

REVIEW

Noam Scheiber's *Escape Artists*: A Review Essay

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Noam Scheiber's *Escape Artists* is a well-written tale of the making of economic policy in the Obama administration from the post-election transition in 2008 through the September 2011 proposal of the American Jobs Act. The book covers a huge number of topics along the way, including the 2009 stimulus (the American Recovery and Reinvestment Act, or ARRA), the Affordable Care Act (ACA or 'ObamaCare'), the Dodd-Frank financial regulatory legislation, extension of the Bush tax cuts in late 2010, and the debt ceiling negotiations in the summer of 2011. Scheiber draws on a wealth of insider sources to detail the efforts of the administration's economic triumvirate of NEC Director Larry Summers, OMB Director Peter Orszag, and Treasury Secretary Timothy Geithner as they seek to stabilize an economy in recession, overhaul financial regulation, and push through health care reform in the face of a determined opposition party and sometimes-balky Congressional allies.

While Scheiber has enormous sympathy for President Obama, he blames the economic team for fumbling the recovery (to paraphrase the subtitle of the book) by accepting too small a stimulus package in 2009, and then caring too much about the deficit in 2010 and 2011 and thus underemphasizing additional policies to support demand. Scheiber describes how CEA Chair Christina Romer called for an additional \$1 trillion over the roughly \$800 billion in the ARRA, only to be blocked by Summers and others from presenting this figure for the consideration. The book's details of such policymaking squabbles are fascinating and an important contribution to the historical record. Still, every administration experiences such internecine disputes, and it is hard to imagine that the 2009 stimulus could have been bigger given the politics of the time.

Moreover, President Obama's actions suggest that he thought the stimulus was large enough. As detailed by Ryan Lizza in January 2012 in the *New Yorker* magazine using a trove of leaked White House memos, the President personally chose to cut \$60 billion from what his staff saw as effective spending (presumably more money for state and local governments) while leaving in place what they saw as less effective uses favoured by his Congressional allies. In other words, some of Scheiber's scorn for the economic team might instead have been directed at their boss for not making the best use of the fiscal tool he had available.

The composition of the stimulus was faulty in other ways. The payroll tax cut was designed to dribble out rather than sending out sizable checks as had been done in the bipartisan stimulus enacted in 2008; subsequent economic research finds that this sacrificed impact. Some of the spending in the stimulus had little near-term impact, while other programs might have been ineffective at any horizon. The idea to include high-speed rail in the stimulus, for example, is presented as something of a 'eureka' moment in the book. In reality, the Obama administration initially sought to use the rail funding as a political weapon against Republican governors in Florida, Ohio, and Wisconsin, rather than putting the money to use along the northeast corridor where Amtrak passenger service makes financial sense and perhaps could do even better with improved infrastructure. High

speed rail such as the train to nowhere under development in California became emblematic of a dissipation of resources that sapped public support for the stimulus and eroded confidence in both the economy and the administration's ability to govern wisely.

As described by Scheiber, the reluctance to put forward substantive proposals to deal with the long-term US fiscal challenge was a source of ongoing tension within the economic team, with Budget Director Orszag pushing for gradual but concrete action, against others such as Larry Summers and the White House political team. This latter group wanted to project a message of fiscal responsibility even while putting off meaningful changes until a second term, by which time they expected a stronger economy. It is hard to imagine that the President would have put forward concrete proposals for entitlement reform in his first term, since a focus on preserving Medicare and Social Security would doubtless have been expected to constitute an important line of attack on any Republican nominee in the 2012 campaign (as indeed has been the case). The political team won out, as potentially cost-saving aspects of the health care legislation were discarded and the President did not support the outcome of his own Simpson–Bowles fiscal commission. The first Obama budget looks ironic in retrospect, with its self-righteous claim of 'A New Era of Responsibility' on the cover set uneasily against the unfulfilled promise inside to chart a new fiscal path.

Scheiber sees even the symbolic approach to fiscal rectitude as a mistake. In his view, the inadequate stimulus and poorly timed shift toward a message of fiscal responsibility contributed to the still-anaemic recovery and was a self-inflicted political wound, since the administration was poorly positioned to go back for more policy action. Additional fiscal support was eventually enacted as part of the December 2010 agreement to extend the Bush tax cuts and cut the payroll tax, but Scheiber sees this as both too late and partly a waste in that he views the upper income tax cuts as ineffective at boosting spending. The considerable disagreement within the economics profession on the impact of tax policy is left aside: this is a book in which there is a clear and particular truth and little room for uncertainty or debate.

Scheiber thinks the administration could have done better in other areas, such as in financial regulatory reform. He broadly approves of the Dodd-Frank legislation enacted in July 2010, but sees it as not tough enough on Wall Street, reflecting both the political strength of financial firms and their supposedly misguided allies within the administration of Summers and Geithner, who are heavily criticized throughout the book (despite the disagreement on fiscal policy, Scheiber is considerably more charitable toward Orszag, who was inadvertently revealed on the author's website as a document source).

The sections on policy discussions relating to financial markets are the weakest in the book, mainly because Scheiber puts forward a blame-the-usual-suspects criticism of Wall Street without taking seriously the positions espoused by Geithner and Summers about potential negative impacts of an overly harsh regulatory approach. There are benefits of financial regulation in terms of greater stability, but also costs of foregone dynamism and growth. The financial crisis exacted an immense price in both economic and human terms. But this does not then mean that any crackdown on the financial industry is warranted—it is still important to find both effective measures and the proper balance between regulation and growth.

To exaggerate only slightly, just as any spending is portrayed in *Escape Artists* as good for stimulus, so too is any regulation seen as good for stability. An example of the attraction in the book to symbols of reform is the portrayal of Gary Gensler, chairman of the Commodity Futures Trading Commission (CFTC), as a hero for criticizing Wall Street (where he had previously worked). Gensler is brilliant, but subsequent events cast an uneven light on his tenure. Scandals such as at MF Global represent a serious blemish on the CFTC, while his agency has faced judicial reproach for not paying sufficient attention to economic analysis in its decision-making. An irony is that the commission has an excellent economic staff that produces high-quality work, but this can be inconvenient to an agenda fueled by populist rhetoric. CFTC analysis, for example, has indicated that gasoline price increases were driven by fundamentals of supply and demand, in awkward contrast to efforts by the chairman to align with the administration's rhetorical volleys against 'speculators.' Gensler has made important contributions at the CFTC, notably in helping to push for provisions in Dodd-Frank that provide much greater transparency for derivative trading. This is deserving of credit, but the adoring treatment in the book is incomplete.

A similar attraction for symbol over substance mars the book's discussion of the Volcker Rule, a part of the Dodd-Frank legislation that prohibits banks from engaging in most proprietary trading. This is well-intended. The problem is that the rule is difficult to implement, because it is virtually impossible to distinguish proprietary trading from the routine activities of broker-dealers in making a securities market. Indeed, the regulators' initial attempt to spell out the rule resulted in hundreds of unworkable pages that were the subject of scorn by both banks and Volcker himself. And in any case, proprietary trading does not appear to have been a meaningful cause of the financial crisis—if anything, profits from these activities helped some firms to stay afloat. To be sure, trading involves risk, and limiting banks' trading activities might reduce the riskiness of the financial sector. But this comes at a cost of less liquidity in markets and thereby higher interest rates and less investment and job creation. This is implicitly recognized in Dodd-Frank, which exempts trading in Treasury securities from the rule, even though gains and losses are no less likely on this prop trading desk than on another. Presumably, the Congressional designers understood that it would be like scoring an own-goal to induce higher borrowing costs for themselves. Not surprisingly, foreign governments are aghast that the Volcker Rule could obstruct market activity in their sovereign debt but not US Treasury bonds. In sum, the Volcker Rule imposes costs while likely not providing concomitant benefits in terms of a more stable financial system. Financial regulatory reform was badly needed in the wake of the crisis and the Dodd-Frank bill has much that is good in it. The book's discussion of this important debate would have been improved by a deeper treatment of the underlying substantive issues.

It is refreshing that the author presents a strong point of view, both his own and that of the administration economic team. But his case (and theirs) would be more convincing if *Escape Artists* took seriously the viewpoints of people with whom he disagrees. Scheiber appears to have no Republican sources (presumably he talked with some, but this does not come through). Republicans in this book are portrayed as malicious and ignorant of obvious economic truisms. Not surprisingly, the book can be frustratingly tendentious; at times, the representation of Republican viewpoints feels like a printed version of an MSNBC broadcast.

It is surely the case that many Republicans were set to oppose President Obama from day one. But others saw an incredibly popular President who had talked engagingly during the campaign about bringing the country together to face economic challenges, both the immediate economic crisis and the longer-term fiscal challenge. And yet from the perspective of pragmatically minded Republicans, right away the President was looking for the opposition to roll over and consent to the ARRA, without negotiation or compromise. Faced with a wasteful stimulus they did not design and that seemed larded with the built-up spending desires of the past eight years, it is understandable that Republicans chose to let the President go it alone. For sure, Scheiber can still see this as a mistake, but it would have improved the book to at least acknowledge the existence of considered disagreements.

The problem of Scheiber's one-sided approach is most apparent in his discussion of the summer 2011 negotiations over the debt ceiling, in which Speaker Boehner is castigated for walking away from a deal in which both sides have made concessions. Subsequent accounts in the *Washington Post* and *New York Times* that draw on sources from both parties have come to a different conclusion. These accounts place considerable responsibility on President Obama for his decision to reopen a struck bargain that already included the concession by the Speaker of new revenue rather than just the spending cuts demanded by his party. The problem for the President was that a parallel Congressional effort appeared to include more new revenue in relation to spending cuts than the one he had hammered out with Mr. Boehner, making it seem like the President was wringing out less compromise from Republicans than they were willing to make. The supposed Congressional agreement, however, turned out to be ephemeral, as the President and his advisors surely understood from the start. It is by far not clear that rank and file Republicans would have supported Speaker Boehner's agreement; after all, Mr. Boehner had difficulty keeping his caucus together on more than one occasion. But President Obama made it so that the Speaker never had to find out. Mr. Boehner walked away, but the President surely knew that his attempt to change an already-concluded bargain would have just this effect. Scheiber's transcription of the administration vantage point in the debt discussions is still valuable, but more as a record of the spin from his sources than as a reliable historical account.

The argument over fiscal policy played a central part in the 2012 election debate. This is appropriate, since ultimately decisions over taxes and spending correspond to choices over the size of the government and the scope of its activities. Even so, there are important dimensions in which the two US political parties are in more

agreement about fiscal policies going forward than might meet the eye. In other words, the portrait of conflict and disagreement painted by Scheiber is again not the entire picture. It is clear to all that either entitlement spending must be changed from the current trajectory or revenues substantially increased—or some mix of the two. And this inevitably requires changes to the key entitlement programs of Social Security and Medicare.

For Social Security, there is bipartisan agreement that workers with relatively high lifetime earnings will bear the brunt of adjustment, whether this comes in the form of higher taxes or a reduction of future benefits from what is currently planned but not affordable. Those with lower lifetime earnings will be shielded from the burden of the necessary adjustment—or more likely, those at the bottom will receive higher benefits than currently promised (this was a feature of Paul Ryan's Social Security proposal, for example).

A natural way to look at the inevitable adjustments to Social Security is in terms of changes to the net of lifetime benefits and lifetime contributions (that is, taxes paid), keeping in mind that a higher retirement age is akin to a reduction in benefits. A worker with a high lifetime income will get less from a sustainable Social Security system: that worker will either receive the currently promised benefits but pay more in taxes, or pay currently scheduled taxes but receive less than the benefits now promised. Abstracting from the uncertainties of individual mortality, from a lifetime perspective the net is the same. Once an acceptable minimum benefit level is established, a strong case can then be made for having the adjustment come on the benefit side. Doing otherwise would simply collect more taxes from high earners in order to pay it back out to the same people as higher benefits while involving some loss of economic efficiency from running the money in and out of the government. A political compromise for Social Security reform must include some additional revenues—this is a *sine qua non* for key stakeholders such as the AARP. A natural way to meet this necessity would be to establish so-called add-on retirement accounts in which additional contributions (again, a euphemism for higher taxes) are set aside to boost retiree benefits. This system is politically distinct from the so-called carve-out accounts proposed by President Bush that were to have been established out of Social Security's existing revenue stream. Add-on accounts are acceptable to both sides. To be sure, it is easier to put this compromise down on paper than it will be to reach it. But the elements of bipartisan agreement on Social Security reform are clear.

A complete Medicare reform is more difficult because it necessarily involves wrenching choices about the allocation of resources to support people at the end of their lives. But some shared vision can be ascertained, even on areas of vigorous disagreement such as whether or not to convert Medicare to a premium support model in which the federal government contributes a fixed dollar amount to pay for a recipient's insurance coverage. With a premium support model, the federal government would specify minimum coverage but then a private insurance company would design a health insurance plan to meet the amount of the federal contribution, in large part by setting co-pays and deductibles. An approach that seeks to put a brake on the growth of Medicare spending would then slow the growth rate of the premium support amount, which in turn would make Medicare beneficiaries face higher deductibles and co-pays (presumably this would be done in a way that shields those with low lifetime earnings).

President Obama in 2012 campaigned vigorously against this approach, saying that it would turn Medicare into a voucher. His administration has not put forward a full Medicare reform. As part of its shift toward a message of fiscal responsibility, however, it has discussed modest proposals to slow Medicare cost growth by raising deductibles and co-pays for well-off Medicare recipients. Additional such changes were reported to be among the administration's spending concessions in the debt ceiling negotiations and presumably will reappear in the second term. There is a sense then in which an important element of the heated debate over Medicare reform boils down to whether competition between private insurance companies should be used as the framework within which to set the co-pays and deductibles for Medicare recipients with relatively high lifetime earnings or instead the government should set those higher co-pays and deductibles. Either way, it seems likely that entitlement reform will involve these changes.

The period of time covered by *Escape Artists* involves fundamental political disagreements over economic policy, including battles over the stimulus, financial regulation, health care, and fiscal responsibility. And as presented by Scheiber, these arguments were epic just within the different factions of the administration, not just between the President and his opponents. It is wearying then to consider how the United States will take on the immense challenge of the fiscal imbalance ahead of a European-style crisis.

It is remarkable that this book succeeds despite its narrow perspective and near-absence of thoughtful economic analysis. Whether the policies put into place by President Obama are likewise seen as successful ultimately will depend on events still to come, including the course of the economic recovery, and the financial sustainability and political support for the Affordable Care Act, as its main features come into place in 2014 and beyond. In the meantime, Noam Scheiber provides a valuable exploration of the process by which those economic policies were designed and enacted.

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