. You see this especially in Europe, and that is going to make it very, very hard for U.S. exporters to send stuff to the rest of the world and for exports to be an engine of growth.

And so, based on that, I think the President was exactly right to go to the G-20 last month and try to get these countries on board with emphasizing growth first. So, I think the trade deficit, it is a big long-run problem, because it has us accumulate foreign debt, which is a problem. And I think over the next year and a half, 2 years, it is actually going to swing from being a bright spot in the economy to a drag on growth, and that is one reason why I am so worried about what happens to the economy when the Recovery Act peters out if we do not do more fiscal support.

Ms. KAPTUR. On the trade deficit, how many points does it knock off the GDP, just approximately, in a year. Let's say you have a 3, 4, 5 percent GDP. What percent does it knock off, a quarter?

Mr. BIVENS. Well, it kind of depends on the underlying state of the economy.

So, for example, in 2000, we had a healthy economy. We had a 4 percent unemployment rate. We also had a 4 percent of GPD trade deficit. I would have said in that year the trade deficit was not knocking anything off GDP. Essentially, we were able to make up for any drag on the trade deficit because capital coming into the U.S. from the rest of the world was keeping interest rates low.

I think for an economy like today that has a lot of excess capacity and a 10 percent unemployment rate, if we see the trade deficit rise by a percentage point of GDP, that will, one for one, lower domestic incomes in the United States. So, it depends on the underlying state of the economy. But I think, going forward, every increase in the trade deficit or 1 percent of GDP increase in the trade deficit essentially knocks a percentage point off of growth.

Ms. DE RUGY. I am not a trade expert, but I have always been very puzzled by all this worry about the trade deficit. I mean, the reason why we have a trade deficit is because we go and buy things cheaper abroad, and that is a good thing for the American people. It is a very good thing. Ultimately, it doesn't really matter where things are produced. Because, if Americans are able to buy goods cheaper, it means that they can either save more or buy other things, more of other things, and that is a very good thing. In fact, this is what economic growth is about. It is about being able to produce more things for a lower price.

We used to spend a gigantic amount of money on food. I mean, that used to be like the biggest part of the American people's budget; and it is not anymore. That is because the American people have been able to actually buy food cheaper.

So, in times where we don't have a trade deficit, we are worried because—and so, again, I am not an expert, but I am always really puzzled by this, this worry about——

Ms. KAPTUR. Well, I don't know about France, Doctor, but in our country we have seen the outsourcing of millions and millions and millions of jobs. One of the reasons for the unemployment is this just didn't start overnight. We have outsourced an enormous amount of good-paying jobs that this country used to have all over this country, and it is a serious issue for us.

In France, I wanted to ask you, what percent of the GDP or what percent of the economic activity in France is actually publicly subsidized? Is it half yet? What percent is government of your economy in France?

Ms. DE RUGY. Well, I can tell you that everyone in France, no matter what your income is, gets something from the government.

Ms. KAPTUR. But, isn't it about half?

Ms. DE RUGY. It is more than half, yes.

Ms. KAPTUR. Well, we are nowhere close to that in this country.

Ms. DE RUGY. We are on our way. We have reached a benchmark where more than half of the American people actually get something from the government. That happened like a few years ago.

Ms. KAPTUR. Well, a lot of our people pay into the government, so they deserve to get something back. If it is unemployment compensation or Social Security, they have paid for those benefits.

Ms. DE RUGY. Except that the data shows that what they get back from the government has a lower return than if they had actually spent this money in the private sector, and this cannot be ignored.

And if I can add something about the CBO projection that Dr. Bivens mentioned, I mean, these are projections. Even CBO acknowledged that they never went and checked whether these jobs were actually created. These are projection.

Dr. Romer's testimony today, I read it, came and actually acknowledged that the 3 million jobs are just projections. There is not a name, there is not an American body behind each one of these jobs created that they are claiming. They rest on rosy projections about what government spending creates.

Again, the CBO, the CBO itself, the Director was asked whether his projection came true, and he acknowledged that they didn't go and check. So, we keep repeating these numbers, these projection numbers, and no one went to check. It is like the weatherman who says tomorrow it is going to be 70. It turns out tomorrow it is 40, and the next day the weatherman still says it was 70.

Ms. KAPTUR. Thank you, Dr. de Rugy.

Did Dr. Bivens want to respond to that? I can tell you in the district that I represent, where highway projects are going on right now, there are individuals who are working who would not be working. And, you know, they paid their gas tax. They have a right to get money back to fix the roads in the areas that they use.

If I look around our community, police officers and teachers and people are working, and many of our small businesses are taking advantage of the tax credits that were provided to keep people on and to hire people. So, Dr. Bivens, did you want to comment? And then my time has expired.

Mr. BIVENS. Yes, very quickly. Thank you.

I guess I don't understand this. They are not projections. They are statistical analyses. I mean, if we are going to throw out any statistical measure of how economics works, we are going to throw out a whole large body of knowledge.

Like I said, two-thirds of the recovery package, tax cuts, transfer payments, were not directly government-hired jobs. So, there is not going to be a face. There is not going to be a name to them.

Basically, I got—I can't remember the exact amount, but everyone who earned over $3,000 in a year got the Making Work Pay tax credit as part of the Recovery Act. It boosted my income by I think $600 to $800. I forget which. I spent it. That helped create economic activity in the country. Whose name is attached to that money I spent, I have no idea. But I did spend it, and it did go out, and it did support purchasing power in the economy.

Same thing when somebody gets an unemployment check and they can actually afford to buy some new clothes for their kids to go back to school rather than making them wear the ones from last year. What was the name of the person that benefited because they went to Sears and bought the clothes? Of course we don't know that. You can't track that. You have to use statistics to do that. You look at the CEA. You look at the private sector and macro forecasting firms. They all say that those historical, statistical relationships applying in the recovery package get you that 3 to 4 million jobs.

Ms. DE RUGY. Well, actually, Dr. Romer's testimony today, she said she is not looking at historical data, and basically she admits she is guessing.

Mr. BIVENS. No, that is not right. Okay, maybe from today, but from the third quarterly report, they used VARs, they used historical relationships. They absolutely did.

Ms. DE RUGY. In her written testimony, she said she is not looking at historical data anymore, so that is why all these previous estimates of the multiplier doesn't hold. So, she says we are just like guessing.

Chairman SPRATT. Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman.

Wouldn't you assume, though, the American people, when they hear the 3 million claim, they assume that the government is actually accounting for 3 million jobs created or saved? I mean, the people that are paying for this, that is what they assume. Agree?

Mr. BIVENS. I am sorry?

Mr. JORDAN. You would think the American people, though, when they hear the claim 3 million jobs, their assumption is those are jobs created. When the government says they are jobs created or saved, they actually think there is a real person that actually had a real job created or saved?

Mr. BIVENS. Yes, because there is a real person. But the idea that that real person's name is in a government database is what I am disputing.

Mr. JORDAN. Okay. Let me go here, if I could. I have reached kind of the same conclusion I think Dr. de Rugy reached, Dr. Bivens, when you were responding to Mr. Hensarling's comments when you were describing the lost decade in Japan and said stimulus followed by tax increased the stimulus fund. You suggested a pattern. It seemed to me you were indicating that we should not be raising taxes. Obviously, that is what this Administration plans to do.

And if we can go further, I mean, January 1st of this year they plan to raise taxes by letting the tax cuts of 2001 and 2003 expire. The highest marginal rate is going to go up, dividend is going to go up, capital gains is going to go up. And they are also talking—if you followed statements by Senator Feinstein, Senator Dorgan, and statements by Majority Leader Hoyer—to not keep the promise that the President made that families making $250,000 or less would not see a tax increase. So, do you think they are headed down the wrong path, based on your previous answer in describing what took place in Japan?

Mr. BIVENS. No, not necessarily.

Mr. JORDAN. Well, that surprises me, based on your previous answer.

Mr. BIVENS. Let me clarify.

Mr. JORDAN. I figured you would.

Mr. BIVENS. We have a budget problem in the long run, and we are going to need more revenue, and we are going to need taxes that are higher. And I, for one, sure don't feel bound by the pledge to not raise taxes on anyone earning less than $250,000. I think we will have to even go down the income scale when it comes time to close the budget deficit.

Mr. JORDAN. I always suspected that was the case with the left, but you are willing to say it. Go ahead.

Mr. BIVENS. In terms of the next couple of years, I think you could easily have a situation where you allowed the Bush tax cuts on the upper income earners to expire; and then, instead of then allowing that to clamp down on economic demand a little bit, you then do more fiscal support. You do the extension to COBRA, to unemployment insurance, to food stamps. In COBRA, that was very effective in the Recovery Act. So, I think it is easy to increase fiscal support going forward while still letting the Bush tax cuts on the high-end earners expire.

Mr. JORDAN. The government gets to control all that, which scares me as well.

Let me ask you both about this; and, Dr. de Rugy, we will probably start with you. Art Laffer—and I asked this of Chairman Bernanke when he was here about 5 weeks ago. Art Laffer had a column about a month ago in the Wall Street Journal where he—and, frankly, on today's front page of the Wall Street Journal, the lead story is, "Fed may revise their growth estimates for the remainder of this year and into next year."

Laffer's point was, look, people make decisions based on policy decisions about how they spend their money or when they take income, when they take profits. And his point was people are taking income and profits this year in anticipation of what is going to happen on January 1st, those tax cuts expiring. And we may not have the growth that some are even predicting for next year, again, kind of confirming, I think, what Dr. Bivens said earlier in response to Mr. Hensarling.

Dr. de Rugy, would you like to comment on that?

Ms. DE RUGY. It is obvious that people make decisions—whether it is families or businesses, they make decisions based on what is happening in the economy and what they project will happen in the economy. In fact, it explains why, when the government spends a dollar, then the economy shrinks rather than grows, because people revise their expectations and they know that they are going to be taxed in the future.

On top of that, they also, there is all this uncertainty that has been injected that actually forces them or gives them an incentive to not use the dollars, even the ones that have not been taxed.

The Federal Reserve came up, last week I think, with a number of $1.8 trillion of capital who are sitting on the sidelines because of the uncertainty injected by the government in the economy.

Mr. JORDAN. Dr. Bivens, would you agree with that?

And I have heard those exact sentiments from constituents of ours, small business owners, larger business owners who say, look, we know that tax increases are expected. We still don't know what is going to happen with this cap-and-trade. We still haven't figured out what exactly this health care bill means for the bottom line of our business. And because of all that uncertainty, as the doctor talked about, they are not doing the things we would typically see as an economy starts to come out of a recession. Would you agree with that? I mean, I have heard it firsthand from constituents.

Mr. BIVENS. No, not really. I mean, I am sure there are some people out there who say that.

But look at the NFIB study that somebody mentioned earlier, the National Federation of Independent Businesses. What has been spun a lot is uncertainty is what is hurting these businesses. If you look at the number one thing the actual business owners said was the problem facing them: not enough customers. And there is no reason to invoke uncertainty or anything as to why there are fewer customers than 2 years ago. The reason why there are fewer customers is because we have lost about $8 trillion in housing wealth, because we have about 5 to 6 million more people unemployed.

So, I don't think you have to go anywhere beyond looking at the aggregate data to see why the customers have dried up. I don't think you have to resort to psychology or anything like that. You can just look at the wealth and the incomes of American families. They have completely dried up. It has been a shock to private spending, and that is why you need public support to get the economy to a healthier place.

Mr. JORDAN. Mr. Chairman, if I could, this past month we went over $1 trillion in deficit for this year. We are at $13 trillion national debt. Obviously, you cannot sustain that kind of spending in the long term.

I have actually introduced a budget that gets to balance over the budget window time frame. We think it does the right things.

But long term, to deal with, I mean, the unbelievable budget situation we are in, what do you think, how do you think we address that? I happen to think that the only way you get there, you first have to limit spending, which our budget does. You don't make the problem worse, in my judgment, by adding taxes. But the only way you deal with it is through economic growth.

Would you both agree with that? I don't care who starts. I mean, you have to have—when you are talking about this kind of situation, you have got to have economic growth long term to actually begin to pay down the debt and deal with the situation.

Ms. DE RUGY. I mean, I would agree except that, considering the size—if you don't cut spending, we are not——

Mr. JORDAN. I am for that, too. I get that.

Ms. DE RUGY. But, I mean, we need to cut spending dramatically. Because we are not going to be able to grow ourselves out of the economy, especially if we continue growing.

And, by the way, if you unpack the GDP number, you will see that the reason why GDP is growing is because of the injection of government funds. Are we willing to continue this? I mean, once you take away government spending, the GDP will fall down.

And, by the way, we have spent, on this discretionary—it is not just tax cuts that has been spent. The money in the recovery act is almost $200 billion in contracts and grants and loans. So, it is not cheap change. So, a lot of the stimulus money has been spent. It is not just tax cuts, which most of them are spending. So, we are not going to grow ourselves out of this spending explosion that is coming our way, and we will see the most massive transfer of wealth from the relatively young and poor to the relatively old and wealthy.

And so, we need to cut spending, and we need to cut it now. Because the looming entitlement crisis that we have been talking about is today, is starting now. The Social Security Trust Fund is in cash flow deficit. And even if it kind of maybe gains a little bit of money in the next few years—which is not sure if the economy doesn't grow. And, by the way, the Fed today has actually stipulated that it is going to slow down rather than grow. I mean, we are not going to get ourselves out of it. We need to cut spending, and we need to cut it now.

Mr. JORDAN. Doctor?

Mr. BIVENS. We absolutely need growth.

Can I say one thing? Just based on the latest Congressional Budget Office long-term budget outlook, to me I read that document, and I see the number one thing you need to do is allow the health reforms that were passed to actually happen. If you look at the extended baseline where they allow the revenue to raise and the spending reductions caused by that health reform act to happen, we don't have much of a budget problem over the next 10, 15 years. If you renege on those, then you have got a big budget problem.

So, I think we should actually, one, acknowledge that the health reform act was passed with the biggest deficit reduction effort maybe in history, absolutely in a long time. And the degree to which we have a budget problem over the next 10 to 15 years is the degree to which we renege on what was put in place in that health reform package because health reform is the long-term driver of budget deficits.

Chairman SPRATT. Thank you both for your spirited testimony. We appreciate your patience also in waiting your turn, but that is why we gave you as much scope as we could for your discussions this afternoon. We benefited from what you had to say, and we appreciate you coming.

One final housekeeping detail, I would ask unanimous consent that members who did not have the chance to ask questions may submit questions for the record within seven days.

Thank you again very much for coming.

The committee stands adjourned.

[Questions submitted for the record and their responses follow:]

QUESTIONS SUBMITTED TO WITNESSES FOR THE RECORD

QUESTIONS FROM CONGRESSMAN MIKE SIMPSON

SECRETARY CHU: I appreciate you appearing before the Committee. I wanted to ask you a question regarding funding for loan guarantees.

As you know, I am a big supporter of the loan guarantee program and believe it is an important tool to enable energy projects to access credit markets during a time when credit is extremely hard to obtain.

I understand that the Recovery Act included $4 billion in appropriations for loan guarantees for renewable energy projects, which I believe provides you with $32-$35 billion in additional authority, of which only 6% has been committed, correct?

In addition, I understand that DOE has received $18.5 billion in loan guarantee authority for renewables through the regular appropriations process, of which 1.7%, or $2.4 billion, has been committed or guaranteed. If you add that all up, by my count, DOE has around $50 billion in unspent loan guarantee authority for renewable energy.

Could you tell me if that number sounds accurate or how much loan guarantee authority for renewable remains at DOE? How much of the ARRA funding has been awarded?

As I understand it, the goal of the ARRA funding particularly is to get the money out the door quickly to rapidly create jobs, and I am extremely concerned that very little of that funding has gone out. Are there an insufficient number of qualified projects applying? Could you please explain why DOE has been unable to obligate these funds more rapidly?

Secretary Chu, I realize that while the budget requested additional funding for nuclear projects, it did not include more funding for renewable. Could you explain the reasoning behind that?

SECRETARY VILSACK: I know that some companies that provide and build broadband infrastructure are having difficulty doing so because they have to compete against companies that have received federal subsidies under ARRA.

I'm concerned that, in essence, the government is picking and choosing winners in the private market.

Since more than $7 billion in federal funds were provided for broadband infrastructure development (half to USDA and half to Commerce) and it is also funded in regular appropriations bills, what criteria do you have in place to ensure that the government is not interfering in what the private sector is trying to do and is not creating an unfair advantage to grant recipients over their competitors?

QUESTIONS FROM CONGRESSWOMAN MARCY KAPTUR

1. The funding provided to the Department of Energy through the alternative energy loan guarantee program in the American Recovery and Reinvestment Act is critical in accelerating development of the domestic alternative energy market.

Especially at a time when credit markets are frozen for large scale projects, the DOE loan program represents a critical opportunity for the domestic industry.

In my district, a number of the worlds leading solar manufactures have invested millions in expanding manufacturing lines and are relying on the loan guarantee programs to create continuity in their manufacturing capacity.

I am concerned that the interagency process required to process applications for the loan program needs attention to ensure that loan guarantee applications are processed with the required sense of urgency. What recent actions has the agency taken to accelerate approval of loan guarantees?

2. Please update the committee on the progress you have made in obligating DOE Loan Guarantee funds in both project and dollar figures for approved loans.

3. While the Department of Energy is the primary lead for these projects, OMB has exerted significant management authority of the program. What are the OMB's roles and responsibilities in reviewing, and approving loan guarantee applications?

5. Are OMB's activities operational or consultative?

6. What is the statutory authority basis for OMB's role in reviewing and approving these applications?

7. Does OMB or the Department of Energy have established bench marks to complete the loan approval process? Does OMB take into consideration the timeline by which an applicant can start construction?

8. Has the Department of Energy hired additional staff with the expertise to perform these activities and what role has OMB had in conducting the same review?

9. To what degree does DOE review domestic content capacity for these proposed Loan Guarantee approvals?

10. One of the projects currently under review by DOE is a large project in Southwestern Arizona proposed by First Solar called the Agua Caliente Solar Project. It is my understanding that this project, if approved, would allow First Solar to continue operations at their plant in Northwestern Ohio. Approving projects which have the potential for domestic sourcing should remain a priority for the administration. For the projects currently in the DOE loan guarantee pipeline either approved or pending, what can the administration tell us about the ripple effect of job creation or retention?

11. Specifically for the Agua Caliente Solar Project, has DOE conducted any analysis of the number of jobs that this project would create/retain at the First Solar manufacturing facility in NW Ohio?

SECRETARY VILSACK'S RESPONSES TO QUESTIONS SUBMITTED

QUESTIONS FROM CONGRESSMAN MIKE SIMPSON

Questions from Congressman Mike Simpson

Secretary Vilsack: I know that some companies that provide and build broadband infrastructure are having difficulty doing so because they have to compete against companies that have received federal subsidies under ARRA.

I'm concerned that, in essence, the government is picking and choosing winners in the private market.

Since more than $7 billion in federal funds were provided for broadband infrastructure development (half to USDA and half to Commerce) and it is also funded in regular appropriations bills, what criteria do you have in place to ensure that the government is not interfering in what the private sector is trying to do and is not creating an unfair advantage to grant recipients over their competitors?

Response: Many communities throughout rural America lack high speed broadband to facilitate economic development. To ensure that funding provided under the Recovery Act reached those needy communities, our Notices of Funding Availability (NOFAs) for the Broadband Initiatives Program (BIP) provided all types of entities—public, private, cooperative, non-profit, etc., with an opportunity to compete for funds. The NOFA's also required that all applicants map their proposed funded service areas (PFSA's) and clearly delineate areas that were unserved and underserved. These maps were then posted on our joint website with the Department of Commerce—www.broadbandusa.gov—and the public was provided with the opportunity to comment on whether broadband service was already available in the applicant's PFSAs. This ensured that USDA was not providing funding in PFSA's that were already served. USDA received thousands of comments, primarily from incumbent service providers regarding the PFSA of applicants. To ensure that funds reached areas that met the requirements of the NOFA, USDA staff carefully assessed the applicants PFSA's, publically available information, and comments filed by incumbent service providers on the PFSA's. In many cases, USDA Field Staff actually visited the PFSA's to ensure that precious Recovery Act funds went to projects that best meet the requirement of the NOFA. All projects awarded to date have meet the stringent requirements of the NOFA which provided all an opportunity to bring broadband service to underserved areas.

MR. ROGERS' RESPONSES TO QUESTIONS SUBMITTED

QUESTIONS FROM CONGRESSMAN MIKE SIMPSON

Q1. I appreciate you appearing before the Committee. I wanted to ask you a question regarding funding for loan guarantees.

As you know, I am a big supporter of the loan guarantee program and believe it is an important tool to enable energy projects to access credit markets during a time when credit is extremely hard to obtain.

I understand that the Recovery Act included $4 billion in appropriations for loan guarantees for renewable energy projects, which I believe provides you with $32-$35 billion in additional authority, of which only 6% has been committed, correct?

A1. With the $1.5 billion rescission under H.R. 1586, the Department now has approximately $2.4 billion appropriated for Section 1705 credit subsidy. The Department estimates this could support approximately $20 to $22 billion in loan guarantees; however, the actual loan level supported will depend on the final contract terms of each loan guarantee. As of September 7, 2010, the Department has closed four loan guarantees totaling approximately $794 million in loan guarantees and using approximately $61 million in budget authority. In addition, the Department has offered conditional commitments for six additional projects eligible under Section 1705 totaling approximately $3.4 billion in loan guarantee value. The actual credit subsidy for each project is determined at financial closing.

Q2. In addition, I understand that DOE has received $18.5 billion in loan guarantee authority for renewable through the regular appropriations process, of which 1.7%, or $2.4 billion, has been committed or guaranteed. If you add that all up, by my count, DOE has around $50 billion in unspent loan guarantee authority for renewable energy.

Could you tell me if that number sounds accurate or how much loan guarantee authority for renewable remains at DOE? How much of the ARRA funding has been awarded?

A2. The Department estimates that the $2.4 billion in appropriated subsidy available under Section 1705, could support approximately $20 to $ 22 billion in loan guarantees; however, the actual loan level will depend on the final contract terms and specific nature of each loan guarantee. As of September 7, 2010, DOE has closed four loans totaling approximately $794 million and using approximately $61 million in budget authority. DOE has issued conditional commitments for six additional Section 1705 projects totaling approximately $3.4 billion in loan guarantees. The credit subsidy costs for these loans will be calculated prior to financial closing, and reflect project specific factors including contract terms.

With respect to non-ARRA authority, to date the Department has offered conditional commitments for loan guarantees to two projects totaling $317 million against the $18.5 billion in loan authority for innovative energy efficiency and renewable energy projects available under Section 1703 loan guarantee authority. This loan guarantee authority is underutilized because many of the Section 1703 renewable energy projects in the pipeline are also Section 1705 eligible, and are being processed under the Section 1705 program to receive appropriated credit subsidy. Because the 1705 program is lower cost to the borrower, borrowers obviously prefer to use that program when they are eligible to do so.

Q3. As I understand it, the goal of the ARRA funding particularly is to get the money out the door quickly to rapidly create jobs, and I am extremely concerned that very little of that funding has gone out. Are there an insufficient number of qualified projects applying? Could you please explain why DOE has been unable to obligate these funds more rapidly?

A3. The Department is committed to managing the Loan Guarantee Program to carry out its mission effectively while protecting the American taxpayer. While creation of jobs is clearly one of the goals of the program, it is not the only one: the objective is to help transform the energy economy to new clean technologies. The infrastructure investments in the Recovery Act were always intended to be longer-term than the more immediate efforts of tax reductions and assistance to states. This means that proper due diligence is in order to ensure that good projects are selected that meet the multiple goals set out in the directives given to the program by Congress in statute. Projects seeking loan guarantees under Title XVII are typically large, complex transactions. To this end, and to ensure compliance with the statutory requirement of a reasonable prospect of repayment, the Department performs a rigorous and professional underwriting analysis of each application—a process that necessarily requires time. However, the Department has instituted several changes to the Program that have resulted in greater efficiencies and is encouraged that the improvements are working.

For example, the Program has implemented an online application portal to help accelerate the application review process and increase program transparency. The Program has also hired additional contractor support and federal staff and identified external experts to assist with legal, engineering, financial and marketing analysis of proposed projects. Furthermore, the Program has also streamlined the National Environmental Policy Act of 1969 (NEPA) review process, and established a monitoring team.

Q4. Secretary Chu, I realize that while the budget requested additional funding for nuclear projects, it did not include more funding for renewable. Could you explain the reasoning behind that?

A4. The 2011 budget includes $500 million in credit subsidy to support an estimated $3-5 billion in loan guarantees for innovative renewable energy and efficient end use energy projects; however, the actual loan level will depend on the final contract terms of each loan guarantee and other project specific characteristics.

QUESTIONS FROM CONGRESSWOMAN MARCY KAPTUR

Q1. The funding provided to the Department of Energy through the alternative energy loan guarantee program in the American Recovery and Reinvestment Act is critical in accelerating development of the domestic alternative energy market.

Especially at a time when credit markets are frozen for large scale projects, the DOE loan program represents a critical opportunity for the domestic industry.

In my district, a number of the world's leading solar manufacturers have invested millions in expanding manufacturing lines and are relying on the loan guarantee programs to create continuity in their manufacturing capacity.

I am concerned that the interagency process required to process applications for the loan program needs attention to ensure that loan guarantee applications are processed with the required sense of urgency. What recent actions has the agency taken to accelerate approval of loan guarantees?

A1. The Department is committed to managing the Loan Guarantee Program so that it carries out its mission effectively while protecting the American taxpayer. Some of the delays are the natural result of standing up a new program and getting procedures in place after appropriations were provided. Now that the Department has had some experience with those processes, the Department has instituted numerous changes to the Program resulting in greater efficiencies and is encouraged that the improvements are working.

For example, the Program has developed an online application portal to help accelerate the application review process and increase program transparency. The Program has also added staff with relevant expertise. In addition, LPO has identified external experts to assist with legal, engineering, financial and marketing analysis of proposed projects. Furthermore, the Program has also streamlined the National Environmental Policy Act of 1969 (NEPA) review process, and established a monitoring team. The program continues to work on ways to streamline the review process.

Q2. Please update the committee on the progress you have made in obligating DOE Loan Guarantee funds in both project and dollar figures for approved loans.

A2. As of September 7, 2010, the Loan Guarantee Program has closed four loan guarantees totaling approximately $794 million and issued conditional commitments for ten additional projects totaling approximately $14.0 billion in loan guarantees.

Q3. While the Department of Energy is the primary lead for these projects, OMB has exerted significant management authority of the program. What are the OMB's roles and responsibilities in reviewing, and approving loan guarantee applications?

A3. Under the Federal Credit Reform Act of 1990 (Sec. 503), the Director of OMB is responsible for determining credit subsidy cost estimates. Under this authority, OMB delegates responsibility for the modeling to agencies, and reviews and must approve subsidy cost estimates for all loan and loan guarantee programs. OMB works closely with agencies to state accurately the costs of Federal credit programs. Accordingly, OMB reviews and must approve the credit subsidy cost estimates generated by the Department for the Title XVII program.

Q5. Are OMB's activities operational or consultative?

A5. OMB has statutory oversight for credit subsidy cost per the Federal Credit Reform Act of 1990, as amended. OMB reviews and must approve the credit subsidy cost computation generated by DOE, and works closely with DOE in the course of the approval process.

Q6. What is the statutory authority basis for OMB's role in reviewing and approving these applications?

A6. Section 503 of the Federal Credit Reform Act of 1990 states that the Director of OMB is responsible for determining credit subsidy estimates, in consultation with the agencies, to state accurately the costs of Federal credit programs. OMB has delegated the responsibility for generating costs to the agencies under this authority, and reviews and approves agency cost estimates for all Federal credit programs.

Q7. Does OMB or the Department of Energy have established bench marks to complete the loan approval process? Does OMB take into consideration the timeline by which an applicant can start construction?

A7. Since each transaction is unique, there are not benchmarks per se for the completion of the approval process. DOE must ensure each loan guarantee meets all statutory and regulatory requirements including, but not limited to, determining that each project has a reasonable prospect of repayment. Projects seeking loan guarantees under Title XVII are typically large, complex transactions which necessarily require time for DOE to analyze and underwrite. Similarly, the complexity of each transaction is a primary factor in the transactions timeline and approval process. In addition, once a borrower is offered a conditional commitment, there are often conditions which an applicant must meet before final loan documents can be completed and the loan "closed".

That said, the process of evaluation does take project timelines into consideration, and the OMB review is the final step. DOE briefs OMB on project timelines, and OMB's review has often included queries about applicants' ability to meet timelines to ensure key milestones are met, e.g. eligibility deadlines for grants, tax credits, equity contributions, construction times etc., among other considerations, as these affect cash flows to and from the government.

Q8. Has the Department of Energy hired additional staff with the expertise to perform these activities and what role has OMB had in conducting the same review?

A8. DOE has hired a significant number of additional contractor support and federal staff including legal, engineering, financial, and market analysts all with relevant experience. Section 503 of the Federal Credit Reform Act of 1990 states that the Director of OMB is responsible for credit subsidy estimates, in consultation with the agencies, to state accurately the costs of Federal credit programs. OMB has worked with DOE to develop the credit subsidy estimation methodology used for the Title XVII and approved DOE's credit subsidy cost model in 2009. OMB's role in this process is consistent with the agency's role in all Federal credit programs. In addition, OMB plays its usual role in reviewing whether agency actions are consistent with relevant laws and Administration policies.

Q9. To what degree does DOE review domestic content capacity for these proposed Loan Guarantee approvals?

A9. In regard to its financial and technical review process, the Program does not give preference to projects that have more domestic content than other projects; it does, however, strongly encourage domestic sourcing of components where commercially and technically feasible.

Q10. One of the projects currently under review by DOE is a large project in Southwestern Arizona proposed by First Solar called Agua Caliente Solar Project. It is my understanding that this project, if approved, would allow First Solar to continue operations at their plant in Northwestern Ohio. Approving projects which have the potential for domestic sourcing should remain a priority for the administration. For the projects currently in the DOE loan guarantee pipeline either approved or pending, what can the administration tell us about the ripple effect on job creation or retention?

A10. As part of the review process for Recovery Act projects, the Loan Guarantee Program considers the number of jobs that a proposed project estimates it will create. While this specific applicant, First Solar, has a solar panel manufacturing plant in Northwestern Ohio, the company has six additional factories worldwide. The applicant anticipates that the panels for this project will come from a combination of these facilities.

Q11. Specifically for Agua Caliente Solar Project, has DOE conducted any analysis of the number of jobs that this project would create/retain at the First Solar manufacturing facility in NW Ohio?

A11. The Loan Guarantee Program considers the number of direct jobs that a proposed project estimates it will create at the site, not the number of jobs that result from the manufacturing of components that are used at the site.

[Whereupon, at 5:25 p.m., the committee was adjourned.]