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AMERICA'S ENDANGERED MIDDLE CLASS: EXPLORING PROGRESSIVE AND CONSERVATIVE REMEDIES

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P R O C E E D I N G S

MR. DIONNE: I want to welcome everyone here today for this discussion of America's endangered middle class. This discussion was inspired by the new issue of *The American Prospect*. There's a special report inside called "America's Endangered Middle Class," and I really want to begin by thanking Bob Kuttner for calling up and saying why don't we do a panel on this. And I want to thank -- and I will thank again -- all the participants.

Before I offer about a minute and a half of opening remarks -- because this will be a very exciting discussion I might forget at the end -- I really want to thank a number of people for helping put this together. Darrell West, our director of Governmental Studies; Emily Luken, who at the very beginning helped organize this; Christine Jacobs, John Sao, Ed Demos. I want to thank Jenny Konducha and Tim Rush and of course Bob himself.

And I want to say that in the Q&A I will especially welcome questions from any Wisconsin Democratic Senator hiding in this audience. Your secret's safe with me.

This is a very important subject. I just want to put sort of two ideas on the table before I introduce our audience. I'll go in reverse importance. Does this matter in politics? Well, I think this question matters usually in politics. One fact from the last election. The Democrats, in losing the House, lost the white working class voters by 30 percentage points. This compares to losing by 10 percentage points in the previous two elections. I think it's impossible to look at those numbers and not say that there is enormous pressure here that's having real political impact. And, by the way, the African-American vote -- the Democrat's share didn't drop, but the actual turnout dropped. And so I think this -- now, some of that was natural, given the extraordinary turnout in 2008. Nonetheless, I think these pressures are being felt across racial and ethnic lines in our country.

The second point I'd make is when we look at the crisis we're in, it originated in many ways in Wall Street shenanigans, but consider the following, that from roughly 1950 through the early 1970s the American middle class increased its standard of living by increasing its income. As productivity went up, so did the middle-class incomes. Since then, there has been a stagnation of middle-class incomes, and in order to keep up, people have had to resort to debt rather than increases in their wages. This has caused an enormous set of problems in our country, and while there is a tendency to talk about individual indebtedness entirely in moral terms as if there is something wrong with people trying to keep up their living standards, I think this underlying force, a stagnation of incomes, has forced people to do things that they would really rather not do. I can bet you that most people would rather increase their living standards by increasing their incomes, not their indebtednesses.

We have an all-star cast. Kuttner taught me this line many years. This panel is made up of the all-star team the Red Sox traded. We don't do that sort of thing anymore -- we Red Sox -- the Red Sox -- and we're very grateful for that.

Bob is going to kick the discussion off basically to talk about what has happened to the middle class. He is co-editor of *The American Prospect*. He's a distinguished Senior Fellow at Demos, a long-time columnist for *Business Week*. He writes columns for *The Boston Globe* and *The New York Times* international edition. His most recent book is *A Presidency in Peril*, and among his previous eight books, one of his best known is *Everything for Sale: The Virtues and Limits of Markets*.

He will be followed by my dear colleague and friend, Ron Haskins, and I have somehow stuck my Ron Haskins bio --

MR. HASKINS: Oh, here, I'll introduce him.

MR. DIONNE: Oh, there you are. There's my -- you can make it up for me. You can say anything you want.

Ron Haskins is a Senior Fellow in the Economic Studies program here at Brookings. He is co-director of the Center On Children and Families. He's senior consultant to the Annie E. Casey Foundation. He is the author of *Work Over Welfare: The Inside Story of the 1996 Welfare Reform Law*.

I should say that when that book was coming out Ron and I chatted amiably about it, and given where I stood on welfare reform he said he had wanted, as the cover, a picture of me with egg on my face. I disagreed with that assessment -- still do -- but I told him you have to have conservative readers. My picture even with egg on my face would turn off your conservative readership. So, he didn't do that.

He is also the co-author of *Creating an Opportunity Society*, and he is senior editor of *The Future of Children*. He served 14 years on the staff of the House Ways and Means Human Resources Subcommittee, and he was the Committee's staff director after the Republicans took control of the House in 1994.

It is a great personal joy for me to welcome Jacob Hacker back to the Brookings Institution. I am very proud to say that Jacob wrote his PhD thesis outside my office at Brookings, and so for about 9, 10 months I was able to talk with Jacob probably three, four, five times a day, and I was greatly instructed by the experience. He is a professor of Political Science at Yale University. He has written on all sorts of things, including health care and social policy and politics.

If I remember right, your first book was actually based on your undergraduate thesis. That makes a lot of people jealous.

His most recent book, which is just out in paperback --

Why don't you hold it up, Jacob, so we can promote it here.

-- is called *Winner take all: Politics*, co-authored with Paul Pierson. He's also the author of *The Great Risk Shift: The New Economic Insecurity and the Decline of the American* Dream; *The Divided Welfare State; The Road to Nowhere: The Genesis of President Clinton's Plan for Health Security*. And he has appeared everywhere. His articles have appeared just about everywhere -- not in *The National Review* I guess but many other -- or *The Weekly Standard* -- but many other places.

And then bless her for joining us -- Maya MacGuineas. She is president of the Committee for a Responsible Federal Budget, which is housed now at the New America Foundation. She's director of the Fiscal Studies Program. She oversees the Foundation's efforts to bring accountability to the budget process. She, too, has appeared in many, many publications. She did a stint on *The Washington Post* editorial board, and I am also happy that I am welcoming Maya back to Brookings. She worked at the Brookings Institution and also on Wall Street, and she received her Masters from the Kennedy School of Government at Harvard, and I think all of you know of Maya's work.

So, it's a great panel.

I'm just going to open with a question that could allow people to speak all day, but since we're going to try to keep this moving, I'd ask everybody to hold their answer to about three or four minutes. The question is: Is the American middle class in trouble, the very premise of this event? If so, why and, very briefly, what can policy and politics do about this? And then we'll elaborate on it. And I just want to assure the audience you will be called in, including that stray, a Wisconsin senator who's hiding somewhere in the audience.

I'll start with Bob Kuttner. Why don't we go Bob Kuttner, Ron Haskins, Jacob Hacker, and Maya.

MR. KUTTNER: Thank you, E.J. Thank you to Brookings for convening this.

I'm going to talk about how the American middle class was constructed, and then Jacob is going to talk about how it is being demolished. And the thesis is very simple. The American middle class did not just happen. It was socially constructed, particularly since World War II.

Some of it had to do with mobility and opportunity; some of it had to do with an egalitarian distribution of benefits of a growing economy; all of it was grounded in a better, broader distribution of political and economic power. And some of the institutions that built and sustained the American middle class through the 1970s before the great reversal included post-war institutions such as the GI Bill, federally insured cheap mortgages anchored in a system of public institutions, not-for-profit institutions, affordable public higher education.

Some of it was a byproduct of World War II, which made it okay to spend at a level of deficits averaging about 25 percent of GDP per year for the four war years so that we had a national debt of 120 percent of GDP at the end of the war but far from creating a depression, this power of the post-war recovery. The war also, through the War Labor Board, complemented the Wagner Act, because Roosevelt's policy was that if you wanted a defense contract during the war you had to have labor peace, and that meant that you couldn't bust unions if a majority of your workers wanted to exercise their rights under the Wagner Act. So, the labor movement came out of World War II both as the anchor of the New Deal Coalition and these other progressive policies that led to broad distribution of wealth and income, and also of course it was possible to organize workers. The foothold that organized labor got in the Deep South was the result of war production contracts and the policies of the War Production Board.

So, all of this didn't just happen. It was the result of government policies. Some of them were echoes of earlier government policies that had spread the wealth around, most of them having to do with land tenure -- Jefferson's laws on land tenure prohibiting speculation in the new lands of the Louisiana Purchase -- you had to be an owner-occupant; Lincoln's Homestead Acts; and the Land Grant Universities -- these are public institutions that promoted opportunity and mobility.

Now, it was a little easier that we could steal land from the Indians, but in those years assets were primarily land and I looked up the census for 1990. There were home ownership rates of 60 and 70 percent and up in the states west of Ohio because of the Homestead Acts. So, the New Deal built on a tradition, again, of public intervention for the sake -- as Joe the plumber would say -- of spreading the wealth around. It didn't just happen. And all of this started unraveling, for reasons that Jacob will describe, in the 1970s.

I think it's the great hidden issue of American politics. It's obscured, because the erosion of the middle class, the role of public institutions and social investment, the role of the labor movement -- this is not what most Americans are debating. Most Americans, unfortunately, are debating how we pay down the national debt as if that were the main impediment to either recovery or a broader distribution of wealth and income or of rescuing the middle class. But I think privately people are terribly worried about downward mobility. They're terribly worried that what they pass on to their children will not be as good as what they had, and this extends fairly up the income ladder.

We've reached a point in this society where what you pass on to your children is a function not of what they can do for themselves but of what kind of a grub steak you can give them to get started.

So, we're going to argue that the two faces of conservatism ably represented at this table -- the austerity face to my left and the conservative opportunity face to my right -- don't have solutions and that even though it's (laughter) --

MR. DIONNE: Let the mudslinging begin.

MR. KUTTNER: -- that neither the Pete Peterson story that we can deflate our way to our recovery nor the story that all we have to do is get incentives right is going to fix what's wrong with the middle class, that even though it's terribly out of fashion we're going to have to go back to a strength in labor movement. And if you can get some sympathy for the labor movement based on public employees, which seems to be happening in Wisconsin, then anything is possible, and on increased social investment of the sort that built the middle class after World War II. So, forgive me for personalizing this, but I think it's interesting that there are two axes of debate represented here. It's progressive social investment versus budget balance and belt-tightening on the one hand; it's progressive social investment versus an incentive story, a conservative opportunity story on the other hand; and I think -- I hope by the end of this morning you will be convinced that the progressive solutions are the only solutions that can credibly restore the middle class.

Thank you.

MR. DIONNE: And now it's Ron Haskins turn to politely insult Bob Kuttner (laughter).

MR. HASKINS: Well, let me begin by insulting E.J. E.J. always invites me to events like this, usually, you know, I'm the odd man out. He's improving a little bit, though, because he has me sitting where Jacob is, and then when he introduces me he can say, "And on the far right -- oh, I'm sorry, I didn't mean that, Ron, that's where you're seated," you know. So, he's getting better.

I thought I was going to be the odd man out, but if Bob's introduction is correct, maybe it's going to be Maya, which is fine with me. You know, go ahead and criticize Maya.

First, let me stipulate. We've had a dramatic increased inequality in the country. There's no question about that. Some people try to argue that point that it isn't true, and I think that, you know, it's crazy for anybody to do that. Every dataset that I'm aware of shows that there's huge, increased inequality. I would argue it's primarily at the top, and here we're going to bore everybody to death I'm sure, because I predict before this morning is over we're going to get into a debate about datasets and what you have to do to datasets to make them look good. So, there is big inequality at the top. I don't particularly like it, but the policies that we have other than taxation, which already is very disproportionate at the top -- I'm not sure what else we can do. We could try to limit the heads of corporations or give the boards more power so they can control their wages. There are some possibilities, which I'm sure a lot of people would be willing to try, but there's no guarantee that these things will work.

So, let me just put two things on the table to begin with, because I want to make sure Jacob has plenty to criticize us about. The first one is that from 1979 to 2007 the per capita GDP in the United States grew by 66 percent. So, we have a great economy. Funny to say that now because a little trouble with the economy now, but it is going to come back and we'll be rolling again. There will be a lot of jobs. I don't see why anybody would predict that that would not be the case. And so there's plenty of raw material to have a society where a lot of people can do well, not unlike Bob described in the beginning.

And the second thing is the complaint about the middle class dwindling is just -- to me it's not an accurate argument consistent with the data. If you look at prime age adults and look at the entire distribution of prime age adults -- that's between 25 and 60 years old -- between 1979 and 2008, you will see that in the middle of the distribution there was a fairly substantial decline of 12 percent; hence, the middle class is declining.

Now, if we look at the upper end of the distribution -- in this case defined as 105,000 -- you do this analysis a lot of different ways -- it increased 12 percent. So, everything below 105,000 went down and over 105,000 increased -- I said 12 percent -- 12 percentage points -- a hundred percent. It went from 13 percent to 26 percent -- 27 percent.

So, there has been, I think, a fairly, somewhat equal distribution at least in the sense that we're making a lot more people over a hundred thousand and we're moving people gradually out of the bottom and the middle toward the top. So, that seems like a fairly good pattern. There are still people at the bottom, a lot of problems at the bottom. I hope we have a chance to talk about that today.

So, now, the last part of E.J.'s question is what shall we do? The first thing, to step right into Bob's trap here -- you know, the only reason that we're dealing with the debt evidently has something to do with the distribution of income in a country. We're dealing with the debt, because we're going down the tubes if we don't and everybody's going down the tubes, and I would point out the poor are a lot more reliant on government benefits than the middle class is and than the upper class is. So, the poor -- if the government really has trouble, the poor are going to hurt the worst.

Second thing is I think we should spend more money -- and this is going to be, I can see already, looking at the house -- it's going to be hard to, you know, invest at the same time that you're cutting the deficit, because there's going to be -- we're going to cut with a sledge hammer I'm afraid. But we need more kids to go to two- and four-year colleges. To me, that is probably the single, most important thing.

There are amazing data -- we can get into this if you want to -- about how much a difference a four-year college education makes, even to kids from the bottom. Kids from the bottom -- the bottom 20 percent -- can increase their chances of making it all the way to the top by a factor of 4 -- from 5 percent to 19 percent -- if they have a four-year college degree. Now, there are some slight deviance and so forth, so it's not entirely accurate to say that, but that's what the actual data shows.

And then third, again to step into Bob's trap and give him plenty to talk about, there's just no way that we can be successful without increased personal responsibility. Americans are making a lot of fundamental mistakes. Bell and I did an analysis that shows again there's some selectivity issues, but if you graduate from high school or, even better, a two-year college or some post-high school training -- but if you look at the people that graduate from high school and get a job and work full time, get married, and then have kids and do it in that order, the probability they'll live in poverty in a given year is about 2 percent. The probability of making middle class defined as over 50,000 is over 70 percent. So, individual responsibility, making the right decisions, finishing your education, getting a job, and only having children after you're married makes a huge difference. If we did those three policies, I think we wouldn't have to have this debate again.

MR. DIONNE: Thank you very much. The problem with politics, actually, Ron, is I can no longer, given where things have moved, no longer describe you as on the far right. And so it's very good to have you here.

Jacob Hacker.

MR. HACKER: Well, I hope that you can't describe me as far right, either. But, E.J., I will say I very fondly remember those conversations, and if I had not been at Brookings working on my dissertation, my dissertation would have been done quite a bit sooner. (Laughter) However, it would have been a lot less good. So, thank you. And I'll say the same thing about my essay for this special issue of *The American Prospect*, because Bob was the editor. So, it would have been done sooner, but it wouldn't have been as good if Bob hadn't been involved.

So, I am actually going to summarize my answers here. Yes, the middle class is in trouble. It's in trouble because of failure of our politics and policy and the only way to deal with that is to fix our politics and policy, but I'll actually expand on that just slightly. And since I'm to the right of Ron, I'm going to start by saying that I substantially agree with several of his key points.

I think the place to begin is to think about what the middle class means is not about income categories but about a vision of American society, and that vision is one where people who work hard and play by the rules have a good shot at upward mobility and the security of a basic safety net.

Now, in the wake of the great recession, and even before then, Americans were very concerned about the future of this vision, of America as a middle-class nation. Just recently there was a poll that was done that showed that only half of Americans said that if you work hard and play by the rules you'll get ahead, which is a pretty stunning decline and reflective, I think, of the current economic strains alongside a longer-term shift in America's sense of optimism and about their economic future.

What is the source of that? I think there are two main sources. The first is rising economic insecurity rather than inequality, which I'll talk about in a moment. But the change that even college-educated workers will get good benefits at their place has declined dramatically. There is more instability of economic standing. In this current downturn, of course job security has been very badly crippled, and it's the fact that people feel like they're facing greater economic risk with their homes, their health care, their retirement savings in limbo alongside a feeling that society as a whole isn't producing strong gains for the middle that is really crucial to understanding, I think, both the problems we face and the underlying sources of public discontent.

So, the rising inequality that we've seen and there's no denying really has to be understood against this backdrop of a feeling that that basic ideal of the American dream is in doubt.

Now, the common view of this is that this is really driven by forces external to politics and policies, that globalization and technological change, the increased competition from China, and particularly in recent years, really means that middle class workers, particularly those that David Autor says are getting routinized tasks, are going to get hammered, and there's going to be a polarization of the labor market on that basis.

I want to just -- in following up on what Bob said about how the middle class was built, or constructed, I want to talk a little bit about how politics and policy were really at the heart of deconstructing the middle class in the face of these changes. So, without denying the influences of these external forces, I think it's really important to understand just how much the way in which those forces affected Americans was driven by some of these policy shifts.

And I think the most important thing to remember is what Ron pointed out, which is that we have not experienced a period of cataclysmically low economic growth. The overall economy has expanded handsomely over the 1979-2007 period. But most of the gains of that growth have gone to the upper income groups. In fact, fully 40 percent of the after-tax, after-government benefit gains of economic growth from 1979-2007 accrued to the richest 1 percent of Americans, and the implication of that is that for middle-class families, income growth has been very slow. For the middle fifth, it's been 20 percent over that period, 21 percent over this period compared with 258 percent for the top 1 percent. That 21 percent, moreover, is mostly due to increased work hours, right, as families have worked more hours, mostly represented by the movement of a second earner into the work force.

So, families are responding to these pressures, and they are stepping up their work effort, but it's not been enough. And I think that we have to take seriously the idea that a different set of policies could have produced similar levels of economic growth more broadly distributed.

Even if we don't accept that view, I don't think there's any reason to think that the social contract the United States had, so heavily relying on employers to provide benefits, would have to be shredded as it has been over the last generation. After all, we've seen in debates over health care and now retirement pensions real discussions about alternatives to making employers the first line of defense for workers buffeted by the winds of economic change, and those debates have essentially featured a holding pattern where we've let employers increasingly drop benefits. Retiree benefits are a thing of the past. To find benefit pensions that were once considered the hallmark of a good job are no longer around. And we haven't put anything reasonable in its place. And important to understand, this is not about deficits and costs, right? In many cases, we could actually spend less as a society on these benefits if they were provided through -- and means that allow all citizens to obtain them rather than just those fortunate enough to get them through their workplace.

And, finally -- and here I do disagree with Ron -- I don't think tax policy is the only or even the most important tool by which government has embedded the decline of the middle class or could reverse it. But I would say that tax policy has not grown more progressive in the ways that we often assume. So, for example, if you look at total federal taxes from the 1970s to the mid-2000s using the work of Piketty and Saez but which comports with the work of others, what you've seen is that the Tax Code used to be very progressive at the top of the income distribution. But over the last generation, basically the very, very rich are paying roughly the same tax rates as the rich. And, yes, the share of overall taxes paid by the top one percent, say, has increased, but their share of income has increased so much more dramatically that in fact they're paying a lower share of their income in federal taxes than they did just a generation ago. And I could elaborate on that point but I won't. So -- but taxes have become less progressive, and we've seen that debate play out in recent years pretty dramatically.

But it's not just tax policy. I'll just mention that government also has an enormous amount of influence over the way the market distributes economic rewards -- through support for labor unions, through regulation of financial markets, through the basic rules of the game for corporate governance and executive pay. And these things matter. We know across countries that distributions are very different. CEO pay, for example, is multiples higher in the United States and other countries and much less responsive to performance. We know that across countries the way in which finance evolved over the last generation was very different.

And we know -- and I'll say this as sort of the last point -- we know that these developments have imposed real costs on Americans. After the deepest economic downturn since the great depression, how can we deny that the deregulation of financial markets pose real risks for the middle class? So, I would just say that there is a lot more that was behind the increasing strength of the middle class than just changes in those visible top (inaudible) policies, like taxes, and those are precisely where we need to focus our attention.

And sorry to belabor this, but if this is indeed a story about policy, then it's also a story about politics, and the real development, the undergirds as it seems to me, is the declining ability of middle-class America to gain a representation in politics, not just through unions but through broad-based civic associations that once created what my co-author, Paul Pierson, and I called a middle-class democracy. As those at the top have gained economic power, we've seen a decline of that middle-class democracy, and to my mind it's really fixing that imbalance. It's probably the ultimate --

the only real reliable way, over the long term, to restore the middle class.

MR. DIONNE: Jacob, thank you.

Now you know why it was so much fun to have Jacob outside my office.

And I want you to elaborate on this theme of your book before we're done, because I think that goes to the heart of this.

If Maya is the face of austerity, then austerity has never been so lovely. Maya MacGuineas. (Laughter)

MS. MacGUINEAS: Gosh. Well, I was obviously going to start my remarks by thanking Bob Kuttner for the lovely introduction -- (laughter) -- but I'm going to switch and thank E.J.

Okay, so obviously one of my biggest focuses these days certainly is on fiscal policy and concerns about budget deficits and where the country is headed in that. But my other passion has always been income inequality, and it has been those two that I see as fitting together, not at odds with each other.

So, I'm actually always sort of surprised to see that they're seen as in different camps. I don't see them that way at all. What I see is that if you think about economic policymakers, they really have a dual mandate, and that mandate is how do you promote economic growth for our country, and how do you make sure that the gains are shared fairly. And I think that has happened in this country is that the focus has been on the growth part and has sacrificed the sharing the gains part, and that's happened for a lot -- I think that's the three main policies.

One of the things I told E.J. I hope we talk about today is how you actually solve this, but the three points that have been brought up that I'll go through as well how I see them but I think the parts where we're falling down on that are tax policy, spending policy, and our institutions; and all of them need to be changed in ways to deal with this problem, which I think is very, very real, threatens economic cohesion, threatens economic well-being, and needs to be dealt with in a thoughtful and hopefully less polarizing way.

So, I guess one of the questions is: Are there times when you want to take policies that are not the best for economic growth and pursue them because of the distributional impacts, and different people have different answers in my mind. Absolutely. Absolutely, there are times when you want to sacrifice economic growth for distributional issues.

But I also think the goal here is to try to get both of them maximized. So, if I were focusing on economic growth peace, I think there's three main things that we need to think about, given where we are in the economy right now: fiscal policy, tax policy, and investment policy. So, on the fiscal policy side there is no question that we are on a nonsustainable path and that this threatens absolutely every part of the economy. Again, Ron made this point, but Bob sort of talked about why people are focusing on deficits and debt when clearly that's not the biggest piece of the economic recovery or dealing with the middle class. That's not why you focus on them. You focus on them, because right now we're on a trajectory that if no changes are made, we will hit some kind of fiscal wall, and that will -- it is not exaggerating to say -- result in some kind of fiscal crisis. We don't know whether that will kind of be a slow burn or an abrupt change in our economy. But the result of that will be leaving all of the kinds of policies that anyone's concerned about in worse shape than they would be if we were to deal with the fiscal issues in advance of any kind of crisis. So, it's really crisis management. It's not that dealing with deficits and debt in and of themselves is the solution to the declining middle class.

In terms of -- tax policies is where my preference is probably different than some of the other panelists. I believe that keeping an overall tax policy that's conducive to economic growth is desirable, meaning we can't tax our way out of the fiscal problems that we have. Higher levels of tax certainly have a drain on economic growth, so you want to solve as many problems as you can with as low tax rates as you can while still paying for whatever your national priorities are and as smart tax policies as possible.

Luckily, when we look at tax policy we start from about the world's worst tax system that you could have ever conceived of, so there's great, great places where you can make improvements and find ways to get additional revenues, because -- I should be clear when I say that -- we need more revenues. Taxes will have to go up. My concern is that they don't go up in a way that is excessive or that they don't go up in a way that isn't smart in terms of promoting economic growth. And I'll talk about some of those in a moment, too.

Finally, the investment piece of this. We have, for years, in this country -- decades, really -- been very short changed, short-term focused in our spending priorities, and we focus on consumption programs rather than investment programs. In my dream world, we would fix the budget by getting the numbers to add up, but also in a smart way where we completely reprioritize away from subsidizing or spending money on consumption and focusing on investments. Whether that's an infrastructure, basic R&D, or I think probably the most important one, which is human capital, which again goes to a lot of what we're talking about here.

Just in specifics, in terms of tax policy, I'll put out four ideas of things that I think we should be changing in tax policy. We need to have more progressive tax policy, but rather than doing it through an income tax where higher income rates, which I could live with -- I mean, certainly higher than they are now I could live with, and I could live with a higher tax rate at the top, but I'd rather have that tax base be on consumption. And there's something called a progressive consumption tax, which is a really, I think, clever tax where you have higher tax rates on the more you spend not the more you earn. And it manages to be a more progressive tax if you structure it to be so, which I would, on a better tax base, so it would promote saving and economic growth.

Another idea is tax expenditure reform. We have over a trillion dollars in lost revenues a year in the Tax Code because of all the targeted tax breaks, deductions, exemptions, exclusions; and it's a really bad way to budget. So many of these are very, very aggressive, because you get a larger tax break the higher tax income you're in. They don't have nearly the same kind of scrutiny that a normal spending program would have. You would never have a member of Congress saying, "What we really need is a new spending program to help millionaires buy vacation homes," but of course we subsidize that through the Tax Code. And once these things are put in place, they're on automatic pilot. They're the entitlements of -- sort of these shadow entitlements, and so reforming tax expenditures I think is a great way to go at part of this problem.

I'm all for a sur-tax on high incomes. I would include cap gains, dividends, everything, no deductions, and I think income inequality has become so out of whack from where it should be that I think we should be talking about a sur-tax. But, again, I still like this idea of a consumption base wherever possible.

Finally, the debate in tax policy that confounds me the most is the estate tax. This makes me -- I've written a lot of opeds that have gotten me no fans. One, you know, eliminate the home mortgage introduction. That does not go well with the public. But another one that gets you a lot of hate mail is saying it doesn't make sense at all what we do with the estate tax. I would tax all inheritances -- not from the first million, not from the first three and a half million, but all inheritances at least as much as we tax income. I have never understood why on earth we subsidize money that you don't earn and tax it at a lower rate than somebody who's making minimum wage. It makes no sense to me. But the debate is so far in a different place than that that, you know, if you agree with that idea, which most people don't, don't write about it, because you really get mean, mean letters. (Laughter)

MR. HASKINS: I can confirm that, actually.

MS. MacGUINEAS: Yeah. Really, it's not popular.

So, on the spending side, I also think, you know, we have to dramatically shift what our priorities are. The piece of this that will get me the most resistance from the Bobs of the world is when I talk about reforming entitlement. So, I don't understand -- I think we should have a more progressive tax system, and I think we should have a more progressive spending system, which means spend a lot less on the people who don't need it.

So, when I'm looking through the whole budget and trying to figure out how to how to get those numbers to add up, I would take a whole lot of money out of middle class entitlements in order to preserve it for people who depend on Social Security, Medicare, and Medicaid; use that money to both close the fiscal gap and spend more on investments. There's a lot of resistance there. One thing I'll never understand -- I'll just use Social Security as an example -- why those on the left want to raise the Social Security tax for the rich and those on the right want to cut Social Security benefits for the rich. And they're the same thing, right? It just depends on when you take away that money from somebody. You either tax it from them or you take it away from them once they have the benefit, except raising the taxes probably creates worse incentives along the way. So, there's so much fighting about this. But in the end it seems to me we need to make these kinds of programs more progressive on all sides of it.

And then finally the third piece is kind of this institutional piece, which is a little bit certainly less developed in my own mind, a little bit fuzzier to talk about, but we have a lot of institutional biases which hurt this problem. So, everything from the whole notion of too big to fail, which I think in many cases is true, but you then have to make sure that when you intervene all the benefits of your intervention don't just go to one side. You cannot individualize the upside of an economy and socialize the downside. That is not the right way to do it, and that's sort of where we've been stuck.

The complexity of public policies, so navigating whether it's the tax code or Medicare benefits -- that's something that certainly is a bias towards low-income people. It's incredibly difficult to do and makes these programs much less accessible to people.

The growth of the financial institutions and the financial economy I think is highly problematic, just the numbers that we've heard that are out there, how so much of the gains of the economy have gone to the world of finance. That's not a healthy economy; in fact, it's a signal for one that's headed in the wrong direction.

So, I'm going to quickly share with you my PowerPoint, but it's an oldfashioned PowerPoint, okay? (Laughter) This is, in my mind, one of the important economic issues, and it's this five-point star that I think about a lot. But if there are five points that you think about when you're sort of analyzing the well-being of an economy -- I always wanted to create an index that was based on these five points -- you have poverty measures; you have income inequality measures, economic mobility measures, economic security measures which Jacob talked about a lot, and economic growth. And I look at economic growth kind of separately. You want to maximize that. And then you want to deal with the other four.

Often when it comes to policymaking, though, I find that people kind of forget which one they're focusing on. Poverty policies are different than economic security policies but are different than economic security policies that are different than mobility policies. And in some ways I think we need a more sophisticated thinking about which problems we're trying to solve. I think they're all legitimate problems, but different policies deal with each of those four problems slightly differently.

So then finally I'll just make my last pitch for the face of austerity, fiscal policy, but, you know, as an independent, you know, as much as Bob disagrees with what I say, political or policymakers on the right disagree with it just as much. And I sort of see both sides of this debate in so many years. And fiscal policy -- I see the desire to keep tax rates at a level that help us become competitive and help economic growth. And I see the desire to make sure that the safety net and social insurance stays fundamental, central pieces of our economy, and the pitch that I was just make in terms of dealing with our deficits and debt is that we can actually come up with solutions that manage to still do both of those of those things. We can have a government that is smaller than where it's headed to be right now, because spending has it on their trajectory to grow so much above historical levels but still preserves a very strong and hopefully increases a strong safety net. So, I think the ability to do that now, which you would lose if you wait until we have a fiscal crisis, is one of the strongest arguments why fiscal policy is a part of this whole agenda to deal with economic mobility, economic inequality in a shrinking middle class rather than opposed to it.

So, in there. Thank you.

MR. DIONNE: Thank you very much. A prediction. I think 60 percent or 70 percent of what Maya said could be in the American prospect. My hunch is Bob will pocket the 60 percent and argue on the rest, which I think would actually be interesting, and in fact I say that also, by the way, I am grateful what Maya said on the inheritance tax. One of Jacob Hacker’s colleagues said -- wrote that inheritance tax repeal ought to be known as the Paris Hilton Relief Act, which is an intriguing way to think about it.

I want to encourage our panelists to argue with each other at any point and ignore me. I’m just going to throw out a couple of questions for you. First, I think Ron put on the table what goes to the heart of a lot of these arguments I have heard over the years about inequality.

The sort of conservative argument, the moderate conservative argument I have heard is the middle class is shrinking not because incomes are stagnating for middle-class people but because more middle-class people have joined the upper middle class, perhaps the bottom rungs of the upper middle class. Is that a fair rendition of the argument, Ron? Just say yes or no, and then I’ll ask a question.

MR. HASKINS: Yes or no.

MR. DIONNE: Okay.

MR. HASKINS: Yes, it is fair. Absolutely.

MR. DIONNE: Yeah. And so I want to ask Jacob is that true? And I want to -- I can direct that to everyone, but I'd especially like Jacob to do that. How much of that middle-income increase to the extent that it has happened has come from more work, notably increased to earner households?

And then the other side of that question I think -- and Maya put her finger on this at the end -- is in a lot of ways when we talk about inequality, we're not talking about the top 10 percent or even the top 1 percent; we're really talking about a heavy concentration of income and wealth in the top 1/10th of 1 percent or 2/10ths of 1 percent. I put that as a proposition to be knocked down or agreed with. Can I start with you, Jacob, and then Ron can come back.

MR. HACKER: Well, I'm not going to --

MR. DIONNE: Could you put on the mike? Thanks.

MR. HACKER: I'm not going to dispute the specific figures that Ron gave, so I always want to be -- I think it's -- we want to be careful about using absolute income levels here. Even though that's crucial to many people, there's nothing magical about 70,000 or 75,000; and for a long period of time I think -- over long periods of time I think more interesting is to look at average income levels within, say, quintiles or, you know, parts of the income distribution. So, I mention that the middle fifth had seen a 21 percent rise, rising from around 44 to $50,000 in annual income between 1979 and 2006. This figure in the book is actually through 2006. We now update it through to 2007. And this is Congressional Budget Office data. It includes government taxes, federal taxes, as well as government benefits and private benefits like employerprovided health insurance and pensions.

If you go to the 80th to 99th percentile -- so you're really talking about the lower rungs of the top 20 percent -- you still see what I would think to many people seem a relatively modest rise compared with the overall growth of the economy over this period. It's a 55 percent rise. Now, no one here is suffering, but if you break it out you find that really the real gains over this period have been at the very highest levels. So -- and it's not just the top 1 percent; it's really the top 1/10th of 1 percent, top 1/100th of 1 percent. The top 1/10th of 1 percent has seen its share of income roughly quadruple since the early 1970s, and these are people who are making in excess of, you know, a couple million dollars a year whose average income was around $7 million a year in 2007.

And there are papers by Ian Dew-Becker and Robert Gordon; there's our own work -- all of which suggests that you have to get pretty high up the ladder before you see growth in the average income of a share -- of a point in the income distribution that's commensurate with the growth in the overall economy. And that's the basic point.

At the same time, I'm always skeptical of trying to sort of separate out sort of certain small -- you know, not small but segments of the work force. So, yes, if you look at people in their prime working years, white people in their prime working years who are married and have jobs, they have higher incomes. But I think from the standpoint of understanding a society, do we really want to really look at a very broad cross-section of Americans, and we certainly should consider the extent to which, as Ron pointed out, their causes of income inequality that are distinct from sort of large-scale structural changes in the economy or political or policy changes such as individual initiative or decisions. But I think we should be very wary about kind of trying to define it -- there is this group that's done well and other people haven't.

I'm struck by the extent to which the sort of early assessments that this was all about a college degree and really all of the gains can be understood as represented over the skill bias and technological quick changes that have occurred in the economy that have given a premium to college-educated workers, that that is not as consistent with the evidence as you might think. Yes, college-educated workers do better, but part of the reason is that less educated workers are doing worse and worse not that they're doing better. So, they're doing better relatively but not absolutely. And the gains, again, are not as large as you might think. So, a college-educated, entry-level male worker was making in the mid-2000s only about a thousand dollars more than he was making in 1980 adjusted for inflation, right? So, a lot of the gains, as I said, at the middle have come not from higher wages and earnings but from more work hours within family.

MR. HASKINS: Well, you've got to like a guy that doesn't challenge your numbers, so thank you for that. But let me give more numbers to challenge.

You mentioned Piketty and Saez. These datasets that we throw around here I think are all excellent datasets. Piketty-Saez is an extremely creative dataset. But it depends on what the question is. And if the question is the total amount of resources that a group of people have, Piketty-Saez has a number of inadequacies. It does not include government transfers. It does nothing about health, which is a huge part of this story. We'll have to talk about that a little bit more.

Recently Richard Burkhauser at Cornell has used the current population survey and made a number of adjustments. I've seen him present this now three times. He's sent it all around the country. I don't know if you've gotten it. But I've been present twice when it was debated with primarily audiences on the -- or meetings or smaller groups but people on the left, and in my view they have not laid a finger on his dataset, which is the most comprehensive view.

Okay, what does it show? The first thing is that the median income under -- just taking Piketty and Saez -- increases about 3 percent between 1979 and 2007. Under the new dataset that takes into account government benefits and health and adjusts for family size and so forth, it's increased 37 percent. Now, that's a huge difference. That is a huge difference. And in fact, I would like to -- I despair that Bob would ever agree with this, but maybe Jacob will -- that what we're really talking about here -- I think that the left has exaggerated how bad the problem is in the middle and how unfair the system is. It's not that unfair, and if you look at the data I think the sets that are the most informative, because they give you the broadest picture, they're -- you know, they're -- our system is fair.

And let me say one more thing about Burkhauser data, which is that the bottom quartile, which is the one that I am the most interested in, under the Piketty and Saez approach has negative growth but under the Burkhauser approach has an increase of 26 percent. And, by the way, I would say that CBO has done an analysis somewhat similar to this, and including one two years ago, in which they have shown that there has been a lot of progress in the bottom quintile both because there's more work down there and because government benefits have exploded at the bottom -- exploded compared to the mid-1980s.

And now let me make one more comment, too. Again, I think the numbers -- we can't channel those numbers, but I just want to make sure that when we say our tax code is not there that you actually know what the tax code does. If you look at -- I'm going to talk about income taxes where admittedly it makes my case look the best, but if you look at total federal taxes, it slightly diminishes the impression I'm going to give you right now. But if you look at the tax code, these are CBO numbers.

The bottom quintile between 1979 and 2007 went from paying zero income taxes to a minus 3 percent. And, in fact, the bottom 40 percent of taxpayers in the United States do not pay federal income taxes on average, and it's primarily because of their income tax credit, personal exemptions, and so forth. The way the system works, especially as changed in 1986 and then several expansions of the earned tax credit, the top quartile paid 65 percent of the taxes in 1979; now they pay 86 percent of the taxes. So, the top 20 percent pay 86 percent of the taxes. The top 1 percent went from 18 percent to 40 percent. So, they pay 40 percent of the income taxes.

So, these are CBO numbers. You know, I'll be interested to hear your response. One of the responses is that well, they have more income, which indeed they do. So, then we get to the question -- and now this seems like a fair political question about well, how much of their money do you want? They're already paying 86 percent. The top 20 percent are, the top 1 percent paying 40 percent. How much do you want them to pay?

MR. DIONNE: More. (Laughter)

MR. KUTTNER: So, you want to conscript their income. I mean, look, it's a value judgment. There is not a mathematical foreman here who's going to say what's fair, but just pay attention to those numbers, and if you think they're not fair then join ranks with E.J. and maybe with Jacob -- I'm not sure -- and take more, make the upper 1 percent pay 45 percent or whatever. Fine. We'll have a vote on it. That's the way we do it in democracy.

One more point. The debate is not soon, and I've noticed lately we've been really concerned about this, and I read all the articles. The left says it's the right's fault; the right says it's the left's fault. It's pox on both their houses. They both say idiotic things and they both, you know, whack each other in ways that they don't need to, and I think that includes this middle class today, and I think if you consider the numbers that I've presented the case is a little greater than the one that's presented by Bob and maybe the one that's presented by Jacob. It's a little greater. I basically grew them. I wish it were fair. I would not have a problem with imposing more taxes at the top. But I think we need to start from, you know, the realization that we already have a very fair Tax Code, and some people like E.J. would like to say it should be fairer.

MR. DIONNE: I just want to say Rule 165 of discussions like this -- conservatives love to talk about the progressivity of the income tax, and the liberals like to point out the regressivity of the payroll tax, and when you put the payroll tax into those figures, it looks quite different.

MR. KUTTNER: Ah-ah, not so fast, buddy. (Laughter) If you look at only the taxes, I agree. But if you look at the benefit, the benefits are more progressive, and so it does change the picture somewhat. And besides that, do you think --

MR. DIONNE: But you were just talking about taxes, and I just wanted to point out --

MR. KUTTNER: No, but you have to consider the benefits, too.

MR. DIONNE: Right. But I want to -- first of all, most media talk about

Palin and Bachman or, on a good day, Obama and Boehner. Only at Brookings do you hear a lot about Piketty and Saez -- and God bless them. I want to -- let me have Jacob come back and then I want to pick a fight between Maya and Bob, and then I want to turn to the audience.

MR. HACKER: I want to keep this very brief, because I would like to see this fight and also hear from the audience. And actually I think it's pretty straightforward. I mean, just to be clear, the figures that I was quoting before are from the Congressional Budget Office and include government taxes, federal taxes, and government benefits and are considered essentially the gold standard for looking at the changes in income at different income levels over the last generation, and as Ron himself said, there's really no dispute that the gains at the top have been vastly larger. Burkhauser's ability to break open the top codes in the census data is actually shown. Contrary to what some people had suspected, the (inaudible) were largely right on the score, that it's really we're talking about a substantial hyper concentration at the top.

The second thing I want to just emphasize briefly is the middle -- the sort of debate over whether or not the increases in the standard of living of the middle class is strong -- great -- you know, is large enough or not I think is one where you can always sort of parse this in many different ways but that I think there are a few fundamental facts that I tried to bring up at the beginning, right? There's no dispute that incomes have grown more slowly even as the overall economy has expanded dramatically. Dew-Becker and Gordon showed that only the top 10 percent of earners were experiencing gains in income earnings commensurate with gains in productivity.

Second of all, as I said, I think it would be one thing if this was arising -- if disparities was not -- was accompanied by greater economic security for the middle class. The things that I really worry about people having aren't flat-screen TVs or Wal-Mart prices on groceries -- and I know those are very important to consumers. I worry about whether they have access to stable health insurance and good retirement savings vehicles that are worth something to low-income and middle-income workers, and all of those metrics have gone the wrong way And, as Ron noted, one that I think is quite crucial is that we've seen a real decline in America's leadership in educating people -- getting people through college, and part of that I think has to do with the fact that we've seen a real decline in commitments to Pell grants alongside rising debt burdens for kids to go to school.

The last point about taxes. I just think that only -- the point I just tried to make is that we really want to distinguish between what are people paying as a share of their income and what is the share of the total tax bill that's being paid by different groups. So, the top 400 taxpayers -- this is a very rarified group -- paid, in the 1960s, about 40 percent of their income in income taxes. So, just focusing on income taxes on average. In the mid-1990s, that number had declined to 30 percent. In 2007, it was 16.5 percent. This is the effective tax rate of the richest 400 taxpayers.

We used to have a tax credit, as I said, that was very progressive at the top of the distribution. There's no reason in my mind why someone making 150 to $200,000 a year should be paying more or less the same marginal tax rate as someone making 10 to $20 million a year. And I think that this is not the only solution. I think, in fact, it's only a small part of the larger picture. I said I really think the way to approach it is to think much more about the institutions in society that encourage a fair distribution of economic rewards before government steps in. But don't think we should sort of sugarcoat the reality that even as inequality has gone greater, our tax code has embedded that and we are one of only three countries in the advanced industrial world in which the Gini coefficient, the reduction of the Gini coefficient through taxes and transfers, has actually declined over the period in which -- over the last generation when inequality has risen.

Two other countries are the Netherlands and Sweden, both of which have levels of inequality that are on another planet from ours and therefore probably where the loss of that redistribution is felt much less by the people.

But in the United States where we already have the most unequal income -- the Gini coefficient in the U.S. is higher than in Egypt today. We've seen a decline in the degree of redistribution through government taxes and transfers according to the best available evidence.

MR. DIONNE: See, the right-wing blogs would say "Hacker compares Haskins to Mubarak" with that last excellent point. (Laughter)

By the way, I do want to welcome my friend, the Norwegian ambassador. He represents a great middle-class democracy in this world.

I want to sort of -- basically, I'd like Bob and Maya to reply -- I'd like Bob to reply to Maya and go back, and I'll throw a couple of questions on the table just to provoke that. One is simply on -- I like Maya's star -- yes, your high-tech PowerPoint. I'd love you to talk about the relationship between economic inequality and economic security. But I also want to ask Bob a question that I know he wants to be asked, which is I don't think it's hard -- you know, you could argue with me but I don't think it's very hard -- to argue that the American middle class was a deliberate construction by government policies. But that doesn't automatically translate into broad support for new investments at a time when government is perceived as -- well, when we face the deficits we do. I'd love you to address those two issues, Bob, even as you reply to Maya, and welcome her strong support for inheritance taxes.

MR. KUTTNER: Thank you. Just a 30-second prologue. You can do all kinds of statistical demonstrations of things supposedly not being so bad, but if you look at life from the perspective of a typical family that doesn't enjoy inherited wealth, all of the ladders into the middle class -- the cost of college, the likelihood of your home being a lifetime strategy asset accumulation, the cost of raising kids, the need to have two incomes to be middle class at all -- these have completely gotten away from this relative to my father's generation, even my generation as a young adult.

So, now -- and I think the important point here is this all antedates the recession that started in 2007/2008, which was not so much the cause of these problems as the revelation of these problems. And, debt had been the family substitute for income growth.

Just an aside on social security. If the relationship of wages-to-productivity growth of the economy as a whole had been the same in the 30 years after 1975 that they had been in the 30 years before 1975, social security would be in surplus until the year 3000. It's the divergence of wages and productivity growth that causes social security to have a modest shortfall.

Okay, so what do we do about this?

I think two things get conflated: one, what's the necessary path out of a severe recession; and two, when we get to, say, the year 2020 -- I hope we're out of the recession by 2020, and by "recession" I just don't mean where the GDP growth is increasing, because that was the fact in the late 1930s, but whether job growth is increasing and whether it's paying a living wage. So, what should the debt-to-GDP ratio look like in 2020 and what level of public spending should there be relative to GDP?

These are entirely separate and separable variables. So, one, I think we probably need deeper deficits in the short run or we're going to have premature belt-tightening. And I agree with Maya on this. I would like to see those deeper deficits go for investment not consumption, because it's the right kind of investment, consumption will benefit.

During the entire Cold War period, we had a closet industrial policy. We were not allowed to have an explicit industrial policy. That was ideologically verboten. But we had all of these incredible spin-offs of all of the defense spending which created investment in technology and created good jobs even though we were preaching to the rest of the world that it was a sin to have industrial policy.

So, I think if we have a debt-to-GDP ratio of 100 percent by 2020, which is alarming to fiscal conservatives, I think that would be just ducky if we also had a recovery, because then we would do what we did after World War II. We'd have the budget close to balanced.

In the 25 years after World War II, the typical deficit was about 1.4 percent, but the growth rate was 3.8 percent. So, over time debt-to-GDP comes down. I think that's the less painful way to get back on a growth trajectory and to have broadly distributed fruits of that growth.

I would like to see public spending-to-GDP stabilized at around 26, 27, 28 percent. And that's just federal. Still about 10 points less than Western Europe, where the typical public outlay-to-GDP is between 45 and 50 percent. And those social benefits are valued. That's why you don't see the kind of revolt against the welfare state in Western Europe that you see here, because the benefits go to regular people. They go to working-age people. Things like universal pre-K, universal health care, job transition programs. In the states, the welfare state has hit stall speed, so it loses political support. It's for the young, the poor, and the old. The working middle-class family says what am I getting for my tax dollars? And says to itself not a whole heck of a lot, I might as well vote myself a tax cut.

So, I think it would be fine, once we are through this recession, to have a fairly tight fiscal policy so that debt-to-GDP can come down, and it's a value question -- it's a political question: How high spending and taxing should be relative to GDP? I think it should be a lot higher than it should be, and I think the fiscal right conflates all this stuff. It conflates whether you need belt-tightening. It conflates how high the debt-to-GDP ratio should be with how high the public spending-to-GDP ratio should be. It's possible to be progressive on the question of more social spending and investment but also very responsible on the question of whether you have a balanced budget once you're out of the recession.

MR. DIONNE: Maya, I think -- I want you to reply and say anything you want, and then I am going to stop and open it to questions. I would very much like you to answer this last point Bob made, because I found it very disturbing among folks advocating, you know, a decline in the budget deficit, that so many of them get involved in this question of holding government down to 20 percent of GDP or 21 percent of GDP. That's not about the deficit. That's about an attitude toward government. You can have a balanced fiscal policy at 23 percent, 24 percent, 25 percent. And so I don't accept as a matter of ideology or ideological preference why budget -- you know, why deficit hawks get engaged in this argument that the government has to be only at this low level, which I think actually will, in the long run, make the task of balancing the budget harder, given that we are going to have a lot of older people wanting to do other things that Bob described.

Anyway, I'd just like to put that on the table.

And then we have a mike somewhere in the room, and we'll be going around.

Go ahead.

MS. MacGUINEAS: Good, thank you.

A lot of points came up there, so I think actually where the conflating is getting done is not sort of in the things that Bob listed, but it's those people on the outside who look at deficit hawks and conflate. There are two different camps, and there -- sometimes, somewhere they're not. There's deficit hawks and there's spending hawks. They're folks who believe that if you want too spend at a certain level, you should pay for it. That's where something like the Committee for Responsible Federal Budget is where -- I mean, so they're a bipartisan group. We have completely different points of view on our board of directors on how large the size of government should be. There's just the basic principal that you should cover the costs, you know, with obviously wiggle room. You can afford reasonable deficits and probably have reasonable surpluses when times are good would be nice.

But people confuse those of us who are worried about if we want to spend money on something we should pay for it with other people who completely legitimately -- but it's one point of view -- think we should control spending. And I will back to the column that you wrote a week ago, E.J., where you pointed out that all these deficit hawks weren't clamoring against tax cuts when they happened. But it's not true. You know, many of us were saying there was absolutely no fiscal space to have large unpaid-for tax cuts when they happened before, when they happened this time in December. That's problematic. You can't cut taxes to get a smaller government. You have to cut spending. So, we have always pointed out that the way to give smaller government is you have less spending the way that you have responsible for government is you pay for your spending. So, I think that's actually where the conflating comes. There's different points of view.

On the size of government, there's a lot of interest rate now in spending caps. There's a spending cap out idea out there that I think would cap spending at roughly 20.6 percent of GDP. That's one point of view. You know, Bob would have a budget that has spending at -- what did you say, 26?

MR. KUTTNER: 26 or 27, yes.

MS. MacGUINEAS: 26? I came out with a detailed plan with somebody from Brookings -- Bill Galston -- where I think our spending hovered around 22 percent of GDP, which is much, much higher. We had revenues that went up there as well, which is much, much higher than historically the average revenues have been 18.3 percent. We brought them up closer to 22 percent. But it's lower than where government spending is projected to go. So, in my mind -- and this is part of where I think the civility in all of this is lost -- on the size of government, there are different points of view, and they are legitimate. It is okay to want a smaller government; it is okay to want a medium government; it is okay to want a larger government. Where I think this kind of falls flat is when you don't want to pay for the size of government that you want. And the problem for those of us in the deficit hawk camp is that fiscal responsibility is often used as defense. So, people who don't want to have big tax cuts suddenly find fiscal responsibility -- the religion of fiscal responsibility -- no, we can't do that, we would bust the budget. But those very same folks would be happy to do it with a whole new government spending program. So, fiscal responsibility -- there are not that many people who sort of see it as a dual-sided issue. More often, it sort of as a way to keep the other side from enacting the policies that they would like to see moved forward. And I think that's why there's an interesting role for budget rules. They're sort of keeping the notion that you just have to equalize these things. There's no one right answer.

Where I do think there's some right answers, though, are not being irresponsible to debt levels, and I would say letting the federal debt go up to a hundred percent of GDP is a hell of a risky strategy. We have no idea at what point debt levels become too high in this country. We know that there's economic literature and it's only the best that's out there but there's not enough that says when total debt is at 90 percent of GDP, that starts to harm economic growth, and I said before economic growth isn't the only thing that matters, but it certainly matters when you're trying to deal with coming deal with coming out of recovery. You know, we're past that. We're already there. There are so many signs that our debt levels are excessive. I would never say that we should risk it and go to a hundred percent of GDP when it would make a lot more sense to figure out what the smarter strategies in a way that's conducive with economic growth to bring that debt level back. Remember, debt historically has been below 40 percent of GDP. It's right now above 60 percent, and it's headed to a hundred percent if we don't make changes where you have outside organization from CBO to IMF to all sorts of institutions warning that that's much too high. So, I would think the least we should do is bring it back to 60 percent, which is basically by the end of the decade saying it shouldn't be much higher than where it is now.

Just a quick clarification in terms of stimulus. I actually think stimulus should focus on consumption. What I'd like to have is another round or boost a very short-term stimulus. It helps with consumption. I think the payroll tax cut, payroll tax holiday offset over a longer period of time is probably the right way to go. It's the longer-term part of the budget that I think we should be focusing on investment. In the short term, we still have a demand problem. We still want to make sure that the economy recovers. I think a piece of that is further stimulus if it's decided to be necessary. I think an equally important big piece is putting in place a credible fiscal plan that would bring that debt back down to 60 percent of GDP. You put it in place this year, it phases in, in two or three years when the economy is strong enough to accommodate the fiscal consolidation, but it adds the kind of security of knowing where we're going. Right now everybody knows fiscal changes have to be made, but nobody knows what they're going to be. That does not help with the recovery. But in the stimulus measures, I'd still actually focus more on consumption. It's shifting over all budget priorities to investment that I think is critical.

MR. KUTTNER: Thank you.

MR. DIONNE: I won't belabor the argument between Maya and me about that old column except to say a lot of the deficit hawks supported the tax cut, if not you, but I am just grateful you still remember that column. That's very helpful. (Laughter)

Here's what I'd like to -- either it got under your skin or something.

MS. MacGUINEAS: Yeah, I took it very personally.

MR. DIONNE: Yeah, so I -- that's good.

I want to bring in three questions together so we can get as many in. Let me just ask people two things. If you are very long in your question, you will increase the net amount of inequality in this room, because there won't be time for somebody else. So, it's not just your time; it's our time. If that makes me a socialist, so be it. (Laughter) And I would also ask you to have a question mark at the end of the last sentence of your question.

Let's go right to the front here. Why don't we -- we've got four folks right here in the front. Then we'll go to the back. Let's do all four of you briefly, right starting in the front. Pass it back and then pass it across the way.

DR. POPLIN: Hi, I'm Dr. Caroline Poplin. I'm an attorney, I'm a physician, I'm an older person. I am 63. I wanted to ask about consumption and investment. We have lots of money -- or the companies have lots of money for investment now. They are sitting on it because there's no demand. I think maybe the income inequality has led to a reduction in demand and that maybe if we had more middle-class people, they consume more and that will generate investment. Investment and consumption are not necessarily chicken and egg. The consumption has to come first. Companies will not invest without a market, and you can't have high-investment and low-consumption society unless you have an export-driven economy, like China or Germany.

MR. DIONNE: Great question. It's red meat for Bob Kuttner I think.

Please.

MR. WASSON: Hi, it's Erik Wasson from the Hill newspaper. Sorry, this question's a little bit newsy, but, you know, there's --

MR. DIONNE: This is good.

MR. WASSON: Yeah, well, there are two big policy documents on the table now -- the Obama budget and the CR that passed the House Saturday morning. If each of the panelists whether they think these documents help or hurt the middle class and address this question of inequality or have no effect, that would be great.

MR. DIONNE: Thank you.

Sir?

MR. GRUENBERG: Mark Gruenberg from Press Associates News Service. He asked part of my question, but I'm going to challenge the definition of "middle class." I've been hearing you folks say the middle class is up to $105,000. The heck it is. In so many words. You can look at the census figures. You can look at the CEO, whomever. Middle class basically stops at, you know, 75, 80, if that much. So, talk about middle class in that aspect rather than the 105K people. They're in the upper 1 percent.

MR. DIONNE: Thank you.

Sir.

MR. KREIDER: Yes, Ben Kreider, Georgetown University. I was really grateful to hear both Maya and Ron, among others, admit that we actually need higher taxes in this country, and my -- because from what I have read, in the Eisenhower era we had a top marginal tax rate of, like 80 percent on the highest earners. And it seems almost no one in America knows this, so my question is how can we move this conversation about actually financing the spending through tax hikes, which are necessary, into the mainstream, because it's pretty much stuck in the pundit class at this point?

MR. DIONNE: If I could just throw -- those are all great questions, and we'll just go quickly down the panel, starting with Jacob. I think the top right and the Reagan administration was 40 percent after the (inaudible) tax cuts, and then it was reformed and changed. But I think your point about tax rates is a good one.

Let's start with Jacob, and if everyone would take on different questions as you go.

MR. HACKER: I'll keep my answer uncharacteristically short, because actually I have to catch a train in just a few minutes, and it would be unfair of me to filibuster until I have to leave, but -- (laughter) -- so let me --

MR. HASKINS: It would fit in Washington, though.

MR. HACKER: This is true, but I'm trying to break that terrible cycle.

Okay, so let me just talk about the budget debate, because I think there's two things to say. One is that these are obviously opening moves. I think the administration actually wants to engage with a longer-term debate about the budget deficit but smartly I think isn't going there yet.

On the other hand, I think the Republican budget is a very draconian budget, and since discretionary spending has been whittled down through a Darwinian process over the last 25 years, cutting and discretionary spending really means hurting lots of vulnerable people, lower middle-class people, and poor people. And so I think that it speaks volumes about the priorities of conservative Republicans that they will simultaneously not consider any tax increases that might impact those at the top even as they're cutting these benefits that are overwhelmingly going to go to less affluent Americans.

But, as I said, neither of these seem to me as sort of serious moves yet. My main concern about the overall way in which the budget debate has been framed is that it's -- we have a kind of cart leading the horse in this debate, that the whole economic crisis in a sense has become turned around whereas we know that the reason we're facing these medium-term fiscal strains, not the long-term ones. And I'll just say on that -- and it hasn't come up yet -- I'm a deficit hawk when it comes to health care costs. I mean, I think we could do dramatically more. Remember, I actually talked about this idea that was really popular, the public option. So, I think we could dramatically more to control health care costs. We spend vastly more than other nations. And were we to do that, we would have a much, much freer hand to do the other things we value. It just makes no sense that we are seeing that he got more and more of our economy, of our federal government. And if you look at the long-term picture, Henry Aaron here at Brookings has shown we don't really have a long-term deficit problem with regard to entitlements. We have some problems with solvency of social security, but we don't have a deficit problem once you take out Medicare and Medicaid. So, health care costs -- I would be a hardcore deficit hawk.

But, to me the problem is that the debate has really been turned around. We had a major economic crisis that's still, for many Americans, is still present in their lives, and that led to massive run-up in our deficit. And the way in which the debate has turned around and sort of fiscalized our current economic crisis, to suggest that it was runaway spending or lack of control of our public sector union pensions or something else that was at the heart of our economic crisis seems to me to be really fundamental misreading. And so I would agree with Bob -- not perhaps with any of the specifics -- I don't feel like I have a good enough sense of what the numbers should be -- that, you know, the immediate challenge is really to figure how to get the economy moving again. The longer-term challenge is, both Maya and Bob said, is to figure out how to do necessary investments while stabilizing our deficit and really focusing on, in my view, the health care cost side of the equation. And to me that's not embodied in either of these budgets, and so I still think we're kind of dancing around a fundamental problem.

MR. DIONNE: Thank you.

MR. HASKINS: Somebody start a watch. I'm going to be even briefer, probably I have less to say, but besides that I don't want you to miss your train, because I think I could look smarter on a panel if you weren't on it. (Laughter)

All right, the first thing is the 105,000. I did not imply, in any way, the 105,000 is middle class. I'm just doing an analysis about what happened to the middle class defined as below 105,000 if you look at, say, 45,000 to 75,000. And it declined over the 1979 to 2007 period. But all the decline went above 150,000. That's why I picked out that number. So, I don't think 105,000 middle class.

The very interesting question about Obama budget versus 61 billion -- I think -- I wish Obama had been more forceful; I wish he'd been more venturesome. I agree with you. He would have gotten slammed if he didn't. Now Republicans say they're going to go first, so Democrats can slam Republicans because they're going to put stuff on the table for entitlements. If they actually do it -- I think they're too far out not to do it now -- so sometime two months from now we're going to have a proposal from Republicans that Bob will have a delightful time waiting to devote a whole issue to how mean those Republicans are.

The 61 billion is an opening shot. This is the same argument you made about the Obama budget. I don't think the final deal is going to be 61 billion. It can't make it through the Senate. There will be some kind of compromise, and it's typical in Washington that people open with a big shot and not thinking they're going to get it, and they don't want to compromise. They know they're going to have to compromise down.

Now, having said that though, I will say the freshman concerned me. I looked through this once when I was with the Ways and Means Committee, and a freshman drove Republicans right of the cliff. I think the leadership seems to be attuned more to the country and to the media now than in 1995 and 1996, so I'm a little less concerned about it, but I still think we could overdo this.

And then the next thing is -- and Bob, there's going to be more pain, including for the middle class. For me, it's the same question as all the questions about taxes and spending, and that is what's the correct distribution? And we ought to have distribution tables when we start cutting and increasing taxes.

I'll bet you that I could go in a room with Jacob -- I don't think we'd have to let Bob and E.J. in there -- and in a day we could come out with something that would include increase taxes and would include reduce spending and would get us to 60 percent of GDP. It probably would not -- it certainly would not satisfy Bob's idea of our making the economy grow. But I'm with Maya. I think we're facing huge risks right now. Soon we're going to be spending. By 2000 we spent almost a trillion dollars in interest. No one's mentioned that. Want to give away a trillion dollars, half of it to the Saudis and the Chinese? And the psychology of this is that Americans think and politicians think we can keep going on like this and we can figure out a way to take care of things so it won't be too bad. No way. We're going to have pain. And the question is how much pain and when? And the longer we wait, the greater the pain.

MR. DIONNE: Bob.

MR. KUTTNER: Well, I don't think the party of pain is going to be successful politically, and I think there are less painful ways to get to recovery. I agree with Jacob that the presenting question ought to be how do we get the economy into a robust recovery that protects the middle class and helps the economy grow again. The presenting question is not how do we balance the budget on a fixed schedule. The problem with a fixed schedule is you don't know where we are in terms of the recovery.

I agree with Maya that 60 percent of GDP or less for debt is the right target. But when we hit that is a function of how fast the economy is growing. You don't set the debt-to-GDP target independent of how well the economy is doing, or you could end up with a balanced budget in a much poorer country, and I think that has things backwards.

Now, in terms of Obama versus the Republicans, as you would expect I think the Republican proposal is irresponsible. It hurts the most vulnerable people. It's also wildly unrealistic as fiscal policy in the middle of a fiscal year to cut that order of magnitude of discretionary spending when discretional spending is already, as President Obama bragged, down to Eisenhower levels.

And here's my problem with the President. He's stepping on his own message. If you look at his State of the Union message, his budget, or his speech to the Chamber of Commerce, on the one hand he is for infrastructure. And, by the way, I agree with the questioner's point that consumption and investment are not necessarily opposites. You invest in projects that make the economy more productive, you're going to generate a lot of consumption.

But Obama -- unfortunately, on the one hand he's for belt-tightening.

He's going to freeze wages of public employees. He's going to have a five-year -- he's going to cut them 2 percent, going to a five-year freeze in discretionary spending. So, on the one hand he's for belt-tight-tightening; on the other hand he's for a fairly expansive World War II, post-war-style program public investment. You can't do both things. And all you do with that kind of rhetoric is No. 1, you step on your own message; and, No. 2, you invite Republicans to say well, all right, if the test is budget cutting, we can do it better than you can.

So, I think both budget approaches are unfortunate if the tasks, which I think is the right task, is how do we get this economy into a recovery that generates good jobs for ordinary people and protects the middle class.

MR. DIONNE: I just want to say if -- Jacob, if you -- I don't want you to miss your train because of us, so whenever you feel you have to leave --

Let's just give a quick thank-you to Jacob. (Applause)

And here's thank you so much, Jacob.

Here's how I'd like to proceed, which is Maya's -- it's Maya's turn. If the organizers can give us about five, six extra minutes just so I can get a couple of people from the back and then we're going to have closing comments from Ron, Bob, and Maya.

But, Maya, you are still open on this one.

MS. MacGUINEAS: Well, I would certainly agree with Bob that the party of pain may not be the key to political success, and certainly my motivation in this has never been to help one party or another. But the two parties of pandering have gotten us into a huge mess, and somebody's going to realistically have to talk about that. Fixing the fiscal situation isn't easy, and that's why it has to be done in a bipartisan way. It's very tough politically. We know that it is a lot easier to cut taxes and grow new spending. We also know that that does not work forever, and we're at the point where it's not going to work for much longer, and so it has to be a bipartisan solution. It has to be political cover from both sides.

I was -- I thought that question about the 105,000 was really interesting, because one of the things I feel like I've watched over the past decade is sort of protective status inflation, right?, where you used to be worried about poverty and then it's nobody under a hundred thousand, and I don't know how we got ourselves into a space where we have all sorts of promises about protecting everybody who's making less than $250,000. This seems like a lot of money, depending on your city, but it doesn't seem like the biggest focus of who we should be protecting and it's just not a manageable promise. So, I certainly think we have to pull back from the promise of no new taxes, but we also have to pull back from the promise of no new taxes for people making less than 250 and really again focus on what it is in terms of our economic policy and distributional concerns that we most want to concentrate on.

And then the question about how you get people to raise taxes. I do think that basically it goes down to this kind of pay-go mentality. If you put in a basic, simple rule -- pay as you go -- that you're going to pay for new spending, the budget becomes what it's supposed to be, which is a budget about tradeoffs. If you want to do something, it has to be worth paying for. You have to pay for it. If it's not worth paying for, only is if somebody else is going to pay for it, then maybe it's not worth doing in the first place. But it's just kind of a simple budget strategy that helps force the tradeoff questions that we should be focusing on.

Finally, just to answer a question about the House Republicans and

President's budget, you know, they're both suffering from the same thing, which is complete focus on the wrong piece of the budget. This discussion right now about how much to cut from domestic discretionary -- it feels only slightly more adult than the focus on earmarks, right? This is not what it's about. This is not the problem. You have the House Republicans talking about it. You have the President who in his budget all he's really been emphasizing is his five-year freeze. And both of them know that this is not where the problem -- how can this be the way that we govern, where, you know, the President's saying I know we have to do more but you go first, and other people are saying no, you go first. This is not responsible governing in the time of moving towards real, real challenges that could turn into a crisis if we don't act preemptively. So, we all have to go first. And the problem with folks seeing a domestic discretionary is that it ignores completely what we need to be looking at, which is how to reform entitlements and how to reform our Tax Code. So, somebody needs to go first. They should all go together, and both -- what the House Republicans are focusing on -- which does point out the need that we're going to have to cut spending, and I think that is something that has to be on the table but not in the right sequencing or effort. This is going to have to be a large, comprehensive effort, and all parties are going to have to start talking about this as the comprehensive that it needs to be.

MR. DIONNE: I'm grateful. I'm grateful for Ron talking about this problem Speaker Boehner with his freshmen and (inaudible) Tea Party ones. The quotation that's been going through my head is the old John Kennedy quotation from his inaugural address, "He who rides to power on the back of a tiger usually ends up inside."

Let's get a couple of questions in the back. Let's do it if you could be very quick. This gentleman over on the left here and then the two hands in the back of the room, and then we will ask each panelist to offer concluding remarks, which if it means they dodge your questions a bit I apologize. Very quick in your questions.

Bob has to leave.

SPEAKER: Thank you very much. (Inaudible) from (inaudible) Company. Japanese Multinationals. I'm living in a big house, and I really enjoy make a house big size, and I think American dream is represented by good house. And so middle class -- one of the objectives is to own a good house. But recently Obama administration's White Paper for housing somewhat discouraged ownership things. So, how do you, panel, look at the recent Obama proposal for the housing policy? Thank you.

MR. DIONNE: Thank you very much.

Sir -- those two. Yeah, the two of you.

MR. GRENADO: Anthony Grenado, U.S. Conference of Catholic Bishops. You mentioned the economic growth post-war years, strong manufacturing economy. Today, in this economy, does organized labor have a realistic place on economic growth?

MR. HACKER: Thank you for that question. He's actually a Wisconsin state Senator.

MR. DIONNE: Sir.

MR. KLUNTNER: Yeah, Jim Kluntner. I'm an adjunct at Georgetown. There's quite a bit of research showing the significant harm that persistent unemployment does in terms of the long-term earnings of people and even their long-term health status. My question is what's your economic forecast? There's not going to be any more stimulus. So, in the absence of stimulus, do the people on the panel believe that the unemployment rate is going to be 6 percent two years from now, or do they believe that we are facing persistent unemployment with the harm that it does to the middle class?

MR. DIONNE: Thank you for three good questions.

Bob, do you need to go first because you have to go?

MR. KUTTNER: Yeah. Jacob and I are so confident of our arguments that we're going to leave the last words to the conservatives on the panel and have an otherwise empty --

MR. HASKINS: It's an example of civility, ya'll.

MR. KUTTNER: I think civility is a much over-rated virtue, and I think that's -- not at Brookings. I mean, I apologize for any incivility in my remarks, but I think when the other side is kicking you bloody and President Obama is trying to model civility, I think he would do a little better to read up on Harry Truman. But that's a debate for another day.

On the question about organized labor, you know, imagine that it's November 10th, last year, and labor leaders are sitting in a room with Democratic progressives and they're saying how do we get public opinion back? And someone says I know, let's make public employees the poster child for our crusade. That's a rather improbable strategy and yet what the right has done is it's actually caused "USA poll today GOP not firmly behind union limits." Public employees, because they represent the beleaguered middle class, have actually become an object of sympathy in the polls and you have commentators in the media looking for their dictionaries, reaching for their dictionaries, and starting to talk about collective bargaining, a term that had almost vanished from public discourse, and you have regular people remembering why it is that the labor movement has been the single greatest force for the American middle class. So, I think you're going to see a labor comeback.

I also think Maya and I have narrowed our differences. I mean, we've agreed that the question of what government spending ought to be relative to GDP is a value judgment; it's a political question. We've agreed that once the economy returns to recovery we ought to have a very small deficit and a lower level of debt to GDP. I think where we still disagree -- and it's a very important civil disagreement -- is what we do in the meantime.

To hear the debate from fiscal conservatives -- and by "conservative" I mean fiscal conservative -- you would almost forget that the bottom fell out of revenue because of the recession. And the recession was brewed on Wall Street. And the fact that the recession was brewed on Wall Street was the result of deregulation that in turn is a reflection of a tremendous power shift in this country to finance, at the expense of institutions that represent regular people. So, rather than focusing as Washington does obsessively on deficits in debt to GDP, I think it's terribly important that we keep our eye on the bigger picture -- what kind of an economy do we want? How do we get the economy back into recovery?

In answer to the gentleman's other question, I think we're going to have high, prolonged unemployment for a long time unless we get the recovery done right. There's a piece in the current issue of *The Prospect* by Harold Myerson on the divergence between the interest of business and the interest of regular people. Business can profit as it's done in record amounts in the last two quarters by making stuff anywhere in the world whether or not the American middle class thrives.

And just to put in the inevitable plug, we have copies of these available for anybody who wants them. So, on that note of civility, I leave the last word to my two contraries to my left and my right, and thanks very much for having me.

MR. DIONNE: Thank you.

MR. HASKINS: Well, as Bob leaves, the one thing that touches directly on what he said -- we did tie ourselves in knots over finance. I think everybody agrees the finance system was unregulated and needs a lot more adult supervision and we passed a huge bill. It was a partisan bill, but I've talked to a number of people. I don't think I'm competent to judge whether it's going to work, but I've talked to a lot of people who are very well known, and they say they think it was an excellent first step and that it will solve part of the problem, more needs to be done, and everybody always says that but -- so, we did address that issue. I think there was agreement on the bad role, the financing plate.

Again, I say, my basic position on the middle class -- it does not have the trouble that Jacob and Bob have alluded to. I gave numbers that I think are extremely legitimate. They're from the Congressional Budget Office or from the Burkhauser analysis, and the middle classes make a lot more money, and to the extent that it's thinned it's gotten -- it's because it went out of the -- above 105,000 and got criticized for defining middle class 105,000.

At the top -- I do think that there is a problem at the top. I said that in my opening remarks. And I could live with changes in the Tax Code that the top -- you know, 1 or 2 percent would pay more. But that is not going to come close to solving our problem. It's got to go way beyond the upper 1 or 2 percent. Indeed, it has to go into the middle class. And taxes have got to increase for almost everybody, certainly for the upper 50 or 60 percent or we'll never get the kind of money that we need, especially if we're going to have 26 or 27 percent, which I doubt we'll have in our lifetime.

The final thing is, as I've said twice now, there is going to be pain. The key is to spread the pain. The American people are the most important force here, and they're most at fault in our situation, because they wanted something for something and they elected people that gave them something for nothing. And now the problem is due. We have to do something about it and it's going to be painful, and they are still in the polls not accepting it. We can cut foreign aid -- that's fine. We could do something to cut the wages of government employees -- that's fine, too. But everything else -- no, no. Bill Archer used to say rule in regard to taxes: Don't tax you, don't tax me, tax that guy behind the tree. It doesn't work. And the same thing is true with spending.

So, what we need is leadership. We're very short on leadership, as both the budget shows and as I think the no-new-taxes pledge shows. Pox on both their houses. We need people to rise to the occasion, cut a deal, and get us back into some manageable financial territory.

MR. DIONNE: All right.

MS. MacGUINEAS: Well, I agree with pretty much everything Ron just said there. I think I'll close with basically saying this issue of growth strategy is a truly important one. And it involves fiscal responsibility for all the reasons that Ron just said. We sort of all know, somewhere in the back of our heads, that we've been doing the wrong thing for too long, and it sort of felt good but you know it's not going to last. And it's not going to last and we're going to have to make real changes.

The other piece of that growth strategy involves a far more sane and reformed Tax Code and long-term investments, which is going to require a grand shift in the way that we do budgeting. The problem, I think, is that it is so difficult to fix this fiscal problem, and it is even more difficult to fix it in a really smart way. Part of how we do policymaking in Washington is we compartmentalize things. I mean, you only need to look at the Hill how everything is done on a committee jurisdiction basis instead of sort of sitting down and figuring out what are your first principles? What are your policy objectives? Are they worth it? And if so how to pay for them. But it will be really useful to think about ways to break out of the compartmentalized nature of problem solving, because we first have the problems that we have to solve of how to get the fiscal situation under control, and then we have the problems of all the very important policy priorities, and I think this income inequality and middle-class question is absolutely at the top of the list. That needs to be thought of all within that umbrella. So, I don't know if we're a country that's up to the task of the big think, but I certainly think that is what's required.

And I'll just end by answering Jim Kluntner's question, because it wouldn't really be a policy forum without Jim Kluntner asking a question. Spent years in Washington. Always look forward to his hand going up with good questions.

And, you know, the problem with the unemployment is I think it is likely going to be persistent. I think in many ways it's a result of long-term imbalances that we had in our own economy, much of which was fueled on over-consumption kind of at the household level, and we have to retrench. We're going to have to spend less. The government doesn't have the fiscal flexibility to compensate for that indefinitely. That said, hopefully -- and it seems -- oh, there -- would you like me to start again. Now that Bob's not here, I can say all the things that I want to in my opening that I should have.

So, then --

MR. DIONNE: You mean, you didn't believe all those progressive things you said.

MS. MacGUINEAS: No, I just wanted to defend myself a little bit more.

In the end, the bottom line is I think that it's going to take a while for the jobs to come back. But I actually think economic recovery seems to be growing a little bit more quickly than we thought. So, I'll be bold. I'll put out a number. In two years I think we'll be at 8 percent unemployment. It's not where you want to be, but it's a lot better than I would have even thought where we were going to be a year ago. So, that's what I hope.

Fiscal crisis -- still a real possibility, and that blows that number out. If we had a fiscal crisis, everything we've talked about today would be worse, and unemployment would be, too.

MR. DIONNE: I want to thank our participants.

I just want to make -- one of the reasons I was so happy we could do this is I think part of this argument really is how much should Washington's attention be focused primarily on the budget deficit and how much on why the shared prosperity and growth coupled with fiscal balance. And I think there really is a question of where the conversation should be.

And just on the issue of economic stagnation since Bob and Jacob are gone, there is a chart in this excellent report. Wages for high school grads: 2000, 629 a week; 2009, 626. Wages for college grades: in 2000, 1,030; in 2009, 1,025. I do think there is a middle-class problem.

We didn't deal with the housing question. I apologize. That is a long question for us as a society.

I notice we were almost in a debate between the party of pain and the party of pandering, which would be a heck of a choice. I was thinking of the party of pleasure to keep the alliteration going, but that's probably too racy. I hope we made a contribution to --

MR. HASKINS: E.J., I just got back from Las Vegas. It doesn't work. The pleasure --

MR. DIONNE: Well, so, we -- I hope we made some progress today toward creating the party of progress. Thank you very much.

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