

**THE GOVERNMENT WE DESERVE - Gene Steuerle**  
**From the Peter G. Peterson Foundation**

**IS A "C" GRADE GOOD ENOUGH FOR GOVERNMENT?**

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"If you're depressed when Congress fails to get an 'A' on legislation, you should never work for government. Getting from an 'F' to a 'C' must be fulfillment enough." That's the advice I got many years ago at the Treasury Department from Jim Wetzler, who worked for the tax-writing committees of Congress, later became Commissioner of Taxation and Finance for the State of New York, and most recently was on an Obama transition team that reviewed the Treasury Department.

Is a "C" enough? In some periods, it's probably sufficient to squeeze by. But today? Consider all the budget, health, Social Security, education, energy, and tax issues raised at President Obama's Fiscal Responsibility Summit on February 23 and his first address to a joint session of Congress on February 24. The house is settling, fast, and it's no longer enough to hire the average fix-it guy. Even if it were, business as usual hardly represents the transformation of government we need.

I was reminded of Jim's advice recently when the Tax Policy Center issued a report card on various aspects of the stimulus legislation and essentially graded it a "C." At about the same time, I talked with the president of a foundation concerned with children, who decried the bill's failure to focus the new proposed educational funding where it might do the most good. Martin Sullivan, the brilliant reporter for *Tax Notes Magazine*, meanwhile published a list of current law tax benefits for ethanol and hybrid vehicles that appear to be designed with little more than a wave of the hand. He showed how the amount of tax credit per gallon of gas saved varied from as little as \$0 for one vehicle to \$5.59 for another.

First, let me explain how many nonpartisan analysts and researchers decide on their grading methods. Here I must distinguish between likely making mistakes, given our limited knowledge, and clearly making mistakes on the basis of what we already know.

The stimulus or economic recovery bill provides a good case in point. There was, and remains, a legitimate debate between those who wanted to get as much stimulus as possible and those who wanted to promote or get some investment out of all of the spending. But think about the bill as having those two components, each adhering to a legitimate principle. It was the combination of stimuli that could have been better designed and somewhat weakly designed investment incentives that allowed the analysts to come to their grades.

Take many of the stimuli. The best stimuli in a recession are those focused on lower-income populations or those suffering the greatest shortfalls in income. Extra money for the middle and especially upper-middle class are much more likely to be saved immediately. If you are middle class and still have your job, the government is more likely simply to be borrowing money from China to allow you to put some money in a bank account. As a consequence, there's simply less stimulus there than in the money that goes to people who are more likely to spend it.

Why couldn't Congress or the Administration be honest with us about the limitations of the stimulus? Most of them know it. Well, it's hard to break away from business—I should say, politics—as usual. To concentrate money on lower-income households or middle-class households that have been especially hard hit would deny politicians the ability to appeal to all middle-class voters. Democrats are no more likely to limit their spending increases and tax cuts on the poor, whatever their Keynesian models tell them, than Republicans are likely to confine tax cuts to the rich, whatever their supply-side models tell them. Nor could the Democrats avoid adding to programs they have long advocated independent of their stimulus impact.

Governmental processes don't lack the information to improve the grade, but much of that information is dampened, delayed, or defused. For instance, to estimate costs and revenues, government workers in many budget offices in Congress and the executive branch attempt to examine many of the limitations and unintended consequences of various bills. But they are restricted in how quickly or publicly they can reveal this information. For instance, once in a negotiating position, the executive branch doesn't want to dissipate public support or displease its Congressional allies.

In his addresses to Congress and at the recent budget summit, the President rallied us to the cause of budget, Social Security, health, energy, education, and tax reform. My fear is less that nothing will be done on these fronts than that the policy-making process will get us "C" grades at best. I want Social Security reform not only to make the system sustainable, but to do a better job protecting all the elderly from poverty. I want health reform not only to constrain cost growth, but to encourage technological and medical improvements. I want energy reform not only to promote energy efficiency, but to avoid the types of badly designed subsidies that Sullivan noted. I want educational reform not only to offer more opportunity to our young, but to empower the best of our teachers. I want tax reform not only to pay for some of the promises we have made, but to restore a greater sense of justice and to provide greater simplification.

Is that really too much to ask? Must our best hopes again only be for a "C" grade?