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**PARTICIPANTS:**

**Introduction:**

WILLIAM GALE  
Senior Fellow and Co-Director, Urban-Brookings Tax Policy Center  
The Brookings Institution

**Moderated Conversation:**

EDWARD KLEINBARD  
Johnson Professor of Law and Business,  
University of Southern California's Gould School of Law  
Fellow, Century Foundation

PETER H. SCHUCK  
Simeon E. Baldwin Professor of Law Emeritus  
Yale University

RICHARD REEVES, Moderator  
Fellow, Economic Studies  
The Brookings Institution

**Closing Remarks:**

DAVID WESSEL  
Director, Hutchins Center on Fiscal and Monetary Policy  
Senior Fellow, Economic Studies  
The Brookings Institution

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## P R O C E E D I N G S

MR. GALE: Good morning, everyone. Welcome to The Brookings Institution and most importantly, of course, happy Halloween. I'm Bill Gale. I'm co-director of the Tax Policy Center. Our topic this morning is the role of the federal government in the economy, what it should be doing, and how it should be doing it. As with any event held on Halloween, this topic should both thrill you and scare the wits out of you. (Laughter)

We are delighted to have Ed Kleinbard and Peter Schuck with us this morning. Each has written an exceptional book that's been recently published, focusing on the role of the government in the economy. Ed writes that the solution to our concerns involves more federal spending. Peter concludes that most of what the federal government does, it does extremely badly. Those could be contradictory views, but they aren't necessarily contradictory views, and I will look forward to hearing points of agreement and disagreement among the authors.

But both books are extensive in scope and intensive in their detail. But it's important to note that they both have very clear Halloween messages that even non-experts can understand. Peter says the federal government is spooky and that's a horror show, and Ed says we should all get more candy. (Laughter) Well, maybe not the rich, but everyone else.

By way of background, Ed is the Ivadelle and Theodore Johnson professor of law and business at the University of Southern California. In the past, he's served as chief of staff with the Joint Committee on Taxation and spent many years on Wall Street. I have known Ed for several decades. He has a sharp intellect. He has enormous passion and a very well-honed sense of humor. He's a very engaging speaker.

Peter is the Simeon E. Baldwin professor of law emeritus at Yale University. He's the author of many books. Before joining Yale, he worked at the Department of Health, Education, and Welfare, and that is not a typo. It was not HHS at that time. He practiced law in Washington and New York. I only met Peter this morning, but I can tell you from reading his book to expect very well-founded claims, a strong and vigorous argument.

And I have to add that although Peter is -- he was explaining this to me, he's emeritus, but he's not retired. And as an emeritus person he's doing more work and being more productive than most people during their full-time working lives.

So let me just mention a little housekeeping, then turn over the mic. Today's event is co-hosted by Hutchins Center and the Tax Policy Center. The Hutchins Center on Fiscal and Monetary Policy is here at The Brookings Institution led by David Wessel, who will speak at the close of the event. The Tax Policy Center is a joint venture of The Brookings Institution and the Urban Institute. And we're delighted to co-host this event with the Hutchins Center.

Second, we structured today's event as a moderated discussion led by Richard Reeves. Richard is a fellow in Economic Studies here and he's a policy head of the Center on Children and Families.

So without further ado, let me turn the mic over to Richard. And let me note, too, that there will be time for questions and answers at the end of the talk. Thank you.

MR. REEVES: Right. I'm going to speak very briefly before handing it over to our main speakers and then we'll have a brief moderated discussion between our two speakers, and then we'll go out to the floor for Q&A.

I just want to start with a quote from John Stuart Mill, who said that when

two people disagree with each other, then the best way to think about their journeys is that they are climbing the same mountain, but just on different sides. And I hope that that will be the spirit of our debate today because whilst there is plenty here to agree on, there's also some useful, I think, disagreements that we can draw out in the course of our conversation.

Each of our authors is going to speak for 10 minutes maximum and set out their kind of essential case in the books. We'll then go into a kind of conversation between the three of us before coming out to you.

So without any further ado, I think, Ed, you'll start.

MR. KLEINBARD: Sure, sure, I'll be glad to. So thank you very much, everyone, for coming. And I have to confess at the outset that I am breaking with Washington, D.C., policy wonk discussions of this sort because I've read Peter's book and it's very good. (Laughter) And it really is.

Peter's book is about why it is so difficult for government to perform as effectively as we would like. And, therefore, it is a perfectly fair question, given how difficult it is for government to do anything well, why bother with government? And so my book is the response to that. And my book tries to demonstrate why a more muscular government is in our collective interest. It's desirable if you want a more prosperous society with a broader reach of desirable jobs for Americans. It is necessary if we want to actually honor a theme of equality of opportunity. And it's responsive to the largest socioeconomic issue of our time. So the book tries to reset how we think about the fundamental government activities of taxing and spending, a fiscal policy.

If you think about debates in the papers and on Capitol Hill, you'll notice that we argue incessantly about taxes. But when we do that, we're really putting the cart before the horse. The core business of government beyond its police functions is to

invest and to ensure for the greater welfare of Americans, and it does so through spending, not through taxing. Taxing is just how we finance the business the government is in. It's not the business of government. And, therefore, when we choose a tax revenue baseline first and then trim our spending to suit, we're really adopting procrustean policies that beggar our own welfare.

If you start instead by looking at the real business so government, you properly wrestle with both the financial returns, the government investment and insurance, and which the work has been done, which turn out to be positive. And you also have to wrestle with the values that distinguish us as a country, how we articulate those values through fiscal policy, and how we've lost sight of a what a government is really good for. And the theme of the book, I call this our fiscal soul. Government investment and insurance actually generates big, positive returns and, as I say, are necessary to offer genuine equality of opportunity.

So I am not a naïve and the book is not an exercise simply in wishful thinking. We really have no choice if we want a future America that honors the values we espouse and offers us the prosperity we deserve. More muscular government investment and insurance, as I said, is desirable, necessary, and responsive. It's desirable because investment and social insurance yield large and measurable positive economic returns. If a new bridge is built, we can measure the financial returns and those returns typically are in the range of 8 to 10 percent a year. At a time when government can finance at 2 and 3 percent, why wouldn't we do that?

The pie, by virtue of the fact that government investment throws off positive returns that we tend to ignore, the pie, the economic pie, gets bigger and, therefore, words like "redistribution" are fundamentally wrongheaded because it's not a take from the rich and give to the poor. It's invested in all Americans so that the pie gets

larger and we all share through more broadly distributed slices.

And finally, larger government is necessary because investment is the only way to honor equality of opportunity. And government insurance programs are the only way that we can address the fundamentally contingent nature of our lives and outcomes. I've worked with a lot of very rich people over the years and it has always struck me as extraordinary how unwilling most people are to accept the fact that their good fortune was not entirely of their own making. There are lots of people who work hard, who try their best, but for reasons unknown to me those who enjoy tremendous material success are a little too quick to ascribe their good fortune only to their inner merit.

And finally, a larger, more muscular government is responsive to the largest socioeconomic issue, that of income inequality. If you think that steeply higher marginal tax rates of the sort recommended Thomas Piketty are the only instrument for addressing inequality directly, I suggest that that's wrong. It turns out that government spending is very progressive in its impact. I mean, we could adopt a No Polo Fields Left Behind Act, but even this Congress is unlikely to do so. And, therefore, really what we care about is the progressivity of the net fiscal system, the net of spending and taxing. And if you look at the progressivity of the net fiscal system, the spending side dominates the tax side, and a large, not particularly progressive tax system, in fact, can fund very progressive outcomes by virtue of how the spending is deployed.

One quick example and then I'll be done. Our largest asset class is ourselves, human beings. That's the largest asset class in America. And we can increase our country's material welfare by improving the productivity of this asset class, that is ourselves. And, of course, we do that through education. We also honor the principle of equality of opportunity through making comparable investments,

incomparably talented kids, regardless of their parents' incomes.

Government is necessarily the investor here. We can disagree about which instrument government should use. My family's invested in the charter school movement because my son and daughter-in-law are actively engaged in that. We can debate those questions, but government is the only investor in the picture. And the data are clear that the more we invest in ourselves through education, the higher our lifetime incomes and satisfactions.

But here are the facts. There is a clear correlation between school test scores on the one hand and median home prices in an area. Top quintile families spend seven times what bottom quintile families spend on childhood education enrichment, not private school, but afterschool oboe lessons, which is, as we all know, the best way to get into an Ivy League school is to pick an obscure instrument. (Laughter) The lyre is highly recommended. (Laughter)

The academic achievement gap, which measures the academic achievements between rich kids and poor kids, has grown by 30 to 40 percent over the last 20 years. And yet, when you say why is this, we are one of four countries in the OECD that spends more on the public education of rich kids than on poor kids. We keep company with Slovenia and Turkey in this unfortunate race. You cannot imagine a more perverse way of investing in America, in our largest asset class, than to systematically invest more public funds in high-income than in low-income kids.

Now, we don't have to become France to do much better. I happen to like France, but I'm not going to try and convince you all of that. Peter and I are both incrementalists. My aspiration is to increase government investment and insurance on the order of 2 percent of GDP, maybe 10 percent of our budget, and I think that that is an attainable goal.

I acknowledge that government often fails. So, for that matter, does the private sector. The process of creative destruction may lead to growth in some areas. It leaves also a big trail of destruction behind it. So government, of course, fails. But I'm trying to give some reasons why it's worth the effort to make the commitment for us to try to make it work better so that all of us can enjoy happier and more prosperous lives.

MR. REEVES: Thank you, Ed. I'm just texting my wife to get the oboe lessons sorted. (Laughter)

SPEAKER: Lyre.

MR. REEVES: Why didn't you tell me that four years ago? Thank you, Ed.

What Ed didn't get a chance to mention, which I think is one of the most attractive parts of the book, is the rehabilitation, to use that word, of Adam Smith, and particularly through your treatment of *The Theory of Moral Sentiments*, which has to be read alongside *The Wealth of Nations*.

MR. KLEINBARD: Thank you.

MR. REEVES: And in my home country that became a big issue when Gordon Brown did exactly the same thing, the result of which is Adam Smith is now on the back of the 20 pound note in the UK. It turns out that Gordon Brown and Adam Smith both born and raised in Kirkcaldy, so sort of like a home son. And Mervyn King, when he was governor of the Bank of England, went to Kirkcaldy to announce that Adam Smith was on the back of the 20 pound note, and that was precisely because of Brown's reading *The Theory of Moral Sentiments* alongside (inaudible).

MR. KLEINBARD: So, yeah, my joke is that I try to distinguish Smith from Smithyism.

MR. REEVES: Right, right. But people have only taken half of Smith



and don't know.

MR. KLEINBARD: Exactly.

MR. REEVES: It's a lovely part of your book. We'll probably come back to the question of whether or not you're an incrementalist or not in the discussion. I didn't read you as an incrementalist when I was reading the book, but, at any rate, let's move on.

Peter?

MR. SCHUCK: Well, I, too, want to thank Brookings for convening this and it's a delight to meet Ed Kleinbard, who comes highly recommended as one of the most famous and highly respected Yale Law School alumni of which there are many. And his book is a very good book and I urge you to read it.

I want to correct a couple of things that have been said just very briefly. They're small points, but I think they have larger implications.

I didn't say, as Richard suggested I said, that most of what government does is bad. What I did say was that most of what I have examined closely and that others have examined closely that government does fails by conventional criteria. Let me explain why I -- and I also suspect that a lot more that I haven't examined has the same quality. Let me quote from Peter Orszag and John Bridgeland. Peter Orszag having been the budget director in the Obama administration. John Bridgeland was the top budget official for Bush. This is what they write.

"Based on our rough calculations, less than \$1 out of every \$100 of government spending is backed by even the most basic evidence that the money is being spent wisely," that's their quote, and I go on to say, "which is hardly surprising given that in the hugely costly healthcare area," and then they pick up again, "less than \$1 out of every \$1,000 that the government spends this year will go toward evaluating whether the

other \$999 actually works.”

So what I've done in my book is to rely on the synthesis of peer-reviewed, scholarly, Brookings, GAO, inspector general, CBO, and other systematic analyses of government programs, those that had been evaluated, which as the quote just suggested it's a trivial percentage of the government programs.

The second thing that was said is why have government given my dolorous assessment of its performance in those programs that have been assessed? And the answer to that is there are lots of good reasons to have government. I have a chapter on successful programs and they're some of our larger programs, including Social Security and food stamps and Earned Income Tax Credit and the Voting Rights Act and the Immigration Act of 1965 and many others.

Then I want to pick up on something Ed began with and referred to several times, which is the values of our society. I believe that the values of our society are best expressed by the people in our society. They understand what the tradeoffs are, they understand the costs and the benefits of what they're exposed to and having to pay for, and they have expressed their opinion with a great deal of clarity. And I have in the book a lot of opinion polling evidence that you no doubt see because it's often stated in *The Washington Post* that the American public has a very dim view of the federal government's performance and that view has declined dramatically at the same time the trajectory of government spending, ambition, and intervention in our society has increased.

Now, I don't make any causal claim about whether the growth of government has caused the decline in confidence in the government, but it is a striking parallel. And so in the book I begin by asking what can explain these divergent, but perhaps causally related patterns? And I entertain a number of different hypotheses.

And the one on which I focus in the book is that the American people believe that government performs very poorly and they want to punish it just the way in the market, as consumers, we punish providers of services and goods whose products and services don't serve us well or we don't think they're worth the cost.

Now, of course, there are a lot of reasons why government activities might not be as clear to individuals as the performance of their iPad is, but still, I think in a democracy like ours, we have to listen when people show such disdain and disappointment in their government. Let me mention a few things that Ed mentioned that I agree with and some of them he didn't mention, but they're in his excellent book.

One is his focus on luck as an important determinant of our fates. And that's an important theme of his book and I certainly agree with it, and it justifies a good deal of social insurance and the question really is in the details. God is in the details in the design of these programs, but I completely share his belief that much of what we gain in our lives, people in this room, is due to the good fortune of our genes and the parents who raised us. So there's no disagreement there.

I also agree with his critique of the healthcare system. Again, he didn't mention that in his remarks, but he has a great deal of it in his book. And he regards the healthcare system as I do and the Affordable Care Act as I do, as a construction just placed on top of the highly dysfunctional, pre-Obama Care system. And, therefore, it reflects all of the inefficiencies and inequities, as well, that apply to the pre-Obama Care system. Whether Obama Care has magnified and augmented those inefficiencies and injustices is something we could talk about. I think the evidence isn't in yet, but there are certainly reasons to suspect that it might.

I also agree with his view that the net fiscal system is what we ought to be focusing on, not either taxing or spending. It's the relationship between them and his

book is especially interesting in focusing on the spending side, though, as you'll hear, I disagree with much of what he has to say there.

I entirely, insofar as I understand them, endorse his proposals for tax reform, which, again, he hasn't discussed in detail here, but I think anybody who thinks as I do that tax reform is one of the really urgent domestic policy issues of our day will benefit from that. And I also share his enthusiasm for the idea of charter schools and the way in which charter schools are implemented in many cases. I'm sure we'd also agree that there are some terrible charter schools and the government ought to shut them down if their boards of directors don't shut them down.

So with that said, let me proceed to explain why I believe that the failures that analysts have identified that are so widespread, across so many different areas of public policy -- which is what my book attempts to do, it attempts to be quite synoptic in terms of federal domestic policy; it's not concerned with state and local government, not concerned with defense, national security, or foreign affairs -- why the verdict seems to be so commonly negative. And I begin with a discussion of the political culture in which policy-making operates, and that political culture consists of a variety of different elements that are deep --

MR. REEVES: A couple of minutes.

MR. SCHUCK: Oh, okay. Gee, I'm sorry. Okay, some deeply embedded elements that are going to be extremely difficult to change and, in many cases, we shouldn't want to change because they're very valuable portions of our social system: constitutionalism, for example, decentralization, interest group pluralism, and many others.

Then I go on to identify problems with incentives, with information. These are systemic problems with government's command of and use of information. So

information, incentives, its inflexibility, its incredibility, by which I refer to its inability to assure people with whom it will do business in the design and execution of these programs that its policy will be stable over time. Can't do that because it's a democratic government and it has to respond public opinion.

I talk as well about the role of markets, which is extraordinarily important in our society, but also accounts for a lot of the failures of government because of the inability of government to intersect with markets in a constructive way. It tries in many cases, but it fails in most of those cases. Markets are simply too dynamic, too nimble, too transjurisdictional to be much controlled by government.

I have a chapter on implementation. I wish I had the time to read the title of the most famous book on implementation by Aaron Wildavsky and Jeffrey Pressman, but it gives you the idea of what they found. And this was an infrastructure project that they studied in great detail, book-length detail, in Oakland, California. And the subtitle of the book, which, again, I can't read now, tells it all.

Then I have a chapter on the limits of law. And what I mean by that is the inherent limits of law, the limits of law that apply whenever law is used as an instrument of public policy, which means virtually all the time. And why when we buy into public policy designed through law we're going to get certain types of deformities and distortions and inefficiencies, and there's really no escaping that if we're going to make public policy through law.

And then the next chapter's on bureaucracy and the decline of our federal bureaucracy for reasons that should be troubling to all of us, except perhaps for Libertarians, who may applaud that, which I am not one.

And then there's a chapter on successful programs and finally a chapter on remedies, which cut across each of these structural problems. And as Richard -- or I

guess as Ed said, these are incremental remedies that I'm proposing. We are both incrementalists, although Richard has some skepticism about it, which we'll turn to now. Thank you.

MR. REEVES: Perhaps not immediately, but yeah. So thank you, Peter, and also thank you in your book for, first of all, an excellent from which I learned from both books, but the mentions of Brookings' work. I think you won the competition for most citations of Brookings' work in your book. (Laughter) Obviously that's not the most important competition here, but in particular your mention of Clifford Winston's work and so on was much appreciated.

So the two words that both book titles have in them are "better" and "government." So in the interest of agreement, I think we can say that we want better government. I think the question is whether or not bigger government can be better government, as well.

Where you agree -- and we could spend some time on these, as well, perhaps in the broader Q&A, but I'm going to try and draw out disagreements, I think -- you agree, I think, a good deal on what Ed calls sub-surface spending through the tax code. I think it's a lovely way to describe it, as well, and the distortions that are created by spending through the tax code, through agricultural subsidies, homeownership subsidies, and so on.

I think you also agree on actually a very important cultural value, which is the individualism of U.S. society. I think the disagreement is in how you feel about that. I get the strong sense from you, Peter, is that you're just the guts, an inescapable part of the U.S. condition and probably a good thing whereas, Ed, at one point you write the following: "As long as millions of Americans think that absolute atomism is all that freedom can mean, there is no point spitting into this headwind." And I read you to say

that you may not like it, but you kind of accept it, you accept that kind of individualism as something we kind of have to work. So I think there are kind of lots of areas of agreement.

But let me start with this question: Can government be both better and bigger? Because I think it's implicit in Ed's argument that actually it kind of needs to be bigger in terms of being better, according to what I think is a moral or democratic argument that you make, whereas I read you, Peter, as saying that bigger is almost necessarily not better and that that's not only for sort of the technical, empirical, or technocratic reasons you identify, but for quite fixed ones. So at one point, you write the following that, "The relationship between government's growing ambition and its endemic failure is rooted in an inescapable structural condition."

And without kind of getting too much into the weeds on this, "inescapable" kind of struck me that there's something here which is simply as government becomes more ambitious, given the background against which it's working and the problems, is that this inescapable relationship between how far it reaches and how likely it is to fall over seems to me to be something that you think is effectively fixed. So this couldn't be solved just by doing it better, right. So this is not just a question of, oh, can't we have it -- let's have it bigger, much bigger, but also more effective. Let's have both. Let's close this conversation just by saying bigger and better, all go home. And I'm saying you're saying that's kind of structurally impossible whereas I think you're saying it's structurally necessary.

So let's start with that. Why don't get straight to it?

MR. SCHUCK: First let me respond to the quote that you read from Ed's book about atomism. We are not an atomistic society. We're an individualistic society, but anything but atomistic. If you look at our civil society, which is probably the richest

aggregation of human activity in our society, it's anything but atomistic. It's highly communal and community spirited. This has a lot to do with our religious traditions, but it also has to do with other factors, as well, our immigration patterns and so forth.

So I do not think that individualism in any way implies atomism.

Individualism can be taken too far and certainly has been in some cases, but I don't think that's a general condition of our society nor is it in any sense inevitable.

Now, to turn to Richard's excellent question, can it be better if it's bigger, I'm somewhat agnostic about that question and my agnosticism derives from the fact that it depends what government takes on. And so that's not a copout, it just means that my assessment, as is true of all my writing and especially in this book, is it depends, depends on the context.

However, having said that, there are some worrisome auguries. Let me give you an example. The federal government seems about to enter the field of solving the problems of sexual assaults on campuses. Now, I yield to no one in my shock and horror and disgust at this social condition. I believe that the federal government has zero to offer in the solution of this problem and that the entry of the federal government, which is going to issue regulations and requirements, I believe, in the near future and certainly already percolating in Congress, it's almost certain to make either no one impact on this problem or a trivial impact, positive impact on this problem. And it will call the government further disrepute as being ineffective, as being uncaring, unsympathetic, and bureaucratic, and so forth.

So it all depends on what the government's new activity will be, but my guess is that most of what government can do well, it already has done well and new ventures are unlikely to be very helpful. I emphasize again Ed's tax reform proposals which won't expand government, but I think will make government work a lot better,



particularly his proposal to eliminate certain personal deductions that have really distorted our society, by and large in an inefficient and inequitable way.

MR. REEVES: People could have said the same about Social Security, the inception of Social Security, which you judge a success. I'm going to turn to you in a moment. You judge that to be a success.

MR. SCHUCK: I do judge it to be a success. It's a success in the theoretical terms that Ed emphasizes as something that government can do well for a variety of reasons: because of its economies of scale, because of the data on which it's based in terms of predicting risk profiles, and so forth. I think it's also successful because it has, again, as he mentions, achieved a degree of progressivity, not in the Social Security tax itself, but in the benefits schedule. It could be improved a lot. He offers some suggestions; I do, as well, and in relatively simple ways.

So, you know, the Social Security is not a disaster. It is easily -- it is a problematic program that can be remedied fairly straightforwardly. And the people at Brookings have written a great deal about that, including my friend and former boss, Henry Aaron. So no, I do think it's a success.

MR. KLEINBARD: Well, yeah, so I start from a little bit different place. First, government by many important measures has not actually grown. When we talk about the size of government, dollars don't matter, percent of GDP matters. That's the only way you can compare year to year. And yes, government has grown as a percentage of GDP by a couple of percent from a few years ago. Most of the growth of government has been on the mandatory side of spending and it has been in particular because of the aging of America, which, therefore, means more Social Security payments and, of course, because of the debacle of healthcare, which we can talk about at length.

So if you look at discretionary spending, for example, at the time that President Reagan left office, the United States spent about 10 percent of GDP on discretionary spending, defense and nondefense, which traditionally about 50/50. Today, we are at or just about to break the lowest level of discretionary spending in modern history and we're on track by 2023 to be spending only about 4-1/2 percent of GDP on discretionary spending. So we're not, in fact, a bloated government by that measure.

I think one reason why people believe that government -- there are two reasons why government is bloated. One is there's been a consistent sales effort to convey that message for the last several decades, but the other is that too many people have bought into the Roosevelt fallacy, which is the idea that, in fact, Social Security and Medicare are insurance programs, no different from any insurance program that you might purchase in the private market. They, therefore, don't understand that the benefits they receive are not fair insurance bets, but rather are heavily, heavily subsidized programs. So there is, in that sense, more room for government.

I also resist the idea, and I'm not -- Peter, I think, mentions this in passing; I'm not suggesting that Peter believes this. I reject this sort of Milton Friedman, rose-tinted-glasses view of the perfection of markets. Look, I'm a big believer in private markets, but I also recognize that markets are systematically incomplete and imperfect, just as government is. So I resist the idea that Milton Friedman advanced that efficient markets by themselves would necessarily take care of all civil rights issues, that government getting in the way just was meddlesome, and that all we had to do was be patient and racial discrimination would be resolved through the marketplace.

And finally, I accept some inefficiency in government. I acknowledge that government is inefficient. I think that several decades of deprecating government has meant that we find it very difficult to attract the best and the brightest to work for

government. I also point out that not that long ago, in my lifetime, government was held in quite high esteem. So I don't think that it is necessarily the case that we have no choice but to accept the idea that the American people have decided for all time that government is useless.

Let me offer one little anecdote on this point. For many years, I was a partner at a big New York law firm that was pretty much unique in that we paid ourselves as partners based only on our law school class, on our vintage, all over the world. That meant that a tax schnook would make the same as an M&A *macher* in the same vintage class. And oddly enough, as a tax schnook, I thought that was a very good, fair deal.

And we all understood that that was inefficient, that smart management invested in eat-what-you-kill forms of governance of an institution. And we accept consciously that inefficiency because it led to some more intangible values, like peace and tranquility around the water cooler that we thought were really desirable and we had a kind of stability, an institutional stability that followed from that. So inefficiency is a drawback, but it is not by itself the end of a discussion.

MR. REEVES: Thank you, right. Let's do healthcare as a kind of a test case.

MR. SCHUCK: Can I just interrupt to explain to those in the audience who aren't familiar with Yiddish words that *macher* means a powerful person.

MR. REEVES: That was very helpful to me. Thank you.

MR. KLEINBARD: Was it really?

MR. REEVES: Yeah.

MR. KLEINBARD: Well, this is --

MR. REEVES: Let's keep going. Let's have a bibliography.

MR. KLEINBARD: No, no, it's just -- Peter will find this interesting that

the first class, the first day of every course I teach, I am compelled to post as the first reading assignment the Wikipedia page called "English Words of Yiddish Origin."

(Laughter)

MR. REEVES: If you could have said that in advance of this discussion it would have helped me as the moderator hugely. (Laughter)

So, as a sort of test case for your different views, let's take healthcare because I read you, Peter, as saying what you just said, that sort of the big problems that government can solve are kind of in the past. So Social Security, as you say, is not a disaster, which I think it's worth saying is quite high praise. (Laughter) That's what constitutes success. And you both mentioned the Affordable Care Act, I think. And you've mentioned the debacle of healthcare. So let's just draw out the fact that you end up in very different places on this, or at least as I understand it, and also why I don't think you're an incrementalist.

So your view about the Affordable Care Act is that it didn't go anywhere near far enough and its problem was that it was limited in its ambition. And you say, and I quote, "A single-payer system is so obvious and so powerful in its logic that it beggars belief the Obama administration abandoned it." And then you then go on to point out that if we reduced our spending as a percent of GDP to Dutch levels, we'd be saving \$869 billion a year and we should essentially just shift to a socialized healthcare -- a single-payer healthcare system and that the problem with the ACA is it didn't go far enough.

Now, Peter, you say a lot less about the Affordable Care Act than I expected going into the book. And it's a little bit hard for me to interpret where you end up, but I think, I mean, first of all, you are very critical of the implementation of it, the uncertainty around it, which I don't think you can just blame the administration for.

MR. SCHUCK: I should say the book went to press before the rollout

occurred.

MR. REEVES: Well, this is an opportunity, I think, to hear a little bit more about your view about the ACA because I think some people would say actually the costs and inefficiencies of U.S. healthcare are precisely the kind of big problem that government can and should solve along Ed's lines in the same way that Social Security solved the big problem that was being kind of faced by an aging population in the past. And so as an example of kind of bigger, better government I think it's just a great test case.

And so you're both critical of the ACA, but it seems to me from entirely different perspectives. And so I think it's worth kind of pulling that out and how it illustrates your view about government overreach and what you were to do now in terms of healthcare reform.

Let's start with you, Peter. And if I've misrepresented your views, then do say.

MR. SCHUCK: No. This is an extremely complicated question, extremely complicated problem, and so all of our comments ought to be understood in that spirit. I don't think any of us can accurately predict what would happen if we made certain types of changes. One of the things we should learn from our experience in life, but also our experience with government is that it's such a complex beast that we simply can't understand it very well, even though we're very smart and spend a lot of time looking at it.

So with that introduction, I would say in terms of single-payer, there are a number of reasons why single-payer would seem to be a very attractive approach for our healthcare system. Our system is extraordinarily intricate, some might say jerry-built. It has a vast number of working parts, different throughout the country, and it is distorted,

as Ed properly points out, very much distorted by the deduction for employer-provided health insurance. And we certainly agree that that ought to be eliminated, although the politics of that, as I know Ed understands perfectly well, are very, very difficult as are the politics of eliminating other deductions that he would jettison, including the home mortgage deduction.

So there are lots of reasons why the single-payer would be attractive. One is the administrative costs, which would probably or almost surely be lower because of the economies of scale that a single-payer system would involve, and a single system rather than trying to coordinate all the insurance data systems and marketing efforts and so forth.

It would eliminate much of the marketing costs of private insurance. It might, depending upon its design, improve the coordination among providers, though our experience with the electronic medical records program, which I discuss in the book, should give us pause to assume that that will happen.

The major problem, I think -- there are two major problems with single-payer. And, you know, I'm agnostic about this, particularly after our experience with the ACA. If you compare the ACA with a single-payer system, in the light of our experience with the ACA, even at this early stage, single-payer looks a little better I think than it used to, but maybe not good enough. You know, I'm open on that question.

But there are at least two problems. One problem with single-payer is that we are an extraordinarily diverse country, diverse in almost every respect, and much more so than any other country in which single-payer systems are in place. And it's not clear to me that single-payer could accommodate all of that diversity. That diversity is not just ethnic; it's not just religious, linguistic, and so forth. It involves very different preferences, different ways of approaching healthcare.

And to unify those, to try to unify those, as a single-payer system would tend to do -- not necessarily, but would tend to do -- would do violence I think to that diversity. I'm not sure that diversity can be accommodated and fully recognized, the benefits of which would be fully recognized in a single-payer system.

A second problem is that it would politicize healthcare even more than healthcare is politicized today. That may be hard to imagine because of the ACA's politicization, but it would certainly be much greater. And so our healthcare system would be at the mercy of Congress, which I believe is the root of most of our problems, the problems that I identify in the book, not the Executive Branch, but Congress; would leave Congress to meddle even more in the healthcare system than it does now. It would have to. That would be its main responsibility with respect to healthcare, so I'm very, very suspicious about that. And there are lots of ways in which it could be politicized and in bad ways.

I don't count -- am I out of time?

MR. REEVES: No, I'm just hoping you will draw it to --

MR. SCHUCK: Okay. I don't count on Congress to be up to making the very hard decisions that will have to be made in order to render the system a lot more efficient and cost-effective. So those are serious concerns and that's why I'm at least skeptical about it.

MR. KLEINBARD: So Peter and I emphatically agree that the great institutional failure in government in the United States is Congress. People ask me to talk about my experience working for Congress for two years and I tell them all they have to know is that it was like being sent to prison for a crime I didn't commit. (Laughter)

Healthcare is our largest fiscal problem. I'm not talking about ethics. I'm not talking about the -- just as a fiscal problem in the United States. We basically -- what

we have, the second most expensive public healthcare system in the world as a percentage of GDP, which in absolute dollars we are the second highest in the world. And then essentially we have a very expensive public healthcare system and then we tax ourselves again by spending almost the same amount all over again out of our personal assets.

And so the combination of the two means we spend 18 percent of GDP on healthcare. Other countries with very successful single-payer systems spend -- the next country down spends less than 12 percent. The difference is just coming up in another year or two on a trillion-dollar-a-year difference. If we spent what the second most profligate country in the world spends on healthcare, whether measured as a percent of GDP or measured in absolute dollars, we would be saving ourselves collectively nearly a trillion dollars a year. That's real money on a \$17 trillion economy. So this is the great fiscal problem.

And again, what we spend privately is a tax on ourselves because it turns out that we are really very committed to our own survival, by and large, and, therefore, healthcare is an existential imperative to all of us just as much as paying our taxes on time is a civil obligation. So the situation is very grave from a fiscal point of view. And if you want to balance the budget of the United States cure diabetes. Really. It's just that simple.

So second, healthcare is an insurance problem. The fundamental healthcare is all about insurance and we know a lot -- and I talk about the birth of the insurance markets in 14th century Genoa. We know a lot about insurance and we know in particular the fundamental issue of adverse selection. What single-payer does is completely solve the problem of adverse selection because everybody is in the pool. And everybody's in the pool whether they're young or whether they're old.



The young and the healthy think they don't need health insurance, which might be true. It might be a useful gamble. The fact is that people who are young and healthy today, god willing, will become old and feeble tomorrow. And so they need to be in the pool not just in the way it's usually portrayed of paying for the elderly, but for paying for their future selves.

Finally, I benchmark -- I do a lot of benchmarking in the United States. And essentially every country, every developed country, other than the United States has some form of either single-payer or national provider healthcare. There are countries that purport to have private insurance markets, but where those private insurers are heavily regulated, where the prices of medical care are regulated, and where those private insurers are really just administrators for the national system. So other countries, and I don't believe the United States is the only diverse country in the world, the other countries, in fact, have found that single-payer is the most efficient way.

When you look at the other side of the coin, which is outcomes, health outcomes, we turn out to be crummy. We, by many measures, have crummy health outcomes. And the reason is not because no one gets good healthcare in the United States, but because so many millions of people get very poor healthcare and that drives down our national average; that and 60,000 gun deaths a year, which actually moves the needle.

So single-payer does not mean only one way of doing things. There's lots of different ways to have a single-payer insurance model. We don't need to have a National Health Service, for example, but we do need to recognize that it's the only way to deal with the fundamental insurance problem of adverse selection.

MR. REEVES: And a National Health Service does make it very politicized. The two countries I know best are most political about healthcare: the UK

because it's single-payer and the National Health Service in the U.S. because it's such a mess.

So, I mean, I take your qualified support for single-payer to be very important because actually the argument about can you trust the politicians with it seems to me to apply to pretty much everything. So if you can't solve that, you've got a bigger problem.

And the diversity point, I think you're right. London's pretty diverse and London health care system works pretty well. And you could argue that from an insurance pool point of view, diversity's quite a good thing in terms of getting lots of different kinds of people into the pool. So if those two arguments can be taken down, then it seems to me your implicitly in favor of single-payer.

I will come back to you and then we'll go out to the floor, but just to add one last question from me is the specific question of the Medicaid expansion, which I think within healthcare, again, drills down to your differences. Ed describes the refusal of some states to take it as -- he's quoting Krupon actually, as an exercise in spite, not fiscal prudence. You say that because you can't be bound, the future can't find bind future congresses, that the promise to pay 90 percent thereafter, you say a lot hangs on the thereafter because you can't bind it. And it might be you describe it as the gift of the baby elephant, which is kind of potentially (inaudible). So I read you as saying that actually the states who are refusing the expansion might actually be behaving in a sensible way, you think are behaving in a spiteful way.

So if you could -- that's a fair summary?

MR. SCHUCK: Yes, yes.

MR. REEVES: So if you could address that in your final remarks and we'll go to the floor.

MR. SCHUCK: Okay. I want to say a bit more about single-payer. I do not want to be understood as endorsing single-payer. I say that when we see how the ACA actually works out, it will seem more attractive probably, more attractive in comparison with the ACA than current.

We do have a single-payer healthcare system. You may have noticed that the Veterans Administration is a single-payer system. I'll say no more. That's not a cheap shot. It's not a cheap shot. The problems -- the VA, as I say in the book, the VA has done some wonderful things and including spurring research on conditions that otherwise had not been as well understood as they are now because of their research. And rehabilitation by the VA has been very, very good. But here we have a highly politicized system that is a disgrace, as almost everybody recognizes.

Why is that? I think there are systematic reasons. They're the same reasons that I discuss in the book. So we're not writing on a clean slate in terms of single-payer and it ought to give us pause.

As far as Medicaid, I don't have anything more to say on that except that it's a problem and you hinted at this, but let me nail the point down. The refusal of many states to accept the Medicaid expansion is for a variety of reasons, a lot of political considerations to be sure. But I think one factor is that they simply don't have faith that the federal government will deliver 5 years from now on the promise of 90 percent funding.

MR. REEVES: Okay. Right, well, we'll move out to the floor.

MR. KLEINBARD: Can I just --

MR. REEVES: If you can do it in 20 seconds, you can do it.

MR. KLEINBARD: Yeah. Single-payer does not mean single provider, so the Veterans Administration is a single provider, like National Health Service in the

UK. VA actually worked very effectively for many years prior to Congress not funding it commensurate with the wars that Congress sent us off to fight.

MR. REEVES: Right. We're going to go out. Please say who you are. There's a microphone. Is there a microphone?

MR. KLEINBARD: Yeah, I'm going to need the microphone because I'm a little hard of hearing.

MR. REEVES: So say who you are and please keep your questions as short as possible so I don't have to become rude and, you know, jump up and down.

Yeah, the gentleman there with your hand up, yeah, with the glasses on.

MR. ALTMAN: Hi. I'm Fred Altman. There seems to be a fundamental disparity between what the government's goals are and what the people's goals are. The government has to take into consideration the long term and there's lots of data that indicates people are very good at making short-term decisions and very lousy at making long-term decisions. How would you go about reconciling this problem?

MR. REEVES: Okay. Do you mind if we take just a couple more? Would that be okay?

MR. KLEINBARD: Yeah, whatever, you're the boss. You're the boss.

MR. REEVES: Let's take a few.

MR. KLEINBARD: Putty in your hands.

MR. REEVES: The lady right in the front row here.

MS. WERTHEIM: I'm Mitzi Wertheim with the Naval Postgraduate School. I'm also a (inaudible) anthropologist, so I look at this from a behavioral standpoint.

MR. KLEINBARD: You're here to study us. (Laughter)

MR. REEVES: She's been taping this.

MS. WERTHEIM: No, I'm interested in the process of change and how incredibly slow it is. Let me just make a few comments.

It was Ronald Reagan when he came in that said government was the problem. Prior to that we cared about it. And when Newt Gingrich said you can't talk to the people on the other side of the aisle, he really paralyzed behavior in this city.

I think the issue of complexity is not taught in our schools, so people look for a single system. I think our sheer size is overwhelming. And I think one of the key issues turns out to be jobs. So when the government decides it wants to cut something back, you're taking jobs away. Corporate America doesn't have that problem. And we haven't -- I mean, and then you get tenure. There are all sorts of reasons why you can't get those.

And the final thing is about storytelling. And I think the media and I would even argue academia has not done a good job of educating us on the complexity of these stories and what might be some possible alternatives.

MR. REEVES: Thank you. All right, let's just do those two because they're both quite meaty ones. So the government has to act long term because we're myopic, and that's one of the roles of government. And then the second point is are we kind of -- if I understand it kind of correctly, are we understanding, is the government and is the education system helping us to understand complexity or is it oversimplifying matters and are we learning about ability to manage, through storytelling, complexity?

And then your point about government. You quoted Reagan saying government's the problem. Reagan didn't really cut the government, did he?

And the question of jobs. Did I understand that? And jobs, okay, fine.

Ed, why don't you go first?

MR. KLEINBARD: Sure, in 20 seconds.

MR. REEVES: Take either or neither.

MR. KLEINBARD: Yeah. So the long-term point is a very important one. And ultimately, I believe that we need a higher quality of public discourse on issues. We need to make these points more explicit. The political forces tend to find it very convenient to work with myopia rather than to dispel it. My solution is that you give large numbers of copies of my book as Christmas presents. (Laughter)

But I think ultimately, and I think Peter would say that I sort of have a Burkean naïveté about the role of legislators. I do think that legislators need with the one hand to be mindful of their constituents' interests and in another have to take it on themselves to look a little bit forward. That's really all that we can do in a democracy. We're not going to have a permanent Mandarin class here the way France does.

With respect to the other points, you know, I think and the book tries to demonstrate that a very coherent story was developed and that story equated marketplace freedom with political liberties and thereby developed the notion that markets were, in fact, joined at the hip to political liberties and, therefore, a government, which by definition is intruding in some way into markets, was fundamentally contrary not just to the efficiency of the marketplace, but to the exercise of our political liberties. It is a false conjunction. The two are not necessarily intertwined. And we need to understand just how tightly integrated that story has been, how consistently it has been told, and how inaccurate it, frankly, is.

MR. REEVES: Peter?

MR. SCHUCK: Yeah. I'll address both questions. First, with regard to long-term considerations, the world would be a lot simpler place if what you said was true, that is the government was very good at focusing and responding to long-term factors and individuals were not. You're certainly correct that individuals -- there's a good

deal of cognitive behavior literature to which you refer -- that we are often more shortsighted than we think and that is good for us. I think government is at least as shortsighted as individuals are, although that's too easy a comparison. I don't -- who knows whether they're the same? But government is very shortsighted.

A large part of it has to do with the political incentives of members of Congress and they're looking at the next election cycle. That's what they care about and they respond to that. And I would cite as evidence for this a number of policy areas, very important policy areas.

One is healthcare reform, Medicare reform. Medicare is in real fiscal crisis. That crisis can be resolved. There are things that could be done, but the longer we wait to do them, the harder it's going to be. And Congress has kicked the can down the road for many, many years and it will continue to do so as long as it can. As long as it can. That's not long-term planning, in my view.

Social Security reform? The same thing. As I said before and as Ed emphasizes, fixing Social Security shouldn't be that difficult. You can simply -- it's not simple politically -- you could raise the ceiling on taxable earnings or you change the retirement age, all sorts of things, indexing, all sorts of things you could do. Congress doesn't want to go near it.

Immigration reform, another example. And finally, I'll mention climate change. If you're looking to Congress to take the long-term view about threats to the environment and to our wellbeing and not to mention the wellbeing of other countries that are more vulnerable than we are, that's not long-term planning.

Now, with regard to -- speaking to Mitzi Wertheim's question, jobs. The federal government's job training programs have been a failure and there's a lot of social science evidence, some of it coming from Brookings, that this is the case. We haven't

figured out how to do it. The federal government hasn't figured out how to do it.

And the jobs thing can cut both ways. Take Amtrak, for example, which I discuss in my book. Amtrak is a huge, huge money loser. Why is it a huge money loser? And this is true of urban transit systems throughout the country with the exception of BART. They're all money losers, even when you include the environmental and safety benefits of mass transit. Part of the reason for that, a big part of the reason for that, is the inflated employment that those systems have and the much higher than competitive wages that they're required to pay under these systems.

So I don't know, it's not clear to me which way the concern about jobs, which I share, cuts.

MR. REEVES: Yeah, let's take a -- wow, okay, now we're going. I'm going to take Tom Mann. I saw your hand first right here at the front. And then I'll take the gentleman there with the glasses. Tom's right here at the front.

MR. MANN: Thanks very much for two good books and a very interesting discussion. I concede nothing to people who propose to be Congress bashers. I've done a good job of that myself, but I'm very uncomfortable with you --

MR. SCHUCK: Not good enough. (Laughter)

MR. MANN: But I'm really uncomfortable with you attacking the institution, apart from its setting, and the broader constitutional system, but, more importantly, in the role of parties. Now, most members of Congress don't worry about their own reelection. They care only about which party is in the majority. That's altered the whole political dynamic of Congress and it makes political ideology a central element in policy-making and the implementation of public policy.

Peter, have you underestimated that element of politics in your analysis? And Ed, would that lead you to sort of be more nuanced in your condemnation of



Congress?

MR. REEVES: Right. Let's go straight to that. I will come to you, sir, next, but I think it's worth just going straight to that. Ed?

MR. KLEINBARD: I don't dwell in nuance. (Laughter)

MR. REEVES: That's all we do at Brookings.

MR. KLEINBARD: No, look, I agree with the points that you've made, but let's try to put into context what I am urging in the book. I'm urging that government spend about 2 percent more of GDP, which would not -- primarily in discretionary spending initially. Those create jobs. I don't believe in job training programs. I believe in jobs. And if you put tens and tens of thousands of people to work on infrastructure projects, if you properly fund pure science, if you read today's *New York Times* op-ed page and discover that the National Weather Service is in financial crisis and we are losing our ability to predict the weather, those are jobs that are waiting to be filled.

And Congress, I would like to think, although I absolutely agree with Tom Mann's point about the ideological overlay, those are issues that Congress can properly deal with. We can engage in large infrastructure funding. We can invest in more pure science. And we can invest in ways that encourage more equitable spending on public education.

You know, my priorities are quite incremental and manageable, even by this Congress.

MR. REEVES: Okay. So briefly we'll come to you, Peter. But if I understand Tom correctly, I think he's saying that you are stating as an institutional problem what's really a political problem.

MR. MANN: Exactly.

MR. REEVES: And thereby falsely accusing the institution rather than

the current political consideration.

MR. MANN: It's ignoring political parties' ideology.

MR. REEVES: Right, and that could be self-fulfilling because you yourself said are we going to trust this lot to do X, Y, and Zed, but, well, then you'd give them less to do and less happens and people trust it less and so on. So blame the politicians rather than the institution.

MR. SCHUCK: Well, I don't know, the politicians and the institution are very closely intermingled. I certainly take Tom's point that ideology and concerns about party victories are very, very important. And if I didn't acknowledge that, I misspoke. I do mention that in the book.

But I do think the short-term mentality of members of Congress, particularly in the House, and also in the Senate in which gerrymandering is not an issue, we find much of the -- not entirely, but much of the same behavior. And certainly, they're concerned about their election. They don't have the same kind of reelection rate that members of the House do. But there's no serious quarrel with us there.

I would say, however, that short-term perspectives are built into the Congress. The presidency has a longer term view, a broader perspective, and so does the Senate for that reason, though it's subject to the constraint that I just mentioned.

I once wrote an op-ed piece in the *Times* in which I proposed that part of the Senate and perhaps the House, but more easily the Senate, be elected on a regional basis so that we would have more national and perhaps less parochial orientation within the Congress. There's a fat chance of that.

So, you know, I think it really is endemic and it's not simply a matter of ideology and party divisions.

MR. REEVES: And to be fair, you do have recommendations for Senate

reform along those lines, which would increase the power.

MR. SCHUCK: Based on his book.

MR. REEVES: Oh, I thought I recognized it. The gentleman there and then we'll go to the gentleman right at the very back. So you first.

MR. SHUTLEY: My name's Peter Shutley. I had 29 years in the federal government and 10 more years training federal government folks to work on the Hill, so this builds on your comment, Professor Kleinbard, about focusing on taxes versus spending.

I would suggest that a major, major current problem in the U.S. Government is the American public. The voter has no clue what they get for their tax dollars. They know how many taxes they pay. They have no clue what the government benefit services are that they get from that. There's a lot of reasons for that: lack of civic -- decline of civic education in schools, other things, the media. But I suggest that one thing that really deserves looking at is the behavior of the public affairs leaders in federal agencies.

Example: EPA. The Republicans have skewered the EPA. Every time you see the word "EPA" it has to be preceded by "job-killing regulations," the word, et cetera. I talked to EPA leaders and said why don't you folks defend yourselves? Why don't you explain to the country all the benefits of EPA activities? Their answer, we didn't think we could win, we're just laying low. We don't bother to make a case for this; we're just laying low and hoping that this wave ends. That's one small example of the failure of federal agencies to explain to the public what the American taxpayer gets.

MR. REEVES: Of course, if they spend money on PR, there'll certainly be a tax for that. We'll take one more, the gentleman right at the back. Yeah, right on the back row. So we'll do two and then come back.

MR. PARSONS: Thank you very much. My name is Cameron Parsons and I'm a recent grad of Brown University and also attempting to navigate the very complicated job market.

So in any conversation about jobs and the economy I'm always amazed that we don't talk about student loans and student debt. It's \$1.2 trillion. It's the largest outstanding form of debt behind home loans. And I think part of the reason that it doesn't get addressed in governance is that the government itself is profiting off student loans. So not so much a question, but I'd like to hear both of your thoughts on how we can begin to address this elephant in the room.

MR. REEVES: Okay, I'll go to Peter first and then come to you, Ed. So people don't know what they're getting. They should be louder, shout louder about how great government is. And then what about student debt?

MR. SCHUCK: Let me address one other point that was raised before getting to that question and that is the question of ideology. Ed makes a point that redistribution is not a dirty word, should not be a dirty word. I agree with that.

I also think that --

MR. KLEINBARD: I made the other point. I made the opposite point, it is a dirty word.

MR. REEVES: He says it is a dirty word.

MR. SCHUCK: Well, he says it shouldn't be a dirty word.

MR. KLEINBARD: No, I said that it should be.

MR. SCHUCK: He's in favor --

MR. REEVES: Although --

MR. KLEINBARD: It should be a dirty word.

MR. REEVES: Although government spending is quite -- government

spending is quite redistributed.

MR. KLEINBARD: That's my point, but --

MR. REEVES: Right, (inaudible) say it.

MR. KLEINBARD: No, no, but it creates a larger pie and, therefore, it's not a take from the rich, give to the poor.

MR. SCHUCK: All right, let me clarify.

MR. REEVES: Yeah, make a bigger pie.

MR. SCHUCK: "Redistribution" is politically a dirty word.

MR. REEVES: Right.

MR. SCHUCK: But he thinks that it ought not to be a dirty word, and I agree with that. It's --

MR. REEVES: Well, I think the danger is we get stuck on the word rather than the substance of it.

MR. KLEINBARD: Okay, okay, it doesn't matter.

MR. REEVES: Let's move on.

MR. SCHUCK: I want to say the same thing about ideology. I ideology reflects the fact that we have a country that is sharply divided concerning what the government ought to do, what private markets ought to do, and a host of other issues. And if you call it ideology, it's usually just a way of saying I don't agree what the other guy is saying and he doesn't know what he's talking about and he is rigid whereas I am flexible and open to new evidence, and so forth. So I don't find that very helpful.

Now, in terms of the student loan program, I have quite a long discussion of it in the book. It is, I think, a well-intended program that spends a huge amount of money and, no doubt, benefits a lot of people. Anytime you spend \$1.2 trillion you're going to benefit a hell of a lot of people. But it's also a fiscal disaster waiting to happen.

If you look at the delinquency rates and you look at the incentives that are built into the system that have actually been increased in recent months with the administration adopting a repayment program that I think is going to incentivize young people to load up on debt and then walk away from those debts either by working for qualifying organizations, which will relieve them of the debt after a certain period of time or otherwise join the ranks of the very high percentage of people who are delinquent on their debts, it's going to be a fiscal calamity. So, you know, it's one of those programs in which it does a lot of good.

We also know, by the way, that the student loan program benefits a lot of people who would have gone to college anyway, that t the margin it doesn't affect their citizens very much. It just subsidizes them from ordinary taxpayers, most of whom haven't gone to college and don't intend to go to college. So it's a very problematic program and I think it could be redesigned to do a lot better than it has.

MR. REEVES: Thanks, Peter.

MR. KLEINBARD: Yeah. So to the first point, that we don't do a very good job of articulating what we get for our money, look, I agree with that. That's why I began with the point that when we talk about taxes, taxes, taxes, we're putting the cart before the horse.

If we ask each other how much pain would you like today, the answer is not very much, please. And yet that's how we see government. So I think some of it's due to the Rooseveltian fallacy of creating the impression that large swaths of government are really things that we've actually purchased at fair value.

I also agree about the use of Homeric epithets in a public discourse, so that you have job-killing red tape battling job-creating small business before the symbol of Troy. And you see it, as well, in the insistence by the Republican Party on referring to the

Internal Revenue Code as the Internal Revenue Service, the IRS, code in order to tar the IRS with Congress' work product. So I agree with all of the points.

And it turns out that rhetoric matters. And one of the things -- Peter's book, my book, are both I think pretty effective because we're good rhetoricians and we are because we're well trained lawyers. And that is what law, in my view, is all about, is the ancient art of rhetoric.

On the student loan point, first, a shout-out to a fellow Brunonian. I'd sing the school song, but I don't know it because I was in a purple haze for four years.

(Laughter)

And I think it is a disgrace that the federal government runs the student loan program as a for-profit operation. But like any program, one of the costs is a reserve for expected losses. My understanding is that -- and this is what CBO does for a living, it does it very well, is that even taking into account a reserve for expedited losses, the program is still extraordinarily profitable. I think that's not the business the government should be in.

The fact that young people might go work for qualifying organizations is, in my view, hooray, that's exactly the point. That is exactly a perfect example of how a market-driven society moves people away from the opportunities that are good for the country and good for the young person to pursue.

In Germany, which does much more of the R word than the United States does, even though its market inequality, is the same as United States, university is free. And if we're going to have a quality of opportunity, I don't think that we can be spiteful of people, in turn use that education in lower-income jobs that advance larger social or cultural agendas.

MR. REEVES: Right. A couple more --

MR. SCHUCK: Can I say one thing?

MR. REEVES: Yes, if you can be very brief.

MR. SCHUCK: One thing about his point about it being profitable. It is only profitable if you apply an utterly false accounting technique, which is to assume that the delinquency rate that applies to the student loan program is the same as the delinquency rate that applies to government obligations.

MR. KLEINBARD: And to something (inaudible).

MR. SCHUCK: And that's just wrong. Obviously wrong.

MR. REEVES: I will just refer everyone to the work that Susan Dynarski's done for The Hamilton Project at Brookings and what the Brown Center have done on student loans.

Let's move on, this gentleman here with the glasses and then this gentleman.

MR. COLEMAN: Thank you. Tom Coleman. I'm a senior advisor to the dean of the Wagner School at NYU.

MR. SCHUCK: I like the book in your hand.

MR. COLEMAN: Yes. It's one of the few books I actually bought and it's a great book. And Ed, I haven't had a chance to read your book.

MR. REEVES: As opposed to what, it was stolen? (Laughter)

MR. COLEMAN: Anyway, building on Tom Mann's comments about the institution as opposed to the people who are occupying the chairs, Peter, I'm going to direct this to you and, Ed, you can answer it, as well, how much do you attribute the failures of the bureaucracy to ineffective oversight by the Congress and its inability to pass appropriation bills which, in turn, loses their leverage over decisions and people who make those decisions because of these failures?



MR. REEVES: Great question.

MR. SCHUCK: That's a great question.

MR. REEVES: Let's just take one more and then we'll probably have to close this part of the proceedings. The gentleman there, as well.

MR. CHECCO: Thank you very much. Very interesting discussion. Larry Checco, Checco Communications, but I think more importantly a very concerned citizen about all of this. I'd just like to posit a couple of thoughts.

Number one, I think that government is an organizing principle. We're stuck with it. There's nothing we can do. Anybody who wants to flush it down the toilet is crazy. I mean, we need to have government. It's not a matter of large government or small government. It's a matter of effective and good government.

And two, to the point of language, I don't want to see myself as a taxpayer. I'm an investor in my country. I'm an investor in my community. I'm an investor in my family. And I think if we change the language a little bit and I'd like other people who are making a heck of a lot more money than I do to see themselves as investors, as well. I think that it's a big issue.

But the one word that I haven't heard, I heard it once from Richard, and the one word was "trust." And I think a large part of our problem, and I'm going to take issue with Mr. Mann just for one second here, I think a lot of us concerned citizens have lost trust in our institutions, from the Supreme Court right on down, and it's sad. It's absolutely sad.

And the last word I'm going to use, and I don't like using it, but I feel it needs to be used and no reflection on today's front page *Post* story, but a lot of this town has been bought and I think a lot of us feel that way. I think we feel that our politicians, to your point, Peter, the voice of the people? The voice of the people is being overridden by

people with a lot of money and the rest of us are being drowned out. And that's all I have to say.

If you could address the issue of trust I'd appreciate it.

MR. REEVES: Trust, right, thank you. (Applause) Okay, so Congress -- that was very popular (Laughter) -- Congress swelling in terms of appropriations, et cetera, and then this issue about trust. And maybe both of you can use that opportunity to talk a bit about the difference you both draw attention to between trust in a federal government and trust in kind of local and state governments. Yeah, there is an issue there. People are kind of easy to say that they don't trust one level of government and not the other.

So I'm going to come to you, Peter, first and then give you the last word, Ed.

MR. SCHUCK: Okay.

MR. REEVES: And briefly, if you wouldn't mind. We're up against it.

MR. SCHUCK: First of all, to go to Tom's point, the handling of the budget policy in the Congress is a travesty. Congress recognizes itself when it set up the process and now has departed from it completely. We govern or we administer our government through continuing resolutions. It's a terrible way to do business. So all of that is true.

And the other point I want to make in response to this question of trust is that I'm a little mistrustful of analyses that disparage the public's understanding of what is happening to them in terms of the effectiveness of government. I'm not saying, and I was quite clear about this earlier, we are -- we suffer from all sorts of cognitive impairments. And they're systematic and, you know, psychologists have explained them very carefully.

That said, I am, as I say, suspicious of sort of dismissing voters'

concerns about the effectiveness of their government by saying, well, they don't really know, as you said before, they don't really know what the costs and the benefits of these programs are. Sure, they don't know in great detail. Hell, they don't know, you know, how many amendments there are to the Constitution. There are all sorts of things that they don't know. But that's one area in which I think we ought to have more respect for their competence to know whether they're getting value for what they're paying.

Again, I'm not saying it's not distorted. It is distorted. It's imperfect, to be sure. But that troubled me a little bit about the earlier comment.

MR. KLEINBARD: So just to the first comment from the special advisor to the dean at the Wagner School, where the hell were you yesterday when I was talking at the Wagner School about my book? (Laughter) And I would have been glad to have spent all the time in the world --

MR. SCHUCK: He was busy buying mine.

MR. KLEINBARD: -- in a very, very sparsely attended room, I would have been glad to have --

MR. REEVES: At least he bought the book.

MR. KLEINBARD: So the last comment was really great, I thought. And the theme of investment obviously is one that resonates with me. And the idea that I'm not taxpayer, I'm an investor is exactly right.

The way I deal with the question of trust is by offering this metaphor of our fiscal soul and asking people to think about what values we are, in effect, endorsing when we express our views about the kinds of activities that government should engage in. In the end, I repeat over and over again Barney Frank's wonderful aphorism that government is just the things we choose to do together. And the theme of investment is that what we need to do is to endorse the principle that when we act collectively in a

purposive way, we're investing in America and we're investing in Americans. So I agree absolutely with that.

MR. REEVES: I'm just going to hand over to close our comments today with two quick quotes. One, just in case we're left with the impression that Peter doesn't believe in collective action, which you certainly do and you're very fair-minded in it, you have a quote from James Q. Wilson, which I absolutely love and I'm going to read. James Q. Wilson wrote the following, "One can stand on the deck of an aircraft carrier during night flight operations and watch 2,000 19-year-old boys faultlessly operate one of the most complex organizational systems ever created."

And you've quite proven there's a kind of peon to the fact that bureaucracies can work and the organizations can also work. And I'm also, as a father of three teenaged boys, delighted to learn that so long as they can get into Brown playing the oboe, presumably, that they can spend four years in a purple haze and come out as well trained and as erudite as both of our panelists.

MR. WESSEL: I'm David Wessel, director of The Hutchins Center of Fiscal and Monetary Policy. I want to thank you all for investing so much time in our discussion today. I hope you found it as rewarding as I did. I want to thank Ed and Peter for coming and Richard for doing a great job moderating. And it would have been good even if he didn't have a British accent, which always add about 10 percent. (Laughter)

We have copies of the book for sale in the back and I think the authors will autograph them. Thank you very much for coming. (Applause)

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