Bridging the Gap: America's Middle Class
Whose Policy is Best?

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It is a pleasure to be here this evening and to share the stage with such distinguished panelists. And it is truly an honor to be a part of such a distinguished Vanderbilt tradition.

***The Problem*.** The topic of tonight's discussion, the condition of America's middle class, could not be more important. Middle class families are clearly struggling.

They have been through a terrible recession and are continuing to suffer from high unemployment. They have seen their savings decimated by the financial crisis. More than 3 million families have already lost their homes to foreclosure, and many more are at risk of doing so.

Moreover, the financial crisis and the recession came on top of a decade where the income of a typical household stagnated. And where some of the things that matter most to families—health care and a college education for their children—became substantially more expensive.

Now many intangible things matter deeply to middle-class families: the strength of our communities; our country's national security; and the health and sustainability of the environment. But in the more tangible realm of the economy, I think two things are most important. Do they have a job that allows them to provide for their families? Is the economic future for their children bright?

In my few minutes here at the beginning, I want to talk just a little about both these essential goals and the policies that have been implemented to try to achieve them.

I also want to discuss what more needs to be done to strengthen the middle class.

***Unemployment*.** Let me talk first about unemployment—because nothing is more important to the economic security of a middle class family than having a job.

The bursting of the housing bubble and the financial crisis in the fall of 2008 dealt a terrible blow to the economy. The shock that hit the United States in 2008 was at least as large as that in 1929. Indeed, by one key indicator, it was much worse. The collapse of house prices and the stock market in 2008 destroyed 13 trillion dollars of household wealth. The percentage decline in wealth in 2008 was nearly seven times larger than in 1929.

The result of the destruction of wealth and the financial crisis was a collapse in demand that closed factories and led to horrible job losses. The extraordinary actions taken by monetary and fiscal policymakers, both at the end of the Bush administration and when President Obama came into office, helped prevent the recession from turning into a second Great Depression. And, they have helped to put the United States on the road to recovery.

But, though the recession may be over in the technical sense that we are now growing and adding jobs again, it is clear that there is still a lot of devastation out there. The national unemployment rate is still 8.9%. Nearly 14 million Americans currently are looking for a job, but can't find one. Unemployment remains an absolute crisis.

The policy actions taken in the lame-duck session of Congress last December will be helpful. The payroll tax cut and another year of extended unemployment insurance are good policies for putting people back to work and preventing suffering. The additional business tax cuts to encourage investment are also useful for creating jobs today and making us a more productive economy over the long haul.

But we ought to be doing more. I have been a vocal proponent of the Federal Reserve using the tools it still has to do more to get the unemployment rate back down to normal more quickly. The President in his State of the Union Address called for more public investment in infrastructure, education, and innovation. That would be excellent policy to reduce unemployment, and would leave the country richer in the process.

I would also go further and give businesses a cut on their share of payroll taxes. The action last December only cut the employee side of the payroll tax. Cutting the business side would lower the cost of hiring workers and so give employers an incentive to do exactly what we need them to do.

I frankly do not understand why policymakers aren't more worried about the genuine suffering of so many families. We have tools that we can use to bring the unemployment rate down, and I think it is shameful that we are not using them. That is the number one thing that we could and should be doing to strengthen the middle class.

And don't tell me we can't do it because of the deficit. We could certainly do it in a fiscally responsible way. And even if all you cared about was the deficit, dealing with the unemployment rate is good policy. The longer we let unemployment remain high, the more likely it is to stay high. This would be devastating both for the people affected and for the government budget.

***Our Economic Future*.** The second thing that all families care about is the economic future of our children. We can stand almost anything in the near term if we know the future will be brighter.

Policymakers in the past two years have taken some dramatic actions to improve the economic future. Financial regulatory reform, passed last July, was designed to make sure that our children and grandchildren never have to face the kind of financial meltdown that we experienced in the fall of 2008. We have put in place a new regulatory structure that will make the system safer and more resilient. And one that will better protect consumers from unfair and unsound practices.

Health care reform, signed one year ago tomorrow, was designed to deal with a health insurance system that was failing middle class families. It was a system that was leaving 50 million American uninsured and even more struggling with skyrocketing costs and uncertain coverage.

And though I know the Affordable Care Act remains controversial, I believe deeply that it is going to help American families. The nonpartisan Congressional Budget Office estimates that when it is fully implemented, which will take a few years, it will provide insurance coverage for another 32 million Americans, and will slow the growth rate of health care costs. And it improves care and security by instituting sensible consumer protections such as prohibiting insurance companies from denying coverage because of pre-existing conditions.

We have dealt with two big issues that matter tremendously to middle class families. But there is a third that we haven't tackled yet—the long-run budget deficit. I am not talking about the current spitting match in Washington about the 2011 budget. That is a squabble over spending that accounts for a painfully small fraction of the budget.

It is a distraction from the real issue, which is that as the baby-boom generation retires and health care costs continue to rise, even if it is at a slower rate, we are on the road to a fiscal train wreck. If we do not deal with it, we are condemning our children to a lower standard of living and an eventual fiscal crisis.

The President and Congress need to formulate and pass a plan to get our long-run deficit under control. Now, the actual fiscal tightening should not start immediately. The economy is still too fragile for that. One need only look at the United Kingdom to see that immediate austerity would likely lead to a second dip in the economy. But we should absolutely pass a plan as soon as possible that spells out exactly the actions that will be taken to balance the budget as the economy recovers.

The bipartisan National Commission on Fiscal Responsibility and Reform, chaired by Erskine Bowles and Alan Simpson, issued its report in December. It shows the kind of tough cuts in spending of all sorts—including defense, Social Security, and Medicare—that will be necessary. It also makes clear that part of the solution will almost surely involve taxes going up somewhat on all but the poorest families.

Any policymaker who asks you to believe that dealing with the deficit is just a matter of cutting wasteful spending or raising taxes only on the wealthy is frankly not telling you the truth. The bipartisan commission made it clear that actually cleaning up our fiscal mess will be painful. But it absolutely has to be done to safeguard the future of our country.

If that is the grim advice, let me end with something more positive. As I mentioned, middle class families have seen their standard of living stagnate for at least the last decade. To get standards of living rising again, we need to focus on productivity. The best way to get middle class families more, is to make the pie bigger.

To do this, we need to make our workers better. Even as we cut overall spending, we need to continue to invest in education. We need to make it easier for middle class families to send their children to college, and we need to make sure that our colleges and universities make students work hard and learn the skills necessary to adapt to rapidly changing technology.

We need to make our businesses better by encouraging innovation. We should strengthen tax incentives so that the private sector does more R&D. We need to continue government support of basic scientific research, so that businesses have a flow of new discoveries to develop and market.

We shouldn't do these things because we are worried that the Chinese will somehow "beat" us. We should do them because they will make America richer and stronger. And they will allow our middle class families to flourish again.

***Conclusion*.** The bottom line is that middle class families have absolutely gotten a very rough deal the last several years.

Of course much of their recovery will come through their own initiative and the natural resilience of the private sector. The American dream is alive and well, and people are working incredibly hard to achieve it.

But sensible government policy has an important role to play. Our middle-class families deserve the very best policy that we can develop. They certainly do not have time for partisan wrangling and symbolic gestures. They need and deserve real solutions for very real problems.