The Albert Shanker Institute

THE WAR AGAINST PUBLIC SERVICES AND PUBLIC EMPLOYEE UNIONS

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"The Role of Government in Democracy and the Economy: The Disconnect Between Public Perception and Reality"

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EUGENIA KEMBLE: I'm Eugenia Kemble. I'm executive director of the Shanker Institute. I'm really glad you could come. David Hall will speak first and Tony Carnevale will respond. David?

DAVID HALL: I'm going to go through the presentation selectively. I won't linger on all 40 pages, but I thought it was useful to put the data into it so it's available for you to use in future if you want to. Just a brief point on the acknowledgements—apart from the formal stuff: This presentation is based on work commissioned by PSI, and PSI is the co-founder of our research unit. We're based at the University of Greenwich, which gives our research unit university status. We operate with the universities in conferences and so on. But basically, our agenda is driven by PSI and international issues, and over the last 10 to 12 years, we've found ourselves addressing a whole series of issues in relation to, for example, World Bank policy, private sector development, water privatization globally, energy privatization and liberalization globally, in support of what PSI's doing.

And the report that we produced last year was, if you like, an outcome of two, three years' work with PSI identifying the issues and the data. And what they expected from us and what I hope they got, and what I hope you'll like about it, is that it's evidence-based—our work is intensely empirical and intensely evidence-based.

Firstly, this presentation will cover the relationship between public spending and economic growth; secondly, more specifically, it will cover how infrastructure development, education, and health, relate to economic growth and relate to efficiency of economies. Then we'll look at the impact of public spending and public services on equality, with a very brief look at the employment impact. Then we'll look at what's happened to public spending in the crisis, what its role has been in the crisis and what its role hasn't been in the crisis; and finally we'll look at PPPs, public-private partnerships, in various forms of privatization, just briefly because they're advocated as alternatives. Then I'll offer a few brief conclusions.

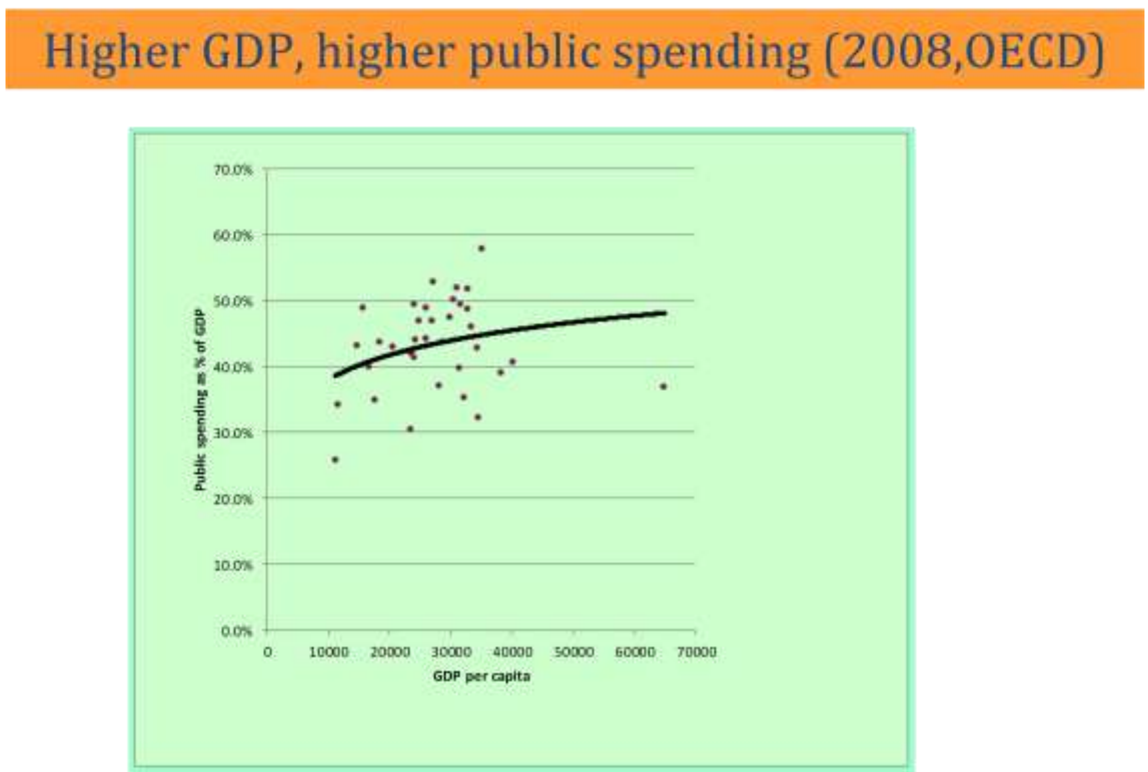
Now this is the framework and the reason for it all, in effect, that here in the U.S.A., in the U.K., in the whole of Europe and throughout much of the world—not all the world, but much of the world—there's a consistent presentation of a relentless picture about public services, about public spending, about public service work, the most fundamental aspects of which are that, first, we're parasitic on the real productive sectors of economy. You know, that [public services are] a burden; this is a load that the real productive economy is carrying; that we're luxuries, that it's an act of collective self-indulgence to treat ourselves to so many public services when all the time the real productive parts of the economy are groaning under the burden and simply trying to get on and produce more things. So [a second assumption that follows] is that luxuries have to be sacrificed whenever times get hard or even when other needs arise.

And thirdly, of course, everybody knows the public sector is utterly inefficient compared to private sector.

Now these are three very powerful assumptions, and I feel I can safely say to you, I suspect that deep down in many of your hearts there's this feeling that, yeah, there's a lot of truth in some of this. And I can safely say it to you, because in a sense it was a starting point of our research, that we had to demonstrate that these ideas were incorrect.

What I'm going to present to you is empirical evidence which shows a very different picture. And that is, firstly, that rising public spending, higher levels of public spending, are actually *positively* connected to economic growth and highly efficient; there's a positive relationship in which richer countries use more of their GDP on public spending, that there's a clear consistency to that. This isn't just a snapshot, it's not a one-off, and it's not a limited study. It's not a result in one limited study under five or 10 or 15 years in one place. It's data and results from over 140 years, and it's not just regarding Europe. It's true of the U.S.A. and developing countries as well. Public spending is higher in richer countries than in poorer countries. It's a positive relationship.

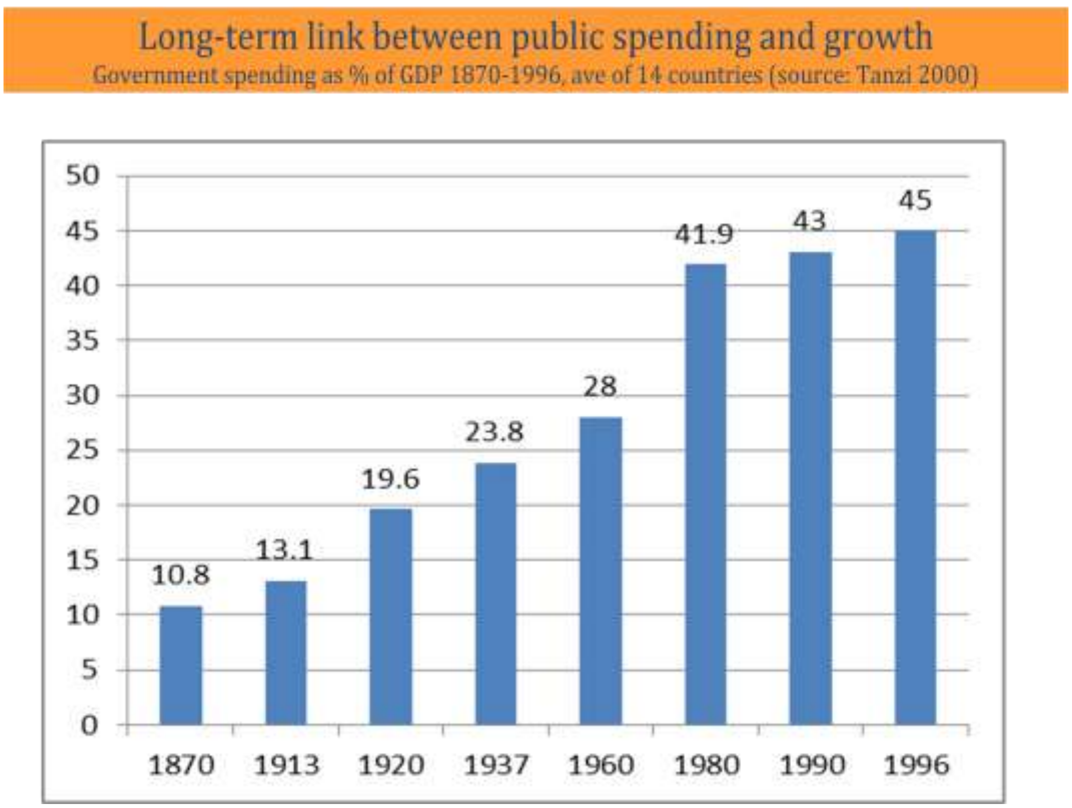
So [here is] slide one—and this is the snapshot one—and it's a very simple and gentle little upward curve, showing the relationship on the left between the percentage of GDP going on public spending and GDP per capita. And you'll see there's a gentle but clear upward trend. Now that's a very simple stylized fact, as they say, but you could take that kind of snapshot, I think, at almost any point over time and with almost any sample group of countries, and you would get pretty much the same picture. Now there's a fairly clear consistency in that.



The slope would be even sharper if it weren't for that outlying little one on the right, which is Luxembourg. But I thought arbitrarily taking out countries just because they're small is something we shouldn't do, so it's still in there. But it's good to blame Luxembourg for things.

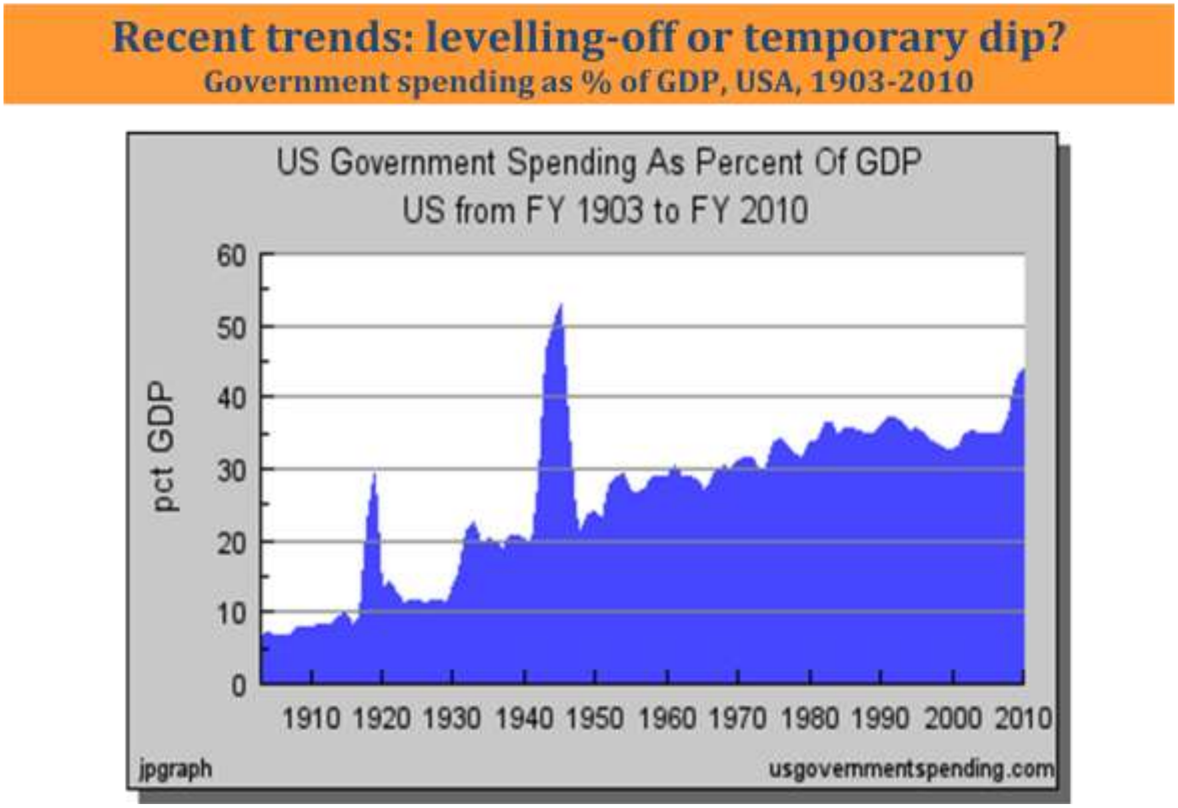
OK, but this next slide isn't just a snapshot. This is 140 years of economic history in one slide that shows we're right.It comes from an article, a very essential article, on this subject that was written just over 10 years ago, co-authored by someone called Tanzi, who was deputy director of the IMF and therefore not the natural friend to the public services or public spending. But it's the definitive article really that first put together all this long-run data, and that's just data of the percentage of GDP going on public spending in different years in a group of 14 advanced countries, including the U.S.A., a bunch of European countries and Japan. And you'll see there's simply a steady upward march. It's not quite as steady as it looks because it was actually quite gentle for the first 40 years after the First World War. The timing was not exactly identical. So it's quite gentle, but then it slopes upwards quite steeply, and then it starts leveling off towards the end. But you'll see there that's an unmistakable historical picture across the countries.

And one sort of question that can be asked about that is that when the right wing say we need to reduce public spending's proportion of the economy, they sometimes set targets like 30 percent or 20 percent. They're invariably arbitrary. In my lifetime, I can remember U.K. civil servants anxiously discussing at what level democracy was threatened, what percentage of public spending threatened democracy as a whole, and I think it was about 28 percent. So democracy is long gone in the U.K. if they were right.



These figures are arbitrary. So if they pick on 20 percent, you can see there on the graph, that takes us back to 1920; that's where we were in 1920. It's also where most African countries are on the whole, on average, today. Those are the common levels of public spending. If they pick 30 percent, that's back to where we were in the early '60s. It's also where much of Latin America is also. So one can use that historical data to ask questions of the arbitrary assumptions there.

Now the big worry in a discussion of this data, is that it is just skewed by Europeans who've been badly contaminated by socialist ideas and, therefore, it's all gone wrong, and it just distorts the picture, that surely here in the U.S.A., things have been different. Well, no, this next graph shows that the pattern in the USA has been exactly the same. It actually comes from usgovernmentspending.com, which is campaigning to cut public spending in the U.S. But the data, as far as I've checked it, is pretty much accurate, and it presents a very clear, vivid picture of exactly the same historical process. So this is not just pinko delusions, this is the history of global capitalism. We've all done it, and we're all still doing it.



And there are a couple of specific things that I ought to draw your attention to about this graph which I think are interesting when it comes to the current debate—well, three things, actually. Firstly, the two spikes are obviously the two world wars, spending on the world wars. And one of the interesting things about those spikes is they go up and then they come straight back down again to where they were, and that spending can be unraveled very quickly.

The second point I want to draw your attention to is 1930.The U.S. goes into 1930 with public spending at just over 10 percent of GDP, and then you get the New Deal, and it virtually doubles. And then it stays at that level; it stays at that level because it's functional to stay at that level. Starting a few years ago, we analyzed the factors behind all the productivity gains in the U.S. economy between 1930 and 1980, something like that—1929 to 1970, a key 50 years, and concluded that 50 percent of all the productivity gains in the whole economy were due to infrastructure investment principally in roads. This is not just private entrepreneurs that delivered that great growth; it was infrastructure investment.

The final point I want to draw attention to on the graph is what happens at the end. Because you'll see that [there is a] leveling off, in fact, a bit on these figures in the U.S., and then comes the crisis. In comes the crisis, it the graph turns up again; and that's the stimulus package and other expenditure on benefits that becomes necessary. And what that does is puts public spending in the U.S. back on the long-term trend line. If you draw a straight line across from the beginning to the end, it pretty much follows the trend. And that partly explains the anxieties of the IMF and right-wingers and others about whether the same thing going to happen now as happened after the New Deal. Will public spending stay at that level because it's beneficial?

Does it happen elsewhere? Yes, it happens elsewhere, in developing countries as well. Some of the data—some of the earlier analyses—weren't sure as to whether it happened in developing countries. If you read the report, you'll see a reference to a recent study by IMF staff on whether it applies in developing countries, and they concluded it did. And you'll see they're the same upward lines.

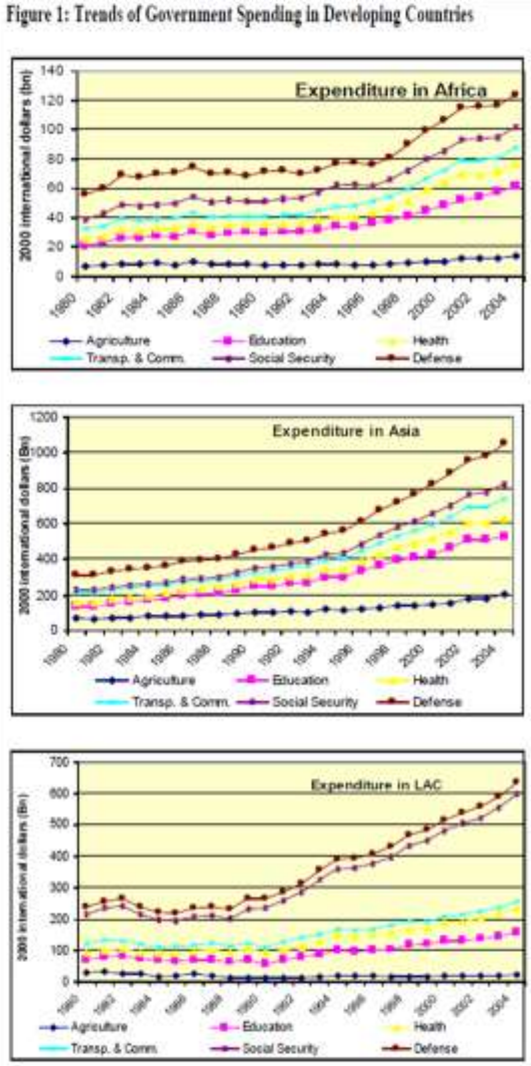
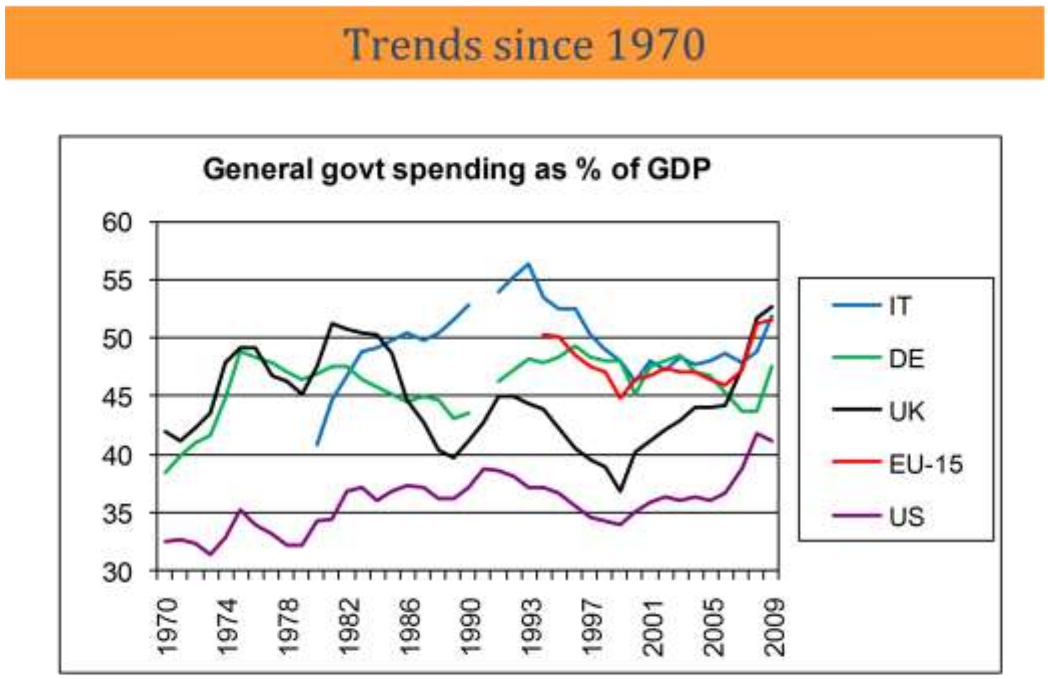


Figure 1: Trends of Government Spending in Developing Countries

The economic analyses behind this is that referenced in the main report, and what they're testing is something called Wagner's Law, because a German economist called Wagner in 1870 first put forward the hypothesis that public spending grows in relation to GDP as economies get richer. And it's a quite remarkable hypothesis; being something that is still being tested and found valid 135 years later, which makes it very unusual among economic theories. The empirical evidence of the positive link, the relationship, between public spending and rising GDP is clear.



Now, I want to be clear about at least my view on what this evidence shows. What this evidence shows—and I think quite conclusively—is that rising public spending is not incompatible with economic growth, OK? There is nothing in the empirical evidence that suggests that public spending is a burden on growth or should be discarded as impeding growth. So this is the powerful stuff. It's powerful stuff.

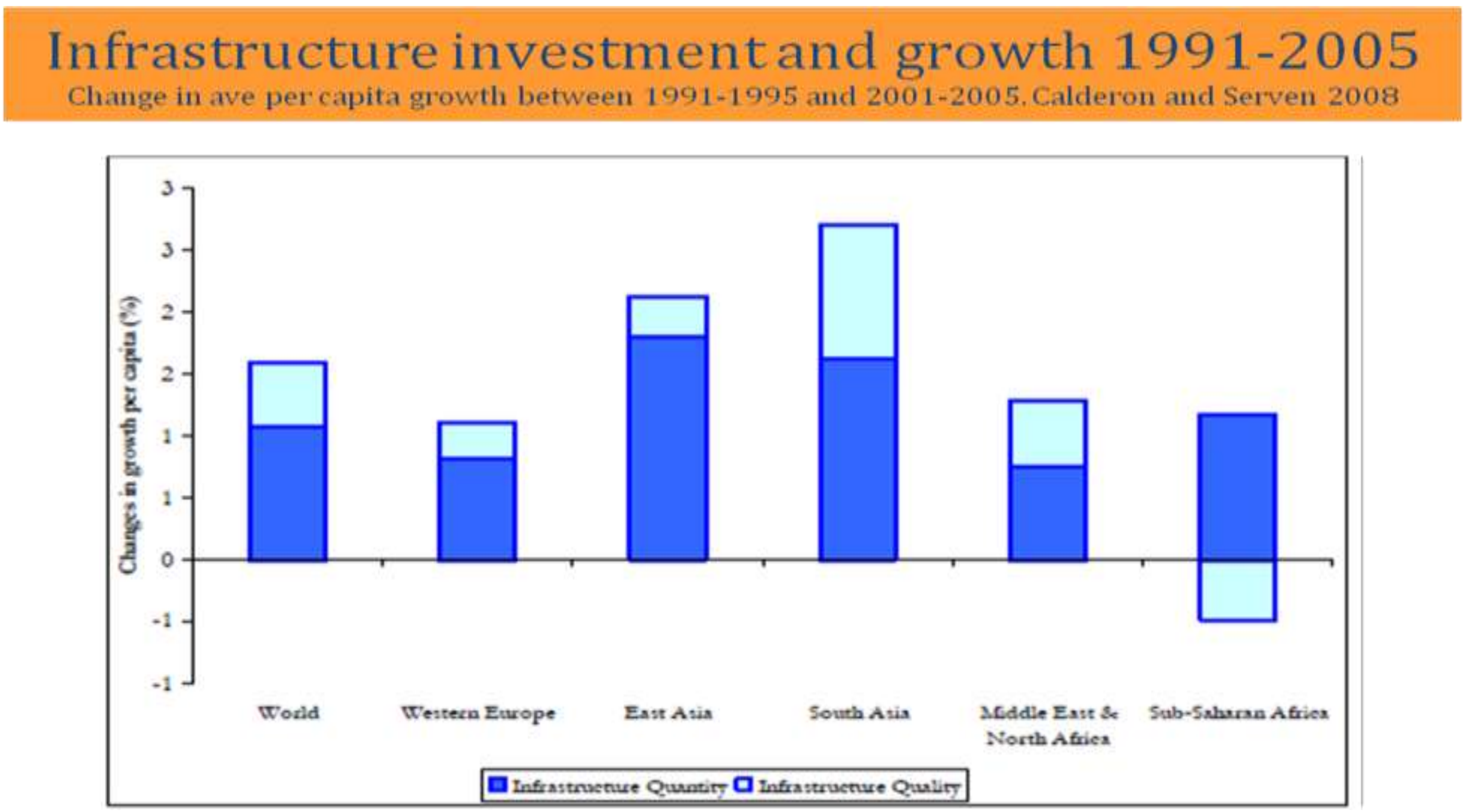
There have also been discussions about the nature of this relationship, the nature of the causality. And there's a lot of detailed stuff, there's a lot of detailed discussion. But I think it's fair to say that the mainstream angle is that the causality runs from growth in public spending towards economic growth. In other words, there are factors in growing public spending that actually *cause and contribute to* economic growth.

And I've put them under four broad headings. First are the productivity gains from infrastructure investment, which is typically carried out by governments using public spending, which I've already referred to.

Secondly, productivity gains from public health and public education, and I'll say a bit more about that in detail. Providing public health and education services themselves makes economies more productive, and is more efficient than leaving it to the private sector. That efficiency thing is a quite important aspect of public services.

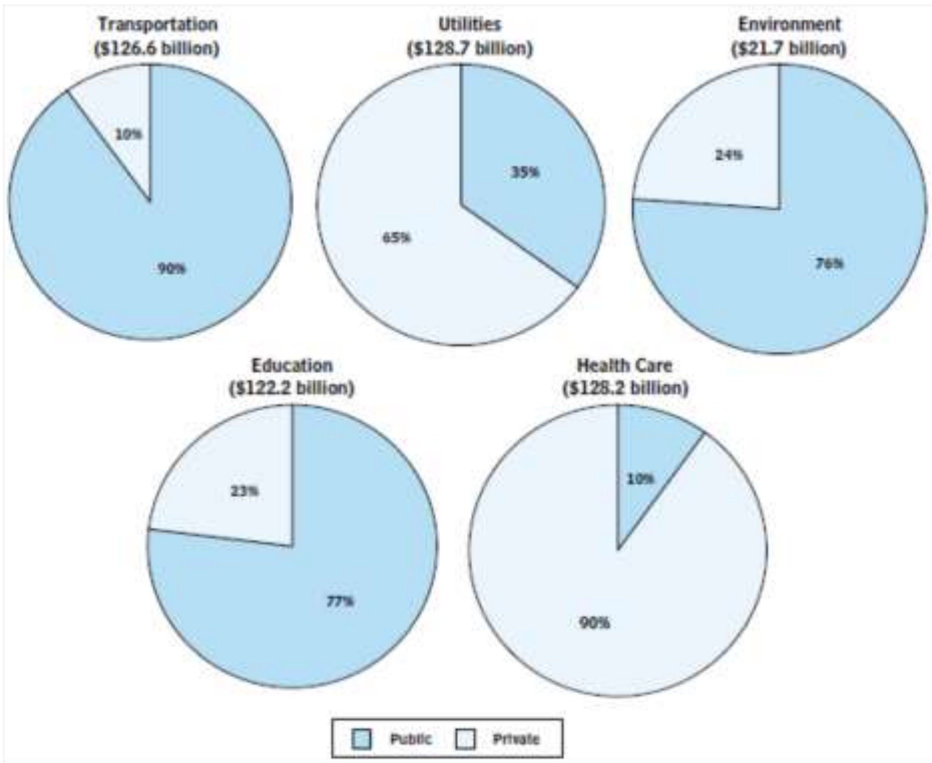
Thirdly is the equality impact of public services, which is not only of great social advantage, but also of economic advantage, simply because of the redistributive effect as it were: Ten dollars in the hands of a poor family is going to get spent—much more of that is going to get spent than $10 in the pocket of a very rich person. And then, finally, [consider] the demonstrated benefits of the use of government spending to counter recession, both in the ’30s and now. [I’ll cover the] social benefits, which I’ll spend less time on because I think we’re all clear about that, but [I’ll give] some reminders of the importance of those, and then finally I’m going to say something about the link to democracy as well.

So firstly, quickly, on infrastructure investment: we know about the New Deal; we know about all that. Is it still true? Yes, there’ve been a lot of recent studies on the relationship between infrastructure investment and growth. These are recent studies in all regions of the world showing a significant impact on economic growth of 1-, 2-, 3-percent-per-year growth in GDP resulting from infrastructure investment. It’s a very clear link; it’s very clearly demonstrated.

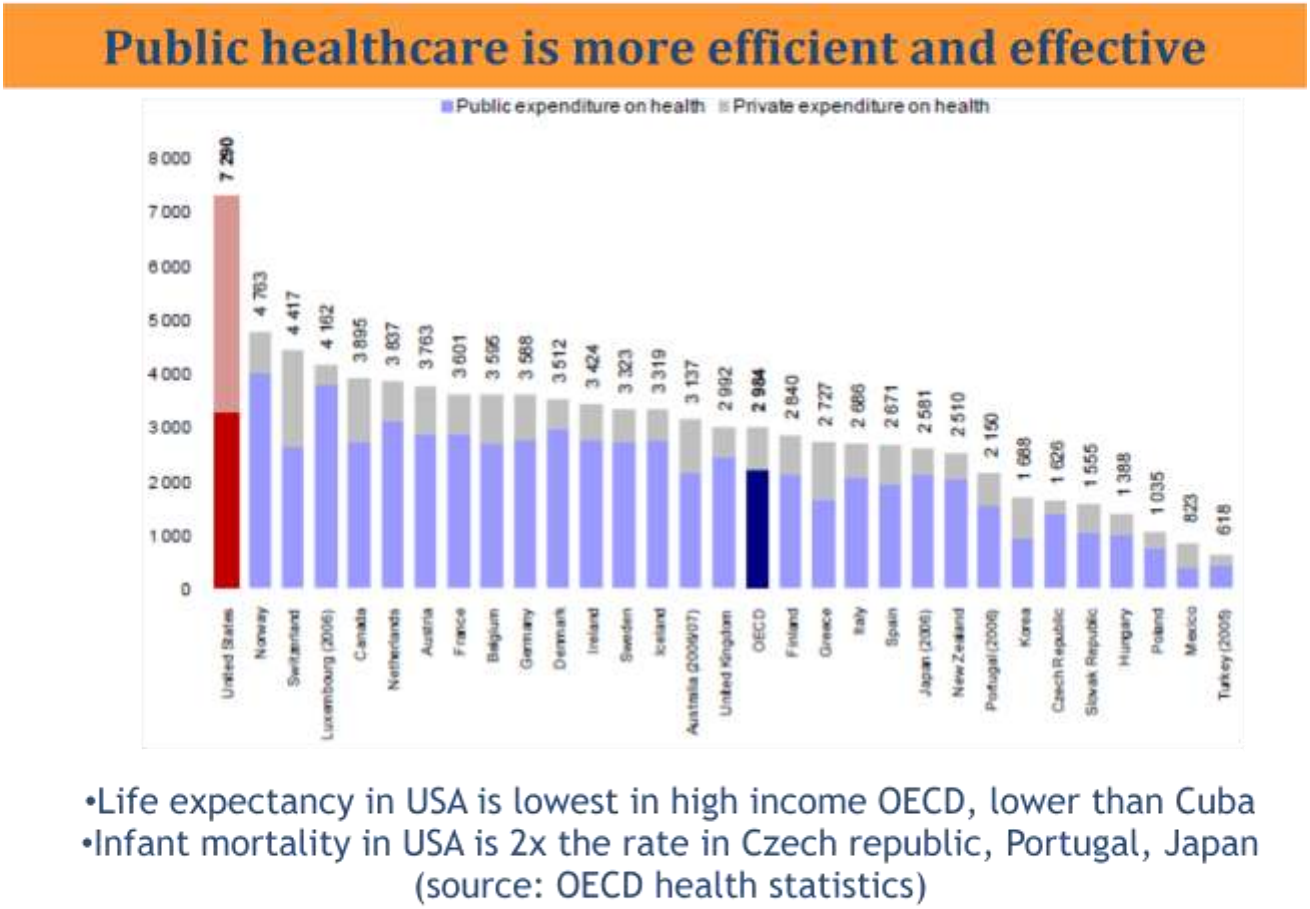


Is that just infrastructure coming from anywhere? Is the private sector perhaps still delivering that? Well, the country in the world where infrastructure is more private than anywhere else is the U.S.A., and even in the U.S.A—these are figures from the Congressional Budget Office—a majority of investment in infrastructure is financed by the government since they have the federal taxes. In any other country in the world, that proportion would be much higher, because health care is predominantly public in all other countries and utilities are more public in all other countries. Even if we just take hard infrastructure, transportation, utilities on this, we've got about 60 percent of it being financed by federal taxes. So even in the most private economy in the world, government still plays a predominant role in financing infrastructure work.

Public and private capital spending on infrastructure USA 2007



Now we come to the health and education stuff. Healthy workforces and educated workforces contribute to productivity, but does it make much difference if we let the private sector do it or the public sector do it? And this looks at health care, and the answer is a resounding yes, and unfortunately it's because the U.S.A.'s been conducting a one-nation experiment on your own people. And there you are, way up at the left-hand end [of the chart], spending vastly more per capita on health care than anybody else, but uniquely it's mainly private spending, not public spending. It's a system that's based around private provision and private insurance and private spending.



This is data from, I think, 2007 or 2008. So it's "pre" the Obama reforms. Even in this private system, the level of public spending – the dark red bar – is still pretty much the same as most other countries spend on their entire public health service. But the indicator of inefficiency is the total amount of public and private spending on healthcare, and that is far higher than any other country - between 16 and 20 percent of GDP, which is roughly double the average in OECD economies.

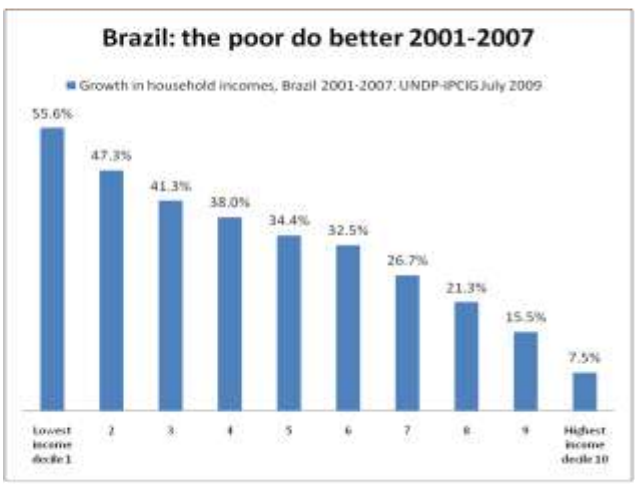
So you're spending twice as much. Your health system is twice as expensive. Is it perhaps twice as effective? Is that why you're doing it? Is that it? Well, there's very simple indicators of health results standardly used, globally. One is life expectancy. One is infant mortality. Life expectancy in the U.S.A. is the lowest in all OECD [Organization for Economic Co-operation and Development] countries, with the exception of Mexico and Turkey. You've got the shortest life expectancy of any advanced economy in the world. It's so bad, it's lower than Cuba. Cubans live longer than Americans. I don't know what the exact disparity in GDP is, but Cuba is a lot poorer.. So that's one indicator. Infant mortality is also way down the list. Infant mortality in the U.S.A. is double the rate in the Czech Republic, for example, which is a much poorer country in transition from a communist state.

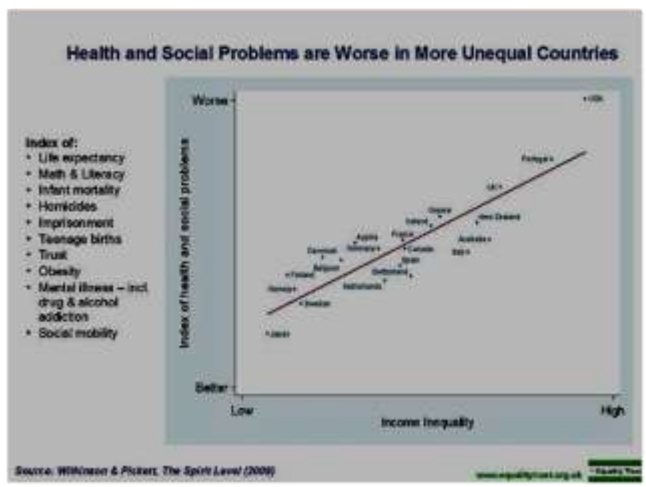
And that, I think, is a very powerful demonstration of the efficiency of doing health care through public services. There was one study recently done globally on whether public education provision is more efficient than private education—efficient in terms of its relation to and contribution just to economic growth, which found positively, i.e., it found that the public education provision was more efficient.

OK, so you get, improbably, efficiency gains—whole-economy efficiency gains, as well as the economic growth. This is a composite slide of three pictures of the impact on equality. The one in the top left on Brazil is straightforward. It's simply the redistributive effect of positive policy in terms of social benefits—redistribution for social benefits. The table at the bottom I won't go through in too much detail, but just look at the column on the left here at the bottom. It's from the U.K., and it's a regular analysis carried out in the U.K. of the impact of taxes, benefits, and public services on the redistribution of income.

And you'll see that that's the bottom quintile, so the bottom 20 percent in the U.K. start off with pretty low level of original income, of taxation, of benefits. Redistribution has gone up significantly. But then benefits in kind—benefits of public services to that bottom quintile—are worth almost as much as their entire cash income of the wages and benefits. That enormous value in kind of public benefits, of public services, should not be underestimated.

Public spending, public services and equality





Effects on equality of public services in UK (£ per year)	Bottom	2nd	3rd	4th	Top	All households	Ratio Top/Bottom quintile
Original income	4 970	12 020	23 305	38 321	73 810	30 485	15
Income after tax and benefits	7 269	13 507	19 731	27 553	50 006	23 613	7
plus benefits in kind from public services (health, education etc)	6 315	6 411	5 969	5 000	3 870	5 513	
Final income	13 584	19 918	25 699	32 553	53 876	29 126	4

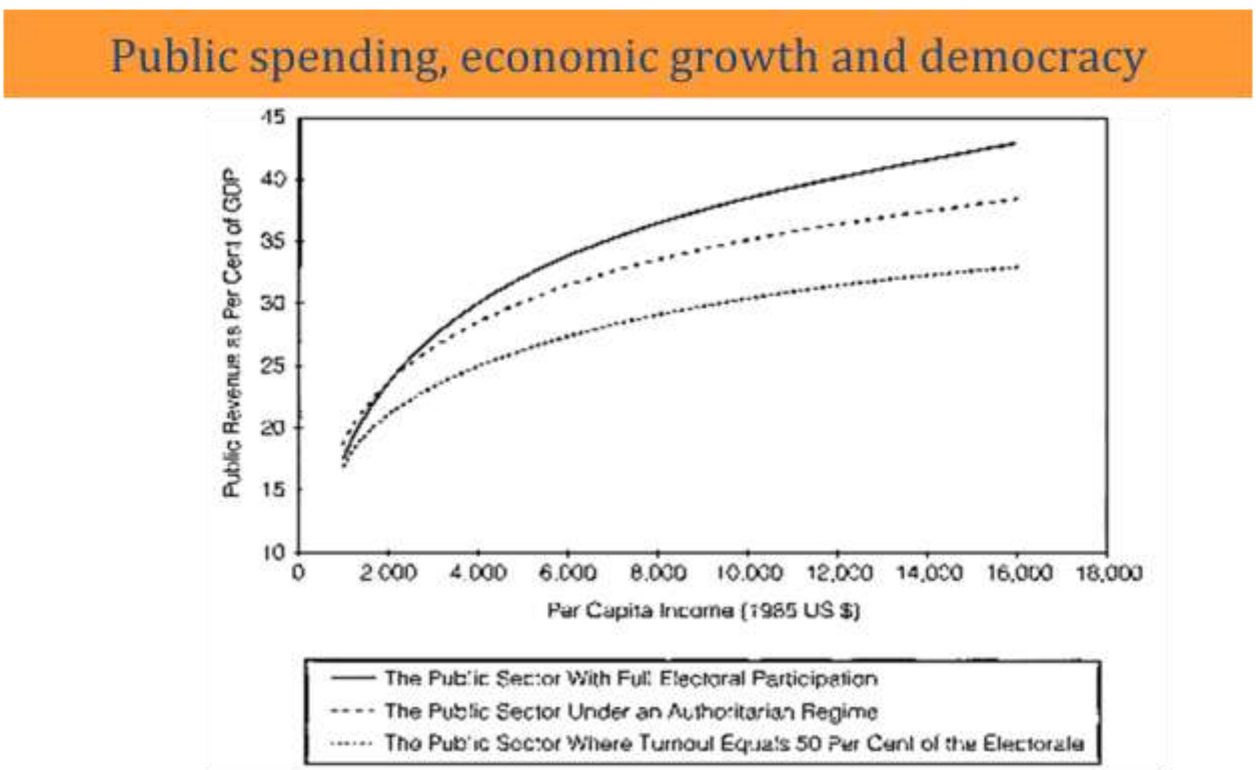
One of the things I'm interested in exploring as well is quantifying the value of public infrastructure: roads, lights and water, et cetera, et cetera. Those benefits in kind are themselves massively redistributed. So they have a great impact on equality.

The one on the top right—if you're not familiar with it, you should be familiar with it. That's a global graph of a fantastically tight correlation between income equality and indices of various social conditions; so life expectancy, literacy, infant mortality, homicides, imprisonment, teenage births, obesity, mental illness and social mobility, all put together. The more equal a society, the better the results.

And I was looking at it earlier today in preparation, and I thought, God, they've left the U.S.A. off it. Why have they done that? But they haven't. They haven't. You just have to look way up on the right. It's the most unequal country on the list, with the worst. So I mean, it's a very, very tight demonstration of the beneficial effects [of income equality].

I'll skip over the employment stuff. We can talk about that more if you want.

This [next] graph as well, I think, is another one that's very nice. It's from a study that compares not only the correlation between public spending and economic growth, but also the levels of democratic activity. And what it shows very elegantly is what we now know quite clearly—we're quite familiar with it now—is the rise in the level of public spending, in line with the rise in economies.



Source: C Boix 'Democracy, development, and the public sector' *American Journal of Political Science*, 2001 http://pics3441.upmf-grenoble.fr/articles/demo/democracy_development_and_the_public_sector.pdf.

But those three lines show the difference that democracy makes. The top line is of active participating democratic systems. The middle line, interestingly, is authoritarian regimes. The bottom line is inactive democracies, defined as where the [voter] turnout equals 50 percent of the electorate. And I think that's quite interesting generally, especially interesting in a country where one of the main political parties spends an awful lot of effort trying to persuade people not to vote or try to stop people from voting. So you have there a kind of demonstration—on these [graphs]—on the cross-relationship with democracy.

So that's sort of a quick overview of what I think is quite powerful evidence about the economic development benefits of public spending and public services. What's happened in the crisis? Why are we facing globally now, these particular sorts of pressures to cut back on public spending, or in some cases pressure simply to not make [public expenditures] in the first place?

And the first thing we'll say—I'm sure it doesn't need saying in this audience, but it really is worth saying again and again and again every time there's any public debate—is that the crisis was not caused in any sense whatsoever by public spending, the public sector, public services. None of them had anything to do with or was a causal factor in the crisis. It was connected with unsustainable banking practices, personal borrowing practices, corporate borrowing practices, arguably [connected with] inequality, but not at all with government borrowing and spending, nor by the wages of public employees, nor by the numbers of public employees—those have absolutely nothing to do with it.

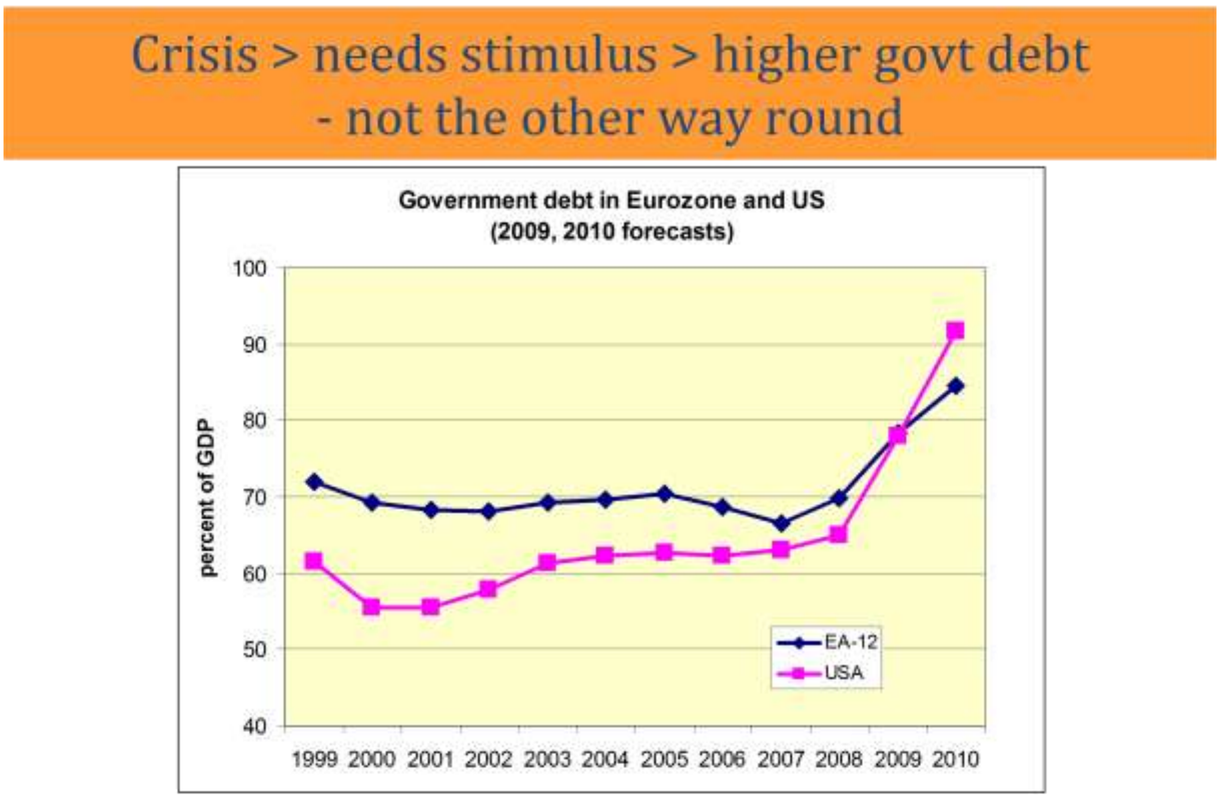
You don't have to believe just me. The chief economist at Financial Times occasionally reminds his readers that this is the case. And even the Chancellor of the Exchequer knows. So it [public spending] didn't cause the crisis in any sense, but it did deal with the crisis. And it dealt with the crisis in two ways: firstly, by massive use of public spending to rescue the banks; secondly, by high deficit spending to boost the economy.

And again, this is a global response. The rescuing of the banks was concentrated in the U.S. and the U.K. because it was our banks that screwed up—most other peoples' didn't—but the high deficit spending was global, a global response that was very effective and was thoroughly applauded by the IMF through 2009. The scale of this is quite extraordinary. On the global level, the total value—this is Bank of England estimates—total value of actual contingent support for the banks in North America and Europe rose to over $14 trillion. It grew to about 50 percent of the GDP of those economies.

And that doesn't mean it was all spent in one year, because you have deficits by 50 percent, but it means that the amount of money committed to the propping up of banks by way of capital injections and guarantees was equivalent to that much.

Second was the stimulus. And the public spending was particularly important in the stimulus because public spending is a much more efficient way of stimulating the economy than tax relief. There was a beautiful graph in the U.S. which showed what people did with the Bush tax cuts, what different families did with the Bush tax cuts. And right across the spectrum, they saved most of it – they only spent 30% of the tax cuts, they used the rest to pay off debts and build up savings. There was a beautiful demonstration of how public spending gives you the economic boost where tax cuts don't – higher public spending all creates extra demand. And then where you've got high levels of public spending, one of the benefits of such spending will be that it serves to create automatic stabilizers, which have worked the same way on principle.

So what was the effect of the economic stimulus? It was huge: an extra 4 percent of GDP added to public spending—added to public deficits, to be precise—the majority of it, in most cases, added to public spending, throughout the G-20 countries. So, there's a huge impact. And as long as that stimulus is maintained, that's an extra 4 percent of GDP But it has been necessary to try and keep the economy going, to counter the recession – and that's why government debt and deficit, all around the world, have increased.



Source: European Commission

You can see the same picture here, and, if you like, that's a summary picture of the relationship between government debt and the crisis. From 1999, you can see that in the decade up to the crisis—in Europe and the U.S., government debt is level—it's a really, really flat picture. It's only when the crisis starts, when all of those demands are made on public finance that the debt starts to grow. It's not the public debt that caused the crisis. It's the crisis that made the public debt rise.

Recovering from recession: corporate profits bounce back

(Source: US Dept of Commerce, Bureau of Economic Analysis http://research.stlouisfed.org/fred2/graph/)

I quite like this graph because there are quite a few things in it. The top brown line is corporate profit after tax in the USA, indexed on 1990. And you'll see they had a dreadful time with the crisis. It plummeted. And then it literally bounced, and that's [due to] what we did. That's what we did with our stimulus package. It bounced right back up, back up and rose to record levels. And there's no doubt that corporate profits have fully, fully recovered from the crisis. And that's a post-tax figure as well.

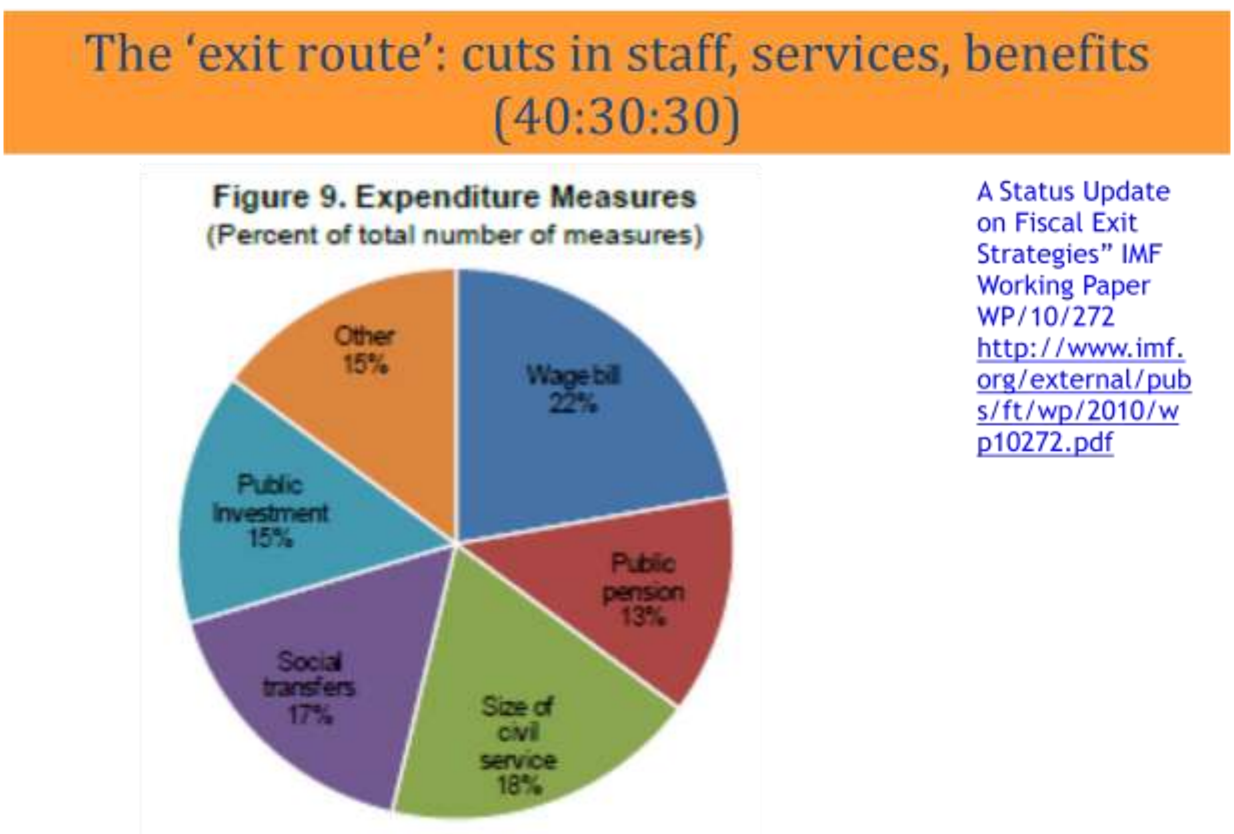
The blue line at the bottom, which is just for contrast, shows quite a few things, but that's personal disposable income, i.e., the post-tax income of real people in the U.S.A. And you'll see over that whole period it's lagged behind, except during recessions, and that says something about income shares and taxation shares as well.

So we have already successfully restored profit levels. What's happening now over public spending? What's happening now, I think, can be accurately described as an international and national concerted backlash against the boost in public spending that resulted from the stimulus packages. And in particular the International Monetary Fund and the European Commission, which is just about as important as the IMF as far as Europeans are concerned, were already taking the view that aging populations meant that there was going to be too much public spending on pensions and health care.

And they meant specifically public spending. They weren't concerned about private spending on pensions or health care. They were only concerned about public spending. So the commitment here, and the concern, if we just focus on health care for a moment, is literally a counterproductive, inefficient [approach]. It's moving to a more inefficient way of delivering health care. They want to cut public spending on health care.

Now, it's also in the context where there's a continued upward pressure on public spending. We're not at a stage where we can say, well, we don't need as much public spending as we used to; we solved most of our problems, we solved most of the work programs, we can start turning it off, we're all OK now. Climate change, for example, on the official estimates—dealing with climate change is going to add about 1.5 percent of GDP to public spending worldwide, year after year after year after year. There's investment in broadband, which the private sector doesn't do enough, and there's all the other pressures for developing countries.

So one thing this is leading to is, already, major political conflict, especially on the health care and on pensions, which will only worsen as it spills out more on climate change and on broadband. And they're going to do this [this will happen] because the IMF has quantified what it wants us to do in terms of public spending. On average, the IMF wants, by 2030, public spending to be reduced by 8.7 percent of GDP. That's not an 8.7 percent cut in public spending. That's reduction equivalent to 8.7 percent of GDP.



For a country like the U.S., which is spending, now, at levels of about 42 percent of GDP, that means it's about a 20 percent cut in public spending. And the IMF is monitoring globally what's happening and putting on consistent pressures.

USA – low public spending, very low taxation

	2009 Spending as % of GDP	2009 Tax revenue as % of GDP
Canada	44.1	38.5
France	56.2	48.7
Germany	47.5	44.5
Euro area (16 countries)	50.9	44.5
United Kingdom	51.4	40.3
United States	**42.2**	**31.0**

Public spending and tax as % of GDP 2009
(source: OECD stats http://stats.oecd.org/Index.aspx , PSIRU calculations)

How is the IMF expecting this to be delivered? They conveniently put this survey of where the savings come from, and I'll draw your attention to two of those statements. Up on the top right, the wage bill contributes to 22 percent of the cuts; and at the bottom, the pale green slice, the size of civil service, which means public employees in general, [cuts of] 18 percent. That's 40 percent of all cuts that are being delivered to the IMF are not just for the IMF, this is their global monitoring. This isn't just countries under their conditionality—40 percent of cuts [the IMF is pressuring countries to deliver] are coming from direct hits on government employees. So it's a serious prospect.

In terms of the response, I'll just very quickly read the title of that. The U.S.A.'s not only got low public spending; it's got very low taxation. And in my view, to deal in responding to the attacks on public spending, we have to be clear and develop a clear policy on fair taxation. And this, I think, is a helpful part of it because it's a beautiful quote from India's finance minister, who raved about the role of tax collectors in economic growth and said they're like honeybees collecting nectar from the flowers without disturbing them, spreading that pollen so that the flowers can thrive and bear fruit, which is the nicest thing anybody's ever said about tax collectors.

Affordable and fair taxation

"our tax collectors are like honey bees, collecting nectar from the flowers without disturbing them, but spreading their pollen so that all flowers can thrive and bear fruit"

Pranab Mukherjee India's finance minister, budget speech, July 2009

Finally, can the private sector do it better? I won't go through this in very much detail at all because I've used up too much time already, for which I apologize. But there are two key things about the practical evidence on the attempts to use the private sector, for instance, to invest in roads or infrastructure through public-private partnerships—PPPs—and privatization in general, whether it's by selling things or by contracting out more there.

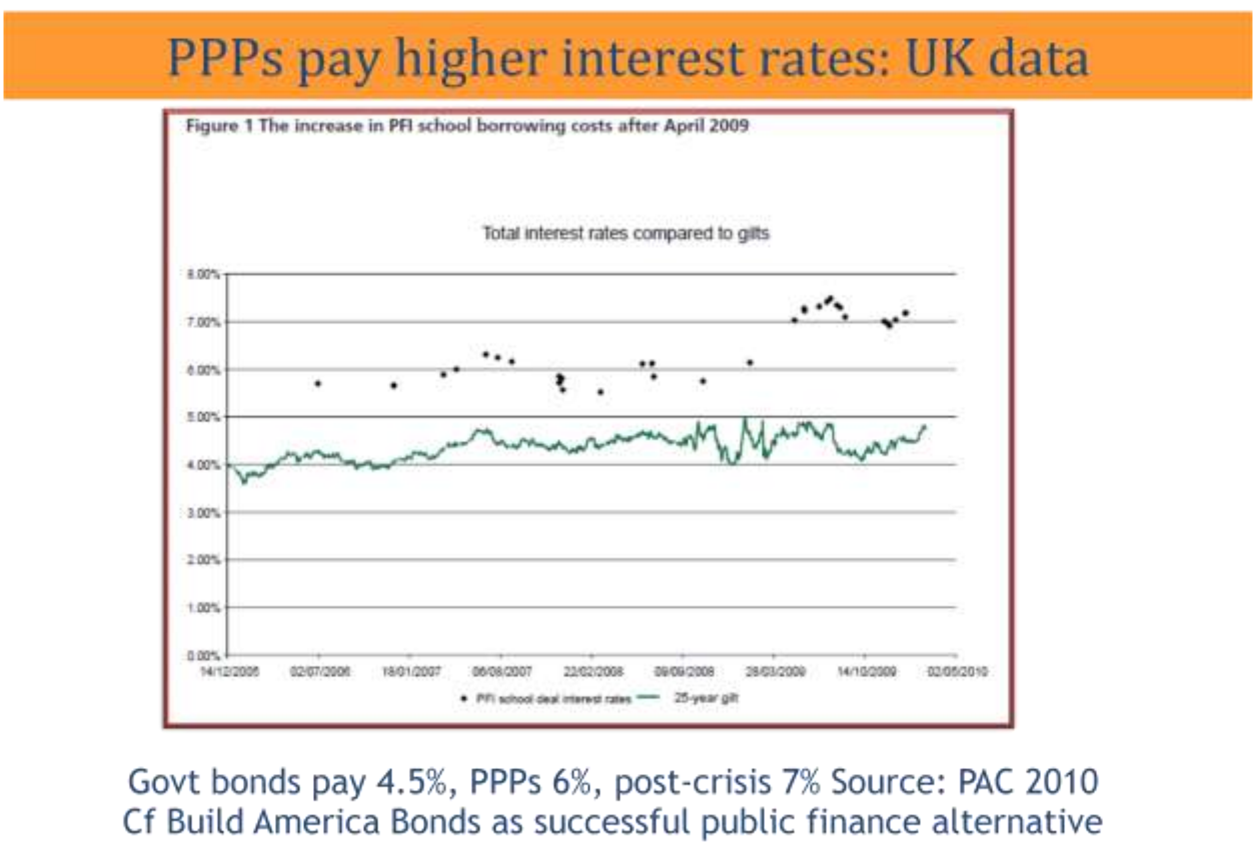
Can the private sector do it better? Efficiency, privatisation, PPPs, liberalisation

- Empirical evidence does not support assumption that private sector will be more efficient
  - "While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed."(IMF, March 2004)
- Studies across countries and sectors find no consistent difference
  - Water and electricity: "no statistically significant difference in efficiency scores between public and private providers." (Estache et al, 2005)
  - Telecoms: global study comparing private and public companies found that "efficiency growth following privatizations…is significantly smaller than growth in public sectors." (Knyazeva, Knyazeva and Stiglitz 2006)
  - Buses: no significant difference in efficiency between public and private bus operators, or mixed systems (Pina and Torres 2006)
  - Auditing: Australia: 'outsourced audits are more costly' (Chong et al 2009)
  - Prisons: Lundahl 2009 "privatel prisons provide no clear benefit"
- No efficiency gains from liberalisation in EU or USA
  - "No evidence of consumer benefits from electricity/gas/telecoms liberalisation" (Florio et al, 2008, Goto and Makhija 2009)

And that is, firstly, the empirical studies comparing the efficiency – going right back to the beginning, that [challenge] the other big assumption that private sector surely is cutting-edge efficiency. When studies do inter-comparisons—public, private, public, private—in sector after sector, study after study, the result comes down to no significant difference. And that's why I've taken the liberty of putting at the end of this presentation not one, not two, but three pages of academic references, not because I want you to read them or even recommend that you read them. We read them so you don't have to.

But if anybody ever says again that the private sector is more efficient than the public sector, feel free to copy out this list. Then write your response to the empirical evidence that's presented in these 30 articles, because these articles collectively say very strongly there is no significant difference. So that's something you can throw at other people.

The other thing—very quickly, just the other slide I want to draw attention to— is that the private sector pays higher interest rates. And this is simply a picture of what [we've done] in the U.K.: we've used the private sector, primarily through public-private partnerships, to invest in schools and hospitals. And it's been more expensive. They have been paying 1 ½ to 2 ½ percent per annum more than the government would have done if they [spent] the money directly, issued bonds. It's more expensive—the capital of the private sector is more expensive. So in terms of efficiency, they've got no advantage. In terms of capital, funnily enough, we've got a big advantage, the public sector does.



So, what are the conclusions? First, simply there is very powerful evidence to support the very positive economic as well as social benefits of public spending. Secondly, there are new demands for that, especially in terms of environment, in terms of health care, in terms of maintaining the current stimulus until we're out of recession, and in terms of development. So we are going to need to add to public spending and public services in the future, not take away from them. Thirdly, what we're faced with in trying to pursue that agenda is political conflict, both at the national level and at the international level. And finally, we know that PPPs and privatization of various kinds aren't efficient alternatives. So this is an economically and socially rational position that I think we should feel confident in advocating.

I'll just add one very short thing to say about health care in particular. On health care, despite all these pressures, we're actually winning. The IMF released a paper a week or two ago with its latest monitoring on how things are going, and it complained bitterly that, worldwide, people were resisting government attempts to cut back on public health care systems. And it's true. It's been very markedly true in the former communist countries of Eastern Europe, where there's been massive and very successful resistance to attempts to cut back on public health care.

And I would add to that what's happened here. I mean, what happened in terms of the health care reforms here may be limited and much less than what many of you would have wanted. But it's nevertheless a very significant shift towards public health care in the U.S.A.

So I'll leave on that happy note.

MS. KEMBLE: Thanks, David. Comments, Tony?

ANTHONY CARNEVALE: I don't disagree with any of Mr. Hall's analysis. And I don't think his analysis would be shocking to most mainstream economists. Although as is often the case, we economists, enterprising sorts that we are, could make a minor industry out of quibbling over Mr. Halls treatise, one number at a time.

Mr. Hall's treatise is a remarkable piece of work. I read the longer version of it some weeks ago. I found it on the Net. It is an extraordinary amount of work, which is the first thing that struck me. Assembling that much empirical evidence on such a diverse array of public investment issues is really quite extraordinary. I don't know how long it took to do this, but I'm hoping it took a long time, unless Mr. Hall is much more productive than I am.

The issue here is not whether or not the public sector caused the crash. It didn't, although that is clearly a narrative in the "He said/ She-said whirl of American politics. I hope there aren't many people who believe that sort of nonsense. I would also argue that it's not really, in the end, a question of whether or not the American public sector ought to grow, or if it does grow, whether or not it has harmful effects on our economy or on our culture and political system.

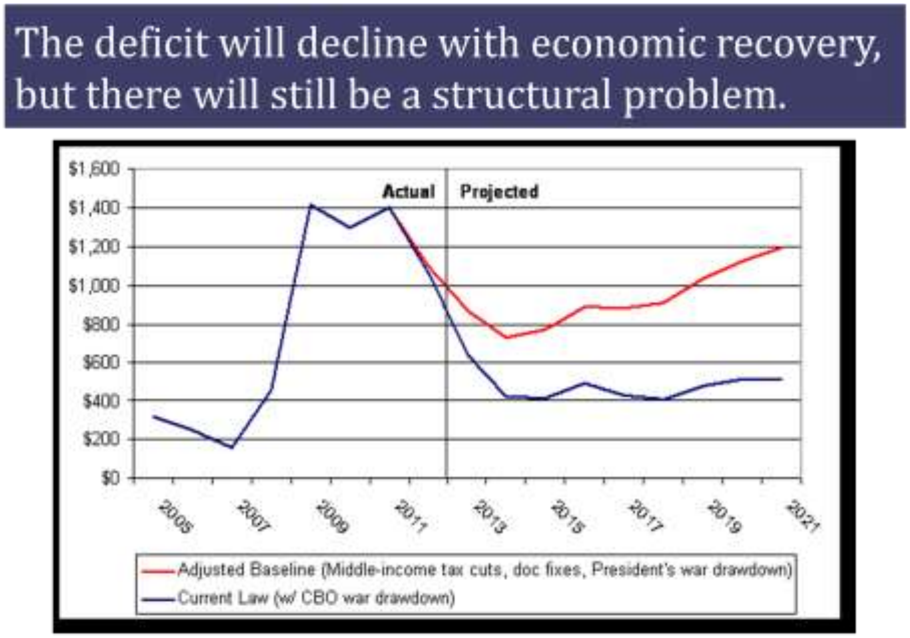
Within reasonable bounds, it doesn't matter how big government is. What matters is a more complex and pragmatic sense of how best to match our resources- public and private - to wants and needs.   Like the private sector, government is neither inherently efficient nor inefficient; inherently good nor inherently bad. The efficiency questions are very pragmatic and ultimately empirical. The question as to whether government is good or bad is political and ultimately can only be resolved at the ballot box. The goal is generally to do good things efficiently so that we can do more good things. That usually requires some mix of public and private enterprise and power sharing.

Some conservative economists will argue that if the public sector gets too large, it crowds out investment in the private sector and therefore reduces economic growth. This is true depending on the overall size of deficits and the extent to which the government spending supports investment or consumption. And there is the corollary concern that if the private sphere gets too large, it can't serve public purposes. The proper size of government is not a question that can be asked or answered in answered in general. It is best asked and answered in particular. This is why I think it is best not to be put in the difficult position of defending government in general. It is far easier to defend what government does in particular.

I do think that there is a cultural issue here that I suspect we're all aware of, and that is that Americans have a profound bias against the growth of government. And they've had that since day one, literally, since the Revolution. And it hasn't changed much, in spite of the fact that many of us weren't here when the bargain got struck. Nobody in my family was here before the 20^{th} century. We still sustain those values and attitudes aggressively. There is an individualist bias in American culture that is what is truly exceptional about us. It's something that's very deeply embedded in our history and still shows up in opinion polls that differentiate American, British and European biases in Western culture. Initially launched as a debate between Jefferson and Hamilton, it endures almost with a life of its own. It is a set of ideas that tends to become antigovernment because government is what we aspire to and do as a community, as opposed to what we aspire to and do as individuals.

But the first point I really want to make is it's not an issue about the size of the public sector, not in any economic sense. It doesn't matter how big the public sector is within any reasonable degree, unless you don't pay for it. Our current problem is that we want a big public sector but we are unwilling to pay for it.

That is the problem in the United States and, I suspect, increasingly in the rest of the world. The issue is deficits and the extent to which they are long-term and structural. All of the deficits that we saw from the recent financial shocks to the system will eventually evaporate. They are shocks, and they go away. They do add to the national debt, but that's another question. But even when we look forward, what you see in the United States relative to our willingness to collect taxes is an ongoing deficit of really unsupportable proportions at the federal level. The current deficit is unlikely to be erased by economic recovery or any historically-based estimate of economic growth. In theory, we could grow ourselves out of the current deficit but it's very unlikely. And by implication, when you trace out the logic, it then affects state and local spending in much the same way.



Source: Committee for a Responsible Federal Budget

That is, the Federal government is the funder of last resort in our system. It's the residual in the federal system, and to the extent that the federal government can't increase spending and the states are constrained by annual budgets and by ongoing tax rates and the productivity of the tax system, we have a problem. And the problem is that we need to decide how much we're going to spend, largely on old people, and how much we're going to tax in order to sustain those expenditures. That's the political question that's up in the U.S.

I think we're far from any answer to that question. I don't think it's easy to predict what the answers will be. This is to some extent an unprecedented set of pressures in American politics, and there's going to be a lot of lurching and learning. I think it is hard to say where we come out on this, but my bias is that we'll come out somewhere in the middle, and most Americans seem to believe that as well, as I'll show you—that what we're going to end up doing is raising taxes and cutting government. And the question is, where do those two lines cross, and where at the federal and the state and local level do those two lines cross?

Just to give you a sense of the proportions, the extent of the difficulty here, let me offer you a few statistics that show that this problem is structural not cyclical. It won't go away when the recession ends. In general, the economic forecast shows a recovery by 2017. Hopefully between now and then unemployment rates will drift down to somewhere between 5% and 6% and then will stop declining. More and more economists believe that that 6% is full employment in the United States, because the workforce below that line is simply not qualified for the jobs that come up at that time; that is, [when it comes to] the jobs that will emerge after this recession is over, jobs that require high school or less will disappear and not come back.

But in any event, these numbers assume recovery. So the recession is over – and probably the use of the deficit as political leverage to downsize government will abate a bit but it is unlikely to go away. The difficulty is that the deficit begins to grow again toward a trillion dollars even with a recovery -- and becomes unsustainable unless you raise taxes to pay for it.

We could move toward a federal deficit of about $500 billion

- If we restore the revenue lost to the Bush tax cuts for families over $250K.
- If we restore revenues from the tax credit for poor people as well as the increase in the child credit for families.
- If the Congress allows the alternative minimum tax to go into effect, (the alternative minimum tax is the taxes you pay when you don't owe any taxes). By the time we get to about 2015, half of American families will be eligible for the alternative minimum tax.
- If we cut the payments to doctors in Medicare by 30 percent.

Again, if we take away all the Bush tax cuts and the Obama tax cuts, and if we take 30 percent of the Medicare payments we make to doctors, we will come down in the deficit by to about half a trillion by 2015, '16 or '17. That is roughly 2 percent of GDP. It is within a range that is sustainable.

But it's hard to believe that we'll enact the legislation necessary to get there. And in the end, the legislation is a tax increase. When you suspend existing tax cuts, you have tax increases. No way around that.

I think that this is the basic issue that confronts the United States. We're not ready to deal with it. We're going to have to go through, I think, several years of debate of exactly how this is going to occur. And it comes down to a basic choice about how much we allow taxes to go up, how much we constrain doctors and other spending in health care for the elderly. How much we constrain Social Security social security matters but it is a much smaller fiscal issue. Federal spending on Medicare goes from 5 to 10 percent of GDP over this period. The spending on Social Security goes from about 5 to 6 percent of GDP.

So it's really about health care and the extent to which we choose to do something about it.

I think we will. I think we will have to or risk financial collapse -- the projected deficits are not sustainable. That is, the interest rates required to sustain that level of borrowing from the government risks destroying not only our economy, but the global economy.

In addition to that, if the financial community—and this is a capitalist system— figures out that we never intend to raise taxes, there will be a panic and we'll get a run on interest rates, which would be very destructive and force us to raise taxes and pay higher interest on debt.

I think some people suppose we're going to wait for the panic, and then in the panic there will be a deal made, and the House and Senate will take action. That is one version of this story that you hear over and over again, that the public is not ready to do this. Until there's a gun to our head, we're not going to do it.

It will all come down to politics - as it should. If you look at the American people and you try to figure out where the votes are going to be coming from, the outcome looks like a close contest for and against government spending. Close enough so that one outcome could well be a continuation of the current stalemate between the reds and blues—the current Republicans and Democrats.

The Democrats divide into four groups according to the Pew polling data:

There are a clear group of Solid Liberals who are solidly or overwhelmingly Democrats. They include females of all races and ethnic groups. They make up about 14% of the public and 16% of the voters. If you look at the media, these are voters who watch Jon Stewart and listen to NPR. Solid Liberals show most support for labor unions (69%) and for bigger government (74%).

- There are the Hard-Pressed Democrats. They are the people who tend to be blue-collar, working-class Democrats. They are somewhat conservative about government. They really are ambivalent about government. They think government should take care of people, but they don't think government's very effective and efficient. They are religious, and struggling financially. They make up 13% of the general public and 15% of the voters. And Hard-Pressed Democrats tune in to CNN. They don't watch Jon Stewart. They don't listen to National Public Radio. A majority of Hard Pressed Democrats show support for labor unions (61%) and for bigger government (53%).

- New Coalition Democrats are, really, a major piece of the old coalition. These Democrats are majority minority. It's African-Americans, Hispanics and white blue-collar women. And these people tend to be supportive of government in particular, but they don't like government in general. They represent 10% f the pubic and 9% of the voters. New Coalition Democrats don't really do much news media at all, except for local talk shows and newspapers. A majority of New Coalition Democrats show support for labor unions (64%) and for bigger government (65%).

The Republicans divide into their own groups, but union and government support is generally weak.

- The purists are the Staunch Conservatives. They're the Tea Party supporters. They make up about 9% of the population and 11% of the voters. They watch Fox. A substantial majority of Staunch Conservatives have unfavorable views of unions (74%) and the support for "smaller government with fewer services" is almost universal (96%).

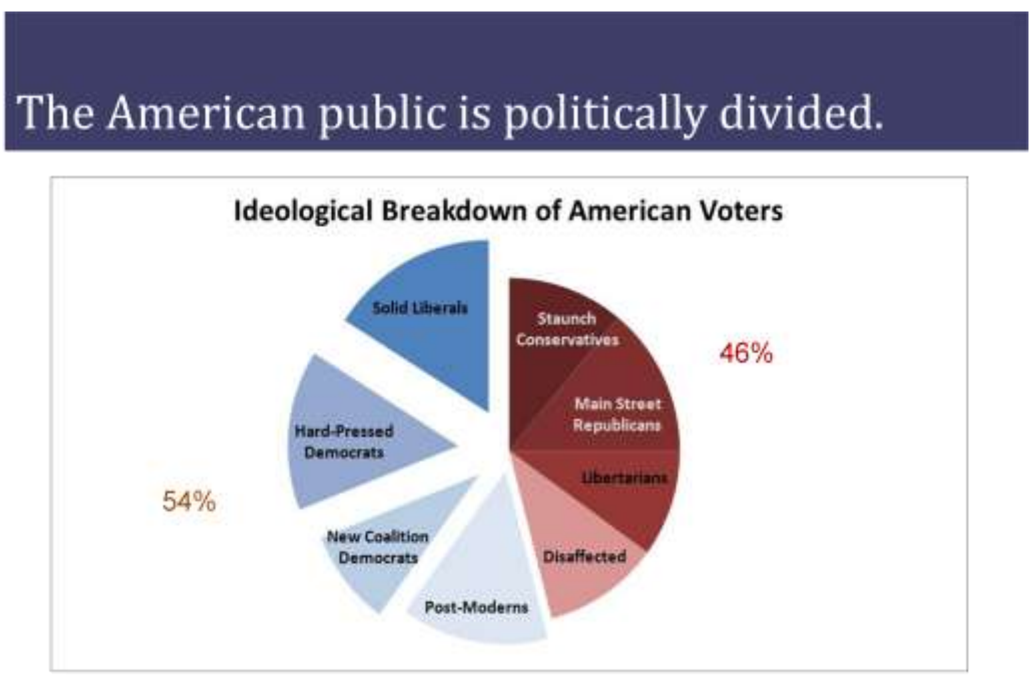
- Then there are Main Street Republicans, which are the old-time conservatives—doctors, lawyers, midlevel professionals in small-town Main Street America. They're basically local in their interests and priorities. They don't like anything national or international. They don't like the federal government or the WTO. They make up 11% of the public and 14% of the voters. The Main Street Republicans aren't quite as hard on unions and government as the Staunch Conservatives. Half of them have an "unfavorable" view of unions and 37% have a "favorable" view of unions. Almost three in four of them want a smaller government and fewer government services.

The Independents become the tie breakers.

- The Libertarians—Ron Paul voters. Barack Obama took 15 percent of these people in 2008. He's not going to take 15 percent this time. They've swung round towards the Republican Party. They make up 9% of the public and 10% of the voters –essentially a reversed mirror image of the solid liberals. More than 60% have an unfavorable view of unions and 24% have a favorable view. 85% want smaller government and 10% want bigger government.

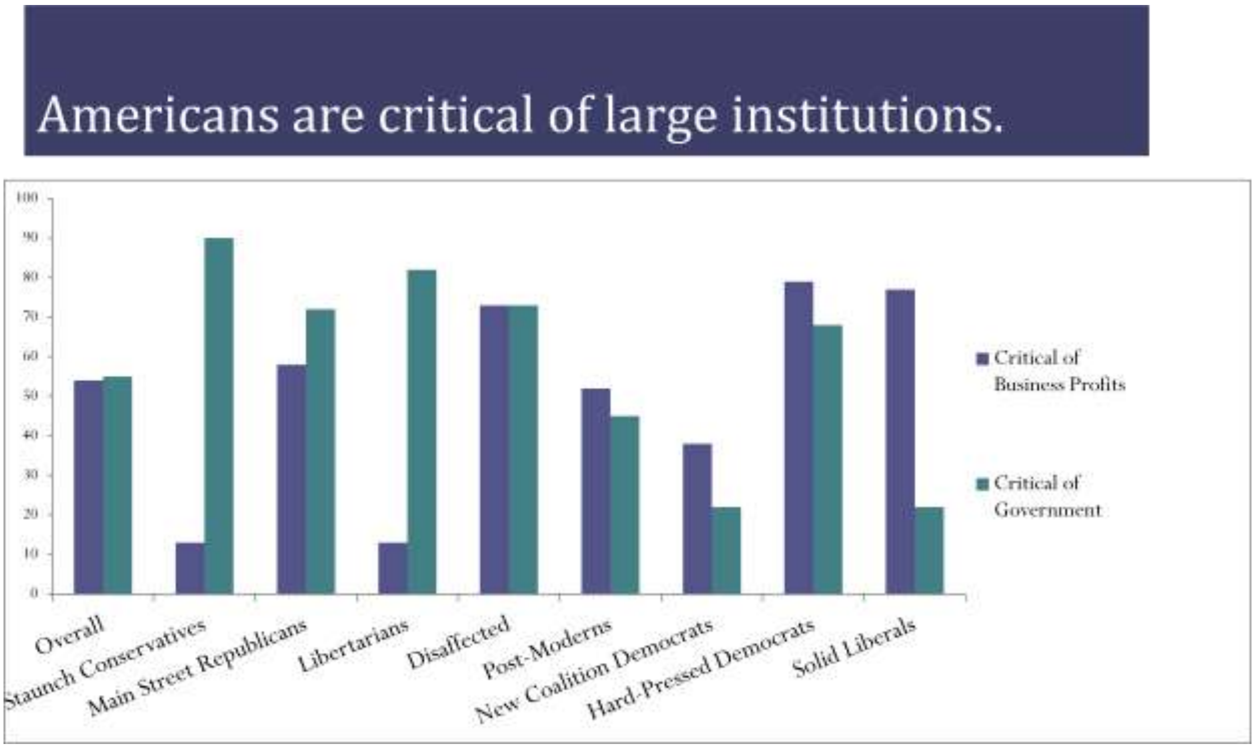
- There are the Disaffected.   Those people tend to vote Republican, but they want change and they are ambiguous about government and unions. They represent 11% of the public and 11% of the voters. They are more evenly divided on union favorability than others who lean Republican - 41% have a favorable view and 47% have an "unfavorable" view. Similarly 50% want smaller government but 42% want a bigger government.

- There are the Post-Moderns. They lean Democratic in the current climate, but they could be attracted to a centrist Republican. These people are young and they are also well-educated. They tend to be liberal in the sense that they are very supportive on social issues like gay marriage. They do not like affirmative action. They think government spending ought to be controlled. And they are not much in favor of a large expansion of government in the United States. The Post-Moderns use a very broad mix of media. They're very media-savvy. These young and well educated voters are ripe for either conservative Democrats or liberal Republicans. Half of them have a favorable view of unions and only 37% have an unfavorable view. At the same time, however, 55% of these people want smaller government and only 37% want bigger government. In this respect they are less pro-government than the Republican leaning disaffected voters.



Source: Center analysis of Pew data

This is the way the vote sets up in the United States. In general, when you ask these people what the answer to our current crisis is, most say we're going to have to pay higher taxes and have less government. But there is little agreement on what spending to cut or what taxes to raise. They're opposed to cutting Medicare. They're not opposed to cutting Medicaid. They are opposed to cutting Social Security. They want the cuts to come from the discretionary part of the budget. The problem with that is, the arithmetic doesn't work and you can't get to sustainable deficits that way.

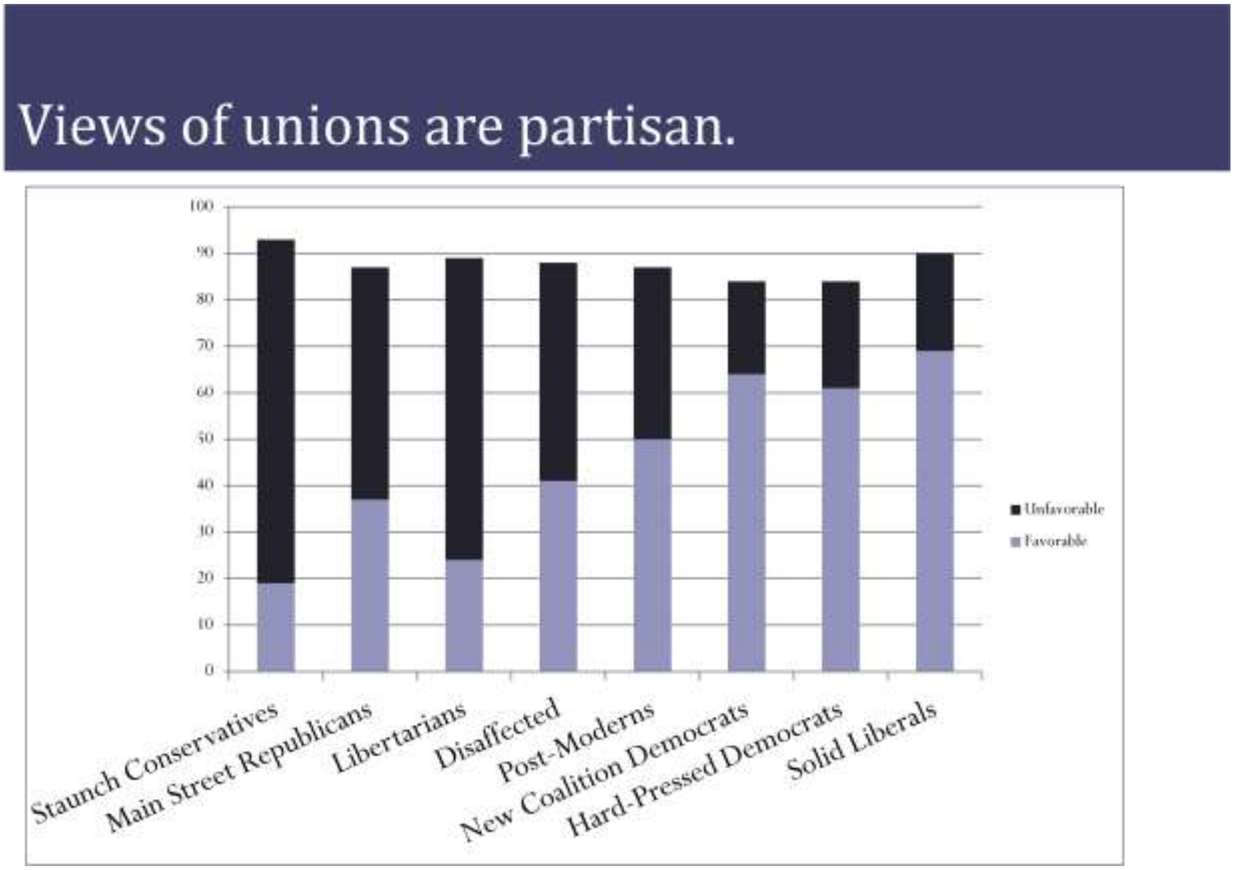


One other point about the institutional loyalties of these groups: It is hard not to come away with the general impression that Americans don't like institutions, especially big institutions that don't operate on an individual human scale. At the moment, the only two institutions that are held in high favor in the United States are universities and the military. Everybody else is in trouble.

When you look at the political groupings you see that, predictably, the Staunch Conservatives are very critical of government.

On one crucial and recurring question the results are revealing. That question is: Do you think business has too much power? I should not that Main Street Republicans are different—that is, they think business has too much power, and what they mean by that, if you look closer, is big business. They like small business. They like things small and local. They are traditionalist conservatives as opposed to libertarians who are much more radical conservatives.

What about the rest of the spectrum?



Libertarians – do they think business has too much power? Actually, no. Libertarians see business as creatures of the market and therefore inherently legitimate as survivors in the Darwinian process of creative destruction.

The Disaffected folks don't like either business or government. They seem to see big institutions that are hurting them and an America where big institutions are taking over from individuals and families.

New Coalition Democrats – they think business has too much power.

Hard-Pressed Democrats – these people are not politically active. They think business has too much power.

Solid Liberals think business is too powerful and they think government's a good thing.

Democratic Party leaning Post-Moderns do believe business is too powerful. A lot of that attitude tracks back to the crash, even though they didn't lose much money. And they are kinder to government, but still a 50-50 deal.   If you ask them about government generally, you get negative answers. If you ask them about government in particular, you get positive answers. And it shows up over and over and over and over again. Do you like your school? Yes. Is education in America working/doing its job? No. Do you have good experiences when you go to the DMV? The answer's yes. Do you think government is inefficient and ineffective? Yes.

I think that we're dealing with a reality that operates differently at several levels. You can lose an argument at one level and win the same argument. at another. There are arguments that work best at different levels but I think it is best to stay closest to the ground level arguing for what government does – arguing for particular services rather than arguing for government per se. The question is, if you're a leader, depending on how this breaks out in your constituency, how do you build a majority vote out of this ambiguous mix? How do you find the sweet spot in an argument that shifts with the audience? "Shape shifting" is a political art that is vastly undervalued in a world that is constantly changing shapes and contexts. That is the core political skill. In theory, you've got to go from one side of the spectrum to the other – or at least for some center right or center left amalgam.

When you look at the numbers, it looks like the Democrats have an edge. The one problem with this is when you break this down by state, the conservatives have the small states – a built-in advantage in the Electoral College and the Senate.

So I think, in the end, my bias about this is that a winning coalition has to be made from different political ingredients- kind of like soup. Human beings can always make a good soup of disparate ingredients but it takes time and trial and error – and all these disparate elements along the left right and center are still on the boil. They aren't soup yet. And until they are we will continue to looking for the right cook with the right recipe.

MS. KEMBLE: Questions?

Q. First, a statement: Mr. Hall, I thought that your presentation was excellent, and I loved how empirically you show that public spending and particularly public sector workers are not the cause of the economic crisis and that in fact it was caused by other things. And that's my question.

You s said that it began with Reagan and Thatcher. I recently read two papers where it said that the recession was mainly caused by deregulation of banks, of common stocks, of derivatives, and now they're saying futures. They're attributing that just to the U.S.

My question: This happened along the same timeline in European countries and other countries where there was a ripple effect I suppose that their regulations also changed?

I have a question for Mr. Carnevale too. Here it is:

I humbly disagree with you that the perception out there is that the public sector—the public's not blaming them for what happened, because I get hit with it. As an officer representing public employees, I get hit with it all the time. And every paper that I pick up in my state -- it seems that they're blaming the public sector. I don't see any articles blaming the banks. I don't see any articles blaming the large corporations. I do see articles saying that government's too big, and we don't have to cut back on senators or assembly people or other legislators; we do need to cut back on public sector employees. We are seeing it in the state. So I disagree that that's not the perception out there.

But you mentioned taxes, and you said that we need to look at them, and I agree with that. I just want to know, what area of taxation we should be looking at? Is it what we're looking at in New York? We're looking at the millionaires' tax. Are we looking at the Bush era tax cuts? Should we be zeroing in on them? I'd like to know what direction we should be going.

Speaker: Very briefly, the question that the causes of the recessionare, correctly, quite complicated. The straight answer to the question is yes, there was exactly the same process in the U.K. There was the Big Bang deregulation of City of London finances in 1987. Other European countries followed, although slower and to a lesser extent, but yes, exactly the same process and that led to exactly the same result.

Speaker: With respect to people blaming government, I understand what you're saying. It does show up in the polling data. People blame government.

No economist would ever agree with that. The recession has nothing to do with government. But in the end, I think it's like the Obama birth issue. Events give people an opportunity to act out their values and their biases. If there's a problem, there's a tendency for Americans to blame government. The only way you can argue government caused this is that it didn't stop it from happening—that is, they didn't regulate enough—and that's about it. That's all you can say, I think.

Q: I have a question about this polling data that you have up here. Gender— how does that play? You mentioned a couple of different places where gender actually might make a difference, but I'm curious how that's going across the spectrum.

Speaker: Gender's very powerful here. As you go right, white and male goes up strongly. As you get more conservative, it gets more white and male. As it gets more liberal, it gets more female and minority. And it's very strong the Libertarians, for instance, are white males. There are really no women in there. (Laughter.)

Q: I wanted to thank whoever invited me here. This is a wonderful opportunity. I appreciate the chance to be here.

Can I sneak in two questions, one for each presenter?

The historical profile that is showed is very fascinating, and I had a head start because I saw part of it before. But what I'm wondering is if we know what happens when that historical picture is reversed. We've seen huge cuts in some IMF-imposed conditionalities in smaller developing countries, where we know what happened: The economy tanked. But do we know what happens in a developed economy? Right now it seems to me Ireland, the U.K., Greece, Portugal, Spain—there's a number of places where there's a huge social experiment going on, an economic experiment, and based on everything we've seen in your chart, it looks like that's a pretty dangerous experiment, and we're liable to blow up the economy. Do we know that, or do we have to wait for it to blow up before we actually know that what everybody assumes will happen, will happen?

Secondly, I wonder if we at some level don't have to think about our terminology a bit and figure out a way to attack government without attacking public services, because at some fundamental level I would argue that governments were precisely at fault for the Great Recession—governments , not public services. Governments in many economies made decisions that led to greater and greater inequalities, and that was certainly one of proximate causes of the Great Recession. So governments, as in the political parties that make up government, were in fact largely to blame, but public services, as in that part of government that we represent, were not.   And somehow public sector workers have to figure out how to make that distinction. We blame government all the time, but somehow we've got to blame government without blaming the public service, and I don't know how to do that yet.

Speaker: There is clear experience of what happens when you interfere with government—precisely the developing country experience with the IMF. This is systematically shocking: it really demolished GDP. So that's the clearest.

Secondly, yes, these are experiments. The U.K. is one of the greatest examples. We're not subject to IMF or EUrules, but our government is set on cutting public spending by 25 percent and expects to get rid of 500,000 jobs in the process. These are huge experiments.

I'd just add to that very slightly. If you look at the macroeconomic projections used by the IMF or the European Commission to justify these policies, their own projections shows that these policies themselves will cause increased unemployment for 10 years. But they regard that as short-term sacrifice because their projections show that after 20, 30 years, we will be so much healthier.

It is quite shocking. Their own projections expect higher unemployment, and they're choosing it deliberately.

Speaker: The schizophrenia on this is real clear. One of the things that is amusing in the United States is that the things that people like, even if government does them, they refuse to believe it is government. The classic example is the individual who wanted the government to keep its hands off his Medicare, his Social Security.

Or if you ask people about government and education, they distinguish between the two. And the pollsters actually distinguish between the two—American pollsters, which shows their bias.

There's schizophrenia about general categories and specific things.

And certainly I defend education and highway spending. You can't defend government in an ideological fight.

Q: I just have one question. Based on my short summary of everything I've heard so far, more public spending leads to a better economy, which is better for people. A large part of that spending is on infrastructure and education and health care, which is beneficial for people.

But there's a budget gap, shall we say: The funding isn't going to be there to pay for all these things. So common sense says you need to raise more money to pay for these things so the world is a better place.

But people don't want to spend that money right now unless, as we hear, a gun is held to their heads. So at the risk of sounding like a terrorist, what kind of gun needs to be held to their heads to get them to stop letting the facts interfere with their view of reality?

Speaker: Well, the classic answer—I mean, the usual answer—on that is a financial crisis, but you can't depend on that. And the other thing you have to keep in mind is, this is not the number-one issue for the American public. It's the number-one issue among elites. The number-one issue for the American public is jobs. The issue is up in all this polling data. The liberals aren't really worried about deficits, by the way. The conservatives are, and as you go more and more towards harsh conservatives and libertarians, you get big concern about deficits.

But one of the problems for a politician is, people aren't really worried enough for them to move. So in a lot of ways, there's stasis in here, and then a lot of people say there will be a crisis

I think what'll happen here, more likely, is it'll happen slowly, and it raises issues about privatization, because the one way for citizens to handle this is if my schools, my government, is not going to provide me with services, we'll move towards user fees, we'll do it on the basis of ability to pay—that is, the government won't act—and the market will assert itself in the public sector—you know, at the edge between the public sector and the private.

You see that in health care already. If we enact that 30 percent reduction in Medicare payments, everybody's doctor's going to try to go into a private vestibule practice. They would be crazy if they didn't. They won't all make it, but they'll try. I know mine will. (Laughter.)

Q: One thing I didn't hear much of in either of your analyses was the role of the breaking of the real estate bubble. And I'm wondering if there government did play a major role by encouraging the expansion of credit to an unsustainable level that fueled the bubble that ultimately burst on it. And the impact of that—we know now that real estate is just dead and everyone is saying it's not going to come back for 10 years.

And the impact that has for our purposes here is on the decline in union density. When we look at the decline in union density, jobs just disappeared in the building trades, which was one of the most heavily unionized sectors of the economy, and with the decline of property tax revenue, transfer tax revenues and things of that sort, that just has a devastating effect on local governments, resulting in, again, the disappearing of jobs, frequently of organized jobs, in the local government sector.

Speaker: I would just say briefly, I think that the straight answer is yes, and not just in the USA. Obviously, the subprime mortgage crisis was a huge, huge element in it. But in Ireland and in Spain as well, there were lots of bubbles that were significant in the way the crisis impacted in those countries. You're right to identify government responsibility.

Another way of looking at it, in my opinion, in global terms, is that it's another shortfall in public service; that actually if you have government policy providing social housing to lower-income groups, they don't need to be launching themselves up to the other housing alternative of ownership.

Q: David Hall's presentation we all see clearly is a wonderful and an important presentation. But I must admit, as I listen to it, the thing that kept reverberating in my mind is that all of this wonderful material is absolutely under the public radar. It is not in any way in the public's consciousness. As a matter of fact, I think that a tremendous number of Americans, if they saw the presentation, if they heard it, would not believe it.

That is one of the reasons that we're here. That's one of the reasons that we're in this predicament. I think it is true that historically Americans are suspicious of government. But I think criticism of government and government services is not in our genes. It may be in our genes to want to generally be left alone and free as possible. It's also in our genes to want to coalesce, to recognize a commonality of interests. So I think that criticism of government services is to a great extent learned.

And it's learned because people hear every single day—they are bombarded with it—that government is inefficient, government is lazy, people in government are making more than everybody else, with good benefits. They hear that over and over and over, and they hear that about the public sector. Those remarks are generally met with silence.

So the question before us for these two days is how to create a public presence for the facts that we heard today, because it's only going to happen if people start to hear and see these kinds of remarks and this view of what the world is, if they hear it over and over and over—in op-eds, in essays, in the media, so on and so forth. And that's, I think, one of the reasons that this two-day session will be important.

Thank you.

Q: Let me take a contrarian view. I don't believe that public expenditures in and of themselves can promote economic growth. I think it's really much more—and this goes to your point I think, but I just want to clarify this—I think in the economics literature, particularly the labor economics literature, that the great innovation in the post-World War II period was education, particularly higher education. That really dramatically drove productivity.

That productivity growth linked to education is primarily a public-sector phenomenon. It required investment, large investments, in the public sector. When I look at state and local government, I see 53 percent of public employees working from pre-K through university level in the United States. So the public sector, once we get to state and local government, is very much education intensive, followed by health care. As you correctly point out, we're a little weak on infrastructure, as you can see if you drive around this country.

Those are the activities that I think we have to speak about. I think the services that government provides are remarkably broadly supported by most American people. And most of them get it that government did it, not private enterprises.

Now, we have an ongoing debate about privatization and all the opportunism and corruption that comes along with it, and we like our corruption in this country. (Laughter.) Clearly in my home, we do. How would we have politics if we didn't have corruption? Who would pay for all these people to run for office? What are they paid to do? The obvious questions we never ask.

But I think we really do have to focus on these services, which we actually are quite excellent in doing and that are linked to productivity here and job creation. Without that, if we just try to make an argument for public expenditures, I think we're really going to find ourselves in a difficult position. I think right now, about the macroeconomic debate, I think most of you took an intro macro course, and I think people learned in that course about accelerators and ways to restrain growth, let's just call them brakes.

But right now in the U.K., in the United States, we have a Congress, you have a conservative government, that are basically saying in order to go fast, we really need to press hard on a brake, a big brake. And people believe it. Educated people believe that stepping hard on a brake will actually accelerate growth, which is the most remarkable failure of our education system that I can think of. (Laughter.)

Q:

I found an awful lot of wonderful things to chew on in David Hall's presentation I wanted to ask if you could focus on one of the many remarkable slides—the one on public spending, economic growth and democracy, which has the three lines—the public sector with full electoral participation, the public sector under an authoritarian regime, the public sector where the turnout of people is 50 percent of the electorate —and ask whether, when we think about changing the dynamics in the United States, our abysmal electoral turnout might not be a fundamental part of the problem?

I think also about a piece I read by an Australian journalist talking about the Australian electoral system, where you're fined if you don't vote on Election Day and 95 percent of the population votes on Election Day, and raise the question of whether to havea discussion among the elites. Instead of having a discussion among elites, we would dramatically change the picture if we brought into the discussion full electoral participation.

Q:

Tony, I don't know if you're familiar with this. If you are, I'd like to hear your comments on it. There's a current debate about Keynesianism in the public opinion arena; that is to say, one side believes that our failure to make the case for an aggressive government stimulus to stimulate economic growth and stimulate jobs and deal with the continuing, shockingly high level of unemployment is a failure of communication; that if only from the White House on down, our friends had done a better job of making the Keynesian case. So just to summarize, we would be possibly in a position different than the one we're in now, where we're totally stale on the jobs issue.

And the other side of the debate is the place which is best represented by the anthropologist Andrew Levinson, who says that there is no evidence in public opinion that Keynesianism can be sold to the American public, that while the data does show that Americans very much want jobs and they think jobs is the most important priority right now, a majority believe that dealing with the deficit is the number one way to create more jobs.

As was just said, this is appallingly wrong, but it's out there and argued by the second camp in this debate; that we will be fooling ourselves if we think that just a more aggressive advocacy of the commonsense Keynesian ideas that additional government deficit spending would help revive the economy and create new jobs, that that's sellable to the American people. Your opinion on that, the public opinion dimensions, or do you take a side in this debate?

SpeakerIn my own history, I can recall when I thought Keynesianism was in a sense too strong. We all learned that Keynesianism has another side in the last 30 years.

But the other thing we also know is that you can't sell deficits. It's easy to say, you know, households balance their budgets, and therefore the government should, and that's just common sense. And it's very hard to get past that with the general public. And we've come to a point in this debate which is very striking to me, I must say, because wherever you go to talk about this, people are talking about all this as inevitable—for me a red flag goes up when everyone agrees that something's inevitable; that is, we have to cut back government spending or that we won't be able to raise additional taxes to go forward.

So nobody makes the case. And you know, the Obama people, I would argue that early on they got what they could. They got pushed back very hard in the House; it cost a lot of the stimulus. When they went to the Senate, they got another piece knocked out. I think the government was there. What I think they didn't do is microeconomic policy on jobs; that is, they just didn't—it's all macro. It all depends on a standard recovery. There's no attempt to reach out and actually lay hands on people and help them, because macroeconomists don't believe in that and this administration is driven by the macro people.

So I think they missed a huge opportunity. Even if the macro people, Larry Summers et cetera, were right in that micro stuff—actually having jobs programs— doesn't really work as compared to a general recovery—even if they were right, it's bad politics not to touch people. So we had 60 million people apply for unemployment insurance and we never touched any of them. They feel neglected. It was as if the government doesn't care. Nobody ever talked to them.

So I think elites were on both sides of the stimulus, both the Republicans and Democrats, and then the Republicans used it as an issue to leverage back on the ideology question. They've been very good at that. It's not surprising—deficits scare people.

Q: I just had a question about about what's going on in the states. Down at that next level of where the crisis is starting to really take place, the level of states and local governments, I'm getting a feeling from some people that that might possibly push back up to the federal level--that something's got to be done because what is happening in the states is not sustainable.

State attempts to recover have mirrored what the federal government has been doing and it's not working. And that's where the real pain is starting to take place—real pain for real people that are working in every state. And do you think that that's a place where we might be able to capitalize on forcing the federal government to do what it really needed to do in the first place?

Speaker: The missing voice in this whole debate, is on the equity issue in the courts. It's not just about the governors and legislators, there are courts here. And they're a place where you can move on equity questions, much the same way we did in K-12 education. But we bucked the problem to the states, and we started relying on state revenue for a lot of things. The states then bucked it back to the fed, which enacted a lot of social legislation, Medicare, and all that stuff over the years.

But the problem now is that the feds are bucking it back to the states on health care, a very big item. So we ran out of places to move on the checkerboard. I think push has come to shove, and that's one of the reasons that I think we see early indications that courts are places where you can get some of this done on an equity basis. The decision in New Jersey a couple weeks ago, for example. I understand if you go to the Supreme Court. But there are states along the way, and there are state constitutions.

Q: I have one sort of micro-question, and then a broader observation. Tony, as I listen to you and consider the number of factoids that you put out there—I find myself wondering, couldn't you just let the alternative minimum tax roll, or do you really think somebody's going to say, Oh, gee, too many people are now being hit by this, therefore we ought to change it. I mean, so far it's just rolling. You argued that AMT plus the cap on Medicare payments to doctors, which may be less likely, would put us in better shape deficit-wise by 2014. , I just found myself wondering that.

But on the larger point—this goes to what a number of people have said—I talked to a labor strategist, who shall remain nameless, recently about what some of the polling was saying to labor about what it should do. And I got this refrain of, you can't take that line or you can't take that argument because it doesn't resonate out there. And this goes to the point about being under the radar screen or the point about how people just simply believe that if the deficits go down, we're going to have jobs going up.

I was in disagreement about this, I forget exactly which argument you referred to—but you just said, we just lost that one, we can't do anything about that.   I find myself wondering if we're being aggressive enough in our thinking about how to get through on some of the kinds of things that David Hall's put on the table. There's the European mentality about acceptance in terms of much of the proportion of the public sector, and there's a unique American prejudice about individualism.

But I don't think we're going to win anything if we don't take some of this on and figure out how to get these arguments on the table. That's why we're here. So that's both a question and an observation. But beyond that, hopefully we'll come out at the end of this with some notions about how to take some of this stuff on and [get our message out].

Speaker: This whole conversation, the larger one outside this room, has an air of inevitability about it. I'm still waiting to hear the voice of somebody who makes the argument; I don't think it's going to be an argument for government. I think it's going to be an argument for public services.

I haven't heard it. Politicians I have a lot of respect for, in the sense that they really do know their audience and how to get that 51 percent or whatever it is they're after. And they haven't seen the need to do this, or an opening to do it. I have a feeling it would work with about 30, 35 percent of the electorate, but one issue at a time it is a much broader appeal. I think what a lot of them are waiting for is to see if when things get cut back, if they can get a reaction. And if they can get a reaction, then play on it. They're very good at that.

So I think its all wait and see on some of this. The pessimism I feel is that when things go away, people are awfully accepting of that. For example, when we took away welfare, AFDC and the like, they just disappeared. There was no reaction. Why aren't students rising up in California? Almost 400,000 of them are being denied access. Where are they? Why aren't they upset? That's what worries me, is people tend to be very accepting.

Q: Sorry want to bring up just as a sort of tactical point that we shouldn't get into thinking that our position is in our defense of the deficit. It's not about the deficit, but about a ban on public spending and public services. And I think that's quite important strategically to say as well.

MS. KEMBLE: Thank you. And thank you both, this was really, really fantastic.

(Applause.)