

THE BROOKINGS INSTITUTION

OPPORTUNITY 2008:
INDEPENDENT IDEAS FOR OUR NEXT PRESIDENT

Wednesday, February 28, 2007

Washington, D.C.

PANEL THREE: DOMESTIC POLICY SOLUTIONS

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PROCEEDINGS

MR. MCCLELLAN: First let me briefly introduce all of the panelists. On my right is Lael Brainard, the Vice President and Director of the Global Economy and Development Program; down from her is David Sandalow, who's a Senior Energy and Environment Scholar here at the Brookings Institution; next to David is Ron Haskins, the Co-Director of the Brookings Center on Children and Families. I'm Mark McClellan, I'm a Visiting Senior Fellow at the AEI-Brookings Joint Center on Regulatory Affairs; so welcome to all of you.

We're going to start with Lael Brainard, who will be talking about navigating China's rise, developing a sustained high level trade strategy. And for anyone who doubted the importance of China and the Global Economic Policy, I just had to look at the events yesterday and markets around the world.

Lael, before coming here to direct the Global Economy and Development Program, has had a distinguished career in public service and academics, serving as the Deputy National Economic Advisor and Deputy Assistant to the President for International Economics under President Clinton's administration, also as the personal representative of the President to the G-7/G-8 meetings. Prior to that, she was an Associate Professor of Applied Economics at the MIT Sloan School; Lael.

MS. BRAINARD: Well, it's a pleasure to be here. And, you know, we're asked to think ahead to the presidential campaign. Well, I think I just got a little taste of it. I just came from testifying up on Capitol Hill, and I think one of the things that, almost certainly on a democratic side, and I would predict very possibly

on the republican side, as well, that voters are going to want presidential candidates to do is to present a clear eyed view about the really fundamental seismic shifts that are going on in the international economy and what it means for them.

And the other thing, I think they're going to want to hear again, you know, almost certainly on the democratic side and very probably on the republican side, as well, is, they want to hear that their president not only gets it, but also has a plan, has some policy responses to deal with it.

I think when people talk about trade, when they talk about globalization, it's really a pocketbook issue, it's an insecurity issue, it's a question about how secure is my income going to be one year from now, five years from now, but it's also a question about their children's future and where are we going to fit in the overall marketplace internationally.

The other thing that people I think are kind of signaling when they say what should we do about globalization, what's going on in globalization, at the root of those concerns, China is really lurking; whether it's a question about manufacturing production(?), whether it's a question about standards of living and competing with low wage workers, there's a kind of China question behind that. And so as we look out over the next year and a half, over the next few months as the campaign starts to unfold, I expect to hear a lot about this question about what we should do in the face of the integration into the global work force of 1.2 billion workers.

And we're right now undergoing a 70 percent expansion in the Global Labor Force, most of that concentrating at the lower wage, and we see it in manufacturing when we're talking about China, we see it in services for the first

time, in higher value services, when we're talking about India, and people want to know, what are we doing about it.

MR. MCCLELLAN: All right. Thank you, Lael, for your remarks. Now we're going to turn to Energy Policy with David Sandalow, the scholar in our Energy and Environment Program. David is going to talk about ending oil dependence, protecting national security, the environment, and the economy. David's prior work has involved both public service and analysis in these areas.

He previously has served as Assistant Secretary for Oceans Environment and Science at the State Department in the previous administration, as well as Senior Director for Environmental Affairs at the National Security Council, and Associate Director for the Global Environment of the White House Council on Environmental Quality. David has also been some of the brains behind ideas that Former Vice President Al Gore has popularized, and if there were an Academy Award for Best Supporting Scholar, I think David would have gotten it this week. David, please go ahead.

MR. SANDALOW: The brains behind Al Gore is Al Gore. Last summer I had lunch with Newt Gingrich, right in this room, along with a number of other Brookings scholars, and about a week later I had dinner with Howard Dean, and those two events I asked those men the same question, which is what shall we do about the problem of oil dependence, and they both basically gave me the same answer.

Both Newt Gingrich and Howard Dean said to me, a huge national security problem, we have to address this as a matter of top priority; they said ethanol, ethanol, ethanol everybody in this town is in favor of ethanol in a big way;

they said we need the Manhattan research type — the Manhattan Project Research Program to develop alternative fuels, and both of them were very much pushing towards fuel economy measures in our cars.

My proposition in writing the paper for this project, and I think more broadly here is that this is a bipartisan issue at this point. We heard from Ken Duberstein this morning, that he thinks Republicans are going to take this on, Democrats are going to take this on. The whole issue of alternative energy right now is poised for remarkable progress. And I think it's going to be a very interesting dynamic in this campaign to see how the candidates take it on and how they distinguish each other on the topic of alternative energy. I'm going to make — that is my only political point for the moment, and then make four quick substantive points, and then I'm happy to come back to the politics.

My first substantive point is that the core of the problem is lack of substitutes; the core of the oil problem is lack of substitutes. If I am thirsty and I don't feel like drinking water, I can go get an orange juice or a diet coke. If I want to relax and I don't feel like watching television, I can watch a movie or read a book.

If I want to go some place and I don't feel like using petroleum, I am most likely out of luck. Maybe I'm not going very far, I can walk, maybe I can bike, but petroleum is the essential ingredient in the global transportation infrastructure, and therefore, absolutely essential.

Now, we have all grown up with this, our parents have all grown up with this, our grandparents have all grown up with this, it is something that we just take for granted, but it is that fact, it is the lack of substitutes which has impact on gross of demand and other things that economists will talk to us about. It is that fact

that drives many of the most central problems facing — that we associate with the oil problem. If we had substitutes for oil, for example, we would not need to project the remarkable political and military resources that we project today into the Persian Gulf, we would not need to scale up oil consumption with its impact on the global environment as wealth grows.

So the first point is that the core of the problem is lack of substitutes. The second statement is, the lack of substitutes is a much more fundamental problem than oil imports. Ever since the 1970's, dependence on foreign oil has gotten all kinds of political rhetoric in our country. But focusing on oil imports when talking about the oil problem is a bit like going on a diet by not eating vanilla ice cream. It's fine as far as it goes, but if all you do is focus on the import flows, you're not going to solve the fundamental problem. And why do I think that? Just a few reasons.

We have not imported a drop of oil from Iran in 25 years, ever since the problems in 1979. That fact does not prevent Iran from using its oil card in negotiations over its nuclear program. The key fact from the national security standpoint is Iran's ability to put oil out into the global oil markets, because oil is a fungible product traded globally.

Similarly, in the year 2000, British truckers went on strike over rising gas prices. At the time, the UK was a net exporter of oil out into the global oil markets. But the fact that the UK was totally energy independent, it was a net oil exporter, didn't protect British truckers from the fluctuation of the global oil market. So the problem is — imports are certainly irrelevant, imports have a big impact on problems like the trade deficit, and so I do not believe that imports are an irrelevant problem, but they are not the driver of the core national security and economic

problems to nearly the degree that I think most Americans and probably most politicians believe.

The third substantive point, plug-in hybrids are the next new thing. I think 25 years from now, many of our grandkids are going to be looking at our kids and going, you mean you couldn't plug in cars when you were growing up, that is so weird.

This is the technology that is underway, it's game changing when it happens, it's game changing for our national security dynamic, because in the event of a catastrophic supply disruption from the Middle East, if we could plug in our cars and tap into our mass of electricity generating infrastructure, it wouldn't have nearly the impact that it does today.

The United States has a vast infrastructure for generating electricity. It is essentially useless today in getting us off of oil because our cars cannot connect to it.

The final substantive point and I'll turn it over to Ron; on a related note to all of this, I believe federal global warming legislation is coming. I believe it will be enacted in the next five years. Anybody in the audience who wants to make an even money bet on that proposition, I would be happy to take it. We have — all of the major democratic presidential candidates are in favor of this. The two leading republican presidential candidates, John McCain and Rudy Giuliani are in favor of this. So if any of the democrats or Rudy Giuliani or John McCain becomes president in 2008 or 2009, we'll have a president willing to sign such legislation. I think the odds of that are probably pretty good.

And as we heard Ken Duberstein say this morning, this has become increasingly a non-partisan issue. So this is coming, and this is going to be an extremely consequential discussion and dialogue for the country about what's the best way to regulate global warming. I'll stop there and answer questions later.

MR. MCCLELLAN: Thank you, David. I'll turn now to Ron Haskins as we continue our tour of domestic policy issues. Ron, Co-Director of the Center on Children and Families, is going to talk about attacking poverty and inequality, reinvigorating the fight for greater opportunity.

Before coming here, Ron was a Senior Advisor to the current President for Welfare Policy, working at the White House, and previously served as Majority Staff Director for the Subcommittee on Human Resources of Committee of Ways and Means; Ron.

MR. HASKINS: Thank you. I want to answer the question that Torie asked of her panel, which was, if you had a chance to talk to the presidential candidates, what would you say to them, and my answer is, I would reach across the table and I would grab them and I would say, we have poverty, we have a lot of poverty, please do something about it. For those of you who follow presidential elections, we haven't had a president that's really focused on poverty in any consistent way since Lyndon Johnson.

So it's kind of symbolic that this is a last — person on the last panel at Brookings that's going to talk about poverty. And actually, I think I'll try to avoid talking about poverty and talk about inequality, because at least that gets some traction.

Now that the President, and Paulson, and Bernanke have all called attention to the fact that we have growing inequality in the United States, that maybe it would be a good idea for us to do something about it.

So let me talk first, just for a moment, about why we have this problem. And there are four factors that people often talk about, one is American economy. The American economy has been spectacular for the last 40 years, 50 years. In the '60's, we made dramatic progress against poverty, we had 35 percent growth in per capita GDP during that decade, so we cut poverty literally in half, broadly, among every group.

Then in the '70's, we still had a 20 percent growth in GDP; in the '80's, we had a 20 percent growth in GDP; in the '90's, we had a 20 percent growth in per capita GDP; and we've hardly made any progress against poverty in those decades with one exception I'm going to talk about in just a minute. So the general ability of the American economy to produce the goods and services and cash to fight poverty is there, there's no question about it.

But the second point is that wages have been a huge problem, there's just no way around this, there's been a huge problem. Essentially, since 1970 or so, wages at the ten percentile, in other words, at the bottom of the distribution, have not changed.

In the middle, not too bad, especially if you consider lots of middle class families have two earners now, so you've had big increases in income for middle class families. And, of course, as we're all well aware, and the republicans might be just slightly hesitant to mention, we do have a lot of people up top that are doing okay.

In fact, go down a little bit further; it's remarkable in the last 30 years that we have doubled the number of families in the United States in constant dollars earning over \$200,000 a year. So it's not just one percent. The American economy does very well at rewarding people who have lots of skills.

So wages are definitely a part of the problem.

Family composition, this is the second huge part of the problem. Americans have absolutely mastered every possible way to produce families that have one parent; you can't do better than we've done. We can do it through non-marital births, we can do it through divorce, we can do it through cohabitation, every way known to create a situation where lots of our kids live in one parent families, we've mastered it. The problem is that we now have very strong evidence, there's no question that the best environment to rear children is a married couple family.

Now, a lot of people don't like to talk about that, it's been a little bit controversial. This President has talked about it a lot, and people at HHS, especially Wade Horn, there are lots of initiatives, including big, random experiments, which is exactly the way that we'd like to develop policies, by finding out if they actually have an impact, but we don't have the slightest idea whether what we're doing is actually going to have an impact.

And then the other part of this is non-marital births, especially among teens. Here we've made dramatic progress primarily because Belle Sawhill has been involved with the national campaign of teen pregnancy and that's the number one causal factor. But we have actually managed to reduce teen pregnancy every year, or teen births at least every year since 1991, that's a miraculous achievement.

But, unfortunately, what happened is, they waited until they got a little bit older and then they had their babies outside marriage. So we still have a third of our babies born outside marriage, and 70 percent of black children born outside marriage, and about 50 percent of Hispanic. And the problem here is that the poverty rates or inequality is rampant among female headed families. Poverty rates are four, five, six, depends on the year, times as great in female headed families. So if everything stays the same and you do what we've done, which is get more and more of our kids in single parent families, you're going to have more and more kids in poverty, so that's definitely a causal factor.

In government spending—this is a hard thing for people in this town to learn I think—government spending has increased dramatically. No matter how you score it, we spend tons of money, more every year, a higher percentage of our GDP for the last almost 30 years, except for about four years, it's increased. So we spend a lot of money, but meanwhile, we've made no progress against poverty since the 1970's, so just spending money is not going to do it.

So government programs may be a part of this, but we have to spend it wisely. So what are we going to do? All right. I think we did an experiment in the 1990's, very bipartisan, initiated by a democrat running for the presidency that drove republicans absolutely nuts by saying he wanted to end welfare as we know it, took an issue away that was a long time republican issue, and then republicans took over congress two years later and had an actual plan, the President eventually, after stalling on a couple of times, signed on, we changed welfare, and here's what we did. We presented a stick to people on welfare, and we said, you have to get off welfare, that's what we expect, that's what the American people expect, and A, we're going to

end your benefits after five years, and B, you have to look for work, and if you don't, we're going to cut your benefits, and in most states, we're actually going to end your cash benefit, that's what we're going to do, that's a stick.

And the states actually started using it, and it got peoples' attention. So people said, gee, I better get a job. And guess what they did, they got jobs in droves. Probably two million single moms, more say by '97 or '98, had actual jobs in the American economy than in '94, before the state started implementing this stuff.

So Clinton's idea was a good one, republicans joined up, we created a huge bipartisan bill, half the democrats on the Hill voted for it, it was a huge bipartisan vote, signed by a democratic president.

But here's the other half of the story, and that is that we created over a period of say 15 years, unbeknownst to the American people I bet, unbeknownst to the congress what they were actually doing, we created what Bell and I call a work support system, which greeted these low income mothers when they got the economy, because guess what, they're going to work at \$8 an hour, there's no way around it. Maybe you can figure out something in the future, you can get them at 12 or 16 or something, but for the foreseeable future, they're going to be getting jobs at \$8 an hour. So we've expanded our income tax credit several times. They can get up to \$4,500 in cash.

We changed Medicaid on several occasions so that the kids do not lose Medicaid. All of the kids are covered under Medicaid and a lot of the adults. We changed the food stamp program, so it's much easier for the states to make sure the families continue to get their food stamps.

We more than doubled the amount of money for child care. So we created a work support system that helped low income working families, and as a result of that, child poverty among female headed families plunged by 30 percent over the second half of the '90's, and black child poverty reached its lowest level it's ever reached.

So this experiment of the stick of welfare reform, expecting work, and the carrot of this work support system supporting work worked very well. So there is a good lesson for us. And as a result of that, here's what we — when I had the President by the arms and I had a chance to say something to him, I'd say, first, do no harm, make sure we maintain this work support system, do not let child care money fall, do not let the (off mike) get cut, maintain the work support system, and maintain the pressure on work, and in fact, let's expand it to other programs, so that's the first thing. Do what we're doing now, do it more efficient, do it better, maybe even do more of it, I'm going to talk about that in one second.

The second thing is, use the bully pulpit, continue what the Bush Administration is doing on marriage, and expand programs to prevent teen pregnancy. We now have good data on a number of different types of programs that are cost beneficial, and let's have new initiatives on reducing teen pregnancy and pregnancy among slightly older women, and use the bully pulpit to talk to the American public about how crucial this issue is.

I know it's somewhat divisive, but when Bush talks about it, he says, the toughest job in America is to be a single parent, I admire single parents, but if we love our kids, they need a father and a mother, so we need to do that.

And then another initiative that Bell and I favor, and this is a little trickier, we cannot say that this would have a great impact, but our biggest problem is with low income males. And we have virtually no policies for them except put them in jail and make them pay child support, that's about it. They can get food stamps.

But all of these other wonderful reforms that I talked about largely do not apply to males. So we need an income supplement for these low income males that they can get without having custody of the child, that's how you get the cash through the no income tax credit. So we would recommend very large scale, spend \$2 or \$3 billion to select four or five states and find out, if we present a big subsidy to low income males to work in the kind of jobs that low income mothers do, and yet they would make instead of 9 or 10 or 11, they'd make 14, 15, \$16,000, that that would be a good policy.

So if I had the President by the arms, that's what I would tell him, but I'd probably do better after the election is over.

MR. MCCLELLAN: All right. Well, I don't know if you're going to get a chance to shake all the presidential candidates, but the comments here are going to do a lot of good, I think, to bring income and equality and poverty back on the agenda. That said, I don't want you to feel like you're last and an afterthought, so I'm going to make a few remarks before opening up this discussion about the issue of health care.

And this is one I think in contrast to poverty, where every single candidate will have a plan. This is a front and center domestic issue for all Americans, it's front and center not because, if you look back over the last 30 years,

we've seen tremendous progress in health care. The rate of death from heart disease has fallen by half, people are living longer than ever before, quality of life by any objective measure is improving substantially, in good part to the new things that medical progress has brought, new cures for heart disease, new treatments for diabetes, cancer survival rates are going up for the first time in our history over the last few years, this is a result of medical care.

But the issue is front and center because of the concerns in the public, in business, in government, everywhere, about rising costs of health care, and the worry, the real worry that Americans have that even if these treatments come along, even the treatments that are out there now, they're not going to be able to benefit because they're not going to be able to afford it, and this is something that I got to see first hand in my work in the past years in government, at FDA, some of these new treatments are coming along, at CMS, the Medicare and Medicaid programs, we oversaw rising health care costs and a lot of new ideas to try to address the concerns of affordability of health care and bringing care up to date.

So this is going to be a front and center domestic issue for the campaign. And you will see proposals by candidates, just like you've seen in previous elections, that address the issue of improving coverage and improving affordability of health care. This is where most of the focus is likely to start, just as it has in previous elections. Candidates will be expected to put forward a plan that would cover millions more Americans, that would bring down the out-of-pocket costs, especially for people who aren't getting much help today, that includes our 46 million uninsured who are disproportionately working Americans, working families and their children who aren't lucky enough to have coverage through their

job, or in many cases, to be eligible for existing public programs like Medicaid or the State Children's Health Insurance Program.

But in considering this issue, it's very important to look at the longer term sustainability of our public programs to support access to health care and our overall health care costs. I think what's not going to be adequate is just releasing a proposal that tries to bring in a whole lot of new dollars, billing more and spending, not to cover more people on top of our existing system.

We need more fundamental reforms than that, and we need to find ways to redirect a lot of the spending in our health care system today. The problem today isn't that we aren't spending that money, we're spending over 16 percent of GDP, and that's projected to grow, if current trends continue, to over 20 percent in the next ten years. By the time Brookings celebrates its 100th, we'll all be working on health care perhaps.

But we need to change that trend, and so ideas like the President has put on the table recently, with looking at the tax exclusion for employer provided health insurance, has started to get a little bit of traction, and bipartisan discussion senator, (off mike) senator bulk as others, don't like the President's civic proposal, but recognize that we're spending in this area, this is just one example of how federal government is spending the money now, \$200 billion a year in tax subsidies for insurance, maybe there is a way that we can spend that better, more equitably, to get more people into coverage.

And there's a current exclusion. About 75 percent of it, of that \$200 billion a year, which is, by far, the largest tax expenditure in our economy, and growing fast, 75 percent of it goes to individuals with incomes over \$50,000. That's

a lot of money that could help make health care more affordable for people with greater health care needs or more limited needs.

Similarly, if you look at growth in the Medicare program, a lot of those increasing subsidies, in about 80 percent or more, Medicare costs are subsidized now, go to middle class or wealthier families. And there could be ways to make the program significantly more sustainable by concentrating the subsidies on the people who really need it the most, those with high health care costs and limited means, not just putting more dollars into the system.

Even if you think you can find some of that from rolling back a tax cut or something like that to pay for it for the next couple of years, that's not really a solution for the long term. And that brings me to the second point, that hopefully we'll see a lot of candidates address, and maybe I can get Ron to shake them about this issue, as well, and that's to include in the proposal real steps to promote better health care, not just moving around the dollars, but transforming the way our health care system works.

Today in American health care, and in a lot of other places, as well, you get paid more when you use — more services are paid for when more services are used, when you have more complications, when outcomes are worse.

As a result, I think we get what we pay for in health care, which is very often preventable complications, poorly coordinated care, a lack of emphasis on prevention. Only about 50 percent of recommended preventative services are used by the American public today, and also, a failure to use truly evidenced based health care.

According to studies by Rand and others, only about 55 percent of treatments that have been proven to be effective are actually used reliably by patients. So no wonder we're spending a lot of money, no wonder we have a lot of duplicative services, no wonder costs are high. There's definitely further steps that we can take to bring down prices of services, as well, but costs of health care or prices times quantities.

And in health care today, we're spending money on the wrong things. We don't have a system that is consumer friendly, that is focused on a patient, on an individual patient, in getting that patient the best care for their own needs. And if you look at where medical technology is headed in the years ahead, we are headed towards a much better understanding of the basis of how diseases progress in each individual, and a better understanding, therefore, of the steps that can be taken to prevent or preempt those kinds of complications from developing.

That means health care that's going to be much less like it's been in the past, about treating complications after they happen, and much more about getting patients involved early on and understanding their own personal risk factors and the things that they can do, for preventative care through drugs and other treatments based on their genetic make-up, their personal preferences, through other steps to help head off the complications of diseases.

It's a much more personalized approach with an emphasis on health, not on health care for complications. That's not what we have now, and we're not going to get there very easily unless we don't only talk about moving around the dollars, but also talk about supporting better care.

And we've also got a big philosophical divide in the best approach to help policy in this country, with many people advocating a much broader role for government, the private markets can't be trusted and they don't work well, and on the other side, a lot of people who want to see more competition. Regardless of which side of the issue you support, a candidate needs to talk clearly about what they are going to do to improve quality and improve the emphasis on prevention and coordinated care and steps to avoid the unnecessary costs that riddle our health care system today.

If you are an advocate of government control, there are ways you can do that. Look at support for developing better information on the quality and costs of care, and as people like Karen Davis and the Commonwealth Fund have emphasized, find ways to build into the payment system, not paying more for more complications, but paying more for better care, moving from fee for service, which is what we have today largely in health care, to fee for value.

And if you're an advocate of competition, as I am in many ways, it's important to make sure that any proposal that you support is going to work for all Americans, particularly the most vulnerable ones, for people with limited needs, have enough resources and support to make informed decisions about what kind of health plan they'd like to choose.

Will people who have high health care costs have access to affordable health insurance options. And these have been real problems in this country, and I think it's one reason the President's proposal on tax reform hasn't gotten more traction. Even though it redistributes federal dollars in the direction of supporting people who need the most help, if they don't have good options available

for choosing coverage that really is going to meet their needs, then it's not really a complete solution.

And in this respect, one final point about changes that are happening now that I think will have an impact on the presidential campaign and will need to be addressed by the candidates, as well, and that's actions that are happening in states around the country.

A lot of people have said, well, states are starting to act now because the federal government hasn't acted year after year. Actually, I think there are several other underlying reasons that state reforms are getting to be so front and center now and that we've really got issues like universal coverage and individual mandates for everyone to get health insurance on the table this year.

First, the current administration backed by congress over the last couple of years have taken a lot of steps to give states more flexibility in how they spend the dollars in the Medicaid and S-Chip programs. Those are programs that cost over \$300 billion per years now and are the main programs that actually are targeted to people with limited means to help them afford better health care. The second reason is that the economy overall, as Ron mentioned, has been looking up state growth and welfare programs and health insurance programs have slowed down, so states have more resources generally available to take on this issue. And so with that kind of context, we're seeing a lot of states, not just the ones that get the most press like California and Massachusetts, but a lot of states implementing reform programs that, lo and behold, include significant elements of both government involvement care and competition and personal responsibility and personal choice, as well.

What many of these programs have in common is, first of all, they're redirecting the dollars that are spent in health care, taking money that had been going to paying for emergency care and other costly institutional settings of care and redirecting it to subsidize individuals getting health insurance policies for themselves and their families.

Going along with that, though, is not just the matter of moving dollars into a personal choice and private insurance competitive system, but states actively taking steps to make sure that everyone will have access to affordable and decent health insurance options.

In Massachusetts, in California, but also in other states that get less press, like Montana, Arkansas and others, states are either setting up or have set up purchasing groups that enable people or small business who can't afford good insurance on their own to get access to a choice of health plans. And these plans typically or generally are available to everyone, they're so called guaranteed issue, people are excluded from the program, states have taken steps like paying more to plans that attract and keep people with high expected costs to prevent the problem of so called adverse selection. You've got a significant amount of government involvement, but also a significant amount of choice, as well.

And in virtually all of these state programs, there's a big emphasis on personal responsibility, people getting involved in making decisions about their health and their care, to take steps to stay well, with financial incentives to support it.

By the way, I would add that many employers are moving their coverage in the same direction, getting to more of a focus on keeping someone well and preventing complications rather than just paying the bills when people get sick.

There will be opportunities because of all the press that these state initiatives are going to generate in the coming year for candidates to talk about how they might support these kinds of initiatives. And you can see how some of these ideas might come together.

For example, if you have a tax reform proposal, maybe not exactly the one the President proposed, but maybe one that many democrats like Ron White and others have supported, to use some of those employer tax exclusion dollars to make a refundable credit, a voucher available to everyone to purchase basic insurance. If you combine that with steps like states are taking to make sure everyone has affordable options available, you can see a path to getting much better coverage and spending the dollars better in our health care system. So this issue will be a major one in the campaign.

And my hope is that it's going to go beyond just talking about how many more dollars we can spend to get more people covered in our current system and really move towards focusing on specific ideas. A lot promise was out there that we can transform our health care system to really emphasize prevention and personalized care and keeping everyone well in what should be a vibrant century for further innovation in health care to improve and lengthen lives.

With that, what I'd like to do is open up the discussion here to people in the audience. We've covered a broad range of topics today, and what I'd ask for you to do is, as we go around the audience and see if there are any questions, to wait until — I think we've got microphones in the room, right, so wait for a microphone to get there and let's get started. Yes, ma'am.

AUDIENCE: Thank you.

MR. MCCLELLAN: Wait, can we get — maybe no microphones. Can you speak up?

AUDIENCE: I'll speak up.

MR. MCCLELLAN: Okay.

AUDIENCE: I want to direct (off mike) saying that having worked professional in Children and Family Services, I consider myself fairly knowledgeable. I think the important thing when you sit across the table from the President is to shake him and say, remember, when AFDC was founded, you forced dads out of the homes so moms could get the welfare, then TANIF came into being and you still kept the dad out of the home, so we need to be able to bring dad back into the home, and if the family needs the welfare or Medicaid and food stamps, dad can stay in the home, and that has historically been what has happened with the welfare system since AFDC was gone and TANIF came into being, et cetera, et cetera. That's really part of the problem.

So with regard to health care, do you all think — I personally think medical IRA's are a pretty good way to go, and I think that — my question is, with the '08 election coming up, that there is enough political will on the part of the democrats and republicans, I see this as a bipartisan issue, on how they can lobby the insurance companies, which are really setting the pace and the rate and keeping health care unaffordable or what have you, how can these elected officials or folks running for office, whether it be president, senate, or congress, lobby the insurance companies, get something that's reasonable, look at medical IRA's, keep costs down, and should we, or should folks who really have a high income have a differential premium or expenditure or I don't know what you call it.

MR. MCCLELLAN: Out-of-pocket payments.

AUDIENCE: Well, yeah, but just because I'm not up there with Bill Gates doesn't mean I shouldn't be able to pick my doc if I — obviously I have worked in health care and know how to work the system. So I think — I'm not sure about a universal plan, I'm not really in favor that much of the Canadian system, however, I think medical IRA's work, and you're never going to have the equality, because those who have the money will always get what they need, and those who don't won't. Thank you.

MR. MCCLELLAN: Thank you. Ron, any comments about —

MR. HASKINS: No.

MR. MCCLELLAN: Okay. So I'll take the health care one if that's okay with you guys. On the issue of medical IRA's or health savings accounts or accounts that people can set aside money to help them pay their out-of-pocket expenses, those plans are going to I think continue to become increasingly popular.

And if you're a small business today, what used to be known as a high deductible health plan that would qualify for an HSA, a health savings account, is actually now pretty much a mainstream policy. Deductibles that are \$1,000, \$2,000 are getting to be more typical for many small businesses and people purchasing insurance on their own. And so I think there is going to be more use of those kinds of plans. Interestingly, in some of the state Medicaid reform programs, the states are getting their — they're trying to get their beneficiaries and Medicaid more involved in health accounts and the like, as well, and that presents a lot more challenges, because these are people who, as you're saying, have virtually no out-of-pocket income.

On the other hand, if you talk to a lot of these Medicaid beneficiaries, I haven't had a chance to meet some with chronic illnesses or a disability, they, in many cases, have a pretty good idea about how they'd like to see the dollars spent by the federal government on their behalf.

You know, for example, for long term care, most people with a disability don't want to go into a nursing home, but that's the way that a lot of Medicaid benefits have traditionally been set up because that's the way that care for long term support has traditionally been delivered.

Many states have implemented reforms where they basically give people with a disability on Medicaid an account, it's called the money follows the person initiative, and money in the account is based on their level of needs, and they get counseling support and other assistance, they can choose how to spend that money on their own behalf.

Now, this isn't just a couple of thousand dollars, for someone with a serious disability, it may be \$40,000 or \$50,000, but that's still less expensive than a nursing home, and these reforms have delivered very high levels of satisfaction, why, because people are able to live in the community, they're able to get the kinds of services they want. We are headed for health care that I think is going to get increasingly personalized like that, and the challenge is, can we come up with reforms that enable even people with limited income to get both the support they need on the one hand, but the ability to get involved in making decisions with their health care providers that can get them the best care for their particular needs.

I think there are some promising steps like this, but it really puts you in this middle ground between a lot of government involvement and oversight on the one hand, but personal choice, as well, on the other.

But I think we need to change the system rather than rely on, you know, lobbying the insurance companies to make it better, set up a system that gives people more control and has the government making sure that there is access to good health insurance options. Yes, sir.

AUDIENCE: Yeah, a question for David. You framed the energy addiction in terms of how do we get off of oil or reduce the dependency on oil, and a byproduct of that, obviously, is an impact on the climate change problem. But it strikes me that the core problem is not the addiction to oil, it's the climate change issue, and that getting off oil, you know, yes, is one solution, certainly plug-in hybrids will help, but if we're still getting that electrical current from burning coal ultimately, there's still a problem. So I don't see any mention in your proposals about taking a fresh look at nuclear energy. In France, they generate 80 percent, what is it, of their electricity from nukes.

So can we take a fresh look at nuclear energy, and are there safeguards that we could employ with today's technology that reduce — mitigate some of the risks of nuclear energy? Because it strikes me that climate change is a far greater risk to our way of life than our economy in the long term, just from a probability theory perspective, than a lot of these other issues we've talked about.

MR. SANDALOW: It's a great question, thank you for asking it. And let me just — let me clarify for those in the audience who aren't familiar with it. Global warming has a number of causes, and oil is only one of them, as you say. I

mean oil is a major cause of global warming, but coal is also another major cause of global warming, and deforestation is another major cause.

And so my presentation and the paper that I wrote wasn't answering the question, how do we solve global warming, it was answering the question, what do we do about this oil problem. I think oil creates a problem related to global warming; it also creates a problem in our geo political strategies and creates a dependence on relationships in the Middle East that are complicating in all kinds of fundamental ways. So I think oil alone is a hugely important problem and one that we need to deal with. And if we deal with the oil problem, just to repeat what I just said, we'll only deal with part of the global warming problem. So then that gets to your question about nuclear power. A couple things about this; nuclear power won't get us off of oil because we really have two energy markets in our country. We have a liquid transportation fuels market, which is what drives our cars, and then we have an electricity generating market, and that's where nuclear comes in.

Right now in the United States, our electricity is generated 50 percent from coal, about 20 percent from nuclear, about 20 percent from natural gas, I think seven or eight percent from hydropower, and the balance are renewables like solar and wind, wind is bigger than solar.

Nuclear power, in my opinion, has got to be in anybody's portfolio of potential solutions to the global warming problem, precisely because of the statistics that I just offered. In order to replace the base load power generation that coal provides, nuclear power has got to be part of the tool kit that we look at.

Right now, however, nuclear power has some huge barriers. Probably, I mean the biggest I would say are Wall Street and Main Street. I mean Wall Street has been very unenthusiastic about nuclear power for a long time, I mean I think at least since Three Mile Island, when a \$2 billion asset turned into a billion dollar liability overnight. And Main Street, you know, go try and permit a new nuclear plant, you know, in any city or town. Then we have the problem of waste disposal, which is an unsolved and very important problem, as well as nuclear proliferation concerns.

So there are a lot of problems with nuclear power. Because I agree with you that global warming is a huge paramount threat that threatens our lives as much as any problem out there, I believe nuclear power has to remain in our tool kit of something that we're continually trying to find solutions. We need to continue to try to find solutions to these problems. Right now I think we're a pretty long ways away from doing that.

MR. MCCLELLAN: Next way in the back.

AUDIENCE: I have a question for Mr. Haskins. I'm just curious about how middle income children might fit into the preschool plan that you outlined in the paper, because middle income kids, research shows that they still don't have access to high quality care and that there are definitely benefits to those children as well as low income children, so I'm wondering if that has —

MR. HASKINS: I think there are two basic answers, and I would favor one of them. The two answers are, one, that you'd have a universal program, be like the public schools, and the public would pay the whole thing, it would all be financed in tax code, and come one, come all; the other one is that you would have

— the funds would be focused on low income families by some definition and you would have some kind of sliding fee scale.

So middle class and wealthier kids could come, but they would have to pay at least part of the tuition, and that's what I would favor doing, because I can't imagine, I mean the estimates go up to 40, 60, 80, 100 billion if they have a universal preschool program, and I don't think we're going to be able to afford that. So I think we need to focus the money on low income kids and maybe give a break to kids on, you know, say under 50,000 and then over 60 or 70, you pay 100 percent of the costs.

MR. MCCLELLAN: Thank you. Yes, ma'am.

AUDIENCE: I'm Mary Mullen, I just wanted to have a quick response to the fellow that was talking about climate change and how it is effecting. What about nuclear waste? I mean it seems — I went to a lecture one time on nuclear waste, which seems — where are they putting it, and is it harmful, and is it really the answer? I mean it might be easy and clean, but what happens with the waste?

MR. SANDALOW: So right now we're storing waste onsite at nuclear power plants all over the country and in containers near the facilities. And there is a proposal that has been, what, in 15 years, is that right, that's been 15 years or more developing a proposal to permanently store this nuclear waste in Nevada. And that has gone through all kinds of debates and is —

MR. HASKINS: That's a good idea if they'd put it in Las Vegas.

MR. SANDALOW: It is — I mean I think there are some people who think it's probably still 15 years away from, you know, from happening, if ever.

So this is an unsolved problem, what to do with the waste. I mean I don't think anybody is standing up and saying, you know, we're confident, we know what to do with it.

AUDIENCE: So what's your recommendation?

MR. SANDALOW: I don't have, you know, I will plead the fifth on that. I think it's a difficult problem and I'm not sure what we'll do with our nuclear waste.

MR. MCCLELLAN: A good question. How about in the back again?

AUDIENCE: I had a question for the gentleman here on the end regarding the low income —

MR. HASKINS: The far right you can say.

AUDIENCE: It was for Doctor Haskins, correct?

MR. HASKINS: Yes.

AUDIENCE: Yes; I had a question for you regarding what you're talking about, low income males; I wonder if we might be able to kill two or three birds with one stone by perhaps expanding programs like Peace Corps and AmeriCorps, putting these low income males in positions where, number one, they learn about the world around them, because what I'm reading in my research is that most Americans don't know anything about the world around them, so we might kill that bird with getting them exposed to the world around them.

Give them a job, give them some skills, make them sort of low rung ambassadors to the world, rebuild our foreign policy image, and hopefully like what

you're talking about, income policies, hopefully raise their income to give them some kind of skill that they can use later on.

MR. HASKINS: Okay. If I'm not advising the President and just answering like scholars do, I would say let 1,000 flowers bloom. It's very encouraging to me that we have done virtually nothing for all of these years for low income males, very, very little, and we know from years and years of experience and lots of studies that males have lots of problems, way more than females. They have much harder — it's harder for them to grow up, for some reason. They get in crime, they wind up in prison and so forth.

So we need a lot of programs, and fortunately over I would say the last ten years or so, we have gotten maybe not an explosion, but an expansion of programs. So I like what you suggest. One thing along those lines that I really like, it's already somewhat underway, and I think really could be expanded, and that is the National Guard challenge, where it meets many of the characteristics you just described, where the National Guard is involved, often on old military bases, in some cases young ladies are involved, too, but they go away from their neighborhood, they often live on the site, and it's kind of like the job corps, they get lots of training there, they get training and fundamental skills, so they get a high school degree, but they also get training in job skills so they're used to roll in whatever market they live in, and meanwhile, they live under a discipline situation where they're learning self-control and all that kind of thing.

And there are some studies, they're not good yet, but there's one going on that's random assignment, large scale, that we'll find out if these things

really produce an impact. And I think it looks quite favorable. So, yeah, I would favor that, as well.

MR. MCCLELLAN: Lael.

MS. BRAINARD: Yeah, I just want to jump in on this. One of the things I would do if I had the opportunity with the presidential candidate is suggest a Brookings proposal that we've just come out with recently, which is that they create a congressionally implemented fellowship program for international service. President Kennedy's vision of the Peace Corp was that it should expand to 100,000, it's never gotten above 15,000, and I don't see it as a labor market kind of device really, I see it more in the kind of spirit that you were talking about. Americans, we are in, like it or not, a much bigger world context, and we have a huge interest in showing the world the generosity of spirit that really is very American. And, unfortunately, for the last few years for a variety of complicated reasons, that's not the face that the rest of the world has taken away.

So for foreign policy reasons and also for domestic policy reasons, if you look at members of congress who have been in the Peace Corps, there's actually little pockets of them, they are very, very involved in international issues and very constructive on international issues. So there's a domestic reason and there's a foreign reason.

AmeriCorps has expanded, Peace Corps hasn't, we need to go to not so much a governmental model like the Peace Corps, but a model which supports all the volunteering programs that are out there by giving a government kind of support for them in the way that AmeriCorps does.

MR. MCCLELLAN: Thank you. I think we have time for one more question. Let me come up to the front with Bill.

AUDIENCE: Actually, I wasn't going to talk about your paper, Ron, or our paper. I want to come back to the global warming issue, although I see our friend who raised the question is leaving. But I think there is — it is a huge problem, I know David agrees with that and he may want to comment further. I only want to point out that another one of the papers that's in our 08 series, which is about how to reduce the deficit, kills two birds with one stone in the sense that it calls for a tax on (off mike) which would both raise \$30 billion a year to go towards deficit reduction and help in a very significant way to global warming problems.

Most people have said in the past when experts came out with proposals of this sort to (off mike) specifically, that it wasn't politically feasible. But as David suggested at the beginning of his remarks, it looks like it's becoming increasingly politically feasible, and I can imagine, in our green scenario about what our next president might do, it would be both plug-in hybrids and a (off mike) David, you may want to comment on that.

MR. SANDALOW: I agree with the point you made completely (off mike) and for almost all of the past 15 years, if somebody had said to me what are the odds of an energy tax of some kind being enacted, it wouldn't have been a hard answer, it would be zero, it's not going to happen.

And I think the odds are north of zero right now. I mean there's a bit of a snowball, and it's very interesting how some major companies in particular are starting to say that they're not necessarily for some type of measures here, but if something is going to happen, they'd rather see a carbon tax than any other type of

measures. And one can start to see a dynamic driven by that and driven by the deficit concerns that Bell (phonetic) had very powerfully spoken to, where some type of carbon or energy tax emerges over the course of the next several years.

MR. MCCLELLAN: Thank you, Ron. I'd like to thank all of the panelists for a very stimulating and wide ranging, and in some cases, a candidate shaking discussion this morning. And I'd like to especially thank all of you. You've had more than three hours now of exposure to the wide range of issues in the Opportunity 08 program here at Brookings.

This program is going to be around for the next 20 months. I hope you'll keep checking back to the web site at brookings.edu to get updates. There will be more papers, more discussion, more events coming as we keep doing our part together to make sure that this presidential election really puts a fine discussion at issues and solutions to the problems front and center. Thank you all very much.

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