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Senator Dorgan, members of the Committee, thank you for inviting me here today to speak about the crucial issue of job creation. For President Obama, the goal of economic policy is to create a lasting foundation for shared prosperity: one that allows our citizens the opportunity to achieve the dignity that is realized by being able to provide for the health and economic security of their families, offer their children the chance to get an education and attend college, accumulate a modest nest egg that ensures a secure retirement, and maintain the optimism that our nation is one where anyone can rise and each generation can create a better life for their children.

Job growth is essential to that vision of shared prosperity in all times – but it demands greater urgency and emphasis as we seek to emerge from a profound recession and financial crisis. Unfortunately, the labor market that President Obama inherited was as dark and foreboding as any faced by a new President since Franklin D. Roosevelt. By the beginning of October 2008, the economy had already lost 1.4 million jobs since the beginning of the recession. Even worse still, the twin threats of dramatically diminished private demand and frozen credit markets threatened to feed off each other, creating the all-too-real prospect of a deepening spiral into economic depression.

Indeed, in the fourth quarter of 2008, it was difficult to identify any part of the economy where private sector demand could support job growth or even diminish the pace of job loss. On October 1, tens of millions of Americans – who had already seen their home prices decline over 20 percent, on average, from their peak – began receiving quarterly statements that showed their retirement savings were down just as much or even more. All told, U.S. household wealth fell by $5.1 trillion in the fourth quarter of 2008. Across our diverse nation, at millions of kitchen tables, only one conversation was taking place: "What can we cut back on, and what will we do if one of us loses a job?"

Businesses – seeing no prospect of increased private sector demand and experiencing the fallout of the credit crisis – cut back dramatically, including on hiring. Private investment declined sharply, falling by 20.2% in the fourth quarter of 2008. While some had hoped earlier in the year that exports could help spark demand, by January 2009, the IMF had downgraded its projections for global growth in 2009 from 3.9% to just 0.5% – the slowest rate in 60 years.

By January, we were losing over 700,000 jobs a month – and indeed the first quarter of 2009 had a staggering average monthly job loss of 691,000. And as new economic data revealed that GDP contraction was far worse than anyone knew at the time – a revised rate of -5.4% in the fourth quarter of 2008 and a contraction of -6.4% in the first quarter 2009 – it became clear that the new data indicated that unemployment was moving on a higher and higher path.

In this context, the only hope for slowing the acceleration of job loss was to fill the vacuum of private sector demand with a historic injection of demand through public policy, an effort that took the form of the American Recovery and Reinvestment Act. With no private sector demand anywhere to be found, this was not about philosophy – it was about economic necessity. There was no other choice.

One component of the Recovery Act provided tax cuts to both stimulate business investment and provide tax relief to 95 percent of working Americans. That was necessary, but not sufficient. The lack of private demand required putting more direct investments into the economy, in the form of state and local fiscal aid, new resources for infrastructure and clean energy, and emergency relief to the unemployed and others most directly affected by the recession. These were investments that private sector economists like Mark Zandi of Moody's Economy.com estimated had among the largest multiplier effects of any fiscal stimulus. For example, Zandi estimated that for each dollar spent on infrastructure, GDP would increase by $1.57, while each dollar that went to extended unemployment insurance benefits would boost output by $1.61.

But the Administration also understood that despite this dramatic injection of demand into the economy, these efforts would not be successful if the ongoing credit crisis led to further depreciation in asset prices and blocked even those who were in a position to expand payroll, invest in new equipment, or buy a house or a new car from being able to do so. The Administration quickly attacked the financial crisis on all fronts: taking steps to unfreeze the securitization markets that made credit available to consumers and businesses and create a market for legacy securities that were clogging the books of financial institutions, introducing a significant response to the foreclosure crisis, and requiring major banks to undergo a stress test designed to ensure transparency and enhance confidence that they had the capital necessary to continue lending, even in a worse-than-expected recession. Finally, we assisted in the sale of assets from Old Chrysler and Old GM – companies that had both made poor decisions over many years and were victims of the financial crisis – to newly organized companies that could successfully compete in the auto industry. President Obama made the politically difficult call to give these two companies the chance to make the painful, but necessary decisions required to become profitable again, prevent the loss of hundreds of thousands of jobs and avert the possibility of a new vicious, downward cycle among companies and suppliers that could have pushed entire communities over the edge.

Make no mistake about it: the goal of these financial stabilization efforts was not to expand government, but to do what was necessary to return our credit markets to their fundamental purpose – allocating capital to those investing in our country and their futures by buying a home, going to college or starting a small business. And in doing so, we sought to focus on policies that encouraged transparency and confidence to facilitate the raising of private capital, or where government assistance was necessary, were designed so that exit could be achieved as quickly and effectively as possible. Indeed, since the Obama Administration took office on January 20, only $7 billion in government capital has been provided to banks, compared to over $110 billion in high-quality private capital raised by institutions that underwent the stress test.

The Impact of Our Efforts

There is no question that the Financial Stability Plan and the Recovery Act made a dramatic difference in bringing us back from the brink and putting us in a position to give job growth, at long last, a chance. In February of 2009, economists surveyed in the Wall Street Journal projected that growth would barely be positive by the 3rd quarter of 2009 – yet growth reached nearly 3.0%. Consider: the swing from negative GDP growth of -6.4% in the first quarter of 2009 to positive growth of 2.8% in the third quarter was the largest two-quarter swing since 1981. The Congressional Budget Office has estimated that employment was 600,000 to 1.6 million jobs higher in the third quarter than it would have been absent the Recovery Act. Independent sources estimated that the Recovery Act was responsible for at least 3 percentage points of GDP growth in the third quarter. Municipal markets, for example, which had become badly dislocated at the end of 2008, recovered to support nearly $500 billion in issuance this year – including almost $60 billion in Build America Bonds created under the Recovery Act – financing investments by cities and states that put people to work. And according to reporting by the states, at least 325,000 education jobs were saved or created by the Recovery Act.

Now, I recognize that some say that “reducing the pace of job loss,” or “making a weak economy far stronger than it would have been” does not make for a good political bumper sticker. Maybe so. But the fact is that these policies have made the economy dramatically stronger than it would have been in their absence, and whether or not they facilitate a slogan or bumper sticker, they have made a difference in the lives of millions of Americans. When the economy goes from losing 700,000 jobs to being on the cusp of job creation, that matters to countless working families.

But there is a major difference between moving in the right direction and being in the right place. President Obama and his Administration will not be even close to satisfied until the deeply sick labor market we inherited has healed. Although there appears to be a return to growth in the overall economy, job creation and unemployment unfortunately often lag. As growth returns, it can begin to quell layoffs, but the process of leading to new hiring can be longer and slower. Firms start by trying to get greater productivity out of existing workers or adding to their hours, or by hiring temporary employees. Often, the cautiousness that comes after a deep recession and the fixed cost of hiring can slow the transition to new job creation. Moreover, unemployment can lag further behind. Indeed, the prospects of an improved labor market can even bring more people back into the workforce, causing the unemployment rate to temporarily increase as a result of good news.

As we look forward to the coming year, it makes sense to have measures targeted more specifically to accelerating the process of hiring and job creation. Fortunately, as we enter 2010, a significant portion of Recovery Act funds still remains to be paid out, and much of this support will come in the form of infrastructure spending or state and fiscal aid that will have particularly large job impacts. It is comforting that private sector forecasters anticipate that the economy will be adding jobs by the spring. But given the magnitude of job losses so far during this recession, the President has made clear that we need to be aggressively taking steps that will help accelerate the process of job creation.

The Next Steps in Promoting Job Creation

Last Tuesday, the President laid out several ideas that he believes Congress and the Administration can work together to enact to promote job growth. In addition to the common-sense extension of basic provisions to help states and local governments avoid painful layoffs of teachers and other public servants and to aid those most immediately impacted by the recession – like unemployment insurance, COBRA, and Economic Recovery Payments to seniors and veterans – the President presented several areas where action could help support job creation in the immediate term.

First of all, the Administration is committed to taking new efforts to support small business job creation. In each of the past two recessions, small businesses were a key factor driving the recovery in employment, losing fewer jobs and recovering faster than their larger peers. During this downturn, losses at small firms have actually been deeper, with almost four times as many jobs lost at firms with fewer than 50 workers in the worst quarter of this recession compared to the worst quarter of the 2001 recession. And while measures of health at larger firms like the ISM Manufacturing Index have risen in recent months, optimism among small businesses remains dampened according to the NFIB Small Business Economic Trends Survey, suggesting challenges remain deeper for these firms.

In some cases, these challenges may be due less to the hesitancy of small businesses to hire at this point in the recession, but instead – as Secretary Geithner has said – to the overcorrection of lenders who, once having been guilty of relaxing their standards too much, may now overreact and take too few risks, pulling back even from creditworthy borrowers. This hesitancy can accelerate downturns, and it can also unnecessarily slow the process of recovery.

And indeed, while many large companies have benefited significantly from the sharp recovery in the corporate bond market and an increasingly diverse array of credit options, smaller companies remain dependent on direct lending from banks, and in many cases small banks, for about 90 percent of their financing, compared to 30 percent among larger firms. In response to their own financial troubles, many banks have both pulled back on new small business lending through tighter lending standards and rolled back existing exposure to small businesses by pulling lines of credit or refusing to refinance maturing loans. Sometimes, those credit decisions are warranted, but too often, they hit borrowers who are solvent and current, but happen to operate in the wrong industry or need smaller working capital loans. Other times, lenders may deny credit based on perceived or real deterioration in commercial real estate collateral, even when the businesses' cash flow prospects are sound. Some institutions have more or less closed their doors to small borrowers in entire industries, like construction or hospitality. Others, having suffered losses due to their own exceptionally weak standards during the boom, have swung hard in the opposite direction, with wholesale cutbacks in lending to the smallest of companies. As a result, the net percentage of small businesses reporting to the NFIB that credit is harder to get – while down slightly since May – remains higher than at any period since 1982. Ultimately, such across the board decisions can deny credit to small businesses that are current, solvent, and viable and have significant potential to create jobs.

This situation is highly worrisome when one thinks about the outlook for employment. First, while they may be "small" individually, these firms make up about half of overall U.S. employment. Second, as the economy does begin to turn, there is real concern that these credit conditions could keep small firms from buying the inventory or building the workforce they need to take advantage of new opportunity and drive recovery. One of the key issues is that many banks, and small banks in particular, assess small business loan applications on a strict "trailing twelve month" basis, meaning they look at cash flows over the previous year as a principal variable when deciding whether to offer a loan. Typically, this makes sense as past results help predict future performance. However, when the economy is recovering from a severe downturn, it is very likely that the recent performance of any business will be very different from results just around the corner**,** when they may be hiring to work a new contract or investing to catch the next wave of orders. Unfortunately, this focus on the last 12 months creates just the kind of pro-cyclical pressure that can stifle demand and reinforce negative economic feedbacks.

In response, the Administration has and will continue to move forward aggressively to expand access to credit for small businesses. Just this week, President Obama urged bank CEOs to "go back and take a third and fourth look" at expanding their lending towards small business—urging them to better help the victims of the financial crisis precipitated in large part by these banks' own poor choices. Going forward, the Administration will push to extend the provisions of the Recovery Act that made loans from the SBA more accessible and helped increase weekly loan volumes by nearly 80 percent. The SBA and Treasury also continue to work on a number of fronts to leverage TARP money to expand credit opportunities for small businesses. And the President has called for extension and expansion of key investment incentives for small firms, including accelerated write-offs and the temporary elimination of capital gains taxes on small business investments, while asking his Administration and Congress to consider with an open mind ideas to encourage small businesses to hire new workers. In doing so, we should look at the jobs cycle, and ask whether at this moment – as growth is reappearing – there are tax incentives that could accelerate the pace at which companies move from adding hours for existing workers to hiring new employees.

Secondly, the Administration is committed to making further investments in infrastructure that will both create jobs immediately and increase our long-term productivity, building on the funds provided for highways, transit, rail, aviation and other projects under the Recovery Act. The Administration will leverage the lessons of the Recovery Act in seeking to support projects that can be executed quickly and responsibly. For example, we hope to build on the Department of Transportation's experience with the TIGER program – which will enable the Department to make merit-based awards for new infrastructure projects, and has received applications for 35 times as much funding as was made available under the program.

The third component of our strategy is to create jobs that support energy efficiency and green investments, expanding on Recovery Act efforts to invest over $80 billion in clean energy, which we estimate will create hundreds of thousands of jobs. Our efforts will include creating new tax incentives for homeowners to pursue energy-efficient retrofits in their homes – investments that will not only create jobs, but will save consumers money in the long-term and improve our energy security. In addition, we will seek to expand the Recovery Act programs that were most successful in leveraging private money to get people to work quickly in making new investments in energy-efficiency. For example, one tax credit that supports advanced energy manufacturing projects was oversubscribed by a ratio of 3-to-1; another program that provided funds for institutions like universities and hospitals to invest in energy efficiency received applications for 25 times as many funds as were available.

Finally, this President understands that fostering shared prosperity means not only returning our macroeconomic indicators to a better position, but ensuring that we do not sit by when recovery is uneven – punishing too many that bear no responsibility for the crisis we face. This Administration understands that in some particularly hard-hit areas, the financial crisis, the decline in the housing market, and a deep recession may have combined to accelerate downward cycles in those communities that will take more time to repair, even when the general economy rebounds. In particular, underserved urban and rural areas, as well as those communities affected by troubles in our auto and manufacturing base, may be particularly vulnerable. And at 15.6% and 12.7%, respectively, African-American and Hispanic unemployment rates are intolerably high.

This commitment to a shared recovery helped motivate support in the Recovery Act for increasing funding for the Community Development Financial Institutions Fund, expanding New Markets Tax Credit allocations by $3 billion, and creating the Recovery Zone bond program to spur new investments in the areas hardest-hit by job loss. At the same time, the Recovery Act included $49 billion to stabilize education budgets in hard-hit states and $87 billion to help states maintain health insurance coverage for low-income families. The Administration and Congress also supported larger tax cuts to lower-income families through the Recovery Act, including the Earned Income Tax Credit and the Child Tax Credit. And as part of our commitment to addressing an uneven recovery, the President and Secretary Geithner announced a new initiative in recent weeks to provide CDFIs with the opportunity to receive capital with a lower dividend to further leverage their existing work and help extend credit in our poorest communities. We also must look seriously at how we might assist non-profits in communities all over our nation that serve disadvantaged Americans in a variety of ways – heroic institutions that are often literally life-savers among the populations they serve. These non-profits are being hit with a perfect storm: while demand rises for their services, contributions from corporations, foundations and individuals have fallen. Moreover, because of the budget shortfalls facing State and local governments, some nonprofit human service providers are reporting delays in receiving reimbursements for expenses they have already incurred. As we develop our policies to support job creation, we must keep in mind the importance of quelling layoffs and job losses among these non-profit institutions as well.

Creating the Conditions for Long-Term Economic Growth

So far, much of my focus has been on supporting job growth in the immediate term – and there is no higher priority for this Administration. But I want to close with three thoughts about how supporting job growth today is part of a broader strategy to create the conditions for long-term economic growth:

Laying the Foundation for Private Sector Job Growth: With our labor market still weak and uncertainty about the strength of future economic demand still lingering, public policy can and must do more to accelerate the return of strong job growth. Yet it should also be clear that the President views these policies as neither short-term nor long-term replacements for the private sector — but instead as an effort to lay the foundations for immediate and future private sector job growth. As the President stated in his speech last Tuesday, the government can help ease credit for the creditworthy, but that only removes a barrier and lays the foundation for an entrepreneur in the private sector to take an idea and ingenuity to translate credit into jobs and growth. Even critical public investments such as modernizing infrastructure, providing access to quality education for both younger and older Americans, and spending on basic research all lay the foundation for the private sector to grow the economy and create new jobs.

Building Back Better: It has also never been the goal of this President to simply rebuild our economic foundations to where they were the day before Lehman Brothers collapsed. Long before the meltdowns that triggered the current financial crisis, President Obama recognized that our ability to create jobs and opportunity was hampered by deeper cracks in our economic foundation. Those cracks in our foundation included rising health care costs that reduced wages and disadvantaged small businesses, a lack of opportunity that resulted in too few of our young people achieving a world-class education, and an economy in which the productivity gains of recent years created greater benefits for the top 1% and steeper economic inequality, rather than helping to produce a growing and inclusive middle class.

That is why this President has always aimed not just to rebuild – but to build back stronger. As he stated in his speech at Georgetown University in April, even as we fight for the highest-impact job growth in the short-term, our compass should be pointed towards what is necessary to lay a stronger foundation for "a future where sustained economic growth creates good jobs and rising incomes; a future where prosperity is fueled not by excessive debt, or reckless speculation, or fleeting profits, but is instead built by skilled, productive workers, by sound investments that will spread opportunity at home and allow this nation to lead the world in the technologies and the innovation and discoveries that will shape the 21st century." Our efforts to achieve health care reform that lowers costs and expands coverage, education reform that raises quality and improves college completion, and financial reform that prevents new financial crises are all part of the effort to build back a better and stronger foundation for economic growth in the future.

The Dual Challenge of Job Growth and Fiscal Discipline: The President rightly stated last week that it is a "false choice" to claim that "we have to choose between paying down our deficits on the one hand, and investing in job creation and economic growth on the other." Indeed, there are few things that could harm deficit forecasts more than a failure to keep the economy from returning to negative growth or a sustained period of job loss going forward. To understand why, consider that OMB estimates that the current recession will add $3.5 trillion to deficits due to automatic stabilizers over the next ten years, as a slower economy depresses revenues and increases take-up in programs like unemployment insurance and food stamps. These stabilizers are critical to stimulating demand and addressing unmet needs during a downturn, but also reflect a fiscal cost to a recession.

Likewise, creating confidence that we are committed to returning to a fiscally sustainable path as job growth becomes stronger – with deficits cut to the point where they are not increasing debt as a percentage of GDP – is also critical to giving the private sector the confidence to make long-term investments. One crucial measure that the President has taken – even in this period of deep recession – is to change the way Washington has done business by insisting on passing new initiatives without increasing the annual deficit and the long-term debt handed to our children. After a decade where surpluses emerged in part due to a commitment – often bipartisan – to pay for new initiatives, the previous eight years saw a failure to pay for large proposals like the 2001 and 2003 tax cuts and the Medicare prescription drug benefit, leaving a legacy of over $5 trillion in deficits – or $500 billion in annual deficits on average – over the next decade. That half-trillion dollars per year marks the difference between fiscal projections under which the deficit would fall as a percentage of GDP and unsustainable deficits. As a result, one cannot underestimate the power of the signal it sends when our current President makes clear that even on health care – his number one long-term initiative – he will not sign a bill if it raises the deficit one dime. Putting forward new ideas for immediate job growth in the short-term, while showing a commitment to paying for health care reform that itself promises to moderate long-term deficit pressures, demonstrates how a sound economic policy can marry a focus on immediate job growth with a commitment to restoring medium and long-term fiscal responsibility.

The situation we face is serious, and the history of past financial crises – as well as the depth of the contraction we have experienced – suggests that it will continue to be a bumpy road to recovery. But we are committed to working with you to take additional steps to ensure that we are not only responding to the economic damage that has been created by this recession, but building a stronger economy going forward.