



# The Agenda for Shared Prosperity

## Launch Event Transcript

**January 11, 2007 – 9:00 am-noon**

**Economic Policy Institute**

**Wellstone Conference Room**

**1333 H Street NW, East Tower, Suite 300, Washington, DC**

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### Speakers and Presenters:

**Lawrence Mishel**, President of EPI and the co-author of *The State of Working America*

**Sen. James Webb**, U.S. Senator (D-VA) and former Secretary of the Navy

**Jacob Hacker**, Peter Strauss Family Associate Professor of Political Science at Yale University and author of four books, including *Off Center* and *The Great Risk Shift*

**Judy Feder**, Dean of Georgetown University's Public Policy Institute and nationally recognized health care expert

**Jeff Faux**, founder and former president of EPI, currently a senior fellow at EPI and author of *The Global Class War*

**Robert Shapiro**, Director of the New Democratic Network's Globalization Initiative and former U.S. Under Secretary of Commerce for Economic Affairs (1997 to 2001)

**Ross Eisenbrey**, Vice-president and policy director of EPI

**Mark Levinson**, Senior fellow of EPI

### Question and Answer Audience Members:

**Matt Harrison**, Communication Workers of America

**Mark Gruenberg**, Press Associates Union News Service

**Paul Jameson**, no affiliation given

**Patrick Mulloy**, Alfred P. Sloan Foundation

**Leo Gerard**, United Steelworkers of America

**Bob Kuttner**, The American Prospect

**Harold Meyerson**, *Washington Post*

**Bob Baugh**, AFL-CIO

**Rich Trumka**, AFL-CIO Working for America Institute

**Elisabeth Jacobs**, Brookings Institute

**Ezra Klein**, American Prospect

**Anne Hoffman**, formerly of UNITE HERE

**Jock Nash**, Milliken & Company

**Heather Booth**, Democratic National Committee

# Introduction and Overview of EPI's New Policy Initiative and Keynote Address

## (Hour One)

**LAWRENCE MISHEL:** It's my pleasure to welcome you to our opening forum as part of the Agenda for Shared Prosperity. This morning we're honored to have as our keynote speaker Sen. James Webb. It's unfortunate on many different levels that he cannot be with us in person today. But it's because there was an announcement of a new policy last night for which there are hearings at 10:00 o'clock, which he must attend. So we have Sen. Webb live from the Senate.

So let me introduce the Senator correctly. He's a man who has done more than anybody to put economic populism back on the political map. He did this by winning a dramatic, decisive race in Virginia. When Jim Webb, the former Secretary of the Navy under President Reagan, announced that he was running for the Senate, most observers attributed his decision to his opposition to the war in Iraq. That certainly was a factor. But so was his concern with increasing economic inequality. Jim Webb is a soldier, a scholar and a senator.

And he's also an economic populist, in the tradition of Andrew Jackson and Harry Truman, who believes that America must do right by the people who do its work, pay its taxes, and fight its wars. One week after he won this upset victory and tipped the balance in the Senate to the Democrats, Sen. Webb wrote an op-ed article in the *Wall Street Journal*, where he declared the most important and unfortunately the least debated issue in politics today is our society's steady drip towards a class-based system, the likes of which we have not seen since the 19th century.

He concluded with this Congress heading into an important presidential election in 2008, American workers have a chance to be heard in ways that have eluded them in more than a decade. Thanks largely to Jim Webb, working Americans are being heard once again in

the nation's policy debates. And this morning, EPI is very honored to be able to have you all hear from Sen. Webb.

**SEN. JAMES WEBB:** Good morning. I'm very pleased to be able to be with you in some form this morning. I regret that I couldn't come over in person. As Larry mentioned, I'm sitting on both the Armed Services and the Foreign Relations Committees. And both of these committees are doing a pretty intensive series of hearings that actually began earlier this week. And at 10:00 o'clock, we have the Secretary of State testifying in front of the Foreign Relations Committee. And I think it's pretty important that I be able to be at that committee for the full extent of its hearings.

But I think that all of you who are present at the meeting this morning know how committed I am to these issues. As Larry mentioned, I made them one of the three principle themes that we ran on all last year. Although, again as Larry mentioned, there were some people in the country I think who perhaps didn't understand the seriousness of purpose that we had with respect to economic fairness until toward the end or immediately after our campaign.

But I wanted to make sure that in some form I was with you this morning to re-emphasize my commitment to these issues and my willingness to work with all of you to make sure the American economy continues to expand. We all hope that those who are doing the work of this society continue to receive an increasingly fair share of the benefits that this economy is supposed to be giving to everyone in our society.

I heard that Judy Feder is going to be with you. I just want to say she was one of my ticket mates in the Virginia races this past fall. She's a great champion of these issues. And it's been a real pleasure to work with her in the past. And I look forward to being able to take advantage of her wisdom and her advice as well in the coming months.

And with respect to the Economic Policy Institute, I'm pleased to say that I was able to have a good, strong meeting with the members of the institute. While we were in the transition period, I was given a very thick volume of data to commit to memory. And it does in many ways reinforce all of the issues that we were talking about during the campaign.

Larry mentioned this *Wall Street Journal* article. I should start by saying that I have written for the *Wall Street Journal* over the years many times. And actually, the last day before the election, the editorial page editor of the *Wall Street Journal* called me and asked if I would write for them the first major op-ed, win or lose, in the election. And I committed to doing that. They probably thought I was going to write about Iraq. But instead, I decided to write about this issue.

And I think people in the room where you are today know the warning signs that I wrote about. But they are worthy of repeating here. The top one percent in this country now takes an astounding 16 percent of our national income. That's double the percentage that they received in 1980. Today's average CEO of a major corporation now has a compensation of about \$10 million a year according to the *Wall Street Journal*. And the average CEO makes 400 times what the average worker makes. It was 20 times what the average worker made when I was 24 years old.

Forty-seven million Americans lack health insurance. Millions more must pay for health care themselves because they are losing coverage in their jobs. We are the only major industrial nation that I'm aware of that does not have full coverage for its people. And fewer and fewer of our people really are able to take advantage of the stock market. One statistic that I have seen is that 53 percent of the stocks in this country are owned by one percent of the individuals.

The stock market is no longer in and of itself a measure of the health of our society. And equally importantly, I wrote about what I believe is the indifference among many

corporate leaders and the so-called elites with respect to these sorts of trends. Of course, it's no surprise that George Will did not particularly agree with me on any of these points. I saw a piece that he had about a week ago where he said that the minimum wage should be zero. And he had a piece in today talking about certain members of the labor movement.

When I saw the piece, my first reaction was, well, I guess George Will's not going to be inviting me to his annual celebration of the Oriole's season kickoff at his home. But we can live with that. A couple of things did strike me looking at this article. First was that there were a number of people who were surprised that I had written it. Every single speech that I made through the entire campaign, I laid out the fact that we must get back to economic fairness and that we measure the health of a society not by what is happening at the apex, but by what is happening at the base. You measure the health of a society not simply by what the stock market is doing, but whether the people who are doing the work of society are truly receiving a fair share of its strengths and its benefits.

Also, I was informed that I was the first statewide candidate in Virginia during the campaign to visit a labor picket site. I was rather surprised by that. But people who read my piece in the *Wall Street Journal* should not have been surprised at what I was writing. The second thing that surprised me a little bit is how many people, including George Will, missed one of the central points: the growing divide along class lines that we've been seeing is not really good for anyone in the country, including the country's most wealthy people.

It's a matter of self-interest for everyone in this country, including the wealthier people, to recognize the dangers of this present course. It's not healthy in a democracy such as ours to have such a wide gap between rich and poor. And this is true on a number of different levels. America's corporate leaders need to understand that white-collar jobs are increasingly in as much danger as blue-collar jobs. And with the effects of

outsourcing, foreign competition and unchecked illegal immigration can soon reach the types of people that normally feel that they have been protected from these detriments.

So those sorts of things were not simply pointed out in the *Wall Street Journal*. They were said over and over in the campaign. They were said over and over by people other than myself. And I believe they reflect a trend of concern, particularly in the Democratic Party, about where the health of our society is and where the leadership needs to be in order to bring fairness back to our working people. This is an election I think that showed that the people who were doing the work of society are awakening and demanding action from their government.

The new Democratic majority in the Congress, I believe, has picked up on this and has really demonstrated early on that this shift in public opinion towards economic fairness creates some serious early obligations and also some enormous opportunities. I think you saw the package that the Democratic leadership put forward, and the increase of the minimum wage is one of the first priorities. All of us know that has more of an impact than just for the people who are presently at the minimum wage benchmark. We can talk about the benefit of all our working people. I'm very proud to be an original co-sponsor of that bill.

And in terms of economic populism, as the term was used, I am proud that I'm going to be among a group beginning with people like Sen. Dorgan – who has done so much work on the issue of corporate unfairness and corporate tax breaks – to meet regularly and try to work on strong legislative proposals and intellectual approaches. So that we can actually bring some true changes rather than simply remonstrate about these issues.

In fact, Sens. Dorgan, Tester, Brown, Sanders and I have had a number of discussions. And I think we're going to meet regularly and at a minimum, talk about how we can institute what some people call economic populism. I would like to try to broaden this

group a little bit in terms of my colleagues and say certainly, “Let’s talk about economic fairness to the people who are doing the hard work of our society.”

I’d like to leave you with one final thought. When I was thinking about these issues during the campaign, I kept reflecting on Teddy Roosevelt’s campaign and presidency. He was at the beginning of a movement that was trying to bring fairness after this huge consolidation of corporate America. And there was a perception then, as now, that the wealth of the country was concentrated in the hands of a few. And he made a speech which became known as the Square Deal speech on Labor Day in, as I recall, 1903.

He talked about the notion that the welfare of each of us is dependent fundamentally on the welfare of all of us. And therefore, in public life, we are best representative of each of us who seeks to do good by doing good to all. The time period when Teddy Roosevelt was talking about all of these issues quite frankly was less complicated in terms of these issues than it is today. Teddy Roosevelt’s theory was basically we’re sort of all in this room together. America’s a great big room. But we’re all in it together – the people at the top, the people at the bottom.

And whenever the people at the top do ill to the people at the bottom, that’s wrong. And whenever the people at the bottom deal unfairly with their demands to the people at the top, that’s not good either. We’re all sitting here together having to live together. And we all know now that in the age of globalization and the internationalization of corporate America, it’s a little bit different because we’re not all in the same room.

There are options at the top that weren’t there before in terms of how we define the national good. The alternatives of corporate America are now in many cases that they can send jobs and entire plants overseas. And the only way for us to get everybody back into the same room is to institute notions of fairness when it comes to the protection of our workforce. We can’t simply put demands on the American workforce in a global economy and not ask for a level playing field with workers all around the world.

And this is where we come in. This is where those of us who are representing you and everyone else in America come in. And I can pledge to you that I'm going to spend a good bit of my time while I'm here in the Senate doing everything I can to bring fairness to the American worker. Thank you very much. And I look forward to being with you next time.

**MISHEL:** Well, let me now turn to a discussion of our policy effort for which this is the first event. Let me say at the beginning what normally gets said at the end which is to thank people from my board for coming. Thank you all who have been and are working and will work with us. We view our effort as something that requires a community of people, both to develop the ideas as well as to make them happen in reality.

We view this as our effort of working with all of you and others that are not here not just to generate ideas, but to actually make these ideas happen for the American people. It's vastly needed. We know that the economy isn't working for working people. And we also know that far too many people think there's nothing you can do about it. So EPI has decided that we have to go way beyond what we've been very good at for years, describing the problem and critiquing policies. Because we believe that you have to offer solutions to people's problems and put that in the same breath as being able to denote their challenges and build a better America. And that's what this project, Agenda for Shared Prosperity, is all about.

We have undertaken this effort because the American people need an economic agenda that will spur growth, reduce economic insecurity, and provide broadly shared prosperity. We're going to draw upon a wide range of experts. We're going to advance an economic program that's comprehensive and understandable. And the purpose is to address the vast gap between America's promise and its problems.

This is the right moment for exploring new economic policies. It's clear that the economy has not been working for working people. We among others profile the fact that there's healthy productivity growth, and that the pie is expanding at a very fast rate by historical standards, except for the last few quarters. But the pay of people, both high school-educated and college-educated, has been going nowhere for years. And we're at the end of a recovery probably.

If we haven't had wage growth by now, it's not coming. That's a problem. This gap between pay and productivity growth is a result of economic, social, and employment policies that shift the bargaining power away from the vast majority of us towards employers and the best off among us. That is contrary to what the American people need. It's contrary to our fundamental values. It's not just an economic issue. Economics is a value issue on par with other issues that are discussed in our country.

We note the high and rising inequalities in our country and the greed displayed by our business leaders, a group who earn in one day what the average worker earns in a year. It takes a lot of money to get those folks out of bed in the morning as Jeff Faux used to say. This is a country that once grew together, but now seems to grow apart. We note the rising insecurity of families who now see their health care and retirement needs threatened.

So having gone through this greedy moment in American history, we now note that what happens to the rest of the folks who are insecure about the very basics. Are they going to be secure in retirement? Are they ever going to be able to retire? Are they going to have good health care, and access to health care? Are they going to keep that health care? We used to think about dealing with policies like providing supplements or public policies that build on an employer-based system of health and pensions.

The premise of our policy effort is that we can no longer do that because those basic health and pension systems are under pressure from globalization and other factors and

are unraveling. We can no longer build on something that itself is unraveling. We need some big answers to some big problems. We believe the disappointing economic performance of recent years is this failure of decades of conservative policies that emphasize laissez faire, that there is nothing you can do and we just let the market rip and everybody else fend for themselves to get by.

That is not working. We think most of all that the conservative answer of a tax cut for every problem has been shown not to work. It is clear that the massive tax cuts have not been successful in their avowed aims of achieving jobs growth. That was the name of one of the pieces of legislation. There have been neither jobs nor growth from those tax cuts. It certainly hasn't been shared prosperity. And there hasn't even been a big growth in investment which is what they are claiming to generate.

So they're not generating jobs, investment, growth, or shared prosperity. They are lining pockets of political funders and a certain class of people. We challenge the basic pervasive conservative argument that Americans must rely solely on their own efforts. My colleague and good friend Jared Bernstein has coined a phrase "You're On Your Own" economics to describe what the conservative policies are.

YOYO economics says that the way to solve the economic challenges we face – from Social Security to health care to globalization to inequality – is a tax cut, a private health savings account or retirement account, or just reduced government. We find other people even on the center left offering to privatize unemployment insurance, to take money from people who are going to be unemployed so they can give it to people who are long-term unemployed. And that people should save for their own potential future unemployment spell.

I'm a University of Wisconsin-trained economist. Unemployment insurance was developed out of the economics department I was trained in and Wisconsin introduced it. We are going back 80, 90 years in policy when we are talking about not having

unemployment insurance as a basic social insurance for our workforce. We think the American people have rejected this YOYO economics, whether it comes from Democrats or whether it comes from Republicans.

Other policy approaches will fail us as well. An agenda of accelerated, unfettered globalization and simply greater national saving will neither bring the growth we want, nor will it connect the pay and productivity that has to be reconnected. Nor will a series of boutique ideas and some simple middle-class tax cuts here and there, really address the nation's needs. The motto for our project is that America needs solutions that match the scale of the problems. We need a real conversation about real solutions to some very big problems.

They may be problems that we can't pass legislation on this year or next, or maybe in three years. But we need to talk about what is really needed to address America's problems. And then we have to make sure that we build a movement that can make that happen. The Agenda for Shared Prosperity keeps faith with the American creed that people of good will can build a better country and a better world. And it rejects the conventional wisdom that says the current economy, with its harmful impact on our society and our democracy, is the best we can do.

All our initiatives are based on a simple idea, reflecting what Sen. Webb said. The success or failure of the economy is not measured by the value of the stock market or the size of the gross domestic product. It's measured rather by the extent to which living standards at the bottom for the vast majority are growing and improving. The agenda challenges the superficial assertion that global forces, technology and competition have rendered America helpless, and that there's nothing that we can do except adjust individually to the outcomes of an unregulated market.

We are inheritors of a tradition that believes the American people working together through our government can make the economy grow, reduce economic inequalities and

insecurities, provide affordable and accessible health care, insure retirement income security, protect the rights of working people and have justice on the job, and help households balance work and family life as well. In the tradition of the nation's founders, the abolitionists, the progressives, the populists and the New Deal, we have lots of people we draw on: the New Frontier, Great Society, the Labor, Civil Rights and Women's Rights movements of the last few decades and a continuation of the kind of progress we saw on broadly shared prosperity in the late '90s. We, through the Agenda for Shared Prosperity, are going to work for a new generation of social and economic reform in America. And I thank you all for coming here to participate in this event today.

All of you coming today are witness to the excitement we have found for a new policy agenda, for a real conversation in the country about what we can and need to do. And we think that there is a real opening. There's new audience for this work. There are political and social movements hungry to make things different. And it's also a hunger that, should the Democrats increase their political presence this time around, there will be an agenda that really assures something for everybody on the job and in dealing with the challenges they face.

### **– Question and Answer Session –**

**MATT HARRISON:** My fear is what happens if the Democrats fail us? What are our alternatives? Because I'm not holding my breath.

**MISHEL:** Well, we're a policy think tank. And I think the American people will do the right thing.

**MARK GRUENBERG:** Larry, go a little bit more into how we combat Rubinomics, for lack of a better term, and the guys who claim they're in the middle of the road but really aren't.

**MISHEL:** Well, we think that what's most important is for those who take seriously the notion that we need to change economic policy to bring broadly shared prosperity is for us to

delineate what our vision is. That's the most important thing. Basically, you can't beat something with nothing. And it's time for us to put out a very workable, realistic agenda that will resonate with the American people. And I think that's what we're about. It's not about being the opposition to any other particular group.

Let it be clear. We think that balancing the budget and further globalization is not an agenda for broadly shared prosperity. Something has to be on the table that is going to provide people some assurance about their basic health care and retirement income that reconnects pay and productivity. We need to re-empower workers at the workplace. We need to pay attention to maintaining and keeping low unemployment, which empowers people individually with regard to their pay. That means challenging sometimes Wall Street and the Federal Reserve Board. These are things that have to be on the table and discussed these days.

**PAUL JAMESON:** We often talk about income equality. I wonder if it makes better messaging to talk about wage stagnation instead. Because then you address the real issue in a kind of way that throwbacks a class warfare if you deal with more of the problem of wages not growing as opposed to how high the CEOs are getting paid. Because those are the real issues I think.

**MISHEL:** I agree and disagree. The question being do we just talk about how people, the middle and the bottom, are doing and forget about how people at the top are doing? And I think that sometimes that might have been a good way. But the American people read the newspaper. They read when someone loses his job and gets \$210 million. And it's an affront. It's an affront to our values. It's an affront to people who work hard and are struggling to see that our society rewards that type of situation.

We are told all the things that we can't do. The government can't afford this. The government can't afford that, when we are the richest society. It's a contradiction that needs to be discussed. And I think it is true that the American people, as well as I and

anyone associated with this effort, would be glad to see the incomes of people of wealth grow remarkably as long as everybody else's income were growing smartly.

And in fact, that's actually what happened in the late 1990s. The upper one percent did really well in the 1995 to 2001 period. But we saw a closing of the black/white income gap. We saw wage growth that was very strong throughout the income scale. Give me that. If people of means and power can deliver that to the American people, fine. But if they don't, we need policies that assure that we are all in this together. And as Teddy Roosevelt was saying, when we grow, we all grow together.

**PATRICK MULLOY:** Larry, there was a Senator who made a very important point of what was the difference between Teddy Roosevelt and the Square Deal and what is going on now in that we have, through this globalization economy, a group of multinational corporations focused on shareholder value. They can increase that shareholder value by moving our industrial base out of this country and shipping back in.

So it seems to me that there is a systemic problem here in the work that your group is going to do. I wrote about this in the latest report on the U.S.-China Commission. Is your group going to try and look at that? It's not just a trade issue. It's corporate governance. It's a broader tack and a lot of different aspects. Is your group going to try and address that in the work they're coming up with in their new initiative?

**MISHEL:** As they say, first they came for the shoe workers and the textile workers and then the steel workers and the auto workers and then the computer programmers. Yes, absolutely. And the first big installment to address those issues of what you'll hear today from Jeff Faux on the policy paper is about how to shape globalization so everyone benefits. So we will be dealing with that. We have 50 to 100 people involved and 10 different task forces – one on corporate governance, one on health, retirement, etc. So this will be definitely part of what we do. And we'll be continuously releasing things over the next year, two years, and in public forums. We encourage everybody that views this on the

Web tomorrow to check out [sharedprosperity.org](http://sharedprosperity.org) on a regular basis. You'll be able to sign up to get notification of new work and events. But, yes. We share that frame and that importance of addressing those issues.

**LEO GERARD:** We are in a damn class war. Up to now, I think one side's been relatively unarmed. And I view this as a tremendous tool. And I want to congratulate EPI, the AFL-CIO, and a lot of folks that have been thinking about doing this. Because I think the information that you're going to generate is going to arm us for that battle. I am interested in what you in particular and others are thinking about how we could use this information once it's generated. For people like us in the Steel Workers [Union], we're going to start to circulate it amongst our staff. We're going to want to have staff seminars about it, so that they go talk to members and people who can get that out. But if we only generate a bunch of papers and don't use them as tools to change society, we're going to fail. But I want to congratulate you for doing that.

**MISHEL:** Well, as the head of a policy think tank, papers are necessary but not sufficient. And we will make a sufficient effort working with all the people that we can to translate, to provide various vehicles to carry this information, and to work with people and engage on the ideas. We have to put out the ideas. We have to engage people about them. We need to work on them, improve them, come back, and keep at it on a sustained effort that involves many, many people. And we hope to do that electronically through emails, through the Web, through lots of meetings. We look forward to anybody who wants to participate in that effort to be in touch with us.

**BOB KUTTNER:** Until very recently, the conventional wisdom has been if you want to get elected as some kind of a Democrat in a place like Virginia or Ohio or Montana or North Dakota, you do it as a centrist, a center-right, pro-business Democrat who throws a little bit of incremental stuff at working people. And yet, four out of the five members of this full-throated populist caucus are from those states. I guess the question is: What's the majoritarian potential of the kind of agenda that you're talking about?

**MISHEL:** Well, I firmly believe that matters have shifted. It was possible maybe at some point to ignore addressing the anxieties that the vast middle class feels about their situation. And I commend the article in *The American Prospect* by Jacob Hacker and Ruy Teixeira, which I think actually documents in a very fulsome way that this is an issue that we need to address now and we'll continue to have to address. If we don't address it, the American people who have given the Democrats not just a chance, but also an opportunity, won't get a second act. So that's why we think this policy work is important. And we think that there's a huge appetite. And I don't think that the politicians who went out there and offered a few middle class tax cuts but didn't talk about people's anxieties, did very well. And not being a political scientist but being a political observer, this is our time. And we need to work together and fill that role.

**HAROLD MEYERSON:** Larry, you talked about the more broadly shared prosperity of the late '90s. Some people, beginning with Robert Rubin, would say that one key to that was the deficit reduction. It worked then and it should work again. Do you want to give your take on what made the late '90s work and whatever the relevance of diminishing the deficit then was and what that would be at this point?

**MISHEL:** How to explain the late '90s? Well, I guess, first and foremost, there was in fact a resurgence of productivity growth that happened in '95 and '96. That happened in ways that economists can't really explain. Economists don't really know why productivity growth slowed after 1973. They don't really know why it grew after '95, and '96. And they don't really know why it grew even further over the last five years. And they don't really know why it slowed down in the last year. So other than that, we're doing great. What a profession.

But given the fact that there was this acceleration of productivity growth, the fact that we were able to get to low unemployment was, first and foremost, a major factor. And we also saw for the bottom, a lift in the minimum wage in 1996 and 1997. I think that you

can imagine that there were some special circumstances where reducing the deficit and getting on track helped a bit.

But even people associated with the Clinton team don't really believe, other than maybe some invisible remaining spokespersons, that balancing the budget was the key. And things are different now. I think the world has changed even further, in part due to some policies over that period with the increased globalization, the effects of India, China, etc. So the economy of today is not the economy of 1992. And I think that's widely agreed to. What isn't agreed to is that everybody is willing to do something about it.

And it seems to me that there is still a hope, somehow, that if we just saved more and just allowed further, unfettered globalization, that somehow that translates into growth for everybody. And the people we talked to in the political world and elsewhere just don't think that rings true. Let me add the policies there went much further than just balancing the budget, almost a worship of paying down the debt. And some of that was a political reaction to try to keep the money away from the Republicans. And they did build up the big surplus that then Bush was able to enjoy and squander. But there was a sense that we've got a deficit-reduction work in balancing the budget. How much better can it be if we had a surplus of one percent of GDP, or 3, 5 percent, whatever, to pay down the debt? That's just not a program for economic growth.

**BOB BAUGH:** Larry, I had an experience last week. And I'd like to see how you'd answer it. But it really points out part of the problem we have. I met with a group of 40 college students from Polk College, which is in Grand Rapids, Michigan. And at one point during the conversation, for us to talk about the economics we were talking about today, they were oblivious. They'd not heard this stuff. And at one point, I said how many of you think you will have Social Security available to you when you retire? Three kids in the entire group - because that's what they've been taught and that's what they believe. And I think that points out the magnitude of effort before us about how we need to have an alternative. I really spoke to him about the lack of a vision, that these are choices we

can make as a society. And it's just not the matter of what the market tells you. What would you tell a group like that?

**MISHEL:** Well, I guess I'd first start telling them the facts of life that face them when they leave college. Those who are getting their first job are earning less than their older brothers and sisters or cousins who graduated before them. The share of college graduates who have access to good health care plan or a pension plan when they get their first job is dropping dramatically now as well. No one is immune from the kind of systematic dismantling of supports for a middle-class life. And they will find that as they enter the labor market or are starting to explore it, soon enough.

We hear that there's a vast demand for college graduates. And just to give you a very economic answer, if there was such a vast demand for college graduates, we'd see their wages grow a lot more. We also wouldn't see the pervasive spread of free internships. Why are these people working for free everywhere? And just knocking down doors all across the country to work for free if their skills are in such demand and there's such a shortage of college graduates that employers would be dying to line them up? It just doesn't make sense. And I guess I don't trust economics departments across our vast land to teach this. But I think that reality will and the movements in groups that they will come in contact with must.

**RICH TRUMKA:** Larry, it's pretty obvious that the American worker's interest hasn't been addressed by the economy over the last two decades. Is it fair to say that the Agenda for Shared Prosperity is an attempt to give the average American interest a voice in this policy debate and to adopt policy that would quite frankly help the average American worker?

**MISHEL:** Well, I'm not pretentious enough to think that we, as policy intellectuals and the experts, speak for any particular group. But I can say that when we wake up in the morning, we think about policy. We think about how it will affect everybody. I

remember meeting with our friend Laura Tyson back in the Clinton administration when she was the head of the Council of Economic Advisors. And she said how refreshing it was to have someone come in and talk about what's happening to the median typical middle class worker. She said she'd never had meetings where that came up, mostly because people coming in from business, etc., that's not what they were about.

So, yes. The answer is we very self-consciously think that an economy that's not working for regular working people is not a working economy. It's an economy that doesn't work well. And we intend to offer policies and stimulated conversation that actually make better policies delivered for the American worker. Thank you.

# Providing Universal Affordable Health Care: The Healthy America Plan

## (Hour Two)

**ROSS EISENBREY:** Good morning, everybody. When Bill Clinton took office 14 years ago, he identified the failure to provide health insurance coverage for every American as the single most pressing economic and social issue facing the nation. He put together a very impressive team of people to come up with legislation to reform the health care system. And as we all know, it wasn't successful.

One of the biggest reasons, of course, was the ferocious opposition of the American insurance industry. But another important reason was that the public at that point felt that we had the best health care system in the world. And they were afraid that might damage it or might cause them to lose what they had. Today, the public is increasingly aware that ours is not the best health care system in the world. It is the most expensive by far, about twice as expensive as the French system as a share of the economy.

But it doesn't provide the best results in critically important measures, including infant mortality, longevity, access to physicians, deaths from infections in hospitals. We have a lot of problems with our health care system. But most importantly, it doesn't provide coverage to more than 45 million of our citizens. And this scandal is something that people have been trying to address and have addressed badly for the last 14 years since the Clinton administration tried.

Today's panel will discuss a politically realistic plan to obtain universal health coverage, quality universal health coverage, and also to begin controlling spiraling health costs. The first speaker is Dr. Jacob Hacker, Professor of Political Science at Yale University and resident fellow of Yale's Institution for Social and Policy Studies. His recent book,

*The Great Risk Shift*, is one of the most important and readable books about American government and the economy to be published in this century. It's a young century. But this is really truly a great book. So it's a tremendous pleasure for me to introduce Jacob Hacker who will present his plan for achieving universal quality health care for every American.

**JACOB HACKER:** I am extremely pleased to be part of the Agenda for Shared Prosperity project. I think you know now a bit about the project. And I'm particularly pleased because I think health care reform and universal health insurance really have to be at the center of an Agenda for Shared Prosperity today. I've been told that I have 20 minutes to explain my comprehensive plan for achieving this goal. And since the plan is simple, I actually thought I could recount a quick story to start off that has some bearing on this time constraint.

When I was a young assistant professor, which wasn't too long ago, I received an evaluation from a student that said, "Professor Hacker, if I had just 15 minutes to live, I'd want to spend it in your class because that way, it would seem like an hour." So with that auspicious beginning, I'd like to use up my 15 minutes. At the risk of blowing my social science credentials, I want to start with a story because I think so often we see this problem in terms of statistics only. And though statistics can tell a lot – Bill Moyers once said it's the mark of an educated man to be deeply moved by statistics – stories tell a lot as well. And the story I want to tell was on the front page of the *New York Times* about a year ago. It was about Arnold and Sharon Dorsett and their three children. This was about as middle class a family as you could find. Arnold Dorsett was an air conditioner repairman. He made about \$70,000 a year.

He worked 90-hour weeks to make that \$70,000. And it turns out he was working these 90-hour weeks because their oldest son, Zachary, has a rare immune system disorder. Now, it wasn't diagnosed immediately. By the time it was, the family had already run up about \$30,000 in credit card balance to pay for their care. They have insurance, but they

nonetheless found that their insurance didn't cover much of the care they received. And they couldn't make their car or their mortgage payments and ended up unfortunately filing for bankruptcy in 2005, thereby becoming one of roughly two million American households that filed for bankruptcy that year. This is what Arnold Dorsett said about his fight. "I make good money and I work hard for it. When I filed for bankruptcy, I felt I had failed." Now, Arnold Dorsett felt he had failed. He felt that he alone was responsible for the plight that had befallen his family. And yet, he is hardly alone. As all of you know, millions of Americans each year experience medical bankruptcy. According to one estimate, about every 30 seconds, a household files for bankruptcy as the result of medical costs and crises.

And that's not surprising when we look at the numbers. Last year, a family policy offered by an employer cost over \$11,000 in total. And about \$3,500 of that was paid directly by individual workers. That \$3,500 was up about \$1,500 from just a few years ago. And the Dorsetts had insurance like so many of those who filed for medical bankruptcy. Those who have insurance are in many ways the lucky ones.

Ross mentioned our 46.6 million uninsured Americans. But many of us haven't heard about the full scope of this problem. Every two years, one out of three Americans younger than sixty-five goes without health insurance. And the majority of them go without health insurance for more than nine months. Between 2001 and 2005, according to a recent survey by the Commonwealth Fund, the proportion of people with moderate family incomes, between \$20,000 and \$40,000 a year, who lack coverage rose from around 28 percent to more than 40 percent in just four years.

These are people like Mark Herrera, whom I write about in the book. He was almost one of those about 18,000 working-age Americans a year who died because of lack of health insurance. He was working at a union job. But he decided to leave it to become an independent contractor, to go out on his own, to be entrepreneurial. One day, however, he woke up with severe headaches. And like most who don't have insurance, he was

reluctant to go to the hospital. Finally, he relented. And when he got there, he found out that he had had two strokes. He was bleeding on the brain. And within a matter of weeks, he had run up \$225,000 in medical debt. This is what Mark Herrera said, “If I ever come into any money, the first people I’ve got to pay back are for this medical coverage.” Here’s a guy who’s probably only making about \$30,000 a year, thinking about paying back \$225,000 in medical debt.

What these stories and statistics tell us is what too many of us have been in denial about for too long. Our \$2.2 trillion-dollar medical complex is enormously wasteful, ill targeted, inefficient and patently unfair. Yes, the best medical care is good, extremely good. But our system for financing that care is bad, very bad. And it is falling apart. We spend more as a share of our economy on health care than any other nation. Our businesses and our citizens are drowning under a tide of rising costs.

And yet, all this spending has not bought Americans the one thing that health insurance is supposed to provide – true health security. Health insecurity is simply not confined to one part of the population. It affects all of us. As costs have skyrocketed and the proportion of Americans with secure coverage has dwindled, health insecurity has become a shared American experience, felt by those who thought they had it made as well as those just struggling to get by. And this growing problem, as Ross said, is pushing health care reform back onto the agenda of American politics after more than a decade of relative neglect.

In the last few weeks, we’ve seen new plans for comprehensive action released by top American senators and just recently, an ambitious initiative coming out of the governor’s office in California. But as anybody who’s watched this debate for anytime knows, there’s a grave risk of failure for any comprehensive plan today. Machiavelli put it best hundreds of years ago when he said there is nothing more difficult, more perilous to conduct, more uncertain in its success than to take the lead in the introduction of a new

order of things. The innovator has enemies in all those who've done well under the old order and lukewarm defenders in those who may do well under the new.

We have an embedded system in place that delivers huge profits to well-established stakeholders. And we have political barriers to change, represented not only by continuing ideological disagreement over the goals of expanded coverage, particularly through public insurance, but also in the form of public concerns as Ross suggested, among those who have secure workplace coverage and are afraid that reform might affect his long-term health.

Health Care for America is premised on addressing and accommodating some of these key political realities that have stood in the way of comprehensive action. But it does not take the usual route to political compromise, that is, highly categorical and complex programs or lowest common denominator compromises. Instead, it offers a very simple and effective route to build on this most popular elements of our present structure, namely Medicare and employment-based health insurance for well compensated workers. And it will do so in a way that is guaranteed to produce true health security at last.

What health care for America would do is simple. It would extend insurance to all non-elderly Americans through either a new Medicare-like program or workplace health insurance that's guaranteed. While creating an impressive new framework for controlling medical costs and improving health outcomes to guarantee affordable, quality care to all. The one word that I think best captures this proposal is guaranteed. Health Care for America would guarantee coverage. It would guarantee a generous package of benefits. It would guarantee greater choice for patients. And it would guarantee real savings and improve quality.

In essence, the proposal would require that every legal resident of the United States who lacked access to Medicare or good workplace coverage would be able to buy into the Health Care for America plan. This is a new public insurance pool modeled after

Medicare that would team up with Medicare to bargain for lower prices and upgrade the quality of care. Every enrollee would therefore have access, either to an affordable Medicare-like plan with free choice of doctors or to a selection of comprehensive private plans that contract with this new Medicare like system.

At the same time, and this is crucial, employers would be asked to either provide coverage as good as this new plan or make a relatively modest payroll based contribution to the Health Care for American plan to help finance coverage for their workers. At a stroke then, no one with direct or family ties to the workplace would remain uninsured. The self-employed would be able to buy into the same plan by paying a payroll-based contribution as well. And those without workplace ties would be able to buy into the plan by paying an income related premium with the states given very powerful incentives to sign up anyone who remains uninsured.

Now, those who can bear remembering the health care reform debate of the early 1990s will recognize this proposal as a play or pay initiative. Employers either have to play by providing coverage that's guaranteed to all their workers or they have to pay a modest payroll base tax. However, this proposal differs fundamentally from many of these earlier plans in that the payroll-based contribution would be quite modest, around six percent of payroll. So many employers would see this as a relatively affordable and attractive option.

Indeed, estimates suggest that about half of non-elderly Americans would end up enrolled in the Health Care for America plan with the remaining 50 percent in private workplace coverage. Now, this has a number of benefits. Although, it doesn't cover all workers through a single plan, it would nonetheless create a huge purchasing pool with the ability to hold down costs and to pool risks across a diverse segment of the population. This in turn minimizes any problem of adverse selection; that is, the possibility that only high-risk workforces and individuals will enroll in the new public plan.

And most important perhaps, it provides real relief to employers burdened by rising costs or unable to get good insurance in the private market today. It saves employers who continue to provide coverage money by lowering the hidden tax as a result of the fact that so many people don't have insurance and receive uncompensated care, and by reducing the cost for large employers providing coverage by ensuring that all firms contribute to the cost of coverage. So that if a large employer has a spouse and it covers the spouse of a worker who's in a smaller firm, there would be a contribution on behalf of that spouse.

At the same time, it ensures that smaller or low-wage firms can purchase coverage for a very modest cost. As I said, six percent of payroll at most with transitional reductions for firms that haven't insured their employees in the past. It's probably easiest to explain the broad contours of this proposal by answering the common questions I receive. The answers are no, no, and no.

Okay. Question one. Is this single payer? No. It's not Medicare for all. I like to call it Medicare for many. And that's because only about half of non-elderly Americans would be in the new Health Care for America plan. Now, I have long been sympathetic to Medicare for all and argued that Medicare is the right foundation for building to universal coverage. However, for both political and logistical reasons, I think it's quite unlikely that we could move in that direction immediately in one fell swoop.

And I think that the reason for that is often not appropriately recognized. It's not just public and political worries about moving everyone into a government insurance plan. It's also the fact that doing so will substitute current employer spending for taxes. Lots and lots of taxes. This proposal by contrast would achieve many of the aims of single payer in the form of lower administrative costs. Medicare now has about three percent administrative costs compared with about 14 percent in the private sector.

So about half the population would be in a very low administrative cost plan. The rest would be in large employer plans to have low administrative costs. It would also achieve

some of these goals in terms of providing the ability to effectively control cost through regulation of prices and through coordination of care. And finally, it would provide the ability to improve quality for a large segment of the population. Such innovations would then drift out into private practice as well as they already do today with Medicare and employment-based coverage.

I also think this proposal would create a constructive public/private dynamic. And the reason is that employers that continue to provide coverage would be able to use innovative cost control strategies of their own. And if they were able to hold down costs, premiums for private insurance would lower over time allowing more Americans to get private coverage rather than the Health Care for America plan.

By contrast, if private sector costs continue to rise as they have in the past and the Health Care for America plan follows Medicare's precedent and is able to keep costs under wraps. Over the last 30 years or so, Medicare has seen costs rise about 40 percent slower in total than private insurance; then you would see more Americans move into the Health Care for America plan. So in a sense, it rewards the sector best able to control costs.

The second question that I answered negatively, is it an individual mandate proposal? No. The individual mandate in this proposal is only for the very small number of Americans who do not have any workplace ties. According to estimates from the Census Bureau, that's about six percent of Americans at any given moment. The individual mandate idea, which has received a lot of attention in recent months, is based I believe on a false analogy between auto insurance and health insurance.

Auto insurance is very different from health insurance. First and most obviously, no one has to buy a car. But everyone needs health care. And auto insurance moreover is much cheaper than health insurance. So we worry much less about mandating people at risk get it. The real problem with individual mandate proposals is that they essentially are moving us towards the defined contribution voucher. That is, they're moving us towards

a system in which people are required to get coverage, but may not receive sufficient support to buy comprehensive plans. Health Care for America is based on the model of Medicare and Social Security and defined benefits – guaranteed coverage – that can't be taken away.

Finally, I said no to another question. And that's: Is it managed competition? And the answer to that question is no as well. People can choose HMOs through Health Care for America. But unlike managed competition proposals, this proposal would not try to herd people into tightly managed health plans. Its savings instead come from providing a guaranteed fee-for-service plan that exercises effective control over prices much as other health systems and Medicare have effectively controlled costs in the past.

Now, I want to close with two points. First, this is not just good for younger Americans. It also will help Medicare by increasing its bargaining power and increasing its legitimacy and its ability to provide quality care. Second, this proposal does not have a faith-based financing system. Although, I do not specify in the proposal exactly how the shortfall that the proposal would create would be covered, that shortfall would be relatively small. That shortfall arises because the payroll base contribution is relatively modest.

So it doesn't cover the whole cost of care. Nonetheless, this proposal keeps employers in the game in terms of financing while giving most of them substantial savings. There's not a huge cost back to government as a result. And most of the financing comes directly from those who benefit, from employers who pay into Health Care for America, from workers who pay into Health Care for America when they're enrolled, and from the state, which will be required to move Medicaid and SCHIP beneficiaries into the system and pay a share of their cost.

Nonetheless, it promises actually substantial savings to all of these groups, leaving a funding shortfall which could be as high as \$100 or \$120 billion a year that would be

covered through other sources. And I specify in earlier versions of this proposal, I've gone through a list of where you could get this money. But I think it's quite crucial to understand that this is a quite realistic proposal, talking much less in terms of new federal net federal expenditures that most other providers provide much less comprehensive coverage.

My last point has to do with the consistency of this proposal with public opinion. Public opinion has been torn between requiring that employers provide coverage, the most popular reform option in most polls, and expanding existing public programs which rivals that prior option for popularity. It essentially is giving the public both things at once. For higher wage workers, they'll continue to remain in good, quality private coverage that's now guaranteed. And for workers whose attachment to coverage is more tenuous or who are uninsured, they will be able to enroll in the Health Care for America plan at a modest price.

This proposal also reflects an innovative public opinion project that was done by the Herndon Alliance that has found that Americans want a number of key elements in a reform plan, guaranteed coverage, good standard benefits, shared responsibility and risk and a choice between public and private plans – elements that are all within the Health Care for America proposal.

The need for action today is great. Over the last generation, as I argue in “The Great Risk Shift,” Americans have grown more insecure even as our economy has expanded handsomely. In nearly every facet of our economic lives, our jobs, our family finances, our pension plans, and above all our health insurance risk and responsibility has shifted from government and employers onto the fragile backs of American workers and their families. This great risk shift must end. And the place to push back first is health care, the epicenter of economic insecurity in the United States today.

My proposal would provide the health security that is sorely lacking today. It would guarantee affordable quality health care to all without offending our system. It would create a new framework that ensures everyone is covered, that risk is spread broadly, that costs are controlled and quality is improved. This proposal is consistent with American values. It is politically realistic. It is based on real world successes. It draws on the best elements of existing ideas to create a flexible framework for affordable quality universal health care that can evolve over time in the right direction for all Americans. Thank you.

**EISENBREY:** Rather than let Jacob Hacker have the last word on his plan, we've asked Judy Feder who is the Dean of Georgetown University's School of Public Policy and one of the nation's foremost experts on our system of providing health care to comment on the Health Care for America plan. Sen. Webb gave you something of an introduction to Judy Feder. He mentioned that she did run for Congress. She's not a member of Congress. Yet. But she does have a very long history studying health care issues. She researched health policy at the Brookings Institution and at the Irving Institute. She was a professor at Georgetown in the late '80s. She was the staff director of the Pepper Commission before she joined the Clinton administration as part of their health care reform effort in 1993 as a top official in the Department of Health and Human Services. We're very grateful to have Dr. Feder comment on the plan that Jacob has presented. Please welcome her.

**JUDY FEDER:** Thank you. It is a pleasure to be here today. And when we listen to Jacob talk about our health care system as well as experiencing it ourselves, you've got to wonder: Why is it so bloody hard to fix this thing? Why haven't we done it? He makes it sound so necessary, so simple and so sensible. He knows, as does everybody in this room, that it is not simple, but it sure as hell is sensible. And I believe he's offering us two critical messages for going forward to make it happen. The first is that he's offering us a plausible path to universal coverage and affordable health care. And in offering that path, the second message he's telling us that the question to be asked about is achievement is

not whether we *can* do it. It's whether we *want* to do it. And I want to address each of his messages in the next few minutes.

I want to be clear. There are many ways we can get to universal, affordable quality care. But the fact is, it is not true that just any way will get us there. And it is the job of analysts, advocates, and the press, like the people in this room, to help everyone know the difference between a plan and a plan that just won't work or will take us backwards.

What makes Jacob's proposal one of the good ones? The three critical elements are those that assure everyone has meaningful health insurance coverage that assures affordable access to care. Element number one is a defined set of benefits adequate to protect people against the risk of needing health care that they simply can't afford.

It doesn't mean that the proposal or the plan has to cover everything. It does mean that it has to cover the full range of needed services, that it's cost sharing. What individuals have to pay is reasonable relative to their income, and there are limits on out of pocket spending to protect people against catastrophic risks. Jacob's proposal satisfies those requirements, offering a comprehensive benefit that is neither a doughnut nor Swiss cheese. And in so doing, his proposal is distinguishable from several others, those that would offer no defined benefit or no specific benefit, and those that would have cost sharing so high that it would inhibit people's access to care. In short, Jacob's proposal is different from those that are based on the premise that any insurance being perhaps better than none is good enough. And that is simply not so if our goal is affordable access to quality health care.

Element number two in Jacob's plan is income contributions to make this good insurance affordable. We know from lots of experience, people without subsidies and with low and modest incomes will not buy insurance voluntarily. And who can blame them? Two out of three people without insurance are in families with incomes below twice the poverty level, \$40,000 for a family of four. Do we really expect those people if they're not

getting this coverage through their jobs to spend the \$11,000 that it costs to get a decent health care policy?

Now, in light of this reality, it has, as Jacob indicated, become popular to talk about individual mandates, requiring people to buy insurance. Personal responsibility is important in our health care system as it is in all aspects of our lives. And people should be expected to play their part and pay their fair share. But a mandate without a subsidy is either punitive or pretend. It either shouldn't happen or it won't happen because you can't get blood from stones.

In contrast to such proposals, Jacob makes requirements and expectations, or establishes a mandate for people at a price that varies with their income. His commitment is to sensible personal responsibility that the subsidies make possible. And I want to note in this proposal that as part of this subsidy, he assures that Medicaid persists to assure that there is no loss of coverage for the most vulnerable people in our society. This goal is not to go backwards, but to go forward for these people as well as the rest of us.

Element number three in Jacob's proposal is that he establishes what we might think of as a place to buy insurance that makes adequate affordable health insurance available to everyone without regard to health status. Jacob makes that place Medicare, rightly emphasizing as he does so that Medicare is a program that works to do what insurance is all about – spreading the risk of expensive care rather than forcing those of us when we get sick to bear its full burden. In promoting risk spreading, Jacob's proposal is again to be distinguished from proposals that send people shopping for health insurance in the market, in which insurers charge more or deny coverage to people when they need health care or encourages insurers to cherry-pick us when we're healthy and avoid us when we're sick.

Indeed, one of the best things about his proposal is that it works for the very people who count on insurance – all of us, when we're sick. With these three elements – adequacy,

affordability and availability of benefit – Jacob’s plan gets what my colleague calls a triple A rating for a health insurance proposal. He proposes that it be financed with shared responsibility across individuals, employers and taxpayers. And he makes that financing easier with his fourth really good thing.

And that would be his commitment to cost containment or what I believe we ought to call value for the dollar in our purchasing of health care. Just as Jacob sees it as our personal responsibility to pay a fair share for our health care, he sees it as a public, social responsibility to invest in the research and the evidence that tells us what medical practices work and what don’t, and makes the good ones happen. And also use the buying power of the purchaser to secure these effective practices at reasonable rates.

The bottom line is that Jacob’s plan does exactly what it sets out to do and promises to do. It really does offer us an affordable path to affordable quality health care for everybody. And now the second question. Do we really want it? Now, as Jacob knows and has written, the biggest barrier to fixing our health care system is, simply stated, fear and the tendency of powerful interests to exploit that fear to prevent health care reform. Forty-seven million Americans at any one point in time lack health insurance. But 247 million of us have it.

And for decades instilling fear among those of us who have it, whether it costs too much or covers too little, that political action will make us worse off – not better off – has taken health care reform off the political agenda. Now, there are some proposals that would make us worse off. They would unravel insurance rather than secure it. But the one we just heard is not one of them. Nevertheless, we will hear that it is. We will hear that establishing Medicare or a Medicare-like plan as a place to buy insurance means the encroachment of big government.

We will hear that assuring the availability and adequacy of health care will rob us of our choice. We will hear that assuring affordability through subsidies and shared

responsibility will destroy our nation's economy. And we will hear that promoting value for the dollar in health care will mean rationing care. Now, will these charges stick as they have in the past? Maybe. But we've got good reason to believe that they won't, because the worst cost and coverage gets, the tougher it's going to be to scare us off.

People are concerned about counting on their coverage. But the coverage they count on and don't want to lose is disappearing before their eyes. As the benefits they get from their employers shrink and premiums eat up their wages, as insurers drive them nuts with what's covered and with what's not, and as we find that we can't count on our doctors and hospitals to give us good quality care, it may just be that people who have insurance have had it and are just not going to take it anymore.

And whether that's so is going to depend on whether we can trump the fear of change with the confidence that we can do better. And when I utter that phrase, I get chills. I don't know about the rest of you, but I remember Harry & Louise very well. The couple, who I have been told were uninsured actors representing the insurance industry in a misrepresenting way, took apart the Clinton health plan piece by piece saying there's got to be a better way.

Well, there is a better way than our current system. Jacob's got one. And it's about time that we got on with it. Thanks.

### – Question and Answer Session –

**GRUENBERG:** I read through your plan while we were waiting for you to speak. I'm familiar with this problem: It's called 30-percent increases in health insurance costs for a company every year. I see nothing in your plan that would stop such things. And the second thing I have a question on is half-Medicare, half-private. Why half and half? Why not 100 percent Medicare?

**HACKER:** Well, on the first question about cost containment, there is something that would stop it. And that is that Medicare and the Health Care for America plan would be bargaining to bring down prices and, within that pool, would have much lower administrative costs than private sector. Most larger employers are better capable than smaller employers or lower wage employers to try to control costs on their own. But as I said, the failsafe option in the end is if they're not able to, they have this public option available to be able to provide coverage for relatively modest costs.

The second question you ask is about why half and half? And the entire premise of the proposal is that it would be very difficult to move immediately to a universal Medicare-like plan. I think that private health insurance, works relatively well at the high end of the labor market. The coverage is much more comprehensive. It's much more widely available. It has much lower administrative costs than it does in the public sector – in the low wage and small employment market.

And so my belief is that you would be able to achieve many of the goals of going all the way by expanding this program to help the population.

**ELISABETH JACOBS:** I have a question about the potential for scaling up through the states given the most recent initiative in California and in my home state of Massachusetts, which has passed mandated health insurance. Is there a way to sort of do it incrementally through the states or does it rely so heavily on Medicare means that we really need to go sort of whole hog national, and there are no baby steps there.

**HACKER:** That's another good question. So if one premise of the proposal is that it's going to be very difficult to move towards a universal Medicare-like plan immediately, another premise of the proposal is that the states alone are not going to be able to solve this problem. I think we can have widespread agreement on that. The real question is what the relationship between the states and the federal government in dealing with this pressing issue should be. It should be noted that in Canada, it was actually the provinces

that led the way and then the federal government stepped in later. As I've written about in an historical and political science analysis, one of the reasons why that was possible, however, was there was much more diversity across the provinces politically. And there were socialist parties who were pushing much more comprehensive plans than we're seeing in any state at the moment.

So the real question is what can we do to build on the positive precedents we're seeing in some states? And I should say that while I think these are signs of an emerging national debate and many of them contain important elements, none of the plans on the table so far at the state level would effectively deal with the serious problems for reasons that I've discussed already.

The second thing I would say is that there's actually no reason in principle why states couldn't experiment with a proposal that had some similarities to the one here. If the federal government were to allow the states to setup payment systems that would use Medicare's reimbursement rates and pooling risks at the state level, you would actually be able to see how well this proposal worked. We saw something like that actually in some northern states and cities that had hospital-rate setting, which actually was shown to be actually quite effective in keeping costs down. Most of those efforts have been eliminated over the last 20 years or so.

The second thing I would say is that not only could the states experiment with this, there's no reason in principle why you couldn't have a state flexibility provision in a proposal of this sort. My view is that most states, if given the choice, would find this a much more attractive option. It would cap their obligations. It would remove a lot of the risks they face now. It would also ensure that they could focus their efforts on the most vulnerable populations on wrap-around coverage for Medicaid beneficiaries on long-term care. Although I believe it should ultimately be a national responsibility, I don't think it should be moved in that direction in the immediate future.

And also, on those portions of the population that aren't legal residents, all the estimates of the proposal suggest that the states would receive substantial savings under it. So my view is that you could have an option that if states upheld all of the requirements of the proposal in terms of coverage and generosity of coverage and reciprocal coverage of people in other states, that's something you could consider. But I think it's very unlikely that many states would find that an attractive option relative to the one that I have here.

**EZRA KLEIN:** Jacob, you've written a great book about the '94 health reforms and how they failed. And Judy, you were sort of there for the demolition job. What you've proposed here is much more fundamentally dangerous to the actors who killed it the last time around. And I would like to know in a bit more detail where you see the opening for your plan to be enacted where it wasn't true 10, 12 years ago.

**HACKER:** Well, first I would dispute the claim that the proposal is on every dimension much more threatening to present actors in the system. In fact, the 1994 proposal contained two broad elements. One was a very fundamental reorganization of financing. But another was a very fundamental reorganization of delivery in the United States. And that turned out to be I think something that was quite frightening to many Americans as well as to some key interests in the system.

Moreover, large employers turned against the Clinton plan in large part because they didn't believe that they would be able to continue to provide benefits on their own. They thought that the ability to be outside of the so-called health alliance was a false promise that would apply to employers with 5,000 or more workers, and that it would impose significant costs on those employers to reduce the probability of adverse selection.

Employers felt that this was, as they put it, single payer in managed competition garb. And on the one hand, I'm just much more open about what want to I do. There's no single payer in managed competition garb. This would be single payer for half the population. And in that sense, I think that it has some actually key virtues. It's very

simple. It doesn't rely on the idea of expanding HMO coverage dramatically, although it would allow that option.

So for many Americans, it's not going to seem particularly threatening. They're well aware of what Medicare does. And those employers that now provide coverage, many of them, will continue to be able to provide coverage before - with tax breaks for their coverage, with lower cost due to the reduction and compensated care, with lower cost because they don't have to cover worker spouses, and with the ability to draw on innovation that this new Health Care for America plan would spearhead in terms of quality improvement and effectiveness.

But I would say that the most important group that ultimately was skeptical of the Clinton plan was the American people. And it's that group that I think this plan is really targeted at trying to reach. And I didn't have a chance to talk much about what the public opinion surveys show, but there are two things that I would note.

First of all, Americans are extremely fearful at this moment about the security of their coverage, so that there is a sense in which private coverage is no longer seen as a guaranteed. And this was true, I should mention, in the early '90s. It's not as if there's been a wholesale shift in public opinion on these issues. But I think there's been a creeping growth of fear about this. Second of all, the public opinion polls show clearly – and I think convincingly that Americans believe – that these requirements do require some fundamental change and some shared sacrifice.

And I think that if this can be done in a way that doesn't expose Americans immediately to lots of new costs or frighten those who have secure private workplace coverage. I think we could actually achieve this goal finally. But no proposal is *not* going to raise the opposition of conservatives or health interests. I think what this proposal does is put out a clear market. It's simple. It's easy to understand. And animates, I hope, those groups

that are most interested in getting this goal done, some of whom have representatives in this room.

**KUTTNER:** The group that clearly has the most to lose is Harry and Louise. It's the insurance industry. I accidentally found myself seated at a dinner party with a guy who turned out to be a lobbyist for one of the big insurers just before the election. And after the third drink, he said, you know, if the Democrats win, we're screwed. And I was too polite to say I certainly hope so.

Here's my question. There are two evils that this would squeeze out over time if it works the way you hope. One is the private insurance industry. The second is less of an evil than an expensive complication, and that is the reliance of people to get their insurance from their employers. And it would seem to me that by setting the number at six percent, the percent of payroll that you as an employer would have to pay rather than play, you're setting in train a gradual process whereby the whole system gradually shifts from 50/50 to 60/40 to 70/30. So that after a couple of generations, almost everybody is in the quasi-Medicare program. Is that the intent?

**HACKER:** Okay. Well, I would not be upset were that to occur. I should say that we're doing a new set of estimates based on this revised version of the proposal and based on current cost levels. But I will say that the original estimates done by the Lewin Group, which had a 10-year projection, and assumed what was then called Medicare Plus, now the Health Care for America plan, would control the costs much more effectively than private insurance.

Nonetheless, they did not forecast a huge shift over just a 10-year period. I think it was a shift of two percentage points over that period. So at that rate, we'd have everyone within Medicare in about 250 years. So I'm not sure that that's worth worrying about. I do think this is going to be an obvious complaint about the plan. I think the way to counter it is to say straightforwardly that this plan is giving employers a chance to prove

that they can keep costs in line. And large employers have said that they have the ability to do that. It's taking away two options from them.

Option one, they can't go to health savings accounts because they have to maintain a guaranteed coverage level that's comparable to the new Health Care for America plan. Option two is they can't drop coverage, right? They've got to pay if they don't want to provide coverage. But without those two options, you've got to think that they might come up with some others that are realistic. And if they don't, then I think over time you'll see a gradual movement in that direction.

The second thing I wanted to say, and going back to Ezra's point about the insurance industry, is that while I think that the insurance industry will be very opposed in total, I do think that we shouldn't forget that there's going to be a divide as there was in the early '90s between large and small insurers over the best course going forward. This would eliminate, I think, the small group market insurance industry. It's premised on doing so. The larger firms will stay out. But they largely self-insure. They don't buy it from insurers that market in that area.

And those folks are powerful. And they've got sales offices everywhere. There are a lot fewer of them than there used to be because insurance has dwindled so much. The large insurers have actually, to the chagrin of many advocates of Medicare, done pretty well contracting with Medicare and, at worst, are ambivalent about it. And I would reform the contracting system. And I don't go into the details of that in this proposal.

But I would continue to allow the Health Care for America plan to provide private plan options. Kennedy has a new proposal out. And his idea is that you would allow people to have access to the same plan options that were under the federal employees' health benefit program. It's not clear exactly how that would be structured. I would rather create a separate contracting system. I want to just make clear that that contracting system I think would be run fundamentally differently from the current one and also very

differently from most managed competition proposals. You would not have to pay more if you wanted to remain within the free choice of provided guaranteed plan as many proposals for managed competition or premium supports suggest.

Secondly, the way the system works now we all know it's over-paying private plans. And it's creating a cacophony of plans that are very hard for seniors to compare and that are also moving in and out of the market excessively. So to stabilize that, I would argue for a much more aggressive contracting regime where essentially you're saying you can provide this set of benefits. You can provide more if you want. And you have to come in with bids for what you're going to provide that at. No one will have to pay more to enroll in those plans. And then there's a serious system for evening out costs retrospectively across plans to ensure that they weren't using risk selection. But, you know, I'm not going to do everything in one proposal.

**ANNE HOFFMAN:** For Judy, could you tell us how the Massachusetts and California plans do or don't meet the criteria that you applied this morning? And to Jacob, what are we doing with the undocumented?

**FEDER:** I think that we ought to be applauding what's going on in Massachusetts and California, not that I think that states can do this on their own. They simply can't. And there are proposals around including one, I believe, from Secretary Leavitt [U.S. Health and Human Services Department] that would give grants to states and let 50 flowers bloom. That is not going to satisfy the criteria. It's not going to get a Triple A rating. What I would say is that we ought to look very carefully. Massachusetts is a work in progress and we know that. And it does have a place to buy. But in terms of the adequacy of its benefits and affordability of its benefits, let's say they're working on it. And I believe that we have to look. I have not looked at the details of the California plan. But I would suggest that we look at the same while we applaud the efforts for any proposal that gets an AAA rating to move the hell forward.

**HACKER:** Let me just say a word more about the California plan, which I agree with everything that Judy said about the need to applaud it. It's remarkable that a Republican governor has come forth with a plan this comprehensive that Mitt Romney vetoed the \$300 or so contribution for employers that don't provide coverage. Schwarzenegger's proposal has a four percent payroll tax on employers with 10 or more employees that don't provide coverage.

Like my proposal, there's no necessary link between paying that payroll contribution and having people enrolled in some kind of new plan. It's just a funding system for a new system to try to reach out and cover the uninsured. If we're going to keep employers in the game, we need to use employers as a conduit for coverage. So it's very crucial I think that however high that level of the payroll contribution is that it's going directly into coverage for those workers and their employers are getting them into coverage automatically.

So to me, there is a fear under that proposal that employers might see that four percent as buying coverage for their workers which is very cheap all of a sudden, but in fact, they're not. Their workers are just going out and having to get coverage through the new system California's creating that will probably focus first and foremost rightly on those who are really the most disadvantaged and eligible for the Medical and the new Healthy Californians plan, but who don't receive it.

Okay. I wanted to say one thing about another group that's alone in the market and that's early retirees. And just to say that my proposal would allow employers to buy employees early retirees' coverage through Health Care for America plan and on a pre-tax basis, which I think would be quite attractive to many of them. Third, this proposal is a social insurance proposal. Most social proposals based on contributions for individuals have typically been limited to legal residents of the United States. And it follows that practice.

However, we know from the recent debate there are a huge number of undocumented workers in the United States. They are actually paying into Social Security now and not receiving any guaranteed benefit as a result. I think we have to resolve this problem. I'm not sure I know how to resolve it in the context of this proposal. There are fundamental issues that arise. If we say that people who do not have valid Social Security numbers can be in the social insurance framework modeled after Medicare, there are two routes to go.

One is to try to come up with a way to seriously cover all undocumented workers and non-workers outside of the social insurance framework. And the emphasis would have to be on community-based medical institutions and outreach to these communities. The second approach is to try to think about a serious way, and I think what immigration reform will try to do is come up with a serious way, to move people into documented status and even perhaps to create a new class of people who can enroll in this program.

But again, as we've discovered in the debate over guest workers, this is an issue fraught with concerns about its effect on workers in the United States and on immigrants. So I'm not resolving that issue. But I welcome people's views about how best to deal with it. And I hope you understand why this is actually not an easy issue to resolve – unlike all the other ones.

# Globalization That Works for Everyone

## (Hour Three)

**MARK LEVINSON:** Our second panel today is on globalization. A massive trade imbalance, a decimated manufacturing sector, the outsourcing of jobs, growing inequality, stagnant real wages, and disappearing health and retirement benefits: All of these factors are contributing to the growing controversy over the way globalization is occurring. Even many past supporters of corporate-dominated globalization are now openly worried that its benefits and costs are too unequally distributed, that it is hurting too many and helping too few.

Globalization, for those who were paying attention, was a major issue in dozens of the recent midterm elections. Most of the Democratic candidates who were critical of the status quo, that is those who ran on a fair trade message, won. While most of those who did not, lost. To understand the challenge posed by globalization and to define an alternative approach, the Economic Policy Institute and the Agenda for Shared Prosperity, are proud to release today a paper by Jeff Faux. Jeff is the founder and the former president of the Economic Policy Institute and currently distinguished fellow. He's the author of hundreds of articles and several books, including *The Party's Not Over: A New Vision for the Democrats* and most recently, the very important and very subtly titled, *The Global Class War*. Jeff.

**JEFF FAUX:** Good morning, and thank you, Mark, for that introduction. And thank you Larry, Ross and everybody at EPI who's participating and driving this very important overall project and a new agenda for America. I want to also thank Rob Shapiro before we possibly get into a disagreement for coming and being willing to comment on my paper. And thank you for coming. I know since November, many of you have been a lot busier than you have in the past. I know my social life has changed. I'm getting invitations from people who wouldn't be seen having a cup of coffee with me in the last six years.

So as Adam is reported to have said to Eve as they were being tossed out of paradise, I think we are going into an era of transition. And the United States' economy clearly has been for the last decade and a half at least going into an era of transition. Everyone in this room knows the basic story of the development of global markets being driven by changes in technology, information, transportation, business and financial organization.

Over the last decade and a half or so, two billion new workers have been added to the commercial global labor force with the rise of China and Eastern Europe, etc. – most of those willing to work for a lot less than Americans are. Now, this would have been hard enough to cope with for the average family under the best of management. But unfortunately, over the last two decades, this process has been woefully mismanaged by a series of administrations in Washington who have pursued what George Soros once called free market fundamentalism as the basic form and construction for this new world into which we are transitioning.

The policies of the last 15 years have not only not helped very much, but they've made conditions worse, undermining competitiveness and the basic social contract that allowed America for most of the 20th century to enjoy a shared prosperity with the emphasis on the word *shared*. Now, this is contested ground as everyone in this room knows. There are many people who would deny even what I have said so far. But let's look at the story so far.

In the early 1990s, American workers were assured, promised, that NAFTA, the WTO, and the opening to China would make them richer. It was said that it was simple Economics 101. They were more educated. They had a better work ethic. And we had access to superior American technology. Moreover, since U.S. tariffs were already lower than most tariffs in the world, eliminating those tariffs would mean that as they came down U.S. exports would rise faster than our imports. So it was win, win, win for everyone in America. Simple Economics 101.

We were assured, for one example, that free trade with Mexico would mean a dramatic diminution in illegal immigration. So they had this raft of promises for us. So it's important now to look back at what happened. Some Americans, of course, have done very well. Many of these trade deals traded off the interests of American workers for American investors. So it's no surprise that there's a crisis now in Manhattan. There are not enough \$200,000 automobiles and \$20 million condos to deal with the people at Goldman Sachs who have just gotten their annual bonuses.

But for most people, it hasn't worked out this way. The process of globalization has contributed to the stagnation of wages, the decline of incomes of many Americans, and the offloading of risk from capital to labor. And all of these numbers are in *The State of Working America*. A few of them are in my paper. But I don't think there's much dissent that this process is going on. There may be debate over the speed, but I don't think in the direction.

Then, according to the story, we were told, well, sure: It might be that the unskilled have some problems. The guy who sweeps out the apparel factory at night may lose his job but the rest of us will be better off. And then it became skilled blue collar workers whose work was outsourced. Well, it was said, that's only the people at the bottom, the non-supervisors – who turn out to be 80 percent of the U.S. labor force. And then, of course, we started outsourcing accountants, computer engineers and designers, radiologists, etc.

At the same time, we have created these massive and relentless trade deficits, including deficits in high technology. And it's not, by the way, just something that has affected American workers. NAFTA, for example, was not sufficient to allow the promised growth in Mexico to create jobs there. Over the last 10 years or since NAFTA, 66 percent of the current illegal immigration into the United States has occurred from Mexico.

Now, you would think after all of this there would be a change in policy. You would think given this record that we would be debating something new. But – and here’s the interesting payoff – policies have not changed. The story has now changed; now it is that the failures are because Americans are not educated enough. It’s because Americans don’t have a hardworking ethic like the Chinese and the Indians. It’s because Americans don’t save enough. Whatever is the problem, it’s not the policy. It’s the people.

It reminds us of that other policy arena that George Bush spoke about last night. Not the policy, the people have failed us. Well, the polls and the elections, as Mark suggests, have suggested that we’re coming to the end of the acceptability of that argument. And there’s an opportunity now for us to have a serious debate over what we’re going to do in order to change direction.

The first thing we have to do, I think, is make sure that we get our language clear. This is not about free trade and protectionism. Nor is it just about trade. Americans have always traded with other countries. I just had a cup of coffee that probably came from Columbia. That’s not the question. The issue is the economic integration of the United States’ economy with the rest of the world. And that process is quite different from the trade principles of Economics 101.

Let me give you one quote that I think sort of sums it up. And this is not from some progressive economist, not from some labor leader. It’s from the first head of the World Trade Organization, whose name is Renato Ruggiero, and he works for Citigroup in Switzerland by the way: “We are no longer writing the rules of interaction among separate national economies. We are writing the constitution of a single global economy.” We’re no longer doing a simple trade among separate economies. This is about integration. Unfortunately, the constitutions that rule – the WTO, NAFTA, the IMF, and the World Bank – recognize just one category of citizens. And that is the investing corporation.

Second point about language is that we have to distinguish between the competitiveness of multi-national corporations and financial institutions with American names and the competitiveness of people who work with and invest in America. Those are two separate things. And the reason they're two separate things is that as corporations have become global, their future has become disconnected from the future of the American economy.

Now, this is not a conspiracy theory about corporations. They've been telling us this for the last 30 years. Recently, the head of Cisco Systems, which is the poster corporation for the age of information technology, said that the goal of the corporation is to be a Chinese company. Now, that's fine. The opening to China clearly made Cisco Systems a more competitive company. It made Americans that work and invest and live in this country less competitive. And the failure to understand that distinction leads to perverse policies. I'll give you one example.

There's a consensus on Capitol Hill today that one way to deal with America's global competitiveness problem is to put more money into research and development – more government money going to Harvard and Stanford and the University of Michigan and high tech companies – in order to produce innovative processes and systems to make us more competitive. But, of course, under the current form, the products that will be produced as a result of this information are more than likely to be produced elsewhere. That is a perverse economic policy.

I would hold that it makes no sense to tax workers whose income is already in jeopardy in order to provide money for universities in the United States to provide innovation for people producing elsewhere. But that's the kind of policy that you get into if you don't understand this distinction. Now, the net effect of a lot of this current form of globalization is hidden by our unique capacity as a company to borrow in order to finance 25 years of trade deficit.

Now, people's eyes start glazing over when we start talking about dollars and trade deficits. Hopefully, when you read what's in my paper, your eyes won't glaze too much. Or read it in the morning, not at night. But at any rate, this is the point. It is unsustainable and we know it's unsustainable. You cannot continue borrowing money and driving up your debt faster than your income forever, even if you're the United States of America. And when the day of reckoning comes, on our current path we will have slower growth. We will have reduced incomes. We will have higher interest rates, etc.

Now, economists argue about whether this is going to be a hard landing or a soft landing. But whatever your view about that, it's going to be a landing. And a landing usually has the direction of going down. So what's the alternative? What is to be done? The paper lays out a series of proposals based upon two criteria. One, what is good for the average American who works for a living in America? And two, is the scale of the proposal up to the scale of the problem? This is a perfect example of what's going to happen if we don't change.

And I think that second thing is very, very important. Because as Mark said, many people now who had promoted free trade and globalization in the past recognize these problems. But for the most part, the proposals have been marginal and have not met the scale of what we're dealing with. I will go through quickly what's in this paper. Someone might say, oh, that's a laundry list. Well, you know, it's a list. And we have a lot of laundry to clean. So what can I tell you?

First, I think we ought to stop the hemorrhaging. Do no further harm. Now, what this means is that under current conditions, the more we trade, the more our deficit grows and the more we outsource. So we need to stop with what I call a strategic pause to suspend all negotiations on trade and all approval processes until Congress and the president agree on a clear plan to cut the deficit, increase competitiveness and restore the social contract that has been undermined by this sort of globalization.

I think we ought to replace fast track with new rules for negotiating trade agreements, including labor rights and environmental standards and protections against currency manipulations. No restrictions against U.S. or state government's ability to favor domestic production as a means of economic development. I think we need a new Plaza II accord. For those in this room who are old enough to remember, in the 1980s when the U.S. dollar went sky high because of Ronald Reagan's fiscal policy, James Baker, who was Secretary of the Treasury, called a meeting of our major trading partners and agreed on a process of gradually getting the dollar down.

Now, in order to do that, it's clear that you need not just rewards, but you need a hammer. And so part of that proposal is we need to be prepared to put across the board tariff increases on imports in order to get people to the table, including Chinese. We need to reinvigorate U.S. investment in manufacturing. Now, there's a common notion in this country that manufacturing is something of the past, it's a new information economy, etc. You all know the argument.

But in terms of manufacturing, it's absolutely false. Because sooner or later, we are going to have to produce more things in this country. Because we're going to have to sell more things both here in this country and to export. And the reason we have to do that is that there's no other way to deal with the imbalance of trade and our trade deficit except to impoverish ourselves and to drive our income so low that we're no longer able to go to the store and buy those cheap sneakers and underwear and all that stuff.

So we have no choice. If we're going to survive and to prosper, manufacturing needs to come back. And there needs to be public policy which will give investors confidence that the United States is supporting its manufacturing and will continue to support its manufacturing in the future. Now, such a climate of confidence, it seems to me, includes what we talked about in the first panel – relieving producers of the massive and growing expenses of health care and the legacy pension costs that have burdened many producers.

We need national infrastructure investment leading with support for a program of investing in alternative energy and transportation to reduce our dependence on oil. We need government R&D support in ways that don't end up aiding our competitors. We need revised labor laws. We need a new grand bargain with Mexico to replace NAFTA with worker rights, a social clause in our agreement, and the assistance in job creation in Mexico. And I propose a North American Customs Union in order to compete with regional economic blocs around the world.

And we need a new U.S. agenda for the international agencies that we influence – the World Bank, the IMF – allowing for diverse models of growth in the rest of the world rather than the single-minded export growth model that is supposed to fit all.

Finally, there are some suggestions in the paper for reorganizing the Congress and the executive branch to get away with the obsession on deal making as globalization policy and especially to get away from the obsession with financial deal making as global policy.

Now, this is a big package. There's a lot of stuff. It's more than a laundry list. At best, we can only start, clearly, over the next two years. But we clearly need a programmatic vision of how America is going to survive and prosper in this global economy. Right now, implicit in our globalization policies is an acceptance of the fate of the declining real incomes for the majority of Americans.

They won't tell you this. But play it out. One of the most prominent promoters of globalization – I am told by a friend of mine – at a recent meeting said, “Well, Americans are going to have to face it. They're either going to be Barbara Streisand or they're going to clean her pool.” Well, there's not too many of us who are going to be Barbara Streisand.

So that is the vision that underlies current policy. So we need to start laying out where we're going problematically. If you don't know where you're going, says the old saying, any road will get you there. Now, there may be better ideas than this, possibly. We certainly need a sense of urgency though, whatever the idea, and a debate of ideas that reach the level of the problem. Otherwise, it just seems to me that the vast majority of the people who live and work and invest in America are going to see tougher times ahead. Thank you.

**LEVINSON:** To comment on Jeff's paper and perhaps start a discussion, we're honored to have Rob Shapiro who has written widely on issues of the American and global economy.

**ROBERT SHAPIRO:** First of all, let me say it's a pleasure it is to be here. I think it says a lot about the current state of the progressive movement in this town that we're all here together. Jeff and I may not see eye-to-eye on everything. After all, we are economists. So it's in our DNA. But we do agree that globalization is real, that its effects are enormous, that the process, as Jeff has written, is being "tragically mismanaged" and that consequently, it's creating, increasingly, costs and burdens for American workers.

Over the last 15 years, the share of everything produced in the world that's traded across borders rose from 18 percent to 30 percent. That's the highest level and the largest increases ever recorded. And while trade accounts for less of our economy than most other advanced countries, we are nevertheless the world's most globalized country. Forty-four percent of our exports go to developing nations and 50 percent of our imports come from developing nations. That's roughly twice the share of the EU, which mainly trades with itself. The same holds for foreign direct investment. About 28 percent of ours is now in developing nations compared to 15 percent of Europe's.

Now, so far globalization's vast effects have been clearest in those countries – China, Taiwan, the Czech Republic, Korea and others – that open themselves not only to that foreign investment, but also increased competition and upgraded transportation,

education and public health systems. And the greatest beneficiaries have been the people in those and many of the world's poorest countries. In China and India, average incomes more than doubled over the last 10 years. And that includes hundreds of millions of desperately poor Chinese and Indians in rural areas untouched by all of this process.

Globalization, however, also changes the modern corporation. For centuries, large national and international companies used their heft mainly to get sweet deals on their most basic resources, capital and labor. Modern globalization makes labor and capital much more easily and cheaply available. So their business strategies no longer focus there. Instead, their most critical resource has become intellectual capital in their patents, brands, business methods, and the knowledge and relationships with their professionals and managers.

This idea-based economy has been a metaphor for a long time. Globalization is making it real. Since the mid-1990s, U.S. companies invested as much in intangibles, mainly patents and trademarks, but also databases, branding, organizational changes and the training to use these ideas as in all physical assets. This shift towards intellectual capital is also clear in the way investors value public companies. Twenty years ago, the market value of the physical assets of the 150 largest U.S. companies accounted for 75 percent of the total value of their stock.

That means that a firm was roughly worth what its plant, equipment and real estate could be sold for. Today, the book value of the top 150 U.S. companies accounts for 35 percent of the total value of their stock. So nearly two-thirds of the market value of large U.S. companies now comes from what it knows and the ideas and relationships that it owns, not from its physical assets.

Now, this is America's advantage in globalization, because we remain the world's largest and most powerful idea factory. In effect, we represent the other pull of globalization from China. They're becoming the world's largest production platform. We're

producing the ideas that give value to what they produce. One clear sign of this is that half of our imports from China come from the subsidiaries of U.S. companies.

This is all great for American big business. The potential market for what they do best, developing new products, materials, technologies, coming up with new ways of financing, marketing and distributing things as well as new ways of doing business generally has become global. To a large extent, they also now have the entire world to pick the cheapest and most reliable sources in the materials, parts, labor and everything else. Revenues, productivity and profits are all high. And the economy, both ours and the world at large, has grown at very healthy rates.

But globalization also produces a nasty surprise for working Americans. As overall growth has expanded, the relationship between how fast the economy grows and how many jobs it creates has weakened very badly. The 2001 recession cost us about half a percent of our GDP. By historical standards, that should have cost us 500,000 jobs. Instead, we lost three million. After the 1991 recession, it took us 18 months to get back to pre-recession job levels. This time it took 52 months.

Even today, we're creating jobs at half the rate we did at the comparable point in the 1990 expansion. The same thing is happening to the link between productivity and wages. From 1994 to 2000, productivity grew about 2.3 percent a year. And average incomes rose 12 percent. Over the last five years, productivity has grown three percent a year, the best record since the 1960s. Yet, both real wages and total real compensation haven't moved at all. The problem is not the overall economy which is doing fine, but the transition mechanisms that connect the macro economy to the lives of most working people. And globalization is one of the main forces changing those transition mechanisms. It begins with China and travels along an indirect path to the United States.

Let's start with some numbers. China's merchandise exports went from \$62 billion in 1990 to \$750 billion in 2005. And they're still growing 25 percent a year. Even at

current levels, China's levels swamped those of other developing nations – almost two-thirds more than all the rest of East Asia, for example, and almost 30 percent greater than all of Latin America. Now, here's an example of what happens from that swamping process. These are real companies. Zhejiang Forging Company: It's a Chinese manufacturer of forged metal parts that expands its production of motorcycle parts at prices that undercut rivals in Thailand. Sunpower Enterprises, which is a large Chinese producer of hotel furniture, undercuts its competitors in Egypt and the Dominican Republic.

As customers around the world learn of it, some of the less productive producers of metal parts and hotel furniture in Thailand, Egypt and the Dominican Republic are squeezed out of business. Soon, the margin capital and expertise in those economies shifts to other industries such as basic electronics or more sophisticated equipment. The new capital and expertise makes those industries a little more competitive. And that puts new pressure on their rivals in, say, Korea and Brazil. This process repeats itself and the margin capital and expertise in those economies shifts again to, say, LCD makers in Korea and auto producers in Brazil.

This time the new competitive pressures begin to affect LCD producers and automakers in the United States. China's manufacturing platform is so big and diversified that these dynamics intensify competition across scores of industries in scores of countries. It's not just happening in motorcycle parts and hotel furniture. It's ratcheting up competitive pressures around the world. But when those competitive pressures reach us, there's no other place for us to transmit them. So here the result is just that economies lose some of their pricing leverage.

They find it harder to raise their prices, even when their costs increase. Now, U.S. health insurance and energy costs have risen more than 60 percent since 2001. And for many companies, pension costs are up sharply as well. On top of that, globalization has another effect. By expanding the pool of workers more than the pool of capital, globalization

raises the rate of return on capital. So even as companies feel squeezed between more intense competition and rising costs, financial markets tell them they have to show higher profits.

So businesses have taken what may be their only way out. It's certainly the easy way out. They found other costs to cut, starting with jobs and wages. This is what's happening in the United States. And it's the largest single challenge posed by globalization. If we don't step up to the plate and reduce the rapid increases in health care, pensions, and energy costs – three areas in which the current administration has been missing in action for six years – the U.S. job-creating machine may stall out. And the incomes of a majority of Americans could slowly fall for the next generation.

If we don't step up to the plate with serious training and education strategies that ensure that Americans can do their jobs more efficiently than anyone in any developing country – another area where this administration has checked out – offshoring and outsourcing, especially in the new area of services, will hollow out part of the American middle class.

We can't roll back globalization or frankly affect the pace of global trade much. Markets and global companies can make the same mincemeat of trade provisions as they do of tax provisions. What we have to do is to restore the links between growth and jobs and between productivity and wages, so average American workers can benefit as much from globalization as the companies they work for.

### – Question and Answer Session –

**JOCK NASH:** Neither of you gentlemen dealt with the issue of value added tax. Jeff, I've been looking into it a little bit in the last couple of months and found out that the distortion caused by the ability of a VAT country to rebate its VAT taxes to an exporter to this country and the ability of a VAT country to apply a VAT to our export amounts to a distortion of about \$300 billion a year to the United States producer.

We've not even been able to negotiate the value added tax away from our free trade partners like Canada or Mexico. So they might have gone to zero tariffs. But, for example, Mexico still has a 15 percent VAT on our goods exported to them. In fact, those two countries amount to about 25 percent of that \$300 billion distortion. I'm not suggesting that we get a VAT in this country. But I'm suggesting that we ask the WTO, which allows indirect taxes as a non-actionable subsidy. Things have changed since 1947.

137 countries have the VAT. Most of them got the VAT in the 1990s. If you add their VAT and their tariff rates, we find out that their markets haven't opened up at all in the last forty years. Their VAT has increased and their tariffs have gone down. So I was just curious why this aspect has not been mentioned by either gentleman.

**SHAPIRO:** Why it hasn't been mentioned for me is partly because of the size of the document that we put out. The original draft has a tax section. And in the larger document that will be coming out, I'm going to deal with that a little bit. But, you know, it's an interesting question. You're not suggesting that we have a VAT. But it seems to me that the chances of the WTO going to the Europeans and other trading partners and on the basis of whatever leverage they have, and turning around those policies seems to me remote.

And one of the things that I think we need to look at is what our tax structure is in this country. I am not afraid to say that if we had a progressive VAT, one that would be a progressive tax, that wouldn't make sense. We are not going to change the way the rest of the world does business, I don't think. So the question is how are we going to do business? And I think that is a reasonable proposition for us to consider when we look at our tax structure.

**FAUX:** I think there are lots of arguments for and against that, both progressive and in terms of the efficiency of the tax code. But I want to go one step back from your argument, the notion that U.S. tax policy is disadvantaging U.S. businesses relative to other businesses.

I don't believe that. I don't believe that because the overall U.S. tax burden is substantially smaller than any other advanced country, and the corporate tax burden today is lower than it has been since 1950. I just don't think that's the place to look with respect to advantages and disadvantages for U.S. companies of the world.

**HEATHER BOOTH:** I thank for you for both presentations. Two part question: first, to Rob. You ended your comments having provided a context for what you are saying how we need to make sure that the growth of corporations can be translated into growth for the wages and conditions for working people. I wondered if you'd take a few moments to explain what you think would be the priorities for policies to make that possible. And then for both of you, if you could say one of those policies that you'll mention now can gain some traction in this new period.

**SHAPIRO:** Let me say that I'm spending most of my time trying to figure out what's happening and why it's happening. This is a new phenomenon. It's very hard for economists to get their whole hands around it or brains around it. And I'm trying to do that. I feel more confident about my understanding of the global dynamic and the way it's affecting the U.S. economy on a macro level than I do about what we ought to do about it.

But having said that, my analysis says that we know we have this conflict between the growing intensity of competition and the development of global capital markets and cost pressures. So that one thing we could do to begin to try to restore the transmission mechanisms, which I believe worked quite well in the 1990s both in terms of job creation and in terms of income increases, is to reduce some of those barriers – that is rising health care costs, rising energy costs, pension costs. So I would begin with health care reform, energy policy and pension reform in order to see if we can restore the mechanisms which, as I said, the data tell me worked in the 1990s.

**FAUX:** If this was the early 1990s, I probably would have agreed with most of what Rob just said. I think we had an opportunity there when we opened ourselves up into the global economy to do it in a way that protected and promoted the interests of American workers. We didn't. You know, we could have said, for example, we could have said, "The business community wants NAFTA, we want health care. We'll make a trade." Instead of that, we gave them NAFTA and we didn't get health care.

So having had that experience over and over again makes me feel like the question is, where is our leverage? And the first obvious piece of leverage is stopping any more trade deals. At least at this point, start doing what we should have done 15 years ago to bring the business people to the table. You want this? You want that? Well, we want this. And you can't do it by asking them. The first thing you have to do is just stop them from getting what they want, which is these trade deals. There may be other things that we can do.

But that's why I started with the cause. I think, politically, the most important thing for us today is not just win this or that vote on bilateral trade deal with Colombia that's coming up. By the way, in Colombia – a place where more trade union leaders are killed every year than the rest of the world combined – George Bush is sending up this free trade bill which, of course, only encourages what's going on in that country. But don't let me get into a four-hour speech with that one.

But the first thing we have to do is stop the trade deal. Then I think we need to fill in some of those blanks we're beginning to fill in with the conversation this morning about health care. It is true that it costs \$1,000 to \$1,500 more to make a car in Detroit than it does in Windsor across the river. And the Canadians live longer and everybody's insured. But you know that argument.

And we need to clearly do something about manufacturing fast. There's an urgency there because it takes years for people to decide, "Maybe I'll reinvest in American

manufacturing again.” And it takes a sense of confidence, a sense that the dollar is not going to undercut any competitiveness that they might have in manufacturing. So there are a lot of pieces. But the first thing is to stop and bring people to the table.

**GERARD:** Rob, you’ve got to come spend a couple of days with me. I’ll tell you what’s happening. You can see it. We’re losing our jobs. And unless we stop these trade deals, unless we go back and figure out how we’re getting screwed, there’s nothing you can do in this country that will stop it. The fact of the matter is these aren’t trade deals as you know it. And if I was going to talk to you the way I would talk in the shop, we’d obviously get cut off.

But let me just tell you if we don’t stop these trade deals, the \$800 billion deficit is going to probably hit a trillion by the end of the Bush administration. This economy’s going to implode. We’re going to lose most of our basic industries. No one has figured out what’s going to happen when Chrysler is going to import the Cherry. 175,000 of our members in the Steel Workers make their living by making something that goes into an automobile. And what I gathered from your comments is all of you go back to school and get more education.

And if that’s what you’re saying, let me tell you this thing is going to be the biggest disaster that this country has ever seen. We’re not going to fix it by fixing health care. We’re not going to fix it by fixing pensions. We had health care and pensions reasonably good in ’93 if we look back to that period of time. And yet, we’ve got 25 years of accumulated trade debt. The accumulated trade debt, what happens when it it’s a trillion dollars a year, Rob? When the Cherries are coming and the tires are coming to go on them and the Goodyear workers lose their jobs and the trade debt is a trillion dollars a year accumulating, you tell me what happens to this economy.

**SHAPIRO:** I’m really just trying to describe what I think is going on. Let me say, you know, I was asked by a Democrat recently a couple of months ago who wants to be President,

“How’s the economy doing?” I talk to a lot of Democrats. I talk to a lot of Democrats. And I said the economy’s doing fine, and it’s standing on a trap door. And the trap door is the current account deficit. That is the macro economy. Look, I think this is deeply dangerous to the U.S. economy.

**GERARD:** Bob, you just said the economy was doing fine through the ‘90s. We accumulated this debt through the ‘90s. You can’t have it both ways, buddy.

**SHAPIRO:** Well, first of all, I’m talking about right now. And the current account deficit today is absolutely off the scale relative to what it was in the 1990s. In the 1990s, what I know is that we created jobs at a very fast rate. We’re talking about the overall economy. Median incomes went up faster than at any time since the 1960s, that’s the data. Look, the manufacturing base, particularly the manufacturing job base, has particularly eroded and we ignored it. That’s exactly right. And we shouldn’t ignore it.

**GERARD:** Tell us what to do. You’re telling me what I already know.

**SHAPIRO:** I think we do need a manufacturing policy. I don’t have one. We need to talk to other people for that. It’s not what I’ve thought through. I try to think through other things. I can’t think through everything. I have identified, coming from an entirely different perspective or an entirely different starting point, the exact same phenomenon that EPI has identified.

And I’ve been talking about it for three years at a time when all the people I normally talk to said I was wrong, that it wasn’t structural, and there were lags. I had big arguments with these people at the Carnegie Institute, at the Brookings Institution. And I’ve been arguing that there is a deep structural change going on in the relationship between the United States and the global economy that is having direct effects on our capacity to create jobs and to translate productivity gains into income gains. And this is something

that needs to be the center of progressive economic policy. And that's what I can do. For a manufacturing policy, talk to Jeff.

**FAUX:** Okay, that's fair. And I appreciate Rob coming here, and I appreciate his willingness to look at issues continuing to look at issues from the perspective of what is actually happening in the world rather than the promises made. One of the things that I think is important is this question of the economy's doing well, but the people aren't doing very well. I mean, there's a connection between the macro economic and the micro economic, and what's happening to people on the ground.

One of the reasons the economy looks like it's doing so well is because we've been borrowing in order to keep it up. I mean, the analogy is simple. You know, you get up in the morning and there's the guy next door who's got two cars in the garage and a boat and a house and a nice family and things are looking fine. He's living on his credit cards. From the outside, it looks terrific. But he knows at some point, it's all going to go. But we are now in the situation of somebody living on those credit cards. I mean, there's no question about that. It's a trillion dollars every year. Just this year, we added another \$1.4, \$1.5 trillion to the dollars floating around which are our IOUs out there in the world.

Now, what's interesting about the politics here, including the politics of much of the Democratic Party, is everybody is going crazy about the government's fiscal deficit, and the government's buying more than its income, etc. Well, the country has got a deficit that's much more massive and much harder to deal with. We dealt with the fiscal deficit in the late 1990s. I mean, it turned out it wasn't that hard. Clinton did it. Meanwhile, the trade deficit, the current account deficit, keeps going up and up and up. And it seems to me that's the thing we've got to get into people's heads.

**GERARD:** Jeff, how do we get it down?

**FAUX:** Well, I think you get it down a number of ways. First, you stop the pain as I said before. We are now in a situation where every percentage of increase in income that we have, the percentage of the trade deficit goes up faster so that we're on a treadmill. We need to get the dollar down. That's clear. And it needs to be done in a way that's gradual over time. We need to improve our ability to export and compete with imports.

In order to get the dollar down, by the way, we have to threaten – let me use the P word because nobody else has said it today – protectionism. We have to threaten that we are going to defend our economic security. And if we can't make a deal with China and Europe and our other trading partners like we did in the 1980s, then we're going to have to do this on our own. I hope that we don't have to do that. But the survival of the country, the economic survival of the country, is at stake.

It's going to be a lot harder this time, by the way. At the time of the first Plaza Accord in the 1980s, we had a trade deficit that was three percent of our GNP. It's more than double that now. We had a Cold War in which our trading partners needed us to keep the Soviet Union at bay. We don't have that anymore. Then we didn't have a country like China to deal with which, as Rob described, is just this powerhouse blowing everything out that's in its way.

So it's a lot tougher now, which means we have to be prepared to be a lot tougher. I cannot imagine a scenario that doesn't look like a few of us will be Barbara Streisand and the rest of us will be cleaning her pool.

**MULLOY:** Senators Dorgan and Feingold have looked at Article XII of the GATT where you can take emergency measures, and then they crafted the Buffet proposal into a piece of legislation and said this is the way to get leverage to get these other guys. This, of course, would balance your trade deficit over five years under their proposal. Do you think that that's a worthwhile item to pursue in order to get some leverage to get these other countries to begin taking some action?

**FAUX:** Sure. The rest of the world doesn't think we're serious about this. And one of the reasons it doesn't think we're serious is because U.S. corporations don't care any more about this. And so leaving it to the market is just allowing us to go over a precipice. So it's got to be a government policy. The Buffet plan, for those of you who don't know it, is basically a way of auctioning off import rights into the United States. I think if it got maybe 30 votes in the U.S. Senate, it would begin to send a signal to the rest of the world that we intend to do something about this current account deficit. And you can't do it by going over to China and saying, please help us. Don't send us these goods somehow. I mean, come on. But it's what most of these trade delegations do. And then they always come back and the first press conference is, well, you know, things are more complicated than that. I mean, the Chinese are going to be in trouble if their export growth stops. Joe Stiglitz made a point a few months ago which I thought was very interesting. You know, the Chinese have another option. Instead of just financing our profligacy, they could start investing in their own country a little bit more. So there's lots of interest here. We've got to get all of this to the table. Because this ain't working right now.

**LEVINSON:** Well, thank you all for coming. I want to thank the entire EPI staff, which worked tremendously hard putting this together. It takes an institute, I can tell you that. And so we'll see you February 22<sup>nd</sup>, lots of stuff up on the website, [sharedprosperity.org](http://sharedprosperity.org). Thank you very much for coming.

**- END OF TRANSCRIPT -**