THE BROOKINGS INSTITUTION

A GRAND BARGAIN ON JOB CREATION AND DEFICIT REDUCTION - IS IT POSSIBLE?

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P R O C E E D I N G S

MR. HASKINS: Welcome to Brookings! I am a senior fellow here and along with Belle Sawhill, we run something called the Center on Children and Families and we also run something called Budgeting for National Priorities, which we have been doing since 2003, roughly speaking. We have been yelling fire in every theater we can find and saying, look, look, the nation has a deficit. And now at last people are paying attention.

The past 12 months have seen more activity than in all the previous years, I believe, and we got especially -- we were fortunate to have two magnificent reports, or at least in my view they were wonderful reports: the Bowles-Simpson Report and the Domenici-Rivlin Report. And they did roughly three things. First, they would have stabilized or come close to stabilizing the national debt. Secondly, they'd seriously reform Medicare, especially the Domenici-Rivlin plan. And I happen to know that they're still working on this plan and refining it even more, and I expect that here at Brookings we will have public events in the near future about what we should do about Medicare. And then, finally, they increase revenues, which of course these last two points, Medicare and revenues, remain extremely caustic at this point.

Then in August, the debt ceiling crisis, which everybody thought was so horrible and showed the dysfunctionality of Congress, nonetheless, they actually did reach an agreement and it did three reasonable things. It increased the debt ceiling, as it had to, but it also cut $917 billion in spending, which is a huge achievement. That doesn't happen very often. In fact, I don't think it's ever happened before that we actually cut $917 billion. That was actually scored by CBO. And then Congress created a Super Committee, which has, you know, gotten all kinds of diverse reviews, but the Super Committee really -- you could not set up a committee that's going to report to Congress in a way that its report would have a better chance to pass. That has to be said about what the Congress did, so it looks serious. Whether anything happens is still very much an issue.

And then into the midst of all this our economy will not cooperate. We still have huge problems with the economy. There's really quite a strand of intellectual thinking and of political thinking that we should be focused on jobs and not on the deficit. So how do we resolve this conflict between the need to have stimulus for the economy, which means more spending, and the need to do something about our deficit, which means less spending?

So, we're here today to consider several questions that come up in that regard: Can we do both? Should we do both? If so, how? And finally, is John Maynard Keynes dead or alive?

So, here to help us answer these questions is a somewhat decent panel, people with a little bit of Washington experience. I was tempted to say how much experience, but I decided that would be embarrassing --

MS. RIVLIN: No, no. Don't say that.

MR. HASKINS: -- to a number of people, including the moderator. So, let me start with Alice Rivlin, the least experienced of the group. She's the -- you might have heard her name a minute ago. She's the co-author of the Domenici-Rivlin plan, and if there's any position the federal government has to do either with money or the deficit, Alice has held it at least once. She also, many people forget, in 1998, I think, headed a committee that actually rescued the District of Columbia, something previously thought to be impossible to do, and that was a great achievement.

Belle Sawhill, my colleague in the Center on Children and Families, was at OMB under the Clinton Administration, was a senior official there, and she's distinguished as an economist who focuses primarily on children. I think Belle was one of the first people to suggest, gee, maybe we should spend a little bit less on the elderly and more on kids, and she survived. There she is right there, breathing and everything.

And then Adam Looney, who's the policy director of the Hamilton Project here at Brookings, and he's had experience both on the

Council of Economic Advisors and in the Federal Reserve, and he's especially noted for his work on employment and employment-and-training programs.

And then finally, Douglas Holtz-Eakin, who's the president of the American Action Forum, former head of the Congressional Budget Office, and a director of domestic and economic policy for the McCain campaign. Someone told me once after they'd had a few drinks that Doug was approximately 50 percent of the Republican IQ in Washington, D.C. I don't know if that's actually true, but --

MR. HOLTZ-EAKIN: You should have kept them drinking.

MR. HASKINS: I did not say that, somebody else said that. I'm just passing it along.

So, here's our plan. After you've suffered through this introduction, we then will have profound statements from all of the speakers. They'll have eight minutes. We have a guy in the front here who looks friendly, but he's extremely mean. He keeps time. I told him I want to see him stop Alice Rivlin, and so we're going to hope -- if you go nine minutes, Alice, we're going to have some fun here.

MS. RIVLIN: I know. I'm good about that.

MR. HASKINS: And then after they're through, I'm going to ask a couple of incredibly penetrating questions, and then we will turn it over to the audience to ask questions. And then we're all going to go out and start companies and hire at least three people and that way we'll all do our little bit for the economy.

So, here's the order we're going to go: we'll start with Alice and then Adam Looney and then Doug and we'll conclude with Belle, and then I'll begin the questioning.

So, Alice Rivlin.

MS. RIVLIN: Thank you, Ron, and welcome. I see old friends in the audience, lots of the usual suspects, people who really care about public policy, and we're very, very glad you're here.

In case anybody's wondering, I thought the President made a great speech last night emphasizing how to get the economy growing in the near term and some things that would help it grow in the long term, and I think they're very important and I hope a lot of it gets enacted. But I -- and I'm also very optimistic about the potential for a grand bargain if the President and the leadership of Congress gets behind this new Joint Select Committee, they have the power to do it and I hope they do. But let me put this in a bit of context.

America faces two big problems, both of them self-created, we didn't have to be here. We have a deep recession with a predictably slow and long recovery caused by the unnecessary housing bubble and the financial crisis of 2008. It need not have happened. There are many culprits, but it did happen and here we are with a slow, painful recovery, which is especially painful because of the condition of the housing market. And we are also, simultaneously, moving into a period when there will be strong upward pressure on federal spending from the fact that the Baby Boom generation is retiring, that we're all living longer, and that we all want medical care and we have programs of the federal government to finance that.

Again, we've known about this for a long time. We should have fixed it sooner, but here we are with these two problems simultaneously and we have to address both at once. We need government action and private action to accelerate the growth and jobs now and we need a balanced path -- and by "balanced" I mean it's going to have to slow the growth of spending and add new revenues -- to stabilize the debt. We don't have to balance the budget, but we do have to get our debt growing less rapidly than our economy, which means a deficit of around 1 or 2 percent instead of much higher.

There is no conflict between these two policies. We need to do them both. You hear people say -- you hear liberal Democrats say, oh, we need to create jobs now, and sure, you're right, someday we'll get around to that deficit thing. Wrong. We need to do that simultaneously. And you hear Republicans saying that we need to control the deficit right now, even if it slows the recovery, although Doug will tell us that it doesn't. But the point is we have an opportunity to do both now. There have been other opportunities, which we missed, but now we have this Joint Select Committee with extraordinary powers, which could put forward and pass a double package, stimulus -- I shouldn't use that word -- growth and jobs for the economy in the near term more than paid for by a deficit reduction plan.

So, the President made a strong, well-crafted speech. To my mind it had the right things in it. Put money in peoples' pockets that they can spend; they won't spend all of it, but they'll spend some of it. Create both public and private sector jobs. And do some of the things that we know we need to do: repairing our infrastructure and our schools, and avoiding state layoffs of people who -- where the unemployment is growing the most rapidly.

And he said a little bit about the longer run, but he didn't say enough. I think the big mistake of this speech was not to tie the two things together, to say we need to do this now, but we need to use the mechanism of the Joint Select Committee, and I will work strongly with the leadership of the Congress to do that to stabilize the debt.

Now, he did say that, but he didn't say how, and he left himself open to the criticism. He said all the right things about jobs, but he didn't say how he would pay for it; he left that to the next speech. True, and I think a mistake. If the Obama Administration had been stronger on the double message from the beginning, they'd be in a better position now. People wouldn't be able to say they don't really care about the deficit. I think they do care about it, but they need to explain clearly that we have two problems, that we need to attack them at once.

I've been moving around the Hill, as Ron said, talking about the potential solutions in the Domenici-Rivlin plan and the Simpson-Bowles plan, and I worked on both. I think there are solutions, balanced solutions, to the long-run deficit problem that can command a majority in the Congress.

I think there is more will to work together now than there was a few months ago. The debt ceiling crisis was a debacle and a really bad demonstration of how partisan politics can undermine our democratic system.

Getting to a solution is going to require a compromise. You can't get there if you're saying, no, we will never raise revenues, because we've got an awful lot of people who are going to need some help with paying for their medical care and paying for their retirement. We can slow the growth of those programs, but we can't slow them to zero, and that's going to take more revenue. But you -- and we can't get there if you're saying don't touch the entitlement programs ever. We need to do both. I think there are solutions that will do that and the Joint Select Committee, with the President and the leadership behind them, could do it.

MR. HASKINS: All right, thank you. Adam.

MR. LOONEY: Thank you. I wanted to start off today by giving a few thoughts on the President's proposals for job creation, and in particular I wanted to start out with some components that I think might be a little bit overlooked, and in particular the components that deal with investments in skills and other investments that can enhance the productivity of our workforce.

If you look back over economic history, one of the reasons for America's leadership role, for rising productivity growth over time, for rising -- increasing job opportunities and rising wages, was the investments we made in the skills of our workforce. I think those types of investments today are particularly important for two reasons: one, I think we have to consider just how large the jobs hole is and how long it's going to take to get back; and the other thing to keep in mind is the role of skills, both over the last few years, but particularly in the current crisis, in determining who's unemployed and who's not.

So, first I just wanted to say, if you look at the magnitude of the job losses since the beginning of the recession and you look at how many jobs we need to create just to keep pace with population growth, you'd see that today we're roughly 12 million jobs short of where we were in 2007. What that means is that even under optimistic expectations for job growth, for example the best year experienced in the 2000s where we had monthly job growth of 210,000 jobs, it could take a decade to get back to normal. And so what that means is that we're not just going to need jobs today, we're going to need jobs tomorrow and we're going to need jobs for years to come.

And so what I think that does is it means that we're going to have to focus not just on short-term policies, like the extension of payroll taxes, the extension of unemployment insurance, but also on policies that will pay out and will enhance growth over the next few years. So, that's one reason why I think we need to focus on these investments.

A second reason is that if you look at the American economy and the workforce, you'd see that the skills of our workers have stagnated over the last 30 years. Education rates have failed to go up. And as a result, that's become a big problem for us in an increasingly integrated global economy. And what I mean is that if you look at the labor force today, your education and your skills are increasingly important determinants of whether you have a job and how much you earn.

Just to give you some examples, if you look today at people with a college diploma, 73 percent of them have a job compared with 4 percent who have only a high school diploma. The unemployment rate for college graduates is 4 percent; the unemployment rate for high school graduates is 10 percent. College graduates earn double in a year what a high school graduate earns.

Even if you look at 24-year-olds, those that went to college, graduated in the middle of this recession, almost 90 percent of them have jobs compared with 64 percent of their peers who topped out at high school. And so what that means is I think that if you wanted to focus on the people who are unemployed, if you want to address the problems of long-term unemployment, if you want to deal with problems of stagnating or declining wages, you have to focus on policies that look at the skills for the workforce.

So, what does that mean in practice? Well, the President mentioned a few things. One thing that I think is important is that more people need to go to college. If you look at the signals from the labor market it means that we should have more people -- you know, it's a great deal to go to college, similarly it's a great time to go to college. If you're a less skilled worker your employment prospects are not great. And so I think that it's a natural time to facilitate going to college, and so the President's proposals included a few ideas for expanding access to community colleges and to enhance education in a few other ways.

In addition, he also proposed some ideas on training. What I want to say about training is that we actually know a lot more about training programs than we did before, and so underlying some of the President's ideas are a lot of experimentation at state levels. States have become laboratories for experimentation and so we know a lot more about what kind of training programs work. These have been rigorously evaluated. These are programs that involve partnerships with employers, industry groups, and that have been demonstrated to enhance the job prospects and earnings of low-skilled workers.

Of course, the President's plan also included a lot of other investments beyond skills. One of them was investments in infrastructure. If you look at the state of repair of our current infrastructure, generally I think many people think it's poor, and in particular, if you look at the benefits of infrastructure, particularly infrastructure we put in place many decades ago, kind of the original infrastructure that makes up the basic transportation routes for businesses to trade and upon which businesses grow, a lot of those original investments which appear to have very high returns have fallen into a state of disrepair. So, I think that there's a natural argument to be made.

Where you look at the unemployment rate for construction workers, it's extremely high. You look at our ability to borrow, rates are very low. You look at the state of repair, it's natural to make investments today that will help support a recovery over years to come.

Of course those longer-term things naturally pair with shorter-term measures. I want to highlight one idea, which is just the idea of a new jobs tax credit or of an employer side payroll tax cuts. And what I think is interesting about those ideas is that they're not your -- they're not Keynesian stimulus. In a way they're very responsive to criticisms that the reason why employers are not hiring is in part because there are significant regulatory or tax burdens to adding a new worker. That's on the employer side. And on the employee's side, people say it's not worth getting a job because you have to give up your benefits and you pay taxes. These are very responsive to kind of classical economic ideas of how to reduce the cost of moving from out of labor force to having a job. And so I think that those are interesting ideas and I think that they have the potential to raise employment.

One last thing to say before I wrap up, and that's the role of unemployment insurance. For some reason I think that we have started to talk about the extension of unemployment insurance as a way to stimulate the economy. I think it's important to recognize why we have that program in the first place. The reason we have unemployment insurance is so that when a worker loses his job, he can continue to put food on the table and pay his rent. And ultimately, at a time when the unemployment rate is at 9 percent and there are few jobs available, that's probably the best reason to extend unemployment insurance.

MR. LOONEY: Just to wrap up and take a step back, if you look at the broader budget situation, one thing that people have said is that we need to address our deficit today to ensure that we don't burden future generations. And I'm sure that's certainly an important consideration in this debate, but I think it's also important to recognize that the budget choices we make today also affect the living standards and the well-being of future generations through how we spend that money. So there is an appropriate role to both address that budget situation and also to make sure that we make investments in the labor force today that ensure continued rising prosperity for our workers. Thanks.

MR. HASKINS: Thank you. Douglas Holtz-Eakin, Alice has already told us part of what you're going to say so let's see if you actually say it.

MR. HOLTZ-EAKIN: Well, I want to thank Ron for having me here even though he's sober -- or at least we think so -- and in general for the opportunity to join this discussion. I want to begin by concurring with the various sensible Alice Rivlin on the key question of the moment, which is are the goals of stabilizing the debt and creating jobs at odds with one another? And the answer is clearly no. We are headed directly toward a sovereign debt crisis. Erskine Bowles called it the most predictable crisis in history. I concur. It is not a pro-growth, pro-jobs, policy to have a sovereign debt crisis. And as a result, the efforts which to date have not been undertaken -- and I'll differ a little bit with Ron on this -- to move away from that are the most important things we can do to enhance the viability of the U.S. economy and produce jobs over the long term. There's no question about that.

Now, Ron said some nice things about the debt ceiling agreement, cutting $917 billion. We haven't cut a dime yet. They promised to cut $7 billion from last year to this year; it hasn't happened yet. No one's identified the specific cuts. And the rest of that agreement is the promise that we will really honestly do what we have never done before and spend less in 2018. I'll believe it when I see it. So thus far we have what I would politely call a fiction that we are going to get serious about the debt, but we haven't seen it yet. And that remains the paramount problem for this economy and something we can't lose sight of.

And just to get a little ahead of the story, you know, I think the enormous disappointment last night was the President of the United States, at a moment that clearly required him to change his style on this issue, once again passing the buck. This is a President who has put out a budget that led to a debt spiral and said, look, we're in a crisis, please excuse me. Put out a second budget that led to a debt spiral and said I'm going to fix it; I've got a commission. Alice was a member of that commission. They provided very sensible recommendations to avoid the debt spiral and produce better long-run growth: tax reforms that lowered rates and broadened bases, Social Security reforms that would place it on a stable path for the future, proved the international capital markets so that we can take on entitlement programs, lowered the rate and stabilized the debt -- the kinds of things that we can do to both grow more rapidly and control the debt. Those recommendations came out. He ignored them and put out a third budget that produced the debt spiral; was embarrassed and gave a speech; produced no scorable proposals in the speech; put out a mid-session review of his budget, which ignored the speech; went back to the January budget and last night said we are going to pay for every dime and let Congress figure out how. It's past time for that. It is time to step up and lead on the issue that threatens this economy. And that to me was just a stunning moment. And yes, he promised to put out a plan later, but, you know, we've heard promises and plans for three years now, and we need to get some serious action.

So, you know, that to me is the stunning moment last night that was one of, you know -- there were three speeches there. There was a speech that was, you know, I'm going to blame Congress if things fail. There was a speech that was basically a long litany of false choices, arguing that Republicans only really want to get rid of all regulation, all government spending, sort of the overstatement approach. And then there were the proposals themselves. And I want to talk a little bit about those because there are some things there that make some sense, but I think this is the right place to invoke a new rule.

About 30 years ago, probably in this room -- was this room here 30 years ago? -- 30 years ago Charles Schultz said, "There's nothing wrong with supply side economics that can't be solved with division by

10." There's nothing wrong with the President's proposals that cannot be solved with an equal division. They're just simply not going to do that much. If you look collectively at what Mark Zandi or macroeconomic advisors put out, they said, okay, we can spend $450 billion and we're going to get 1.9 at the upper end or 1.2 million jobs. So at $250,000 to $350,000 a job, this is what we're going to get for these efforts. Those are models that are beneficial to the President's policies. That's the upper bound. So let's divide by appropriate numbers and realize that this is not a solution. This is a Band-Aid, and it was a Band-Aid that I found in the end just underwhelming. There's nothing wrong with the payroll tax cuts; there's nothing right about them either. They're probably the place where they can get some bipartisan agreement. I have some issues with how the new-hire tax break is structured. We've always wondered whether we could really successfully implement and administer a new-hire tax credit. This is a close cousin. I think we're going to have to stare at it carefully, and see if we can actually make it work. You know, the employee side cut, we've seen already the modest expansion of that so it's not going to have a big impact.

The infrastructure proposals I'm quite skeptical of. There's nothing that's wrong with good infrastructure. We know that a core function of government is to provide key infrastructure, basic research, national defense -- these are the economic functions of government. We know equally well that there is nothing with a worse track record of being implemented in an efficient and timely fashion than capital expenditures. Ronald Reagan failed with his public works program, and it's happened all the way through the Recovery Act. And here we are again with the promise that, honest, this is different. It'll get out quickly. We'll time it correctly to avoid a double dip and we won't waste the money. And I remain skeptical. That is not the track record.

What we need instead is to have Congress do its job every year: fund basic infrastructure in an efficient fashion, get rid of 100 programs in the Department of Transportation, identify a federal role, fund it, and get what we need so that we can compete internationally. That won't come out of the speech last night or the legislation; that's a different agenda. It's one that really does focus on the long run, and I think that in the end has to be the change that we see.

Economic growth isn't a program. It's not a bill. It's not something you do once you're in front of a joint session of Congress. It's a philosophy. It is a commitment at the margin to looking at the other policy agendas which are real and legitimate and merit consideration in deciding at the margin the American public will be better served to grow more rapidly and have greater private sector opportunity than to pursue this other agenda. And this administration has chosen by and large consistently against that growth. It looked at a health care agenda and said that trumps growth. We're going to pass the Affordable Care Act. Whatever its health care merits, it's terrible economic policy. Trillions of dollars of new transfer spending when we already have a debt crisis and $500 billion in taxes are not a pro-growth policy. It looked at the green agenda at the EPA and said we're going to do that even though it is widely accepted that regulating greenhouse gases under the Clean Air Act is the single worst way to do it. We don't care about the growth consequences. Make the call.

Look at trade agreements. The President has yet to send them up. Everyone agrees that trade is a good thing and would benefit growth. We have yet to see those trade agreements go. Why? The union agenda trumps it. Labor starts squawking every time he threatens to send them up. The same is true with this National Labor Relations Board attack on Boeing and other things. It's fine if you have those agendas, and the President clearly has those objectives. But if you consistently choose against growth, don't be surprised if you don't get it.

And so what was most troubling about last night was the consistent philosophy, which is we can view growth as something which we can solve with temporary, targeted, programs that we pick, not a broad-based commitment to letting growth continue in the United States. And that to me signals more of the same and probably not a success. You know, I hold out hope -- that Alice has -- that when we go through the joint committee process, we'll get better policy; that Congress will undertake permanent tax reforms. They'll do the entitlement reforms. They'll put in place an environment where we can actually grow more rapidly and give the Americans the jobs they deserve, but that is still an agenda item yet to be fulfilled. We didn't see it last night.

MR. HASKINS: Not much there to comment on, Belle.

MS. SAWHILL: Well, I listened to the speech with great interest last night. And I tried to listen to it with two different sets of ears: one set of ears was attuned to is this good policy, and the other is what are the politics of this? Because any President putting together a package and giving a speech of this sort has to try to merge the two. So let me make a couple of quick comments about both.

Starting with the policy questions, I couldn't agree more with everything that Alice said and was glad to hear Doug agreeing that we have a double agenda here, a short-run jobs agenda and a long-run fiscal agenda, and we need to do both. And as Alice said, we ought to be doing both simultaneously. Like Alice, I would have wished there could have been a few more specifics about the long-term fiscal restraint piece, but we were promised we'll hear more. And I was encouraged that the President did signal that he was going to "go big" on his fiscal plan when he presents it next week. By "go big" I mean that tax reform and entitlement reform were going to be part of that agenda. I think one of the problems in the whole discussion about deficit right now is too much of the burden is being put on annually appropriated so-called discretionary spending. So he did successfully tie short run and long run.

Secondly, Doug says, well, what's the big deal here? Is this going to have much of an impact? I would respectfully disagree with that. I thought this was quite a big and bold package; $450 billion is not chicken feed. In fact, if that money was all spent relatively quickly -- which, granted, depends on implementation and some details we don't know about yet -- but if it was spent relatively quickly, for example all in the first year, it would be the equivalent of the initial Recovery Act in terms of its size.

Now, size isn't the only thing that matters. You need to get the money out there quickly, and it needs to be designed well to produce jobs. And I think that on the quick front, on the speed front, it's pretty good. Most of the money is in tax cuts and in unemployment insurance extensions, which can go into effect pretty immediately. Doug is right that infrastructure is always an issue in terms of speed, but as Adam Looney tells us, we may have sub-par economic performance for a decade, surely for a half decade we're going to have it. So we have a lot of time to do some infrastructure spending. And as Alice said and I think others, Adam as well, we need that.

On the design front, I think some of it was well designed to create jobs and some of it was not. If you provide a payroll tax cut to employers, and it's an across-the-board cut that says on all of your employees you as an employer are only going to pay half the payroll taxes that you do now, well, that gives you a windfall, gives you some more money. It does reduce the cost of labor and that's good, but it's not targeted on the margin to change your behavior. The part of the proposal that says we're going to give a payroll tax holiday to employers who expand their payrolls is much better targeted than the part that just says we're going to reduce your payroll taxes across the board. And there's a lot more that could be said on this design, but I don't have time to get into all of that.

I thought there were some very worthy policy pieces laid out, especially if you look at the details here. I like the idea of an infrastructure bank. I think that gets us into spending where the benefits exceed the costs, where politics is taken out of the decision making process, and where you're leveraging private sector efforts. So this is a new way to do infrastructure spending in this country, and I think it's a great idea.

There's also a proposal in the extension of unemployment insurance to give states much more flexibility, including the flexibility to use the money for what's called "work sharing." You know, instead of laying people off, putting people on shorter hours and making up the difference with unemployment insurance. There's the idea that you can use this for so-called "wage insurance." If you have a worker that's been laid off and they find a new job at a lower wage, the government makes up part of the difference. There's some potential to use this money to start a new business and to use the money for the kind of retraining and reskilling that Adam was talking about. So those are some of my policy thoughts.

Let me say a few words about the politics of this. I think it's absolutely right, both substantively and politically at this point, to pivot to jobs. I don't want to go quite as far as Doug did in saying that the sovereign debt crisis issue or the threat of it is even more important than getting people back to work at this point. If we have a lost decade similar to what the Japanese had, I don't know how we're ever going to solve our fiscal issues.

I think that he put the ball in the other guy's court. He said to the Congress over and over again, "Enact this now." He made it very clear what he wanted to enact. He was very specific. It's up to them now to act, and he made it clear that he can't do that unilaterally.

I think because his proposals were on the whole quite moderate, he tried to incorporate in them a lot of ideas that were initially Republican ideas. In being moderate he is increasingly pushing Republicans to the right. And if you watched the Republican debate the night before last, you saw how far they're going in terms of moving right.

The package includes more taxes than spending and says to those who don't want to extend the payroll tax that was enacted last year unless it's paid for contemporaneously, he says to them how come you were in favor of extending tax cuts for the wealthy, but you're not in favor of extending tax cuts for the middle class? So he really, I think, has challenged the opposition party there.

And finally, he's now given himself a stick of sorts with which to bash the Congress if it turns out to be the kind of do-nothing Congress that Harry Truman once faced. Now there are definitely some political challenges that I think he hasn't overcome, very difficult to overcome. One is that the faith in countercyclical economic policy is badly damaged. The word "stimulus" is now a dirty word. Most of the public seems to think that the original Recovery Act didn't work. I think that's absolutely wrong. We have two former directors of the CBO here. CBO has done -- as have others -- a good, objective, analysis of what the Recovery Act produced. It produced lots of jobs. We could disagree about the actual number, but it was not a failure.

I also think he's looking a little bit weak, especially when he has to get his speech done in competition with the NFL, and I'll leave it there.

MR. HASKINS: Thank you for that, Belle. So it looks like we have some agreement here, which is pretty good for Washington, D.C.

Not only that we can both do something -- whatever you call it, it's stimulus -- and do something on the deficit at the same time. And even a step further, not only can we do it, we must do it. We all agree on that, right? So let the word go forth that Brookings says you can do both, and you must do both. Is anybody going to -- no one disagrees? Okay, good. The audience will get a chance in a minute. Maybe there's somebody out there who does.

Second, I'd like to hear you talk about -- I'm not an economist, and it shows, but I am always perplexed by how economists -- what kind of evidence they use to make their arguments. So we've got these two huge claims here, one which has a huge intellectual history, Keynesian economics. If you stimulate the economy, that's a major role of government and it should work. And even Nixon I think said we're all Keynesians now, but there are a lot of Republicans who doubt Keynesian economics. And Doug raised some issues himself, so I'm not sure exactly what he's going to say about this. So you have a long, intellectual history that if government spends more during a recession, we'll stimulate the recession.

Now we have this relatively new idea that Republicans are making that it's really you have to be able to plan. Government has to settle its deficit. It has to have a long-term plan for its tax code and its spending. And once business sees that, then they'll start investing.

They'll be willing to spend these trillions of dollars that they've been saving up.

So are these both correct? Are they both wrong? Is one more correct than the other? I'd like to hear you talk about this. Doug.

MR. HOLTZ-EAKIN: So, this isn't all that complicated really, but there are two ways economies can grow. One is over the long term, where the only way to enhance the productive capacity of the economy is to give up something now, do not eat that Snickers bar, put it away for the future, and thus invest in either physical capital, buildings, software equipment, technological capital and new innovation, whatever it may be, or skills, as Adam talked about. Enhance the human capital of economy, and to do that, you typically have to let people know what's at the other end of that deal. If I'm going to give up something, what am I going to get? And government policies are crucial for that, the regulatory environment, the contract protections, the patent protections, the taxes you'll pay. All the things that really are central to doing that kind of planning. And so, that's at the heart of long-term economic growth and that's the heart of a lot of the arguments you hear from conservatives about the environment for economic growth and a focus on that.

Now, the bad news with that view of growth is that economists have never been able to really correctly predict which economies will grow and not grow. So, we literally have as one of the deep puzzles in economics why some economies grow and others do not over the long-term, despite the fact they have a well-developed theory. So, the theory versus evidence, oops, these things happen.

At the other end of the extreme, there are short-term ways to grow, which is to use what you have already and use it more effectively. So, take unemployed workers, have them work, produce more. Take empty factories, put them back to work. That's called sort of cyclical recovery. You hear about that all the time. And that's what Keynesian stimulus is supposed to do; government policies which do things which somehow induce you to spend when you wouldn't otherwise spend. So, at the heart of stimulus is the we the government can, like Obi-Wan Kenobi, wave the magic hand and say go ahead, spend that money. It will be fine and we'll get this recovery. Trouble with that one is we have no idea what causes business cycles. So, great theory, don't really know what causes business cycles so we're not sure that the Keynesian stuff will work.

So, in the end, economists decide this on the basis of not science because we do not have definitive science on either. We just don't. On a basis of their reading of the incomplete research literature and their take on the data on the ground and whether the current confidence, unemployment, capacity utilization, trends in investment, things like that fit circumstances where it's likely to be successful and that's why you hear so much disagreement about this.

MR. HASKINS: Alice, do you agree with that?

MS. RIVLIN: Oh, I agree with some of it, but I didn't hear as much conflict in your question as might appear. Clearly, one of the things that businesses need as they think about whether to invest or not is some clarity about regulations and future taxes and other things, but the other thing they need right now especially is some evidence that if they invest and produce more product, they can sell it, and at this moment, the thing that's lacking is adequate demand for new products.

Now, there are lots of good reasons for that. It isn't a mystery. People who don't have jobs aren't going to spend a lot and people who don't have money in their pockets can't spend it. So, part of what the President wants to do is put more money in people's pockets.

Now, we won't guarantee that they'll spend it. That's the problem with the current situation. It's the hardest test of putting money in people's pockets leads to spending, and, therefore, more growth because we all got burned by borrowing too much and people who have jobs are very busy repairing their balance sheets, as they say, paying down their debts. And it is clear that you put some more money in their pockets, they may spend some of it, but they will also pay down their credit card. That's not bad, but it doesn't lead to as much of a multiplier as you'd like to have if you believe in Keynesian economics.

But I don't think these things are in conflict, and I agree with Doug that a sovereign debt crisis is the worst thing that we can think of and there's a real danger of that. I teased Adam a little bit before because he said well, there's something about future generations. The sovereign debt crisis isn't a problem for future generations, it could hit us right in the next few years, and we know what sovereign debt crises look like.

So, I didn't see as much conflict here. I think we have to do both.

MR. HASKINS: Belle, do you want to add anything to this?

MS. SAWHILL: Well, I think that obviously both matter. You've got to have people spending money or businesses aren't going to hire. That's the core of Keynesian economics. And also common sense, it seems to me. I don't care how confident I am as an entrepreneur or a business leader of any kind, if people aren't buying my product, I could know everything there is to know about future regulation, taxes, they could be totally rationale, and Doug can design them however he wants them, but if people aren't buying my product, I'm not going to hire people. So, Paul Krugman, I think, was a little snappish or whatever, but --

MR. HASKINS: What a shock. Paul? (Laughter)

MS. SAWHILL: But I think he got it right when he said there's too much belief in the confidence theory in some circles these days.

MR. HASKINS: So you doubt this a little bit, huh?

Adam, do you want to say something, and then I'm going to --

MR. LOONEY: I would just say one thing very quickly, which is just that when you're considering macroeconomic policies, it's very different from interpreting microeconomic policies. That part of the reason why I start off on medication and training is because those are areas where researchers have gone in and looked at a person who has gone and got in a training program and compared with a person who was for some reason or other not assigned to that training program, and we know that the program works for one person, we know that it had improved that person's outcomes, and we know with a fair degree of certainty about the effectiveness of that. And we have a lot of evidence on education, on training, even effects of tax cuts at the individual level. But we have very few experiments in terms of the macro economy. We only get hit by recessions of this size twice a century.

MS. RIVLIN: Fortunately.

MR. LOONEY: Fortunately. Yes, I totally agree. And so, the attempts to repair these are difficult to benchmark. And so, I think that a lot of the reason why there is so much disagreement is just that there's so much room in the evidence for disagreement. And so, when you try to evaluate Keynesian policies and ask whether or not the stimulus worked or it didn’t, it’s very hard not having alternative United States experience to compare that to. And so, I think that that’s the biggest impediment to identifying what works and what doesn’t right now.

MR. HASKINS: Doug?

MR. HOLTZ-EAKIN: So, I mean, just three quick points. First thing to note is that it’s not just households who show up to create final demand. Businesses do, too. If you look at the second quarter, the United States grew at a 1 percent rate. Not very good. Business-fixed investment contributed 1 percentage point to economic growth in the second quarter. It was economic growth. Everything else is flat in the water. So, the big question is: Why not stimulate that part of final demand? Why stick to targeting other parts, which are in debt and suffering low confidence? And that’s just a question of strategies.

Second is on the famous issue of business confidence, I mean, Paul Krugman complains all the time about the notion that we somehow clarified the economic outlook that businesses will begin to spend more higher invest, and this is he calls the “confidence fairy.” It’s important to recognize that Keynesian economics were realized on the same confidence fairy. We all need the confidence fairy to get people to take the money out of their pocket and spend. If you create a temporary program on the spending side, say to build a road, and you tell someone I'm going to employ you for three months and they know that at the end of the three months, they're out of work again, how much confidence are they going to have to go out and spend their money? You have to actually generate the feedbacks, have the confidence that the economic (inaudible) is going to continue on either front. So, both sides are equally plagued by reliance and the confidence fairy. Confidence is very low right now, and this is a big problem for the United States, I think.

And so, the reason I have tremendous skepticism about the kinds of numbers you here associated with the President's program last night or the Recovery Act, things like that, is that they are generated by computer models, economic models in which there is no future. These are fundamentally myopic models where it's sort of like the teenage son model of economics where they only look at today, and if you feed them something, they eat it without fail. (Laughter) That's not the reality in which we live. Those are models, they allow you to rank proposals that give you some insight into magnitudes, but they should not be taken literally for what they're going to produce because they overstate the impasse.

MR. HASKINS: Well, Doug, you might have experience living with teenagers. Is what we'll take from this --

MR. HOLTZ-EAKIN: The final one left for college today. (Laughter)

MR. HASKINS: Oh, you're not even close to being done yet. You get one on the six-year plan for college. That's when it's really fun, you know?

MS. RIVLIN: I love Doug's metaphors. He does a fantastic job of messing up the conversation here. (Laughter) But I'm just very concerned about the fact, more seriously, that we no longer have any faith in what experts tell us, whether it's on the science of global warming, whether it's on evolution, whether it's on economics. I mean, because there are various really big issues we face as a country, where we're never going to be able to do that experiment, Adam, as you know well, and we've got to make decisions that affect people's lives in a huge way. And, therefore, turning to the experts and the scientists -- and I don't mean to say that economists aren't as good as physical scientists, okay, but they don't know nothing either, and to dismiss all of that expertise and say we don't know, therefore, we shouldn't do anything is just, to me, a cop-out.

MR. HOLTZ-EAKIN: Wait, no, that's not the point.

MS. RIVLIN: Okay.

MR. HOLTZ-EAKIN: The point is that you get out of a model where you put in. When I was at CBO in 2003, we did the first dynamic analyses of the President's budget, trying to look at the impacts on the economy and then feedback to the budget, and we used both the sort of business cycle models that are characteristic of Economy.com, Mark Zandi, macroeconomic advisors, global insights. We also put into the analysis forward-looking models in which people care about the evolution of fiscal policy over their lifetime or in some cases past, they also care about their kids. I'm not one of those, but there are people like that. (Laughter) You get radically different answers.

MS. RIVLIN: Yes.

MR. HOLTZ-EAKIN: And that is not an indictment of experts. That is acknowledgement of the limited expertise those very experts have.

MR. HASKINS: Alice?

MS. RIVLIN: I don't want to defend experts, although --

MR. HASKINS: They need it.

MS. RIVLIN: I probably should; they need it. Let me defend common sense for a minute.

MR. HASKINS: Well, that leaves experts out, doesn't it? (Laughter)

MS. RIVLIN: Those who say the stimulus didn't work, we still have 9 percent unemployment, are ignoring the commonsense observation that we did create quite a lot of jobs in the last couple of years, not enough, not nearly enough. And now that the stimulus has run out, what we are seeing is state governments laying off people in droves. And that is actually public employment at the state and local level that is falling; private sector employment is still going, although very slowly. I do believe that if you gave the states more money and to slow those layoffs, it would ease the employment situation. Now, that's not expert modeling, that's common sense.

MR. HOLTZ-EAKIN: Can I say one more thing?

MR. HASKINS: Yes.

MR. HOLTZ-EAKIN: Just to muck things up. I think that's what Alice --

MS. RIVLIN: You're against common sense and experts?

MR. HOLTZ-EAKIN: Absolutely. (Laughter) I want to stand in opposition to everything. No, I think --

MR. HASKINS: Speaking of Republicans, right? (Laughter)

MR. HOLTZ-EAKIN: I might be at Brookings. (Laughter) Alice is right. The idea of the stimulus didn't work. You have to define what work means, and that notion that we threw $1 trillion at the economy and it had zero impact can't be right. That is in complete -- defies common sense. So, the question is: How big where not just the $1 trillion that you spent, but the additional that you got? What are the multiplier effects? And that's the part that I think --

MS. RIVLIN: That's the part on which experts differ and disagree, yes.

MR. HOLTZ-EAKIN: -- is open for question and --

MR. HASKINS: That's the key there. And on the second thing, the notion that the stimulus ran out, here, I think the accepted Keynesian metric of the net impact on the short-term stimulus is what the is change in the full employment surplus or deficit? So, how do you change policy instruments so as to enhance the deficit, adjusting for economic conditions? And if you look at the CBO's estimates of the full employment budget surplus, it's still rising through 2011. So, it's not that it's run out, but we're not performing very well.

MR. HASKINS: All right. So, I'm going to summarize this section of the debate by here's the headline that we get from Belle's comment. Belle, you want to listen to this because you may want to defend yourself here, but Brookings' experts says economists "don't know nothing," which is the subject -- depends on how you look at it. (Laughter)

MS. SAWHILL: And common sense doesn't work.

MS. RIVLIN: That proved our point by saying that, yes.

MR. HASKINS: Okay, last question and then we're going to go to the audience. Two points. First, the President put something on the table, whatever anybody thinks of it. He puts something specific on the table, and, boy, did he challenge the Congress. I mean, I have rarely seen a president -- I think I've started putting little marks every time he said "pass this" or "pass this now," and I got up to seven and I missed some.

MS. RIVLIN: Oh, you missed some.

MR. HASKINS: Because I was on an airplane and it kept blacking out. What a tragedy that is, you miss things on blackouts, but so the President has done something. Now the question is what Republicans should do and what will they do?

MR. HOLTZ-EAKIN: Can I ask a question?

MR. HASKINS: Why aren't Democrats in this conversation?

MS. RIVLIN: Yes, I was going to ask that, too.

MR. HASKINS: Well, expand your question --

MR. HOLTZ-EAKIN: The notion when the President has the bully pulpit, is the President of the United States, has his allies in the Senate, and for two years had both the House and the Senate, why is it the Republicans who are controlling the agenda? I don't think that's true. I think the failure here and I think what the President did last night was challenge the Congress. And he's perfectly content to leave some of his Democratic colleagues out to dry in the process.

MR. HASKINS: Okay, I agree with all of that. Nonetheless, it is a fascinating question what Republicans should do and what they're going to do. And if you want to throw in something about Democrats, be my guest.

MR. HOLTZ-EAKIN: So, here's what I think Republicans should and will do. They will engage on components of this agenda. Well, they already have a track record of engaging, and the payroll tax cut is not new territory for them. They did it in 2010, they'll be back to look at it, to look at the details when the President sends them up, which, by the way, I want to applaud to send up the specifics, a new step for this administration. I think it's exactly the right thing to do, be serious about this. Something the Clinton Administration did all the time. This is what we want exactly. And the Bush Administration got away from that and this administration got away from that.

I think it's a mistake. You want to lead and say what you want. And so, to look at it, I think don't engage in the payroll tax. They've extended UI before. My guess is they will again. And the places that'll be tougher will be the exact configuration of the aid to states and the infrastructure. I think those will be the areas that will get into some real back and forth.

MR. HASKINS: Everybody is shaking their head. It looks like we have agreement again.

MS. RIVLIN: Well, I agree with that, but I think the more important question is the one that hasn't been specified yet, and that is what is the President going to say and how is he going to get to an agreement with the leadership of both parties on what I think of as the grand bargain for stabilizing the debt? I think it should be in that context that he is negotiating on the short run stuff and on the infrastructure and so forth, and in Simpson-Bowles and especially in Domenici-Rivlin, we did that. We actually worked through the long run and the short run. We had a payroll tax holiday, a full-year payroll tax holiday from both sides of the payroll tax in Domenici-Rivlin, and as well as getting to get that stabilization. That took a lot of compromising with the views of different parts.

And so, the President and the leadership have got to figure out what are they going to do, especially on tax reform. And there I'm sort of hopeful because everybody is, at least in principle, in favor of a broader base and lower rates and more revenue. Republicans don't like to say more revenue, but they may let more revenue happen. And tougher, I think, is, are the Democrats going to be willing to do what's necessary on the long-run entitlement reform?

I did not hear Social Security last night once. I think it ought to be part of the package, and it is genuinely difficult to know what to do that is credible on long run Medicare and Medicaid reform. It's hard, but that's got to be part of the package.

MS. SAWHILL: We can all hope that everything is going to be on the table in terms of this longer-run fiscal problem, but one possibility is that the Republicans will negotiate with the President and with the Democrats in Congress on this jobs package and say we'll enact or go along with a number of elements in the jobs package, but only if the long-term fiscal fix is all spending and no revenues. And the President is confronted with an extraordinarily difficult choice again, and, as we all know, when he's been put in such a position, he often agrees to the compromise, and I think that would be very, very unsettling to most of his liberal base.

MS. RIVLIN: I do, too, but I don't think that's where the Republican leadership --

MR. HASKINS: Doug, can you imagine the Republicans would do such an evil thing?

MR. HOLTZ-EAKIN: Yeah. (Laughter) Well, I mean, look, the way I -- I hope -- I think Alice has this exactly right. I mean, I want to agree with this thing. There's been a lot of talk about the Joint Select Committee, the Super Committee, and the special trapping of it. This is business as usual. This is Congress legislating on an important national issue, in this case the future of our debt explosion on both sides of the budget. It has expedited consideration built into it. That's great. It has a lower hurdle -- 15 votes instead of a supermajority's. That's great. But in the end, this is Congress doing business, and on big issues like this Congress does not do business without White House leadership period.

And so it is an imperative that the White House lean on this issue and get the leadership in the House and Senate onboard. I mean, I think that's all there is to it.

MS. RIVLIN: I think we can all agree on that.

MS. SAWHILL: Yup, totally agree on that.

MR. HASKINS: Okay, with that agreement, we'll open it up to the audience. Someone will come around and give you a microphone. Tell us your name and ask a question, and if you get to a minute I'm going to ask you to sit down.

Go ahead, right here on your left.

MR. BYRD: I'm Wayne Byrd, independent scholar.

I'd like to hear some discussion of why Obama did not get serious about and get behind the recommendations of his own debt commission.

MS. RIVLIN: I think that's a very good question. I don't know the answer. I wish he had. I think that there have been several opportunities missed, and that was a big one. I sat listening to the State of the Union eight, nine months ago, whenever it was, and thought this is your chance, and he didn't take it. I think he's now realizing that that was a mistake, so I'm hoping that the next round is the makeup goal.

MS. SAWHILL: I agree.

MR. HOLTZ-EAKIN: Implicit in this, it's not too late.

MS. RIVLIN: It's not --

MR. HOLTZ-EAKIN: In fact, this is a great occasion right at this moment.

MS. RIVLIN: It's not too late, but the damage that has been done by the political name calling and rancor of the debt ceiling debate I think is very real, and it is punishing the economy and the political system.

MR. HASKINS: Have agreement on that as well.

Right here.

MR. PETERMAN: Neils Peterman. I'm visiting from Germany. I hope my question's not too far off topic. Carbon taxes is something which right now is unrealistic but maybe in the future. Now, as some economists, including Arthur Laffer, have argued that a carbon tax if offset through cutting corporate taxes, income taxes, will be less distorting than some of those other taxes --

MR. HOLTZ-EAKIN: Absolutely.

MR. PETERMAN: -- and something which actually could help with the deficit and with job creation.

MR. HOLTZ-EAKIN: I think that observation is exactly right. I mean, we know the literature on the economics of greenhouse gas policies is that the best policy is one which is a clean carbon tax that prices the emissions and then cutting marginal rates on capital and labor in fact. And the pieces that I don't think fit in there are job creation and deficit reduction, because I don't see in the political climate the appetite to impose a carbon tax for purposes of just deficit reduction would have to be revenue neutral, and so it's a little different configuration.

MS. RIVLIN: Great idea politically and feasible in this country.

MR. HASKINS: Yes, over here on this side. In the middle there in the purple shirt.

SPEAKER: Hi, I'm Ikky Mague. I'm an intern and a graduate student.

I heard some economists talking about that since the crisis. They've got to readjust the natural rate of unemployment. And I was wondering if the current -- the speech Obama gave and his policy outline would actually kind of help the economy adjust to that new reality if the natural unemployment rate is actually higher than previously thought.

MS. RIVLIN: Maybe, Adam, you want to take that?

MR. LOONEY: I don't know if I agree with the idea that the national employment rate has gone up. And, you know, I think a lot of people point to ideas like skill mismatch or the idea that there are some people who have permanently eroded the skills they use to work. And, therefore, you have, you know, some sort of machinist who no longer is able to do his old job because that job has disappeared.

Frankly, I think that we've had that kind of job destruction every year, you know, throughout American history. We all used to be farmers and then we all used to be manufacturers, and every time we had these massive upturns in the economy and massive shifts in industry people found new jobs. And I'm not saying it was an easy process, but I think that -- I don't see any real reason why the unemployment rate, if we returned to growth and returned to longer growth, shouldn't be the same as it was.

MR. HOLTZ-EAKIN: Implicit in your earlier comment about taking a decade to get back is the assumption that we will get back, that we can back, that we could have 5 percent unemployment again.

MR. LOONEY: That's right.

MS. RIVLIN: The 1990s made me a great skeptic of the natural rate of unemployment. Economists were saying some of these same things after the end -- through the '70s and '80s, and in the mid-'90s. I was at the Federal Reserve and always economists with the models were saying 4 percent unemployment, we're going to have a huge inflation, it's going to takeoff. Well, some of us were skeptical of this, and we were right. It didn't happen.

MR. HASKINS: Doug.

MR. HOLTZ-EAKIN: I would say that the major concern -- I mean, I would agree with what was said -- is not the measured unemployment rate, which is those seeking work who have not yet found it. I'm more worried about permanent dropouts in the labor force and serious social problems coming from this prolonged downturn than anything else.

MS. SAWHILL: Yup.

MR. HASKINS: That's a scary thought because we sure have a lot of people in that category.

MR. HOLTZ-EAKIN: Yup.

MR. HASKINS: Okay, a couple more questions. Here, right here on the aisle.

MR. SMITH: Bruce Smith from Brookings.

I have two quick observations. One, I've been working on the Marshall Plan lately. Now, there's an instance where if you ever needed a confidence fairy that's how the Marshall Plan worked. It was a tremendous boost to the political stability, to economic growth. And most of it wasn't radical; it was really a restoration of the older economy before the 1930s beggar-thy-neighbor policies had wrecked trade and wrecked payments mechanisms.

But I want to address -- and, Alice, I want to disagree with you, which is very risky because you're always so sensible and intelligent, but my expertise is I was a professor of political science. And I'll do my college in saying it's not really a science, but there is something that we know as teachers of political science, and one of the things that we know is that this stuff about oh, the politics are so bad and the politicians are so naughty and it's so dysfunctional and it's crippled everything and it's made the people on Wall Street angry and they're upset, that is nonsense.

The political system is not that broken. That's what they always do. They're always fighting and squabbling. And at the end the politicians embrace each other and say my dear friend has come to such a wonderful agreement even though you've called the fellow a rascal and rapscallion yesterday. So, why do we assume that -- and we go along with this editorial writer stuff, that the politicians are all bunch of rascals and they wrecked us and they've ruined the economy and because politics are so -- politics aren't that dysfunctional.

MR. HASKINS: Alice, answer that.

MS. RIVLIN: I don't think you heard me say any of those things at all, and I totally agree. That's why I'm an optimist about the outcome of this current situation. I think it is not too late and that there is a huge opportunity here if the politician sees it. I'm not certain that they will, but I'm the optimist. I'm the one who's been arguing with the people who said what you just said.

MR. HOLTZ-EAKIN: So, I agree with Alice, and I would agree with you. That's me personally. But I think what people are reflecting is the data which have come out by Bill MacIntyre, from Public (inaudible) Strategies, and Bill is no one given to wild-eyed commentary that say that on the ground the American people are deeply discouraged and deeply unhappy with what they saw in the debt ceiling debate. He identified it as a seminal moment comparable to the Iran hostages and things like that, so that, you know, it may be that this is policy as usual for you, me, and Alice, but the American people aren't happy about it.

MR. SMITH: Yes, they have not been taught political science and they don't understand civics and how the Constitution works. (Laughter)

MR. HASKINS: We're going to teach it to them.

Down this aisle, yeah, yeah.

MR. LOEB: Alan Loeb, local attorney. I want to direct this mostly to Dr. Eakin. I don't understand why it is that politicians these days have directed their anger about the situation toward environmental regulations, especially the Clean Air Act. Most people who look at the Clean Air Act historically will find that it's one of the most successful pieces of legislation that's ever been done, especially in the modern age. You look at the big successes: the acid rain market, net positive return; the lead phase down, worth hundreds of -- billions in net return. Why is it people are focused on the Clean Air Act as the scapegoat these days?

MR. HOLTZ-EAKIN: I think it's because of its being used to regulate greenhouse gas emissions, which is a really inefficient way to do greenhouse gas emissions. And Congress can fix that by doing something else, but it hasn't.

The historical success of the Clean Air Act I'm going to dispute. I was in the Bush White House -- first Bush Administration -- when the gas emission program was developed. It's one of the best things that was done. It was in fact a cap and trade, something which is now a toxic political label. So, there's a real difference between what it was used for going back and historically very successful in its use going forward where it really is a mismatched between object and policy instrument.

MR. HASKINS: Okay, one more question? Right here on the aisle.

MR. DAVISON: Hi, Mick Davison with Garten Rothcopf.

There's been a lot of really good discussion about some of the policies proposed in Obama's speech last night. There are a lot of other policies that have been put out there -- Mitt Romney's 160-page jobs creation package, some other ideas -- and I was wondering if you could give some talk to maybe some policies that weren't on the table last night that you wished you had heard or other sort of ideas that have a lot of job creation potential but aren't getting the attention that they deserve right now.

MR. HASKINS: So, why don't you tell us if there's one policy that you -- if you were advising the President and said put this in that he didn't put in, what would it be?

MR. LOONEY: I would have -- I'm sensitive to the same criticisms that Alice and others and have raised, which is that I would have liked to hear more about how he's going to pay for everything. And I would have liked to hear that at the same time as I heard the stuff on jobs. I think that there is an argument for having certainty about these things and how to pay for all these things, and I think that it would have been natural to pair, you know, your spending priorities and your tax priorities with an idea of how you're going to -- how this is all going to unwind over the next decade.

MR. HASKINS: He did give the traditional congressional answer, though, and that was I'll tell you later about. Alice?

MS. RIVLIN: I would have liked to have heard more about the housing market, and he did mention it, but he didn't give me enough information to know whether finally, after lots of attempts at this very difficult problem, there is a credible plan to allow people with reasonable, though perhaps not perfect, credit histories and who are not too deeply underwater to refinance their homes, and I think that's a good idea, and I don't know whether we've got a way of doing that.

MR. HASKINS: Belle.

MS. SAWHILL: I agree with both of the ones that have been mentioned so far, and I think I briefly alluded to the fact that on the job creation front you could design a tax credit that rewarded businesses for adding to their payrolls in the unemployment war than was done in this particular package. And I would have probably put more of the emphasis on the employee as opposed to the employer side of the equation if I was just concerned about creating jobs, because that does put money in people's pockets.

And in line with our earlier arguments -- or my earlier arguments -- about increasing spending, not everybody's going to spend all of their payroll tax cut or their increased take-home pay, but they'll spend quite a lot of it. And this is a big increase, actually, over what we had already, because right now the average family has gotten about a thousand dollars in extra income in take-home pay. This bucks it up to 1,500. So, that's a 50 percent increase.

MR. HASKINS: Doug.

MR. HOLTZ-EAKIN: I'd like to have seen him pick up something out of Bowles-Simpson on reforming business taxation moving through our territorial system in particular. And if he was unwilling to go that far there's bipartisan support for reduced tax along with repatriations that could bring, you know, up to a trillion dollars back for use in the United States, and that's something he could get through, and I'd like to see it.

MR. HASKINS: Since the event's almost over, the moderator could say something.

I'd love to see him say something about keeping immigrants here who are capable of creating jobs. I think that would -- it wouldn't be a huge effect, but it would be a real effect, and we should do it. And it might even begin to crack the wall that we seem to be facing in our immigration policy.

So, please join me in thanking the members of the panel.

And, in this very room next Tuesday afternoon, the Census Bureau is going to release its poverty and income figures for 2010 and we will have an exciting event here to discuss those figures. So, I hope you'll come back at 2:30 next Tuesday.

Thanks for coming. Good day.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012