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Madam Chair and Members of the Committee, thank you for inviting me here today to testify on the labor market and policies for strengthening it.

It seems to me that there are two overarching economic policy issues facing this Congress and the Administration. One is our topic today: jobs and how to improve the difficult outlook which faces American workers. The other is the threatening fiscal deficit, as outlined in the President's proposed fiscal 2011 budget. I might note that the two issues are linked. The deficit, if not tamed, will raise interest rates and put downward pressure on overall growth and on job growth. Indeed, the Clinton years demonstrated that deficit reduction can coincide with strong employment growth.

Let me begin with a quick review of the outlook. By historical standards, it is a slow and difficult one. The latest Bloomberg survey of private sector forecasts average 3.0% real growth rates for both 2010 and 2011. The related forecast for unemployment rates is 10.0% and 9.1%, respectively.

Such growth rates are far below those which the U.S. would typically realize in the years immediately following a severe recession. A historically normal rate for 2010, for example, might approximate 6-7%. We saw that in 1983, the first year of recovery following that deep recession.

But, the downturn of 2008/2009 was caused by rare balance sheet factors. Not the traditional dynamic of overheating and monetary response. History and academic research tell us that the negative growth and employment impacts of recessions following financial crises are especially deep and prolonged.

In this case, that reflects: (1) the over-stretched balance sheets of American households and the diminished consumer spending, especially discretionary spending, which results from it; and (2) the still shrinking balance sheets of our banks and the reduced lending which that causes, which we saw in the FDIC data earlier this week. It is difficult to achieve a healthy recovery when both consumers, whose spending represents 70% of GDP, and banks are retrenching.

Through BLS data revisions, we recently learned the real number of jobs which actually have been lost since the so-called Great Recession began. That number is a staggering 8 million jobs, which means that an entire decade of job creation has been lost. In other words, the number of American jobs today is approximately the same as it was ten years ago, despite our population growing by thirty million over that period.

The unemployment rate, of course, is 9.7% today, and job losses have continued through last month. The underemployment rate, perhaps a better measure of true unemployment, is 16.5%, and this translates into 25.3 million Americans. This includes those who are looking for work and those who have given up and are no longer looking. Further, the employment-to-population ratio has fallen to 58.2%, down from 64.6% ten years ago. This is the lowest level in 26 years.

With our population continuing to grow, America needs around 2% real growth to hold our unemployment rate stable. This is why the 3.0% growth rates forecast for 2010 and 2011 will only lower it modestly.

Let me turn then to strategies for creating jobs, starting with lessons we can learn from the Clinton years. Those were remarkable ones in terms of employment growth. Over the eight years spanning 1993-2000, America saw 22.7 million new jobs. This equates to an average monthly gain of 237,000 jobs, the fastest job growth on record.

Those years also saw strong income growth across the board. Real family income increased almost 3% annually over this period, and all income groups participated rather fully in this growth. In contrast, during the following eight Bush years, real income growth for the bottom 99% of families reached only 1.3%.

The question, then, is what explains the powerful labor markets of the Clinton years? I do not have all the answers, but here are a few factors which played important roles:

- The U.S. experienced relatively high levels of savings and investment during these years. The net investment share of GDP rose from 2.1% to 4.4% under President Clinton. By 2008, it had fallen back to 2.5%. There is nothing which promotes job growth more effectively than strong investment. It expands the capacity of our economy, and that requires more employment.

- One reason for these high savings rates, of course, was the balanced budgets and subsequent surpluses of that period. These meant that both the federal sector and the private sector were saving at once. And, it is savings which finances investment.

- My very large generation – the baby boomers – were in prime working ages and this contributed to high employment rates.

- The boom in technology and technology investment also was a key contributor. The Clinton years saw record amounts of venture capital raised and invested, record amounts of capital raised through technology IPOs and large scale hiring in the tech sector and those businesses serving it.

- Manufacturing employment was stable, and the dollar value of industrial production grew 40%. In contrast, since 2000, the manufacturing sector has shed almost 400,000 jobs a year, and industrial output has been flat.

- The American export sector added 500,000 jobs a year over the Clinton period, but only one fifth of that rate over the following eight years.

- The U.S. stock market rose almost uninterruptedly over those years. The Dow Jones Industrial Average stood at 3,300 when President Clinton took office and 10,400 when he left it. There is no stronger impetus to consumer and business confidence than steadily rising equity prices, especially when matched with fiscal balance.

– Interest rates also remained low. Today, absolute rates also are low, but economic conditions would typically mandate even lower rates.

The natural questions, then, are: (1) which of these factors can be replicated to improve the employment outlook now?; and (2) what other policy initiatives could be taken?

Overall, the Clinton years provided a climate of stability and consistency to our private sector. Employers will tell you, when they run small business or large ones, that consistency of policy is important to them and uncertainty is anathema. But, right now, Washington is inadvertently promoting uncertainty. And, that must change, in order to spur investment, growth and jobs.

A central uncertainty relates to the deficit outlook. By any measure, it is threatening and undermines confidence at all levels. The idea that, over ten years, deficits will not fall below 4% of GDP and that debt will exceed 80% of GDP is not acceptable. Indeed, it won't materialize. Either Congress and the Administration will act proactively to rectify it or, at some medium term point, global financial markets will revolt, perhaps through the foreign exchange markets, and impose a solution on the U.S. If the latter scenario results, the solution will be a punitive one.

We all know that 2010 is not the year for deficit reduction. Our economy is still too weak to absorb those contractionary impacts. But, it is not too soon to formulate a plan, beyond the Obama budget, for deficit reduction after this year. In particular, it is important that, later this year, the recommendations of the new Deficit Reduction Commission be taken seriously and given a true vote in the Congress.

A second major uncertainty concerns health care legislation. This is a giant and transformative undertaking with large economic implications. It will affect a high proportion of employers and they need to know whether it will move forward or not. The longer that this uncertainty persists, the slower will be the recovery in confidence levels. Passing health care legislation will not only help dissolve the uncertainty currently surrounding it; it may assist in reigning in our long-term deficits, since the growth in health care costs is the most significant factor affecting the future of the federal balance sheet.

Then, there is the question of new initiatives, both short term and long term. In the first category, President Obama is proposing $280 billion of additional stimulus. That would come on top of the $787 billion package which was adopted last year. The same four components in the 2009 program – extended benefits, state fiscal assistance, infrastructure and tax cuts for middle income Americans and small business – are included in the new proposal.

I support the concept of additional stimulus. The growth and job markets outlooks are too weak. Moreover, last year's amounts, in the context of this economic weakness and the sheer size of our economy was too small. But, the spend-out rate on the 2009 stimulus was not as rapid as it should have been. Only 34% of last year's total was dispensed in calendar 2009. This is surprising because the greatest stimulus should have been applied in the weakest year. The explanation partially lies in the infrastructure component. Despite countless promises to the contrary from localities, this spends out very slowly.

It would seem wiser to design the new package to take effect more quickly. In turn, that would require maximum emphasis on steps which put money directly into the pockets of middle and lower income Americans. Perhaps, a greater focus on extended benefits and targeted tax cuts, and a lesser one on infrastructure. In addition, the earlier cash for clunkers initiative was an effective one. The Homestead provision in the Senate jobs bill, which would use the same principle and extend it to appliances, makes eminent sense.

Next, there is the question of longer term strategies for strengthening the labor markets. Beyond deficit reduction, which I regard as paramount, here are five areas which deserve this Committee's attention:

– Investing in science and technology. Historically, these have generated new industries, from information processing to the internet, and substantial job creation. While most technology businesses aren't large scale employers, their products generate growth, e.g., the iPhone. The new Obama budget recognizes this by increasing federal commitments to basic research. It also emphasizes energy technology, which would seem a clear opportunity.

– More effective education policies at all levels of government. Jobs and wages are becoming more polarized by education level. The urgency of raising high school and college education rates, therefore, is greater than ever.

  In New York City public schools, for example, the high school graduation rate hovers just below 60%. Given the polarization trend, how can America achieve its labor market goals without raising such graduation rates?

  The most important steps which America could take would center around raising teacher quality and increasing the amount of time during which kids are in school. Recent data makes clear that teacher effectiveness is the most important ingredient for student success, together with the sheer amount of quality teaching which kids receive.

– Build stronger connections between education and specific job markets. This is important because the days when certain levels of education assured good employment have receded. It is increasingly important that schools provide the more specific skills which today's workplaces demand. Including skills required by markets adjacent to those schools.

  One way to do this may be to strengthen the community college system in this country. In turn, this could involve subsidies to businesses which provide part-time employment to students in those schools. The more a student acquires skills during school, the more employable he or she is.

– Reduce the constraints on H1B visas. Today, only 85,000 visa are reserved each year for highly skilled workers. But, consistent with reasonable national security tests, we should want every single such worker who wants to come here. They tend to be highly entrepreneurial and foster innovation, start-ups and job formation. Duke University has estimated, for example, that 52% of Silicon Valley start0ups over the past ten years were initiated by foreign born workers.

– Reform the U.S. disability system. Right now, too many older workers who find themselves jobless are moving onto permanent disability status because they cannot find work. The percentage of American males aged 40-54 who are on the disability program has reached nearly 5%. That is testimony to our difficulty in redeploying older workers. We should learn more about the approaches to re-training and re-employment which other nations use, including Germany.

It is difficult to overstate the labor market challenges which America faces in coming years. We are going to need all of these initiatives, and more.