THE BROOKINGS INSTITUTION

BROOKINGS CAFETERIA PODCAST

"LARRY SUMMERS ON PROGRESSIVE TAX REFORM"

Washington, D.C.

Friday, January 31, 2020

PARTICIPANTS:

Host:

FRED DEWS
Managing Editor, Podcasts and Digital Projects
The Brookings Institution

Guests:

JAY SHAMBAUGH
Director, The Hamilton Project
Senior Fellow, Economic Studies, The Brookings Institution

LAWRENCE H. SUMMERS
Charles W. Eliot University Professor and President Emeritus
Harvard University

MATT COLLIN
David M. Rubenstein Fellow, Global Economy and Development
The Brookings Institution

ELAINE KAMARCK
Senior Fellow and Director, Center for Effective Public Management
The Brookings Institution

* * * * *

P R O C E E D I N G S

DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews. On today's episode, the Iowa caucuses, tax reform, and meet a scholar who studies global poverty reduction.

First up, one of our experts answers a student's question about why the Iowa caucuses are so important. This is part of the Policy 2020 Initiative at Brookings. If you have a question for an expert, send an audio file to bcp@brookings.edu.

Second, Hamilton Project Director Jay Shambaugh interviews former Treasury Secretary Lawrence Summers, now a professor at Harvard University, about reforming the tax code to raise more revenue in a progressive manner.

And finally, meet Matt Collin, one of the new class of David M. Rubenstein Fellows at Brookings. Learn how he came to be a scholar, what he's focused on now, and his book recommendation.

You can follow the Brookings Podcast Network on Twitter, @policypodcasts to get information about and links to all of our shows, including Dollar & Sense, the Brookings trade podcast; The Current; and our Events podcasts.

And now here's our Policy 2020 Student Q&A.

SPEAKER: Hi. My name's Anna and I'm a student at Claremont McKenna College. I'm wondering if a Brookings expert could explain how important the Iowa caucuses are to the Democratic primary race. How do different primary methods influence election outcomes?

KAMARCK: Thank you, Anna, for your question. This is Elaine Kamarck.

I'm a senior fellow here at the Brookings Institution and I've been studying presidential nomination processes for quite some time now. Let me answer your question; it was a two-part question.

The first one is Iowa is important because it is first. And to understand that you have to realize that unlike any other election system in the American political system, primaries or the nomination of a president is a sequential process. It isn't one election. It's a series of elections that run all the way from the winter to the beginning of the summer of a presidential election year, culminating in the convention.

Iowa, by tradition and now by party rule and now by agreement between the two political parties, is the first caucus state in a long series of contests. And because it's first, it tends to winnow the field. The conventional wisdom is that there are three tickets out of Iowa: first place, second place, and third place. And that if people fall behind, if you're number 10 in Iowa, you probably are not going to win the nomination.

Now, the second part of your question asks the effective different primary systems. There are really only two systems for picking delegates to a national convention: the caucus system and the primary system. There are very few caucus systems left. This time there will probably be under 10 caucuses in both political parties. The reason is that they don't allow for as much participation as a primary.

In a caucus system you have to go to a certain place on a certain night and participate in a meeting that could get rather long. And not a lot of people have the time or the inclination, frankly, to do that. A caucus is much more time-consuming than a primary where you can stop by your polling place and vote on your way to pick up the kids from basketball practice. So it's a different time commitment. And over the years states have moved further and further in the direction of binding primaries, meaning that the primaries will direct how many delegates each presidential candidate gets.

I want to add here, though, just one small caveat. This whole process of caucuses and then primaries is to select delegates to a nominating convention. A presidential candidate isn't the nominee of their party until the convention votes them the nominee. So a lot of different things can happen between the Iowa caucuses in early February and the two national conventions in July and in August.

Thank you very much for having me. And if you want to learn more about it, you can look at a blog post published today on the Brookings website, which is "A Guideline to the Iowa Caucuses." And if you really want to learn more about this, you can get my book called *Primary Politics: Everything You Need to Know About How America Nominates Its Presidents*.

Thank you very much.

DEWS: Learn more about Policy 2020 at brookings@edu/policy2020.

And now, on with the interview. Here's Jay Shambaugh with Lawrence Summers from the Brookings Podcast Network studio.

SHAMBAUGH: Thanks, Fred. I'd like to thank Larry Summers for joining us on this podcast to talk about his thoughts about taxation, the economy, and specifically his chapter in the new Hamilton Project book on tax policy.

Larry really needs no introduction in economic policy circles, but I'll make a quick one. Larry Summers is currently the Charles W. Eliot University professor at Harvard University. He is the former president of Harvard, former treasury secretary, former director of the National Economic Council, former chief economist at the World Bank, as well as numerous other positions.

Larry, welcome and thanks for being here.

SUMMERS: Very glad to be with you.

SHAMBAUGH: So, Larry, we both just left an event talking about tax policy. Your panel opened with an interesting question, which I think could frame our discussion here, if you don't mind kind of reprising a bit. If you were giving advice to a new president in January of 2021, what would you recommend regarding taxes and what would you do? But also, where would that land in your kind of scheme of priorities?

SUMMERS: Jay, it would obviously depend upon who the president was and what that president's values were. It would depend on the context that presents itself in January of 2021.

I don't think there's any question that our government is under resourced. Sixteen and a half percent of GDP in tax revenues is less than we've had throughout the last two generations. And yet, if you think about the mission of government, it probably should be larger than normal. Larger than normal because a higher fraction of our population is aged, and that's a big burden of the government. Larger than normal because the relative price of the things that the government buys--scientific research, medical care, educational services--that relative price has gone way up.

In fact, if you look at the CPIs since 1983, the relative price of a hospital room compared to a television set has moved by a factor of 100. And of course, we have more inequality and part of what the government does is engage in taxes and transfers to mitigate that inequality.

And if you think about an expanded agenda of global security threats, climate change, pandemics, whatever the situation evolves to be with China and Russia, those are likely to involve extra costs for government.

So I would say to the new president that the government is, over time, going to need more resources centrally. And one can debate how much of that needs to go for deficit reduction versus how much of that should prudently be invested in public purpose. I would tend to err on the side of investing more in solving critical problems, because I think those critical problems, whether it's climate change or whether it's a disaffected middle class, are actually larger burdens on my children's generation than the debt when we've got interest rates as low as we do right now.

I would say we should start with progressive taxation with taxes that meet two criteria. One, that they fall primarily on those with very high incomes, perhaps in the top 1 percent of the income distribution. And the other is that wherever possible, we should raise revenues in ways that will improve economic performance rather than in ways that will have adverse incentive effects.

And so the three places that I would start are with tax programs that I believe would be desirable, whatever exactly the government's regular revenue configuration is. First: enhanced tax compliance. It's a scandal: that we have the largest economy we've had since the Second World War and the smallest number of IRS auditors; that a person who gets the earned income tax credit, who by definition has an income less than 60,000 dollars, is as likely to be audited as a person with an income over 500,000 dollars; that the IRS is not permitted to hire the best lawyers in the country to cross-examine witnesses in connection with inquiries of corporations who make 40 billion dollars in profits and pay almost none of it in taxes because of the way we transfer price; that the IRS has computer systems with vacuum tubes that date back to 1960.

Natasha Sarin and I make a case in our paper that [a] well-designed compliance program can raise a trillion dollars in a decade. That's assuming that we only close one-seventh of the tax gap and we might even be able to do better than that.

SHAMBAUGH: Can I ask you within that, so you talk about your program around compliance as a progressive tax reform. So do you want to explain to people why that would be? Because I don't think it's necessarily immediately obvious to people, but I think it comes out of your research.

SUMMERS: I think there are two considerations. First, the increased auditing we're going to do as we describe the program is all of people in high income brackets. They're the people who are going to be audited more. They're the people who are going to pay more.

Second, the category of income that has by far the highest compliance is wage income because it's withheld and people get more of it withheld than actually should be. And that's why a majority of Americans get refunds every April. So when you're going after compliance, you're going after income other than wage income. And that tends to be income that accrues to those with high incomes.

So we would first favor a major set of initiatives on compliance and a good part of that, like, for example, the retargeting of audits, doesn't require any congressional action. And changing regulations on those who write abusive tax shelter opinions, for example, is something where there's scope for the IRS to act on its own.

SHAMBAUGH: But you would look for congressional action in the sense of you want more resources?

SUMMERS: I want more resources and that would require congressional action. But if Congress takes proper account of it, we have direct studies to show that an IRS agent doing one more hour of auditing of high income taxpayers brings in $4,500 in direct revenue. And there must be some umbra of deterrence when that happens. And so the figure's even larger. If Congress takes account of that, if it spends more on the IRS, it'll have more to spend on other things as well.

The second element in the program we favor as an initial tax strategy for the new president is much greater enforcement of the tax law on global corporations, particularly global corporations that involve in extensive transactions with tax havens. They don't need, in our judgment, a 21 percent tax rate, and they certainly don't need to be enabled to build a small factory in Puerto Rico and transfer tens of billions of dollars of income to Puerto Rico, and then lobby the Puerto Rican government to tax that income at essentially zero.

So we would favor joining other nations in assuring that capital can run but it can't hide from meeting a basic set of tax responsibilities. That is valuable in terms of revenue raising, but I think it's much more valuable in terms of restoring the legitimacy of our system because it's a program of global cooperation. It doesn't have as its beneficiary the owner of a copyright on a cartoon character or a trademark from decades ago. Rather, by collecting taxes that are now being avoided by some of the most valuable and successful companies in our country, it enables, other things equal, more to be done for the middle class or lower taxes to be collected from the middle class.

SHAMBAUGH: I'm curious on this point about the importance of global cooperation here in that lots of economists or thought people like to think about global cooperation in the abstract. It's less abstract for you because you had policy roles where you were actually engaged in these kinds of discussions. Do you think there is scope that you could move to a global tax regime that is pushing back on this avoidance more successfully?

SUMMERS: I think you certainly could enhance cooperation on issues relating to transfer pricing. I think you certainly could put more pressure on haven jurisdictions like we did with respect to the Swiss on information reporting a few years ago. I think you could think about minimum taxes on the global income of American corporations as they reported to their shareholders. This is a problem on which there may be some limits to what's possible, but where Natasha and I are convinced nowhere near what those limits are.

SHAMBAUGH: So I want to talk about one of the other main areas you push on, which is capital income. But I want before we do that, I'd want to start with you've been pretty outspoken on your views on wealth taxes. And so I just want to know if you want to just summarize those? Because they connect in some ways to the way you're thinking about capital income, I think. Or there some areas where they overlap, And so, if you looked around and you said, I don't think we tax enough the income coming from wealth through capital income, some people are out there saying, well, we just want to tax the wealth. That's not your preferred approach. Do you want to say why?

SUMMERS: First, there's a good chance that the current Supreme Court will find it unconstitutional, and then you'll have had a Democratic president with the energy of the first hundred days dissipated on something that won't even get judicial approval.

Second, there are real questions about how much revenue the wealth tax will be able to raise. We examine the estate tax using the same kinds of methods that are used by the proponents of the wealth tax to estimate revenue. And those methods suggests that the estate tax could raise two or four or even more times as much revenue as it actually does. And that's because whether it's gifts to charity, uses of trusts, deals between people and their spouses, early gifts to children, a lot of avoidance is possible. And frankly, it seems to us easier to avoid a 2 percent wealth tax levied each year than a one-off major audit in the context of the estate tax.

Third, we think that some of the purported benefits of the wealth tax would actually have the opposite effect. Many wealthy people today simply look for the best places to invest their wealth and let their wealth grow. So in effect, they're investing in the future of the economy. In order to be one of the largest half dozen donors to either of our political parties, you need at most 5 million dollars every two years. When you're talking about people with hundreds of millions of dollars or billions of dollars, no wealth tax is going to make that impossible. But what a wealth tax would do is encourage them to move that income, or that wealth, much earlier in life into a foundation or some similar structure where they would then spend it out and actually exercise more power over the direction of American society. So we suspect that by activating that wealth to go into the policy process, a wealth tax might actually backfire in terms of containing political influence.

We're also concerned that a wealth tax, particularly when combined with all the other taxes we have, could produce tax rates well in excess of 100 percent. Consider a person who owns Treasury instruments that pay 2 percent who is a billionaire. They're going to pay 6 or 8 percent in wealth tax. Then they're going to pay their income tax. So the combined tax rate could mean that on an instrument where they're getting 2 percent each year, they're paying 7 percent in taxes for a 350 percent tax rate. That's not an experiment we've done before and I'm not sure it's one that we should want to try.

So the impulse that we should be trying to tax more is right. I don't think the impulse to choose a very small group and tax them in an almost confiscatory way is really my preferred instinct. I think with a very serious program of capital gains taxation that stops real estate exchanges, that goes after carried interest, that critically deems capital gains to have been realized when a gift is made to an heir or to a charity--with all of that, I think we can serve the objectives of wealth taxation in ways that are likely to be more effective and more attractive to those who have to support these taxes.

SHAMBAUGH: I wanted to come specifically to that point because it seems like sometimes some people oppose wealth taxes the response is, well, you just don't want to tax high income people or you just don't want to tax wealth. And reading your chapter, that seems distinctly not where you are coming from. And in particular, it seems you're going after the very same income and wealth, but doing it through different aspects of the tax code. So I wondered if you want to just flesh out a couple of those in particular say step up basis and what that means and why that you think that one's important?

SUMMERS: Jay, I think that all income should be taxed and it should be taxed, including capital gains. Right now in the code, if somebody starts a company when they're 30 and put a thousand dollars into that company, they turn out to be really good at managing it, and by the time they die, it's worth a billion dollars--that move from a thousand dollars to a billion dollars is never taxed. If they give it to their child and their child sells the company, the child only pays a capital gain on the difference between the billion dollars it was worth when they got it and the price at which they sell it. That kind of avoidance completely of taxes seems wrong.

Something similar is true if you make a gift to a charity; that seems wrong too.

Something similar is true if rather than selling my piece of real estate, I engage in an exchange with somebody else, often somebody I don't know, often a transaction designed for tax purposes by a banker. Then, too, capital gains taxation is avoided.

So I think that we should enforce the capital gains tax law that we have. It's conceivable that someone will decide at some point that that's not a big enough reform of capital taxes. But it would be a bigger reform anything we've done in the last 50 years, and it seems like we ought to start with that and see if it's enough rather than start with something whose revenue we can't begin to gauge, it's potentially a tax that above 100 percent rate, and it's got a substantial chance of never being allowed to go into effect.

It's because I care so much about making the tax system so progressive that I concentrate so much on finding measures that go with the grain of the things that have been acceptable for a long time and that have the property that they'll make the system better from the point of view of the economy. One of the great things about setting capital gains right is that capital gains taxation is the principal cause of tax shelters. And so if we fixed capital gains taxation, we'll do a lot to fix tax shelters. None of that applies to a wealth tax.

SHAMBAUGH: So on this notion of what's politically viable, I wanted to ask you, because again, unlike most economists who think about these things as an economist, you have dipped into the real world of policy where you had to engage the art of what's possible, often. And on this question, if you look at polls, polls that say we should tax the rich more, it's always, frankly, very, very highly polled. If you look at the history of what's taken place in our country over the last 20 years, that's been very hard to do. And I think with the exception of when the Bush tax cuts were expiring--so where the default was that the income taxes on the rich went up--it seems almost impossible. And so do you think even within the realm where you're trying to stay, which is what I think you defined, kind of pragmatic, progressive, do you think these types of reforms could come through a political system that seems either unwilling or unable sometimes to raise taxes on high income people?

SUMMERS: You know, it's surprising, Jay. My experience is that the transition from inconceivable to inevitable can sometimes be quite rapid in Washington, and that new presidents are sometimes given a wide berth. I think the thing that makes me most committed to the approach we've described--the compliance, the capital gains, the international taxation, the broader reform of business taxation--is that all those things can be justified as improving incentives and creating a more level playing field for people in the economy, and therefore as stimulating economic growth.

And I think advocates of progressivity have made a mistake in the past by saying, well, we care about fairness and we're not worried about incentives. The program that Natasha and I have put forward is pragmatic in the sense that even if we didn't need a lot of revenue and were in a position to be able to rebate the revenue, we believe that we'd have a substantial chance of improving economic performance.

So I think it's the right place for a progressive tax debate to start. And I don't think it's plausible to think that if we're not able to enforce the tax law we already have because it generates too much political resistance when all we're proposing to do is make sure that the top 1 percent pays the taxes that have been legally enacted, if things like that are too hard politically, I think it's very hard to imagine that Hail Mary whole new tax approaches are likely to prove politically feasible.

SHAMBAUGH: You know, you just said something that I wanted to follow up on, which is even if we don't need the revenue, and the reason I wanted to ask is that since about late 2013, you were writing a lot about an idea on secular stagnation. This idea that we have insufficient demand and we may need more government spending in particular, that we may need more deficit spending by the government. And so I think some people when they see you suddenly come out saying, here's a way to raise four trillion dollars over 10 years, they see that as incongruous. And so I'm just curious how you how you see the concerns around secular stagnation pairing with your thoughts around, but we need more revenue and we need to do so in a progressive way?

SUMMERS: First, I think in a variety of areas over 10 years we need more spending. Look at a number of our airports. Consider that the American Society for Civil Engineering thinks that potholes in American roads, at least in my state of Massachusetts, cost motorists the same amount that a 75 cent a gallon gasoline tax would because of extra repairs. Think about the fact that this is the United States and we've got kids in a variety of cities losing IQ because of the lead in the water. So we can surely make more productive investments than we are engaged in.

We have huge needs for investment in so many things. Energy research given the crisis of climate change; taking care of those who live the longest lives, and therefore quite likely become most infirm, with a reformed Social Security system; providing as part of our health care system the kind of mental health benefits that we increasingly realize that many people need. I just came off a fairly serious injury where I ruptured tendons in both my legs. Without the physical therapy that I received I'd be a cripple today. I got help from insurance in getting that physical therapy, and I'm fortunate enough that I'd be able to afford that physical therapy. But millions of Americans without government playing a key role wouldn't be able to. So, I think there's plenty of government spending that we're underinvesting in that should be a crucial part of our response. And to the extent we're not, there are all sorts of ways in which we could cut taxes and make a huge difference in people's lives. Whether it's expanding the earned income tax credit, or providing credits to employers to help those who are long-term unemployed, or recycling funds into some of the highest risk areas in our country at a time when the kind of regional convergence we used to have in our economy has fallen off.

So I'm not worried that a tax increase is somehow going to undo the functioning of power of our economy as long as we're raising enforceable, well-designed taxes that, in fact, by leveling the playing field are making the economy more efficient.

SHAMBAUGH: I want to come back to enforcement for a moment because I think it is really interesting line of research the two of you have been working on. And you had a little section in the paper that I thought was interesting in the sense that economists often focus a lot on the efficiency side of taxation. But at least in theory, they also care a lot about horizontal equity. And you made a case for why you think your proposals are really important if you're thinking about horizontal equity.

SUMMERS: I think people have very much the idea that two people who earn the same amount of money should pay the same amount in taxes. And that doesn't happen when we distinguish sharply between capital and labor income. That doesn't happen when we allow unreasonable deductions for costs that aren't real. And that doesn't happen when some people are law abiding and some people aren't. So I think it's a very fundamental contribution to fairness to develop a system where everybody pays. And it's pretty clear from a lot of evidence, some from economists, more from sociologists, that when you have a system where there's really serious enforcement, it's stigmatized to not pay and people tend to all pay their taxes.

But if you start looking the other way when there's tax avoidance, then you have low taxpayer morale, compliance suffers, and as more and more people stop complying, more and more people follow them. You know, there's an idea in criminology, the Broken Windows theory that says that if you keep a neighborhood in good shape and without broken windows and with clean paths to front doors, the crime rate will tend to be low. But if things start to spiral downwards, they can really spiral. And I think we're at a kind of broken windows theory turning point with respect to our tax system. And that's why it's so important that we step it up. Especially with all this populist resentment, the sense that the rich don't have to pay I think it's very risky to our democracy.

SHAMBAUGH: So I'm curious, you were the treasury secretary at one point. How did we get here? So some of the numbers you and Natasha write about are on their face somewhat shocking in terms of fewest IRS agents and in many generations, that audit rates are really plummeting and relatively quickly over the last decade. What do you think led us here? Because it does seem like in some ways rather obvious, not that your paper is obvious, but if you want to keep collecting your tax revenue, you need an IRS.

SUMMERS: I thought at the time that I left office in 2000 that we needed more IRS enforcement resources than Congress was prepared to give. I thought part of the problem was that it was government spending, but nobody got any credit for any of the revenue generated. And so it was always more popular to spend money on something other than auditing your constituents. But I didn't think at the time I left that it was a crisis.

Over the next decade, it was allowed to really become a crisis. You had a prominent tax official sometime in the mid-2000s, first decade of this century, explain that the S in IRS stood for service and that the government should be providing better service. The IRS should be providing better service to businesses. And saying that like having a person who is in charge of enforcement at the IRS was somehow wrong because you shouldn't think about the IRS is engaged in enforcement. I'm a believer in cooperation. And I'm a believer in courtesy. But I'm not a believer in the tooth fairy. And if your philosophy is that taxes will collect themselves and that the way to move the country forward is to undo the capacity of the IRS, I think you're going to set off some very dangerous trends.

You know, engraved into the area at the top of the IRS building is a very famous observation of Justice Oliver Wendell Holmes, who said taxes are what we pay for civilization. And if we don't make a serious effort to collect our taxes, not in a week or a month or a year or even a decade, I have no doubt that our civilization will decay and be degraded. So far beyond what it means as a budget plug in the context of this year or next year's budget resolution, I think that these questions of tax compliance are moral issues that go to the character of our democracy.

And I have to say, Jay, that when I hear all this talk about corporate stakeholders, not just working for shareholders, but being a good corporate citizen, I think the place that corporations should start is not lobbying for tax provisions that they know to be abusive. Not engaging in shelter activities that they know to be at the edge of the envelope. And making sure that they meet their tax obligations in a reasonable way. I think that's much more important for the future of our country than highly publicized symbolic projects building charter schools or planting trees in the Amazon. If you look at the blatantly avoided taxes that a number of our most successful companies have engaged in, it is [a] far larger sum than the social responsibility projects they proudly tout in their annual reports.

SHAMBAUGH: Well, thank you, I think we're basically out of time. And I first just want to thank you for doing this podcast and also remind all the listeners that you can find the chapter Larry has been talking about in the new Hamilton Project book, "Tackling Taxes, Equitable and Efficient Ways to Raise Revenue." It's available on the Hamilton Project website. So thanks again, Larry.

SUMMERS: Thank you.

DEWS: You can watch video of the event and download papers discussed there at hamiltonproject.org.

Finally today, meet Matt Collin, a new Rubenstein Fellow in Global Economy and Development here at Brookings.

COLLIN: My name is Matt Collin and I am a David Rubenstein Fellow at the Global Economy and Development Program at Brookings.

So I was actually born in the United Kingdom, but when I was only a few months old my parents picked me up and moved to the small town of Conway, South Carolina, so I grew up in Conway. But because of my mother’s side of family is from the UK, we were going back and forth quite a lot, which is why I somehow come out of the whole thing not sounding quite like I'm from Conway or I'm from the UK at the same time. So I spent my first 20 years in South Carolina, growing up and going to undergrad at Clemson.

When I look back and think about why I became a scholar it's very difficult to pin down that precise moment. And these things tend to be a lot more random than we often like to think about them.

To give you one example, the year where I decided to do a Ph.D., I applied to do a Ph.D., but I was so uncertain about the whole thing that I applied to go film school. I didn't get into film school and I got a full ride to go do a Ph.D. in economics. And so sometimes it feels like chance pushes in a different direction.

But I think there's two things that nudge me towards being a scholar that works on issues of international development. The first are my parents. As I said, I grew up in Conway, where my dad taught international politics and my mom was a nurse practitioner caring for mainly poor patients from the community. And from dad I definitely got the sense that there's a wider world outside of Clemson.

At the time I was studying mathematics because I liked to work on problems that had a solution. But most of the things that I've worked on didn't really have much applicability to the rest of the world. And dad would pull me into his own workplace saying things like could you explain the United Nations' development program's population tables to me? Could you explain the Gini index to me, which is a popular measure in equality?

And through that I began to become interested in issues of the outside world, particularly those related to poverty. And when I got to college I started to study economics and so I realized that there was a way to use my math-y side of my brain to start applying it to real world issues.

The second kind of formative moment was when, after grad school in development economics, I went to work as a civil servant in the Ministry of Finance in Malawi, in Southern Africa. This is a program that's run by a think tank called Overseas Development Institute that sends young economists off to work in developing countries as civil servants.

And I was there for two years and working for the Malawian government really gave me both a sense for how governments in these places can function and how they can sometimes dysfunction, but also Malawi was a very aid-dependent country at the time. And in many ways, we were beholden to international donors, which were providing a lot of the national budget. And it began to open my eyes about the fact that a lot of these countries, while their own decisions about policy make a huge difference for their ability to fight poverty, a lot of those decisions were made outside of their own borders. And that began to clue me into other issues, like climate change, migration, trade policy, things that effect developing countries, but are sometimes outside of their control. So with that experience in mind, that began to become more for a focus in my own work after I did my Ph.D. and started working in a think tanks base.

If I'm being honest the most important issue we're facing today is probably climate change, which makes it awkward that I don't work at all on climate change. For me it's always been a question of finding ways to reduce poverty and inequality. And despite the fact that we've made a lot of progress in reducing poverty over the last 30, 40 years, the bar is very rightly going to be moved up in terms of what the level of poverty we care about is. And I see climate change as probably being one of the bigger threats to reducing poverty in the future out there.

But I don't think that there's one thing that we should all always be focused on. I think climate change and migration are two of the biggest levers through which we have to worry about poverty in the future. In my case I worry a lot about how we get the rules of an international economic system right in order to make it easier for poorer countries to pull themselves out of poverty. So I think it's less about there being one particular thing we should all be focused on and different fronts that we need to be fighting.

So during my time here at Brookings I am largely focused on thinking about where people stash money that they're trying to hide from tax authorities or from their own governments. And so there's a broad umbrella of research around something called "illicit financial flows." And this is a big bucket of stuff that includes money laundering, it includes cross-border tax evasion, it includes the proceeds of drugs, it includes terrorist financing. And so my work kind of focuses on two things.

One is trying to determine if the institutions and policies we're putting in place to try and reduce illicit financial flows, we're trying to make it harder for people to keep money in Cayman Islands or to move the proceeds of corruption without being detected, if these policies are actually making a difference. Just recently a story broke about Isabel dos Santos, the daughter of the former president of Angola. And documents have been leaked that show that she had a massive network of offshore companies used possibly to launder money that she made out of her connections to the Angolan government. And these companies were running in largely rich countries with very strong anti-laundering institutions. And trying to get a sense if these policies are actually effective is a large part of what I try to do.

It's a difficult thing because, unfortunately, money launderers don't respond to the surveys that we send out. And so you're trying to measure something that by its very nature wants to stay hidden. Some of the work that I do with my co-authors is to look at recent leaks of information, like the one that happened with the dos Santos case. And try to see when we have a leak of data that involves a big money laundering scheme, do the people running that scheme seem to be reacting to new policies coming into place in different jurisdictions. So if the Cayman Islands started sharing more information with the United Kingdom, do we see money laundering operations linked to the UK move out of the Cayman Islands for fear of being detected?

So that's one part of it, is figuring out whether or not these policies are effective. The second part is trying to better understand what some of the costs of these policies might be. If regulators tighten the screws on banks and ask them to work harder to make sure that they're not facilitating the movement of dirty money, banks often very rationally try and do this at least cost way possible. Sometimes they're going to make a choice to continue doing business with clients that are going to make them a lot of money and to do less business with clients who are not going to make them a lot of money. And so this often means that clients from poorer countries, ones which don't often have huge revenue implications for banks, may be more at risk of being de-banked because of rising costs.

And so with a couple of co-authors from the UK we're working on updating a study which looks at the changes in payment flows going to developing countries when they are put on a high risk list by regulators vis-à-vis money laundering and terrorist financing. And we're finding significant effects, and so it's less about saying that these policies should be put in place and more about just accounting for what actual costs are.

So one of the books I enjoyed the most over the last decade or so was Jason Stearns' *Dancing in the Glory of Monsters*. It's a very readable account of the first and second Congolese wars which took place in the late '90s up until the beginning of the 2000s. And it does a very good job at mapping out not only elements that led into those wars, but also all the different players that are involved, not just the Congolese, but the Rwandans and Ugandans, other neighbors of Congo.

And the reason why I like to recommend this book to people is right now in my profession and those that work in development there seems to be a little bit of an implicit agreement that there is a trade-off in some countries between progress in the sphere of development -- some improving people's welfare, increasing life expectancy, improving education -- and in their rights.

And so there are a number of countries, especially in Sub-Saharan Africa -- Ethiopia maybe until most recently, but also especially Rwanda -- where they've been making great strides in improving people's wellbeing. But these same administrators, these same governments, are curbing the right to free speech, the right to participate in a normal democracy.

And I think most people have made the calculation that that's a trade-off, at least for now, that's worth making. But they're often making that calculation just with respect to those countries. And what Stearns' book reveals is Rwanda was hugely implicated in the start and duration of both the first and second Congolese wars, wars that led to the deaths of millions and millions of people.

Rwanda had a very good reason to be involved: it was reeling from a very recent genocide and they wanted to make sure it never happened again. But even as late as 2012, Rwanda was implicated in a lot of violence that was happening just across its borders.

And so I think when people do the accounting to say we're okay with development and progress, we're okay with these costs in terms of freedoms, they also need to be including the costs that are being incurred by people in the DRC just across the border. And I think the book is a nice illustration of that.

DEWS: The Brookings Cafeteria Podcast is the product of an amazing team of colleagues, starting with audio engineer Gaston Reboredo and producer Chris McKenna. Bill Finan, director of the Brookings Institution Press, does the book interviews, and Lisette Baylor and Eric Abalahin provide design and web support. Our intern this semester is Amelia Haymes. Finally, my thanks to Camilo Ramirez and Emily Horne for their guidance and support.

The Brookings Cafeteria is brought to you by the Brookings Podcast Network, which also produces Dollar & Sense, The Current, and our Events podcasts. Email your questions and comments to me at bcp@brookings.edu. If you have a question for a scholar, include an audio file and I'll play it and the answer on the air.

Follow us on Twitter, @policypodcasts. You can listen to the Brookings Cafeteria in all the usual places. Visit us online at brookings.edu.

Until next time, I'm Fred Dews.

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2020