THE BROOKINGS INSTITUTION
FALK AUDITORIUM

STRENGTHENING THE SAFETY NET TO MITIGATE THE EFFECT OF FUTURE RECESSIONS

Washington, D.C.

Monday, May 23, 2016

PARTICIPANTS:

Welcome and Introductions:

ROBERT E. RUBIN
Co-Chair, Council of Foreign Relations
Former U.S. Treasury Secretary

Fireside Chat:

LAWRENCE H. SUMMERS
Charles Elliot University Professor, Harvard University
Former U.S. Treasury Secretary

SHAUN DONOVAN
Director, Office of Management and Budget

Roundtable: Policy Options for Strengthening SNAP and TANF:

Authors:

HILLARY HOYNESVIVIAN HOFFMANN
Professor of Public Policy and Economics,Haas Distinguished Chair in Economic Disparities
UC Berkley

JAMES P. ZILIAK
Director, University of Kentucky Center for Poverty Research

Discussants:

SHELDON DANZIGER
President, Russell Sage Foundation;
Distinguished University Professor of Public Policy Emeritus, University of Michigan

THE HONORABLE JIM MCGOVERN (D-Mass)
U. S. House of Representatives

ROBERT GREENSTEIN
President and Founder, Center on Budget and Policy Priorities

Moderator:

DIANE WHITMORE SCHANZENBACH
Director
Hamilton Project; Senior Fellow, Brookings Institution

Roundtable: Leveraging Fiscal Policy to Mitigate the Effect of Future Recessions

Author:

ALAN S. BLINDER
Gordon S. Rentschler Memorial Professor of Economics and Public Affairs, Princeton University

Discussants:

CECILIA MUNOZ
Chair, The White House Domestic Policy Council

ALICE M. RIVLIN
Senior Fellow, The Brookings Institution

MARC H. MORIAL
President, National Urban League

Moderator:

ROGER C. ALTMAN
Chairman and Founder, Evercore

P R O C E E D I N G S

MR. ALTMAN: Good afternoon everybody and thank you for joining us. I am Roger Altman and I am standing in for Bob Rubin who always does these introductions so I assure you mine would be better than his would have been but I am pleased to welcome you here today for this discussion on strengthening the safety net to mitigate future recessions.

It's a vital topic because the great recession and the large fiscal policy response to it provides invaluable perspective as to adjustments and improvements and changes which might be made in connection with the fiscal policy response to the next recession and of course, the next recession is a matter of when, not if.

We have a group of extraordinary participants to discuss this today so I won't comment on the program itself. You're going to hear much better commentary than I could possibly provide. I am just going to make three brief introductory comments.

The first is that today's program embodies the purpose of the Hamilton project very well.

The Hamilton project now is ten years old and its overarching goal from the outset has been to eliminate and promote policies favoring inclusive growth and the Hamilton Project's approach of bringing together thinkers and policy experts and commissioning the best peer reviewed independent papers, free of ideology and politics with the purpose of supporting serious policy development.

Secondly, while there is considerable dysfunction in Congress today that has occurred periodically throughout American history and despite pessimism at those times, and today, in the past, those periods of dysfunction have improved to be a permanent condition so hoping this one won't either, it's important that the serious policy community, including the Hamilton Project, develop the thinking and the work products which can form the bases for action later and third, while today's program addresses automatic stabilizers and the safety net and circumstances under which they might be expanding.

It's important that we not completely lose sight of the country's long term fiscal trajectory, which has not improved. Finally, let me thank the Hamilton Project leadership. Diane Schanzenbach, our director, Kristen McIntosh, our managing director, Ryan Nunn, our policy director and the entire staff for putting this program together.

We'll now begin with a discussion between Larry Summers and Shaun Donovan as moderated by Eduardo Porter. No economic thinker is in greater demand today than Larry is and it's wonderful that he could be here today. And Shaun, of course, first joined the Obama administration as HUD Secretary, now is OMB Director and I imagine if there was such a thing as a third Obama term, he would probably become Vice President.

We're also fortunate that Eduardo Porter of the New York Times is with us to moderate this. I find Eduardo's columns not just must reading but compelling reading so it's great to have him too and let's begin. I am going to invite the panelists to the stage.

(Applause)

MR. PORTER: Good afternoon, thanks for coming. So we are here to chat a bit about how to mitigate the effect of the inevitable future recession that will come about. And we have perhaps some of the most interesting people to hear chat about this. You guys were in the room when you were debating how to address the effects of the last one and you've been thinking about this ever since so questions that arose then, should the stimulus have been bigger?

Was it politically naïve to be as small as it was? Should it have been structured differently? Are questions that you guys have given a lot of thought of and critically now, at this moment, when interest rates are near zero and the Federal Reserve is arguably out of ammunition, were another cyclical downturn to hit us, we're already seven years into the recovery that we've gotten so maybe this prospect is not that far down the line.

How should we prepare for this event? Is there anything that we should be doing now in terms of preparing say the fiscal toolkit and I know later on Professor Blinder is going to be presenting a specific paper on how perhaps to think about a fiscal response.

There is this critical question of how to address the next downturn and what are the tools that we have and how can we reignite growth but there is also another very important question that is also going to be talked about later today that I hope we can turn to now is also about how to protect the most vulnerable when the next recession hits? And the experience that we've had of this one, to my mind, suggests that our social safety net really needs some redesigning.

The last major redesign, which happened in the mid 1990s in an era of very robust economic growth and full employment, clearly did not serve a large chunk of the population when the employment situation turned sour and so you see and you will hear later today about how the most disenfranchised were really left out of a lot -- out of assistance, as it were and the programs that we have missed too many.

So in any event, I think let's start -- I would like to start with first asking a question for Shaun that you know, you were, as I said, in the room when it went down, what can you tell us about what worked and what didn't work that might help us think going forward?

MR. DONOVAN: So let me just start with a simple point, which is that it did work and worked better than I think many people recognized, certainly in our popular reporting about it and our -- the average American's thinking I think the recovery act but also most broadly, the response, were profoundly important, whether you look at the nine million job hours that were -- job years that were preserved and created, whether you look at the nearly ten points of cumulative GDP that were added, you're looking at overall a response that was quite powerful.

Second, when you focus on the most vulnerable, the recovery act alone was, in our estimates, about four to five and a half million people who were saved from falling into poverty as a result of the recession and I think oftentimes what we miss, we tend to focus on the recovery act, was it big enough? Was it -- there were 12 additional measures that were passed beyond the recovery act that took us to a total response that was about 1. 4 trillion dollars and so particularly as we look back and understand the political will to do something like this again. I think it’s profoundly important that we have discussions like we are today and that we help the American people understand that this set of policies, wherever we may argue around the edges, were profoundly important in avoiding another great depression.

The second thing I would say in the debate about was it big enough, what could be different? We often talk about the recovery act again, could it have been bigger. The fact is, if you think about the Hippocratic Oath, first do now harm, one of the most profound mistakes, I think, was Congress shifting toward austerity and a set of manufactured crises that hurt the economy so if you look at the combination of sequestration and the government shut down, you are looking at likely over a million jobs lost as a result.

CA's estimates if you combine them about a point of cumulative GDP lost and it is enormously important, I think, that we learn those lessons that shifting to austerity was a substantial mistake in the aftermath of the great recession. The third point I would just make, shifting a little more to the specifics of the conversation that we're having today is that particularly at a time where the politics arguably are even harder to do what we did in the aftermath of the great recession.

The automatic stabilization that can be provided in the safety net is even more important and if you think about scale, automatic stabilizers roughly doubled the response so from about 1. 4 trillion to 2. 8 trillion so already enormously important in the overall response but many, as you just laid out were not as adapted as they should have been and to be very specific to, we think, important budget proposals we made this year were in unemployment insurance and also in TANF. In unemployment insurance, we need a system that has extended benefits built in much more automatically and our proposal was that based on unemployment rates in states, that we allow up to 52 weeks automatically of extension of UI but I think we also have a set of proposals that are forward looking in terms of employment in the ability to do job sharing and also in terms of creating a system where we can set up wage insurance much more comprehensively across states. On TANF and I am sure this is going to be talked about later on today, you have seen a dramatic decline in the share of population that’s covered in states under TANF and the share of limited funding that is actually going towards the most important core benefits so our proposal would both mandate a share of those benefits going to core services, create a fund that would be available, again automatically to states that have higher unemployment rates and third, starts to experiment with subsidized jobs in a way that I think is important for the longer run, chances that we have or recovering under the recession so those are two specific areas where I think it’s particularly important that we look at the safety net and its ability to be an automatic stabilizer in the next recession.

MR. PORTER: Great, thanks. Larry, turning to you and perhaps turning more decidedly towards the future, how should we think about setting ourselves up for the next downturn and if you would address kind of the political limitations as Shaun mentioned right now with the political situations it’s probably even more difficult than it was then. Is that an impossible obstacle to surmount?

MR. SUMMERS: Let me first say that in general I would agree with almost everything that Shaun said. I thought Alan Blinder’s paper on macroeconomics and fiscal policy was incisive and I largely agree with it and while I am less knowledgeable about it, the paper's assessing the counter cyclicality of social insurance programs, I would strongly associate myself with it as well.

The first thing I want to say actually refers to something that Roger said. Roger referred to periodic episodes of Congressional dysfunction in American history and he was right. I do not think we have had a comparable episode at least in the last century to demagogue Donald and the threat that he represents to the kind of reasoning that this panel is all about and as important as the issues that we are discussing, I thinks stopping creeping ignorant fascism from ascending to the White House is an issue that dwarfs all of that.

With respect to the macroeconomics, I think Shaun is right to take credit for the administration from preventing the depression that could have been and it could have been something that looked like the 1930s but I think it's a mistake -- somebody help me with this -- I think it is a mistake to be too satisfied with where we have been. If you look at --

nevermind, I'll do without it. If we look at the period from 1929 to 1940 and what happened to GDP per adult American and we look at the period from 2008 to 2019 as best we can judge it, it is equivalent. In other words, the 11 years after 1929 will have been no worse in terms of the end point to the 11 years that we have just been through.

In that context, in that -- in that context, it is a mistake to be too satisfied with where we are. It is a mistake to distinguish too sharply between recovery, which is good, and recession which is bad which we are not in right now. The reality is that fiscal policy is going to be central for our economy over the next decade in a way that has not been the case since the Second World War

This looks at the data on cyclicality, a reasonable conclusion is that the odds are better than 50/50, the conservative conclusion that we will have a recession within the next few years. Economists debate whether recoveries die of old age, assume they don't and then the conclusion is that there is between a 20 and 25 percent probability every year that they will go into recession into the next year, that makes it better than 50/50 for three years -- within the next three years.

What does the Fed normally do when that happens? The Fed normally cuts interest -- cuts real interest rates by 5 percentage points. Is it conceivable that there is going to be room to do that, even maybe allowing for QE, even recognizing that maybe rates could become negative 50 basis points? I submit that it's not and I submit that people have been wrong about the Fed as this picture shows, enormously consistently for the last seven years and so we are in a different world with respect to thinking about fiscal policy, both because of the growth problem the economy has now and because we don't have much in the tank with monetary policy for the next recession.

Or to put the point differently, even leaving the question of the next recession aside, it is seriously questionable how well the economy will function with growth that is propelled by the financial activity that is generated by interest rates of just above one percent and that's where markets are now saying interest rates will be two years from now on the path that we are on and so changes in the fiscal monetary mix are essential, are the only tool available when the next recession comes and I would submit that they are desirable right now.

What are the crucial elements of changing the fiscal monetary mix I would highlight for? One, the only one I have a slide on is a substantial increase in public investment. It is insane that federal investment and infrastructure net is now negative at a moment when interest rates have never been lower and ten year real interest rates are essentially zero and precious little good is happening at the state and local level either.

Second, strong support for social insurance. When Keynes came to the United States in 1942, he pointed out that an important virtue of social security was that it could absorb the excess savings that would potentially hold back U. S. economic growth after the Second World War. Those considerations were not relevant in the succeeding 60 years but they potentially are relevant in our current period of secular stagnation.

Note that an expansion of pay as you go social security does not raise the annual budget deficit but in every economic model, contributes to raising aggregate demand by enabling households to be able to look forward to more secure retirements. Third, there is a strong case for assuring that we are doing what we can to promote housing investment. We are managing the cycle in the worst way possible from the point of view of housing. We got all the people, all of the lower middle income and poor people into their own houses when the price was going up and was a bubble and then when the price plummeted, they all sold to private equity firms who rented the houses out at a ten percent yield and earned tremendous capital gains.

This is exactly the wrong moment for support for housing to be at a minimum rather than a maximum and we should be doing much more to promote demand by promoting housing and fourth, and related to my first point, this is the moment to be maintaining the infrastructure we have now. The one thing we know, if you look at airports, if you look at highways, if you look at the water system of Flint, Michigan, it is much more costly to defer maintenance than it is to do maintenance promptly. It is every bit as much a deficit of places, a burden on my children's generation to defer maintenance as it is to issue paper debt and I promise you that the costs compound far more rapidly with deferred maintenance than they do with the 13 basis points that represents the real interest costs of current long term federal debt.

Now, and with substantially more intensity, when the next recession comes, maintenance, infrastructure investment, promotion of housing and strengthening of people's confidence in social security, these are the priorities. Roger referred to our long term fiscal picture. I am here to tell you that the most important determinant of our long term fiscal picture is how successful we are at accelerating the economy's growth rate in the next three to five years, not the austerity measures that we implement.

Anyone concerned with our long term fiscal health should be redoubling their focus on the currently inadequate growth rate that leads us to have performed no better in the 11 years since the crisis than we did in the 11 years after 1929.

MR. PORTER: Well -- and yet -- let me kind of re ask this. After the next election, we are likely to have a very similar House to the one that we have today so how -- say this is indispensible but do we get it or are we just -- is there this disconnect between what we need and what we get kind of going to persist?

MR. SUMMERS: Look, I am an economist, not a politician so I am not going to forecast the politics but I guess my observation about the politics would be that we need to move from a politics of either or to a politics of both and. I stress some of the problems that I think are most important but I actually think the argument that there are changes in the corporate tax code that would stimulate investments has some validity. I think the complaints about excessive regulation that hold back small and medium sized business have some validity so I think what we need to do -- I think there are a whole set of issues around stimulating private investment that warrant attention as well and so I think what we need to do in many ways is adopt the democrat's ideas for promoting demands and some of the republican ideas for promoting demand.

Look, I believe passionately in more infrastructure investment but the concerns that government doesn't do it so well, they are not stupid concerns.

There is a bridge right outside my office. For all those that have been there, it connects Harvard Square with Boston. The Bridge is 232 feet long. It has been under repair with traffic blocked for four and one half years. It took 11 months to build the bridge the first time. Julius Caesar built a 900 foot bridge over the Rhine in 9 days. Now, you can explain that in terms of a variety of environmental requirements, historical commission had its say. The people that think that as part of strengthening infrastructure investment, we need to do something about those barriers, they're actually right.

And so the answer to your question is that we need a strategy that moves beyond shibboleths of both parties. There will be a tendency in this room to emphasize the moving beyond the anti government shibboleths but there is also a need to recognize that government can function in a variety of ways better and that there are a set of things that can be done to empower the private sector.

I think that's actually right and even if it was not completely right, I think if you ask what is the political strategy for causing something to happen, that is the political strategy for causing something to happen. You're not going to get a commitment to a public sector led fiscal policy strategy without also having a strategy that is about recognizing that there are a set of issues about private sector activity and private sector investment.

MR. PORTER: Shaun?

MR. DONOVAN: So first let me say, I was wondering as I walked up here where exactly the fire was exactly in our fireside chat, now it's been answered so -- and I am happy to be sitting next to it so but I also -- Larry is exactly right, I actually drove across that bridge just last week and was wondering why it had been under constru -- I thought maybe it had been rebuilt twice since the last time I saw it but conversely, it is all -- because I agree with Larry completely and in fact, one of the things that I love about my role is the M in OMD which is the management piece of the work we do in government and I think there is a trust deficit, in some ways more than there is a fiscal deficit in the country.

On the other hand, it is incumbent upon all of us I this room, giving the leanings that Larry has talked about tha when things do work, that we figure out how to tell the damn story about how they worked and that is why I started with what I did, which is the fact that by and large, the recovery worked and -- could it have been larger? Yes. Could it have done more? Was it perfect? No. But it did work and you've told that story, right, as a journalist but all of us, I think have to figure out how to get beyond what is a particularly atomized media environment where it has always been -- I often say -- you know, the saying no news is good news well good news is no news, right? And how we get beyond telling the story when things are actually working, the recovery act but more broadly the work that we did at that time. We need to tell that story and all of us need to figure out how to tell it.

MR. PORTER: Of course, it's always the media's fault. Perhaps we can move to the element of social insurance that you mentioned a moment ago and one of the criticisms that has been made of the system that we had in place, TANF in particular and the combination of TANF and the year and income tax credit was that it was so geared to work, to incent work and to reward work that it really malfunctioned when there was no work to be had so the idea is that is there a case to be made -- what is the case to be made to kind of create a system that is less dependent on work and there is an idea that has been making the rounds recently that has the support of even some people on the right which is called the universal basic income which totally is disassociated from work and I wonder, is there a case to be made for that given the reality we're in.

MR. SUMMERS: There is a case to be made for everything but as a near term and as a long term response to a world where technology changes profoundly, maybe. As a relevant response to current problems in the current context, I think not. The core problem with the universal income is that how do you finance it as Bob Greenstein was shrewdly pointing out at lunch, if you give 5,000 dollars to everybody, that's 1. 5 trillion dollars now the right wing view of that is that you're going to get that money by cutting all the existing needs tested programs which means that some of the poorest people around are only going to be getting 1,500 dollars so that you and I can get our share of the universal income. I don't think that's a very good idea. If you try to finance it differently, then it gets extraordinarily expensive.

The basic truth is that giving people benefits does influence their behavior. That there are a large number of people in our society, little children, people who are 75 years old, people who are disabled who aren't going to work no matter what so you don't have to worry about the incentive effects and therefore it makes sense to give them a lot more money and then you can prudently afford to give to people where there are going to be large incentive effects so I think that there are a variety of incremental reforms that would broaden eligibility for various existing programs that I would support but I think that the universal basic income is one of those ideas that the longer you look at it, the less enthusiastic you become, you know.

My stepdaughter took time off from college and over the summer to work on her novel and I thought that was a good thing for her to do. She would have qualified and would have automatically received the universal basic income. There are a large number of cases like that and I think we have to be very careful in going in that direction.

MR. DONOVAN: I think one of the interesting opportunities we have right now as we think about our general reaction as a country to support and I think it is -- it's not just about those who aren't working, to Larry's point, it's a more narrow group of working age, able bodied folks and their work and their access to the benefits.

We have always, I think, been able to see in the research work that's been done, the short term incentive effects that Larry is talking about. What we haven't been able to see is the multi-decade impacts of those programs until recently with the advent of bigger data, really interesting work that's been done by folks like Raj Chetty and others which is showing that literally over decades, you are seeing improvements of a third to a half in lifetime earnings from things like housing vouchers or others so I do think it's important that we are able to re look at these and understand both the short term costs that there may be and how to design around those but also the enormously powerful difference in long run effects and I think again, if we can do that research well and tell those stories well, I do think there's an opportunity to begin to reshape both the view of whether the safety net programs can have an impact on longer term on the outcomes for people but also frankly on costs because if you think of the costs of someone not working, if you think of all the attendant healthcare, criminal justice and I can go down the list, impacts from those costs, the truth is that these investments may actually pay for themselves multiple times over if we design them well and I think that is a change from what we have seen in prior decades that that research is beginning to tell us something that's quite powerful

MR. SUMMERS: Alan Blinder will be able to talk more knowledgeably about this than I can but if you ask what is a huge source of perverse procyclicality, it is state and local budgets and it is the state and local safety net which gets cut because there are more poor people and there is the same amount of money and there is less tax collection and you have to have a balanced budget every year. There is the state and local investment that gets cut.

What was the least popular part of the recovery act? The grants made to state and local governments because as Rahm colorfully explained to me, let me see if I understand this, you're saying that our big thing should be one government giving money to another government and that's your idea of popular policy. I said my job is to say what the right policies are and your job is to sell the policies, Rahm but there is a point there and that is as we think about the right response, thinking about this federalist dimension on the safety net programs because a lot of the safety net is state and local.

Thinking about it on the public investment because a lot of the public -- most as you saw in my chart, most of the infrastructure investment is in fact state and local and I think that is a crucial aspect that we devote too little attention to in part because different people are different I supposed but when you say the words fiscal federalism, it's not something that makes most people's blood boil and draws a vast audience to your forum and all of that but it is actually hugely important.

MR. DONOVAN: And you think we have problems in our legislature right?

MR. SUMMERS: Right.

MR. DONOVAN: Look at those state and local legislatures these days.

MR. PORTER: So it's time I think to open this up to questions from you guys and here's one that I am really interested in hearing. Really, how is there anything that we can expect still from the

Federal Reserve in terms of unconventional policies? Rates are at zero, we are already QEd out but negative interests like the European have tried, having Janet Yellen put a lot of money on a jumbo jet and like spreading it over the country. I mean is there space still for really more unconventional policy making and could that have any traction?

MR. SUMMERS: In my view it's trying beats not trying as a strategy and so I've written, no secret, that I think the risks on the slowdown disinflation, deflation side dwarf those on the accelerating inflation, overheating economy side and that that insight needs to inform Fed policy going forward.

I think there is a debate that reasonable people could have so whether there is 50 basis points more of stimulus available or counting in the effect of all the measures or whether there's 150 basis points available. I don't see how anybody could make a case that there were 250 or 300 basis points available and that means I don't see how anybody could make a case that there was nearly enough to respond to the next recession.

I say that because if you think about the different tools, forward guidance, well that lowers people's expectations of future rates but people's expectations of future rates are already extraordinarily low. QE, well that reduces term premiums. Well term premiums are already extremely low. Negative rates, maybe, but negative 75 would be an extremely negative rate and there are lots of reasons to think that the lower you get on rates, the lower the marginal impact is so going down probably encounters diminishing returns.

Helicopter money, hear me. Helicopter money is fiscal policy. There is no such thing as helicopter money that isn't fiscal policy and by the way, in today's world where the Fed pays interest on money, it's the same thing as fiscal policy because a bit of reserves held at the Fed paying a quarter of a percent interest rate is -- or half a percent interest rate is precisely the same thing as floating rate government debt in terms of all of its economic impacts so yes, I am for it. I think it's distinctly suboptimal as stimulus because I think monetary stimulus raises risks of bubbles, financial instability, encouraging leveraging, reaching for yield and all of that, that's why I would prefer more expansionary fiscal and more contractionary monetary today and that's why I think the principal tool has to be fiscal in the future but yeah, you can get more out of monetary policy but not lots more and a significant part of what you get is beggar thy neighbor because it works through exchange rates and to shift demand.

MR. PORTER: All right. How should our thinking about this be -- how should we take into account this kind of like long term prospect of extremely low growth? I think there is the cycle that's layered on top of it but you're layering a cycle on growth that is two percent a year, perhaps less due to long term factors like aging population, low productivity growth, at least by the standards of the mid-20th century. How does this change your thoughts or affect the strategy say.

MR. DONOVAN: If I can say, this is one of the particularly crazy things about not having done immigration policy. Two rarely does immigration come up in debates about our fiscal standing as a country. The fact is that the math is simple on our demographics, right? We are going from about 3. 6 workers per retiree to, within the next decade, 2. 4 workers per retiree. How do you solve that? More workers and immigration is the single most important thing that we can do on that front.

It’s, over the next 20 years, a trillion dollars in deficit reduction. If you just took the Senate comprehensive immigration reform bill so certainly one answer to that and this is not a worldwide answer, this is a U. S. answer, is immigration reform.

MR. PORTER: Larry, do you want to hit it?

MR. SUMMERS: First, it’s a big deal and if you want to understand why demagogue Donald is doing what he’s doing, the dismal rate of growth that we’ve had and that appears to be in prospect has to be the single most important factor in the broad environment that's causing this to happen at this moment. Second, some of it is probably inevitable. There are demographic changes that aren't going to get changed. That aren't going to get changed quickly though Shaun is completely right about immigration reform, some of it probably has to do with -- I don't exactly agree with Bob Gordon on everything but his basic point that you can sort of only invent the automobile once, you can only invent electricity once and once you have those things, you sort of have them and it's kind of hard to do something better.

There's a basic truth in that as well and I think the people that say we are not measuring a bunch of the productivity growth we have, I think those people have a good point too but are we pursuing the things that would constitute a growth agenda whether it's immigration reform, whether it's family leave to support increased labor force participation, whether it's tax reform to motivate more investment to take place at home, whether it’s regulatory policies that are devoted to spurring growth, whether it’s building an adequate public investment infrastructure, we are not in a large and concerted way doing any of those things and so I think that there is every reason to think that with an available program, we could raise the growth rate by half a percent to one percent over the next ten to fifteen years and that would do more for the national debt for our national security, for our capacity as a nation to be generous to the poor than any other single thing so I think the failure of slow growth to have a central place in our politics, even on both sides of the debate is alarming.

MR. PORTER: So we’re almost there, I would just like to throw in one last question. It’s kind of been a bit of a provocative question here from the floor for Shaun and it is what Presidential policy proposal do you see as being the most detrimental to the economy?

MR. DONOVAN: Having just gotten the Hatch Act briefing from my general counel in the last few weeks about not being able to comment on political campaigns, I will turn that question over to Larry. Or I could take it back.

MR. SUMMERS: Look, I think it’s a -- I don’t actually -- yes, I mean Donald Trump’s tax policies do not add up in a way that is hugely disproportionate to the way Presidential candidates’ tax policies frequently do not add up. Yes, the wall is kind of a ludicrous policy with respect to international economic engagement but I actually think the biggest thing is not in policy proposal. It is the sense that every citizen and every business is going to be subject to arbitrary exercises of power by the executive branch.

The first time in my adult lifetime, and I would submit well before that, I think the kinds of concepts of political risk, repudiation of the debt because it’s inconvenient. Prosecution of newspapers that take undesirable positions.

For the first time, the kind of political risk issues that multinational companies hire experts to assess, when they think about an Argentina or a China are now real and live issues with respect to investment in the United States and I think that's the greatest threat to our prosperity.

MR. PORTER: Yup, well with that, we have to end it here. Thanks a lot. There is something coming up next.

(Applause)

MS. SCHANZENBACH: Welcome back, I am here to moderate -- I am Diane Whitmore Schanzenbach. I am the Director of the Hamilton Project and I am here to moderate our second panel. It's the discussion on policy options for strengthening SNAP and TANF. We have a terrific panel here today.

Per Hamilton Project style we don't -- I won't read in great detail all of the bios. Those are in your program but I will just briefly introduce and we are starting in the end with Congressman Jim McGovern who represents the second district of Massachusetts. He has been serving in Congress for over 20 years. He is tireless in his work for the poor, for example as the co-chair of the Congressional Hunger Caucus. Next to the Congressman is Bob Greenstein, he’s the president of the Center on Budget and Policy priorities and he is a widely regarded expert on the federal budget and a range of domestic policy issues, especially relating to poverty.

Next to Bob is Sheldon Danziger. Sheldon is the President of the Russell Sage Foundation and he is a professor emeritus from the University of Michigan where he had an extremely distinguished career in studying poverty.

Next to Sheldon is Hillary Hoynes, she’s the Haas Chair in economic disparities at the University of California at Berkley and is one of our proposal authors today and then next to me is Jim Ziliak, he’s the Gatton Chair and the founding director of the center for policy research at the University of Kentucky.

To start off, I’ll introduce our two authors -- I’ll invite them to go up to the podium to give a brief overview of their policy proposals so Hillary?

MS. HOYNES: Thanks, Diane. I am here to talk about a policy proposal with my collaborator, Miriam Bitler who is also here today. From its introduction in 1935 and up through the mid-1990s, aid to families with dependent children or AFDC was a central feature of the social safety net providing cash benefits to low income families with children. It's not been almost 20 years, come the end of this summer since the federal welfare reform beginning with state waivers and culminating in the federal welfare policy past in August of 1996 so where we sit today is our proposal in evaluating and considering where the TANF program, which is now what AFDC has been converted into and where that program sits today so as a brief overview, the key features of that federal welfare reform legislation where number one, a fixed nominal block grant in funding the program to the states, requirements that individuals spend at most five years in a lifetime on the program and many states implemented lifetime bans much much lower than five years. Work requirements, financial sanctions for failing to adhere to work requirements and another great deal of flexibility in setting eligibility and benefit rules and as I'll talk about in just a minute, the utilization of how those dollars are spent in the state.

So in the short term, what we saw and what there is much agreement on is that the period in the first five to seven to eight years after federal welfare reform legislation was a period of a strong labor market, the decline of welfare, the expansion of the earned income tax credit and following that an incredibly increase in the employment rate of low education, low skill, single mothers with children and an increase in the wellbeing of those families.

And what I want to talk about is what we've learned since then so what we know from our evaluation of the last 15 to 20 years now, sitting from where we are in 2016, are four findings about the status of the program. The first finding is that TANF no longer acts as an automatic stabilizer so we point out that prior to welfare reform, as you can see on this graph, TANF or what was then AFDC operated as a counter cyclical program rising in periods of declining employment and falling in periods of increases in employment.

However, beginning in the early 2000s that link very much weakened and severed. And you can see very strikingly in the great recession but beginning much earlier than that in the early 2000s as the number of single mothers who were not employed increased, the light green line, we saw not a response upwards but instead a continuation of the decline in the welfare caseload through that period and markedly through the great recession with the massive increases in unemployment and declines, not increases in the welfare caseload.

So number one, the policy is no longer providing counter cyclical or automatic stabilizer role. Number two, quite apart from the recession, more generally, TANF's reach has dramatically declined so what you see in this graph here is that the effectiveness and the policy reaching needy families has declined dramatically so on the eve of welfare reform in 1996, 72 out of every 100 families with children who were poor received cash assistance through AFDC and that, as you can readily see on this graph has steadily declined up until the point today or in the most recent year of data, only 26 out of every 100 poor families with children are receiving cash assistance through TANF.

Number three, post welfare reform states have tremendous flexibility in how they spend their block grant from the federal government. They have flexibility in the programs and services that are utilized by those resources and there is tremendous flexibility in which households receive the benefits of those services and what we know from that is that a very small share, 25 percent of the federal block grant and the state spending goes towards cash assistance. When this used to be virtually the entire use of the federal resources and as you can see on this map, there is a dramatic amount of variation across states in that pattern so the lightly colored states on the map are states that spend less than 10 percent of the TANF block grant on cash assistance which we -- those of us who have been studying these programs for a long time view as being the core source of use of this program.

What is not clear here but I'll just mention in passing is that it's also the case that the utilization of these services outside cash assistance moves much further up the income distribution than the sort of most disadvantaged that were the main recipients of the program prior to welfare reform.

And then the fourth observation about the state of the TANF program today is a natural implication of a fixed nominal block grant is that over time, the value of that block grant in real terms will decrease and that decrease has been marked at about a third of the value of the block grant today as it was in 1996 and that's not accounting any way for population growth, growth in the number of poor children, which is also going on in the background so with that, I want to tell you briefly about our proposal that we will continue to talk about when I get back to my seat.

Number one, expand the reach of TANF by putting in requirements that states spend at least 25 percent of the block grant on cash assistance and at least 50 percent on what's called core services of cash, childcare assistance or work requirements and requirements that the spending is limited to households with income not above 150 percent of poverty.

Number two, we know very little, surprisingly little about where these benefits of TANF are going in the income distribution and so we introduce some accountability requirements to get better information from the states about what they are doing and where in the income distribution the benefits are going.

Number three, make TANF more responsive to economic downturns through two sort of automatic policies. Number one, putting the work requirements, time limits and the state work participation rate rules that they have to meet on hold during periods of economic downturn and number two, building on the widely viewed as successful policies as part of the stimulus package, implement an automatic emergency fund to increase block grant spending during periods of economic downturn to facilitate a better automatic stabilizer role and finally to restore and preserve the value of the block grant so I look forward to talking more after Jim’s comments.

MR. ZILIAK: Good afternoon. The Supplemental Nutrition Assistance Program or SNAP is a cornerstone of food assistance in the U. S. , serving one in seven Americans in fiscal year 2015. The program provides monthly benefits to eligible households that are redeemable for purchases of foods that are to be prepared in the home.

Research has shown that SNAP is a remarkably effective program at alleviating food insecurity among adults and children, lifting families out of poverty, especially deep poverty and improving health outcomes across the life course and smoothing consumption and income changes across the business cycle.

Despite the success of SNAP, millions of Americans remain food insecure, some of whom face a double jeopardy of poverty and the intended challenges that it imposes on family life. Even those who are able to attain food security may not be able to afford a diet that is appropriately and nutritionally adequate. A key reason for these shortcomings is that the benefit level is insufficient because the maximum benefit amount is based on an increasingly unrealistic market basket of food.

In response to this, today I am proposing a three prong approach to modernize and strengthen the snap program by changing the way the snap benefits are established. The maximum snap benefit is anchored to the Thrifty Food Plan or the TFP. The TFP is the lowest cost plan that the USDA designed to outline the types and quantities of foods and the attending cost that people can purchase and consume at home in order to obtain a nutritious diet.

It was first established in 1975 and most recently revised in 2006. As I outlined in my proposal, there are four main challenges to the TFP as currently implemented. First, the central assumption of the TFP is that households have effectively unlimited time to prepare food at home. This follows from the fact that the TFP ignores the price of time and food production.

In a seminal paper 50 years ago, Nobel laureate Gary Becker established the microeconomic foundations of household productions, namely that the consumption of food entails both good you purchase such as vegetables, meat and dairy as well as time to shop, prepare and clean up after meals.

Just like the price of vegetables and meat at the grocery is not zero, the price of time spent in food preparation is also not zero. Thus, as the price of time goes up, households substitute more away from more time intensive food items to more expensive but more convenient food items but the TFP shuts down the market of time and does not allow households to make that substitution. This assumption of time has no value, is increasingly disconnected from the changing norms in food production and for that matter with changes in family demographics and work expectations and recipients. The figure shows how women's time on meal preparation and cleanup has changed over time.

Studies estimate that 13 to 16 hours per week are required to prepare meals in accordance with the 1999 TFP. For the reference, households of four persons or roughly two hours per day. This is well outside the bounds of time spent in food preparation of nearly all households in modern American society and as the figure suggests was even outside the norm at the advent of the economy food plan in the 1960s. Today, the typical non-working household spends one hour per day in food preparation and working households about 30 minutes per day, including working households that receive snap.

Although I believe that failure to account for the value of time is a great shortcoming of the TFP, there are several additional factors leading to the inadequacy of the SNAP benefits. These include, one, the requirement of constant costs across TFP revisions which implies that once food price inflation is accounted for, the real benefit today is the same as it was 40 years ago when the TFP was introduced. Two, the assumption that food prices are constant across the lower 48 states and the District of Columbia, which implies that the maximum benefit in Lexington, Kentucky, where I live, is the same as in Manhattan, defying evidence of substantive geographic variation in food prices and third, the selection of a sample for measuring consumption of prices for input into the TFP.

Currently, the TFP consumption profile is based on items consumed in the sample of low income individuals with incomes less than 130 percent of the federal poverty line. This results in an overly disadvantaged sample and a bias towards too low spending and this too low of TFP benefits. So in response to these shortcomings, I propose a three stage approach to reforming the TFP. The first stage is introduce an immediate 20 percent adjustment for the value of time. Ignoring the cost of time artificially reduces the price of the TFP and as a result, the TFP is inadequate to purchase and prepare its market basket for all but a small fraction of recipients.

A four person household in fiscal year 2016, the maximum monthly benefit would increase from 649 per month to 779. Notably, this still places it ten percent lower than the next highest plan produced by the USDA.

The second stage of my proposal is to more comprehensively reform the TFP. That in addition to incorporating the time inflation factor, would relax the constant cost assumption. It would introduce geographic price adjustments and it would change the reference consumption sample underpinning the TFP.

The dietary guidelines direct consumers towards consumption of fruits and vegetables, whole grains and lean meats and fish. Often, these items are more expensive compared to more refined and processed foods and in more limited supply for households residing in rural locations as well as some of our urban communities. The constant cost assumption works at cross purposes to the general notion of updating the TFP, using more recent spending patterns and dietary recommendations. The use of geographic price adjustment offers the opportunity to more accurately align benefits to the cost of food at the sub national level and in the full proposal, I also suggest some additional changes to the process by which the TFP is calculated, especially how the reference sample is selected and the data source used for that sample.

Related to this reform, the current TFP reference household consists of a male and female between the ages of 19 and 50 and two children under the age of 12. As anyone who has shopped for a teenager knows, they eat like an adult and then some. So I recommend replacing one of the children with a teenage boy in the reference household unit.

The new dietary guidelines for Americans were recently released and this provides an ideal opportunity to comprehensively revisit the TFP. My proposal offers a roadmap on how to reform it and doing so will enhance participants' ability to attain food security and to acquire a more nutritious and healthy diet for themselves and their families, thank you.

(Applause)

MS. SCHANZENBACH: Let's get the final two folks here and we'll start the panel discussion.

Thank you both for those terrific presentations and policy proposals that we have distributed today. I want to open up to the panel, first starting with Sheldon. Sheldon, give us a sense of the history. How did we get to this point with TANF and could you just describe the shift in the program or the 20 plus years going from an income support program to a workbased program.

MR. DANZIGER: Sure and I think Hillary mentioned act I of the immediate post 1996 reform.

MS. SCHANZENBACH: Those were good days.

MR. DANZIGER: Those were good days so I go back a little earlier to the pre-'96 and I can remember testifying before Senator Moynihan thinking not that many people are going to go to work and more people went to work than I thought. We did a study and I used to tell my students if you're a serious researcher, when the research goes the other way, you have to call it so I, and I think many others, were surprised at how many people went to work. There was an emergence of what we call the disconnected people with no work and no welfare but they were relatively small. I think Becky Blank around the time had a proposal to deal with the disconnected temporary disability but I think there was a lingering worry that welfare reform was so successful in the first act because the employment was so good and I think as the paper says, we are now in a world where unemployment has been high.

We're also in a world, Larry Summers referred to this a little bit earlier, where there is a lot of concern about the driverless cars that are going to disrupt taxi drivers and UPS drivers et cetera so we are in a world in which we have strong evidence that there are many people, not just TANF recipients or ex-TANF recipients, or ex-offenders, people with long unemployment spells who are having a very hard time of finding employment so if I were to use a sound bite, it was the personal responsibility and work opportunity reconciliation act, there was a lot of ocus on personal responsibility and we ought to put much more focus on work opportunity and I would say, since I am at Brookings, I was part of AEI Brookings working group which I will just read the quote because this was a bipartisan group said: "We believe that the emergence of a work support system promoted by the '96 welfare reform law should be accompanied by public efforts to ensure that work is in fact widely available to all or nearly all low income adults who want it. "

So the TANF emergency fund that Maryanne and Hillary talked about in the papers being expanded, I think one has to probably go beyond that and think about a whole range from public service employment to the kind of subsidies to private employers that were in the TANF (inaudible).

MS. SCHANZENBACH: Bob, returning to you, there has been increasing policy interest in Congress on both TANF and on SNAP and in fact, next month, the republicans in the House are going to release their poverty blueprint. How do these proposals relate to the broader policy context?

MR. GREENSTEIN: Well I think that's an interesting and important question. I urge everyone to read both of these papers which are important not only for their proposals but for the very good way in which they synthesize a lot of the research and evidence in the fields so we are entering into a debate where regardless of where you are on the political spectrum, the buzzword is evidence based policy and everybody says their policy is evidence based.

There is a lot of important evidence in these papers and I hope it gets brought to bear in the debate we are heading into. I am struck, Diane, by --

in four areas, a big divergence between the evidence that is presented in the papers and the proposals it leads the authors to and some of the proposals we are expected to see next month when the poverty blueprint runs out so let me go through these four areas.

Number one, response to recession. The papers are very clear that SNAP responded robustly to the great recession and TANF barely responded at all yet the centerpiece of the proposal that is expected to come out next month which builds on the opportunity grant proposal that speaker Ryan unveiled in July 2013. Under that proposal, SNAP, in a number of states would be merged into a mega block grant with ten other programs.

The states participating would get a fixed amount of money for the year. It wouldn’t alter his economic circumstances -- altered so that whereas some of the recommendation in the Bitler and Hoynes paper go to how do we make TANF a little more like SNAP in responding, being more responsive to recessions. The proposal emerging on the hill is how do we make SNAP more like TANF and in this respect, it would make it less responsive to recessions. Second is the question of benefits and benefit levels.

Jim's paper makes a strong case for a stronger, a larger SNAP benefit model. Now, if you think about it, what would happen to SNAP benefits if SNAP and ten smaller programs, SNAP being by far the largest were merged into one funding stream and made available to states. The Bitler and Hoynes paper notes and Hillary just mentioned that whereas pre-TANF, most of the money in the AFDC went to benefits, today only 25 percent does.

If money is put in the stump and can be used in a vast array of purposes by states and the bulk of the money is SNAP money to start with, the overwhelming likelihood following the TANF pattern is that the total amount of money and food assistance would go down under the opportunity grant, one of the merged programs is the community development block grant. A state or locality could take what had been SNAP dollars and use them to cut deals with real estate developers to do development projects in low income areas.

The likelihood is that fewer people would get benefits and the benefit levels would most likely go down than up.

Item number three, the safety net for the poorest families so Bitler and Hoynes note that there was a dramatic decline in TANF's effectiveness as a safety net for the poorest people. That decline was partially, just partially eased by SNAP because if you have less income, your SNAP benefit is larger.

If you make SNAP like TANF, you basically lose that effect and rather than moderating some of the decline in TANF as a safety net for the poorest, you could in fact compound it. Now this leads me to a point I want to make. It comes out of in part the Bitler and Hoynes paper. I often find myself in discussions where people say that the poverty rate among female headed families is lower today than it was pre-TANF, end of discussion, the program is simply a success, period. As the Bitler and Hoynes paper and much other research shows, you had some families that are more job ready who may have benefitted from TANF, they may have been both prodded to go back into the labor market sooner and income credits supplemented their wages and they rise above the poverty line but since these people on TANF were almost all below the poverty line to begin with, if you have another group further down who becomes poorer, by definition that doesn't increase the poverty rate.

The poverty rate doesn't measure how far below the poverty line you are. You need a second measure and Arloc Sherman at the Center on Budget and some new analysis finds that if he compares 1995 to 2005 before the economy began to go down, that the average income for the poorest tenth of female headed families with children dropped 3,200 dollars using a broad measure when we count SNAP and rental vouchers and so forth as income and he also finds a substantial increase in the aggregate poverty gap for female headed families from '95 to '05 so again an important aspect of the Bitler and Hoynes paper is it doesn't sort of stop at looking at the poverty rate. It takes a fuller look at the effects on TANF.

Last point, Jim can perhaps talk about this as well but I find one of the first things I run into if I am in a discussion on snap on the hill. Many people, particularly on the other side of the aisle from Jim will tell you that the evidence is very strong that SNAP helps trap people in poverty and greatly discourages work.

Reviewing the evidence Jim writes in his paper and I am quoting: "There is little evidence that SNAP has substantial negative effects on other domains such as work effort. " There is a big gap here between what people view as what the evidence shows and it leads to my final comparison which is really a striking comparison. So as many people in the room may now, under the SNAP program today, for people aged 18 to 50 not raising minor children, they are limited to SNAP for three months while unemployed out of every three years.

If they try to find a job but can't it

doesn’t matter, you’re out after three months if you are unemployed. There are provisions to waive the three month limit in areas with high unemployment.

The Bitler and Hoynes paper proposes that in TANF, where and when unemployment is high, TANF time limits and work requirements be suspended using the same mechanisms for which this three month time limit is suspended in SNAP. The operative provision on the hill from House republicans is precisely the reverse. It is to make SNAP like TANF and to completely eliminate all waivers and apply the three month time limit even in areas where the unemployment rate may be double digit levels so I am just struck by the sharpness of this contrast and I’ll end with where I started, which is my hope that these two papers will be read on the hill by people on both sides of the isle and that they will study carefully not only their proposals but their discussion of the research literature and what it shows.

MS. SCHANZENBACH: Thanks, and finally to you, Congressman. The House agriculture committee has been holding a series of hearings on the past, present and future of SNAP. Can you tell us a little bit about what you've learned?

MR. MCGOVERN: Well I've learned that I am write and republicans are wrong on this. You know, Bob has testified, Jim has testified. We have had 14 hearings. A complete top to bottom review of the entire program and every hearing basically says the same thing and that is that this is a good program, this is a program that is absolutely vital, that the worse thing we can do is to cut it or to put more work requirements or more other hoops for people to have to jump through into the law that we should talk about expanding the benefit because a lot of people on the benefit end up at the food banks at the end of the month because it doesn't last enough and the charities can't do it alone. We went through a hearing on that somehow charities can pick up everything on their own and we don't have to have a snap program, that was debunked so every single hearing has kind of reinforced what those of us who think that this program is good have been saying but the problem is that there is a disconnect between the narrative in Congress and the reality and if you listen to the debates, it seems that rather than trying to find ways to help get people out of poverty, we blame poor people.

The debates are always about denigrating poor people, about diminishing their struggle. We hear all the time, if only people worked. Well the reality is that when it comes to the SNAP program, the majority of people on benefit are children, are senior citizens, are people who are disabled. Of those who can work, the majority work so there are people that are working and still are earning so little that they qualify for the benefit.

We are told that SNAP is a lifetime of dependency. Well median time on SNAP is about 12 months. That’s not a lifetime. We are told that the roles are exploding. Well as the economy is getting better, we are seeing millions of people coming off the roles and actually working. In times of tough economic crises, we have this safety net to help people. When things get better then people gradually go off the program. We are even told that people on public assistance are more likely to use drugs. We have a new bailout now that somebody wants to drug test everybody on SNAP.

I told Roger Altman that if we get that to the floor, I am going to introduce a bill to make sure that all members of Congress are drug tested because that might explain why we are having this debate. It might explain a whole lot of other debates that we are having in Congress but the reality is that this is all about being punitive and the reality is we ought to be figuring out a way to make sure people in this country have enough to eat. That's what SNAP is all about. We have a hunger problem in this country and it costs us enormously in a whole bunch of areas, avoidable medical costs. Children who go to school hungry have a more difficult time learning. Pregnant mothers who go without food on a regular basis or senior citizens who take their pills on an empty stomach when it says take it with a meal because they are trying to decide how to pay for their prescriptions and their food.

I mean this is a big deal and I think the response that you're seeing in the Congress quite frankly ignores the reality. I'll just say one final thing. While I am happy that speaker Ryan is talking about poverty, I am very suspect of this whole effort and we have to be very very careful that we always read the fine print.

If you really care about poverty and if you really have been listening to these hearings that we've had in the Agriculture Committee, you wouldn't be talking about block granting the SNAP program and by the way, in addition to block granting, they are now talking about removing the ability for states to ask for waivers for able bodied adults without dependents who somehow can't find a job and by the way out of that population, these so called A bobs, we have a lot of veterans who are in that population. Veterans who are struggling to try to reintegrate back into their communities.

We have people who are looking for work and can't find it and we have people that are trying to get into job training programs but all the job training slots have been filled so if somebody could explain to me that you're more likely to get a job if you're hungry, I am all ears but I think it's a rotten thing to do to people who are struggling and so I'll just say this. This is -- the evidence is there. I mean many of the people in this room have done some remarkable research on this and have talked about the importance of this program.

The problem is the politics and I would just suggest that when we come out with these papers, you ought to release them in front of the offices of people who are talking about block granting and cutting the program. I was at a conference in New York City about hunger as a health issue and everybody was talking about all these great reports and I said: "Great, let me tell you whose office you have to go in front of and actually announce this" because I think we need to put the pressure on people to help change this -- the direction of the debate in Washington and I think it's doable and that's giving me hope that we can do that and how you can change things but right now, we're in a very very difficult uphill struggle.

MS. SCHANZENBACH: I'll look for that list of people and we'll start --

MR. MCGOVERN: I have it.

MS. SCHANZENBACH: Okay, excellent.

MR. MCGOVERN: And their cell phones.

MS. SCHANZENBACH: Great, we'll tweet those out. So one thing I was struck by is that it does sound to me on the panel like ther is a broad agreement that the shift 20 years ago to making the safety net primarily focused on work was a good shift. I guess the question is is that true and then following onto that is it a correct assumption that today everybody who can work can find a job and if not, then what do we need to do today to change the safety net? And I could add another question which is if Jim's proposals were enacted, he is calling for 20 percent increase in SNAP benefits to better align with realities of food preparation, how would that impact work activity? So it’s a mouthful all about work?

MR. DANZIGER: At the minimum wage, we were much better off today with the work based safety net expanded or the income tax credit. The Affordable Care Act, SNAP, more child care subsidies and I think that’s sort of what Bob was alluding to. There’s been an increase in inequality among the group of people who would have been on welfare so I wouldn’t sell short that aspect of welfare reform, it’s that the group at the bottom has done worse. Luke Schaeffer and Kathy Eden have a combination of sip data and interviews and I remember everybody laughed and said Senator Moynihan was wrong when he said there will be a million people sleeping on grates.

They may not be all sleeping on grates but at the Eden and Schaeffer, there are probably about a million kids who they are saying are living on two dollars a day, more than was the case before so I think that’s an important point to make. Nobody in the welfare area and Hillary and Maryanne didn’t say that we should go back to the AFDC entitlement so I think the issue is what do you do about those people for whom the program doesn't work in a recession and it doesn't work if you have look for work and can't find an employee who wants to hire you even in the best of times.

MS. HOYNES: So two quick things to add to that. One is let us not get lost in all of this, that the earned income tax credit was a big part -- we don't -- we don't have the experiment of what would have happened with welfare reform in the absence of the earned income tax credit also happening at the same time but all work that kind of tries to drill down to assess between the strong economy, welfare reform and the expansion of the earned income tax credit, what explains the dramatic change in circumstances between 1995 and 2000, certainly all three played role so I think that's an important thing to not forget in this discussion but I totally agree with Sheldon and some different evidence that kind of echoes the diagnosis of the problem, not the solution which perhaps we can also make sure we spend time talking about is the fact that not only with Eden and Schaeffer’s calculations of the number. The rise in the number of families that are living in deep poverty and work that Mary Bitler and I have done, we’ve also shown that in the great recession there was a substantial increase in deep poverty that is the share of households with income below 50 percent of the poverty line and that increase was much higher than we would have expected from the sort of prior well estimated structural relationship between recessions and the cyclicality of poverty so people with incomes around 100 percent of poverty seemed to move in the way that history would have told us it would have yet there’s this real strong finding at the very bottom that that group was much harder hurt in the increase in employment in the great recession in a way that has a very tight line drawn to the absence of a safety net at the bottom which is the absence of TANF.

MS. SCHANZENBACH: Bob?

MR. GREENSTEIN: I would say over the last several decades as a whole, we have substantially strengthened the work based part of the safety net and we have significantly weakened the safety net for people with (inaudible). That doesn't mean that everything that needs to be done on the work based safety net side has been done and a thing that continues to stand out is that in the 20 or so states that have not taken the affordable care act's Medicaid expansion, parents who are working lose their eligibility for Medicaid in the typical one of those 20 states when their earnings reach something like 45 or 50 percent of the poverty line. If they can't get coverage through their employer and they have a medical condition, they harm themselves by working -- on the TANF front and in terms of people at the bottom, the Bitler and Hoynes paper really does an excellent job of digging into the shortcomings of TANF and responding to recessions and as a safety net, I would argue that TANF has also been more disappointing than it is widely understood and its relationship with work particularly for people at the bottom who don't have jobs and who have barriers to employment so today only eight percent of federal and state TANF funds go for employment activities.

If you add in child care, it’s 24 percent. It’s still small and we have very rigid requirements on what counts as work so the program does not do a very good job of providing for people with the most serious problems and barriers to employment, the kind of assistance they might need to gradually help them make it in the labor market and finally, I think this is discussed in some of the papers, Sheldon has mentioned it. We really ought to explore. This brings the safety network place together. We really ought to explore doing more with subsidized jobs for people who even in a good economy, nobody hires to at least get the job experience and some of the on the job skills. We had a very successful experiment with that in 2009 and ’10 when the subsidized jobs part of the TANF emergency fund led the states’ republican and democratic ally about 250,000 jobs for low income parents and youth and then it ended and there is some bipartisan support for resurrecting that at least as a demonstration project and I think that really is something we should pursue.

MS. SCHANZENBACH: Jim?

MR. ZILIAK: Yeah, I would just like to underscore and emphasize a couple of points. One, the work based safety networks were off for those people (inaudible) -- so it's pretty clear that looking at the research on TANF and the years after welfare reform that those households that did best after welfare reform were those households that had the skills right, that prepared them in advance for the more work based emphasis so at the time there was a lot of discussion at the state level between work first emphasis versus capital development and at the time, the work first model won the debate but I think looking back two decades now, we underinvested in the human capital development front and so this is where I think SNAP turned out to be crucial program that kept the bottom from falling out completely for many of these families that weren't work ready.

MS. SCHANZENBACH: So I've got a bunch of follow up questions. One, just piling on that. If SNAP is doing as well as it is, which we think it is doing very well, do we actually need to reform TANF or can SNAP absorb all of this? It's basically been functioning that way now.

MR. MCGOVERN: Well if you raise the SNAP benefits and y ou let the people spend it on food, clothing and shelter, then you wouldn't need --

MS. SCHANZENBACH: That's a bit of a -- that's right -- that's a lot change.

MR. MCGOVERN: That's the key thing because SNAP is designed for food assistance. TANF is general cash -- in theory, general cash. In the old AFTC programs there was more cash to be used on a variety of goods and services beyond food and that really is the key difference. You can't have a target program.

Actually drawing on your work with Hillary, today there is 20 percent of the SNAP cases that report no other cash income, right? So that means how are they paying for housing and things like that so we need these other programs in addition.

MS. SCHANZENBACH: Bob?

MR. GREENSTEIN: I think this is really interesting where people from different perspectives can look at the same facts and draw diametrically opposed policy conclusions so as Jim just mentioned, there has been a significant increase with the sunny disappearance of TANF as a cash safety net.

There has understandably been an increase in the number of families on SNAP that have neither earnings nor cash assistance through TANF. People like myself and maybe those of us on the panel look at this say -- and read the Two Dollar a book by Eden and Schaffer and say we really need to do better with people at the bottom. Lots of Jim's colleagues look at this and say: "My god, there has been an increase in the number of people on SNAP who don't have earnings or cash assistance. It's undercutting welfare reform and undermining work. We have to change this by making SNAP like TANF. " People look at the same data and draw diametrically opposed policy conclusions.

One other point, I mean I think that the policy recommendations in both papers are really excellent. There is one policy recommendation of Jim's that I don't agree with and it kind of relates to the discussion we're having now and that's to move from a national benefit structure to a regionally varied benefit structure in SNAP and he's absolutely right. The food prices vary by region but because the cash safety net is so weak and SNAP helps substitute, the places where food prices tend to be a little lower have much lower cash welfare assistance, lower wages and so I kind of like having the national benefit structure help fill in the gap and I also would be worried. This isn't an analytic point, it's a political point.

I would be worried politically because if you varied the snap benefit by food prices across the country, you generally would be increasing benefits in bluer states and reducing them in some redder states, including a lot of the states on the (inaudible). I just don’t think that for the political health of the program that would be good. I do think there is something really valuable in having a national income floor and a national benefits structure in SNAP. It’s the only program that has that and while I totally agree with Jim’s analysis on food prices, I wouldn’t want to lose the national benefits structure.

MR. MCGOVERN: This discussion that we’re having here, we’re not having in the agriculture committee. We are not having in the Congress and kind of the immediate concern is do no harm because there are a lot of proposals that are being put forth that would actually make things much more difficult for the people we are all talking about here. I mean we ought to talking about raising the minimum wage so that it’s a livable wage so people -- when work pays and there are lot of businesses out there, a lot of corporations out there that pay their workers at minimum wage levels that could afford to pay a much better wage that we end up subsidizing through these other programs because they don’t want to pay a livable wage but that's where the debate -- some of which we were talking about here which (inaudible) but right now, I mean, the proposals are not only bad, they keep on getting worse.

The republicans can't pass a budget and so they want to reopen the (inaudible) which they promised they wouldn't do to go after SNAP even more, to take away states' abilities to ask for waivers for people who can't find jobs, who can't get into job training problems so the immediate concern is to remind people that this is a worthwhile benefit, that people not only depend on it but quite frankly, I don't know how you could survive without some of the families and look, we have some serious issues to deal with about whether our safety net is working and if I spend a night in a family homeless center in Worcester, Massachusetts where I live and all of the adults worked who were in this homeless shelter. The issues of affordable housing and the down payments and the security deposits and -- there were lots of issues that we need to resolve to kind of better deal with the issue of poverty but for heaven's sake, let's not cut food benefits for people who are struggling to put food on the table for their families.

MS. SCHANZENBACH: I have lots of great questions from the audience.

I am not going to have a chance to ask them all but I'll ask sort of a combo of two of them. They want to understand more about what the economic consequences would be for proposals to block grant SNAP? And then also, what are some of the letters that the federal government has over states to monitor and manage block granted funding. There are a lot of people that are quite surprised by this TANF blocked grant variability.

Do you want to talk a little bit about what policy leverage you think we have?

MS. HOYNES: Well I think one thing that quite honestly I'll have to admit, I kind of hadn't realized just what the state was until I really dove into the numbers in preparing this paper that given the flexibility that states had -- so it's one thing to block grant, that's one policy. You block grant it in nominal terms, that's the kind of straightforward calculation of the implication of that in real terms but quite second from that is when you block grant a program and there is a lot of flexibility on how those blocked grant funds are used, you end up in situations that we have in TANF now where states are essentially using the block grant for a wide range of activities that are complying with the law that says that it has to help needy families but there is not much definition of what needy is and so there are many utilizations that I think we could all support as worthy expenditures like state earned income tax credit programs but there are not out of work assistance programs so quite separate from the value of that spending, the block grant just gets displaced to a wide range of uses that are very far from the original intent of the program.

MR. DANZIGER: And if I could pick up on what the Congressman said, there would be a tendency in the states, Bob said something similar, to divert them toward the working poor who have a better perception than the non-working poor so I think this goes way back to the war on poverty and why the Johnson administration wanted to federalize all of this but I think it's pretty clear if you block grant food stamps, particularly in states that have shown they don't want the affordable care act, they have very low benefits and they don't spend it on TANF, that money is going to float into other approved uses and any use that's approved that's not cash or not food stamps, that's where it's going to go.

MR. GREENSTEIN: I want to add that despite the best -- even when there are the best intentions at the federal level to write block grant legislation to avoid supplantation, it occurs. By which I mean take TANF.

There is such a broad array of uses the money can go for that states have been able to substitute some of the TANF funds for state funds they were previously spending on certain services that covered low income families and you can't totally do it but there are some maintenance and effort requirements but to some degree, a state that really wants to do it can substitute some of the federal money for state money, withdraw the state money and use it anywhere else in its budget, it doesn't have to be on low income people so given that states, unlike the feds, have to balance their budgets every year and they are often under intense political pressure to get that budget together that balances, it can be a strong temptation to use some of the block grant funds in ways that substitute and help you plug holes in the budget.

Needless to say, SNAP responds automatically in recessions and block grants don't. It's a fixed amount of money. You lose the counter cyclical response so --

MS. SCHANZENBACH: Which we saw was so critical. I mean so critical in the great recession.

MR. GREENSTEIN: Right.

MS. SCHANZENBACH: Still a couple of more questions. I think I'll end with this one. I think people wanted more than just storming the Congressman’s office. With the upcoming Ryan House proposal, what other tactics do you suggest to promote the benefits of what’s working well in our safety net.

MR. MCGOVERN: One of the things and I have worked with many of the people in this audience.

I think there are a lot of members of Congress who have never talked to anybody on SNAP, who have never been to a food bank, who have never seen any of these programs up close and personal. I think we need to bring them into the fold.

I have talked to a lot of republicans who understand more because of some of the interactions they’ve had with their constituencies.

The problem is the politics get a little bit difficult and let’s just be honest here, if you hire a political consultant and you’re going to run for Congress, they’re not going to tell you: “Emphasize the campaign based on helping poor people. ”

And so for a lot of members who kind of get it, they don’t see the advantage of kind of tackling some of these issues or explaining the inaccuracies.

I mean I was on a radio show just the other day and the call I got was that every undocumented immigrant on that state is on SNAP.

I said it's absolutely false. The guy read it on the internet so he thought it had to be true but the point of the matter is there is so much misinformation out there about the effectiveness of these programs. They work. They can work better if we don't screw them up and short change them. And one final thing.

I have been advocating for a long time and my good friend the undersecretary is here and he can attest to this.

I think the White House needs to be much more bold on tackling these issues of poverty in the United States. On the issue of SNAP, I have asked for a White House conference on food, nutrition and hunger.

We have to be able to weave together a holistic plan to actually not just manage hunger but eliminate hunger in this country but the White House is the biggest bully pulpit we have and we have some really brilliant people in this country who have some good ideas.

We have examples of success stories all over the country that we have to bring together and replicate and we have a lot to be proud of in the programs that we are talking about here today that we need to remind people how they work and how we shouldn't shortchange them.

MS. SCHANZENBACH: With that, I think we need to stop. Join me in thanking this terrific panel.

(Applause)

MS. SCHANZENBACH: We have a brief break but join us back for the final panel, which is also terrific.

(Recess)

MR. ALTMAN: Well, everyone, we're going to start the final and surely, the best panel (Laughter). (Inaudible) were all right. This will be scintillating. Probably a little higher key than Larry Summers was. As you saw, he was subdued today (Laughter). But we really have a remarkable panel and a remarkable paper.

Extending along, Alan Blinder, who is not only one of the most distinguished economics professors in the country at Princeton, but of course, held both the vice chairmanship of the Federal Reserve and was a member of the Council of Economic Advisors; Cecelia Munoz, who is currently head of the domestic policy council at the White House; Mark Morial, head of the National Urban League, and Alice Rivlin, who also, like Alan, held most positions that I'm familiar with in the executive branch of the government, and is a dear friend of mine.

We're going to begin with Alan presenting a summary of his really quite remarkable paper. I hope you’ve all had a chance to look at it, and that those of you who haven’t will do so, because this is a really, really important subject. How to think about fiscal policy broadly and how to think about using it more effectively relative to the next recession. So, Alan?

(Audio dropout)

MR. BLINDER: So, let’s see here. That’s the title? This is the beginning of the substance, and I'm not going to waste any time on the title. I want to just take a minute or two, since not everybody sitting here does economics, not to mention does macroeconomics for a living. In fact, probably almost nobody here does macroeconomics for living.

To take you back not very long ago to the beginning of the 2000s, and even after that, where there was a quite strong consensus among professional economists, and by the way, not just in the United States, that what we call stabilization policy, and I'm only going to talk about half of the stabilization policy, which is propping up a weak economy; getting it growing faster, was a job for monetary policy, as it says.

This was my bad art work. Those are two pillars (Laughter). So, the case had two pillars.

One was that, as it says here, monetary policy could always do the job by itself, and therefore, fiscal policy was superfluous anyway, and besides, even if it weren’t superfluous, it was hopeless for the reason that you see here. Too slow, too political. And you might say, I guess I feel compelled to say after Congressman McGovern was sitting here before, too silly. That was the consensus.

So, just forget about fiscal policy, and if we're going to do any stabilization, propping up weak economies, shortening recessions or even preventing them. In our country, it’s the Federal Reserve.

So, what’s wrong with these two propositions now? Well, the first one I think is self evidently wrong, and what we learned in the Great Recession is if you real whopper, and especially if it comes fast, monetary policy is not going to be up to the task, even if they do everything right. There’s just not enough ammunition in the cannon and you can't light the cannon fast enough.

And we sort of knew that, but didn’t really think -- we thought that was an intellectual conundrum that we would never actually face in reality. Now, we’ve faced it in reality, and much more importantly, as you look forward in time, we're going to be living in a much lower interest rate environment than we’ve lived in in the past. And so these problems with monetary policy hitting what’s sometimes called the zero lower bound; that is, you can lower the policy rate to zero, but you can't go lower. That’s not quite true. But you can go a little bit lower. It’s going to be much more relevant in the future than it’s been in the past.

The second thing, so that’s the bad news. The good news is that despite the political difficulties, and there were extreme political difficulties, fiscal policy has shown itself a couple of times to be capable of actually doing something to improve a very negative economic situation. And I think it probably has to be very negative to overcome the political barriers.

But when they are negative enough, fiscal policy can and indeed, has stepped up to the plate, which is not to say it’s not very political. I'm going to come to that shortly. So, if you take the attitude that in the future, when we're fighting recessions, we're going to have to use fiscal policy a lot more than in the past, what could we do to make that anti-recessionary weapon more effective?

So there’s more -- this is a very long paper -- so there’s more than this in the paper. But in the time allotted to me, I just want to hit these four points. First, more automaticity, have more things that move cameras cyclically that don't require acts of Congress, like economists call these automatic stabilizers.

We can create automatic stabilizers. We can make -- you heard Shaun Donovan in the opening session talk about the administration’s proposal to make extended benefits on their unemployment insurance -- that’s UI -- automatic, right, into law, that they just go up in steps. And we’ve just been talking about SNAP.

FMAP is the Medicare payments to states and et cetera. There are things that we can do that would make fiscal policy more quicker acting, but maybe more important than that, less political, because they're in the law that just happens. Nobody has to pass a bill.

Second, especially since many societies, and certainly including ours, seem very, very concerned with budget deficits. I could argue more concerned than we should be, but just leave that aside. We ought to be paying more attention to the so-called bang for the buck. That is, pick things that have high multipliers, as we say, in the economic jargon. So, again, in these two criteria, SNAP and unemployment insurance score very highly. You give money to a recently unemployed person or someone on food stamps, they spend it and they spend it fast.

On the other hand, business tax cuts, which a party not to be mentioned here sometimes favors, scored very poorly on this criteria. And indeed, I suggested a paper. There’s a kind of a theorem on political economy which says that business lobbyists go for the lowest bang for the buck (Laughter), not the highest, because they want the bucks (Laughter). If you go for something with high bang for the buck, you don't need to put a lot of bucks in the shotgun. If you go for something that's really weak, you need a lot of money.

(Audio dropout)

MR. BLINDER: So, that's the second point. The third point, which Shaun Donovan made when he got up here right at the beginning is, we made a mistake in the United States, and we're not the only country that did this. And this was certainly not the only time that it happened -- of pulling the plug on stimulus too soon, by the way out of fear of the budget deficit. So, this is linked to what I was just saying a moment ago.

So, U.S. fiscal policy was strongly expansionary in 2009 and 2010. Then, it started moving in a contractionary direction over the next several years, and in fact, was a drag on growth in years 2011, ’12 and ’13. Sort of ending in 2014. But you know, we were trying to get the economic ship moving forward, and there was this anchor holding it to a stone. And that was the fiscal contraction that we were doing.

And the final thing is cash for clunkering things where possible. Let me explain. The Cash for Clunkers program which was not part of the stimulus but was actually earlier than the stimulus bill, offered people subsidies to turn in their old clunker; their gas guzzling car and earn some money towards the purchase of a new car.

There were two very important aspects of that which I raised the question whether they're replicable beyond automobiles. One is, it’s something that goes on and it’s going to go off in a modestly short period of time, which gives people the incentive to hurry up their purchases and sometimes criticize -- I’ve actually heard it criticized for that. But that’s actually its intent -- get them to hurry up their purposes.

Second thing is, if you were around in this country at the time, there was a truly enormous amount of advertising by the automobile companies, giving the government a gigantic helping hand in getting the word out and getting people into automobile showrooms. As I said, that was -- I think that that is one of the secrets of its success, whether it’s replicable beyond cars is the question we're thinking about. If I could have one more minute?

I just want to end by emphasizing something that I thought Larry Summers would emphasize, but he was talking about somebody else.

SPEAKER: Talking about himself or --

MR. BLINDER: Well, both, but -- oh, never mind. (Laughter) The question of hysteresis. So, hysteresis is a technical term you hear from economists. We get it from physics, actually, which means that contrary to the main prevailing doctrine in economics, which economies, when they suffer, slumps go back to where they used to be; go back to the previous trend.

There’s starting to be mounting evidence that that’s not so. This is just one observation. This is what happened in the United States in the slump, and then you see what’s happened since. It doesn’t look to me like we're going back to the pre-recession trend. To the extent that that is true, and this is still controversial among technical economists, it multiplies the importance of shortening recessions by an order of magnitude -- an order of magnitude or more, more important than we thought before. And I just want to leave you with that thought. Thank you. (Applause)

MR. ALTMAN: I have some instructions here as to which of the panelists I'm supposed to ask questions of in which order. I don't intend to follow those instructions (Laughter). So, I'm actually going to start with you, Alan, and then we’ll go further.

MR. BLINDER: Oh, I see.

MR. ALTMAN: There was a discussion in the first panel, which I'd like to hear your views on, and I think a lot of other people would, too, given your very special background in terms of both fiscal and monetary policy. Remember, Alan was vice chairman of the Federal Reserve board, which is, how much ammunition from a monetary policy point of view is actually left in your view?

MR. BLINDER: There’s a lot of ammunition technically; that is, how much I mean, missiles you could shoot off. But they don't have a lot of punch. When they land, they don't make a big explosion. So the Fed, if a recession should become imminent within the next year, say, the Fed will have a little bit of interest rate cutting it can do, maybe a very, very little bit. It depends how much it’s gone up between now and whenever the date is.

I think there is room to go negative on the interest rate that the federal reserve pays to banks for the reserve deposits. The fed, for years, was trying to convince me that this would be the end of known civilization if they didn’t. Then, it happened in Denmark, Sweden, the EU, Japan, et cetera, and I think all of those countries are still here, as far as

I know, and they even have financial markets, actually.

So, I think we can go beyond, but we can't go to minus five or any -- Larry was making this point. My guess is we can go beyond minus 75, which is -- but that's the --

(Simultaneous discussion)

MR. ALTMAN: Seventy-five basis point.

MR. BLINDER: Sorry, 75 basis points below zero. That's the lowest that we actually see existing right now in the world. So, there's not a lot there. What I meant especially by you could shoot a lot more missiles is, there is no natural limit on QE, Quantitative Easing, acquiring assets.

MR. ALTMAN: Mm-hmm.

MR. BLINDER: If they can keep doing that, at some point, that would require an act of Congress, and that's when it becomes impossible to broaden the scope of what assets the fed is like allowed to buy.

MR. ALTMAN: Mm-hmm.

MR. BLINDER: Our central bank is quite

restrictive compared to most other central banks in the world. But the fed's not there yet. There are still more things that it could buy. But there's no reason to think that these have -- are a high bang for the buck, to use the same phrase that I was using, which means if you want to have an appreciable effect on the economy, you're keeping count in trillions, not billions.

And the fed can start running out of things (Laughter) that it needs to buy. And Larry went over these, also. The other thing is talk, Federal Reserve talk, forward guidance, we can call it. It could do more on that. So, it's got these three weapons, so to speak, still there, but there just doesn't look to be a lot of oomph left.

MR. ALTMAN: Okay. Cecelia, let me turn to you.

MS. MUNOZ: Okay.

MR. ALTMAN: Thank you again for being here.

MS. MUNOZ: Thanks for having me.

(Audio dropout)

MR. ALTMAN: Much of Alan's paper, and I must say you had a pitifully short time to summarize it, because it's a very long and important one -- much of Alan's paper talks about making fiscal policy more effective, the things we could do, like greater elementicity that would make it more responsive to the next recession, and in some respects, must better.

As you look back at the Recovery Act and the Great Recession which gave rise to it, what would you do differently in terms of the Recovery Act than was done? And let me give you a little example of what I mean. But this is an example of one aspect of it. The Recovery Act, for reasons that still mystify me, is viewed quite widely as not having been effective.

(Audio dropout)

MR. ALTMAN: -- I personally think is at odds with the facts. I mean, way at odds with the facts.

MS. MUNOZ: And you're right about that.

MR. ALTMAN: But that's a problem in and of itself. So anyway, what would you do differently looking back on it?

MS. MUNOZ: Well, that's an interesting question. I agree with you that the Recovery Act is wildly underestimated with respect to what it accomplished. The Council of Economic Advisors calculated that between the Recovery Act and -- well, the Recovery Act by itself accounts for about six million, what they measure as job years. And when you add the fiscal policies which followed it, it was about nine million up to about 2012, which is some serious impact.

I guess what I wish, and this is a variant on your question. What I wish had gone differently was that the conversation, even during the transition leading up -- you know, the Recovery Act passed in the first three weeks of the administration, and I was working, actually, with governors and mayors. I was in the intergovernmental affairs job then.

If I can get even among governors who completely got that they needed fiscal stimulus, that they needed as large a Recovery Act as possible, we managed to get four Republicans to actually say it loud on a letter, and the rest were saying it quietly. They would say it to me, which doesn’t do anybody any good at all, but they wouldn’t say it loud, because already, the orthodoxy was we're not so sure we're wild about spending money.

And if you recall, it was, I think, two Republican votes in the Senate which took the Recovery Act over the finish line. So already, three weeks in, in the midst of any epic downturn, this was happening sort of by the skin of our teeth, and I don't know if I'm disagreeing with something Shaun said earlier. I missed the presentation.

But he is right that we, as a nation, didn’t do as much after the Recovery Act, although there were a few things that happened; the payroll tax cut, for example, and a few other things. We as an administration were trying valiantly to keep the conversation going. The American Jobs Act, for example, which the president did a road show around the country trying to get passed.

I mean, we agreed with the premise of the paper as an administration and pushed very hard for more, but we had an enormous problem in the Congress. And I think part of the premise of this conversation is how do we set up on dynamics so that we end up in a different conversation next time we need it, God forbid that it should be soon. We have to have a conversation about being willing to spend money and to make investments.

And that stymied us with respect to the size and scale of the Recovery Act. It stymied us with respect to our attempts to keep the fiscal stimulus going in the years afterwards, and to use a current example, you know, we're trying to get -- this is not economic stimulus, but we're trying to deal with a public health crisis which is upon us right now with respect to Zika, and we can't get the Congress to have a conversation, when we know there will be children with birth defects if we fail to act. There will be anyway. There will be more if we fail to act. And we haven’t gotten there, and we may not get there for months, and those are precious months with respect to this public health crisis.

So, that speaks to the need for a conversation about the importance of government spending and investment as a way of addressing our various challenges, including our economic challenges.

MR. ALTMAN: Alice, let me turn to you. What do you think Alan's paper left out?

MS. RIVLIN: Well first, let me say I thought that Alan's paper was excellent, and I agree with this description of the evolving consensus among economists over a period of years, that we could rely on the fed and only the fed; that fiscal policy was too slow and too complicated, and we didn't need that. That was clearly wrong when we got into a deep recession, and we did need fiscal policy and it did work, and in my opinion, we didn't do enough of it for long enough. But I think Alan's paper leaves out a couple of things that I don't think he'd disagree with.

One is that financial stabilization is

extremely important. We’ve talked on these panels as though there’s nothing you can do to prevent a recession. Somebody said it’s not a question of whether we will have one, it’s a question of when. Well, maybe so. We can't repeal the business cycle, but we can prevent a deep, long recession which follows a financial crisis.

We need not have had 2008, and if we hadn’t had 2008, we would not have had the deep recession that we are still dealing with, and the cost was enormous. So, we need to focus on the financial stabilization very hard. The other thing is that smoothing out the business cycle is not the only thing, or maybe not even the most important thing that the American economy needs.

We need to grow faster and have higher productivity, and I think that could make the recession smoothing easier, and in this sense, if we had a consensus on -- I think there is a pretty broad consensus that we needed to do a massive modernization of our infrastructure broadly conceived, not just fix the roads and the bridges, but this means sewers and airports and a whole lot of other things.

We needed to have a plan to do that over a period of years. Then, it might be more possible to accelerate or decelerate that plan to respond to what was going on in the business cycle. It was true that it’s very hard to shovel ready jobs when you're thinking up new projects, but suppose you’ve got a long-term plan for modernizing all of the infrastructure. Then, it might be easier to sell the idea of speed it up or slow it down.

And I mentioned this earlier to Larry Summers, and he agreed, especially with respect to maintenance of infrastructure, but he also had another idea that I thought was interesting. If you have a such a well worn plan, you might vary the financing of it. You might take the tax that you created to finance it, which I think ought to be a carbon tax and say we’ll raise or lower that, or speed up the increase when things are going well and slow it down when they're not.

MR. ALTMAN: So Mark, your turn. Again, thank you for being here.

MR. MORIAL: Thank you.

MR. ALTMAN: One of the interesting juxtapositions between Alan's paper and the panel, Diane, that you just had is that Alan focuses on liquidity constrained consumers who for obvious reasons, have the highest propensity to spend, and toward whom therefore anti-recession fiscal policy should be concentrated, among other things.

And we just heard about TANF and SNAP and lots of deficiencies in them -- pretty bad deficiencies. So interestingly, the two intercept. So Mark, my question is, as you think about spending going forward, both in the context of recession and in the context of what some of these programs are really supposed to do, how would you get ready for the next recession in terms of what type of spending would you be planning on?

MR. MORIAL: Mm-hmm. Good. So, let me thank the Hamilton Project. Glad to be here. Let me try to kind of construct a response this way, because I think it's important to start with the Recovery Act. Right?

So you know, I'm in the camp of having been a strong supporter of the Recovery Act, but also in the camp of having wanted a larger Recovery Act. Four years, a trillion dollars a year. And the reason why is, it was clear to me early on that this was not your grandfather's cyclical recession; that it was much deeper, it was structural.

The pace at which we were losing jobs was significant. Second to come forward. We released our report last week -- I encourage all of you to go look at it stateofblackamerica.org. We have metropolitan unemployment and income comparisons, white, black and Latino for the top 70 cities. The recession is not over in inner-city America. Chicago, Illinois, and south and west side, 20 percent unemployment rates. Cleveland, Milwaukee, Toledo, 23 percent unemployment rates.

The Recovery Act, which was constrained

primarily by politics, did not go far enough. And secondly, and this goes to focusing “liquidity constrained consumers,” it’s my point of view then as it is now, that policies need to be more targeted, more focused on places where the unemployment rates are higher, the poverty rates are higher. It’s clear that they are suffering or facing a set of challenges that other parts of a state other regions in the country don't face, and that the Recovery Act had targeted features in it, but needed more targeted features.

I’ll give you one significant item: Too much money was given to the states. More money should have been city governments. I served in state -- the definition of state governments is SLOW (Laughter). Slow moving bureaucracies. And so, targeting to the distribution mechanism, to cities, to national intermediary organizations -- you can use community colleges, universities and others.

So, this speaks to what we need to think about going forward. So, I think anything we design going forward, if it has -- you know, and I love Professor Blinder's you know, automatic mechanisms and the thought process about that, but it also ought to have features in it that are designed to target the relief or target the investment in places where the problems are greatest.

So, when I talk about infrastructure, now really, like what Alice said, so there's infrastructure. So, if you're going to build or renovate an airport -- I renovated airports, water systems, stadiums. That's a big, slow project. It's got to be designed. You need engineers. There's land use concerns.

However, if you also think of small or great infrastructure, school repairs, community centers, libraries, the broad range of public facilities, some of these programs are funded through the CBDG public facilities program. Then an infrastructure program shouldn't just focus on paving highways or interstate infrastructures. But an infrastructure program ought to also have features in it, right, that are designed for smaller projects that can be uploaded, 3, 5, 7, 8, 10, 15, 20, and you can do a lot of them. And you can transform a lot of cities, and water and sewer systems -- our water and sewer systems are 100 years old.

So, I think the targeting element you know, going forward and really thinking about real lessons learned from this recession, and how we responded to this recession, how there were excellent features of the Recovery Act. There were features of it that were shaped -- the size of it was definitively shaped by politics and political constraints. And what do we learn?

And so I proposed last week, the Main Street Marshall Plan which is a trillion dollars over five years. It's a little bit of the American Jobs Act. It goes back and it says, look, we have parts of America that have not yet recovered, and we need to recognize that they've not yet recovered, and we need to understand that raising the growth rate is not going to occur unless these communities can recover.

You can get more people working. You can get their earnings up. You can get their spending, and therefore, their stimulative effect on the economy increased. So, there is a tremendous amount I think we need to do, but we need to recognize that the recession is not fully over. For many --

(Simultaneous discussion)

MR. ALTMAN: Let me pick up on that. I want to thank you for bringing that up, because it's like that old thing Lyndon Johnson used to say. I hope you have some questions for my answers (Laughter). And I had a question that was related to that, and you raised it. And I'm going to ask both Alan and Cecelia to comment on this. Thirty or 35 years ago there were programs on the federal books, for example, counter cyclical revenue sharing --

SPEAKER: Yeah, right.

MR. ALTMAN: -- which were -- Alice, you remember that?

MS. RIVLIN: Mm-hmm.

MR. ALTMAN: Which contained the indices of distress and where funds were distributed to states and to localities, not just states --

SPEAKER: That’s right.

MR. ALTMAN: -- based on those indices, the most important of which was the unemployment rate. So, my question simply is, do we think efforts like that, and I'm sure we could think of ways to do it better than it used to be, actually are effective --

(Audio dropout)

MR. ALTMAN: -- what we're doing en masse in saying the same question?

MR. BLINDER: Well, I think the received wisdom -- and it seems like the received wisdom is roughly right to me, is not as effective as we’d like them to be. S-L-O-W. This is this intermediary between the people that you want to receive whatever you want to receive and the -- in the state capitols. This is not just because I live in New Jersey (Laughter). I think this is true of many, many states, and it’s like there’s sometimes literally a toll booth sitting there, at minimum, slowing it down, but more often, actually siphoning it off --

SPEAKER: Mm-hmm.

MR. BLINDER: -- to something else. And you know, I remember when I came in the Clinton administration a gazillion years ago, one thing you learn when you come into government, which you don't hardly ever think about, except for a very few specialists in academia, is the 50 states matter. We tend to think academia, we have a country here. To some extent, we do, but not that much, actually. We have 50 states, and they have their own ideas.

I mean, we've heard in the last panel, you know, the Affordable Care Act is only the most egregious, but there are many other places where, much as we all love the 10th amendment, the states are getting in the way. They're stopping progress rather than helping progress.

MS. MUNOZ: I think that's true. I think one of the frustrations of implementing the Recovery Act is, as you've heard Mark say, is that a bulk of the funding streams are state funding streams, and we don't necessarily have much control of that.

So for example, in this president’s budget, we put forward this year’s counter cyclical proposal around TANF, which I think speaks to your question about whether or not we think such is a good idea, and we’ve, in fact, proposed it. And getting to Mark’s point, and this is something that I’ve heard -- I mean, you're a former mayor. We’ve heard this from mayors as we were preparing the Recovery Act that they were frequently in cities that were in states that were --

MR. MORIAL: Hostile.

MS. MUNOZ: -- hostile. And so, one of the funding streams which turned out to be tremendously important are TIGER grants. So, you could just sort of TIGER grants, which fund -- well, obviously transportation projects, but they are things which are generally ready to happen. It is, in fact, infrastructure resources which get controlled at the local level, not the state level, not shockingly, tremendously popular among mayors.

But actually, you could get money out the door into projects that are ready to go. You could make that -- you could tie that to the unemployment rate, for example, to make it counter cyclical, and that would be a mechanism of getting resources out the door in a way that they would be likely to be spent. So, there are ways to do it, and I do think it's worth having that on the table.

And so, if you're looking at mechanisms, the TIGER grants are a little bit more directly related to specific projects than CDBG funds.

MR. MORIAL: Yeah, right.

MS. MUNOZ: But that is a mechanism that you have to get resources straight out the door where they will be spent, and where they will do good to a significant chunk of the population.

MR. MORIAL: You know, the kind of cyclical funds -- and I have somewhat of a foggy memory, but it's hard to have a conversation about economic policy without a conversation around politics. Right? And the pushback to a lot of the late '60s and '70s era initiatives came through a political lens, right, not through an economic lens.

And I think it’s in your paper where you mention the absolute absurdity and intellectual hollowness of people suggesting that the Recovery Act didn’t produce any jobs. Well, I haven’t seen one economic paper on that. I’ve not seen any credible analysis. What I hear is talking points; political talking points. People making declarative statements with no evidence. And that’s one of the challenges with this entire conversation.

We're trying to have a serious conversation about economic policy, but politics is interfering. So, I'd say to those of you who are economic experts and economists in this office, your voices have to be louder in the public square. Right? Because the public and a generation of elected officials almost need to be re-educated about the difference between fiscal policy and monetary policy and what economic history teaches us.

What does the recession teach us? What does the 1970s teach us? What does the Great Recession teach us? The Depression? What does it teach us in terms of how we responded and what the effect is today? And that's really a very important, I think, dynamic, right, to really educate people about what this important history and data shows about tools we've tried, what has worked and what really has not worked, so that it's not governed by politics.

Because when we moved in '10 to austerity, it was driven by the results of the '10 election. I mean, it was driven by a political framing, and I was there on the American Jobs Act, and I always felt we needed additional steps. But we moved. And I wonder if we hadn't if these high unemployment rates I had to report on last week would have been a reality, and whether they would have been a third lower or 70 or 50 percent lower. I have no idea, but it's important for those of you who are experts who have looked at this, who review data to make your voices loud and clear.

MR. BLINDER: Just on that last point, a reasonable ballpark estimate is in the years 2011, '12, '13, the ill-timed fiscal consolidation knocked a point to a point and a half off the growth rate per year; per year. That's a reasonable --

MR. MORIAL: That's significant.

MR. BLINDER: It's very significant. You're talking about economies growing 2 ¼.

MR. MORIAL: Yeah.

(Audio dropout)

MR. ALTMAN: Well, on this point of, call it the public dialogue or the public square, you know, Alan, you just made that point, and that point was also made earlier in the first panel. I think you may all disagree with me, but I'm trying to recall it. The federal budget deficit just topped out at just around a trillion dollars, I think. Just a little over -- between 900 and a trillion.

SPEAKER: Wow.

MR. ALTMAN: And a lot of Americans, not politicians, but Americans were horrified by that.

MR. BLINDER: Mm-hmm. It was about 1.4 trillion.

MR. ALTMAN: Okay, 1.4 trillion. I can

remember, because I travel a lot around the country, running into so many people, and not necessarily business people, who thought that Armageddon was right around the corner because of that. And so, yes, the policy -- the fiscal consolidation that took place which was ill-timed and much too soon, looking back on it, was a mistake.

But in many respects, it reflected the public horror over the size of the budget deficit. So, to think really way back on it, and I'll just leave this on the table as a rhetorical question. Anyone can address it. You can argue that Washington, in that consolidation was reacting --

MR. MORIAL: Yeah.

MR. ALTMAN: -- to the public reaction, the Main Street reaction to the budget deficit. And so, I suppose the question is, what could have been done differently, because we'll have another recession. God forbid, it's not deep and severe, but we'll have another one. And this dynamic between what the public thinks of deficits and what the policy community and the economics community thinks of it will assert itself again.

So, I don't know how one deals with that. Of course, theoretically, you educate the public to a degree that it better understands, and so forth, but these deficits can quickly come down and so forth, and the country has the capacity. But that’s one of the things that actually happened.

So, as I was listening to the conversation this morning and just now, it’s natural to say Washington screwed up. You know, Congress never should have imposed that consolidation, except that Congress was largely reflecting the public. You know? Who may serve.

MR. MORIAL: Yeah. I'd say this. So, you know, I studied economics. I studied at the University of Pennsylvania. I'm an economics major. I know it reflexively that what I was taught was that the reason that deficits are dangerous is the effect they have on private borrowing. Right? And that condition didn’t exist -- that effect of the recession doesn't exist, so the effect on private borrowing and inflation. So, that's an economic theory.

The entire time, they were over on Capitol Hill passing unsecured supplemental appropriations to fund the war in Iraq and the war in Afghanistan, I didn't hear one person complain about the deficit. When President Obama took office, all of the sudden, the deficit became an issue. What do I mean? It is a powerful political weapon, right, but it's also being used selectively. Right?

When people do not want a particular type of spending, they'll raise it. All these tax cuts -- the '01, the '02 tax cuts, the supplementals around the war in Afghanistan, all of those had an effect on the deficit. So, the public has to be educated that the deficit is affected by lower economic growth, less tax receipts. It's affected by tax cuts. But the argument that tax cuts are stimulative, you know, has currency in large parts of the American population. That's actually the truth.

So, I think it's almost like you need a re-set, while before another recession or downturn comes, to really help people understand. And I really think some of this re-set has to be targeted at politicians, at the media, at opinion leaders in America, because it's as though the only -- it's as though in January 1st, 2009, the budget was balanced (Laughter).

And then the president took over and came up with a stimulus, and the budget was out of balance. Right? When everyone in this room knows that is absolutely not the case. And so what we have is, we have economic -- our understanding of the economics. And I think those who understand, you don't want to run the affected deficits; that they are not ipso facto dangerous as a matter of course, and that you've got to be careful about the size of them. You have to also make their voices much, much louder to help educate people about these basic economic principles.

MR. ALTMAN: Alice?

MS. RIVLIN: I think what we've lost is the ability to have a conversation across party lines --

MS. MUNOZ: Mm-hmm.

MS. RIVLIN: -- and work out some compromises. Our Constitution requires that we talk to each other across the lines of executive, congressional and party lines. We used to have bipartisan consensus that infrastructure was a good thing.

MR. MORIAL: Yeah, that's true.

MS. MUNOZ: Mm-hmm.

MS. RIVLIN: And (Inaudible) was a little poor, but mostly, we got what we needed in terms of infrastructure, because both parties thought it was a good thing. We had a potential for a more sensible view of the deficit, namely back when you and I worked on this in 2010, that we were in a recession. We didn't need to, or we shouldn't reduce the budget deficit immediately.

MR. MORIAL: Right.

MS. RIVLIN: But we did need to work on a bipartisan basis about the long-term future, which would require low revenues and mitigating the effects of the entitlement programs as the baby boom generation aged. There was bipartisan effort on that, but we couldn’t get across the line.

MR. ALTMAN: I want to turn to a couple of questions -- at least a couple from the audience. I'm going to start with this one. Alan, this is for you. I'm going to paraphrase this question. Your paper talks a lot about multiplier effects. How do you assess the multiplier effects of infrastructure, given that by definition, it’s a multi-year effort?

MR. BLINDER: So, this is mostly terminology. When we speak about multiplier effects, it’s on the spending. It’s on the demand side, and it’s how much spending does a dollar of original spending eventually generate? But eventually means within the next year or two. That’s what that term means.

If on top of this, which is the case with infrastructure, you get a sort of long, but though small tail, it comes from productivity. It’s on the supply side of the economy. So, that’s the good supply side economics. If you actually put -- and the reason that we economists in talking about that emphasize the demand side multiplier is that it’s vastly larger. If you actually do the math, it’s quite small.

Now, it adds up over many years. That doesn’t mean it’s a bad thing. I think it’s a very good thing, especially in the needy initial condition that we have. Our infrastructure is disgraceful. But the -- to be concrete, how much would that add, if you just added that on to the 1 ½ year multiplier? It would be tiny.

MR. ALTMAN: Okay. Second question. And Alice, I’ll ask you this. It’s a good question, which is, are there any aspects of budget scoring which if reformed would make anti-recession fiscal policy easier to do?

MS. RIVLIN: Oh, I think we're on the track to doing that; that the Congressional Budget Office is moving to look as much as possible at the macroeconomic effects of major programs, both on the spending side and on the tax side. And it’s happening.

MR. MORIAL: This is like a final Jeopardy question (Laughter).

MR. BLINDER: Well, this is what’s called dynamic scoring --

MR. MORIAL: Yeah.

MR. BLINDER: -- but it’s usually not -- it’s usually pushed for a different reason than the one --

MS. RIVLIN: Well, it’s usually -- it was originally pushed to get bigger tax cuts, but people pointed out, Democrats mostly, that you have to be consistent. If you're going to consider the macroeconomic effects of tax cuts, you’d better consider the macroeconomic effects of spending, as well. And you can't do this for every little, tiny thing. You do it for major bills, and that’s what’s now happening.

MR. ALTMAN: Cecelia, let me ask you this one.

MS. MUNOZ: Mm-hmm.

MR. ALTMAN: The question is, is there any role that an indexed minimum wage can play in stimulus policy?

MS. MUNOZ: Oh, that's interesting. When I think of minimum wage overall, yes. And it's interesting that we are -- I was just on a panel earlier today focusing on (Inaudible) voice issues with the Secretary of Labor. And it's interesting that among the folks who are advancing minimum wage here in this town, we essentially arrived at a consensus at 10.10, then 12, and 20 percent of the country, evidently lives -- this is according to Town Press just today, lives somewhere where the minimum wage is now $15 or is on its way to $15. So, we are definitely having a very interesting conversation about, where what's happening around the country is a little bit different than the orthodoxy, at least in this town.

With respect to indexing, I think it's an interesting conversation. I think it's a conversation worth having. I think the conversation about wages overall is just tremendously important, both because of its fiscal impacts, and obviously, because of its impacts on the workers that we're talking about. You know, the overtime rule that the Department of Labor just announced last week, you know, raises the level, so we get back to about 35 percent of the workforce being covered by overtime from in the ‘70s, 65.

MR. MORIAL: Mm-hmm.

MS. MUNOZ: But the previous level had been set at such a rate that if you had a family of four, you were still below the poverty level. So, the indexing turns out to be tremendously important with respect to overtime, and the Department of Labor made that judgment with respect to this rule. It’s an interesting question with respect to the minimum wage, and we should be having the conversation.

MR. ALTMAN: Here’s the final question, and then we will have to conclude this. I'm going to direct this to Alan. Your paper provides the answer to this question.

MR. BLINDER: Oh, good. (Laughter) I’ll

stand on my answer.

MR. ALTMAN: But the question is, how can we incentivize states to play a more constructive role in fighting recessions as compared to the spending cut and contractionary policies they follow and to somewhat argue because of their Constitutions and balanced budget requirements, are required to follow?

MR. BLINDER: I think it’s very hard. You need to incentivize the governors or the state legislatures or whoever is making the decisions in the state, to do what the intent of the federal legislation is, as opposed to stuffy it in their rainy day fund, and a variety of other things that they could do with it.

And you know, you have limited ability to do that, but one thing you can do is much heavier conditionality and matching. That is, if you want to get this money, you ought to show us your spending of the money. Otherwise, you don't get the money. Or, make it a match that we're going to give you a TIGER grant or whatever it is, and we're going to give you

25 percent of it until you spend it, and then you get the other 75 percent, or something like that.

But I'm not that optimistic, either on the likelihood that you get something like that through Congress or --

MR. ALTMAN: Or your idea of financing -- temporarily financing state sales tax cuts by having the federal government compensate states for the difference.

MR. BLINDER: Well, sorry, I was interpreting on the spending side.

MR. ALTMAN: Right.

MR. BLINDER: Yeah. I mean, I did suggest this in the early days of the big recession, that the federal government offer to make up the revenue loss of any state that would cut its sales tax. That went nowhere, like most things.

MR. ALTMAN: Well, let’s thank the panelists, please. (Applause) And again, I want to thank the Hamilton staff, and Diane and Kristen and the entire staff for having put together a really fascinating and very effective day. Thank you.

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016