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Brookings Cafeteria Podcast:
The top economic issues in 2017

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DEWS: Welcome to the Brookings Cafeteria, a podcast about ideas and the experts who have them. I'm Fred Dews. At the dawn of the Trump administration, the performance of the US economy, US businesses, and markets, and workers are at the forefront. To help us understand where the economy is, where it could be headed, and what policies we might expect out of the new administration, I'm joined once again by Ted Gayer, the Vice President and Director of Economic Studies here at Brookings and also the Joseph A. Pechman Senior Fellow. He is director of the new Center on Regulation and Markets here at Brookings, and from 2007-2008, he was deputy assistant secretary for Economic Policy at the Treasury Department.

Stay tuned in this episode for a new Metro Lens piece about America's water infrastructure challenges, and also a new segment to help you navigate through our analysis and commentary for the first 100 days of the Trump administration. Ted, happy New Year to you and welcome back to the Brookings Cafeteria.

GAYER: Happy New Year, it's great to be here.

DEWS: So tell us first about this new Center on Regulation and Markets.

GAYER: Sure, I'm very excited about it. Brookings has a decades-old reputation in regulation. In the 70s it was the primary mover on analyzing rent-seeking and regulation, and in the 90s, it started a joint center with the American Enterprise Institute and actually I was a part of that on the AEI side, so since I got to Brookings I was excited about kind of starting that up again. And in the interim, regulation has kind of spread broad and wide and is a key part of economic policy, in many different facets, so I thought the time was right to kind of reenergize it. This is a sole Brookings endeavor with lots of outside contributors involved, and a lot of people across the building

involved. And we just launched it a couple months ago and I think it's topical to say the least, I'm sure we'll get into that, and it's been exciting.

DEWS: Regulation will be a huge issue in the new administration, I definitely want to ask you more about that, but let's first kind of look at the big picture of the US economy. We're at the dawn of this new administration, President Obama was in office for eight years, so what would you say is going well in the US economy as the Trump administration begins?

GAYER: I think if you want to look at the upside of what's going well, you gotta look at the labor market – we had about a hundred eighty thousand jobs created a month in this past year, and that's following years of about two hundred thousand a month. It was a long slow slog kind of digging out of the recession in the labor market and I think, you know, you can argue on the broader measures about whether or not we fully recovered or not, but the labor market is fairly tight, meaning we've recovered quite a bit, if not at full employment.

And the best and healthiest sign of that is that you can start seeing that we are witnessing wage growth. We had not been experiencing much wage growth throughout this recovery, again a testament to the depth of the recession that we experienced, but we are now seeing some wage increases and a lot of this is also being reflected in policy with the Fed tightening and all the rest, but overall you look at the labor market and there's a lot of positive sides.

DEWS: Well on the downside then, what's not going so well?

GAYER: Well I think there's a few aspects of it: first it's not all rosy in the labor

market, there are some broader measures that are not fully recovered. If you look at the long-term trend of labor force participation, particularly for working-age men: are they either in employment or looking for a job? Those measures have been decreasing for decades – some of that is sort of a normal reaction to women entering the labor force decades ago, some of it has continued in that trend even after women had plateaued or actually their labor force participation has declined a bit – so there is this kind of big issue about why working age men are not working nearly as much or are not engaged in the labor force as much as they used to, and that is a cause for concern. We can argue about whether or not it’s demographics, whether or not it's substituting healthy leisure, or whether or not it's other more structural problems that are causing that, but I think it is cause for concern, I think there's social, psychological consequences of having a lot of men not working as well.

The other kind of downside, as strong as the labor market has been over the last few years we have not experienced strong economic growth. You know, you have your ups and downs, but pretty much throughout the recovery we've been at two percent growth. So kind of in economic parlance, if you have strong job growth but weak GDP growth, what that translates into is our productivity growth is not very strong, meaning the amount of output we get per additional unit of labor has not been growing very strong and we're not very productive. Productivity, how best we can utilize their labor resources, is one of the strongest indicators of what our living standards are going to be, what our overall well-being is going to be, and so that continues to be weak and the big question is, is this temporary?

We've gone through, historically, periods where productivity has ebbed and flowed, maybe you have a technological advance and after a delay that kind of leads to productivity enhancements, and so the real question is, is this going to persist over a longer time or we're going to turn some sort of corner that could lead to get stronger growth and greater living standards?

DEWS: I do want to spend a lot of time on kind of broad economic policies and the outlook for some specific sectors, but I do want to spend a few minutes on some Trump administration issues specifically.

GAYER: Sure.

DEWS: One of them had to do with in the course of the transition from the election to the inauguration. Then president-elect Trump intervened in a few specific business cases, famously the Carrier Air Conditioning plant in Indiana, Ford Motor Company. You know, generally speaking, do you think – I mean, is that good or bad for the economy, this kind of very targeted intervention with companies like that?

GAYER: So, you know, economists often find themselves in this position of talking the economy in a way that is antithetical to what's good politics. My guess is that that was good politics, my strong feeling is it was not good economics and it's a troubling trend. I think the real strength of the US economy is the dedication to the rule of law; to leave business decisions to business and to market participants based as much as possible on the demand and supply and the price mechanisms and such. So when you have a politicized system where business decisions are being made, you know, whether or not it's to please the president directly, whether or not it's through a Twitter war, I think those things are dangerous and dangerous indications. And, you

know, I think – and this gets back to the start of the Regulatory Center I talked about and why I think the timing is particularly good – I think as the administrative state has grown, as the economy has become more complex, as Congress has become more dysfunctional, I think we've moved away from clear rules and more towards administrative discretion, a little bit more towards the ambiguity about what exactly the rules are, which I think interferes with the business practices.

And in the cases that you mentioned, it's kind of blatant politicizing of the process itself and of the business decision. So, you know, on my more optimistic days when that happened, I thought “okay, this is good politics and I don't like it and it's not gonna be very consequential and will be kind of a few one offs,” but you know on, my more troubled days I think this is the sign of the larger trend that will only increase and I think could have troubling consequences.

DEWS: So the politics aside, what kind of specific policy items are you most focused on as the Trump administration gets underway, as he assembles his economic team?

GAYER: Yeah, you know, I would caution that there's a lot of uncertainty, as is, I think, common when you have a change of administration, but probably even more so now given the unique nature of this administration and the campaign that we just went through. I think if you were, you know, putting aside the uncertainty, if you were going to look at, as much as possible, the economic goals, I think there's strong emphasis from the administration and from the Republican Congress on growth, on running what we would call a high-pressure economy, which is, you know, pushing the bounds of inflation

more towards aggregate demand stimulation, and we can get into how the Federal Reserve may or may not respond to that.

If you look at the kind of vehicles by which they are moving in this direction or trying to achieve these objectives, I think the early signs are quite clear. There's two fronts, one is on the tax reform side. In particular, there's a lot of movement on the hill on corporate tax reform and some interesting proposals there, and I can talk about that. And the other as we alluded to before is on regulatory reform, and by regulatory reform there's many different ways to look at it; there's kind of the immediate new administration, what can they essentially undo from the old administration and how quickly can they undo that?

What executive orders a new administration could put forward to give different guidance to agencies and how they go about making regulations going forward, which again could change the whole regulatory atmosphere. And then there are a lot of very interesting proposals being considered in the House, this is part of speaker Ryan’s blueprint from a year or so ago, but actually legislative changes to how the regulatory process works and that again could have very large effects on the kind of regulation we see, a movement I think towards less regulation and the economic and social consequences that stem from that.

DEWS: You just mentioned the Federal Reserve, can you elaborate a little bit on what the Federal Reserve's role in the economy is and how it relates to the executive branch?

GAYER: Sure, so there's a lot of different ways to answer that. The Federal

Reserve’s mandate, they have a dual mandate, so their mandate is to achieve full employment and stable prices and stable inflation and their target is two percent. So a lot of what you hear whenever we do the Fed watching, every time they have the meeting, are they going to raise rates or not is essentially them trying to read what we've been going through in this conversation so far: is there slack in the labor market? If there’s slack in the labor market then they can continue to be stimulative, because they haven't met their employment mandate. Yet, you wouldn't expect price pressures because there's still a lot of unused resources up there.

And so, you have to be concerned as the labor market tightens if we're at full employment, which is a hard question to answer with precision, then you worry at some point the economy will overheat. And so maybe that's where you start tapping on the brakes a little bit, although you don't want to do it too suddenly. So essentially this is what we see happening. The Fed has last year and again this year raised rates a little bit so they're sort of inching forward.

So the way this intersects with the new administration is, as I said before, if the new administration comes in with a very strong GDP goal, with a high-pressure economy goal, a lot of fiscal stimulus – whether or not it’s on the tax side or even on the regulatory side – to kind of push the gas pedal, so to speak, then that would change the calculus for the Fed. That would put them a little bit more cautionary, that we're looking at some overheating and maybe raise rates faster, and so I think right now the expectations is in 2017, 2 to 3 interest-rate increases over the course of the year.

But obviously, it’s something that they have to keep their eye on. The other aspect – and again, this is a time of uncertainty – the other aspect, of course, is that

there’s the governance of the Fed. And the Fed, from its inception, has been sort of an independent government agency, as it should be. These are important considerations, that in contrast to what we were talking about before, we certainly don't want it to be politicized.

And so the question going forward is, how strong will that independence be maintained? I think coming out of the financial crisis with all the interventions that the Federal Reserve did, many of which were politically unpopular, they got all sorts of public scrutiny, congressional scrutiny, and congressional criticism that they hadn’t in recent years. And they've done an admirable job of kind of keeping it at bay, keeping their eyes on the mission. But, you know, with the new president comes new appointees, and one hopes a respect that independence in the type of designations that they make, but again we have some uncertainty about how that's going to play out.

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DEWS: Let's take a short break here for our latest Metro Lens segment. We're hearing lot of talk in Washington about a massive new infrastructure program. Water infrastructure would have to be a key component. Here's Joseph Kane to explain.

KANE: Hello, this is Joseph Kane, senior research analyst and Associate Fellow at the Brookings Metropolitan Policy program. In recent months, the country's water infrastructure challenges have gained greater national visibility thanks to a number of high-profile speeches along the campaign trail, legislative efforts in Washington, and calls for increased investment from the incoming Trump administration. However, much of the hard work continues to rest on the shoulders of individual cities and states, where more than 95% of public spending on water takes place annually.

Water utilities are under enormous pressure to balance a host of physical and financial responsibilities, especially when it comes to providing affordable, clean, and reliable service. Utilities of all sizes and geographies are confronting an immense array of investment needs, with some estimates as high as 655 billion dollars over the next two decades alone. Flint, Michigan has attracted the most attention, given the gravity of its challenges, environmental and otherwise, but the tremendous regional variety and scale of needed investments signal a range of water infrastructure concerns that utilities face nationally. Utilities can struggle to locate infrastructure pinch points, or even identify their relevant peers.

Understanding how water needs compare across multiple cities is particularly difficult given the number of information gaps, including inconsistent data, different regulatory needs, and varying operational climates. By creating a new framework to analyze utility finances and other related economic concerns, though, our new research explores many of the country's largest public drinking water utilities and the primary cities they serve to provide a more complete understanding of the context for local water infrastructure investment.

Through the creation of a new water investment score across 97 cities nationally, we find that while a handful of large drinking water utilities in cities such as Washington, Denver, and San Francisco perform well across six different indicators of financial and economic health, many cities, from Detroit to Cleveland to Birmingham are facing a longer list of difficulties by comparison.

First, consider three measures of utility finance: operations, long-term debt, and the water rates charged to customers. Here, we can see that while more than three-

quarters of large drinking water utilities are able to cover their operating expenses each year, many are carrying extremely high levels of debt, up to 96% of the value of their current assets. In addition, on average, many of these utilities are charging higher rates to cover the cost of their aging depreciating assets, rising more than 10% each year since 2008. This leads to concerns over affordability, equity, and long-term financial stability.

Of course, a variety of factors besides the balance sheet can weigh heavily on the city's water finances, including changes in the size and ability of a utility's customer base to support infrastructure upgrades. Three measures of economic health, changes in population median income, and the share of lower-income households in a given market can greatly influence the ability to pursue new water investment. For example, from 2005 to 2015, population increased in 90 of the markets analyzed, increasing demand for services and leading to the potential for additional revenue, but also pressing utilities in Sacramento, San Jose, and elsewhere to meet this new demand and adopt stricter conservation measures.

On the other hand, median household incomes increase in only about half of the cities analyzed here, and even in cities where median incomes rose the share of lower-income households remains high.

Ultimately, and as apparent from this analysis, the highly fragmented, localized nature of the country's water infrastructure makes it impossible to develop a one-size-fits-all approach to tackling its investment needs. Pressed by variety of budget constraints, economic shortfalls, and environmental considerations, many utilities are struggling to maintain their aging assets, adapt to climate pressures, and even fill their workforce

gaps. With that said, the need for regional action and innovation has never been clearer. Each utility must be bolder in its approach and respond to its unique management challenges with a greater sense of urgency to meet user demands, address regulatory concerns, and strive for more efficient infrastructure performance, among other objectives.

By viewing these water needs more comprehensively, developing a more resilient business model, and experimenting with new financial and technical tools such as bonds and other emerging partnerships, cities can begin to tackle their water challenges more decisively. For more information on this research, including rankings for specific cities, please visit brookings.edu.

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DEWS: And now back to my discussion with Ted Gayer about the US economy. Let's look at manufacturing for a minute. One of the most repeated themes on the campaign trail, especially for then-candidate Trump was manufacturing jobs. He talked about it a lot. He talked about the hollowing out of the middle class and what we call the Rust Belt areas. Lots of manufacturing jobs have been lost over the past 10-15 years due to various reasons, but what can you say about whether the Trump administration can make good on its promises to bring back manufacturing jobs?

GAYER: It's a very difficult question. If we just move aside from what Trump can or cannot do to the kind of overarching question, I think there's been a greater and greater recognition, both as a consequence of what the politics of recent years and just a realization even among the economists and the academic community, that there was the neglect of what the consequences are of globalization, and most pointedly, as you

point out, with manufacturing jobs. You had, you know, a transition, essentially, towards a manufacturing economy, industrial economy. You had whole communities that essentially are relocating with the job opportunities that those provide. And then, through various forces of globalization, you get essentially an economic shock, and there's been – in fact I think as we said at this table a year ago, we talked about recent literature where there's been by David Autor and others – about an examination of what happens to local communities that are most exposed to a trade shock, in this case from China.

And, you know, the economics of it is you would expect some dislocation, you would expect a transition period but, you know, in the long run that the benefits of trades are positive. What he's, I think, putting a magnifying glass to is that these are long-term consequences of the dislocation on the labor market, whether or not it’s employment, whether or not it’s, you know, the mechanism through the family, through next generations, some of the social and cultural that present themselves. So these are very sharp and long-lasting, and I think as we've seen have political consequences as well.

The question is what can Trump or any other administration do. The other question is what could have we done different. And, you know, in some sense this is very much the debate that we see now about what's going to happen with the future of work, as we move towards automated vehicles or artificial intelligence. How will that eat into the labor markets and lead to some of these dislocations? You know, I think the policy apparatus of preventing forces of globalization – Trump is going to do as much as he can to hit those brakes – but I think those are limited. And we talked about the Carrier deal where in that case you're talking about a thousand jobs. I mean, how many

jobs were lost in manufacturing in Indiana that month? I mean, a thousand is probably a small fraction of it. So those kind of things I think are maybe politically salient, but aren’t going to make a big difference.

The way I would frame the issue is whether or not it's globalization and the effect of manufacturing; whether or not it's, you know, developing labor market movement towards automation, how do we make our economy more resilient to those kind of changes? As happened with globalization of China's essentially liberalizing and opening up trade, there's only so much the US can do to kind of stop that, or – and I would argue we shouldn't try to stop that, that's a lot of benefits coming from that as well – and the question then is how do we have an economic policy that makes it more resilient so these transitions are not as catastrophic for certain communities as they have been.

The only other little addendum I might add to all this: this there are two points. One is, I think, the notion of using apparatus of tariffs in order to mediate against this I think are problematic. I think they're also pointedly problematic if you wind up with a trade war, which is a possibility. I do think that there's some creativity and innovation coming out of the Republicans’ House proposal on the corporate tax reform, and I don't know what level of details we get into but one of the many things that they're considering there is somewhat revolutionary, which is moving to what they call a destination-based tax system.

And what a destination-based tax system does: it kind of shifts us from taxing the profits of US companies no matter where they’re earned, to basing the tax on profits on where they’re consumed. In other words, goods that are produced overseas and consumed overseas are not going to be taxed. Goods that are produced and consumed

in the US, whether or not it's from a US company or abroad, would be subject to this corporate tax. And essentially what it's doing is in some sense it’s taxing imports but not taxing our exports, and one of the nice consequences of that is it does get rid of some of these incentives – or all these incentives – that we currently have under our current system.

So under our current system, we've seen what we call transfer pricing, which is companies like Apple want their profits to land on their overseas subsidiaries because they don't have to pay tax on them until they repatriate them to the United States, so they can kind of keep them overseas for a while and get a tax advantage. If you're taxing Apple’s tax basis consumption taking place in the US, it doesn't matter where they land their profits, right? So if a good, if an iPhone is sold in the US, that's gonna be subject to the corporate tax, end of story. So that kind of diminishes that incentive. If you're trying to relocate a plant across the border to then produce goods or produce automobiles or whatnot that you sell back in the United States, you're not gonna have a tax advantage under the new plan, because if you're selling in the United States it’s going to be taxed here in the United States.

So there's, I think on the margin, some of these tax proposals and this particular tax proposal does limit the incentive to set up manufacturing overseas, does give an incentive through other aspects of the corporate tax proposal to spur investment in the US and so on. The margins, I think, those are creative. There’s some serious transitions issues associated with them but I think the logic of it makes sense in many ways.

So I think there are policies that one could do to get at the issue that you talked about. I think the long-term trends are such that there's only so much that you can do to

kind of fight the forces of globalization and automation. But I think that's what we'll see going forward

DEWS: Let's stick to taxes for just a few more minutes. What are the kind of reform you think are going to be complicated and could succeed? We're thinking personal income taxes and something you've written about a lot: carbon tax.

GAYER: So, on all of these it's kind of interesting. I think we're going to see tax cuts with a Republican president and a Republican Congress, I think that's what we're going to see whether or not on both on the personal and on the corporate side, whether or not they're revenue neutral – at least proposals that have been put forth are not.

There's an issue of dynamic scoring and how much these tax cuts the lead to economic growth and therefore more revenues so how much of an offset. By most measures it's not enough of an offset, so there's a question of, you know, some wiggle room there. But overall, you're looking at tax cuts and a reduction of revenue. The various forms they take and how much they're going to stick to some semblance of revenue neutrality I think is up for debate and I think, you know, depends on lots of different issues.

So first, there's the issue of the politics of it. So if you take something like the corporate tax reform, what's being proposed in various forms: reduction in the corporate tax rate is one. There's change in the way we treat interest – so right now, interest is deductible from corporate taxation. The proposals to get rid of that deductibility. This way, financing through equity or debt would be equal instead of having an incentive to finance through debt as it currently exists. There's a movement away from having these complicated depreciation schedules and instead have something called fully expensing.

So if a company invests today and they buy a capital good today it’s fully deductible this tax year.

There's this question of repatriating profits that are abroad. As I told you, in the current system, a US company that has a overseas subsidiary; the profits that they earn overseas aren’t taxed until they get repatriated into United States, which is why they take a long time to repatriate. It’s essentially a tax break, and so there's some talk of doing – they call it a one time but we've done this one time before so there’s a credibility issue – one-time basically low preferential tax applied to these repatriated profits in order to get that revenue overseas. The political advantage of that is that gives you a lot of tax revenue today. Over the long term it hurts you because you're forgoing the taxes that would have been coming at a higher rate when they repatriate later.

You know, there's lots of different movements, pieces to this. There’s also the destination-based tax movement towards that which I referred to before. I think there's a political strategy here because, you know, in the Senate you have something called the filibuster as you know, and so being able to pass something that filibuster-proof is always challenging.

DEWS: 60 senators.

GAYER: That's right, you need 60 senators. However, there's something called the reconciliation process, and the reconciliation process is the Senate basically comes up with a budget resolution, “here's what we’re,” you know, “here's what we're gonna spend over the ten-year window.” And then they send it into the committees to essentially come up with particular policies so long as they meet that overall budget. And in that case, you don't need 60, you just need your 51 which the Republicans have.

Now, if they go down that road then they're basically saying “we're not going to make this bipartisan, we're just going to do what we want to do. We can't get enough votes from that side anyway and we're gonna get the 51 votes.” The challenge with that, of course, is it's a little bit of a different process when it’s reconciliation. There are some restrictions on what you can do under reconciliation process. You can't just use it like the kitchen sink approach and throw in every pet project that you want into the reconciliation approach. And then additionally, it's got to be revenue or budget-neutral after the 10-year window, and so that creates a challenge if you're basically doing corporate or individual tax reform that is essentially a lowering of revenues in perpetuity. It's very hard to make that work over the next 10-year window.

And one final point on that is it does lead to bad policy. This is what happened in 2001 when we had the Bush tax cuts. They went through the reconciliation process so you got the Bush tax cuts that essentially existed for 10 years and then went away, because they couldn't make it budget neutral in the second 10 years, so they basically said in “in year 10 it’s gone.” And as you probably recall, we had a whole discussion about the fiscal cliff a few years ago because that was the fiscal cliff. And so, it's not good governance to stick to 10-year windows and make every reform go away after 10 years, but we may be headed down that path.

DEWS: Let's talk about housing policy for few minutes – the housing market more specifically. What do you expect to see in the housing market this year?

GAYER: On housing overall, you know, we've seen a decent recovery in the housing market – again, coming out of the tanking that we had during the great recession. And the last few years we've seen a contribution to GDP from residential

investment: from single-family construction, for multifamily, for renovations, and from the like. So residential investment is increasingly contributing to GDP, we've got about 5-6% price appreciation each year so it's, you know, getting healthier. It's not certainly, if you look, as healthy as the residential investment for example looks compared to during the depth of the housing crisis. It's still a relatively historic lows, and a lot of this I think is tied into what we talked about before.

We haven't seen wage growth, we've had in some sense delayed adulthood, quite honestly. We've had, you know, young adults living in their parents' home much longer than they had in years past, delaying sometimes – and for very good reasons – and extending their education to delay entry into the labor market, getting married later than they have in years past. But I think if you look at the overall picture that there is pent-up demand there. There should be, I think, continued increases in residential investment as it contributes to the economy. So I have, you know, I'm relatively optimistic about the year ahead coming on housing. I don't think we'll get the 5-6% appreciation – which I think is a good thing – that we've had in the last few years: maybe 3 or 4%, you know, and I'm hesitant to be too precise in these predictions. But I think overall we see kind of an improving and a relatively healthy housing market.

DEWS: So kind of thinking big picture again, what are some issues that you think aren't being or won't be covered in the media, won't be talked about in, you know, the halls of Congress or in the administration, but are important enough for Americans to pay attention to?

GAYER: First of all, and this is to give a plug to my colleagues across the

Institution, one of the nice things about Brookings is we have a wide array of expertise and, you know, we have an excellent foreign policy program, for example. I don't think there's a lack of interest or lack of acknowledgement of the key foreign policy interest in the geopolitics and the geopolitical uncertainty that we face today.

I do think one should not underestimate the link between geopolitics and the economy. And in many ways that just gives me a greater appreciation for what they do and the importance of what they do, and a greater desire for us to work together as we try to do because geopolitical events can shape the economy in kind of very drastic and sudden ways, and so I think it's something that economists need to always keep their eye on, and perhaps we don't – you know, we divide between macro and micro broadly in economics. Sometimes we get a little too micro-micro, and lose sight of some of these other issues.

You know, another thing, just to personalize it little bit, something that has occupied my thoughts – and this is, you know, I'm the father of three young boys and so I think it's a little bit of an influence on my thinking, which is – what is the role of technology on what I would call productivity and also consumer welfare or just well-being overall? And this is something within Economic Studies we focused on in the last year. As I said before, if you look at the data, the productivity growth has lagged in recent years and there's a big question as to why that is. I bristle a little bit because some people call it the productivity puzzle, and the puzzle, maybe in simplistic terms is, "well we've got all this technology why, shouldn't we – why aren't we seeing more productivity gains?" And the thing that I think is a little bit under-examined there is, it's

not entirely clear to me that all the new technology that we've had is productivity-enhancing. I'm not a big fan of social media and Facebook.

I'm sitting here in the Communications department so that might be anathema for me to say, so with apologies, but to the extent that you're a fan of it, I think by and large, with absence of communications teams, very frequently it's something people do for their personal interests and for their own leisure time. It's unclear to me that a lot of that is as productivity-enhancing as people might suggest. And again, this gets back into a little bit into my parenting. I have a heightened concentration or concerned with how a lot of these technologies interfere with the ability of people to focus – how they are basically designed to distract your attention.

And when it comes to issues of productivity, being able to sit in a chair to think, focus, and not lose your attention with distractions I think is important. So that's not to say that these things are, on net productivity, diminishing, but I think people are a little too optimistic or unquestioning about some of the drawbacks. And I would also say on personal grounds, it's not just all about the economy. There is a question of are these things good for you, and a lot of the political debate that we've seen over the last few years, I think, has been made more toxic as a result of some of these communications. Again, I'm talking on the margin, I'm not talking about overall, and so on the margin I think it's a little bit a cause of concern, to the extent of the politics gets toxic and the governance suffers, and the economy suffers as well.

DEWS: As a father as well, your comments on technology and distractions and

focus resonate very much, so thanks for that. Well, Ted, let's stop it up this way. If you could implement any one policy idea for the economy right now, this year, what would that be?

GAYER: Oh boy, this is like when you're a kid and you – if you get one wish then you wish for more wishes. I'll try not to do that, but I will try and kind of bundle together what we said before. Some of the goals on corporate tax plan reform and on regulatory reform – and again I speak to the goals, whether or not the implementations will achieve that I think is a much different story – but some of the goals, I think, are noteworthy and goals that I'm talking about when we talk about corporate tax plan is to get rid of some of the incentives to base your location decisions, to do transfer pricing, things like that, to base those kind of decisions – which are not market-based decisions, those are responding to the tax code and tax incentives and so they are inefficient. So the goals to try and get rid of that I think are good goals. The question is, how do you do that without creating new distortions or long-term increases to our debt burden? Similarly on the regulatory front, the goal of trying to make things more rules-based, more transparent, I think, are important goals as well.

So if I had to kind of wrap those all together in one policy, and this is something I've written on in the past – I wouldn't put much weight on the likelihood, politically, of these achieving – but I think in my policy wish list, one can craft a carbon tax which achieves a number of goals. One is, it puts a tax on pollution and says to an extent that these are what we call externalities, that certain things that we produce and consume lead to spillover costs that have societal impacts, that is a failure of the market price mechanism and a way to increase those prices to reflect those costs would be welfare-

enhancing so I think that's a virtue. Two is, it generates revenue and if you make it revenue-neutral you can use that revenue to achieve some of those other goals I talked about such as revenue-neutral corporate tax reform. And so reducing some of the disincentives for investment, for example, can be funded directly through corporate tax revenues, so I think it’s efficiency-enhancing in that goal as well. And three is getting at the regulatory front. Much of our regulatory priorities these days have been on climate change, understandably so, and this is something I think we're going to see a very sharp change in policy under the Trump administration.

But there again, because we haven't had legislation to push on addressing C02 emissions, we've moved towards the regulatory front which is a really poorly designed way in order to achieve these goals and also subject to sharp reversals as we’re about to see, or challenges through the judiciary. And so, I think, some sort of trade where you have a carbon tax to get at this problem – you lighten the load from the regulatory sphere in order to get at the problem and you generate revenues that can be used for corporate tax reform – sort of seems like a win-win-win.

So I think I can convince, you know, a few people of that and maybe quite a number of economists of that. In the current political environment, whether we'll see such a such a proposal – one could wish for it but I wouldn’t take it to the bank.

DEWS: Well, I know there are so many other issues we could have talked about, from healthcare to infrastructure, that affect the economy, geopolitics. I'll definitely have many other Brookings scholars on this show to talk about those issues in the coming months, but I want to thank you, Ted, for spending some time with me today and sharing your expertise.

GAYER: Thank you. It's always a pleasure.

DEWS: You can learn more about Ted Gayer on our website, and also the Center on Regulation and Markets is there: brookings.edu. In his radio address to the nation on July 24th, 1993, four months into his presidency, President Franklin D. Roosevelt reflected on the crowding events of the hundred days, which had been devoted to the starting of the wheels of the New Deal. He was referring specifically to the one-hundred day special session of the 73rd Congress that he had called, and which passed 15 major pieces of legislation, in response to the dire economic situation. The first hundred days has continued to serve as a benchmark for many presidents since Roosevelt.

As President Donald Trump begins his administration, I'll present on a weekly basis a selection of what Brookings experts are writing and saying about the new administration’s early policy choices, personnel decisions, and engagements with domestic and global events. Links to everything and even more content is available on our Brookings Now blog on our website.

In week one, Senior Fellow Bill Galston said that President Trump's inaugural address shows that he is “dead serious” about his campaign pledge to make America great again, and that we all “must hope that the intensity of his commitment remains compatible with the constitutional institutions and norms that even the most populist president always must respect.”

On the economy and domestic policy issues, Associate Fellow Joseph Kane notes that today's unemployment rate for construction workers is near pre-recession levels and thus massive infrastructure plan is unlikely to boost infrastructure jobs. On

February 7th, the Hamilton Project at Brookings hosts a policy forum to explore fiscally responsible policy options for funding infrastructure investments. Learn more at hamiltonproject.org. Devashree Saha and Sifan Liu of the Metropolitan Policy program explain why President Trump has made what they call empty promises to make the coal industry great again, largely because automation has been eating into coal jobs for a long time. Governance Studies Fellow Nicol Turner-Lee argues that Attorney General nominee Jeff Sessions "has a troubling past with regard to voting rights," and that the next attorney general pick "will be more important than ever and the choice will determine whether we truly want to be a nation less divided."

On the foreign policy side, Senior Fellow Daniel Byman considers seven assumptions the emerging Trump foreign policy team appears to hold. On China, Senior Fellow Michael O'Hanlon and Syracuse University professor and former Brookings scholar James Steinberg say that "while there is ample reason to be concerned about trends, we would contend that the state of U.S.-China security relations is a glass half full. It is important that both sides make maximum efforts to stabilize the security relationship, lest tensions in both the economic and security dimensions feed on each other, and the risks of rivalry and conflict deepen."

On President Trump withdrawing the United States from the trans-Pacific Partnership, Brookings Senior Fellows Senior Fellows Josh Meltzer and Mireya Solís say that President Trump's action to withdraw the U.S. from the Trans-Pacific Partnership undercuts U.S. leverage with China and is a "blow to US global leadership in determining the rules for international trade and investment in the Asia-Pacific region." More broadly, Senior Fellow Robert Kagan calls this time the "twilight of the

liberal world order," says that "this new approach in American foreign policy is likely to hasten a return to the instability and clashes of previous eras." You can find the links to all of this content and more on the Brookings Now blog at brookings.edu/brookingsnow.

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DEWS: Hey listeners, want to ask an expert a question? You can by sending an email to me at bcp@brookings.edu. If you attach an audio file, I'll play it on the air, and I'll get an expert to answer and include it in an upcoming episode. Thanks to all of you who have sent in questions already.

And that does it for this edition of the Brookings Cafeteria, brought to you by the Brookings Podcast Network. Follow us on Twitter @policypodcasts. My thanks to audio engineer and producer Gaston Reboredo, with assistance from Mark Hoelscher. Vanessa Sauter is the producer, Bill Finan does the book interviews, and our intern is Kelly Russo. Design and web support comes from Jessica Pavone, Eric Abalahin, and Rebecca Viser; and thanks to David Nassar and Richard Fawal for their support. You can subscribe to the Brookings Cafeteria on iTunes and listen to it in all the usual places. Visit us online at brookings.edu. Until next time, I'm Fred Dews.

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