The State of the Economy and the Importance of Rebuilding Our Nation's Infrastructure

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Thank you, Chairman Dodd, ranking member Shelby and other members of the Committee. I welcome the opportunity to be here today to testify on behalf of the 10 million members of the AFL-CIO and share our views on the state of the economy and the importance of rebuilding our nation's deteriorating infrastructure.

The American economy is the richest economy in history, generating nearly $14 trillion a year in product and income. Key to the success of our economy has been the productivity of our workforce and the quality of our nation's information, communications and transportation infrastructure.

Unfortunately, our infrastructure is deteriorating seriously in a number of areas and in others is not developing in ways required to succeed in a 21st century global economy. The American Society of Civil Engineers (ASCE), who grades the state of our nation's infrastructure a "D," estimates a current five-year need of $1.6 trillion just to maintain the infrastructure we already have. Maintaining and developing our nation's infrastructure is key to the future of American prosperity.

As me meet today, however, we face an economic crisis that poses a number of serious, and closely related, economic challenges, both acute and chronic. We must recover from the recession that now seems to be underway. We must find a more sustainable growth path for the economy that does not depend on asset inflation. We must rebuild the global competitiveness of the American economy. And we must assure that the benefits of American prosperity are more broadly shared with America's working families.

In different ways, maintaining and developing our nation's infrastructure plays a crucial role in addressing each of these challenges. Our success in shaping infrastructure policy to help address these challenges is crucial to the future of American prosperity, and we urge the Committee to consider its work in light of these economic challenges.

The first, and most acute, economic challenge is to recover from recession. Growth slowed sharply toward the end of 2007 and the economy began to shed jobs early this year. The economy shed 85,000 jobs in the past two months and private sector employment has fallen for three successive months. The current unemployment rate at 4.8 percent would be closer to 6.8 percent if labor force participation were at pre-recession levels.

An increasing number of private sector economists are estimating that a recession is already underway. If they are right, as I believe they are, we are seeing the end of the first economic expansion on record in which average family incomes have not recovered their pre-recession levels. In 2006, real median family income was $58,407, compared with $59,088 in 2000.

A bursting housing bubble last summer and the resulting crisis in the U.S. sub-prime mortgage market have triggered a full–blown credit crisis, which is now dragging the American economy into a recession of uncertain depth and duration and slowing economic growth globally.

Housing prices already have fallen 10 percent and may fall another 10 to 20 percent over the next two years, leaving 10 million families with negative equity in their homes, causing more than 2 million foreclosures and destroying trillions of dollars of household wealth. The Federal Reserve reports that household wealth declined by $900 billion in the last quarter of 2007 alone. This massive loss of wealth is undermining consumer spending and business investment.

The Federal Reserve moved aggressively to lower the federal fund rate by 2.25 percentage points and is signaling more cuts to come. Congress also passed a $168 billion fiscal stimulus package featuring a tax rebate for families and tax cuts for business. While these steps are helpful in mitigating some of the worst effects of the slowdown, they are not sufficient, in our view, to avert recession, nor do they deal with the fundamental economic imbalances at the root of the current economic crisis.

The AFL-CIO supports a second fiscal stimulus package including several measures excluded from the initial package. The new package should include an extension of unemployment insurance, expansion of the food stamp program and federal aid to states and cities to prevent further cutbacks of vital public services.

We also support front-loading public investment in infrastructure to maintain our schools and repair crumbling bridges and deteriorating highways. Spending that puts people to work on projects we desperately need is more likely to stimulate the domestic economy than tax cuts that may be saved or spent largely on imported consumer goods.

The second challenge we face is to find a sustainable basis for American economic growth. Even before the recent economic slowdown, working families were struggling to maintain their living standards by working longer hours and more jobs, by sending more family members to work, drawing down their savings and borrowing against the equity in their homes. In terms of jobs, wages, health care and pensions, the recovery from the 2001 recession was the weakest of any recovery since the Second World War, weaker even than the jobless recovery of the early 1990s.

Debt-financed consumer spending has provided most of the momentum the economy has shown over the past seven years. Stagnant wages and incomes left consumers borrowing against the expected rise in the value of their homes to maintain their families' living standards. Household savings fell below 1 percent, levels not seen since the worst years of the Great Depression.

It is important to bear in mind that the two most recent economic expansions – the recovery from the 1990 recession and the recovery from the 2001 recession – were very different than previous recoveries since the Second World War. Earlier recoveries were ended through actions by the Federal Reserve to stanch inflation. The last two recoveries, like many in the pre-WWII period, ended with the bursting of asset bubbles – equities in 2000 and housing in 2007. The problem with relying on asset inflation to power growth is that the growth they power is weak and unsustainable. The most recent recovery, like its predecessor, was weak and ended with the bursting of an asset bubble.

As we emerge from the current recession, we must put American economic growth on a stronger and more sustainable basis than that provided by asset inflation. One school of thought in Washington argues that we should just lower taxes and wait for private investment to power economic growth. Another school believes that private investment responds best to balanced federal budgets. While there is truth in each of these views, neither is complete or adequate as a formula for a strong American economy.

The AFL-CIO believes that while taxes should be no higher than they need to be to meet our nation's needs, they certainly should be no less. And while it is important to balance our public budgets, we must allow sufficient flexibility in doing so to balance demand to counteract the business cycle and finance the maintenance and development of our nation's essential public infrastructure.

First and foremost, providing a sound basis for American economic growth requires careful coordination of fiscal and monetary policy between the Federal Reserve and the Treasury to maintain maximum growth and full-employment consistent with reasonable price stability. This requires, particularly on the part of the Federal Reserve, a careful monitoring of developing asset bubbles so they do not undermine the strength and stability of economic growth.

Second, in our view, public investment to maintain and develop our nation's infrastructure is a crucial complement to sound macro-economic policy. Public investment can stimulate private investment demand through the business cycle. But more important, public investment augments the economy's productive capacity, the principal source of our nation's economic growth.

The third challenge is to restore American competitiveness in a global economy. Misguided domestic and international economic policies of the past three decades have produced an unbalanced economy that has seriously reduced the role of government in guiding the economy and radically shifted bargaining power from workers to their employers. These imbalances are the source of the current economic crisis and must be addressed in order to meet the crisis.

Currently we must borrow nearly $800 billion a year to pay for the things we consume as a nation that we no longer produce. We have lost almost 3.5 million good manufacturing jobs since 2000, many the result of our unbalanced trade.

Moreover, China and other Asian trading partners are manipulating their currencies to maintain their competitive advantages. The huge trade surpluses of these countries have produced a global savings glut that is fueling asset inflation in the United States. The demand for U.S assets from these countries has fed the unsustainable housing bubble on which our fragile growth has depended over the past seven years.

No one believes that the imbalance in our external account is sustainable. We must find a way to produce more of the value equivalent of what we consume or we will be forced, one way or another, to consume less. The key to correcting our nation's external imbalance is to restore the competitiveness of the American economy.

To restore the competitiveness of the American economy, we must change our trade, tax and exchange rate policies to level the playing field for domestic producers. But we must also greatly expand our commitment to the education and training of America's workers. We must also invest in maintaining and developing the world-class information, communication and transportation infrastructure so essential for a competitive economy.

Fourth, we must restore balance between workers and their employers to allow workers an equitable share of our nation's prosperity. The truth is, as weak as the current recovery has been, America's workers are suffering what is now a generation-long stagnation of wages and rising economic insecurity.

Our wealthiest families have benefited as never before from the economic policies of the past three decades, but working families have been left behind. Productivity has increased 67 percent since 1980, but wages have barely budged. Median family incomes are only 19 percent higher today than they were three decades ago, and only because workers are working longer hours and families are sending more members into the workforce. Only the top 10 percent of families have seen their income rise at or above the rate of productivity growth.

As a result, incomes and wealth are more unequally distributed in America than in any other developed country and are more unequal today than at any time since the 1920s. Even more alarming, American intergenerational economic mobility is falling and is already lower today than in many European countries. The American Dream is fading for millions of working families.

To assure more equitable growth we must raise the minimum wage and pass the Employee Free Choice Act to allow all America's workers to exercise their fundamental rights to organize and bargain collectively.

But infrastructure investment can also play an important role in creating millions of good jobs. According to Department of Transportation, each one billion dollars of infrastructure investment creates 47,500 jobs. If ASCE's five-year estimate of a needed $1.6 trillion for infrastructure investment is correct, it implies the creation of over 15 million jobs a year. To assure that the jobs created are good jobs, workers employed in infrastructure projects should be paid prevailing wages.

Public investment in infrastructure is essential for restoring strong and sustainable economic growth essential for ensuring American prosperity, but it must also contribute to ensuring that the resulting prosperity is broadly shared.

As essential as a world-class infrastructure is for the future of American prosperity, there remain the important questions of can we afford it, and how we should organize our public institutions to achieve it?

There is no question that maintaining and developing world-class infrastructure systems will be expensive to finance. The ASCE estimate of $1.6 trillion over five years is focused only on maintaining the infrastructure we have. It does not include estimates for the systems we will need to meet future needs in critical information, communications and transportation technologies, nor the emerging areas of energy independence and environmental sustainability.

Decisions on financing infrastructure need to be taken on rigorous cost-benefit analysis and monitored continuously by democratically accountable authorities to maximize their effectiveness and avoid duplication and waste. The costs are enormous but they are financing costs, not simple expenditures. As investments, they are expected to pay for themselves in increased economic value and even tax revenue. The real question concerning cost is not whether we can afford a world-class infrastructure as we enter the fiercely competitive global economy of the 21st century, but whether we can afford not to invest in one. There is no alternative. But we believe that major infrastructure investments achieve the greatest economic impact at the least cost consistent with other pressing national needs.

Currently infrastructure investment decisions are not well coordinated functionally, nor between federal, state and local authorities. As a result, many infrastructure projects may serve local needs but may not well serve important regional or national priorities. To prioritize major infrastructure investment projects functionally, geographically and over time, we need a federal authority whose mission it is to identify and prioritize major infrastructure needs and help arrange appropriate funding consistent with other pressing national priorities. The AFL-CIO strongly supports the Dodd-Hagel bill to establish the National Infrastructure Bank Act for these purposes.

. America's workers are the most productive workers in the world. And they work longer hours than workers in any other developed country. Provided a world-class infrastructure and cooperation from business that shares their commitment to our country, there is no reason we cannot build a strong and internationally competitive American economy whose prosperity is broadly shared.

Thank you again for the opportunity to be with you today and share the views of the American labor movement.

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