Center for American Progress Action Fund

NEW DEMOCRACY PROJECT

White House Economic Overview

Defining Success for the New President's Economic Agenda

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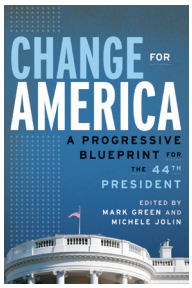

This chapter is part of an online effort by the Center for American Progress Action Fund and New Democracy Project to offer expert advice to the new administration as part of its *Change for America* book project.

Introduction

A successful presidency requires a clear and widely shared vision of the long-term economic objectives that the administration and its policy are to serve. In the early months—with heavy reference to the campaign pledges of the candidate and through preparation for the president's inaugural address, State of the Union address, and first budget—a governing economic vision emerges that should serve as a touchstone as the presidency matures. Of course, policy and strategy will be adjusted as conditions change, but the focus should remain on the larger objectives despite the short-term challenges. In shaping the vision, the new president and his team should consider that America's future prosperity depends upon addressing a number of central economic challenges. The 44th president will be judged by history (and perhaps the voters in 2012) on the extent of progress on these measures during his term.

Progressive Growth[1]

The new president was elected during a period of great economic stress—with mounting job losses, rising prices, a collapsing housing market and dramatic drops in home values, limits on credit availability and financial market liquidity, and capital markets in turmoil. What's more, an extended period of negative national saving rates, high consumption, and low levels of public and private investment during the Bush administration leave us with weak prospects for economic growth on the new president's watch and beyond.

These stressful conditions exacerbate the dismal circumstances that faced too many American workers well before the slowdown that started in 2007. Even when there was moderate aggregate growth in U.S. gross domestic product, only a small proportion of our population benefited. The connection between productivity gains and rising compensation, which existed in the late 1990s, was severed over the past eight years. Even before gas and food prices skyrocketed, health care, child care, and housing costs were rising faster

than wages. Seven million people joined the ranks of the uninsured. The middle class was squeezed from all sides, with lower incomes and higher prices resulting in record levels of debt. Consumers, too, assumed record levels of debt.

The new president must get the economy growing again, but growth alone is not sufficient for prosperity. Success for the new president will be an economy that creates new jobs at a faster rate than it loses them; offers rising wages, good benefits, and decent work; sees prices stabilize; offers all our citizens dignity;[2] improves the economic security of more Americans; and enhances the prospects for economic mobility for more families. Success, in other words, would be a rising tide that actually does lift all boats.[3]

Economic Mobility

In a dynamic global economy, even in good economic times, American workers face more frequent job changes and bear the economic risk of changing conditions once assumed by employers. The new president will be expected to lead the creation of a stronger social safety net, providing more economic security for American workers. Economic security, however, is not a sufficient measure of success. Without a basic safety net, people cannot take risks to get ahead. No one will take meager savings and invest in small business creation, for example, if they believe their children will have no health care if the business fails. The American Dream is not simply security but also having a chance to get ahead.

Polls say fewer and fewer Americans have confidence that they have the chance for a brighter future for themselves and their children. And they are right. Fewer American families are experiencing positive wage and wealth mobility across generations.[4] For African-American families, the prospects are especially chilling. The accident of birth too often determines one's life prospects. While economic mobility is implicit in a vision of progressive growth, the new president must put his focus explicitly on restoring ladders of opportunity and pathways of progress in American life. Success will be evident if conditions exist in which more of our people have a fair shot at the American Dream.

Transformation to a Low-Carbon Economy

Our economy today runs on a high-carbon base. Virtually every sector of our economy must change dramatically if we are to shift quickly our energy consumption patterns, reduce our dependence on carbon-based fuels, increase the efficiency of our energy use, and power more of our economy with renewable fuels. We must cap carbon emissions and adopt a host of complementary policies to drive the transformation to lower carbon fuels. If we act quickly, this transformation can create millions of new green jobs,[5] boost exports of green energy technologies, and lead to a vibrant recovery of our stagnant economy.[6] If we fail to act, we face additional economic burdens from the consequences

of climate change—more violent natural disasters, crop destruction, global instability from mass migration on other continents, and disruption of tourism from our nation's ski resorts to our coastal beaches.

The new president must make the transformation to a low-carbon economy the centerpiece of his economic agenda.[7] Understood correctly, a low-carbon economy becomes the solution to other great economic challenges of our day. But perceived as merely an environmental, energy, or even national security initiative, it will be difficult to muster sufficient impetus to make such significant change quickly, as the opponents of change will use our weakened economy to sow seeds of doubt in the public mind. Success for the 44th president means making a convincing case for the green economic revolution and leading the way toward greater energy efficiency, lower energy consumption, a low-carbon energy mix, and robust economic growth spurred by energy innovation.

Responsible Fiscal Policy

The new president faces a number of related fiscal policy challenges. The Bush administration failed to make essential investments in innovation, infrastructure, and human capital, all of which are essential to long-term economic growth. Military manpower and equipment were depleted, real security threats at home and abroad neglected, and our troops treated sometimes shamefully. Even after ending wasteful subsidies and programs, we will have insufficient revenue to pay for some of the investment required for a prosperous and just society.

The Bush administration also turned a fiscal surplus into a deficit, with enormous tax cuts skewed to the wealthy and an ill-conceived costly war. Rather than prepare for the coming challenges to entitlements—especially Medicare—the outgoing administration left plenty of red ink. Deficits of 2.5 percent of GDP pale in comparison to the deficits of 4.7 percent of GDP that Bill Clinton inherited in 1992. Yet deficit spending is appropriate today in the weak economy we now have, though over time we must restore balance to our national ledger. A net negative national savings rate leaves us dependent upon foreign capital, makes it impossible to fulfill our health and security commitments to retiring workers, reduces global confidence in our currency, and hurts America's global economic competitiveness. Most of the Bush tax cuts expire in 2010, forcing the new president to address these tough issues early.

In the face of these challenges, the new president must strike the right balance between essential investment and restoring fiscal balance. In the near term, with a weak economy, continued and even frontloaded deficit spending to spur economic growth and the clean energy transformation is appropriate. When the new president proposes a recovery plan, however, he must lay out a long-term plan for restoring fiscal balance. Short-term deficit spending to pay for green infrastructure to support a low-carbon transformation and spur

job creation in a weak economy is fiscally responsible, provided there is real commitment to using carbon cap-and-trade revenue to fill the hole. Both energy independence and job creation are essential to long-term GDP growth and the higher revenues that can restore fiscal balance. Success for the new president will be reducing the deficit as a share of GDP, after a short period of deficit-funded investment to jumpstart the economic recovery.[8]

A Competitive America

The new president will lead a country with an economy soon to be surpassed in total size by China, with American workers increasingly facing competition for their jobs from overseas, and with U.S. companies that do not always have economic interests closely aligned with that of our nation. Globalization has not worked to make life better for millions of Americans even as it has brought benefits to others. In the absence of a strategy for dealing with globalization that speaks to the prospects of more American families, the public will remain reasonably wary of further integration with the global economy.

The new president must offer an integrated domestic and international economic strategy that protects American interests, produces more new jobs for American workers than we lose to global competition, and creates new and innovative jobs that offer the prospect for good wages and decent work, not just for those with advanced technical degrees, but for the broader workforce at every skill level.[9] He must show how American manufacturing can compete, how our workers can gain new skills, how innovation can drive growth, and how the service economy can be transformed to offer job ladders and better prospects for its workers. Success for the new president is an American workforce confident in its ability to compete in the global economy.

Global Prosperity and Sustainable Security

America's recent conduct in global affairs leaves Americans lacking confidence that we are a force for progress around the world, and diminishes our credibility and authority abroad. This has serious consequences for our economic and national security and ability to shape the global economic system. A new focus on "sustainable security" requires attention to securing not merely "nation states, but also people," in which "human security targets the fundamental freedoms—from want and from fear—that define human dignity."[10]

When more of the world's citizens see the United States assisting to improve their daily lives, then and only then will the nation regain its power and influence in global matters, including the increasingly important governance of the global economy.[11] This "prosperity agenda" must include a high-level commitment to more coordinated and effective investment in "the education, health, livelihoods and economic security of the world's poorest,"[12] which is in both our moral and security interest. And it should include a strategy for

advancing "decent work"[13] in the emerging economies that most challenge our competitiveness. This later effort will also enhance U.S. economic and national security, because America's future depends upon more emerging economies gaining ground, while also sharing more widely the benefits of their rapid expansion.

As these economies build their own middle classes, create more consumption demand, establish their own economic institutions to protect workers, consumers, investors, intellectual and private property, and build their own forms of social safety nets, they will create demand for U.S. products and reduce reliance upon the American economy for global demand, while also raising wages in competitor nations—making U.S. companies and workers more competitive over time. The 44th president's trade, aid, and monetary policies must all be coordinated in support of this "virtuous circle."[14] Success for the new president will be more Americans doing well in a global economy, where other countries and their citizens are also experiencing rising incomes and prosperity, even as new global economic powers emerge alongside the United States.[15]

A Stable Global Financial System

The new president assumes responsibility for an economy that is still rocked by the economic shocks that flowed from the housing market meltdown. Whether or not credit constraints ease, the freefall in home values abates, and financial institutions stabilize, the policy challenges remain great. The U.S. housing and global credit crises revealed the consequences of allowing free-market orthodoxy to prevent responsible regulatory measures and the necessary redesign of an outdated regulatory system.

Global confidence in U.S. financial regulation is now diminished. The "entanglement at the roots" of regulated and unregulated financial institutions is now apparent. And the federal government had to explicitly assume responsibility for U.S. mortgage giants Fannie Mae and Freddie Mac with the potential for billions of dollars in taxpayer liabilities. Restoring a stable U.S. financial system will require reforms that cannot be designed with reference only to activities within U.S. territorial borders. National market regulators and finance ministers around the world will need to be engaged.

The faltering U.S .economy remains backstopped by the availability of global capital, including from sovereign wealth funds, but the competitive and security implications of cross-border ownership are not fully understood. Meanwhile, global security tensions move commodities and financial markets in ways often unrelated to underlying market demand, introducing non-economic factors into the regulatory equation. Success for the new administration will be achieving domestic and, where appropriate, international consensus on the redesign of our systems of home mortgage finance and financial institution regulation—for consumer protection, safety and soundness, and systemic risk. And all this needs to happen while ensuring the availability of risk capital—the engine of American opportunity and growth.

About the author

Sarah Rosen Wartell is the Executive Vice President for Management of American Progress. Previously, she served in the White House in the Clinton administration, after spending the first term at the Department of Housing and Urban Development. As Deputy Assistant to the President for Economic Policy and Deputy Director of the National Economic Council, she advised the president on banking, government insurance and financial markets, housing and community development, consumer protection, pensions, bankruptcy, e-commerce, and a host of other economic policy issues. She led large interagency policymaking efforts, represented the administration in legislative negotiations with Congress, and guided the creation of President Clinton's New Market's Initiative, to spur investment in underserved areas, and his Financial Privacy and Consumer Protection Plan.

Endnotes

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