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WHAT PRESIDENT OBAMA SHOULD PROPOSE IN HIS SPEECH ON JOBS AND THE ECONOMY

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P R O C E E D I N G S

MR. GALSTON: Good morning, everybody, and welcome to Falk Auditorium at Brookings. As some of you know, but most of you probably don't, I am Bill Galston, a senior fellow in Governance Studies here at Brookings. And my very welcomed job is to serve as moderator, and when I try to get substance -- substantive to bring down the average level of economic wisdom that you'll hear on the panel.

The topic of the panel was carefully chosen. It is what the President should say about growth and jobs in his forthcoming speech next week as distinct from what he will say. The panel's self-assigned task is prescriptive rather than predictive, if you want to get technical.

One hopes, of course, for a degree of overlap between prescription, prediction and the eventual result, but there's absolutely no guarantee. I am not going to declare that questions having to do with either prediction or political considerations are off the table during the question and answer period, and I and others will be happy to address them, but at least in the beginning, the question is what the President should say, what he should propose given the economic understanding and experience of the very wise and experienced people on this panel.

I don't have to spend a long time telling you why this session has been convened at this time. The state of the economy speaks for itself. Whether or not we're heading for a double dip, it's very clear that the first half of the year has been very disappointing, whether measured by aggregate economic growth or jobs.

It's been a very long time, many decades, since we have had sustained unemployment at this rate for this long, and the percentage of people who have been out of work for more than six months is extraordinarily high by historical standards.

On the political front, I think you're all aware of low approval ratings for all political actors, the extraordinary degree of polarization in our party system, the extent of public mistrust, and, of course, a looming presidential election year.

Now, to help us understand the President's policy options, Brookings has assembled an all-star cast which I will now very briefly introduce in the order of their opening remarks. I say briefly; you all have their full biographies, so I'm just going to pull out one or two salient facts illustrating why their presence on this panel is so welcome.

Martin Baily, to begin at the beginning, rejoined Brookings in September of 2007, and he's developing and heading up a program of research of business and the economy. At least as pertinent for our purposes, in August of 1999, he was appointed chairman of the Council of Economic Advisors and served in that capacity for the last 18 months of the Clinton Administration.

Bill Gale, to my immediate right, is the Arjay and Frances Miller Chair in Federal Economic Policy in the Economic Studies Program at Brookings, and he is also the co-director of the Tax Policy Center, which is a joint venture of Brookings and the Urban Institute.

Adam Looney, to my immediate left, is a senior fellow in Economic Studies and the policy director of the Hamilton Project. And interestingly, he served in the Office of Financial Stability in the Treasury in the year 2009. That must have been quite the experience.

And finally, to my far right, Michael Mussa, who has been a senior fellow at the Peterson Institute for International Economics for roughly a decade. He also, in the prior decade, served as economic counselor and director of the Department of Research at the IMF, and he, too, served on the Council of Economic Advisors in his case during

most of the concluding two years or so of the Reagan Administration, so a diversity of experiences and perspectives.

Each of them will offer opening comments for roughly five minutes. If they have left anything out that I think is important, I will then say something briefly. I'll address a question or two either to individual panelists or to the panel as a whole, and then we'll go to the Q&A session involving all of you. So without further ado: Martin.

MR. BAILY: Thank you, Bill, and thank you all for coming out on such a beautiful day. I want to start by what I think the President should do is to try to create a little more perspective on the state of the economy. I think he should get a lot of credit for what happened early on. When he took office, the economy was, as they say, in freefall: 700,000 jobs a month were being lost, stock market was tumbling, the financial system was on the verge of collapse. He basically put in place, he and the economic team, I think there were some things done by Paulson, which was a continuation of those things, but I think that the Obama Administration did the right things to stop the freefall and begin the recovery process.

I think he then made a serious mistake. The mistake was, and I think a lot of other people made the same mistake, but I think it's unfortunate that he made the mistake, he made the mistake of believing that once the economy had turned around, had leveled off, that it would start growing again and you would get self-sustaining and reasonably strong growth from the bottom. That was not an unreasonable belief. If you look back at past recessions, certainly past recessions in the post World War II period, deep recessions were typically followed by strong recoveries, with a reasonable expectation that once we had dealt with the decline, things would start getting a lot better.

With the benefit of hindsight, I think the reasons that that has not happened are fairly obvious. And some of these I saw at the time and some of them I didn't. I certainly shared in the over optimism of many economists about the recovery.

Way too many houses were built. In normal times you get a boost from the residential construction area and the stuff that people buy to put into new houses. In this recovery, we've gotten -- really residential construction has only just begun to flatten out. Basically the market remains dead in the water and we still have a huge overhang of foreclosed mortgages that's keeping housing prices down or at least flat and discouraging new construction. So that's something that has taken much longer than we thought to work through and is going to take longer still to work through.

We also have a deleveraging problem. Consumers took on too much debt prior to the crisis, and they've got to try to work that hangover off. According to one estimate, they're about a third or a little more than a third of the way through that deleveraging process, getting back to something like a normal ratio of consumer debt to disposable income normal being roughly the trend that consumers were on prior to the housing bubble.

They borrowed too much because they believed they were wealthier than they were, and when that wealth disappeared, they've cut back on housing and tried to retrench on their debt. A lot of the undoing of the -- a lot of the going through of the debt deleveraging has occurred through foreclosures. Actually more has come through people reneging on debts than paying back debts, but still there's a reduction in the amount of new debt being taken. So typically in a recovery you get strong consumer spending. We've got 2 percent growth in 2010 and only about 1-1/4 percent growth in consumption in 2011. So consumers are not playing another role that they would play in a recovery.

Now, even though there was a fiscal stimulus and it's gotten a bit of a dubious reputation, I think at this point it probably gets too much maligned. It was quite a bit in the stimulus package which put money in people's pockets, and I think that helped them get through. There was a certain amount of repair and reconstruction anywhere you go in Washington, or when I was on vacation driving around, you see the ARRA signs.

There are people working. They are fixing bridges and roads. So there was something done on that stimulus package, but that is now running out of steam and its impact has been offset to some extent by the contraction in state and local spending and state and local hiring. So we just haven't got the basis for that domestic -- recovery of domestic demand. On top of that, sometimes in recoveries you get some help from exports. If your recession is not synchronized with the rest of the world, then exports will keep growing. Exports have been actually a source of volatility, some periods have gone up, some periods have gone down. Certainly in the first half of this year, exports have been weak, and that has contributed to the soft patch -- this latest soft patch that we've had now.

So the mistake that was made then was in not appreciating how long it would take for the economy to heal after the crisis. I think many people, including myself and Mike Mussa, have used medical analogies here. The economy really did hit a tree at full speed and it's going to take a while for the convalescence to take place, and there's got to be a certain amount of time spent healing. And it's not clear that we know how or have the tools to accelerate that process more than a certain amount.

Now, so what are the main things that should be done now in terms of the policies that should be followed? My top choice for what should be done now is, there should be advanced planning done discreetly, but aggressively, with the Fed and

with Congress to see what we could do if there is a European crisis. I think the chances of a European crisis, we've already had one, but the chances of one are pretty high, and if we get a European crisis, the spillover to the U.S. would likely be quite substantial, and we could easily go into a second dip recession and begin to start losing jobs.

And the process of that, in our wisdom, we took away some of the power of the Federal Reserve. There obviously, as you know, have been a lot of criticism of the Federal Reserve, misplaced for the most part. We took away a fair amount of their power to act strongly and unilaterally and provide liquidity where it was needed.

During the course of the last crisis, the Fed provided huge amounts of money, not only to our domestic economy, but to the European global economy. It's now clear that they continue to have the power to do that. So we need to take another look at what we did and whether we are ready for another crisis if there were a European crisis coming up. And I think Congress should be prepared and made aware of what needs to be done since they would have to approve some of this lending of last resort.

I hope, obviously, that we work through the European situation without a crisis, but I think it's foolish not to plan ahead. So turning back to the U.S. and what we could do to help restore or speed the healing process, I think we can do something. I think it's going to be proposed, at least that's what I'm reading, which is that mortgage holders in good standing can refinance through Fannie and Freddie at lower interest rates even if they would not normally qualify because they do not have the equity in their homes. I think that's an important thing to do. I don't think it's going to really just turn around the housing market, but I think it would help.

We've discovered in the proposals that were made under Paulson, the ones that were made under Obama and the administration that it's very difficult to resolve

or improve the housing situation. In some sense, again, we have to work our way through this over time, there's only a certain amount we can do.

What about a new effort to stimulate the economy through fiscal policy?

MR. BAILY: I think realistically the only policy the House of Representatives would approve is for the tax cuts and, frankly, I've had it up to here with tax cuts. I think Obama made a mistake when he campaigned in claiming that tax payers under 250,000 could get a tax cut. I think everyone's going to have to pay more taxes in the future, even if we're successful in cutting back the growth of entitlement spending.

I am willing to support, or I do support, continuing the payroll tax rebate then having it expire but that's about it for me in terms of supporting more tax cuts. The case for increased infrastructure spending and the conversion to a green economy is on the face of -- and very compelling indeed.

Many people are out of work, construction workers in particular, are facing high unemployment, and we certainly need to do something to restore our aging infrastructure and to reduce carbon emissions. I'm very much in favor of these areas of spending as long as they do not involve the federal government providing and lowering guarantees. The Treasury, in my view, is maxed out on its credit card and should not create a new infrastructure or green version of Fannie and Freddie.

Most electric utilities are in good shape. They can borrow and if they're given the right incentives to invest in green technologies, I think they are in a position to do that. One of the challenges is regulatory. We need to improve and speed up our regulatory process. I have said partly in joking that we should hand over the control of our nuclear power industry to the French since they seem to do it pretty well. But certainly we do need to improve the regulatory environment.

In addition, perhaps after a few more hurricanes, maybe the public will

be more receptive to economic incentives imposed on electric utilities to encourage them to reduce carbon dioxide emissions. Are you listening Michelle Bachmann? God is sending you a sign: cut carbon emissions. I don't think she's reading the right text.

In terms of infrastructure, it's vital to get private capital engaged in the process. Americans do not seem willing to pay more taxes. There's sort of a veto on increasing the gasoline tax.

So okay, you'll have to pay more tolls. So get private institutions to take the risks and get the profits by collecting tolls on new infrastructure projects. Again, there are regulatory things that we could do there to speed up some of that infrastructure building.

Perhaps the hardest aspect of this long recession is that millions of Americans remain out of work, many of them for several months of even years. And in a different world, I would propose a major initiative to provide training to every unemployed worker just as some other countries do. The unemployed need that.

I would also love to propose a dramatic boost in federal support for technology development. But again, unfortunately, these proposals do not seem to me to be politically feasible and are probably not economically feasible right now with the need to reduce the budget deficit.

I could spend a long time talking about what we need to do on the fiscal side but I've already exceeded my time and Bill Gale is tossed with that. So I will close just by commenting on whether or not I believe in the confidence fairy. If there's serious progress in reducing the deficit, will that trigger faster growth? Paul Krugman says that he does not believe in the confidence fairy that will sprinkle angel dust on the economy if there is a good deficit plan put in place. Well, I actually do believe, not in the fairy necessarily, but that if we did get a good package to reduce the deficit that that would in

fact boost business and consumer confidence, particularly if it avoids doing too much too quickly in terms of contractionary policies.

Let me stop by saying, on a hopeful note, I do not think we are going into a long period of stagnation. I think it will take at least another five years to get back to full employment. But I think the flexibility and innovativeness of this economy will eventually restore us to at least moderate growth and full employment.

Thank you. And I'll stop there.

MR. GALSTON: Thank you, Martin. Adam?

MR. LOONEY: Sure. Well, I'd like to start off by looking at today's crisis in the labor market from the perspective of longer term trends of reduced opportunities for less skilled workers. That story is particularly true for men. For women, fortunately, they've done a lot better in the labor market over the last 40 years. But if you look at men, what you'd see is that for men that work, their wages have been stagnate over the last 40 years after adjusting for inflation. But the fraction that no longer participate in the labor market or that work at all has increased dramatically. So in 1969, roughly 93 percent of men worked; today, only 81 percent.

And so if you combine those two factors, stagnate wages for men that work and rising rates of nonemployment, what you'd see is that if you looked at the earnings of the median middle of the road man, what you'd see is that the real earnings have declined by 28 percent over the last 40 years.

And so I think that's a fairly astounding statistic and if you look at the economics literature, it's very closely related to skills and education. In today's labor market, skills and education are particularly important. For example, the premium that a college graduate earns is roughly twice what an individual with only a high school diploma earns each year.

If you look at the youngest college graduates, people who are 24 today, who graduated from college in the middle of this terrible recession, what you'd see is that almost 90 percent of them have jobs compared with just 64 percent of those who went to high school and stopped there. So there is a tremendous return today to skills and education.

So why is that important? Today, for a discussion about what the President should do about jobs, I think it's important to step back and look at the magnitude of the hole we're in. If you use 2007 as a benchmark, we could be 12 million jobs short of where we need to be. And even if we had the vigorous job growth that we experienced in the best years of the last decade for example, it could take 10 years to dig out of that hole.

So we don't just have a short run problem, we have a medium-run problem and we have a long-run problem in terms of jobs. And so we can take steps today on all of those avenues, but in particular we can make investments today that can help with the jobs problem over the next decade, even if those investments do take time to pay off.

When I'm talking about investments, I'm talking about education and training, the United States' education and training systems, there's plenty of room for improvement.

Just to go into a couple of facts on that. If you look at rates of educational obtainment, fortunately, women have seemed to have recognized that education pays off in the labor market and rates of college completion for women have been increasing over time. But if you look at men, college completion rates peaked in the early '80s and have not gone up since then.

Rates over that same period, rates of high school completion have

probably gone down, if you subtract out people who choose to take GEDs. If you look at measures of achievement and not obtainment, for example, average test scores for high school seniors, what you'd see is that over 35 years achievement rates have not changed, they've been flagged. Yet over that same period of time, we spent roughly twice as much on education per student.

And so what that means if you look at international comparisons, for example, we look pretty mediocre on achievement and obtainment. We look pretty mediocre on many aspects aside from how much we spend, where we're fairly exceptional. So there's a lot to work with in those regards.

The Hamilton Project is hosting two conferences over the next few months, one on education and one on training. I'd just like to pull out a few ideas that I think are relevant right now and those relate to training.

First of all, disadvantaged young workers. There are new studies, new research, that use the most rigorous methodologies and they appear to establish that sectoral training programs that are closely tied to careers, that involve technical training, that are often constructed in collaboration with private employers, seem to allow at risk youth to find meaningful jobs much faster, to raise their earnings when they find a new job. And so those are programs that, you know, we have evidence that they work and we should pursue those types of policies.

Similarly, for displaced workers, workers who have lost long-tenured, long-term jobs, those workers are actually often able to find reemployment fairly quickly because they have good track records and they are productive employees. But often when they're reemployed, they're reemployed at a much lower wage. And for those workers there are a few opportunities available for retraining, mainly because they have jobs and there's few training programs available for people who are reemployed.

But there is new evidence of programs, technical training, career-oriented training at community colleges, for example, that can boost their earnings as well. So I would highlight those two things. I'd also suggest that there are other changes we could make in education that could boost skills. I think more people should go to college in America. And so I think those are all avenues that can be important to address American jobs over the next few years and I'll stop there.

MR. GALSTON: Thanks, Adam. Bill Gale.

MR. GALE: All right. Thank you, Bill. I hope that Obama focuses on three particular issues. The first is the relation between the short-term economic weakness and the long-term budget issue. As everyone knows, we face two different sets of economic concerns. The economy aggregate demand is low in the short run, the economy is weak. That's a situation that calls for more fiscal stimulus as a partial answer.

In sharp contrast, we have a long-term deficit issue. That calls for fiscal rectitude as an answer. Those seem like contradictory policy solutions but they're not, and sort of the first point to emphasize is neither of those is an excuse not to deal with the other one. The long-term deficit issue is not an excuse to avoid dealing with the need to stimulate the economy now.

The need to stimulate the economy now is not an excuse to avoid dealing with the budget deficit. And in fact, at doing both at the same time would make each policy stronger. So a stimulus that is accompanied by a medium-term/long-term budget package would be more effective than a stimulus that didn't have a medium-term/long-term budget package because the existence of the package would help reduce concerns that we were ramping off on an unsustainable path and give people more confidence that the stimulus could operate now and that the economy could increase

now.

Likewise, a budget reduction package that has a stimulus package associated with it would be more effective than a budget reduction package that does not have a stimulus associated with it because the stimulus could boost the economy in the short run, boost revenues, et cetera.

For all of the talk about medium-term and long-term budget reduction packages, none of them are going to work if the economy doesn't get back on its feet. And so doing both of those things now would be better than doing either one of them, which is much better than doing neither of those.

Okay, so point one is just the link between the short-term and the long-term that we can more effectively address both issues at the same time than artificially carving up the situation into one concern versus another concern.

The second issue I hope he addresses is the case for a stimulus now. We have a classic Keynesian situation: we have low aggregate demand, high unemployment, low interest rates. Maybe there's a little more the Fed can do to squeeze interest rates down but interest rates are low and, more importantly, interest rates are not what's holding back investment. The lack of demand is.

We're in this vicious cycle where consumers don't want to spend because they're worried about their jobs, their housing equity is either low or vanished, they're worried about the stock market. Businesses don't want to invest and hire because consumers won't spend. So it's a classic vicious cycle. The classic vicious cycle that Keynes talked about that will not necessarily self correct or won't very quickly. So if you're not proposing now, then you need to have an answer for where the recovery's going to come from because it's not going to come from housing and automobiles, which is the standard place for very obvious reasons in both cases. The

business sector is already sitting on a ton of cash; they're simply not investing it. So I'm pessimistic that it's coming from consumption or investment. It's unlikely that it's going to come from net exports. Every country in the world has the great idea that it is going to expand by increasing its net exports, but, of course, worldwide net exports sum to zero so it's impossible for every country to do that. And it's not going to come from state and local governments because of the balanced budget rules that were mentioned earlier and the cutbacks there. So my reading is the best bet for a stimulus is going to come from the federal government if the federal government will actually do it.

A couple of comments about that. One is that we should not think of the stimulus as a magic bullet that will solve all the problems and magically restore us to a prosperous economy. As Martin mentioned, it's a long way and a long time coming back. Nevertheless, a stimulus package could help make a bad situation less worse basically. And that's still valuable. You know, let's not let the perfect economy be the enemy of a better economy here. There is room for stimulus to work. I think stimulus has worked over the last couple of years.

The other, though, the one piece of good news about the fact that we'd have a long recovery is that the traditional -- or we hopefully have a recovery in store and, by all accounts, that the recovery is going to take a while -- the one piece of good news in that is that the traditional concern about stimulus policy being mistimed, that it's happening after the fact, isn't a concern. We don't have to worry about timing, whether we get it this month or next month or six months from now. We're still going to need it six months from now. CBO estimates that the unemployment rate is going to be over 8 percent in 2014, and we don't recover to full employment until 2017. That's a long time to be lower than full employment, so there's lots of room on the timing side.

The third point I hope that Obama emphasizes has to do with types of stimulus. I don't think tax cuts in general are going to be that effective right now precisely because of the uncertainty that households and businesses face, and uncertainty is typically reflected in holding back on spending. Let me mention a couple of ideas that would be particularly bad stimulus policies. One is permanent tax cuts for high-income households, permanent extension of the Bush tax cuts being an issue there. I'm sure that will come up at some point. It is not a stimulus policy. These things were never designed as a stimulus policy. They were designed in 1999 to give the surplus back to the American people. They were not designed as a stimulus. Obviously, we don't have a surplus right now, which is another issue, but not a good stimulus policy.

A second candidate at the top of the bad idea list is a tax holiday for corporate repatriation of funds to the United States. You'll hear discussion about how they'll bring the money back and invest it in jobs, blah, blah, blah. Two things you should know -- three things. One is they can bring the money back to the U.S. without repatriating it. They can just buy American securities if they want to. They don't want to do that. Second, when we did this earlier in the decade, there was no discernable effect on jobs. And third, corporations are sitting on enormous amounts of cash right now. If they wanted to hire workers or make investments, they could. They're at historically high levels of cash, so corporate repatriation holidays are another policy that should be way off the list.

Extending the payroll tax cut gets a lot of discussion. I think of this basically as a rebate rather than a labor market incentive. Basically almost everyone who works pays a payroll tax, so if you cut the payroll tax by 2 percentage points, which we did, you're essentially giving cash back to everyone. You're giving more back to middle-income workers than low-income workers, but I think the main function of the

payroll tax cut -- at least on the individual side -- is to function mostly like a rebate. There is some discussion of the labor market incentive of cutting payroll taxes. I think that that might be more applicable if we cut on the employer side rather than the employee side, but we can talk about that. But also note that not extending the payroll tax cut would be a cut right now. It would reduce aggregate demand if we don't extend it after the end of this year. So that would be a negative; extending it just maintains the status quo for what consumers have.

Targeting tax subsidies for new hires is a discussion that -- is an issue that has come up. There are various design issues there, and we can talk about that if you'd like as well. I actually think that spending policies would work better right now. I think the best way to boost the economy is have the government get out and spend the money. Martin mentioned infrastructure. There are defense repairs that could be done. Aid to state and local government was a help and could continue to be a help because of their balanced budget rules. They tend to cut back during a recession; that's exactly the wrong response from the perspective of the macro economy.

And so there are things that government can do, and I hope Obama will emphasize that in his comments. Thank you.

MR. GALSTON: Thanks, Bill. Mike Mussa.

MR. MUSSA: Well, it's a pleasure to be here this morning. I note that my sometime colleague, Martin Baily, is on my extreme left. In fact, he's even past loony, and I leave it to Martin to deal with that reality.

In 1937, in the midst of the recession of that year and the failure of the Supreme Court packing effort, Franklin Roosevelt was asked, well, Mr. President, what do you do when you get to the end of your rope? To which he replied tie a knot and hang

on. I do not recommend that President Obama repeat that story in his forthcoming speech, but there is an element of truth, I think, in Roosevelt's observation.

Unlike Martin, I would not dwell too long on the question of how bad things were left to me by my predecessor. That sounds too much like excuse making. I think he really wants this to be a forward-looking speech. What can we do now to improve the likely growth, especially the employment situation, looking ahead over the next couple of years, recognizing that the economy has slowed down considerably and there is a risk that it might slow down further?

I'm going to focus primarily on the macro side. Let me mention, I think there are a number of microeconomic initiatives that can have a modest effect on employment overall and over a somewhat longer term perspective. But if we're concerned with what's going to have an effect over the next year or two, then I don't think passing the free trade arrangement with Korea and other countries is going to do that much. I think it should be done, and I think the President should certainly push in the speech to get that done.

Now I would note in that same connection there's talk about infrastructure investment and stimulus. Stimulus is not a word that I would use, at least not very much. I think the problem with the stimulus package early on was that it is widely perceived to have over promised and under delivered, and the word has acquired certain negative connotations, and I don't think he needs to rely on it.

In the infrastructure area, we have a pending highway bill that's been before the Congress for a number of years. And the President, I think, should push to get that passed and, I would say, fully funded rather than a substantial cutback as some have recommended. I believe there would be quite broad political support for that in the Congress despite the desire of some on the Republican side in the House to cut

substantially highway spending. Highway spending tends to be popular with most Congressmen, similarly with the airport and air infrastructure bill; that needs to be moved forward. I think the President should hit that one. And there are other, more specific initiatives which I think ought to enjoy bipartisan support and where it makes sense, I think, for the President to say, you know, let's get this done, get serious about it.

On the broader macro front, what concerns me is that if we look at what's in current law -- the payroll tax cut of 2 percentage points expires at the end of this year, the expensing provision for corporate investment expires at the end of this year, the payment for extended unemployment benefits expires or gets phased out over the course of next year, and additional support for state and local governments which was provided under the old stimulus plan has largely stopped now and is not really incorporated in the budgets that state and local governments have established for the present fiscal year. Economic forecasters that have looked at this estimate that with the economy growing about 3 percent, the budget deficit would fall by approximately $250 billion under current law; that's a little more than 1.5 percent of GDP. I think some deficit reduction, even in a fairly weak economy, would be useful at this stage to demonstrate that we just don't go up and up and up. But $250 billion -- 1.5 percent of GDP -- is, I think, more than it seems prudent in the circumstances. So a continuation of the payroll tax cut or at least continuation of half of the payroll tax cut, I think, would be something that ought to be pushed. I would go for all of it if I were the President. I would not go for all of it if it were me, but that's not my task.

Similarly on the extended unemployment benefits, maybe some way of scaling them back, say linked to either the national average unemployment rate or to the unemployment rate in particular states, would be a way of, on the one hand, getting them

extended mainly through next year and, on the other hand, indicating that it's not an endless commitment.

So I think there are a number of things the President can do usefully. The Super Committee, of course, will be meeting and is supposed to report around Thanksgiving time. Part of the objective of his speech will undoubtedly be to tilt the deliberations of that committee in the direction that has just been suggested, that is to say of permitting somewhat larger deficits in the near term to be paid for by somewhat tighter fiscal policy in the out years. Now that is going to require tradeoffs because the Democrats and the Republicans don't agree on the particulars of many of these issues. And no doubt if the President wants to push hard for what he wants in the short term, he's going to have to pay for it in terms of what he's prepared to accept in terms of longer term measures.

But I think the President can show both a desire to see support for the economy in the near term and a commitment to deficit reduction in the long term if he phrases his remarks in an appropriate manner and does, indeed, focus on what the Super Committee will need to do if we're to get a reasonable agreement out of them and through the Congress.

MR. GALSTON: Well, thank you very much, all four of you, for being pointed and concise. In the interest of time and to make sure that there's plenty of time left for questions and answers from the floor, I'm going to suppress my own remarks and simply address a question or two to each member of the panel, and I may wind up with a general question if time permits.

MR. GALSTON: Martin, on the infrastructure question, I think analytically, there's a lot of agreement that, as a nation, we've underinvested in infrastructure for some decades now. I have reports on my desk talking about a $2.5

trillion infrastructure deficit at this point. And you're obviously right to say that it's not much use hoping for massive infusions of infrastructure money from the public sector. So, what institutionally and in policy terms can be done to accelerate the participation of private capital in the task of rebuilding American infrastructure and pushing it forward to world class standards, which it is now falling behind quite conspicuously?

MR. BAILY: I agree with your premise. I'm not sure I've got a great answer to your question. Let me first agree with what Mike Mussa said, which is it would be appropriate to push for the highway bill, to get something which is funded, but will put people back to work in the infrastructure side.

In terms of the institutional, as I said, I'm not sure I know the answer. There certainly have been efforts that have been made in terms of bringing the private sector in to build or maintain highways both here in the United States and in Europe, where they've done more of it, I think than we've done it here.

I think it's difficult to make sure. I mean, you want to make sure that you don't create a private entity which can then sort of exploit the public. On the other hand, you also want to make sure that you don't exploit taxpayers by taxpayers having to pick up the bill. So, it's a question of having the right kind of commission that sets the tolls correctly and deals with the permissions to get new roads or new bridges or new rail lines built that are funded through the private sector.

So, on the institutional side, I apologize; I don't have a great answer, but I do think there are experts on that that have written that this can be feasible. It's certainly been done in Europe.

MR. GALSTON: Yes, I'll just note for the record that there are a lot of proposals floating around that some levels of definition precision for an infrastructure

bank or something of that sort, the details matter a lot in the construction of such an institution, but I think there's going to be a debate about that.

MR. BAILY: Well, I think there is, but the thing that makes me nervous about these banks and infrastructure and green banks are sort of part of the beliefs here at Brookings of a lot of people, and I understand that. I do think we want to make sure that we don't create a new institution where the Treasury is guaranteeing the lending and the private sector is making the decisions and getting the profits from this. We've tried that already. It doesn't turn out to be a good model. And, as I said, I think the Treasury is maxed out on its borrowing.

MR. GALSTON: Adam, I don't think there would be a lot of argument about the need to upgrade our education and training system in the long-term. And my question, I'll put this in both analytical and policy terms, is whether that's the whole story.

There's been a debate, as I'm sure you know, about the extent of the job skills mismatch as part of the current unemployment equation and some fairly large numbers have been thrown around at least in the press about the number of jobs that are going unfilled because employers allegedly can't find workers with the right and necessary skills to fill those jobs. So, my question to you is first analytical: How significant is the job skills mismatch as part of the overall unemployment picture? And to the extent it exists, what might be done on a somewhat shorter-term basis to try to close that gap?

MR. LOONEY: I just want to formulate an answer. So, I think if you look back over the last 40 years, if you look at the trend, the pattern in employment by age level, for example, you'd see that for college graduates, employment rates have been relatively high, wage growth has been relatively robust. If you looked at individuals who had not gone to college, high school graduates, their earnings have fallen more not just

holding steady, but have fallen, and if you look at the least-skilled workers, people who have not gone to college, they've experienced massive, really massive declines in their probability of work.

So, there's a pre-existing secular trend in reduced opportunities for less-skilled workers that predates the recession. And so, I think that that's the starting point for looking at what happened during the recession. I think what you saw was that the job losses on the dimension of skill really accelerated, there were a lot of industries that were on their way out that -- not on their way out, but that were in decline, and those were heavy employers of less-skilled workers. I mean, we can make an infraction. We can think of construction, which was, to be fair, very related to the bubble. But in a lot of these dimensions, not just manual labor, but also repetitive tasks, things that computers can do now, clerical tasks, a lot of demand for those type of skills have gone down over time and then much more rapidly during the recession.

And so, I think that there are different dimensions of mismatch. I think the mismatch we often think about is that here is a manufacturer, here is a guy that worked at the auto plant for 20 years and he was an extremely good employee and he had very specific skills to that job. And how do you take a 55-year-old guy who's worked at that job and you find him a new job at the same rate of pay? And I think that that's one particular problem. And I won't --

MR. BAILY: And your answer is?

MR. LOONEY: Well, so, I think it's very challenging to address that guy. I think some of these retraining programs can help that guy get a new job and help that guy boost his wages a little bit, but I think that that's a particularly challenging situation.

But I think the broader trend is really one where if you're a high school graduate today, you just have many fewer options than that guy did when he graduated

from high school 30 years ago. And so, that's the different dimension of it. Is it there's just a basic level of skills that is now required to really participate in what is now a global labor market and a much more technologically-oriented labor market? And I think that that's a much more longer-term investment, much more related to improving the quality of education at many levels and getting people to go from high school up to college. And I think there's a lot being done on that that is admittedly much longer term in some ways.

MR. GALSTON: Thanks.

Bill, I'd say the analytical core of your presentation was the proposition that we're in a classic Keynesian moment, and, therefore, that we ought to respond with classic Keynesian prescriptions, and you spelled out what some of the implications of that proposition were. And here's my question: Is that the right way to describe the situation that we're now in?

Here's why I'm asking. Martin said, and I think the facts are very strongly supportive of this proposition, that consumers in households went on a leveraging boom. It's actually been going on for 30 years. Household debt is a percentage of disposable income more than double between 1980 and 2007, from 65 percent to 133 percent. And Martin said -- and, again, I agree -- that a reasonable estimate is that consumer deleveraging has only gone about one-third as far as it needs to go in order to reach a sustainable equilibrium between debt and household income expectations. So, it could be argued that the core of the consumer demand problem is, in fact, the debt burden, and stimulus goes at the symptoms but not at the underlying cause of that problem.

Now, so, analytically, number one, to what extent, if any, do you agree with the argument that I just put on the table? And number two, to the extent that there is something to that argument, why aren't we trying to use public policy to accelerate

household deleveraging and to improve the prospects for more consumer demand in that way?

MR. GALE: Right, I think I got it. Personally, I don't think it's an argument, I think it's just a fact. We've had, you know, massive buildup in debt and massive -- there's the deleveraging process going on. I totally accept that. I mean, that happened in the '20s and then after the market crash in '29 and the bank crises in the early '30s, and in the '30s, too, so, I don't view that as an alternative scenario to the classic Keynesian scenarios. It's very similar to what happened in the '30s when Keynes wrote.

So, yes, I agree that that is happening and, yes, I agree it's important. The interesting question then becomes when the economy has weakness, do you try to attack the particular causes of the weakness or do you stimulate the economy generally? And the answer is yes, you do both. You try to do both. And as Martin indicated, if there are ways that we could accelerate households moving through the retrenching process, we should do that. We could do that; that would help. I totally agree. I don't see any conflict.

One of the ways that classic stimulus does that, for example, is by putting more money in people's pockets, and, hence, letting them either pay down their existing debt or not accumulate more debt or not accumulate more debt as they otherwise would. Or stimulus can do it by creating jobs, and, therefore, again, letting them get out from under the burden of their debt. So, I don't see a conflict between the scenario you raised and the scenario I raised. They seem like two parts of the same scenario.

MR. BAILY: Can I quote Otto Kuhn? He said you don't have to inject antibiotics in your neck to cure a strep throat. So, you don't necessarily have to --

MR. GALE: Yes.

MR. BAILY: -- match the cure with quite as precisely to the disease.

MR. GALSTON: Granted, but on behalf of the American people, let me ask Bill a follow-up question. (Laughter) I'm not in favor of sticking needles into necks any more than the next guy. Having said that, the core of the household debt problem right now is mortgages, just statistically. The President of the United States in July said quite unequivocally that the least successful part of his 2009 economic program was what was done in the housing sector. At the same time, we have banks sitting on a lot of money and there are proposals, at least on offer in academia, for more of a burden sharing between debtors and creditors when it comes to mortgages. Why isn't more attention being paid to that possibility either on this stage or in the administration?

MR. GALE: The American people sent you that question?

MR. GALSTON: Absolutely. (Laughter)

MR. GALE: Okay.

MR. GALSTON: Channeling.

MR. GALE: This is an interesting area of policy where in the long run, it's clear we want to move away from housing subsidies. The mortgage deduction is not helpful in encouraging homeownership. It's very expensive, it's regressive, it may have increased the severity and the depth of the financial crisis that we had by increasing households' loan-to-value ratio.

MR. GALSTON: That's stipulated.

MR. GALE: That's sending them not only underwater faster, but underwater deeper. So, that's all great to talk about in the long run but at a time when housing markets are down 30 percent from their peak -- and I don't know what the latest number is -- a quarter or 30 percent of households are underwater. You don't really want to

do anything that sends them further underwater. So, that's point one.

Point two is, I've always been struck by what you might call the retain nature of the administration's mortgage interventions. There was a lot of renegotiating on an individual basis, and that just always seemed doomed to fail to me. There's too much transaction cost involved. And I've always sort of looked for something more of a wholesale nature, you know, sort of crosscutting across the board type of thing that might work.

The problem is those things turn out to be quite expensive because it's very difficult to target. You know, you end up subsidizing. If you write down mortgages, for example, you end up writing down mortgages you didn't need to. That's expensive. Besides which, as you mentioned, lenders don't particularly like that. So I'm open to great ideas for how to remove this burden from people directly or indirectly. The notion that we should inflate the economy, by the way, one of the subtexts there is that that would help boost housing values and help -- you know, housing -- most -- well, the nominal amount of the mortgage is fixed. So inflation can help bring people out from underwater.

But this is a hard problem to solve and I think, as Martin said, I didn't know that we know that we have the tools or, even if we do, if we have the political will to use those tools to solve it rapidly.

MR. GALSTON: And Mike Mussa, you get the exit question. There's been a lot of agitated discussion in recent months around a comparative question with domestic resonance. Namely, are we Japan? And if not, why not? That's your question.

MR. MUSSA: Well, we're not Japan, I mean, for a lot of reasons. Among other things, Japan is at present enduring population decline and labor force decline, and has been for the last four or five years. And accordingly, the potential growth rate of the Japanese economy is quite low at this stage. Most of the productivity gains from the catch-up with the rest of the industrialized world and the primary sector of the economy were

achieved a couple of decades ago. So they are now structurally a relatively slow growth economy.

They've got a lot of problems in terms of improving the productivity in the service sector. I think Martin knows about those issues. That's not so much an issue for the United States that the service sector is not a high wage sector, but output per unit of wages is not bad in that sector.

From a fiscal standpoint, you know, our deficit or our total outstanding federal public debt held by the public is now a little over 60 percent of GDP. They are more than double that number. Now, they benefit from having a still reasonably high domestic savings rate compared to us, and from being as far as the world as a whole is concerned, a significant net creditor whereas we are a net debtor. And the Japanese savers seem to be patient with quite low yields on a very large volume of government debt. Remains to be seen how patient we and our foreign creditors will be with that situation. For them, it's gone on for the better part of two decades now. I am not hopeful that the United States is going to be able to sustain the present level of interest rates or anything near it, especially if we don't do something much more serious to tilt downward the upward path of the net public debt outstanding.

So, I don't think we're Japan in a sense. I think our potential growth rate is still significantly stronger and there are a number of strengths which the American economy has which the Japanese economy either didn't have or lacks at this stage. And I think our fiscal situation, worrying as it is, is a fair bit better than the Japanese situation.

MR. GALSTON: Thank you. Well, it's your turn now. And let me -- you know, let me just say that although I'm not a journalist, I occasionally play one on TV. And if I were trying to write a headline based on the past hour it would be Brookings to American People: Be Very Patient. (Laughter)

Okay. Questions, and who is holding the roving mics? Just one? Two. Okay, great.

Okay. Start in the front. Wait for the mic, please. And if you would begin by stating your name and then stating in fairly short order questions. Sir.

MR. MOODY: Jim Moody. First of all, every member of Congress should have been a mandatory presence at this discussion. Thank you.

My question -- two brief questions. One is about the education training. Adam, do we know the cost-benefit calculation for college ed? I mean, every dollar in is how many dollars? The reason I ask that is because the Pell Grants are directly related to putting more people in college, getting them to go, releasing that burden on the family. And yet that's one of the targets for cutting, I understand. So briefly, a second part of it -- just go ahead quickly.

MR. LOONEY: So, if you look at what -- the return to college?

MR. MOODY: Yeah.

MR. LOONEY: So, we actually just did this calculation. So it turns out to be a tremendous deal. So if college costs $102,000, which is the average cost in America of a 4-year college, including tuition and the kind of -- the forerun earnings you would have earned. If you said where should I spend $102,000? And you looked at stocks, bonds, college; you'd see that college has a rate of return equivalent to 15 percent over the lifetime of the student. It's the best deal from an investment perspective. And for many people, they seem to be leaving that on the table.

So, I think it's a great deal, in short.

MR. MOODY: Should be on the table, and preserving or enhancing.

My other question is about the gas tax. You know, all studies show that the demand/supply situation, the elasticity, indicate that the seller of gas pays a very high

percentage of the cost of the gas tax. But, you know, we've always been very reluctant to politically do that. With gas tax falling -- and I live in New York, where the gas costs twice as much and people still drive around -- it would both help our fight against air pollution and energy saving, as well as produce highways and bridges and things, it would help finance them. Because one of the problems of that program, public works, is finding the revenue to do it. And how you identify -- other than selling franchises to private developers.

So, I know it's probably not politically popular, but gas tax. I'd like your assessment of an increased gas tax, given the fact that the sellers of gas end up paying a much -- increasingly part of -- higher -- because of the inelasticity of supply.

Thank you.

MR. GALE: On the gas tax, I think that, you know, raising taxes on emission of carbon emission is a good long-term policy for the environmental, the fiscal, maybe the geopolitical reasons that are out there. It's not obvious that it's a good stimulus package, but it should -- it's another good example of the ways that long-term structure of policy as the economy returns to full employment should be changed relative to policies we're trying to do now to get us back to full employment.

MR. GALSTON: Mike, did you want to -- raise the gas tax?

MR. MUSSA: Yeah, I dispute the notion that sellers primarily pay the gas tax.

MR. GALE: Oh, yeah. I was going to mention that, too.

MR. MUSSA: That -- I mean, you said gas prices are twice as high in Europe. Why? Their taxes are very much higher. And indeed, if you compare across European countries, those countries that have the highest taxes on gasoline have the highest gas prices --

SPEAKER: No, that's false logic. That's false logic, Mike. The fact that

they pay a lot of taxes means that the world price of gas -- of oil is lower than it would otherwise be, and we benefit in part from that. So, raising gas taxes, I think some of it will be paid for by the sellers.

MR. MUSSA: I don't dispute some of it. But the notion is it would be primarily paid if we, alone, raise our gas tax.

If everybody in the world raises their gasoline tax, that's a different issue. But here we're talking about the U.S. alone.

SPEAKER: We consume a lot of gas, though.

MR. GALSTON: Time out, time out. (Laughter)

SPEAKER: You wanted a debate.

MR. GALSTON: Okay. I'm going to take one more question from the front, and then proceed to the back.

MR. MITCHELL: Thank you. I'm Garrett Mitchell from the *Mitchell Report*. And I want to -- I think I want to try the Bill Galston approach. The American people have sent me here to ask this question.

When Bill said if you were looking for a headline, it would be very careful --

MR. GALSTON: Patient.

MR. MITCHELL: Patient. Another possibility would be: No New Ideas.

And my question is the one that could just as easily be asked by saying, so what makes you all think that the relatively easily described solutions are, in fact, going to take what seems to me to be a very complex public policy environment? What leads you to believe that these old solutions, things that have been around for a long time, no new treatments, no new therapies, no new nothing -- I mean, this is sort of like, you know, treating tuberculosis before triple therapy or something. What makes you so confident? And in a world so changed as the one that we're living in, an economy as globalized as this

one, that the remedies or the therapies that you are suggesting can have the beneficial effects that you believe?

And as a tag-on to that, I'm struck by the fact that on several occasions in this very auditorium, at meetings predominantly of the Hamilton Project -- and I say this as before Adam's time here. So, don't want to tar him with that brush. I stopped counting the numbers of times I heard some really significant players in the economic and financial arena say if you're going to do any sort of stimulus it's got to be timely, targeted, and temporary. And I have not heard those three words today.

So with that, I'll hand the mic back.

SPEAKER: All right. Well, let me take a first stab at that. First, just taking the last point. Timing is not something we need to worry about when we're talking about returning to full employment between now and 2017. The typical U.S. recession is short-lived and is caused by restrictive monetary policy. And that's where the stimulus issues come in. In the past, frequently the timing has been off.

This recession was caused, despite a massive expansion in monetary policy; it was caused by a financial crisis, et cetera. So, the timing is just not an issue. Those recessions just take a long time to deal with. I don't think -- so, that's point one.

Point two is, unless I misheard everyone else, I don't think anyone is up here saying we have the magic solution that's going to solve all these problems. I think there's a general recognition. We're in a really bad situation, and we can make it less bad. But I don't hear anyone up here hawking, you know, 5 percent growth rates a la Pawlenty or anything like that. And --

SPEAKER: Dearly departed, yes.

SPEAKER: And I had one more point, but I can't remember what it is.

(Laughter)

SPEAKER: Can I make a quick addendum to that?

SPEAKER: Please.

SPEAKER: I agree with what Bill said. I don't think any of us were speaking out of confidence. You know, I think there's a sense of -- that economics has not done well in this period and that we need to rethink macroeconomics in a lot of significant ways and we have not. There are a lot of people to blame for all of this, but I think economists have not acquitted themselves very well, so I'm not speaking at a great sense of arrogance here.

On the patience, why is it taking patience? Why don't we have a solution? Let's remember, we had a balanced budget in 2000, and we squandered it away and we ran deficits for the next eight years. So we did not come into this recession with, you know, as Larry Summers has said, with a lot of powder in the -- a lot of gunpowder available to take this heavy recession on, so we've squandered, in a sense, the position we were in then. I don't -- you know, hopefully we won't do it again. If you're going into -- you should run budget surplus in good times and then you can afford, if you have to, to run deficits in bad times. We did not prepare for this recession and that's part of why we're paying the price.

SPEAKER: Again, I think it's important to realize that there was an enormously creative and powerful response, particularly by the Federal Reserve, but also by the Treasury --

SPEAKER: I talked about that earlier.

SPEAKER: -- when we faced a novel situation we've not seen, really, since the start of the Great Depression --

SPEAKER: I agree.

SPEAKER: -- a financial crisis that really did threaten to push the

economy into a depression and sustained period of deflation, and that was a very creative and powerful policy response.

SPEAKER: Yes.

SPEAKER: We now face, I think, a very difficult and different problem, which is that the recovery is ongoing but it's slower than any of us would like to see, and so we're searching around for something that can be done within the constraints of longer-term fiscal policy to attempt to boost that. I don't regard that as a failure of the economics profession in that sense. I think when Ben Bernanke was confronted with what he had studied as an academic, he responded to it appropriately in the light of the advance of economic science.

MR. GALSTON: Well, speaking as a non-economist, and then I'll go to the back of the room, you know, in extending the popular medical metaphor, okay, you know, the driver crashed into the tree at a high speed, totaled the car, and did a lot of damage to himself. He's rushed to the ICU where modern medicine clears the airways, stops the bleeding, and transfuses to a fare-thee-well, and then throws up its hands and says, well, that's all we can do. And, you know --

SPEAKER: That's about right.

MR. GALSTON: And I am -- and I think that that -- if that is the truth -- I say "if" that is the truth -- that is going to be a very hard and bitter truth for the American people to swallow. And speaking as the political scientist on the panel, it's going to lead to a political situation that will be even more volatile and uglier than anything that we've seen --

SPEAKER: So, you'd prefer Michael Jackson's physician?

MR. GALSTON: Well, I say, if this is the best we can do -- there's a gentleman at the back of the room standing, who gets extra credit because he's been

standing.

MR. SHERRETA: We ran out of chairs, which I think is a good sign. Robert Sherreta, I'm president of International Investor, and I'll try to give you a little bit of a different perspective on this and maybe two quick ideas on what might make a difference. Because I agree with the other gentlemen, I don't think these remedies have yet hit the mark.

Who really hires people? You've got small business; you've got larger, medium-sized business. Small businesses -- and I can tell you from the perspective of someone who's run one for 16 years, what really hurts us from hiring new people: payroll taxes, benefits. There is going to be room enough to grow once the economy starts again, but what you really need to do is provide a much better incentive for American small businesses to begin hiring people again. Right now there's large disincentives to do so. And as we all know, small businesses drove the largest proportion of job growth in the last couple of decades.

Large businesses. Large business, somebody made the comment, they're flush with cash, over a trillion at last count, they're going to make over a trillion in earnings this year. They are hiring, though we've just done a report on this. They are hiring very much. They're just not hiring in the U.S., they're hiring overseas. What do we have to do to turn that around?

Andy Grove from Intel and others have made this point for years, we might be the only nation that doesn't have a real policy which forces companies -- and I mean, with penalties and disincentives -- if they don't hire here. And we could of course also provide incentives for them to do so.

You've got to make a substantial difference in those two worlds if you really want to get companies hiring U.S. workers here in the United States again. All

these other remedies, they're nice ideas, they will help, they're not going to make the big difference.

MR. GALSTON: That's a question addressed to the entire panel and I think a very reasonable question for everybody on the panel to take a crack at, or as many as want to.

SPEAKER: Well, the National Federation of Independent Business, which regularly surveys a fairly broad range of small businesses, it's not exactly a representative sample, but they ask every month and in a more extensive survey every three months sort of what are the leading problems that small businesses see. And overwhelmingly the number one problem is lack of perspective demand, that the customers are just not rolling in. Now, they have concerns about regulation, they have concerns about taxes, and other things, but the predominant concern is demand growth is just not there. And I think one of the reasons why larger businesses, even in the United States, in terms of their employment are doing a little bit better is, they've got a very powerful export market, and have been producing for that market.

So, I mean, I don't agree with Larry Summers on everything, but I think that it is primarily an issue of demand growth in the U.S. economy, for small businesses in particular, especially dependent on the domestic economy and domestic demand and not so well linked in with growing markets abroad.

SPEAKER: The small business is an important part of the economy but it's -- I think it's -- there's a mythology around it that is often counterproductive to policy debates. I'll just mention three aspects of that. One is small businesses, although they account for a sizable share of hires, also account for a sizable share of fires and layoffs. Second, the taxes and payroll taxes and the benefits that firms provide is virtually universally understood to be borne by workers in terms of after-tax wages, not by firms in

terms of higher tax wages -- in terms of higher net cost. Now, there's an issue about minimum wage level that might apply, but generally, the studies all show that payroll taxes and benefits are borne by workers in terms of reduced after tax wages. And the third thing is we've got to remember, small businesses already have enormous incentives in the tax code. They can expense their investment, which sets the effective tax rate at zero, regardless of what the statutory tax rate is. Okay, on top of that, they can finance their investment with debt, which makes the effective tax rate negative, again, regardless of what the statutory tax rate is. On wages, they fully deduct wages, so again there's not the issue there that is sometimes raised. And I fully accept the fact that running a small business creates a lot of challenges, but I believe the tax policy challenge to small businesses is often overstated in the policy arena.

MR. GALSTON: Anybody else care to comment on this? I guess not.

Well, let me just say a couple of things. First of all, you know, Mike Mussa's response to the question on the floor, I think, points up a key analytical difference that is also at the heart of the political argument, all right, because the demand-side argument is typically associated with Keynesian and Democratic prescriptions. And the argument having to do with the wedge, you know, the costs to the employer above and beyond the wages of the employee, is typically associated with a more conservative republican leaning analysis. And that's why this debate is extremely important because it leads to contrasting and conflicting policy prescriptions.

The second comment I'd make is that that was a two-part question, and the second part is really critical, and we need to talk about that a little bit because everything that I've read suggests that a lot of corporations are choosing to hire people where their growing markets are and they think that there are compelling business reasons for doing that. And to the extent that that's true, there is going to be an

enormous policy leakage overseas. And the question is, A, to what extent is it true that multinational corporations are choosing to invest and grow and hire where the growing markets are? And to the extent that it is true, is there anything that public policy can do about that?

SPEAKER: Well, the second part is the easier part. What public policy can do is provide a healthy environment here for business creation for which taxes are one part, but only one part. Having an educated and skilled labor force, as Adam was talking about, is crucially important. Having an infrastructure system that works and lets people move their stuff from where they produce it to where they want to sell it, matters. There's a lot of studies of business conditions, you know, across states, and all these things matter to business location.

So, there is stuff that the federal government can do, and it's precisely the old tired ideas that Gary didn't like that figure most importantly in this.

MR. GALSTON: Right, so you don't accept the proposition that more compulsory linkages make any sense, which was the question -- which was the proposition on offer.

SPEAKER: More compulsory linkages --

MR. GALSTON: In other words --

SPEAKER: No, I don't think so --

MR. GALSTON: -- buy American.

SPEAKER: I don't think we should try to compel people to hire workers here. It's not a surprise that American companies are going to hire a lot of workers overseas. As we all know, the markets are growing faster. It's less clear that the jobs that are being created overseas are at the expense of the United States. At the time when we were having a big, expanding trade deficit, you could say to some extent that it

was at the expense of U.S. jobs, but if we can -- you know, we have a fairly competitive dollar right now --

MR. GALSTON: Yeah, more so with each passing day.

SPEAKER: More so with each passing day, which I'm in favor of, and so I think there is some sign, actually, that we may be getting the balance of trade a little bit more balanced, in which case I don't see that we're losing jobs overseas necessarily.

You're contrasting the sort of Keynesian we need increased demand against structural supply side solutions, and I think both are important. I think right now there's no question in my mind, and I think most of the panel, that improving demand is the thing that we hope we can do quickly to get jobs back. But over the long run, and as we think about what kind of recovery we're going to get, then issues about training people and education become important.

I think having a more efficient tax code than the one we have right now is important. I don't think we need to lower the total tax burden on corporations, but I think it would be very helpful if we could restructure the corporate taxes so that the marginal tax rate was more in line with what other countries have.

And in terms of small business, I'm a little more sympathetic to the questioner there. I have two sons trying to start small businesses now. They're in New York City, which imposes its own layers of regulation and taxes and forms to fill in and all of that kind of stuff, but I do think there's a lot that could be done to both streamline some of that stuff and to make sure that there really is the right environment for a small business to get started.

MR. GALSTON: Well, alas, we have reached the end of our rental time for this room, and so we are required to vacate it, but I suspect that at least some members of the panel will be willing to stick around a little bit longer and answer some

questions. In the meantime, please join me in thanking them for their contributions.

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