REMOVING THE BARRIERS TO FREE ENTERPRISE AND ECONOMIC GROWTH

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, JUNE 1, 2012

Serial No. 112–27

Printed for the use of the Committee on the Budget

Available on the Internet:
www.gpo.gov/fdsys/browse/committee.action?chamber=house&committee=budget

U.S. GOVERNMENT PRINTING OFFICE

74–370 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON THE BUDGET

PAUL RYAN, Wisconsin, *Chairman*

SCOTT GARRETT, New Jersey
MICHAEL K. SIMPSON, Idaho
JOHN CAMPBELL, California
KEN CALVERT, California
W. TODD AKIN, Missouri
TOM COLE, Oklahoma
TOM PRICE, Georgia
TOM MCCLINTOCK, California
JASON CHAFFETZ, Utah
MARLIN A. STUTZMAN, Indiana
JAMES LANKFORD, Oklahoma
DIANE BLACK, Tennessee
REID J. RIBBLE, Wisconsin
BILL FLORES, Texas
MICK MULVANEY, South Carolina
TIM HUELSKAMP, Kansas
TODD C. YOUNG, Indiana
JUSTIN AMASH, Michigan
TODD ROKITA, Indiana
FRANK C. GUINTA, New Hampshire
ROB WOODALL, Georgia

CHRIS VAN HOLLEN, Maryland,
Ranking Minority Member
ALLYSON Y. SCHWARTZ, Pennsylvania
MARCY KAPTUR, Ohio
LLOYD DOGGETT, Texas
EARL BLUMENAUER, Oregon
BETTY MCCOLLUM, Minnesota
JOHN A. YARMUTH, Kentucky
BILL PASCRELL, JR., New Jersey
MICHAEL M. HONDA, California
TIM RYAN, Ohio
DEBBIE WASSERMAN SCHULTZ, Florida
GWEN MOORE, Wisconsin
KATHY CASTOR, Florida
HEATH SHULER, North Carolina
KAREN BASS, California
SUZANNE BONAMICI, Oregon

PROFESSIONAL STAFF

AUSTIN SMYTHE, *Staff Director*
THOMAS S. KAHN, *Minority Staff Director*

CONTENTS

REMOVING THE BARRIERS TO FREE ENTERPRISE AND ECONOMIC GROWTH

FRIDAY, JUNE 1, 2012

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

The committee met, pursuant to call, at 9:00 a.m. in room 210, Cannon House Office Building, Hon. Paul Ryan [chairman of the committee] presiding.

Present: Representatives Ryan of Wisconsin, Garrett, Cole, Price, Stutzman, Lankford, Black, Ribble, Mulvaney, Huelskamp, Amash, Rokita, Van Hollen, Kaptur, Doggett, Blumenauer, Yarmuth, Honda, Ryan of Ohio, Wasserman Schultz, Castor, Bass, and Bonamici.

Chairman RYAN. The committee will come to order.

I welcome all to the House Budget Committee for this hearing on one of the key threats posed to our free enterprise system, the growing cronyism in Washington and government-imposed barriers to upward mobility.

While we are dealing with tough economic times, Americans still live in the most prosperous and dynamic country in the world. Our free enterprise system has lifted millions from the grips of poverty, a record of success that is increasingly challenged by the corrosive influence of Washington's misguided policies.

Over the years, both political parties have pursued deficit-driven spending aimed at favored companies, tax carve-outs for the well connected, and regulatory barriers that stack the deck against the average citizen. This creates a rigged game where success is too often determined not by the quality of service or products that a business provides but by their relationships with those in power in Washington.

Both parties share in the blame. And I believe that both parties must work together to advance solutions to get us back on track. To that end, we passed a budget here in the House that lifts the debt and strengthens the safety net for those who need it and eliminates corporate welfare for those who don't need it. Our pro-growth tax reforms ensure a level playing field for all to prosper.

Regrettably, the President's policies take us in the wrong direction. He has called for higher hurdles and greater complexity in the Tax Code. He insists on wasteful spending on his political allies and regulatory monstrosities that protect the entrenched at the expense of the entrepreneur. We have seen the results of this type of government-centered society in Europe. Massive spending, high taxes, and corporate favoritism have burdened the continent with crushing debt loads and economies unable to grow. America is not destined to share this kind of future if we give our people the freedom to succeed and prosper.

Today's hearing is an effort to explore how we can advance reforms consistent with our timeless principles and match the magnitude of today's challenge. We can and we must restore America's exceptional promise, ensuring all citizens are guaranteed with the freedom to pursue their dreams and making certain that we leave the next generation with a stronger, more prosperous America.

I want to thank our three witnesses for joining us today. And I will get to the third part in a second here. First of all, we have former Governor Jeb Bush of Florida.

Thank you very much for traveling with us today. It is great to see you here with us, Governor, here today. You have been an outspoken advocate on restoring government's proper role so that all Americans, especially the least among us, have the opportunity to rise.

We also have Chris Edwards, director of tax policy studies at the Cato Institute. Chris has been a long time advocate for a fairer and simpler Tax Code and for his insightful criticism of the mess of subsidies and special interests favoritism that now pervades Washington spending and the Tax Code.

And then we will be joined with Henry Waxman. I talked to Henry on the floor last night. He has a previous engagement. He knows we are starting at 9:00, but he will show up hopefully by the time our opening statements and the two witnesses are done.

As we know, Henry is the ranking member of the Energy and Commerce Committee. He has been a strong leader for his party. And he is the minority's witness today. So when the two gentlemen are done, we will go with Henry, and hopefully he will be here by then.

And with that, I would like to yield to the ranking member, Mr. Van Hollen.

[The prepared statement of Chairman Paul Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, CHAIRMAN, COMMITTEE ON THE BUDGET

Welcome all to the House Budget Committee for this hearing on one of the key threats posed to our free enterprise system: the growing cronyism in Washington and government-imposed barriers to upward mobility.

While we're dealing with tough economic times, Americans still live in the most prosperous and dynamic country in the world.

Our free enterprise system has lifted millions from the grips of poverty—a record of success that is increasingly challenged by the corrosive influence of Washington's misguided policies.

Over the years, both parties have pursued deficit-driven spending aimed directly at favored companies, tax carve outs for the well-connected, and regulatory barriers that stack the deck against the average citizen.

This creates a rigged game where success is too often determined not by the quality of service or products a business provides but by their relationships to those in power in Washington.

Both parties share in the blame, I believe both parties must work together to advance solutions to get us back on track.

To that end, we passed a budget in the House that lifts the debt, strengthens the safety net for those who need it, and eliminates corporate welfare for those who don't.

Our pro-growth tax reforms ensure a level playing field for all to prosper.

Regrettably, the President's policies take us in the wrong direction. He has called for higher hurdles and greater complexity in the tax code.

He insists on wasteful spending on his political allies and regulatory monstrosities that protect the entrenched at the expense of the entrepreneur.

We've seen the results of this type of government-centered society in Europe. Massive spending, high taxes and corporate favoritism have burdened the continent with crushing debt loads and economies unable to grow.

America is not destined to this same kind of future if we give our people the freedom to succeed and prosper.

Today's hearing is an effort to explore how we can advance reforms consistent with our timeless principles and match the magnitude of today's challenges.

We can—and we must—restore America's exceptional promise: ensuring all citizens are guaranteed the freedom to pursue their dreams, and making certain we leave the next generation with a stronger, more prosperous America.

I want to thank our three witnesses for joining us today.

First of all, I want to thank former Governor Jeb Bush of Florida for traveling to be here with us today. You've been an outspoken advocate on restoring government's proper role so that all Americans—especially the least among us—have the opportunity to rise.

Chris Edwards is the Director of Tax Policy Studies at the Cato Institute. Chris has been a longtime advocate for a fairer and simpler tax code, and an insightful critic on the mess of subsidies and special interest favoritism in how Washington spends hard-earned taxpayer dollars.

And we welcome our colleague, Congressman Henry Waxman, the Ranking Member of the Energy & Commerce Committee. You've been a strong legislative leader for your party, and we appreciate your taking part in today's hearing.

Thank you all for joining us today, and we look forward to a thoughtful discussion.

With that, I yield to the Ranking Member, Mr. Van Hollen.

Mr. VAN HOLLEN. Well, thank you, Mr. Chairman.

I want to join the chairman in welcoming our witnesses here today.

And let me start from a place we all agree. We all love America. We all believe America is a unique and special place. We all believe in American exceptionalism.

The question is, how do we keep America strong, dynamic, and exceptional? On that, we clearly have different views and would make different choices. We believe that our strength springs not only from the undisputed benefits of a free people pursuing their ambitions and dreams but also from sometimes harnessing those talents for important national purposes.

We believe that America's greatness has resulted not only from a collection of individuals acting alone for private profit but also from our capacity to work together as Americans for the common good.

We believe in constantly expanding the circle of opportunity so all Americans have the chance to prosper.

And Mr. Chairman, I must confess, and, Governor Bush, I must confess, I am a little surprised that you decided to be here today to criticize the efforts made over the last 3 years to lift the economy out of the mess that President Obama inherited.

For 8 years, the President Bush pursued a failed ideology of trickle-down economics based on the theory that tax cuts for the very wealthy and an anything goes license on Wall Street would boost our economy and lift all boats. Well, it lifted the yachts, but the rest of the boats ran aground. The financial crisis hit, and the economy and jobs went into free fall. By the end of those 8 years, America experienced a net loss of private sector jobs.

In fact, when President Bush left office, we were losing jobs at the astounding rate of over 830,000 jobs a month. Americans' retirement savings collapsed by one third, trillions of dollars, between 2007 and the day President Bush left office. Our Nation's fiscal health saw the greatest reversal in American history, from large projected surpluses to large projected deficits.

Now, I have searched the record, and as far as I can tell during that 8-year period, you did not challenge the Bush administration's handling of the economy, criticize the excessive spending, or the rising deficits. And now, just looking at your testimony, I am looking forward to hearing it in full, you are here to tell us that government actions have prevented us from the kind of, quote, snap-back economic recovery that we have seen in other post-World War II recoveries.

Carmen Reinhart and Kenneth Rogoff, two very distinguished economists who are often cited by Chairman Ryan, have demonstrated that economies hit by systemic fiscal crises don't, quote, snap back within a year or two but take significantly longer to recover. After all, none of the other post-World War II recessions required the kind of extraordinary actions taken by their Federal Reserve, as well as the huge Wall Street bailout called for by President Bush with the signing of TARP to stabilize the financial system and prevent another Great Depression.

The TARP bill was, of course, a huge government intervention in the marketplace, called for by President Bush, supported by now-Speaker Boehner, now-Chairman Ryan, Governor Romney, then-Senator Obama, and many of us on a bipartisan basis as a distasteful but necessary action to prevent a total financial meltdown with devastating consequences for the economy.

But even with the rescue of the financial industry, Main Street America was feeling the economic pain as millions of Americans were losing their jobs. And we all know what the figures were, 839,000 jobs lost per month. As I say, the economy was headed down at a very rapidly collapsing rate of 8.9 percent negative GDP.

So when the President was sworn in, he was determined to take action to help those Americans being hit by the economic tsunami, and he believed that if we adopted President Bush's proposal for government action to rescue reckless banks who helped precipitate the crisis, surely we should be willing to take action to help millions of Americans thrown out of work through no fault of their own.

So President Obama and the earlier Congress passed the Economic Recovery Act, which the nonpartisan experts at the Congressional Budget Office concluded have created or saved up to 3 million jobs in 2010 alone.

The President also believed that if we had rescued the banks, surely we should prevent the U.S. auto industry from being wiped out, an action that saved millions of jobs. This was not about crony capitalism, as the chairman has suggested. It wasn't about doing special favors for well-connected friends. It was about ensuring that a critically important industry in this country had a reasonable opportunity to survive given the financial crisis going on around it.

Now, Governor Romney has famously suggested that we should have let Detroit go bankrupt, that the crisis should have been handled through the normal bankruptcy process.

Bob Lutz, a former General Motors vice chairman, who also happens to be a Republican, took umbrage with this and said, and I quote, "It is once again the fiction that, ah, we didn't need the government, and this could have been a privately run bankruptcy with the normal Chapter 11. What these people always deliberately forget is there was no money. Nobody had money."

And so when the chairman and others refer to this as crony capitalism, I think many of us take great offense. We also passed the Wall Street reform bill to make sure that never again would reckless gambling on Wall Street wreak havoc on Main Street and leave taxpayers holding the bill.

I will wrap up in a minute, Mr. Chairman.

I would just like to point out, Governor, that during that period of time, we weren't getting very much help from our Republican colleagues. Not a single Republican House Member voted for the recovery bill. Not a single one voted for the Wall Street reform bill. Senator McConnell, the Senate leader in the Senate, in a moment of candor, said, and I quote, "The single most important thing we want to achieve is for President Obama to be a one-term President," unquote.

So we have made progress on improving the economy and jobs. Are we where we want to be? Absolutely not. And today's job numbers show we need to make further progress. But let's learn the right lessons from what happened in the past, because if we diagnose the problem wrongly, then we will have the wrong prescription. And I do worry greatly about those that say the way forward is to adopt a souped-up version of many of the policies that got us into the mess to begin with.

So, as we go forward, I hope we will try to find a way together. And I will just close with where I began on the point of agreement, Mr. Chairman. If there is a government program that is not achieving its intended purpose, let's amend it or get rid of it. We agree. If there is a regulation that has outlived its usefulness, get rid of it. I hope we would adopt the same approach with respect to special interest tax breaks.

Chairman RYAN. Is the gentleman going to wrap up?

Mr. VAN HOLLEN. I am, Mr. Chairman. But let's again remember that we have made some progress, and we need to make more. Let's not misdiagnose the problem and learn the wrong results.

[The prepared statement of Chris Van Hollen follows:]

PREPARED STATEMENT OF HON. CHRIS VAN HOLLEN, RANKING MEMBER, COMMITTEE ON THE BUDGET

I want to join the Chairman in welcoming our witnesses here today, and let me start from a place where we all agree. We all love America; we all believe America is a unique and special place. We all believe in American exceptionalism. The question is: how do we keep America strong, dynamic, and exceptional? On that, we clearly have different views and would make different choices.

We believe that our strength springs not only from the undisputed benefits of a free people pursuing their ambitions and dreams, but also from sometimes harnessing those talents for important national purposes. We believe that America's greatness is not only from a collection of individuals acting alone for private profit, but also from our capacity to work together as Americans for the common good. We believe in constantly expanding the circle of opportunity so all Americans have the chance to prosper.

And, Mr. Chairman, I must confess, and Governor Bush, I must confess, I'm a little surprised that you decided to be here today to criticize the efforts made over the last three years to lift the economy out of the mess that President Obama inherited. For eight years, President Bush pursued a failed ideology of trickle-down economics based on a theory that tax cuts for the very wealthy and an 'anything goes' license on Wall Street would boost our economy and lift all boats.

Well, it lifted the yachts but the rest of the boats ran aground. The financial crisis hit and the economy and jobs went into free fall. By the end of those eight years, America experienced a net loss of private sector jobs. In fact, when President Bush left office we were losing jobs at the astounding rate of over 830,000 jobs a month. Americans' retirement savings collapsed by one-third—trillions of dollars—between 2007 and the day President Bush left office. Our nation's fiscal health saw the greatest reversal in American history, from large projected surpluses to large projected deficits. I've searched the record and, as far as I can tell, during that eight-year period you did not challenge the Bush Administration's handling of the economy, or criticize the excessive spending or the rising deficits.

Now I was looking at your testimony—I'm looking forward to hearing it in full. You're here to tell us that government actions have prevented us from the kind of 'snap-back economic recovery that we have seen in other post World War II recoveries.' Carmen Reinhart and Kenneth Rogoff, two very distinguished economists who are often cited by Chairman Ryan, have demonstrated that economies hit by systemic fiscal crisis don't 'snap-back' within a year or two, but take significantly longer to recover. After all, none of the other post-World War II recessions required the kind of extraordinary actions taken by the Federal Reserve, as well as the huge Wall Street bailout called for by President Bush with the signing of TARP to stabilize the financial system and prevent another Great Depression.

The TARP bill was, of course, a huge government intervention in the marketplace called for by President Bush, supported by now-Speaker Boehner, now-Chairman Ryan, Governor Romney, then-Senator Obama, and many of us on a bipartisan basis as a distasteful but necessary action to prevent a total financial meltdown with devastating consequences for the economy. But even with the rescue of the financial industry, Main Street America was feeling the economic pain as millions of Americans were losing their jobs. And we all know what the figures were—839,000 jobs lost per month. As I say, the economy was headed down at a very rapidly collapsing rate of 8.9 percent negative GDP. So, when the President was sworn in, he was determined to take action to help those Americans being hit by the economic tsunami, and he believed that if we adopted President Bush's proposal for government action to rescue reckless banks who helped precipitate the crisis, surely we should be willing to take action to help millions of Americans thrown out of work through no fault of their own.

So President Obama and the Congress passed the economic Recovery Act, which the nonpartisan experts at the Congressional Budget Office concluded created or saved up to 3 million jobs in 2010 alone. The President also believed that if we had rescued the banks, surely we should prevent the U.S. auto industry from being wiped out, an action that saved more than one million jobs. This was not about crony capitalism, as the Chairman has suggested. It wasn't about doing special favors for well connected friends. It was about ensuring that a critically important industry in this country had a reasonable opportunity to survive given the financial crisis going on around it.

Now, Governor Romney has famously suggested that we should have let Detroit go bankrupt, that the crisis should have been handled through the normal bankruptcy process. Bob Lutz, former General Motors vice chairman, who also happens to be a Republican, took umbrage with this and said, and I quote, "It's once again the fiction that 'Ah, we didn't need the government and this could have been a privately run bankruptcy with the normal Chapter 11.'" What these people always deliberately forget is there was no money. Nobody had any money.' So when the Chairman and others refer to this as crony capitalism, I think many of us take great offense.

We also passed the Wall Street reform bill to make sure that never again would reckless gambling on Wall Street wreak havoc on Main Street and leave taxpayers holding the bill. I will wrap up in a minute, Mr. Chairman.

I would just like to point out, Governor, that during that period of time we weren't getting very much help from our Republican colleagues, not a single Republican House member voted for the Recovery bill, not a single one voted for the Wall Street reform bill. Senator McConnell, the [Republican] leader in the Senate, in a moment of candor said, and I quote, "the single most important thing we want to achieve is for President Obama to be a one-term President."

So, we have made progress on improving the economy and jobs. Are we where we want to be? Absolutely not. And today's jobs numbers show we need to make further progress. But let's learn the right lessons from what happened in the past, because if we diagnose the problem wrongly, then we'll have the wrong prescription. I do worry greatly about those who say the way forward is to adopt a suped-up version of many of the policies that got us in the mess to begin with.

As we go forward, I hope we will try to find a way together, and I'll just close with where I began on the point of agreement, Mr. Chairman. If there is a government program that's not achieving its intended purpose, let's amend it or get rid of it. We agree. If there's a regulation that's outlived its usefulness, get rid of it. I hope we would adopt the same approach with respect to special interests tax breaks. But, let's again remember: we've made some progress, and we need to make more, let's not misdiagnose the problem, and learn the wrong results.

Thank you, Mr. Chairman.

Chairman RYAN. I now know why the opening statement was so long. Mr. Waxman just arrived. Okay. I get it now.

Henry, Congressman Waxman, welcome. Please take your seat at the dais. We preannounced you already. Mr. Van Hollen was just explaining how excited he is that Governor Bush is here with us today.

We see things a little differently, I guess.

Mr. WAXMAN. You want to tell him how excited you are that I am here?

Chairman RYAN. Yeah, very excited. Very excited to have you. Some of us wanted to have brief opening statements so we could get to the opening statements and get to the questions of the members.

Why don't we go with Governor Bush, and then Mr. Edwards, and then Congressman Waxman.

STATEMENTS OF HON. JEB BUSH, PRESIDENT, BUSH AND ASSOCIATES, FORMER GOVERNOR OF FLORIDA; CHRIS EDWARDS, DIRECTOR OF TAX POLICY STUDIES, CATO INSTITUTE; AND HON. HENRY WAXMAN, RANKING MEMBER, COMMITTEE ON ENERGY AND COMMERCE

Chairman RYAN. Governor Bush, please, the floor is yours.

STATEMENT OF HON. JEB BUSH

Mr. BUSH. Chairman Ryan, Vice Chairman Garrett, Ranking Member Van Hollen, members of the committee, it is a joy to be to be here.

I didn't come to criticize anybody, just for the record. I came to share my views. I am not used to the 9 o'clock food fight that starts bright and early around in Washington. I am from Florida, where we don't start that way in life. But it is great to be here.

I am here to talk a little bit about what I think is an important subject, as we try to recover. The May job numbers were anemic at best. No one could be satisfied with that. We do have an L-shaped recovery, and it is the first since World War II, where we have not had a robust recovery. There is a cloud over our country I think that relates to this growing pessimism that we can't restore the vitality of our economy in a way that creates opportunities. More and more people are becoming more and more dependent upon government at every level because of it.

And I think it is important for this committee and for policymakers in Washington to reflect on that and to figure out how together, Republicans and Democrats, we can restore the right to rise in our country and restore a sense of optimism to begin to rebuild our country.

I don't question the intentions of people at all. I think there is a shared belief that we need to do better. The question is, how? And what do we need to do in this Chamber and State capitals to improve the outlook for job creation, business expansion, and overall prosperity should be the dominant question across our country. And I would urge you to look carefully at your primary responsibility, which is to manage the budgetary affairs of the United States Government. That is a good place to start.

At $3.8 trillion, the U.S. budget is a powerful force in the United States economy. Its sheer size means that entire industries, whether heavily regulated or not, operate in constant awareness of what you all do here. When you combine this budgetary power with the separate powers of taxation and regulation, the Federal Government wields significant influence over the economy, both directly and indirectly.

It is not an overstatement to say that right now, the United States economy operates significantly at the direction and behest of the United States Government, not the other way around. In many cases, the government's growing size and influence was made possible by good intentions and hopeful policy ideas. Behind every spending program, tax incentive, and regulation, there is an idea. It might in fact be a good idea. But those good ideas and the not so good ones add up. And the cost of everything you do here, every line item, every rule, every carve out, phase out, earmark, drains activity investment and creative effort out of the private sector of the economy.

That is why my best advice is for you to perform a fundamental cost-benefit reconsideration of many programs of the Federal Government and consider the unintended consequences of your actions, the cumulative effect of your actions. Here is one example. There are 49 different Federal job training programs in our country today. I wonder about that number. What do we as taxpayers get from 49 job training programs that 29 or 39 or six could accomplish? How do we know the people are choosing the right job training programs? How do we know that the right people are running those programs? Should all these programs be packaged and sent down to the States to allow the laboratories of democracies to work more effectively so that you could benchmark success and then develop a 21st century strategy as it relates to job training? Do these 49 job training programs operate with any sense that they could or should be closed if they fail? This is the daily worry of American businesses in our country. But these programs don't worry about being put out of business.

I also wonder whether Federal job training programs keep someone in the private sector from building a business around providing skills training, and whether that person might do a better job. In short, when you try to solve one problem, you may not only fail, but you may create several others.

Now, if you multiply that one example across the economy in multiple industries and multiple ways, it is not hard to see what will happen. And it has happened. So not only does the government grow bigger through every program, it also displaces the private economy, the innovators, the inventors, the people who risk their own savings on a business idea, the established businesses who could grow but don't. We see this in spending programs, and we see it in taxing programs as well.

Tax policies that advantage certain economic activities and are just another form, in my opinion, of government spending and subsidy. And while they grant to some companies and industries benefits, they also tend to disadvantage other companies and industries. This is a matter of fairness. Why should a company pay taxes to support government subsidies that go to one of their competitors? I understand there may be political support for specific industries and companies, but we know from recent experience that the government is not good at picking winners and losers in the economy. And fundamentally, it is not the job of government to pick winners and losers in the economy.

Again, I recognize why government tries to control the marketplace by sheer power and size. I recognize it is because—I have become clearer about this in my post-governorship life—because I see it in the private sector as well. There are countless examples of great companies who fail to move with the market simply because a smaller and another nimbler competitor arrives first with the winning solution. But in the private sector, when a big company is beaten to the punch it either gets lean fast and adapts, or it goes out of business. And we should remember that, by the way, that failure is part of the natural part of a competitive market. And when government tries to intervene to eliminate the possibilities of failure, they actually end up creating more of it, rather than to allow the more innovative approach to work.

The problem with government involvement in the economy is that it does not go through the same process of innovation, and sometimes failure, that exists. None of us will allow government to fail. What would occur in most private organizations and institutions, failure followed by defunding, simply doesn't happen here.

And I was delighted to hear Congressman Van Hollen's approach that maybe it should begin. And that is a place where I think there is huge common ground. If programs don't work, defund them and allow for others to come in their place or not exist at all.

I want to return to the rationale behind such a process. This is simply not about making government more efficient; this is about making government a smaller part of our economy. We have to resist the impulse to try to solve all of the country's problems from here in Washington, D.C. This impulse has only made government bigger, and the problems still remain. We have to ask ourselves whether the status quo, an expensive and unaffordable status quo, is the best way to address the problems that Congress has set itself up to solve. And I believe that there are many better approaches to that. And I thank the committee for its attention to these issues and look forward to answering your questions.

Chairman RYAN. Thank you.

[The prepared statement of Jeb Bush follows:]

PREPARED STATEMENT OF HON. JEB BUSH, PRESIDENT, BUSH AND ASSOCIATES, FORMER GOVERNOR, STATE OF FLORIDA

CHAIRMAN RYAN, VICE CHAIRMAN GARRETT AND RANKING MEMBER VAN HOLLEN, AND MEMBERS OF THE COMMITTEE: Thank you for the opportunity to participate in this hearing.

I want to thank the committee for its focus today on the state of our economy.

It is safe to say that the weak economy is the dominant concern for Americans today. Americans can see with their own eyes and in their own communities that the economy is not growing like it should be. We are nearly three years past the end of the recession, and yet few Americans believe we have recovered from it, nor has our economy begun to grow at a healthy and sustainable level.

The kind of snap-back we have seen in every previous post-war recovery simply has not happened. Many people who lost jobs in the last four years have not returned to the workforce—millions have given up trying altogether and have withdrawn from the labor market.

Business owners who retrenched and cut costs have been very slow to invest in the hopes of future growth. The housing market remains weak. Commercial real estate is still weak in many areas.

What's worse: There is a strong sense in the business community that the economy is stalling again, and growing well below its historic potential.

I recognize that the Members of this committee share a common awareness of the problems facing our economy. And you also share a common resolve to do your part to bring prosperity back to America.

The only question is how.

What do we need to do in these chambers, or in state capitols, to improve the outlook for job creation, business expansion and overall prosperity?

I would urge you to look carefully at your primary responsibility—to manage the budgetary affairs of the U.S. government—as the place to start.

At $3.8 trillion, the U.S. budget is a powerful force on the U.S. economy. Its sheer size means that entire industries—whether heavily regulated or not—operate in constant awareness of what you do here.

When you combine this budgetary power with the separate powers of taxation and regulation, the federal government wields significant influence over the economy, both directly and indirectly. It is not an overstatement to say that right now, the U.S. economy operates significantly at the direction and behest of the U.S. government, not the other way around.

I can think of no better example of this trend than the economic growth of the Washington D.C. area. The district and its surrounding area, is a picture of economic health and growth. Housing values within the Beltway have not fallen, as they have elsewhere.

There is a simple explanation for this: The near-constant growth of the main industry of this region—the federal government.

And while the growth of the federal government is healthy for this area, one has to ask at what cost it occurs? Every dollar spent in this area was taxed from somewhere else—or borrowed, and therefore not used on some other productive activity.

Let me be clear: I do not believe in a zero-sum economy. But I do believe that if the government gets bigger and more powerful, it largely does so at the expense of the rest of the economy, because government does not contribute to the economy the way the private sector does. A dollar spent on government services is not equivalent to a dollar of private sector investment.

Today's federal government did not emerge out of the blue three years ago. Far from it. But there is no doubt that the growth of the U.S. government, as a share of the U.S. economy, has risen sharply in the past three years. Even when the economy began to grow, the government's share was growing faster.

In many cases, the government's growing size and influence was made possible by good intentions and hopeful policy ideas. Behind every spending program and every tax incentive and every regulation is an idea. It might sound good. It might in fact be a good idea.

But those good ideas, as well as the not-so-good ones, add up. And the cost of everything you do here—every line item, every rule, every carve-out and phase-out and earmark—drains activity and investment and creative effort out of the private sector of the economy.

That is why my best advice to you is to perform a fundamental cost-benefit reconsideration of many programs in the federal budget. Please know that no matter your good intentions, the government creates unintended consequences when it acts.

What would a cost-benefit analysis show? I read recently of the 49 different federal job training programs—and that the number of such programs continues to grow.

I wonder about that number. What do we, as taxpayers, get from 49 job training programs that 39 or 29 or just 9 couldn't accomplish? I wonder as well about the people who need the job training. How do they know which one is right for them? And who runs these training programs—are they being measured on the success with which they get people retrained?

Do these 49 job-training programs operate with any sense that they could—and should—be closed if they fail? This is the daily worry of every business in America, but I would guess that not one of these programs ever worries that they will be put out of business by any of the other programs—or by their Congressional funders.

I wonder about what these job-training programs do, indirectly, to programs which are effective at providing focused skills training? Are we, by creating government programs, competing with those who actually do this work quite well in the private sector?

In this matter, the sheer size of Congressional ambition is one problem. But there are other problems, too. The complexity of the programs. The failure to see whether taxpayer money is well-spent. The likelihood is great that by setting up these programs, government may be keeping someone else from doing the work. Someone who might do the job better than the government can, build a business from it, hire employees, pay taxes on profits, and so on.

In short: When you try to solve one problem, you may not only fail—you may create several others.

Now if you multiply that one example across the economy, in multiple industries and multiple ways, it is not hard to see what will happen, and has happened.

The government, by growing in influence and extending itself into all corners of the economy, makes it less likely that enterprising business people will address social needs through some kind of business idea or business plan. So it's not only that the government grows bigger through every program. Through the power of taxation and regulation, it also displaces the private economy—the innovators and inventors, the people who risk their own savings on a business idea, the established businesses who could grow but don't.

The losses that follow are significant.

Someone recently asked a good question: What if the federal government tried to invent the mobile phone? What if Congress said: "People need to talk to each other and receive information while they are out and about, and we need to provide them that technology. So, let's fund a bunch of research, and get people the tool they need."

Well, you think, that didn't happen and wouldn't have happened. It sounds like an extreme example, but in reality, the federal government tries to invent solutions to people's problems all the time. Problems far more complex than mobile phone technology. Many well-meaning programs in the federal budget have this exact flaw: They try to accomplish through government fiat what would be better done by individuals and businesses who have a vested stake—through the profit motive—in achieving success.

We see this in spending programs, and we see it in taxing programs as well. Tax policies that advantage certain economic activities are usually just another form of government spending and subsidy. And while they grant an advantage to some companies and industries, they tend to disadvantage other companies and industries.

There is a simple question of fairness that I pose to this committee: Why should a company pay taxes to support government subsidies for one of its competitors?

I understand that there may be political support for specific industries and companies. But we know from recent experience that the government is not good at picking winners and losers in the economy. And fundamentally, it's not the job of government to pick winners and losers in the economy.

Again, I recognize why government tries to control the marketplace by sheer power and size. I recognize it because in my post-governorship life, I see it in the private sector as well.

Big businesses often struggle at innovation because they wrap innovation in a heavy veil of bureaucracy and groupthink. Good ideas bubble up from time to time, but it takes a special organization to recognize how to let it breathe, how to invest in its growth slowly, and how to let it struggle before demanding it return a profit. There are countless examples of great companies who fail to move with the market, simply because a smaller and more nimble competitor arrives first with the winning solution.

But in the private sector, when a big company is beaten to the punch, it either learns fast or gets smaller fast. That's just how it is. Big companies routinely fail because they don't adapt. And while we may bemoan the loss of capital and jobs that follows, we should remember that failure is a natural part of a competitive market.

Most successful business leaders experienced failure at some point in their careers. And there is little shame attached to the experience, provided one learns from it and improves after it.

The problem here is that the U.S. government will not fail. None of us will allow the government to fail.

Because the institutional bias within the U.S. government—especially the U.S. Congress—is not to punish policy failure, nothing is allowed to fail. What would occur in most private organizations and institutions—failure followed by defunding—simply doesn't happen here.

And so I urge this committee to look carefully at all proposals to zero out programs that do not achieve their goals. A simple expectation—one that should not be terribly controversial. But I realize this will be a new concept to many federal programs

I want to return to the rationale behind such a process. This is not simply about making government more efficient. Government efficiency and effectiveness is a worthwhile cause, and I applaud it.

I am speaking of a much more fundamental goal, which is to apply a constant break to the size of the government. To make the government a smaller part of the economy.

The impulse to do something here in Washington D.C., to resolve problems that exist in the country, is perfectly natural. But this impulse has only made government bigger, while the problems remain. We have to ask ourselves whether the status quo—an expensive and unaffordable status quo—is the best way to address the problems that the Congress has set for itself to solve.

I thank the Committee for its attention to these issues, and look forward to answering your questions.

Chairman RYAN. Mr. Edwards.

STATEMENT OF CHRIS EDWARDS

Mr. EDWARDS. Thank you very much, Chairman Ryan and Ranking Member Van Hollen, for inviting me to testify today. I am going to talk about corporate welfare, entrepreneurs, and economic growth. I am going to discuss four reasons why corporate welfare is bad, and then I am going to talk about the real solution to U.S. economic growth, which is unleashing entrepreneurship.

The first reason why corporate welfare is bad is that it costs money. We have trillion dollar deficits right now. We can't afford corporate welfare or business subsidies. I estimate that business subsidies are about $100 billion a year. That is a small part of the total budget, but it is a good place to start cutting.

The corporate welfare is unfair. The largest corporate welfare program is farm subsidies. Farm subsidies, in my view, they are like a reverse Robin Hood program. They take from average taxpayers and give to high-income farm households. Farm households have incomes on average 25 percent above the U.S. average. So farm subsidies and other business subsidies, in my view, are unfair. They take from average folks to give to higher-income folks.

Third, corporate welfare simply doesn't work. Well-meaning policymakers, they want to support businesses because they believe the subsidies will make them more competitive. I think subsidies backfire. For example, on energy subsidies, we have been subsidizing energy for four decades, and it has been boondoggle after boondoggle. Go all the way back to the 1970s. You had a giant project called the Clinch River Breeder Reactor, which was a Republican boondoggle in the 1970s. It ended up being a total failure, wasted billions of dollars. Then you had a Democratic boondoggle, the Synthetic Fuels Corporation, started under Jimmy Carter. Wasted billions of dollars of taxpayer money. It was a huge boondoggle. So this is a bipartisan problem.

Why doesn't corporate welfare work? Well, one, obviously, political pressures often undermine sound economic decision-making. And we saw that with Solyndra, of course. But more importantly, I think business subsidies change the behavior of businesses. Businesses, for example, become more spendthrift I think when they get subsidies. And you see that with Solyndra. Solyndra built this big fancy factory in a high-cost location in California. A lean competitive company would not have done that.

Another big problem is that subsidies induce companies to invest in extremely risky projects that often blow up. That is the story of Enron Corporation. Enron received $3.7 billion in subsidies during the 1990s from EX-IM, from OPIC, and many other Federal programs. That induced them to invest in all kinds of hare-brained foreign investment projects, such as a power plant in India. Enron would not have done all the risky foreign investing it did without the Federal subsidies. And all those foreign investment projects that Enron took part in came crashing down and helped pull down the company. So subsidies induce bad decision-making by businesses.

And finally, corporate welfare generates corruption, in my view. Federal business subsidies have always generated corruption. Go all the way back to the first transcontinental railroad in the United States. That generated a huge subsidy scandal in the 1870s. More recently, go to Ronald Reagan's Department of Housing and Urban Development. It overflowed with corruption, as the Secretary Sam Pierce at the time handed out business subsidies to his friends and Republican Party donors. Go to the 1990s. I believe President Clinton's Commerce Department under Secretary Ron Brown also overflowed with corruption. He handed out business subsidies in return for campaign contributions to the Democratic Party. So this is a bipartisan problem.

So corporate subsidies don't work. So what can we do to spur growth? We should unleash entrepreneurs. Most of America's economic growth historically has not come from government, and it hasn't come from big established companies. It has come from new businesses creating new industries. And you can go back and look, as I have, at American economic history. The electricity industry, internal combustion engines, automobiles, aircraft, electronics, plastics, cell phones, personal computers, biotechnology, those are all new industries created by upstart entrepreneurs, not by established businesses.

So helping getting out of the way of entrepreneurs I think is the most important thing we can do for the economy. I will give you a couple examples. The modern telecommunications revolution in large part is the result of MCI Corporation's battling during the 1970s to compete against the AT&T monopoly. Federal Express created a revolution in package delivery by battling against government regulations in the 1970s. So I think, you know, my policy recommendation, remove business subsidies, tear down barriers to entrepreneurs, and I think we will unleash more economic growth.

To give you a few quick examples, I think repealing farm subsidies would spur innovation in the agriculture industry, like it has in New Zealand. I think repealing the Postal Service monopoly would spur innovation in mail delivery, like is happening in Europe. Germany and the Netherlands have privatized their post offices. We need to go in that direction. Privatizing Amtrak, the air traffic control system as Canada has done. Those sorts of reforms I think would spur innovation. They would give entrepreneurs new industries to innovate in. We saw just last week the success of the SpaceX space flight up to the International Space Station. That is the example of, I believe, the awesome sort of job entrepreneurs can do if we give them some space.

And finally, tax reform is very important, as I know the chairman supports lowering tax rates and eliminating loopholes. We do need to lower the corporate tax rate and capital gains tax rate. It is very important for business investment and venture capital and angel investment. So I strongly support the chairman's approach to tax reform.

And that is about all my comments. And we have got all kinds of other policy proposals on Cato's Web site, *Downsizinggovernment.org.* Thank you.

Chairman RYAN. Thank you.

[The prepared statement of Chris Edwards follows:]

PREPARED STATEMENT OF CHRIS EDWARDS AND TAD DEHAVEN, CATO INSTITUTE

Mr. Chairman and members of the committee, thank you for the invitation to testify regarding corporate welfare, entrepreneurs, and economic growth. This testimony will address the problems caused by corporate welfare and discuss why spurring entrepreneurship is a better approach for generating economic growth.

Rising spending and huge deficits are pushing the nation toward an economic crisis. There is general agreement that policymakers need to find wasteful and damaging programs in the federal budget to terminate. One good place to find savings is spending on corporate welfare.

Some people claim that business subsidies are needed to help fix market failures in the economy. But corporate welfare is just as likely to create failures by misallocating resources and inducing businesses to spend time on lobbying rather than on making better products. Corporate welfare transfers wealth from average families to favored businesses, and it creates corrupting ties between government officials, politicians, and business leaders.

Policymakers are rightly concerned about the competitiveness of American businesses in the global economy. But the way to address that concern is not through subsidies, but through broad-based reforms such as permanent reductions to capital gains and corporate income tax rates.

THE TAXPAYER COST OF CORPORATE WELFARE

A forthcoming Cato Institute study finds that federal business subsidies total almost $100 billion annually.[1] That is a fairly broad measure of subsidies to small businesses, large corporations, and industry organizations. The subsidies are handed out from programs in many federal departments including Agriculture, Commerce, Energy, and Housing and Urban Development.

However, there is no precise measure of "corporate welfare." As part of the national income accounts, the Bureau of Economic Analysis calculates that the federal government handed out $57 billion in business subsidies in 2010.[2] A 1995 Congressional Budget Office Study put the total at $30 billion in spending subsidies for businesses at that time.[3]

Ending business subsidies would be one step toward reducing the federal deficit, but there would be other benefits as well. The following sections discuss the unfairness of corporate welfare, how it harms the economy and generates corruption, and why entrepreneur-led growth is a better alternative.

CORPORATE WELFARE IS UNFAIR

The Constitution empowers the federal government to take steps to ensure an open national economy. The Commerce Clause gives the government the authority to "regulate Commerce * * * among the several States," but the purpose was to remove barriers to trade, not to actively favor some businesses over other businesses and individuals.

People disagree on the meaning of "fairness," but surely it includes supporting the bedrock American value of equality under the law. The government's proper role should be that of a neutral referee in the economy facilitating the free exchange of goods and services. Yet corporate welfare advantages certain businesses at the expense of taxpayers, families, and other businesses, as some examples illustrate:

Farm Subsidies. Farm subsidies redistribute wealth from taxpayers to often well-off farm businesses and landowners. "Farm income stabilization" payments have recently fluctuated between about $13 billion and $33 billion annually.[4] This is a welfare hand-out like food stamps, yet it goes to higher-income households. In 2010, the average income of farm households was $84,400, or 25 percent above the $67,530 average of all U.S. households.[5] Moreover, the great bulk of farm subsidies go to the largest farms.[6]

Sugar Subsidies. The federal government also enriches certain businesses in an off-budget manner, as sugar subsidies illustrate. The government runs a Soviet-style system of price supports, quotas, and import barriers for sugar. The effect is to push up the domestic price of sugar to the benefit of U.S. sugar producers while imposing extra costs on consumers.[7] Artificially high sugar prices also hurt American businesses that use sugar, and numerous U.S. food companies have moved production to Canada and Mexico where sugar prices are lower.[8]

Economic Development. The government runs many so-called economic development programs that distribute corporate welfare. As one small example, the Community Development Block Grant program recently handed out $220,000 to a craft brewery in Michigan.[9] Meanwhile the Value Added Marketing program hands out money to selected wineries across the country.[10] These hand-outs are not fair to taxpayers or the breweries, wineries, and other businesses that don't receive such special favors.

Polls show that the public understands the unfairness of corporate welfare, and most people want it cut. Most people are against the federal government providing loan guarantees to small businesses; only 29 percent think that the government should help large corporations finance their export sales; and a plurality (46 percent) think farm subsidies should be abolished.[11] Polls have also found strong opposition to federal bailouts of financial institutions.[12]

CORPORATE WELFARE DISTORTS THE ECONOMY

Some policymakers think that subsidies are needed to help U.S. businesses compete in the world economy. But the more we subsidize businesses, the more we weaken the market's profit-and-loss signals, and the more we undermine America's traditions of entrepreneurship and gutsy risk-taking by the private sector.

People argue that business subsidies are needed to fix market imperfections. But subsidies usually don't work as intended, and they often distort markets rather than fixing them. Robert Novak once said that "the mind-set underlying corporate welfare is that of the central planner," and yet we know that central planning does not work.[13]

Consider the energy industry, which Republicans and Democrats have been manipulating with subsidies for decades. An early subsidy effort was the Clinch River Breeder Reactor, which was an experimental nuclear fission power plant in Oak Ridge, Tennessee in the 1970s. This Republican-backed boondoggle cost taxpayers $1.7 billion and produced absolutely nothing in return.[14]

Then we had the Synthetic Fuels Corporation (SFC) approved by President Jimmy Carter in 1980, who called it a "keystone" of U.S. energy policy. The government sank $2 billion of taxpayer money into this scheme that funded coal gasification and other technologies before it was closed down as a failure. The SFC suffered from appalling mismanagement, huge cost overruns on its projects, political cronyism, and pork barrel politics in dishing out funding.[15]

Both parties have backed dubious "clean coal" projects for decades. The GAO found that many of these projects have "experienced delays, cost overruns, bankruptcies, and performance problems."[16] In a review of federal fossil fuel research, the Congressional Budget Office concluded: "Federal programs have had a long history of funding fossil-fuel technologies that, although interesting technically, had little chance of commercial implementation. As a result, much of the federal spending has not been productive."[17]

With the poor record of energy subsidies over the decades, it is no surprise that the Obama administration is having trouble with its green energy activities. The administration's failures keep piling up—Solyndra, Raser Technologies, Ecotality, Nevada Geothermal, Beacon Power, First Solar, Abound Solar, and Beacon Power.[18] These subsidy recipients have either gone bankrupt or appear to be headed in that direction.

Why don't business subsidies work very well? One reason is that political pressures undermine sound economic choices. The Washington Post found that "Obama's green-technology program was infused with politics at every level."[19] The decision to approve the Solyndra loan, for example, appears to have been rushed along by high-level politics.

Perhaps more importantly, subsidies change the behavior of businesses. An economist recently quipped to me: "I don't know whether the government is better at picking winners rather than losers, but I do know that losers are good at picking governments." When the government starts handing out money, businesses with weak ideas get in line because the businesses with the good ideas can get private funding. Enron, for example, was able to grab huge federal support for its disastrous foreign investment schemes.

At recent House hearings on green energy subsidies, most witnesses lined up in favor of Department of Energy loan programs, except for one witness who heads a solar power firm that does not receive federal subsidies.[20] James Nelson of Solar3D said that subsidizing green energy commercialization "is a wasteful mistake because it doesn't work."[21] Here are some of the problems he pointed to:

- Firms that receive subsidies become spendthrift. Nelson contrasted his firm's lean operations with Solyndra's wasteful ways, which included building a fancy factory in a high-cost location. Nelson noted that the "most powerful driver in our industry is the relentless reduction in cost." Yet government intervention rarely works to drive down costs in any activity.
- Subsidies aren't driven by actual market demands. Nelson noted that U.S. adoption of solar energy lags behind several other nations. But he said, "this should not bother us if it means that the other countries are investing in technology that is not economically viable." In other words, if other countries are misallocating resources, that won't hurt us. The good news, he said, is that America is the leader in market-driven private venture capital for "clean tech."
- Subsidies distort business decisions. Nelson noted that "giving companies money to set up manufacturing in the U.S. may doom them to failure by financing them into a strategically uncompetitive position." In other words, if subsidies induce U.S. firms to put more production in the United States than is efficient, it will disadvantage them in the marketplace.
- Venture capitalists have already funded the best projects, leaving the dogs for the government. If venture capitalists "reject a project, it is difficult to believe that the government could do a better job of picking a winner," argues Nelson.

The House hearing included testimony from green energy firms that had received subsidies. Their comments revealed how subsidies were eroding their focus on the bottom line. The firms stressed how many jobs they were creating and how their supplier chains covered many states—and thus many congressional districts. One solar firm bragged that it is "creating and maintaining jobs locally and across the nation," while it is "procur(ing) from a supply chain that stretches across 17 states."[22] Another solar firm bragged that it "spent more than $1 billion with U.S. suppliers in 35 states."[23]

Subsidy supporters at the hearing stressed the "nonfinancial objectives" of green subsidies, such as jobs.[24] But as Nelson noted, "businesses are not made more successful by more jobs."[25] If businesses want to succeed in tough global competition, they need to minimize their labor and supplier costs, and subsidies erode that lean focus. Nelson concluded that success in the marketplace "requires brains, discipline, and grit. It is rarely aided, and often impeded by government involvement."[26]

Another problem with business subsidies is that they can encourage investing in very dubious projects. That is the story of Enron's international investments, which played an important role in the implosion of the firm. By one estimate, Enron received $2.4 billion in federal aid through the Export-Import Bank and the Overseas Private Investment Company between 1992 and 2000.[27] Another study puts total federal government subsidies to Enron for its foreign schemes at $3.7 billion, plus Enron received subsidies from international agencies such as the World Bank.[28] All these subsidies made possible Enron's excessively risky foreign investments, which came crashing down at the same time that the firm's accounting frauds were being revealed.[29]

Suppose that the government was capable of channeling subsidies only to well-managed companies with sensible ideas. Then the subsidies wouldn't be needed because they would simply crowd out private investment. That seems to be the case with much of the $7 billion in subsidies for rural broadband in the 2009 stimulus bill, as one detailed study in 2011 found.[30]

Or consider the Department of Energy's Advanced Technology Vehicles Manufacturing Loan Program, which provides subsidies to companies to develop green cars. A former executive with Tesla Motors, which received subsidies, concluded that "private fundraising is complicated by investor expectations of government support."[31] Subsidies distort the venture capital market, having "a stifling effect on innovation, as private capital chases fewer deals and companies that do not have government backing have a harder time attracting private capital."[32]

A final problem with corporate welfare is that it can create broader distortions in the economy. For more than a century, the federal Bureau of Reclamation has subsidized irrigation in the 17 western states. About four-fifths of the water supplied by the bureau goes to farm businesses, and this water is greatly underpriced.[33] Because farmers are receiving water at a fraction of the market price, they are overconsuming it, which threatens to create water shortages in many areas in the West. Subsidized irrigation also causes environmental damage.

CORPORATE WELFARE GENERATES CORRUPTION

The creation of corporate welfare programs has spawned an expanding web of lobby groups that demand ever more favors from policymakers. The more that the government intervenes in the economy, the more lobbying activity is generated, and the more new subsidy programs get created. It's a vicious cycle.

Corporate welfare doesn't just create direct economic harm, it also erodes support for America's free enterprise system. Businesses that become hooked on subsidies become tools of the state. They lose their independence, and they may focus more on gaining special benefits from Washington than on making good products. The more special breaks that businesses receive, the less willing they are to speak out against the expansion of big government.

While some people think that corporations lobby to slash government, they mainly do the opposite. Businesses often lobby in favor of federal intervention if it will benefit them and hurt their competitors. The major airlines, for example, were against airline deregulation in the 1970s because existing rules protected them from competition.[34]

Business subsidy programs attract corruption like garbage dumps attracts rats, and that has always been the case in Washington. For example, federal subsidies for the first transcontinental railroad, the Union Pacific, led to the Credit Mobilier scandal of the 1870s, which involved payoffs to dozens of members of Congress. In recent decades, scandals stemming from corporate welfare have been a bipartisan problem, as these examples illustrate:

HUD Subsidies under Reagan. President Ronald Reagan's Department of Housing and Urban Development overflowed with corruption in the 1980s under Secretary Sam Pierce.[35] Pierce routinely dished out grants, loans, and other sorts of subsidies to friends and business associates. And HUD created programs that involved large subsidies to mortgage lenders, developers, and other businesses, with Republican Party contributors as frequent beneficiaries.

Commerce Subsidies under Clinton. President Bill Clinton's Commerce Secretary, Ron Brown, used federal business subsidies as a fund-raising tool for the Democratic Party in the 1990s. Corporate executives who played the game were given access to export promotion trips and loans from OPIC.[36] In subsequent investigations, U.S. District Judge Royce Lamberth found that Commerce officials concealed and destroyed documents relating to the scandal, and he compared the officials to "con artists" and "scofflaws."[37]

Enron Subsidies under Clinton and Bush. Enron Corporation is a poster child for the harm of business subsidies, particularly with regard to its disastrous foreign investments. Enron lobbied government officials to expand export subsidy programs, and it received billions of dollars in aid for its foreign projects from the Ex-Im Bank, OPIC, the U.S. Trade and Development Agency, the U.S. Maritime Administration, the Commerce Department, and the U.S.-backed World Bank. As noted, Enron received about $3.7 billion in financing through federal government agencies.[38] These subsidies induced Enron to make exceptionally risky foreign investments, and the resulting losses were an important factor in the company's implosion.[39]

During the Clinton and early Bush administrations, high-level officials went to great lengths to aid Enron on an Indian power plant deal.[40] The Washington Post noted, "President Bush's National Security Council led a 'working group' with officials from various Cabinet agencies to resolve Enron's troubles over a power plant venture."[41] We saw similar high-level involvement in the failed Solyndra investment by the Obama administration. Top government officials should be spending their time on policies in the general interest of all Americans, not on helping individual companies earn higher profits.

Green Subsidies under Obama. The Washington Post found, "Obama's green-technology program was infused with politics at every level."[42] The $535 million loan guarantee for Solyndra, is a prime example. The DOE approved the loan after receiving pressure from White House officials to move ahead so that the vice president could announce it at a groundbreaking for the company's factory.[43] President Obama visited Solyndra and called the firm an "engine of economic growth" just months before it collapsed.[44]

President Obama's green energy programs illustrate how corporate welfare creates corrupting relationships between businesses and politicians. The Washington Post found that "$3.9 billion in federal [energy] grants and financing flowed to 21 companies backed by firms with connections to five Obama administration staffers and advisers."[45] It also noted that the "main players in the Solyndra saga were interconnected in many ways, as investors enjoyed access to the White House and the Energy Department."[46] According to the New York Times, Solyndra "spent nearly $1.8 million on Washington lobbyists, employing six firms with ties to members of Congress and officials of the Obama White House."[47]

American businesses, of course, have a right to lobby the federal government. But given that reality, Congress throws fuel onto the corruption fire by creating business subsidy programs. When subsidy money flows out the door from Washington to businesses at the same time that money flows back from businesses to Washington for lobbying, it's no surprise that we get influence-peddling. Corporate welfare undermines honest and transparent governance, and Americans are sick and tired of the inevitable scandals.

LONG-TERM GROWTH DEPENDS ON ENTREPRENEURS

Most of America's technological and industrial advances have come from innovative private businesses in competitive markets. Indeed, it is probably true that most of our long-term economic growth has come not from existing large corporations or governments, but from entrepreneurs creating new businesses and pioneering new industries. Such entrepreneurs have often had to overcome barriers put in place by dominant businesses and governments.

Economic historians Nathan Rosenberg and L.E. Birdzell found that "new enterprises, specializing in new technologies, were instrumental in the introduction of electricity, the internal-combustion engine, automobiles, aircraft, electronics, aluminum, petroleum, plastic materials, and many other advances."[48] We can update that list to include cell phones, personal computers, biotechnology, and all kinds of Internet businesses.

If policymakers want to get U.S. economic growth back on track, they should put entrepreneurs front-and-center in their thinking about policy. Here are some of the ways that entrepreneurs generate growth:

Entrepreneurs are Radical Innovators. Their advances are usually unexpected and disruptive to existing businesses.[49] Personal computers were pioneered in the 1970s by new companies such as Apple. The opportunity was missed both by leading computer firms and by government planning agencies such as Japan's MITI.[50] Big corporations were focused on mini and mainframe computers, while the U.S. government was subsidizing supercomputers. Governments and big companies often overlook niche products that later become revolutionary. In the 1970s, microcomputers were an obscure hobbyist activity, and software for microcomputers—which Bill Gates helped pioneer—was a niche within a niche. The small-scale innovations of entrepreneurs in niches often create huge, unforeseen changes.

Entrepreneurs Generate Competition. Another crucial role of entrepreneurs is that they challenge dominant firms and governments. One great story is the rise of MCI Corporation in the 1970s and 1980s. MCI helped destroy the AT&T monopoly, which paved the way for the modern telecommunications revolution. Another innovator was Fred Smith of Federal Express. Today we take overnight letter delivery for granted, but it was Smith who battled federal regulatory roadblocks in the 1970s and provided new competition for the U.S. Postal Service by proving that there was an untapped demand for rapid delivery.

Entrepreneurs Turn Inventions into Innovations. America's long-run growth is often portrayed as a steady process of accumulating new inventions. Many people seem to think that the government can simply pump money into research and the economy will grow. But that "science push" theory of growth is incorrect. Economies grow because of innovations, which are inventions that are packaged and tested in the marketplace by entrepreneurs.

The modern economy is steeped in uncertainty. No one can predict the future, not even the best scientists, engineers, and economists in big companies and the government. Many experts have made hugely off-base prognostications about the economy.[51] Two decades ago, many pundits and policymakers were convinced that Japan was taking over the global economy. Professor and pundit Robert Reich thought that "chronic entrepreneurialism" was undermining the U.S. economy. And past predictions about the computer industry have been laughable, such as this comment in 1977 by the founder of Digital Equipment Corporation: "There is no reason for any individual to have a computer in his home."

Luckily, expert predictions don't drive the economy. Rather, successful market economies work by having swarms of entrepreneurs freely testing new ideas. Entrepreneurs are the economy's guinea pigs. They have the guts to act in the face of uncertainty, and they learn from their mistakes and keep trying until they find ideas that work and generate profits.

By contrast, government plans to stimulate the economy are often based on ideologies and rigid ideas. Some policymakers believe that particular energy technologies are THE solution to America's problems, and they support ongoing subsidies year after year regardless of marketplace realities. By contrast, in competitive and unsubsidized markets, mistakes are usually quickly exposed and businesses cut their losses short and change direction.

It appears that the unexpected fall in solar panel prices helped to sink Solyndra. Perhaps businesses that are tethered to governments are slower to make the changes needed to survive. The government tends to work at a turtle's pace, which doesn't sync well with the fast-paced modern economy. We saw a comparison of the government turtle with the private-sector gazelle during the first sequencing of the human genome in the late 1990s. The government's lavishly funded Human Genome Project was a lengthy multi-year research project, but it was upstaged when entrepreneur Craig Venter launched Celera Genomics to complete the job at a fraction of the time and cost.

What are the policy lessons from America's great entrepreneurial history? One lesson is that because markets have high levels of uncertainty, government agencies and dominant companies cannot be relied upon to secure our economic future. Instead, we should remove hurdles to entrepreneurship every way we can—by tax reforms, by repealing barriers to entry into industries, and by reducing financial industry barriers to private risk financing.

While it has become fashionable to criticize Wall Street, the financial industry has been crucial to funding waves of innovation in the U.S. economy. Risk capital was integral to the railroad and telegraph booms of the 1800s, and the radio, electricity, and automobile booms of the early 20th century. J.P. Morgan Chase has garnered negative headlines in recent weeks, but J.P. Morgan was the company that provided seed capital for Thomas Edison's Edison Electric Illuminating Company, which became General Electric.[52]

In recent decades, high-yield bonds, venture capital, and angel investment have played key roles in growing new industries. Today, U.S. venture capital and angel investors pump more than $50 billion annually into young companies.[53] Tax policy influences investment flows, and funding for high-growth ventures is affected by the tax treatment of capital gains in particular. One step for policymakers would be to create investment certainty by permanently extending the 15 percent federal capital gains tax rate. Also, the corporate tax rate should be cut to spur greater capital investment—new capital equipment usually embodies technological advances.

Policymakers should put aside the idea that some sort of big intervention can permanently "win the race" for some particular goal, such as energy independence, solar power dominance, or beating China. In the recent House testimony, an energy consultant said, "clean energy has been targeted by our major international competitors (including China and Germany) as a critical, and perhaps the critical, future growth and export industry * * * whether the U.S. wins or loses in this race matters because the outcome will have a large impact on future U.S. employment and economic strength."[54] At the same hearing, a solar company executive said that America could "win in the long run" with a particular solar technology.[55]

However, those sorts of prognostications are refuted by U.S. economic history. There is never any final "win" in the marketplace. Look at how leadership in cell phones and smart phones has shifted from firm to firm and country to country, from Nokia, to RIM Blackberry, to Apple and others. Technologies and markets are always changing, so the only way for America to permanently "win" in the struggle for economic growth is to have the best climate for investing, innovating, and building entrepreneurial companies.

We've mainly focused on subsidies to new industries such as green energy. But withdrawing corporate welfare from older, established industries could spur innovation as well. Consider farm subsidies. New Zealand ended virtually all its farm subsidies in 1984, which was a bold stroke because that country is much more dependent on farming than is the United States. The changes were initially resisted, but New Zealand farm productivity, profitability, and output have soared since the reforms.[56] Faced with new financial realities, New Zealand's farmers innovated—they cut costs, diversified their land use, sought nonfarm income, and developed new markets.

Thus rather than looking for new ways to subsidize businesses, policymakers should be looking for places to withdraw subsidies and deregulate in order to spur innovation. For example, just as the break-up of the AT&T monopoly in the 1980s helped to generate growth in the telecommunications industry, ending the U.S. Postal Service monopoly today would spur innovation in that industry. Europe is moving in that direction, with Germany and the Netherlands already privatizing their postal systems.[57]

The transportation sector is another area where innovation could be spurred by the reduction of federal subsidies. For example, Amtrak is doomed to inefficiency as a government-run business pumped full of subsidies and shackled with regulations. It should be privatized.[58] Other countries are ahead of the United States in privatizing transportation infrastructure, or at least in bringing private investment into infrastructure.[59]

The United States subsidizes its air traffic control system, but it doesn't need to. Canada privatized its air traffic control system in 1996, and it operates as a self-funded nonprofit corporation. It has been a big success.[60] Another ripe area to cut subsidies and bring the private sector in is space flight. The recent success of the SpaceX flight and the 2004 success of SpaceShipOne indicate that the private sector is entirely capable of bold and risky technological ventures.

To sum up, the way to spur economic growth is not through business subsidies, but through breaking down barriers to entrepreneurs. Let's give entrepreneurs a crack at postal services, air traffic control, passenger trains, and other monopoly industries. Let's pursue tax and regulatory reforms to maximize the flow of financing to new and growing businesses. And let's stop demonizing entrepreneurs who succeed and the financial system that allows them to grow. If we want to exorcize some demons, we should end the corporate welfare system that is corrupting our government and the American economy.

Thank you for holding these important hearings.

ENDNOTES

[1] Tad DeHaven, "Corporate Welfare in the Federal Budget," Cato Institute, forthcoming.

[2] Bureau of Economic Analysis, National Income and Product Accounts, Table 3.13.

[3] Congressional Budget Office, "Federal Financial Support of Business," July 1995.

[4] Budget of the United States Government, Fiscal Year 2013, Historical Tables (Washington: Government Printing Office, 2012), Table 3.2.

[5] Farm average income from *www.ers.usda.gov/Briefing/WellBeing/farmhouseincome.htm.* U.S. average income from Table A-2 in *www.census.gov/prod/2011pubs/p60-239.pdf.*

[6] Environmental Working Group, 2011 Farm Subsidy Database, *http://farm.ewg.org.*

[7] Chris Edwards, "The Sugar Racket," Cato Institute, June 2007.

[8] *www.downsizinggovernment.org/agriculture/regulations-and-trade-barriers.*

[9] David T. Young, "Bell's Brewery Wins Federal Grant to Help Pay for Expansion, Kalamazoo Gazette, April 5, 2011.

[10] *www.downsizinggovernment.org/turning-taxpayer-money-wine.*

[11] Rasmussen Reports, "58% Want to End Small Business Administration Loan Guarantees," August 16, 2011. And see Rasmussen Reports, "Voters See These 'Corporate Welfare' Programs as a Good Place to Cut Government Spending," August 16, 2011.

[12] Pew Research Center, "Possible Negatives For Candidates: Vote For Bank Bailout, Palin Support," October 6, 2010.

[13] Quoted in Timothy P. Carney, The Big Ripoff (New Jersey: John Wiley and Sons, 2006), p. x.

[14] *www.downsizinggovernment.org/energy/subsidies.*

[15] *www.downsizinggovernment.org/energy/subsidies.*

[16] Government Accountability Office, "Fossil Fuel R&D: Lessons Learned in the Clean Coal Technology Program," GAO-01-854T, June 12, 2001, p. 2.

[17] Congressional Budget Office, "Budget Options," March 2003, p. 60.

[18] Marc A. Thiessen, "Obama's Equity Problem," Washington Post, May 27, 2012.

[19] Joe Stephens and Carol D. Leonnig, "Solyndra: Politics Infused Obama Energy Programs," Washington Post, December 25, 2011.

[20] House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, hearing on "The Obama Administration's Green Energy Gamble," May 16, 2012.

[21] James Nelson, Solar3D, testimony to the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, May 16, 2012. Nelson was not against federal funding of basic energy research, but rather against subsidies to businesses for commercialization.

[22] John Woolard, Brightsource Energy, testimony to the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, May 16, 2012.

[23] Michael Ahearn, First Solar, testimony to the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, May 16, 2012.

[24] Gregory Kats, Capital E, testimony to the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, May 16, 2012.

[25] James Nelson, Solar3D, testimony to the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, May 16, 2012.

[26] James Nelson, Solar3D, testimony to the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, May 16, 2012.

[27] Dana Milbank and Paul Blustein, "White House Aided Enron in Dispute," Washington Post, January 19, 2002.

[28] Jim Vallette and Daphne Wysham, "Enron's Pawns," Institute for Policy Studies, March 22, 2002, p. 4.

[29] Timothy P. Carney, The Big Ripoff (New Jersey: John Wiley and Sons, 2006), p. 209.

[30] Jeffrey A. Eisenach and Kevin W. Caves, "Evaluating the Cost-Effectiveness of RUS Broadband Subsidies: Three Case Studies," Navigant Economics, April 13, 2011, p. 6.

[31] Darryl Siry, "In Role as Kingmaker, the Energy Department Stifles Innovation," Wired, December 1, 2009.

[32] Darryl Siry, "In Role as Kingmaker, the Energy Department Stifles Innovation," Wired, December 1, 2009.

[33] *www.downsizinggovernment.org/interior/cutting-bureau-reclamation.*

[34] Timothy P. Carney, The Big Ripoff (New Jersey: John Wiley and Sons, 2006), pp. 4, 111-118.

[35] *www.downsizinggovernment.org/hud/scandals.*

[36] For example, see Bob Hohler, "Trade-Trip Firms Netted $5.5b in Aid; Donated $2.3m to Democrats," Boston Globe, March 30, 1997.

[37] Bill Miller, "Judge Assails Shredding in Commerce Case," Washington Post, December 23, 1998, p. A4. And see Neil A. Lewis, "After Judge's Rebuke, Commerce Secretary Widens Inquiry Into Mishandling of Papers," New York Times, January 3, 1999.

[38] Jim Vallette and Daphne Wysham, "Enron's Pawns," Institute For Policy Studies, March 22, 2002, p. 4. And see Timothy P. Carney, The Big Ripoff (New Jersey: John Wiley and Sons, 2006).

[39] Timothy P. Carney, The Big Ripoff (New Jersey: John Wiley and Sons, 2006), p. 209.

[40] Dana Milbank and Paul Blustein, "White House Aided Enron in Dispute," Washington Post, January 19, 2002. And see Timothy P. Carney, The Big Ripoff (New Jersey: John Wiley and Sons, 2006), pp. 211, 212.

[41] Dana Milbank and Paul Blustein, "White House Aided Enron in Dispute," Washington Post, January 19, 2002. And see Timothy P. Carney, The Big Ripoff (New Jersey: John Wiley and Sons, 2006), pp. 211, 212.

[42] Joe Stephens and Carol D. Leonnig, "Solyndra: Politics Infused Obama Energy Programs," Washington Post, December 25, 2011.

[43] Joe Stephens and Carol D. Leonnig, "Solyndra Loan: White House Pressed on Review of Solar Company Now Under Investigation," Washington Post, September 13, 2011.

[44] Carol D. Leonnig and Joe Stephens, "Obama Was Advised Against Visiting Solyndra after Financial Warnings," Washington Post, October 3, 2011.

[45] Carol D. Leonnig and Joe Stephens, "Federal Funds Flow to Clean-Energy Firms with Obama Administration Ties," Washington Post, February 14, 2012.

[46] "Greenlighting Solyndra," Washington Post, December 22, 2011, *www.washingtonpost.com/wp-srv/special/politics/solyndra-key-players.*

[47] Eric Lipton and John M. Broder, "In Rush to Assist a Solar Company, U.S. Missed Signs," New York Times, September 22, 2011.

[48] Nathan Rosenberg and L.E. Birdzell, Jr., How the West Grew Rich (New York: Basic Books, 1986), p. 277.

[49] See the work of Clayton Christensen, *www.claytonchristensen.com.*

[50] Nathan Rosenberg and L.E. Birdzell, Jr., How the West Grew Rich (New York: Basic Books, 1986).

[51] These and other off-base predictions are discussed in Chris Edwards, "Entrepreneurs Creating the New Economy," Joint Economic Committee, November 2000.

[52] "M&A Century: Same as It Ever Was," Wall Street Journal, December 31, 1999.

[53] Angel investment is currently about $20 billion a year and venture investment is about $30 billion. See Jeffrey Sohl, "The Angel Investment Market in 2011," University of New Hampshire, Center for Venture Research, April 3, 2112. The venture capital figure is from the National Venture Capital Association at *www.nvca.org.*

[54] Gregory Kats, Capital E, testimony to the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, May 16, 2012.

[55] Craig Witsoe, Abound Solar, testimony to the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, May 16, 2012.

[56] Vaudine England, "Shorn of Subsidies, New Zealand Farmers Thrive," International Herald Tribune, July 2, 2005.

[57] *www.downsizinggovernment.org/usps.*

[58] *www.downsizinggovernment.org/transportation/amtrak/privatize.*

[59] Chris Edwards, "Federal Infrastructure Investment," testimony to the Joint Economic Committee, November 16, 2011.

[60] *www.downsizinggovernment.org/transportation/airports-atc.*

Chairman RYAN. Congressman Waxman.

STATEMENT OF HON. HENRY WAXMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. WAXMAN. Thank you very much, Mr. Chairman, Mr. Van Hollen, members of the Budget Committee. I am honored to be among you to discuss this very important issue, which goes to the very question of, what is the role of government? What is the appropriate way for a capitalist economy to succeed, because all three of us believe in the capitalist market economy? But how do we get that economy to function best and how do we deal with the market failures and the inequities which have left us with a very stark contrast between the people who have a lot and the many who have very little, as well as the middle class, which is getting very squeezed?

We have I think a different sense about the vision for America. Republicans will argue that government regulations are bad for the economy, and public investments harm free enterprise. Democrats have a more optimistic vision. We believe that the economy works best when the government establishes the rules of the road, adopting sensible standards, protecting the middle class, promoting competition, and preventing corporate abuses.

We believe that public investments in our country's future will pay off. We believe that educating tomorrow's workers, supporting entrepreneurs, new industries will grow our economy faster and better. And we think history has proved our side of the case. Our vision is the right one for America.

House Republicans seem to want to return to an America that pre-dated the New Deal, the Fair Deal, the Great Society, really a period of time when the robber barons ran this country. The legislation that the Republican-controlled House has passed would bring back a world where there are no restraints on Wall Street banks and others enriching themselves at the expense of everyone else. We tried that.

In the 1930s, the absence of government regulation and fair rules for competition brought us the Great Depression. And in 2008, the same theory of government brought us the great recession. It isn't government regulation that caused our economic woes. I chaired hearings in 2008, when I was chairman of the Oversight Committee, on the collapse on Wall Street. And what we found was the absence of cops on the beat.

The heartbreaking unemployment hurting America's families stems from a philosophy that Wall Street banks should be allowed to operate free from regulation, even if that means jeopardizing our economic future for their profits.

Americans cherish clean air, clean water, safe food, protections of the environment and their health. But Republicans in the House have voted again and again with the oil companies and corporate polluters. This is the most anti-environment House in the history of this country. Last year, I asked my staff to start tracking anti-environmental votes on the House floor. And to date, the Republican-controlled House has voted over 200 times to weaken and eliminate protections for human health and the environment. The House voted to repeal the health-based standards that are part, in fact they are the heart of the Clean Air Act, with no hearings and just 10 minutes of debate.

When it comes to health issues, the House is stunningly anti-health. Not only do we see proposals to cut back on preventive care and opposition to the Affordable Care Act, which would provide 30 million Americans with health insurance, the Republican budget adopted by the House slashes Medicaid by over a trillion dollars. It ends the guarantee for Medicare benefits for seniors and individuals with disabilities and instead gives them a voucher and tells them to go shop in a broken health insurance market.

The priorities reflected in the House budget are wrong. That budget would make seniors pay more for their Medicare. At the same time, they would preserve tax loopholes for oil companies and then at the same time lower taxes for millionaires and billionaires. Corporate subsidies are not just government expenditures; they are government expenditures through the Tax Code as well. And we see a lot of that going on. So I find myself on common ground with some of what Mr. Edwards had to say.

Ninety-eight percent of the Republican Members of the Congress have pledged to oppose any increase of tax rates and any reduction of tax loopholes to reduce the deficit. No wonder the wealthiest continue to grow wealthier, as the middle class struggles just to get by. And no wonder we are facing a fiscal crisis.

One especially clear embodiment of the misplaced priorities of House Republicans is their hostility to clean energy. The International Energy Agency says that trillions of dollars are going to be invested in new energy infrastructure over the next 20 years. Our economic growth and our national security will be determined by whether we succeed in building these new clean energy industries for the future. Yet House Republicans want to defund investments in wind, solar, and other forms of clean energy. Their budget protects the billions of dollars in subsidies that the oil industry receives, a well established, very profitable industry, which will crush competition if the government doesn't stand up to allow these new enterprises to take their place.

The House Republican position is based on science denial. If you deny the existence of climate change, an overwhelming Republican majority denies that science, the urgent need for investment in clean energy may not be apparent. But if you live in reality, you know the world cannot continue its dependence on fossil fuels. And you know that without government involvement, we are in danger of losing the booming clean energy industry and millions of jobs to competitors, such as China and Germany.

Well, we can outcompete China; we can grow a stronger and better America with jobs and opportunities for everyone who work hard and play by the rules. But to do so we have to reject the defeatist, anti-science, anti-progress, anti-jobs view of those who oppose investments in clean energy, who want to preserve tax breaks for the wealthiest at the expense of the middle class, who want to slash the safety net and end Medicare's guarantee.

This is an important hearing, Mr. Chairman. Democrats and Republicans hold starkly different views about the role of government, and I welcome this opportunity to discuss these differences with you today. Thank you.

[The prepared statement of Henry Waxman follows:]

PREPARED STATEMENT OF HON. HENRY A. WAXMAN, RANKING MEMBER, COMMITTEE ON ENERGY AND COMMERCE

Today's hearing will contrast two different visions of America. The Republicans will argue that government regulations are bad for the economy and that public investments harm free enterprise.

Democrats have a more optimistic vision. We believe that the economy works best when the government establishes the rules of the road, adopting sensible standards that protect the middle class, promote competition, and prevent corporate abuses. We believe that public investments in our country's future pay off. We believe that educating tomorrow's workers and supporting entrepreneurs and new industries will grow our economy faster and better.

And we think history has repeatedly proven our vision is the right one for America.

House Republicans seem to want to return America to the era of the robber barons. The legislation that the Republican-controlled House has passed would bring back a world where there are no restraints on Wall Street banks enriching themselves at the expense of everyone else.

We tried that. In the 1930s, the absence of government regulation and fair rules for competition brought us the Great Depression.

And in the 2008, the same theory of government brought us the Great Recession.

It isn't government regulation that caused our economic woes. As hearings I chaired in 2008 demonstrated, the collapse on Wall Street was caused the absence of cops on the beat. The heartbreaking unemployment hurting American families today stems from the Republican philosophy that Wall Street banks should be allowed to operate free from regulation, even if that means jeopardizing our economic future for their profits.

Americans cherish clean air and clean water, but Republicans in the House have voted again and again with oil companies and other corporate polluters. This is the most anti-environment House in the history of Congress. Last year, I asked my staff to start tracking anti-environmental votes on the House floor. To date, this Republican-controlled House has voted over 200 times to weaken and eliminate protections for human health and the environment. The House voted to repeal the health-based standards that are the heart of the Clean Air Act with no hearings and just ten minutes of debate.

This House is also stunningly anti-health. The Republican budget that this Committee adopted slashes Medicaid by over $1 trillion. It ends the guarantee of Medicare for seniors and individuals with disabilities and instead gives them a voucher to shop in a broken health insurance market.

The priorities reflected in the Republican budget are wrong. The Republican budget would make seniors pay more for Medicare to preserve tax loopholes for oil companies and lower taxes on millionaires and billionaires. Ninety-eight percent of the Republican members of Congress have pledged to oppose any increase of tax rates and any reduction of tax loopholes to reduce the deficit. No wonder the wealthiest continue to grow wealthier as the middle class struggles just to get by. And no wonder we are facing a fiscal crisis.

One especially clear embodiment of the misplaced priorities of House Republicans is their hostility to clean energy. The International Energy Agency says that trillions of dollars will be invested in new energy infrastructure over the next 20 years. Our economic growth and our national security will be determined by whether we succeed in building these new clean energy industries of the future.

Yet House Republicans want to defund investments in wind, solar, and other forms of clean energy. Their budget protects the billions of dollars in subsidies the oil industry receives every year but slashes the programs that fledgling clean energy companies need to grow.

The House Republican position is based on science denial. If you deny the existence of climate change—as the overwhelming majority of House Republicans do—the urgent need for investment in clean energy may not be apparent.

But if you live in reality, you know the world cannot continue its dependence on fossil fuels. And you know that without government involvement, we are in danger of losing the booming clean energy industry—and millions of jobs—to competitors such as China.

We can out-compete China. We can grow a stronger and better America, with jobs and opportunities for everyone who works hard and plays by the rules. But to do so, we have to reject the defeatist, anti-science, anti-progress, anti-jobs views of those who oppose investments in clean energy * * * who want to preserve tax breaks for the wealthiest at the expense of the middle class * * * and who want to slash the safety net and end Medicare's guarantee.

This is an important hearing. Democrats and Republicans hold starkly different views about the role of government, and I welcome the opportunity to discuss these differences with you today.

Chairman RYAN. Thank you. So much for bipartisan comity on the issue, I guess.

Mr. WAXMAN. Are we not allowed to talk about our disagreements?

Chairman RYAN. It is perfectly fine.

Mr. WAXMAN. Is that class warfare?

Chairman RYAN. Let me get into some housework.

I ask unanimous consent that members have five legislative days to insert statements for the record.

Without objection.

[The statement of Ms. Castor follows:]

PREPARED STATEMENT OF HON. KATHY CASTOR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

I think we can all agree that we want a public education system that outperforms and outshines the rest of the world. In order for us to stay competitive in the global market, our young people need a high quality education. As I said before, Governor, we have a fundamental difference in how we go about doing that. Throwing money at for-profit companies that run charter schools does nothing but drain traditional public schools by diverting those tax dollars to private corporations. We need to effectively focus education dollars at all levels of government to improving the quality of education for our students.

Governor, you recently stated that charter schools and vouchers do not hand over the keys of public education to any one person or entity, but I would like to refer you to an editorial by the then St. Petersburg Times outlining the intake of millions of federal dollars by Charter Schools USA, one of the largest for-profit charter school management companies in Florida. Charter Schools USA is still very active in Florida and has pushed, along with your foundation, legislation in the state legislature to take funds and power away from public schools and give them to charter, private and virtual schools. The controversial "Parent Trigger" bill is just one example of many legislative attempts, supported by your foundation, to privatize public schools as charter for profit. This bill failed because Florida parents saw through the rhetoric and recognized that the ill-intentioned effort to privatize public schools. You say this bill was meant to empower parents but not a single Florida parent organization supported this legislation. Why is there a continued push on your part for legislation aimed at creating charter and private schools when parents are clearly opposed to those options for their children? Who really will benefit from this legislation? There was also an article by the Miami Herald that points out how charter schools in Florida have become cash cows for private corporations with little public oversight. What is the oversight plan you have to ensure charter schools provide quality educational outcomes for our students?

As far as education reform in the classroom, I agree that online learning can serve as great supplement to face-to-face interaction in a traditional classroom setting. However, your efforts to completely replace the traditional classroom with virtual schools which would continue to drain public schools funds and funnel them to private corporations. These schools have no accountability as to their effectiveness in providing quality education. I would like to refer you to a report by The Center for Public Education, a research arm of the National School Boards Association, that outline a lack of outcomes and accountability that does little to suggest that "digital classrooms" serve as a better or comparable resource for learning than the traditional classroom. Virtual classrooms are not required to take the FCAT or even a national test to determine efficiency. Can you explain your support for programs that lack the same accountability standards that public schools have? Is there a plan to measure the effectiveness of both voucher programs and digital classrooms?

Governor, you served as the head of our state from 1999-2007. During that time, you served as a trustee of the State Board of Administration (SBA) that had oversight of the state pension plan and investments. Five months after you left the governor's mansion, you were hired as a consultant for Lehman Brothers. According to a Tampa Bay Times article, which I would ask request be inserted in the record, Lehman has been an active participant over the years in managing public investments and brokering and underwriting bond deals in Florida and because of this, Florida lost a substantial amount of money when Lehman failed. Local governments, schools, and state retirees and employees lost millions because of a bad bet. I would like to detail your involvement in these bad debt sales. Governor Bush, how long have you had a relationship with Lehman? What was your role in advising the SBA while you were a trustee? Did it include counseling the SBA on deals with Lehman? Did your relationship with the SBA carry over to when you because a consultant for Lehman Brothers? While advising Lehman, did you have any discussions with then Executive Director of SBA, Coleman Stipanovich, regarding the $842 million of mortgage-back securities Lehman sold to the SBA in the summer of 2007, which defaulted within four months of purchase and was the most failing debt sold by a bank to the state according to Bloomberg? Additionally, how much were you paid by Lehman? How much have you been paid by Barclays?

Lehman Brothers offloaded millions in tainted debt to Florida and it would appear that my neighbors around Tampa Bay had no one looking out for them at the SBA. I am hopeful that you will answer the questions I've laid before you so Floridians can get a better understanding of your role in this financial misfortune and assure us there was no conflict of interest committed.

[Additional submissions of Ms. Castor follow:]

THE MIAMI HERALD

Florida Charter Schools: Big Money, Little Oversight

By SCOTT HIAASEN and KATHLEEN MCGRORY

Preparing for her daughter's graduation in the spring, Tuli Chediak received a blunt message from her daughter's charter high school: Pay us $600 or your daughter won't graduate.

She also received a harsh lesson about charter schools: Sometimes they play by their own rules.

During the past 15 years, Florida has embarked on a dramatic shift in public education, steering billions in taxpayer dollars from traditional school districts to independently run charter schools. What started as an educational movement has turned into one of the region's fastest-growing industries, backed by real-estate developers and promoted by politicians.

But while charter schools have grown into a $400-million-a-year business in South Florida, receiving about $6,000 in taxpayer dollars for every student enrolled, they continue to operate with little public oversight. Even when charter schools have been caught violating state laws, school districts have few tools to demand compliance.

Charter schools have become a parallel school system unto themselves, a system controlled largely by for-profit management companies and private landlords—one and the same, in many cases—and rife with insider deals and potential conflicts of interest.

In many instances, the educational mission of the school clashes with the profit-making mission of the management company, a Miami Herald examination of South Florida's charter school industry has found. Consider:

- Some schools have ceded almost total control of their staff and finances to for-profit management companies that decide how the schools' money is spent. The Life Skills Center of Miami-Dade County, for example, pays 97 percent of its income to a management company as a "continuing fee." And when the governing board of two affiliated schools in Hollywood tried to eject its managers, the company refused to turn over school money it held—and threatened to press criminal charges against any school officials who attempted to access the money.
- Many management companies also control the land and buildings used by the schools—sometimes collecting more than 25 percent of a school's revenue in lease payments, in addition to management fees. The owners of Academica, the state's largest charter school operator, collect almost $19 million a year in lease payments on school properties they control in Miami-Dade and Broward counties, audit and property records show.
- Charter schools often rely on loans from management companies or other insiders to stay afloat, making charter school governing boards beholden to the managers they oversee. Loans to two Pompano Beach schools were disguised as gifts in financial documents to avoid scrutiny from the school district and make struggling schools appear solvent, the schools' former managers said in court papers.
- At some financially weak schools, tight budgets have forced administrators to cut corners. The cash-strapped Balere Language Academy in South Miami Heights taught its seventh-grade students in a toolshed, records show. The Academy of Arts & Minds in Coconut Grove went weeks without textbooks. Schools have also been accused of using illegal tactics to bring in more money—charging students illegal

fees for standard classes, or faking attendance records to earn more tax dollars, court records show.

• Charter schools in Miami-Dade take a disproportionately lower share of black, poor and disabled children, records show. One in three students in Miami-Dade traditional public schools are black, while one in five charter school students are black. School district officials also suspect some charter schools have deliberately sought out high-performing students—contrary to the schools' contracts.

This year, several South Florida charter schools made headlines for violating local rules or state laws, including Arts & Minds, which was accused of charging illegal fees to students, and Balere, which the school district said turned into an after-hours nightclub on weekends. The district withheld funding from both schools—before concluding that it does not have the legal authority to do so.

That's because Florida's charter school laws—considered among the nation's most charter school friendly—are aimed more at promoting the schools than policing them, leaving school districts with few ways to enforce the rules.

When school districts have taken a hard line with charter schools, they have found their decisions second-guessed by state education officials in Tallahassee. And as the number of charter schools has climbed—almost 200 now operate in Miami-Dade and Broward counties alone—state lawmakers have chipped away at local school districts' ability to monitor them.

"It's frustrating for school district officials," said John Schuster, spokesman for the Miami-Dade school district. "The only cases where we can really intervene are safety-to-life, severe financial distress or poor academic performance."

MEDICINE FOR WHAT AILED US

Bringing marketplace principles to education

Charter schools first took hold in Florida in 1996, amid worries of overcrowded classrooms and poor student performance in urban school districts. They were seen as a cure for many of the problems in public schools, bringing innovative techniques and smaller classes to populations of students struggling to keep up. Charter schools were also designed to give parents more choices, and bring the principles of the marketplace to public education. Competition from charter schools was expected to force public schools to adapt and improve.

In many ways, the plan succeeded. Florida now has 519 charter schools—from small, specialized schools tucked in strip malls and churches to sprawling new campuses with 3,000 kids from kindergarten to 12th grade.

Some charter schools rank among the highest in the state in academic performance. School districts in Miami-Dade, Broward and around the state have responded to the competition by creating more magnet schools and specialized programs.

By design, charter schools are unshackled from many of the bureaucratic rules of traditional public schools, with independent school governing boards making most decisions instead of the local school district. Charter school advocates say this freedom is needed for schools to be creative and nimble, and to encourage start-ups.

While this freewheeling system has minimized the oversight of school districts, it has given rise to a cottage industry of professional charter school management companies that—along with the landlords and developers who own and build schools—control the lion's share of charter schools' money.

In Miami-Dade and Broward, about two in three charter schools are run by management companies, which charge fees ranging from 5 to 18 percent of a school's income. These fees can exceed $1 million a year at a large charter school.

Some management companies handle only school finances, while others control the budget, hiring and the curriculum.

In some cases, the managers effectively take over the schools, using financial leverage to render the schools' governing boards "irrelevant," said Pam Hackett, a retired legislative aide who has served on the boards of five Broward County charter schools.

"They push the little guy into a corner where they can't afford to do anything but acquiesce or go out of business," Hackett said.

Two years ago, Hackett sparred with the Leona Group, a Michigan-based management company, after the company removed a popular principal from two affiliated Hollywood charter schools on whose board she serves—Sunshine Elementary and Paragon Academy of Technology. When the board tried to rehire the principal, the management company objected, saying it alone had that power.

"They basically told us: 'According to the contract, we can do whatever we want,'" Hackett said.

The board had other complaints with Leona: The management company refused to provide school records, including contracts and spending documents, and failed to follow the school's education plan, school officials said. The board canceled Leona's contract in July 2009.

When school officials later tried to access the schools' bank accounts, Leona refused to give up the money—and its lawyer accused them of attempting to steal it, court records show.

Leona "is committed to criminally prosecuting those individuals responsible for their attempted theft from the account," attorney Jeffrey Wood wrote in a letter to the schools' attorney. The dispute is now in litigation.

Leona executives did not return phone calls seeking comment.

Hackett says the schools now operate without any for-profit managers; instead, the principals make all financial and educational decisions. "Overall, it's cheaper and more efficient and more accountable," she said.

Many charter schools depend on management companies not just for expertise, but for cash.

Schools often borrow money from the managers, creating an uneasy arrangement that can stifle a governing board's independent oversight.

The Leona Group, for example, gave more than $360,000 to four Broward charter schools—money described as gifts in the schools' financial reports. But in court papers, the management company said the payments were really loans disguised as gifts to make the schools appear financially sound.

"The funds were referred to as a 'one-time gift' so that the schools would not have to show the funds on their balance sheets," the management company's lawyers wrote. The schools insist the payments were gifts, not loans.

It is not uncommon for management companies to give or lend money to schools to get them up and running, said Jonathan Hage, president of Charter Schools USA of Fort Lauderdale, one of the region's largest charter school operators.

Most charter schools lose money in the first year or two as they try to expand enrollment while paying rent, construction costs and other start-up expenses, he said. In addition, new charter schools often find it difficult to get financing from banks.

Hage and other charter school supporters say the state's funding formula for charter schools is inadequate, making it difficult for smaller schools to survive without assistance. Hage's company benefits from scale, he said. "Being able to spread overhead costs over many schools and many students helps."

Statewide, about one in four charter schools have shut down since 1996, either voluntarily or at the command of local school districts—double the national average. Most schools close for financial rather than academic reasons.

SCHOOLS AND THEIR LANDLORDS

For property owners, it's a profitable deal

Charter schools generally receive more than 80 percent of their income in per-student payments from the state. In addition to the roughly $6,000 per-student allocation—slightly less than what traditional public schools receive—charter schools also get some state funds for facilities and maintenance.

For most charter schools, finding a location is the greatest difficulty and expense. Most schools rent their facilities—in churches, shopping centers, or brand-new school buildings erected by real-estate developers. Any property used by charter schools is exempt from property taxes.

Some schools devote less than 5 percent of their income to rent. Others pay crippling rates.

"Rent continues to be the greatest financial impact for our school," administrators at Broward Community Charter West wrote in a report to the state Department of Education last year. The school was $118,000 in the red that year.

Neither the state nor the local school districts have rules or guidelines on how much a charter school lease should cost; nor are schools required to seek independent appraisals. But Hage, of Charter Schools USA, said a school's lease should not eat up more than 20 percent of its revenue.

A Miami Herald review found 19 schools in Miami-Dade and Broward with rents exceeding 20 percent of their income in 2010—about one in seven South Florida charter schools renting property that year. One Miami Gardens school spent 43 percent of its income on rent, according to audit reports.

Many of the highest rents are charged by landlords with ties to the management companies running the schools, The Miami Herald found. At least 56 charter schools in Miami-Dade and Broward counties sit on land whose owners are tied to management companies, property records show.

For example, the Lincoln-Martí Charter School in Hialeah paid $744,000 in rent last year—about 25 percent of the school's $3 million budget, even after the landlord reduced the rent by $153,000.

The previous year, the school spent one-third of its income on rent, audit records show.

Records show the landlord, D.P. Real Estate Holdings, and the management company are run by the same man: former Miami-Dade School Board member Demetrio Perez Jr. Perez's son, Demetrio J. Perez, works at the management company, which operates three Lincoln-Martí charter schools.

The Lincoln-Martí charter schools were established by three friends of the elder Perez, who owns a string of well-known private schools and daycare centers also called Lincoln-Martí.

The younger Perez said the school buildings are too large for the student body: Only 364 students attend the school, though the facilities can hold up to 1,000 kids. He said the rent, at $9.78 per square foot, is below market rate; however, the board did not seek an appraisal before approving the lease.

Board member Gil Beltran said the elder Perez plays no role in the school. However, at Perez's request, the board agreed last year to guarantee $24 million in loans for his real-estate business, records show.

After school district officials objected, the bank released the charter schools from the loan last month. "We didn't see anything inappropriate about it," Perez's son said.

His father's company has also agreed to give the school $350,000 before the end of the school year as a gift, the younger Perez said. The school currently owes $250,000 in overdue rent.

School districts don't have the authority to dictate the terms of a charter school's lease, or any other financial deals. That role falls to a school's governing board.

But in many cases, the governing board includes members with ties to the management company or the landlord—creating a potential conflict.

At the Academy of Arts & Minds in Coconut Grove, the school's founder, Manuel Alonso-Poch, acts as the school's landlord, its manager and the food-service vendor. For the first three years the school operated, Alonso-Poch also served on the governing board, school records show. He stepped down at the urging of the school district in 2006.

Alonso-Poch still has close ties to the board: His cousin, Ruth "Chuny" Montaner, is the chairwoman of the board, which approved all of the school's contracts with Alonso-Poch's companies—including a lease that cost 28 percent of the school's revenue in 2010. (Montaner did not vote on Alonso-Poch's $90,000-a-year management contract.)

Another Arts & Minds board member, Jorge Guerra Castro, was listed as a board member for years, though he lives in Peru. Castro said he was unaware that he was named to the board until he was told about it by a Herald reporter—yet some school board meeting records purport to show his attendance.

In some instances, the landlords hold significant sway with charter schools' governing boards.

The landlord of the Charter School at Waterstone in Homestead has the right "to be involved" in any decision to remove the school's management company, under that school's lease. Last year, landlord Luis Machado warned the school's board not to renew a contract with a management firm that had sued the school over a contract dispute, records of the school's Jan. 6, 2010, board meeting show. Machado told the board he wanted to make sure the school operated "within his business philosophy."

The school's board dropped the management company. Machado did not return phone calls seeking comment.

WHEN SCHOOLS PURSUE PROFITS

Strange things can happen, like $600 fees

As statewide budget cuts have hit the bottom line at all public schools, some charters have been accused of cutting costs and boosting revenue at the expense of children and parents.

It's a story Tuli Chediak knows well. As her daughter was preparing to graduate from the International Studies Charter High School in Miami earlier this year, Chediak was notified that she had failed to complete the 120 hours of volunteer service required of all parents. Her family was told to pay $600—$5 for each hour—or their daughter could not graduate, Chediak said.

The mother had signed paperwork promising to complete the volunteer service, a common requirement at private schools and some charters. But Chediak said the school offered few opportunities to complete the service. The contract said nothing about a fine or withholding her daughter from graduation, she said.

Chediak refused to pay and complained to the school district, which declined to get involved. The school ultimately allowed her daughter to graduate, and blamed the dispute on a miscommunication. But the experience left Chediak and other parents who were asked to pay frustrated.

"There are people taking advantage of parents," she said. "It shouldn't be that way."

The Balere Language Academy saved cash by teaching nine seventh-graders in a wooden storage shed on campus, records show. One report by the school district said students "had difficulty putting their legs comfortably under the desks."

The school denied it, but district photographs show colorful posters, a whiteboard and student papers hanging from the walls. The shed is no longer used for classes.

Arts & Minds boosted its bank account for several years by charging student fees for basic classes like math and reading—a violation of state law, school district officials said. The district complained about the practice in September, prompting Arts & Minds administrators to return all checks received from parents this school year.

Parents at Arts & Minds, a school that has relied on loans from its landlord and founder to stay in the black, had also complained that the school did not have enough books for its students, and some classes had no teachers for the first five weeks of this school year.

The complaints aren't new: Earlier this year, school administrators were photocopying textbooks, until the school's then-principal questioned whether this violated copyright laws, governing board minutes show.

Insiders at the Mavericks High of South Miami-Dade, a Homestead charter school for at-risk students, also say the school has broken state law to bring in more money.

Kelly Shaw, a former career coordinator at the school, filed a whistleblower suit in June accusing school administrators of defrauding the school district by inflating student attendance and enrollment figures, to increase the amount of money the school collected.

A former Mavericks teacher, Maria del Cristo, filed a separate suit accusing the school of improperly charging fees to students enrolling at the school. Through their attorney, Shaw and del Cristo declined to comment.

Lauren Hollander, the CEO of the school's management company, Mavericks in Education Florida, denied the allegations, and said both women had been fired "for cause." The lawsuits are still pending.

Miami-Dade school district officials said they never heard of the allegations.

KEEPING TABS ON PUBLIC DOLLARS

More monitoring urged, less monitoring OK'd

Many problems at charter schools go undetected until they become debilitating—if they're discovered at all.

Charter schools are required to file financial statements with their local school districts. The reports are among the most important monitoring tools districts have to assess the financial health of charter schools.

Still, the statements don't always show the complete picture. The law does not require operators to provide details on day-to-day spending—and governing boards can sometimes be left in the dark.

In 2007, the board of Sunshine Academy in Miramar went to police after discovering that the school's principal, Alcira Manzano, had made unauthorized withdrawals from the school's account—including $5,200 for a down payment on an SUV, court records show. The board closed the school, and Manzano was arrested on theft charges.

Investigators later found that Manzano had also made loans to the school and personally paid the rent. Broward County prosecutors dropped the charges against Manzano in June.

"The record keeping at the school and oversight of the school by the board of directors was virtually nonexistent," prosecutor Kathryn Heaven wrote in a memo after dropping the case. "The school appears to have been poorly run."

In 2008, a legislative report said the state should adopt stronger monitoring methods to detect struggling schools before they reach the brink of closing.

Instead, lawmakers relaxed the rules even more. Earlier this year, Gov. Rick Scott signed a bill allowing some high-performing schools to file financial reports quarterly, instead of monthly. The

Legislature also reduced the amount of money that high-performing charter schools must pay to school districts to cover the costs of oversight.

Even when school districts detect problems, their ability to assess charter schools' conduct and demand compliance is limited.

For example, state law does not spell out clear conflict-of-interest rules for charter schools or their governing boards—a shortcoming highlighted by legislative analysts in 2008, but never changed.

Nor does the law clearly define how much control a management company should have.

Earlier this year, Miami-Dade school district auditors questioned whether four schools—two Life Skills charter schools and two Renaissance charter schools—were operating as mere passthroughs to their for-profit management companies.

The Life Skills schools each paid 97 percent of their money to White Hat Management of Ohio, which in turn paid the school's expenses—including lease payments to another White Hat company. White Hat officials did not return phone calls seeking comment.

The school district's audit committee considered asking the schools to modify their contracts, but the district's attorney determined that the district could not take action.

School districts can deny an application for a new charter school or refuse to renew a school's charter. But the state Board of Education has overturned those decisions 30 times since 2003, state records show. (The state upheld 53 denials over the same time period.)

School districts can also close a school that has received consecutive failing grades or has persistent financial problems. But some districts, including Miami-Dade, have had that power questioned, too.

In 2010, the Miami-Dade School Board voted to close Rise Academy in Homestead after the school ended the year $250,000 in the red. Questionable expenses included $8,300 at retail clothing stores; $2,800 at hotels and Orlando theme parks; and $2,145 at restaurants, according to bank records. Meanwhile, teachers had gone unpaid and textbooks were in short supply.

Weeks later, the decision to close Rise was overturned by the state Board of Education. State education officials said the school, which had boosted its state-issued grade from F to A in a single year, had not received a fair hearing.

Rise never reopened.

Charter school advocates insist the law and state rules provide for enough oversight.

"There is absolute accountability," said Lynn Norman-Teck, a spokeswoman for the Florida Consortium of Public Charter Schools. "Parents, if they see something wrong, will call the school, the district, Tallahassee."

But district officials say it is a frustrating exercise.

"School districts are limited in their authority over charter schools," said Schuster, the Miami-Dade spokesman. "They have minimal ability to impose effective consequences."

Searching for the reality of virtual schools—at a glance

You're probably reading this on a screen—whether a monitor, a phone, or a tablet—providing more evidence that digital content is ubiquitous. Likewise, its place in public education is not a matter of debate; it is inevitable. But school leaders and education policymakers do need to consider how to manage the influx of online learning opportunities in order to make sure students get their full benefit and not end up lost in cyberspace.

K-12 online learning is growing rapidly. Many players see opportunities in this burgeoning market and are pushing states and districts to expand their offerings of virtual courses and schools. They include the ed tech community; major education think tanks; school choice and home school advocates; and online learning providers, including several major software companies.

Yet there is little solid research on the impact of online courses or schools. In writing this paper, we found a few examples of online learning having a positive effect, but most of what we were able to uncover is not encouraging. At least not yet. In order to assure the public, parents and students that online learning produces the results we want, it's imperative for school leaders and policymakers to educate themselves.

Main findings

- Online courses and schools enroll a small fraction of the 52 million public school students, but they are rapidly gaining ground. In 2009-10, elementary and secondary students took approximately 1.8 million courses online. In addition, about 250,000 students were enrolled full-time in virtual schools in 2010-11, up from 200,000 the year before.

• The development, management and staffing of online courses and schools is supported by both public and private providers. For-profit companies K-12, Inc., and Connections Academy together enrolled nearly half of all full-time online students in 2010-11.

• Funding for online learning varies by state, and ranges from 70 to 100 percent of state and local per pupil rates. The impact on district funds also varies by state. In some states, districts are billed for each student enrolled online. In addition, accounting for the actual cost of virtual courses and schools is often lacking.

• The jury is still out on the effect of online courses on K-12 student achievement. The U.S. Department of Education reviewed existing research and found a modest positive impact of online courses, but cautioned that the findings were based mostly on results for post-secondary students.

• Emerging reports show a troubling overall picture of poor performance and low graduation rates for full-time online students. Two small-scale studies found positive effects for elementary students, suggesting that parental supervision could be an important factor.

• There needs to be a clearer accountability path for online learning, especially in regard to monitoring student progress and performance as well as accounting for the cost of virtual schooling.

Providers

Online learning comes from many different sources. Some examples:

For-profit companies. For-profits produce everything from out-of-the-box courseware to a full, planned curriculum with teachers, tutors, proctored exams—literally, a "virtual school."

Non-profit companies. Some non-profit organizations offer online learning, often with different philanthropic aims in mind, such as helping at-risk students graduate.

State departments of education. Some states offer their own courses. For example, Florida Virtual School offers courses to both Florida students (who do not have to pay) and others outside the state (who do pay tuition).

Individual districts. Individual districts may buy online software and create their own blended-learning approaches; they may also develop online coursework of their own.

Formats

Combined with the variation in providers is a variation of formats. The two most common formats are referred to as "fully online" and as "blended learning." "Fully online" can mean that every part of the school academic experience is provided online; alternatively, "fully online" can mean that students can take single courses online, but all interaction is done through the computer. "Blended learning" is a term used to indicate a mixture of in-person and online instruction. Most of these courses take place in an actual brick-and-mortar building and are supervised by either a proctor or a teacher.

Enrollments

Online learning is rapidly growing at all levels, but particularly among high school students:

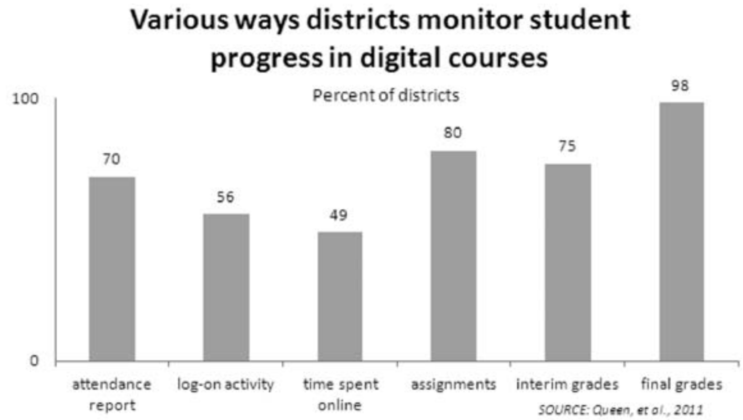
• 55 percent of public school districts have some students enrolled in distance education courses; of these, the vast majority (96 percent) are high school students (Watson et al., 2011).

• Total K-12 course enrollments were approximately 1.8 million in 2009-10; special needs students and students from low-income families were the least likely to participate in virtual courses (Watson et al., 2011).

• Ohio reports the highest number of full-time online enrollments in 2010-11 at 31,142, followed by Pennsylvania (28,578) and Colorado (15,214) (Watson et al., 2011).

Policies

States and districts have different policies regarding students in online learning courses. The degree to which districts monitor the performance of online students varies considerably. In many cases it is much less than required for students taking classes in traditional schools and should cause some alarm. For instance, while 98 percent of districts monitored students' final grades in online education courses, only about half tracked students' log in activity or time spent online.



Student outcomes

The one aspect of online learning that stands out is how little is known about its effect on student outcomes, especially at the K-12 level. Several attempts to document student performance have been thwarted by missing and incomplete data, lax monitoring rules, and a vague picture of students dropping in and out of the online environment and subsequently the accountability system. A few studies document online students outperforming their non-digital peers, showing that online learning can be a vehicle for high performance under the right conditions. Most of the studies we found that examine test scores, graduation or completion rates, however, tell a story of students worse off than their classmates in brick-and-mortar schools. Reports of high school completion rates at or under 25 percent, lower test scores, and high dropout rates in some virtual schools raise serious concerns for school districts, students, and parents. The contrast between two examples should illustrate the need for serious examination:

• A Stanford University study looked at eight Pennsylvania virtual charter schools and found that every one of them performed significantly worse in reading and math than their traditional school counterparts in terms of student gains. The study covered the period 2007-2010.

• An independent evaluation of Rocketship Education, a national “hybrid” or blended learning charter school network, showed sizable math gains among participating students at kindergarten and grade 1 compared to their peers. The average gains were equivalent to a 5.5 increase in percentile rankings over a 16-week period.

Funding

Online schools are funded in different ways in different states. In some, online schools are funded entirely by the state, while in others, funding comes directly out of school districts’ budgets. See the full paper for a detailed discussion/spa of Pennsylvania, Colorado, Ohio and Florida, four of the states involved most heavily in online learning.

In general, how much funding virtual schools receive does not necessarily correspond to how much it actually costs to operate them. Clear data for the true costs is hard to come by. And to make it even more difficult, determining how many students are enrolled in virtual schools can be a problem as well. For example, in Colorado funds are distributed to virtual schools based on their enrollments on October 1st. However, between 30 and 50 percent of those students do not remain in the virtual school throughout the year, meaning the virtual school keeps the money even though the student has returned to the traditional school.

The bottom line is that in many cases we do not know how much it actually costs to provide a virtual education, nor how many students the money is funding, nor exactly how the money will be spent.

Moving forward

Several things should be clear to school leaders and policymakers. First, they should ask for more information before expanding access to virtual programs, especially full-time online schools. The wide variety of purposes, providers and formats, combined with the lack of data on outcomes, accountability, and funding, means that we know little of what is going on overall in the field. Second, some of the outcomes studies have shown troubling results. It is possible for students—especially struggling ones—to drop in and out of the online world, putting them ultimately farther behind. Finally, follow the money. Funding for online students should reflect the actual costs of providing the instruction. In addition, there need to be clear lines to exactly who is accountable for student progress so that parents, students and taxpayers know that dollars are well-spent and producing results.

This summary is from a report by the Center for Public Education team: Patte Barth, director; Jim Hull, senior policy analyst; and Rebecca St. Andrie, managing editor.

A St. Pete Times Editorial

A Charter to Profit

The explosive growth of for-profit charter schools in Florida is diverting hundreds of millions of public dollars to businesses that pervert the program's intent.

The explosive growth of for-profit charter schools in Florida is diverting hundreds of millions of public dollars to businesses that pervert the program's intent.

Jonathan Hage, a former Heritage Foundation researcher and political protege of Gov. Jeb Bush, has turned Florida's charter school program into a growing for-profit business empire. Five years after borrowing $5,000 to start up Charter Schools USA, Hage took in $40-million last year—almost all of it from the government. And Hage is not alone. In the past six years, the number of students approved for publicly funded charter schools in Florida has jumped from 574 to 76,156.

At that phenomenal rate of growth, charter schools could account for as much as $418-million of the state's education budget. But don't bother asking the state to account for results. Gov. Bush, the education accountability governor, is studiously avoiding comment.

In a compelling report in last Sunday's editions, St. Petersburg Times writer Kent Fischer revealed the ugly little truth about this enormous expansion of charter schools. These schools are not instruments of educational innovation or community service, as the state law intended. They are tools of profit and big business, which the law prohibits.

Lest there be any doubt, Ron Renna of ABS, an Arizona charter company, describes his Florida sales effort this way: "We're out here to make money. The more hamburgers you sell, the more money you make. If you bring more kids into a program, it makes the financiers in Arizona happy."

Charters were intended to spur innovation, to give nonprofit community groups or educators the chance to run a school freed from the normal regulations and bureaucracy. An example is Academie Da Vinci, a small elementary school started by a community group that felt children needed a specialized arts school in northern Pinellas County.

The schools being run by Charter Schools USA and other corporations are quite the opposite. They represent a big-business, standard-curriculum approach to education and usually have little to do with the communities in which they are located. The chairman of the foundation that landed a contract for the North Tampa Alternative School, for example, lives in Miami Springs. Asked how he got involved, he said: "I was contacted by a lawyer."

Even more disturbing, the charter businesses are now teaming up with developers of large, and typically higher-priced, subdivisions to build what amount to private schools on the public dime. Though the charter law requires that such schools accept any students, their locations make them convenient only to the homeowners or, in some cases, to company employees. A teacher at a Charter USA school in Miami was also unusually blunt about how discipline works: "We have ways of asking people not to come back. We really operate like a private school."

At $418-million and counting, the public policy questions here are urgent. Is Florida giving tax money to for-profit corporations that are using shell companies to hide their status? Are charter school dollars being used as an amenity for developers who build subdivisions? Is the law being used to create private schools that cater to the children of higher-income families and business employees? How much profit is being made off the charter school public subsidy? Are children learning in these schools?

The governor refused to answer questions from Fischer, which is particularly odd, given that this new charter school explosion is in large part Bush's creation. Hage himself said as much: "It was first Jeb Bush's idea, not mine, to promote charters in Florida. * * * Quite honestly, I wasn't that familiar with charter schools."

Bush is running for re-election on his educational record, which includes making Florida the most prolific state in the nation for school privatization. The trouble is that his Department of Education has shown no inclination to investigate alleged fraud in the voucher program for disabled students, or to oversee the escalating vouchers awarded through dollar-for-dollar state corporate tax credits. In this case, Bush's name was actually used as a reference on charter applications that might be contrary to state law.

Is this what the governor means by education accountability?

Wall Street Journal, August 27, 2007

Jeb Bush: Lehman's Secret Weapon

By DANA CIMILLUCA

In the arms race by private-equity firms to line up ever-higher profile "advisers," Lehman Brothers may have just taken the lead.

According to a small handful of reports Friday, including this one in Investment Dealers' Digest and another in Private Equity Hub, the investment bank has hired former Florida Governor and presidential son and brother Jeb Bush for its in-house investing arm.

No sign of an announcement from Lehman on the hire.

Private-equity firms hire politicos and former corporate honchos all the time to help them open doors to deals, as well as to manage government relations and the companies in their portfolios. Carlye Group chief David Rubenstein, in fact, discussed the increasing value of such moves in this Q&A published in The Wall Street Journal today.

No family these days has better door-opening skills in Washington or corporate America than the Bushes. The family of the 41st and 43rd presidents is no stranger to Wall Street either. Jeb's father, George H.W., used to serve as an adviser to Carlyle, and his grandfather was a partner at Wall Street firm Brown Brothers Harriman.

It is the second corporate gig for the former Florida governor, who stepped down after two terms in January. He already has joined the board of Tenet Healthcare.

Published Thursday, June 4, 2009

Florida Stands to Lose $1 Billion Because of Lehman Brothers' Bankruptcy

By SYDNEY P. FREEDBERG and CONNIE HUMBURG, *Times Staff Writers*

A price tag is now emerging for what last year's collapse of investment giant Lehman Brothers could cost the state of Florida: more than $1 billion.

The losses could make Florida and its citizens among the biggest casualties in the biggest bankruptcy ever.

More than $440 million disappeared from the pension fund that pays benefits for some 1 million retirees and public employees.

Counties, cities and school districts face a loss of more than $300 million for roads, sewers and schools.

The state has $290 million less to pay for everything from hurricane claims to health care, community colleges and care for infants with disabilities.

While the general losses have been expected, this is the first public accounting of the magnitude of the Lehman-related public losses for Florida.

The outlook is bleak in bankruptcy court. In years to come, the state will be lucky to collect pennies on the dollar.

In an interview, even the ever-optimistic Gov. Charlie Crist could not muster a sunny side: "It is, to say the least, an unfortunate situation."

Lehman Brothers, which built the nation's railroads and survived the Great Depression, filed for bankruptcy protection last September.

Its failure sank banks and stocks, but the fallout reverberated far beyond Wall Street.

In Florida, Lehman Brothers was an icon of finance and real estate, managing public assets, selling securities, underwriting bond deals and handling residential and commercial mortgages.

In the last decade, Florida paid Lehman at least $27 million in fees for managing public investments and brokering and underwriting bond deals.

The storied bank hired former Gov. Jeb Bush as a consultant in June 2007, five months after he left office. As governor, Bush also served as a trustee for the State Board of Administration, which invests public money.

Lehman was the dominant Wall Street broker that sold the SBA $1.4 billion of risky, mortgage-related securities that started tanking in August 2007.

Bush has said he had nothing to do with those sales.

"As Governor Bush has stated several times in response to your inquiries, his role as a consultant to Lehman Brothers was in no way related to any Florida investments," said his spokeswoman, Kristy Campbell.

"It is unfortunate the St. Petersburg Times continues to perpetuate this incorrect and baseless conjecture."

The risky investments Lehman sold the SBA meant losses to the budgets of almost 1,000 state and local governments.

The local governments still get principal and some interest payments but are stuck with about $556 million in tainted securities that they can't redeem.

The off-limit funds mean less operating cash for sewers in Port St. Lucie and classrooms in Jefferson County.

Hillsborough, already shedding jobs and cutting services, faces a loss of $11.3 million. "When you're making cuts, every additional cut is more painful than the last," said budget director Eric Johnson.

Pasco faces a loss of $6.6 million.

"That's a huge amount of money for us," said Commissioner Michael Cox, a financial adviser. "To put it in perspective, our whole parks and libraries budget is $19.8 million."

He said Florida made a costly mistake by not selling the tainted investments long before the bankruptcy.

State officials are telling local governments that if they hold on long enough, they just might recover their losses.

Still, the state has filed a claim in bankruptcy court in Manhattan, seeking to recoup $675.8 million for the bad investments.

In its complaint, Florida says Lehman Brothers sold it securities that were not registered with the Securities and Exchange Commission. Such securities are meant only for qualified, sophisticated buyers that understand the risks.

But documents show that SBA managers were made aware of the risks all along. Before they bought the securities, they received confidential memos, e-mails and investor reports from brokers and sponsors that detailed the risks.

Florida lost more than $400 million in sales of Lehman stocks and bonds. It also faces a loss of more than $80 million on bonds it hasn't sold yet. That has squeezed dozens of state organizations—from the Division of Blind Services to the Chiles tobacco endowment to a health insurance subsidy for retirees.

The biggest casualty is Florida's giant public pension fund. It took a $230 million hit on Lehman stocks and bonds. The pension fund holds another $53 million in Lehman bonds that have lost most of their value and has $323 million tied up in tarnished mortgage-related securities purchased from Lehman. If the state sold those securities today, the pension fund would lose about $188 million more.

Almost 1 million public employees and retirees—from teachers and firefighters to social workers and police officers—participate in Florida's plan.

The SBA, which manages the pension fund, downplayed the long-term effect of the Lehman bankruptcy. Spokesman Dennis MacKee said that benefits paid to retirees won't be affected. Government employers would have to pay more to plug any pension funding gap. But MacKee said the Lehman holdings were such a small part of the pension fund portfolio that it's "very unlikely" the losses would result in higher costs.

Here are how some other agencies with Lehman bonds fared:

- The state's hurricane catastrophe fund, which helps insurance companies pay for storm damage, lost $81 million.
- Citizens Property Insurance held $39 million of the bonds the day of the bankruptcy. It lost $9 million and now holds bonds originally worth $26.5 million—on the books for just $3.3 million.
- The state Treasury saw more than $75 million evaporate and holds an additional $53 million in troubled Lehman assets. That reduced earnings for, among others, universities, housing subsidies and clean water programs.

Lehman's failure also hurt cities and counties that invested on their own in what they thought were top-rated Lehman securities.

Karen Rushing, comptroller of Sarasota County, told a U.S. House committee on May 5 that the Lehman bankruptcy had a "devastating" impact.

The county saw $40 million disappear, Rushing said, meaning it couldn't build a fire station, two libraries and 11 parks and also could cost jobs.

Rushing and locals in California and Colorado and elsewhere are lobbying the U.S. government to cover Lehman losses with federal bailout money.

Florida "is navigating very difficult times," Rushing said. "High in job losses, high in foreclosure rate, a housing crash and an insurance crisis * * * all affect our ability to withstand the consequences of the collapse of Lehman Brothers."

Bankruptcies move slowly; it could take years for Florida to recover anything.

"Florida gets to wait in line like everyone else," said Andrew Gottesman, a vice president at SecondMarket, which is a marketplace for bankruptcy claims.

Estimates vary on how much Florida might recover, from a few cents on the dollar to 20 cents. An average guess is about 14 cents on the dollar.

[Prepared questions submitted by Ms. Kaptur follow:]

QUESTIONS POSED TO MR. BUSH FROM HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

The Guardian newspaper in Britain reported in 2010 (*www.guardian.co.uk/business/2010/mar/12/lehman-brothers-gimmicks-legal-claims* that a US bankruptcy examiner concluded that grounds exist for legal claims against top Lehman Brothers bosses and auditor Ernst & Young for signing off misleading accounting statements in the run up to the 2008 collapse.

The newspaper said a 2,200-page forensic report by Anton Valukas into Lehman's collapse revealed that Barclays, which bought Lehman's US businesses out of bankruptcy, got certain equipment and assets to which it was not entitled.

Based on this article, the Valukas report also revealed that during Lehman's final few hours, CEO Dick Fuld sought to convince Prime Minister Gordon Brown to overrule Britain's Financial Services Authority when it refused to fast-track a rescue by Barclays. The examiner's report found evidence to support "colorable claims" against Fuld and three successive chief financial officers—Chris O'Meara, Erin Callan and Ian Lowitt.

According to the Guardian, "During the bank's final hours in September 2008, Fuld tried desperately to strike a rescue deal with Barclays but the FSA would not allow the British bank an exemption from seeking time-consuming shareholder approval. The chancellor, Alistair Darling, declined to intervene and Fuld appealed to the US treasury secretary, Henry Paulson, to contact the prime minister."

According to the Valukas report, "Fuld asked Paulson to call prime minister Gordon Brown, but Paulson said he could not do that ... Fuld asked Paulson to ask president Bush to call Brown, but Paulson said he was working on other ideas."

According to the Guardian, "In a "brainstorming" session, Fuld then suggested getting the president's brother, Jeb Bush, who was a Lehman adviser, to get the White House to lean on Downing Street."

- Governor Bush, to your knowledge, did your boss, Mr. Fuld, in fact make such a suggestion, as the Guardian reported?
- Did you in fact ever make any contact with anyone at the White House about Lehman's travails at the time?
- Did you in fact ever make any contact with anyone in Congress about Lehman's travails at the time? If so, who did you contact? When did you contact them? What did you discuss?
- Did you in fact ever make any contact with anyone in any federal or state regulatory agency about Lehman's travails at the time? If so, who did you contact? When did you contact them? What did you discuss?

The press has further reported that Barclays eventually bought the remnants of Lehman's Wall Street operation from receivership for $1.75 billion.

- Did that price accurately reflect the value of that purchase?

Chairman RYAN. We just got the employment numbers about a half hour ago. Only 69,000 jobs added last month. That is about half of the 150,000 that the markets were expecting. The last 2 months job growth was revised downward by 49,000 jobs. The unemployment rate has now gone up to 8.2 percent. The U-6 unemployment rate, which lots of us track, which is people who are looking for a job that didn't find one, people who stopped looking for a job, or people who are in a part-time job that still want a full-time job, went from 14.5 percent up to 14.8 percent. It is not working. The economic policies we have today are not working.

And I always try not to say what it is my political adversary is in favor of. I will let him speak for himself. But what I think what we are trying to establish here is that both parties have messed this up. I think Mr. Edwards did a pretty good job of going through the past about how, with good intentions, Republicans and Democrats have believed that if they could just put some kind of a preference in law for a selected industry, for a selected goal, for a selected company, that good things would result from that. And it is helpful to us to go back and look at the track record of this bipartisan idea that government is smarter and better at picking winners and losers in the marketplace than the market itself is.

And what we have learned from this bipartisan approach is that corruption does occur, cronyism does occur, and that what ends up happening is those who are connected, those who have established connections, those who know the ways of Washington end up usually getting the benefits, and those who are out there around America working hard, slaving away, creating ideas, coming up with companies in their garages, they are not on the inside of this. And so we end up erecting barriers to entry that protect established businesses, connected businesses, or sectors, or businesses, and that necessarily comes at the expense of tomorrow's entrepreneur. That makes it harder for people to rise and create new ideas and businesses, which as we have learned through the economy, through economic evidence, is the greatest chance of giving people prosperity, of decentralizing wealth in this country, of allowing people to rise and have social mobility.

And so what we are trying do is recognize that both parties messed this up. Let's not sit around and point fingers at each other. Let's recognize both parties messed it up. Let's go back with what works. What works is entrepreneurship, small business growth, risk taking, and yes, regulations that are fair for all, regulations that do put the guardrails up so that we have transparency, so that we have honest play, so that we have rules of the road that apply equally to everybody, equality before the law. That is what we are trying to reestablish here.

No one is suggesting that we have some sort of dog-eat-dog society, where just the powerful and connected survive at the expense of everybody else. No, what we are saying is the same rules apply to everybody so that you, based on your own merit, your own God-given talent, that determines success. So that our goal in America is try to advance the starting line so we can promote equal opportunity so people can make the most of their lives instead of having people pick and choose winners in Washington. Because what ends up happening, whether a Republican is in the White House or a Democrat is in the White House, or whoever is running Congress, is interest groups get involved, and they decide how this is all done at the end of the day. That doesn't work. We have seen our friends in Europe try this, and now we look at the results of that.

And so Governor Bush and then Mr. Edwards, you have seen this work. You have great experience in government. Has this worked at the State level? State governments have to do this a lot. The stimulus, for example, sent a lot of money to the States. Did that work? Do these 49 different job training programs, which clearly were created with good intentions, had various groups advocating for this or that job training program, does that work to actually giving people the tools they need to go into getting skills so they can get on to a career path that they were in an obsolete industry that is gone?

You know, where I live, we lost four auto factories since 2008. So all my friends that I grew up in high school with, the guys I know from my childhood, don't have a sector that they can work in that they got their training in. And now, you know, people are trying to go back to school to learn a new skill to get back on their feet again. Does this approach work? Did stimulus spending work? Do the 49 different job training programs work?

And then, Mr. Edwards, give more examples about the Canadian system. I think that is very intriguing. You write about how Canada actually went after a lot of this corporate welfare, this cronyism. Give me more anecdotes and story on that, because I think there is something we could learn from the Canadians on this front. Governor Bush.

Mr. BUSH. Well, we had a mini stimulus package when I was Governor in the early 2000s. And for some States, it worked, because there were chronic budget deficits, and they filled the gap. And they consider that stimulative rather than changing how they do things. In the case of Florida, we actually took that money and used it on a one-time basis to try to help create—to invest in basic research, in essence, which I think is a proper role of government. This is where maybe my Cato Institute friend and I might disagree. I do think that there is a proper role for government in things to build capacity, to build infrastructure. And that is what we used the money for. It wasn't stimulative in terms of an economic recovery, but we already handled our budget because we have a balanced budget requirement as almost every other State did. We had to make tough choices. We had to challenge how we did things. And we got through the budget challenges quite well.

Similarly, I think many States did the exact same thing this last year. Florida did not raise taxes last couple years. Florida hasn't raised taxes. In fact, Florida has cut taxes. And they have done it, the challenge became an opportunity, which happens in the private sector as well. When you don't have the pressure of a balanced budget requirement, as you all don't have here, then, you know, it doesn't really matter. But every other jurisdiction, local and State governments have that challenge, and they adjust.

I would say, to use the clean energy example, a better approach would be to spend less money, but spend it on basic research that creates the disruptive technologies that are market-based that will be sustainable over the long haul, rather than trying to create a wholly-owned venture capital subsidiary inside the Department of Energy, where there is winners and losers picked that is not going to create any advancement of new technologies. It basically protects, and in the cases of the failed companies, it ended up protecting companies that didn't have the best ideas. And the market then punished them, and the United States Government was out-of-pocket.

So a better approach would be for the government to do what it does best, which is to fund basic research, applied research to be able to create the next generation of industries. But let the market solutions be the means by which we achieve the desired result.

Mr. EDWARDS. You know, I believe in the 50 States as laboratories of democracy. I believe in federalism. I believe we ought to get a lot of these programs out of Washington and let the 50 States figure out whether they want do them.

Job training programs, you know, we have had them since John F. Kennedy's administration. They have never worked very well.

The GAO has said they have never worked very well. Let's let the States fund it and do it. Then the States can learn from each other to see what works.

So, you know, the problem is we have over a thousand Federal aid to State programs now. They are massively bureaucratic. The money pours out of Washington. There are rules and regulations with each of these programs. They put State governments in a straitjacket, which doesn't make any sense. And we see that now with No Child Left Behind. The States have rebelled against that. One political scientist said, you know, the problem now is we have got sort of a marble cake with American federalism. Between the three layers of government, we should have a layer cake. Each of the levels of government should fund their own programs, do their own programs, and the States could look at each other to see what works.

To transition over to Canada, you know, this is one of the things Canada did. Two decades ago, Canada was in a horrible budget situation like we are today, massive deficits, overspending, Wall Street was downgrading its debt. So they did a series of 5 years of really big spending cuts. They chopped their total Federal budget 10 percent in just 2 years, which would be like us cutting $400 billion out of the budget in just 2 years. So what did they cut? They cut business subsidies. They cut aid to the lower governments. They cut defense. So they cut all kinds of stuff. And it has worked extremely well. The Canadian economy did not go into a recession with these government spending cuts. It boomed. The Canadian economy boomed for 15 years, even as these spending cuts dramatically dropped the size of their government.

So just to put a couple numbers on that, go back a couple decades, the Federal Governments in Canada and United States were both around 23, 24 percent of GDP. The Canadian Government now, Federal Government, is around 15 percent of GDP. Ours is up around 23 or 24. So they massively cut the size of their Federal Government. They decentralized their federation, and it has worked extremely well.

Chairman RYAN. Thank you.

Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

I do believe that there is a lot of agreement. But let me just start with what sort of got me going here. The chairman in his opening remarks again talked about the Obama administration and crony capitalism. They continue to refer to the auto rescue, not as an example of an important government intervention that helped millions of jobs, but as an example of crony capitalism.

So I just want to ask you, Governor Bush, I believe you supported, as did a lot of us, not all of us, on a bipartisan basis the effort that President Bush took to help rescue the financial sector, which in part precipitated the crisis. And many of us believe that it was also appropriate to take the actions that President Obama did to help rescue the auto industry and a million jobs. Did you support that effort?

Mr. BUSH. No.

Mr. VAN HOLLEN. No. Okay.

Mr. BUSH. I wasn't in office, though, at the time. So that is easy for me to say.

Mr. VAN HOLLEN. Do you agree with Governor Romney's position that we should have let them go bankrupt?

Mr. BUSH. They did go bankrupt. It was in a way where the government—it was a government-induced bankrupt that allows now, for example, tax loss carry forwards that never, under normal bankruptcies, would exist, allows for General Motors now not to pay taxes based on profits that otherwise they would have to be paying taxes on. That is the form of capitalism when the government intervenes in a very muscular kind of way. And I don't believe that that is appropriate.

Mr. VAN HOLLEN. All right. Well, maybe I made an assumption. Maybe I was wrong. Did you support the rescue of Wall Street banks?

Mr. BUSH. You know, I have never been asked that either. I was out of office. So now you are asking.

Mr. VAN HOLLEN. Yeah.

Mr. BUSH. And I think, given the circumstances of the potential for a meltdown that would have been hard to recover, some support was appropriate. Was, therefore, then the next step of adding regulations on top of regulations? The Congressman in his remarks made an interesting point, assuming that there was no regulation on the banks or financial services industries prior to Dodd-Frank's passage. In fact, there was massive regulation. I would argue that maybe enforcement was where the problem was, not the fact that we had a deregulated financial industry.

So, for a short term solution to a problem that had global implications, I think that was probably the right thing to do. But then to take it and then to add on top of this challenge that we face massive rules that will take years to implement, that creates more uncertainty, and the probability of more unintended consequences that will create a weakening economy rather than a strengthening one, I think was the wrong approach.

Mr. VAN HOLLEN. Thank you for stating your position on the record. I think many of us believe that the decision to help rescue the financial industry was a bitter pill but a necessary one. And many of us also thought it was worth taking extraordinary action to help save over a million jobs in the auto industry.

Let me just talk about the budget issues and some of the government expenditures. The figure of government spending right now is about $3.6 trillion, according to the Congressional Budget Office. A big part of that is Social Security, which of course came about after the Great Depression as a way to provide retirement security for Americans. I am assuming from your testimony you don't think that that is an inappropriate government interference in the marketplace?

Mr. BUSH. That is correct.

Mr. VAN HOLLEN. Okay. Another major part of that $3.6 trillion is the Medicare program. Because we realized in the 1960s that the private health insurance market didn't see a lot of profits to be made in insuring older and relatively sicker people. So that is a major chunk. I mean, I assume, putting aside the issue of reform, that you think that that is an appropriate intervention in the marketplace.

Mr. BUSH. Putting aside reform?

Mr. VAN HOLLEN. The Medicare program, the idea that there should be some government role in providing health security to seniors.

Mr. BUSH. In a dramatically different way, I could see it happening. But I am not sure that accepting Medicare as it was created in 1965 in 2012—I mean, that is the problem is that we have this attitude that if you start something in the mid-20th century, it is appropriate to keep doing it the same way 50 years later.

Mr. VAN HOLLEN. Governor, actually, there is a difference of opinion as to what kind of reforms we need to take in Medicare. That is a longer discussion. But I think everybody around this table recognizes that we need to address those issues. We have different models. And they are efforts to modernize the program.

The part of the budget that most of this conversation has circled around, at least with respect to the spending side, is the discretionary budget. It represents about 16 percent today of our overall budget. It is a shrinking part of the budget. As a result of the trillion dollars in cuts that we made in the Budget Control Act last August, it will actually be reduced to the lowest percentage of the economy since the Eisenhower administration over the next 10 years. It is a shrinking part of the budget. That is the part of the budget that helps the FBI, Homeland Security, and you mentioned basic research.

NIH, I think you agree, does an incredible amount of important research. There are lots of those investments in NIH research that don't pan out. They don't cure cancer. They don't necessarily—I hope you will agree with the logic that just because some of those investments in particular research projects don't pan out, that the solution is to get rid of investment in NIH. You are not suggesting that, are you?

Mr. BUSH. Well, there is a huge difference between investing, or a loan guarantee for Solyndra and investing in basic research in NIH. If you are trying to equate the two, I would disagree. I don't think that there is—of course, research never works out exactly. But through trial and error, great minds develop discoveries, in cooperation with other scientists, that yield results that improve the human condition. So it is not a venture capital investment, it is more related to an expenditure that I think is more than appropriate for the Federal Government to have. And you know, there may be cuts over a very high base, but there has been dramatic increases in spending in NIH if you look at it over the last 20 years.

And I am not uncomfortable with that. I do think that the same thing that my testimony I brought out that there should be—you should challenge every basic assumption about how this money is spent. There should be benchmarks. If it doesn't work, you ought to move on to other things. But a particular science project by a particular researcher if it doesn't work out, that is not my point.

Mr. VAN HOLLEN. I just want to clarify. I didn't think it was. I mean, we also have student loan programs. Not every student loan gets repaid. I don't think that—most of us anyway, those of us who support a student loan program, say, well, we didn't get all the loans repaid, so we are going to shut down the student loan program. Or Small Business Administration makes loans. Not every small business is successful. I don't think the solution is to shut down the Small Business Administration.

You mentioned specifically doing more advanced sort of cutting-edge research into energy at the Department of Energy. I agree. I think that is a very important role. The budget that is coming out of this House significantly cuts back in the proposals that the President has asked for in that very area. So I think that, you know, the chairman asked about actions taken by Governors. I know lots of Governors, including yourself, who took efforts in the renewable energy area. Some of them may have been successful; some not. But I just hope we don't, you know, take the lesson that because some of these things don't work out, we shouldn't be making investments in areas of basic research, and as you said, in some cases applied research.

Let me just close with this. I agree with you—first of all, I also agree with Mr. Edwards that we should get rid of some of those agriculture subsidies. We put forward a proposal recently to do exactly that in this committee.

Chairman RYAN. And our budget does as well.

Mr. VAN HOLLEN. But I agree with you, Governor Bush, that if we find a program that is not working, let's get rid of it, let's reduce the deficit. I wonder if you would take that same approach to tax expenditures that aren't serving their purpose. In other words, would you agree that if you identify a tax expenditure that is not serving any useful purpose, that we just get rid of it to reduce the deficit?

Mr. BUSH. You know, I would love to see common ground to see dramatic reductions of tax expenditures, or whatever you want to call them, and have a dollar-for-dollar reduction in tax rates that would spur economic activity that would move us away from an L-shaped recovery to a V-shaped recovery.

Mr. VAN HOLLEN. So just to be clear, you disagree with the recommendations of Simpson-Bowles and Rivlin-Domenici that says through tax reform, we should do exactly what you say, which is to try and make the Tax Code a little simpler, but we should also use some of the funds generated to help reduce the deficit. You disagree with that. You agree with essentially the form of the Grover Norquist pledge, which is not—do you agree with the Grover Norquist pledge?

Mr. BUSH. Okay. So I ran for office three times. The pledge was presented to me three times. I never signed the pledge. I cut taxes every year I was Governor. I don't believe you outsource your principles and convictions to people. I respect Grover's political involvement. He has every right to do it. But I never signed any pledge.

Chairman RYAN. Thank you.

Mr. VAN HOLLEN. Thank you, Governor.

Chairman RYAN. Mr. Cole.

Mr. COLE. Thank you very much.

Governor, good to see you. Thank you for being here.

And if I may, thank you for being here not only as a representative of a family with an extraordinarily remarkable record of public service to this country in every way, but being here as a person with considerable accomplishments of your own, and certainly with the ability to speak for yourself, not for every other member of your family. So thanks for being here. And thanks by the way.

Mr. BUSH. Mr. Congressman, can I say that my brother sends his warm regards to Congressman Waxman?

Mr. COLE. I am sure he does, and I am sure he does it from a great distance, too.

But I appreciate your brother's class, frankly, since he has left office, as well, and the manner which he has handled himself. And we saw an example of that yesterday that reflected both very well on him and former First Lady Bush and on the First Family today, on the President and First Lady Obama as well. So maybe if our committee operated a little bit more like we saw yesterday at the White House, we would get a little bit further down the road.

We have dealt with a lot of history here. I am not exactly sure why we are always looking back, because I think we are trying to score political points and that. I want to ask you about a couple of problems that we are going to be facing very quickly. The 2001 and 2003 tax cuts all expire. The President saw fit to extend those 2 years ago. He could have ended every single one of them had he chosen to, but he must have thought at least at that point those tax cuts were in the best interests of the economy. Got a couple other things he wanted as well, extension of unemployment and a payroll tax cut. But we are going to, all those questions are being revisited. I would like very much your views on whether those tax cuts ought to be extended and then what other things within the Tax Code you think we ought to be doing to try and achieve the objectives you outlined in your remarks.

Mr. BUSH. I think that, given the economic circumstances that we are in, I think they should be extended. The idea that a cut in taxes that took place 12 years ago is an extension of a tax cut rather than what it truly is, which on December 31, if nothing happens, a massive tax increase—something close to 3 percent of GDP, which would be a historic tax increase. The country has never done anything of that scale—speaks to the language of Washington. I mean, I have never understood why we wouldn't—maybe it is because of budgeting considerations that it is an extension of a tax cut. But basically you are talking about a massive tax increase. And I don't think that is the proper way to restore economic growth.

I think the objective ought to be that if we are growing at 1.5 percent per year at a time where historically, in this time of the cycle, we should be growing at 4, 5, 6 percent and have, say, stable growth over a sustained period of time—say, 3.5 percent instead of 1.5 percent—that 2 percent incremental growth over a 10-year period, which is how you all look at your budgets, that 2 percent incremental growth creates a Germany in the tenth year. The incremental growth creates something like $2.9 trillion of additional economic activity. And based on the tax rate, the effective tax rate in our country today, State, local, and Federal, that is over $1 trillion of revenues without raising taxes.

So the focus ought to be, in my mind, how do you create sustained economic growth? And then you restore the proper balance of government. If we are always reacting—assuming that we are only going to grow at 1 percent per year, then we are in a heap of trouble. There is no way to get out of the mess we are in, where we are spending—roughly 40 cents of every dollar spent is financed and it is financed in increasingly shorter durations with monetary policy that yields zero percent interest rates.

At some point, we are not going to be slightly larger than the smallest country in Europe, and the focus of the world's financial institutions and investors are going to be looking at the United States. And when that happens and we are not prepared, because we haven't dealt with the structural challenge we face and we are not creating a high growth economy, then the price we pay is enormous, particularly for the next generation. So I would say the place where you could get the greatest sustained growth would be an energy policy based on our own resources and based on American innovation.

I would argue—I am a little out of step with my own party here perhaps, temporarily—I would argue for looking at immigration as an economic solution to our problems; that we identify aspirational people, allow them to come in to pursue their dreams in our own country. I think a total review of the rulemaking process and the existing regulations on our country today to apply 21st century rules on top of our economy would be a burst of economic activity. And then at the State and local level, a transformation of our education system.

Those things aren't necessarily ideological. You can have your budget fights and the tax fights. I am sure they will go on with without me. That could, I think, help create sustained economic growth. And then the debate might not be about the ones we are having in Washington today. It would be about something different.

So tax reform and those four things that I brought up, I think would create a really interesting climate for sustained growth.

Mr. COLE. Thank you Governor. I yield back.

Chairman RYAN. Thank you. Your immigration views sounded good to me. Mr. Doggett.

Mr. DOGGETT. Well, they may sound good to me, too. Welcome, Governor. Let me just ask you specifically whether then you support the DREAM Act as it has currently been introduced, so that young people who came here, through no decision of their own as a child, have a path to citizenship if they have played by the rules, gone to school, and are ready to contribute to America.

Mr. BUSH. I haven't seen the current form of the DREAM Act so I can't comment on it.

Mr. DOGGETT. It is the same version we have offered the last four sessions against Republican opposition. You are not familiar with it?

Mr. BUSH. I don't want to insult you, but I don't follow everything. But I do support, I have read Senator Rubio's——

Mr. DOGGETT. It doesn't provide a path to citizenship.

Let me go to something you are familiar with, which was your testimony which I think raises the right question: Why should a company pay taxes to support government subsidies for one of its competitors?

Mr. Edwards answered that question very specifically in saying the place to start is to eliminate $100 billion, almost, of business subsidies every year. Do you agree with him?

Mr. BUSH. Yeah. This is a place where there seems to be common ground. We should have a thoughtful review of all sorts of subsidies.

Mr. DOGGETT. Well, I know we want to be thoughtful and I know we want to review, but you agree with him that we should eliminate $100 billion of business subsidies?

Mr. BUSH. With all due respect, I don't know—give me the specifics and I am happy to answer it.

Mr. DOGGETT. I am relying on his specifics. But I will give you a smaller specific that I think is included, and that is $4 billion every year in preferential tax treatment to Exxon, Chevron, and the other Big Five oil companies for drilling off our coastlines. Do you favor eliminating those subsidies?

Mr. BUSH. In return for lower tax rates, I think that is exactly what we ought to be doing.

Mr. DOGGETT. Great. We have had discussions about simplifying the Federal Tax Code. Everyone is for it. But it has been simply impossible to get a description of any preferential tax provisions or loopholes that ought to be closed.

Could you identify, in addition to closing the preferential treatment for Exxon any other tax loopholes or preferential tax provisions, that you favor closely?

Mr. BUSH. Well, first of all, I don't favor—just to be clear because this is a "gotcha" kind of environment, it seems like. I am not for specifically closing loopholes just for Exxon. I mean let's be clear. I would say this ought to be industry-wide in return for lower rates. Are you targeting—are you asking me, should we target one company against other companies?

Mr. DOGGETT. I am asking you, if we were to lower corporate rates, which is actually something that I agree with you on, whether—and we are not going to borrow from the Chinese and the Saudis to do it—you have indicated that you would be willing to close the loopholes for Exxon and Chevron to help pay for that. And I am asking you if you can identify anything else, because I can't get my colleagues to do that, to identify any of the tax loopholes they would close. Which other ones are you in favor of closing in order to get lower corporate tax rates and not have to borrow from the Chinese?

Mr. BUSH. I would start by doing it, like maybe you all could come up with an idea like the BRAC Commission and start with all of them being eliminated and build from that basis. So I think the general approach ought to be that this crisis that we face is an opportunity to recast who we are as a Nation. And do we trust the American people interact amongst themselves in ways that have historically created more prosperity than this command-and-control approach that we——

Mr. DOGGETT. Well, I appreciate that. And we, of course, have had some bipartisan commissions looking at our budget. Senator Domenici and Alice Rivlin, the Simpson-Bowles Commission, every one of them have said, We cannot get our budget in balance without due revenues. In contrast, Republican Presidential candidates, when offered the choice of $1 of new revenue for $10 of reduced spending, said they wouldn't agree to a bipartisan agreement like that. Would you?

Mr. BUSH. Ten to one?

Mr. DOGGETT. Yes, sir.

Mr. BUSH. This will prove I am not running for anything.

Yeah. If you could get a——

Mr. DOGGETT. I appreciate your candor. I mean, basically, we cannot close the budget gap without addressing both spending and revenue, as all of those bipartisan commissions have recommended; wouldn't you agree?

Mr. BUSH. If you could bring to me a majority of people to say that we are going to have $10 of spending cuts for $1 of revenue enhancement, put me in, Coach.

Chairman RYAN. The problem is the 10 never materializes.

Mr. BUSH. I have never seen a $10 cut.

Chairman RYAN. Thank you for your testimony, Governor.

Mr. BUSH. That would be wonderful. Let's see it. That would be spectacular.

Chairman RYAN. Mr. Lankford.

Mr. LANKFORD. Thank you. Thanks, all of you, for the chance to be here.

It is interesting when we talk about targeted tax cuts that we always do seem to go back to the same areas, that all the problems in America seem to reside around the energy companies. When I went back to the Fortune 500 list, I often hear about the top five energy companies there and how much money they make. I rarely hear anyone talk about the top five technology companies on the Fortune 500 list who make more than the top five energy companies. But the conversation is always about, what do we do to hit the oil companies? And it begs back to the same question. It is this body trying to determine who they like and don't like today, and then to determine tax policy to determine that company makes too much money and I don't like them; that company makes just as much money, but I do like them so they will have different tax policies.

So the challenge becomes how do we handle a tax policy that actually reforms the system and it cleans up all the preferences that are out there on that? Mr. Edwards, you have made multiple comments on this. I enjoyed hearing your comments on some of the issues of how do we start the process that you see of working through the system here; that it doesn't come down to this body to determining I-like-you, I-don't-like-you, type politics in tax policy.

Mr. EDWARDS. I think the most important tax reform we need in the United States is to lower our corporate tax rate. We now have the highest rate in the world, 40 percent with State taxes included.

The chairman mentioned Canada. Canada has actually chopped their Federal corporate tax rate to 15 percent now. And what is astounding, if you look at the Canadian 15 percent Federal corporate tax rate and our 35 percent Federal corporate tax rate, in both countries the corporate tax raises about the same percent of GDP and revenue, about 2 percent. So what is going on here? The Canadians collect just as much as we do with a rate that is less than half as high.

What is going on is that there has been a massive reduction in tax avoidance in Canada. The biggest loopholes in our corporate Tax Code are actually not the legislated loopholes, like the ones for the energy industry and the like. They are what I call automatic loopholes. If you have a high rate, it pushes companies to really bend the law, to move their profits offshore in fancy ways with fancy financial accounting. If we lowered our rate, that money would come back to the United States.

You mentioned the difference between tech companies and energy companies. It is the tech companies that are probably the best at this automatic loophole stuff. Apple and Microsoft, for example, are great at legally moving their profits offshore because, of course, their production, their profits, are very mobile in the global economy. Intellectual property is very mobile. So these companies move their intellectual property offshore, you know, in legal ways. We can only get that money back if we lower our corporate tax rate. And I think that is the most important thing for us to do.

Mr. LANKFORD. Okay. Let me mention a couple of things. We talked about bankruptcy as well. I am astounded at the number of times that we are talking about the GM bailout. And as the Governor mentioned here as well, that was a bankruptcy process. It was just tightly controlled by the Federal Government with a lot of new bankruptcy rules that were put into it. Many of us fly Delta Airlines or American Airlines, who is currently going through bankruptcy. There is this perception that if GM went through bankruptcy, we would no longer have automobile dealers or manufacturing because it would all go away. I will get on an American Airlines flight later this afternoon, currently going through bankruptcy. This is something that has been a constitutional responsibility of this body for a very long time.

But again, you go back to the preferences of how we pick and choose what is our favorite group and how are we going to help them and not help another one. There wasn't a rush to go bail out American Airlines when they started going through bankruptcy. It was just a rush to go to other groups.

Another one is the venture capital. There is an entrepreneur in Oklahoma City who created an incredible product, has made a ton of money off of it, and is spending a lot of his time now helping companies get started in technology areas. He sinks a lot of his time into that.

This body seems to spend a lot of time saying well, we have access to a lot of money; maybe we should do the same things. This entrepreneur loves to do that kind of stuff, but it is his money so it is a different animal. How would you suppose we process through some of those areas of a startup, when we move from the difference of research to actually implementation?

Mr. EDWARDS. Well, I mean with venture capital and angel investment, tax rates which I have written about, are extremely important. Capital gains tax rates are of course important because these often wealthy people and serial entrepreneurs, as they call them, they build up a lot of money, they invest in new companies. What is their return for investing in new companies? They pump $50,000 or $100,000 into a new company. They have to patiently wait a few years to see if the company makes it into profitability.

And if it does, they get a capital gain as a return. So the capital gains tax is a direct tax on them. It is a direct disincentive for them to invest. Ordinary income tax rates are very important I think also because a lot of people in the very top income group are small business people and are angel investors. There are about 300,000 angel investors in the United States. These are rich people, like Bill Gates and Paul Allen and many others who spend a lot of time pumping money into small startups. If you raise the tax rates on them, they are simply going to have less cash and less incentive to put their money into new startup companies. So I really think we have to look at the tax policy to spur more financing of entrepreneurship.

Chairman RYAN. Thank you. Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman. Thanks to the panel.

Governor, welcome. My family owns a company based in your State. My brother is down there running it. Sonny's Barbecue. I think he even contributed to your campaign at one point.

Mr. BUSH. I like the barbecue.

Mr. YARMUTH. Very good. Thank you. I appreciate the plug.

I am kind of astounded in one way that throughout this entire conversation, there is all this talk about cronyism and special interests and preferences and so forth. And there has been no discussion in terms of how in approaching that, about the way these preferences get into the law. I am talking about the campaign finance system in this country.

In terms of dealing with all of these things, do you believe that that has any role or that we ought to address the way we finance campaigns, particularly at the congressional level, where many of these preferences get put into law because of the lobbying and the money that is in the political system?

Governor, first. You have seniority here.

Mr. BUSH. What is that based on, age?

Mr. YARMUTH. Well, you testified first. That is all.

Mr. BUSH. Thank you.

In the perfect world, we could have a different financing system. I love the idea of having campaigns be funded directly rather than indirectly and have no limits and total transparency. So if people were offended by a large donor, that the candidate—he or she would have to accept responsibility for the message and for the amount of money and for who gave it, that would be, for me a—talking about markets rather than government—controlled kind of response. That would be a better approach.

But you know magic wands don't exist. The law exists the way it is. I would suggest to you that Congress ought to show more self-restraint about allowing that influence to change policy, if that is the view. I mean, this should not be a honey pot for people to create either a sanctuary for their own business, to give them an advantage at the expense of another business, or to give them a special deal that hinders our ability to recover in a more robust way.

Mr. YARMUTH. Mr. Edwards, would you like to comment briefly on that? I am just curious. We have the Koch brothers, for instance—why not pick on energy—who said they are going to spend $400 million in this election. They are not doing it, I am sure, because they just think that we ought to let the free market work its will and that alternative energy should—I am sure they would want to promote that. I won't go into that. The question stands.

Mr. EDWARDS. Corporate leaders, just like any Americans, of course, have a fundamental right to lobby or petition Congress. And frankly, I don't think there is anything we can do about that. That is a fundamental right. It is always going to happen. You can pass as many laws as you want. I don't think it will stop it. I think campaign finance laws too often act as sort of incumbency protection deals.

But what you can do is, as the Governor pointed out, you can stop spending the money out. I think having business subsidy programs, you throw fuel on the fire of the lobbying. The more business subsidies companies like Boeing get, the more they are going to lobby for more business subsidies. So it is a vicious cycle. But the way to stop it I think is to cut the spending.

Mr. YARMUTH. Congressman Waxman would you like to comment?

Mr. WAXMAN. The rich and powerful want to stay rich and powerful. And the less government gets involved to make things fairer for everybody they will get richer and they will be more powerful. And now that we have opened the campaign laws to unlimited and dead-end unreported contributions from corporations, I don't think that the lower income people are going to benefit. It is going to be the well-to-do. And some of these guys, like the Koch brothers and the energy companies, they don't want competition from alternative energies. They want to squash competition. That is why government has got to be involved.

All three of us and a number of people on the committee have said, Well, we certainly ought to fund research. Right now on the House floor, we are dealing with the appropriations for the energy and water bill, and we are now cutting the money for ARPA-E, which does cutting-edge energy research, by below the administration's request and nearly a third below current levels. So we are cutting back on research and we are hearing that everybody is to blame, so what we need to do is to have the government do less and let the rich and powerful stay rich and powerful.

Mr. YARMUTH. Quick question, and I only have 20 seconds. Governor, I really applaud your comments about research and also about immigration reform. I think that is important.

What would you say about infrastructure? Is that an important thing that we ought to be dealing with in that same category? Should we really be cutting back on infrastructure spending in the country right now?

Mr. BUSH. I am an old-school guy. I think that the role of government is to protect our shores, to provide security on our streets, to be the means by which we build infrastructure so that we can grow, and, I would add, build capacity—this is not the role of the Federal Government—build capacity so that these gaps in income are dealt with in a more fundamental way, which is to prepare people to be competitive in a more open system rather than trying to redistribute wealth and then provide support. So I am a conservative.

Beyond that, then everything ought to be challenged. If you don't challenge it, then those things are the things that get squeezed out.

Mr. YARMUTH. Thank you.

Chairman RYAN. Thank you. Mr. Rokita.

Mr. ROKITA. Thank you, Mr. Chairman. I appreciate all the witnesses' testimony. It has been very educational, as always.

Governor, my hat is off to your family as well. I associate myself with Tom Cole from Oklahoma. I was very proud to be an American last night, for how your family acted and how the Obama family acted. It was great to see. I hope every American gets to see that tape.

I also don't think you are old-school. I just think you believe in the plain meaning of the Constitution and perhaps that it was one of the greatest documents to prove American exceptionalism; in fact, a unique document in that it is the first time those ideas ever came together at the same time in the same place, and I hope we never lose sight of that.

I want to focus a little bit on my colleague Mr. Waxman's comments which I agree with—we have some questions to answer and that we are at a crossroads for the heart and soul of this Nation. I was intrigued, however, by his use of the term "rules of the road," as if that is what one of the groups around here wants to do and as if the other group around here simply wants to engage in anarchy, which couldn't be further from the truth. I think we all understand that there is a need for government and a need for it to have reasonable regulations so that there is an even playing field, so that there is an equal opportunity for success, if not an equal outcome. And perhaps that is where the difference is.

On another level I think this is really about how much control is appropriate for government to have over the individual. And I think that is where we really disagree.

For this last year, I engaged in my little rank-and-file office in a program called Red Tape Rollback. This is just one Congressman's work to try to roll back the scope and heavy boot of this Federal Government. We had 71 different Indiana businesses and individuals write us about 41 separate different regulations, and not all of them made the paper, nor should they. Most were very obscure. But they prove that what this Federal Government and what a certain group of people here in Washington, D.C. want to do—and that goes far beyond establishing the rules of the road. Several farmers wrote in and said, the EPA is considering regulating the dust that my tractors kick up as we cultivate the fields as particulate matter. That is not establishing the rules of the road. Another group of farmers wrote in and said, you know what, they want to limit the kind of work that farm kids do.

This country was built on work ethic and character and liberty and all those qualities in past generations, and in the current generation, occurred through work on a farm and work in other places.

The Department of Labor is also considering prohibiting youth soccer referees—right—I used to be a referee. I played soccer. I ref'd for a while as an adult. The Department of Labor is considering prohibiting these kids from earning the $10 a game from refereeing little soccer games that happen on the weekends and after school all over this country. For some of us, that is establishing apparently the rules of the road. For others of us, that goes way beyond and is unnecessary.

I don't know any other country on the face of the Earth that is more masochistic than we are when it comes to sucking or carving something out of the ground, like coal or oil, and considering it wealth. Every other country understands this and exploits it, in the best sense of that word, to its benefit, except for a group of people here in America who can't understand that. That is beyond the rules of the road.

What also is beyond the rules of the road is that we, as American people, are getting told what light bulbs to use, how much water can be in our toilets, that a farmer not only has to get a permit to use pesticides on his crops but has to get two or three pesticide permits from the same agency. There is a medical device tax being proposed. There are 300 medical device companies in Indiana, all of them started through entrepreneurship, another foundation of this country. Yet we somehow think—at least a group of us think—that it is within the rules of the road to put a tax on these folks and think that they are going to keep innovating, that they are going to keep creating.

That is just a couple of examples in this document. Mr. Chairman, I thank you for the time. I yield back. And I thank the witnesses again.

Chairman RYAN. Thank you. Mr. Honda.

Mr. HONDA. Thank you, Mr. Chairman. And I want to thank the panelists for being here this morning.

I am a classroom teacher. I am not a financial expert. But I felt like we bounced all over the map when we talked about the title is free enterprise and barriers to free enterprise. I heard from each one of you things I do agree with, and some of you I disagree with very strongly. But I guess what we are hearing are high points and low points of each other's parties and positions. I think this country is looking for some balance.

So I guess what I will ask each one of you, what do you agree with and what do you disagree with on each other's presentation in terms of, you know, looking at a balanced approach to our economy, a balanced approach to being fair to each of our citizens in this country, and do you really think that money behind each person is the factor that gives power to a vote? I mean, it seems like when we talk about votes, we talk about money first, rather than the power of each individual's singular power of their own vote. One man, one vote, regardless of their standing.

Where would we be today in this country if each person had the same amount of votes without reference to their economic standing or the power of their pocket? And how do you think that will affect our economy in this country?

Mr. BUSH. We would be in a heap of trouble. Empowering people to make decisions for the future of the country is the path. I agree with what you are saying, Congressman, completely. As it relates to money and politics, we basically have parity. Both sides effectively spend about the same amount of money if you total it all up. Four years ago, I think maybe President Obama and his team probably spent significantly more. This time it looks like it is about the same.

Mr. HONDA. Excuse me, Governor. With respect to one person and one vote without respect to their pocketbook.

Mr. BUSH. I am for it.

Mr. HONDA. And you were just going through a comparison between if you had the money and how that would be different in the outcome.

Mr. BUSH. All I am saying is that money goes to both parties. It is an equal opportunity funder.

Mr. HONDA. Mr. Edwards.

Mr. EDWARDS. Well, I mean, you are suggesting that because you know the wealthier, they are more powerful and they can——

Mr. HONDA. I am not trying to suggest—I am just asking you, if the situation exists that each person had a vote and that one vote counted without respect to their pocketbook, how would that be different than what we are looking at today?

Mr. EDWARDS. I mean, it is sort of like a political science question. It seems to me the main reason why policymakers, Members of Congress, make decisions because of the voters in their districts. It is actually not money. It is what they think the voters want in their districts. So I think we already have sort of an equality between voters like that.

Mr. HONDA. Then why do we need Supreme Court decisions that define corporations as individuals rather than individual people, human beings having the power for that vote?

Mr. EDWARDS. You know I don't buy the line—the thing someone mentioned earlier, the idea that corporations have so much power in Washington, more power than anyone else. If that was true, why do we have the highest corporate tax rate in the world? If corporations were so powerful they would have cut the corporate tax rate and they would have done all other kinds of things to benefit them. I think the problem is that corporations spend all their time pushing for these narrow benefits just for their company, often to get a competitive advantage against other businesses. So I want the government in the economy to be a referee to provide equal treatment. So I am against any kind of unequal treatment for businesses or individuals.

Mr. WAXMAN. Mr. Honda, Chairman Ryan talked about the special interests here in Washington and how they influence things to get their way, often at the expense of ordinary taxpayers. He is absolutely right. But we have now opened up the special interests to win elections by distortions.

For example, there is a fantasy that has been circulated that EPA wants to regulate farm dust. And this was referred to a minute ago. That is just not true. They are not even proposing anything like that. But that example, promoted by the special interests, is being used to undermine a bill that Governor Bush's father signed, which was the Clean Air Act, which called for regulation of arsenic and toxic pollutants for mines and power plants and other industrial facilities that poison kids. Kids get their minds destroyed, often before they are even born, because of exposure to these chemicals.

So they take a little example that doesn't exist, blow it up. You don't even know who is paying for the ads. And then they get their way to try to repeal—the Bush that I respected the most, President George H.W. Bush's, greatest accomplishment—only because I don't know Governor Jeb Bush well enough—to regulate. And you have got to have regulations because the benefits from regulations so heavily outweigh the costs in terms of protecting people's health, saving lives, promoting a community that can work together and accomplish great things. So money speaks very loudly. And that Supreme Court decision gave a big megaphone to people who have a lot of money.

Chairman RYAN. Thank you. Mr. Stutzman.

Mr. STUTZMAN. Thank you, Mr. Chairman. And I want to thank the panel for being here as well. I have really enjoyed the conversation so far. And I want to just pass on to Governor Bush, I had the chance to visit with your son George within the past year and we have exchanged some emails and he is a great guy, and I am really glad to get to know him as well, and I am sure he reflects the values that you have taught him well. But I appreciate your family.

And also I, I want to talk about States rights, States responsibilities and actually where the States are the solution to the problems that we have. I really do believe that the States are going to be the solution to the problems that the Federal Government has created and has been a major part of.

I was in the Indiana legislature in 2005 when Governor Daniels was elected. And we had a transportation hole to fill. And we were talking about Garvey bonds, we were talking about gas taxes, and none of those were the good options. None of us felt that that was the right thing to do, to either raise taxes or to borrow more money from the future. So Indiana leased the toll road that we have in Indiana for $3.8 billion from the private sector. Now Washington is wanting to punish Indiana because we were creative, we were trying to find other ways of funding transportation programs.

Governor Bush, if you could talk a little bit about that. And also, Mr. Edwards, if you could talk about that. And Congressman Waxman, coming from the State of California that has a lot of fiscal issues as well, talk about where the States can—why can't we allow States to be creative in finding solutions like that within the States, and why it is important that Washington shouldn't punish those States for being creative?

Mr. BUSH. Well, thank you, Congressman. Personally, I loved that deal because they overpaid. So in this case, Indiana leased out a road that effectively people from Illinois and Ohio paid disproportionate fares for, to get to and from and the money was reinvested in infrastructure in places where, disproportionately, Hoosiers got the benefit from the infrastructure. It was a very creative deal.

And, interestingly, around the world, this is commonplace. Center left, center right, it doesn't really matter. The administrations, it seems as though this idea of private-public partnerships is very common. In the United States, with huge infrastructure needs as we have discussed, has lagged way behind other countries in this regard. So this is an example of, well, We must do it the way we have been doing it because we were doing it the way we were doing it, rather than pausing for a moment and saying, Are there best practices that we could apply from other places to maybe create more creative approaches. And I think you are right, to allow States to be the laboratories for this to work out would be a great idea.

Canada, to use the Canadian example, again, of transformation which has allowed them to weather these huge storms that our country is facing right now far better than we did. Their reforms and their pension obligations and their spending and the things that they did to get their government back to a proper level were done under conservative and liberal administrations. This was not as an ideological battle, it was simply a recognition that there are structural problems that exist. Fix the structural problems. That seemed to be the duty of leaders in Canada. And now they are paying a huge dividend because of it.

So I will give you another example real quick. Medicaid. We got under—I guess the Bush that you don't like as much as 41—I got a waiver or the State got a waiver to try a different approach on Medicaid that now is based on independent analysis. It has been proven to be more effective and at a lower cost, where we moved effectively to a defined contribution system, away from a pay-and-chase system that the Federal Government pays enormous amounts for. We got better health care outcomes. We empowered people to make decisions for themselves, and it yielded a better result.

Now that pilot that exists—now there is—the State law has changed based on that. I think the law is even better than what we proposed. It was modified based on seeing what the pilot yielded. And now they are in front of President Obama's administration to see if they can get an extension of the waiver, and it is possible that they will.

Mr. WAXMAN. Mr. Stutzman, you are absolutely right, letting States try things out on their own. In California we adopted a medical malpractice law that has held down insurance rates for doctors. So what do the Republicans want to do when faced with the failure of 30 million, 50 million people without getting insurance? They say, Oh, let's adopt a Federal law, take the power away from States and have one-size-fits-all medical malpractice. And that is their solution to health insurance inequities where people can't buy insurance because the insurance companies discriminate against them. Let the States do things. Let's not preempt them. We are going to learn a lot from them.

Mr. STUTZMAN. Can I count on you to help me stop the punishment from Senator Bingaman to punish Indiana for the lease of the toll road? Would you help me with that?

Mr. WAXMAN. Well, I would certainly want to learn more about it. And if I can help you, I would be glad to.

Mr. STUTZMAN. I yield back, Mr. Chairman.

Chairman RYAN. I will let you guys do a colloquy later. Another Californian, Ms. Bass.

Ms. BASS. Thank you. Mr. Waxman, I have two questions. I want to get my questions out and then let you have the rest of the time.

After July 2010, the government ended subsidizing banks to make federally guaranteed student loans. Switching to a 100 percent government direct lending saved taxpayers $61 billion over 10 years. I wanted to know if you thought reforming the student loan program was in the best interests of the taxpayer and put the students first.

And then my second question involves a hearing that you had in 2008 where you held a series of hearings with the CEOs of Lehman Brothers, AIG, and others into the causes of the Wall Street collapse. So I wanted to know if you could share what you learned from the testimony that was given in particular about the need of the government to regulate.

Mr. WAXMAN. I think there are a lot of people who look at the law and then try to figure out how to get around it or abuse it. You see that in the tax system all the time. They have to pay their taxes but they look to see if they can expand loopholes to their benefit. And that means that sometimes we have to look at the laws and revise them.

The student loans have been abused a lot by the private colleges that get students' Federal loan money and then don't really deliver the education that they prompted to these students. That is one abuse. The other is that we have a chance to lower the interest rates for students that are struggling under the cost of student loan higher interest that are going to come about if we don't change the law. And we have been trying to figure out how to pay for that. So the Republicans say, Let's take away preventive health care. That makes no sense. We ought to prevent diseases rather have to pay to treat them later.

They have come up with a new proposal I read about in the paper today that they want to take away—Governor, you would be interested in this—they want to take away the ability of States to raise money for their Medicaid costs through taxes on the providers. It has been used by many States—I don't know about Florida, but it has been used in California. If the States can't come up with their money, the States can't provide service for the very poor. So we are being told we have got to cut the benefit for health for the very poor, usually disabled people, in order to pay for student loans? That doesn't make sense to me.

We had a lot of interesting hearings about what happened in 2008. And the most dramatic one to me was when Alan Greenspan, who had the power as the head of the Federal Reserve to regulate some of these loans that were being used for mortgages and then diced and sliced and sold off, that brought about the downfall. And he had the power to regulate, and he didn't. And I asked him whether his ideology kept him from recognizing the failure in the market. And he said he was absolutely shocked, that he was blinded by his ideology, that he thought markets would correct themselves.

Now what I am concerned about, Chairman Ryan, and others, is that there is too much of a faith that markets are going to correct themselves, that businesses will do things right. Well, they will if they have the rules of the road to regulate them, to be sure they don't abuse their powers, because often they are very powerful and they want to squelch out competitors. And it also means that you have got to protect the public health and well-being.

So one of the biggest problems for the 2008 recession was, whatever laws we had, they weren't being enforced. Laws that could have been adopted were not adopted by the Federal Reserve. And the cops were not there to tell the banks, You just can't use other people's money and take these kinds of risks. That was something for both parties when we did away with the Glass-Steagall restrictions, which came about during the Great Depression, when we said, Banks, we are going to protect you with Federal dollars but we are not going to let you take depositors' money and take risks with them. And that was repealed under President Clinton, with strong bipartisan support—I voted against it—and it allowed the banks to take all those risks. And with those risks, the taxpayers ended up having to pay the cost. And a lot of people are still suffering because of unemployment.

Ms. BASS. With the remainder of your time, if you would like to elaborate some on the document that Mr. Rokita had about regulations.

Mr. WAXMAN. Oh, well, he gave a bunch of examples that I couldn't agree more with, stupid regulations. We don't want stupid regulations. To say that regulations are all stupid, that is just—we don't want that. But regulations are needed in order to protect the public interest.

President George H.W. Bush signed the law that put in place a cap-and-trade program that told private enterprise, You figure out how to reduce the sulfur emissions that are causing acid rain. They are killing the forests and the streams in the Northeast and in Canada. And he said, We can't allow that. So we said, You have got all the market incentives. Industries came in and said, oh, my God, we will go bankrupt. Well, they did it at a fraction of the price that they said it would cost them, and it was successful.

Chairman RYAN. Thank you. Mrs. Black.

Mrs. BLACK. Thank you, Mr. Chairman. This has been a very interesting conversation. Mr. Edwards, we have talked about tax deductions and subsidies a little bit. But one program that I have become aware of in my last 16 months since being in this office and visiting a number of the industries in my district, those that are in the food production area have made me aware of market allotments, something that I guess I really didn't know much about until I had them educate me. But the fact that we in the sugar program have market allotments to certain producers based on their history and their expected productions, this has made it extremely difficult for new entrants to come into the market, which they tell me really does cause an unnatural high cost for sugar.

Does the sugar program, through these market allotments, in your opinion, provide a structural barrier to entry?

Mr. EDWARDS. Yeah. Actually the sugar program is something I have written about. And it is an interesting example of corporate welfare that is basically off-budget. It is a regulatory corporate welfare program. Basically, in my view, the United States has kind of a Soviet-style system for sugar production. We have import barriers. We have detailed quotas. We have loan programs that essentially guarantee the price. And I think, unfortunately, what it does is, by blocking entry into the industry, it raises the domestic sugar price that usually, you know, the price varies. But it is usually about twice the world sugar price. And the effect of that is not only to hurt consumers—and there has been Department of Commerce studies on this—it hurts consumers by the tune of about $2 billion a year. But it also hurts U.S. companies that produce food items with sugar, so companies like Kellogg and companies that make chocolate bars and confectioneries and that sort of thing, they have had to move their production out of the country to either Canada or Mexico to access the lower-priced sugar. So the sugar program in my view is an example of its corporate welfare. It has actually helped some sugar producers but it creates this broader damage to other businesses.

Mrs. BLACK. I do want to note that one of the pieces of information they gave me was an actual advertisement that was coming from the Canadian companies to say, Produce your cake here in the United States, but send it to Canada to get its sugar frosting, because they can save so much money. And this is truly happening. So we see now a market that is moving into Canada, taking jobs away from us, and then also increasing the costs to the consumer at the other end. So I appreciate your information on that.

Are there other market allotments that you would raise up here besides the sugar?

Mr. EDWARDS. The milk program. We have a similar sort of program with U.S. dairy production, milk and cheese and the like. Essentially it acts the same way. It is sort of competition for—it blocks competition in favor of existing producers and it pushes up the price of milk and dairy products, which often hurts lower-income Americans, for example. So I think that there is a lot the Federal Government does that helps certain businesses, but it actually hurts consumers and particularly lower-income consumers.

Mrs. BLACK. Thank you so much.

And Governor Bush, I want to go to—since I was in State government and we had TennCare in the State of Tennessee at the same time that you were dealing with your Medicaid issue, and we were looking at your State as the model for a defined benefit for those who are on Medicaid. And I know it was a very successful program. Unfortunately, I didn't have the kind of support I needed to bring that same model to the State of Tennessee.

But given what you are saying about the success there, would you agree that block-granting Medicaid may be a more effective way, an affordable way, for States to come up with their own ingenuity on how they can best provide for those who need that safety net?

Mr. BUSH. I do. I think that there ought to be a careful review of the rules that go along with the block granting. You have to apply—if you don't get a waiver from some of the requirements, that would be a challenge. But it is a far better approach to be forced to innovate because State budgets—I don't know if there is a single State that doesn't have a challenge with their Medicaid budget. And they are forced then to either stop spending on other things—because we have balanced budget requirements—or reform how Medicaid works.

So being given the freedom to reform and innovate in return for some fixed amount of money that would come—in our case I believe we were probably one-half of the growth projected—that we gave up that half of the growth in return for the ability to innovate, that that is a good trade-off.

Mrs. BLACK. Well, thank you for that because I think too many times we just continue to think about taxing and bringing more revenue through taxing to help subsidize these programs, and yet there are some innovative ways to do it using market competition. I yield back my time.

Chairman RYAN. Thank you. Ms. Castor.

Ms. CASTOR. Thank you, Mr. Chairman. And welcome to our panel. If I have learned anything in my 45 years is that nothing is black and white. There are very few absolutes in this world. And that is one of the reasons that I think the extreme Tea Party ideology is so divorced from reality. Free enterprise and government are not either/or propositions. Thank goodness we have both. And we celebrate capitalism and free markets in America.

But I hope that we recognize that after living through the worst economic collapse in our lifetimes, that reasonable oversight of Wall Street excess is important.

Now when we talk about government in America, I view government as a way to secure opportunity for all. In fact, Thomas Jefferson wrote in the Declaration of Independence that we are all endowed by our Creator with certain unalienable rights; among these are life, liberty, and the pursuit of happiness. But then Jefferson went on and he said that to secure these rights, governments are instituted.

People want good government. And thank goodness in this 230-year-plus experiment that has created the greatest Nation in the world, we have successes to celebrate in government. When other countries look at us, they see the premiere government-funded medical research center second to none across the globe. We can build bridges, airports. Our commitment to taking care of our veterans is second to none across the world. That is something government does a pretty darn good job of. And our public schools and our colleges and universities are the envy of the world, and people want these institutions to succeed.

That is why I just don't understand this kind of extreme Tea Party ideology that says government has no role to play and the free markets are the answer to all. Because really what I think drives citizens crazy more than all, are these impediments to free enterprise and good government, when special interests achieve an unfair advantage, whether that is in business or these special interests use campaign contributions or their political influence to gain an undue advantage when it comes to public policy.

I have seen it in the State of Florida. We have a fundamental discriminant policy over education. Governor, you are an outspoken advocate for school vouchers. I don't think that is a secret.

I view vouchers as kind of a corporate welfare scheme, where you are taking money from the public schools, undermining their mission, giving those funds to private for-profit centers. I think it is oftentimes those vouchers come with no accountability for a student's success or fiscal responsibility or oversight of those profit centers. And I fear that what is happening with your push to take taxpayer dollars and give it to the digital classroom as a substitute for a good teacher—a good classroom as a supplement, fine—but to drain public resources and hurt our public schools by focusing on a digital classroom that have a poor record of student success I think is questionable.

So here is the inconsistency: Vouchers, digital schools without classrooms, I think you could include private for-profit tutoring companies that came in under No Child Left Behind. These are not free enterprise, are they? A free enterprise in education would be an independent private school not dependent on government funds. But what we have here are government-backed, government-funded businesses. What do you call it when a private for-profit business uses its political contacts to get the government to direct money to private business rather than public schools? Is that—you said honey pot. Is that capitalism, "crony capitalism" the chairman has thrown around here, or just effective lobbying?

So the National Education Policy Center wrote in a recent report that these policy prescriptions are part of a corporate-driven agenda to access public education funds. These folks talk about the free market, but they couldn't exist without taxpayer dollars.

Chairman RYAN. Since you used up all your time for the preamble and the question, and it is directed straight to Governor Bush, go ahead, Governor Bush, and take time to respond.

Mr. BUSH. The voucher programs that exist are three in Florida. You have a corporate tax scholarship program where companies voluntarily give a dollar-for-dollar credit to an organization that is not for profit, that provides for low-income Floridians a chance to go to a private school. The best I can tell, every one of those is a not-for-profit, not a for-profit.

We have a McKay scholarship program which says that if a parent is not satisfied, based on Federal law, with the individual education plan under the IDEA law, that they can take, dollar for dollar, the money that is not the government's money; it is their money for their child to go to a private option. The best I recall every one of those entities is a not-for-profit as well.

So to use the Thomas Jefferson analogy, I don't think that President Jefferson, if he knew that we were spending at the level we were spending, if he saw the size and the scope of the Federal Government, he would be appalled. Why not empower people that don't have choices to be able to—be able to go to another option? It has worked. Public schools in the State of Florida are better off based on the only measurement that matters, Congressman Castor, which are outcomes. Based on the NAEP scores, public schools are better. We have gone from, for example, 29th out of 31 in fourth grade reading, to something like now I think we are 11th out of 50 States.

Ms. CASTOR. But those same accountability standards have not been applied to many of——

Chairman RYAN. The gentlelady's time has expired.

If we give you 10 minutes, then everybody else. So the time for the gentlelady has expired. He gets time to respond since you used up all your time to ask him a question.

Mr. BUSH. On digital learning, a great majority of the courses on digital learning will be done in the classroom, high-quality content brought in. Using the Internet and the abilities for adaptive software to enhance the learning experience seems to be a 21st century solution that ought to be embraced by everybody. In fact, a great majority of people in the States, left and right, are supporting this. Thank you.

Chairman RYAN. Thank you. Mr. Huelskamp.

Mr. HUELSKAMP. Thank you, Mr. Chairman.

And Governor, I want to thank you for being here. And I am glad the gentlelady—or I guess you brought up the McKay Scholarship issue. That is I think a tremendous model for providing options for special needs children and their families. It has been a very successful program.

I also applaud the State and your efforts on Medicaid reform and actually presenting some options. I come from the State of Kansas. We tried to emulate and implement some of those, even under our former Governor, who is now head of the HHS. It is kind of interesting that we put some proposals before her as a State that she wanted to do when she was Governor, so I look forward to her approval of those.

But one thing I want to talk about this morning is the Obama jobs deficit, though. Based on the projections from the administration that with their stimulus package, that if nothing had passed in the stimulus package they projected the unemployment rate today, this month, would be 6 percent if nothing was done. It is sitting at 8.2 percent. The Obama jobs deficit is a 13 million dollar—13 million job failure that they failed. Its impact has not worked.

And I will ask Chris and the Governor as well, can you tell us why you think that stimulus plan failed? Again, it is going to cost us about $1.1 trillion. So I open it up for that question.

Mr. EDWARDS. I think it is astounding. I think the Governor mentioned that it is the slowest recovery of any of the recessions since World War II, which is remarkable. I think, you know, what market economies do when they are left alone is they naturally adjust, prices and wages adjust, and the economy starts growing again. We have seen that in every recession that when the government leaves it alone, it naturally starts growing again. Go back to 1921, there was a terrible recession; unemployment soared to 15 percent. But the government at the time, Congress at the time didn't do anything, and the U.S. economy very quickly adjusted and started growing again. I think that there has been lots of mistakes.

I think the jobs problem I think is ultimately a business investment problem. If you look at the national income accounts data, U.S. companies are not building new factories. They are not expanding their factories. They are buying equipment. Investment and the like has recovered. But investment in new factories has not recovered. It plunged, and it is at very low levels today. When businesses invest, they need to hire new workers. And so we need to get the business investment first, which is why I have suggested corporate tax rate cuts.

I think there has been lots of mistakes. I think the extended unemployment insurance benefits artificially pushed up the unemployment rate. If you have unemployment benefits the last 2 years, you create this national incentive for people not to make the tough decisions they need to to go out and find jobs. So, you know, I don't believe that the basic idea of Keynesian spending stimulus works. We have had trillion dollar deficits 4 years in a row now. So, even this year, the 2009 stimulus bill has basically already ended, but we have still got a trillion dollars of so-called stimulus with the Federal Government deficit. That is, in basic sort of textbook Keynesian terms, that is stimulus. And yet look at the results. The results are still very high unemployment.

So I don't think this model works. I think when the government spends more money, it takes money away from the private sector. I think the private sector is more efficient. So the bigger the government gets, the more you push down GDP. And it just hasn't been working.

Mr. WAXMAN. I had an employer in my area tell me I don't care how much they give me in tax breaks, I am not going to hire more people unless there is a demand, unless the economy is growing. And we see in Europe the idea of austerity; it has put England into a double dip recession. We see people all over Europe bridling under the yoke of this austerity notion.

What we needed to do in this country was to work together on a bipartisan basis to do something about it. But everything that the President Obama proposed the Republicans opposed. And I haven't heard any jobs proposals from the Republicans except give upper-income people more tax breaks.

Mr. HUELSKAMP. Mr. Waxman, I appreciate that. I do have a question for you.

Mr. WAXMAN. Oh, good.

Mr. HUELSKAMP. And it would be great for you to defend a stimulus that is 13 million jobs short of what the President promised us. And I wasn't here. And I presume you voted for it. But one thing that has bothered me on the regulatory side as well is this idea that—and I want this question asked for you because it is a question constituents ask me. And they say, Congressman, do you think Washington politicians and regulators can make better decisions than businessmen and women? And that would be my question for you.

Mr. WAXMAN. That is a good question. There are things called market failures.

Mr. HUELSKAMP. And there are things called government failures.

Chairman RYAN. Let's let him answer the question.

Mr. WAXMAN. There are market failures. And that is where government needs to step in. For example, if you don't regulate pollution, the waste disposal into the air would be free. The market provides no incentive for polluters to control pollution. It imposes social costs on everybody in terms of disease and death that far outweigh the costs to clean up.

The other area where there is a failure of the market is insurance companies. I have so many people tell me I want——

Mr. HUELSKAMP. Could you answer the question, Mr. Waxman?

Mr. WAXMAN. You asked me about——

Mr. HUELSKAMP. I am out of time. I am wondering if you could answer the question.

Mr. WAXMAN. On the stimulus? I am trying to answer your question.

Mr. HUELSKAMP. Yeah.

Mr. WAXMAN. The market failure of insurance for health care. People cannot buy it if they have preexisting medical conditions. You can't blame the insurance companies, because if they have to provide insurance coverage for sick people, they have to raise the cost of insurance for everybody. So the idea behind the Romney plan in Massachusetts and the Obama plan here was to spread the costs out with the requirement that everybody participate. Stimulus, either by tax cuts or direct expenditure, is what you need when there is strong unemployment to get people back to work. And that is what we needed to do. And I wish there were some Republicans who would have helped. There was not a single Republican in the House that voted to help President Obama.

Chairman RYAN. Thank you. I think you did answer his question, but I want it keep on time.

Mr. Ryan.

Mr. RYAN OF OHIO. Thank you, Mr. Chairman. We have covered a lot of ground here this morning. And I just want to kind of go back over a couple things. One, first of all, with the auto bailout and the government getting involved, the reason the government got involved is because there wasn't any private sector money to help marshal them through this bankruptcy. A State like Ohio, one in every eight jobs in Ohio is tied directly to the auto industry. And they are good manufacturing jobs. We would have lost a lot of those.

And I will tell you that it was my Republican car dealer friends who were coming to Washington, D.C., weekly to tell us how we needed to do this. And I will quote here about Bob Lutz from General Motors, the vice chairman, also happens to be a Republican, talking about some of other Republicans letting the auto industry go belly up. He says, quote, "It is once again the fiction that ah, we didn't need the government and this could have been a privately run bankruptcy with the normal chapter 11. What these people always deliberately forget is there was no money. Nobody had any money." And that is why the government had to intervene. And for those of us in Ohio, we are very, very glad that they did.

Also there was an issue of, and I think it is this balance between public-private partnerships. And the gentleman from Indiana talked about the Indiana turnpike. I think it is very important for those people who are listening to know that the tolls on the Indiana turnpike have doubled in the last 5 years, because you are not only maintaining the road, you are not only making sure it is cared for, you also got to factor in some profits. So the tolls on the Indiana turnpike that have been privatized have doubled in the last 5 years.

Mr. STUTZMAN. Would the gentleman yield?

Mr. RYAN OF OHIO. Sorry, man. I only got 5 minutes.

Mr. STUTZMAN. Be glad to talk to you about it later.

Mr. RYAN OF OHIO. Be happy to. Can't alter the facts, though, and those are the facts.

The other thing that you mentioned, Governor Bush, and I agree with you wholeheartedly, was the issue of Canada, how Canada solved their problem by the Conservatives and the Liberals coming together to solve the problem. The issue in Canada, though, is that the Conservatives in Canada would be moderate Democrats in the American political system. And there is no question about that as well. And so what we are trying to argue here is that it is going to take a balance, it is going to take both parties. And it has got to be a moderate approach, like I think you probably espouse, and like your father certainly espoused as well. Is that—down the middle. Be happy to, if you want to comment on that.

Mr. BUSH. Well, structural reform is not really ideological, but it did take outyear entitlement costs and pension costs and modified them in a way that made it possible for them to reduce their size of their government as related to the size of the economy. Now, I am not sure that is a—that is not an ideological thing, but it is reality checking. When you have structural problems you have to pause and deal with them. And many countries do that. And, you know, so I would disagree that Conservatives are moderate Democrats or moderate liberals or whatever.

Mr. WAXMAN. Nobody in Canada said, take away their health care for all the people. They said let's do some things on a bipartisan basis that make sense.

Here we have proposals to cut the safety net out of the poor, take away the guaranteed benefit for Medicare so that millionaires and billionaires can have tax cuts. That makes no sense to me. And I don't think it makes sense to the American people.

And the auto bailout was a success. Why are we fighting against what was a success?

Mr. RYAN OF OHIO. I agree.

Let me just ask Governor Bush one question, because I think the debate of investments and what the role of government is today I think is a very important question for us. And I know that in the Florida budgets, when you were Governor from 1999 to 2006, had went up significantly from $48 billion in 1999 to $74 billion in 2006. And my question is just what were the investments that were made? What were the priorities that were given? And explain some of those increases, and has Florida yielded some of those benefits from the investments that you made?

Chairman RYAN. You have 30 seconds left. So if you are going to ask him a big open-ended question like that, give him a second to answer it.

Mr. BUSH. The largest increase was our Medicaid budget, which the Federal Government was our partner in increasing. And it grew dramatically because we had no control over it. We did spend increased money in real terms on public education. We increased money on land conservation and things that—the objective was to take one-time moneys as best as possible and spend them on long-term things. So we created a research focus of taking one-time moneys to spend over the long haul and brought five or six private research institutes from California.

And so, you know, we did, we prioritized. Our government grew slower than personal income growth in the State. We had 22,000 fewer State workers, in spite of the growth of the government. And I think our job creation in the State, not because of the government, but because it was—they were good times and we had a good business climate—grew faster than any—we created more jobs than any State in the United States, roughly about 20 percent of all the jobs during that period. So it was a different time than we are in right now, that is for sure.

Chairman RYAN. Thank you.

Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman. Thanks to the panel. I will get right at it, since I only have 5 minutes. Mr. Edwards, if you had—let's just say the existing Tax Code disappeared and you had a blank piece of paper in front of you. Would you tell me your top three principles that you would use as your guide in writing a new Tax Code?

Mr. EDWARDS. Yeah. I would say economic efficiency, simplification, and visibility and transparency. So, you know, economic efficiency, the key is lowering marginal tax rates. And the chairman's plan certainly does that. Lowering rates down to 10 and 25 percent.

Simplification: The Tax Code is usually complex, especially for business and small business. That is just a compliance tax on the overall economy that doesn't do any of us good.

And transparency and visibility: I would take steps, for example, Americans only see half of the Social Security and Medicare tax on their pay stubs every couple of weeks. So they only know half the giant costs of Social Security and Medicare. I would make that visible on pay stubs. So that is the type of thing I would do.

Again, I would say the most important thing, economic efficiency. Lowering the corporate tax rate is the single most important thing we can and should do in this country. And again, that has been a bipartisan reform around the world. I mean, even the most socialist welfare states in Europe, France and the like, have chopped their corporate tax rates just because of this realization that they want their businesses to do well in the global economy. And we should do the same.

Mr. RIBBLE. Just a quick follow up on that. Where does any corporation get the money to pay the taxes? Where does that money come from?

Mr. EDWARDS. Of course, corporate taxes are really—the ultimate burden lands on either workers, consumers, or workers for corporations. Every economist, left and right, agrees with that. There is disagreement about where corporations actually push down the burden. But in a global economy, the general rule is that the burden lands on the most immobile factor of production. The most immobile factor of production is labor. So economists more and more agree that the corporate tax burden ultimately lands on labor, American workers. And there has been studies by AEI scholars and others that find that most of the corporate tax burden has the effect of lowering wages of workers.

Mr. RIBBLE. Thank you.

Governor, what would be your principles?

Mr. BUSH. Those sounded pretty good to me. Simple, transparent, and at a place that creates, you know, the most efficiencies for economic growth and for the government to receive the revenues that they need to do the basic things.

Time and time again you see examples of higher rates not necessarily yielding higher revenues for government. So there is a point where there is a balance, you know, there is an efficiency, a place of efficiency where the rate will yield a greater amount and will create—at the same time create economic activity, which is really ought to be the objective. Because a growing economy based on our Tax Code creates far more revenue for government, disproportionately more.

Mr. RIBBLE. Can I do a follow up question on that topic? If we reform the Tax Code to eliminate the expenditures, take the savings and apply it to a lower rate that is essentially the effective rate, which is what it is, have we really done anything to gain competitiveness? Or do we need to go below the effective rate?

Mr. BUSH. I think the first thing that happens when you do that is that you are shifting power away from Washington and the surrounding areas, which is probably the place of greatest economic prosperity right now, back to the rest of the country, where decisions, economic decisions are made by individuals that want to risk their capital and pursue their dreams. Right now, you know, it is fun to go to Dulles Airport and drive by there. These are major companies that have huge growth, lots of construction, housing prices are incredibly high, income levels here are the highest in the country. And why is that? I am sure that Maryland has a great business climate, and so does Virginia. But it is because this is a source of business now that is incredibly important for all sorts of businesses. So you would shift power away from Washington. And I think you would have more economic activity if you simplified the code that would generate more revenues for the government.

Mr. RIBBLE. All right. Thank you.

I just make one comment to Congressman Waxman. Thank you for being here today. I know it is tough to come in here. But I would say you used the phrase that House Republicans seem to want to return America to the era of robber barons. I will just give you my take of a robber baron. A robber baron is a government that steals money from middle class hard-working taxpayers and gives it to rich bundlers like Solyndra. Thank you. And I yield back my time.

Chairman RYAN. The gentleman okay?

Mr. Waxman?

Mr. WAXMAN. I don't think that was a question. It was his comment, and he has his views. I disagree.

Chairman RYAN. Okay. I just want to make sure because you were invoked. Out of fairness.

Who is next? I don't know if you know this, the gentlelady from Florida, her name is Ms. Wasserman Schultz.

Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. We have met.

Mr. BUSH. Yes, we have.

Ms. WASSERMAN SCHULTZ. Governor, it is good to see you.

Welcome to the Budget Committee. I want to ask my question and frame it from my standpoint as a mom, who is raising three young children attending the public schools in Florida and also as someone who served for 6 years of my tenure in the legislature with you as Governor.

And the one-time moneys that you just referenced that were created to lure five or six research institutes from California, and I do find some irony here that you are here today under the guise of removing barriers to free enterprise.

While in office, you recall, you spearheaded a deal to use more than $600 million in public money to lure the Scripps Research Institute to build a facility in Florida. Now, as a State legislator at the time, I remember being called into special session of the legislature so that we could pass a one-time $310 million gift to the Scripps Research Institute from Federal stimulus moneys that were allocated from Florida. In fact, Palm Beach County anted up about $269 million to pay for land and buildings for Scripps.

At the time, you were quoted as saying there is no better way to spend the one-time Federal economic stimulus money than by investing in a project that spurs targeted economic growth.

Now, I was on the Appropriations Committee, and remember distinctly questioning your staff and you about the importance of accountability with that investment. You insisted that wasn't necessary.

I remember distinctly attempting, through amendments, that we could ensure that if the promised jobs were not created, that Scripps would have to pay some of the funds back to the State. You opposed that and said it wasn't necessary.

In spite of our strong reservations about this gift with no accountability at all to a private entity, Democrats, including me, voted for the Scripps bill. I voted for the Scripps bill.

Mr. BUSH. I know you did.

Ms. WASSERMAN SCHULTZ. So we tried it your way.

Let me describe the results. As of 2010, Scripps Florida employed 377 people. That is $1.32 million per employee. The operation is projected to employ 545 people by 2014. That is over $900,000 per employee. In fact, Governor Bush, estimates of the Scripps Florida deal and the promises of massive job creation were massively overblown. Depending on which proponent you were listening to, it would create 2,800 direct jobs after 15 years. But as of the end of year seven, Scripps Florida employed just 377 people. Estimated spin-off jobs in other companies were largely overblown, from 6,500 at the time to 40,000 or 50,000 were predicted.

Quoting directly from the Florida Office of Program Policy Analysis and Government Accountability, in fiscal year 2004 Scripps had only supported the creation of a projected 615 full-time and part-time equivalents, and in fiscal year 2007, it had supported of creation of just an estimated 1,327 jobs.

In 2003, the year the Scripps giveaway passed in Florida, there was a $40 million cut for State universities, and the end of enrollments in the Healthy Kids Children's Health Insurance Program. Given the employment numbers, which were far lower than projected, was it a good decision to fund a private enterprise ahead of education and health care? How many low-income children could have had health insurance, or students could have received tuition assistance at the equivalent of $1.32 million per employee?

This same policy is writ large in the Romney-Ryan budget plan, which doubles down on a policy that benefits large private corporations and the wealthiest, most fortunate Americans, and leaves the middle class and working families to fend for themselves. Florida has had one of the worst high school graduation rates in the country. And roughly half of Florida's graduates require remediation when they get to college. Yet we are paying for a company dependent on importing highly educated and trained employees to relocate rather than investing in education, which is the main draw for good employers. Just this year, Florida will forced universities to cuts $300 million from their reserves and operating budgets.

Chairman RYAN. Is the gentlelady going to give the gentleman time to respond?

Ms. WASSERMAN SCHULTZ. I am trying.

Mr. WAXMAN. It is her time.

Ms. WASSERMAN SCHULTZ. You just took some seconds off my time. So if you would restore it, I would appreciate it. All because the economic policies originally established by you, Governor, gave away billions of dollars in taxes that could have gone to education, infrastructure, and other important investments. So here is my question.

Is this, quoting from your testimony this morning, because you said, that is why my best advice to you is to perform a fundamental cost-benefit reconsideration of many programs in the Federal budget. You said, please know that no matter your good intentions, the government creates unintended consequences when it acts. You go on to ask what would a cost-benefit analysis show? And later, in reference to your example of the supposed 49 different Federal job training programs, you asked, are they being measured on the success with which they get people retrained? Good question. So how do you think that if we apply your advice to the Scripps deal, that a cost-benefit analysis of $1.32 million of State funds per job would hold up? Given that students in our State graduate unprepared for college level work, tens of thousands of low-income children languish on State waiting lists for affordable child care, how could you justify giving away $600 million in public funding with no accountability to a private company?

Chairman RYAN. Again, welcome to the Budget Committee, Governor Bush. You have nine seconds to respond. We will let you go over your time.

Mr. BUSH. So the Scripps Research Institute is not a corporation. It is not a for-profit company, it is a premier not-for-profit research institute that does world-class research. The accountability that you voted for—I am glad that you voted for it. You weren't against it before you were for it. You were for it before you were against it now. I am happy that we had your vote—was based on the money would go out based on the 575 jobs that are in the process or probably have already been completed. So this is an idea to spur innovation, to spur additional activity. It gets hit by the downturn in the economy, but there has been significantly higher numbers of jobs, spin-off jobs or jobs created because of Scripps, and Burnham, and Torrey Pines and other institutes. And we have increased, at least during my tenure, I haven't followed the budget of the State since I left, but we increased funding for research for our universities as well.

So in the life science sector, Florida has gone from being in the back of the pack to aspiring to top tier status. I would say we are probably in terms of research spending, probably number five or number four. And 10 years ago, we were probably 25 or even higher than that. So I think, from that perspective, it ought to be reviewed. I completely agree with that. There ought to be an analysis done. But I think for something that is a work in progress, I would say it has been a success. And I would add that had we not spent this one-time money on these long-term things, the money would have been spent. And it would have been spent creating huge recurring gaps that many other States have had to deal with that would have ended up creating higher taxes for Floridians that would have hurt our economy and made our business climate worse.

Ms. WASSERMAN SCHULTZ. Mr. Chairman, I don't want——

Chairman RYAN. The time of the gentlelady has expired.

Ms. WASSERMAN SCHULTZ. I know, Mr. Chairman. I am not going to respond. I would just ask——

Chairman RYAN. Unanimous consent to include something in the record? Is that what you are asking for?

Ms. WASSERMAN SCHULTZ. Yes. And let me just say what it is so that I can get it included. It is an article from the Sun Sentinel that shows that Palm Beach County's——

Chairman RYAN. The gentlelady ask for unanimous consent to include a Sun Sentinel article in the record?

Ms. WASSERMAN SCHULTZ [continuing]. Should return to its farming roots because it was such a debacle.

Chairman RYAN. Without objection, the gentlelady's article will be included in the record.

[The information follows:]

Palm Beach County OKs Replacing Biotech Property With Sugar Cane

Mecca Farms, the $100 million intended home for the Scripps Research Institute, would be leased to sugar cane growers

March 6, 2012—By ANDY REID, *Sun Sentinel*

Mecca Farms, Palm Beach County's $100 million biotech-investment-turned-real-estate-blunder, should return to its farming roots, county commissioners decided Tuesday.

The 1,919-acre property once slated to become a "biotech village" anchored by The Scripps Research Institute would instead be leased to sugar cane growers under a proposal approved by the County Commission.

Pope Farms Inc. proposes to pay $200 an acre a year to lease 750 acres for at least five years. That would generate about $150,000 a year for the old citrus groves west of Palm Beach Gardens, next to the J.W. Corbett Wildlife Management Area.

The commission chose Pope from among three potential agricultural tenants. Final terms of the lease still must be negotiated and then approved by the commission.

"We have been trying to find a use for that site ever since the (Scripps) deal collapsed," County Commissioner Steven Abrams said. "It's farmland. * * * This is the best of the deals."

In addition to generating revenue on Mecca Farms, finding a tenant allows the county to avoid paying about $250,000 a year for security and maintenance of property.

The Sun Sentinel in August reported that the county was paying the Sheriff's Office $116,000 a year for a deputy to provide security at the overgrown former citrus grove north of Northlake Boulevard.

Sugar cane is a far cry from what Palm Beach County once expected to grow from Mecca Farms.

County and state leaders once envisioned Mecca Farms becoming a biotech-industry hub, featuring high-tech businesses bringing new jobs and spawning thousands of homes in new neighborhoods on surrounding farmland.

The county in 2004 paid $60 million for Mecca Farms and then invested another $40 million in planning, permitting and initial construction. The county also built a $51 million pipeline to provide water to development it expected on Mecca Farms and beyond.

But in 2006, environmental concerns killed plans to build Scripps' East Coast headquarters and research labs there. Instead, Scripps moved to Florida Atlantic University's Jupiter campus.

The county's fallback plan for Mecca Farms if Scripps went elsewhere was to sell the land to developers and recoup taxpayer money. But soon after Scripps left, the South Florida housing boom went bust and serious development interest in Mecca Farms disappeared.

The county still has visions of selling Mecca Farms. As currently proposed, the county could buy its way out of the lease deal with Pope Farms if a potential buyer for Mecca Farms surfaces within the five-year lease period.

Loxahatchee community activists voiced concerns about allowing sugar cane on Mecca Farms.

The practice of burning sugar cane fields during harvest threatens to worsen air-quality problems in The Acreage, blamed on burning western sugar cane fields and pollution from a new power plant nearby, said Alex Larson.

"New sources of pollution are not a good idea," Larson said.

Abrams said burning sugar cane fields is a longstanding practice and likened proposed burning at Mecca Farms to the controlled burns conducted at nearby nature preserves.

Chairman RYAN. Governor Bush, were you finished with your answer?

Mr. BUSH. I am finished. It is a joy to be here.

Chairman RYAN. Mr. Amash.

Mr. MULVANEY. We do this every day.

Mr. BUSH. I know. It is amazing.

Mr. AMASH. Thank you, Mr. Chairman.

And thank you all for being here. I won't give a 5-minute campaign speech.

Mr. Edwards, to what extent is it necessary for government to provide infrastructure? And how much can the private sector do?

Mr. EDWARDS. The Governor actually touched on this. He commented that we are actually behind a lot of countries around the world in terms of privatizing our infrastructure, moving at least to a public-private partnership structure. The Indiana toll road was mentioned. But where I live in Virginia, the Capitol Beltway is being widened by a billion dollars of private money. Down around Norfolk and Virginia Beach, they are building new tunnels and bridges, all with private money. So there is a heck of a lot the private sector can do in terms of infrastructure spending. I am actually on a monthly email list by this consulting company that tallies the global totals in private money going into public infrastructure. And the United States is way behind. I mean, countries like Australia and Canada are ahead of us on this. So that there is a hell of a lot we can do.

You know, I mentioned Canada, for example, in terms of infrastructure. They privatized their air traffic control system back in 1996. Now, people in this country think, you know, wow, that is crazy, something as important as the air traffic control system. In Canada, it is run by an independent self-funded nonprofit corporation. And it has been a huge success. It has got international awards for innovation. So, you know, the private sector can do a heck of a lot if we really opened up some of these barriers to investment.

Mr. AMASH. And Mr. Waxman earlier talked about market failures when my colleague from Kansas was speaking to him. Do you have any general thoughts about market failures versus government failures?

Mr. EDWARDS. Well, I mean, I actually think that, you know, there is a lot of government failures that led up to the big crash in 2008. I think the central bank, the Federal Reserve, held interest rates too low. I think all these housing subsidies that helped create the housing bubble. And I think that, you know, the idea of more regulation is really problematic because I think some of the biggest scandals, I mean the Bernie Madoff one, for example, was not a result of lack of regulation. That one was a result that the SEC was simply sitting on its hands and ignoring the obvious evidence that was out there. The Enron Corporation debacle to me, that was just outright fraud. You know, that is always illegal. So I don't think regulation is going to solve our problems.

Mr. AMASH. This is a change of topic. People are paying most of their taxes to the Federal Government rather than to State or local governments. Do you think that is the right balance? Should we shift in the long term toward more taxes going to local governments rather than the Federal Government?

Mr. EDWARDS. You know, for a century now, there has been this huge pressure of centralization in the United States which I think is really problematic. If you look at total government spending in the United States, it is now 70 percent Federal and 30 percent State and local, which is rather astounding. It should be the other way around, in my view. The Federal Government should have some basic functions that we all agree with, and we ought to leave a lot of stuff like infrastructure and education to State and local governments. Again, I believe in the laboratories of democracy. I think when State and local governments fund their own programs, they have control over their own programs, there is a lot more information. The programs are leaner and better run. And that is the direction we should move in.

Mr. AMASH. And as I talk to constituents, whether they are Tea Party people or people in the Occupy movement, there seems to be a lot of anger about similar things. It is the bailouts, the subsidies, the revolving door between Wall Street and the Treasury Department. These are the kind of things, these crony capitalist features, which seem to be a part of interventionism. Do you think that cronyism, corruption, waste are a natural byproduct of interventionism? Is it inevitable that when you have a government that is this big, you are going to get cronyism, corruption, waste?

Mr. EDWARDS. Yes. Absolutely. I mean, again, we are always going to have lobbying, and that is always going to be a problem. But we don't need to have all these subsidy programs. I calculated that the United States now has—the Federal Government has 2,000 different subsidy programs, all the way from Medicare down to, you know, hundreds of obscure programs most of us have never even heard of. All of those 2,000 different subsidy programs, they get lobby groups, you know, grab onto them and they lobby for more and more and more. That is the fundamental problem. I actually think Congressman Waxman and myself could probably get together and find a lot of these corporate crony programs in the budget and agree to cut them. And I think that is what Congress ought to be doing.

Mr. AMASH. Governor Bush, do you have any thoughts on that?

Mr. BUSH. On what?

Mr. AMASH. Cronyism in general.

Mr. BUSH. The more complex, the bigger government gets, the more interactions, the more the unintended consequences, and so you are going to see more of this. And the less clarity on what the rules of engagement are. A good example of that is Dodd-Frank, with 500 separate rulemaking processes that will take 7 or 8 years to implement. The unintended consequences of all this will play out. And Congress will have to adjust it. But in the interim, it freezes job-creating kind of activities. And it is not a question of regulation. We had regulation in place. And to the Congressman's point, if the Federal Reserve chairman at the time said, well, we just didn't apply the regulations that the law already allowed, that is a separate subject than being deregulated or unregulated.

Mr. WAXMAN. Greed is not unique to government. Greed is unique to people. And therefore, you need to establish restrictions so that people don't take advantage of others. That is why we have police. That is why we have law. The rule of law needs to apply to government and to individuals. There is abuse in the private sector. When we have cronies decide that salaries of CEOs who also have contracts to do work for the executives of those same companies, you can be sure they are going to recommend an inflated amount of pay for those CEOs. Government has nothing to do with that. That is just rampant greed. And that is why I was pleased, as a result of one of our hearings, that the advisers for compensation realized they couldn't also be the consultants for the corporation. But they didn't pay attention to that, and there was an area where there was abuse because of greed. And let's keep that in mind.

Chairman RYAN. Thank you.

Ms. Kaptur.

Ms. KAPTUR. Yes, Mr. Chairman. I would like unanimous consent to place certain newspaper articles in the record.

Chairman RYAN. Without objection.

[The information follows:]

The Wall Street Journal, August 27, 2007

Jeb Bush: Lehman's Secret Weapon

By DANA CIMILLUCA

In the arms race by private-equity firms to line up ever-higher profile "advisers," Lehman Brothers may have just taken the lead.

According to a small handful of reports Friday, including this one in Investment Dealers' Digest and another in Private Equity Hub, the investment bank has hired former Florida Governor and presidential son and brother Jeb Bush for its in-house investing arm.

No sign of an announcement from Lehman on the hire.

Private-equity firms hire politicos and former corporate honchos all the time to help them open doors to deals, as well as to manage government relations and the companies in their portfolios. Carlye Group chief David Rubenstein, in fact, discussed the increasing value of such moves in this Q&A published in The Wall Street Journal today.

No family these days has better door-opening skills in Washington or corporate America than the Bushes. The family of the 41st and 43rd presidents is no stranger to Wall Street either. Jeb's father, George H.W., used to serve as an adviser to Carlyle, and his grandfather was a partner at Wall Street firm Brown Brothers Harriman.

It is the second corporate gig for the former Florida governor, who stepped down after two terms in January. He already has joined the board of Tenet Healthcare.

Bloomberg

Barclays Buys Lehman U.S. Units for $1.75 Billion

By BEN LIVESEY and YALMAN ONARAN, *September 17, 2008*

Barclays Plc, the U.K.'s third-biggest bank, will acquire the North American investment-banking business of bankrupt Lehman Brothers Holdings Inc. for $1.75 billion, three days after abandoning plans to buy the entire firm.

Barclays rose as much as 11 percent in London trading after it agreed to pay $250 million in cash for the Lehman operations and $1.5 billion for the New York headquarters and two data centers, it said today in a statement. The London-based bank plans to raise at least 600 million pounds ($1.1 billion) in a stock sale to help fund the deal and may buy other Lehman units.

Lehman becomes the second Wall Street institution after Merrill Lynch & Co. to lose its independence in the industry's biggest retrenchment since the Great Depression. Barclays President Robert Diamond seized a "once in a lifetime opportunity" to buy a business ranking seventh in advising on U.S. mergers and employing about 10,000, almost two-fifths of Lehman's total, after it filed the biggest bankruptcy in history on Sept. 15.

"It looks a steal," said Leigh Goodwin, a London-based analyst for Fox Pitt Kelton Ltd. "The money they are raising may also allay concerns that they may not have had enough capital to do this deal."

Barclays rose 17 pence to 325 pence at 10:20 a.m. London time, valuing the company at 26.6 billion pounds.

Barclays plans to "immediately commence discussions" to buy Lehman operations outside the U.S., New York-based Lehman said in a separate statement.

'WONDERFUL OUTCOME'

"This is a wonderful outcome for a great number of our employees that will preserve and strengthen our terrific franchise," Lehman Chief Executive Officer Richard Fuld said in a separate statement.

The purchase price of Lehman's assets is on par with the market value of Sanders Morris Harris Group Inc., a Houston, Texas-based brokerage with 617 workers, and is less than a third of the value of KBW Inc., a New York-based firm that employs 529.

"Certain Barclays shareholders have expressed support for the transaction and interest in increasing their shareholdings, Barclays said. Further details of the share issue will be announced due course it said.

Lehman is selling off pieces of itself that weren't included when the holding company filed for bankruptcy. Diamond said last month he wants the bank to take market share from Wall Street firms weakened by the credit crunch and break into the "top tier" of U.S. securities firms.

M&A RANKINGS

The purchase includes the equities and fixed-income sales, trading and research businesses, commodities and foreign exchange, merger advisory and prime brokerage units, Barclays said.

Lehman slipped to seventh in advising on mergers and acquisitions involving U.S. companies this year from fifth in 2007, according to data compiled by Bloomberg. Barclays ranks 35th in that market.

Lehman is in discussions to sell its investment-management unit to private-equity bidders Bain Capital LLC and Hellman & Friedman LLC, according to people familiar with the negotiations. The firm is also proceeding with an auction announced last week as part of Chief Executive Officer Richard Fuld's failed plan to save the 158-year-old firm.

Diamond was in New York last weekend as Lehman met with Wall Street executives to discuss a rescue plan. Lehman needed a bailout after Korea Development Bank pulled out of a plan to provide new capital and Lehman shares lost most of their value.

WALKING AWAY

Barclays declined to bid for all of Lehman after three days of emergency negotiations involving the U.S. Treasury and Federal Reserve, Barclays spokesman Leigh Bruce said Sept. 14. Barclays couldn't get guarantees from the government to mitigate what it called Lehman's "open-ended" trading obligations.

Bank of America Corp. also walked away from a possible Lehman acquisition over the weekend.

"Clearly Barclays's negotiating position is strong, which suggests a value-creating deal," said JPMorgan Cazenove Ltd. analysts in an e-mail note to clients before the deal was announced. "Investors will want reassurance on the impact on Barclays's capital," said the analysts, who rate Barclays "neutral."

Credit Suisse Group, Deutsche Bank AG and JP Morgan Cazenove Ltd. were finance advisers on the deal, Barclays said.

LAGGING BEHIND

Barclays's so-called core equity Tier 1 capital ratio, a closely followed measure of a bank's ability to absorb losses and writedowns, rose to about 5.8 percent from 5.1 percent after it raised 4.5 billion pounds in a share sale in June. Barclays's ratio lags behind U.K. peers including HBOS Plc and Royal Bank of Scotland Group Plc.

CEO John Varley, 52, said in June that Barclays would use half the proceeds for growth, including acquisitions. Barclays sold shares to sovereign funds in Qatar, Singapore and China.

The deal, which requires legal and regulatory approval, "accelerates the execution of our strategy of diversification by geography and business in pursuit of profitable growth on behalf of our shareholders," Varley said in the statement.

While Barclays "traded satisfactorily" in July and August, the average pretax profit in the two months through August was below the average for the first six months of the year, it said "reflecting usual seasonality."

Barclays Capital, the bank's London-based securities arm, has 16,000 employees and contributes about 16 percent of Barclays's earnings, down from 39 percent a year ago. First-half pretax profit slumped 69 percent to 524 million pounds after the unit wrote down 2.8 billion pounds of subprime and Alt-A mortgages and other assets damaged by the credit turmoil.

Barclays's highest priority is to sell or liquidate troubled assets, Diamond said Aug. 7.

Lehman ranked No. 7 in global equity underwriting this year, according to data compiled by Bloomberg. Barclays, which wasn't listed among the top 25 on the list, could also use Lehman to increase its share of bond underwriting in the U.S. and add mergers and acquisitions advice worldwide.

Lehman Brothers Bosses Could Face Court Over Accounting 'Gimmicks'

ANDREW CLARK in New York, the *Guardian,* Thursday 11 March 2010

A court-appointed US bankruptcy examiner has concluded that there are grounds for legal claims against top Lehman Brothers bosses and auditor Ernst & Young for signing off misleading accounting statements in the run-up to the collapse of the Wall Street bank in 2008 which sparked the worst financial crisis since the Great Depression.

A judge last night unsealed a 2,200-page forensic report by expert Anton Valukas into Lehman's collapse, which includes scathing criticism of accounting "gimmicks" used by the failing bank to buy itself time. These included a contentious technique known as "repo 105", which temporarily boosted the bank's balance sheet by as much as $50bn.

The exhaustive account reveals that Barclays, which bought Lehman's US businesses out of bankruptcy, got certain equipment and assets it was not entitled to. And it reveals that during Lehman's final few hours, chief executive Dick Fuld tried to get Gordon Brown involved to overrule Britain's Financial Services Authority when it refused to fast-track a rescue by Barclays.

With Wall Street shaken by the demise of Bear Stearns in March 2008, Valukas said confidence in Lehman eroded: "To buy itself more time, to maintain that critical confidence, Lehman painted a misleading picture of its financial condition."

The examiner's report found evidence to support "colorable claims", meaning plausible claims, against Fuld and three successive chief financial officers—Chris O'Meara, Erin Callan and Ian Lowitt.

Valukas said the bank tried to lower its leverage ratio, a key measure for credit rating agencies, through a device dubbed "repo 105", through which it temporarily sold assets with an obligation to repurchase them days later, at the end of financial quarters, in order to get a temporary influx of cash. Lehman's own financial staff described this as an "accounting gimmick" and a "lazy way" to meet balance sheet targets.

A senior Lehman vice-president, Matthew Lee, tried to blow the whistle by alerting top management and Ernst & Young. But the auditing firm "took virtually no action to investigate".

During the bank's final hours in September 2008, Fuld tried desperately to strike a rescue deal with Barclays but the FSA would not allow the British bank an exemption from seeking time-consuming shareholder approval. The chancellor, Alistair Darling, declined to intervene and Fuld appealed to the US treasury secretary, Henry Paulson, to contact the prime minister.

"Fuld asked Paulson to call prime minister Gordon Brown, but Paulson said he could not do that," says the examiner's report. "Fuld asked Paulson to ask president Bush to call Brown, but Paulson said he was working on other ideas."

In a "brainstorming" session, Fuld then suggested getting the president's brother, Jeb Bush, who was a Lehman adviser, to get the White House to lean on Downing Street.

Barclays eventually bought the remnants of Lehman's Wall Street operation from receivership for $1.75bn—a sum that has enraged certain bankruptcy creditors who believe it was a windfall for the British bank.

The examiner's report finds grounds for claims against Barclays for taking assets it was not entitled to, including office equipment and client records belonging to a Lehman affiliate, although it says these were not of material value to the deal—the equipment was worth less than $10m.

A lawyer for Fuld last night rejected the examiner's findings. Patricia Hynes of Allen & Overy said Fuld did not structure or negotiate the repo 105 transactions, nor was he aware of their accounting treatment. She added that Fuld "throughout his career faithfully and diligently worked in the interests of Lehman and its stakeholders".

A spokesman for Ernst & Young, which is headquartered in London, told Reuters the firm had no immediate comment because it was yet to review the findings.

Ms. KAPTUR. Thank you very much. Along with the governor's biography as presented to the committee.

Chairman RYAN. That is already in the record. But okay.

[The information follows:]

Jeb Bush

Jeb Bush is the 43rd governor of the state of Florida, serving from 1999 through 2007. He was the third Republican elected to the state's highest office and the only Republican in the state's history to be reelected.

Governor Bush remained true to his conservative principles throughout his two terms—cutting $20 billion in taxes, vetoing more than $2.3 billion in earmarks and reducing the state government workforce by more than 13,000. His limited government approach help unleash one of the most robust economies in the nation, creating 1.4 million net new jobs and improving the state's credit ratings on Wall Street.

To further strengthen the economy, Bush launched a strategic plan to diversify the state's economy. After securing the second campus of the renowned Scripps Research Institute, an international leader in biomedical breakthroughs, Florida's life sciences industry began to flourish with several more leading research institutes moving to the state.

During his two terms, Bush championed major reform of government programs. In education, Florida raised academic standards, required accountability in public schools and created the most ambitious school choice program in the nation. After gaining permission from the federal government, Florida launched Medicaid Reform to improve quality and control the rising cost of the $16 billion state-federal partnership that pays for the healthcare of 2.2 million poor, disabled and elderly citizens. The state also launched and accelerated restoration of America's Everglades, the largest project of its kind in the world, to save the habitat of 60 threatened and endangered species and provide a long-term supply of drinking water for eight million people in South Florida.

On the national stage, Governor Bush is most widely known for his leadership during two unprecedented back-to-back hurricane seasons, which brought eight hurricanes to the state of Florida in less than two years. To protect the state from loss of life and damage caused by catastrophic events, such as hurricanes, Bush worked tirelessly to improve the state's ability to respond quickly and compassionately to emergencies, while also instilling a 'culture of preparedness' in the state's citizenry.

Bush served as Florida's secretary of commerce under Bob Martinez, Florida's 40th governor. As secretary of commerce, he promoted Florida's business climate worldwide. Following an unsuccessful bid for Governor in 1994, Bush joined forces with the Greater Miami Urban League to establish one of the state's first charter school, Liberty City Charter School, in one of the most underserved parts of Miami-Dade County. He also co-authored Profiles in Character, a book profiling 14 of Florida's civic heroes—people making a difference without claiming a single news headline.

Bush earned a bachelor's degree in Latin American studies from the University of Texas at Austin. He moved to Florida in 1981, where he started a real estate development company with partner Armando Codina.

Currently, Bush is the President of the consulting firm Jeb Bush and Associates and a Senior Advisor to Barclays Capital. He is on the boards of Tenet Healthcare

Corporation, Angelica Corporation, Rayonier, Inc., Empower Corporation and CorMatrix Cardiovascular, Inc. In civic and charitable affairs, Bush is the Chairman of the Foundation for Excellence in Education and the Foundation of Florida's Future, Honorary Chairman of Volunteer USA, and serves on the National Civic Leaders Advisory Board of America's Promise Alliance, the George H.W. Bush Presidential Library, the George W. Bush Institute Board and the Bloomberg Family Foundation Board. He and his wife Columba live in Miami and have three grown children. Bush is the son of President George H.W. Bush and Barbara Bush.

Ms. KAPTUR. Thank you very much.

Welcome, Governor, Congressman Waxman. Thank you all for being here today. Governor Bush, I read your testimony with interest, and apologize, I was on the floor and couldn't be here for the earlier part of the hearing. But in your testimony, you state, and I quote, "I understand that there may be political support for specific industries and companies. And we know from recent experience that government is not good at picking winners and losers in the economy. And fundamentally, it is not the job of government to pick winners and losers in the economy."

I would like to learn more about your thoughts then on the financial services industry, one that I understand from press reports you have worked with. According to the Wall Street Journal, shortly after you left the Governor's office you went to work for Lehman Brothers in what is described as the in-house investing arm of the company. Was that correctly reported? Is that correct?

Mr. BUSH. I was on the private—the advisory council of the private equity arm of Lehman Brothers.

Ms. KAPTUR. Thank you. And you were working for or with Lehman Brothers then when it collapsed? Is that correct?

Mr. BUSH. I was a consultant, an adviser to Lehman Brothers.

Ms. KAPTUR. Okay.

Mr. BUSH. Not an employee.

Ms. KAPTUR. Excuse me, sir?

Mr. BUSH. Not an employee.

Ms. KAPTUR. And did you receive compensation for that engagement?

Mr. BUSH. Yeah. Sure.

Ms. KAPTUR. Do you still work for Lehman Brothers Merchant Banking, which I understand was spun off?

Mr. BUSH. No.

Ms. KAPTUR. You do not?

Mr. BUSH. No.

Ms. KAPTUR. Thank you. Thousands of people lost their jobs when Lehman Brothers collapsed and many people lost money. What was your job at Lehman Brothers exactly?

Mr. BUSH. I was an adviser to Lehman Brothers. Had dealt with—basically spent most of my time dealing with their customer base. Providing insights in things like the madness of Washington, D.C., sharing my experiences with customers to try to add value in the relationship. So it was not related to internal functions of the company. It was related to client interface.

Ms. KAPTUR. If you could provide any specificity for the record, it would be greatly appreciated.

Do you think the government picked winners and losers during the financial bailouts?

Mr. BUSH. I think government oversight was lax, not the rules that were created afterwards, but the oversight was lax for sure.

Ms. KAPTUR. Might I get some clarification on another small point? Because of some reporting in The Guardian newspaper in Britain, for whom do you work now? And do you have any relationship to Barclays?

Mr. BUSH. I do.

Ms. KAPTUR. You do. What is your relationship?

Mr. BUSH. I am a senior adviser to Barclays capital.

Ms. KAPTUR. All right. The Guardian newspaper in Britain reported in 2010 that a U.S. bankruptcy examiner concluded that grounds exist for legal claims against top Lehman Brothers bosses and auditor Ernst & Young for signing off misleading accounting statements in the run up to the 2008 collapse. The newspaper said a 2,200-page forensic report, which I am sure you are familiar with, by Anton Valukas——

Mr. BUSH. No.

Chairman RYAN. Look, does the gentlelady have a question about the subject of the hearing at hand?

Ms. KAPTUR. I do. Revealed that Barclays, which bought Lehman's U.S. business out of bankruptcy, got certain equipment and assets to which it was not entitled. I am quoting. Are you aware of any of these allegations, and do you have a response to them?

Mr. BUSH. No, I am not.

Ms. KAPTUR. The Valukas report revealed that during Lehman's final few hours, its chief executive officer, Dick Fuld, sought to convince Prime Minister Gordon Brown to overrule Britain's Financial Services Authority when it refused to fast track——

Chairman RYAN. Does the gentleman imply that this gentleman had anything to do with that?

Ms. KAPTUR. Well, Mr. Chairman, if you could just allow me to finish here.

According to The Guardian, and I quote, "During the bank's final hours in September 2008, Fuld tried desperately to strike a rescue deal with Barclays, but the FSA would not allow the British bank an exemption from seeking time-consuming shareholder approval. The chancellor, Alistair Darling, declined to intervene, and Fuld appealed to the U.S. Treasury Secretary Henry Paulson to contact the Prime Minister. And according to the Volukas report, Fuld asked Paulson could to call Prime Minister Gordon Brown, but Paulson said he could not do that. So Fuld asked Paulson to ask President Bush to call Brown, but Paulson said he was working on other ideas. But in a brainstorming session, Fuld then suggested getting the President's brother, Jeb Bush, who was a Lehman adviser, to get the White House to lean on Downing Street."

Governor Bush, to your knowledge, did your boss, Mr. Fuld, in fact make such a suggestion?

Mr. BUSH. First of all, he wasn't my boss. I was a consultant to Lehman Brothers, as I stated. And no, he didn't ask me to do anything, and I didn't do anything.

Chairman RYAN. The time of the gentlelady has expired. And I would simply say, why don't you direct your questions to Mr. Fuld? This gentleman doesn't have any information on that.

Mr. Garrett.

Ms. KAPTUR. Well, Mr. Chairman, it is very interesting how terse you were with my questioning this morning.

Chairman RYAN. You are not asking him questions about the hearing here. You are injecting innuendo it seems. And the gentleman has answered your questions.

Ms. KAPTUR. It seems to me it is important for the American people to under to understand the witnesses that are before us and what their financial connections actually are.

Chairman RYAN. Mr. Garrett.

Mr. GARRETT. So I will bring it back to the hearing. I will start off with actually testimony from the witnesses.

Mr. Waxman, or Congressman, you made the comment with reference to the I guess the appearance of impropriety—let's call it that way—when you have consultants who are on the payroll for the companies on the one hand and they are also the ones that are involved with the decision-making of the salaries and what have you, the positions there. Certainly there is an appearance of impropriety there.

I guess in politics you can sometimes see the same things, where you have people who are making donations to politicians or elected officials on the one hand, and at the same time, those very same politicians or elected officials are making decisions with respect to those donors. Is there not the same situation there for us politicians?

Mr. WAXMAN. I think there is an appearance of unseemliness. And that is why I think the system we have for funding campaigns is one that we ought to definitely change. But I think there are distinctions between the two. But I get your broader point.

Mr. GARRETT. I appreciate that. So we have the same situation on financial matters, since the gentlelady brought it up, and the situation at MF Global, where you have an individual who is now one of the largest bundlers for this administration on the one hand, and on the other hand, that is the same individual who is being investigated, or is at least the company is being investigated by that very same administration. So there is at least an appearance of impropriety when someone donates to the administration and that administration is either investigating or maybe not doing a valid investigation there.

Mr. WAXMAN. We need to go beyond the appearance and look at the facts. For example, in the Solyndra investigation——

Mr. GARRETT. I am not on that, but thank you very much. What I am concerned about is your testimony when you make the accusations that Republicans want to return to an era of robber barons, with no restraint on Wall Street, and enriching themselves at the expense of everyone else. I don't know actually how you can say that.

Furthermore, you go on to say that the problems of 2008 were demonstrated on the collapse of Wall Street was caused by the absence of cops on the beat. Really? There were cops all over the beat. When you look at the institutions that failed, AIG, they were a regulated institution. Lehman Brothers, they were a regulated institution. This gentleman next to you was not sitting inside Lehman Brothers at the time, but there were regulators who were sitting inside Lehman Brothers on a daily basis and they failed to do their job.

Mr. WAXMAN. I would dispute that fact. I would absolutely dispute that fact.

Mr. GARRETT. There were regulators at Lehmans.

Mr. WAXMAN. They may be regulated for some things, but their financial practices were not being regulated or being watched. And I think Governor Bush was absolutely right when he said there was not government oversight. At the SEC, it was shocking how poorly the SEC did its job.

Mr. GARRETT. Exactly. And that is exactly my point here, is that you had regulators from the SEC, from the OTS, to the Federal Reserve, and each one of these institutions were regulators involved with starting from Bear Stearns on out, the regulators had the authority, they had the information, they had the wherewithal to try to prevent the meltdown in 2008 so we would not find ourselves in this situation today, but the regulators failed to do the job. So whereas your testimony likes to point the finger entirely at Wall Street and the free enterprise system and capitalism for failing in greed over there, I think we can equally point the finger back at the regulators who were sitting in these companies. They failed to do the job.

Mr. WAXMAN. The solution isn't to end regulation, which is what I hear from the Republicans, or to put in people who won't enforce the regulations.

Mr. GARRETT. And I appreciate that. But as you can see from both in this committee and Financial Services, there is not a single Republican who has ever said to end regulation. Everyone simply said to reform it.

But let's turn to another issue that I know is dear to the Governor's heart, and that is the area of education. And that is also important to me as well. So you have K through 12 education, and we know what has been able to be done in various States, such as yours, as far as reforming it, which will provide for better educated students and a better economy going down. My question to you is this, though. Do the States have enough flexibility in this area in order to achieve what they need to achieve, or is this one other area where the Federal Government has intruded to such an extent that we are once again providing for an impediment or a barrier to free enterprise to be able to grow by allowing for a flourishing educational system in the States?

Mr. BUSH. Well, historically the Federal Government's role in education has been limited. It has grown in the last few years. The last decade it has grown I would say. But it is not similar to say health care, where the Federal role is now significantly, both in regulation, spending, and the two major programs, significantly higher. But there should be flexibility. I think the objective ought to be a year's worth of knowledge in a year's time. There ought to be effective measuring. And States ought to try to apply different approaches.

In our case, we had an accountability system that was based on grading schools, 100 percent based on student learning, ending social promotion, school choice, compensation for teachers that was different than just longevity of service driving it. Digital learning being an element now of the Florida strategy. And the results are there.

Just Congressman Waxman will probably appreciate this, low-income Hispanic kids do better than the California average on the fourth grade reading test even though we spend, you know, we spend less than $7,000 per student. It is because we had a focused, strategic approach. Washington is not equipped to provide that. And Florida is different than California. We are different than other States. And so, you know, we ought to be given more freedom to do things.

I think the Title I moneys is a place where maybe there could be more innovation, for example, in the lower performing schools. You know, I think you could trust Governors and State legislatures and the communities in States to be able to come up with the best solutions.

Chairman RYAN. Thank you. A vote has been called, so we have to move with dispatch. And the last, but not least, is Mr. Mulvaney.

Mr. MULVANEY. Very quickly, Mr. Edwards, thanks very much for coming.

I am going to ask a question on a different topic, which are miscellaneous tariff benefits, something that is getting some attention here this week. By way of quick introduction, these are reductions in tariffs on things that are not made here that are generally available to the marketplace. And we are having some debate now as to whether or not those are earmarks, whether or not those are tax subsidies. In fact, there is some specific discussion as to whether or not miscellaneous tariff benefits are a subsidy similar to tax loophole. And I would just like your opinion as to whether you think MTBs are tax subsidies or tax loopholes.

Mr. EDWARDS. Tariffs are taxes. I mean, they are taxes on international trade. Ultimately, we should move to international trade agreements, get rid of all tariffs. You know, tariffs don't just hurt American consumers. Tariffs hurt American businesses that use imported products. You know, you look at big corporations like General Motors, I mean, they import an enormous amount of parts and other goods. So when we put tariffs on their production, it hurts American businesses. So, I mean, you know, I am not familiar with the particular bill that is in front of Congress there. But you know, tariffs are not a good idea in general. Like taxes, they distort the economy.

Mr. MULVANEY. Generally speaking, would these reductions on tariffs, on products that are available across the market, would you consider that to be corporate welfare?

Mr. EDWARDS. No. Certainly not. You know, I am for closing tax loopholes. I am for closing—I am for getting rid of special deals on the tariff side. But I don't—special deals for particular industries on tax and spending and tariffs are distortionary. But it does strike me there is a difference between, you know, tax reductions and tariff reductions and spending.

Mr. MULVANEY. And ultimately, the primary beneficiary of these lower tariffs is the consumer, is that right?

Mr. EDWARDS. Oh, absolutely. Again, both consumers and American businesses that use those imported products.

Mr. MULVANEY. Thank you, Mr. Edwards. I appreciate you being here.

Governor, I don't have any questions for you. Thank you for coming. I appreciate your time.

Mr. Waxman, I have one question for you. I have sat here for about the last hour and heard the auto bailouts mentioned several times. They were designed to somehow save the auto industry, save them from bankruptcy. Of course, you knew that Chrysler went bankrupt anyway, right?

Mr. WAXMAN. I do know that there is a vibrant American auto——

Mr. MULVANEY. Did Chrysler go bankrupt in April of 2009?

Mr. WAXMAN. Yes, they did.

Mr. MULVANEY. Did GM go bankrupt in June of 2009?

Mr. WAXMAN. I don't know. I will refer to that to Mr. Ryan.

Mr. MULVANEY. Did GM go bankrupt after the auto bailout?

Mr. WAXMAN. I don't know.

Mr. MULVANEY. They did. I can assure you they did. It was the second largest I think bankruptcy in the history in the country. I am a little surprised you hadn't heard about it. I have only got one question about it, which is that when they went bankrupt, Mr. Waxman—I will ask the question. I appreciate your answers.

Chairman RYAN. Give him a chance to answer.

Mr. MULVANEY. When Chrysler went bankrupt, it did so in an extraordinary bankruptcy proceeding that denied, for the first time in a long time, if not ever, secured bond holders of the rights to which they were entitled. One of those secured bond holders was the Indiana State Teachers Retirement Fund. Another was the Indiana State Police Pension Fund. Together, those two pension funds of public employees, teachers and policemen, lost several millions of dollars of their retirement money. And my question to you, as a supporter of the auto bailouts, what would you like to tell them?

Mr. WAXMAN. Well, I am not an expert in this area. But I know when the airline industry goes into bankruptcy, they tell their workers, you can't continue the pay that you have already negotiated from us. This is a way to break the unions and to take away benefits from them. People get hurt. And when businesses go bankrupt, the stockholders get hurt, the bond holders get hurt, but in this country, the CEOs all come out on top.

Mr. MULVANEY. Mr. Waxman, do you understand the difference between a secured bond holder and a stockholder?

Mr. WAXMAN. I do.

Mr. MULVANEY. So what would you like to tell the secured bond holders, who were entitled to certain protections under ordinary bankruptcy law, who didn't get them in these particular circumstances? And specifically, I am speaking of the retired teachers and retired policemen of the State of Indiana.

Mr. WAXMAN. Tell me what you would like to tell the unemployed auto workers and the industries in the Midwest that are dependent on them if we let the auto industry go down the tubes.

Mr. MULVANEY. And I will ask you again, Mr. Waxman, do you understand the legal difference between a secured bond holder and an employee, a secure bond holder and a supplier, or a secured bond holder and an ordinary stock holder?

Mr. WAXMAN. I don't want anybody to get hurt. But the fact is that people do get hurt when we have a mismanagement of the economy so that we have banks taking huge risks with other people's money on securities that don't make sense, and then slice them and dice them and sell them abroad, and the whole bubble fell. And government should have been there to stop that from happening, and government wasn't there.

Mr. MULVANEY. And instead, what government was there to do, Mr. Chairman, was to steal money from retired teachers and policemen in order to give it to unions. With that, I yield back the balance of my time.

Chairman RYAN. Thank you. All time is yielded. As you can tell, Washington is as friendly and kind as it ever was before.

Henry Waxman, Congressman Waxman, thanks for coming, spending your morning with us.

Chris Edwards, you have come and testified a number of times. I appreciate your insights.

And Governor Bush, it is not all this bad. When these microphones are turned off, some of us actually do kind of get along with one another. So I just want to thank you for taking the time out of your busy schedule to come and share your insights with us. Thank you very much. This hearing is adjourned.

[Whereupon, at 11:47 a.m., the committee was adjourned.]

○