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The Values We Stand For

At a time where fiscal and economic policy debates are increasingly part of our national conversation, it is important for all of us who follow the details of policy – from deficits as a percentage of GDP to appropriation targets to enforcement mechanisms – to recognize that they are not ends in themselves but the means to realizing the values we stand for and aspire to as a nation. In short, do the fiscal and economic strategies further our ultimate goals of a growing middle class that allows everyone and every group to move up without having to move others out, of a nation where one's life is not overly determined by the accident of your birth; of an economy where everyone has the freedom to take risks, dream big and work hard to make a better life for their children; and finally, of a society where those who take responsibility can work with dignity, raise their children with dignity, and retire with dignity.

Far from being trite, focusing on these ultimate goals forces us to be more rigorous, more comprehensive, and more nuanced in promoting our economic policies and teaches us that if you focus only on one specific element or ingredient, you will fail the ultimate test.

- However passionate one is about investing in people, large public investments with no regard to whether our debt is so out of control that we will lose the confidence of job creators and long-term investors, will ultimately fail to promote an economy that grows the middle class.
- Conversely, however passionate one is about fiscal discipline, single-minded deficit reduction that leaves our bridges crumbling, our workers poorly educated, or a generation of children with the deck stacked against them by the age of four – we will also fail to reach our larger aspirations.
- A narrow focus on individual economic metrics without any consideration as to whether they are translating into an economy that is growing together or just growing for the very most well-off may allow us to claim we've hit economic targets but still not lead to the type of growing economy that realizes the values our country was founded on.

It is therefore incumbent upon all of us to avoid false debates or simplistic or single-focused assessments of economic policy and be willing to ask what comprehensive strategies will be most effective going forward. To further that effort, I want to share with you a few areas where our policy and politics are presenting false choices or singular focuses, and offer some thoughts about how to move beyond them:

We Face a False Choice Between Short-Term Growth and Long-Term Deficit Reduction

There is too often a false dilemma in the U.S. and Europe as well between helping short term growth that allows recoveries take hold, and promoting confidence through long-term deficit reduction. This is the ultimate example of a place where economic policy has to be capable of walking and chewing gum at the same time.

First of all, there are clearly moments where significant efforts to spur demand make sense from both a short-term growth and long-term fiscal perspective. For example, the temporary measures in 2009 to stop a global free-fall and forestall a second Great Depression were not only good for immediate growth – by averting such a sustained downturn they had a dramatic impact on preventing a deeper deterioration in our country's fiscal position.

But even when, as perhaps now, we face ongoing concerns about immediate job growth balanced with concerns about long-term deficits, the sweet spot is to pass measures to help job growth and recovery take hold alongside measures that reduce long-term deficits and boost confidence in our fiscal position.

A compelling $100 billion jobs initiative for a current year paid for over 10 years can hit that sweet spot – providing critical demand in year one, while locking in a stream of perpetual savings that will reduce our deficits over the long term.

That was the President's strategy in announcing the American Jobs Act, and his detailed Supercommittee budget proposal last September. The initial Jobs Act was paid for over ten years, meaning that the increased debt from temporary Jobs Act measures was paid for with savings that would be perpetual to help deal with the long-term deficit.

Further, the American Jobs Act was launched in the context of a specific $4 trillion deficit reduction plan that the Congressional Budget Office scored on March 16th as part of our detailed budget as bringing down the deficit to an average of 2.8 percent over 5 years and stabilizing our nation's debt as a share of economic output.

The American Jobs Act was a $447 billion plan to strengthen our recovery and provide insurance against unforeseeable headwinds. It was designed to have bipartisan appeal – almost half was tax relief like cutting payroll taxes in half for small businesses and full expensing for new investments. Independent forecasters from Moody's to Macro Advisers estimated it would create 1.3 to 1.9 million jobs and boost 2012 growth by up to 2 percent. The President for the second year in a row successfully secured an extension of payroll tax relief and unemployment insurance, and signed into law tax credits for hiring veterans. But all in all, this amounted to only a third of what was proposed.

Certainly we have seen some gains in the economy this year and even this month: manufacturing employment is now up 495,000 since January 2010, the fastest growth since April 1995. New manufacturing orders went to 60.1 in May. In housing, we have seen prices of non-distressed sales rising; we've seen five-year highs in building confidence, reductions in inventory, and had Reuters describing a "springtime revival for America's housing markets," and analysts at Barclay's saying they are seeing "more light, and less tunnel."

Yet, while it would have been nice to have been wrong that the full *American Jobs Act* was needed, fragility in Europe together with higher than expected gas prices have shown once again the wisdom of taking out an insurance policy for a recovery seeking to gain momentum. It also stresses the importance in a global economy that is at times beyond control of taking the action you can that are within your control.

The fact that we saw 268,000 teachers laid off in since the recession ended in 2009, and almost 30,000 in the last four months, is something that is completely under our control that could have been prevented by the President's $35 billion investment in preventing teacher and first-responder layoffs. In the previous three recoveries, under Presidents Bush, Clinton, and Reagan, by this point we saw an average increase in State and local jobs of more than 530,000.

Had Congress passed even a significant portion of the *American Jobs Act*'s provisions for rebuilding schools, immediate infrastructure investments, a new "project rebuild" to put people to work rehabilitating homes, or a national infrastructure bank, there would be more construction activity and more jobs, instead of losing another 28,000 construction jobs this month.

While we did not expect Congress to take everything the President put forward exactly, what is most disappointing was the failure of Republicans in Congress to come back with any proposals that major, independent economic forecasters estimate would have a significant impact on jobs this year.

After all, whether one agreed with all of our specifics or all of our payfors, the *American Jobs Act* was a perfect example hitting the fiscal sweet spot of a plan that both sparks jobs and brings down long-term deficits. If it had passed in its entirety, we would be on track for another badly needed 1 million jobs and could have done so in a way that reduced long-term deficits. This is an appropriate model and lesson for many of our major economic partners around the world as well.

This is the type of win-win policy we should be agreeing upon. What we should not be seeking is lose-lose policies such as deciding to extend tax relief for even another year for those who are most fortunate in our economy. As a way to confront our current economic and fiscal challenges, extending tax cuts for the most well-off is lose-lose because it spends billions for those with the lowest propensity to consume and is among the least effective measures imaginable for promoting immediate jobs and growth, while at the same time signaling a lack of shared sacrifice, and a serious commitment to tackling our long-term fiscal challenge.

We Face a False Debate Between Structural Versus Cyclical Unemployment

This discussion leads into the second major false debate – over whether our unemployment challenges are *either* structural or cyclical. By that I mean whether the high unemployment we see is the result of a lack of demand, or reflects more structural issues of skill gaps that cause unemployment to persist over the long run.

On the merits, the economic consensus is that high unemployment is overwhelmingly the result of the legacy of the Great Recession that is still dampening demand: Chairman Bernanke estimated that around 80 percent of excess unemployment is due to cyclical factors, which Goldman Sachs economists and others confirm. Economists like Larry Katz point out that wages are not rising in specific industries as we'd expect if a shortage of skilled workers was starting a bidding war.

The last time we faced significantly high long-term unemployment, we saw quite clearly that an enormous amount of what some might have thought was structural was addressed by a significant uptick in demand from home and car purchases and local government hiring in 1983 and 1984, after the Volcker Federal Reserve cut interest rates.

But the fact that those who make the cyclical argument like Paul Krugman are fundamentally right should not mean we fall into a false choice for two reasons:

First, there is no question that structural issues are hurting our economy over the long run and denying us jobs in some sectors. There are examples and reports around the country where labor markets are tight, and there are not enough skilled workers. There are simply too many accounts like the one in the *Wall Street Journal* recently about Union Pacific not being able to find enough skilled electricians and welders and too many conversations with too many CEOs who stress that the issue of skilled workers is a major determinant in their location decisions for us to ignore this issue.

- That's why even if we think that most of the current high level of unemployment is cyclical, for the U.S. to be a magnet of the job creation we want, we have to have stronger human capital and a larger supply of people with higher skills – like in science, technology, engineering, and mathematics, or STEM. That is why we put forward a major $8 billion Community College to

Career fund and a streamlined, universal displaced worker training reform – all designed to target training to closing the skill gap and filling the open jobs of the present and future.

- That is why we have a robust agenda to increase the number of particularly young women and people in disadvantaged communities going into STEM education. Two of the President's Advisory Councils – the President's Council of Advisors on Science and Technology, and his Jobs Council's 10,000 engineers initiative, found that we need to increase our retention of STEM majors to address skills gaps. For example, if we increased from 40 percent to 50 percent the share of students who declared a STEM major in college and went on to actually graduate with a STEM degree, we would close 75 percent of the 1 million gap in STEM degrees over the next decade.

The second and most profound reason we should address this gap is the crisis of long-term unemployment. Today 42.8 percent of the unemployed have been out of work for 6 months or longer – near the most on record. Being unemployed for a short time is painful. But staying unemployed for too long can too often mean that you lose your house, your spouse, your health, and your ability to re-enter the workforce. Economists call this hysteresis, but it's common sense: the longer people stay out of work, the more likely they are to become the structural unemployed of the future.

- If you lose your job today, your likelihood of being employed in three months is about one in two. By contrast, if you lost your job six months ago, your likelihood of being employed in three months is about one in four.

- Andrew Oswald, an economist at the University of Warwick, has found that there is no circumstance that has a greater negative impact on mental health than being unemployed for six months or more.

- Economists Daniel Sullivan and Till Von Wachter have found that permanent job loss results in a 50 to 100 percent increase in mortality rates the year following displacement and 10 to 15 percent increases in mortality rates for the next 20 years.

Addressing this issue was one of the core rationales for the *American Jobs Act*, and in February 2012, the President signed into law many of the most important of these reforms to help long-term unemployed connect with the workforce:

- We put in place "work sharing" that allow firms to reduce hours rather that laying off workers, which reduced unemployment by 0.5 to 1 percentage points in Germany, Italy, and Japan during the crisis. We supported "bridge to work" programs which let workers take temporary, voluntary employment to build skills while continuing to receive UI.

- We are helping more unemployed workers start their own small businesses, which, according to a Labor Department study, makes participants 19 times more likely than eligible non-participants to be self-employed after unemployment.

- Finally, we are proposing a Pathways Back to Work Fund to support subsidized employment and promising reemployment strategies for the long-term unemployed and low-income adults, and disadvantaged and disconnected youth.

The point should be clear: if you are someone who is concerned about structural unemployment you should be obsessed with immediate job creating measures. You should be obsessed with warning everyone you can that if we do not undertake effective job creating and job-connecting policies right now, we as a nation risk allowing the crisis of long-term unemployment to add significantly to the future ranks of the structurally unemployed.

There is Nothing Fiscally Responsible about Shortchanging National Priorities

Just because we do cash accounting in the deficit – and don't allow 20-year feedback predictions to be scored as making some policies cost nothing or even make money – it does not mean it is not wise to think about long-term returns to larger goals of fiscal and economic policy.

A core motivator of many long-time proponents of fiscal discipline has been not only to avoid crowding out private capital through a higher deficit, but also crowding out our capacity to invest in children, research, and innovation.

Yet today, after the President already signed into law historic spending constraint that will bring our non-defense domestic spending to lowest level since Dwight Eisenhower, others are calling for more. The House Budget Resolution would continue to harshly cut this area, even though non-defense discretionary spending makes up only 16 percent of this year's budget and, as a percentage of GDP, has not significantly grown over successive years since the 1970s. It cuts this spending by an additional 20 percent from these historic cuts – a full $1.2 trillion more than recommended by Bowles-Simpson. This is the portion of the budget with key national priorities, from the Centers for Disease Control and the NSF and NIH, to Pell Grants and early interventions for children in poverty.

There are other times when blind cuts, blind constraint can be penny wise, but pound foolish. There is nothing fiscally responsible about deferred maintenance. If I choose to cancel my DirecTV NFL subscription, I save $230 in consumption. If I decide not to fix the pipe in my basement, I will just pay more later. If I do that, I shouldn't get points for being a fiscally disciplined father and husband. Some experts, like a bipartisan report for the Carnegie Endowment last year by former Sen. Bill Bradley, former Gov. Tom Ridge, and former GAO director David Walker put price tag of deferred maintenance in our transportation system at up to $85 billion per year.

Will there ever be a better time for deferred maintenance? With interest rates at 1.5 percent, hitting the lowest rate ever last week? With construction unemployment averaging 16.5 percent, and more than a million unemployed construction workers? Will there ever be a better time? Or to put it in another way: what is even the argument for not acting to address deferred maintenance in our schools, roads, railways, and airports in this time period?

Taking Shared Sacrifice Seriously

Finally, on long-term deficit reduction, I want to make one straightforward, essential point – the single largest obstacle to the kind of balanced approach embodied by Bowles-Simpson is the unwillingness of Republican leaders to put serious revenues on the table alongside serious entitlement reforms.

I say this not as a partisan point. I say it with disappointment. I believe that many Republicans know and understand this is untenable. But the disappointing reality is that their party's clear public position in the form of the House Republican Budget is to not raise a single penny of revenue. Not one. In fact, after an historic financial crisis that has devastated middle class families, the Budget actually calls for reducing revenue levels by several hundred billion dollars *below* extending all the Bush tax cuts.

This stubborn insistence blocks basic progress for three reasons:

First, inadequate revenue plays a major role in our deficit challenge. Of course, we face major challenges from long-term growth in national health spending and the demographic realities of the baby boom retirement. From 2000 through 2020, Social Security will retirees will grow from 45 million to 70 million, and Medicare will grow from 40 million to 64 million.

But all – and I mean all – of these realities were clear and predictable twelve years ago, when our nation was running surpluses as far as the eye could see. What changed? While the enormous costs of the Great Recession, two wars, and a new prescription drug benefit in Medicare that was unpaid for unquestionably played a major role in the swing from surpluses to historic deficits that President Obama inherited, a major contributor was the fact that the Bush Administration passed ongoing major tax cuts that favored the most fortunate without paying a single cent for them. While we strongly support the middle-class tax cuts, the decision to pass such deficit-increasing tax cuts with no offsets is a major reason why we face a deficit and debt challenge today.

Consider: when you look at the costs those unpaid-for tax cuts have already had on our debt and ongoing interest costs – plus the cost they would impose on the deficit each year if fully extended – it comes to a whopping $500 billion a year. Eliminate those costs and projected deficits from 2014 onwards would fall by more than 50 percent, and we would be facing a fairly strong and stable deficit path at the moment.

In this context, how can serious revenues not be on the table?

Second, dismissing serious revenues eliminates the power of compromise. The hallmark of every bipartisan deficit reduction agreement -- in 1983, 1990, 1997 – as well as recent deficit reduction proposals including Bowles-Simpson, Domenici-Rivlin, and the recommendation of a bipartisan group of 10 CEA chairs is the commitment to balance. This is even true of the deficit reduction plan put forward by Prime Minister Cameron in the UK that drew praise from many Republican members of Congress, but gets a third of its deficit reduction from revenues. The reasons is that true bipartisan agreements require everyone to hold hands and jump together – with clarity that all sides compromised for the sake of progress. The odds of that fall to roughly zero if serious revenues are off the table.

Third, asking the most fortunate to contribute is essential for the sense of shared sacrifice that is necessary for a broad-based commitment to long-term deficit reduction. We are a nation of people who are willing to contribute if we feel we are sharing the burden as well as the opportunities with everyone else. But without revenues, one is forced to make choices that give lie to this basic compact.

Take just the example of Medicaid. The Republican plan would repeal the *Affordable Care Act* which CBO says will mean 33 million people will no longer get coverage. On top of that, their Budget cuts the remaining Medicaid spending by one-third by the end of the decade.

Are there savings and efficiencies that can improve health care? Surely. But Medicaid spending per capita is already growing at 1 percent lower than private sector health costs each year, at 3.8 percent over 2010-2020, while private per-capita spending is growing at 5.0 percent.

And while I do not question the motives of those who designed and voted for a one-third Medicaid cut on top of ACA repeal, the tyranny of the math leaves no option other than harsh cuts in coverage for the most vulnerable in our society.

Consider the following: if all 33 million kids currently enrolled in Medicaid were cut from the program, it would only save 21.5 percent of the program's spending. In other words, if you force every child off Medicaid, you would only get around two-thirds of the savings the House Republican Budget calls for. The reason is that nearly two-thirds of the cost of Medicaid – around 64 percent – is dedicated to coverage for patients in nursing homes, the elderly, and for those with disabilities or families including children with disabilities.

How can we say as a people that when we have worst financial recession – caused substantially by those who were more fortunate – that when it comes to cleaning up fiscal mess, we must sustain cuts that are well beyond even cutting all children from Medicaid but not ask for one penny in revenues from the most fortunate? As the Bowles-Simpson Report says regarding mandatory programs for the most disadvantaged, "these programs provide vital means of support for the disadvantaged, and this report does not recommend any fundamental policy changes to these programs."

Even if one were to dial back from the most draconian measures like a one-third cut to Medicaid, how can the President or Congressional leaders go to civilian workers or farmers or rural hospitals and say there is no choice but to ask them to sacrifice when we are asking nothing of the most fortunate Americans?

Certainly we can do better. There is no reason that we as a country should not be able to come together on a balanced grand compromise that includes sound and smart long-term entitlement savings, revenues from those who are most able to contribute, immediate support for jobs and the recovery, combined with a serious plan to bring down and stabilize our debt as a percentage of GDP, while still protecting those who are most vulnerable, and the investments that have been historically critical to increasing productivity and shared growth.

Because we as a nation have unfortunately been resistant to coming to such politically difficult grand bargains when we do not have a gun to our head, we should embrace, as oppose to resist, carefully-designed enforcement mechanisms whose aim is to be so undesirable that they force all of us to come together and agree on the type of balanced compromise that most of us and most of our country understand is part of our path forward.

What we should put permanently to rest once and for all, however, is the effort by anyone in our political system of threatening to put our nation in default for the first time in its history as a means for pushing one's agenda. Few things could be as harmful to America's financial standing than an annual spectacle of an annual countdown clock as to whether or not America will be at risk of default. The era of threatening default by anyone of any party for any reason must be over.

Again, there is no reason we should not be able to come to a balanced and honorable fiscal solution. President Obama has been willing to put forward serious structural reforms to Medicare – including savings from new beneficiaries – that by 2022 are higher than Bowles-Simpson and generate greater deficit reduction in subsequent decades. He has detailed ambitious reforms from agricultural subsidies to pensions for federal civilian workers. He has shown his willingness to compromise on issues that are difficult politically for many of his supporters, and that ask for shared sacrifice from tens of millions of Americans.

Now what we need is a serious commitment from courageous leaders on all sides to come forward in the spirit of balance and shared sacrifice that has motivated past historic fiscal agreements.

We need to move beyond singular issues or the distraction of false debates to recognize the deep and nuanced choices and serious tradeoffs necessary to achieve not just cold hard deficit targets but the kind of inclusive economic growth that is consistent with strengthening a growing and more inclusive middle-class that is consistent with the values of our country.