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ECONOMIC SECURITY IN A CHANGING WORLD

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

**Panel 2: Can We Increase Economic Security Without Harming Economic Growth?**

Moderator: Franklin Foer, The New Republic

Panel Presentation:

Jacob Hacker, Yale University

Brink Lindsey, Cato Institute

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

MR. FOER: In the spirit of Peter's call for efficiency and his ruthless attitudes towards refreshments and the restroom, we are going to push ahead and force Jacob Hacker and Peter to stay up here without leaving their chairs.

One of the first questions we need to ask is why is a journalist moderating this panel in the midst of this wonk fest? I think if you look around, we have three panelists who had championed slightly different proposals to address economic security, and in Brink's case, probably more than slightly different. But in answering this question, does economic security come at the cost of growth, we are inevitably moving beyond the data and we are entering the realm of philosophy and politics, and I think that is probably the reason why a journalist could moderate this panel.

But in working through this, we are going to end up I think coming back to, first, questions about economic insecurity, to the extent that economic insecurity is the problem, I think we are going to hear very different analyses of the situation from the different panelists.

Fortunately, we have three nonbomb-throwers up here, so despite our ideological differences, I think that we have some chance of finding common ground. Before we start, I would just like to recommend Jacob's books *The Great Risk Shift* and *Off Center* which are excellent, and Brink's book *Against the Dead Hand*, which is a very shrewd analysis of why globalization has not taken around the world like we necessarily thought it would. The only reason I cannot recommend Peter's book is that he has not written it, to my knowledge, but I am sure it will be exquisite. Jacob?

MR. HACKER: The title of this panel is something like "Is economic security at odds with economic growth or in tension with economic growth?" I would like

to rephrase the question to "Is economic security *inherently* at odds with economic growth?" – and say emphatically that it is not. Of course, measures that provide economic security could be growth-reducing, could impair the proper functions of our economy, could create distortions that we would not want. But economic security properly done is at the cornerstone in many ways of a well-functioning, dynamic capitalist economy.

Indeed, the key innovations of American capitalism – according to David Moss's fine book *When All Else Fails* – were really about providing protection against risk, not to everyday workers, but to entrepreneurs and financial actors including, of course, corporations. The U.S. was a pioneer in the provision of such broad-based risk protection to the financial community including as a secure money supply, bankruptcy relief, limited liability for corporations, and in the Great Depression, one of the great innovations, deposit insurance for smaller holders of capital.

And we know that today on the landscape there is a whole host of quasi-public institutions, quasi-private and public institutions like Fannie Mae and Freddie Mac that for all of the debate around them, do I think fulfill an essential purpose and fulfill a basic idea that government should be a risk manager and has a special role and capacity as one.

I think though, that today while we have still limited liability for corporate America, increasingly we have full liability for American families. And the real question for the next generation of risk protection is how we can update the economic security measures for workers that now are over 60 or 70 years old.

The evidence of insecurity we have already talked about, but I want to

highlight a few things that have not been mentioned. Rates of bankruptcy are at record levels. In 1980, there were 300,000 personal bankruptcy filings. Last year in part because of the Bankruptcy Reform Act and the rush to file before it took effect, there were 2 million personal bankruptcy filings. Foreclosure rates are about five times as high as they were in early-1970s. A stunning statistic is that in the last few years about 1 in 60 mortgage holders have entered the foreclosure process that can end with their home being auctioned to the highest bidder in a local courthouse.

I have already mentioned the uninsured, but I want to mention another change that I think has had many salutary effects for our economy but have nonetheless increased the risks that families are facing and the responsibilities they have for managing those risks.

In 1980, about 80 percent of medium and large-sized firms offered guaranteed defined benefit pension plans; today the number is less than a third and falling. We know that the only place that defined benefit pensions have any future today is in the public sector. I think that there is no turning back the clock on these changes, but we cannot deny that these changes have increased the degree to which families are responsible for managing risk, and they are taking on these responsibilities in a context in which many of the traditional protections that they enjoyed from their employers and from government are eroding.

In this context, I think the argument that economic security would be at odds with economic growth and opportunity gets the story backwards. Peter put an emphasis rightfully on the need for people to get back on their feet, on the degree to which economic security policies can alleviate hardship. But I think we should also

recognize that these policies have a very forward-looking goal as well to try to encourage people *ex ante* to invest in their futures, to make choices without fear of the downside risks that could accompany them.

Three quick examples. Job lock. There is a huge debate in the economic literature about the extent to which people feel locked into their job by the quality of the benefits they receive, but let us just specify, regardless of what the exact estimates are, that the fact that people's benefits are tied so closely to work today—tied to corporate ships that are increasingly unstable in a context in which people are less likely to receive benefits or secure benefits than in the past—does introduce distortions into our labor market, that the fixing of which would improve the flexibility and performance of our labor market. Rebecca Blank has done excellent work on this subject.

The second area I want to emphasize is family and individual investment. It is true that a certain degree of insecurity is necessary for people to feel that they should work hard and get ahead, but levels of insecurity that are too high can depress the degree to which people invest in their jobs, make commitment and effort, or invest in specific skills that would put them at risk. Indeed, human capital is the most important investment that families can make, but it is also an investment, as Howard discussed earlier today, that can put us a grave risk if the skills that we have invested our life and our life savings in in turn out not to be needed by an ever-changing market.

Finally, I think we should not discount the story that Peter told about the political economy of risk protection. If Americans do not feel they are economically secure, they may well demand policies that would clamp down on the dynamic processes of change and adjustment that are at the heart of America's flexible and high-performing

economy. If risky people demand growth-reducing policies or worse, then economic insecurity will indeed be very much at odds with economic growth, and economic security could very well promote growth.

MR. FOER: And now for something entirely different.

MR. LINDSEY: Not entirely. First let me just say I am delighted to be here on this panel. I am very much of the opinion that libertarians and liberals need to talk to each other more because I think they will discover they have a great deal in common and that discovery may put their treatment of their differences in a new light.

In particular, I think the past several years have made clear that liberals and libertarians stand on the same side of a whole host of vital issues, from civil liberties to stem cell research, to defense of scientific rationality against things like the intelligent design movement, to equal rights for gays, to immigration, to support for a less-bellucose foreign policy, so, indeed I think there is a great deal of common ground, and, indeed, although nobody understands it when I say it, I do think of myself as a liberal and so I think there is need for classical liberals and modern liberals to talk more to each other.

Of course, liberals and libertarians have important disagreements on economic policy, but I do believe that it is possible to treat these differences as technical rather than ideological, to treat them as differences that are amenable to rational empirical debate and susceptible to resolution through enlightened compromise. I do not want to shrink from clarifying my differences with supporters of what I will call the economic security agenda, but I do hope to identify ground on which some possible compromises may be struck.

At the very outset let me say that when you are talking about economic

security, there is a real fork in the road that you have to deal with at the outset, which way you are going to go. One way is to seek economic security through stopping disruptive economic change, the other way is to seek economic security by helping people to cope with and adapt to economic change. I am very much sympathetic with the latter course. I am delighted that The Hamilton Project is devoted to exploring that latter course, so in fundamental sympathy with the big-picture strategy of The Hamilton Project, let me make three points about reconciling economic growth and economic security.

First, I do not think that reconciling a concern for economic security with a concern for economic growth is going to make a lot of progress if we get stuck in some kind of ideological grudge match with the capitalism bad, government good team on one side, and the government bad, capitalism good guys on the other side.

I am afraid that not in the rhetoric here today, but out of doors from the calm and sweetly reasonable Brookings Institution, that much of the rhetoric from supporters of the economic security agenda succumbs to the temptation of ideological posturing over dispassionate analysis, and here I am talking about this deep-seeded need it appears to me on the part of many people on the left to bemoan the state of economic development in this country over the past 30 years and to poor-mouth the enormous accomplishments in material well-being that have occurred over these decades.

It is absolutely the case that the changing structure of the American economy does heighten certain risks that are legitimate objects of public concern, but by the bottom-line metric of economic security which is security not from potentially disruptive change but security from material privation, the overwhelming majority of

Americans have never had it so good. There has been great progress in material welfare in this country even accounting for heightened volatility and heightened risk.

When you look at risk, you have to look at the other side. There is a risk/reward relationship. We have heightened risks today for some people, but we have higher rewards for all, and I think that the conception of the economic security problem needs to always be firmly placed in that larger context.

My second point is the number-one priority for people who care about either economic security or economic growth, and certainly for people who care about both, ought to be dealing sooner rather than later with the fiscal unsustainability of our current entitlement programs. Unless Medicare, Medicaid, and Social Security are restructured sooner rather than later, future generations are going to face the grim choice between precipitous benefit cuts or huge growth-crippling tax increases, or both, and.

I am afraid that this Sword of Damocles which is hanging over our heads does not get that much attention amongst the supporters of the economic security agenda when, in fact, I think it is the number-one threat to both economic security and economic growth amongst all the public policy issues with which we wrestle.

The third is, and finally, I think that a concern for economic security and a concern for healthy economic growth can be best reconciled by taking seriously the idea of social insurance. That sounds weird for a libertarian to raise the banner of social insurance, so why am I doing that? Because I think the concept of social insurance properly understood places real limits, certainly not libertarian limits, on what tax and transfer programs can do.

For a tax and transfer program to qualify as social insurance, it has to

consist of risk flowing to cover insurable events, specific risky contingencies that are outside of a universal's control. So what kind of line does that draw? The kinds of economic security proposals we have heard about today, revamped unemployment insurance, wage insurance, universal insurance, catastrophic health care cost insurance, those all I think qualify as types of legitimate social insurance. Everybody pays taxes, some people suffer defined losses, and they are covered.

But what is excluded, and here is where I wander off the reservation as far as this podium is concerned, the Social Security and Medicare pay as you go status quo is excluded because retirement and large health care costs during old age are not risky contingencies, they are 100- percent predictable contingencies that most people have to prepare for own their own. Also excluded by a legitimate concept of social insurance would be any kind of move towards a single payer since routine medical expenses are likewise totally predictable and within the capacity of most people to provide for for themselves.

So that is the common ground I see, on the one hand, to make libertarians happy, moving away from sloshing huge amounts of money from one cohort of the middle-class to another, and thereby freeing up resources to upgrade and modernize true social insurance to be in accord with he realities of the 21st century economy.

MR. FOER: Thesis, antithesis, Peter Orszag with synthesis.

MR. ORZAG: I already commented earlier this afternoon on why economic security can be growth enhancing, but I think it would be useful to break down the three different ways of trying to provide economic security and this comes back to comments that both Jacob and Brink have made.

You can, again, try to provide better preparation ahead of time through education and saving, for example. You can try to provide forms of social insurance and other market-friendly ways of providing assistance after the fact. Or you can try it through direct market interventions. So, for example, rigid hiring and firing restrictions, trade protectionism, trying to protect particular sectors or firms, you can somehow try to stop the world—stop the world, I want to get off, you try to shut the process that is generating the insecurity in the first place, or parts of the insecurity.

What I want to emphasize is that the first two components can absolutely be made to be growth enhancing, but that final one, at least my read of the evidence suggests, cannot. So in the first two components, the easy one obviously is preparation ahead of time, education and saving. They are both clearly growth enhancing.

Education improves productivity in addition to providing insurance, saving improves national economic performance and economic growth, in addition to providing a buffer for households. And there are a lot of good ideas out there about how we can make significant progress on both fronts, both on education and saving, and I would be happy to get into those if anyone is interested. We have had other symposia and forums on those topics, and will continue to have more in the future.

That, however, is not enough, and I think it was very interesting to hear from Brink. You often hear the response, and this has been the focus of some recent columns in major newspapers, that all we need to do in the face of these changes is provide more education or perhaps encourage more savings, this kind of what Jerry Bernstein has called you're-on-your-own economics, all you need to do is provide those kinds of universalized approaches ahead of time and we are done, and I think the

evidence is very clear that that is insufficient to addressing the real need.

So that brings us into this second category of social insurance—things like unemployment insurance, perhaps things like universal insurance, where what you are trying to do is provide things that again can be growth enhancing. Both Howard and Jeff have spent a lot of time mapping out the work incentives that are entailed in his proposal. His proposal would involve both a more progressive or fair approach, and one that strongly encourages work, and I think that Howard and Lori would also argue that their proposal is growth enhancing rather than diminishing.

The final approach though is the sort of sand-in-the-wheels approach, and, again, that is just where we do face a division or a part in the road, and I am glad that Brink is with us and not on the other side of that fork in the road. But I think there is a real significant debate that the nation faces about which direction we should head from that fork in the road, and, again, I think that we can clearly go down the road of embracing economic growth but then enabling households and workers to better address it and to lots of things that not only make families better off but also increase economic performance overall, and that is why we are here today.

So I think there may not be quite as much difference precisely because Brink embraced that second component. Obviously, there are differences of opinion with regard to exactly what programs should be included in that, and I think we may part ways on Social Security in particular, but the conceptual approach of wanting to provide additional risk protections to families in areas that they would not adequately address on their own is a very important philosophical or guidance to policy makers, and so I am just very pleased to see that we are aligned on that.

One final point is with regard to the long-term fiscal problems facing the nation, I want to make it very clear that The Hamilton Project believes that we are not only failing to invest in adequate security in investing in our people, but we are not paying our way either. We obviously need to address both problems, and they reinforce each other in negative ways, so it is particularly challenging to address both, but we hope through various efforts including perhaps likely in very small part due to ours, but that through various efforts that we can start the process of addressing both problems at the same time.

MR. FOER: That was a very genteel discussion. Jacob, would you like to respond to anything?

(Laughter)

MR. HACKER: Of course. No one ever passes up a chance to engage with people who differ from them, and I am pleased to report that there are a lot of areas of agreement. There was at one time a libertarian view that all forms of social insurance were inherently illegitimate. Nozick, one of the great philosophers of the 20th century, famously argued that the only form of shared security that was legitimate was personal security provided through police and army protection. Brink's very different argument may be pragmatic and realistic and based on political considerations as well as philosophical ones, but I think it is the right argument.

Social insurance of almost all the activities that government engages in the domestic sphere is one of those that is most efficiency producing when done right and most valuable to individuals who cannot insure against these large risks on their own, and it can be supportive of a vibrant, dynamic capitalist economy.

I totally agree, I should say before I get to disagreements, also that the argument should not be that capitalism is bad and government is good. Peter Gosselin, who is sitting in the fifth row here, likes to quote one of the political scientists—he was an economist but he worked a lot with Robert Dahl—that I most admire, Charles Lindbloom, who said that the market is all fingers and government is all thumbs, and sometimes you need fingers and you need delicate information flows and the ability to respond rapidly to changing conditions, and sometimes you need thumbs. Today I think you need thumbs to put the finger back on the scale to balance the needs and demands of working Americans that are being drowned out by the cries and claims of those who have wealth and influence.

Now I am getting to the differences, as you can see. First of all, this risk/reward tradeoff. In my work I have shown there is a fairly substantial increase in instability, I am sure there will be much debate over the dimensions and degree of that change, but I think it is fair to say that there is enough evidence to suggest that families are facing substantially more instability of income than they were a generation ago.

If that is the case, what is the reward that median-income families have received? If you look at the income distribution statistics, it is about 15 percent. Since 1979, according to Congressional Budget Office figures, median-income households have experienced a real increase of about 15 percent in income, those at the top 1 percent have experienced about a 200 percent increase in real income. I am not in any way going to belittle the massive gains in material wealth that we have seen in this nation, but the distribution of those gains has been highly uneven.

And during the same period, we have seen a decrease in the degree to

which people can protect themselves against economic risk with the decline of insurance, the declining generosity of health insurance in many cases, the shift from defined benefit to defined contribution pension plans, the reform of our bankruptcy system, and the substantial erosion of unemployment insurance.

So I think that it is fair to say that although Americans are a little richer, they are really scared. They are scared about the possibility that a single step or bad event will send them over the financial cliff, and that is what we see in many of the public opinion polls that have been done in recent years.

When we talk about fiscal unsustainability of public programs, I am not going to be original in suggesting that I think we really do need to distinguish between the problems of Social Security and those in Medicare. Peter is the guru on Social Security. He has a proposal out there that is not painless, but seems pretty reasonable to me, and I am going to defer to him on what the question of what should be done and when on Social Security.

But I do know a bit on health care, and so I will just say a word about health care, I will say a word about Medicare. Medicare's problem is not an entitlement problem so much as a health care problem. Health care costs have been rising far faster than inflation for many years. Medicare has actually done a better job than the private insurance sector in controlling those costs. To say that Medicare is unsustainable because it is too generous flies in the face of all of the evidence. Medicare's benefit package is less generous than most private-sector plans. It is so much less generous that elderly Americans are actually paying more out of pocket today than they were at the time of Medicare's passage, because at the same time that costs have risen, Medicare has been

caught largely in a holding pattern.

Medicare is a vital form of social insurance. People are not insuring against the risk of retiring, which is for most people roughly 100 percent, nor the risk that they will need health care in old age which we all hope that we will face. They are insuring against the risk of not having adequate income at those times or adequate insurance to deal with catastrophic costs. Do we really think if Medicare were not here that elderly Americans would be able to buy adequate insurance in the private market? Do we really believe that we have eliminated the problems of myopia, procrastination, low income, and risk of premature retirement that leave people in old age often dependent on Social Security as their only source of income?

The recent surveys are very telling on this. Though the 401(k) revolution has had great effects on our capital markets, it has not necessarily had great effects on the savings of middle- and lower-income Americans who often enter retirement unprepared, who also—because 401(k)s and other defined contribution plans do not provide effective ability to manage your retirement risk—often exhaust their savings before retirement. If we did not have Social Security and Medicare, and I will end here, I think we would have a much more risky world, and I think that we have seen in recent debates that Americans both value these programs and are willing to pay for them.

MR. FOER: I am going to throw it back to Brink just to rebut before opening it up to the floor, and I would especially be interested to hear you kind of push back a little bit on the way that both Jacob and Peter have been talking about the relationship between their economic security programs and growth. Are you willing to concede that the programs that they are pushing are indeed growth-enhancing and do not

come at any sort of expense?

MR. LINDSEY: I am in a strange position of feeling much more sympathy for the actual proposals that are being put forward especially by Jacob than the reasons he puts forward for why they are a good idea.

(Laughter)

MR. LINDSEY: So I apparently have some kind of genius for self-marginalization. First, I consign myself to outer darkness of the political spectrum by calling myself a libertarian, and then I marginalize myself within the libertarian movement by being a squish who says nice things about Social Security.

But I do think that the interrelation between economic security and economic growth in the real world runs both ways. First, most obviously from my perspective, you cannot have economic security without economic growth, and that the foundation for economic security however you are going to define it is a vibrant market-based process of economic development.

But by the same token, I think that at least in political economy terms, programs of economic security can enhance the overall prospects for economic growth. You see this around the world a lot in countries struggling to liberalize and move from a state-dominated model of economic development to a more market-oriented model, that because those countries often lack safety nets for people, they doggedly cling to safety nets for companies and industries to the great detriment of economic dynamism in those countries. That is the kind of big picture.

On poor-mouthing, just some risks that do not feature prominently in Jacob's book which I just had the pleasure of reading, the risk of dying. Life expectancy

at birth has gone from 70.8 in 1970, to 77 in 2000. The death rate has gone from 9.5 per thousand in 1970, to 8.5. Infant mortality has gone from 20 per thousand to 6.8 between 1970 and 2001. Workers killed on the job has gone from 18 out of 100,000 in 1970, to 4 in 2002. Occupational injuries and illnesses have gone from 11.6 cases per 100 full-time employees, to 5.3 between 1973 and 2002. Homeownership rates have gone from 62.9 percent in 1970, to 68.3 percent in 2003. People with college degrees or higher have gone from 10.7 percent of people 25 years or older in 1970, to 27.2 percent in 2003.

If you go through a whole list of the consumer products and household appliances that were available in 1970, and I will not bore you with the statistics, but for many of them, the percentage of Americans below the poverty line is higher today than the percentage of all Americans in the early-1870s. And, of course, there is a whole host of gadgets and gizmos and life-saving technologies that were not even around a generation ago. So in terms of material welfare and in terms of a risk/reward relationship, I challenge you to do the thought experiment, do you want to take the mix of risks and rewards for the median worker in 1970 and the command over goods and services that you have, or do you want to take it today, and I guarantee you that I would take today's.

As to the issue of entitlements, that is a gigantic kettle of fish.

MR. FOER: As moderator, I think I have to prohibit us from doing there.

MR. LINDSEY: And Cato is batting 0 for 1 on that of late, but let me just say that without a doubt, the Medicare problem is to a significant extent health care cost problem, I grant that, but it is also a demographic problem because it is a pay-as-you-go system. So as the dependency ratio gets worse and worse, the burden for the current

taxpayers are asked to fund the system gets worse and worse when there is the possibility of private savings being marshaled in anticipation of the near certainty of high health care costs in old age.

Furthermore, in addition to the demographic problem, pay-as-you-go systems suffer from the leaky budget of distribution from current workers to current retirees. The dead weight loss of associated with raising a dollar of tax revenue is somewhere between 20 and 60 cents depending on what specifically you are talking about, and that is money lost to the economy, so that is a big tradeoff between economic security and economic growth.

When you have gigantic amounts of percentage of GDP being sloshed from one bucket to another and a lot is leaking out, that means a lot of resources that could have been going to economic growth that are not, or that could be funding the kinds of reimagined social insurance programs. So my guess in bottom-line political terms, unless we can free up significant resources through an overhaul of our current entitlement systems, you are not going to find the money to do some of these neat ideas.

MR. FOER: That should be enough to generate some questions.

MR. KUTTNER: This is a line making the rounds in the libertarian blogosphere about would you rather have the technology and the gadgets and the statistics of 1970 versus 2006, how about if we had the science and the life expectancy of 2006 and the income distribution of 1970. Think about that for a minute.

Second question, doesn't every single study show that the dead weight loss of administering private insurance is several multiples of the dead weight loss of administering Medicare?

MR. LINDSEY: I'm sorry. Say that last question again.

MR. KUTTNER: You were talking about the leaky bucket. Isn't the private health insurance a much leakier budget in terms of dead weight administrative costs, marketing, risk selection, all that stuff, isn't it much less efficient to do that through a whole plethora of private insurance companies than it is through Medicare?

MR. LINDSEY: First, on your counter thought experiment, mine was between two real- world things, living in 1970 and living today with all the ups and downs of living back then with all the ups and downs of living today. Yours is between reality today and a fantasy world of the fruits of the kind of economy we have today but without the structure of the economy that has produced those fruits. So, it would be great, too, if all the — were eliminated and every kid had a puppy, but you are just not going to get the kind of economic dynamism today with the economic structure of the first couple of postwar decades.

MR. ORSZAG: Just for a second on that, do you think it is impossible to have achieved the economic performance and scientific advances we achieved without, for example, the top .01 percent accruing the share of income that they have now accrued?

MR. LINDSEY: Of course, the .1 percent of this group of people we can go and point fingers at or soak or whatever. It is a different group of people every year, right?

(Laughter)

MR. LINDSEY: The world we are living today, would any change in economic policy have knee-capped the great bulk of economic growth over the past 30

years? Of course not. As Adam Smith said long ago, there is a lot of ruin in a nation. You could have all kinds of policies that compromise economic growth, yet the fundamental enormous dynamism of market competition chugs on. I would say that we would be unlikely to have seen anything like the kind of growth that we have experienced and increases in material wealth that we have experienced if we were still with a 70 percent top rate, if we still lived in a world in which it was normal for people to in good conformist organization man fashion stay with the same large organization and dutifully follow orders to climb the corporate ladder.

I think we are living in a culturally different world and in an economically different world. The kinds of organizations and structures that were good for spreading mass production and corporation organization techniques throughout the economy in the first couple of decades after World War II clearly were not continuing to produce robust economic growth into the 1970s. The reason the 1980s happened is because the 1970s happened.

Of course we can talk about margins about this, that, and the other thing, but generally I think we have made significant economic progress and the more entrepreneurial, more competitive, more market-oriented, more universalistic economy that we live in today is a major part of the reason.

MR. FOER: So you are saying that the insecurity that Jacob is describing is a phenomenon of people being big babies who are complaining about material issues?

MR. LINDSEY: Not at all. I think statistics seem to show that job displacement rates are higher today than they were in yesteryear. In white collar jobs in particular, the layoff rates through the 1990s boom were higher than they were during the

1982 recession, and so we see at the top of the economic pyramid much greater turnover in the Fortune 500 than we did in previous decades, and I presume that kind of robust dynamism and creative destruction are occurring throughout the economy that makes people if competitive pressures are ramped up, then anxieties are ramped up, too.

We see the exact same thing happening in our cultural lives. We have traded in stability and security of staying with the same spouse your entire life for a world with perhaps more opportunities, but also greater risks, right? The right and the left share this strange nostalgia for the 1950s. The left wants to go to work there, and the right wants to go home there.

(Laughter)

MR. LINDSEY: But the 1960s happened and the 1980s happened, and both of them brought a lot of good and both sides need to sort of deal with that and move on.

MR. ORSZAG: May I comment on this for a second? I am obviously going to leave the domestic side alone, but with regard to whether there are things we can do to continue the great growth engine that we have enjoyed while also lifting the middle at least to some degree, I think there are a whole variety of things, and in some sense that is a lot of what we are trying to explore through The Hamilton Project that could be done. Nobody is talking about moving back to 70 percent marginal tax rates. My own read of the evidence was that the Clinton level marginal tax rates did not have any adverse consequences for growth. If anything, that was a period of very robust growth.

Again, I think even in the tax code you can explore different areas. In the tax code I think there is a lot that we can do, and I will come back to why we are

spending \$500 billion a year in a very inefficient way, that would both promote efficiency and help middle-class families, and when they both go together there is not a leaky bucket and it does not make any sense why we continue to do things just because of inertia that are neither good for growth nor good for middle-class families, and I think that is a very good starting place to make progress on this issue.

MR. ROSEN: I have a quick political question. Your comments on social insurance are refreshing. Are you saying you and your colleagues are willing to tolerate this, or would you be actually willing to go out and aggressively advocate these things?

MR. LINDSEY: I cannot speak for my colleagues or for my ideologies generally. Let's put it this way. I'd be willing to go out and sell and advocate a package deal that includes entitlement reform on the one hand and social Medicare modernization on the other. That is a package deal that I think most libertarian-minded people, and that is people within the liberal tradition are most focused on curtailing centralized power and most are enthusiastic about voluntary and private activity, I think that is a package that would sell and I would be willing to sign on the dotted line.

MR. ROSEN: I think some people are so impressed that you find so many areas to agree that they are focusing on that, and I just want to go back to the issue that Bob Kuttner raised a minute ago. Just to be clear again, do you believe that the growth that we have enjoyed since the 1970s, since the products of your good news, are the result of, for example, the rise in unemployment duration that Howard talked about? The issue almost gets joined and then it kind of veers off, so I just want to be clear. Is the rise in life expectancy, the increase in GDP, the product of rising economic insecurity or no?

MR. LINDSEY: I cannot think of it that way. That is, are all the good

things only possible because of all of the bad things? No. And causation does not work that way in this abstraction called an economy which just consists of billions upon billions of activities and decisions all summing together over time. The fact is that our economic growth and development have occurred because of a fundamental shift away from manufacturing towards services, because productivity growth has been occurring faster in manufacturing than it has been in services, it has occurred because of better monetary policy, it has occurred because of better tax policy, it has occurred because of a whole host of factors which have had then a whole host of consequences, some of them positive, some of them negative.

What I would not want to do is say that every single negative thing that has happened you just have to live with because it is the price we have to pay. But I would also caution against assuming that you can wipe out all the negatives and not have any costs on the positive side. Beyond that, I do not think I can specify.

MR. ORSZAG: If I can just come in, I want to stay joined on that issue, but I think it is very important to emphasize yet again, it strikes me that we are at a point in our nation's history where the risk that we will take steps that actually do impair future economic performance are very significant and that some of the reaction to the failure to respond appropriately over the past 20 to 30 years to growing economic insecurity will manifest themselves in ways that, in answer to your question, do actually kill the golden goose kind of thing.

We are at a point where I think the insecurities that Jacob has documented but that most Americans seem to just sense are potentially manifesting themselves in very counterproductive ways, and that is why I think it is particularly urgent that we not only

address the fiscal problems that the nation faces, that is very important, but also tackle head on this sense of insecurity that too many Americans feel and that in my opinion is not a necessary part of economic growth.

MR. LINDSEY: May I just say one more thing in response to Howard's question? First, the proof is in the pudding, I think. Libertarian free-market types supported fast-track or TPA, trade promotion authority legislation. But what I am saying is that free-market types were very much in favor of an overall legislative package that included trade promotion authority and expanded trade adjustment assistance. They recognized that they were not going to get the one without the other, and they thought that on the whole that it was a win for the free-market side and so they supported it.

And it does not really matter I think when you are talking about package deals whether in the coalition that supports a package deal who likes what part of the package. The point is assembling some compromise that everybody considers a win for them, and I think a package of pro-economic growth changes along with pro-security changes can be appealing and produce a win.

MR. ROSEN: I have to respond because that community did not support a package from the beginning. They supported trade promotion authority. It was only when the liberal community said that legislation is not going to go forward unless — then it became a reality. What I was asking you before is why don't you in the beginning say you needed trade policy that also takes care of the workers, but you didn't. Your community did not say that, and only accepted it once it was imposed upon them. That's what I meant by is it taxing or are you —

MR. LINDSEY: I would have supported that package to begin with, and

there are a lot of complicated politics for how legislative deals get cobbled together. But let me also just issue a caveat. I am not an uncritical admirer of social insurance. There is social insurance, and there is social insurance. I think as someone who comes from the free-market side, I am concerned about incentive effects; I am concerned about mission creep.

Disability insurance is a perfectly vanilla form of social insurance, but I would not like to have our policy environment like that of many Western European countries where startling fractions of able-bodied men declare themselves permanently disabled because the benefits are so generous. So I think an appropriately tailored program that does not undermine work incentives is one that I could get behind as a part of an overall package of improving our economic policies. Is that the thing that I would start out with? No.

MR. HACKER: I just want to say that I think this exchange really raises the fundamental issue, that the free-market enthusiast's line has been for many, many years that an open dynamic, competitive market creates more winners than losers, and that helping those losers get back on their feet is much more preferable than clamping down on the dynamism that produces the losses in the first place. But I think what Howard is saying is right, it is high time that Americans and political leaders demanded that those who make that claim put their money where their mouth is.

MR. LINDSEY: And it is high time for the supporters of social insurance to stop bashing Wal-Mart.

QUESTION: When you speak about the high income earners and how you have to want to save the future and with social insurance we are not also taking care

of the other side by making sure that those at the bottom have the ability to save for the future, and we hear these things about disincentives and you look at 30 years of data and it shows even those states who have higher unemployment insurance benefit rates and benefit amounts, there is no data to support that those have longer durations, in fact, they have shorter durations. So where is that other side going to make sure that you can enable the person to actually save for the future?

MR. ORSZAG: Let me comment on that in a couple of ways. First, the overwhelming body of evidence on unemployment insurance suggests that it does have some albeit quite modest effect on unemployment durations, that is to say, it does extend unemployment durations, albeit quite modestly.

With regard to where the money could come from, in other words, how can people afford to save anything, and now I am going to move away from unemployment insurance because that is obviously a broader question and there are obviously two parts of that. The first is that we need to increase take-home pay, or there needs to be more take-home pay and that comes back to both education, but also some of the tax changes that we were at least hinting at earlier on.

And then I think it is very important to us, and I have not commented on this earlier, but there is a very powerful way of getting Americans to save, and it is a topic of a variety of other work that I have done and others have done, is to use inertia. Inertia is incredibly powerful; through well-known psychological forces, money that you touch is very much harder to put aside than money that you never touch in the first place.

Things that flow directly through payroll deduction into a savings account is a much more effective way of trying to encourage people to save than getting money in

your hand and then saying, oh yeah, I have to put a little bit into an IRA. The evidence, for example, is that new employees at a firm with \$15,000 or less in earnings, if they have to wade through a book like this and sign up for a 401(k) plan, 15 percent do. If they are in the 401(k) plan automatically and then they have the opportunity to opt out, 80 percent participate. It is very clear that American families that are busy with other things and have other pressing needs will save if we give them the right structure to do so.

Just to pause on that for a second, I think we should have a system where you go to work for a new employer and you have some automatic form of saving that you can opt out of if you want, but that you are automatically having some saving going on without having to wade through this kind of binder; we need an EZ Pass kind of approach to savings so that you are automatically in unless you opt out, your contribution rate is automatically increasing over time, you are automatically invested in a diversified low-cost fund, and all of that has very strong evidence behind it that it really works. There is so much more that we can be doing to make 401(k)s and IRAs work better.

MR. HACKER: And just to continue that point, because I think the point about leaky buckets in the public sector, in the private sector particularly in regard to 401(k)s there is a huge amount of leakage that occurs as people change jobs and they get lump-sum payments or they need to borrow against their plan which is less of a problem but can sometimes create shortfalls. So I think another aspect of this really is thinking about not only getting people to put aside money up front, but also about making sure that they have continuous access to savings vehicles over the course of their working lives.

I actually think here is an area where there really should be a lot of agreement, that whatever form the benefits take, however exactly they are structured, there really is not a reason why employers should be the ones who are deciding whether you have access to them. That is the way the system is structured now, the tax benefits push in that direction. It is regressive and it impairs economic security in a more dynamic economy.

QUESTION: I want to go back to something Peter mentioned on the first panel, and that is at the time of rising insecurity and record corporate profits, what should we expect from the corporate side in this security picture?

MR. ORSZAG: I think that obviously is a very big topic with a lot of controversy surrounding the role of corporations in, for example, providing health and pension benefits. It strikes me that at the very least one can imagine a world in which corporations at least have to play the role of facilitators, that is, provide access to, for example, in the 401(k) and IRA setting, some automatic form of saving. You can draw analogies actually in health care and other areas, too.

So there is a lot of pressure in corporations in an international environment and in an international economy that might curtail their ability to function as fiduciary agents or even as the pooling mechanism, but they can clearly continue to serve as a facilitator or a mechanism for providing important benefits and I think we sort of need to flesh that out and develop that more, but that is consistent I think with what Jacob was saying.

The second thing is, and I am going to return to another topic, our corporate income tax revenue as a share of GDP has plummeted over the past 40 years.

There are a lot of holes in the existing system involving transfer pricing, how one adjudicates where profits are arising. There was a major tax case that was just settled earlier this week or late last week involving Glaxo and the allocation of pharmaceutical profits between the United States and the United Kingdom.

That is a very important topic in my mind, that corporate income tax can finance a lot of the core social insurance benefits that we are talking about, or the other operations of the government. So at least in my mind I am thinking that corporations can play an important financing role in terms of the corporate income tax, and then an important facilitator role in terms of providing access to benefits in terms of retirement, health, and elsewhere that would rest on top of a bottom layer provided by the government.

MR. HACKER: I want to add to that because I both agree with it and also think we could push this point a little further. Where I agree with Frank—and I think this is important to understand—is that these risks are not faced by individual workers only. Corporations are obviously under severe economic pressure because of these benefits. We have just seen GM, for example, laying off thousands of workers in part because of the very difficult time it has had in dealing with its retiree benefit costs.

So I do not think we could help corporations substantially by providing a more level playing field and a better system of economic security that relieved them of some of these burdens. Historically speaking, if you go back to the Great Depression and also the period after World War II, leading corporations have been pioneers in pressing for government programs at times when they realize that they are no longer able to maintain these benefits on their own. I think there is really a high-road and low-road

route by which corporations will get out of being mini welfare states.

The high road will be a partnership with government that will allow them to be facilitators, allow them to contribute in some way, but will ensure that Americans have secure benefits. The low road I think is the abandonment of these benefits or the movement to insecure guarantees, defined contribution accounts, not just with pensions, but with health care, and the movement away from providing any kind of risk pooling. And I think that will leave people even more insecure than they are today.

MR. LINDSEY: I was just going to make a quick point just to remind everyone that corporations are not real. They are just legal structures. Taxes on corporations are just taxes on their workers and their shareholders, and so they are not some magic sugar daddy you can tap into costlessly.

MR. FOER: We'll end on that note.

(Applause)