

Remarks of Alan B. Krueger
Chief Economist and Assistant Secretary for Economic Policy
United States Department of the Treasury
at the
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Build America Bonds and the American Reinvestment and Recovery Act

Thank you, Chairman Rangel. Thanks as well to the New York MTA and to the men and women who are working on this important project and are with us today. I lived a subway stop away -- at 71st and Columbus, on the 1, 2 or 3 – so it is a special pleasure for me to join you today for the announcement of a significant milestone in the recovery of this city and of our nation’s economy.

This Administration came to office at a time of great peril. Only a year ago, America faced financial panic and an economy that many feared was headed for a second Great Depression. When President Obama took office, New York State was losing jobs at a rate of over 14,000 a month. In August, which is the most recent month available, the pace of job loss had slowed to 3,800. That’s 3,800 too many, and unemployment is still unacceptably high at 9.0% in New York State and 9.7% in the greater New York City area. The City has lost over 300,000 jobs since the recession began and we have a long way to go to create new jobs for those workers. However, we are starting to see signs of stability and signs that we are taking the first steps on the road to recovery. The American Recovery and Reinvestment Act (ARRA) is a big part of the reason for the progress we have made in halting the recession.

Since being signed into law, the Recovery Act has already made over \$18 billion available to the state of New York. 95% of working families are getting a tax cut—including 7 million families here in New York who are getting \$3.4 billion back in their pockets. We expanded unemployment benefits for 12 million Americans, including nearly a million people in New York and provided a 65% subsidy toward COBRA payments so that the unemployed can continue receiving health insurance.

The Recovery Act established a number of new and expanded bond financing programs to enable State and local governments and municipal agencies such as the MTA to borrow at lower costs for capital projects. These bond financing tools aim to create jobs, promote critical public infrastructure investments and stimulate our economy. Build America Bonds are a new and innovative way to more efficiently and effectively provide municipal financing for projects such as the station here at 96th and Broadway.

Build America Bonds are taxable bonds that pay a 35% interest subsidy to the issuer to offset borrowing costs. Build America Bonds are similar to tax credit bonds, but the credit is paid directly to State and local governments to reduce their borrowing costs rather than to investors. This allows issuers to enjoy lower borrowing costs, while investors receive yields comparable to other taxable debt. Furthermore, Build America Bonds are *efficient*--each dollar of revenue foregone by the Federal government benefits State and local government entities by a dollar.

This is the theory that motivated Chairman Rangel to champion Build America Bonds in the U.S. Congress and to make sure they were part of Recovery Act. It is always rewarding when you see a theory put in place and it works. That is what we have seen with Build America Bonds as there has been strong demand and lower borrowing costs for issuers.

Prior to the introduction of Build America Bonds, the traditional tax-exempt municipal bond market was frozen. In March 2009, highly rated issuers faced borrowing costs that were higher than taxable Treasury yields, even though their bonds were tax-exempt, and many issuers were unable to access financing at any price.

Then in April, the Build America Bonds program was introduced. This program made municipal bonds attractive to a wide variety of new investors – including pension funds, sovereign wealth funds, and retail investors in lower tax brackets.

By bringing in new investors, Build America Bonds have democratized municipal financing. In the process, they relieved supply pressures in the tax-exempt market, which helped reduce borrowing costs on all classes of municipal debt. Just last week the Wall Street Journal noted that yields on tax-exempt debt have reached a 40-year low. Many market participants have cited of central role Build America Bonds in unfreezing this market and bringing down financing costs for municipalities. This external benefit has made Build America Bonds an unsung hero of the economic and financial recovery.

We've already seen \$35.6 billion in Build America Bonds issued nationally, with more than \$2.5 billion in New York State, including \$750 million in issuance from the New York Metropolitan Transit Authority. Building projects made possible by Build America Bonds will put thousands back to work and help rebuild our infrastructure and deliver an immediate and longer-run benefit to our nation.

We've traveled a long way from January. Back then, across the country, for the first time in many of our lives, our economy was on the verge of collapse. Today, because of a comprehensive strategy enacted by President Obama and the Congress, including Build America Bonds, we are back from the brink. We are back because there are men and women, like those here today, who have jobs as a result of the Recovery Act and are busy rebuilding this station, and their work is laying the foundation for the future of this nation.

Chairman Rangel, thank you for inviting me here today to see this wonderful project which is moving forward, in part, because of the great work that you and your colleagues in Congress along with President Obama have accomplished.

I will now turn it over to Pat McCoy, MTA's finance director, whom I first met when we testified together before a subcommittee of Chairman Rangel's Ways and Means Committee in May, on the very subject of Build America Bonds.