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FISCAL CHALLENGES FACING CITIES: IMPLICATIONS FOR ECONOMIC RECOVERY

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Opening Remarks:

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Moderator:

DAVID WESSEL
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Panelists:

THE HONORABLE MICHAEL NUTTER
Mayor, City of Philadelphia, Pennsylvania

THE HONORABLE CHUCK REED
Mayor, City of San José, California

THE HONORABLE SCOTT SMITH
Mayor, City of Mesa, Arizona

THE HONORABLE ELAINE WALKER
Mayor, City of Bowling Green, Kentucky

Closing Remarks:

JARED BERNSTEIN
Chief Economist and Economic Policy Advisor
to the Vice President
The White House

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P R O C E E D I N G S

MR. BERNSTEIN: It's an honor to be back here at Brookings. Thank you, Bruce and the Metropolitan Policy Program and National League of Cities for hosting this event. I see many old friends. It's great to have a chance to address this high caliber audience about the economic challenges. We face all levels of government, national, state, local.

I'm especially happy to be here with local elected officials, and I bring the Mayor's greetings from my boss, Sheriff Joe Biden. He wanted me to tell you he'll be calling in real soon to catch up on how the Recovery Act is working out.

I want to give a special shout out to Mayor Nutter from Philadelphia, who played a key role in our first Middle Class Task Force meeting in Philly on creating job opportunities in major metropolitan areas. Do you realize that was only nine months ago? It feels like ten years. I don't know if that means time is going really slowly or really quickly, but it does seem like a long time. By the way, just to bring you back to that discussion, all this deep economic analysis on metro conditions, fiscal challenges is fine, but I ask you, Mayor Nutter, have you begun to work on the inexplicable market failure I discussed with you back in late February, which is why I can get an excellent bagel and a slice of pizza in Philadelphia, but not in D.C.

SPEAKER: I'm all over that.

MR. BERNSTEIN: Bruce. Surely this is a question worthy of the massive brain power that Bruce commands here, so I don't know why we haven't looked into that yet. In a number of recent discussions, I and other members of our economic team at the White House have talked about the depth of the recession we inherited, our interventions and how they've helped, and how the President's longer term goals such as health care and energy reform are so critical to both generating a lasting and broadly shared expansion while meeting a long term fiscal challenge.

And I'll summarize some of those issues in brief, but I think this audience by now is well versed in that discussion. So I'd like to stick more to the topic at hand, local economies, and try something maybe a little bit different. I found a background paper I read for the meeting quite interesting, and I'd like to plum some of the issues raised in that paper, mostly by asking questions of the experts in the room. And so I really usually you ask me questions, and we're going to have time for that, and I look forward to it, but I also wanted to ask questions of Bruce and Mark and the others who wrote the background paper which I found really, really very well done.

Now, I'm going to ask about some of these issues, and I want to be very crystal clear. I mean in my old job at EPI, I was supposed to go out and make news; at my new job, I'm supposed to go out and not make news. I want to be very clear that our administration is not endorsing any of the ideas I'm going to be asking about. I'm merely tapping the remnants, which at this point are nothing more than shards I think of what's left of my inner think tanker.

But this is – neither is this idle chatter. We have, as you know, he's mentioned it many times, we on the economic team have marching orders from the President to put all good ideas on the table, and so I hope you'll entertain some questions from me about the forward leaning ideas in your document.

But first let me say a little bit about where I think we are, focused on the job market and the macro economy. It's actually an interesting frame, job market, macro economy, because they are not, of course, working in sync right now. Thanks in part to aggressive – stimulus, including tax relief, deep investments in the safety net, infrastructure projects, fiscal relief for strapped states, investments in innovation, all implemented with great care and heretofore unforeseen transparency. The economy is pulled back from the brink and fears of depression have been replaced with hopes of recovery.

This historical intervention, the Recovery Act, is highly germane to our meeting today, and I'll come back to it shortly. Both the Treasury and the Federal Reserve have been equally aggressive in addressing blockages in credit markets, and their actions have helped stabilize this critical component to our economy.

Help for struggling homeowners, along with liquidity injections into the primary and secondary mortgage markets have helped to keep mortgage rates lower than they would otherwise be and carve out what looks like a bottom in home sales and prices. All of this is true and more after plummeting by over $12 trillion since 2007. Household wealth finally began to stabilize in the second quarter of this year, rising by about two trillion as real estate values flattened and markets began to recover from their collapse during the credit crisis which began last year.

This trend reversal in equity markets that began in early March of this year lifted the typical 401K by about 35 percent, not enough to make up for the losses, but enough for many of us to be willing to at least consider opening the envelope containing the statement once again.

Now, if you read the documents from today's conference, you get a vivid sense of how far we have to go, and I think that was part of the thematic in the last session. Fiscal imbalances at the state and local level are, of course, one of the key points of our discussion today. But I was also very interested in the long lags that these analyses documented between the broader recovery and local fiscal recoveries.

I took note that in the survey by the NLC, by the National League of Cities, the survey showed that cities most common response to a fiscal crisis was work force reduction.

Now, at this point it's typically noted that the stock market leads, the job market lags, a slightly more sophisticated take might offer the following, which I actually think is a little hopeful. Let me offer two statistics that caught my attention recently. The first was the nine plus percent increase in labor productivity in the third quarter. The second is what looks like another bottom potentially being carved out, this time in temporary employment.

Now, I don't think any economist believes that a nine percent annual growth rate in productivity can be sustained, and the worker result, it's been positive on net. If you look at the payroll employment survey, look at temp work, it's been positive on net for the past three months, with about a 34,000 job pop in October. That temp work result looks like a leading indicator that employers might be ready to dip their pinky toes, maybe not their big toes, in the hiring pool.

So what I'm basically getting at here is that animal spirits, to use a great – term, around hiring are obviously weak, weighted down with caution and uncertainty about where things are headed, and with lines of credit not flowing as freely as we'd like to see them to credit worthy businesses, especially smaller ones. And, of course, these dynamics hurt city jobs and services in the way we just heard, in procyclical ways, making the pullout of the recession that much harder, as documented again in the materials. But at a given level of positive output growth, at some point, employers can't squeeze anymore productivity out of their incumbent workers, and they either have to hire new bodies or extend ours.

That point at which growth maps onto employment in a way that we've not yet seen, at least on net, is approaching, and the Recovery Act has helped a lot in that regard. So let me elaborate on that last claim a bit more.

First, the Recovery Act is creating and saving jobs, about a million so far, according to both our own and outside estimates. Direct reports from recipients tally up to about 640,000, and I'll say more about some of the controversy around those counts in a moment.

But they only reflect, I want to be very emphatic about this point, the recipient reports only reflect about half of the recovery funds that work so far, so doubling that number gets you back to about the million plus range.

Now, why isn't this reality better understood? Probably because the job creation from the Act is not enough to offset the full labor market impact of the deepest recession since the Great Depression. As long as the unemployment rate is rising and we lose jobs each month, it's hard to make the case that things would have been worse without the Recovery Act, but it's true. I actually passed out a little handout, I don't know if folks got it, but being congenially unable to give a talk without referencing some graphs, I have three panels there.

If you look at the pattern of monthly losses and periled employment in the top panel, since the Act passed in February, there have been three successive loss regimes in the payroll data, and every few months the rate of job loss has diminished.

Now, it may be hard to get credit for the Recovery Act until those bars turn positive, but you don't go from huge negatives to positives without a pattern like that that you see in the top panel of my handout, okay, that's first, job efficient.

Second, the Recovery Act is expanding the economy. Consider the middle panel the path in real GDP growth this year. There you see the large swing from negative to positive and the growth rate of the overall economy. Now, outside analysts have confirmed that the Recovery Act is largely responsible for that swing. Now, as I've emphasized and will continue to emphasize, and the President has consistently noted, GDP is in jobs, but you can't get to the latter without the former. And we know because the President tells us every day that we need to do all we can to hasten the occurrence of that growth job linkage, but you can't build that bridge if you don't have the growth.

Third, it's got a lot more jobs left to deliver, the Recovery Act. Slowly but surely, the Act is helping to chip away at our jobs deficit. We've got a long way to go, which is why it's a very good thing that the Act has a lot of fire power left. So far, about half of the funds of the Recovery Act are at work in the economy, mostly through fiscal relief to states, tax cuts, programs like unemployment insurance to help people battered by the economy hold it together until things improve.

What's coming over the next few quarters is a lot more of the rebuild and reinvest part of the Act. Lots of infrastructure programs out there in the field are just ramping up, along with investments and new growth areas that will set the stage for a more robust recovery, stuff like smart grid, high speed rail, and the production of renewable energy. As noted, the Act has saved or created about one million jobs so far, but we expect another 2.5 million over the next year. Fourth, this part is slightly controversial, it's unprecedentedly transparent and accountable. President Obama and the members of the Congress who supported this Act wanted it to be the most transparent use of government resources this country has ever seen. So now you can actually go to recovery.gov and learn about projects in your zip code.

Now, this part of the Act I think has also been badly misunderstood. The point of transparency is not to show that the Act and its implementation are perfect, to the contrary, it's to spot the imperfections as they arise and correct them.

Now, as my colleague, Ed DeSeve, points out in a recent blog post at whitehouse.gov that I commend to you, you pay a price for that. As far as the "gotcha squad" is concerned, transparency equals bulls eye.

But as Ed's post discusses, the reporting errors are small relative to the whole, we're fixing them, and most importantly, the main conclusion regarding jobs that I've been noting throughout my talk not only hold, they're strengthened by the direct reports. So in other words, once you get past the noise, the Recovery Act is neither more nor less than a well crafted, well executed and highly transparent -- stimulus helping to repair some, not all, of the damage to the economy our administration inherited. But as the President has stressed, we've got to do more to translate economic growth into job growth and continue helping states and localities meet the deep fiscal challenges they face so as to avoid taking steps that make getting out of this mess that much harder.

So let me close by commenting on the ideas in the brief behind today's conference. There are five of them, and I'll take them one by one. Targeted and temporary fiscal assistance to cities. This idea seems motivated by the belief or perhaps the experience that state fiscal relief has not adequately reached our cities and towns.

Now, I'm really not trying to start a fight here, and again, I stress that my inquiries should not imply any degree of administration preference or disinterest, but does this imply that state fiscal relief should be restructured since we would be providing some relief directly to their cities?

Second, do we have any idea what they'll do with the assistance? My biggest question is, would it be labor intensive? From all perspectives, state fiscal relief has been very important in retaining jobs, particularly in education. How would this idea interact with that? Second, you recommend a public service employment program, which you know, and I'm quoting from the report, would provide money to cities and other local governments to hire people to fill needed roles in their communities in response to the economic downturn, such as helping maintain vacant properties and homes and fixing schools and other local facilities.

Now, remember, our top economists have provided support for this idea lately including Alan Blinder and Paul Krugman, so I guess it's big at Princeton. And given my comments above about macro challenges, it may make sense to target employment more so than GDP right now. And in this regard, harking back to the last set of questions I was posing regarding local fisc I'd be interested in which idea you thought would be more likely to generate jobs, PSE's or local fiscal relief, or you could simply look at this PSE idea, public service employment idea, as local fisc, but restricted to an employment use, which has some appeal, I think.

But here, and this is something I think you've really got to deal with if you're in this space, one worries a lot about substitution, both fiscal and employment. The last thing you want to see is a PSE – is PSE workers substituted for public sector workers. So you need to think about how your plan would avoid that, and you also need to deal with the question of capacity. You know a lot more about capacity of your cities and these cities than I do. Can they get a useful non-make work PSE up and running relatively quickly?

Continued efforts to strengthen and stabilize the housing market, here I'll just stipulate that I agree and I thought your ideas made sense. A new federal surface transportation program. I'm just – through the five ideas that were in the conference document. A new federal surface transportation program, that's obviously fodder for a whole conference unto itself. So let me speak briefly from 40,000 feet up on this one.

The President and the Vice President are deeply committed to infrastructure investment. Ever since I've known those two, they've talked about it. And that commitment, as your report notes, is manifested in the Recovery Act. There are great economic rationale for such investments involving pricing externalities, large sum costs, and the productivity payoff from getting it right. But you are raising another issue, which I won't weigh it into, but about which I share your concerns, which is the geographical distribution of these investments. It's one thing to talk about it from 40,000 feet up, it's another when you get down to the ground and you talk about how these investments get distributed geographically.

One can easily worry that politics trumps policy here. I challenge you to find a member of Congress that doesn't like cutting ribbons. So I urge you to keep working to bring your very important distributional views to this debate, which at one level is relatively simple, making sure local actors are at the decision-making table.

I also stress, however, that when we're talking about infrastructure in the context of jobs, recession, and the need for some quick relief, we need to be mindful that the words "shovel ready" mean different things to different people.

Finally, municipal credit market enhancement, this, too, I'll simply stipulate is critical, and I'll finish up with one more bragging point, if I may. Another way the Recovery Act is helping in this space of municipal market enhancement, I understand it was referenced earlier, in the space of expanding access to capital for state and local governments is through the highly successful Build American Bonds Program included in the Act. This program allows state and local governments to issue taxable bonds and the treasury pays a 35 percent interest credit to the issuer to offset borrowing costs. These bonds allow state and local governments to enjoy lower borrowing costs while offering investors yields comparable to other taxable debt, and they allow state and local governments to attract investment from broad segments of the markets that do not typically purchase ordinary tax exempt municipal bonds such as pension funds and foundations that do not have tax liability, that's the policy wrinkle with these Build America bonds, because without a tax liability, you wouldn't benefit from a tax exempt bond.

Since the program was launched on April 3, there has been over 45 billion in Build American bond issuance which now represents over 20 percent of the entire municipal bond market. At the same time, Build America bonds have expanded access to credit and significantly reduced borrowing costs for local governments that have taken advantage of the program.

The dramatic growth and issuance in reduced borrowing costs from the program indicate that it's a highly successful one, efficiently using federal dollars to expand access to credit for state and local governments when they need it most, so I think very much in the spirit of your fifth bullet there. On that upbeat note, I thank you for your attention, for all the thoughtful ideas you suggest in your report, and for focusing on this important issue of local fiscal relief. It's an issue we overlook at our peril. Thank you.

MR. KATZ: I think we have a bunch of time for questions. So, again, we have microphones floating. There's one right back here.

MR. MILICAN: I'm Al Millican, AM Media. How do you communicate to our enemies and reassure urban – well, any urban American who is starting to feel their security and safety from terrorism is starting to be compromised perhaps, in part, due to our government's difficult economic situation?

MR. BERNSTEIN: You know, when I used to work at the Economic Policy Institute, the contributor to CNBC, I would talk about anything, which I think is probably one definition of Washington punditry. I don't do that anymore, and frankly, I don't sit in meetings that address that particular, precise concern, so I think it would probably be – do more harm than good for me to address your question.

MR. KATZ: Other questions? Question right over here, make the way.

MR. FINEBERG: Hi, my name is Michael Fienberg, I'm a student at the George Washington University. I was wondering if you could comment on some of the major concerns of the Mayor, which isn't the number of opportunities and the amount of money that's going to funding municipalities, but more of the efficiency of getting those funds actually in the treasuries of those cities.

MR. BERNSTEIN: I guess I would refer you to the set of comments I made about fiscal relief to localities. I think there is expressed in the comments of the Mayors and the documents around the conference concern that state fiscal relief may not be reaching units as efficiently as it should, and that's a matter of obvious concern which brings us here today.

I mean people – one of the things that I was reminded up, and it's become – I try to read everything Bruce sends, which isn't easy, but one of the things you're reminded of when you read this stuff, you know, in a sense, yes, we live in states, but we really live in cities and towns, counties. I mean I relate much more in some ways to my life in Alexandria than my life as a Virginian just because my wife is the president of the PTA, I live in the city. I notice, by the way, that in Alexandria, which is a fairly wealthy city, we've cut down the amount of times we're cutting our baseball fields as a budget cut, and others, and that – I was reminded of that when I was reading about the public service employment ideas.

So I think that the issue here that's raised is very much a question about how do we efficiently address that concern. I kind of pose that question back to the Mayors and to Bruce and his team, particularly from the perspective of how it interacts with state fiscal relief, which we have found is – the program to get out the door the fastest. I mean the F map (?) checks were going out quickly, very shortly after the signing of the bill, and have really I think worked extremely well in preserving some key public service, particularly in education.

According to the recipient reports, 325,000 jobs something in that neighborhood, have been saved or retained, and I would – I mean saved or created, and I would suspect that the saved or retained part of that is probably stronger, maybe some of the public officials could tell us that. I think that these funds have gotten out and really helped to prevent some layoffs. So I think that we've – to some extent, the answer to that question at the state level, and I think they're good questions about the local, and I don't – I'm more asking a question about that and how it interacts with the state than I am answering it.

MS. AXMAN: Hi, I'm Lori Axman, I work with Mayor Nutter in Philadelphia. Like a lot of other regions, we're trying to prepare to compete for some of the energy efficiency money available soon through the Recovery through – Program. And the other day in the *New York Times*, there was a very interesting article about the cash for – concept that is going to model the "cash for clunkers" concept, and I was hoping you could comment a little bit about what you're thinking.

MR. BERNSTEIN: Cash for clunkers -- yeah. I read the article, I've read the underlying documents. The President went out a couple of weeks right before he left for China and talked about a set of ideas that he was encouraging his team to look at. It wasn't the full state of ideas, but it was some that obviously were worth looking at to him, and therefore, to us, and one of the ones he mentioned was green jobs, and I think that intersects nicely with the stuff that Leon Hart was writing about in *The Times*. Those ideas I think have been circulating for a while. The tie into cash for clunkers is that – is a set of mechanisms that kind of make this thing a lot more user friendly and understandable to people.

But, you know, the Leon Hart article was not wholly saying this is great, we should all do it tomorrow, I think it also raised questions about how people can be sure that these investments make sense to them, which parts of the investments make sense to them, how do you amortize the investment over a long time, what if you're thinking of being in your house for much longer than that investment would pay back to you, and there's some interesting ideas about building that into the tax base of the home. So I thought there were good, interesting ideas there, and the President certainly signaled his interest in that space.

MR. KATZ: Neal Pierce back here, and then I think –

MR. PIERCE: Neal Pierce of the *Washington Post* Writers Group. I wonder if you could react – could you think back a little bit to what Brookings was telling us of their studies on the centrality of metropolitan regions, the American economy, and then think of the Recovery Act, or looking forward; should this administration have been doing more, and can it do more to reflect in its anti-recession policies the supremacy and economic terms and revitalization terms of the metropolitan regions?

MR. BERNSTEIN: First of all, the question, should this administration be doing more just makes me feel very tired, we're doing a lot. You know, I think -- the spirit of my comments today I think, and the spirit of the President and the Vice President's urging of us to put every good idea on the table and look at it, the recognition that we are no where near out of the woods until we have robust job growth on a monthly basis, I mean you can look at that GDP graph and say, well, you know, that's it, we're done, and we are absolutely not there.

We recognize, as I've stressed in my comments, that at the end of the day, what really matters to middle class families are jobs, incomes, wages, and middle class families, as I said, yes, we live in the country, and yes, we live in the states, but we also live in the towns and the cities and the counties.

And so I thought my comments about the five ideas in the document today were indicative of my interest in those comments in the spirit of the President's guidance to look at every good idea out there. I think that the Recovery Act was framed very well in this regard, and that the state fiscal relief, both the F Map and the state fiscalization, has been extremely important in the results that I showed you in those three slides, both in terms of payroll, GDP, I didn't talk about the unemployment insurance, but you can see the reversal in the trend and initial claims, in terms of particularly helping school systems.

Now, here's another example, where, you know, it's maybe harder to get credit than it should be, but I know, and Joe Biden knows this because he goes out and sees it, that there are kids sitting in classrooms today, classrooms that would be twice as large, were it not for Recovery Act state fiscal stabilization funds. So I think that that part of the Act was crafted very well and has been very effective.

MR. KATZ: The last question, Amy.

MS. LIU: Hello, Jared. I'm Amy Liu, I work at the Brookings Institution. And maybe by way of closing out the program, I wanted to say thank you for considering each of those policy recommendations so thoughtfully. But I think, like many of us in the room, we actually think you raise some good questions and would be very curious what our panelists and our Mayors think about the questions that you pose. So maybe one way to close out the program is to hand the mics over to the Mayors, have each one of them stand for a moment and really answer Jared's questions about, if you look at fiscal revenue sharing, improved credit, access to credit, and a public employment jobs program, which of those three would have the biggest impact on short term job growth, which is, I know, an important criteria at this moment, and maybe clarify the extent to which the state fiscal aid has or hasn't been felt locally.

MR. REED: In San Jose, we really appreciate the R funding that we've gotten, and I'm less concerned about what the state did with the money than perhaps others are because if the state hadn't got the R funding, they would have taken more of our money. So that was a plus in my book, you helped the state, and all those teachers that are still working are a plus for our community. The direct -- is we appreciate that. But I think we have to focus our resources on creating jobs in the private sector. The money that you give us to put people to work are not creating long-term jobs. They're creating jobs that only last as long as the federal government is willing to write the check. And that's why I'm focused on the Department of Energy loan guarantees and things that can go direct-to-industry who will create jobs that will go on forever and will spin off other jobs. And I think if we could focus the resources on trying to create those kinds of jobs, we'd be much better off.

MR BERNSTEIN: That's great. Great comment. Thank you.

SPEAKER: You might hear a broken record here. I would agree with Mayor Reed. You know, it's easy to look at a short-term impact, and right now we're feeling the pain. I'm not looking for a sugar high, though. And I'm afraid that if we look at short term, that's what the cities will get. You know, sugar highs are great until you get off of them. And I think that's where the capital markets are so important because capital markets create economic activity, which creates long-term jobs. And it does us -- I don't want to say it does us no good, but it does us little good in the long-term scheme of things to create these short term.

I mean, any help is wanted, but if given the choice, I would rather plow money into things that will create long-term stability because that's how we benefit as cities is when the economic activity and that growth happens over a long term, so we avoid the sugar high. I'd rather do with a little bit more pain than I would to have the high only to come down after.

MR WESSEL: Let me ask you before we get -- let me ask the two of you then a question. One can wonder about this particular area of economic blockage as to whether it's on the supply side or the demand side, and usually it's a combination of both. But your comments suggest that the problem is more on the supply of credit side than the demand side so that if credit were available, there are ample numbers of long-term investors' takers such that these kinds of investments would occur. I mean, one of the things that one could also worry about is you could try to apply some help to the credit markets and find that there just weren't enough takers because investors didn't have the faith that they could get a return on the investments even with subsidies.

So could you reflect on that?

SPEAKER: Well, I'd like to, first of all, say that if there -- I'm not sure there are "ample."

Second thing, I think the question is really moot because on

Main Street the credit market is completely shut off. So you really can't even see whether there would be ample or what the true demand is because people don't even get to the starting line. And that's what we're experiencing on Main Street, there just is no credit out there.

MR WESSEL: That's a helpful comment. Thank you.

MR. REED: I can give you two specific examples, one I mentioned earlier, that's Nanosolar. Nanosolar is the producer of the world's lowest cost solar cell; a tremendous for its products. Five hundred million dollars of private sector investment, 300 patents, they've got a great product. They're selling it all over the world. They can't get the capital to expand another factory here. There are other countries that are offering them the money and they will do it in other countries if they don't get to do it here. So capital access there is really important.

The other one is a company I won't name because they were trying to get a $10 million loan to build another little factory in San Jose. The only way they could get a $10 million loan out of the capital markets is if they would put up $15 million in a deposit in the bank. That's not workable. (Laughter)

MR NUTTER: Jared, thank you again for today. On the question, I talked earlier about --

MR BERNSTEIN: Question of bagels? Can you just help a little bit with that? (Laughter)

MR NUTTER: I'm working on that. About a half-hour. Someone's coming up on the Acela right now. (Laughter)

It goes back to the access to capital issue. I think every project up on the board, even in the good times, was not necessarily going to happen, but a whole lot of projects that could are definitely not happening now because of access to capital issues. I do think, though, that the -- what was it -- PSE, public sector --

SPEAKER: Public Service Employment (inaudible).

MR NUTTER: I do think that that is important. And I heard my colleague talk about the sugar high. I'm not particularly interested in that either. But people do need to get to work and when they're working, they're also paying taxes. What's going on, as the unemployment rate goes up and as fewer people are paying taxes, that's also causing additional stress and strain on the city government. And not that we shouldn't be cutting and constraining ourselves, even in good times.

The other challenge, though, is it really does affect the quality of life in our locales. And it's not just Philadelphia; it's also the surrounding region. So people start to make other choices as well. If they're not going to do this, if they're not going to do that, if not going to do the other thing, I mean, I look at city government as a business. We're in a constant fight for market share. Someone else will pick up their trash. Someone else will run their rec center. Someone else will provide other services that they need.

They don't have to stay in Philly to get that. And so there are other consequences from all of this cutting -- or my colleagues, what was the -- we're just going to reduce our services. We're not using the "cut" word anymore; we're going to reduce our services. Same thing. (Laughter) Same impact.

SPEAKER: Sounds nicer.

MR NUTTER: Yeah, it does sound nicer. If you can get away with that at a town hall meeting, I'll give you $100. (Laughter)

So, you know, again, we don't need to be in a fight about, you know, states. I mean, the program is the program, and whatever's going to happen is going to happen. But I think that restoring a sense of hope on the ground. And whether it is a job or a training program, people need something to do. The more folks that are out there not doing anything, the more stress it is on my police department because we're just going to drive up our arrests, which drives up our prison costs. I mean, it's an endless downward spiral to the fact that I've got five guys still standing on a street corner and they're trying to figure out the federal government's spending all this money, you're cutting services, and I'm still unemployed. What am I supposed to do?

MS. WALKER: Well, as the last person to answer the question most of it has already been said, and I will reiterate the fact that I think that access to credit is critical for not just the public sector, but also the private sector. Because if my private sector can find funds to expand or build a new business, then they're going to create the jobs that are going to create the occupational license tax that will help my community.

I think with regard to the sugar high, you know, if you provide assistance during one budget year and you can't provide it the next year, you've simply delayed the pain and maybe increased it a little bit more. So the idea of, for example, the block grants where it can go into the community, we have chosen to do things like looking at the creation of green jobs where it's not just a one-time project, but we're actually creating an infrastructure that will allow us to build for the future. And that's where, I think, the local governments have got to focus on and that's where I think we do the best job in terms of looking at the future.

MR BERNSTEIN: Well, let me just say that these are great responses and your attention and even passion for longer term investments that make a difference when this difficult time is behind us is really very heartening. You do hear a lot of short-term alarm around here, so I really applaud your thinking. It happens to be very consistent, by the way, with that of the President and the Vice President, although obviously they're aware of short-term needs as well.

I mean, the only thing I would say vis-à-vis the sugar high and vis-à-vis the point you just made, Mayor, about, you know, if we have it in one year, we don't have it in the next year, there's a whole, I mean, there is a basic logic to helping folks offset deficits, especially people who can't run budget deficits, in a period like this in the spirit of pure Keynesianism, which is temporary stimulus as you wait for the private sector to come back and things to go -- stabilize and go back to normal. So I think while sugar high, you know, is -- in a way sugar high could be used as sort of a criticism of Keynesian stimulus in general, you know, I view it more as a bridge over a big gap, and sometimes you need that.

But those were really inspiring comments. I'm kind of awed. Thanks very much.

MR. KATZ: I'd like to do this in closing. This has been a joint conference with the League of Cities. And I think in the spirit of what Amy was doing we owe you sort of a point-by-point response to all your questions, particularly with regard to the state fiscal relief and how it's affected municipalities down the line and I think particularly with regard to public sector employment. Because at the end of the day, we're talking about jobs for whom, jobs for what, jobs for where.

SPEAKER: And jobs for how long?

MR. KATZ: And jobs for how long. But there's been a disproportionate impact on certain people within the country of this downturn, a good portion of whom live actually within the cities and the surrounding urban counties. I think we need to lay out that case.

I just want to associate with the remarks, however, about access to capital for long-term job growth. I think all these are complementary and compatible. So we owe that to you.

The other issue that came up today that we'll put together in a separate brief is around the long-term federalist relationship, which is -- and, you know, some of this is really about the state-local kerfuffle we're seeing over infrastructure spending and over fiscal stabilization and so forth. We need to get back to a longer conversation about what federalism means in the United States for this century, particularly as we move to a very, very different economy. And the League of Cities and us have talked about it. We've talked with the mayors and the counties, the governors, and the state legislators. I think there's a moment now -- and particularly when you go back to the Hoover Commission of the '40s and '50s and the Grace Commission of the '80s and the federalist efforts and even reinventing government -- of getting back to a disciplined, structured conversation about that.

So as we go forward, this is just mature and adult and empirically grounded. And that is the Brookings Institution, so -- maybe.

Thank you very much for coming today.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

Notary Public in and for the Commonwealth of Virginia

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