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ECONOMIC SECURITY IN A CHANGING WORLD

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The Brookings Institution
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1775 Massachusetts Avenue, N.W.
Washington, D.C.

Panel 1: Hamilton Project Forum on Economic Security and Economic Growth

Moderator: Peter R. Orszag, The Hamilton Project at the Brookings Institution

Panel Presentation:

Jeffrey Kling, The Brookings Institution
Howard Rosen, Trade Adjustment Assistance
Coalition; The Institute for International Economics
Jacob Hacker, Yale University

MR. ORSZAG: Good afternoon. My name is Peter Orszag. I am a Senior Fellow here at the Brookings Institution and I direct The Hamilton Project.

We are here today to discuss a crucial topic, why and how to provide more economic security to American families in a growth-enhancing way. As you are going to hear later on today, the probability of a 50 percent or greater decline in family income has more than doubled since the early-1970s, rising from 7 percent then, to 17 percent now. So it is not at all surprising that in combination with stagnant real incomes and much more volatile incomes, that American families are not feeling so great about their economic well-being.

The problem is not just that economic insecurity harms American families' well-being, but also that it impairs growth. In particular, providing a core level of economic security makes it more likely that American workers can cope productively with the temporary setbacks that are an inevitable part of a dynamic economy. Most importantly, it diminishes political demands for growth-reducing policies like protectionism or other steps that would stop the process of ongoing growth.

How do we go about providing that additional economic security? We are releasing today a strategy document from The Hamilton Project that I co-authored with Jason Bordoff and Michael Deich which lays out a vision for how to provide economic security in a growth-enhancing way, and it focuses on two major components. The first is better preparation before adverse events happen, and the second is more pro-work and market-friendly assistance after bad events occur.

In that first category of better preparation ahead of time, the two major components are education and saving. Education is not only an investment in a more

productive future, but also a form of insurance, because better-educated workers are able to adjust more flexibly to the exigencies of life. And saving provides a buffer against which one can draw upon should bad things happen. The Hamilton Project has already released discussion papers on both of those topics, and it will be releasing more proposals in those areas in the future.

Today we are also going to be releasing some new discussion papers on the second component, ways of providing assistance after bad events occur. The United States has long relied on unemployment insurance as its one primary form of such assistance, and other forms of social insurance including the disability insurance program and others also exist. In evaluating that kind of ex post or after-the-fact assistance, one needs to carefully balance the benefits of additional security, the ones I also described, and the potential incentive effects from reduced work effort or other things that could occur if you provide too much assistance or provide it in the wrong way.

So the proposals that you are going to be hearing about later today try to reach that balance between providing an adequate level of security to promote growth, and avoiding significant disincentives that could impair it. Too much of the debate in Washington and elsewhere has just been about the disincentive effects, not enough has been about the benefits of providing some degree of economic security from the perspective of promoting economic growth.

What we are going to do today is first have a panel releasing three new discussion papers, and I will introduce those folks in a moment. Then we are going to turn to a joint symposium with The New Republic to discuss those proposals and the broader topic of economic security and what we can do about it. What we are trying to

do here is very much in the spirit of The Hamilton Project, both releasing specific discussion papers for debate, and I want to emphasize that those discussion papers are intended for debate and to spur discussion, they do not imply a full embrace necessarily by all the people associated with The Hamilton Project.

The second is to sponsor important discussions about the topics of the day, and that is where this symposium with The New Republic comes in. We are particularly pleased to be co-hosting that with The New Republic, and I think Frank Foer, the editor, has a few remarks.

MR. FOER: Thanks so much, Peter. When we talk about economic anxiety, I think we also have to concede that we are at a moment of some creeping intellectual anxiety, at least for those of us who reside in that narrow sliver that identifies itself as the center-left, that we are at this moment when a lot of fundamental assumptions that once seemed bedrock to us now appear at least a little bit less certain. There is no doubt that the contours of this last recovery are unsettling and that the data should at least lead us to take a hard look at some of our theoretical assumptions about economic security and about economic growth.

At The New Republic, we have begun to engage in this reconsideration. Over the course of the last few months, we officially recanted the piece we published by Betsy McCaughey Ross against Hillarycare, and we have endorsed a form of universal health care. We have been publishing essays by Jacob Hacker, who you will hear from on several of the panels, and we will be co-publishing with The Hamilton Project some of the papers that Peter just described.

I am so pleased that the magazine could be associated with The Hamilton

Project which is doing the hard analytical work of rethinking assumptions and rethinking actual policy, and they are doing it in a spirit of what seems to me to be complete intellectual open-mindedness. And I am so pleased to be associated with them and very privileged that we can share the stage with so many people that I admire. Thanks.

MR. ORSZAG: We are now going to turn to our first panel which will discuss three specific proposals that, again, have to do with ways of providing more assistance to workers when bad things happen. I want to just for a moment contrast the kinds of things that you are going to hear now with an alternative approach that involves direct market interventions—basically trying to stop the bad things from happening in the first place, which the evidence, for example, from Peter Lindert at U.C. Davis and elsewhere suggests really does have a direct and adverse consequence on economic growth—with a more market-friendly kind of approach to deal with the events. That is what you are really going to hear about in a moment.

We are releasing two different discussions on the same topic, unemployment insurance, and that is intentional. It is supposed to signal that we are really trying to spur debate on important topics, and certainly, reform of the unemployment insurance system—which was designed in the 1930s when the labor market was a lot different than it is today—would be justified as one of those important topics.

You are going to hear two different visions, first from Jeff Kling, who is at Brookings, and the second from Howard Rosen, who is at the Institute for International Economics, about how we should move from the system that we have now, which I think is widely seen as having flaws, to different visions of where we should be moving

toward.

Then you will hear from Jacob Hacker, who is at Yale University and is the author of a new book, *The Great Risk Shift*, who has done a lot of work documenting the increase in family income volatility, who is proposing a new program of catastrophic income insurance called universal insurance. He will describe that in more detail, both the concept behind it and some of the details associated with it.

MR. KLING: Thanks, Peter. As I think everybody in this room probably knows, the dynamic forces of innovation and competition not only fuel the growth of the American economy, but they also cause turbulence. Over 57 million new jobs began in 2005, and 54 million ended, and there were 20 million involuntary job losses. You will be hearing much more from my fellow panelists about how public policy has not really kept up with changes in the labor market over time, but I will just highlight two key facts here.

One is that about one-quarter of permanent job losers had wages that were at least 25 percent lower than on their previous job, and about a third of involuntarily displaced workers had lower wages over the subsequent 10 years. So these are the kinds of subsequent economic shocks from which families would like to have protection.

We have a public policy in place, as Peter described, we have unemployment insurance where individuals typically receive up to half of their previous weekly earnings for up to six months after a layoff. However, the system encourages layoffs because employers do not bear the true costs. The receipt of U.I. benefits encourages longer unemployment spells, and U.I. provides payments to many people with short unemployment spells who will be reemployed at higher wages and does not

target the resources of the system to those who were hit the hardest by job loss.

The proposal that I am going to discuss today is explicitly designed to be budget-neutral, and I project that it would have several important benefits. Currently, only one-third of the system's resources go to those who have long-term wage losses, so the resources are not really going to the places where people need them the most. The proposal that I am going to describe would increase the share to 61 percent.

For those with wage losses, it would cut in half the share with very large drops in hourly wages. The increased incentives for finding new jobs would reduce unemployment durations 5 to 10 percent, and the allocation of benefits could be made more progressive by increasing the share of benefits going to the lower half of the income distribution from 43 to 54 percent.

How do you get these kinds of benefits that I am describing? As part of this reform, the government would create a program of wage loss insurance for reemployed workers that would be available after any permanent job loss. To give a concrete example, if you had someone who lost a \$14 an hour job and they took a new job at \$10 an hour, then the wage loss insurance would cover one-quarter of the loss, or a dollar an hour in this case. To target to those most in need, the benefits would be focused on those who have new jobs earning less than \$15 an hour, and the duration of payments would depend on work history of the individual, the persistence of the job loss, and they could be made for up to six years for somebody who had been working full-time.

As a complement to wage loss insurance, traditionally U.I. payments would be replaced by withdrawals from temporary replacement accounts, or TRAs. Eligibility for and withdrawal amounts from TRAs would be structured to provide the

same ability to maintain living standards as does the current U.I. system. TRAs would provide a mechanism through which workers could voluntarily accumulate savings prior to unemployment and to borrow against future earnings if they exhaust those savings. Loans from the accounts could be paid back through withholding from future paychecks.

The payments from firms would be tied more closely to the firm's layoff history, reducing incentives for temporary layoffs, and tax rates would be lowered and collected from a broader tax base.

This reform built around wage loss insurance and TRAs would be a fundamental shift towards insurance for persistent, long-term effects of job loss, and the core principle is smaller short-term needs can be met with savings, borrowing, and repayment, so that funds for insurance can be targeted to assist those facing larger, longer-term losses. The proposal would continue to provide access to funds needed to maintain living standards after job loss for those experiencing short bouts of unemployment, and provide a greater share of benefits to lower-income workers. The new system would also incentives to reduce unemployment, both discouraging temporary layoffs and creating stronger rewards for finding another job quickly, ultimately enhancing economic growth.

I will stop there and go to Howard.

MR. ROSEN: Good morning. First of all, I want to thank The Hamilton Project for including our paper in their project.

I was thinking about this this morning, the last time there was any kind of significant discussion of unemployment insurance was actually 10 years ago, when Janet Norwood released the Commission Report. No one followed-up on that report, and there

has virtually been no discussion of this issue over the 10 years. I think it is very necessary to have this discussion, and so I commend The Hamilton Project for including this topic in the issues that they are addressing.

At this point in the economic recovery, I think there is a very interesting question, and I would say that I also had this question 10 years ago during the 1990s recovery, which is, if we are doing so well, why are workers so anxious? People may say how are you coming up with that question? What is your evidence of that?

The one piece of evidence, and there are a lot of others, but the one piece of evidence actually harkens back to what Peter said, which is that we are finding it very difficult right now to move ahead on a liberal trade agenda during a period of economic growth. If we cannot do it now, imagine how difficult it is to do it when the economy is not cooperating with an agenda for liberal trade. So this really should make us kind of humble and make us kind of humble and suggest that there is something going on.

What helps us explain this dichotomy that we are doing so well, but yet workers feel so anxious? The first is what Jeff has just said, which is there is a considerable amount of turnover in this economy, and it is looking like it is a lot more than we imagined. The story that we get every month on the net increase in employment and the unemployment number is basically irrelevant these days in telling us about what is going on in the labor market. It is these data on establishment behavior that are really what is important. To bring it very much at home, on average 1 out of 5 people in this room today will either change a job next year, begin a new job, or lose their job, or all of those things, so it is very encompassing around the entire economy.

The other thing is, as has been mentioned, there has been major changes in

the labor force, probably the most important changes in the labor force in the last 100 years, which may help explain this dichotomy between why the economy can be doing so well and workers continue to be so anxious. What are some of those changes? I am only going to focus on three of them.

The first is we are inundated with the news that the unemployment rate has been falling, but yet no one has been talking about the fact that the duration of unemployment has been increasing. That is the number-one piece of evidence. The second is that we see that there has been a delinking between the incidence of unemployment and the business cycle, and we are seeing, therefore, that unemployment has been much due to structural factors than the cyclical factors. And again, this is a major change in the labor market over the last couple of years. And the last thing is that we find a convergence of state unemployment rates, which means that this is a national phenomenon. This is no longer the Northeast versus the Southwest; this is a national phenomenon that is going on.

To put it in very clear terms, a lower percentage of the labor force may be getting unemployed, but the costs to those people are higher now than ever before, and the probability of any one of us becoming one of those unemployed is also much greater.

This graph shows the duration of unemployment across business cycles, and you see two things. One is the duration continues to rise after the business cycle peaks; and number two, that over time it has been increasing.

This is the convergence of state unemployment rates, as I mentioned before, this is the standard deviation between the states, and there is a really very clear trend that it is declining, and although there are fragmented labor markets in terms of job

creation, in terms of unemployment, it looks like it is a much more national labor market.

All of this reveals some problems with the current unemployment system. The first is, only about a third of unemployed people actually get unemployment insurance in this country. Large groups of people—like voluntary job-leavers, the self-employed, people looking for part-time jobs, which we know is an important thing these days—all of these people are cut out of the program. If you are going to have a system, you want to make sure that you provide assistance to all people, and we are failing to do that.

If you are lucky enough to get assistance, the assistance is very low. We are talking about something like \$260 a week; it is below the poverty rate for a family of four. It goes nowhere near the initial objective which is to replace one-half of lost wages.

There is a weak link between this assistance and reemployment. In some sense, I do not mean this in a pejorative sense, but our unemployment insurance program is kind of like compensation for losing a job. We pay people off, but there is no kind of constructive movement towards reemployment. We have an extended program that is supposed to help workers during periods of prolonged unemployment and economic slowdowns. This program is basically obsolete because the triggers are broken. In fact, in the last two recessions, this program was inoperable and Congress had to enact its own kind of temporary unemployment insurance programs.

Finally, and this is what I find the most egregious, the federal tax that we use to finance unemployment insurance which is relatively small, the taxable wage base has not been keeping pace with inflation and has not been changed in 22 years. The tax is incredibly regressive.

This graph shows the decline in the reciprocity rate, which means the share of unemployed people getting unemployment insurance, you see that it is falling.

Currently we are above trend, but the overall trend has been declining. This graph shows the taxable wage base. As you can see the blue line is the base, the red dotted line is what it would be had it been adjusted for inflation. It is currently \$7,000, and we estimate that if it had been corrected for inflation from the beginning, it would be closer to \$45,000.

So you can see the regressivity of this tax.

So the proposals that Lori and I come up with derive directly from the changes that we see in the labor market. The first is that we believe that there needs to be an increase or a strengthening in the federal role of unemployment insurance. We have a cacophony right now of 53 programs around the country. We need to harmonize those state programs, we need to expand eligibility criteria to cover new forms of nontraditional workers, contingent workers, part-time workers, and we need to bring more people under the tent.

We also need to raise the assistance level and link that level to experience and local labor market conditions—the more difficult it is for you to find a job, you might need some more assistance. We need to fix those extended benefit triggers so that program works automatically. I have to say this is not too hard to do, and it is really curious why it has not been done over the last 20 years.

We need to create something that, as Jeff has suggested, links unemployment to reemployment, and what Lori and I suggest is taking a lesson from the recent introduction of wage loss insurance under the Trade Adjustment Assistance program and bring that over to the unemployment insurance program. I do not want to

go into all the details right now, but you could limit it for a certain group of workers, be it older workers or whatever, you could replace a certain amount. Jeff's amount is I think a quarter, ours would be maybe 50 percent. These are all things that would be discussed in terms of how much you wanted to. Our proposal would require that you would have to take a job within the first 26 weeks in order to get the wage loss insurance. But, again, we have a program in place and we would now like to bring it over to the unemployment program.

We suggest the creation of private unemployment accounts. I will tell you very honestly where this comes from. A significant share of the unemployed are the self-employed, and we feel that we need to do something for that group of people. It is very difficult to bring them under the traditional unemployment insurance system. So we have come up with a scheme which is basically an IRA for the employed person so that they could use it during their period of unemployment because we do not want them taking it away from their retirement funds. We propose a separate fund, and, again, you could debate what would be the individual parameters.

The last thing is we drastically need to fix this wage base in the FUTA tax. Let me say that doing so would really generate a significant amount of money. Some of that money or all of that money could be used to finance the reforms that we are suggesting today. But, again, this is a regressive tax falling on the wrong people at the wrong time and needs to be fixed. Thank you very much.

MR. HACKER: Thanks very much, Peter, and I have exactly the same sentiments that Howard does about the project. I think it has been a really important venture with a diverse range of voices and diverse range of proposals, and I feel

privileged to be part of it.

I am told that I have five minutes, and I was once told that the definition of an academic is someone who could speak for five minutes and five hours and say exactly the same thing, so I want to give you the five-minute version. John Dilulio gave me another version of this joke . He says if you are a politician you can speak for five minutes or five hours and say nothing.

(Laughter)

MR. HACKER: So I am going to do something unusual for a policy wonk. I actually want to start by very briefly telling a story about real people, the Dorsetts. They were profiled in The New York Times a few years ago. They are a family of five. Arnold Dorsett is an air conditioner repairman. He is making more than his father ever did, \$70,000 a year. He works 90-hour weeks, so it takes a heavy toll on his time. Luckily, his wife, who is training to be a nurse, is staying home with their three kids.

Unfortunately, however, their young boy, Zachary – sort of slightly in the background there – has not been healthy since his birth, and a few years before this story was written, he was diagnosed with a rare immune system disorder. That disorder wrecked the family's finances. They had insurance, but within a year or two they had already run up \$30,000 in unpaid medical bills, and they eventually were forced to declare bankruptcy.

In fact, the Dorsetts are not alone in this plight. Depending on your reading of the statistics, somewhere between 400,000 and 700,000 Americans file for bankruptcy each year in part because of medical costs. Most, like the Dorsetts, had

insurance before they filed, most, like the Dorcetts were working – most full-time – but as we know, private insurance and work often are not enough. And of course, when it comes to insurance, the Dorsetts were lucky in the sense that they had it. Not all Americans do. We just learned that 47 million Americans lacked health insurance last year, and we know from other statistics that 1 in 3 Americans will go without health insurance over a two-year period.

This proposal is not about health insurance alone. In fact, catastrophic health costs for the insured as well as the uninsured are just the tip of the iceberg. We have heard about job insecurity, and Lori, Howard, and Jeff have really laid out the dimensions of the problem, so I do not want to belabor it here. But I do want to point out that one of the features of our system of social insurance is that it is heavily job-based: most Americans receive a good deal of their retirement benefits and all of their health benefits through the workplace.

Universal insurance is meant to deal with the serious and growing problem of economic insecurity in the United States. The evidence of this economic insecurity is abundant. It ranges from rising rates of bankruptcy, to skyrocketing consumer debt, and perhaps most telling of all, to increased income instability of American families. I have a figure that Peter cited earlier, it is from a logistic progression looking at individuals with average characteristics, and what it shows is that there has been a really dramatic increase in the probability that families will see a very large income drop. And I have other data that is contained in my recent book *The Great Risk Shift*, and feel free to pick it up and read it and decide for yourself whether you find it convincing.

These kinds of income drops cause real hardship. One of the reasons they

cause such hardship, of course, is that families and individuals are highly loss-averse. They fear income losses, and they experience pain because of income losses far more than they happily anticipate comparable income gains or take pleasure in such gains.

But I think there is another reason to be concerned about these trends. It really highlights the degree to which in an era in which work and family have changed dramatically, our existing policies simply do not provide good protection against many of the sources of economic insecurity that families face today.

So the goal of universal insurance—which is a actually very simple in its broad conception, through the details are another matter—is to fill some of the gaps in existing policies by offering a flexible, short-term catastrophic stop-loss insurance program to virtually all Americans. Unlike most existing social insurance programs, universal insurance would both protect families against large income drops, and provide some relief when they are faced with the most serious expense that most families face, namely, unexpected catastrophic health costs.

Why do I call it universal insurance? There are two reasons. One, it covers basically all citizens. It will cover everyone with ties to the labor force, and almost all Americans have some tie to the labor force for most of their lives. It is available to anyone whose income, after a catastrophic event of the sort that it covers, falls below the 95th percentile in the income distribution, although the coverage is much more generous for lower-income workers. I like to think of this as targeted universalism. It is universal and universally available, but it provides the most generous coverage for those who need help most.

The second sense in which this is universal is that it covers a wide range

of risk to family income: unemployment, disability, temporary unemployment due to illness, loss of a breadwinner, and catastrophic health costs. I include these because I think they are the most serious risks. They also have the virtue of being in the panel study of income dynamics so I can model the cost. But the idea is really to articulate a concept here, that we should have a flexible foundation, not just the highly categorical programs that we have now, to deal with the rapidly changing world of risks.

I want to stress one thing and then say just a few words about the effects of the proposal. What I want to stress is that this proposal is a stop-loss form of protection, that is, it is inclusive of all other public benefits that individuals receive. In fact, I estimate that about a third of the income losses associated with the events that universal insurance covers are already covered by existing programs. Universal insurance would simply fill the gaps that were left behind to provide Americans with a basic level of financial security, and in doing so, it would really make tangible some of the gaps that exist because, for example, we could save money by improving unemployment insurance once we know how many people fall through its cracks, as Howard discussed.

What are some of the effects? Let me just describe the very basic management of the proposal first. It would essentially provide a sliding-scale replacement of income to families who experience income drops or catastrophic health expenses that equal or exceed 20 percent of income. Here is the basic schedule of the coverage. You do not need to memorize the specifics. They are in the proposal. The basic idea, though, is that for those who after an income loss or catastrophic event have income that is below the twenty-fifth percentile, you would provide the most generous coverage of replacing 50 percent of income. As you move up the income ladder, the

coverage would get less generous. I would also exclude people with very large asset holdings since they are able to insure against these events with their own wealth.

What are the effects? I guesstimate using the panel study of income dynamics that about 3 million Americans each year would not fall into poverty because of the proposal, so there are 3 million Americans who would not be on the poverty rolls because of universal insurance, which really confirms that many of the poor are poor for very short periods of time because of specific catastrophic events.

Universal insurance also cuts the chance of large income drops in half. Using the panel study of income dynamics again, I simply plugged in the income after universal insurance was in effect, showing the increase in income that results.

The total cost according to the panel's study of income dynamics and the medical expenditure panel survey would be roughly in the range of \$35 billion, which is a lot of money. But I want to be clear that this is really a proposal for discussion, the costs could actually adjusted down or, if you wished, up by changing the parameters of the coverage.

I also want to emphasize in closing that we should not underestimate the gains of this kind of spending, because these costs are simply not new costs for society or our economy. They are now borne by families and workers individually, in many cases in ways that create great hardship. They are often a burden on privately financed institutions of social protection; our bankruptcy system, our system of private relief, our networks of communal care, our system of uncompensated charity care, and so on.

But more important, and this is something Peter emphasized up front, these are costs to our society and economy because Americans lack basic financial

security. Just as entrepreneurs and corporations have bankruptcy protections and limited liability so that they can look to the future and take risks, so families need a basic form of economic security so they can look to the future and invest in their futures. In short, universal insurance would provide security to enhance opportunity, and in that way it would help Americans – Americans like the Dorsetts – to have the basic security that they need to reach for and hold onto the American dream.

MR. ORSZAG: We are now going to open up the floor to questions that you may have. I think there are microphones coming around. If you would just identify yourself and ask your question, we will try to get you an answer. Who would like to start? Bob Kuttner.

MR. KUTTNER: There is a really interesting conceptual or philosophical difference within these proposals, if I am understanding them right, and I want to see if that is right. Some of them, like Jacob's, are funding a new kind of social insurance more via general revenue. Others are asking people who are already either economically stressed because of declining median incomes or at risk of greater economic volatility to in effect advance fund their own personal social insurance. Is that a correct framing of some of the differences?

MR. ORSZAG: Let me answer that, and Jeff may come into this. I do not really think so because in each case, Jacob is obviously proposing some new form of social insurance, Howard and Lori are proposing an expansion of an existing form of social insurance, and what Jeff is proposing is a change in what social insurance provides, away from providing short-term cash assistance to workers who then get reemployed at higher wages and toward workers who are reemployed at lower wages.

And I think his argument—and, again, I think this is why the conceptual point is important, and you can debate whether or not it is true—is that that is a more important source of risk and a more pressing problem facing most families than financing the short-term gaps.

MR. KUTTNER: Fair point, but I am asking a different question.

(Laughter)

MR. ORSZAG: Then I guess I have to give a different answer.

MR. KUTTNER: Right. I hope so. I take the point that all three of these are significant improvements on what we have. You can redesign social insurance for the 21st century economy, and I take my hat off to all three of these writers. I am asking a different question, namely, who pays the freight. There was a British Labor MP who used to say famously, it is the poor that pays for the poor. By the way, the financing of these is structured at a time when we are already worried about worsening income distribution and worsening income volatility, are we increasing the payment structure in a direction where the very likely victims are advanced paying out of their own pockets the cost of social insurance to a greater degree than at present?

MR. ORSZAG: Again, I do not think so, but let us go through the different proposals. Howard's would involve a significant expansion in the tax base, making the existing U.I. tax less regressive than it currently is. I will let Jeff comment on this, but the overall effect of his proposal would also I believe even on the revenue side make the system more progressive, and certainly as a whole it makes it a lot more progressive. And Jacob's proposal clearly is very progressive on the benefits side, and has put forward a couple ideas about how it could be financed, but that is obviously up

for debate.

I would say that one of the big topics that we, I am now saying we The Hamilton Project, will be exploring next year involves the tax system and what can be done. I will just point for example that, in terms of making financing both more efficient and more progressive, I co-authored a policy brief, this was not a Hamilton thing, although maybe it will turn into one, that suggests that the \$500 billion a year that we spend subsidizing retirement, health, and other socially beneficial activities, most of that is done in a very inefficient and unfair way through deductions and exclusions. That is a lot of money. It is 4 percent of GDP. A universal credit kind of approach would be more efficient and more fair.

There are lots of things that we could possibly explore as part of the tax system to make that side of things, again, both more efficient and more fair, but I do not think in terms of the immediate proposals that any of them are making the system less fair or less efficient.

MR. HACKER: Do you want me to speak to that very briefly since I am the one who Bob holds up as having added to the system? Of course, we are going to pay for these benefits one way or the other, and as I suggested, we are already paying in hidden ways for many of the things that I would like to do out in the open.

One thing that I would want to emphasize is that how you would finance this benefit would obviously be important in determining its ultimate incidence. I suggest several different ways, but the easiest way to finance it would be with a very small tax on wages with no wage base, so no cap on the total amount paid. I know that that is a proportional tax and not highly progressive, but the benefits are extremely progressive.

But what I want to say is that even when you have working-class people paying a small tax to fund their benefits, social insurance actually has a magic property to it through risk pooling. For a very small tax you can receive very generous benefits in the event that you are one of the unfortunate people who is hit with the risks that are covered. There is no way that an individual can do that on their own through an individual account. They have to save that full amount on their own with whatever tax benefits are provided.

So I think that one of the things that this whole initiative expresses is the need for a combination of a social insurance approach and some kinds of savings measures, that you need to increase savings particularly to help people get through short-term periods of unemployment as Jeff suggests, but we also need to have social insurance for wage loss and for other catastrophic risks that simply cannot be insured against by individuals on their own.

MR. ORSZAG: Jeff?

MR. KLING: I think that in the spirit of fundamentally restructuring and shifting towards having insurance for the larger, long-term losses that individuals cannot really insure on on their own, there is a set tradeoffs, so people who have temporary layoffs or people who have unemployment followed by wage gains, they are going to have less under my proposal, and people who have long-term wage losses are going to have more. So that is essentially a shift towards the group that I think we want to have more social insurance for.

In terms of the financing, the financing that I propose is set up in two parts. One is to fund the parts of the temporary earnings replacement accounts where

people never go back to work or their wages are very low and so there is some tax revenue that goes into that, and that is funded by a tax at however much lower weight, but a much broader base and being more progressive.

The wage loss insurance would be set up in order to incentivize firms to act in the right way of having the firm who is laying off people be responsible for then contributing to the wage loss insurance payment that goes to their former employees, so those firms are going to be the primary payers and that is set up in order to try to have them internalize the costs of the layoffs.

So if you had two workers who were fairly similar but one of them, their outside opportunities were much worse, that you as the firm would take that into account when thinking about who to lay off, and so that is another part of the financing. So in terms of who pays the freight, a lot of it comes through this firm side, either through the broader-based payroll tax, or through the experience-rated payments that firms would make in wage-loss insurance.

MR. ROSEN: I just want to say something briefly. I live here in Washington and I spend a lot of time here, but somehow I missed the day when there was a law passed that said every new public policy had to be revenue-neutral. Lori and I are suggesting that that just does not hold for us. If you start with the premise that the challenges confronting the U.S. economy are greater today than ever before, that there have been major changes in our labor market, not just movement from manufacturing to services, we are talking about gigantic structural changes in who gets unemployed and for how long they get unemployed, what are the costs of unemployment, and then you have a number like 47 million people who do not have health insurance, and then to suggest that

dealing with all these problems has to be revenue-neutral, I think is politically naïve.

So at some point the question is not what is revenue-neutral, but does revenue-neutral mean that the total budget has to be the same. Maybe we spend more in this area and less in other areas, or maybe we do increase government spending a little bit in order to deal with these things. So I do not buy this constraint. I will say it very openly, I do not buy this constraint of revenue-neutrality in order to deal with problems that we have never had before. I think that that is an important message that needs to get out, and Lori and I are not embarrassed to say that.

MR. ORSZAG: I told you we were going to spur debate, so there you have it.

MR. ROSEN: Yes. We give a menu of proposals, and we purposely say in our paper when we talk about increasing the reciprocity rate of unemployment from a third, which is outrageous, to maybe closer to 50 percent, we say that is not going to happen overnight, maybe go to 40, maybe go to 45, and we give different costs for those things. So we are not suggesting that we want to spend an additional \$8 or \$9 billion immediately. What we are saying is if we have to, this is how you would do it.

MR. ORSZAG: I want to make just one more point and then I know we want to move on. Behind your question is the real concern about the real degree of progressivity in the overall tax system. There is very interesting research by Tom Piketty and Emmanuel Saez suggesting that we have over the past three to four decades experienced a very sharp decline in progressivity of that overall system both because of the rise of the payroll tax, but also importantly the corporate income tax has declined sharply as a share of GDP even though profits have increased.

I would say that it seems to me like some serious intellectual effort could be devoted to thinking through how corporate income tax systems could work in a world in which capital is increasingly mobile across national boundaries, and that at least to me would seem like a worthwhile endeavor for someone to undertake.

QUESTION: I come at it from the other end from Mr. Kuttner, and that is if the people who pay the taxes are going to end up financing any kind of program, what evidence can you point to that the people who vote are actually going to be in favor of addressing this problem that is a problem that is most severe at the end, and, incidentally, those people do not vote?

MR. ROSEN: May I start that? I think personally that this is a selling problem. We talk about unemployment insurance as a program, and we have the bean counters who talk about how you run these programs, and that is all done by certain committees and they get into the technical details of it. The piece that is missing is that our politicians have to get the big picture. They have to acknowledge that there are all these problems going on in the economy and what we are going to do is strengthen the safety net that we have in order to deal with these.

Let's use an example to make it very real. We separate trade policy, and we have different people talking about trade policy, and all those wonderful people say that we need to do more for workers who get hurt because of trade policy, and they are in a totally different community from the community of people who deal with the intricacies of these programs. What we need to do is bring those communities together, I would imagine that is called leadership, and that we would have political leadership that would say that we have to make one contingent on the other, and we have not done that yet.

My final point is, we do not need to sell this as U.I reform, we need to sell this as what is going on in the economy, we need to have more economic liberalization and openness going on, and in order to do that we have to strengthen our system, our safety nets, and here is one way to do that.

QUESTION: Again, these are all wonderful ideas, but I am trying to connect it to some signal that the electorate is interesting in doing this or that this is an issue that might move people to vote a particular way. The President gave another press conference today and he said the thing he always says which is if you elect Democrats, they are going to raise your taxes. Here we are sitting here listening to reasonable proposals that are going to cost money, and he is accusing that Democrats raising taxes is a good selling line with voters, and I wonder citing the data about insecurity and public opinion, can you point to anything that the public is going to suddenly get behind these ideas that have not been generating that much enthusiasm?

MR. ORSZAG: I do not think anyone on this panel is, as Bob Rubin likes to put it, licensed to practice politics.

MR. HACKER: I am a political scientist. I am not licensed to practice politics, but I do study it.

MR. ORSZAG: Let me say two things. One is, I want to remind you that not all the proposals cost additional money. Jeff Kling's, for example, is revenue-neutral, and I think that is important to keep in mind.

The second thing is, the evidence at least that I have seen suggests that when people talk about revenue that is tied to a specific program that they can see is beneficial—for example, Social Security—the picture changes dramatically relative to

some free-floating, disconnected discussion. In a context in which you are talking about whether there are specific risks that families face and whether they would be willing to pay for protection from them, I think that is a much different context than a more amorphous one. But now for the professional.

MR. HACKER: I would say that what Peter said is absolutely right. There is this old saying that Americans are philosophical conservatives and operational liberals, that they are against government in the abstract, and they love it when they see it in the case of Social Security, Medicare and other programs.

So what evidence is there that Americans would be receptive to some of these ideas? I agree with Howard that there is a real gap of leadership in trying to get these issues on the agenda and in front of Americans, but there certainly is a huge level of discontent with the economic direction of the country, higher than we have seen since the early-1990s, and that level of discontent extends across all racial groups and major demographic groups.

Howard mentioned how trade liberalization is a barometer of this. There are surveys that have been done recently by the Pew Centers and the private firm ISR that have both shown record levels of concern about the economy and about the security of people's benefits.

With regard to the President talking about cuts in taxes, the President's approval ratings right now are really low, let's put it that way. He was completely unable to achieve the core elements of his Ownership Society agenda, and I think part of the reason is that people do not think that that is the right direction, and I think the real opportunity and challenge is to convince them that there is another direction that involves

not just helping people who are left behind, but helping middle-class Americans who feel at risk by providing security to expand opportunity.

MR. ORSZAG: Thank you. One last question and then we will move on.

MR. KLUFNER: Jim Klufner (?), Senate Budget Committee. I am one of those bean counters who cares about the operational details. I have a question for Jacob. You have this income insurance program, but it all assumes that you know when somebody has had such an income loss. How exactly are you going to do this? Are you going to let people experience the loss and then get it back on their tax refund? How does it work?

MR. HACKER: I talked about the details in the proposal, but suffice it to say that there are some pretty substantial administrative and technical challenges in terms of thinking through how this would work in practice, and I have only made part of the necessary progress in doing that.

Essentially, the way this proposal would work is it would piggyback in many cases on existing verification and eligibility systems. It would work through the Tax Code. Yes, you would have to experience the unemployment to get the benefits, but the moment that happened, you could apply for advanced protection, and employers would be required to advertise this coverage. In the case of catastrophic health costs, there would be outreach efforts through hospitals. At the moment that you start to have large costs, you can apply to receive an ATM-like card that would apply coverage. There would be a reconciliation process in those cases where it ended up at the end of the year that your income did not drop as much as you expected or your expenses were not as great.

In practice, I think that the way the benefit is structured is that this is going to be less of a problem than you might think. It is not something that people are just going to run out and try to get whenever they lose a job because it is going to take a fairly substantial drop in income on the one hand, and on the other hand, the benefits that are provided are going to be fairly modest for people who are comfortable, so that it is really going to be those who really need the benefits of protection, who are already going to have some interaction with other programs, who are going to really benefit. I think it is a great question, and I welcome the challenge.

I think one thing I would say is that we have very low levels of take-up with many benefits, and part of the reason is that we run each take-up effort separately. We have Medicaid eligibility rules that are often cumbersome and difficult, we have unemployment insurance eligibility rules as Howard has said that are completely Byzantine. Universal insurance would be available for Americans hit with a wide range of risks, it would be widely publicized, and lots of Americans would receive benefit from it in the case of catastrophic events. And the hope is that that would also facilitate an outreach effort as well as decrease any stigma that might be associated with the receipt of insurance benefits.

MR. ORSZAG: Thank you. With that, I think we need to wrap this up. I want to thank the panelists. We are running a little bit late, so what I am going to propose is we have refreshments and drinks and obviously rest rooms, as this is a long afternoon, and rather than taking a formal break, we are going to switch over the panels and obviously we will have a much more fluid situation throughout the rest of the afternoon with people leaving as need be.

Thank you very much to Howard, Jeff, and to Jacob, and if the next panel could come up, that would be terrific. Thank you.

[End Panel 1]