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Inclusive Prosperity Without the Prosperity: The Limits of the “Middle-Out” Strategy

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“Middle-Out” is the Consensus Strategy for Many Democrats

Report of the Commission on Inclusive Prosperity

Co-Chaired by Lawrence H. Summers and Ed Balls
Convened by the Center for American Progress    January 2015
What is “Middle-Out” Economics?

- Offered as alternative to conservative supply-side economics.

- Premised on the belief that the central challenge is inequality and that policy must focus on more equitable distribution of output.

- Asserts that increased public spending and incomes for the bottom 80 percent will generate better growth.
“Middle-Out” Missteps: Overstates Rising Inequality

**Claim:** “The bottom 90% of incomes have stagnated or even declined in recent years.”
(Source: Report of the Commission on Inclusive Prosperity)

**Reality:** According to CBO, average pre-tax, pre-transfer income for the bottom 90% has risen 42% since the 1970s.
(Source: Stephen Rose, “Was JFK Wrong? Does Rising Productivity No Longer Lead to Substantial Middle Class Income Gains?” ITIF, December 16, 2014)
Claim: “Sustainable aggregate demand is the virtuous cycle that is the engine of growth and innovation …”
(Source: Report of the Commission on Inclusive Prosperity)

Reality: Over the last half century, the correlation between employment and productivity is weak and sometimes negative.
Productivity Growth vs. Employment Growth

![Bar chart comparing productivity growth and employment growth from 1956-1960 to 2010-2014. The chart shows that productivity growth generally outpaces employment growth, with notable exceptions in the early 1970s and mid-2000s.](chart.png)
“Middle-Out” Missteps: Sees Productivity as a Problem

- **Claim**: A “fundamental challenge” is “the profound technological changes that … are also replacing traditional middle-income jobs.”
  (Source: Report of the Commission on Inclusive Prosperity)

- **Reality**: U.S. productivity growth is lower than it has been in decades. So: higher wages require higher productivity.
Most “Middle-Out” Policy Recommendations Will Do Little To Drive Growth

- Restoring residential spending by relaxing mortgage rules
- Protecting underemployed workers, such as contractors
- Increasing support for long-term unemployed young people
- Encouraging more mothers to work
- Increasing worker voice through unionization & other measures
- Facilitating new models of employee-owner relations
- Eliminating tax rules that shelter high-income households and corporations
- Tackling climate change
- Expanding immigration
But a Few Will

- Passing TPP and TPA
- Fighting currency manipulation
- Reforming corporate governance
- Raising the minimum wage
- Achieving “a world-class” school system
- Supporting apprenticeships and vocational education
The Washington Growth Debate
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<td>Means</td>
<td>Lower top tax rates and lower rates on capital, less regulation</td>
<td>Tax, expenditure, &amp; regulatory policies to boost innovation, skills, and investment in new equipment</td>
<td>Public spending, progressive taxes, and stronger regulation</td>
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An Innovation Economics Agenda

- Spur enterprise demand for R&D, new machinery and software, and worker skills – the enablers of productivity, innovation, and competitiveness.
  - Spur digital transformation in key industries and on key tech platforms
  - Strengthen manufacturing
  - Increase public R&D expenditures and private R&D incentives
  - Reform the corporate tax system by lowering the rate while expanding strong incentives for investment
  - Establish a national traded-sector strategy
  - Expand high-skill immigration
Growth Vs. Redistribution
Thank You

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