



**NEW AMERICA**  
FOUNDATION

*BERNARD L. SCHWARTZ ECONOMIC SYMPOSIUM*

**THE JOBS DEFICIT**

**The Challenge Of Putting America Back To Work**

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WASHINGTON, D.C.

*KEYNOTE SPEECH*

**JARED BERNSTEIN**

Chief Economist And Economic Policy Advisor To The Vice President

*INTRODUCTION*

**LEO HINDERY, JR.**

Managing Partner, InterMedia Partners, LP

*MODERATOR*

**STEVE COLL**

President, New America Foundation

STEVE COLL: Thank you, Steve, I won't be here long, but I wanted to just first of all, thank you all for your attention and contributions this morning. I thought it was an outstanding series of panels and sessions. We are really delighted to have Jared Bernstein as our keynote speaker at lunch. As Steve said, you're going to eat your salads while Jared presents from these slides that he's very kindly and thoughtfully arranged, and as the formal presentation comes to a close, I'll come back up here, and there will be a fairly chaotic period of about five minutes when the entrees will come out, and I'll be looking for questions. So please, don't raise your hand in search of food if you don't intend to ask a question.

I'm going to ask Leo Hindery to introduce Jared in 30 seconds, but I just want to explain why we're so pleased to have Jared here. He has been an absolutely essential voice inside this administration, and you can see in the vice president's work on the domestic economy and on the financial crisis a very distinctive approach that is emphasized through the middle class taskforce and other mechanisms. A concentration on the long-term challenge of wages and growth for the middle class in this country.

And in the midst of a finance-driven economic crisis, you might have expected that discourse to be a little bit drowned out, and it has sometimes been more subdued than some of us would prefer, but its visibility, I think, is substantially located in Jared's work, his credibility, the reputation he brought to this office, and the role he plays very quietly inside the White House. It's a very important voice and we're very delighted to be able to share it with you through this platform today. So to introduce Jared, let me bring Leo Hindery back to the microphone.

LEO HINDERY: This is particular privilege. One hundred people volunteered to introduce Jared for the reasons that Steve alluded to, and I am by far the oldest of the 100 and drew rank. This is a particular privilege. As Steve commented, no one that we know in this room is more involved in the issues that we were speaking about this morning. Our friend, Jared Bernstein, as Steve commented, the chief economist as well as the chief economic adviser to our vice president. He chairs the vice president's middle class taskforce. But perhaps most notably, and president Obama has gone to great lengths to personally identify one of the most trusted voices he has now in his daily brief is Jared Bernstein.

Those of us who have the privilege of reading and listening to Jared over the years know firsthand – I suspect you do as well – his particular expertise in the areas of income inequality and mobility, the trends in employment in earnings, a particular expertise in the low-wage markets and poverty, and in something that we all need every day, which are these international comparisons.

His background is without peer: He was the senior economist and director of the Living Standards Program at the Economic Policy Institute, EPI, and between 1995 and 1996 he was deputy chief economist at the U.S. Department of Labor. In digging into his background, his professional career began at age 14 at Woodstock. We didn't find a lot from '69 to '95 other than his name scrawled on many walls of bars and clubs in New York. His theme song was "Let the Good Times Roll." He is the author of countless books and articles in every series, periodical and magazine that we're exposed to. He is, above all else, a cherished friend of the 100 people who asked for this privilege, which I got.

I'd like to introduce you to and welcome a dear friend, an amazing colleague and somebody who is enormously important to the future of this economy, Jared Bernstein. (Applause).

JARED BERNSTEIN: That was such a nice introduction. I really feel good right now, which is good. I was at Woodstock, and that's all I'll say about that. I realize that I am the only person between you and lunch, and I apologize for that; I'll try to go relatively quickly. But I noticed that every table has these amazing-looking desserts, and so if you get really hungry, you could just eat your dessert, which strikes me as kind of consistent with my theme about stimulus. So feel free to go there if you need to. I'm just going to try to move things over a little here.

It's great to see Leo, and Steve and Steve again. And I have had great contact with them and other friends at New America Foundation, and in fact, I view New America Foundation as an institution – not just myself, but I would say – is widely recognized as a hotbed of great debate on the most important matters of domestic and foreign policy. Many of the ideas that started New America Foundation end up as part of the landscape of American policy.

Now, as the president stresses, the pillars of our new economic foundation must be energy, health care and education. And I know that at the New America Foundation you're doing cutting-edge work on all those areas. And I think in some ways, almost most resonantly, NAF is a rare bird in this town; it's a place where the goal is not to serve an interest group or an ideology, but good scholarship, common sense and pragmatic policy.

Now, on to weightier topics. Others today, in earlier sessions, have stressed the depth of the jobs deficit that we currently face. And I wanted to just go through a few slides because that's what I do. But also because I think I have some very compelling pictures of what a tough job situation we're talking about here.

I want to thank my deputy, Tobin Marcus, for helping to put these slides together. This just shows the decline in employment over various recessions and then recoveries. You have the current recession there – by the way, the dotted line is worse because it includes the recent Bureau of Labor Statistics' revision that suggests job loss was about 800,000 worse than what was previously thought. But that's a preliminary reading so it's not in the data yet.

But if you look at just the extent of the losses compared to other downturns, you get a notion of the hole that we found ourselves in when we came into office. And if you compare that with the more V-shaped recovery in '81 relative to the more protracted or jobless in '90 and 2001, you get a feeling for the real magnitude of the deficits we're talking about here.

Now, these are graphs of net employment, and there's always an implicit assumption that this kind of analysis starts from peaks, because all that does is it starts from the peak and plots the change in the recession, so there's kind of an assumption there that all expansions are created equal. But even before we hit this current deep downturn in job market, we were in the midst of an especially weak period of job growth. And what this slide does is, it just prints the annualized growth rate of employment from both the payroll and the household survey, just two different

surveys of job growth every month. On a monthly basis, we tend to like the payroll survey as being more accurate – much larger sample. But over the longer term, they don't really differ all that much with a couple of exceptions.

But the point is that, just look at the small magnitude of the bars for the recovery that ended in December of 2007 compared to the other cycles, and you get a sense even before we hit that huge downward slope I showed you in the first slide, we were already looking at a period of weak employment growth.

Now, we can learn a lot more, I think, about – those are net results. We can actually learn a lot more about the nature of the job challenge that we face, and this is important because it gets into some of the diagnosis I wanted to share with you around the issue of jobs. If you look at what's called the gross flows, if you look at gross jobs gains – that is, any firm or establishment that's adding a job, versus gross job losses, the difference between them are the net results that you get every month: Gains minus losses equals net.

And you can see that in recessions, they cross, and of course you have negative nets. And I think the point there is, again, kind of underscoring the weak job creation over the 2000 cycle – you can see that that space between the two lines, there's much less to integrate there between those two lines in the 2000 cycle versus the '90s cycle. But you also – and this is really something that economists have been, I think, scratching their heads about for a while who have looked at this stuff. The rate of gross job creation has just continually slumped and we are now looking at the lowest rates on record, and you can see the gap there as losses have really risen – the gross job losses – almost asymptotically. And so that yawning gap there really gives you a good picture of the nature of the problem.

Now, sticking with this notion of flows – and I'm almost done with this part of the presentation. But I think it's important to really lock our understanding in the basic facts of the case. And I know we read about the net results every month when the jobs report comes out. But digging into the weeds like this is helpful to really diagnose the problem that we face.

This is some really great data that the Bureau of Labor Statistics has recently started releasing, I think underappreciated. It actually has flows data. And it tells you that where somebody is in the job market or out of the job market, in one month relative to the last month. So the top line there flows from unemployment into unemployment, which means you just stayed unemployed. So you were unemployed in January and you were unemployed in February. So that's people just staying in unemployment, stuck there, not able to get out.

The one below that is the flow from employment into unemployment. And I think the important thing here is that what's driving the unemployment up is not so much lay-offs and people losing their jobs and moving into unemployment – you certainly see some of that in the bottom line – it's rising more quickly than it did in the last recession. We tried to put recession bars in here but Excel fought back.

But anyway, it's the top line there that shows the extent of people stuck on the unemployment rolls, and we know we're looking at long-term unemployment spells that are historically extremely high. So this really suggests a job creation challenge.

That's the diagnosis. It's not pretty, but it's the most important challenge we face. So let's talk about what we've done to meet this challenge: How our actions in the Obama administration are working and what's left to do.

Now, first – and I know I was just talking with Leo about this – first, while it's clear that GDP growth is not unto itself sufficient in terms of jobs, it certainly is necessary. And when we took office, the economy was contracting at an annual rate of 6 percent, 6 percent annual rate of GDP contraction. And employment losses were an amazing 700,000 per month, on average in the first quarter. Now we're soon going to learn about the results for the third quarter, the quarter that just ended, but private forecasts – this is not White House, this is private forecasts – have the economy expanding at about a rate of 3 percent in the second half of the year, which is certainly good news as far as it goes.

And it's also important to note that many of these same forecasters attribute that second half growth rate of about 3 percent in GDP largely to the Recovery Act. That is, private sector forecasters have looked at the impact of the Recovery Act on real GDP growth and say that it explains 2 to 3 percentage points of the increase in GDP in the second half of this year.

Now, if the forecasters were right, then we're probably looking at something in the 2- to 3-percent range. That means that you take the recovery act and GDP growth is zero. Take the Recovery Act out of the picture and GDP growth is nonexistent. So I think that goes a long way to underscoring the importance of the recovery act in pulling the economy back from the brink in that macro sense.

But, as the president consistently stresses in our daily economic briefings – and I'm not making this up when I say, including this morning – absent robust job growth, call it what you will, from our perspective, but most importantly from the perspective of working families, it's not a true economic recovery.

Now, in this sense, any discussion of a jobless recovery is largely an academic one. The function of the National Bureau of Economic Research decision to weigh some variables more heavily than others in their recession call. That's not a critique of them – they're the best recession daters in the business, but it is a statement about the economic expectations of our administration.

So let me be crystal clear about this point: If the benefits of economic growth are not flowing broadly to working families across the income spectrum, it is an incomplete recovery and our work is far from done.

Now, that said, it would be wrong to overlook what we've accomplished so far. Not to toot any horns, not to declare that we're out of the woods, but to responsibly assess progress, to assess what's working and what's left to do. So let's quickly assess these interventions:

Aggressive Keynesian stimulus, including tax relief, safety net investments, infrastructure projects, fiscal relief for strapped states, investments in innovation, all implemented – and I say this as a member of the vice president’s office and team recovery – all implemented with great care and heretofore unseen transparency. And I’ll have a lot more to say about that in a minute.

Both the Treasury and Fed continuing to tick off the interventions that we think have helped in the sense I’ve mentioned thus far. Both the Treasury and the Fed have undertaken liquidity injections to the financial sector that have helped stabilize this critical component of our economy. Help for struggling homeowners that has helped to carve out what looks like a bottom in terms of home sales and prices. All of this is true and more.

After plummeting by over 12 trillion (dollars) since 2007, household wealth finally began to show signs of stabilization in the second quarter, rising by about 2 trillion (dollars) as real estate values flattened and markets began to recover from their collapse during the credit crisis last year.

Now, this trend reversal in equity markets that began in early March has lifted the typical 401(k) by about 35 percent – not enough to make up the losses, but enough so that many of us are at least willing to consider opening the envelope containing the statement once again.

Yet, where are the jobs? Why are these positive – or at least less negative – indicators not associated with falling unemployment? At this point, it’s typically noted that the stock market lead, the job market lags. A slightly more sophisticated take might offer that labor’s productivity – productivity growth rates of the workforce – is handily meeting the current level of demand in an economy where consumption and investment have been pretty tepid.

Again, all true. And mixed into all of this is the question of what Keynes eloquently called weak animal spirits, and what we less eloquently refer to as consumer and investor confidence. Yet here, too, I think we have to give the Recovery Act some props. The analysis from our Council of Economic Advisers that I’m showing up there provides a baseline against which to judge the actual jobs outcome. So the actual outcome is the solid-color bars there at the end, and the baseline – what CEA predicts would have happened in the absence of these actions I described – is the length of the full two bars.

In the second quarter, the average monthly change in jobs was about 170,000 per month less bad than the baseline forecast. For the third quarter, the actual was about 270,000 better than the baseline per month. Now, that’s about 1 million jobs saved or created so far. And private forecasters, including economy.com, the Economic Policy Institute, Goldman Sachs, Macroeconomic Advisers and others have published jobs and GDP results that are in the same ballpark.

So there’s lots of good evidence that the act is working, and that shouldn’t be a surprise to any one who has a drop of Keynesian blood in them. And I think at New America Foundation I’m sure there’s some of that blood out there. It’s been a classic textbook moment for such stimulus.

The bursting of the housing bubble not only destroyed trillion in wealth, slamming the brakes on consumption, it rippled through financial markets, turning allegedly valuable assets into so-called legacy assets. The crash of these assets led to a credit market freeze, and history shows us that a recession with a credit squeeze on top of it is an especially tough nut to crack.

Traditional monetary policy gets less of a grip in such a climate, and as Paul Krugman has stressed, it's bound by zero at the lower end. So fiscal stimulus has been extremely important, and we're confident that we've saved or created – as I showed you in this slide or cited the other validators – 1 million jobs so far, and we're on track to hit the 3.5 million jobs saved or created by the time the act is largely spent out, about a year from now.

Now, you'll recall from the slides and other presentations you saw today from other who were here that the deficit in the job market is far larger than this. And so, too, the output gap, if you look at the gap between potential and actual GDP, you're talking multiple trillions. It's a lot bigger than the 787 billion (dollars) in the Act.

The point is, there is no conceivable stimulus that would fully off-set job and output gaps of the magnitude we've seen while being politically possible, implementable and fiscally responsible. Nowhere is it written that Keynesian stimulus should or could completely fill any hole no matter how deep that hole is.

To do so might be desirable, but from the perspective of those of us who know how deeply challenging times like this are for the real people behind these ugly statistics I've been showing you. But I do not believe it's realistic. I think that, within a confidence interval, we passed, along with the Congress, the largest, most diverse and most effective stimulus package the political market could bear and the economy could efficiently absorb.

That does not, of course, mean our work is done. We still have about 60 percent of the Recovery Act left to put to work. There are decisions to be made with the Congress about how parts of that Act sunset this year. I know you were discussing that in an earlier session. Still, with each passing month, the jobs challenge is amplified. How do we explain this? What's our diagnosis? Why does employment continue to contract on net?

In fact, I don't think it's that hard to understand; I do think it's hard to fix. Labor economics 101 will remind you that demand for labor is derived demand. It's derived from the consumption needs and wants of the population, the investment and production needs of industry, and especially right now, when those other channels are blocked, the purchases of governments, especially the federal government, the most effective venue for stimulus.

Now, over the longer term, technological progress and the skill of the workforce – areas where the New American Foundation does lots of good work – that matters a lot. And we're all over that one, too, doing all we can to increase college access and provide innovative investments by industry, especially in the green space.

But stimulating labor demand in the short term is not a mystery. When the private sector engine of growth is stalled, for all the reasons I've enumerated, we have to step in and

temporarily boost aggregate demand. And what's more, you can do so by doing well and doing good at the same time. Help states avoid procyclical tax increases and service cuts.

And I'll remind folks – and I know you've heard about this in earlier sessions of yesterday. We were out there on the lawn, touting the 250,000 jobs coming from direct recipient reporting of jobs in the education field through our state fiscal stabilization fund.

Make sure that the unemployed have a solid safety net. We've reached about 16 million people with some of the unemployment extensions, including extra weeks and extra benefits through the Recovery Act. And that, folks will know, has a particularly large multiplier because they spend the money and that creates more economic activity and helps in a multiplier sense.

Put folks back to work directly, building and fixing stuff in need of repair. And if you can do it in the green context, all the better. And last week we were talking about recipient reporting on federal contracts to private contractors to do infrastructure repair, again, through the Recovery Act: people fixing roads, houses, doing work on Army bases and national parks, direct job creation through infrastructure.

Recognizing the credit constraints and the need for innovative investments in smart grid, high-speed rail, green technologies like solar, and wind and geothermal, advance battery technology – all of these are part of the Recovery Act; planting some seed capital by guaranteeing loans for these investments. One example the vice president visited is a company called Solyndra in California that received a \$535 million loan guarantee from the Recovery Act to manufacture solar photovoltaic panels, and they provide clean and renewable energy.

This is the recovery act in action, and it is the largest, most aggressive and most diverse stimulus package in the history of America, if not the world. And it is being implemented with a level of transparency and oversight never even contemplated in the past for such initiatives. Taxpayers can actually go on [recovery.gov](http://recovery.gov), point and click and get actual recipient reports about projects in their districts, in their states, in their communities. And if you have any doubt about that, go to [whitehouse.gov](http://whitehouse.gov). – I mean, you can go to [recovery.gov](http://recovery.gov) and point and click yourself.

On [whitehouse.gov](http://whitehouse.gov) I had a blog on this last week that cites some of these direct recipient jobs. And I think it was called Let the Sun Shine In – was the name of the blog, if you want to try to find that. Now, I'm aware – well aware – of other discussions about ideas to create jobs. Tim Bartik, earlier, was talking about a project with the Economic Policy Institute, touting an employer-side tax credit to lower the costs employers face for new hires.

My old buddy Dean Baker has talked about a program of tax credits to incentivize job sharing. Some analysts have promoted some form of public service employment to generate direct job creation. All of these ideas – and more – are worthy of consideration. I encourage all of you to analyze their potential and to let me know what you find out.

For our part, we have a lot more Recovery Act to implement and monitor, and we must carefully watch the extent to which the private economy is coming back to fill any air pocket left by stimulus when it leaves the system. But remember, stimulus by definition is temporary. First

and foremost right now, we must be fully attuned to blunting as much of the pain of this recession that we can while planting the seeds for a truly shared and robust recovery.

But in the interest of fiscal rectitude we need to ramp the spending down no later than necessary. So I leave you with this: While government and Fed interventions have pulled this economy out of a tailspin, our work will be nowhere near complete until working families are back at work and the benefits of their productivity are flowing their way. I want to emphasize how important that point is.

It was a big story a few weeks ago when the latest Census data showed real middle income class incomes fell more than 3 percent in 2008. That's another recessionary result, and not unlike some of the ones I've been showing you so far, certainly related to them – an historically deep loss, but not unexpected. What was unexpected was the fact that prior to the downturn, the real median income of working age households fell by more than \$2,000 over the 2000 cycle.

Productivity increased strongly in those years but middle class families fell behind. This is one of the key targets of our administration: Our policies must, in the short run, address all the imbalances I've noted today, most notably the jobs deficit. But in the longer term, we must build the foundation for a new economy, where cycles are characterized not by speculative bubbles that narrowly share their gains, but by strong labor demand, smart labor supply and broadly shared prosperity.

Only by following that path can we craft the policy architecture that has a fighting chance of reconnecting economic growth and middle class prosperity. That, I believe, is what the American people sent us here to accomplish. I can think of no better goal. Thank you all for your time. (Applause.)

MR. COLL: Thank you, Jared. That was very thoughtful and very thorough. And we're waving to our colleagues here at the Mayflower, indicating that lunch is coming. Bring the food, so that will begin. And let me just take the chair's prerogative to ask one first question before I turn to the audience for theirs: You presented a slide earlier that you characterized as a mystery which described the declining rate of job creation to a point where it had gone off the previously-charted charts. And I wondered what your hypothesis is about that mystery. And also, how does the American experience compare to other OECD countries? Are we an outlier, is this a common problem in the developed world? And finally, what does it imply for fixes, your hypothesis, whatever it is.

MR. BERNSTEIN: Sure. Um, on the comparison question vis-à-vis other advanced economies, I don't believe that you see the same decline in the rate of job creation. That rate may be a lower level. We've had faster job creation here than in most – not all – but most, say, European economies.

But the level shift that you see in this slide – the decline in the trend of gross job gains is, I think, more uniquely American, though if anyone has other information, they should correct me. My hypothesis – well, I think that the economic policies of the 2000s, in tandem with the

extent of a structural rise in inequality, has taken a real tax on job creation and labor demand in general.

I think the generally, kind of, supply-side thrust where you aggressively cut taxes at the top of the scale, cross your fingers and hope that the economic activity will trickle down, certainly would not show up in an exercise like this, especially if you compare them to the fiscal policies of the 1990s, a period of much stronger job growth. By the way, on net, we created about 22 million jobs in the 90s cycle and about 5.5 million in the 2000 cycle. So I would argue bad macroeconomic policy and economic inequality, I think, are big drivers dampening labor demand.

In terms of the prescription, I think that President Obama has this exactly right. It really resonates with me when he talks about how we need to move from a bubble economy to an economy where the demand for labor is based on much more fundamental demand for actual goods and services that people broadly want and need. I also think that fixing – that improving the inequality problem is really important.

Larry, Michelle and I, in the EPI days, used to talk about something that we called “wage-led demand growth.” And we argued back then – and we made these arguments with our numerous coauthors in the books – in the nine editions I wrote, called “A State of Working America,” – we made the argument that in periods where wage growth was more broadly shared, labor demand was actually much broader and stronger throughout the income scale. I see my friend Thea Lee there. She would agree with this point.

You actually get a much more robust labor-market recovery if everybody shares in it. And it’s not – and I think at the most basic level – and I’m being very reductionist and very – you know, this is not an academic statement – at the most basic level, you’ve got to have demand, you know, at the little store on the corner as well as the high-end department store. I really think that makes a difference.

MR. COLL: Thank you. We’re going to turn to the audience for questions. A couple of ground rules: First, when you’re recognized, please wait for the microphone. Recall that you’re being simulcast, as it were. And please, no speeches; I’ll tend toward the mean and abrupt if you enter into one. But frame a question as concisely as you can. There’s a woman in the front, and we’ll bring you a microphone.

Q: Thank you. Kathleen Connolly from Berkeley. A question for you in regards to two items we discussed this morning: If 30 percent of the jobs between now and 2050 are going to require a college education, how do you factor in the importance of President Obama’s support for community colleges and trying to create a whole new cadre of trained employees that might be able to target themselves at not-the-traditional college-based bachelor-type job for the future?

MR. BERNSTEIN: Thank you. Look, we’ve done a lot in our administration on economic and domestic policy, so I think sometimes, some of our actions have gotten lost in the fray. I think in this particular space that you raise, we’ve made some important strides. And community college is a big part of it. By the way, I speak to you as a member of the vice

president's staff. The second lady, Dr. Jill Biden, is not only a huge advocate of community college but actually a professor at a community college herself.

We have written – I have a feeling – and this is a very self-serving comment – I think that the staff reports that the Middle-Class Task Force has written are underappreciated. We've written one on this very topic, and you know, go try to find it. I'm not sure I could myself, but they're out there somewhere on the tubes of the Internet. And we wrote one on this very point stressing the actions that the administration was taking to meet the kinds of prospective employer demands that you mentioned for skilled workers.

We absolutely see community college as part of that. Obviously, one of the great mobility barriers – this is something the New America Foundation has explored – one of the great mobility barriers to economic mobility is access to higher education, access to higher education. And the Obama administration has done considerable work to bring down the cost of college so middle-class families can overcome that barrier. Well, one way students can do that is through the community college portal. That can be a very cost-effective way to tap that – to overcome that barrier.

MR. COLL: This side of the room.

MR. BERNSTEIN: I'm very impressed that these microphones are working; they usually don't work.

Q: Hi, I'm Dr. Caroline Poplin. I'm a visitor from the health-care sector.

MR. BERNSTEIN: Could you speak up a little, please.

Q: I'm Dr. Caroline Poplin. I'm a visitor from the health-care sector.

MR. BERNSTEIN: We know each other.

Q: We talked all morning about public investment. We've relied, for generations, on unregulated capital markets to direct money to the most productive, most valuable uses. And the most valuable uses our financial system has found in the last 8 years are supporting consumption – people buying houses, people buying goods – not production of goods and services. And I think – or, have you thought about how to redirect – or what the problem is with the capital markets that they direct money to consumption and not to production?

MR. BERNSTEIN: Yes, we have definitely been thinking about capital markets in much the spirit you mention. And in fact, I have written numerous times that the model of my graduate education, where – and yours as well – where capital markets were an efficient allocator of excess savings to its most productive use, it would be pretty hard to look back at capital markets that preceded this crash and recognize that theory.

Obviously, this brings you right to the kinds of financial market regulations that we're contemplating right now. In the interests of time, I won't tick through them, but I will say that a

very strong component of that program is to get back to capital markets as an efficient allocator in precisely the spirit you mentioned.

One of my and one of Tim Geithner's favorite points on this measure is increasing capital reserves that financial institutions need to have on their books in order to dampen a level of speculative trading that has less to do with true investment and more to do with making not just a quick buck, but a nanosecond buck. That doesn't serve the economy; it doesn't serve investment; and it certainly doesn't serve the president's vision of the next recovery, the next cycle being not a bubble-driven, speculative one, but one based on true, fundamental demand.

Q: Gabriel Anderson from CG/LA Infrastructure. And my question relates to the national infrastructure bank. I know that President Obama supports a plan for an NIB; I wanted to know what the prospects for the formation of a well-capitalized national infrastructure bank were.

MR. BERNSTEIN: Okay, this is the first question where I get to say we don't make public policy from the stage of the Mayflower Hotel. The president, chief of staff – pretty influential guy – have a clear interest – and by the way, the vice president as well, especially in issues of green manufacturing, green jobs and rail – have a great interest in making sure that this country, through public investment and private investment collaborating together, are making adequate investments in precisely the kinds of infrastructure that an I-bank – and infrastructure bank – would support.

I mentioned in the context of my discussion over the Recovery Act, every one of those fits under that rubric: the smart grid, high-speed rail, solar, wind, geothermal, advanced battery technology and more. So I can tell you, speaking broadly, that this is precisely the kind of commitment of our administration that's very consonant with the answer I gave to the last question. That kind of investment, in my view, creates long-term, healthy demand versus bubbly demand based on speculation, on financial engineering.

MR. COLL: In the back – oh, let's take this woman there on the left in the olive jacket.

Q: Thanks for a great presentation, Jared. Back to this idea of getting from a bubble economy to, for lack of a better word, a better economy, let's call it – a balanced economy, maybe.

MR. BERNSTEIN: I like that – bubble to better.

Q: You can have it.

MR. BERNSTEIN: Thank you. (Laughter.)

Q: So can you give us your top five priorities for achieving this? What would be your top five issues/reforms that need to take place to get to a better economy?

MR. BERNSTEIN: I'm not sure I can do five; I know I can do three because they really – but you know, three with, probably, many subheads. You know, energy, education, health care – maybe I should say health care, energy, education. Put them in whatever order you like.

I would argue that getting the inefficiencies out of the health-care system in terms of cost is the key to long-term fiscal health on the fiscal side of the federal budget, but also in the private sector in terms of really doing something about this excess cost burden – the fact that health-care spending, per capita, grows unsustainably – 2, 2.5 percent per year – faster than GDP per capita.

The arithmetic is incredibly simple, right? If you do that, every year the share of your economy that you devote to health care is going to go up and up and up. And if you look at the straight lines that CBO or the administration draws, that will certainly point out to you that sustainability dictates we have to do something about that, to set the stage for your question.

Then, in the energy space, same thing. I believe there are great unsustainabilities there. The president has been extremely clear on this point – both in terms of environment and family and business' ability to function in a much more – without that particular albatross around their neck. Education – we talked a second ago about how key that is.

I would add financial regulation reform in the spirit that I was talking about a second ago. If you don't – you know, it really is very difficult to sit here and watch some of the very firms who got you into this mess and who you brought back from the brink now fighting you when you're trying to introduce a set of rules and regulations that are based on common sense, on pragmatic regulations, to prevent us from getting right back here, you know, X years from now. So I think the path to a non-bubbly, broadly shared kind of recovery of the type that I stressed in my talk has to also go through financial reg. reform.

Q: Jared, thanks so much for being here. The Republicans, under John Boehner, Thaddeus McCotter and others, sent the president a letter about their own concerns about the job creation – and particularly, the small-business portion of that. And if you read the letter and you think it through, one of the issues comes into the financial health of the country and how banks are performing, and whether or not some of the policy choices that the Obama administration made were complete enough.

Because their argument would be that there are incredible balance-sheet problems that continue, and that element has continued to, sort of, erode the health of the job-creating sector because small business continues to be on a, you know, slow drip of access to capital. And I'm wondering, has this come up in your discussions? Is there any thinking going on versus this sort of big-bank-versus-small-bank dimension? And do you think the Republicans have a point?

MR. BERNSTEIN: I think that some of the Republicans who you mentioned have, through political motivation, have failed to recognize and appreciate the impact of the Recovery Act in much the way I was describing in my presentation. I have heard, for example, Rep. Boehner arguing that the Recovery Act hasn't created any jobs.

The recipient reporting would show that to be demonstrably untrue, but in fact, if you simply look at the kinds of work like the Council of Economic Advisors released on September 10<sup>th</sup> of this year, you know, a very detailed, very clear exposition of the recovery act at work. And I think you heard in my comments that you have to really try very, very hard not to recognize the employment that this act is creating.

I think the issue there is that it is by no means offsetting the full jobs deficit of an historical magnitude, as I showed you in my first slide. So if your definition of whether it's working or not is, are actual people who were unemployed getting back to work; are teachers in the classroom who would otherwise be laid off; are students looking at a classroom that is half the size that it otherwise would be, you would have to conclude that, you know, of course it's working.

So in that sense, I think the critiques have been much more politically and substantively motivated. On the question of bank lending, we've done – and by the way, in the Recovery Act, there's some very generous lending programs through the SBA – Small Business Administration – for small businesses. I, too – we in the administration and the president – have discussed this issue of access to credit and whether credit supply is constrained. And my sense is that there's absolutely something to that and we need to continue to pay a lot of attention to precisely that question.

Q: Thank you. I'm Antony Kalinoki and within five days, I hope to file for the top advisory job with President Obama, who has outstanding goals and ideas. One point I'd like to make is, I don't think many people know that this country would be in depression now, except for you all didn't know that it was supposed to be in depression – the policies that are being enacted and have been enacted have kept us from becoming – from being in a depression. The reason was the –

MR. COLL: Sorry, could I ask you to ask your question, please?

Q: (Inaudible) – policy is what caused the problem. My question is actually implementing things like greenhouse – Brazil and Spain are building large solar collector complexes. That was an American idea of the 1980s. We need to do that. We need to actually implement the policies.

MR. BERNSTEIN: You know, you raise a great point. And since I'm talking to Steve and Steve here, let me suggest that a great, innovative, you know, go anywhere kind of organization like yours – because I know you guys have a very broad docket – should, once the dust clears, organize a bunch of scholars to talk about stimulus implementation – just what this gentleman was talking about.

I happen to think – and you know, I'm bragging on our own team here, so I apologize for that – but I'm really bragging on the vice president who – you know, he's a very busy man – he gets on the phone weekly with governors, with mayors and he talks to them about what's going on in their state. I'm sure governor – I suspect Gov. Rendell is not here anymore, but he would attest to this. This notion of implementing a large stimulus is not something – you know, I am

the most dyed-in-the-wool – except for Paul Krugman, or at least equal with Paul Krugman – the most dyed-in-the-wool Keynesian devotee out there. I have one critique of Keynes’ work; he didn’t say squat about implementing stimulus.

His thing about stimulus is, well, you should try to do some very good things and if you can’t find good things to do, you should bury the money and have somebody dig it up – you know, have one group of workers bury it and another dig it up. (Laughter.) That’s a joke. So that’s – you know, so when I was – before I came into the administration, I was thinking a lot about – and you mentioned this, sir, in your question as well – about infrastructure. And I came into the administration, to the transition – to that building over on 6<sup>th</sup> Street – with a bunch of ideas about shovel-ready infrastructure.

Well, it turns out that almost none of my ideas were truly shovel-ready and that actually financing an infrastructure program that can ramp up quickly and ramp down quickly is not an easy thing to do. And with due respect to public officials in the House, there are governors who have a different definition, in timeframe terms, of “shovel-ready” than we do.

Now, your question suggested a longer-term infrastructure agenda. That’s outside of the stimulus and that gets more to the I-bank question. And that’s obviously important and something we’re very mindful of. Any of the things I mentioned, whether it’s the grids, smart grid, high-speed rails, battery tech – any of those – wind, solar – the recovery act isn’t going to be the last word on that by any means.

It’s seed capital to bring in venture capital to bring in private-sector capital to make a public-private, long-term partnership that outlasts the stimulus.

MR. COLL: If I can just follow up on that briefly, because you’ve been generous in suggesting that we try to bring ideas from the wilderness into the mainstream. And one of the ideas that we’ve only gotten about halfway out of the wilderness is the infrastructure bank.

And recognizing that you don’t want to make policy from the podium, but given what you just said and thinking about the private-public capital partnership, maybe levered, maybe not as a mechanism for a longer-term approach to infrastructure investments that could create the very kinds of high-wage, skill-oriented jobs that you’ve been talking about. As an economist, and without reference to the political reality surrounding this subject, is it a sound approach, or what version of it would you find sound?

MR. BERNSTEIN: I’m not sure I can, any longer, speak as an economist without reference to the political realities. I’d like to try, though. I’ll wait until Steve is – I want to just make sure we – I would agree with the foundations of everything you just said – more than agree; usually embrace. I mean, the one thing I might say is, I’m not sure why you would argue levered or not levered; certainly levered – I mean, not obscenely levered, but we absolutely believe that any public capital that we invest in this kind of a project should be leveraged up with private capital as part of the public-private partnership. And as a matter of fact, the economist in me wants private markets and banks to have skin in the game; I think that makes a difference.

The only criticism I have is that it turns out that when you actually put cost-benefit analysis to some of these ideas, positive net present value doesn't always pop out as quickly as you think it would. So while we all talk about infrastructure – and I'm at the top of the list – we also have, you know, a responsibility to make sure that scarce resources are invested in the infrastructure that we think will give the best returns. Now, a lot of times, cost-benefit analysis is absolutely incapable of factoring in the kinds of, really, game-changing innovations – it's almost like a CBO scoring problem that you get here. So I don't want to overplay that, but I do want to stress that.

MR. COLL: Your crack staff has indicated that the next question must be the last, and so I'll take this gentleman right here in front of the stage.

Q: Lloyd Wood with the American Manufacturing Trade Action Coalition. We represent a substantial portion of U.S. textile production, including geomembranes and other textile products that go into your stimulus package.

Two quick questions: One, with respect to the stimulus, the buy American provisions that were included in the stimulus and the regs that came out, they eliminated the 50 percent parts – in other words, rule of origin – for how much of the components of a finished product has to be included in the product to be considered to be buy American. We're very concerned about that; will that policy potentially change?

And two, we've run a \$4-trillion-plus trade deficit in manufacturing goods over the last decade; why is that and will the Obama administration – what's it looking to do to help the manufacturing sector?

MR. BERNSTEIN: Well, question two is kind of another seminar, but it's a great question and I can say a little bit about it. On question one, it was very important to us that the buy America provisions in the Recovery Act, which I don't believe will change, were compliant with the WTO. We wanted to make sure there were buy America provisions in there, but we had that condition that we needed to meet and we think we met it.

Manufacturing policy – you know, the president recently – one of the things that I found very important – and since I share your concerns and I share your sense of importance about a robust manufacturing sector, as does the president and vice president – you can certainly see that in some of our work on autos – the president recently appointed Ron Bloom to be his special counselor on manufacturing.

That's a very important appointment; that's a very important symbol; a very important sign. And if you know Ron, as I do, it goes far beyond being a symbol. He's a really thoughtful guy who is going to work really hard in this space. On the Middle-Class Task Force, we did one of our meetings on this very problem – on this very issue of manufacturing. And I think we have a staff report that, probably, nobody's read, and you should check it out.

I think much of what we've been talking about today in the context of infrastructure feeds right into this discussion. I think our discussion we had a second ago about public-private

partnerships to generate more investment, I think, will be very positive in that space. So I think we haven't just – in my view, we haven't just talked about manufacturing policy, which in and of itself, I think, is a fairly ambitious thing for an administration to do. I think we've laid the groundwork to really do something about it, so stay tuned.

MR. COLL: Thank you, Jared. Thank you very much. Please join me in a robust round of applause. (Applause.) You can have your chicken to go, if you need it. The rest of you are free to stay and enjoy your desserts and coffee and talk amongst yourselves.