

THE BROOKINGS INSTITUTION

A Joint Brookings Institution Hamilton Project – New Republic Briefing

ECONOMIC SECURITY IN A CHANGING WORLD

Friday, September 15, 2006
1:00 p.m. - 5:30 p.m.

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

Panel 4: Economic Security in a Changing World: A Discussion

Moderator: Jonathan Chait, The New Republic

Panel Presentation:

Roger C. Altman, Evercore Partners
Peter R. Orszag, The Hamilton Project at the
Brookings Institution
Robert E. Rubin, Citigroup Inc.
Laura D'Andrea Tyson, London Business School

MR. CHAIT: Why don't we get started with our final panel of the afternoon. Let me quickly introduce the folks on the stage here. To my immediate right, probably the most familiar name on the stage is Robert Rubin, who was the Secretary of Treasury in the Clinton Administration, currently with Citigroup, and author with Jacob Weisberg of *In an Uncertain World*. To his right is Roger Altman who also served as Treasury Secretary—I mean, as Deputy Secretary.

MR. ALTMAN: There is quite a bit of difference there.

MR. CHAIT: I understand that this is a sore point, this constant jostling between the two over this, so I want to be precise. And currently a trustee of the National Park Foundation, New Visions for Public Schools, the American Museum of Natural History. To his right is Peter Orszag who is the Joseph Pechman Fellow in Economics Studies at the Brookings Institution, and was a Special Assistant to the President for Economic Policy in the Clinton Administration and a neighbor of mine. And to the far right is Laura Tyson who is at Berkeley currently, and Dean of the London Business School, and was Chair of the Council of Economic Advisers in the Clinton Administration as well.

I am going to start by throwing the first question to Laura Tyson who wisely has spent the last 5 years in Europe, having fled the country, and may have picked up some interesting thoughts on some comparisons between Europe and the United States. Europe is often bogeyman of the right. When an anti-liberal alternative is brought up, people sort of cite Europe as the epitome of everything you could possibly do wrong in economic policy. That seems to be one of the main roles it plays, but maybe you have developed some other thoughts about how they do it in Europe and whether you

have noticed some of the models there and how they can apply here. So why don't you start with that?

MS. TYSON: The first thing I am going to say is that the panelists, we discussed this and the thought was I might be able to add a slightly different perspective. I have only been in Europe for 5 years. That does not make me an expert in Europe. Furthermore, I want to say that Europe is not a monolith, just as the U.S. is not a monolith. I, when I am in Europe, constantly point out the differences among the states in the United States to my European friends and that in fact I do not represent United States policy on anything right now. Americans tend to think about Europe as very monolithic, and it absolutely is not, and it is particularly not in economic policy.

I was very struck by the discussion on one of the panels about really we were trying to get at this basic issue of could we have had the extent of prosperity and growth and productivity in the United States without the deterioration in income equality that we have experienced, so that is a deterioration in the coverage of the unemployed that we have experienced, and I think Europe shows that the answer is, yes, we could have had the productivity benefits, we could have had the growth benefits, we could have had the inflation benefits, we could have had the good macro performance we have had with somewhat less inequality. And I think that there is a very clear chapter of this, by the way, I will refer to it, The State of Working America. I do not think anybody here is from the Economic Policy Institute today, but every year they do a book on labor markets, The State of Working America 2006 clearly has a very good chapter in it on international comparisons.

You can basically follow the evidence, and what you will see is that there

are a number of European economies that have —

(tape interruption)

MS. TYSON: (In progress) — as the United States, and they have done about as well as the United States without having a dramatic increase in inequality. In fact, the U.S. is the only OECD country which has shown a strong tendency to have inequality rise, it has been stable or declining throughout the rest of the OECD with the exception of the United Kingdom. In the U.S., mobility has tended to decline, and that has not happened in other OCED countries. In the U.S., the child poverty and infant mortality rates are the highest. And, of course, these performances in some of the other European economies have occurred, these strong relative performances, with strong unions, strong protection for workers, much higher taxes than the ones we are talking about here today, and these countries have achieved U.S. productivity growth rates and lower unemployment rates.

I was asked to perhaps mention one in particular. We have not debated today, and this is another debate that I cannot answer but it is an important one, I am about to talk about a small country comparison. A lot of people will say we cannot learn from a small country in a large country, but, by the way, we have never demonstrated that to be true. The country that has been getting a lot of attention recently, and as if The Economist knew we were preparing for this session, there was actually just a week ago a little column, just a little column, it is a little country, on Denmark and a term which is being used a lot in Denmark, and a term which is being used a lot in European circles which I can barely say, "flexicurity," is the term that has come up to describe the Danish model.

It is a very interesting model because there are very generous unemployment benefits, but there are also very compulsory take-a-job requirements on those benefits which make it essentially a wage insurance program for everybody. These benefits are not associated with any limitations on firms hiring and firing. So in fact, contrary to what many Americans think about Europe when they think about Europe when they think about France or Germany where there are very great difficulties in firing and, therefore, very great resistance to hiring, in Denmark you can hire and fire with very low severance requirements. About a fifth of the Danish work force is moving in and out of jobs each year. That is comparable. It is a high turnover situation. And the unemployment benefits are available for 4 years. Lower-paid workers are eligible to receive up to 90 percent of the wages they received in their previous job. There is, as I said, obligatory take-a-job or go-to-retraining requirement on these benefits, and this system looks like it is working.

If you look at private-sector job growth, it is strong. If you look at the unemployment rate it is low. If you look at the inflation rate it is low. If you look at the productivity level it is essentially at the U.S. level. There is nothing in the growth rates to suggest that Denmark is paying a penalty for having a high level—this is associated, by the way, with a high expenditure of resources. This is not a cheap policy, and it is part of the reason why taxation rates in Denmark are quite high.

This is not to mention in addition the fact that health care coverage in Denmark is universal, and it is not to mention the fact that actually Denmark has one of the lowest poverty rates in Europe, and has the lowest poverty rate for children in all of the OECD countries. So I think that before we assume there is not anything we can do

that does not require us to sacrifice, innovation, technological change, productivity growth, trade competitiveness. By the way, the Danish also runs a surplus of about 3 percent of GDP, the fiscal surplus. I think we have to look at some of the international evidence, and I chose to tell you about the Danish evidence because really throughout Europe now, people are looking at this model very carefully as things they might do in Germany, France, or the United Kingdom, to make their systems more flexible, less rigid, but at the same time to continue to adhere to a social compact which says to people when you are hit, there is a social insurance system for you to call upon.

MR. CHAIT: Does anyone want to dissent? Is there something rotten in the State of Denmark?

(Laughter.)

MS. TYSON: Is there something rotten in the State of Denmark.

MR. RUBIN: Laura, you may not know the answer, but I must say in listening to all that, I think I would like to move to Denmark. But leaving that aside, what is their view on immigration? I don't mean of me necessarily, but more generally?

(Laughter.)

MR. : In your case, it would be quite negative.

MS. TYSON: They have not had to date a serious issue with immigration, I would say. It is not an issue which has yet—it is an interesting question because, of course, a system like that would be a very attractive magnet and that has not been the case.

MR. CHAIT: Roger, why don't I throw it to you and see if you've got anything on whatever.

MR. ALTMAN: That is easy. Before I start, I just have to say that when you were introducing me, John, and you briefly referred to me as having served as Secretary of the Treasury, I could not help but think that for those of you who remember the late and quite great Lloyd Bentsen for whom I worked, he would have found it quite interesting and been slightly displeased to learn that I was masquerading as Secretary of the Treasury while he actually was serving as Secretary of the Treasury.

(Laughter.)

MR. CHAIT: I'm in the wish fulfillment business.

MR. ALTMAN: In any event, I am going to take a different tack because I do not know much about Denmark, although I think that is really quite fascinating, Laura.

To me, the overarching question that is posed by the title of this panel is this one, is it a foregone conclusion, is it inevitable, that American incomes and real job security in this country will decline or continue to decline in the face of, A, accelerating globalization, and, B, the decline of employer-provided health care and pensions? Is it inevitable?

I encounter a great deal of pessimism on this question, and in meetings we have had over the past few months with Senators and House members in connection with The Hamilton Project, I have sensed quite a bit of pessimism, and it is clear that they feel besieged by constituents who are very fearful and very angry about the impacts of these two trends on their lives.

But I think that the implicit thrust of The Hamilton Project, and I certainly share this in every possible way, is the answer to that question can be no. It is not

inevitable that incomes and real economic security decline in this era. But at the same time in every meaningful way, this country is on the wrong track to avert that outcome. I think to some degree that is what The Hamilton Project is trying to assert, that if we change course in a very fundamental way, we can again as every generation before us has done leave our children with higher standards of living, and, parenthetically, a safer world, than was bequeathed to us, but we are certainly not on a track today to do that, and I do not think there would be much disagreement in this room about that.

Peter made a couple of observations in his opening remarks that I just want to come back to because they are germane to this overarching question, fundamentally that we need to better prepare our citizens for this world and these two particular trends in two fundamental ways. One is to better prepare our citizens to compete and succeed before any economic difficulties might befall them. In other words, to better prepare them to be strong in this era. Then secondly, to better prepare them when economic difficulties do hit them. In both cases, I really think this is what we are trying to do with this project.

I am not going to recite all the proposals that we have made to date nor those that are forthcoming, except that you know, I think some of you, we are focused in the first category in terms of calling it advanced preparation, so far we have focused on savings and increasing private savings, and we have focused on education, and today, of course, we have talked about a stronger safety net. It seems to me that in both of these areas, we are particularly on the wrong track because we know what is happening in terms of private savings in this country, they are negligible, and we have to have higher savings both to fix our external financial situation, we have the largest current account

deficit ever recorded, and we have to have it to finance higher levels of investment in this country which are integral to resuming growth and standards of living. Every piece of evidence tells us that there is a premium or a higher return to those in our society who are better educated, and as India and China and other like nations join the world economy and the 1.2 billion lower-wage workers in those two countries alone become part of the global work force which, by the way, expands it by about 40 percent, we have to place a much higher premium on educating our own citizens and figure out much more dramatic ways of doing so, and affordable ways of doing so than we have done so far.

In terms of the safety net, the statistics on, for example, the percentage of Americans who are today covered by a federally insured defined-benefit plan, the figure today is about 20 percent, it is obviously the lowest in many decades, employers are shedding pension coverage generally, and particularly shedding defined-benefit plans, and the percentage of Americans who receive health care through their employers has fallen to 60 percent, and that is the lowest level in 20, 30, to 40 years. So the importance of a stronger safety net is obvious, and Laura's example I think illustrates what other more forward-thinking countries have done, but ours is pretty poor.

So the main point I want to make here at the start is that I think that is the question that flows from the title of this panel, and I think that the thrust of The Hamilton Project is that, no, it is not inevitable that incomes and real economic security are going to decline despite the power of those two trends of accelerating globalization and the transferring of responsibility for health care and pensions from employers to individuals.

MR. CHAIT: Let me throw this out to all the panelists, because during the Clinton Administration you had five really spectacular years of growth where you had

pretty broadly shared economic benefits, but that is in many ways anomalous to the whole pattern of the previous 30 years. A lot of people in the center-left, myself included, really became enamored with the possibilities of growth—with liberal possibilities of growth to be the central driver of rising living standards. But with the more recent experience we have had where we have had not very broadly shared growth, do you have to look at those 5 years as an anomaly or as something that can be repeated with a correct policy?

MR. ALTMAN: I think the answer to that question is not one word. In my own judgment, we are not in the 1990s and the real point is that it is a different world here in 2006 than it was in 1993, 1996, or 1998. It just is. And it is really profoundly different even though the number of years isn't all that many.

So the challenge is different and the policies that are required are different and it is not about, and I want to emphasize this because I want to make this particular point about The Hamilton Project, it is not about just going back and restoring the Clinton era and the policies that were precisely pursued then. The challenges today are different and the policies necessary are different.

As to your precise question, I do think it is possible, and you can see by the remarks that I make, that we can get onto a track of once again rising standards of living. Whether the sparkling successes of the Clinton years, where we didn't just have rising real incomes, but we had falling poverty, we had success on almost every imaginable measure, whether that can be repeated, I don't know the answer to that. I think it is probably unlikely to see the success on every level as was experienced then. That is my answer.

MR. RUBIN: Let me add a comment, Jon. I think it is a very complex set of circumstances we face right now. Larry Summers gave a speech about a year ago in which he said, and it sort of repeats something Roger just said, that the rise of China and India with the enormous expansion in the range of tradable goods and services – Alan Blinder has written about this in Foreign Affairs – and their absolute cost advantages at current exchange and wage rates across pretty much this whole range of tradable goods and services, really is an historic change in the global economy. I think Larry, if I remember it correctly, said it probably is almost surely the most important change since the emergence of the United States over 100 years ago, and maybe the most important change since the Industrial Revolution.

This creates a set of complexities and uncertainties that are very different than the kind of stuff we all learned in college, at least in my opinion, and Paul Samuelson, as you all know, wrote an article about 2 years ago in which he talked about how complex it is to think about trade in this new context, and all of us know that the comparative advantage models that all of us learned had a whole bunch of assumptions, many of which are not being realized at the present time as evidenced by these vast trade deficits that we have.

One thing that seems to me for sure, Jon, in living in this very different world, I do not know what we can accomplish and we cannot accomplish. I tend to have a relatively positive view that if we meet our challenges, that with the immense dynamism of our society, its historical embrace of change, its willingness to take risk and one thing and another, that we have tremendous comparative advantages, but we have enormous challenges which all of us know about, the financial imbalances, our education

system, health care, energy policy, and so much else that we are not meeting, and I think most fundamentally, we have a dysfunctionality with respect to our government right now. We have a government that not only are we on the wrong track at least in my judgment in policy on almost all fronts, but we have a political system that seems unwilling to reach across party lines to get together to find effective ways to move forward. And say what you will about the 1990s – and I think there was a tremendous amount you could say that was good about the 1990s, including the policy paths that we were on that I think are applicable now, although the specifics have obviously changed, and the circumstances changed – even with all the intense partisanship of the 1990s, there was a fair bit of reaching across party lines, as you may remember, on budgets and on many other matters and I think we have to get back to that kind of willingness to reach across party lines and the functionality of our political system has to increase substantially in a world in which if it does not happen, these very rapidly growing competitors of China, India and elsewhere, although they face their own challenges, could have a very serious adverse effect on us. I do not think it has to. My instinct is we could do well, although it is going to be very complex, but not unless we do very much better on meeting our challenges.

MR. CHAIT: Peter?

MR. ORSZAG: Jon, you had basically asked ‘is growth the answer?’, and my answer to that question is that growth is necessary, but not sufficient. If you do not have any economic growth, you are not going to have the opportunity to raise people's living standards, but as we have seen over the past several years in stark contrast, it is not sufficient. One of the central puzzles of the day is this disconnect between productivity

growth and median family income. Productivity growth is strong, median family income growth is not, and why that is happening and ways to rectify it and reconnect those two—the traditional Econ 101 model is productivity growth and income growth keep pace with each other, and that is not happening, and obviously a very difficult question is how to reconnect the two, and that is what we are trying to struggle with through the project.

But what is absolutely clear is in the face of that, the last thing you do is make it worse, and that is exactly what regressive tax cuts, which not only exacerbate the fiscal imbalance but exacerbate after-tax income inequality, that is exactly what they do, so that obviously makes no sense at all.

MS. TYSON: I would just add I agree completely with Peter on the puzzle of productivity. I want to put it though in the perspective that I am afraid we have here quite a long-term problem because I think what the 1990s made us forget, and this is the number that strikes me as quite amazing, that if you look at the last 40 years, the only wage group that enjoyed real compensation growth in line with productivity was the top 10 percent of the wage distribution. That is the only group. The bottom 90 percent did not see their compensation track productivity.

Add to that Larry Summers's sort of supply shock which is basically all of a sudden because of technology and the embrace of markets you have India, China, and many other countries creating much more pressure particularly on the bottom half maybe of the wage distribution, and Alan Blinder's numbers would be the bottom 80 percent of the wage distribution. So this is a very, very serious set of challenges coming upon quite a long period of time when the distributional benefits of growth have not been shared. And I will not say fair, but anyway, in a way which is surprising to economists because

you can no longer get up there with a straight face and talk about productivity and media incomes because you are not revealing what has been the situation for quite a long time, so I just want to say that.

And then when we talk about things like employers dropping pensions and health, it is also important to point out that if you look at that within the wage distribution, upper-income workers are not getting dropped from health insurance, upper-income workers have lots and lots of choices about pension plans, and actually have the capability given their income to do okay with sophisticated defined-contribution plans. All of the dropping is going on at the bottom end of the wage distribution which has already not been sharing in the compensation growth relative to productivity and has more pressure coming now from low-wage competition in the rest of the world. So this is a very serious set of challenges which does require I think that we think more about progressivity because the country has been going in the opposite direction for quite some time.

MR. : Moving to Denmark certainly looks better now.

MR. CHAIT: That is an interesting answer. That is the intuitive response if you have huge growth at the top that is not being shared by the rest, you simply have to have the government essentially redistribute some of that growth back to everyone else. Is that over-simplistic? Is that wrong?

MS. TYSON: I wanted to associate myself with Peter, though. I would not say we want to do this at the expense of growth. He said growth necessary but not sufficient, and I am agreeing with that completely.

MR. CHAIT: To the extent it could be done not at the expense of growth,

is that an overly simplistic answer?

MR. RUBIN: I think, Jon, what we did with respect to the 2001 and 2003 tax cuts, I totally agree with Peter and Laura together. We took an already very difficult problem and made it worse for absolutely no reason. It was totally unnecessary in terms of any economic purpose we wanted to serve. We could have served any economic purpose we wanted with tax cuts that were targeted, temporary, or one thing or another.

But I do think there probably is a lot of potential in other areas, Jon, and I do not think you are going to be able to rely on the progressivity of the tax code to address this problem in large measure. I may be wrong, and people have to model that. But I am very struck by the effects that some infrastructure has had, for example, in having very large multiplier effects. Was it called the Metro Center or MetroTech in Brooklyn? Which then causes all kinds of other activities to develop. Basic research which gives rise to all kinds of activities. And it is true that basic research by its nature is available to everybody, so you could do it in China just as well as you could here. But the fact is, there is an awful lot to be said for having people in the same areas. Obviously, if we did a far better job educating people then we would have a much better work force, and that would encourage investment and hiring and one thing and another. So I think there is a tremendous amount that we could do here.

Having said all that, when you have a globalization of a labor supply, and of course a vast array of goods and services, it does create a new set of challenges that are very complex. I think we need a great deal of new thought in this area. My own instinct is to think that there are limits to what you can do. I think we should go back to at the very least the Clinton tax rates, and I think you could even do a bit more if you wanted,

but I do not think you can rely on progressivity of the tax cut to solve this problem would be my instinct.

MS. TYSON: May I say one thing about progressivity? I think one can talk about that term in terms of taxes, but also in terms of benefit programs. For example, what I said is the unemployment compensation is very generous on average throughout Europe and tends to be more generous at the bottom because of the notion that somehow or another that is really where the problem is like the unemployment rates for low-skilled in Europe or the U.S. and every place are higher than they are for skilled workers. Therefore, you want to have the benefits be progressive in that way. So progressivity can mean more than just taxes.

MR. ORSZAG: And just really quickly, two quick points. One is that within the tax sphere, you should not just look to marginal tax rates because I think there is a significant concern as you start to get marginal rates that are significantly above the Clinton rates. Coming back to an idea that I had mentioned earlier, there is a lot of money that we spend, \$500 billion a year, in the form of deductions and exclusions that are not delivered efficiently and that could make the code both more progressive and more efficient at the same time.

The second point I want to make is on education because it has come up several times. There is a lot that we can do to make the education system more effective in a progressive way. In fact, there is research that Princeton and Brookings have done together suggesting that one of the reasons, Laura had mentioned that mobility in the United States does not look great internationally, and that our education system as a whole is one of the transmission mechanisms for why that is. If you look at the top 25

percent of colleges, for example, three-quarters of the students are from the top quartile of the income distribution, and under 5 percent are from the bottom. So the higher-education system, and we normally look to education as the great leveler, is actually exacerbating problems from some perspectives, and that is not mostly because of underlying skill differences in those populations.

MR. CHAIT: I think we are to the Q and A portion. Bob Kuttner?

MR. KUTTNER: Both Laura and Peter used the word puzzle.

MS. TYSON: Used the word what?

MR. KUTTNER: Puzzle in why did the income become so much more unequal. I am not so sure it is a puzzle, I think it is a challenge in the sense that all of the leading equalizing institutions either were undone by deregulation, globalization, marketization, or were deliberately undercut by public policies. So some of the public policies can be reversed, but I think the Europe point, and Europe gets a very bad press here, is really interesting because if you look at enough European countries you can find enough things that are being done right. I was not proposing progressive taxation in the sense of take money from him because he is rich and give it to him because he is poor, I was saying if you are going to have this social investment, you are going to have to pay for it, and if you are going to pay for it, you might as well pay for it without socking to low-income people even more. Europe is a more open economy than we are. They have more of a tradable sector, yet they have managed not to have the income inequality, and they do it by social investment.

So I guess I have to turn this comment into a question.

MR. CHAIT: Yes.

MR. KUTTNER: No, there really is a question here. Given the real aversion in this country to taxes and the great success that Grover Norquist and company have had demonizing taxation, where are we going to get the revenue to pay for the social investment to pay for the rising inequality?

MR. ORSZAG: I think that one obviously first step is to stop the erosion of revenue. We already talked about the 2001 and 2003 tax cuts which were not only regressive but also deepened our fiscal hole. Another important topic that has come up and that is of the same magnitude of those tax cuts is the corporate income tax. The corporate income tax is bringing in 1 to 2 percent of GDP. Historically it was bringing in twice that. If we follow the direction of moving further away from the corporate income tax, that is exacerbating the problem that you have identified, and, again, in a regressive way. So that is another area in which I think serious thought has to be given to how one can shore up the corporate tax, again, cognizant of and recognizing that we are in a very much different world than the 1960s because capital is much more mobile across international boundaries and that raises a whole series of complexities in the corporate income tax. I did not give you a full answer, but it is more of a "stop digging the hole deeper" kind of one.

MR. RUBIN: I actually do not agree with that, Peter, on the corporate income tax. I spend most of my time with companies and I hear an awful lot of talk about locations, and I think there are a lot of factors that are causing people to locate abroad, but I must say I do not hear people talk about the corporate income tax as a particularly important factor in that regard. In fact, I do not hear it mentioned almost at all. This notion that somewhere these vast numbers of people are trying to flee the

country because of the corporate income tax, this is a bad paraphrase since I do not remember the exact phrase, you can have your own opinions, but you cannot have your own facts, and that simply is not the fact.

MR. ORSZAG: If we could just pause for a second to make sure that we are clear. Even if it were the case that the corporate income tax was under increasing pressure because of mobile capital, I think we would need to shore it up, and all the more so if it is not.

MR. RUBIN: Okay. I was not really addressing your comments so much as I was a prior comment.

(Laughter.)

MR. ALTMAN: I just want to insert one quick thought in response to your question, Bob. I may be a minority of one here, not just up here but in the whole room, but I think the era of demonizing taxes and the effectiveness of doing so is coming to an end. I do not mean that we will, should, or for that matter even contemplate going back, as someone said, to that Bolshevik Dwight Eisenhower, or whatever they said. The effectiveness of that approach is just eternal, we should just accept it and view it as part of the landscape, you know like the Rockies or something. I think a lot of surveys show that, so I do not believe at all that we have to accept the fact that under no circumstances, whether it is rolling back the 2001 and 2003 tax cuts for the top two brackets or so forth, that under no circumstances we are going to be able to raise revenue. Quite the contrary. It is likely that we will find ourselves in a circumstance where that is possible and actually occurs really over the short- to medium-term.

QUESTION: Thank you very much. In part inspired by the work of the

project, I have gone back and plowed through a lot of Hamilton's writings as Treasury Secretary and have tried to come up with some thoughts on what Hamilton's view would have been today of the economic situation inside the United States. In my opinion, he would be, number one, horrified at the idea of the erosion of our actual high-technology manufacturing base. We have seen in the auto sector just in the last year an erosion of a major portion of our machine tool capacity which is the best in the world and far beyond anything that India and China will be able to produce for quite some time to come.

I think he would also be horrified at the erosion of our core infrastructure, energy, transportation, water management, and other factors, and I do not think he would have hesitated to consider the effective use of the federal government with capital investment.

And in the more recent period between Franklin Roosevelt, Dwight Eisenhower and John Kennedy, the common experience had been that government investment in major infrastructure including R&D investment produced a substantial return on the dollar, somewhere between \$5 and \$15 for every dollar spent. So I guess my question is, I would like to get an idea from the panelists if you have any thoughts on this idea, I know Secretary Rubin just mentioned, more investment in infrastructure, how we might be able to use that as a means of both reversing the collapse of our actual manufacturing base, high-tech manufacturing, and what kind of role these sorts of policies might play.

My final comment is that I always thought that the greatest achievement of the Clinton Administration, beyond any of the particulars on economic policy, was that after a long period of erosion there was a certain sense of the confidence in the role of

government in promoting the general welfare of the country. I think that this is a principle that would be in line with Hamilton, and I would to see more work from the project and comments now on that.

MR. ORSZAG: I have given up trying to channel Mr. Hamilton.

MR. ALTMAN: I would make two points. The first step towards increasing what I would call strategic investment, infrastructure, research, some of the other points Bob made, is to begin to rectify our fiscal situation. We really have no chance of making new investments, and I mean substantial ones, absent that. It is really basic and it is really required, and we will not get on and do what you are talking about, with which I agree conceptually, absent a real change in fiscal policy. We are all familiar with the dynamics of that, we are all familiar with the actuarial liabilities of the federal government and so forth, but it is pretty bad. And when you hear the current administration say that, wow, it's great, we just have a \$300 billion deficit, you know things are in bad shape.

As for the erosion of our base, yes, there has been some erosion, but I do not accept the notion that it has been as catastrophic as you say it has. For example, here is a little-known fact. Automobile employment, and I mean assembly line employment in this country, is not declining. It is true that we pick up the newspaper today and see that Ford has offered buyouts to its entire work force which is discouraging at some level, in a national sense it is discouraging, but assembly line employment is not declining. What is happening is that it is recycling. It is recycling from in effect the Midwest to the transplants, as they are called. Toyota is building one of the biggest plants in the history of the world just outside San Antonio to make trucks. I have actually seen some stuff on

it. It is going to be one of the highest tech manufacturing facilities on the planet, and Alabama is about to become the largest state in terms of auto production.

You read a lot about how grim it is, but I do not think the facts are in line with what you read. Yes, there has been some erosion, no doubt about it, but it is not catastrophic, and it is not all going straight downhill for the rest of our lives and our children's lives and all that. Not at all.

MR. CHAIT: Peter?

MR. ORSZAG: I have two brief comments. The first is on infrastructure. My own view is that we do need additional investments in infrastructure, but also frankly need to use and price the infrastructure we already have more effectively than we do now. We have in many areas things in place that are not used efficiently. In fact, London, for example, has been very effective in using pricing to more efficiently use the infrastructure that already exists.

The second point on trust in government, I think the point you made is a very good one which is that trust can be built from positive experience. Senator Obama has said, and I agree with it completely, progressives or others who believe in government should be ruthless in trying to seek out inefficiencies in government and things that do not work right, because without that, we are not going to succeed in convincing the American public, convincing is not the right word, demonstrating the effectiveness of government in the areas where it truly is quite important, including many of the ones that we were discussing today.

MR. CHAIT: For those who are concerned that former Clinton economic officials have been underrepresented on the panel, we have Gene Sperling with a

refreshingly different perspective.

(Laughter.)

MR. SPERLING: I will yield to others if they have other questions, but I am actually trying to further your goal of getting Laura to be a U.K. expert.

This whole day today has focused a lot on income maintenance in terms of insecurity. The one question out there is, how does universal health care play in? When you look at the U.K., it does seem at this point, obviously, the immigration issues are very large, and on the trade/globalization side, at this point the levels of anxiety seem less significant. My question for Laura, both as a health care expert, when you look at things Jacob Hacker talks about, and Elizabeth Warren, it does seem either health care related issues or losing health care does seem to fairly central and why people both experience the initial losses and then the depth of the losses.

So my question is, being both in the U.K. and the U.S., how much are the health care as opposed to the income maintenance issues central in the economic anxiety story?

MS. TYSON: I do not know about the surveys, but I think that a couple of things that came up in the discussions today, first of all, it is the case and I think the evidence is really important here that given the trends in technology and globalization, the risk of dislocation, of a challenge to family income which is unexpected, that kind of volatility, that kind of risk is rising for workers not just in the United States, but in other parts of the world. It seems to me if that is the change that is happening, driven by these much larger structural forces of technological change and globalization, then you have to say that that is what workers and families are going to be subject to.

The system we designed by accident, it was designed by accident, the system we fell into by accident, of having health insurance tied to your employer is just ridiculous in this kind of environment. We could debate about what form we should go to, but I think it is not debatable what form we should go away from. This is just a system that does not work anymore relative to the broader structural trends.

That does not mean that there are not major issues about what we should move towards, about the fact as someone said today correctly, the issue of the escalation of the health care costs not just in the United States but in Europe is an issue. So while I think my personal experience of listening to and reading the press in the U.K. and listening to the debate about trade in the U.K. is that you are absolutely right, Gene, there is not a sense that people carry around the issue of health insurance. It is as if it has been taken away. So one of the big sources of anxiety to the individual family and worker has been taken away.

People still worry about the cost of the system, is it delivering efficiently, how much of the service should come through private suppliers and how much should come through public hospitals, things like that, but the issue of not having to worry — I am making my colleagues laugh. They cannot believe it. I come back to the United States and I am thinking about my own health care here. It just does not make any sense to anyone that I am dealing with three different health care possibilities. So I do think it is a very big issue and I think my own view is that if I had been sitting up here today and talking about security and the major thing you could do on security, I would have talked about health.

MR. CHAIT: Let me just say we will be talking about it next year.

QUESTION: A quick question. It seems like the question you guys have been posed is a false dichotomy, and that is, instead of talking about growth versus income distribution, my question is, will you be willing to give up some growth for income distribution and security? I was a little concerned that the last time we met in June there was a nice discussion, but I think at the end we came down as saying, no, we want as much growth as we can get. So the question is, are you willing to give up some growth for the equity?

MR. ALTMAN: With all due respect, I do not agree with the question in the sense that I do not think that that is a choice we need to make. One of the tenets of The Hamilton Project, one of our three guiding principles, is that economic security and economic growth are complementary, not contradictory. Unfortunately, we have been trained for a long time in this country to think that if you are going to provide a stronger safety net you are going to give up some growth, and we do not accept that.

I think that there are policies that will abet broad-based growth, meaning wider distribution of the benefits, which will actually foster higher long-term growth. Therefore, actually if we have the right mix of policies in this country will be choosing better income distribution and faster growth.

QUESTION: So, Roger, you are saying we would give up some short-term growth to get some equity in order to get long-term growth. Is that what you are saying?

MR. ALTMAN: I don't think you have to give up either.

MS. TYSON: No, he is saying he does not think there is a tradeoff.

MR. ALTMAN: I don't think there is a tradeoff.

MR. CHAIT: Bob?

MR. RUBIN: Yes, I would agree with Roger that I think there ought not to be a tradeoff, but if there is a tradeoff, I would not give up growth because I think once you get going down that slippery slope, I think you get yourself into all kinds of problems. President Clinton said the best social program is a strong economy. I also think that is the best path toward economic security and to broad-based income increases. So I would not make that tradeoff, but I do not think you have to make it. I would agree with Roger. My instinct is you do not have to make that tradeoff, but I would not make it.

MS. TYSON: I think the good news is even if you ultimately have to make the tradeoff, we are sufficiently far away from it that I do not think we have to worry about it. That is, I think we are too far inside the production possibility frontier, there is enough inefficiency and enough ways we can improve the system without getting to that tradeoff. So I think politically it is an extremely dangerous debate to have because you are debating a hypothetical from the point of view of where we are right now.

MR. ORSZAG: And it is not just political.

QUESTION: So why is it that if you make Larry's point about India and China which a lot of people are not going to talk about publicly, but if you really make that point, many people would say they would take action against that. So why is that? They must not believe that growth and equity are the same.

MS. TYSON: No, they don't.

MR. RUBIN: Actually against what?

QUESTION: You repeated Larry's comment saying that China and India

are going to be the greatest revolution since the creation of the United States.

MR. RUBIN: Might be.

QUESTION: Might be. And most people in the United States would hear that comment and be nervous, so they must not believe—

MR. ORSZAG: Could I comment? Because the Samuelson article has come up in many different contexts and it is sort of the basis for a lot of that discussion, and I think it is very important to be clear about what the Samuelson article says and does not say. The Samuelson article says that you can have situations where other countries grow especially in sectors where you had been exporting, and that can reduce your income relative to last year. The reason it reduces your income is that the gains from trade are reduced. That is not the same thing as saying shutting off trade would raise your income, because this year it is like you had a bigger pie and the pie shrunk, but it is not like you can get the pie back to some bigger amount by anything you do.

So in terms of the policies themselves, and I think that is the key thing, that observation does not actually open up the tradeoff that you were delineating.

MR. ALTMAN: I agree with your last sentence, and I referred to this in my own comments at the beginning, many Americans fear this, you're right, and that is very unfortunate, and that fear actually is quite widespread. But the emergence of China and India and the integration of their populations into the world economy is also a big opportunity, ultimately perhaps the biggest markets in the world for American goods and services. And also this country is much wealthier by virtue of trade than if there were not trade, the Institute for International Economics across the street estimates a trillion dollars a year wealthier by virtue of trade.

So I think the task is to put ourselves on a different track economically, give Americans a reason to believe that we can again resume upward growth in standards of living despite the challenges I talked about, and turn the emergence of China and India into something that is seen as an opportunity, not a threat. That is not easy, I know. Not easy at all. But actually in economic terms, it can turn out that way.

MR. CHAIT: Bob?

MR. RUBIN: I just had one more thought, if I may. Peter and I have talked endlessly about this, a lot about the Samuelson article. I am not an economist, I'm a lawyer, and Peter is an economist. But let me just add I think it is fair to say, Peter, that Samuelson's article is the beginning of a discussion, not the end of a discussion, and I think he is still, if I remember correctly, Peter, operating on all kinds of assumptions that are consistent with models of comparative advantages and so forth, not on these enormous trade imbalances that we have today and what are probably disequilibria exchange rates. Once you get into disequilibria exchange rates, I think you do create a whole new set of issues.

Having said all that, and this is not supposed to be a trade debate and so forth, I think one of the dangers of all this is what Ben Bernanke said about in Jackson Hole, which is if it turns us politically against trade and towards protectionism, that gets us into a far worse world and that is something we have to avoid at all costs, all costs is as strong statement, but we have to work powerfully to avoid, but the way to avoid it is to address all the issues we were talking about today.

MS. TYSON: I should also say that there is another very important point I think about the Samuelson article which actually gets back to progressivity, because what

I would say is we should be honest here, and it is very dangerous to be honest about those of us who really want to continue to embrace trade liberalization are very interested in the growth of China, India, and other countries, but we also need to recognize that there is a significant amount of downward income pressure and/or job loss associated with this for a large number of American workers. We cannot kid ourselves and say that that is not true.

What do you do about that then? What Samuelson says is, economists have always said there are these wonderful aggregate benefits from trade and they are big enough that they can be shared with the losers, but it has been a shell game. We have never done that. And if you take those 40 years where we have not had median compensation going up with productivity, essentially there is no reason why the average American looking at wage rates in China and India and reading the stories of things going abroad should not be worried. Actually, they should be worried, because we do not have in place a set of policies which has ever delivered to the losers. When manufacturing jobs started going abroad, we did not deliver to the losers. We let them move on to other jobs, and if they got the other jobs at the same wage, that is fine, and if they did not, that was fine, too. We see now an increasing number of Americans are not getting jobs at the same wages, they are being unemployed for long periods of time, so why should the average American believe it?

I think what The Hamilton Project is trying to do, and this is really why I think it is so important, is say we have got to really change the policies, if we do not, then the average American who is right in their supposition is going to try to stop this because it is in their self-interest to stop it.

MR. RUBIN: Laura, here is where you and I may have a slight difference. I agree with everything you have said, except I have one question. I think if we immediately said, okay, this is where we are today, and the average American worker certainly has not done well, we have stagnant real wages for the last 30 years, but I suspect if we turned against trade liberalization and tried to reverse that right now into a protectionist mode, we would be worse off.

MS. TYSON: We would be worse off. I would not disagree with you, Bob. No, I would not disagree with you. What I am saying is I can understand why the average American might say this is not working for me and it is going to get worse.

MR. RUBIN: You are right.

MS. TYSON: I think we absolutely have to say if you go to a protectionist response to that, you will be even worse. It will not be that you are better.

MR. RUBIN: But you are right, too.

MS. TYSON: Yes, I agree with that.

MR. ALTMAN: It is a good thing you agreed with Bob because I think otherwise he was going to offer to fly you to Denmark tonight.

(Laughter.)

MR. CHAIT: I think we have come full circle now after Denmark, which seems to be the underlying theme of the whole discussion either explicit or implicit.

MR. RUBIN: Wasn't Hamlet Danish? Hamlet was Danish, I think.

MR. CHAIT: Is that right?

MR. RUBIN: Yes, and he didn't know what to do, which is neither here nor there.

MR. ORSZAG: I want to thank Jonathan for moderating. I also want to thank all of the panelists here and all of the previous panelists, and thank you all for sitting through a marathon session. I hope that the topic justified your time.

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