THE BROOKINGS INSTITUTION

BROOKINGS CAFETERIA PODCAST

TIME FOR A NEW CONTRACT WITH THE MIDDLE CLASS

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P R O C E E D I N G S

DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews. My guests on this episode are two Brookings scholars whose research illuminates the challenges facing the American middle class and offers solutions that can help people achieve the American dream. Isabel Sawhill is a senior fellow in Economic Studies and Richard Reeves, also a senior fellow in Economic Studies, is director of the Future of the Middle Class Initiative.

Together, they are co-authors of *A New Contract with the Middle Class*, a short book of policy solutions to improve the wellbeing of middle-class Americans. Reeves and Sawhill suggest big new policies that can flip the script on many of the challenges that afflict middle-class Americans today. You can get your own free copy of the contract while supplies last. Just visit this episode's website, Brookings.edu/bcp, and find the link in the show notes. Stay tuned until the end of the interview for a way to participate in the conversation about revitalizing the middle class.

Also on today's episode, David Wessel, senior fellow and director of the Hutchins Center on Fiscal and Monetary Policy at Brookings, explains the Federal Reserve's recent statement on revising its long-term goals, including a revision to its inflation approach.

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First up, here's David Wessel with another economic update.

WESSEL: I'm David Wessel and this is my economic update. Financial markets hang on

every word uttered by Federal Reserve officials. Most people don't. People should pay more attention. The Fed influences the economic lives of all of us, the rates we pay on car loans and mortgages, the rates we get on our bank deposits and money market funds.

How much our local governments have to pay to borrow and thus tax us, how willing our employers will be to borrow to expand and invest, whether the financial system, the circulatory system of the economy, can function smoothly even at times of crisis. After a bit of hesitation, the Fed rescued the economy in 2008 before Congress finally showed up and in the recent COVID crisis, the Fed moved swiftly and forcefully, turning all the pages of the 2008 playbook and writing some new ones in a hurry.

Congress tells the Fed to aim for maximum employment and price stability. That's the law. And then it tells the Fed to figure out what that means and how to achieve those goals. That approach, the elected representatives of the people set the goals and the independent experts at the central bank figure out how to define and achieve them, has worked pretty well for the past 40 years. In 2012, the Fed issued a short statement of its long-term goals and monetary strategy. After a long review, it recently revised that statement.

It said a few things that were worth noting. One, back in 2012, the Fed defined price stability as 2 percent inflation. It's new statement says that after periods of below 2 percent inflation, like the one we've been experiencing for the past decade, it will seek to compensate with periods of above 2 percent inflation so that on average inflation is at 2 percent.

Two, back in 2012, the Feds suggested it could know in advance roughly at what level the unemployment rate would fall so low that it would trigger unwelcome wage and price increases. Well, it turns out, it's had to accurately know in advance what that unemployment rate trigger is, so the Fed downgraded that concept and said, in effect, it's going to let the labor

market improve until it sees more inflation than it wants rather than relying exclusively on the unemployment rate as a measure and on some economic model that tries to predict the safe rate. That's nice to know, but so what?

For now, the Fed is focused on helping the economy recover from the pandemic. After all, employment is very high, inflation is still below target, so the Fed is going to keep interest rates low and keep buying bonds and keep begging Congress to do something more on the tax and spending front to get us out of this hole.

Where this new staple will become particularly important is when the pandemic recedes and the economy heals. The Fed is signaling that it will be very slow to raise interest rates and otherwise avoid hitting the monetary bricks. It will not, as it has done in the past, raise rates preemptively to avoid inflation going over 2 percent or to keep inflation from falling below some predetermined level. It will, to change metaphors, let the economy run hot, perhaps hotter than its predecessors did, because it believes that will allow the greatest number of people in the U.S., particularly those at the bottom, to benefit.

Now, in a breakthrough tradition, the Fed conducted this review with substantial public participation, including a series of Fed Listens events around the country and now it has posted speeches and FAQs and research papers on its website that you can look at. The Hutchins Center has done a new post in our Hutchins Center Explains series by my colleague Tyler Powell and me that explains what the Fed has done in a little more detail and what it means. You should check it out.

DEWS: And now here's my interview with Isabel Sawhill and Richard Reeves on the new contract with the middle class. Isabel and Richard, welcome to you both back to the Brookings Cafeteria Podcast.

SAWHILL: Great to see you, Fred.

REEVES: Thanks for having us back, Fred.

DEWS: So we're here to talk today about this *New Contract with the Middle Class* that is rolling out from Brookings very soon. Can you address first why do you call it a contract with the middle class as opposed to a contract for the middle class?

REEVES: I'm so glad you opened with that question, Fred, because Belle and I spent many hours talking about this. You've picked up what is a non-trivial difference and it's very explicitly "with." That is in recognition of a whole theme of the contract which is that it is, like a contract should be, is with.

It's a two-way street. It's a partnership. It's not for and we don't think of middle-class Americans as somehow these inert vessels just waiting for good things to flow into them from the government. That's the danger of a "for" approach. But actually instead to think of this as a partnership between the collective and the government and individuals and families themselves.

Middle-class Americans are not just waiting for the government to make their lives better. They want the government's help, but they also want their own agency and to kind of figure out for themselves what they want from life, and so this is true of partnership and it's really come out very strongly, so, yes. Not to be unfair to both left and right. The left tends to be about the "for", these are all the things the government is going to do for you. And the right tends to be about why government is a problem and you should do everything for yourself. Everybody who actually lives in the real world knows that it's always a partnership.

SAWHILL: I might give a couple of examples of what we mean by partnership when we get to our policy ideas. First of all, we really want people to be adequately rewarded when they're at their jobs, but we do expect them to work. This is not about handouts.

A second example is we want everybody to have a chance to get at least two years of college or technical training so they'll have the skills that are needed in the 21st century, but we're not going to make college free for everyone. We're going to ask them to provide some service to their country. One year of service for every two years of free college.

A third example would be in the health arena. There has been a lot of discussion in recent times about access to healthcare and we think there should be access to healthcare, but we also think that people have a responsibility to make sure that they do things that will make their own lives healthier.

DEWS: And this contract with the middle class is one part of a much larger body of work that is rolling out under the auspices of the Future of the Middle Class Initiative this fall. This is just a preview of the contract with the middle class. Can you talk about what that larger project is all about?

REEVES: Sure. So the Future of the Middle Class Initiative is a relatively new initiative, about three years old, at Brookings that Belle and I have both been working on and it reflects both our own interests as expressed in our most recent books. Belle's book, *The Forgotten Americans*, is explicitly about a group in the middle, middle class, working class, who haven't been flourishing economically over the last few decades and my own book, *Dream Hoarders*, which is about the pulling away of the top 20 percent from everybody else. It's very much focused on this issue of class inequality and kind of class fractures in the U.S. and this group in the middle is seen to some extent to have been neglected. And the initiative itself, which actually was partly amplified by President John Allen's concern for this group, has conducted a whole range of work on housing led by Jenny Schuetz, on automation led by Marcus Casey, education by Sarah Reber, and so on, as well as by Belle and myself. And Belle actually has been doing a

lot of work on around paid leave and working time partly in partnership with AEI.

And so to some extent, this particular contract and the other pieces of work that are coming out over the next few weeks and months I'm really excited about and I'm excited to see how people react to it as partly a reflection of this years-long project we've been engaged in to try and see what can be done not just to describe the problems of the middle class. There is a lot of that going on, but also to try to set out some really concrete solutions.

SAWHILL: I might just add briefly, Fred, that we also have gotten down and talked to the actual middle-class individuals and families. We've made a point of doing that. We've been to five different areas in the United States all across the country, so talked to a great diversity of people and gotten a lot of follow-up personal interviews even during the COVID pandemic.

DEWS: So let's step back to about the 30,000 foot level and address a really important question, which is what is the middle class? How do you define the middle class? Who is in the middle class? Am I in the middle class? And so on.

SAWHILL: Well, there is no one correct definition of the middle class. The fact is that most Americans if you ask them what they are, they will tell you that they are middle class although one middle-class individual that I talked to said she was in the holding on by her fingernails class, which gets a little bit at the dilemma here. But for purposes of analysis, we decided to define them as the middle 60 percent of the population by income.

That includes working-age people with incomes between about $40,000 and incomes of about a little over $150,000 a year. The average income of a three-person family in the middle class is about $70,000.

DEWS: And does the income range consider different costs of living in different places around the country?

REEVES: Well, the numbers, I'll just say, are national numbers because we want to look at the national middle class. But then when we go to some of the places Belle has talked about to interview members of the middle class, we do take into account cost of living because obviously the money will vary by place, but those numbers that Belle has given are nationally-based.

I will also say that there is something about the ideal of being middle class in America which is important. For those of you who haven't heard me on this podcast before, Fred, I don't know -- haven't been -- it's obvious that I'm not originally from America and I'm a proud U.S. citizen now. And actually one thing that strikes you as an immigrant is that there is something quite fundamentally middle class about American values, and by that I mean it's distinct from either this idea of a class of people who are dependent on handouts, gratefully receiving handouts from others. That's quite un-American.

But so is the idea of a kind of alleged aristocracy, just living off capital. That's quite un-American, too. So there is something potentially quite equalizing and quite solidaristic about the idea of the middle class in America which is in danger of being lost because of the way the middle class is being left behind, but nonetheless actually, we would argue, is quite a central American value.

DEWS: I want to dive into the real substance of this contract with the middle class. It's not a long document, but it's very dense and it's framed around what you call five foundations for a good life. We love that, five foundations for a good life. Just briefly, if you could, state what those are, but also why do you arrange the contract around the five foundations rather than through, for example, the policy problems that you are trying to solve for?

SAWHILL: Well, the five principles are that people need money. They need material resources obviously. They also need enough time to do all the other things in life that need

attending to. They need strong relationships with their family, with their friends, with their community.

And they need good health. That's obviously very critical. We all know that in the middle of a pandemic.

And finally, they really need to feel respected. They need to respect themselves, but they need to respect others as well. This sense of community we think is being lost. Too much tribalism, too many divisions.

REEVES: The Future of the Middle Class Initiative has a mission to improve the quality of life of the American middle class. That's a phrase that just gets thrown around very easily in policy circles and others, but what we've done is we really dig into that and actually say, well, what is a good quality of life? And it's a very difficult question to answer because it will vary from person to person.

One of our other principles is pluralism. One size doesn't fit all and what's good for Fred isn't necessarily good for Belle and good for Richard. So we really welcome that kaleidoscopic diversity of the U.S. as another of its strengths. But, on the other hand, there are these clear common themes which emerge from a very rich literature on subjective wellbeing, which we've had people like Mark Fabian write for us and as Belle has dove into. These five themes emerge very strongly from the literature as very important to most people. And then the groups of middle-class Americans that we've spoken to, they really did amplify. So I wouldn't say they came directly from that qualitative work, but they really were echoed very, very strongly.

And I think in some ways you can argue from the negative point of view, too, is that, look, there are a lot of things we want to do differently, but actually if you don't have the time you need to do the things you want to do and you don't have enough material resources to not

being worried about money and you don't have good relationships and you don't feel good about your health or you're not in good health and you don't feel respected, it's actually quite hard to have a good quality of life.

Those are actually relatively uncontroversial statements when you take them to middle-class Americans. And so rather than build the contract around a standard list of policies if you like, right, that would be a standard way of doing it. We've deliberately founded it on the things that matter to people and then we've asked what, if anything, can policy do in that area to promote that. And the answer is more in some areas than others, but we're trying to be faithful to what matters to people rather than what is convenient to policymakers. Those two things are not always the same thing.

DEWS: So this contract is rich with analysis and solutions. So let's dive into those five ingredients for a good life and give listeners kind of a sense of what they can expect when they read the full thing.

So let's start with money. We know money matters for a variety of reasons. It's nice to have money, but what do the data show about the middle class and money that is particularly worrying for you?

SAWHILL: The first problem that we identify is that if you look at family incomes among the middle class after they've paid their taxes and after they have received any benefits that are due to them, we look at the growth over the last four decades or so, it turns out that their incomes are growing more slowly than the incomes of either the rich or the poor.

Now, most people know that their incomes are growing less rapidly than those of the rich, but it was a bit of a surprise to us that they were also growing less rapidly than those of the poor. That's largely, though, because the poor are eligible for more benefits, especially health

benefits, than are the middle class. Another problem is wages. Wages have been pretty stagnant, especially for men. So we need to really address that problem. And then finally, we find that mobility, upward mobility, over a generation's time has declined. That's not a new finding, but it is a very striking finding that as children are being brought up nowadays, their parents are quite distressed about whether they're going to have an opportunity to achieve the American dream.

REEVES: And I'll just underline a couple of Belle's points. I think that it's fair to say that the people at the top are doing very well in the labor market and tend to be well educated and earnings are going up. And the people at the bottom have, at least to some extent, been supported by the safety net which has been somewhat expanded, but the people in the middle are the ones who actually have been suffering the most.

Just to pick out a point about wages and wage growth, for the top fifth since '79 has been 31 percent. For the middle quintile, the middle fifth, it's been 6 percent. So you've seen wage growth five times as quick in that top fifth as in that middle fifth.

Whilst wages aren't everything in terms of income, they are the bulk of it for most families and so you really do see how this wage inequality is then translated into household income and equality. And for those who don't then have significant amounts of government benefit to make up for that, they're the ones who have been falling behind.

SAWHILL: Another really interesting aspect of this, Fred, is the fact that when you look at this income growth among middle-class families, virtually all of it is due to the fact that there are a lot more two-earners than there used to be. It's really women's entry into the labor force and the fact that they are earning higher wages than they used to that has kept the middle class afloat. We are getting to a point in our history where there are a lot more women to be brought into the labor force.

DEWS: A broad set of policy proposals that you describe in the contract has to do with cutting income taxes for the middle class and also eliminating many of the very popular tax deductions. Can you talk about how those proposals would work and also how you overcome some of the very political objections that a lot of people have to eliminating things like the mortgage interest deduction?

REEVES: Well, just because a tax deduction is popular doesn't mean it's a good idea. I think that's the first point to say. In fact, almost an inverse relationship. So we certainly do propose removing inefficient and unfair tax deductions, like mortgage interest deduction, which also makes the tax system in the U.S. unnecessarily complex and time-consuming for U.S. taxpayers.

I mean it's a cliché for politicians in the U.S. to say we've got to simplify the tax system, but it's also true. Given what Belle and I were just saying about this really slow income growth in the middle, the question is then, okay, so what do we do about that? The most effective thing to do is to use the tax system to just increase incomes for those in the middle, and one way to do that is to reduce income tax and so specifically propose that a married couple can have a standard deduction of up to $100,000, and so if you're a couple and you're in less than six figures, then you don't pay income tax. That's a direct tax cut aimed at middle-class Americans. That would mean on average tax cut of $1,600 for a middle-class family.

It would massively simplify the tax code and then, of course, you have to pay for that and we pay for that by taxing what we call the three Cs: carbon, capital, and consumption. What we're trying to do there is not only provide a tax cut to middle-class Americans, we also have a worker tax credit for lower paid workers, but also to rebalance the tax system so that it's taxing the right things. Actually, as a tax policymaker, you have to decide what are you going to tax?

You have to tax something. And our view is it's far better to tax carbon, which is driving the climate crisis, and capital, which is much less likely to be directly earned, and consumption than it is to tax directly the wages of middle-class Americans.

DEWS: There is another policy idea that I really like and it should be very popular in the money section and it pops up again in other parts of the contract, and that is scholarship money for service. Can you talk about how that kind of attunes to the money pillar of the good life?

SAWHILL: We recognize that one of the reasons that wages have not gone up faster than they have is because our labor force is not as skilled as it should be. One of the best ways to improve productivity is to give people more education. That means more opportunity to go to college. That means more apprenticeships, more training on the job, all kinds of skill acquisition.

So we want to give people those opportunities. Going to college is very expensive and we say fine, that's going to be very expensive. That could potentially actually be unfair because most of the people going to college now are from more affluent families, but we can do this if we ask people to give a year of service, national service, for the right to go to college at government expense.

Now, that means public institutions. It could be community college. It could be a four-year public college and it's for two years. So we're again trying to meet people halfway. We're saying we want you to contribute to making this country run better. We want you to give back to your community. We want you to learn what it means to be a citizen of the United States. There are responsibilities as well as rights. In the process, we are going to make sure that you have access to much more training and education.

DEWS: Let's move on to the second pillar, which is time. Of the five foundations for a good life, I was surprised most by the inclusion of time. So how do you situate that concept

within your overall framework?

SAWHILL: Well, it's probably my fault that it's there. And I think I can speak for almost all women in America when I say one of their biggest complaints is that they don't have enough time to do everything. So many of them, if they're parents, trying to do two jobs, one at work and one at home, and that's new. It used to be that most women stayed home and were full-time mothers and homemakers and that has changed dramatically in the last half century. So the problem is policy hasn't kept pace with that.

And it isn't just women. It's men as well. Everybody is feeling as if they are completely stressed out by having too much to do. Now, you can say, well, that's always been the case. After all, we used to work 60 hours a week instead of the current 40, but it's very interesting if you compare the U.S. to various European companies, they have moved to update their policies and their practices such that if you are a worker, you are guaranteed a lot more paid time off then you are in the U.S.

In the U.S., nobody has any guarantee of paid time off at the national level. There are some states that do provide it. So we say let's give every American 20 days of paid leave per year for any purpose. You can use it to go camping. You can use it to welcome a new baby into the family. You can use it to build a boat in your basement. You can use it to take care of an elderly relative. We are trying to keep it simple. This goes back to our notion of pluralism. We're a very diverse country. One size doesn't fit all. This is a very flexible policy.

REEVES: Let me just add a couple of points on that, which is that it's become clear actually from our focus groups as well, But also, just more generally, that time is a neglected element of quality of life and it's partly because of these social changes that Belle has talked about. Actually according to some work that Belle has done with a former colleague, Katie

Guyot, shows that compared to the mid-1970s, the average middle-class couple between them is working an extra day and a half a week. That's a day and a half of extra work that middle-class couples are doing today. Now, that's largely because of the rise in women's employment and everybody is in favor of that, not least of all Belle and I, but we have to recognize the fact that does mean there is less time in the household than there was before. You can be -- even if you're money rich or money affluent, you can be time poor.

So the questions of how much time you've got -- and I would add how much control you have over your time -- the degree to which your time is predictable and you can plan around it are rising issues for the quality of life of American middle-class families and it's much easier to talk about money. You said you were a bit surprised. It all comes with money and tax distribution. Time is just much harder to get at, but, of course, as Belle has pointed out elsewhere, that time actually doesn't expand. There are only 24 hours in the day. So in terms of just sheer daily quality of life for the families that we're worried about, it would have actually have been remiss of us not to take time at least as seriously as money.

DEWS: I worry that the idea of giving Americans even more time off really contravenes that old cultural impulse in America from Benjamin Franklin to the present that time is money.

SAWHILL: Well, good old Ben was right in the sense that if you stop working, you're not going to have any money. So there is a tradeoff there, but what we're seeing is that we have made up for the lack of money in the middle class the problems that they're having with their income by sending more people to work.

As Richard just said, that helped to solve the money squeeze, but it created in the process a time squeeze. So we have to address both. We have to find the right balance between people having enough money and people having enough time. And our reading of the evidence and also

of people's lives and what they say about their lives is that we've got the balance wrong right now.

DEWS: Before we move on, I want listeners to know that there are a lot more policy proposals in each of these sections than we have time to discuss right now. We could probably have a full podcast episode on each of the five pillars, but in the interest of time let's move on to relationships. Can you talk about what the longer term trends are in relationships that you see as barriers to achieving the good life?

SAWHILL: Well, I'll start very briefly by saying that one of the most important relationships is relationship with one's own family. Here, we're seeing some I think troublesome trends. Lots of people used to be married and marriage is declining, including among the middle class. This means less family stability, especially for children. Over a third of all children are now born into unmarried families, but typically now to cohabitating couples, and that's quite new and something we provide interesting data on I think.

Whatever the trends here, we have had a major, major shift in the way families form and the way they stay together. And we're not sure what the future will hold there, but we also address the issue of whether people are more lonely than they used to be. There is some evidence coming out of the COVID pandemic that mental health has been affected and suicide rates are going up, and this might be related to people feeling more lonely because social interactions have been subdued, especially among the elderly. We don't find a lot of evidence for a big trend there, but it's certainly worth some attention.

And then finally, we look at relationships within communities and within the broader society and we talk about a concept called “social capital,” meaning what is your relationship to your larger community, and we also find some troublesome trends there as well.

DEWS: If I could follow up on that in getting into a policy solution that you touched on, can you expand on the policy idea of family planning, especially women having control of their reproductive lives? You and I have had a conversation about this in regards to your book a couple years ago that came out called Generation Unbound. Can you expand on that a little bit?

SAWHILL: Well, thanks for the shout out, Fred, for my earlier book. You're quite right. I've had great interest in this area and really my concern is that marriage is declining and it may never come back. It may just be Pollyannish to think that it is going to come back. So we have to find some other way of stabilizing and improving family life. The major proposal that we put forward in the contract is the idea that people should choose when and if to become parents, not just drift accidentally into it. That will create much better environments for both adults and children.

So how do you give people the power? How do you empower women in particular to choose rather than to drift into parenthood? What we need to do is to make sure that everybody -- and I mean everybody -- has access to affordable contraception. It's much more effective than the kind of contraceptives that we had in the past. Right now, a lot of young people are still using condoms and the pill. That's fine. That's much better than nothing, but there are new forms of contraception that are far more effective because they're long-lasting and hassle-free and provide almost complete protection against pregnancy.

REEVES: Let me just add a note here. The way that this debate becomes politicized is very often unhelpful I think. It can sometimes get mired in a discussion about family structure, marriage or not marriage, et cetera. What it misses is the fact that it is entirely uncontroversial to pretty much everybody you talk to that kids are best raised in stable families by committed parents who generally planned to have them together. You would struggle to find anybody that

thinks those are controversial statements.

The question then is what promotes family stability? What helps couples to actually provide that stable foundation for their kids they want? One way to do that is for them to have access in an equitable way to reproductive healthcare. Some things are that simple. This is an area of policy where Belle has been working much longer than I have, which is it is quite straightforward and it's genuinely a justice issue.

It's genuinely a healthcare reproductive justice issue. It should be the case that upper middle-class Americans can take for granted that they'll have access to these effective forms of contraception and others will struggle to do so. It's made hard by policy for them to do that. Why do we care about that? Because we care about family stability.

So if we could take some of the political heat out of this debate on both left and right, I would say then I think it just allows us to have a conversation, which is on the ground that we all share. Families matter. Family relationships matter. Family stability is good. What are the things that promote those things?

DEWS: I'm going to close out this section on relationships by quoting a passage from the contract. Now, after you've talked about individuals' relationships and family relationships, you write this, "When it comes to broader community relationships, however, the picture is bleaker. There has been a corrosive decline in social trust and increased tribalism of various kinds. Our social capital has been depleted."

SAWHILL: Well, I think that's right. Now, this is an area that is very difficult to study and analyze because who is to say what is the health of our communities at large, but I think there is a growing feeling and quite a bit of data that suggests that we are more divided. We have become more tribal. We don't respect each other enough. We have a whole chapter on respect,

and Richard has been writing about that for a number of years now. I think he's got it exactly right. It is difficult to know what to do about that problem. Very difficult.

As Richard said earlier, there isn't a government solution for every problem. This may be an area where we really just need to start behaving differently and respecting one another more and being willing to be engaged in our community and to actually take action to improve our society as citizens.

One of the things we think could help a lot is national service for most young adults. So we have a strong proposal to actually provide more resources and more opportunities for young people to serve in their communities or in the military. We have evidence that when people do serve and when they do get to know other people who are not like them, it changes their attitudes a lot, both towards people who are different from them whether by gender, by race, by geography, or class, or anything else. In the process, it strengthens the country and makes us a more solid community.

DEWS: I want to plug another one of your books here, Belle, because your discussion of national service reminds me of that. In your book *The Forgotten Americans* you also did focus groups with a bunch of different people and I recall you saying that of all the different policy proposals that were on the table, the idea of national service was one of the most popular, if not the most popular, amongst everybody from all different kinds of political persuasions and backgrounds.

SAWHILL: It was definitely the most popular, and thank you for remembering that. I was amazed. I was surprised about how popular it was. People also, by the way, liked the idea that you would get some educational benefits if you did your service. They understood that. They thought that was a really fair deal. A good contract if you will. I'm also pleased to say that these

ideas are beginning to catch on. We even have some bipartisan legislation in this area beginning to be written.

REEVES: I think it speaks, also, to the challenges we have more broadly actually as a society about how to be different and together. What does positive nationalism look like? I think there is something of a danger right now along the lines of both class and race that we're drifting into a situation where we are content with being tolerant of each other rather than respectful of each other, rather than knowing each other, and rather than feeling -- and I'm getting quite John Stuart Mill now. Probably thought I would at some point, but the --

DEWS: Well, you are a biographer of him.

REEVES: I am a biographer of John. So you haven't mentioned my book about Mill yet, Fred.

DEWS: I'll put that in the notes.

REEVES: Thanks. So he said our lot is cast together. I actually do think that the American experiment generally does only work if there is more than just tolerance. We can't just coexist. It's not enough to just have communities living alongside each other. We actually have to some extent feel like our lot is cast together.

I think that one of the reasons why Belle found such support for not only the idea of national service but also what she calls an American exchange program, where actually some of the volunteers are living with other families in other parts of the country, is because of this sense of separation. And for a country like the U.S. there is only a certain amount of separation that can take place before the whole experiment collapses, which is why I think service becomes important and it's also not a controversial idea. Most Scandinavian countries have service, mandatory service.

So many of the countries that the left absolutely laud think it's completely uncontroversial that young people should perform service for their country, so it's not clear to me why that shouldn't be an equally strong norm in the U.S. We want a society -- we say this in the contract -- where the question where did you do your service is as common as where do you come from or where did you go to school?

Then actually the person who doesn't have a good answer to that question might be looked at slightly askance. What? Do you mean you didn't do any service? What's wrong with you? And so it should really be a norm rather than an exception.

DEWS: Let's move on to health, the fourth foundation of the good life and the contract with the middle class. In many of the five pillars, but especially in the health one, we see the negative impacts of COVID-19. Can you talk about what the pandemic is doing not in terms of directly causing illness and death, which in its own right is terrible, but what it's revealing about the state of health in our country?

REEVES: Well, I think it's like the flash of an X-ray over the U.S. It has exposed a huge number of fractures in the U.S., the public health care system, et cetera. But to specifically talk about health, what has become clear is that the risks that are posed by the virus are greater for some people. We're seeing huge gaps by class and by race and so on. To some extent, those are associated with pre-existing health conditions.

To some extent, the U.S. was like a big pre-existing condition. It exposed our failure in such an affluent and advanced economy to turn that affluence and property into good health. In fact, on many dimensions, the health of the U.S. is going the wrong way and that's extraordinary when you think about what a kind of rich, prosperous, and plentiful nation we should be. And so it's really been a very sharp reminder that health comes before healthcare, and this is one of the

points that Belle and I took great pains to make. Right?

It's huge about healthcare, but health is all that matters, and this exposed huge differences in health and widening gaps in terms of health, too. And so for that extent, although it's a difficult time to write in some ways about this, the COVID pandemic, as if I think we needed anything to remind us how important heath is, then this has done the job. That wouldn't be a way to choose to do it, but now thinking about how health is integrated into the rest of our society is an unavoidable question now.

SAWHILL: I want to take the opportunity to build on that by reminding everyone that in addition to the principle of partnership and the principle of pluralism, another theme in our book is the principle of prevention. We are constantly looking for ways to build fences at the top of the cliff instead of having ambulances at the bottom of the cliff.

DEWS: I love that. That's a great analogy and I keep thinking about that. As with all of the five foundations, you have, again, a lot of policy ideas. One policy idea in the health section that I think a lot of people are going to talk about is your proposal to tax sugary drinks. Can you talk about the rationale for that and, also, how would you address those who say that it's simply a matter of personal choice?

REEVES: It's a great question and I think it will get some attention. And the same can be said, of course, of my choice to have a bourbon after this excellent podcast or to go and smoke a cigarette. I don't think I need to drink after this, Fred. Don't get the wrong impression. Maybe champagne.

There are many things that are a matter of personal choice but there are also some things and we mention a couple of things where we recognize there are health implications and we, therefore, want to try to help people to moderate consumption, and so a tax is a perfectly

appropriate way to do that. It's an effective way to reduce consumption of a known bad. To the extent that that's infringement of individual liberty, okay. So it's something that we have to think about hard, which is when is it appropriate to do that? Is it appropriate to tax tobacco and alcohol?

Those are the right questions to ask, but I would put it in that category because the evidence of the impact of sugary drinks on Americans' physical health and the relationship to issues like obesity and diabetes is incontrovertible. And the American diet, in particular the amount of consumption there is of those kinds of products, is really a very significant villain of the peace in terms of public health. So while no one is suggesting banning these bads, it's entirely appropriate as we do with other bads to tax, and the evidence suggests that would reduce consumption.

By the way, it would help those in lowest incomes most of all because those are the folks whose health will probably benefit the most. So I think that's an area where public policy is straightforward and certainly the politics is straightforward, but this is an area where the politics, again, have gotten badly distorted.

DEWS: I want to move on to the respect chapter for the rest of our discussion here. I do, again, want to point out to listeners that there is just a wealth of really interesting policy ideas and great analysis in all the sections. In the health part in particular, you talk about depths of despair and physical health and mental health and policy solutions for all of those. So I just want to signal to listeners that there is so much more in here that I hope that they will pay attention to.

Let's move on to respect for the time we have left. It's the fifth foundation of the good life. This section seemed to me to most directly address the way that we relate to each other in society. You open, very sadly, with the story of Emmett Till's brutal murder. Why do you open

the respect section of the contract with his story?

REEVES: We just passed an anniversary of Emmett Till's murder last month. In the same way that the story of Emmett Till really helped I think force a reckoning around racial justice, we may be living though a similar moment now. The reason why we start with the story of Emmett is because of the last thing his mother told him before he traveled fatally to Mississippi when she said don't look the white folks in the eye. Don't look the white folks in the eye. And, of course, much more than that happened.

He was allegedly flirting with a white woman, brutally murdered and beaten, and his mother famously insisted that his body be shown as it was found at his funeral. And the photographs of that young boy's body were a huge moment, I think, in American national consciousness. As I say, we may be going through a similar moment now, but it was really that phrase, don't look someone in the eye. Why was that? It's because looking someone in the eye is an act of mutual respect. You're supposed to look down in deference if you are lesser.

If you're a woman in some parts of the world even today, if you're an African American in history, et cetera, is you look down. You don't look me straight in the eye. To look someone straight in the eye is an assertion of moral equality.

And actually, think about it from the other way around. You might say you look down on someone. What does it mean to look down on someone? That means you're being haughty and looking down. So there is something viscerally egalitarian about looking someone in the eye, and that's why Mommy Till told Emmett not to do it because she knew that for a black boy to do that would be an assertion of moral equality, which in a racist society would be intolerable to the white people he did it to.

And what does that tell us? It tells us that that's something we all aspire to. So we start

with that story, but then broaden that out into why is it that feeling equally respected, feeling like I'm your moral equal is so important? It turns out that it underpins a sense of belonging. It builds self-respect. It's the basis for other kinds of egalitarianism.

If you live in a society where certain groups can't look other groups in the eye, I think you'll probably find a society where it's harder to vote or get an education or get decent welfare provision as well. So it really is this fundamental kind of equality, equality of respect, which we think underpins lots of the other kinds of equalities which we talk about in this book. Again, to echo what Belle was saying earlier, we don't have a national respect policy.

We're not going to magically produce the respect, but that doesn't mean it doesn't matter and, again, it came out very strongly in our focus groups. It comes out very strongly in the work we've done with people is that if you don't feel respected, then it's very hard to feel that you have a good quality of life. And so we then build some policy ideas around that, but I think it's a fundamental insight that actually a society that loses respect for each other is a society that is in deep trouble. You may not always like each other. You won't agree with each other for sure, but if you cease to respect each other, that triggers a death spiral. And we are very worried about some of the signs that there is a lack of respect across class and race and gender lines even now in the 21st century.

SAWHILL: I don't want to take too long on this except I think it's so important and I think that Richard has learned how to talk about this in a new way that people really should read as well as listen to. So there has been so much conversation and debate around income equality in America. Of course, income inequality is a problem. But if you think about it, relational inequality is the foundation of income inequality.

It's also the foundation of a lot of our political problems. People who are liberal or

conservative don't respect each other anymore. They consider the other side the enemy. We need to get beyond that and that means respecting other people and the fact that their views might not be the same as yours.

DEWS: But how do we get to that point beyond that disrespect to what you call a republic of respect when it seems like respect is an arena for private virtue, something that we learn at home in our own families?

REEVES: We do learn it at home in our own families and try to model it, but it's not the only place we learn it. We also learn it in other institutions. We learn it from the social norms that surround us. We learn it in the thick of everyday life.

And so actually the behavior of our leaders, whether they are religious or political or otherwise, is hugely important because we tend to look up in that sense. What are the norms around behavior? And so it's very disturbing when you see leaders of one kind or another being so disrespectful of others because that normalizes disrespect. So there is a collective responsibility here, too, but it's one of the reasons why we've built here in the contract on Belle's previous work on national service and why I've become such a strong convert to this is because it's actually working alongside people who are different to you and learning more about people who are different to you is a huge respect generator. It is just harder to disrespect people who you know.

We've seen that in a whole series of ways, from gay marriage to various other social changes, which is, to some extent, the area of our familiarity breeds contempt that's not true. Familiarity breeds respect and the lack of familiarity, distance, segregation, separation, that creates the condition under which it's easy to demonize another group of people and thereby end up disrespecting them. So national service, school, and integration, using our institutions from

Brookings to any other institution you can think of, actually thinking are we creating a genuine culture of respect, not just a culture of tolerance, but a tolerance of mutual respect, is something that is not just private virtue in families nor is it going to be delivered through some sort of government faucet, respect faucet. They're not going to put respect into the drinking water, but it is something we have collective responsibility for.

SAWHILL: You know, I used to think that this idea of kumbaya was a little fuzzy and not necessarily true. I began digging into the serious research done mostly by psychologists on what happens to people's attitudes towards each other once you have more integrated activities, and the evidence is much more powerful than I would have ever believed that when you get more integration, whether through national service or whether in schools or workplaces or neighborhoods or wherever, people do learn to respect one another. They do stop stereotyping one another and you get a much more solid sense of community.

DEWS: One of the other policy proposals that you discuss in the respect chapter is one that I find just most beautiful. I have all the feels when I think about this one. And that's your proposal to require every American student to attend a citizenship ceremony before they graduate from high school. Can you talk about that?

REEVES: Well, it should be clear that that will be a decision that will largely be made at school district level, so we're very attentive to the pluralism of education governance as well, but to some extent this reflects the evidence for some of the attitudes of hardening towards immigrants in the U.S., ironically, very often in the areas that have the fewest immigrants. I think given the conversation that we just had about the importance of integration perhaps that shouldn't be a surprise if the places where you don't know any immigrants that it's easy to start demonizing and disrespecting them. Nonetheless, that is becoming a problem and it's really just this question

that Belle was talking about, exposure and experience and just interaction. This is a real thing. This is not an abstract thing.

So actually, when it comes to things like respect and honor and knowledge, it actually does turn into quite a practical thing. So one of the proposals that we have in the contract is that high schoolers attend a citizenship ceremony, a naturalization ceremony before graduating from high school. The purpose there is for those high schoolers to see what it means to become an American.

And as someone who has been through a ceremony myself and attended others, they are flagrantly patriotic, the most patriotic thing you could possibly go through, and everyone is in tears and it's an incredible moment. Right? To become a U.S. citizen is such a huge feel for most of the people doing it. I actually think that the visceral sense you get from attending one of those ceremonies is so important that I think every American should have that. If we're going to keep on with this cliché that we're an immigrant nation, how about seeing some immigrants come and become Americans and how about everyone having to do that before graduating high school?

It's very hard to know what the effect of that would be, but our view is that it should create a different norm and maybe some different attitudes as to what it means to be American. We also suggest, by the way, that all high schoolers should take the citizenship test that everybody has to pass before they become an American and that is quite an instructive thing to do as well. It's harder than some people think.

DEWS: I'll link to that in the show notes as well, the citizenship test. We've talked about the five foundations for the good life: money, time, relationships, health, respect, how these all attune to building the middle class to the contract with the middle class. As you wrap up, I'd like to ask your views on what does an American society without a middle class look like?

SAWHILL: I think that it's impossible to imagine a country without a middle class that is also a democracy and is also a society that holds together. We have had people say we are moving towards becoming an oligarchy in the U.S. Now, that's very strong.

I'm not sure I'd want to go that far, but that's what we would be headed towards. You would have an elite class that is wealthy and powerful and you'd have everyone else doing routine, badly rewarded work at the bottom. We could go back to a feudal society as an example, although that's really a little extreme, or we could simply think about what's going to happen if in America the middle class continues on the same trajectory that we painted in our new book.

Without a middle class, you just don't have your foundations for an economy. You don't have the foundations for a political system and you don't have the foundations for the kind of social solidarity that I think any society needs.

REEVES: We make a claim towards the end of the contract that America can only be as strong as the American middle class and I would say that's particularly true of America because, as we argued earlier in this conversation, American is a quintessentially middle-class society.

Why is that? I think this dystopia that Belle just painted is one that is becoming more familiar, at least as a fear, which is rich people and robots creating the economic value at the top and a few people servicing their needs and everybody else finding some way to survive. And what's lost there is not only a sense of justice in the usual way you think about distribution, but it is the sense that we all have a contribution to make. And I think what's fundamentally at the heart of this country is the idea, and where we began maybe, this idea of why it's with the middle class is because there are two things that are at stake here.

One is that you benefit in a fair way from the progress of society and we all do, including the middle, and we don't get left behind. There is a sense of mutual benefit from the collective

progress of society. But equally important is contribution, to be an equal contributor to that growth through your service, through your work, through your relationships. And it is both the idea of getting your fair shake, which we hear a lot of politicians talk about, but also having the opportunity and expectation of contributing.

If we lose the sense of the middle class that is both the engine of contribution, but also getting a fair share of the results of that, then I think that all of the evils that Belle has just outlined might jump from the pages of dystopian novels to our actual future, and that's one of the things that we're trying to do our part in avoiding in putting his contract together.

DEWS: Belle Sawhill, Richard Reeves, I want to thank you both for spending so much time with me today on the podcast and also thank you both and to your team at the Future of the Middle Class Initiative for doing this very important work.

SAWHILL: Thank you, Fred.

REEVES: Thanks for having us, Fred. Fun as always.

DEWS: Did you hear a policy idea you're interested in or didn't hear something you'd like to learn more about? Join the conversation by tweeting @brookingsinst, that's Brookings-I-N-S-T, or @isawhill or @richardvreeves.

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