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What We Don't Know Can Hurt Us

TIM FERNHOLZ

Information is the life-blood of public policy. Identifying a problem is the first step to solving it, and once a solution is in place, we need metrics to understand if the policy is working and how to turn its weaknesses into strengths. Though the data we have today are, unsurprisingly, better than ever, there are still too many dark spots and missing data on a host of important issues. Take, for example, the financial sector. Bank regulators, lacking a clear picture of how predatory mortgage loans are connected to global capital flows, allowed an exuberant bubble to spin into a crash in 2008. It's a reminder that if we can identify gaps in our knowledge, we would be remiss not to close them.

President Barack Obama recognizes the need for better data; he's expressed commitment to scientifically supported policies and filled his administration with wonkishly inclined Democrats. The Dodd-Frank financial-reform bill his administration supported mandates some 67 studies to guide policy-makers' supervision of the financial markets. Obama's signature accomplishment, health-care reform, emphasizes a new commission to gather information about which medical practices are most effective. Conservatives balked, claiming that this data-driven approach was a way to justify taking Grandma off the ventilator. Liberals—and most policy experts—countered that it was a way to make the system more efficient.

This debate isn't just about how to collect new data but also how to interpret the data we already have. A perennial question is how to define poverty; the current measure is pegged to the economy of the 1960s and doesn't reflect today's family finances. A new measure developed by the Commerce Department will paint a more accurate picture of poverty, but it is opposed by conservatives who fear that the results will portray more penury in the United States "propaganda," scoffs the Heritage Foundation. Sometimes, people just don't want to know.

Ignorance, however, is only bliss if you think the government shouldn't play an active role in society; bureaucratic inertia favors conservatives. Though new technology has made sharing and manipulating data easier, the government is playing catch-up in putting information online so the public and academics can put it to good use. In many policy areas, the government isn't just failing at transparency but also usability—data sets don't always lend themselves to apples-to-apples comparisons, making much-needed analysis more difficult to obtain.

We spoke with experts in and out of government to highlight six areas where missing information is preventing us from enacting sound public policy.

Employment

What We Don't Know

How Many Jobs Have Been Offshored

Senate Democrats recently made political hay with the Creating American Jobs and Ending Offshoring Act, a dead-on-arrival proposal that would have penalized companies that send jobs overseas. It's a hot topic, but systematic measures of offshoring are hard to come by. The Bureau of Economic Analysis tracks imports and exports but not the labor impact of trade. The Bureau of Labor Statistics tracks "movement of work," which counts layoffs involving more than 50 workers but not smaller losses. Plus, jobs not created in the U.S. aren't counted. If an auto maker opens a plant in China, rather than in Lansing, or a startup hires a back-office firm in India rather than an in-house accountant, is that offshoring? According to the BLS measure, no. The auto—and office workers might have a different answer. The bureau notes that offshoring of service work, like that bill-processing gig, may be particularly undercounted, due to "a dearth of relevant data." BLS estimates that, as of 2008, some 30 million service jobs were vulnerable to offshoring. If those jobs were lost, we might not know.

What We Don't Know

What Kind of Jobs Are Created by Public Investments

America is spending a lot of money to create jobs, with some $787 billion allocated by the American Recovery and Reinvestment Act, aka the stimulus. We know how many jobs are created or retained with those government dollars—that's a reporting requirement under the law. What we don't know is who's getting them, how long they last, or how much they pay. We also don't know if one job is a single fulltime job or if four people are working 10 hours a week. OMB Watch, a member of the Coalition for an Accountable Recovery, has called for the tracking of the type of work created as well as the wages, health-care coverage, and demographics of stimulus-funded workers. So far, though, those details haven't been recorded.

Recipients of stimulus funds do have to report 99 data points, including information on subcontractors, some executive-compensation data, and other tidbits that please transparency advocates. "This is by far the most transparent federal spending bill in history," says Greg Leroy, executive director of Good Jobs First. "Don't sell it short."—Kat Aaron

Finance

What We Don't Know

How Credit-Card Companies Are Screwing Us

The dismal performance of our country's banks and the resulting bailouts have raised questions about how financiers treat their customers. In the Dodd-Frank bill, a new agency was created to protect consumers from predatory financial products. The problem? We don't have good data on how credit-card companies make their money, especially when it comes to penalty fees. That might not seem like a big deal, but the example of checking-account overdraft fees is useful. After a landmark Federal Deposit Insurance Corporation study revealed that banks make three-quarters of their fee revenue from automatic overdraft penalties, the Federal Reserve created new rules limiting the charges and forcing banks to disclose their policies. Obtaining similar information from credit-card companies would allow for better regulation, and publishing the data would enable customers to understand how much money the companies make off them.

What We Don't Know

How Low-Income People Manage Their Finances

While we fight poverty through education and welfare programs, the only sure-fire way to build a strong middle class is to make certain Americans have the tools they need to build wealth. Encouraging people to save money and use safe credit products requires understanding how they manage their finances. Unfortunately, it's hard to say exactly what low-income Americans do with their money, because we aren't asking enough people the right questions (only in 2007 did we start asking people if they use payday loans) often enough (a three-year gap in a key study means we'll have no data for most of the recession). Most consumer surveys are focused on higher-income Americans, which leaves us unaware of how to help low-income folks climb the ladder. Improved consumer surveys would add more low-income families to the mix, be more frequent, and add questions about fringe financial services. A better picture of family balance sheets would improve government efforts to encourage responsible asset building.—T.F.

Housing

What We Don't Know

The Number of Foreclosures and Evictions

America is almost three years into a massive housing crisis, and astonishingly, the federal government is not tracking foreclosures. The numbers you hear—that one in 75 houses in Las Vegas is in foreclosure, say—likely come from Realty Trac, "the leading online marketplace of foreclosure properties." It's also the country's main source of foreclosure data. Governmental foreclosure-prevention efforts rely on numbers collected by a company whose mission is to help people "locate, evaluate, buy and sell properties." Unsurprisingly, that's not working very well. The much-touted Home Affordable Mortgage Program was projected to save 3 million to 4 million homes, but as of September, it had permanently modified mortgages for just over 468,000 homeowners. The financial-reform bill included a provision creating a foreclosure database, featuring comprehensive stats on distressed mortgages. The bill, however, didn't specify exactly what the database would track or how it would be paid for.

Anecdotal evidence suggests evictions, too, are on the rise. The National Low Income Housing Coalition estimated in 2009 that 40 percent of foreclosed properties had renters, who were often tossed out by banks when they took ownership. President Obama signed a bill giving such renters certain rights, but without any baseline numbers on pre-crisis evictions and no plan for ongoing measurement, assessing the law's impact is nearly impossible.

What We Don't Know

How a Borrower's Race Affects Home Loans

The Home Mortgage Disclosure Act is a vintage piece of data-generating legislation. The 1975 law requires lenders to report where home loans are made, the race of the borrower, and whether the loan is prime or subprime. Consumer advocates and reporters have used HMDA data to track patterns in mortgage lending, to see whether, for instance, high-cost subprime loans are concentrated in communities of color. When advocates use HMDA to assert racial discrimination in lending, the industry response is often that the disparities in pricing are based on credit scores, not race. Now, under the financial-reform bill, lenders must report a slew of new details, including the credit score and age of the borrower and whether the loan had teaser rates or prepayment penalties, two features common in questionable subprimes. This data may put to rest the heated debate around redlining in the mortgage market.—K.A.

Health

What We Don't Know

Which Drugs and Medical Devices Are Dangerous

The U.S. Food and Drug Administration is charged with protecting public safety by reviewing drugs and devices before they go to the market, but much of the information it collects is not available to the public. Reports of "adverse events"—when a drug or medical device already on the market is causing harm—are incomplete; in many cases, it's necessary to file a Freedom of Information Act request to get the details. Currently, the FDA also does not let us know when a company starts to investigate a new drug or when it decides to put a trial on hold or terminate it. If a company decides to put an end to its investigations because of safety concerns, the FDA doesn't tell us. So if you are, say, a researcher studying a particular drug molecule that's similar to one a company decided to ditch because of a safety issue, you have no way of knowing.

What We Don't Know

The Basics on Food, Drug, and Medical-Device Recalls

When the infant-formula manufacturer Abbott agreed recently to recall certain batches of Similac that may have been contaminated with beetle parts, the FDA made that information

available in a new section of its website in a programmer friendly, mashup-ready format known as "XML." The agency, though, had no authority to compel the company to provide basic information on the recall, such as how many cans were affected and where they had been distributed, because all reporting is voluntary. Getting complete information about recalls—whether for food, drugs, or medical devices would be invaluable for public-health experts dealing with an out-break, journalists reporting on it, and consumers who want to avoid the stuff. Last spring, the agency called for comment on 21 draft proposals to increase agency transparency. We're still waiting to see what the FDA will do.—Nancy Watzman

Education

What We Don't Know

Which Early-Education Programs Work

Experts on early childhood education agree that attending pre-school has a positive effect on a child's long-term educational attainment but have no way of tracking which programs pro-duce the best results. A wide variety of preschool programs exist, administered privately or by state or federal agencies. These programs have no uniform way of collecting data, if they collect such information at all, and no system for sharing what they do record with grade schools to track students' progress over time. That means that once students enter grade school, their results can't be linked to their preschool record. Pre-schools can't monitor how well they are preparing their alumni, and policymakers can't develop an integrated curriculum that accounts for the fact that students move through different edu-cation systems. An identification number that tracks students from preschool to the workforce would provide a fuller picture of student experience, but privacy concerns and bureaucratic challenges make such an innovation unlikely.

What We Don't Know

How Much Students Learn in College

Colleges are routinely ranked based on input values like the average SAT score of the entering class, but there is no way to quantify their output—how much they teach students over the course of four years. Intellectual improvement is a subjective value and therefore difficult to quantify. It also varies widely by program. Some degrees may focus on communication skills, while others produce bigger gains in critical thinking. Without any measure of how much students improve, the marketplace for degrees skews away from teaching quality toward reputa-tion. Students can graduate from renowned schools without the skills they need in the workforce, while quality low-pro-file schools go unrecognized. Tests like the Collegiate and Learning Assessment, which students take during their first year and again when they graduate, offer a potential solution but are unpopular with colleges wary of having weaknesses exposed.—Sarah Babbage

Campaign Finance

What We Don't Know

Who Is Funding Outside Spending

Thanks to the Supreme Court's 2010 ruling in Citizens United and other recent legal decisions, there is an explosion of new election spending by outside groups—$122 million as of early October—much of it by groups with innocuous names like Americans for Job Security, Common Sense in America, and American Crossroads, which counts Karl Rove among its fund-raisers and advisers. Reports on who is financing these groups tend to dribble in slowly, and in some cases, when it's a nonprofit group or trade association doing the spending, we may never find out who is spending big money to influence the election. The DISCLOSE Act, which would have given us more informa-tion on outside ads, was filibustered by Senate Republicans in September. If the new Congress doesn't take action on this front, come 2012, we'll know even less.

What We Don't Know

Who Is Contributing What Until It's Too Late

Most of us can go online to find an up-to-the-minute record of our credit-card transactions, but if we want to know how much cash a Senate candidate collected today, we need to wait weeks or even months. Even though political action commit-tees, House candidates, and party committees must alert the Federal Election Commission electronically within 48 hours of receiving a major donation, Senate candidates still file the old-fashioned way—that is, on actual paper, which then needs to be converted to digital files. That means there is a considerable lag time between filing deadlines and when the information is easily accessible. You can't search and sort last-minute reports of large contributions received on the FEC's website often until three or four days after the reports are submitted. That means that voters may wait until after they fill in their ballots to see who dropped last-minute money into races. There is no techni-cal reason for any of this. We should be able to see political contributions online, in real time.—N.W.

Critical Thinking

1. Why is accurate information "the life-blood of public policy"?
2. Why does the absence of accurate and relevant information in particular spheres tend to favor bureaucratic inertia and thus a conservative approach to national government activities?
3. What are six areas where missing information seems to be preventing sound public policy? What key information is missing in each of the areas?

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How to Save Our Kids From Poverty in Old Age

The case for American stakeholder accounts.

PHILLIP LONGMAN

The federal government spends more than $500 billion a year on policies designed to help individuals acquire or build assets. The three most expensive of these policies—the mortgage interest deduction, the property tax deduction, and preferential rates on capital gains and dividends—together deliver 45 percent of their benefits to households with average income exceeding $1 million. "Put another way," concludes a report commissioned by the Federal Reserve, "the poorest fifth of Americans get, on average, $3 in benefits from these policies, while the wealthiest one percent enjoy, on average, $57,673"

Lower-middle-class workers could easily see their stakeholder accounts grow to $426,000 by age sixty-seven. They will still need Social Security, but without this nest egg they can't afford to grow old.

What if we re-crafted our wealth accumulation policies so that they primarily helped average Americans build assets? Nothing could be more American. It's what the Homestead Act did. It's what the GI Bill did. And here's another example of how it could be done for the next generation of Americans.

Every child born in the U.S. gets a Social Security number. Going forward, every child should get at the same time what could be called an American Stakeholder Account. Parents, grandparents, and anyone else who cared to could contribute funds to a child's stakeholder account, as could children themselves. Children whose families qualify for the federal child tax credit would have up to $500 added to their accounts each year by the government. Contributions from all sources would be capped at $2,000 per year.

When an account holder reached eighteen, he or she could begin withdrawing a portion of the accumulating funds, but only for the purpose of pursuing post-secondary education and training. At age twenty-five, the account holder could use a portion toward buying a first home or starting a business. But a substantial remainder would be earmarked for retirement.

Now let's add another important feature. Throughout their working lives, members of the next generation of Americans would be required to contribute 4 percent of their earned income to their stakeholder accounts. Their employers would have the option of contributing another 2 percent. Low- and middle-income households would be eligible for up to $500 per year in government matching funds. Upon retirement, the balance built up in these accounts would be automatically converted into an annuity—a stream of monthly benefits that would flow for the rest of the account holder's life.

That last part is important. One big problem with saving for retirement through today's 401(k)s or IRAs is trying to figure out how long you'll live. Guess wrong, and it's easy to outlive your savings. You can mitigate that risk by turning your nest egg over to a private investment company when you retire in return for a promise that it will pay you an annuity of fixed monthly payments for the rest of your life. But aside from the risk of that company going broke, most people are shocked when they find out how little those monthly payments are.

Stakeholder accounts, however, could offer more generous and safer monthly annuity benefits. A big reason why annuities purchased in the private market today pay so little is what actuaries call "adverse selection." People who buy annuities tend to be people in good health who reasonably believe they would outlive their savings if they didn't purchase them. This phenomenon raises the price and lowers the benefits of annuities for everyone. But the problem is solved if it becomes mandatory that people convert their stakeholder accounts into annuities beyond a certain age, such as, say, sixty-seven. As economist James M. Poterba has written, "Requiring all persons to annuitize their retirement account balances at a specified age is one way to substantially reduce the degree of adverse selection in the annuity market."

How would the funds building up in a person's stakeholder account be invested before retirement? Much as they are under the federal government's wildly successful Thrift Savings Plan, which oversees the retirement accounts of more than three million federal workers, including members of Congress. Under that program, participants have a choice of five different investment vehicles (including bond funds, stock funds, and mixed "life-cycle" funds) provided by carefully regulated private-sector investment firms. Stakeholder accounts would offer a similar range of choices, but the default vehicle into which all retirement savings would flow, unless an account holder specified otherwise, would be an index fund that offered a ratio of stocks and bonds that adjusted automatically according to the account holder's age.

Because of the size of the Thrift Savings Plan and its ability to have some of the administrative functions performed by government agencies, it is able to negotiate substantial discounts on the fees charged by investment companies, adding to participants' returns. The American Stakeholder Account plan, because it would serve a much wider population, would enjoy even larger economies of scale.

You could think of stakeholder accounts as both a childhood savings program and a fully funded "add-on" to Social Security for the next generation. Why is that important? Social Security is not about to go broke. But it at best replaces only about a third of most people's income in retirement, and even sustaining current benefits will require a substantial increase in taxes due to the aging of the population. With the inevitable continued decline of the number of workers covered by traditional, defined-benefit private pension plans, and the manifest failure of today's 401(k)s and other defined-contribution plans to adequately prepare many Americans for retirement, stakeholder accounts are vitally needed to ensure the old-age security of the next generation.

It is impossible to say, of course, exactly what the balances in stakeholder accounts would build up to over the decades to come. There are many variables at play, from returns on capital to average wages and the amount an individual adds or withdraws from the account at different times. But let's take a look at the likely outcome for a hypothetical child—let's call him Sam—born in 2013.

If Sam's account is endowed with $500 a year, it will grow to nearly $15,000 by the time he is eighteen, assuming an average 5 percent rate of return. (While there is no guarantee that the actual rate of return will be 5 percent, it's not an unrealistic number to use; between 1950 and 2009—a year when the stock market tanked—the average after-inflation return on the S&P 500 was 7 percent.) Assume that Sam spends $5,000 of the stakehold to get vocational training, and at age twenty takes a job as a plumber, a medical technician, or an auto mechanic, with a starting income of $30,000. Assume also that as Sam gains seniority, his income grows, by about 2 percent a year, reaching $77,000 by the time he is sixty-seven, and that along the way he contributes just the minimal 4 percent of income to the account annually. Under these assumptions, Sam's account would grow to more than $426,000 by age sixty-seven. Though we can't know what interest rates or life expectancy will be by then, it is not unreasonable to assume that this sum could be converted into an annuity paying roughly $35,000 a year for the rest of Sam's life (more if interest rates are high, less if life expectancy at age sixty-seven improves dramatically between now and then).

This is less than half of Sam's final salary. He would still need Social Security to live comfortably. But it's worth noting that he could also end up with nearly a million dollars at age sixty-seven if the average return turned out to be just 7 percent. It is also worth noting that under current law, Social Security collects about one of every eight dollars that most Americans earn, and going forward will offer only about a 2 percent return for Baby Boomers and less than that for future retirees, according to the General Accountability Office. Where will the next generation be if it does not have another way to pay for retirement?

Think of stakeholder accounts as both a childhood savings program and a fully funded "add-on" to Social Security for the next generation. Though Social Security is not about to go broke, it at best replaces only about a third of most people's income in retirement, and even sustaining current benefits will require a substantial increase in taxes.

Along the way, stakeholder accounts would offer many other benefits, both direct and indirect. For example, abundant social science research shows that just having a savings account, regardless of how much is in it, raises the aspiration of poor children to go to college and otherwise plan for the future. Stakeholder accounts would also make it easier to reinstitute school banking programs, which, until they faded away in the 1960s, were an important means by which previous generations of Americans inculcated thrift and financial education in the young. Imagine how much more interesting it would be for an eighth grader to learn how to calculate compound interest if the question at hand were directly related to their own situation: How much more will his account be worth at age eighteen, for instance, if he doesn't spend $40 on a video game and deposits the money instead? And surely a high school student would be more interested to learn about how the U.S. economy works if she recognized that her increased knowledge would help her decide how to direct her own savings: Should she invest in stocks, bonds, or certificates of deposit?

The existence of stakeholder accounts would also make it easier for school districts, churches, and philanthropies to graft on so-called "conditional cash transfer programs," should they care to. These are programs, being tried in local jurisdictions with some success, that offer cash payments to students in exchange for desired behavior, such as good school attendance.

A school district might, for instance, offer students a $500 deposit into their accounts if they achieved perfect attendance for a year.

Stakeholder accounts could also play a role in ameliorating the terrible damage done to the thrift ethic and finances of ordinary Americans by casinos and state lotteries. What if, when you bought a lottery ticket, a substantial portion of the sale was automatically credited to your stakeholder account? That way, if you didn't win the big prize—the most likely scenario—you'd end up with more savings, not less. (Such a lottery has been tried in Britain, something they call "Premium Bonds.") We could also use stakeholder accounts to turn casinos into savings institutions. All it would take is a provision that casinos divert a significant share of each bet to a gambler's stakeholder account.

Finally, and more philosophically, stakeholder accounts could help to solve a deep dilemma of American life. We honor the principal of equal opportunity, but children are manifestly not born equal when it comes to financial inheritance. At the same time, Americans tend *not* to believe in equality of result, and therefore are more averse than people in most other modern nations to redistributing income.

The progressive, more politically appealing solution, as the late American philosopher John Rawls once observed, is to pre-distribute property, so that all children start out with an equal stake. American stakeholder accounts would do this, at least to a small degree. If we were really serious about righting the country's growing inequality of wealth, we would entirely stop subsidizing the accumulation of wealth by people who are already rich, and use the proceeds to put more generous matching grants into the stakeholder accounts of children born into modest circumstances. Some children would still enjoy large advantages in life. But any resulting inequality of income would be easier for both winners and losers to live with if every child started out with at least some seed money. This stake, if well managed and combined with hard work and some pluck, could put the American Dream within all children's reach.

Critical Thinking

1. What do you think of the proposal for American Stakeholder Accounts? Do you think that it is a good idea? Why or why not?
2. What about mandatory conversion of Stakeholder Account holdings into a monthly annuity upon retirement? Is this a good or bad idea? Why?
3. Do you think that the existence of both Social Security and Stakeholder Accounts would be confusing to Americans? And do you see any advantages to having two programs designed to provide for retired senior citizens?
4. How might the proposed American Stakeholder Accounts relate or possibly relate to children's educational performance, the negative effect of casinos and lotteries on many ordinary Americans' economic well-being, and economic inequality? Do you see the possible benefits in these spheres as realistic and feasible?

Phillip Longman is a senior fellow at the Washington Monthly and the guest editor for this issue. He is also the author, with Ray Boshara, of *The Next Progressive Era: A Blueprint for Broad Prosperity,* from which this article is adapted.

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