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Trade, Economic Security, and Effective Government

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P R O C E E D I N G S

MR. ORSZAG: Good morning. My name is Peter Orszag. I am a Senior Fellow here at Brookings, and I direct the Hamilton Project. Thanks to all of you for being here.

This is a moment of excitement for those of us involved with the project. We launched about 16 weeks ago, promising a strikingly different vision from theories driving current economic policy and a powerful economic growth strategy. From the beginning, we pledged a platform to practical, innovative economic thinkers who could help us identify pragmatic policy options grounded in real world experience to create the conditions for continued opportunity, prosperity, and strong broad-based growth. Our approach is rooted in the idea that our economic health turns on many interrelated factors. We have already released an overarching strategy document as well as proposals on education and retirement security. Today we continue the practical work of weaving threads as diverse as international trade, taxation, and government reform into a comprehensive tapestry of broad-based growth.

One of our main topics this morning is how the nation should respond to the pressures of globalization. We are releasing a briefing paper co-authored by myself and Michael Deich, laying out a view that the best response is one that shuns both the excessively laissez-faire approach of embracing trade, but shifting all of the associated risk onto individual workers and the understandable but unachievable approach of trying to stop the world, I want to get off, somehow trying to slow down the process of international trade.

Today is not just about our papers, though. We declared early on that we also wanted to make the economic debate in this country more interesting and valuable by bringing together extraordinary people of varying backgrounds and viewpoints to debate our proposals and other topics of the day. Today we are fortunate to have a group of panelists who more than exceed those criteria.

For our first panel, Gene Sperling of the Center of American Progress and Larry Mishel of the Economic Policy Institute will examine the debate over globalization. I know they hold at least somewhat different views, and the discussion should be a lively one.

In our second panel, we will take a look at some detailed proposals that would make our government work better and also hear about some proposals that we are going to be releasing in September about the unemployment insurance system. Both are critical steps to boosting broad-based growth and meeting the challenges posed by globalization. We will hear first from Nancy Killefer, senior director at McKinsey and Company, who will describe a new McKinsey paper on improving productivity in government. Then we will hear from Pat McGinnis, president of the Council for Excellent in Government, who will offer her thoughts on the McKinsey paper. Then we will turn to Austan Goolsbee from the University of Chicago, who has a new proposal to reduce the burden imposed on taxpayers each year in filling out their tax returns. Finally, we will hear from Rory Kletzer of UCC Santa Barbara and Jeff Kling of Brookings, who will highlight two different approaches to reforming the unemployment insurance system, and those proposals will be described in more detail in September when we finally release them.

In our third panel, former Treasury Secretaries Robert Rubin and Larry Summers and former Deputy Treasury Secretary Roger Altman will tackle three crucial questions: Has globalization entered a new era with the continued rapid growth in China and India and the ongoing reduction in telecommunications and transportation costs? Has the winner-take-all phenomenon become even more pronounced, and does it change, in some fundamental way, the way we should think about the economy? Is the U.S. current account sustainable, and if not, what should we do about it?

We hope that by the end of these panels, you will understand the distinctive outlook and approach of the Hamilton Project.

I also want to announce that in September, we will be releasing a set of economic security proposals including the unemployment insurance ones that you are going to hear a little bit about today. Then, on September 15th, we will be holding a joint symposium with *The New Republic* which will feature panelists Kevin Hassett, Gene Sperling again, Jacob Hacker, Jamie Galbraith, Andy Stern, and many others.

Thank you once again for coming and let us now turn to our first panel.

(Applause.)

MR. ORSZAG: Gene Sperling?

MR. SPERLING: Thank you very much. Thank you, particularly Peter and Bob Rubin and Roger, for putting such energy behind such a serious effort to have what I think of as pro-growth, progressive policies, and all the people from Michael Deich to Meeghan, and others who help make this happen every day.

My view is that John F. Kennedy's line, "A rising tide lifts all boats," is not an automatic assumption; it is the test by which we judge economic policies. Do they not only raise the tide, but do they lift all boats? I think that when you look at the evidence, there is little question that the pace of globalization and technology is raising the tide. I think the paramount economic issue of our time will be whether globalization and technology are seen as hollowing out or strengthening the middle class, whether they are seen as breaking down barriers to inequality overseas or locking them in. This is, I think, the challenge and the paramount issue we will face.

I have this new problem in life, which is I can't see you without my glasses, but I can't see down without them.

I feel that when we were in the Clinton Administration, this was the single toughest issue we had to deal with, and yet that was a time when we had remarkable solid wage growth across the board, where actually the bottom 20 percent had the highest income growth, where black Americans had higher wage growth than white Americans, that the typical American saw $8,000 in real income growth, and yet I still felt this was our number one challenge.

I think the challenge is significantly harder today. We have had five years of declining wages or stagnant wages by almost any test, whether one looks at weekly wages, hourly wages. If one looks at household income, we see it has gone down by nearly $1,700. Larry Mishel and Jared Bernstein are here, who have certainly documented this better than anyone.

I think there are deeper things going on, too, that are affecting how we must confront this issue. One, I think that there is a greater fear of falling now than we have seen in the past, not simply a fear that you will lose your job but a fear that you will actually fall out of your economic class or that you will be struggling to maintain your standard of living. If you look at the work by Farber that talks about even for highly educated people, those with 16 years of education, the degree of falls are deeper. Hacker, who works with the Hamilton Project as well, talks about this. I think what we are seeing here is an upscaling of insecurity, a greater fear that the global economy can have negative consequences for you even if you are the typical person who has done everything right. I think this is a deeper issue.

Now, people debate how deep the issue is. While I deeply respect the work of Diana Farrell and others at McKinsey, it is my belief that what we are seeing is much deeper and broader than is described in the numbers on outsourcing. I think there is a deeper effect on the competition. I think there is a deeper effect not on where people are necessarily changing jobs or outsourcing, but where they are choosing to build what might be the new middle class jobs of the future.

Beyond the numbers, which I know we will discuss today, I do think that there is this deeper psychic tension in the public. It is the feeling that perhaps the unwritten social compact that people relied on may be more frayed: the sense that when President Clinton was in office in the nineties, it seemed that we were only telling people that the social compact needed to be updated. It still worked. You just needed a little more education. You just needed a little more in technological training. I think when people see those with higher education, those even with advanced degrees losing jobs and seeing falls in wages, it is not just an economic issue. It makes people question the degree of is the social compact still working in our society.

This means that I think our great challenge is the degree that we can find a new compact on globalization. I think there has been often the type of dichotomy that Peter has talked about between those who want to either slow down the pace of the economy or think that is the main target to increasing middle class jobs or those that think we can simply have less government and fewer taxes.

My book — and, I think, the Hamilton Project — seeks to occupy a space that is in between that. A space that accepts the inevitability, the power, and potential of globalization, and yet sees a greater, perhaps more expanded or at least smarter role for government in dealing with this. This is not to find the third way or triangulation or the center. This is because I believe this is the place we must be if we are focused on a rising tide that lifts all boats.

I think that when we look at a new compact on globalization, I think we have to look to at least two or three broad areas. One is the degree that we have what I think is a more nuanced and honest debate about trade, as opposed to what I think we have today, which is almost a kind of divorce court mentality where neither side wants to acknowledge anything positive about the other's arguments or fear that will somehow weaken their overall case. One side tends to do what I would call the overblame game, looking at things that are negative in the economy and seeking to assert that trade has a much stronger causal impact. The other side has perhaps what I would call a discounting-pain game which seeks to underplay what is the real harm in the global economy.

Now, as one of the people who defended the Clinton global trade agreements, let me say what I think some of the right critiques could be on where we could move the debate forward. One, I think we need to be willing to have a true impact analysis of what we are doing; to look at each trade agreement and do a fair impact analysis of what we see in our country and our trading partners; that we look for the things we are missing, the degree that we did not look at things like safety nets in NAFTA; that we are willing to acknowledge that there are values that we support in trade; that it is a difference between competition based on low wages and competition based on jailing union members or abusive child labor; or that there can be a one-size-fits-all, the so-called Washington consensus.

Opponents, on the other hand, or those who tend to oppose, I think have to take much more seriously the progressive values that are at stake in globalization: the notion that lower prices are more progressive for lower income consumers; that a multilateral system that could have lower agriculture subsidies was positive for the progressive values in which we believe in terms of reducing global poverty; and in the legacy of FDR and John F. Kennedy, that open trade is a way for greater peaceful exchanges.

I am so used to giving a longer talk on this that I think I have just kind of cleared my throat, and Peter wants me to pretty much wrap it up, so I will do the point one, point two as fast as I can.

I think we need the compact. In doing the greater compact at home, I think we have to recognize honestly that the things people most want are the things government is probably the weakest at delivering. They want help to protect their jobs, and they want help to pinpoint where the new jobs are coming. In 1993, the BLS pinpointed travel agents as one of the top growing jobs in the economy. The fact is that this is not what government is good at.

What we seek to propose here are the things that help people in the adjustment side, and yet workers don't particularly warm to that either. They call it burial insurance. It is seen as the pre-nup of public policy: what we will do for you after something terrible happens in your life. We need to start looking at a social compact that is a little bit more preemptive, that looks at how we can help people deal with job loss in communities before the dislocation happens.

I think we need to look for things that are more simple and universal. If you look at the things about which the Hamilton Project and my book talked, discouraging a backlash, encouraging people to take more risks in themselves, let us just be honest, that is not going to happen unless the programs we talk about are simple and universal, and perhaps we need to think of universal health care once again in this context. We have to make sure that, as we broaden, we get the incentives right. The important thing to note about wage insurance is to note that while it is broader and we would be spending more money, it only is triggered by finding a job. It does not have the type of negative incentives that Europe has.

Now, the other thing that we just have to deal with is that too often, there does not seem to be a job component to what we are speaking about. It is like a field-of-dreams feel to the average person: if we just do this research and education, all the jobs will come. That is a very difficult message, particularly for our political leaders to deliver. So I think a major challenge is in between having the type of industrial policy and public works programs of the past or simply a field-of-dreams approach where we are waiting for the next best thing, what are the things that we can say to people that we are fighting for their jobs, that we are giving incentives for R and D to locate here, that we do think there can be a role for unions and collective bargaining and not dismantling jobs? I think those are very critical.

My last two points, Peter, and then I will stop and you can take a deep breath, are that I think we have to look at the tax and wealth side as well. If we are having a winner-take-all economy, if we cannot do as much direct interventions, we certainly need to explain the importance of a progressive tax system that recycles some of those benefits. As we move towards a world where we give less or no benefits to increase savings and wealth creation for moderate income people, and yet we go to eliminate the taxes on wealth for upper incomes, we will have a tax policy that, rather than moderate the winner-take-all policy, exacerbates it.

My last point, and I will make it very quickly, is just that I believe on the progressive side, there has been a bit of an effort to downplay education. Here is the reason: People fear that when all we say all the time is that if you get more education and skills, you can be in the winner's circle, we are downplaying the structural issues. Well, if we feel that way, let us say we are downplaying the structural issues. We shouldn't be downplaying education.

The truth is, and Lori Kletzer's paper shows this very well in the tradable services, is the following: the reality is that we are entering a time when higher education has never been less of a sure thing and still has never been more important. That is the reality. It has never been more important to maximize your chances of doing well in the global economy, and yet it is less of a sure thing than it has ever been. That reality should not make those of us, who care about a rising tide that lifts all boats, downplay education. It means that we should just do a better job of explaining what a true broader global compact on globalization can mean.

Thank you.

(Applause)

MR. ORSZAG: Larry?

MR. MISHEL: Thank you very much for the invitation to address this conference.

I would say that Gene's book should be read in conjunction with the Hamilton Project, because it actually sort of prefigures most of the themes we are hearing today.

This is a very important effort by important thinkers, by important people in the financial community, and it comes at an important time, because we know that the economy is failing many Americans and we really need better economic policy.

I am going to direct my remarks to the framing document by Peter and Michael, and my comments are in three parts: what is really great, what is not so great, and some questions that we all have to grapple with. Let us start with what is really great.

First, it is important that we recognize that we have very fast productivity growth, and that we cannot take it for granted that we have to make the investments in education, basic research, infrastructure, et cetera, to make sure that productivity continues.

Two, I think the framing of how to judge economic policy by whether growth is associated with broadly shared prosperity, whether productivity and the wages of a typical worker are growing in tandem, is a very important metric. I might add, it is something that Jared Bernstein and I have been talking about for 14 years, so we will be glad to lend it to you for a while, but it is very important. It is important not only for judging this administration, but it is important for judging the next administration. It is important for judging the policies that are being proposed by this project as well as the policies that the Economic Policy Institute is going to be proposing.

The question being: Have we really reconnected productivity and income growth for the broad middle class? It is clear that we haven't in recent years. We estimate that between 2000 and 2006, productivity will have grown around 20 percent, but the wages of a typical median worker or a high school graduate or even a college graduate has gone up around 2 percent, and that 2 percent rise actually came right at the beginning as a spillover from the wage boom of the late 1990s. So in recent years, there has been a chasm between the possibilities of broadly shared growth and the actualities.

Third, I appreciate the recognition that you-are-on-your-own economics, yo-yo economics as my colleague Jared Bernstein calls it, is not going to be able to address people's problems.

Lastly, I really support the notion that economic insecurity, as illustrated by income volatility or various other kinds of insecurity, is counterproductive to the kind of nation we want in terms of innovation and risk.

What is not so great? Here, in some ways, I am coming at this in the same place that Gene is, that I really think it is important that we have a very engaged discussion about globalization and what to do with it, and I don't think this paper really gets us there. It seems to be asking for a blank check for further trade liberalization. It is unstated. We don't know if it is just a status quo or some yet named set of policies or just that we all should salute liberalization.

Just in response to Gene, I will say I am an economist. I think that trade between consenting adults, by its nature, you think you want to let it happen, and I understand that trade is beneficial. I do question whether it is beneficial for some large sections of our population, perhaps even a majority.

But I have the following types of problems, and I think we have to address this. I might add, the public doesn't accept the old Clintonian framework of we need education to get us through a transition to a global economy. The public overwhelming believes we should limit offshoring. The House Democrats now vote 90 percent against every free trade treaty. So if you are really going to engage people about this, I think we have to do a better job.

First, the policy choice framework, as Peter said, it is as if between laissez-faire fundamentalism, free market fundamentalism, and people who stopped the world and want to get off, which I think is supposed to describe my position. That is not exactly a useful framing. It may make you feel comfortable and in the middle, but it does not really engage the really important issues.

I do not want to turn inward, but believe that globalization, as currently practiced here and abroad, has inflicted substantial damage. And I wonder why more of the same, perhaps even accelerated, needs to be the policy priority. It is easy to say that innovations and technological advances have been promoted by international trade and investment, but is any particular competing approach to trade, something actually people have proposed, really going to jeopardize our future technology advancement? Are trade treaties with Oman and Central America really critical for our future advancement of technology?

The second point, the costs and benefits, in my view, this paper presents a very exaggerated sense of the benefits and the most constricted view of costs that are possible. I won't go into my critiques of the one study they are drawing on from IIE that draws on four other studies and which they make what I would consider unwarranted extrapolations from those studies that are innocent victims.

Then on the costs side, well, there is no effort to quantify the costs — none. There is a discussion of dislocated workers, and we know the trade theory, Samuelson and everything else, that the costs of trade are going to be spread across unskilled, semi-skilled workers, and today, also highly educated workers. It is not just jobs that are lost, but it is the wages that are now lower as a result of this kind of competition, and the costs are very widespread and substantial, including extreme pressure that is a major factor in the unraveling of our employer-based health and pension systems.

My third problem is the missing sections. One is dealing with our trade deficit and exchange rate problems. There is a chart that shows imports rising like this, and exports rising like that. You would think there would be a line between the two that says, hey, there is a really large, unsustainable trade deficit, but the words nowhere appear. It seems to me, especially given that in this project there are people who are associated with the policies of the past that some people might rightly or at least reasonably think led to this situation, that they would need to address what are we supposed to do about this trade deficit and the exchange rate problems.

Next, it seems to me that we need to talk about how to shape globalization, and so that is a discussion about labor and environmental standards and a few other things. I don't see anything in the works on that topic, but it seems to me a really good engagement about these issues is very important. Some people who are fervent trade liberalizers believe that talking about labor and environmental standards is sort of hidden protectionism. I would just say you should call the bluff of all the people who say we would support more liberalization if we had better or reasonable labor and environmental standards. Call their bluff. I think it is mostly the ideological queasiness of the business community about such basic things that leads them not to be able to deal with that question when we deal with trade.

Last, some questions that I think we all have to grapple with.

The argument is that open trade is more compatible with society when there is wage reinsurance and we take care of the losers and we have less economic security. I guess my question then is: If that is true, do these systems have to be in place before we launch further liberalization? Economists always talk about the fact that if the winners compensate the losers, trade is a benefit for everybody. But of course, the winners never compensate the losers. That has not happened. It is unlikely to happen. So we are always faced with the policy decision of, do you go ahead where the losers definitely don't get compensated or do you not? I guess I want to know, for those of us who you might want to persuade to go down this path even further, when do we get those systems and how seriously do you take that?

This also relates to the second point, which is we all support, everyone here, deep investments in human capital, infrastructure, R and D, et cetera. So the question is: How does that relate to fiscal responsibility? Do we have to have a 1 percent of GDP deficit balance, a surplus? Do we have to solve the whole entitlement crisis before we get that? When is it? How important really is that? Frankly, my fear is that it is really liberalization and fiscal balance that really, really matter to this group, and I am not sure these other things have that kind of priority.

Third, again, what are we going to do with those frisky trade deficits?

Fourth is sort of the where's-the-beef question. What is it in this project that is going to connect the wage growth of a typical middle class worker and middle class family income to productivity? There is no discussion. I am not saying those are easy answers, but I think it is an appropriate frame, and I think we all have to struggle for the answer, and I don't see it anywhere in what I have read about or heard about what is forthcoming.

There is no discussion of can we have lower employment than we have now, or Federal Reserve Board policy. These are people who are not empowered. They are no longer Secretaries of the Treasury or anything like that. They are allowed to talk about Federal Reserve Board policy. It seems to me that having unemployment as low as it was when the Clinton Administration left, 4 percent, seems to me a good target. Getting 4 percent unemployment would mean millions more employed and especially millions more disadvantaged minority workers being employed and a little bit more wage pressure that might allow for some of the sharing of prosperity.

There is no discussion here of any kind of broad labor standards or revitalization of collective bargaining that might be able to provide that reconnection. Given the fact that tax and transfer policy is going to be limited and has a limited ability to reconnect people, I guess it is a challenge for all of us that we should focus on throughout the whole day. How really are we going to connect growth to that of the middle class worker?

Thank you.

MR. ORSZAG: Thank you, Larry.

(Applause)

MR. ORSZAG: Gene, do you want to comment on Larry's question in particular that even if there are benefits from globalization, without the right tax and transfer and economic security apparatus in place, there are questions about whether we should continue along the trade liberalization front?

MR. SPERLING: I think this is a very difficult issue, and I think it is one that President Clinton wrestled with quite a bit. I think in the construct we were in, for him, he felt that in order to get the numbers to pass trade agreements, you often had to be working with people to get votes predominantly from people who tended to be more resistance to this type of expansion of government. I think with some regret that the political context had not allowed us to put together that type of global compact.

I guess what I would say, and maybe this is only a partial answer, but this is what I did say to some people concerning CAFTA, which is I do believe that those on the progressive side, if we are going to say no, we need to say no as if we have a real vision for how to get to yes. I think there is a lot of suspicion — some of it is justified — that when people are raising issues, that they are just kind of raising the bar, raising the goal post. When somebody like Sandy Levin comes along, it is noticeable. It is noticeable because in the China Trade Agreement, he was very clearly trying to get things done in order to say yes.

I think that if progressives were to come forward with a sense of: Here is the compact for going forward; we want to get to yes; we understand the benefits of innovation and competition from open trade; we understand the benefits of foreign policy, having closer relationships with our neighbors, more peaceful exchange; we understand the potential this could have for lowering poverty in developing countries; but we need a compact that both deals with some of the inequities and the problems that can happen with our trading partners and here at home, then I think at least if a Democrat or progressive or somebody opposing trade is saying no, they are at least laying out their framework to get to yes and showing they have an optimistic view. I think that is what we should try to do.

Whether you vote no on a particular trade agreement because you don't have that in place, I think, is a reasonable question. But I don't have a single answer to it.

I would not, if we had an acceptable Doha agreement, feel that we should reject what would be positive worldwide trade agreement because we didn't have those things in place if I felt the benefits were so important to developing countries. To say no to a particular bilateral trade agreement as a statement that we need a broader compact that might include wage insurance, that might include more on what we are doing for safety nets in developing countries, in labor and education issues overseas, I think is a reasonable no vote if it is truly done to make a statement that we need to reach something broader and comprehensive in the way of trying to find that new consensus.

MR. ORSZAG: I think Larry has a quick comment, and then we will open it up to the audience.

MR. MISHEL: I want to clarify what I think is the biggest challenge that I would like this compact to include. In the United States, unlike every other advanced country, the kinds of benefits you have are tied to which employer you have, what industry you work in and your employer. Whether you have a good pension, whether you have good health insurance, whether you get retiree health insurance, what kind of vacations you have, your sick leave, everything is tied to the job. Therefore, people who are threatened by a job loss lose far more than anybody in any other country. So the question to me is not so much the wage insurance and all that.

The question to me is for those who say we shouldn't have the economic insecurity that we have and we need a compact to be able to go along with liberalization. I want to know: Are we going to have a comprehensive national health insurance that is not tied to the job? Are we going to have a pension system that allows you to retire with much more than what we get from Social Security or not? What about your vacations? What about sick leave and all those other kinds of things?

It is not so much transition assistance or all these other matters. If you really address those fundamental concerns of middle income America, I think you would go a long way to getting people to accept all sorts of changes.

MR. ORSZAG: I think we are going to open it up now. There are microphones coming around. If you can just keep your questions short because we are short on time for this panel, that would be terrific.

Right there, sir?

QUESTIONER: Thank you. I would like to make a brief observation and get comments from the two panelists.

Last Friday evening, I attended a meeting with about 50 trade union presidents, most of whom are from the Midwest and involved in the auto sector that is in the process of collapsing. The picture I got there is that the equivalent of a nuclear bomb is about to land on Ohio, Michigan, Indiana, and some of the other states that are going to be hit by pretty much the shutdown of Delphi production in the U.S. and the radiating impact on General Motors and other auto companies.

My question is, I am at a loss to see how this process already of disintegration of the core of our manufacturing sector which represents an important part of middle class workers is not going to hit us in a way that becomes a much graver crisis. The idea of a skilled machine tool workers winding up a year from now, after his buyout runs out, running a travel agency or something seems to me to reflect a major loss of productivity in the economy and something that requires more urgent action. And I don't see it obviously coming from this administration. I wonder what thoughts you have on how to deal with this crisis, because I think the barn door is already wide open.

MR. ORSZAG: Larry or Gene?

MR. SPERLING: I don't downplay it in any way. I am from Michigan. I don't downplay the nature or the depth of the problem. I tend to lean more on the side of thinking that we are facing more of a serious compression or threat in middle class jobs, and that we may be in a period where the degree of the integration of China and India into the global economy with the fast-paced information technology is putting greater and greater pressure on many of our middle class jobs.

I guess my question, though — and this is where to go to Larry's point — I think Larry made a fair criticism of this paper, and I think the way some of us have talked before, which is to just assume everything about trade is great and we just need to compensate losers, I think that is it fair for us to have to analyze a little more what our assumptions are about particular trade impacts overseas, at home, not as a way of being against it, but at least understanding what the actual impact analysis is.

My criticism tends to be on the other, to those opposing it. I don't really ever quite see a vision from how you get from here to the future. I understand that you can slow down and take instant and urgent action to protect a current set of jobs, but this is the tension we have. Forgive me for this being such a dichotomy, but there is some truth to this gross dichotomy, which is people who tend to resist trade often have little vision of the future; those of us who tend to be for it tend to have too little vision of the present, and so we have too little to say to these workers.

What exactly is the recipe for saving particular jobs, and to what degree are you making a silent tradeoff between a set of current jobs for a moment now and jobs in the future because you are slowing down innovation and raising input prices? I think this is why this is such an incredibly difficult and painful issue. There is a chance on the one hand that if you try to intervene and stop these processes, you could do more harm than good. You could create a set of conditions that makes people less likely to want to locate jobs here in the future. There is potential to do more harm than good.

On the other hand, those of us who have taken the case for trade liberalization run the risk of sounding like it is just tough luck; we have nothing to say to these workers; and we just want to invest in basic research and education and wait for the next internet to come.

I do think finding that middle place is a deep challenge. I am not saying I have all the answers, but I would rather be struggling in the right place than looking for a simplistic answer on either side.

MR. MISHEL: I would say I really don’t like this discussion of globalization as if it is a force of nature and it is a deity that planned everything this way. There are hands on the wheels of globalization, and there have been. It is not an accident that Delphi workers are being told that the China price is a certain amount, that you now no longer are worth what you are worth, and that you can only get paid $9 an hour instead of a $25 an hour. That is moving a male worker from the 75th percentile to the 25th percentile of wages. That is substantial drop.

It is not a force of nature. It should have been foreseen. We haven't had the exports that would have even somehow offset and gotten somewhat better jobs. We have extreme exchange rate problems that I hear deafening silence about. If there, in fact, was a much better exchange rate policy, the grueling competition and pressure on that company to offshore would be far, far less. So is anybody going to do anything about that? Is anybody willing to talk about it?

There are definite things we can do, and there are things we need just to enhance our ability to sustain manufacturing in this country, which is going to be very important. It doesn't have to do with building walls, but it does have to do with providing basic supports and consciously thinking about what we can do to advance domestic production in the United States.

MR. SPERLING: I just want to say, I think there is a bit of an area of potential agreement here in the following way. I guess what I am saying is, I do think the response from some of us on the progressive tide of taking liberalization is too mild on what are our responses. If we want to have a response that is other than one that might seem more interventionist-protectionist, then I think it does have to be significantly bolder, bolder on the tax incentives for job location here, far more bolder on our support for the research agenda, the infrastructure agenda. There at least needs to be a sense that there is a very bold and active agenda to make the U.S. a magnet for job location and that we are actively fighting in non-protectionist ways.

I think that is where you have an administration now that is completely opposed to any of this, because it would simply fall under the realm of bigger government. I do think this is going to be the challenge for progressives, to be able to present that type of bold incentive for job location here that again is neither public works or industrial policy and that is not just we are waiting for the next big thing to come. That is going to require a degree of bolder policies than perhaps we have put forward.

MR. ORSZAG: We are going to pick up a lot of these threads in this discussion in our final panel also.

Let us take one more question, and then we will shift to the next panel.

QUESTIONER: I am going to make a comparison here that doesn't fit exactly, but I do think it is an appropriate one. There is an ongoing debate about whether the Democratic Party is inevitably and kind of reflexively becoming the anti-war party in the United States. I think that events in Connecticut and elsewhere have shown there is not a lot of room for nuanced views about Iraq, politically speaking.

I wonder if, politically speaking, there is room for a middle ground on globalization for the Democratic Party with an administration that is going to be negotiating free trade agreements with South Korea and other countries that may well bring back a global trade agreement, and thus there will be a debate about global trade if they do bring one back. Do you see the potential for the Democratic Party to be able to make this case, or really is it inevitable that the middle ground will get squeezed out?

MR. MISHEL: I would like to answer.

First, I am no expert on the war, but I don't see any nuance in Senator Lieberman's position. I just don't understand why you would say that is a nuanced position. I am just saying that framing is somehow that Lamont challenges him on his position on the war in line with the vast majority of thinking of Democrats and whatever. I just think that is such a Washington insider view that it is unbelievable.

Second, listen, I am going to steal something from President Bush. I know the heart of Gene and Peter. They have good hearts. I think what I am trying to do in this session is I don't want to repeat the kind of discussions we had in the nineties on globalization. I want to have the kind of engagement, and I think we ought to start doing it now, about what it would really take to have the kind of society we want with the economy we want and with the social insurances that we want, that lends itself to the kind of innovation, high productivity growth, open economy that I think is a thing we should have, but I don't feel like that engagement really occurs when there is not really a discussion of the costs. I don't think if you engage typical workers and families, you would find yourself at all credible.

So I think that there is possibility of a consensus around a very important, broad swath of policy that includes liberalization.

MR. ORSZAG: It was a good not to end on, but Gene is not going to let me. Gene, very briefly.

MR. SPERLING: I think there are a couple of different ways to think about this. One, what are the things we do that may not be connected explicitly to trade agreements but essentially take the pressure off, that make the volatility in the economy less painful and harsh? I think if you talk to Gordon Brown, he would say there is somewhat less resistance in the U.K., partly because people do not fear they will lose their health care and they do not fear they will lose enough.

One of the issues is: Those types of changes that we need to make, will they be someday connected to a Doha round, or are they the things we just need to do and you won't see this one great moment? This really does go back to some of the issues on universal health care, doing things more universally. I think one of the things that is very troubling, justifiably, to a lot of progressives with free trade is that the normal kind of agreement is you get a trade agreement and you get just a little bit more trade adjustment assistance here and a little more there, and it doesn't mean anything. There aren't 28 people who even know what happened in the legislation.

So one is if we want to take this pressure from backlash off, I think that it has to be things that are more universal like health care, like wage insurance, like a simple one place to go to deal with job dislocation.

Then secondly, I do think that we have to be willing to talk about what are the values that should be in our trade agreements, the progressives. As I said, that should include the progressive values that argue for trade, but it also should be willing to acknowledge those elements of competition that we do not find acceptable ways for Americans to lose jobs.

Third, I think to the degree that people think we are fighting for jobs, we have an aggressive and bold action plan. I think the very interesting thing for progressives and it is worth thinking about is: Is this going to come in the typical here is a trade agreement and here are the things attached with it that make you vote yes, or is it going to be about having a more progressive agenda that takes the pressure off, that shows we are fighting for job creation, that makes people simply less resistant to the pace of globalization in trade?

MR. ORSZAG: If I can just, as a final comment, note that there does seem to be a significant amount of agreement on the importance of a serious engagement — not a sort of clichéd engagement — on the very important topic of economic security, on exactly how to do the domestic steps, that would be consistent with the vision that you actually are both laying out. That is precisely what we are hoping to accomplish over time. We haven't done it yet, but over time, by putting a whole variety of different ideas and proposals and strategy papers, and that is the goal.

In fact, on that note, we will turn to our next panel where we will hear about some of those ideas.

Thank you, Larry and Gene.

(Applause)

MR. ORSZAG: We are now going to turn to our second panel. Again, we will begin with Nancy Killefer.

Nancy?

MS. KILLEFER: Peter, thank you, and thanks to the Hamilton Project for inviting me today. Thanks to Pat for joining me. Her work on the Council for Excellence in Government has really advanced the notion of effective government.

Peter has already told me to brief. I am a consultant by nature, and you will be happy to know I have no slides here today, so that will force me to be brief. Oh, I do have one. Let me take it off. I planned to eliminate it.

Let me first say that the topic that I am addressing today is about effective management in government, which is largely a nonpartisan topic that I think both administrations have taken on. At McKinsey, we have worked actually broadly across the world in both government and the private sector in trying to push forward more effective management.

The paper that we are going to discuss today actually deals with, if you will, the environmental setting that will help create the opportunity for agencies to, in fact, drive productivity. We will do future papers on issues that relate at the agency level to transformation as well as talent management which are pressing issues in government. The title of the paper is "How Can American Government Meet Its Productivity Challenge?"

The first thing I want to do is clarify what "productivity" means. I am sure all of you know, but I think it tends to get used as synonymous for cost-cutting.

Productivity is really about improving performance and results, delivering more, better, and yes, more efficiently. That is what this paper is broadly about.

I think too often the notion of more effective government and more efficient government gets presented as a dichotomy of you have to choose one or the other, either bigger government or less cost. It is not. In fact, they run in parallel. The beauty of productivity is by improving effectiveness and performance, you usually drive down costs at the same time. In my own experience in working with the IRS through its transformation, just a little example on electronic tax, it is no surprise to any of you that when you move to electronic filing, you actually improve performance. So you drive faster results, lower error rates, and drive down costs all at the same time to the benefit of all. Those are the kind of productivity improvements that we are talking about in this paper.

What we have tried to do here is start to think about, in fact, in terms of productivity, what is the imperative. Once again, I am not going to belabor this. All of us know that the aging population is creating increasing pressures on all of our programs for more, that we have now a whole other set of needs brought on by 9/11 around security, protecting our borders, et cetera, that demands even more spending, and that finally through their private sector experiences, people have come to expect more, better service, faster turnaround times analogous to what they find from their other services.

What is government to do? We firmly believe that government is not meeting the productivity imperative that it is. Can we prove it? No, and the sad news is we can’t prove it, because we stopped keeping score.

The one chart I do have is actually about it. If you take a look, BLS used to measure productivity. They stopped in 1996, and the last data is available for 1994 which is at the bottom. The yellow line shows government productivity as measured by BLS through that time period. The other two look at private sector productivity. What we can see from this chart is that through 1987, in fact, they actually moved roughly in line. Then we saw the disconnect where public sector productivity fell, creating a gap.

We don't know what has happened since 1994, but our own experience in both government and private sector, and we all know the dramatic increases in productivity that have occurred since the mid-nineties certainly here in the U.S. in productivity growth, is that we believe that gap has broadened. We believe the government must start to close this gap if we are going to deliver the government we want. So that is the challenge we faced in this paper and the one that we are going to address.

When we thought about this, we thought about what, at where we are calling the sector level, can government do. This is not at the agency level where individual programs can make a difference, but rather for Congress, for the White House, what is the environment that they need to create to improve productivity.

What we have laid out here is what we think are two fundamental core principles of what can be done to improve productivity. The first pillar, and we will go into it in a little more detail, involves creating transparency, measuring, if you will, keeping score, so that we have pressure to improve performance. Pressure alone, without the capability and support to make change, we know will be demoralizing at best and ineffective clearly. So the second pillar that we will talk about is how to boost the capabilities and the support for our government to improve its performance.

We take from this a lot of insight that we do draw from our own work on productivity in the McKinsey Global Institute as well as the work that we do in the private sector. Through our work in those venues, we have seen that competition is an enormous driver of productivity improvement. It leads to massive innovation in management practices that quickly gets dispersed and creates a virtual cycle.

How do we create that competition in the government? Obviously, it is not directly transferable. Our recommendation is to look toward transparency. Any of you who have spent time in the government know, while it is not Wall Street and there is no quarterly performance, there is nothing like a hearing in Congress and being on the front page of the paper to drive a performance dialogue and to push and put pressure on the government. So we think a level of transparency, while imperfect, is a way to get there, and we would suggest doing that.

Peter is telling me to rush, so let me move forward on this as quickly as possible.

The second principle is around how do you achieve that at an agency level. The scale of productivity improvement that we are talking about is not incremental in nature. It is a step change. Many private sector firms have gone through this, and other governments around the world have also produced this. To do that, they need support, and so we are suggesting a set of recommendations to both provide the right incentives to drive that performance as well as the management capability and support.

Let me move to talk about the specific recommendations. In the paper, you will see there are three of them on transparency and three on support.

The ones are transparency, first, as I have already talked about, is to start to measure performance again, productivity again. Go back and keep a scorecard.

Second is to create a set of stretching measures, and I don't mean short term. We know from our work with the private sector that transformation takes time. We pose eight years. It is two terms of any administration. I am not saying that is perfect, but set a set of stretch metrics out there.

Third, find an infomediary. Find a way to actually create a third party with quality data to serve as the honest broker in this, to give people confidence of the data to make it compelling, so that we have a citizenry that understands how we are doing.

On the notion of support for transformation, the recommendations there are first, create incentives. Can we think about the possibility of letting agencies keep part of their savings above those targets to reinvest? I don't go into, in detail, the budget process. I don't hope to fix that. I have been part of it, and I have given up. There are opportunities, and we have seen this in incremental programs where people have been allowed to keep savings, and that is an incentive, and we believe that has some power here.

Second is to introduce the COO role. This is a topic that has been talked about by many. I am sure Pat has been part of it. We do believe that management competency and a focus on the management agenda, not just the policy agenda, is critical and maintaining that focus over a period of time. We are recommending, like many others, that a COO role with people with management expertise and capability be built into our department and agency structure to drive this change.

Third is central support. All of us know that there is an M in OMB, the management side, hotly debated over the years. We believe that needs to be boosted and boosted in a way perhaps that hasn't been talked about before, as opposed to I know that many have tried to marry the budget to the management imperatives. We think that is never going to work, just because of the stretch of the talent in that area and its focus. We are suggesting that a SWAT team, call it a consulting like approach, be taken within OMB on priority programs and areas to help them drive performance with the sole focus of aiding agency management and core programs in delivering step change. They will do that by diffusing best practices, by networking private sector experiences and results. We think it can be quite powerful.

To sum up, we think the government faces an enormous productivity imperative. Will it solve all the problems? No. But we believe it is necessary to deliver the effective government that our citizens expect. We believe that the opportunity to make the productivity of the public sector transparent and then support the transformation of our agencies could be quite powerful.

MR. ORSZAG: Thank you, Nancy.

(Applause)

MR. ORSZAG: Pat?

MS. MCGINNIS: First, I want to congratulate and thank you, Peter, and all the members of the Hamilton Project for pulling together such an incredible group of people to think about the future.

I have to say, from the vantage point of the Council for Excellent in Government, this discussion about improving government performance does sound a little bit like déjà vu all over again. You can look back really to the Hoover Commission and all of the initiatives from that to LBJ's PPBS to Nixon's MBO to zero-based budgeting in the Carter Administration, inventing government, the President's management agenda. They all focus on improving government effectiveness, efficiency, and accountability for results. They are all well intended, some more successful than others, and all very difficult to sustain.

How do you break through this? How do we get these management initiatives above the radar screen? I think the McKinsey paper that Nancy has presented is really excellent, particularly on the imperative to improve government performance and productivity. I certainly agree that the supply of accessible, comparable, independently validated data about government performance is inadequate now and that the kinds of changes that Nancy mentioned around incentives, management capacity, personnel flexibilities are necessary for dramatic improvement.

But based on my experience, the toughest challenge is on the demand side of the equation. The fact is that the public is not actively demanding that their government, their representatives, or the agencies that serve them produce measurably better results or even a clear status report on critical areas such as education, health, safety, the environment, emergency preparedness, or even national security. It is not that they are not interested in these subjects.

Our survey work, and we have done a lot over the years on these topics, shows that most Americans, and this is especially true of young people, just don't see the role of government or much of the information reported by government as very relevant to them. It is just not breaking through. In one survey, we asked people to name a government success in the past 50 years — this was an open ended question — and most people could not name one. That is because World War II was more than 50 years ago, and that is what most people would say.

Their representatives in Congress, for the most part, do not demand or use data about program performance, either in the design, authorization of programs, the funding, appropriation of programs, or even the oversight. There are some exceptions, and we can point to those, but more the rule is that this information is not demanded or used. In fact, there are a couple of appropriations bills making their way now past the House already that actually would limit the use of performance data and limit funding for the program assessment reviews.

It is a good thing I have a microphone.

Let me offer a few thoughts to build on the insights and recommendations in the McKinsey paper. First, I want to underscore Nancy's point about how critically important it is to measure outcomes that are meaningful and easily understood in addition to the inputs and outputs. Productivity, in a classic sense, divides outputs by inputs. In cases other than direct government to customer transactions, even with quality adjustments, productivity does not seem to capture the value of the desired outcomes, for example, of regulatory programs, research and development, grants to state and local government. For these, a more important, and I think perhaps it is included in Nancy's broader concept of productivity, would be the net impact of government intervention on the desired outcome over time, and this would require a larger and more strategic investment in rigorous evaluation, including randomized, controlled experiments where possible.

I want to say a little about the Program Assessment Review tool which is the program started in the Bush administration to rate program effectiveness. I think this is on the right track, and I rather hope that it can institutionalized in some way, so that the next administration can make it better. It was developed to improve program performance and to inform budget decisions. It is administered by the OMB budget staff working with the agencies. The programs are divided by category, and they are rated on program purpose and design, the quality of measures and the targets, management capacity and improvement, and then 50 percent of the weighting is around results. It is far from perfect. It is still more art than science, but it has begun to make a difference, particularly to the managers in the agencies.

What it hasn't done yet, and this is really the main point I am trying to make, is that it is not well understood, owned, or used either by the Congress or the public, even though there is a new citizen-friendly web site called ExpectMore.gov that has been launched to make this user-friendly and transparent.

The most difficult challenge clearly is stimulating demand for the use of performance information. In this regard, I think the paper's most interesting recommendation is the creation of this influential, independent, infomediary that would analyze, validate, and interpret information for citizens, stakeholders, decision-makers in both branches of government and, in fact, in the private sector. Then you get to the details, and the devil is always in the details when you are structuring something like this, so that it will have the right structure, funding, and governance structure, so that it can communicate with credibility, authority, and value to a number of audiences including the public, the press, and decision-makers in government, business, and non-profits.

Based on our experience, both with several performance initiatives including some that are referenced in this paper — the Key National Indicators Initiative, for example — and the town hall meetings and polling that we have done around the Country on Homeland Security and more recently on jobs and the economy, I would suggest a few principles to follow in framing such an initiative, such an independent resource. One, I suggest focusing on the public's priorities which don't change much over time. Education, economy, health, safety, gas prices — the concern about that might go up and down — these don't change much over time, and people can express their priorities very easily.

Two, collect, validate, and analyze several categories of information including key indicators with geographic — that would be state and local and also international, and I want to underscore international — comparisons where possible and demographic and socioeconomic comparisons, also government performance and productivity data such as we have talked about and the results of rigorous evaluations, what does work. This should be focused on just the facts, not editorializing. It could be communicated in a major annual report that would draw a lot of public attention, but more importantly, it should be communicated continuously on an interactive web site that would allow deep dives into the data and a variety of tools that could compare the data by all of these factors that I have just talked about.

MR. ORSZAG: Could you just give us a couple?

MS. MCGINNIS: Yes, I have two more.

Also, I think the public has to be actively engaged to give feedback, to make requests, and use the data, and other decision-makers. It could be organized as an independent, non-profit, educational entity with a public charter endowed with public and private funds, with a bipartisan or nonpartisan board of respected public and private leaders.

So can we do something like this? Will the next administration take this risk? Will members of Congress and will leaders in the private sector step up? I think it would not only help improve government performance, but it would strengthen our democracy.

MR. ORSZAG: Thank you, Pat.

(Applause)

MR. ORSZAG: Austan?

MR. GOOLSBEE: Everyone take a deep breath, because we are going to come down from the mountaintops of globalization and reforming the government to, as I like to say, we visited the Hearst Castle and it was expansive and all of these pools, and I thought, somebody has to go in and scrub the algae out of each of these pools when it starts to grow. Now we are going to get down in the algae and go from the mountaintops of globalization to your experience on April 15th, filling out the forms of your tax return, trying to figure out what your gambling loses were, add up line 14 to line 18. I believe that somewhere in that gap from the mountaintop to your filling out your tax return is a good idea that we should have done a long time ago.

The fact is that if you ask most people for a practical example of how is the government involved in their lives, one of the first things that pops into their minds is the very negative image of them taking their instruction manual of their 1040 and figuring their W-2s from their employer and their bank statements, filling out their tax return, sending it in, and hoping they don't get audited for some mistake that they didn't quite understand.

This policy idea is very simple, and it starts from what is not even a premise but just a simple fact. If you have one job and one bank account, every single thing that you fill out on your tax return for most people in that circumstance, every single thing you fill out, they already have. It has already been sent to them from your employer. It was already sent directly to them from your bank. You are merely regurgitating what they already have and adding errors to it. Then they are sending you a bill and saying: You messed this up. Your employer already told us that you earned this much money. Why did you tell us you earned something different from that?

So this proposal would simply have them take the information they already got and send it to you, rather than you filling out the information and sending it back to them. You would check it, and if it was right, you would be done. You wouldn't have to do anything. It turns out that simple scenario might apply to as many as 40 percent of the filers in the United States. You would never have to fill out a tax return if this simple return would apply to you.

Now the first thing that I would say is to answer the question: Why should we care about this? When we are faced with war in the Middle East, when are faced with the pressing issues of the day, why should we care whether people have to spend a little bit of their time filling out their tax returns?

All I will say is I fired the slides, because we have very limited time. If I had the slides, I would have shown you the costs of compliance. Here, I just mean the time that you spend filling out the forms. The IRS, by law, how long they think it takes to fill out each of the forms. You just add that up for that everybody. Let me turn it around for you. It is clearly decreasing in income, as a share of your income. If you just value it at the value of people's time or the costs that they have to spend on tax preparers to do it form them, the costs of rote compliance are extremely regressive. They are highest the farther down the income distribution you get.

It is obviously much more complicated if you have offshore accounts and the alternative minimum tax and all these things, but just for someone filling out a basic tax return, it can add up to as much as 10 percent of the taxes that you actually pay. It is highly relevant to just regular people.

The second thing is a lot of tax experts and tax analysts will look and say this doesn't make any sense, because the 40 percent of people that you are talking about, they get to fill out the 1040-EZ, the 1040-A form, and all of those forms are easy. Most of those people have never actually filled out a 1040-EZ form. The instruction manual to the 1040-EZ form is 36 pages long. It is a 10-line form, and it has a 36-page manual. So if your math skills are even a little bit rusty, this can be totally maddening, going through this process.

What this program would do follows on what many countries in Europe do, not France. I know a lot of people have something against France. This is not a French program. It exists in many European countries.

They tried a pilot in California. It entails the following. You are sitting, and you are eating your breakfast. Let us say it is April 1st. You receive a letter. You open it up. It is from the IRS or from some entity. If the IRS scares you, we can make it from someone else. Ah, it says here that I earned this much money. My employer told them that. I had this much interest income. Ah, yes, that is what it says.

Okay, well, if that is correct, do nothing, we will send you your refund check in the mail. Oh, perfect. They send you the refund check. That is it. You are done. You filled out your taxes.

If you owed money, you would look and say, oh, hey, look, they already filled this out. I owe them $100.

If you are one of the people who doesn't like the government, who thinks there is something sinister about this idea, this is a completely optional program. Option B is crunch it up, throw it in the garbage, go to your tax preparer and fill out your tax return the way you did before.

Actually, I shouldn't have done that. That had my notes on it.

It is a totally optional program and uses only the information that already exists. What we need to do is improve the modernization and matching.

Right now, when your employer submits your W-2, which if you work at a large employer, they already have to file electronically, it goes to the Social Security Administration who sits on the file. They adjust the file. Later in the year, they send it over to the IRS. They go through the file. If you don't fill out your tax return, they will send you your tax return. They will send you a bill. They will say you didn't fill out your wages. You didn't fill out your interest.

What we need to do is improve the modernization and matching, and it will allow us to do this simple return program for millions of people in the country, as much as 40 percent of tax filers.

If you add up the amounts of money that are entailed, in the California pilot program they did this, 98 percent of the people who were sent this form with no advertising, 98 percent of the people who used it demanded to receive it the next year. They said, I want that same thing again next year, because I don't like doing my taxes. They saved about 80 to 90 percent in time and money filling out their taxes.

If you just add that up across these people, it could add up to something like $2 billion a year of saved fees and 225 million hours of taxpayers' time. Just valued at the typical wages of middle income people, that is something like, over the 10-year budget window, a $44 billion tax cut. But the good news about this tax cut is that it costs the government very little in revenue. Normally, if you are going to cut taxes by $44 billion, you have to come up with $44 billion to pay for that, but this is simply inefficiency. It is costs to you, the taxpayer, that don't generate any revenue to the government. It is just your going around, spending your time filling this out.

It would not be geared toward the self-employed or people who currently itemize, but instead people with these regular situations.

And so, all I will say is that a $44 billion tax cut for the middle class and the working class is going to be harder and harder to come by in our future fiscal environment. If you are a family values voter, spending 225 million hours with your family, what could be a higher value than that?

I will simply say that 225 million hours over the 10-year window is something like 4,000 lifetimes. Anyone who says this is not a matter of life and death has simply not added up the numbers correctly.

MR. ORSZAG: Thank you, Austan.

(Applause)

MR. ORSZAG: We are now going to hear briefly about the two proposals that will be coming out in September, first from Jeff Kling.

MR. KLING: Among the great things about the American economy are the dynamic forces of competition and growth that lead to the creation of new jobs. In 2004, 54 million new jobs began. At the same time, 51 million ended. Of those 51 million, some were voluntary quits and some were firings, but 20 million were involuntary job losses where people were out of work through no fault of their own. On an average day in 2004, 4.2 million who had involuntarily lost their jobs were unemployed and actively seeking work.

Many unemployment spells are short, and many people return to their previous employer or find new positions after job loss that pay more than their old jobs. However, about a third of those who lost their jobs have lower wages over the subsequent 10 years, and some of these losses are very large. For example, 15 percent of those with wage losses had their hourly wages cut more than in half and ended up in new jobs paying $7.50 an hour or less. Such wage loses from unexpected but permanent layoffs can be a terrible shock to individuals and their families.

We have a public policy in place, the unemployment insurance or UI that provides social insurance to very broad segments of the labor market. It requires participation to pool risks and share costs in order to solve the adverse selection problems preventing private firms from providing the insurance that people want. Individuals can typically receive half of their previous weekly earnings through UI for up to six months after a layoff. However, the system encourages layoffs because employers do not bear the true costs of laying off workers. Receipt of UI benefits encourages longer unemployment spells. Moreover, UI provides payments to many people with short unemployment spells who will be reemployed at higher wages and does not target the resources of the system towards those who are hit the hardest by job loss.

In order to enhance full equity and efficiency after job loss, we need a fundamental restructuring of the unemployment insurance system. I have worked with the Hamilton Project to develop a revenue-neutral proposal that improves protection against long term effects of involuntary job loss, provides a more progressive allocation of benefits, and encourages work. The proposed reform assists individuals in managing smaller risks such as short unemployment spells through savings and borrowing over one's lifetime while focusing insurance on larger, longer term shocks to lifetime circumstances.

As part of this reform, the government would create a program of wage loss insurance for reemployed workers which would augment the hourly wages of individuals who take jobs that pay a lower wage than their previous jobs. As a complement to wage loss insurance, traditional unemployment insurance payments would be replaced by withdrawals from Temporary Earnings Replacement Accounts or TERAs, which would be structured to provide workers with the same ability to maintain living standards during unemployment as does the current UI system. TERAs would provide a mechanism through which workers could accumulate savings prior to unemployment and also borrow against future earnings if they subsequently exhaust those savings. Insurance would be provided to those who never work enough after job loss to repay account withdrawals and to those with low wages.

This system reform is explicitly designed to be budget-neutral. Providing new services without increasing expenditures means that difficult tradeoffs need to be made. For example, those who currently experience temporary layoffs and return to their firm and those who have long unemployment spells followed by wage gains would receive smaller government benefits under the proposed system than under the current one.

This reform built around wage loss insurance and TERAs would be a fundamental shift towards insurance for persistent long term effects of job loss. The core principal is that smaller, short term needs can be met through savings, borrowing, and repayment, so that funds for insurance can be targeted to assist those facing larger, longer term losses. The proposal would continue to provide access to funds needed to maintain living standards after job loss for those experiencing short bouts of unemployment. The proposed system would provide a significantly greater share of net program benefits to workers in the lower half of the income distribution when compared to the current system of UI benefits alone.

This new system would also introduce incentives to reduce unemployment by both discouraging temporary layoffs and by creating stronger rewards for finding another job quickly, ultimately enhancing economic growth.

(Applause)

MR. ORSZAG: We are now going to hear from Lori Kletzer, who is co-authoring a proposal with Howard Rosen, who is also with us this morning.

MS. KLETZER: Thank you. Before I get started with the substance, I wanted to correct one mistake. I am from the University of California, Santa Cruz.

MR. ORSZAG: I am sorry.

MS. KLETZER: The University of California, Santa Barbara is the party school of the system, and I am from the tree-hugging school of the system, and it is really important those differences are maintained.

MR. ORSZAG: My faux pas, my goodness.

MS. KLETZER: Also, I want to acknowledge my co-author Howard Rosen, with whom I share the credit as well as share the blame as opposed to the usual.

I am so grateful that I didn't directly follow Austan, because as I listened I just said, how come I had to choose a topic where you can't really tell any jokes? I appreciate Jeff having stepped right in.

Before I get down into the details, because I too, like Jeff and like Austan but without the humor, want to get down into the details of what we need to do. I just want to make reference to a couple of points that were first made. That is when Gene Sperling mentioned that we have a divorce court mentality about some of the issues that face us. I think that we often focus our discussions about globalization as you are either for it, you are for globalization, you are for trade or you are for protectionism. I think that it is absolutely certain that we don't make any progress from that point, but part of the reason is what Larry Mishel said, and that is for many, many people, including those of us in the room, our job is everything. Our job is our earnings. It is our health care. It is our pension. So, when the world changes in ways that threaten our jobs, we necessarily go, oh! There, I am making light of it.

We need to address economic security. Workers face a tremendous amount of labor market risk, and we need ways to address that risk. One of the things that Howard and I do is say, let us look at the unemployment insurance system. This is a system that — I too need my glasses just to do this. This is a system that is supposed to do two things. The unemployment insurance system is meant to provide income during job loss. It is there, as economists like to say, to smooth consumption. That is important to individuals. That is important to family welfare. It is also important to the macroeconomy. Consumption smoothing is an important macroeconomic concept.

Both of those things, providing liquidity and ensuring against the risks of job loss are goals of the UI system. They are things that the UI system does well, not in its entirety, but they are goals that I think we need to maintain.

The problem is we have a 21st century labor market that doesn't look like the labor market did 70 years ago when we created unemployment insurance. We now have contingent employment, multiple employers, part time work, low wage work, and self-employment. We didn't have any of those things 70 years ago. The unemployment system was there to address temporary layoffs, providing income during the job loss to a job that people returned to. We now live in a world where temporary layoffs have taken a backseat to permanent layoffs and structural unemployment. Our premise is that the unemployment insurance system needs to change to reflect a 21st century labor market.

So what are some of the problems? Instead of going over them, I am going to talk really fast.

We have a minority of the unemployed that receive assistance. One of the benefits of using PowerPoint is I am going to show you that slide instead of needing to describe it to you.

Let me get quickly to what some of the problems are. The amount of assistance, we think, is too low. The automatic triggers that are built in, when the economy goes into a downturn, the system should automatically trigger extra assistance. Those automatic triggers are broken. It makes those extended benefits nearly obsolete.

UI doesn't currently cover a lot of the dynamics that we value of a 21st century labor market. The unemployment insurance system doesn't cover them. We have some proposals that will do that.

It is only weakly linked to reemployment, meaning it is a system that covers unemployment not reemployment. So we can do better in connecting it to the rest of the system to training and to wage loss which I will say more a bout in just a second.

Very importantly, this last point, the federal unemployment tax is terribly regressive. It is capped at $7,000. It needs to be adjusted to inflation. The monies we take in to fund the system need not be regressively taken in. We can make it more progressive.

The whole purpose of these PowerPoint slides is to show you this graph. If you can see it all the way in the back, this is recipiency. I have taken this figure from a recent paper by Phil Levine who is a professor of economics at Wellesley. The top line is the fraction of people who are unemployed who get UI. Let us boil it down. The top line are those that are high school graduates and higher in education. The bottom line are high school dropouts. You can see that low skilled workers are not receiving UI. Higher skilled workers are receiving it, but you can see that caps out at about 35 percent. We need to be able to have a system that people have access to.

Quickly, this is the federal unemployment tax. The blue line is the cap. The red line is what it would look like if we had it indexed to inflation. So the blue line is $7,000. The red line goes up to $45,000 or $50,000. We need to move that Federal unemployment tax base up.

What else should we do? Well, we need to expand UI eligibility in ways beyond where we currently go. A lot of the discussion about UI is spent thinking about the particular designs of the program. UI does — as any insurance program does, UI creates behavioral distortions. We have spent an enormous amount of time paying attention to those behavioral distortions. When you provide UI, yes, workers have a reduced incentive to save for job loss. Many of these families, though, have very little savings at all. We need to take that issue on if we are going to propose personalized savings accounts that then privately insure against risk when, in fact, we need a national program that insures against risk.

Receiving unemployment benefits, yes, is a disincentive to search actively. We shouldn't let that design element that exists in every insurance plan—we shouldn't let that stymie our efforts to move forward with proposals that can reform.

So we can expand eligibility. We need to fix the automatic triggers to actually make extensions of benefits possible.

We need to link assistance to work experience and to local labor market conditions. For example, to get UI, you have to meet a certain monetary threshold. The threshold varies across. There are 50 states. There is the District of Columbia. There are a couple of other jurisdictions. There is tremendous cross-state variation in eligibility and in benefits. That can be harmonized to be more efficient.

Also, though, for low wage workers, we can tie unemployment eligibility to hours worked, not to earnings, because if you are a low wage worker, you might not have the earnings to make yourself eligible, but you might if we just based it on hours.

We need to augment the system with wage insurance. One of the things that wage insurance does is, yes, as Jeff pointed out, it addresses the reemployment earnings losses that many older and more tenured displaced workers face. We need to think carefully about keeping those two issues separately. One is unemployment insurance for the period of time during the job loss. The second is a set of programs that are there once a new job is found. That is where wage insurance comes in. That program of wage insurance also helps counter the labor market disincentive. The reduced incentive to search, wage insurance helps counter that. We are talking about similar but different problems for wage insurance versus the standard unemployment insurance.

MR. ORSZAG: I think we are going to keep you to your promise.

MS. KLETZER: So we are going to increase that tax base — I will skip that part — and we are going to enhance the federal leadership role by taking the cross-state variation and harmonizing benefits and receipts in ways that make sense.

How are we going to pay for all this? I am going to keep it short by saying I am not going to promise this is revenue-neutral, but I don't have to, because Austan's plan just handed me $44 billion, and it won't take anywhere near that. With that, I will stop.

MR. ORSZAG: Thank you, Lori.

(Applause)

MR. ORSZAG: What we are going to do now is, instead of taking questions on this panel, I would like to thank all the panelists and invite up our third and final panel for an open discussion. I think many of the people up here will be around afterwards if people do have questions.

Thank you all very much.

(Applause)

MR. ORSZAG: We have heard a lot today about globalization and also about the steps that we need to take to improve government productivity and overall productivity, so that we can better meet the challenges of globalization.

In this final panel, we want to tackle that set of issues along with several others with an unusually distinguished panel. Robert Rubin and Lawrence Summers were, as you all know, Secretaries of the Treasury. Roger Altman served as Deputy Secretary of the Treasury. I could go on and on about them, but I think you would rather hear from them.

I do want to announce, though, that we are particularly pleased that Larry Summers has joined the Advisory Council for the Hamilton Project. Bob and Roger were founding members of that council, along with many others who are here with us this morning.

The three of them are going to discuss three pressing issues. The first is whether we are entering a new era of globalization as the economies of China and India become increasingly integrated and as ongoing declines in telecommunications and transportation costs occur. Just one most manifestation of those pressures is wage differentials between the United States and those countries are significant. For example, the reflection of those differentials, along with the possibility that those who are particularly skilled are more likely to immigrate, is 0.1 percent of Indians who live in the United States earn an income that is equivalent of 10 percent of India's national income.

The second issue is whether we are also entering a new era of winner-take-all markets. Are we now living in a world in which being slightly better brings colossal rewards? If so, should that change how we think about bread and butter economic issues including education policy and social safety nets, if by definition, only very, very few people can be at the very top?

Finally, the United States is now borrowing north of $800 billion a year, in large part from developing nations. Many are concerned that this pattern of borrowing is not sustainable, and some have referred to it as a dysfunctional relationship. As with many dysfunctional relationships, it can go on longer than you think and then end faster than you think, and whether we are setting ourselves up for that kind of painful adjustment.

Let us just turn to our panel and start with the question about whether we are in a new era of globalization. I guess, Larry, since you are closer to me, why don't we start with you?

Is there pressure for wage differentials between the United States and countries like China and India to diminish over time? And if so, does it symbolize a new era of globalization and a more extreme version of what we have been experiencing? Are there any historical analogues of adjustments from agriculture to industry or anything else that we have lived through that would be of the same magnitude as the potential adjustment we face now?

MR. SUMMERS: Thanks, Peter, and thanks for including me here.

They called it the Industrial Revolution because for the first time in human history to that point, economic growth had taken place to the point where for about a fifth of humanity, standards of living could rise by as much as a factor of three within a single human lifespan. If you take 5 percent a year per capita growth, which is conservative for what a third of humanity is enjoying, standards of living rise 35-fold in a single human lifespan, and it is a third of humanity. That is something unlike anything that has ever happened in economic history, and the effective proximity of that growth to all the other countries in the world is much greater than it ever has been before.

So there is no question, I think, that it is a seismic event in economic history. When people write the history of this era 300 years from now, my guess is that the takeoff in Asia will be the central story that is told.

How large an effect it has already had on the U.S. economy versus how large an effect it will have on the U.S. economy is a matter that reasonable people can debate. But I don't see how anyone can think that you can add several hundred million people to the effective global labor force and very substantially broaden the range of goods that are tradable without having pervasive effects, and those effects will be felt throughout the spectrum.

One of the striking and less remarked features of patterns of U.S. inequality — something that Larry Katz in particular has pointed out in his work — is that whereas from the seventies and perhaps to the early nineties, a large part of the increases were sort of full spectrum increases in inequality, if you look at the increases in inequality in the last

15 years, they are far greater between the 90th and the 50th percentile than they are between the 50th and the 10th percentile. That suggests that patterns that are at the high end are very much a feature of what globalization and technology are driving, and that is something that public policy is going to have to address in a major way. Some of it is around skills. Some of it is around fostering distinct national competitive advantage. Some of it is around providing for security.

Frankly, I think the passion expended on the Costa Rica trade agreements and the Jordan trade agreements of this world is largely diversionary. They are not most of what is driving the international pressure on U.S. workers. They are entered into mostly for geopolitical reasons. Fundamentally, short of draconian protectionism that would go way beyond anything that people are proposing, we don’t have a way of stopping the U.S. economy from experiencing much greater involvement with the Indian and Chinese economies.

MR. ORSZAG: Robert and Roger, do you want to have any comments?

Larry has also now sort of partially moved us toward the second topic of winner-take-all markets, and that is more than okay.

MR. SUMMERS: They all come together.

MR. ORSZAG: Yes, they all come together.

MR. ALTMAN: You know, Peter, when you described this panel initially, you said it was unusually distinguished, and what ran through my mind was: Compared to what? I will move beyond that.

What I would add to what Larry so trenchantly said are just a few points. He is surely right that these are seismic changes. I think, however, that there is more pessimism about the likely impacts of these changes on American business and American labor than is warranted.

Let me make just a few quick points as to why I think that. After all, China and India in particular are headed towards becoming the biggest markets in the world for American goods and services. I believe that the net economic impact on the United States from the rise of those countries will be positive, not negative, meaning that the impact will be to increase the overall wealth of this country rather than to decrease it. After all, that has been the impact of globalization in modern times on the United States.

Secondly, the notion, for instance, that China is going to march uninterruptedly without any hiccups or difficulties over the next 20 years towards becoming the world's largest economy, I think, is likely fallacious. No nation in modern times at least has grown for 25 straight years. China faces enormous internal issues from ecological issues to issues of urban migration and a long list. While I think its future is undoubtedly bright and it is a most impressive country, I think many of the forecasts which are just plain linear, upward sloping and linear, are likely to be incorrect.

Thirdly, the press concentrates, as we all know, on wage differentials between the United States and these nations, and they are of course very wide. But when it comes to actually moving jobs from the Midwest to Chengdu, there are a whole series of additional costs beyond just wages which are involved in decisions like that. They include supervisory management costs, telecommunications costs, the friction costs of being connected to employees at such far distances, and a very long list. They make the net cost differentials in many, many categories of jobs a lot narrower than the wage differentials. That is not to say that the next cost differentials still don't favor those countries in many categories. They do. But I think the impression that one gets in the press, which is that the wage differentials alone simply compel a massive out migration of American employment is not a well thought through notion.

Lastly, there are plenty of opportunities for the United States to go on the offense in the face of this challenge of globalization, more so than we have. We could get into a long discussion about that. I am just going to mention two or three things. I don't think this country has been as vigilant as it should have been in terms of enforcing the trade agreements that we already have in recent years. I don't think we have been effective in terms of promoting true freely floating exchange rates especially in Asia. On the domestic side, there are opportunities, and Jeff Kling's discussion illustrates one of them, for a much stronger and more modern safety net in this country than we have. Wage insurance, mortgage foreclosures insurance, health care portability, investments in research and science and infrastructure and education. In areas like that, this country can do much better.

So we face a great challenge and a seismic challenge, as Larry said. Yes, we do. Are we facing some sort of Armageddon-like scenario? In my judgment, absolutely not.

MR. ORSZAG: Bob, do you have anything you want to add on this topic?

MR. RUBIN: I think the only thing I would add, Peter, is that I felt for quite a number of years, just based on my own experience that there is something very different going on that, to use Larry's word, there is something relatively seismic going on.

At least three or four years ago, when you talked to economists about, at least when I did, they would repeat to me everything we already know about comparative advantage and then say: You are not an economist, please keep quiet. I would say: Well, maybe, but I kind of see what I think is going on.

I agree with Roger that I think we have tremendous strength in this economy, and the probability is we have a bright future if we do what we need to do. I don't think we are remotely doing what we need to do right now. I think the effects are likely to be much larger than what we see right now and are already having all kinds of effects even where jobs aren't moving offshore just by virtue of the pressure it is creating in this country in various respects.

What troubles me most about it all, Peter, is I think that there is a need for a serious and real economic debate in this country, in our political system, and I don't think we are having it, and I am far from convinced that we have the conditions in our political system right now to have it. Yet, I think we are facing what strikes me as changes that are relatively seismic in proportion.

I personally have a view as to various things we should do, and then I have a view that even beyond that, that there are a lot of complexities and uncertainties. Even if we do everything I think we should do, there will still be a substantial gap in terms of what we want to accomplish, and that is the realm in which we need a great deal of additional thought. I don't know where all that is going to come from, and even if it does come, how it is going to get brought into our political system within some reasonable period of time.

MR. ORSZAG: Let us just turn briefly to this second topic, and Larry already mentioned it briefly, of the very rapid increases in inequality especially at the very top, particularly the wage distribution. Do you have any insight into exactly what is driving that?

I think people's response to that varies depending on whether they think that the people who wind up there are actually inherently more skilled and it sort of reflects an investment in things like education and other things that we can delineate in the traditional forms of economic policy, or it has a very large component of luck, in which there are 15 people who are otherwise similar and one of them just gets lucky and has huge returns. If that is a non-trivial part of what is going on, what do we do with that? Is there anything specific that we can take from that and translate into the discussions that we have been having?

Larry?

MR. SUMMERS: I don't think anybody knows, and I think there is a lot to study. My guess is that there are probably three parts to the increase in inequality at the high end, and probably the last of these is the one I regard as most important.

I think one part of it is there is some breaking down of social norms and discipline and sharing and corporate governance and all of that, that has gone away, that has made various kinds of things that are, in a moral sense, approaching self-dealing a little easier than they used to be.

I think the second thing is there is much more ruthless competition. I look at something that I used to see every day. Universities compete much more vigorously with each other for the best professors than they used to, and as a consequence, if you look at the variation of salaries within any physics department, it has gone up. Just in a more competitive world, you are going to see pressures to drive increased inequality.

Then the third thing which I think is very, very important is what one might call the delocalization phenomenon. It used to be if I had a really good idea — a really, really good idea — for a new widget, what I had to do was take my really good idea for my new widget and hire a bunch of Americans and pay a certain amount and sell my widget and I could make a certain profit and that was my life. Now I can hire people from all over the world. And so the profit margin on my new widget is no longer being shared with the Americans I hire. It is being shared with people who live abroad and get a much lower wage.

What is left over for me? The rents to capital to the development of intellectual property to entrepreneurship are much greater than they used to be. The rents to being able to manage a large organization are much greater when you can manage it globally as well as locally.

So I think it is all three parts of it. I think it is not easy. I think there are some things that can be done to address the first and probably least important part of it, but I think the last two go to some fairly fundamental structural changes. I think it goes back to some of the things that we were discussing — assuring security for everybody independent of their health insurance. I think it becomes a period when it is surely the wrong thing to do to be reducing the progressivity of the tax system.

MR. RUBIN: I would add one thing if I could, Peter. If you take Larry's analysis of where it will come from, it does seem to me that what we should be doing is we should be addressing a whole bunch of challenges, and they might not fully address that third category of Larry's. I am quite confident they wouldn't, but they would certainly far better position us than we are today.

I think of them as sort of in two large buckets. In one bucket are the things we always talk about: quality of public education, infrastructure, the kinds of things that can give rise to Route 128s and Silicon Valleys and things of that sort. And there is a wide range of measures that would increase productivity, competitiveness, and put us in a better position.

Then there is a whole other set that Larry Mishel raised in the earlier panel a little bit that go to exchange rate flexibility. After all, part of this huge cost gap isn't the function of market forces. It is the function of a set of exchange rates that are widely thought not to reflect market forces. There are all kinds of questions about how you distribute the benefits of economic growth as between employers and employees, and that gets to the collective bargaining question, around which I think there are very complex sets of considerations on both sides. Also, how do you think of that in terms of the globalization of the labor force?

So I think there is an enormous amount, Peter, if we did it, that would put us in a far better position than we are in today, although I still think that the kind of considerations that Larry raised in his last category particularly and in this whole notion of the seismic change are still going to create a degree of unaddressed consequence that would be the subject of additional thought, and then maybe some degree of that which is simply not addressable when all of sudden, there is a changing of the world environment in which a whole bunch of people who didn't used to part of the skilled global labor force are interconnected. That is a real complication.

MR. ORSZAG: Roger, is there anything you want to add on this question? We will have time to come back to all of these things.

The final thing I just wanted to touch upon before we open it up — Bob, in your comments, you started to touch upon the discussion of exchange rates, et cetera — is our current account deficit. Roger, do you have perspective on whether we can continue borrowing the amounts that we are, and if not, how will this all play out?

MR. RUBIN: And when? Don't forget the when part. Once a trader, always a trader, I guess.

MR. ALTMAN: The word that is widely applied to the U.S. current account deficit is, of course, unsustainable. I believe, and Larry, you can correct me here, but I think it was Herb Stein who most famously said that when something is unsustainable, it tends to stop. I really believe that word aptly applies to the U.S. current account deficit. The issue is really whether we will have a soft landing or a hard landing.

The United States is borrowing two to three billion dollars a day from the rest of the world. And we are borrowing, as Peter said in his introductory comments, a good deal of that from developing nations who traditionally have not been in surplus, in external surplus. If you think about it, developing nations typically don't generate surpluses because they are developing, because they are investing in the foundations which make growth, infrastructure, and so on, and consuming capital, external capital, rather than generating it. So the notion that the developing nations which today are in surplus will continue to have the excess reserves which permit them to continue to lend at these rates, in my view, is unlikely.

There is a lot of talk about, in effect, whimsical changes of view by these lenders. In other words, the Chinese wake up in the morning and decide they no longer feel like lending these amounts to the United States. I don't think that is really the center of the issue or even a particularly relevant question. I think the question is whether the surpluses will continue to be available from the sources that have been providing them to us, and I believe it is less likely or unlikely that they will be.

And so the question is whether we make adjustments proactively which can cause the landing, so to speak, to be soft or whether we don't, which will cause it ultimately to be hard. What is a hard landing? A hard landing is a scenario in which the

United States currency falls. Given the way markets turn quickly, it probably falls precipitously. Domestic interest rates here then have to rise. We then have an economic slowdown, perhaps a recession, and all of the consequences of that, of course, are bad.

How would we manage ourselves into a soft landing? We would have to increase national savings. There are two components or at least big components of that. One, of course, is our budget situation which currently is obviously a form of dissaving; the other is household savings; and both have to go in a different direction. To make household savings go in a different direction, we may need a slowing of growth here. We would also need growth-inducing policies from some of our key trading partners, so that their growth would step up. We might need a compact in terms of managing the exchange rate situation onto a more sustainable long term basis than it is now on, and I referred earlier to difficulties we have had in terms of our relationship to currencies in Asia.

So, Peter, those are some of the observations I would make about the situation which I do agree is not a sustainable one.

MR. ORSZAG: Larry or Bob, any additional comments on that? Do you have any views on whether there are foreign policy implications to the current scenario beyond just the narrow economic consequences?

MR. SUMMERS: I have a general view on these kinds of imbalances. It has been calculated that if you smoke two packs a day, the odds that you will die in some way related to your smoking are less than 50 percent. Nonetheless, it is an enormously risky and imprudent thing to do.

That is how I feel about the U.S. current account deficit. You can't be certain that it will lead to a hard landing by any means. You can't be certain that it will expose us to some kind of geopolitical risk. But if you just ask the common sense question, does it make sense for the world's greatest power to be borrowing amounts that approach a trillion dollars a year primarily from the governments of China, Russia, and the oil-exporting countries in the current geopolitical environment, and is that a prudent risk for a country to take, it is hard to believe the answer to that question is yes. That is why some kind of policy adjustments and packages along the line of what Roger spoke about is the right thing to do.

Now I think it isn't easy. Falling currencies have a way of coming with higher interest rates. A couple percent increase in the interest rates is a hundred billion dollars out of people's disposable income. We are much worried about the gap between productivity growth and real wages. Some of that has to do with the fact that the price of things people buy doesn't always move with the price of what American producers produce. If the dollar falls and import prices go up, that is going to drive a greater wedge than we have now between real wages and productivity growth.

This is the kind of situation that it is better not to be in than it is to design solutions to, but I don't see how we should find it tenable to live with rising dependence on the current major source of finance for our government's activities.

MR. ORSZAG: Do you want to add anything?

MR. RUBIN: I would just add two things, Peter. I agree with Larry. The timing is impossible to judge. The probability, however, that this has to adjust seems to me is high which is what Roger said. Whether it is soft landing or hard landing, there are real risks to this. I think if somebody asked me what we should do as a matter of policy, I would say this creates a great urgency around doing whatever we can do to minimize the probability of the kind of adverse developments that could occur.

Two obvious thoughts come to mind. Number one, we should be having surpluses in the era that we are in right now, having had several years of good GDP growth, not happy because we managed to get the deficit down to $300 billion. The difference between having a deficit of $300 billion and some kind of surpluses that reflect the GDP growth we have had is a substantial change when you translate it back into national savings rates, albeit not one to one.

Secondly, we should be enormously focused on everything we can possibly do, and there are a ton of things that we can do that we are not doing, to promote our own competitiveness. All of that, I think, also would add to confidence, and to some extent whether we come out of this, whether we gradually adjust or adjust in some more abrupt way, is going to be a function of confidence, especially in a world in which foreign creditors have portfolios that are overweighted to dollar-denominated assets. And while I agree with Roger – I do not think you are going to have whimsical kinds of judgments made in some other countries that we should all of a sudden disinvest in dollar-denominated assets – I do think as portfolios become more and more heavily weighted to dollar-denominated assets, that is going to weigh more and more heavily on the people who run those portfolios. So the object is to have a policy regime as relates to fiscal matters and competitiveness that foreign creditors have confidence in.

MR. ORSZAG: Let's open it up. You have all been very patient as we have gone through these various panels. Please try to keep your questions short so we can maximize our efficiency here.

MR. MITCHELL: Gary Mitchell from “The Mitchell Report.” I want to ask a political question driven by the discussion that began in the first panel and continues to this one, and it has to do with the definition of who or what is a progressive in this era. In the first panel, there were multiple references to the progressives have to do this and the progressives have to do that, and I am hard-pressed to know who or what is a progressive and what its counterpart is in these times. So if anyone on the panel plays with that one, I would be interested.

MR. SUMMERS: I think all of us would choose to call ourselves progressives and choose to call anyone who disagrees with us regressives.

(Laughter)

MR. RUBIN: I have always thought labels were not very useful, and I think are becoming even less useful today in the face of the complexities that we have. The former conservatives are now running up big deficits, and now former so-called liberals are fiscal hawks. So, I don't know, it is a funny kind of world when it comes to labels.

MR. ORSZAG: Howard?

MR. ROSEN: You guys are right that it is difficult to predict the future, but we have the history behind us, and I would like to ask Bob a question. This may be a little bit of rewriting of history, but the public perception in 1993 was President Clinton campaigned on wanting to spend lots of money. He had his Investment Plan and all that. He came into power and switched his strategy to reducing the budget deficit and attacking that as opposed to going off for some big spending program.

You were there at the time. To what extent was that decision influenced by the international situation? Because we were running current account deficits at that time and we had exchange rate problems at that time. Was that switch in strategy because of domestic, or just that it was nice to balance the budget, or because of international problems?

MR. RUBIN: My own recollection of the history is a touch different. As I recollect the 1992 campaign, he basically ran on the so-called twin-deficit platform — that is to say, address our fiscal deficits and address our public investment deficits, both of which exist today, and that is what we have been talking about. After the election but before we actually got into office, as I recollect it, OMB put out some new projections with much larger deficits than we had expected. And we all talked about who is going to call President-elect Clinton and tell him that this bomb has exploded in our midst, and it is going to upend a lot of our investment agenda if we are going to in fact be serious about fiscal issues.

MR. ROSEN: It was half of what it is today.

MR. RUBIN: Which was that?

MR. ROSEN: The budget deficit then (off mike).

MR. RUBIN: Not as a percentage of GDP, I don't think. Maybe you're right.

MR. ROSEN: The numbers were half.

MR. RUBIN: The numbers were half, but the percentage of GDP was higher. So the judgment he made, which I think was right, was that his threshold had to be to deal with this fiscal matter and that he had to preserve as much of his investment agenda as possible, and that's what he did.

We were less affected at that point, as I recollect it at least, by these concerns about current account deficits than you would be today. And I also think the current account deficit was driven by something different as you got into the 1990s. It was driven by this tremendous flow of capital into this country that viewed this country as the best place to invest, as opposed to what we have had over the last 5 years when you have had a lot of central banks that in effect have been subsidizing exports by supporting the dollar, and now more recently the petrodollar countries, which I think are basically in some fair measure probably just finding a place to park money as they sort of see what they are going to do. So I think it was a pretty different phenomenon.

MR. ALTMAN: By the way, when it became clear that the deficit was going to be lot larger, and all three of us were there at the time, everyone, and also others beyond the three of us, all agreed that the person who should call President-elect Clinton was Lloyd Bentsen.

(Laughter)

QUESTION: Thank you for the opportunity to ask a question to a distinguished panel. I am working for the Market China Office in Import Administration, Department of Commerce. My question is very simple: if it is possible for the panel to comment on the practice of antidumping and countervailing duties in meeting these challenges of the new globalization. Thank you.

MR. ORSZAG: Antidumping and countervailing duties.

MR. RUBIN: What's the question? What role do they play?

QUESTION: What are your comments on the American practice in antidumping and countervailing duties?

MR. RUBIN: Dr. Summers?

QUESTION: Dr. Summers is famous for your frankness and straightforwardness.

(Laughter)

MR. SUMMERS: I have learned painfully that there are certain invitations that a prudent man doesn't take.

MR. RUBIN: A prudent person, but in any event.

(Laughter)

MR. SUMMERS: I needed that. I needed that. I am not an expert on many things, and I have the self-knowledge to know in particular that I am not an expert on countervailing duties and antidumping. I guess the only thing I would say is that I do think there is a tendency in the trade debate to underemphasize the longer-run and less immediately salient aspects of trade policies.

In particular, that goes to two sets of issues. Lots of people have worried that their job might be lost because a plant might move to China or to Mexico. Virtually no one except a few members of the American Economic Association has ever said, Isn't free trade great? I was able to buy twice as many toys for my kid at the holiday as I would have been able to if we had not had free trade. And I think the consumer benefits of trade tend very much to be underplayed in political discussion.

I also think we do need to take some stock of the fact that the United States is not currently enjoying an excess of goodwill in other parts of the world, and that the question of how we do or do not open our market is not irrelevant to the quality of our relations with many of these countries. And I think in some cases for really very small economic benefit, even measured in purely mercantilist terms, we sacrificed very substantial goodwill. So I think it is appropriate for us to be looking carefully at those policies.

MR. PEARLSTEIN: One of the questions that Larry Mishel posed, but really essentially put it to you, why is it that you three guys cannot get up there and say trade is great, on balance it's good, globalization has been on balance good for this country, and it is going to continue no matter if we don't have another trade agreement for 20 years, but as far as our side is concerned, we think it is now time to take a time out? And until you can provide the kind of social safety net for the losers here so that people don't worry about losing their jobs when it comes to their health care or their retirement, until we can provide that kind of safety, it is a reasonable thing to take a time out.

So what we were going to say, and you work at Citigroup and you're an investment banker, and you're a university professor, if you say that is a reasonable position, that would be very useful to a Democratic politician who wants to stand up and not get accused of being antitrade.

My question is, why can't you right here just say that?

MR. RUBIN: I wouldn't say it because I don't agree with it.

MR. ORSZAG: Roger?

MR. ALTMAN: I guess my problem is with the basis of the question. There is no time out from globalization.

MR. PEARLSTEIN: No, I didn't say there was. I just said time out from trade agreements. There is a different between trade agreements and globalization.

MR. ALTMAN: I will come back and precisely answer your question, but I think the more relevant thing to say is — and Larry made this point at the beginning — I believe it was Larry or perhaps Peter, I think it was Larry — trade agreements themselves and trade policy itself is not the primary cause of so many of the issues we're discussing here this morning. It is not comparable, for example, to the impacts of technology. It is not comparable to the premiums that are now in effect being placed on education. It is a small factor in light of a series of other mega factors.

MR. RUBIN: I will give you my view. I relate very much to the concerns, the uncertainties, and the complexities that this whole environment is creating, but I would not take time out on trade agreements, and if we were to do so, in the first place, they are not where our real globalization issue comes from. The enormous issues that are developing around trade with China, India and one thing or another are not a function of whether we have new trade agreements or not, they are in place.

But secondly, and also importantly, is that even if we were to stop doing trade agreements, which I would not, the world is going to keep making bilateral trade agreements. I was very struck when about 3 years ago I was asked to speak at APEC. In fact, I think I introduced President Wu, that's what I did, I think it was in Santiago. So I did that, but before that day that I was speaking there, what I learned was that he had been traveling around Latin America making bilateral trade arrangements. So there is going to be a world of bilateral trade arrangements. We can either be part of it or not part of it, and I think we lose terribly if we are not part of it. So I would not have a time out.

But I do think that somehow or other we have to find some way of persuading the people who believe in trade liberalization, which I do, and believe in market-based economics, which I do, that they have a powerfully important interest in also dealing with these other issues including the questions of stagnant median real wages and the dislocations and all the rest, and having robust domestic programs to address those. I think that is where the self-interest lies, absolute self-interest leaving aside anything else, but it is certainly not where we are today in many ways, I think.

Do you have a follow-up?

MR. PEARLSTEIN: I do have a follow-up.

MR. ORSZAG: Larry?

MR. SUMMERS: I think there are real questions that should be asked about rifle-shot trade agreements. I think for us to as a matter of strategy torpedo the Doha round would be a calamitous act in both economic and geopolitical terms.

I think with respect to trade agreements with individual countries, you have multiple issues. You have trade agreements like the U.S.-Jordan Agreement that have huge benefits for us in terms of connecting us to countries and solidifying our relationship at probably economic advantage to the United States. You have issues in most of these agreements, where whatever you think about them as free trade agreements, they are good mercantilist agreements because the other countries' barriers are coming down much more than ours, because we did not have very much in the way of trade agreements to start with.

So I think we have a very sterile debate where there is a kind of projection of general angst about globalization, which really is a kind of King Canute thing to stop, onto these individual trade agreements, which I think are much better assessed in terms of quite concrete and specific terms. So I think the effort to frame a discussion, and I don't know whether the United States should have a trade agreement with Costa Rica or not, but I think the effort to frame it in terms of the quality of the American social safety net is actually to miss the point of what the important issues are which mostly go to how many jobs will be created, because how much more will their trade barriers come down than ours, and go to what the benefits, both geopolitically in terms of our relationship, and in the terms that Bob described of competitively giving the other people who are going to be trying to reach agreements.

I think you have to look at those things on a case-by-case basis and then you need to work to address globalization, but the key thing everybody needs to understand that I don't think the political debate understands is that 90 percent of the increased pressure from openness on the U.S. economy has nothing to do with any trade agreement that has been negotiated in the last decade. So you have to figure out what you want to do about it, and it is a huge issue, but debating about the 10 percent is sort of neither here nor there.

MR. PEARLSTEIN: First of all, you are being very rational, and that is great. But politics isn't that rational and there needs to be an action-forcing event to cause this debate that you say that you want to happen.

Essentially, I will address this to Bob and Roger, you want to say to your friends on Wall Street as long as you guys keep supporting politicians who will not address these problems that we have talked about, that do not care about income inequality, as long as you keep supporting those policies, you will not get what you want. The problem is you have to hold back something that the other side wants because otherwise you continue to live in the stalemate that we have had for a long time on these social questions.

You have to hold something back. What do you want? Fine. I am all for that, but we need something, too, on our side, and until you hold it back, you don't get anything. All you get is debates at the Brookings Institution.

MR. ORSZAG: Not that there's anything wrong with that.

MR. PEARLSTEIN: This is just hard-nosed politics, because I'm sure, Bob, that you tell your friends at Citigroup, as long as you keep supporting these guys, you're not going to get any trade agreement, so why don't you just say that, because that is the political reality. The Democrats, your friends in Congress, will not let them have a trade treaty, why don't you at least get something and make the deal explicit?

MR. RUBIN: Let me respond to that. One is, I am a little pebble of sand on the beach, so what I say does not matter.

MR. PEARLSTEIN: I am not so sure about that.

MR. RUBIN: It does not seem to matter in any other realm, so I don't know why it would matter in this realm.

(Laughter)

MR. RUBIN: I wouldn't say it, because I really fundamentally don't believe it. I understand your point about the politics of it, and I do agree with your point that somehow or other it is imperatively important to find a way to get all of these people who are so involved in supporting market-based economics and so forth to recognize that this other side of the coin is an absolutely imperative and predicate for this thing to work over time.

But I wouldn't go the route you just said because I think it can do too much damage for the reasons I said, though I recognize that you could take the approach you said.

MR. PEARLSTEIN: This reminds me of your friend Krugman's concern 15 years ago that he would not say—

MR. RUBIN: Krugman?

MR. PEARLSTEIN: No, I'm talking to Larry.

MR. RUBIN: Larry's friend, okay.

(Laughter)

MR. RUBIN: I have nothing against Krugman, but I just was wondering whose friend he was. Larry's friend. Okay. That's fine.

MR. PEARLSTEIN: He did this whole thing about you actually could do managed trade. And when some liberals started to pick this up he said, no, I know I said that's true in theory, but that is too dangerous in the hands of politicians, so I take it back. Trade is always good. He has changed his tune on it. But what you are essentially saying is if I say that, I know it is going to be used in a way that I don't like.

MR. RUBIN: But I don't even agree with it.

MR. SUMMERS: Steve, you keep wishing we agreed with you. We were restrained. There's a problem. We think what you're advocating is dangerous and damaging to American interests, and that's why we don't want to say it.

(Applause)

MR. SUMMERS: If you're for hostages to get more effective social insurance policies in the United States, here is one, the elimination of the estate tax. That's a good one to take because it's actually a bad idea. It's actually something that will hurt the economy. But we have had enough problems in this country of problems with the rest of the world because everything was driven by our inward-looking domestic debate. For me to think that to hold our relations with the world around the Doha Round, or our relations around trade hostage, I haven't spent as much time on Wall Street as others have, but I don't have a sense that your average Wall Street supporter of the Democratic Party is, like, hanging on that U.S.-Costa Rica trade agreement.

(Laughter)

MR. SUMMERS: So I don't think it is going to be the world's most effective hostage either. So I think it's both damaging in terms of what its impact would be, and is likely to be ineffective in terms of the objective. There are others who are much better equipped to talk about political strategy for getting more effective social insurance on the agenda, but this is just a bad strategy for doing it.

MR. ORSZAG: Let's come forward one row.

MR. VAN AGTMAEL: Antoine van Agtmael of Emerging Markets Management. You have raised two undisputedly huge issues, living within our means and improving productivity and competitiveness. I think most economists would agree. I don't think Congress does very much about it, but most economists I think would agree.

My question is, in the hierarchy of issues in your minds, traveling around the world, how important do you think the issue is of a looming ecological gridlock. I am not a tree-hugger type, but I am beginning to worry about this issue as a major issue connected to energy independence because there is a link with the current account, alternative energy, all of these things are linked in this area of energy conservation. How important do you think that is in this set of issues that you raise? Is it intertwined, is it linked, is it not important?

MR. RUBIN: I'll give you my response, but let's see what others say because they get around the world a lot. My impression is that when you're in Continental Europe, which many of us are in some measure, that is a much more salient issue at the moment.

MR. VAN AGTMAEL: At the moment.

MR. RUBIN: Yes, at the moment than it is here, but I think it is going to grow globally, and you can see it. And I get the impression there is a growing concern in this country about global warming, as indeed there should be. Somebody told me the other day, and I apologize for not remembering the numbers, but there were a surprising number of demonstrations every day now in China around environmental issues.

So I think you're right. I think there's a point out there in time, I don't think we are there quite yet, where that is going to become at least in my opinion a very powerful issue in the political domain, and it should be right now substantively. I don't know if that is responsive or not.

MR. ORSZAG: We're running out of time. Let's take one more question.

MR. GETZ: I'm Ralph Getz. I'll try to keep it short and light. I am a former administrator at the Organization of American States, and I wanted to quickly poll the panel on something that has not been much mentioned today, the problems we have with immigration and the economic aspects of it. I have been visiting in eastern Tennessee and there are 900 folks from Mexico picking tomatoes next to a town that is less than 900 people, and some people are quite unhappy about that. I wonder if trade agreements are geopolitical, why can't numbers of guest workers be negotiated at the same time? They tell me in the Congress that that would be illegal. It's not illegal, but the Congress wants to have that.

And if we were to see that earned Social Security payments were granted to the folks who are paying to an account they never hear back from, they would love to (?) their countries and spend the money there.

MR. ORSZAG: Does anyone want to tackle that question or add in any final concluding remarks? Thoughts on immigration?

MR. RUBIN: I have a thought.

MR. ORSZAG: Go ahead.

MR. RUBIN: I could not quite divine what your own opinion was from listening to you, but I will give you my view. I think some sort of a guest worker —

MR. GETZ: I think there should be a fair deal for all concerned. The job displacement that occurs in eastern Tennessee has got to be taken care of somehow.

MR. RUBIN: That goes with the larger question of what effects all of these change-effecting kinds of phenomena, whether it be technology, immigration, or trade, have but I think we should have some sort of guest worker program. I don't know enough technically about what the administration is proposing, nor would I support precisely that, but I think the general gist of it struck me as being sort of right.

And I also think that we gain enormously from the people coming into this country with special skills. I guess they're called H1-B, which we then all of a sudden clamped down on to some extent for security reasons and maybe to some extent for other reasons. I think we should welcome people like that because I think they have been an immensely nourishing dimension of our economy. That is one person's view.

MR. ORSZAG: I think with that we will wrap up. I wanted to obviously thank our three panelists, and also just remind people to enjoy August. We will be back in September with a series of proposals, and with that New Republic Symposium. So thanks to these three panelists and the ones earlier.

(Applause)

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