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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


Center for American Progress

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)

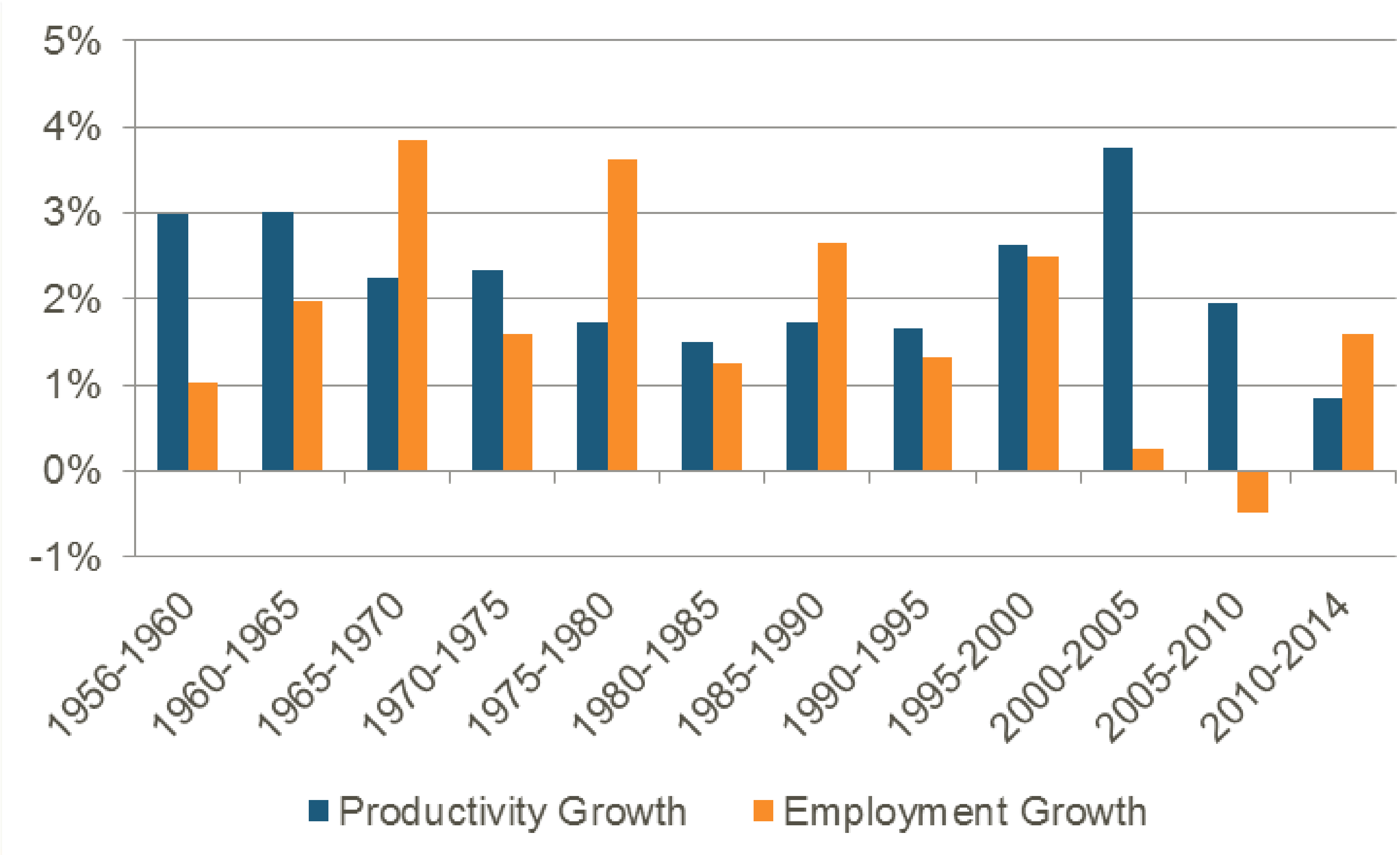
"Middle-Out" Missteps: Sees Demand Driving Growth

- **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.

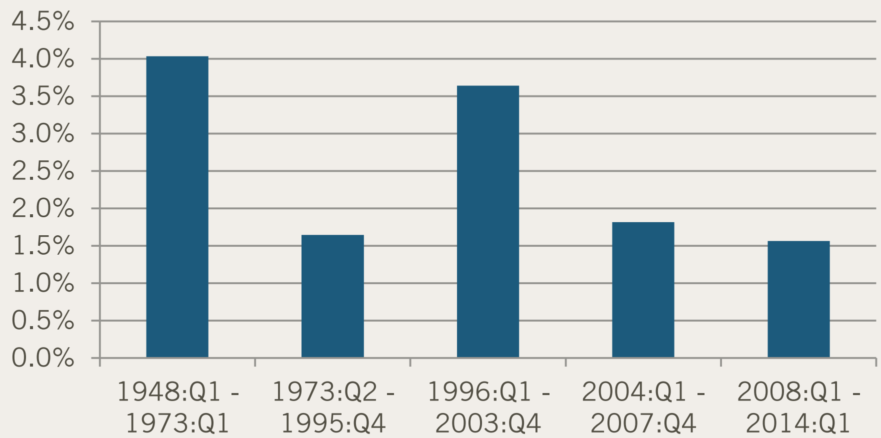
Productivity Growth vs. Employment Growth



"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

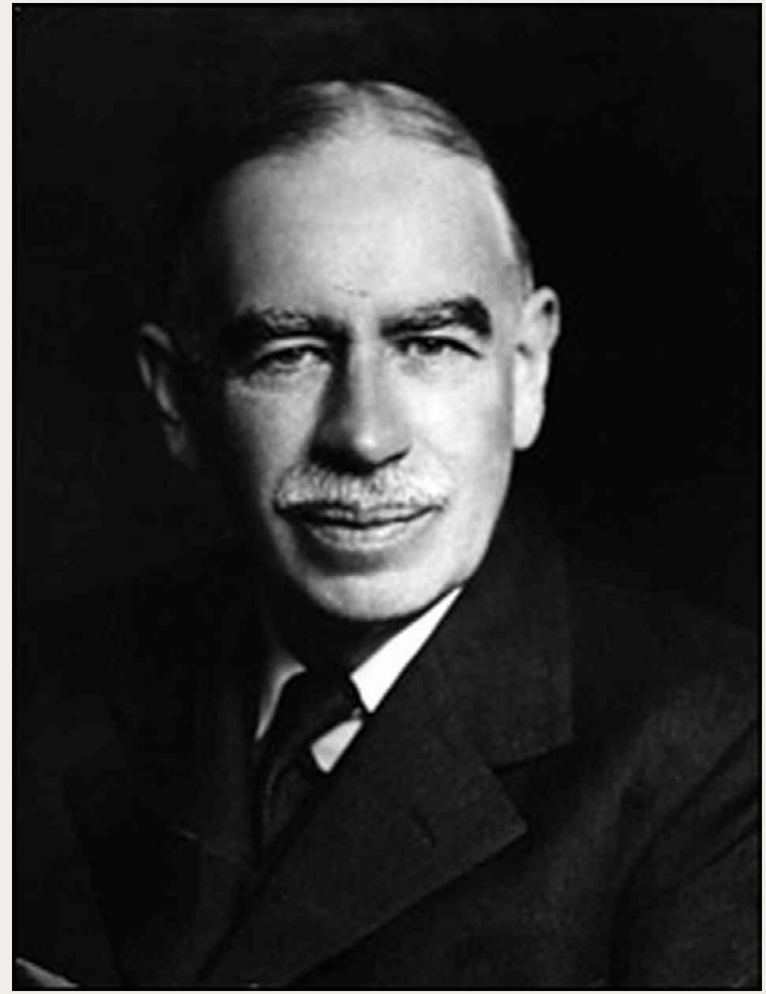
- Restoring residential spending by relaxing mortgage rules
- Protecting underemployed workers, such as contractors
- Increasing support for long-term unemployed young people
- Encouraging more mothers to work
- Increasing worker voice through unionization & other measures
- Facilitating new models of 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

vs.



There's a Better Way: Innovation Economics

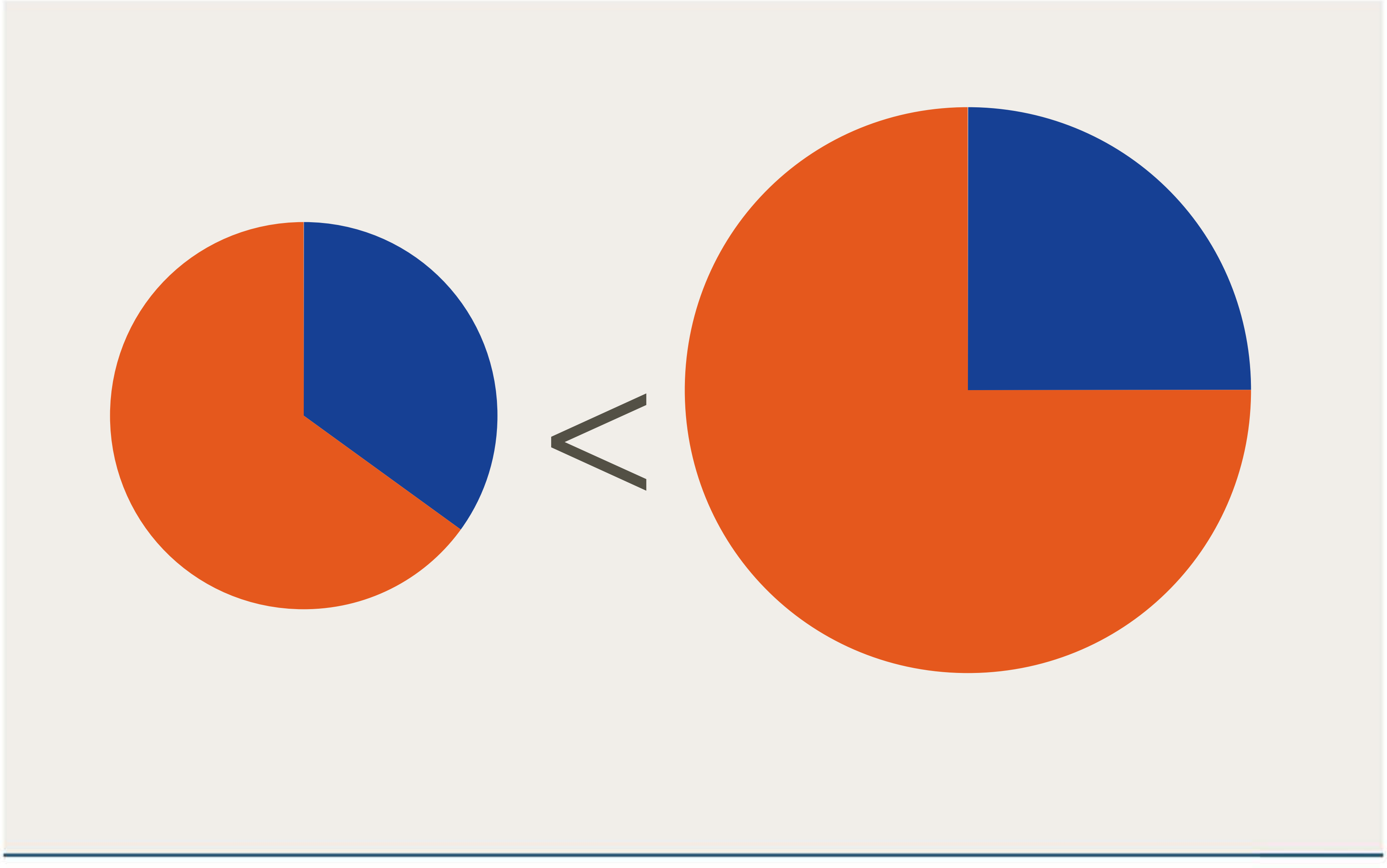
	Conservative Neoclassical	Innovation Economics	Neo-Keynesian "Middle Out"
Locus of growth	Supply side (individuals and organizations)	**Supply side (organizations and entrepreneurs)**	Demand side
Principal goal	Liberty	**Growth and innovation**	Fairness
Main actors	Consumers and wealthy	**All residents**	Workers
Growth drivers	Accumulation of capital	**Investment to drive productivity and innovation**	Consumer spending
Process	Allocative efficiency	**Productive efficiency and adaptive efficiency**	Consumer demand and full employment
Means	Lower top tax rates and lower rates on capital, less regulation	**Tax, expenditure, & regulatory policies to boost innovation, skills, and investment in new equipment**	Public spending, progressive taxes, and stronger regulation

An Innovation Economics Agenda

- Spur enterprise demand for R&D, new machinery and software, and worker skills – the enablers of productivity, innovation, and competiveness.

  - ✓ 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



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Thank You

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