



**SPECIAL PRESENTATION**

**“STIMULUS AND RECOVERY: WHERE SHOULD THE  
SPENDING GO?”**

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MR. MICHAEL ETTLINGER: So welcome to the Center for American Progress. I'm Michael Ettliger. I'm the vice president for economic policy here. For those of you unfamiliar with us, the center is a think-tank dedicated to improving the lives of Americans through ideas and action.

As most of you know, if you've seen the job market news this morning, there's a lot of Americans whose lives need improving right now. To catch everyone up on the headlines, we're over 1.9 million jobs lost in 2008, over 1.2 million in the last three months, 533,000 jobs down in November. To put these numbers in a little perspective, there are now fewer jobs in the economy now than there were two years ago, as the population has grown by five million. The November loss was the largest loss in over 30 years.

So the economic situation is very bad, and in our view, and it's pretty widely shared, it's going to get worse before it gets better. The credit markets are all still in a bad way. We're approaching a dangerous self-feeding slide down. You just read the newspapers. There are large corporations announcing jobs cuts that haven't happened yet, so they're not reflected in these figures and we have the threat of losing millions of jobs if the auto industry fails.

So it's a bad situation. Some of this, I said, it's going to get worse before it gets better. Some of that is unavoidable at this point, but some of it is avoidable. And you know, what we can do is affect how bad it gets, how long it is before it hits bottom, how long it takes to recover, and what economic growth will look like in the future.

So how do we affect these things? We think of the policies that are needed as coming in four categories: stabilization, stimulus, recovery and growth. And I'll just quickly define what we mean by those terms.

By stabilization, we mean getting the basic functioning of the economy right again, so banks are lending, housing values are stabilized, the markets are less volatile.

Stimulus is providing a boost in demand in the economy to arrest a downward spiral to stop that from happening, to stop the cycle of demand – declines in demand leading to lack of business confidence so businesses don't invest, don't employ people, which leads to further loss in demand, and stopping that cycle is what stimulus is about.

Recovery is, in our thinking, a little longer term. It's getting back on a trajectory of job growth to regain the jobs we've lost.

And then growth is the long-term agenda, which the center's version of that is in our report, "Progressive Growth," which focuses on energy transformation, health reform, education, and innovation.

But today, we're talking about stimulus and recovery. I should say that we're talking about stimulus and recovery, but we definitely believe, as you'll hear more about, that, to the extent possible, shorter-term policy should be designed to do double duty and also fuel our long-term growth. In our paper, which we're releasing today and is available in the back with the catchy title "How to Spend \$350 Billion in a First Year of Stimulus and Recovery," describes a starting place for this.

So yesterday, when I was thinking about what I was going to say today, my plan was not to rehash past policy failures, and that's still basically the plan, but in light of today's jobs report, I kind of feel compelled to say something kind of about how we got here. One thing that I think is important to note is that the job market hasn't been that great for eight years. It's been reflected in weak income and wages, poor job growth – for a period of economic growth, poor job growth.

And to an extent, the problems were papered over by rising asset values, artificially high asset values, but it was not a secret that it was not a great economic recovery period. So that's why, when we do talk about what's needed, we do think that more is needed, not just stabilization, stimulus and recovery, but we do need to talk about kind of how we look at the longer term and think about how we get on a long-term better trajectory.

The second thing is the jobs numbers today, they're not super-surprising really, but they are a jolt, and I really do hope that they're a wakeup call for those in government who apparently haven't really gotten that something dramatic needs to be done. The fact is that people have been calling for a much more aggressive stimulus for a long time. The House has passed a stimulus package before the election. It died in the Senate, and it was under threat of the Bush veto. They tried again in the lame duck.

These packages were small relative to the kind of things that people are talking about now, but they were big enough to matter and it's crystal clear that they were needed. And the delay is really hurting us and it has hurt us, not taking action sooner.

So the working assumption right now is that the most that can be done in Congress before January is to do the auto bailout, but they should do as much as they can in the next couple of weeks in addition to the auto bailout. And let me just say, as to the auto bailout, I'm someone who thinks that, actually, the automakers can, and should, be saved, but even if you have your doubts about that, even if you think we're just fending off the inevitable, we ought to fend it off until the economy is in a better situation and able to take the hit.

Having GM, for example, fail in the next few months would make the overall economic fall much deeper, longer and harder to recover from and it would have

consequences beyond Michigan and beyond the auto industry. So I just want to say that if they don't do the bailout, if we don't have stimulus, and if the economy takes a deeper slide, it is really in part on the heads of the people who stopped stronger action from being taken. Okay.

So with that off my chest, let's move to our program. I'll start by introducing the panel in sort of random order, I guess.

So Bracken Hendricks can wave – identify yourself. He's a senior fellow here at the center where he works on issues of climate change and energy independence, environmental protection, infrastructure investment and economic policy. Bracken served as a special assistant to the office of Vice President Gore and with the Department of Commerce's National Oceanic and Atmospheric Administration where he worked on the Interagency Climate Change Working Group, and the president's Council on Sustainable Government Development, and the White House Livable Communities task force.

He was also the founding executive director of the Apollo Alliance for Jobs and Energy Independence, a coalition of labor, environmental business and community leaders. Bracken is also the co-author with Congressman Jay Inslee of *Apollo's Fire: Igniting America's Clean Energy Economy* which, I might add, is an excellent holiday gift. So if you're looking for something for friends and loved ones – I told Bracken I'd pitch his book. At any rate, if there's anyone who knows more about energy policy than Bracken, it's a short list.

Next to Bracken's right is Bob Greenstein. Bob is the founder and executive director of the Center on Budget and Policy Priorities. He's a top national expert on the federal budget and a range of domestic policy issues, including low-income assistance programs, tax policy and Social Security. In 2008, Bob received both the Heinz Award for Public Policy in recognition of his work to improve the economic outlook of many of America's poorer citizens, and the John W. Gardner Award for playing a defining role in how people think about critical budget and tax policies.

In 1996, Bob was awarded a MacArthur fellowship, being cited for making the center, the Center on Budget, a model for nonpartisan research and policy organization. Prior to founding the center, Bob was the administrator of the Food and Nutrition Service at the U.S. Department of Agriculture with a staff of 2,500 and a budget of 15 billion.

So I just want to say, there's a saying – it's a compliment paid by experienced – to experience trusted kind of honored ships' captains by sailors, and what they say is that he's dumped more water from his boots than I've sailed over. And I think there are many of us who kind of feel that way about Bob. There are millions of people in this country who don't know Bob, will never know his name, whose lives are better because of his work. (Applause.) I'll join that. We've embarrassed him. Anyway –

So Janet Kavinsky is director of transportation infrastructure in the Congressional and Public Affairs Division at the U.S. Chamber of Commerce. In addition, she's the executive director of Americans for Transportation Mobility, a national business-labor construction industry coalition to support increased federal investment in an improved transportation system. Janet also heads the development of the chamber's Let's Rebuild America initiative which engages chamber members to reframe infrastructure issues and advanced solutions to our transportation challenges.

Previously, she served as the project director for business development and transportation finance at the American Association of State Highway Transportation Officials. Before that, she spent four years at the Department of Transportation. So we thank Janet for joining us.

Finally, Will Straw is also here at the center, where he is the associate director of economic growth. Previously, Will served as a senior policy adviser on regulatory reform for Her Majesty's Treasury. I believe that's a British thing, right?

MR. WILL STRAW: That's right.

MR. ETTLINGER: Okay. I thought so. So while with Her Majesty's Treasury, Will analyzed the economic effect of new policies and regulation and prepared ministers for the cabinet committees. Prior to this, he was president of the Oxford University – prior to this, he was president of the Oxford University Student Union where he successfully campaigned for the reintroduction of the student grant for poor students. He has a BA from Oxford, a Masters from Columbia University where he was a U.S.-UK Fulbright scholar and he blogs for Progress Online, a British think-tank.

So Will is going to start us off by talking about the report we're releasing today. There is one thing I should add, which is there's been an alarming amount of confusion on this lately. I want to make it clear that I and the members of the panel are speaking for themselves and their institutions, not any other entities that they may or may not be formally or informally advising.

So with that, we'll start with Will and we'll move from there. Thank you.

MR. STRAW: Thanks, Michael. When we first started thinking about the second stimulus over the summer, there were two questions that I thought were particularly interesting. I'm going to focus my comments today on those. First, what size should the stimulus be, and second, what should its composition be?

In terms of size, you have all seen a number of different numbers banded around in the press in recent weeks. Our own senior fellow, Gene Sperling, has been talking about 300 billion and a (powered?) up train of stimulus, overwhelming force. Paul Krugman has been talking about 600 billion. Goldman Sachs have been talking about similar numbers, and I was even reading reports yesterday of a one trillion stimulus, although that was over two years.

So how do economists get to these numbers? Well, what they do is they look at how high they think unemployment is going to be beyond the full employment rate, which is about 5 percent, and then, for each half percentage point above that 5 percent level, they suggest there might be 1 percent output gap.

So if you suggest, for example, that unemployment is going to hit 8.5 percent, that's 3.5 percent above full employment; therefore, a 7 percent output gap. One percent of GDP is about 140 billion. You do the math. You work out what the multiplier is. That is how much money you need to put into the economy, what you get out from it in terms of people spending that money and going to other people's pockets and then being able to spend that again. And people come up with these large numbers.

That's very much a top-down approach and has a lot of merit to it and we certainly would recognize that those are the kind of numbers that you have to do in (aggregate?).

We've taken a slightly different approach. It's a bottom-up approach and we've based it on some principles. The reason that neither Michael nor I were candidates for economic secretary was because we couldn't come up with catchy alliterative principles as Larry Summers does, sustainable, and timely, and so on. Instead, ours are fast, that they get to the job markets, that they jump-start the economy and they're responsible programs. Not all the measures that you'll see in our reports follow all four of those principles, but they all follow some of them at least.

In terms of the number, 350 billion, that's quite a lot lower than some of the other numbers that are going around. What we say is, this is just a start. There are many other things that may be appropriate for the stimulus package to include. The government, the executive branch, should be going through every single department looking at things that it can bring forward from its planning in 2010 to 2009 – for example, upgrading vehicle fleets. The Department of Defense in particular has a long view, five to seven years, for which to spend its procurements in R&D, so they think about bringing some of those things forward.

What we've avoided is necessary long-term programs that would lead to economic growth. Those are important, but we focused ours on things that are going to help with stimulus and recovery.

So on to the composition. Just to reassure you, if you're worried about my accent, this is not a socialist plot. We leave nationalization to the Treasury Department. (Laughter.) Our program focuses on areas of spending and also some tax cuts, but I think there's a problem with putting too much of this in tax cuts. Consumer confidence is very low at the moment, much lower than it was in January, which means that if you put too much of this in tax cuts, there's no guarantee that it's actually going to get spent. So we limit to about 50 billion in tax cuts, the earned income tax credits, (make you work?) pay credits, and the emergency energy rebates.

Next is stimulating demand by giving it to those most in need. If you are unemployed, if you are somebody who's very low income, then you're much more likely to spend money that comes from the government. So we focused on extending unemployment insurance to a wider number of people, education and training for those people out of work, helping with childcare costs, increasing food stamps, and particularly, helping those who have been foreclosed on as well.

Aid to states, a very, very important area here. I'm sure nobody needs to be reminded that states around the country have massive shortfall in their budgets. We reckon to plug that, you need about 70 billion in financial year 2009. About 30 of that should be to the matching rates for Medicaid, another 30 for general block grants, and another 10 for community development block grants.

On infrastructure, we are looking at a total package of 175 billion; 100 of that is green job creation, which Bracken will speak to a little later. The other 75 is looking primarily at transportation and utility changes, improving the deteriorating state of schools in the U.S., helping improve housing stock, health IT, which can help bring down healthcare costs, and for broadband, and finally, for disaster relief for some of those southern states that were so devastated by hurricanes over the last couple of years.

So that's a very brief overview of our plan, what its size should be and why we've picked this number as a start and what its composition should be.

MR. ETTLINGER: Thank you, Will. Now we'll turn to Janet who will speak to infrastructure.

MS. JANET KAVINOKY: Thank you. Thanks for having me here today. The U.S. Chamber of Commerce is very focused on maintaining, modernizing and expanding the nation's infrastructure. And microphones are falling off, so it's our own infrastructural problem. Even though I'm the director of transportation infrastructure, I also lead the chamber's initiative we do call Let's Rebuild America, which is about focusing on again, maintaining, modernizing and expanding the things that are the physical platform of our economy, not just transportation, but also water, energy, and broadband.

Clearly, the economy needs additional activity and additional stimulus at this point in time. I think that Congress and the new administration need to look to every option on the table to boost that economic activity. And infrastructure is one of the places where, especially with government funding tightening across the board, with states and localities finding difficulties in the credit markets for projects that they need done, and a massive backlog of maintenance and repair, infrastructure is one of the places where there are literally thousands of projects, whether it's roads or rails or runways, bridges, if you get into the water side, water investment infrastructure, energy, broadband expansion, that there should be ready-to-go projects that can be done, that can be truly stimulative and creative and support jobs in the overall economy.

We know that a stimulus package can both keep people and create opportunities for good-paying construction jobs, and I see my friend Matt from ACEC back there, American Council of Engineering Companies. It is truly important that we not only put people to work in those construction positions, but also in the industries that build equipment, that (query?) aggregate, all sorts of things that those of us in the transportation would love to talk about, and the rest of the universe says, (querying?) aggregate, what in the world is that?

But those are real, good-paying jobs where there is a lot of demand and those industries have been hard hit by what's going on in the overall economy. It puts people into manufacturing. It puts people into engineering positions, but as importantly – and I think that both Will and Michael alluded to this – the key with infrastructure is that it creates long-lasting assets that really provide the foundation for economic growth.

It's not only the jobs that are supported in direct construction industries or in the related associated industries, but once infrastructure is in place – and let's make it real instead of talking about the big I-word because it's so difficult to do that. If you are able to build an interchange, if you create a livable neighborhood with transit service, business grows around that, housing grows around that, people live there, people work there. And again, you see that foundation for long-term economic recovery and growth.

And so I think this stimulus package can put dollars into the much needed backlog of maintenance and repair, and I think those are a lot of the ready-to-go projects. But we can also accelerate the projects that are really going to provide that foundation for moving people, moving goods, energy, information, the things that keep the industries in this country going.

Think about the services economy, 47 percent of the nation's economy. If you don't have a pervasive broadband system, you cannot extend the benefits of that ever-growing sector throughout the country out into the reaches of places like my home state of Wyoming, which I always like to mention. I've got to give a nod to the 500,000 people who live there.

One thing I do want to mention though is that what we do in the stimulus does not take the place of a very large legislative agenda that the next Congress and the new administration has to take on, and very quickly, which will really contribute to that recovery and long-term growth.

In transportation alone next year, Congress has to reauthorize the Safe Accountable Flexible Efficient Transportation Equity Act - A Legacy for Users, or SAFETEA-LU, if you're not familiar with the jargon. That is federal money for highways and public transportation, for the critical movement of people and goods around the country and within our economic engines in the communities. Over the last six years, that's been \$286.4 billion for every \$1 billion in federal investment, plus the

20-percent match. At the state level, it supports 35,000 jobs. It's a critical long-term economic strategy.

Congress, also by March 31<sup>st</sup>, 2009, has to pass the FAA Reauthorization Airport and Airway Trust Fund. We are fortunate enough to have three major runways dedicated this month. It's almost unprecedented to actually be building new capacity. For anyone who's sat on an airplane, you know that we need to continue modernizing the air traffic control system, building the ground-side capacity. That's jobs in a wide variety of industries, but that also is literally moving the global economy.

And the last piece, that not a lot of people think about, but is so important to fundamental industries in this country, is the Water Resources Development Act, the locks, the dams, the levies, the recovery of areas that have been hard hit by natural disasters that have to be there to move our boat commodity goods that support our steel industries, that support our agricultural industries.

So there is a lot to be done in the coming year. We think that infrastructure is a critical part of the stimulus for supporting jobs, preserving them, creating them, getting ready-to-go projects, but we also are laying the groundwork for a much broader legislative agenda in the coming year. We're very supportive at the chamber of both promoting increased public investment in infrastructure, as well as opening opportunities for the private sector especially in energy and broadband to do the work that they need to do. Thank you.

MR. ETTLINGER: Thank you, Janet. Bracken. Bracken is going to talk a bit about our energy agenda.

MR. BRACKEN HENDRICKS: Thank you all for coming out. It's exciting to see such a full room here to talk about a critically pressing issue. And I also just want to just comment that I'm really pleased to be here with Janet, and to really agree with everything she has to say, and to be sitting here with the Center for Budget and Policy Priorities and the Chamber of Commerce and just to realize how much in lock-step we are around what needs to be done moving forward.

And I think you can also look at what Michael was saying opening up. We're in a moment where Paul Krugman, a Nobel Prize-winning liberal progressive economist and Goldman Sachs are sort of coming to the same basic magnitude of what's needed. Coming from sort of a different intellectual set of orientations, they're reaching the same conclusions and I think that's a very promising moment.

It also speaks to the urgency that we're all kind of focusing in and saying, what do we need to do right now? And there's a tremendous amount that needs to be done. I don't think any of us are coming to the notion of a near-term investment package of this magnitude lightly. It's a very, very serious moment in the economy.

So we're looking around and saying, what do we need to do now? What investments can we make in the short term that will get the economy moving? But critically, as a matter of good government, as a matter of fiscal responsibility, we're also asking, we need to get moving, but we've got limited resources. So we need to get moving in the right direction, and we need to be making down payments on things that will be useful. We don't want just sort of an ad hoc kind of assemblage of investments. We want to do something strategic here because this is a critical moment in the economy also for our long-term priorities.

And this brings us back to the question of global warming and the transformation of our energy economy to put ourselves on a low-carbon platform. And it's critically important to make those investments upfront because over time, they reduce the cost of making this transition. If you do smart public investments in the near term, it's critical for the sort of market transformation that Janet was talking about.

And there's often, I think, a misconception – when we talk about public policy and public investment leading the way to the creation of green jobs, we're not talking about some sort of a public job creation program. We're talking about transforming markets and exactly – as Janet was talking about, these are things that enable huge amounts of private capital to flow afterward.

But individual market actors can't replace public investment for setting the framework of infrastructure and regulatory tools that actually guide the economy. We need those signposts. We've seen what happens with a government failure in the recent collapse of the housing industry and the larger financial meltdown that resulted. There's a very, very important role for the public sector to play with the orderly unfolding of market activity and that's what we're talking here now as we think about a green economy.

So let me just step back. This summer, after the recent stimulus, we saw that it had created some benefit, but that there were sort of dark clouds still on the horizon and we looked to the – a few months out to where we are now and we said, we're probably going to need more stimulus. And we were also, at the same time, looking at our energy package, our proposal for energy transformation. How do we drive renewable energy, more efficiency in buildings, a smarter electrical grid? How do we create manufacturing jobs producing wind turbines or energy-efficient appliances, and new construction jobs doing all of this work?

So we thought, well, let's look at a stimulus program, or a slightly longer term recovery program, that actually makes those investments that need to be done anyway. And so we looked at \$100 billion investment spread across energy efficiency and renewables. At the time, \$100 billion seemed like a lot. We were a little bit shy to put out that large number. It's chump change now, I've been saying.

So we said, let's look at \$100 billion and see what it can do. And we determined, working with the University of Massachusetts, an economist there named Bob Pollin, that

we would actually create two million jobs from that investment. And we compared it to an investment in a traditional stimulus that just gives checks and rebates to people to increase household consumption, increase consumer spending. And we found it created about 300,000 more jobs than just simply increasing consumer spending, and there's a good reason for that.

These efficiency investments and renewable investments are embedded in communities. You're taking \$1, and instead of spending it on consumption, which about 22 cents on the dollar would flow overseas for imported goods. When you buy infrastructure, when you pay a carpenter to change the lighting or to swap out your windows with more efficient windows, or to insulate your boiler and wrap your pipes, these are things that persist in the community and they're investments that have much higher labor content.

You're substituting \$1 that would be spent on wasted energy for \$1 spent on skilled labor. There's more domestic – there's more labor content and they're more domestic, they're more local. You can't outsource them, and so, it's circulating in the economy which is exactly the sort of investment that we want in a near-term stimulus package.

So we came to the conclusion that it was better stimulus, it was a better strategy, not just a green strategy. So while we were motivated in the first instance to look at these as an environment tool for our long-term goals, we came to the conclusion that in the short term, it was also just about effectiveness.

Then we also, because we are concerned about the trajectory that we're on, which is entirely unsustainable around where our global climate is headed, and as well as our economic and national security, because of our reliance on oil, we compared those investments in efficiency and renewables with a comparable investment in oil. And we said, well, okay, you could just pump this money into the existing energy economy and there the results were staggering. It created four times the number of jobs, three times the number of jobs earning above \$16 an hour.

So this is more jobs and better jobs by pursuing a green future than pursuing a business-as-usual future and that's not even taking into account the cost of inaction. And clearly, doing nothing leads to high energy prices anyway because it allows ourselves to continue to run an inefficient and polluting economy. It creates the unintended costs of global warming which are much harder to manage and a whole series of other burdens that can be avoided by pursuing this path.

So I guess one last point. These investments are very heavily concentrated as well in the sorts of areas where we really need to be spending money. They're focused on construction, manufacturing, skilled labor. It's exactly the sort of stuff that we need to be investing and we buy the legacy of the infrastructure and the enabling technologies from a smarter grid to more mobility through transit projects, through more efficient

buildings that cut consumer cost. They can spend their money on things that provide greater value to homeowners and families.

So we feel very strongly that green jobs are real jobs for familiar categories of the labor force. We encourage all of us to start looking at a green economy. It's just another sectoral strategy. It's a smart way to invest, and there are immediate things – there's a little bit of confusion as to whether this is really near term. We are in a moment where we need short-term investments. There are clearly a whole host of projects, which in the question-and-answer, I think we can go a little deeper into the specifics. And it's time to roll up our sleeves and get to work.

MR. ETTLINGER: Next, we'll hear from Bob talking about stimulus in the low-income community and the plight of the states.

MR. ROBERT GREENSTEIN: Well, as other speakers have indicated, I think there's broad agreement on the panel in terms of the general contours of what's needed, but I'll try and make things a little bit interesting and actually offer some disagreements on the composition of the package.

As you heard this morning, today's employment report is quite bad. It indicates we're on track for this to be the longest recession since the end of World War II. I think there's now little question that will be the case, and clearly, one of the deepest since the end of World War II. Prior to today's report coming out, Goldman Sachs was forecasting unemployment reaching 9 percent by the end of 2009. With today's report, that forecast looks even more likely.

At the Center on Budget, we've looked at the relationship between unemployment and poverty. How much does poverty go up for each 1 percent rise in unemployment in each of the last three recessions? If the Goldman forecast of 9 percent unemployment by the end of '09 is correct, then based on the last three recessions, the number of people in poverty in this recession will rise by between 7.5 and 10.3 million people. The number of Americans below half of the poverty line will go up between 4.5 and 6.3 million people, and the number of children living below half the poverty line will rise by as much as two million.

Now, those figures are based on relationships in previous recessions, and unfortunately, they are more likely to be too low than too high for two reasons.

Reason number one – over the last quarter century, since previous deep recessions, the U.S. safety net has been made significantly stronger for low-income working families and significantly weaker for people who are jobless. In big recessions, we have a lot of people who are jobless.

Secondly, the state and local situation – states are facing massive deficits. We now, at the Center on Budget, project that over the next two and a half years, the remainder of the current state for school year, which runs through June 30<sup>th</sup> and the two

fiscal years beyond that, the cumulative state deficits will total between \$200 and \$250 billion. And that does not include the local government deficits that would be on top of that. We are looking at huge cuts coming in health care, in education, in a variety of services, in local police, you name it. And a lot of those cuts will be in things that help people at the bottom of the income scale.

So you put all of that together, we are looking at, over the next couple of years, the strong likelihood of some of the most serious hardship we've seen in the United States in decades.

What does that mean for an economic recovery package? Well, among other things, it means that two of the key components need to be robust fiscal relief to states and adequate help to the jobless and people at the bottom of the income scale, not simply for some social or equity reasons, but for hardheaded economic reasons.

As studies by MoodysEconomy.com and the Congressional Budget Office indicate, these are among the most effective forms of fiscal stimulus on a dollar-for-dollar basis. Why? Every state, except one, is required to balance its budget. Therefore, states will deal with these huge budget deficits which really are not due to their being profligate, by the way.

State expenditures, as a share of the economy at the beginning of this recession, were lower than at the beginning of the '01 recession, and at the beginning of this recession, states had built up fiscal reserves and rainy day funds equal to 11.5 percent of annual state spending. The biggest rainy day funds are on record, but this recession is so bad, state and local revenues are falling so much, sales property and income, that those reserves are rapidly being depleted. When states then have to cut, those cuts or tax increases take money right out of the economy and make the recession deeper.

Similarly, if you give benefits or tax cuts to people at the top of the income scale, they will spend some, but save some. When you address these issues for people in the bottom rungs of the income ladder who live paycheck to paycheck, they will spend virtually every new dollar in unemployment insurance or food stamps they get. This is why the economic experts rate these kinds of proposals as among the most effective on a dollar-for-dollar basis.

And there's a second factor here. The things that Bracken and Janet talked about, I agree should be part of a package, but by and large, they're not going to put that much aggregate demand into the economy in the next three, six, nine, maybe even 12 months. They'll start to have their biggest impact around the second year. But the fiscal relief, the aid to people who are in trouble, low and moderate income, unemployment insurance, these things are very fast-acting, and if we don't have enough of them, the recovery package will not have enough in the first year to go with the jump-starting of new investments that Bracken and Janet talked about that will really become a larger part of the actual impact of the package on the economy by the second year.

So what should we do? Obviously, unemployment insurance is a part of this. The CAP package absolutely rightly proposes passage – it's already passed in the House as part of the economic package – of what we call unemployment insurance modernization legislation which will enable more low-income and female workers who were laid off to get unemployment benefits.

But we need to do a lot more than that in the unemployment area. The current extra weeks of benefits end on March 31<sup>st</sup>. That is to say, people exhausting their other benefits after March 31<sup>st</sup> don't qualify for additional benefits. We're going to need to extend the extra weeks of unemployment benefits for close to two more years. That needs to be in the package. We'd also recommend strong consideration of full federal funding of some kind of additional bump. An extra \$25 or \$50 a week to the weekly unemployment benefit for a temporary period of time would be highly stimulative.

The package appropriately has a temporary increase in food stamp benefits. We'd suggest consideration of maybe a temporary increase in supplemental security income benefits for elderly and disabled poor people as well. The current benefit level leaves them at only 75 percent of the poverty line.

In addition, there's a strong need in the housing area. The kind of increases in the poverty I've talked about are going to create risk of substantial increases in homelessness and that effect will be aggravated by the foreclosure crisis. Over 20 percent of foreclosed properties are actually rental properties, and when foreclosure occurs, even renters who are current generally get evicted because banks don't want to – the foreclosers don't want to operate as landlords.

We suggest about \$4 billion over two years – this is somewhat more than is in the CAP package – in increased housing vouchers, aid to help people who are renters who are foreclosed, and owners who are foreclosed, find affordable rental housing and homelessness prevention.

Another factor – I'll just say in a sentence – there are several key low-income assistance programs that have contingency funds that are drawn upon in recessions where the contingency funds are going to run out of money in coming months. They need to be replenished so those programs can perform their appropriate roles.

And in the state area, we very strongly recommend 100 billion in fiscal relief over two years. Mark Zandi of MoodysEconomy.com is recommending 125 billion over two years. The CAP package is in this range in the first year. It has 60 billion in the first year. It doesn't have a second year. I think it's essential we have a second year and we enact it now, so states can plan and know that the relief is coming.

In the past recessions, there were certain lag effects in terms of revenues in relation to the economy. We expect state budget deficits of \$100 billion or so for the fiscal year that starts July 1, 2009, and another 100 billion for the fiscal year starting July

1, 2010, given forecasts like the Goldman forecast that unemployment won't even hit bottom until somewhere around December '09, January 2010.

Finally, as we look at the elements of the package that, as Bracken appropriately said, represent things where you can inject demand into the economy now, and at the same time, jump-start investments that the economy needs for the long term. We need to be sure to look at human capital, as well as physical capital, including things like more adequate funding in youth employment programs, childcare so low-income mothers can work, and things like Head Start which have been under-funded in recent years. Some of those programs like childcare have actually laid off workers due to under-funding so that they could pretty quickly hire workers back and put the money to use in the economy. Thanks.

MR. ETTLINGER: Thanks, Bob. So I'm going to say one thing, but then, we're going to have a little bit of a discussion here and then we'll open it up for questions, just so people know the plan.

So one thing I should just say about our plan is that it's a one-year plan, not because we're opposed to a two-year plan. Part of it was we were just trying to impose a discipline on ourselves of including things that could have an impact in a first year. And the other thing is there's merit to doing not many things over a two-year period, but I also think that we should keep in mind that we don't know exactly where we're going to be in a year.

So there are things that you know you want for two years and there are also – sort of you want to keep your powder dry to some extent that in a year – I'm confident we are still going to have problems in a year, but where exactly the money would be best spent, I think, is somewhat unclear at this point. So that was – we're not against doing two-year measures. That was sort of the rationale, sort of imposing a discipline more than anything.

Let me just kick this off by asking a couple of questions. So one is, Bob, I was wondering – you were talking about how the state situation is going to cause the states to have to cut back in some pretty important areas. And I'm wondering if you could just flesh out what areas you're more concerned about the states cutting back and that will do the most harm.

MR. GREENSTEIN: Well, if you think of state budgets, they cover many areas, but four of the biggest categories, of course, are health care, education, aid to local governments and corrections. One would look for cuts in all four areas.

Let me focus on one of those for a moment. The figures that I mentioned, 200 and 250 billion in cumulative state deficits over the next two and a half years, that's only at the state levels. In most past recessions, locals have suffered, but nothing like they will suffer in this recession because unlike the past recessions, this recession is accompanied by a big decline in home values, resulting in plummeting property tax revenues that are

very important for local governments. When states then, on top of that, cut state aid to locals to help close state budget deficits, we're going to see grim effects at the local level.

About two weeks ago, I was on a different panel where I was sitting next to Mayor Nutter from Philadelphia, and he started by saying, let's see, I just closed 11 libraries. And he went through the things he was doing in an audience of several hundred. Had one gasp after another, and he said, look, I hate every one of these things. What the hell am I supposed to do? This would be just the beginning of what we are going to see.

And one quick point on what Mike said, to continue our little debate on this. If one were – in my view, if one thought we only needed relief for a year, and we're only designing a one-year package, I'm not sure I would include a number of the things that Bracken and Janet talked about because I don't think they'll inject that much aggregate demand in the first year.

I think they should be in the package. I think we're clearly going to need relief for two years, but as a result of that, in an area like state budgeting and local budgeting, I think it would be very helpful for the states and locals to know in budgeting that they could count on a certain level of federal support for both of the two rough fiscal years ahead.

MR. ETTLINGER: This brings me to the next question which is – basically, it's responding to Bob's point about kind of – if you might address Bob's point more generally about sort of how fast these things can get moving and help, and sort of if there are a couple of examples of things that you think are particularly worth highlighting that you think money should be going to.

MR. HENDRICKS: Well, let me start by saying, I think it's sort of an artifact of your rhetoric that it seems like we're in disagreement, when I think we're in tremendous agreement. We want something that both injects immediate stimulus and that provides near-term recovery and that's a distinct moment. We feel very strongly that in a V-shaped recession, where you've got a steep drop and then a probable bounce back up, you probably want a stimulus that's a three, four-month sudden sharp impact, creates some demand, creates new activity and then you want to kind of step back.

But we're in a very different situation. It's now been determined that we've been in recession for a year. We're looking at sustained long-term job loss, and exactly as Bob was just saying, we need something in the short term. We need something in the next couple of months. We need something in three months, four months. We're going to need something in six, 12, and probably 18 and 24 months as well.

So we want a package that is designed to give us both the quick hit and to be thinking about putting in place now activities that are going to start impacting the economy in the medium term.

In addition, if it was just a small package, if this was just \$100 billion stimulus, and we were saying \$100 billion just for greening the infrastructure, or for improving transportation infrastructure, I think there would be a tension there, but we're looking at a very significant injection that's needed.

And there is the opportunity to both take care of the human needs, the human capital, putting money in the hands of low and moderate-income people who will spend it right away and building the enabling supports through infrastructure and through aid to cities and these other things that will be released over time that will help enhance the economic benefit of those investments.

So just as a quick thought, there are a number of things that we can do now that will start having an impact in the near to mid-term that I think need to be considered. There's something called the Weatherization Assistance Program which is just getting people to go into homes that are currently wasting money, leaking energy. You can weatherize homes quite efficiently and you provide ongoing consumer savings to those folks. In states and cities, they have identified low-income people who are eligible for this program. There's a huge backlog of millions of homes that need to be weatherized.

And we're retrofitting at a scale of 100 and 150,000 homes a year right now. The incoming president has made a commitment to weatherize a million homes a year. That's a massive scaling exercise. There are people who need to be trained to do this work well. They need to buy capital equipment, blowers and things, to get to that scale.

If you had a near-term stimulus and a commitment to sustain that level of weatherization, it would be smart over time, in terms of the savings and the carbon emission reduction benefits that are possible, but in the very near term, we can start by fully funding the \$900 million that's been allocated, but not appropriated, for the Weatherization Assistance Program. That's just a simple thing we can do now.

Transit programs are tremendously overstressed. We can put more money into better operation and maintenance, and then, there's a backlog again of hundreds of ready-to-go transit projects that aren't being started because the federal match isn't there. The permitting has been done, the local capital is ready to go, but the projects aren't getting started. We're starting a dozen a year, if that. Clearly, there's a backlog that we could tap. And then there is a program of energy efficiency and conservation block grants.

Again, we need to be thinking about aid to cities and states, as Bob was saying. The impact of contraction of federal spending right now is going to be devastating and a lot of it is going to be played out through impacts in communities. By pushing money to cities to help with some of these projects that they've identified, that cannot only increase spending that will be stimulative and help consumers and help local economic productivity, we can also do investments that will help move us on a path towards a better energy future.

And there are a series of projects that are either targeted around increasing energy efficiency, deploying more renewable energy, or getting off of oil and reducing carbon. These projects have been identified. We estimate about \$5 billion that could flow immediately out to cities and it's frankly, something that needs to be done. It can be done using existing mechanisms that have been worked out through the community development block grants, and then there are things like greening schools, greening affordable housing. Again, there are capital investments, projects that are identified and things that need to be done.

I guess the very last thing is just – there's an investment in human capital, workforce development. There's a tremendous need for skills and we can use our Workforce Training Program to prepare for the work that needs to be done, to gear up on the job training side, along with the other human capital investments that Bob was mentioning.

MS. KAVINOKY: I would also say – Bob, you're right. You raised something that comes up again and again. Is investment in infrastructure truly stimulative? I'd go back and look and say, what we've seen over the last year – and obviously, I haven't looked closely at today's numbers – but the construction industry employment is larger than any other sector at this point. As of last month, it was about 10.8 percent, up from about 6.1 percent a year before that.

We know that states, which are the major investors, in particular, in highways have been cutting back on their programs over the last year. They're done that for a number of reasons. They have also been taking from their transportation trust funds the dollars that are put in through fuels taxes, sale taxes, property taxes, and they have been putting them to other areas. And I'm not going to be the one that debates is it better in transportation, is it better in education?

But what we do know is that when people pay into especially something like a state trust fund, and then they know those dollars go to non-transportation investment, that hurts the prospects in the future for making those investments. It makes it even more difficult to put people back to work.

I think when we think about infrastructure stimulus, it's in two categories. One is preserving jobs. Let's stem the loss of the construction industry jobs by letting states know, letting localities know there are going to be dollars there for them to continue doing just their routine work.

We know from our partners in the construction industry, the folks like Terry O'Sullivan at the Labor International Union of North America, which is a member of our coalition, people like Pete Ruane at American Road and Transportation Builders, and Steve Sandherr over at the General Contractors, they are seeing people laid off, they are seeing projects stopped. We want to keep those projects going.

When you talking about infrastructure stimulus, I look at the Tom Toles cartoon in the *Post* a few days ago where they showed a series of bridges going out to nowhere and I wish I could go back in time and get rid of this whole bridge-to-nowhere problem. That's a completely different story we can talk about.

I don't think when we talk about infrastructure stimulus, we're talking about saying, great, let's go out, let's start building a whole bunch of new bridges. The average major highway construction project takes 13 years from start to finish. Those aren't the projects, I think, we're talking about at this point, and we've been pretty clear on this from the chamber. What's ready to go in 30 days, 60 days, 90 days, 120 days?

We're asking the states, we're pressuring the transit agencies, we're looking to the folks for the infrastructure owners, operators and providers to start giving us more concrete examples of what they have out there because it's really easy for me to sit here and rattle off the numbers that Congress – \$18.4 billion in highway projects, between \$5 and \$10 billion in transit projects. People want to start hearing what those are.

But as we look to governors, as we talk to our state and local chambers of commerce, they're saying, yes, we're really getting serious about putting together lists of projects that are truly going to create and preserve jobs and keep people working.

And we do – in addition to that, I just want to mention something we probably can talk about later. The chamber is very supportive of extending unemployment insurance. There's got to be that safety net, but we also want to keep people working.

MR. GREENSTEIN: I really feel that we're really in agreement, but I really feel a need to clarify certain things where I think there can be misunderstanding – the first sort of in the final statement Janet just made, her final sentence – and I'm not putting words in your mouth, but someone could. And people often think, it's nice to give aid to the states to prevent cuts; it's nice to do unemployment insurance, but we also need things that create jobs, like infrastructure projects. Dollar for dollar, the unemployment, food stamp, and aid to the states create as many jobs, maybe even a little more, dollar-for-dollar than infrastructure. They all go to job creation.

There's a misunderstanding here. Businesses, their decision as to whether to lay off workers, hire them back, how many people to keep, primarily rest on the demand for their goods and services. How much will consumers and other businesses buy? When you keep states from cutting back their purchases, when you enable unemployed people and poor people to have money in their pockets so that they consume, that preserves jobs. All these things preserve jobs.

Secondly, no one on the panel said this, but there's a widespread misperception that because states run most infrastructure projects, that if you do big infrastructure money that that, in and of itself, is fiscal relief to states. It is not. Virtually, every state in the country has a separate operating budget and capital budget.

States must balance their operating budgets. They may borrow to fund their capital budgets. Most infrastructure projects are in the capital budgets. More infrastructure funding is good. I'm in complete agreement. It does not close the hole in the operating budgets and obviate the need for states to do big cuts to do them. It is why we need both fiscal relief and infrastructure.

On the timing side, if you look at the MoodysEconomy.com rating for each dollar, how much stimulus do you get, infrastructure is among the most highly rated areas. When you look at how Moody's did it, what they're saying is, if you're only looking at a 12-month timeframe, infrastructure wouldn't rate that high, but if you have a little longer timeframe, infrastructure rates extremely high. So it's a why a package that has the mix we're talking about really works out well. Even some things that you might think would be fast-acting aren't as much as you think.

So one thing Bracken mentioned that I fully support, \$900 million for low-income weatherization – although that money could be appropriated now, it by and large wouldn't be spent until fiscal 2010. Why? Congress, in passing the continuing resolution in November, doubled funding for weatherization both directly and the part of the low-income energy assistance program that's weatherization.

The states we've talked to, the general sense we're getting is they probably can't actually spend much – there's huge unmet need, I agree. But they probably can't, between now and September 30<sup>th</sup>, spend a lot more low-income weatherization funds than the doubling they already got, but when they get to that level, they can go much further in 2010. So we should put the 900 million in the package. Most of it won't get spent until 2010. That's still good.

So we're in agreement on what should be in the package, but I'm just sort of emphasizing all these kind of timing issues are additional reasons why I think, in my view, I would have some of the – whether housing vouchers, unemployment benefits, and certain other things like that be somewhat more robust upfront, and then, as we get farther in, more and more of the infrastructure and the green things kick in bigger and bigger.

MR. ETTLINGER: I'm going to steal the last word on this, and then, I have a couple of other questions that – let's try to keep our answers brief so we can turn to the audience.

But stealing my last word, I've been saying repeatedly – I think we say in the report. I've lost track of what I've written versus what I've said here, but I do think that – I absolutely think that right now, the best jobs program, the best health program, the best education program is giving money to the states, because that's where those things are happening, that's where the cuts are going to be coming and stopping the layoff, stopping cuts in education, and stopping cuts in health care are every bit as valuable as creating some new program to do those that's going to kick in in a year.

So I totally agree with that and that – I know we say this in the report – that if there's any area that as circumstances develop, warrants greater infusion, it's in the area of helping out the states. So that's one.

The other thing is, I think actually, if you look at what we propose in terms of the infrastructure, it's smaller than a lot of numbers you hear thrown around because one thing to keep in mind is that there's two reasons for that. One is that – absolutely, if you think the first \$20 billion isn't going to be spent mostly in this year, or isn't going to be spent as fast as you'd like, the second 20 billion gets pushed off more. So that's one of the reasons.

And the other thing is, we do have a concern that when people bandy about these huge infrastructure and recovery plans, and people also talk about trying to pass this so the new president can sign it the day of inauguration, that's not that far off and this is – Will sort of went through our criteria, and one was like responsibility. If Congress passes something too big, too fast, there is a concern – for multiple years – there is a concern that you just sort of overwhelm the ability of civil servants to spend this money responsibly and to make wise choices on how it's used, or Congress' ability to do that. So that was another consideration.

So let me just – I had two more questions I wanted to ask. One is anyone who wants to kick on this, but we haven't mentioned the D-word, the deficit, which is going to be mighty big without this, and bigger still with the stimulus and recovery packages along this scale. And maybe, I don't know, Bob or Will, either of you would like to chime in on where that should be in our thinking.

MR. GREENSTEIN: There was a very interesting op-ed in the *New York Times* a few weeks ago, jointly authored, interestingly enough, by Bob Ruben and Jared Bernstein of the Economic Policy Institute, and I thought it got it exactly right. It said, one, we need robust stimulus now and we shouldn't be worrying about the deficit now. You need deficit spending when you're in a deep economic downturn like we are now. So we need a big package. You wouldn't want to pay for the package now. You'd up with no net injection into the economy.

They then went on to say, after the economy recovers, we need to stabilize the debt as a share of the economy. We've got avoid the debt explosion and that doesn't mean you have to balance the budget. It means you need to limit budget deficits to a level where the debt isn't growing faster than the economy, and that would probably mean deficits in the range of 2 to 2.5 percent of GDP per year, not that we'll get down to that overnight.

We will be – when we come back out of the recovery and we start growing again, we will be well above 2 to 2.5 percent of GDP, and we're going to have to make some tough choices then, but nothing would be a bigger folly than starting to cut programs and raise taxes at the federal level right now while the economy is heading downhill so fast that we're all holding our breath.

MR. STRAW: The only thing I would add to that is that unlike some other countries, the U.S. Treasury continues to be able to raise money from the sale of bonds. The way that the dollar has remained as a reserve currency as well, when just six months ago, people were wondering whether it would become the euro. It's been extremely clear. So America could continue to support this.

The problem, if you're worried about deficits, economists say that you should have a counter-cyclical fiscal policy. That means, in the bad times, you need to spend more money as a fiscal deficit. In the good times, you should be saving money, as Clinton did in the '90s and Bush has failed to in the last eight years.

MR. ETTLINGER: Well, and this is my last question. I know you – you have an accent, you're from another country. What's the rest of the world doing – pick a country at random – in stimulus.

MR. STRAW: Let's two examples, one that has a stimulus much greater than the American levels that we've been talking about and another that's a little lower. The bigger one is China. On November the 8<sup>th</sup>, they announced a \$586 billion stimulus package worth about 14 percent of their GDP. Now, those numbers have been revised down a bit. Some of it's double-counting. Not all of it is in the first year.

The reason it's so big is because China has been marching along with growth rates in double digits, 10, 11, 12 percent for the last two years, but projections are it could fall as low as 6 percent. That's sounds great. Unfortunately for China, it means that there aren't enough jobs being created in all the cities for the people who are moving from rural areas. That will lead to a great deal of social unrest. So there's a kind of existential crisis in China if they don't stimulate the economy and this is the level that they've decided they need to go for.

In Europe, people are looking at levels around 1 to 1.5 percent of GDP. My old colleagues in the Treasury announced a pre-budget report, they called it, on November the 24<sup>th</sup>, where there was some cuts in sales tax. It's a value-added tax that we have in the UK and in Europe, and also bringing forward infrastructure expenditure.

Why is that a bit lower? Well, because in the UK and in other European countries, there are larger – what economists call automatic stabilizers, so things like unemployment insurance which means that when a recession kicks in, those people are unemployed, and those people who are poorer, are helped out to a much greater extent. So there's a kind of automatic stimulus taking place that isn't in existence in the U.S. to the same extent.

MR. ETTLINGER: Thank you. Let me open it up for questions. I know there are some – first of all, if people could say who they are, identify themselves. You know who we are. It's only fair. And also, if are there any reporter questions, we could take

those first. I don't know if there are. I know there's some reporters here. Yes, back there.

Q: Kathleen Connell, *Christian Science Monitor*. I'd like to direct my question to you, Robert. If the states were to get the support you're suggesting in stimulus, how would you assume it could be administered quickly, so that it doesn't get tied down in the bureaucracy here? If you had to distribute money to 50 states, how would you do that most effectively?

MR. GREENSTEIN: Great question. I would provide the majority of the money – not all of it, the majority of it – through a temporary increase in the federal share of state Medicaid costs. There are two reasons for that. Number one, one of the biggest increase cost areas states are facing are big increases in Medicaid costs because lots of people who were laid off and fall in the low-income status become eligible for Medicaid and this creates a big crunch on state budgets.

Secondly, when the federal government simply changes – the federal government pays a fixed percentage of each state's Medicaid costs. So you can take all of those figures and raise them for each state by X percentage points, five points, eight points, depending on how much money you're putting in. The minute you pass it, it's an automatic change in the calculation. At the state level, state legislatures do not have to meet and re-appropriate the money.

But you don't want to do it all that way, so the rest of it I would do in some form of grant. You could have a general flexible block grant to states. You could pick a couple of areas like education where you're really worried about states and let them use money to avoid cuts in those areas. That won't be quite as – but you don't do a thing with all kinds of new federal conditions. And the easiest is just a general flexible block grant.

You have the allocation formula. It could be by population. You could have a population and an employment loss factor, but you put your formula right into the legislation so that the day it's enacted, you know exactly how many dollars go to each state. The federal government just gives them the letter of credit. It is true that on a grant like that – and Mike probably knows this better than I – I think a majority of states, the legislatures would have to re-appropriate the money. However, if it's passed in January, virtually all state legislatures are in session then. So that shouldn't add too much time.

What you really don't want to do is call something fiscal relief, but have it be some complicated federal grant program, the feds have to write regulations. That doesn't work at all. That's what you want to avoid.

MR. ETTLINGER: Right. Sir, yes.

Q: Hi. My name is Jonathan Strong. I'm a reporter for *Inside EPA*. This question is for Mr. Hendricks. In the \$100 billion green job creation, there's two sections. One is relatively rapid; the other is less fast-acting. From looking at the less

fast-acting section, it seems like some of those would take longer than a year. How much of the \$100 billion do you think could be spent in a single year from when it was enacted?

MR. HENDRICKS: I don't have a precise number on that off the top of my head, but in that – in the proposal that we put forward is one that envisions spending that money rapidly. There is – and I think we stand behind the programs that we put forward in the allocation that's in the memo. I think that's what we're proposing.

We're in a moment right now where we have \$1.6 trillion of unmet infrastructure needs where there's just a tremendous under-investment both in the infrastructure that's going to support the greening of the economy and the human capital to get it done. We've gone through and we've identified affordable housing programs, we've identified green school budgets that have been allocated, but not appropriated. And in each of these programs that we put forward, we feel that money can move as we put it forward in the memo.

MR. ETTLINGER: And I'd just add that I think one thing to remember is these are things that could move in a year, not every dime getting spent, but could largely move in a year. I think one thing that we cannot completely account for is how fast the federal bureaucracy can make this happen, and the leadership of the federal bureaucracy is about to change, and there's certainly greater commitment than there has in the past to this area.

So that is something that is hard to calculate with precision, how much of a sort of fire in their belly they're going to have to get this money out fast, but if there is a commitment to this, certainly, a great deal of this could get out certainly within a year's time. And this isn't the whole list. This is the stuff that Bracken and his team found that was the quickest stuff.

MR. HENDRICKS: Let me just follow up on one point because you wrote a piece recently and I'd just like to address it. One of the things that we've been doing in trying to articulate how a green stimulus might move is to refine the numbers and to dig in. I mentioned the unmet infrastructure investments. There's just a vast under-investment in this entire category from a backlog of eight years of complete neglect for energy efficiency, for clean energy, for reinvesting the basic infrastructure, put aside environmental impact, the basic infrastructure of our cities and communities.

There's a tremendous unmet need, and so what we're trying to do is parse out which particular programs could move the most rapidly, where there's the most pressing needs that need to be addressed. And so we're looking around at different formulas for allocating that money.

As we've been sort of going through that and trying to get the best articulation of numbers that we think can move quickly, it's not a lack of confidence that there is \$100 billion of worthy projects. We are in the process of refining the best mechanisms to get that out. The need is there. The mechanisms are there and that's really what Congress is

going to be figuring out during the development of this recovery package which hopefully will have a very significant green investment package.

We think \$100 billion is an entirely defensible budget number, and I think we all have a commitment, on the basis of good government and sound stimulus, to ensure that we are directing that money toward the programs that can most rapidly get it out the door, and as we said, not only get the economy moving, but get the economy moving in the right direction.

So, I don't want the effort to get it right to be confused with a lack of certainty that this is where we need to go and how we need to do it. We're just working on the best mechanisms and I think the entire country is trying to figure that out right now, and hopefully, we're going to see folks in Congress joining together to figure out how to move this money out the door to both help citizens and consumers in the near terms, as demand is constrained in the economy, and jump-start the investment in a more mobile, more productive, more efficient, clean energy economy which we all know is a certainty that we need to reach. So that's where we are.

MR. ETTLINGER: Yes, you – no, behind you. Sorry.

Q: I'm Mark Neidel (ph). I wanted to follow up with Bob and Bracken about the weatherization issue because it seems to me that any kind of project that pays for itself in a year or two, like a lot of those projects do, is like a no-brainer. But from what Bob said, we're already spending – the states could not use more money because they're already filled up, so to speak.

Does that mean that if I were to call up to get new windows on my house, that I'd be told, sorry, there's a two-year wait or something? If not, then is there another way to allow consumers or businesses or schools to be able to buy this improvement, send the bill to the federal government and then get billed two years later or three years later, so that we could get it done now?

And the last part of that question is, if Congress decides not to bail out Detroit, decides \$35 billion might be spent differently, in a better way, are the skill set of the workers there such that they could be shifted to any of the other projects that you guys are looking at quickly because they are highly skilled, or is it so specialized that they're stuck in that or nothing?

MR. GREENSTEIN: (That is?) my point. Bracken may not agree with that. I don't know. First off, I was only talking about the low-income weatherization program. You probably wouldn't qualify for it if you called up and wanted your house weatherized. And Bracken and I are in complete agreement that there is a huge unmet need there and there's a lot of money that can be spent.

All that I was saying was that the continuing resolution that wasn't enacted until mid-late November, already nearly two months into the fiscal year, effectively doubled

the money for that program – which is a very small program – for the current fiscal year. And I'm not saying there's no state where they couldn't use more money, but I think there are limits in how much more money could actually be expended by September 30<sup>th</sup>.

Having said that, we're in agreement that more money should be put out in the stimulus package. I'm not saying the programs here can never get bigger than here. What I'm saying is there are limits to how fast it can grow. Can it grow more than – it's growing 100 percent this year over '08. Can it grow more than 100 percent between now and September 30<sup>th</sup>? Probably not a lot more, but maybe it could grow another 100 percent the year after that. So this is just a timing issue.

MR. HENDRICKS: Let me speak though that because the notion of what that limit is is entirely dependant on what the expectation is for a sustained program. The whole history of weatherization is one of sort of boom-and-bust cycles of Congress paying attention to it, funding it, then retracting. And the industry has trained people, and then the budgets decline, and then there's no work for them.

So what we're saying is, President-elect Obama has put down a marker of a million homes a year. If we're doing 100,000, 120,000, 150,000 homes a year, that's a tenfold increase that he is striving to get to. There's nothing stopping creating that workforce, making those investments for the industry. It's actually a very – it's an industry that can respond very quickly.

The level of training is not so specialized that you can't train people in a fairly short time to do this work. The level of technical investments for door-blowers or other sort of equipment is not so high that you can't actually cross it. But they're not going to grow to a point unless they feel that they can sustain it. So we've seen a growth up to, say, a \$250 billion program, but it's authorized at 900 billion. From talking to –

MR. ETTLINGER (?): Million.

MR. HENDRICKS: I mean million, excuse me. In talking to the – (inaudible).

MR. ETTLINGER (?): Eating my stimulus here.

MR. HENDRICKS: A million here and a billion there – (inaudible) – talking. It's authorized at 900 million. In talking to the industry, they feel they could grow to spend out the authorized amount, but they're scared to deal with the training and the workforce investment issues that would be required after you get above a certain point.

So we feel that if you want to grow to reach that limit, at a certain point, you're going to have to allocated more of that money relatively toward the training to get the people with the skills and the capacity in place to do the work. That can be done, and that can be done quickly. It can be done within the appropriate timeframe.

If we make a longer commitment to reach that goal and to sustain this critically important industry, that will help cut energy costs for consumers, help low-income people directly, help put moderately skilled people to work directly in a job that creates career advancement. It has all sorts of benefits. But the principal thing is articulating the vision and making the commitment and backing it with resources and that's where we've fallen down. And so, I think Bob is very right to look at how the money can flow, but that limit is a factor of the leadership decisions in Congress.

MR. GREENSTEIN: We agree on everything except in the next 12 months, how rapid that curve can go up. On everything else, Bracken and I are in agreement.

MR. ETTLINGER: I don't think we're going to settle that right now. Go back here. You, yes.

Q: Joel Yudken, High Road Strategies. It's hard for me to disagree with most of what has been said today. I do have one concern though – and Bob just made an important point about the – what is going to get the money out there and really start the economy and money circulating more quickly and generating more growth early on.

But I think that my concern is the old thing about seeing the urgent driving out the important and I know Bracken is kind of pointing in the direction that it's not just about just growing the economy. It's just what direction we're going to go in. And we're not talking about a stimulus anymore like in the old days, where you've had a recession and we want to kind of get things going and get the economy back on track again. It's not clear that this track that it's been on – I'm not even sure there is a track left anymore. I think we have to talk about building some new tracks and new directions.

And that means that to some extent, even as we're trying to stimulate things in the short run, I think there has to be talk about what is already being talked about in the infrastructure and energy, an investment strategy that moves the economy in a whole new direction. And I think if we delay that too long, we will probably – I'm thinking that actually, in the end, we'll have stimulated things for a short time, but meanwhile, the bridges won't be repaired and things won't get done. We still won't be making progress on energy, and all the other things.

And I'm just wondering – we have to find some way to do both and we have to move in the same direction. And this is where I feel like I think you've got a lot of good ideas out there, but it's not clear how we do both today.

And then you add the Big Three – the 800-pound gorilla in the room – of the auto industry. We talk about a stimulus package. We not only have to save them, we have to get them to move in a new direction, and that means new jobs and a huge amount of potential, if we get over that hump, but in the meantime, the economic devastation. So I feel there's a lot of – I'm still confused about how you square all these things here.

And then the final point – yes, I’m getting there, thank you. The final point is the role of some kind of New Deal or Keynesian approach where it’s not just putting money in the economy, but having the government play a role to employ people directly and to put money directly into the project and really get the weatherization programs and get over that backlog.

MR. ETTLINGER: I think that was our last question. Let me just say something. Look, as I laid out at the beginning, there’s no question, we need to get back to thinking about long-term growth. But what’s going on – we want to make sure we have an economy left to grow and this is a – I don’t know if this a V or a U we’re hitting, but it could be a V and we’re just like only here and it’s still heading down.

So I mean, I just think the fact that really across the ideological spectrum, how much unanimity there is that something extreme has to be done – I mean, leaving outside the hard core libertarians are hanging in there, God bless them. People are saying, look, we’ve got to arrest the fall and that’s going to take serious resources.

And I think what we really are all in agreement on, is look, as you’re spending a lot of money to arrest the fall, you should absolutely both keep an eye on doing everything you can, as Bob has been emphasizing, of getting money out there fast to arrest the fall, but really, that the kinds of money we’re talking about, you do that and then do stuff in the medium term that serves a dual purpose, dual-purposing that money to both help in the medium term, start getting us on recovery with an eye to the long-term growth.

Now, that doesn’t mean in the regular course of the budget next year, in the regular course of legislation, which is still going to happen next year, you’re not absolutely – that should be the focus. But in terms of what is going to be debated in Congress in January, in terms of stimulus and recovery and what they’re going to shoot for getting on the new president’s desk on day one, I don’t know.

I strongly feel, and I think a lot of people do, look, the focus on that has to be just stopping the fall, stabilizing us, getting us back to where people can have – businesses have some confidence and there are jobs out there. I don’t know if anyone else has anything to add.

MR. STRAW: (Off mike) – on that we wouldn’t want you to leave without thinking that the Center for American Progress had done some thinking about this. In addition to the stimulus and recovery report today, we did another report some time ago called “Progressive Growth” which addresses many of the points that you were alluding to and Michael just spoke to, including the need for innovation, particularly energy opportunity for innovation, which is a different approach from the Keynesian approach.

It’s more in keeping with some of the innovation economists who became very popular in the early ’90s, and it’s a different way of thinking about long-term growth, but

it restores the American dream and leads to a stable growth path, but it's not quite the Keynesian point that you were talking to.

MR. ETTLINGER: All right. Thank you very much for joining us.

(END)