



Building an Economy for All

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Four years after the financial collapse of 2008, joblessness in the United States remains rampant. Twenty-three million workers are looking for jobs or more hours, or have become discouraged and dropped out of the workforce altogether. Depression-era joblessness plagues some communities, especially communities of color. Flush times may have returned at the very top, but the heart of the economy is barely beating for most Americans.

As challenging as this immediate crisis is, the United States faces an even deeper problem – a shrinking middle class. Over the last thirty years, even as the U.S. economy grew and workers became much more productive, middle-class wages barely improved. Job-related pensions and health benefits are either unavailable or have become less generous and riskier. At the same time, the price of a college education has climbed, putting the squeeze on families and students trying to get ahead. All of this hurts the economy as well as the fortunes of each family. Without a strong middle class, businesses cannot prosper and communities deteriorate. The public mood turns sour, and public life becomes angry and divisive.

Austerity for Most – or a Turn to Prosperity Economics?

Faced with a persistent jobs shortage and a shrinking middle class, many on the right of the economic debate call for doubling-down on longstanding conservative economic priorities, especially cutting taxes for the rich; privatizing Medicare and Social Security; starving safety-net programs; and reducing public investments in education and infrastructure. “Austerity economics” is what we call this formula: Give more to the very rich and impose additional sacrifice on the rest, and somehow growth will take off and its benefits trickle down.

We know from our past that this theory is false. Indeed, giving more to the rich and squeezing non-affluent Americans is what led us into the current impasse. We propose a much more promising path, grounded in solid evidence from researchers who have studied the roots of prosperity in many nations. Our plan for “prosperity economics” starts with the fact that growth does not just drip down from a few rich investors, but wells up from innovations and productive work by millions of people in the economy as a whole. Government has a crucial role to play by unleashing widespread innovation, ensuring security, and helping everyone contribute. The best formula for growth is not special benefits for the rich, but enlarged opportunities for everyone.

Politics helps explain why prosperity for all and robust growth go together. Compelling research in economics and political science shows that inclusive political institutions and vibrant democracy are what set growing rich countries apart from stagnating nations. Where government is responsive to the broad citizenry, rather than a narrow slice of elites, countries take steps that make for innovative and sustained economic growth. They invest in education and transportation and state-of-the-art communication technologies; they use regulations, taxes, and social programs to make sure that the fruits of economic growth translate into a better quality of life for all citizens. In turn, citizens and their children propel more growth by consuming what businesses sell, working more productively, and creating the next rounds of innovations.

Our economy once worked that way, but today, the United States looks increasingly like unsuccessful countries. Influence-buying and efforts to discourage citizen participation mark U.S. politics – and not surprisingly, many recent government policies engorge the rich, squeeze the middle class, and reduce investments in the future. Among peer countries, the U.S. has the highest inequality and rates of relative poverty. Nor are we the unmatched land of opportunity: Youngsters in most other wealthy nations have a better chance of doing better than their parents than U.S. young people do, and our small business sector is smaller than in other advanced economies. Most important, the United States now lags behind other rich nations in economic gains for middle- and lower-income families. In short, too many U.S. policies aren't fostering a better standard of living for everyone – they're just helping the rich get fabulously richer.

Jumpstarting the Economy and Revitalizing U.S. Democracy

It won't be easy to turn things around, but we can jumpstart the process of rebuilding our economy as well as our democracy. Both must get healthier together.

- To get the economy out of its current hole, the first step is to make major investments in repairing roads and bridges, improving the electric grid, spreading high-speed internet, and creating state-of-the-art transportation facilities. We can also make fast progress by helping states and localities put teachers and first responders back to work.
- As we get the economy moving, we need to accelerate long-term growth through strategic investments in early childhood education and affordable college education for all qualified young people, along with increased investments in research and development to foster the new products and technologies that can let Americans compete in world markets.
- Security for workers and families matters, too, because people are more productive when they can count on health care and a decent retirement. Health coverage for all and improvements in Social Security and Medicare are essential to a vibrant middle-class economy, so the last thing we should do is slash these protections as Republicans are demanding.
- Jumpstarting growth, enlarging opportunity, and furthering family security will in turn restore citizens' faith in American government and public institutions.

It works the other way, too. In truth, fixing our democracy must go along with enacting more effective economic measures. Somehow, we have to break the pernicious cycle of policies that enrich the privileged – who then use part of their wealth to distort democracy. That is a formula for continued middle class decline. Instead, Americans must pull together to establish a virtuous cycle of shared prosperity grounded in a vibrant democracy responsive to the majority rather than just to the affluent and corporate lobbies. We must curb the power of the special interests and ensure that election campaigns are based on honest information and widespread public contributions. If we revitalize American democracy in this way, we can strengthen the middle class, boost opportunities for all, and put our nation on the high road to true prosperity.

Read more in Jacob Hacker and Nate Lowenthal, “Prosperity Economics: Building an Economy for All,” *Prosperity for All*, July 2012.