

THE BROOKINGS INSTITUTION

RESTORING AMERICA'S PROMISE OF OPPORTUNITY,
PROSPERITY AND GROWTH

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MODERATOR:

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Senior Fellow

Brookings Institution

**PANEL ONE -- RESTORING AMERICA'S PROMISE OF OPPORTUNITY,
PROSPERITY AND GROWTH:**

ROGER C. ALTMAN

Chairman, Evercore Partners

Former Deputy Secretary of the Treasury

SENATOR BARACK OBAMA

Democrat, Illinois

United States Senate

ROBERT E. RUBIN

Director and Chairman of the Executive Committee

Citigroup, Inc.

U.S. Treasury Secretary [1995-1999]

THE REVEREND JIM WALLIS

Founder, Sojourners

Author, *God's Politics*

PANEL TWO -- INNOVATIVE POLICY IDEAS:

MOLLY FIFER

Doctoral Candidate

Princeton University

AUSTAN GOOLSBEE

Robert P. Gwinn Professor of Economics

University of Chicago, Graduate School of Business

ROBERT GORDON

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Center for American Progress

JONATHAN GRUBER

Professor of Economics

Massachusetts Institute of Technology

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P R O C E E D I N G S

MR. TALBOTT: Ladies and gentlemen, everybody, your attention, please.

Good morning and welcome to the official launch of the Hamilton Project. I am glad that all of you could be here today. I'd like to extend a special thanks to Senator Obama. One of the things he has to do for a living is to be able to be in two places at once, and this morning is an example of that. The Senate Foreign Relations Committee, on which he sits, is right now meeting with Secretary Rice to discuss one of the most important national and international security issues of our time —the nuclear deal between the United States and India.

While Senator Obama was good enough to come down from the Hill to be with us, he is going to have to leave right after his remarks.

Welcome also to Bob Rubin and several members of the advisory board of the Hamilton Project. Thanks as well to two our trustees, Glenn Hutchins and Tom Donilon, who have been instrumental in getting this project off the ground.

This venture coincides with the 90th Anniversary of the Brooking Institution. It is one of several ambitious initiatives that demonstrate the commitment of this institution to coming up with bold, constructive, imaginative ideas on how to improve the way our nation governs itself and the world.

All of our research programs are involved in that effort — and very collaboratively. But our Economic Studies Program, led by Belle Sawhill who is here with us today, is especially busy. Just as an example of that, a week from today, our ongoing Budgeting for National Priorities Project will be convening here to work on an action plan for a sound fiscal policy for

our nation. That is a goal I am sure Alexander Hamilton would have supported. So that project is clearly a complement to the one we are having today.

If you permit, I'd also like to offer a few additional remarks about the context of today's event and how it fits into Brookings's mission. Our agenda is broad, and our scholars represent a wide diversity of viewpoints. Yet everything we do at Brookings has three common denominators: quality, independence and impact. The Hamilton Project manifests all three.

First a word about quality: that could not be better demonstrated than by the intellectual leadership of Peter Orszag. He is not just one of Brookings's best economists but one of the nation's best. The advisory council of the project brings together outstanding thinkers and practitioners from public service, academe and the corporate and financial worlds.

The papers that will be produced under the aegis of the Hamilton Project have been through a rigorous peer-review process. As intellectual products, they meet the highest standards, both in terms of the way in which they identify the right questions and come up with the fact-based answers.

In that regard I would like to recall a bit of wisdom from someone I regard as a kind of iconic figure: the late Pat Moynihan — a Democrat who worked for Richard Nixon and had a Ph.D. Pat once said, "We're all entitled to our own opinions, but we're not entitled to our own facts."

You will, in the course of today's discussion and what ensues from this project, hear opinions and judgments, but they will be based on empirical data — on facts.

With regard to independence, Brookings is a non-partisan organization in a partisan town, at a partisan time. Being non-partisan does not mean being “policy neutral.” That is a phrase and a concept that are anathema to our mission, which is to be policy relevant.

We let the chips fall where they may when we make prescriptions. I confidently predict that some of the proposals that are going to be produced under the aegis of the Hamilton Project are going to surprise people across the political spectrum. We hope members of both parties are going to be open to the ideas produced by this project.

With regard to impact, the Hamilton Project is designed to inject new thinking and bold ideas into the policy debate in this country. The analysis and the prescriptions that are going to be forthcoming are going to be forcefully presented. As with other projects we have going, we’ll put the full communications and outreach capacity of the Institution behind maximizing impact. And that means, among other things, putting Peter Orszag himself out front to explain what this project is and what it’s going to do and how it’s going to do it...

So with that Peter, over to you.

(Applause)

MR. ORSZAG: Thank you very much, Strobe. We are very pleased to be launching The Hamilton Project this morning and particularly pleased to have Senator Obama here with us. He has repeatedly emphasized that our economic policies should promote broad-based opportunity, that economic security and economic growth can be mutually reinforcing, and that effective government can work in conjunction with market forces to improve economic performance, all of which are key themes of our new project.

For example, in a moving commencement address at Knox College in 2005, Senator Obama said, “Once again, there are those who believe that there isn’t much we can do.

“That the best idea is to give everyone one big refund on their government, divvy it up by individual portions in the form of tax breaks, hand it out, and encourage everyone to use their share to go buy their own health care, their own retirement plan, their own child care, their own education, and so on.

“It is a tempting idea because it doesn’t require much thought or ingenuity.

“But there is a problem. It won’t work.

“It ignores the fact that it has been government research and investment that made the railways possible and the internet possible.

“[Our economic development] depended on a belief in the free market; but it has also depended on our sense of mutual regard for each other, the idea that everybody has a stake in the country, that we are all in it together, and everybody has got a shot at opportunity.”

I am not sure our policy documents will prove to be quite so moving, but the sentiments from The Hamilton Project are quite similar.

Senator Obama has also stressed that public policy should be driven by rigorous evidence about what works and what doesn’t. That, too, is a fundamental part of our new project and also a fundamental defining characteristic of Brookings.

Finally, Senator Obama is the son of an economist, and so thus has a longstanding personal connection to economics and economic policy.

We look forward to hearing your thoughts, Senator Obama, and the floor is yours.

(Applause)

SEN. OBAMA: Thank you. Thank you very much.

I would love just to sit here with these folks and listen because you have on this panel and in this room some of the most innovative, thoughtful policymakers, people who have both ideas but also ways of implementing them into action. Our country owes a great debt to a number of people who are in this room because they helped put us on a pathway of prosperity that we are still enjoying, despite the best efforts of some.

(Laughter)

SEN. OBAMA: I want to thank Bob and Roger and Peter for inviting me to be here today. I wish I could be here longer. I am going to have to run after a few minutes because we do have an important issue relating to U.S.-India relations.

But when Roger originally called to invite me, not only to this forum but to invite me to engage in this project, I couldn't help but think that this was the sort of breath of fresh air that I think this town needs.

We have all known for some time that the forces of globalization have changed the rules of the game—how we work, how we prosper, how we compete with the rest of the world. We all know that the coming baby boomers' retirement will only add to the challenges that we face in this new era. Unfortunately, while the world has changed around us, Washington has been remarkably slow to adapt twenty-first century solutions for a twenty-first century economy. As so many of us have seen, both sides of the political spectrum have tended to cling to outdated policies and tired ideologies instead of coalescing around what actually works.

For those on the left, and I include myself in that category, too many of us have been interested in defending programs the way they were written in 1938, believing that if we admit the need to modernize these programs to fit changing times, then the other side will use those acknowledgements to destroy them altogether. On the right, there is a tendency to push for massive tax cuts, as Peter indicated from my speech at Knox College, no matter what the cost or who the target is, a view that stems from the belief that there is no role for government whatsoever in the challenges we face. Of course, neither of these approaches really works.

Before we came here, somebody was asking me, how do I maintain my idealism? I do because I think the American people know that neither of these approaches works. I think there is a broad consensus out there in the Country that we should be looking for common sense, practical solutions to the problems that we face. I think that there is a market. I think that there is a demand for solutions that are practical, that are based on facts, that are tested, and that require us to think in new ways.

A lot of the people who are here today have done that in the administration. Not only have they succeeded on many of their policies, but almost just as importantly, they have failed occasionally and have acknowledged those failures and adjusted their views. I think that is the kind of experimentation and attitude that all our policymaking has to pursue.

One thing that we all know is that when you invest in people, people will prosper. When you invest in education and health care and benefits for working Americans, it pays dividends throughout every level of our economy. When you keep the deficit low and our debt out of the hands of foreign nations, then we can all win.

Now, the economic statistics of the nineties that we are all so familiar with speak for themselves—income growth across the board, 22 million new jobs, the lowest poverty rate in three decades, the lowest unemployment in years, and record surpluses. None of this, I would argue, happened by itself. It happened because the leadership we had, including many in this room, was willing to take on entrenched interests and experiment with policies that weren't necessarily partisan or ideological.

That is what I hope we will see from The Hamilton Project in the months and years to come. You have already drawn some of the brightest minds from academia and policy circles, many of them I have stolen ideas from liberally, people ranging from Robert Gordon to Austan Goolsbee; Jon Gruber; my dear friend, Jim Wallis here, who can inform what are sometimes dry policy debates with a prophetic voice. So I know that there are going to be wonderful ideas that are generated as a consequence of this project.

Not every idea will I embrace, and I hope that one of the roles that I can play, as a participant in this process, is to not only encourage the work but occasionally challenge it. I will give one simple example. I think that if you polled many of the people in this room, most of us are strong free traders and most of us believe in markets. Bob and I have had a running debate now for about a year about how do we, in fact, deal with the losers in a globalized economy. There has been a tendency in the past for us to say, well, look, we have got to grow the pie, and we will retrain those who need retraining. But, in fact, we have never taken that side of the equation as seriously as we need to take it. So, hopefully, this is not just going to be all of us preaching to the choir. Hopefully, part of what we are going to be doing is challenging our own

conventional wisdom and pushing out the boundaries and testing these ideas in a vigorous and aggressive way.

But I can't think of a better start, given the people who are participating today. I am glad that Brookings has been willing to provide a home for this wonderful effort.

Just remember, as we move forward, that there are real consequences to the work that is being done here. There are people in places like Decatur, Illinois, or Galesburg, Illinois, who have seen their jobs eliminated. They have lost their health care. They have lost their retirement security. They don't have a clear sense of how their children will succeed in the same way that they succeeded. They believe that this may be the first generation in which their children do worse than they do. Some of that, then, will end up manifesting itself in the sort of nativist sentiment, protectionism, and anti-immigration sentiment that we are debating here in Washington. So there are real consequences to the work that is being done here. This is not a bloodless process.

I think that as long as all of us retain that sense of passion about the ultimate outcome that we want, which is a stronger, more prosperous America than we are passing on to our children, then I think we will do well in this process. I am glad to be a part of it.

Thank you very much.

(Applause)

MR. ORSZAG: We are now going to move on to our first panel. We will have two panels this morning. Our first panel is going to provide an overview of the project and discuss the

project's overarching economic strategy. The second will then examine some of the specific policy proposals that we are releasing this morning.

The members of the first panel are undoubtedly well known to all of you.

Our first speaker will be Robert E. Rubin, a member of the project's Advisory Council and a co-author of the economic strategy document that we are releasing this morning. As probably everyone in this room knows, Mr. Rubin served in the 1990s in the White House as Assistant to the President for Economic Policy and the first Director of the National Economic Council under the Clinton Administration. He then served as our Nation's 70th Secretary of the Treasury from January, 1995 until July, 1999. He is currently Director and Chairman of the Executive Committee at Citigroup.

Our next speaker will be Jim Wallis. Mr. Wallis was a founder of Sojourners: Christians for Justice and Peace, more than 30 years ago and continues to serve as the Editor of the magazine there.

It is interesting to note that in the days of Adam Smith, economics and moral philosophy were not such distinct subjects as they are in academia today. Indeed, Adam Smith held a Chair of Moral Philosophy and published a book entitled *The Theory of Moral Sentiment*, 16 years before *The Wealth of Nations*. It may well be that the time has come for economics and moral philosophy to move closer together, and we are pleased that Jim will be here with us this morning to speak about how we can do good while also doing well.

Finally, when we turn to questions, we will be joined by Roger Altman, who is also a member of the project's Advisory Council and another co-author of the strategy document we

are releasing today. Roger served two tours of duty in the U.S. Treasury Department including as Assistant Secretary for Domestic Finance and later as Deputy Secretary. He is currently the Chairman of Evercore Partners.

Mr. Rubin?

(Applause)

MR. RUBIN: It is interesting to me that Peter described Jim as doing good and me as doing well, but in any event, I guess life is what it is.

(Laughter)

MR. RUBIN: Let me thank you all for being with us, and let me briefly tell you what this is all about and what we are trying to do. Peter and I had been very much involved in this question, some years ago, of: Do deficits matter? One day I was testifying, I believe it was a House Ways and Means Committee hearing, and the gentleman sitting next to me said: There is no academic evidence to demonstrate that deficits affect interest rates.

Well, I am not an academic economist, but I knew absolutely that wasn't the case, though I couldn't cite him chapter and verse. I got through that okay, but as soon as I got back to the office, I called Peter and I said: We have to do a serious academic paper on this. Of course, "we" meant Peter.

(Laughter)

MR. RUBIN: Out of that came a 55-page document which was really exactly that. It was not a political document. It was not a message document. It was a serious academic work that

made exactly the point, which all of us know is the case, that deficits are highly relevant with respect to interest rates and that, I think, had a real effect on the debate.

About a year ago, I said to Peter: What do you think would be involved in trying to put together an economic strategy that deals with the issues of the country in the ways that we all would think sensible? In that context, Peter spoke to a number of leading policy experts and academics, and I spoke to a number of people who I thought would help support it and also, and very importantly, who we thought could contribute thoughtfully to the effort. Out of that came a really remarkable group that cut across the worlds of finance, academia, and policy, and from that all came the Hamilton Project.

The project sets forth, in a paper that I believe you just received as you came in, a strategy which is intended to, and I believe does, address the issues that our country faces, and it also establishes a process to produce policy proposals in support of that strategy. As Strobe already mentioned, these policy proposals are analysis-based; they are fact-based; they are not belief-based; they are done with academic rigor; and they are practical.

The first three of those proposals will be presented today. There will also be brief discussions of two others. And then we will continue to present additional proposals through the balance of this year and certainly well into next year and maybe beyond.

The Hamilton Project is named for the founding father who, at the inception of our Republic, had a vision—which this project shares--of a dynamic and robust market-based economy in the United States. Hamilton also stood for the dual propositions that economic activity should be organized around markets, but that government had an important role in

providing many of the requisites for economic success. He stood for fiscal responsibility, for individual opportunity, and for great seriousness of purpose in the making of economic policy.

Ron Chernow is with us today and will be with us at lunch with the Advisory Group, to talk about Alexander Hamilton, and we are proud to have named our project after him—not after Ron Chernow, after Alexander Hamilton, just to make that clear.

(Laughter)

MR. RUBIN: The broad aims of this project are to set forth a policy path that effectively addresses the issues of our nation and to try to help catalyze seriousness of purpose and serious economic debate at a time when we believe that the United States is at a true economic crossroads.

The development of this project has been enormously enriched by being able to draw upon, as I mentioned a moment ago, a really very unusual grouping of thoughtful financial people and leading policy experts and academics. I think that cross fertilization has played a very significant role in the development of the strategy and also in the discussion of the policy proposals.

There are obviously many other efforts in this respect. I would like to mention two in particular because there are many similarities in terms of our points of view, albeit with some differences on specifics. One is the Center for American Progress under John Podesta's leadership, which has done very thoughtful and sound work. The second is a deeply thoughtful book, *The Pro-Growth Progressive* by Gene Sperling. It really is a very thoughtful book, and I think it will be highly relevant to the economic policy debate as we go forward.

Let me now expand briefly on both the content and the context of The Hamilton Project. Then we can proceed with our conversation.

Our Country has enormous strengths and enormous comparative advantage in the global economy. Many of them are cultural—our embrace of change, our willingness to take risk, our relative openness to immigration, the size of our economy. But we also face immense challenges. To realize this immense potential, to realize the potential for a bright future, we have to meet the challenges. If we don't meet the challenges, then it is our view that there is risk of serious, and maybe even severe, difficulty and that takes two forms. One is a gradual form, which is an erosion of our competitive position. The other could be—could be—a more dramatic form, which would be adverse effects on our bond markets and currency markets.

Both the opportunity and the potential on the one hand and the risks on the other hand are heightened by the enormous changes that are taking place in the global economy—technology, globalization, the spread of market-based economics, and as a context to all that, the rise of China and India as, on the one hand a historic competitive challenge, and on the other hand, tremendous new markets which could provide us with great opportunity.

It is our view that current policy is on the wrong track on almost every front with respect to meeting the challenges that must be met.

Let me now go through what our project is. What I am about to say is really the core of what we are trying to do. The Hamilton Project has three objectives: strong growth, broad-based participation in growth, and increased security. Those are values in themselves, but they are also mutually reinforcing. That is to say broad-based participation in growth and increased

security, in our judgment, can be reinforcing of and contribute to economic growth. In fact, if you do not realize those other two objectives, then you are also to some extent undermining your potential for growth.

Underlying all of this is a strong belief in market-based economics as a central organizing principle of economic activity, but just as Alexander Hamilton argued, we also believe there is an indispensable role for government in achieving economic success.

The challenges our Country faces, in our judgment, fall into two categories. The first is reestablishing sound fiscal conditions and more broadly addressing all of our imbalances. We are the only developed nation in the world that has not only current and intermediate term fiscal imbalances but also very large increases in the rate of entitlement expenditures coming early in the next decade; a roughly zero personal savings rate; high levels of personal debt; and huge current account deficits, which in turn are partly caused by our fiscal deficits.

The second category, and an absolutely critical category, is investing in and addressing critical shortfalls in the many requisites for economic success that markets, by their very nature, will not meet and that only government can provide or catalyze, ranging from education infrastructure to energy policy to health care to basic research, and so much else.

This whole construct—and this is absolutely critical—this whole construct represents dramatic change from the theories that are driving current economic policy. For example, in emphasizing broad-based growth, increasing economic security, and the role of an effective government in promoting growth and in defining our challenges, the change in that strategic framework is absolutely key because all of your policy efforts get driven by where you start, by

your strategic framework. The Hamilton Project's diametrically different strategic framework would drive policymakers to undertake the enormous task that is involved in putting together policy proposals to address the very substantial issues that our nation today faces.

We don't attempt to put forward comprehensive answers to all of these questions, but what we do is to put forth a strategy, a framework, a starting point, a theory of the case, that is diametrically different from where we are today and which would drive the policy processes to address these issues. Secondly, we will be putting forth, beginning today, policy proposals that are designed to help in this process.

Let me wind up by saying that The Hamilton Project believes deeply in the economic future of this country and the potential of this country for a bright future, but it also believes that, to realize that potential, we need to address our issues. The United States has had a history of great resilience in rising to meet its challenges, and now we must do so again to realize our bright future.

Thank you all.

(Applause)

REV. WALLIS: I am very pleased to be here today and part of this very significant new effort. Thank you, Bob and Roger and Peter.

I am actually very encouraged by all of this and find it quite hopeful, something the country indeed needs. I am here to say the changes in the direction and priorities of our economic policy that The Hamilton Project represents are not only smart but also right. The combination of smart and right, normally, historically, is what changes are often made of.

Now what is a preacher doing here, you might be asking, with CEOs and academic economists. Well, someone in the reception asked me: Doesn't the Bible speak to some of this stuff? And I said: Yes, about 2,000 verses on the subject of economics, wealth and poverty, rich and poor, the stuff of life. In fact, the prophets were very public. They spoke to things like land, labor, capital, equity, fairness, justice. They spoke to princes, rulers, kings, employers, judges—on behalf of often widows, orphans, workers, those left behind.

I would like to start with a story. I was at Davos. They had a handful of religious leaders there. I think after 911, they were afraid religious wars might interrupt the economic climate. So they had some of us come to speak to this. But they also, I think, were open in a new way to how religious, moral, and ethical conversation, in fact, impacts on economics.

I was asked to speak to a panel entitled: Should We Despair of Our Disparities? Do great disparities lead to dangerous imbalances and social unrest? Does reducing those inequalities lead to greater social health and peace and even to a more long term balanced economic growth? It was our topic.

I said, I think I am probably here to bring a religious perspective, and so let me try. I would like to talk about a topic that I know is a hot one here at Davos, and certainly at Brookings as well. Of course, I am speaking of the subject of Biblical Archaeology.

(Laughter)

REV. WALLIS: I am sure that is something often debated here in this auditorium because indeed it is relevant to our discussion.

When the Biblical archaeologists dig down in the ruins of ancient Israel, they find periods of time when the houses and the artifacts of life are about the same size, show a relative kind of shared prosperity, not a sameness but a relative kind of shared prosperity. During those periods, interestingly, there are no prophets, no Isaiah, no Jeremiah, no Micah, no Amos. When they dig down and they find other periods of time, when the houses and mansions are great and the shacks are small and the instruments of life show a great disparity between the people, like the 8th century, that is when the prophets rise up to thunder the judgment and justice of God. The Biblical prophets thought these topics vital to the health and even security of nations.

How do we have a new conversation about such things that appeals not only to what is practical but also that appeals to our best values, to competence but also integrity? Maybe the greatest hungers in the world today, as I meet young people all across the world, are on the one hand for spiritual integrity, on the one hand the great hunger for that, and also for social justice on the other. The connection between the two, indeed, is the one the world is waiting for.

One of those issues for us in the religious community that has brought us together, as you know I have done a lot of gang truce work—Crips and Bloods and Vice Lords—to help get me ready for working with churches and the religious community because we often are like gangs—territory, turf, grudges, grievances. We even have paraphernalia often.

(Laughter)

REV. WALLIS: We have seen that coming together, almost like a gang truce movement, in the religious community on this issue on what happens to those left out and left behind.

The waters of Katrina washed away lives and property and whole cities. Will they also wash away our public denial of just how many people in this richest nation in the world are poor? Will they wash away our still public reluctance to admit the still persistent connection between race and poverty in this nation? Will they wash away those policies and priorities and frameworks, Bob, that have led to a shredding of any notion of the common good and even our social safety nets?

In particular, most Americans, if asked, across a political spectrum, believe that if you work hard, full time and responsibly in America, you should not be poor. You should not raise your children in poverty. Yet, 9 million American families do that every day. Somebody in that house works hard, full time, and they raise 20 million kids in poverty. That is not just not smart; it is also wrong.

You will see in the religious community a coming together now. Across all our battles about abortion and gay marriage and all the rest, around this question, we are finding a deep convergence, coming together.

I think this project holds great potential for and, in fact, involving the religious community. I think the language of Washington should begin to embrace a moral vocabulary. Budgets are moral documents. They reveal the priorities, the values of a family, a church, a synagogue, a city, a state, or a Nation. What is important? What is not? Who is important? Who is not? This is a moral conversation, also a very practical one. The prophets reveal not just what is right but also wisdom for how to structure our societies.

The Nation is not hungry for, in my case, a religious left to counter a religious right. They are hungry for a moral center to our public discourse, not a mushy political middle but a moral center. We look at what are the moral challenges and choices that lie right beneath economic policy and political choices and discussion. You don't go left; you don't go right; you go deeper.

I would love to see that conversation, Peter—Adam Smith: Moral Philosophy, Economic Policy. I think if we can have a new conversation between what is smart and what is right, between competence and values, the American people will be eager to listen.

So I am grateful for this and happy to be part of it. Thank you.

(Applause)

MR. ORSZAG: We are now going to open it up for questions while everyone is getting miced. There will be microphones, so if you could just identify yourself. The only other thing I would ask is that you actually ask a question.

(Laughter)

MR. ORSZAG: We were so intimidating that no one wants to start off? Alice?

MS. RIVLIN: Alice Rivlin, Brookings.

I just wondered how you are going to deal with the fact that many of the things, that many of the people on the panel and in the room and associated with this project would like to do, will cost a lot of money publicly and the fact that we are all committed to fiscal responsibility and balancing the budget. How does the project deal with that?

MR. RUBIN: Roger?

MR. ALTMAN: Thank you, Bob, for that. I am happy, Alice, to be here on behalf of the Chernow Project.

(Laughter)

MR. ALTMAN: I think part of what you say is right, and no one is more experienced than you are at that whole set of issues. But part of it isn't necessarily right. Some of the proposals that we are making, for example, the proposal that Peter and Jon Gruber authored and which is in their paper today, on retirement security and easier ways for low income Americans to save, would be actually budget-neutral. Yes, the proposed universal match that is laid out there would, on the one hand, cost a lot of money but on the other hand, it would replace the existing system of deductions and exclusions, and the whole of it would actually be budget-neutral.

So, not all of the ideas which we are going to put forward and not all the investments which we think this country needs are, in effect, just additive to federal spending.

The second point I would make is I think all of us know that the solution to the fiscal imbalance, that Bob so eloquently discussed, comes on both the revenue side and the spending side. It is not just one or the other.

We all know that over the past five years, federal spending has risen at a very high rate. It has actually risen at two and a half times the rate that it did over the prior eight years, and one reason for that is the absence of the budget rules that you and so many others, Jack Lew, were so involved in. Had we had the fiscal restraint that those budget rules provided while you and I and others were involved in it, we would have a much greater capacity right now to make the

investments that we need, and if we can reimpose that fiscal restraint through those budget rules and other steps, we can again create the capacity to make those investments.

I think there are ways to afford the investments that we think the country needs without just deepening the fiscal imbalance that we have, lots of ways to do it, and those are two of the ways I would respond to that.

MR. ORSZAG: Over there in the back? Can you identify yourself?

MR. JENSEN: I am Mark Jensen. I am a Ph.D. candidate at UCLA.

Jim Wallis was saying that Katrina washed away public denial of the disparities in this country. I hope you are right, but I don't always see that. Whatever we think of the French and whatever we think of the policy that we are debating right now, it is striking to me that in that country right now, there is a debate about what kind of economic model they want for the country, which I see that very little here in this country. People are debating, say, same sex marriage, abortion, and immigration, increasingly, where there is very little discussion in the country about the fascinating issue that you guys want to deal with. So I guess my question is: How does The Hamilton Project intend to make those ideas relevant, of course, but also listened to and heard outside of the Beltway?

MR. ORSZAG: Why don't I take a crack at that, and then other panelists can join in?

I think one of the things that we are paying special attention to is that, when our papers are written, we are only half done, that we need a very aggressive system of policy diffusion, if you will, getting the ideas out there to the country. In the months and years to come, you are going to see us undertaking regional activities where we are going out to editorial boards and policy

schools across the country, where we are talking to the sort of opinion makers across the country, and that will supplement the work that we are going to do here in Washington to get the ideas out.

So we are going to be very aggressively promoting what you are hearing about this morning and hope that we find the audience is receptive, and we are confident that we think people are looking for something like that.

REV. WALLIS: I would say that this conversation is taking place in the rest of the country, just not in Washington. As I go out on the road, thousands of students are coming out at night to talk about these things. This notion of inclusive economic growth, that somehow this nation and its future ought to be for all of us, is deep.

I think Katrina has made a deep impact out there. I still feel it reverberating. Those left behind had already been left out, we discovered. The Nation still is in some trauma and shock about that, out there. In Washington, D.C., it is as if it has passed quickly. That is why this project here, for me, is so important because this is a project in this town, in the policy circles. They are not, I think, often even asking the right questions. In the country at the grassroots, I think people are asking the right questions, both practically and morally, about our economic policy.

This may connect these two, the elite conversation here and the grassroots conversation out there. I am hopeful about that.

MR. ORSZAG: Right here in the front?

MR. SMITH: Bruce Smith, former Brookings, now at George Mason University. I have two queries, one large and one technical.

One, is this entirely a Democratic show, or are there any Republicans involved in this thing? It sounds a tad like a campaign document, and I would just like you to reassure us that this is national.

Secondly, I just read an interesting article in the current *New Yorker* about the lady who invented the Poverty Index. Molly, I have forgotten her last name. She is 91 years old and still living in Brooklyn. But it goes into all of the intricacies, permutations of the definition of poverty, including some interesting ideas about incorporating a relative deprivation notion into the index. This would seem to me to be a real Brookings technical wonk-like thing. Have you fellows sort of focused on how we can hone our analytical conception of just how much poverty there is out there?

MR. ORSZAG: Let me answer the technical question, and then anyone else who wants to join in on the other one.

There has been much work done, and I am sure in the *New Yorker* article that was described, by the National Academy of Sciences and by others, including people associated with Brookings, on alternative measurements of poverty. That is a very important topic. I would say there is actually a broader set of issues regarding the measurement of economic activity at large, including poverty, our GDP measures, and a whole series of other topics where investing in accurate measurement is a critical thing. So, without getting into the specifics of whether this alternative poverty measure is better than that alternative poverty measure, there has been a lot of

analytical work done, and many people at Brookings are actively involved in that on an ongoing basis.

MR. ALTMAN: To answer your first question, sir, no, this is not intended to be a Democrat only effort. We are here just at the beginning. This is the first day, in effect, of the life of The Hamilton Project. But we are going to be actively reaching out and seeking support from Republicans. We are going to be reaching out to a variety of other communities—Jim Wallis was talking about some of them—for support and affinity with them. We will see how we do in those efforts, but we have every intention that it be broad-based and bipartisan.

I would also note that those of us up here and those of us affiliated with the project who are in the room are not currently in any public office. It may be that the support we get is from people like us in other walks of life and other parts of the political spectrum, who themselves aren't in public office either. But nonetheless, our intention is that it be bipartisan, and I am hopeful that it will emerge that way.

MR. ORSZAG: Over here?

MS. ORCHOWSKI: Thank you. Peggy Orchowski, I am a freelance journalist, specializing in higher education. I am glad to see your emphasis on, especially adult, education and training.

My question is: This is obviously an American project about America, but in terms of the huge discussions right now going on about immigration and the whole global migration of poor people to find better jobs in richer countries, are you going to be dealing with the immigration problem? If so, how do you keep from being the labels that you have already let out about being

nativist and anti-immigrant and all that? Are you going to be dealing with the subject of global migration?

MR. ORSZAG: Sure. The strategy document that you have does mention immigration, and it certainly is one of the topics that we are going to be examining. I just, without going into details about the future policy stuff that we are going to be looking at, note one thing which is that it is striking to me that the media coverage of the effect of immigration on the wages of low wage workers seems to me very tilted relative to the underlying literature.

There is an active debate about what the effect actually is, and the media coverage is almost exclusively tilted towards the Borjas view that there is a depressing effect of immigration. There is a very academically strong and rigorous counter view to that led by David Card at Berkeley and others, suggesting the absence of any significant effect. I have been struck that in the reports that I have been reading on the debate, that hasn't really come out. I think you in the media could do more to bring out the actual active debate over what the actual effects are.

MR. SERTICH: Joe Sertich, college president from Minnesota and Chair of the Rural Community College Alliance. As you talk about people who are left behind and with only 23 percent of us continuing to live in rural America, just as one group, what might you do in terms of policy development for advancing opportunity, prosperity, and growth that will assure that groups like those who live in rural areas will be accommodated through this Hamilton Project?

MR. ORSZAG: Well, there are a whole variety of aspects. That is a very big question. Partly, that has to do with infrastructure. I know, for example, broadband access is a large issue, and we will be having some proposals on that.

I will tell you, more broadly, a lot of the proposals that we are going to be talking about, whether it is on community colleges or actually a teacher quality one that we are going to be highlighting today, are just as important in rural areas as they are in urban areas. I don't know that you are going to see a paper that specifically says, the rural policy should be this or that, but a lot of the specific policy proposals are directly relevant to economic development in rural areas.

I don't know if anyone else wants to comment.

MR. RUBIN: I would just like to make one point, if I may. I think your question, though, makes an interesting point. There are many specific questions. Rural America has a very good set of questions. There are many others. But what we are arguing, and I think rightly, is that, fundamentally, we have to change. We have to change the fundamental way that we approach, the threshold way that we approach thinking about economic issues if we are going to get this country to the place that it needs to be for the longer term.

The prevailing theories, the theories underlying current economic policy are going to continue to deepen and deepen our hole, both with respect to fiscal matters and the deficiencies we have across this broad array of issues that relate to where we are going to be in the future. We have to change that diametrically to the kinds of proposals we made before. Then, once you set the right threshold, then all the kinds of questions you were just raising and so many others need to be addressed in the context of seeking the objectives that we were talking about before and meeting the challenges. But the fundamental change that needs to be made is in the threshold, the theory of the case, on which you base all economic policy.

MR. ORSZAG: I think we have time for one last question. Bruce, do you want to do the honors?

MR. MACLAURY: Thank you. Bruce MacLaury, former Brookings.

I would like to come back to Roger Altman's response to Alice Rivlin's first question and ask it in the context of what the tone of The Hamilton Project is likely to be. Roger's response was it is true, there are many things that are going to have to cost more, but there are savings that can be made, and we need budget rules, and so on. I agree with all that. I think most people in this room would agree with that.

But in the end, the question, I think, for The Hamilton Project is: Are we going to make it sound or are you going to make it sound as though this is a costless, no sacrifice program that is being put forward? It seems to me this is a fundamental choice for the project itself. I would hope that it would not just be: Well, we can save money on things. I know that is not what you meant, Roger, but that is the way it came across to me.

MR. RUBIN: You start, and I will go in after.

MR. ALTMAN: I will just say something, two points, and then I will hand it back to Bob.

I think one of the inspirations for The Hamilton Project is the following, Bruce, and Barack Obama referred to this in his comments. America, it seems to me, has been largely built on what I would call a generational promise. The promise is that each generation would make the sacrifices and make the investments necessary to enable the successive generation to enjoy a higher standard of living. God knows our predecessor generation, our parents, made those sacrifices and made those investments. As Barack said, we are on a path now, which may well

lead for the first time in modern memory to our successor generation living less well. Our view is that that would be breaking a fundamental tenet of what America is, and that is unacceptable. So making sacrifices and making investments is at the heart of what has inspired The Hamilton Project.

Now, more specifically, I said that we all know the solution to the fiscal imbalance issue is both on the revenue side and on the spending side. Obviously, on the revenue side, some people would interpret that as sacrifice. So, no, this is not going to be costless. This is not going to be without sacrifice, quite the opposite, actually.

Bob, whatever you would like to add to that.

MR. RUBIN: I think Roger actually said it very well, Bruce. You will see in the strategy paper that we have dug an enormously deep hole with our current deficits, our projected deficits over this intermediate period, the entitlements that are looming, and all this needs to be addressed. We debated a lot amongst ourselves. We discussed putting out the kinds of options that would enable us to get back to balance. The answer that we arrived at, and I think it is the right answer, is that if we put out a menu of proposals—and then I will tell you what we did do—what would happen is they would get attacked aggressively, viciously, savaged by some. That would, in turn, cause the political world to move away from them. In many cases, you would have political figures, and for understandable reasons—this is not a criticism of people—elected political officials, engage in exclusions, taking stuff off the table.

When you were all finished, two things would have happened: You wouldn't have made any progress. Kevin Hassett, who is, as you know, a conservative Republican economist, wrote

a piece the other day, saying: You have got to have some kind of a special process. You cannot deal with this through the normal political mechanisms.

Secondly, and I think much more troublingly, I think that you would have seriously damaged the potential for using these kinds of proposals.

What we are saying is that the President should go to the leaders of both Houses, the leaders of both Parties, and set up a special process to deal with these fiscal issues. Clearly, that is going to mean spending discipline, which itself is not painless because every time you cut a program, somebody is being affected. It is going to mean increased revenues. It is going to mean a reimposition of budget rules. A number of us have had various views on these, like rescinding the tax cuts for people over \$200,000 and maintaining the inheritance tax.

That is a beginning, but there is a great deal more that has to be done. This will not be painless at all. But on the other hand, it is the right path for a strong economic future for the country.

Then the individual proposals have many pieces in them, as for example, the teacher proposals that Peter mentioned today or will be mentioning rather, that are controversial and we will have people on both sides.

REV. WALLIS: Maybe this is where your question ties back to the values issue, too, because most Americans out there, I think, could tie into this around some basic values. "Making work work" is a fundamental value. Again, from a religious point of view, the Bible says prosperity is good as long as it is shared. So when you have lack of shared prosperity, from

a religious point of view, bad things happen to a society that is not healthy. I think tying it to values and what is our vision of a good society is a critical part of this whole project.

MR. ORSZAG: Thank you. Thank you, Bob, Jim, and Roger.

We are now going to switch panels and turn to some of the specific policy proposals. The second panel can come up.

(Applause)

MR. ORSZAG: If the panelists could take their seats, we are now going to turn to some of the specific proposals from the project.

These specific proposals share four characteristics. First, they are consistent with the strategy that Bob talked about and the principles that Bob described for the project as a whole. Second, they come from economists and others across the nation as you will see from our presenters because we wanted to draw upon the broadest possible array of talent. Third, they are based on empirical evidence and also delve into the messy details of how policies would actually work in the real world. Consistent with that dual focus on rigor and practicality, the proposals are reviewed by a panel of both academics and practitioners before being released to the world. So, in other words, we are really focused simply on what works and what doesn't, both from the perspective of academic rigor and from the perspective of institutional details.

Finally, they focus on four critical investment areas that are pillars for the strategy that Bob talked about: education and work, innovation and infrastructure, saving and insurance, and effective government. You will hear, today, two papers from that first category and one from the third, and we are also going to briefly describe two from our final category.

First, we are going to hear from Robert Gordon, Senior Vice President for Economic Policy at the Center for American Progress, who has co-authored a paper for us with Tom Kane from Harvard and Doug Staiger from Dartmouth. This paper examines the critical question of how to improve teacher quality which they show could significantly improve student performance and thereby better prepare our workers in the future for the challenges of globalization.

Next, we are going to hear from Jonathan Gruber, Professor of Economics at MIT. He has co-authored a paper with Bill Gale from Brookings and myself on how we can better promote retirement security which is especially important, given the increasingly dramatic decline of defined benefit pension plans.

Then, we are going to hear from Molly Fifer of Princeton University, who has co-authored a paper with Alan Krueger, also of Princeton, on how to mitigate the summer learning loss that, over the course of an elementary school career for kids, substantially widens the gaps in academic performance between high income and low income students.

Finally, we will hear from Austan Goolsbee from the University of Chicago, who will talk about a forthcoming paper from the project that would reduce the compliance costs associated with Federal Income Tax Returns through a system of return-free tax filing.

In the category of future papers like Austan's, the project will also soon be putting forward a proposal from McKinsey and Company on more effective ways to measure productivity within the government sector and then ways of using those measures to actually improve productivity within the public sector. Those future papers from Austan and from McKinsey will be part of a

regular flow of proposals from the project in the future. So I do want you to remember that today is just our launch, and you will be seeing lots of papers and invitations to events like this from The Hamilton Project in the future.

So, with that, Robert?

(Applause)

MR. GORDON: Thank you, Peter.

The most important part of good schools is good teachers. Today, we do a lot of screening of teachers before we hire them, but after we hire them, we do very little screening at all. So, for example, we ask teachers to be fully certified, often to have education degrees before they go into the classroom, but once they are in the classroom, we grant tenure as a matter of course.

The basic idea behind this paper is pretty simple, that that system is backward. We should do less screening on the front end, and then once teachers are in the classroom, we should do more based on their performance on the job.

Why do we say that? Consider this research from Los Angeles where we looked at three grades of students over four years. We first asked whether those students' performance varied depending on whether their teachers were certified. What we found was that it didn't really; certification didn't matter much.

Then we asked: Could the students' performance be predicted based on the way their teachers have performed in the past? So we divided into quartiles, teachers, based on the achievement of their students in their first two years of teaching. We had a top quartile of

teachers who had the students who achieved the most in those teachers' first two years down to a bottom quartile.

Then we asked: Well, how did those quartiles perform in their third year in the classroom? What we found was a huge gap. The top quartile of teachers' students actually went up by about five percentile points. The bottom quartile teachers' students went down by about five percentile points. That gap, those 10 points, that is a really big gap. It is about twice the gain that you would see from class size reduction. It is about a third of the current black/white test score gap.

This is consistent with research from other cities and states. It boils down to a pretty simple finding: It is very hard to predict which teachers will be good based on certification, but it is much easier to predict which teachers will be good once we have actually seen them work for a couple years. That simple idea is the basis for a very profound change in the way that we hire teachers, the way that we tenure them, and the way that we pay them.

Let me briefly go through those recommendations. First, about hiring, we suggest creating a path into teaching that is based on performance, not on certification. Certification requirements don't make sense, not just because of the research I have outlined but also because we face an enormous teacher shortage. The age of the median teacher has risen over the last quarter century by about 13 years. Over the next 20 years, we will need to see an increase in the rate of teacher hiring by about 35 percent just to keep class size where it is today. So we need more teachers, and we think there are a lot people out there who would teach if the barriers to teaching weren't so high.

We saw in the Los Angeles research that, when they had to triple their teacher hiring because they were cutting class size reduction, the quality of teacher achievement didn't decline. You see in programs like the Teaching Fellow Program in New York, Teach for America, six and seven applicants for every slot.

What we say is there should be a new route into teaching. Traditional certification is still fine, but you should also be allowed in without certification, provided that after two years, you demonstrate that you are an above average teacher in the results that you achieve for your kids. We say that, if you are a good teacher, you should stay in the classroom whether you are certified or not.

Second, we propose a change in our practices around tenure, not the laws but the practices. Right now, fewer than two percent of teachers report that they were laid off in their first three years of teaching. The reality is that the vast majority of teachers get tenure. It doesn't make sense to give teachers this kind of lifetime job protection before they have demonstrated much of anything about their ability to perform in the classroom. What we found is that if schools didn't tenure just the bottom quarter of teachers, tenured three quarters but not the bottom quarter, and hired novices instead, you would see a significant increase in student achievement, about 14 points over the life of a student.

So teachers absolutely should have notice of how they are doing in those first two years. They should be able to get help with their teaching if they need it and if they want it, additional professional development. But schools should have a rule that at the end of those two years, I should say a default, that you could have exceptions in some cases if you needed them, but they

should have a general rule that after two years, if you are in that bottom quartile, you shouldn't get tenure and you shouldn't continue to teach. That would help us to improve the achievement of our students a great deal.

Our last proposal is about pay. Right now, students in the poorest school districts, they are the ones who need good teachers the most. Well, they are least likely to get them. One of the things we could do to draw high quality teachers into those schools is to raise pay for those teachers. What we propose doing is saying that we will raise pay by \$15,000, a substantial amount because small amounts won't really make enough of a difference, for high quality teachers, teachers in that top quarter who are willing to teach in these poor schools.

We think that would do two things. One, it would change the distribution of teachers; and two, it would have the potential over time to draw more people into the profession if they saw that, if they were high quality teachers, they could get better pay and more responsibility.

Now, you may be thinking: How on earth is this going to work? It sounds good. What are you going to do about all these evaluations? There are a lot of different things in the country going on around this. We took a look at those and looked at the research.

Three principles for evaluation: The first is that test scores should count for a lot, but they should not count for everything. You don't want to be making evaluations based on only one measure. Second, there is lots of other stuff we could use. We could use principal evaluations, peer teacher evaluations, parent evaluations. There are good processes like the National Board that we could be using. And the third thing is that, as you are developing these systems, and we

will need to develop these systems, teachers are going to need to be involved in the whole process. The system is going to need to be transparent; it can't be a secret.

Right now, we are a long way from being able to implement these kinds of systems. We don't have a lot of the data we need, many states don't. So the first thing that we would do is to invest a good deal in putting into place the systems needed for these kinds of evaluations. These are big changes that we are talking about. They will be hard. They will take time. We recommend doing some national infrastructure building and at the same time piloting in 10 states over three years before taking it national.

We do think it is really important that these ideas be on the table now. No Child Left Behind reauthorization is approaching. This is a very different approach than we have taken in the past, and we think it is promising. We have tried many different strategies for education reform over the years. One of the things that we find is that you get to a point of diminishing returns. This is a new strategy that we are talking about here, the idea of using teacher performance in the classrooms to make judgments, and we think it could have a really big impact on the performance of children.

Thanks.

(Applause)

MR. GRUBER: Thank you, Peter.

I am going to be talking today about a proposal that I have developed together with Peter Orszag and Bill Gale. They really deserve most of the credit. This is really an outgrowth of the

Retirement Security Project they have worked so closely with, and this is sort of using the lessons that that project has provided to make sensible policy.

What is the problem? Americans are leaving work earlier but living longer. Social security was not designed to be a full income replacement. It never was. It is under, as we know, enormous financing pressure. Employer-provided pensions are disappearing. And most importantly, probably, the enormous rise in health care costs for the elderly are going to continue and place Medicare in jeopardy.

What is the solution to these problems currently? Currently, the main solution we have for these retirement security problems is employer-provided 401(k) accounts and Individual Retirement Accounts or IRAs. But half of all households headed by adults aged 55 to 59 either have neither of these accounts or have very small amounts in them, less than \$10,000.

Why is this? Well, it is for two reasons. The first is inertia, something economists feel uncomfortable talking about, which undoubtedly matters. Basically, establishing IRA and 401(k) accounts requires specific actions and presents a confusing array of investments and contribution options. Basically, the default is you don't save in your 401(k). By contrast, you take a traditional defined benefit pension, the kind that workers used to be covered under, you were enrolled by default.

Now, clearly, this shouldn't matter. It shouldn't matter whether we enroll some by default or they have to choose. They should do what is best for them. That is what you learn in Econ 101. It is not true. Basically, there is exciting new evidence from Brigitte Madrian and David Laibson and others, showing enormous effects of defaulting workers into 401(k) plans.

Basically, if you take disadvantaged groups of workers in particular, fewer than 20 percent of them participate when they have to make the active decision to enroll. If instead you enroll them and allow them to opt out, which should be the same thing, 80 percent participate—an enormous effect from something that should have no effect, suggesting inertia really matters, and we need to think about using that in a policy context.

The second reason that there is low participation is what we call upside-down tax incentives. Basically, if you take any tax-deductible benefit like an IRA or a 401(k), the value of that benefit depends on your tax bracket. For the majority of households who have a 15 percent or lower tax rate, there is a very small incentive to save through these deferred savings plans. You get 10 or 15 cents back on the dollar. In contrast, for high income people, you can get 35 or more cents back on the dollar from saving through these retirement plans. This has the obvious problem of being regressive.

More interestingly, there is another problem as well, which is it minimizes the incentives for new savings. For low income groups, we know that these retirement plans, especially 401(k)s, generate new savings, savings they otherwise would not have done. But for higher income groups, what these plans are doing is largely subsidizing savings they would have done anyway. It is 35 cents back on a dollar you would have saved anyway. For many high income groups, they have savings rules. They save more money than they can spend, and they are going to be saving this money either way. We are just giving them 35 cents back. For low income groups, these are the people who would really save anew, and we are not targeting them. We are targeting the wrong group.

What is our solution? We are going to have a proposal in two steps. First, we want to make savings the default option. To borrow from President Clinton, we will call it Putting Savings First. Basically, let us not make consumption the default anymore in America; let us make savings the default. Second, let us reform savings incentives to target new savings in a progressive fashion.

Now Putting Savings First, what does that mean? We begin with what we call the automatic 401(k) plan. This is a plan where any firm that offers a 401(k), we would mandate has to offer four features: automatic enrollment, automatic escalation where contributions increase over time as workers' pay increases, automatic investment defaulting into a prudent and yet economically sensible set of default investments, and automatic rollover of savings to retirement plans when workers leave their jobs. Critically, at each step, these are not mandates but rather defaults. At any step of these four, an employee can say: No thanks, I am not interested in, say, your automatic investment or your automatic escalation.

But nonetheless, the evidence shows that simply by changing the default, we can have an enormous effect on how much is saved in these plans.

The second feature is the automatic IRA in which we would actually mandate that all employers that do not provide a 401(k) have to offer their employees a payroll deduction savings device that would once again follow the same kind of automatic default rules.

The key thing that this research tells us about savings incentives is if you take the money out of people's payroll before they have a chance to spend it, they will save it. It is really about putting savings first, about making that the default. That is the first part of our plan.

The second part of our plan is turning savings incentives right side up. Let us replace the current tax deduction for contributions into 401(k)s and IRAs with a much more effective incentive to save, a government matching contribution that will be the same for all households.

So here is how it would work. First of all, 401(k) contributions and IRA contributions would no longer be tax-deductible. There would be no more tax deductibility. Instead, any contribution to these accounts, once placed in, would be eligible for a government matching payment which would be 30 percent of all qualifying contributions up to either 10 percent of income or an income limit of \$20,000 for 401(k) accounts and \$5,000 for IRAs.

Two key points about this feature: First of all, we chose the 30 percent rate to be budget-neutral vis-à-vis the current system, a point raised earlier. This costs no additional money. We are simply redistributing the existing tax incentives, but this is much more progressive. Essentially, if you take people whose marginal tax rates are below 23 percent, this dramatically raises the savings incentives for them; it lowers the savings incentives for those with marginal rates above 23 percent. We think this would substantially raise savings because it is targeted to the groups that do the most new savings in response to these incentives. It is targeted away from the richest people, who are saving anyway and just reshuffling their assets into 401(k)s, towards poorer people who aren't saving, who will now have a strong incentive to save.

Moreover, continuing this principle of thinking about how to use the psychology of savings, unlike a tax deduction for an IRA contribution which comes to you in the form of a check in April that you may or may not save, this is a match that will be deposited directly in your account. So, when someone puts a dollar in, 30 more cents is deposited directly in. Once

again, the default becomes to save it. You would have to actively go in and try to get it out as opposed to the default being that it would be saved.

One last point we discuss in our paper is: What about post-retirement? There is this strange anomaly in our current system which I don't think is appreciated enough, which is we want to sure everyone has enough money at 60, but if they want to party like crazy at 60, that is their business. They can spend it all by the time they are 61, and we don't care. This is really a problem because poverty in the elderly is concentrated among the oldest old. That is where the real problem of poverty remains. This is also where uncovered medical expenditures are the highest.

As a result, what we argue is that we need to help individuals protect against these risks by converting a part of plan balances into an annuity that guarantees periodic payments for life. Private annuities are typically unattractive for many families, which is why the private annuity market is so small. So we propose that the government matching contributions automatically be turned into an annuity when people retire, that will be government-provided or at a minimum government-intermediated. You could have an FEHBP-like institution, a preferred annuity provision instead of health insurance provision. This would provide a relatively small share—it would just be the match that annuitizes—but it would set the notion in place that individuals need to increase the resources they have for their oldest ages, not just what they have at age 60.

What is the bottom line? The bottom line is we propose two fundamental reforms.

First, let us put savings first. Let us make retirement savings the default at all work places through automatic 401(k)s and IRAs, where individuals default in, they are defaulted to invest

prudently, they are defaulted to have their investments increased, and it is defaulted to roll over. The key thing is individuals can opt out at any stage. But this exciting new evidence suggests that this alone, what we call benign paternalism, can have an enormous effect on people's savings behavior.

Second of all, let us turn the savings incentive right side up by replacing the regressive and inefficient tax deductions with a government match that is progressive and promotes new savings by being targeted to the lowest income groups and by being deposited directly into savings accounts.

That is what our proposal is. Thank you very much.

(Applause)

MS. FIFER: Hello. I am here to talk about Summer Opportunity Scholarships, a proposal to narrow the skills gaps. This is joint work, like Peter said, with Alan Krueger, also at Princeton University.

Let us start off by talking about the problem, summer learning loss. It is a robust research finding in the education literature that students lose as much as three months of learning during the summer months, and we know that the loss is greater for low SES, or socio-economic status, children than for high SES students.

Here are some graphs from Alexander, Entwisle, and Olson. This is a study of about 700 students, starting in the first grade in the fall of 1982 in about 20 Baltimore schools. The left hand side graph shows you the school year reading gains, comparing the low SES students in dark blue to the high SES students in light blue. We see, during the school year, there is not a

big difference in their gains. The opposite is true during the summer. We see that, while the high SES students show large positive gains, the low SES students show either small gains or even small losses.

It is our reading of the evidence on the interventions to remedy the summer learning loss that summer school is the most effective. So that is where my proposal is heading. But before I get there, to the details, let us talk a little about the evidence that we are basing our proposal on.

First, Cooper and his colleagues find, in a meta-analysis, that programs that focus on remedial instruction have the effect of increasing scores among low SES kids by about the same amount you would expect those scores to fall during the summer, so a pretty big impact.

In addition, we have evidence from Sipe, Grossman, and Milliner on the Summer Training and Employment Program often called STEP, which basically provides, over the course of two years, life skills training and the like during the school year but then summer employment and summer school for these 14 to 15 year old at-risk youth. They find that STEP actually staunches summer learning loss. We see that in this graph here that shows summer reading gains for the treatment students in the dark blue and the control students in the light blue. You see, while the treatment students more or less break even over the two summers, the control students fall behind.

Our solution: Summer Opportunity Scholarships. Eligible students will be young and of low income backgrounds. They will participate in a six-week summer school or enrichment program, and they will be from grade levels K through 5. They must be eligible for free lunches

from school, which means their family income must fall below 130 percent of the Federal Poverty Line.

Eligible providers will be school districts, private providers, and summer enrichment camps, and they will be required to use small group instruction and to align the summer and school year curricula. They will also be evaluated by a state level official with the possibility of disqualification from receiving future funding if they deviate from the plan's requirements.

A few cost estimates: The per pupil annual, or better said, per summer cost, we estimate to be about \$1,600 in 2006 rising to about \$1,800 in 2010, and these come from prorated annual expenditures per pupil during the regular school year. If, as we propose, the Federal government matches half of what the non-Federal sector pays, then there will be a \$1.8 billion annual bill when the plan is fully phased in, totaling up to a \$6.7 billion five-year total Federal cost.

A couple implications: First of all, we think parents and students want this. There are data showing that 60 percent of low income parents worry their kids are going to fall behind during the summer, and two-thirds of low income students say they would like help getting ahead during the summer or learning the skills that will help them keep up with their work during the school year. But the best data we have on the estimate of the number of kids in grade 1 through 7 who attend summer school is only about 10 percent with only marginally higher rates for low income kids. So we are hoping a program like SOS will start to close that gap.

Secondly, we think teachers shouldn't oppose SOS since their participation is voluntary and also since we are not advocating for taking away funds that are already earmarked to education spending. We are adding to the pot.

Lastly, we think the SOS may be good in its own right because it may be a more productive path for the voucher movement, to move the experimentation out of the regular school year and into the summer to see if that is a better avenue for the experimentation.

With that, I am done.

(Applause)

MR. GOOLSBEE: It is April 5th. If you have not turned in your taxes, you have 12 days and depending on when your post office closes, you have 12 hours and six minutes to finish your taxes and turn them in. It is with that impending deadline that the proposal, that I will have coming out soon, comes in.

That is, when we begin to think about the complexities of filing your taxes and of tax reform, often the eye drifts toward the top of the income distribution where people are paying the alternative minimum tax. They are preparing their inheritance tax forms. They are talking with their estate and trust lawyers. I believe that there is a mass of people in the middle class who do not itemize, who are just the everyday American, who have a large compliance cost of doing their taxes that is completely and utterly pointless, as I will describe in a moment.

The typical person has a single job and a single bank account. The IRS already receives from your employer and your bank all the information that you fill out on your tax return. And yet, you just became the IRS's lowest paid employee. You are doing their work for them. If you didn't fill it out, eventually, they will send you a notice that says: We noted you had wages of this amount. You had interest income of this amount. You owe us this much money.

Which leads you to ask: Well, why did you make me fill it out? Why didn't you just send me that to begin with?

Now, you might say: Well, a lot of these people get to fill out easier forms, the 1040EZ, the 1040A.

If you have ever filled out the 1040EZ form, the instruction manual is 36 pages long. It says EZ, but that doesn't make it easy. As I like to say, easy is misspelled on the form.

(Laughter)

The fact is my proposal that will come out is simply that the IRS take the information that it already has, speed up its processing, and send to anybody who is in a simple tax situation, that they have one basic job and they have one basic bank account. Send you your tax return, pre-filed. Now if you are paranoid, and you don't like it, you just crinkle it up and throw it away. It would be completely voluntary. But for any of the millions of people who would prefer not to have to either pay someone to do their taxes for them or get out the 36-page manual and figure out the tax table, you would simply take your W-2, look at it and say: Oh, yes, that is correct. You would sign it, and you would be done.

Now this policy has been enacted in some countries of Europe. In the past year, in California, they tried a pilot project, doing exactly this with California's state income tax. They have all been met with overwhelming success. The people who are given the opportunity to do that, more than 95 percent of them say: I demand that you send me this again next year.

This policy in my study indicates that up to 40 percent of filers would be able to qualify for this. It could save as much as \$2 billion per year in tax preparer fees and as many as 250

million hours of taxpayers' time, which over the typical budget window, as I like to say, adds up to almost 5,000 lifetimes. So anybody, who says tax filing is not a matter of life and death, has not added up the numbers correctly.

This proposal would be a tax reform for everybody, rather than a tax reform geared just to those with very unusual tax situations. Bill Clinton put people first. Jon Gruber and Peter put savings first. My proposal is to put tax filing last. It doesn't necessarily fit, but that is the idea. Thank you.

(Laughter)

(Applause)

MR. ORSZAG: Thank you. All this and comedy, too.

We have time for a few questions, so I guess we will do the same thing. If you have questions about any of the specific proposals, we would be happy to take them. How about there in the back as folks are getting miced up? Again, if you would just tell us who you are and ask a question.

MR. TIDDAL (?): Martin Tiddal (?), independent international tax analyst, I have a question. I wish my work were that much that I could laugh about it everyday.

(Laughter)

MR. TIDDAL: This is a question for Jonathan. To the extent that consumer spending is important to the economy, why won't increased consumer savings be detrimental?

MR. GRUBER: What we are proposing, let us be clear, is not in the long run to lower consumer spending. It is to raise it because ultimately people accumulate more wealth. That

will grow the economy, and ultimately there will be more spending. I think, in substance, it speaks to the general nature of this project, that what really matters in the long run for a robust economy is building the best base of savings and thus the best base of investment we can, and that ultimately that is going to be the best thing for the economy.

MR. ORSZAG: Can I actually just jump in, too? Because I think there is often sort of a dichotomy between what spurs the economy in the very short run when the economy is weak and what spurs economic growth over the long term.

If the economy were in a recession with lots of excess capacity, additional spending is what is necessary to boost growth because you have a lot of plant and equipment and excess worker capacity that, if there were extra spending, would generate more output. Over the long term, though, the key binding constraint is how much plant and equipment and other capital and human capital, too, we are investing in. So, boosting savings as we are talking about, especially if done gradually and not in the midst of a recession, would lead to improvements in long term economic growth, which then, as Jon noted, would lead to all sorts of other beneficial things also.

How about right here?

MS. SEGAL: I am Ann Segal from Wellspring Advisors. I actually had two quick questions, I guess.

One is whether you had looked at, for example, the Montgomery County experiment which lowers class size in the low SES areas while raising slightly the class size across the rest of the county, and essentially puts the better teachers into the low SES for that reason. The

teachers that did not like that and brought it to the attention of the superintendent were told they could go teach there if they wanted, and nobody took him up on it. That seems to me, potentially, a cost-neutral way at getting at what you are doing in a large district.

Had you looked at that when you looked at these proposals?

MR. GORDON: I did not. I don't know that we did. In general, class size reduction is a promising strategy. The concern is often about its costs. One of our hopes with this proposal is that the tenure proposals don't actually cost anything. The salary bonuses have a cost, but in the big scheme of things, it is not a huge cost. If there was a strategy for matching a proposal to reduce class size that had a limited budgetary impact, that would obviously be a great thought.

MR. ORSZAG: Can I actually just add on for a second? The estimates in the paper suggest that the test score gains from this proposal would be roughly three times as large as the test score gains from cutting class sizes by a quarter, which would obviously be a very expensive proposition. So, not to say that that is a harmful thing, but just in sort of relative magnitude, what they are talking about here is huge -- much, much larger than, at least in my understanding of the evidence on class size reductions of any sort of practical amount.

MS. SEGAL: I am just not aware of those tests.

MR. ORSZAG: They are all footnoted in the paper.

MS. SEGAL: No, but those research studies being done with the kind of teachers you are talking about switching to. So I am not sure they are up to date. But this is a cost-neutral proposal in a larger school district. It would have to be a larger school district.

The other thing is I wondered with your proposal on trying to reduce, obviously, the disparity between low SES children and higher, you did not address at all the ages from 0 to 5, in which actually the biggest reduction can be made. I assume, and I was asking this as question. I assume that there will be a paper or there will be something done. Dr. Heckman at the University of Chicago is already working on this a lot, and there is a group that is the same kind of group as you have, working on it.

MS. FIFER: Great question.

MR. ORSZAG: Let me answer that as the Director of the project. I want to emphasize this is our launch, not a culmination, and there are a whole series of policy proposals, including in early education, that are already in the pipeline. So you will be seeing more from us across a span of education ideas.

I think we have time for maybe one or two more questions. Right here?

MS. ORCHOWSKI: Peggy Orchowski, I am an education writer. It is kind of an obvious question. We are the only, I think we are the only country in the world that still has a three-month summer vacation. Our kids on the upper levels are also being beat by other European and Asian countries in terms of achievement levels. Isn't it obvious that we should extend the school year, and is this a problem? I have had even good teachers tell me the three best things about teaching are June, July, and August.

(Laughter)

MS. FIFER: That is a good question, and it is complicated to answer because the literature on the effectiveness of extended school years is pretty mixed.

Apart from the literature being mixed on the results and the effectiveness of it, there are a lot of reasons why, institutionally, it may not be a good idea, one of which is that parents, as you are saying or as you are alluding to, as well as teachers, value the summer to do things other than what is prescribed by the state. Another thing is that it would have to reopen labor negotiations and things of that nature.

I have been reading newspaper articles that have been talking about grassroots organizations of parents that have been expressing anger because their school has been starting in early August or as early as late July in order to prepare better for the standardized testing they are facing. They are actually organizing against this.

So, with the evidence being mixed, and there not being an overwhelming amount of support from parents and teachers, it is unclear if that is a really prudent way to go about the change.

MR. ORSZAG: Is there a last question? Right back there?

UNIDENTIFIED SPEAKER: Just to stay on this education piece, I heard three things today that aren't perfectly aligned. I think one is that all policies are influenced by where we begin. I did hear that when we are interested in learning gains, we are going to take much more than achievement tests. However, it sounds like, whether we are talking about teacher performance or the SOS program, which may also have a stigma attached to it, that we are currently making the decisions by those achievement test scores. Is that true, or are there other attempts to look at learning gains?

MR. ORSZAG: Robert, do you want to speak with regard to your proposal?

MR. GORDON: Clearly, No Child Left Behind has put a great deal of focus on test scores. There are places that are trying to broaden. I know the New York City Schools are trying to put into place a much broader accountability system that looks not just at test scores but at qualitative measures of the kinds that we talked about.

The general principle, I think, that we observed is that you will measure different ways and you should measure different ways, but that you will find a wide variation if you are honest and thoughtful about it, whatever measures you are doing. Principal evaluations will vary. Evaluations from parents will vary. Having a multi-faceted evaluation is probably the way that makes the most sense to make sure that you are not pushing too hard on just one thing, but at the same time, you are making distinctions.

UNIDENTIFIED SPEAKER: I got that part, but the piece that I was questioning is whether or not the assumptions that are made in where you begin are based on test scores.

MR. GORDON: They are, but I think if you looked at principal evaluations, you would find variation as well.

MR. ORSZAG: With that, I want to thank everyone for coming. If you want more information about The Hamilton Project, you can go to our web site, www.hamiltonproject.org.

You will be hopefully hearing a lot more from us in the months and years to come, and I thank you all for attending our launch.

(Applause)

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