THE HAMILTON PROJECT
AND
DEMOCRACY: A JOURNAL OF IDEAS

DISCUSSION ON
"A NEW SOCIAL CONTRACT"

Washington, D.C.
Thursday, July 26, 2007

Welcome and Introduction:

JASON FURMAN, Senior Fellow, The Brookings Institution
and Director, The Hamilton Project

Moderator:

KENNETH BAER
Co-Editor, "Democracy: A Journal of Ideas"

Panelists:

JARED BERNSTEIN
Director, Living Standards Program
Economic Policy Institute

THEA LEE
Policy Director, AFL-CIO

JASON BORDOFF
Policy Director, The Hamilton Project

STUART BUTLER
Vice President, Domestic and Economic Policy Studies
The Heritage Foundation

MARK SCHMITT
Senior Fellow, The New America Foundation;
Columnist, "The American Prospect"

* * * * *

P R O C E E D I N G S

MR. FURMAN: My name is Jason Furman, I am the Director of The Hamilton Project, and I wanted to welcome you to a joint event that we are co-hosting with "Democracy: A Journal of Ideas" to discuss how to build a new social contract. Both "Democracy" and Hamilton were launched in 2006. Both are dedicated to a similar goal, to develop, discuss, and disseminate ideas about how to build a better society. At The Hamilton Project, our bread and butter is to get some of the leading academic economists and policy thinkers to develop very specific evidence-based implementable policy ideas that we believe have the potential to contribute to shared growth, economic security, and more effective government.

"Democracy" has a broader mandate both in terms of the breadth of the issues they cover, issues like foreign policy and social issues, and in terms of the level and vision that they bring to it, which is why when Kenny said to me we should come and partner together. We have a few people over; all I needed to do was bring a couple sandwiches, that seemed worth having this event. He did not tell me 150 of you would show up to it.

A lot of us, a lot of the panelists on the stage, a lot of people in this audience, have been doing a substantial amount of work on issues around pensions, health care, taxes, fiscal policy, education, and what today is is an attempt to go beyond the weeds and move up to think about how some of those different themes and some of those different ideas can be synthesized and drawn together into more of a coherent vision, something that goes under the heading of a social contract, about a year ago, a lot of people in Washington simultaneously started each working on their own version of a social contract. So when we started to put this event together we looked around and discovered there were like eight people who claimed to have invented a new social contract who we could invite, and we chose the very best of them.

The reason there is all this interest and need in this is that there are a lot of changes on in our economy; the employer system for health insurance is eroding, the character of health insurance is changing, in some ways actually becoming more comprehensive than it was in previous decades; on the pension side, defined benefits switching to defined contributions; in terms of our public programs, Social Security and Medicare, clearly something, and we could debate exactly what, needs to be done as well as in our broader health system as a whole. As we think about how to deal with all these changes, I think what all of these folks have in common is they really think in terms of what is the role of employers, what is the role of the government, and what is the role of individuals, and I think we will hear different ideas of those roles. I think as you hear that what you want to think about is ultimately we are all individual. Companies don't pay taxes, people pay taxes, companies don't pay benefits, people pay for those benefits, but you want to think about who those people are. In the case of corporate taxes, the standard CBO analysis, for example, says corporate taxes are paid by owners of capital, although different economists would differ on that. In terms of something like health insurance benefits, most economists think that those health insurance benefits are paid for by the workers in the form of lower wages, but again, some economists would differ. Regardless of who is paying for them, you want to separate that type of question of where the money is coming from from a separate question which is who is responsible for organizing and delivering those activities. So even if the money ultimately comes from one place, companies or the government may be a useful place to organize the activity for other reasons, and we will hear different mixtures both of where the financing should be coming from and what the role of these different organizations in delivering them is.

To address these types of questions and think through this framework, I will just briefly introduce our five panelists and then turn it over to our moderator. In alphabetical order we have Jared Bernstein who was recently described on a leading economics blog as a "big shot" at the Economic Policy Institute. He is also author of "All Together Now: Common Sense for a Fair Economy." Actually, I will not go alphabetically, I will go to Thea Lee next in order, the Policy Director and chief international economist at the AFL-CIO where she has been for what seems like 10 years which seems like a reasonably long time, working on all these types of issues especially on the international side. Next comes Jason Bordoff who is the Policy Director of the Hamilton Project and the author most importantly of an article called "Broken Contract" which is on this topic. It is in "The Democracy Journal," but due to an editing error, for some reason it was not flagged on the cover, but if you open it up you will find it. To his right, so to speak, is Stuart Butler, Vice President of Domestic and Economic

Policy Studies at the Heritage Foundation, somebody who has done a substantial amount of work on health care, and his very best and most important to read paper on health care is one that he wrote for the Hamilton Project that you can download from our website, and it gets into the types of issues we will be talking about in terms of the role of different employers, government, and individuals. Finally, Mark Schmitt who is a Senior Fellow at the New America Foundation, was policy director for Senator Bill Bradley, and most recently argued in "The New York Times" that at least for running we should all be much less specific than we have been to date. Finally, I want to introduce our moderator, Ken Baer, who is the editor along with Andrei Cherny and Clay Risen who is the managing editor of "Democracy: A Journal of Ideas" which he founded a year ago and has been enormously successful since then.

MR. BAER: Thanks, Jason. If you want to look for any other editing errors, our issue is outside and you could check. I'll blame Clay for errors that are in there and not take any responsibility. That was a very nice introduction, and I want to thank you. And I mostly want to thank also the Hamilton Project for not only adding so much to the economic debate and the policy debate here in Washington, but specifically for graciously co-hosting this event which was not going to be in Jason's living room, although maybe he thought that. And we would not have put this event together without the hard work of everyone at Hamilton, Jason Bordoff, the totally invaluable Karen Anderson, we well as Leandra English.

As Jason said, when Andrei Cherny and I started "Democracy: A Journal of Ideas," we wanted the journal to be a place where some of the big transformations of our time and the policy responses to them could be put forward and debated: the competitive pressures and vast opportunities of a global economy, the growing inequality in wealth in our own nation, the stagnation of wages we have seen, not just at the middle and lower parts of the income ladder, but also among college-educated and white-collar workers, the breakdown of the health care system, the breakdown of the retirement system, the growing disparities between rich and poor, black, white, and Latino, in education outcomes. All of these are major issues facing our nation, and while some have been discussed for a long time, the nature of the challenges that we face in all of these areas, the speed that they are changing or the importance that they are gaining in our society, is fundamentally different than 20 or 30 years ago, much less 10 or 5 years ago as well.

So as you consider any of these issues, ultimately you come to the question before us today, what should the social contract be in such a world? What are the social goods that we as a society have decided that all our citizens must have and who should provide them? What are the responsibilities that government, business, individuals, and civil society have to each other in the 21st century? These are fundamental questions, questions that must be asked and answered before we begin to devise solutions to our trade, competitiveness, health care, education, or retirement challenges.

That is why we have run articles on this topic, "Democracy" will continue to run articles on this topic, and why we are co-hosting this panel, because the rethinking of the social contract of the 21st century is one of the most important projects of our time.

So let's begin the discussion. Jared, let's start off with what's the problem? What happened to the old social contract, and what are we looking at today?

MR. BERNSTEIN: Thank you. Thank you for inviting me, Ken and Jason. It is a pleasure to be here. It is so much nice and cooler in here than it is outside, so I am happy to spend lunch with all of you.

I was asked to address the question, What happened to the old social contract? As Ken said, what's the problem? I wrote down my remarks and I also have a copy of this little PowerPoint, so if anyone wants them, I would be happy to share with them.

It is a challenge to say what happened to the old social contract because I fear if I asked each one of us what it was, I would get that many different answers. It is often framed in terms of the decades following World War II when a pretty clearly articulated social contract was introduced, but those were very unique times as are these times and as is every other period for that matter. So I am going to stipulate the following. A social contract whether it is new or old is like any other contract, it is an agreement, a *quid pro quo*, you agree to do something for you and I agree to provide something to you. In the case of a social contract, if you agree to act in society's interest, society will provide you with something you want and need. I think these are broad parameters that many of us would agree upon.

Often this comes in the form of fair opportunities for you and for your kids. It could come as enhanced social or economic security, protection from market failures, unforeseen negative shocks to income, illness, retirement, or from unscrupulous members of society who do not act in accordance with that contract. But a question that we have been asked to talk about today is how and through which mechanisms do societies meet this contractual obligation, and that is where I think there is lots of room for discussion and disagreement, although there may be room for disagreement in what I have said so far for all I know.

In earlier periods in this country and today in many other advanced economies across the globe, government plays a key role in fulfilling its side of the deal. Social Security, for example, is an elegant albeit a partial solution to the problem of maintaining living standards after retirement. But in social contract terms, the idea behind Social Security is that today's workers create the capital, the technology, and the wealth that will support tomorrow's generation. Embedded in the formulas behind Social Security is the notion that those of us who came before whether you are teachers, accountants, homemakers, mail carriers, cashiers, lawyers, we have built up the productive capacity of our nation. I left economists out of that. When the children of these workers come of age along with new immigrants, they are going to learn their living from this infrastructure while also making their own contributions, and as they do so, we are going to peel off some portion of their earnings to provide pensions for their forbearers just as these forbearers did for their own predecessors. If this were a Disney movie, music about the Circle of Life would swell up right now. But suffice it to say that Social Security is just an elegant collaborative solution to a universal challenge.

I would make similarly spirited arguments for a robust system of public education, public health coverage, labor standards and so on, but I am getting ahead of myself. So before elaborating solutions, I think we need a better grasp of the problem, and that is another part of my mandate.

And there is even a step back before that. Before we can agree on the problem, we have to be clear about our expectations. We have to define what is fair. This summer, my 7-year-old daughter appears to have decided that school year bedtimes no longer apply, so for her, staying up until all hours is not a problem. Similarly, though their numbers are dwindling, there those for whom current levels of income inequality or wage stagnation are not problematic. For me and for more and more people I encounter, and this is outside of my rants on the "Larry Kudlow Show," they are problematic? So who is right?

Let me offer three principles against which I think we can judge the nature and scope of the economic problems we face, three concepts that I suspect most of us would agree with, and most of us would agree must be present in a viable social contract. I am borrowing here in part from the work of Fred Block, by the way, and those three principles are reciprocity, fair competition, and fair opportunities.

I have already talked about reciprocity in the context of our discussion today. I consider it the most important of the three. The best statistical shorthand for demonstrating its absence in today's economy is the split between strong productivity growth which is the one that is floating up there, and the stagnant real wages or incomes of the typical or median family. What you have there is productivity growth which is up around 20 percent since 2000, plotted against the full-time median weekly earnings as seasonally adjusted for men and women, and the gap between productivity and median earnings that has persisted over this recovery which stands in stark contrast to the last one is evidence of the absence of the kind of reciprocity I am talking about here.

Equally important in this regard is that the share of income accruing to those at the top of the scale is at very historically high levels, and the fact that poverty rates by any measure have not responded at all to growth in the current recovery. Here you see just a plot of wage inequality from the first half of 2000 to the first half of 2007. I consider this impressive because it takes you through the first half of the year, and so many other economists stopped back a few quarters ago, so I thought you might like that.

Fair competition means enforcing the rules of the road that grease the skids of capitalism. Economists since Adam Smith have recognized that left to their own devices, unfettered markets will not provide the discipline needed to prevent serious cheating, damaging externalities, monopolies, power imbalances, that violate key market principles and lead to terribly wasteful inefficiencies. Unfortunately, we are relearning this lesson daily as excessive deregulation as undermined fair competition. There are far too many examples from the current tax code, to energy deregulation, Enron, environment degradation, and most recently, concern about the quality of importance and the subprime fiasco. Our trade deficit is partly driven by competitors who peg their currency to ours, and amazingly I hear legislators seriously considering trade deals with a country like Colombia where over 2,000 trade unionists have been murdered since 1991.

And finally, fair opportunities are key to any social contract in a democracy. Two principles to be mindful of here are the extent of economic mobility and the access to quality education. Both of these principles are in trouble in our current economy. Surprisingly, intergenerational income correlations, that is, the correlation of income between father's and son's incomes are higher here which implies less mobility than they are in Europe or Scandinavia, and there is fairly convincing evidence that these correlations have grown, implying less mobility over time. There is also strong evidence that income constraints prevent children who should be finishing college from doing so.

In sum, the three core principles that comprise the social contract are currently being violated. Prosperity is not being broadly shared, violating the principle of reciprocity. Lack of oversight has led to unfair competition that violates key efficiency principles of free markets. And the excessive concentration of wealth and political power is undermining fair opportunity.

How did we get here, and what do we do about it in my remaining minute? These two questions actually yield the same answer which is no more

YOYO economics. This idea that you are on your own for which YOYO is an acronym, has been the underlying theme of much public policy for the last few decades. It is the notion that no matter what ails is, the market solution is the right one, and here is a tax cut, a private account, a gentle or maybe not so gentle nudge into the marketplace. YOYO's fingerprints are on the failed efforts to privatize Social Security and Medicare. YOYO arguments are mustered in favor of regressive tax cuts, every trade deal under the sun, and an opposition to market interventions like increased union power or a rise in the minimum wage.

The advocates of YOYO relentlessly argue that their path unleashes market forces with great macroeconomic outcomes that will then be fairly distributed as per our meritocracy; never mind that YOYO outcomes are macroeconomically unimpressive and distributionally terribly skewed. What is disturbing is that too much of what passes for liberal social policy accepts the market arguments of the YOYOs, but adds the wrinkle of redistribution through taxes and transfers: we will let the market rip, but we will sprinkle some benefits on the losers. There are two problems with this, and these are my closing comments. First, you cannot renegotiate the social contract; you cannot reinvigorate reciprocity, fair competition, and opportunity, if you ignore the power dynamics that determine the primary distribution of incomes and wealth otherwise known as market outcomes. Union, minimum wages, fair trade deals, interventions in foreign exchange markets, active full-employment policy, return to progressive taxation, universal health and pension reform, reregulating financial markets, renewed labor standards and oversights, family-friendly work policy, all of these are not just fair game, they are the game. They are at the heart of a comprehensive solution that is at the scale of the problem.

Second, unless we address the fundamentals undermining the social contract, we will constantly have to ratchet up the redistribution machine, beseeching Congress year in and out to offset ever-rising market-driven inequality. I for one do not want to sign up for that job.

But there is I believe a change in the air. YOYO economics is increasingly viewed by the median voter as congenitally unable to meet the challenges we face. From globalization to health care, the debate is not so subtly shifting I think, and what the media often calls "populist economics" is ascendant right now. Where this leads is of course yet to be seen, but listen to the economic agendas of the Democratic frontrunners, one of whom I suspect will be our next president, and you will hear these themes writ large. Each one of them has at least a few big ideas about renegotiating the social contract in the spirit of my remarks.

So I urge those of us here who are advising campaigns or crafting policies to get their attention to think big and bold about economic policy. This is going to take more than small-bore tweaks through the FISC (?). Along with progressive reform of the tax code, our prosperity agenda should include policies that are up to the task of reconnecting living standards and growth, repairing and expanding the safety net, regulating fair competition, or regulating, using the breadth and scope of government to craft an efficient health care system, rebuild worker's bargaining powers, and ensure full employment. That I believe is how we renegotiate the social contract and in so doing rekindle faith in an economy that works for all comers, not just the chosen few. Thank you.

(Applause.)

MR. BAER: Thanks, Jared. Pulling back a little, looking internationally, what is happening in the global economy which is making the old social contract obsolete?

MS. LEE: Thank you, Ken, and thanks, Jared, for that excellent overview and introduction to this discussion.

On the global economic trends, I think what is interesting is that we see a couple of different pieces happening, trends that are driven by government actions by different policy changes, trends that are driven by changes that happen in the world whether it is technological, communication changes, or the size of labor markets, then finally, changes driven by corporate strategy, and these things are all related to each other. One of the interesting questions I think for us today is where the policy levers are and what the direction of causality is because certainly we in see the overall international trade trend for the United States, we see, at least we do in the labor movement, overarching the enormous U.S. trade deficit of around $800 billion right now, it is around 6 percent of GDP, it is at a level that I think even many mainstream economists would say is not healthy, not sustainable, problematic, something we need to do something about, but we do not agree at all on what are the ways that we need to go about addressing that kind of enormous imbalance.

But certainly when we talk about the social contract and the kinds of pressures that we have on things like health care and pensions certainly in the United States, and I would say for American workers, these two things are at the very top of every agenda because this is what happens every day when American workers sit down at the bargaining table, the increasing costs of health care and the pressure by employers to get out of the health care business, and the same thing with respect to pensions and the traditional pension system, creates enormous tensions. And I think we have created a system which is perverse, that over the post-World War years we evolved the system of a three-legged stool for some of the social contract where government, employers, and workers each contributed their piece to it. And now we see certainly almost an abdication on the part of employers as they flee for the exists and try to avoid their obligations with respect to health care and retirement security, but we do not see the other two pieces of the stool rising up to fill the challenge. We do not see a growing consensus about either expanding government programs, and we certainly do not see individual workers with the capacity to fund their health care by themselves in a private system or the same thing with respect to pensions.

International trade trends are driven first of all by government rules, that there plenty of trade liberalization that has occurred through the context of bilateral agreements, unilateral agreements, and multilateral rules through the World Trade Organization, but it is not just the quantity of trade that it is at issue, it is the type of trade and it is the underlying rules. Jared mentioned a couple of the issues with respect to that which are the terms of competition in the global economy. I think that is really what is important for today's conversation, not just are we competing in the global economy, but what kind of ground rules have we set, and have we got the balance of global economic policy right.

I have been in this debate for a long time, for a couple of decades now here in Washington, and if there is one point that we have over and over again, and I think maybe people are finally starting to wake up and agree that there is some value to it, it is that the trade debate is not a yes or no debate. We are not asking ourselves yes or no, should we be part of the global economy. That is done. We are in the global economy. We are there to stay. The question is, do we have the right set of rules that allow American workers, American farmers, and American businesses, to compete and survive and thrive in a global economy, and that is where I would say we have really let down all those groups, companies that are on American soil, American workers, and American farmers, that we have between currency issues, tax issues, worker rights, environmental standards, even food safety, we have disadvantaged our own domestic producers in the name of free trade, the rhetoric of free trade, the ideology around that.

I think one of the other key issues that we see that driven this change in the global economy is corporate global strategy, that multinational corporations have very deliberately engaged in the policy debate in a way to speed and exacerbate the impact of globalization on American workers, between the offshore outsourcing of American jobs and the role of the financial sector, the business community that provides the funding for manufacturing and for production, has almost created a rush for the exists where you can think of a government having different attitude toward the pressures of globalization. One is to say if your company is encountering trouble competing in the global economy, here is the way to hurry up and move your production offshore so you can produce somewhere else and then not worry about how to compete while still paying American wages, abiding by American health and safety standards, environmental standards, and food product standards, just leave, and that seems to be what our government and our corporations have come together to agree is the consensus.

There is another way of addressing this question which is to say, what do we need to do to make it possible for American companies to produce on American soil, to do so profitably, and to thrive in that global economy? We need to make those conditions fair. Some of the issues around the level playing field are a little bit clichéd, but they are not totally without some basis, that if you had a tax system for example that rewards companies that move jobs offshore, even through our corporate tax system and I think this is one key piece of what we need to talk about today, we tax our corporations with a direct profits tax. Most of our industrial competitors in the world tax corporations through a value-added tax or something like that which has a border-adjustable piece to it which means that they are actually rebating the tax paid by corporations at the border on exports and they are actually imposing another tax on imports that come in, so our producers are double disadvantaged in competition with most of our major competitors, and we need our government to address that issue, to be able to take that seriously, as well as the currency issues.

The global economy pressures on our national social safety sector are enormous. It is something that we see over and over again. You hear it certainly from the auto companies and the steel companies where we have created a situation where some of our best companies, our best and our oldest and our most unionized companies that are very engaged in global competition are the most disadvantaged by the way we have chosen through the years to fund our health care and our retirement security system, but changing that system of course is always difficult and that is why this conversation is not easy. I think everybody can agree that that is a problem, but they cannot agree how to fix it, and I think as both Jason and Ken said, part of the issue is that there are two levels to the question. One is how much health care and retirement security do we need, and the second is how do we fund it, how do we spread the funding so that it does not create an enormous competitive disadvantage for our producers.

I think there is another piece of it which is also important in this discussion which is that how we create it so that we do not actually penalize our most humane employers, that employers that have a relationship with the unions, that have not invested in union busting, for example, the competition between Wal-Mart and Safeway where Safeway is a unionized employer and Wal-Mart is an un-unionized employer, Wal-Mart invests a lot of money in not being a unionized employer and in not paying health care to its employees. That is maybe a different situation because it is not so directly subject to global competitive pressures, but certainly that is the case in many other sectors as well where our industrialized competitors in autos for example fund their health care very differently from how we fund our health care and that creates a huge competitive disadvantage.

Let me just close with the important thing is that there is directional causality in both directions. It is not so much that globalization has made the social safety net unworkable, that the social safety net made us uncompetitive in the global economy, it is that these two things happened at the same time. It is true that the global economic pressures that came through technological, transportation, communications, and trade liberalization trends made it impossible to support the old system that we had of how we funded health care and pensions, but it is also true that corporations drove a certain pattern, a certain set of rules in the global economy in order to undermine the social safety net and the bargaining power of workers and the point that Jared made that I think you cannot stress enough which is that how we resolve these questions, how we resolve the issue of whether workers have the right to organize and to bargain collectively and therefore whether they can bargain for health care, pensions, for decent wages, and a healthy and safe working place are inextricably intertwined with how we have chosen to engage in the global economy. So we need to both address the domestic economic challenges and the global economic challenges at the same time when we talk about protecting and strengthening the social safety net. Thank you very much.

(Applause.)

MR. BAER: Thanks, Thea. Jason, building on that, I want to ask you a very big question, but I want you to just take a small piece of it and the interests of time we will get to it in our discussion as we continue. In light of all of this, how do we rebuild the social contract, one aspect of this rebuilding quickly or one principle to guide that?

MR. BORDOFF: I just want to start if I could by echoing what you said to begin with which is to thank Karen Anderson and Leandra English especially and everyone else at The Hamilton Project, and you and your colleagues at "Democracy" for pulling this panel together on this really timely and important topic. And also to Jason Furman for drawing attention to the egregious editing error on the cover of the "Democracy Journal."

I think Jared and Thea have laid out the case really quite well. As they were speaking I was reminded of something I heard at a panel discussion across the street a week or two ago, some of you may have been there as well, on the topic of economic anxiety at which Celinda Lake laid out some of her most recent polling research, and I remember she had found that in a March survey of nonsuprevisory workers, only 15 percent surveyed thought that the next generation would be better off than this one is. And I think given America's historical track record of economic growth and broadly shared prosperity which has been the case for much of American history except for the last few decades. That number is really striking and it speaks to many of the problems you just heard Jared and Thea describe, rising inequality, rising levels of economic risk being shifted to the individual in areas like health care where the percentage of employers offering health insurance is down and premiums are up, pensions, the shift from defined benefit to defined contribution job loss where average job tenure is down, the average duration of unemployment is up, unemployment insurance is less to cushion the blow of unemployment than it used to, all of these things as well as income volatility, and if you want to know about that, Doug Elmendorf or Elizabeth Jacobs who are both here today at Brookings, I would commend you to some of their work.

The question you asked was what do we do about it, and I think we should start by recognizing that the employer-based model which has been such a critical part as Thea said of the stool of the social contract for the last half-century is eroding and we should spend our energy focusing on what comes in its place, not necessarily on trying to save it.

I say that for three reasons. The first is I think it is largely infeasible, as she also said, the global competitive pressures are making it more and more difficult for firms to sustain these obligations which is why you see AT&T and Wal-Mart and all these other companies coming together with SEIU as unlikely bedfellows to talk about things like universal health coverage. It could potentially be harmful. I think a variety of evidence shows that certain direct market interventions and certain restrictions and requirements placed on industry to prop up this sort of system can impose a steep economic cost in the long-term.

And third, I am not even sure it is desirable. I think we should remember that things like employer-provided health insurance are largely the result of historical accident. I am not sure people would sit down with a blank piece of paper and design a health care system that looks like this. This was a result of wage controls during World War II and firms offered benefits to compete for talent, and then a few years later when the tax exclusion for employer-provided benefits came into being, the system was sort of here to stay. So the erosion in some sense gives us a chance to think about how we would design it and gives a chance to get it right. So the question is, what does getting it right look like?

On the one hand, I think the erosion of the employer-based system is going to mean as Thea said a more robust role for government, and we should be honest about that. I think people are sometimes reluctant to talk about that. Getting government out of the way is not a magic solution to these problems. To be sure, free markets are the best organizing principle for an economy, but they need to be supplemented by government and government needs to act when markets fail.

On the other hand, we should also recognize that government cannot solve all these problems. We are not going to spend our way out of the problems that we face through big new government programs. I think there are some areas where the evidence certainly justified big new government investments that would reap very large rates of return like early childhood education. But given the budget deficit we face and the looming entitlement obligations, I think we also need to focus on what Richard Zeckhauser and Peter Schuck called in a recent book Brookings put out, for example, target efficiency, thinking a lot more about using evidence and thinking about bang for the buck, using evidence to make sure government policies are as well targeted as they can possibly and to be as effective and efficient as possible.

What does this mean? On the one hand, government has to be more robust; on the other hand, it has to be well targeted and narrowly tailored. It reminds me of that joke about Harry Truman asking for a one-handed economics adviser because they say, "On the one hand this, one the other hand, this." So at the risk of upsetting Harry Truman, it is a little bit of on the one hand, on the other hand.

So let me try to articulate one frame that might be useful in how to think about what I mean by that, this sort of on the one hand, on the other hand, and this is something I tried to articulate in the "Democracy" article. One way to maybe think about it is government operating at two levels of support, a core tier, and a supplemental tier. In this core tier, government's role is to provide basic protections against key economic risks. The government's role is to pool risk collectively, to mandate individual participation in the risk pool, to provide social insurance against economic risks that individuals may be inadequately able to protect against on their own. Currently some of these policies government provides are some of the best legacies of the New Deal and the Great Society. We protect against the risk of poverty in old age through Social Security, we provide health insurance to the elderly and the poor through Medicare and Medicaid, respectively. And we should think about a whole bunch of other roles where government might provide these sorts of social insurance programs whether it is wage insurance to protect against the risk that after a job less, you are reemployed at a substantially lower wage, strengthening unemployment insurance, maybe long-term care insurance so as the population ages and

Medicaid offers inadequate protection in that regard. Certainly health care; there are a varieties out there for what to do about health care, but many of them involve government creating some sort of alternative risk pool like the Massachusetts Connector and possibly mandating that individuals participate in it in order to make sure that the young and the healthy do not opt out and drive up costs for everyone else.

Then in addition to this core tier of protections there is a set of policies that might be hopefully thought as a supplemental tier, government policies where government can often at relatively low cost, and I think that is critical to keep in mind, can make it easier for people to take responsibility for planning for their economic futures and protecting against economic risks. Example would be things like default settings have gotten a lot of attention, drawing on the behavioral economics literature about the power of default settings, government can help people save for retirement through automatic enrollment in 401(k)s and IRAs. Certainly through the tax code there are a number of things government can do I think in this regard to better target limited tax subsidy dollars, for example, to increase savings by those least likely to do so by switching from deductions to refundable tax credits. Or in the case of the exclusion for employer-provided health insurance, we can help people afford health insurance and potentially reduce the growth in health spending by replacing the current deduction with a flat-rate credit for the purchase of health insurance or health care. I won't go on, I think it works in other areas as well and we can come back to it and talk more about it if you want to or you can certainly read the article when I try to talk more about it, but I think it potentially helps us to think about government's role in other areas as well.

MR. BAER: I wanted to go to Stuart on one issue if I can.

MR. BORDOFF: Let me just quickly in one second say, and we will come back to it, but the other thing I was going to say was to briefly mention that there are two other parties to this social contract and we need to think about their roles and responsibilities as well, and that is for employers who cannot walk away from these obligations but can potentially play a helpful role as a facilitator, as a conduit of benefits, to help us think about how to deliver these things by automatically enrolling people in IRAs and 401(k)s, by giving administrative support as they do today with the tax code, by providing paperwork and withholding tax payments from paychecks, and also to contribute to this stuff through a more robust corporate income tax, and Jason Furman and Larry Summers and I talked about this in a paper released last month.

Then for individuals, they have responsibilities as well to continue to pay payroll taxes, to accept potentially government defaults and change those if they do not like them. And then there are a variety of other personal responsibility type requirements that people might think about as well, i.e., the West Virginia Medicaid plan, I am not sure I got this exactly right, but it was driven by the idea that health care for example is something where people have responsibility to lead healthy lifestyles and seek preventive care and follows doctor's treatment regimens and that sort of thing. I am not sure you would design it the way they did, but something motivated by those principles might help us think about the roles and responsibilities that people might have to marry economic growth and economic security with new and sustainable roles for government, employers, and individuals, and maybe by doing it in a way that is something like this we can make sure that we fulfill that quintessential American promise that with hard work and education every generation can do better than the one that came before it.

MR. BAER: I think you ended on the perfect note that I want to go to Stuart on which is health care. Everyone here who has been in our system, even those who have a great benefit to the federal government, knows that this is not a perfect system, we interact with it all the time, and it is maddening, for the millions of people who do not have health insurance it is even worse. Just taking that one small area, how could we update this core part of the social contract, health care?

MR. BUTLER: I am strategically placed from your perspective on the center left, but you can judge exactly where I am on this. But I would like to answer your question, and I would hate to be pigeonholed into that small section since we have been talking to extensively about the nature and the principles.

MR. BAER: Take that instead, and I am sure everyone else will jump on the other ones.

MR. BUTLER: So I think it is important to see how we think about health care is really a microcosm of the approach to the social contract, and let me answer it in that way. Although in America the idea that the term of social contract of course is not as commonly used and has not been as we have seen in

Europe, the idea of a social contract is engrained in America and I think we all understand that and accept that. We are a society which allows people and encourages people to pursue their objectives with freedom that is not known as well in other countries. But also we see people as members of a society where the society and the individuals have obligations and rights and that that is our essence of a social contract and that there is an obligation by the wider society, and I accept this like I think all Americans do, to try to assure that nobody through no fault of their own falls and suffers in ways that are beyond their control.

Secondly, there is a corresponding obligation by people who are assisted in this way to use it to become more independent and self-sufficient and so on, and that is a very American vision I think of the European social contract. It is true also I think to say that if you look at the post-war period, we have seen some developments that raise the kinds of concerns that we are now facing together, particularly we see it in the health care area, and I would suggest three trends in the post-war period that are particularly important to bear in mind.

One is that we temporarily at least in the area of antipoverty programs abandoned the two-way mutual obligation vision and reinstituted a one-way welfare rights vision for a period which was very detrimental to the very people who it was supposed to be helping. In the 1990s we corrected that by moving back toward the notion of mutual obligation through welfare reform, a two-way street, obligations on both sides, and I think people have benefited from that.

The second thing we did which is what you are mentioning is that we also slid into thinking of a key element of the social contract in this country as being employers, that somehow employers would do what the broad society we had expected to do prior to that, that these employers somehow would do this on behalf of the general society. What we have seen is the problems associated with that when you have people who have very different objectives and incentives from the society as a whole seeking profits, seeking returns to ownership and so on, and they are expected to do things which the wider society should be doing, you get the kinds of problems we have seen in these areas. You see health care which is uncertain, where there are cutbacks, where there are all sorts of things, no portability, people losing coverage and so on. We have seen pensions where people have gone down with the ship in the case of Enron because we have tried to tie all that social obligation into employers and we have seen an erosion of cash compensation because of employment-based benefits crowding out cash itself. So this experiment with going down the route of employers somehow mimicking or being substitutes or proxies for the wider society I do not think has been successful.

Then the third element I would just say quickly is that we have also seen social insurance programs which is the other kind of core part of the American social contract, the financial part, being slowly but surely corrupted over time into a system which is now much more a system to provide greater wealth and support to the middle and even upper-income people, and we have seen that increasingly in recent years, the drug benefits and so forth, rather than a way of protecting individuals. And we have also seen the social insurance programs become increasingly a systematic method of enriching the current generation at the expense of future generations where the unfunded obligations of Medicare alone are $32 trillion that are completely unfunded and passed on to the next generations.

So when you think about social contract both horizontally and vertically between the generations, we have been messing it up very much for the last few years and I think if we are going to get back on track with the general underlying notion of an American social contract as we traditionally understand it we have got to do certain things and they affect health as much as they affect other areas.

One is I think we have got to face up to the notion that we have got to start to modify our vision of social insurance away from this game of enriching the current generation at the expense of future generations into one which is really true insurance in a way of really focusing on people who need it rather than people who do not. Therefore, I support very strongly the idea of saying we ought to be looking at Medicare and Social Security and in fact reducing benefits to people who are upper income and strengthening them for lower income and making the whole system much more viable over time. I guess that is left, right, I do not know how you would describe that. But anyway, I think that I critically important.

Secondly, I think as a nation we have got to make some basic decisions about the degree of support that we provide to people through the social contract safety net social insurance programs relative to other goals of our society and make conscious decisions about that rather than the open-ended entitlement mechanism that we have today. We may decide to give more help or less, I do not know, but we should make a conscious decision. We do not do that today and that is what allows the current social insurance systems to have been corrupted over time and transformed into something which is very different from the original intent of the idea of a social contract.

I think thirdly we have got to encourage people more than we do today to create savings for themselves and insurance themselves, in fact, long-term care insurance, for example, much more than we today so that the degree to which people can really handle their own uncertainties in these areas like health and have the means to do so, we do it rather than these kinds of schemes of social insurance that transfer that risk to future generations.

Then finally I would say we definitely, I think this is one thing will all agree on, rationalize the role of the employer in our society in the way we think of the social contract. As I said, I think the idea of an employer as one's agent or the proxy for the society as a whole in health as in other areas is in my view clearly a blind alley with all kinds of problems associated with it and we have got to transform that. That means that looking at alternative agents in the area of health care, unions would be good, others as well, as being the areas where people act on the individual's behalf in an uncertain environment. We need to change the subsidy system particularly through the tax code as Jason and others have mentioned so that we do not force people to pick an employer to run those things when the employer's interests and the employee's interests are often diametrically opposed. You would want the employee, the family, to be able to choose an agent that is most sensible and most in line with their community of interests, and so that requires changes in the tax system.

To conclude, I think in health as in all these other areas we have accept the notion in America of the idea of a social contract, we accept that it is a mutual obligation, and we accept that there are agents and individuals within that society who if they are not acting on behalf of the society as a whole which I do not think employers can do, they are not going to fulfill the social aspect of the social contract.

MR. BAER: Thanks, Stuart. I think one of the interesting things is the devil is in the details in all this, but even before you get to the details there are some fundamental questions, and one is who are the parties into this new contract. Is it between government, the private sector, or individuals? What role do unions play or what roles do other civil society and faith-based groups play in all this? Mark, I want to ask you, what role do individuals play or should play, or what is a vision to reinvigorate the social contract in a way that perhaps changes this balance of responsibilities?

MR. SCHMITT: I will work my way toward an answer to that question.

MR. BAER: Also be mindful of the time, too, as well. We only have so much dessert here.

MR. SCHMITT: I will use Stuart's watch here, too, to be mindful of the time. I want to thank you, "Democracy," and the Hamilton Project for inviting me and for putting this together. It is a tremendous event. "Democracy" at one year has been terrific. I have had the privilege of publishing in your pages and getting a lot of comments. You have a tremendous readership.

I sometimes become uneasy with overstressing the metaphor of the contract between parties on the model of a labor negotiation where you go in at the table and fight for your deal because there is no table; there is no setting at which we make these choices. In the process of doing this project at the New America Foundation, what we are trying to do is look at the policies, what are the underlying principles reflected in those policies, and then what is the overall story of the social contract both past, present, and future, that the policies and principles fit into. In the course of doing that I have begun to think that in a sense, what we call the social contract is more a decision as a society, a political decision as it were, about how we deal with the economy as a society. So in a sense, it is a sense of decisions about what do you want to change in the economy, what do you accept and use social insurance to protect people against, what are the things that you want to equip people with the tools to compete in the economy whether it is education or assets and things like that? In a sense, what you come down to is a political choice about what those options are rather than I think a negotiation among parties because there is no space for the negotiation among parties.

I wish Jared were right when he says that all the presidential candidates are ready to renegotiate the terms of the social contract. There are certainly some instances of that that are very provocative, but more often you will hear language like we cannot do anything about globalization, use the EITC to protect people, that is what you can do, which is an very common, implicit statement of what those choices are which is essentially we cannot really address anything in the economy and the best we can do is I think as Jared put it throw some benefits to the losers or actually subsidize low-wage work or even go further with wage insurance which is essentially a full-scale acceptance of a low-wage economy. And I think that as we look to first principles about the social contract we should be willing to say we could change anything we want to change, we can have a kind of mastery of how individuals operate in the modern economy, rather than drift, to use Walter Lippman's metaphor and work it from there, not to say there are costs to things that you decide to change or choices you make, but get it all on the table and begin to talk about it.

The American social contract I think over the period since the 1930s has probably the best track record of any model that any country engaged in. Right now we are seeing a lot of the actual advantages of the European social contract model and less of the sclerosis that we used to think was endemic to that model, but over the full period, the U.S. social contract which is balanced, it is not based on any single ideology, and above all, it is adaptable and has this extraordinary track record, and the adaptability is hugely important, as well as the fact that it is a lot more robust than we often acknowledge, and when you really break out all the private-sector elements of the social contract there is lot more there than we sometimes want to pretend. However, it adapts awkwardly. It often takes a crisis for it to adapt as in the 1930s, obviously, or it adapts through sort of invisible changes as in the expansion of social programs that really were almost driven by inflation in the 1970s that made things invisible.

I think there is agreement here all across this panel that it is overdue for an adaptation, and what we have here, and I think Jason expressed it very well, we have an opportunity to do that adaptation in a kind of calm, thoughtful moment as opposed to a crisis, as opposed to the middle of the New Deal.

I think as you work through the social contract in history, I would say there are three principles about how you would think about the next phase of the American social contract. One is to understand that security and opportunity are not tradeoffs and that by providing people the security to function in the modern economy, you create the kind of opportunity that they can have. The Social Security privatization battle of a couple of years ago was essentially a political offer of saying you could trade security of opportunity, in the model world you need opportunity and not security, and to say to that younger generation what you want is you want stocks, you want ownership, you want to zoom ahead, you do not want this old-fashioned thing your grandparents valued which was security. I think the political result of that was to say, no, we the American people actually get that it is having this base of protection that we count on that allows us to actually take some changes, take some risks, do some things in the world that allows us to invest our actual retirement savings in stocks and things like that. So I think that is one important piece of it.

The other piece of it is that we should have no presumption, no preordained determination about what we think the level of public involvement is, what we think the level of government should be. One reason that we are overdue for an adaptation is that we have lived through a 30-year year of enormous timidity about what government can do. We do everything through tax credits and tax deductions and little subtle games because we are not willing to say here is a public good that we want to provide in a fair and reasonable way, so you call something a tax cut when in fact you could do it a lot more efficiently and move people forward if you were willing to use the levels of government in a positive and affirmative way, and so we should have no presumptions. It is a political choice, you may not wind up with a perfect result, but in thinking about it from a calm perspective, have no presumption about what the level of government should be. And also that you want the social contract to be kind of future-proof, you want it no to be bound to a particular vision of what the economy is and what the structure of industry is and so forth. I remember in the early 1990s when I worked on the Hill, we spent a lot of time dealing with the total meltdown of the unemployment insurance system, and while we were dealing with this minutia of policy I suddenly realized the reason the unemployment insurance system is broken down is because it is designed for the auto and steel industries and there are very specific things about it that do not work well as the economic structure changes, and we can expect enormous changes in the American economy in the decades ahead and so we need to build something that is kind of future-proof.

So when you build from those assumptions I think you wind up saying what are the kind of mediating institutions for a social contract like that? When I was listening to Stuart, I do not know if you ever seen one of those dial-pad focus groups that they sometimes do during a speech or a debate where they get a focus group and they turn the dial when they hear something they agree with or something they disagree with? As I was listening to Stuart, if I were one of those I would swinging the dial madly back and forth because every 2 seconds there was something I strongly agreed with and something I strongly disagreed with. And now I have forgotten the point I so strongly agreed with him about.

MR. BAER: Not only is this panel so good, but they both agree and disagree with everything.

MR. SCHMITT: We have mediated too many things through employers and that creates a burden on employers and it creates an enormous burden on individuals. It denies them that security that allows them to take advantage of opportunity.

MR. BAER: Mark, let me ask you a question on that. If things devolve to the government, does it go only to the federal government or the state government? If it does, another unique feature of American life is we are very distrustful of government. So at what point do you balance that, is that workable? Secondly, a theme through that is choice is something we value and looking at people who can program their iPods to anything they want and watch anything they want on TV, we are a choice generation, how does choice then play into a new social contract? How could that be accommodated?

MR. SCHMITT: We often overstate I think the degree to which people want choice. There is a whole cult of choice in health care, for example. In fact, people want decent health care, they want choice of doctor. They do not necessarily want the 50 different plans to choose among, and we are experimenting with that with the Medicare drug program as well.

But a program with a large federal element becomes in effect a less-mediated program. As an individual, you can be certain that you have these goods. They carry with them obligations. They are not entitlements in some absolute sense. They can carry with them obligations, but they essentially goods that you carry with you wherever you work, wherever you live, and that are not tied to some community. There are benefits that can be provided at the state level. I joined a debate about this recently, I think there are a million things that states can do very well and it took liberals a long time to realize that devolution was okay, there were lots of good things you could do at the state level. One thing states cannot do, however, is provide true universal health insurance. They may try. Governor Kitzhaber of Oregon was at the New America Foundation about a year or so ago. He really mastered the use of waivers for health care. He said I've got a new scheme. We're going to take all of the money that comes into the State of Oregon for health care and we are going to build a universal program out of it, and that means I want all the money that the federal government provides through the tax deduction for employer-provided health care and all the money that comes into my state through Medicare. I want to be able to take it all and build a system. Maybe you could do that, but you cannot channel a stream of money that is going to employers which are multistate employers and also take Medicare which is an individual benefit and move it to the state. So I think that that is a real reminder that at least on health care and certainly probably for pensions which are things that people will carry with them, there is no earthly reason those should not be federal benefits. We should not be sheepish about making them federal benefits because it is by making them federal benefits that you make them individual benefits, that you invest them in the citizen. There are a million other things that we can certainly ask the states to do, but I think we should be much less squeamish about that and I think that in 15 or 20 years I would be willing to bet that we have a world in which the federal government's share of GDP is larger, public confidence in it is greater, and business understands that it is the greatest thing that ever happened to the competitiveness of American business.

MR. BAER: Stuart, what do you think about that future?

MR. BUTLER: It is a pretty gloomy picture, I think, and there are a couple of reasons why. I think you only have to look at something like the massive imbalances that I just mentioned in the Medicare program to say why it would be folly to centralize all these things at the national level. If you think that that is going to lead to a fair and just and equitable and financially sensible end result, you are probably the kind of person who thinks professional wrestling is real. The fact is that you are going to get an enormous problem if you do that.

Secondly, I just completely disagree with Mark about his vision of a kind of state-initiated strategy in areas like this. He says you cannot give all this money, you cannot? Maybe you have to change some laws to do so, but the nation that you cannot inherently do that I think is absurd. You can have a situation where the federal government speaking on behalf of the nation says these are the objectives, these are the goals that we have in mind, a secure health system and so forth at adequate levels, the federal government can do that, set broad goals, set parameters, set the ranges of what is permissible, what are the outer boundaries, and then ask states or allow states within that framework to put forward proposals to use the current funding in more effective ways to reach the outcomes and goals that we want. That to me would lead to a system of constant examination, comparison, and improvement. You try to do all that centrally in the federal government and you will get a very bad result and it will be highly politicized, highly centralized, no way to compare it with other alternatives or to generate improvements. And if you are an individual and you have a concern with it what do you do? Call your congressman. That is going to solve your problem. You have got to have a competitive situation between levels of government.

MR. BAER: The laboratories of democracy.

MR. BUTLER: It is the reason why we have a federal system in this country, and there is a good reason why it has been much more creative in social policy as well as economic policy than you see in the European countries and so on. I come from Britain with a centralized system where the nanny state, centralized and so on, cradle to grave, where people would wait years to get into the health system, with mass unemployment throughout the 1950s and 1960s, this is not a great social contract let me assure you.

MR. BAER: Jared?

MR. BERNSTEIN: I don't know how much you want us to comment.

MR. BAER: Just a quick comment and then I want to take a couple of questions.

MR. BERNSTEIN: I think the reason I agree with Mark and not Stuart on this point about health care is a fairly technical and pragmatic one which just has to do with risk pools. I just heard an Al Gore like groan there. I think if you are talking about minimum wage, that is an interesting example of state laboratories. You have something like 30 states that have their own minimum wages that are higher than the feds and that has actually worked out well. If you talk about health care, you typically want the largest risk pool you can have for obvious reasons and I am happy to articulate them if you want, but in the interest of time it is kind of obvious. So I think you actually constrain yourself and increase inefficiencies and costs if you do not tap that insight.

MR. BUTLER: That implies that the only risk pool that will function is one with over 300 million people in it which is absurd.

MR. BERNSTEIN: That is not the only one, it is the best one.

MR. BUTLER: No, that is not true.

MR. BERNSTEIN: Why not?

MR. BUTLER: You know in advance what is the best design of a risk pool.

MR. BERNSTEIN: I could say you know what's the best.

MR. BUTLER: I don't know.

MR. BERNSTEIN: I am saying that solid actuarial analysis suggests that bigger risks pools are better. If they are not, if we try universal health care and it does not work, strange, because every other advanced economy has done it and it has worked well, then we can reverse course and do something different.

MR. BAER: Let's table that health care thing. If you have any questions, we are going to do a couple at a time. You need to speak into the microphone as we are recoding this. Then just identify yourself clearly. Do you have any questions anyone? The gentleman over here?

MR. GLASGAWAY: I am Mike Glasgaway from the Congressional Joint Economic Committee and I have a question for all of you. It does seem to me there is a consensus among the panelists that the time is ripe for renegotiating the social contract, but it seems to me for obvious reasons, and historically and culturally, there is tremendous resistance and there has been tremendous resistance in the United States to expanding the social contract except under fairly extreme circumstances. So I just want to ask anyone who wants to answer, is the idea right now that the time is ripe because there is this generalized economic anxiety among Americans in regard to globalization? Why right now?

Why aren't we going to be back here 5 years from now thinking about the same issues, and why is the time different now than it was 5 years ago?

MR. BAER: Jason Bordoff, do you want to jump in on that? Let's take that one, and then we'll get the other ones set up.

MR. BUTLER: I am not sure that the time is ripe for a rational kind of conversation about this. I am just not sure that it is because what I hear all the time in the health area is that the solutions are always to somehow give more to everybody and yet somehow it should cost less and there should be lower taxes. If you can figure out to do that, that is great. It is easy to say that, and I am sure you get a lot of applause, but the idea of facing up to the absolute decisions you actually have to make, I do not see any great stomach for that among the candidates. Maybe you are seeing something I do not see.

MR. BAER: Thea?

MS. LEE: I think the time is ripe and I think for a couple of reasons that are all coming together. One is I think both in health care and pensions, the system is clearly broken. It is just not working. And on health care particularly you see a new consensus among employers and unions and ordinary Americans that we need something different, that the costs are rising too high and we are getting too little for it. The system is tremendously inefficient. It is just a wasteful, dumb system, and I think we can do better, and there is always pain involved in changing whatever we have at the moment and that people are willing to contemplate that in a way that they were not willing to do in 1992.

The same thing can be said about pensions. I think this is a system that is about to go over a cliff and that people have really not woken up to a huge crisis in retirement security. We have all grown up not seeing elderly people, our grandparents, our parents, living in poverty, but if you look at right now the erosion of the employer piece of the defined benefit system and Social Security is not expanding at the moment and the amount of savings that workers have is totally inadequate, so something enormous is going to have to change if we are not going to face a huge crisis as the baby boom generation hits retirement all at once and we cannot fund that. So I think there is a consensus that we need to address that, and you take that on top of globalization and the trends that Jared put forward where you see this tremendous inequality, inequality and economic insecurity coming together, that is widely perceived as unfair.

I think people are going to have to pay a lot higher taxes and we are going to have to figure out how we do that, how we divided the taxation system so that we can do that. And something I certainly agree with Stuart on, you cannot have better outcomes, better services, get the employers out of the competitiveness problem and not pay more taxes, it's got to come from somewhere, but we have to be able to build that consensus and I think we are on the verge of it, we are not there yet.

MR. BAER: Let me get Jason in here.

SPEAKER: It is all that, but it is also the failure of YOYOism and conservative approaches to these problems to be effective and I think that is more evident now than it was in the prior years.

MR. BAER: Jason?

MR. BORDOFF: Thea talked about pensions and health care and that is all true. The only thing I would is I think these issues of economic risk and inequality, they are just affecting a much larger group of people. We have seen wage stagnation and lagging productivity growth for the last several decades except for the last 5 years of the 1990s, but you see more and more people across the political aisle, so David Wessel in the "Wall Street Journal" today wrote about a recent report by someone who was on Clinton's Council of Economic Advisers, someone who was on Bush's Council of Economic Advisers, and someone who was in Bush's Commerce Department, a really interesting report that came out that echoed what Matthew Slaughter and Scheve wrote in their "Foreign Affairs" article, that we saw for a while inequality trends that roughly track skill, people with college educations were doing well and those without were not, and then this "Foreign Affairs" piece that came out this month showed that wages have been stagnant for every educational group except the 3.4 percent of the population with professional degrees or PhDs. So we are seeing that the gains of the global economy are accruing to really a small sliver of the population. You see that in the inequality data, if you look at it we see levels we have not seen since before World War II, and growing recognition that a much larger segment of the population is not sharing in the gains of the global economy than we have seen in the past.

SPEAKER: May I just jump in on this?

MR. BAER: Sure. Let me just identify the next question.

SPEAKER: I just want to comment in response to that. I think health care is a big piece of that, the fact that business is rising up and wants to see a change, and the fact that even people with health insurance are increasingly very dissatisfied with the system is going to be the main driver I think of change.

Then in response to Stuart, it is easy you cannot have more and to have it cost less. In the case of health care, we can have more, have it more fairly distributed, and actually spend less as a society on health care and eliminate the enormous wasteful costs in overspending in the current health care system, and Len Nichols's paper which is out front shows a way to do that. You will wind up with a greater share of federal spending going to health care but less total spending and less burden on individual businesses, that is a pretty good deal all around, we know how to do it, and it does not have to be done through a single payer system. Len's paper does not advocate a single payer system. It advocates a robust system of private insurance with some basic standards set by the federal government.

MR. BAER: Let's take this question because we are pushing our limits on time.

SPEAKER: I am Helen -- with Resources for the Future. I am way past the baby boom generation and happy with the portability of my Medicare. Mark brought up portability which Stuart seems to have ignored, and although Jared mentioned risk pooling, also he did not add portability to the emphasis on some kind of federal program. Also I would say that in the question of labor unions, they are only addressing particular firms and there again you have the question of portability coming.

MR. BAER: Those are two very interesting issues to sum up with. One is the question of to what degree do any benefits that are already in the social contract or should be added to it need to be portable, if someone could take that. And two I am interested in is what role do unions and other groups have to play perhaps in this or should it only be arrangements between individuals and the government, or should we look at mediating institutions?

MR. BUTLER: I apologize if you thought I was not including portability; on the contrary. I think one of the big concerns I have about employment based services is precisely that they are not portable and they are not dependable. That is why I think that allowing people on changing the tax system to permit people to choose other agents, other members of the civil society, to be their agents in handling these benefits is absolutely critical, and I mentioned unions as a perfect example of that. So portability I think is very essential.

And I think also it is very important to appreciate in these areas of services like health care, and I agree with Mark to a degree here, Americans do not want to be put in a situation with a complex issue like health care and being told here are the Yellow Pages, just call up and make your best deal. They want somebody to help them navigate the system to be on their side, and the critical thing in a social contract system is for people to be able to choose somebody, some institution, some organization, that really they feel does act on their behalf. Some people may choose the government, and that is fine, other people may choose unions and so on. We must amend regulations and taxes and other subsidies so that people can choose that intermediary, and that is portability and portability goes exactly with that.

SPEAKER: (inaudible)

MR. BUTLER: As opposed to the federal government. If we are looking at federal laws, the legal system and the subsidy system and so on, and may feel given that that the states are superior to the federal government in that sector.

MR. BAER: Thea, do you want to have our last word?

MS. LEE: Sure. In terms of portability, unions have been very strong advocates for reform of the pension system that would include portability, that we recognize for our own members that that would be an enormously important piece of that discussion.

I think one of the other issues that has come up today that we really did not get to talk about is the role of employers and I think our initial reaction is that we not willing to let the employers off the hook so easily, that just on the basis of political pragmatism and what it would take in terms of revamping the taxation system and the government role that it is important that employers not be allowed to walk away from the role that they have created. There can be an ideological question whether this is a good idea if we were starting from scratch whether we would put that in place, but it is there and it is an important piece of how health care and pensions have been provided. So I think one of the questions is can we make that system, the employer provided system, more flexible, more efficient, and more cost-efficient in particular, and then also more portable both on the health care and the pension front, that that would be one way of looking at that.

MR. BAER: Thank you all very much. Thanks to our panelists. Thank you all for coming. As you can see, it is a very contentious issue, one which we will be discussing I think in the months and years ahead.

* * * * *