

THE BROOKINGS INSTITUTION

RESTORING AMERICA'S PROMISE OF OPPORTUNITY,  
PROSPERITY AND GROWTH

Washington, D.C.

Wednesday, April 5, 2006

PORTION – ROBERT RUBIN

MR. RUBIN: Let me thank you all for being with us, and let me briefly tell you what this is all about and what we are trying to do. Peter and I had been very much involved in this question, some years ago, of: Do deficits matter? One day I was testifying, I believe it was a House Ways and Means Committee hearing, and the gentleman sitting next to me said: There is no academic evidence to demonstrate that deficits affect interest rates.

Well, I am not an academic economist, but I knew absolutely that wasn't the case, though I couldn't cite him chapter and verse. I got through that okay, but as soon as I got back to the office, I called Peter and I said: We have to do a serious academic paper on this. Of course, "we" meant Peter.

(Laughter)

MR. RUBIN: Out of that came a 55-page document which was really exactly that. It was not a political document. It was not a message document. It was a serious academic work that made exactly the point, which all of us know is the case, that deficits

are highly relevant with respect to interest rates and that, I think, had a real effect on the debate.

About a year ago, I said to Peter: What do you think would be involved in trying to put together an economic strategy that deals with the issues of the country in the ways that we all would think sensible? In that context, Peter spoke to a number of leading policy experts and academics, and I spoke to a number of people who I thought would help support it and also, and very importantly, who we thought could contribute thoughtfully to the effort. Out of that came a really remarkable group that cut across the worlds of finance, academia, and policy, and from that all came the Hamilton Project.

The project sets forth, in a paper that I believe you just received as you came in, a strategy which is intended to, and I believe does, address the issues that our country faces, and it also establishes a process to produce policy proposals in support of that strategy. As Strobe already mentioned, these policy proposals are analysis-based; they are fact-based; they are not belief-based; they are done with academic rigor; and they are practical.

The first three of those proposals will be presented today. There will also be brief discussions of two others. And then we will continue to present additional proposals through the balance of this year and certainly well into next year and maybe beyond.

The Hamilton Project is named for the founding father who, at the inception of our Republic, had a vision—which this project shares--of a dynamic and robust market-based economy in the United States. Hamilton also stood for the dual propositions that economic activity should be organized around markets, but that government had an important role in providing many of the requisites for economic success. He stood for

fiscal responsibility, for individual opportunity, and for great seriousness of purpose in the making of economic policy.

Ron Chernow is with us today and will be with us at lunch with the Advisory Group, to talk about Alexander Hamilton, and we are proud to have named our project after him—not after Ron Chernow, after Alexander Hamilton, just to make that clear.

(Laughter)

MR. RUBIN: The broad aims of this project are to set forth a policy path that effectively addresses the issues of our nation and to try to help catalyze seriousness of purpose and serious economic debate at a time when we believe that the United States is at a true economic crossroads.

The development of this project has been enormously enriched by being able to draw upon, as I mentioned a moment ago, a really very unusual grouping of thoughtful financial people and leading policy experts and academics. I think that cross fertilization has played a very significant role in the development of the strategy and also in the discussion of the policy proposals.

There are obviously many other efforts in this respect. I would like to mention two in particular because there are many similarities in terms of our points of view, albeit with some differences on specifics. One is the Center for American Progress under John Podesta's leadership, which has done very thoughtful and sound work. The second is a deeply thoughtful book, *The Pro-Growth Progressive* by Gene Sperling. It really is a very thoughtful book, and I think it will be highly relevant to the economic policy debate as we go forward.

Let me now expand briefly on both the content and the context of The Hamilton Project. Then we can proceed with our conversation.

Our Country has enormous strengths and enormous comparative advantage in the global economy. Many of them are cultural—our embrace of change, our willingness to take risk, our relative openness to immigration, the size of our economy. But we also face immense challenges. To realize this immense potential, to realize the potential for a bright future, we have to meet the challenges. If we don't meet the challenges, then it is our view that there is risk of serious, and maybe even severe, difficulty and that takes two forms. One is a gradual form, which is an erosion of our competitive position. The other could be—could be—a more dramatic form, which would be adverse effects on our bond markets and currency markets.

Both the opportunity and the potential on the one hand and the risks on the other hand are heightened by the enormous changes that are taking place in the global economy—technology, globalization, the spread of market-based economics, and as a context to all that, the rise of China and India as, on the one hand a historic competitive challenge, and on the other hand, tremendous new markets which could provide us with great opportunity.

It is our view that current policy is on the wrong track on almost every front with respect to meeting the challenges that must be met.

Let me now go through what our project is. What I am about to say is really the core of what we are trying to do. The Hamilton Project has three objectives: strong growth, broad-based participation in growth, and increased security. Those are values in themselves, but they are also mutually reinforcing. That is to say broad-based

participation in growth and increased security, in our judgment, can be reinforcing of and contribute to economic growth. In fact, if you do not realize those other two objectives, then you are also to some extent undermining your potential for growth.

Underlying all of this is a strong belief in market-based economics as a central organizing principle of economic activity, but just as Alexander Hamilton argued, we also believe there is an indispensable role for government in achieving economic success.

The challenges our Country faces, in our judgment, fall into two categories. The first is reestablishing sound fiscal conditions and more broadly addressing all of our imbalances. We are the only developed nation in the world that has not only current and intermediate term fiscal imbalances but also very large increases in the rate of entitlement expenditures coming early in the next decade; a roughly zero personal savings rate; high levels of personal debt; and huge current account deficits, which in turn are partly caused by our fiscal deficits.

The second category, and an absolutely critical category, is investing in and addressing critical shortfalls in the many requisites for economic success that markets, by their very nature, will not meet and that only government can provide or catalyze, ranging from education infrastructure to energy policy to health care to basic research, and so much else.

This whole construct—and this is absolutely critical—this whole construct represents dramatic change from the theories that are driving current economic policy. For example, in emphasizing broad-based growth, increasing economic security, and the role of an effective government in promoting growth and in defining our challenges, the change in that strategic framework is absolutely key because all of your policy efforts get

driven by where you start, by your strategic framework. The Hamilton Project's diametrically different strategic framework would drive policymakers to undertake the enormous task that is involved in putting together policy proposals to address the very substantial issues that our nation today faces.

We don't attempt to put forward comprehensive answers to all of these questions, but what we do is to put forth a strategy, a framework, a starting point, a theory of the case, that is diametrically different from where we are today and which would drive the policy processes to address these issues. Secondly, we will be putting forth, beginning today, policy proposals that are designed to help in this process.

Let me wind up by saying that The Hamilton Project believes deeply in the economic future of this country and the potential of this country for a bright future, but it also believes that, to realize that potential, we need to address our issues. The United States has had a history of great resilience in rising to meet its challenges, and now we must do so again to realize our bright future.

Thank you all.

(Applause)