Ladies and Gentlemen,

My name is Frank Restly, and I am here as a representative of the 8 plus million people who have lost their jobs during this recession. I speak on my on behalf and from my own experience and knowledge.

In 1978 Representative Augustus Hawkins and Senator Hubert Humphrey coauthored the Full Employment and Balanced Growth Act. The four goals of that act were 1. Full employment, 2. Growth in production, 3. Price stability, and 4. Balance of trade and budget. That act was allowed to expire in the year 2000. The federal reserve still submits yearly Humphrey Hawkins testimony to Congress and still is responsible for price stability, but Congress, the U. S. Treasury department, and the Presidency have neglected their parts in achieving these goals for too long.

The data that I present to you comes from the bureau of labor statistics and the St. Louis federal reserve. From the year 2000 to present, U. S. employment for manufacturing durable goods has shrank from 10.8 million to 7.1 million, and nondurable goods manufacturing employment has shrank from 6.4 million to 4.5 million. Total employment in the production of goods has shrank from 24.6 million to 17.9 million. This represents a net loss of 6.7 million jobs. This is not a cyclical phenomenon. This is a structural change brought about by a government that has ignored principles set forth by its own members over 30 years ago.

If you wanted to look at one thing to observe this lack of principle you would look at the price of gold. From 2002 to present the price of gold in dollars has gone from about $300.00 an ounce to over $1,200.00 an ounce. Some people look at gold as an inflation hedge. I look at it as a government screw up hedge. And there have been screw ups a plenty since Humphrey Hawkins was thrown in the wastebasket.

What must change to get back to the spirit of the Humphrey Hawkins act? I will start with number 3 price stability. To achieve price stability the auction yields on all maturities of debt sold by the government must be at least 2% above the current year over year change in the consumer price index for all urban consumers as published by the bureau of labor statistics. The federal reserve and other market players may adjust market rates as they see fit, but the federal government must never again use lower interest costs as a means to lower deficits.

Obviously, this change could lift market rates on government debt. A rise in rates on government debt could in turn lift market interest rates on private sector debt as well. If the rates on private sector debt go too high then unemployment will not fall and could instead rise. This brings me to item number 1 – full employment. To achieve full employment, the private sector after tax cost of debt service must be low. The federal government currently offers several tax breaks that allow individuals and companies to subtract interest payments from taxable income. These include mortgage interest deductions, corporate interest payment deductions, and others.

I believe that the federal government must begin selling forward year tax receipts (FYTRs) to augment these deductions. A FYTR is a receipt sold by the U. S. treasury department for taxes paid today that are due some time in the future. Like U. S. treasury bills and bonds, FYTRs would have a rate of appreciation and a duration. However, unlike treasury bonds that guarantee payment in cash to the owner at maturity, the owner of the FYTR must have the tax liability to be offset when the FYTR reaches maturity. If the value of the FYTR at maturity exceeds the tax liability of the owner then the owner would receive the difference from the Treasury only in the form of additional FYTRs. The rate of appreciation for the longest duration of FYTR sold must always be set by the Treasury Secretary with the explicit goal of maintaining full employment in the United States.

This brings me to items number 4, balance of budget and trade. While not word for word, what I am about to tell you is inspired by what the economist Abba Lerner had to say about government finance. Financing federal government expenditures should not be thought of in the same terms as personal finance. Meaning, barring a foreign invasion or a civil war, federal governments with monetary authorities don't go bankrupt or broke. However, debt levels can matter depending on who is holding the debt.

Problems often arise in countries whose debts are denominated in foreign currencies, but the U. S. does not suffer this problem. Instead the problem the U. S. suffers from is that because of its trade imbalance, much of its government debt is owned by other countries. Countries such as China are pursuing mercantilist trade policies and recycling their trade surplus into U. S. government debt. This makes it difficult for market yields on government debt to rise to contain inflation. This is what Dr. Alan Greenspan called the bond conundrum and Dr. Ben Bernanke called the global savings glut. What this really means is that the United States spends too much and saves too little while trade surplus countries save too much and spend too little.

The normal way to rectify this situation is for the country with the trade surplus to allow its currency to appreciate. But this method is completely at the leisure of the country with the trade surplus. Another way to rectify this situation is for the country with the trade deficit to lower its private cost of capital by selling FYTR's to the private sector, making that country more cost competitive in the global markets. To increase the savings rate in the country with the trade deficit, the real auction yields on government debt should be raised to 2% or higher.

Achieving goal number 2 – growth in production then becomes easily achieved by adopting these methods.

In conclusion I would like to say this. The policy recommendations that I have laid out before you are achievable in the same way that this panel was convened – by executive order. The President of the United States has the authority to compel the U. S. Treasury department to act in the nation's best interest. I ask that you not only submit this plan of action to Congress to read and understand, I implore you to submit it directly to President Obama so that he may act directly on it should Congress fail to do so.

I have created a Microsoft Excel spreadsheet that calculates the after tax cost of private sector debt under various scenarios. By adjusting the rate of appreciation on FYTR's high enough, the private sector after tax cost of capital can be made as low as it needs to be to achieve full employment. It can even be made negative, escaping the zero bound limit of traditional monetary policy. I have included a copy of this spreadsheet with my written testimony.

Thank you for listening to my argument, and I would be happy to answer any questions that you might have at this time.