

Episode 02: "Heritage Scholars' Take on Today's Pressing Economic Issues" with Jack Spencer and Norbert Michel

Speaker 1:

Welcome to Common Ground with Bill Walton featuring conversations with leaders, entrepreneurs, artists and thinkers. Fresh perspectives on money, culture, politics and human flourishing. Interesting people, interesting things.

Bill Walton:

Welcome, I am here today to talk about economic policy. Specifically let's talk about the Paris Treaty, tax reform, Dodd-Frank and Trump's plan to reorganize the government. Joining me today, are two policy experts from the Heritage Foundation. Jack Spencer and Norbert Michel, they're both have been a long time with Heritage and Jack is the Vice President and an expert on a wide range of domestic, economic and trade issues for the Institute of Economic Freedom and Opportunity. Previously he served as Director of the Roe Institute where he spearheaded research initiatives on federal spending, taxes, regulation, energy and the environment. Before that I think this is really his power alley, he specialized in nuclear energy issues in both domestic and global arenas as Heritage's senior research fellow in nuclear energy policy. He's Heritage's go-to expert in nuclear waste management, technological advances, industry subsidies and international approaches to nuclear energy. Welcome Jack.

Jack Spencer:

Thank you. Happy to be here.

Bill Walton:

Norbert is with Heritage as a research fellow in financial regulations. He studies and writes about financial markets, tax policy, monetary policy, he also focuses on the best way to address difficulties with the large financial companies aka banks and insurance companies. Also, he's an expert in the "too big to fail" problem. Before Heritage, he was a tenured professor at Nicholls State University College of Business, where he taught finance, economics and statistics. Norbert also served with me in the Trump transition, he was in the financial services policy implementation team and together we got a first-hand look at what the Trump plans were for economic growth. He also has some private sector experience where he worked for Entergy where he built regression models to help predict business bankruptcies. I'll be interested in learning more about that if we get time.

Norbert Michel:

It sounds so much to prepare.

Bill Walton:

Norbert, Jack, welcome.

Norbert Michel:

Thank you.

Bill Walton:

As we are here in studio B, our speak easy-studio, the Paris Treaty is in the news and Jack would you talk a little bit about what that means for us and why we think that's a good thing that we opted out of it rather a bad thing.

Jack Spencer:

I'd love to. Norbert as you know this treaty just being around Heritage, it's a big issue for us. It's not really a treaty it's an accord, it's an attachment to a different agreement. This accord, the purpose of it was to achieve an environmental goal and to do it in an economically, reasonable way but it didn't achieve either of those things and that really is the cracks of the problem. That even if we followed to the T the provisions of the Paris Accord, you wouldn't have gotten the CO2 drops that would have been necessary to get the climate change impact, assuming you believe the models that the UN uses to determine such things.

Jack Spencer:

On a whole array of basis, it just didn't make sense. That doesn't even get into the economics of it where it really set up this whole mechanism that would drive our economy to move away from affordable energy sources, the very energy sources that allowed mass swaths of humanity to lift themselves up out of poverty, away from those, to these ones that the government wants. That costs more money, that are less efficient or less effective.

Bill Walton:

Do you mean moving away from fossil fuels to renewable?

Jack Spencer:

Yes but not exclusively. We use renewables all the time like hydro for example. I would argue. You mentioned in the introduction my background in nuclear energy and nuclear is not a traditionally renewable but it certainly has all the characteristics of what those who claim to want to reduce CO2 should want to achieve in submissions free, it does a lot of things. The Paris Treaty didn't make the policy adjustments that would allow us to move in that direction. So just for a lot of reasons, it didn't make economic sense, it didn't make environmental sense, here's what it made sense for, people who want to control the economy and control our lives. For the central planners, this was a great accord.

Bill Walton:

Are there market based solutions now that we pulled out? I'm struck by the fact that our air is a lot cleaner and our water is a lot pure than it was 20, 25, 30 years ago. We've made a lot of progress already. What you're saying basically the marginal cost of improvement is not worth the economic cost?

Jack Spencer:

What I would say is that the free market promotes the things that we put a high value on. The free market promotes efficiency, the free market promotes clean air and clean water. We as people who have the wherewithal have the resources to clean up our water, to clean up our air. The United States is a great example of that. We have clean water and clean air because we are economically prosperous. Look at countries like China or the Soviet Union or Cuba where you have the least economic freedom, North Korea, those are the ones have the least clean environments 'cause these are folks that don't

have the wherewithal to make the investments to have the clean air, clean water and all the things that we hold dear. It's private property rights that ultimately incentivize the stewardship that yields the environmental outcomes that we want. The Paris accord rejects the notion that private property rights and stewardship is the way to meet our environmental needs and government control is the way to do that.

Bill Walton:

Wasn't it also just proportionately hash with our standards, like for example didn't China have to abide by some standards that their emissions could grow more slowly than they already were but not reduce them?

Jack Spencer:

Those countries who are less developed had different standards to hold to than those of us who are more developed. The perverseness of this is, is that those countries, this mindset tries to put into them these renewables, and these more expensive technologies. They were allowed to emit more but it pushes them into this more expensive direction. And that's one of the real problems with this whole approach. You Bill or Norbert or I upper and middle class Americans, we can handle a few bucks extra for a washing machine or our bread. But who this really hits the hardest is the poorest Americans. When you get to the store now you can't buy a washing machine anymore for \$300. Everything costs \$600, that's a direct result not of Paris but of the global warming mindset. It's the DOE regulations on things like washing machines that are based on the so called social cost of carbon, that's where these regulations are promulgated from that drive up the cost of the consumer products that the poor folks just can't afford-

Bill Walton:

Norbert what's your take on that?

Norbert Michel:

Jack you'll tell me if you don't agree but this is sort of the condescending theme that runs through a lot of what we do. I deal with this in financial markets stuff all the time-

Jack Spencer:

We at Heritage.

Norbert Michel:

You see the progressives wanting to control things in say like in financial markets where they say, "That's not good for you, that's not okay for you. It's okay for me to do it if I want to do it, but it's not okay for you to do it." You don't want to let those other people have products and you say, they are not you and me. They'll say things like, "Well it's not okay for those groups to have access to the same types of credit that I have. We have to give them something else."

Bill Walton:

So this was what Trump ran on then.

Norbert Michel:

Yeah.

Bill Walton:

He basically said the policies that are good for the elites are not good for the rest of the country and the Paris Treaty was exhibit A of a policy that the elites liked and the rest of the country did not.

Norbert Michel:

That's exactly.

Bill Walton:

I've read in the Times, in the Economist, the world is now coming to an end because of withdrawing from the Paris Accord. What's really going to happen? What's the practical effect of us not going forward with the Paris people?

Jack Spencer:

From an environmental standpoint that was what I was saying, there will be none because there's nothing in the Paris Accord that would have yielded the outcomes that the global warming alarmists wanted to achieve. Even based on their models, their predictions, pointing out I think we would have no impact. Now I will argue we'll have a positive environmental impact because it gives us more economic wherewithal to adapt to whatever the environment brings in the future, whether it's something caused by global warming, which I don't think that, that's the case. Whatever the world says.

Bill Walton:

As I like to say I think we're all environmentalists now, it's just a question of the cost benefit of each things and if you've got 99.9% of something accomplished, what's that cost of the extra one tenth of 1% and that's sort of what we're talking about. Probably similar.

Norbert Michel:

And there's this attitude of if we don't have the regulation in place, American companies are going to start polluting rivers and poisoning the water, which doesn't really work that way. It's just not what people want to do.

Bill Walton:

We will go forward. Does Heritage have an environmental policy plan? Do you have something outlined what would that be? What would be a free market alternative, something like the Paris Accord?

Jack Spencer:

We believe in private property rights and stewardship that an individual's owning property provides the right incentives to protect that. We think that prosperity gives society the wherewithal to protect water and air and those sorts of things. That's the underlining philosophy of our approach to the environment. Now, we've had since the early 70s layer upon layer of environmental regulations. We have a regulatory roll back piece of that would fit under the roadwork of our environmental policy.

Bill Walton:

What's an example of what might be rolled back?

Jack Spencer:

NEPA, the National Environmental Policy Act, it's a very short bill but it has led to rims and rims and rims of paperwork in order to do any project that the federal government has any involvement in. We think that, that's something that needs to be rolled way back especially when the President is trying to do things like infrastructure and those types of things or power plants. Those are all projects that require a NEPA report to be done. So we need to roll that back. One other thing just quickly that has given the environmentalists a lot of leeway is in a lot of the regulations, Congress has ceded a lot of the defining what these regulations look like to the bureaucrats. So for example, the Clean Water Act, it gives to the bureaucrats the ability to define what falls under the jurisdiction of the EPA under the Clean Water Act. Of course the bureaucrats want to widen their control as much as they can.

Bill Walton:

What you're saying is Congress should be writing very specific bills to say or do this or do that and make it part of the democratic process and when you delegate it to an administrative agency, you basically have taken that out of the process.

Jack Spencer:

Right and you get what we have now, which is this expanding administrative stake, which has all of the problems that we as free marketers-

Bill Walton:

Well, I want to come back to what we mean by the administrative stake but Norbert you talked about this creeping regulatory whatever in terms of the financial markets and that's really your power alley. We've got a bill, in fact Heritage has written a report called The Case Against Dodd-Frank and it's about 300 pages long I think you vetted at this. First what is Dodd-Frank? And what's the case against it in less than 350 pages? Maybe you can do it in 350 words.

Norbert Michel:

I can definitely do it less than 350 pages.

Bill Walton:

Thank you.

Norbert Michel:

Dodd-Frank, I like to call this the financial world version of Obamacare just for a sort of a point of reference. What Dodd-Frank was a law that was passed in 2010 in response to the 2008 financial crisis. It's pitched as a bill that ended bailouts and made our financial system safer but in truth that's not what it did. What it essentially is an amalgamation of a whole bunch of different policies that liberal progressives have wanted to enact for years, never had the opportunity to do and then they exploited that crisis, I think it was Rahm Emanuel who said, "never let a crisis go to waste." Or something like that, and that's what they did. So they compiled all these things that don't really address the root causes of the crisis but that pile regulation upon, regulation upon, regulation throughout the financial system in ways that we haven't heard before. I think a lot of people would argue have harmed the economic growth, harmed the recovery at the very least and slowed down economic growth.

Bill Walton:

Peter Wallison the other think tank in town at AEI says it's-

Norbert Michel:

Who contributed to the book?

Bill Walton:

I think you gave him the first chapter.

Norbert Michel:

I believe I did.

Bill Walton:

He says it's based on a false narrative of what happened-

Norbert Michel:

It absolutely is.

Bill Walton:

That caused the crash. And the false narrative is that somehow that was always because of the big banks being greedy and things like that.

Norbert Michel:

Deregulated.

Bill Walton:

Deregulated, which is in fact they've had more regulation every year since I can remember. But the root causes were where government policies that were promoting unaffordable housing or affordable housing, whichever way you want to put it. And Fannie Mae and Freddy Mark were about 50, 55, 60% of their book subprime loans, so we had this incredible bubble of people borrowing money that couldn't afford it.

Norbert Michel:

You have a massive run up in home prices, largely because you are financing too much of it and financial markets as you know Bill wouldn't financing so much of it if it weren't being incentivized.

Bill Walton:

Already credit rating agencies had models that predicted that housing prices would never fall because they hadn't fallen up until then. And every Wall Street models were built on those predictions.

Norbert Michel:

Two things there of course and I'll go out on a limb and say you'll know that as soon as you start predicting that something is never going to happen, you're probably wrong. But second, one government policy, this is an example of a government policy. Had we not identified the rating agencies

as national statistical rating organizations stamping their approval on something would not have been necessary in a way that would have alleviated you from responsibility. In other words you wouldn't have been able to go to the rating agencies and say, "Hey bless this so I can do more of it." That's one policy, such as one.

Bill Walton:

It's so complicated and we've got only so much time. Let's come back to what Dodd-Frank did and what we think we need to undo. Something was created called FSOC. Which is what? The Financial Stability Oversight Council?

Norbert Michel:

That's it.

Bill Walton:

And their job is to sit in a room and decide who is too big to fail and what to do about it if they do.

Norbert Michel:

That's pretty much it. They get to police the markets in general for threats to financial stability and the statute never defines what financial stability is.

Bill Walton:

Well, on the face of it though it sounds good.

Norbert Michel:

It sounds great.

Bill Walton:

What's the problem?

Norbert Michel:

The problem is twofold. One you have too many regulators as it is. You have all these different regulators with different incentives and different jurisdictions and you've essentially put them all in a room together and all they're going to do is fight. Second, the concept is wrong. The concept that we can come up with a set of rules and regulations where the government comes in and says, "Okay everything is fine now. You guys set these little rules up and we'll never have another financial crisis." It's wrong and it's wrong in the opposite direction. Meaning as soon as you do that, you give people a false sense of security and you give people less of an incentive to monitor what they're doing, to be careful that they don't lose and you make it more likely that you are going to lose, you make it more likely that you are going to have a melt down. The way Dodd-Frank does this, we've actually given a lot of these companies a lifeline even if they don't want it. In other words we've enshrined a lot of the bailout policies that we saw in 2008.

Bill Walton:

So our view, your view, my view is that the people closest to the problem at the lowest level possible are always going to be able to figure things out and you want to disaggregate the risk rather than put them

all in one pile. Smart people sitting in a room even though they may have 190 IQs can never really predict the future. I remember talking to the people of treasure about this during transition I said, "If this model is that good, you ought to leave here and start a hedge fund." 'Cause you're too good too great if you can predict the future this way.

Jack Spencer:

It's really part and parcel whether it's financial services or energy or whatever, this idea that the government intervening into the market can somehow lead to a better outcome, it totally dismisses the reality that when you make artificially attractive or artificially drive down the cost of something. That begins a chain of events that leads to bad outcomes and it always has and always will and there's no amount of smart people in a room who can come up with a system that manages all this in an effective way. They always miss something no matter how high their IQ is and that's the beauty of the market places. You have these billions of interactions that occur between people all the time and through that process, you ultimately get to the right answer and when you subsidize and distort, you don't allow that natural process to unfold. The ultimate result is the financial melt down.

Norbert Michel:

It's hard to find what works. And one of the maddening things with Dodd-Frank is that you gave more power to the regulators that blessed a lot of the activity that we know absolutely beyond the shadow of a doubt was very risky, they all blessed it as not risky.

Jack Spencer:

And then that creates a huge liability for the tax payer. Because as soon as the government says, "That's okay you do that, now you have the bailout, there's no way around it."

Bill Walton:

I think the other thing Dodd-Frank did, we have the FSOC, it's also been a real killer on community banks and we used to have three or four hundred started every year, now we've had like five in the last seven or eight years. Community banks are the prime source of credit to small and emerging businesses and we wonder why economic growth is slow, that's one of the reasons.

Jack Spencer:

I think that's one of the untold stories of Dodd-Frank it's the impact not on Wall Street but on community banks and something Norbert and I talk about it all the time, urban communities. Who are largely unbanked and who the market has figured out ways to provide access to capital, to loans, to checking. The basic banking services that we all take for granted, the big banks don't come to these communities, it's these other companies who provide that service and Dodd-Frank takes that all away.

Bill Walton:

I think the other way that I think about it is Dodd-Frank has helped the big banks, the very entities that the law is supposed to put constraints on and it's hurt everyone else. And the little banks, the little guys, it's another reason Trump won is take a look at Dodd-Frank, Jamie Dimon and Lloyd Blankfein are claiming that it's been the best thing that's ever happened to them because it's hard for people to get into their business, can't comply with it.

Norbert Michel:

That's right and they're against the repeal effort that's underway right now in the house, they don't support the Choice Act and yet the Democrats say that this is some kind of giveaway [crosstalk 00:22:21]

Bill Walton:

The Choice Act, we want to talk about the Choice Act because we talked about what it is and we're now trying to undo pieces of it. What is the Choice Act?

Norbert Michel:

The Choice Act is a very broad financial reform bill in the house and it is likely to pass actually this very afternoon in the US House of Representatives. This is a big day. It touches on not just Dodd-Frank but the core of Dodd-Frank is completely repeal the end or radically restructure it under this bill. It basically gets rid of FSOC, it turns it into nothing but a toothless sort of information sharing group which is actually what it was supposed to be originally. It gets rid of the Orderly Liquidation Authority which is something that keeps you out of bankruptcy but it's a government funded bailout, that's what we were calling it.

Bill Walton:

We have bankruptcy laws which work pretty well, already.

Norbert Michel:

Exactly and that would be the preferred approach and that's what the Choice Act does, it uses bankruptcy, it radically restructures the Consumer Financial Protection Bureau which is one of the most out of control unaccountable agencies we've ever had and it's actually the one that is putting the clamps on what really works well in a lot of the urban communities. It changes them into an enforcement agency, we had many, many consumer protection laws before Dodd-Frank and basically the Choice Act would just sort of consolidate everything underneath, these CFPB and give it a new mission so it wouldn't be able to make the rules that do these damaging things. There are also some other pieces of Dodd-Frank that the Choice Act gets rid of but it also makes a lot of small business entrepreneurial capital changes as well.

Bill Walton:

But the House will pass it, will the Senate pass it? Will Dodd-Frank then have this contend with? Will Donald Trump sign the bill?

Norbert Michel:

Yes, no. The Senate will not pass the Choice Act. They won't get 60 votes unfortunately. With something that looks just like the Choice Act. So what's going to have to happen, is the Senate is going to have to take up pieces of the Choice Act in a reconciliation process. And that's a good thing because we can still get some really good reforms done but the bad thing is that the only thing that they can put in those reconciliation bills is something that has a budgetary impact. But the core part of Dodd-Frank, the choice addresses that I'm talking about here with title one, title two and CFPB, those things can likely be done in reconciliation and we won't know until they go forward with the process. But it looks there's actually better than a 50-50 shot that some of that happens. And Trump would sign that I believe.

Bill Walton:

Let's talk about tax reform. It's much on everybody's mind. We've talked a little bit about Dodd-Frank but I think the tax reform seems like it might happen. Would one of you want to summarize what it is that's on the table and how you think the prospects might evolve.

Jack Spencer:

I'll give a quick summary but Norbert you can follow up. There are basically a couple of plans out there. The most robust plan is the one from the House that Speaker and Chairman Brady from the House Ways and Means Committee or should I call the Blueprint which is a good plan, it reduces rates, gets corporate rates down to I think 20%, has full expensing, it goes territorial. Those are all the things that we want. On the individual side, it reduces the number of brackets and it ends for the most part double taxation on savings and investment. All the things that we want. Now there is the Controversial Border-adjustment tax that is associated with that and that has its own set of issues associated with it. But by and large we like the Brady plan.

Jack Spencer:

Then you have the Trump plan. The Trump plan is a big tax cut. It drives corporate rates down to 15%. Now we would argue that there should be no corporate rate. But if you go from the highest in the world down to 15 that's pretty good. The OECD average is 20ish give or take, the lowest in the world is Ireland at 12.5 so 12.4 would be awesome. It doesn't have expensing and it has fewer individual rates, drives individual rates at three. But there's a zero too, so kind of four. So it's a fine plan. The problem, I'll call it a problem, it's not really a problem with the Trump plan is that it's a tax cut which makes the legislative piece of it more challenging. You probably need to do good tax reform through reconciliation where you don't have to get 60 votes on the Senate.

Jack Spencer:

The Brady plan is revenue neutral with the border-adjustment tax. Now, some of us don't think within the context of the Brady plan, we should pursue the border adjustment tax which means you need to think more about how to use the reconciliation vehicle to get that through. We think that there are ways around that process. So that's sort of a run down. Then on the Senate side, you don't have really a plan yet but the basic ideas that seem to be emerging in the Senate is focusing on the corporate side and we'll see what ends up there. Corporate immigrations is what-

Bill Walton:

The reason we care about all this stuff and I would include Paris Treaty and Dodd-Frank with this is we care about economic growth. Both the Paris Treaty and Dodd-Frank we think are one of the reasons the economy is growing at such an anemic rate. Which of these tax plans would be the best. Sounds like the Brady plan would be to me the best one.

Jack Spencer:

I wouldn't characterize one or the other as the best, I think that they are both actually would be both very good. I'll tell you why, I'm not just straddling offense here, I'll tell you where our tax experts believe we're going to get the most economic growth is out of the corporate side. And both plans are pretty good on the corporate side. On the Trump side you have the lower rate but you don't have expensing. On the Blueprint side, you have expensing, you serve a lower rate but not as low. Both I believe are territorial, I know the Brady plan is-

Bill Walton:

So the corporate side, we like that why? Lower corporate tax rate makes us competitive with the rest of the world. It causes US corporations to stay in the United States and it makes it more attractive for multinationals outside the United States to come here. It also gives it more capital to reinvest in your business. I think this is going to be coupled with something about repatriating something like \$2 trillion of corporate profits that are overseas because it's stuck there because of the tax situation.

Jack Spencer:

At a lower rate, so bring that over as a one time, a one time repatriation.

Bill Walton:

Would that make a big-

Jack Spencer:

I don't know that it would and the reason is, is because our companies don't have a lack of capital we have capital. Now, we want that money to come back in but we want the market to determine that and there's clearly a barrier now for that money to come back and what we need is to reduce regulation. We need a tax system that's simple and low and doesn't bias against investment. If you do those things then you start getting the capital being spent and we'll bring that stuff back as we need it.

Bill Walton:

Do any of these plans do anything about simplifying the tax code?

Norbert Michel:

Yeah. I think all of them do simplify the tax code to a degree. I don't know that we have enough specifics yet on the President's plan but even if you just go from five brackets to three, that's helping and if you're going to eliminate some stuff on the corporate side, that's going to help but I think we would need some specifics. Correct me if I'm wrong.

Bill Walton:

My take is most of it is small ball in terms of really simplifying things. One of the tasks I had in transition was to talk with the people at the IRS and I asked them what would make the IRS a lot more effective and make people happier what the IRS is, every single one in the room said, "If you could simplify the tax code, it would make lives better for everybody in this country." When you've got billions of man hours, maybe that's an exaggeration preparing people hours, preparing taxes and corporations, I don't know how much money they spend trying to avoid taxes. The nominal rate is 35% but many of them don't pay any tax and the actual rate after deductions is closer to 12 or 15%.

Norbert Michel:

After spending a whole lot of money right?

Bill Walton:

Yeah. So why don't you just lower the rate, get rid of the junk and get rid of all the tax laws, make them get a real job.

Jack Spencer:

I think that's what they're trying to do and they get rid of all of the tax loopholes that we might like and there are some that are debatable like how you treat interest RND, tax credits. We administer a lot of welfare through the tax code like the child tax credit, the earned income tax credit. These are all debates that are going to unfold as more details of the plans emerge and as the plans go from a plan to an actual piece of legislation, that will all be part of the litigation that occurs as this unfolds. One of the frustrating things I guess about the whole thing is, look I think most conservatives would like a straight simple consumption tax. Whether that's a [inaudible 00:32:41] type thing that's administered through somewhat how we do now-

Bill Walton:

Instead of an income tax or in addition to?

Norbert Michel:

Instead most certainly instead.

Jack Spencer:

In case I wasn't clear, instead.

Bill Walton:

We're part of Washington DC you know it's going to happen, you put a consumption tax and then they'll say we still really need the income tax or get both.

Jack Spencer:

Definitely that's one of the criticisms of border-adjustment taxes that though as envisioned by Brady and Ryan, it's not another tax, you take out the wage deduction and then it is VAT. All of a sudden you got a VAT. Of course that's a big lift but you have the framework of that and that's part of the debate that's unfolding right now.

Norbert Michel:

And we've been careful over the last couple of years for sure especially now to point out what should be driving this debate is a set of principles. We believe that tax reform in limited government are the ways to get to economic growth. If you're going to have this tax system, the first thing you have to do is justify why we're taking so much money away from people in the first place. Heritage just put out lost of different products, the Blueprint for balances one, where we show how you can shave 10 trillion, we had over 10 years. \$10 trillion in savings, that's money you don't need to take away from people and that's without touching entitlements.

Jack Spencer:

None of you touching entitlements.

Norbert Michel:

Or ours does.

Bill Walton:

Heritage also has something else that many other think tanks don't have, you have a policy promotion piece where you actually are involved in talking with the legislatures day to day. Can you describe how that interaction works.

Norbert Michel:

I can start that one. All kinds of different ways, this morning was actually a great example sort of after the fact. So we mentioned the Choice Act is going to pass this afternoon and this morning we had Chairman Henslerling over from the House Financial services, it's his bill, he came over to Heritage and we had news makers event. The Chairman came over and talked to journalists from all over, we had about 15 different journalists to make this pitch so that's one minor way. But long before that, analysts at Heritage in this case me, work with Capital Hill staff on Health Financial Services more than any other committee right on this one. We talk about where we want them to go, we talk about what conservative principles in financial markets would look like and interact with them by asking them where they want to go and where they think they can go and how can we help put out the principles they can help you make your case, and that's what we want.

Norbert Michel:

If you look through the Dodd-Frank book that you mentioned, you'll see that a lot of those ideas are actually reflected in the Choice Act that's not our job but we do provide a lot of the backing for that. When they have hearings on how they want to put their bill together, sometimes we get to testify and make our case on narrow issues at those hearings, I've done that too. Basically we maintain a good relationship with the staff of the relevant committee and are able to provide them with the intellectual fire power that they need to fight off the people who don't want to make reforms.

Bill Walton:

When you're working in the House or Senate you don't have much time to reflect and think about what great policy is, it's very transactional.

Jack Spencer:

No, that's right. but if we're doing our job correctly, we will have done that intellectual foundation building well before hand so that as these debates unfold we're able to provide the derivative products that go straight after where the debate is and Norbert used the word in these relationships. One of the things that makes heritage different is that we have departments who develop relationships with the media on the hill in the executive branch. You mentioned the transition, a bunch of us were in the transition and there's the relationships that still today are helping us understand where the debate is, not just where it's unfolding but what are the issues that we need to be hitting on as these discussions are happening into the oval office or wherever they're happening and we're able the to use our outreach to develop products and lines of argument that fit right into where that debate is unfolding behind closed doors.

Bill Walton:

Well, that brings me to the final topic today which is talking about Trump's plan to reorganize the organize the government and he put out a proposal basically sort of an RFP saying, would people give us your ideas. Seems to me like Heritage touches more pieces of the government than almost any other think tank. I think any other think tank, I don't have to qualify it. What's at stake here? What's he asking for and what are the elements of it? And what do you see as a possible good outcome from this?

Jack Spencer:

There's a lot at stake. What the president asked for like you said, he asked all these agencies to look at and to come up with plans that get rid of duplication, things the government should be doing, what can be cut, that sort of stuff. What we took was, look the agencies are probably not going to do as good a job as we would like them to do and because of these relationships, we know that there are folks who would like to see a good conservative plan. So we're going to put together that good conservative plan, in fact I have it on my desk right now I'm reading through it. It's about this thick and it goes through all the agencies and all the bureaus and gives good concrete recommendations to do precisely what executive order asked to do.

Jack Spencer:

So what what's at stake is, this is our opportunity to reshape the government to better serve the American people to be a conservative government. I don't know if we'll be able to get everything that we recommend in there, but we're making the effort and we're going to make it difficult for them not to make real reform.

Bill Walton:

What are the key elements of this? I think we've talked in the past about that we've got something like 45 different training programs throughout the federal government that ought to be consolidated into one that might be effective because nothing we've got right now really is. We have agencies we want to have eliminated, is this just fire everybody?

Jack Spencer:

We bring a logic to it. The reason I say you bring the 45 agencies under one is 'cause it's easy to kill one. But [inaudible 00:39:28] is a great example, that's something that makes people feel good, Democrats, Republicans and the supporter but it doesn't work. It never yields-

Norbert Michel:

[crosstalk 00:39:33] that it doesn't work.

Jack Spencer:

But to answer your question. What we do each of our analysts look at the agencies for which they are responsible for and basically ask the questions, should the government be doing this? Can it be better? Is it done elsewhere in the government? Can it be better? Can this service be better provided by state, local or private entities? And we make our recommendations based on that. There's both a size of the government piece to it then a cost piece to it.

Norbert Michel:

And it varies I think one of the advantages we have is that we have so many analysts in so many different areas that they know their agencies that impact their issues again coming back to me for finance. Mine is kind of easy, you don't need seven banking regulators, that's an easy way to consolidate things, streamline things.

Bill Walton:

Today we have seven banking regulators.

Norbert Michel:

I must have spoken technically. If you're a bank you have seven different federal regulators that could come in and give you a whole set of rules that you have to follow. But just banking, you've got the federal reserve, you've got the comptroller, you've got the FTIC that are all strictly speaking banking regulators, all three are federal banking regulators and there's no reason that you need three.

Bill Walton:

So part of your proposal might be let's combine this into one or two or whatever.

Norbert Michel:

Let's have one banking regulator, let's have one capital markets regulator instead of two, there's no reason to have both the securities and exchange commission and the commodity if you're just trading commission, they're both regulating capital markets. We can consolidate them. Then you get rid of the overlapping authority and that's the five by the way, that's five right there. If you're a unified bank and you have a broker dealer in your bank, you've got all five before we even get into some of the others that deal with the vocal role. That's another great example, that's a rule that Dodd-Frank put on into the banks and all five regulators had to have their say and it took over a year to come up with a thousand page rule, 'cause you have all these competing interest and overlapping authorities and everybody trying to come up with their little size of the pie and it ends up being a disaster.

Bill Walton:

And this is going to be driven by Mick Mulvaney at OMB?

Jack Spencer:

Yes he's the one who's doing this and that's our audience for this. Our work will be publicly available but we are writing it knowing what they want and what they think will be helpful.

Bill Walton:

Any preview of coming attractions, what do you think you'll be recommending?

Jack Spencer:

This is just an example, the department of agriculture has a whole lot of insurance programs to protect farmers against commodity losses, crop losses, prices, all these things that are just odd to free marketers. So we'll be recommending to get rid of a lot of those things. The department of energy which is really my strength, were recommending to get rid of all of the programs that advance commercialization. The government is saying, "We want this thing to be commercially viable, so here's to do." We just think that doesn't work. And really focusing the department of energy more on basic science and basic research sorts of activities. But we have recommendations in there on personnel, on federal law enforcement agencies, there's a lot of overlap there so really it's going to be a comprehensive look at all of these things, well be publishing the first piece of this in mid June in a couple of weeks. Then we'll be publishing a larger version in the late Summer early Fall which both of those timeframes are consistent with what OMB needs at those particular points in time.

Bill Walton:

Is there anyway to get any bipartisan support for this?

Jack Spencer:

I don't know. That's really tough.

Norbert Michel:

I'll say no. It's not even tough.

Jack Spencer:

If we define it as [crosstalk 00:43:59]

Bill Walton:

This show is called Common Ground and I've been thinking about this issue and I'm wondering if there is any.

Jack Spencer:

I don't want to say there is an opportunity to be optimistic, it's certainly in the spirit of the show. Congress has in the past passed legislation giving presidents the authority to reorganize the government. It's what seem to me that there would be a negotiated set of conditions that would allow that to happen again. It's not outside the realm of what has been sort of traditionally done in the past. There are other things that can drive this, we have a debt ceiling debate coming up. Maybe if you can get some of this done in that, you have a budget coming up, this is going to inform the budget process in 2018. So there are opportunities to drive some bipartisanship.

Norbert Michel:

I will backtrack on my own a little bit too-

Bill Walton:

So you're going to be optimistic for a change?

Norbert Michel:

Just a little. If 10 US Senate seats on the democrats side right now who were in states that Trump won.

Bill Walton:

And they would like to get reelected.

Norbert Michel:

So you do have that as well. That is a real political set of incentives and that could drive some deals because Congressmen do love to make deals.

Jack Spencer:

One other chapters of the product is going to go through, how these sorts of things have happened before and how they might happen again. One of the ideas is to have a bipartisan commission who's charged with coming up with a series of cuts and reorganization plans that Congress would give an up or down vote, kind of like base realignment and closure process.

Bill Walton:

When is this coming out and where can we find it?

Jack Spencer:

The first part of this which is going to be geared towards the agencies will be out in mid June sometime, we don't have an exact date but around June 15th and it will be available on the heritage website and folks who get out emails in short will be part of that and they'll be part of the public record. 'Cause I'll recommend that we submit it as an official recommendation to OMB.

Bill Walton:

Great Jack thank you. Norbert thank you. Interesting discussion.

Norbert Michel:

Thanks Bill.

Jack Spencer:

Thank you very much.

Bill Walton:

And we plan to continue this going forward and thanks for joining us at common ground and we'll talk with you next time.

Speaker 1:

Thanks for listening. Want more? Be sure to subscribe to Common Ground with Bill Walton on iTunes.