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IN
SIGHT

The economic problems America faces today are not ours alone.

Left unsolved, they will be the next generation's as well.

A photograph of four children of diverse backgrounds smiling joyfully. A young girl with dark skin and curly hair is at the top, a boy with dark hair is on the left, a girl with blonde hair is on the right, and a boy with blonde hair is in the foreground. They are outdoors in a grassy area.

doing right
by our children

THE UNITED STATES TODAY FACES MANY DAUNTING CHALLENGES. BUT NONE SHOULD TAKE HIGHER PRIORITY THAN THAT OF DOING RIGHT BY OUR CHILDREN. IN FACT, LEAVING THIS COUNTRY A BETTER PLACE FOR FUTURE GENERATIONS IS A GOOD WAY TO THINK ABOUT SOLVING A WHOLE SET OF GOVERNMENT FINANCIAL CHALLENGES. UNFORTUNATELY, IN MANY CASES, WE ARE CURRENTLY FALLING SHORT.

» We are not doing right by our children if we pass them entitlement programs for our retirements that they are unable to afford.

» We are not doing right by our children if the budget deficit is out of control, even after the economy recovers.

» We are not doing right by our children if we allow the infrastructure that they will inherit to decay.

» And we are not doing right by our children if we allow maintenance to be deferred, pension liabilities to be accrued and the deficit to be repressed with countless accounting tricks that shortchange the future.

YES, WE HAVE BIG CHALLENGES. BUT WE HAVE ALWAYS HAD BIG CHALLENGES, AND WE HAVE ALWAYS OVERCOME THEM. I BELIEVE WE WILL AGAIN AND ENSURE THAT OUR CHILDREN INHERIT A BETTER AMERICA. WHAT ARE THE LARGE CHALLENGES AHEAD FOR THE UNITED STATES? FOCUSING ON THE BROAD ECONOMIC REALM, I WOULD HIGHLIGHT THE FOLLOWING:



COMPLETING THE ECONOMIC RECOVERY

In the six months from fall 2008 to spring 2009, every economic indicator—employment, industrial production, the stock market, global trade—collapsed faster than it did in the six months after fall 1929. We were successful in containing that. We have had nothing like the Great Depression of the 1930s, but we remain with an economy constrained by too little demand, in which consumers and businesses still have too little confidence, and in which we must put measures that assure durable spending to put people back to work, and to again engage a virtuous circle of “more spending means more income means more jobs.”

How best to do that can be debated. There is a role for tax policy, a role for regulatory policy, and certainly a role for infrastructure investment. Question: How many of us are proud of Kennedy Airport as the gateway to the greatest city in the greatest nation on this planet? At a moment when the federal government can borrow money for 30 years at below 3 percent interest rates, at a moment when construction unemployment is close to 20 percent, if this is not the moment to do something about Kennedy Airport and the smaller Kennedy Airports and schools and buildings across this country, I don't know when that moment will come.

TAMING THE BUDGET DEFICIT

The second great priority, and one that is always challenging for the political process, is to do right by our children with respect to the way we borrow and invest. We are going to have a rendezvous with destiny within the next several months, because at the end of this year three things are occurring:

- » All the tax cuts put in place by the Bush administration are scheduled to expire.
- » The country's debt limit will be reached again.
- » The congressional sequester, which will kick in if nothing is done, involves dangerous and irresponsible cuts in military spending.

I believe those three things will combine to drive action. The projected paths of spending and taxing are out of balance, and that has to get fixed. There simply isn't an alternative.

Austerity alone is not the answer. Here is a simple way of summarizing the current federal budget problem. The U.S. Congressional Budget Office's current projection for civilian government spending, exclusive of entitlement programs (Social Security, Medicare, Medicaid), is smaller as a share of income than at any time since the 1950s.

Similarly, the current projection for the military budget is about 40 percent as a share of GDP of what we were spending in the 1950s and early 1960s. And interest is going to be whatever it's going to be, based on our debt. There is not a lot of room for any of those numbers to be cut.

We must get the economy growing or we will not solve the deficit problem. An extra percent of growth per year over the next decade, for example, would be more beneficial than any of the austerity cuts discussed in Bowles-Simpson or in congressional debates on the debt limit. Countries that run into credit crises do so because they stagnate. That is why we must first get and keep this economy growing more rapidly. If we do not, there is not enough austerity in the world to make the budget arithmetic work.



We must again engage a virtuous circle of “more spending means more income means more jobs.”

Basically, then, to get our finances to be sustainable, we need some combination of the following two things:

- » To do it all on the spending side, you must cut entitlements—Social Security, Medicare and Medicaid—by a quarter over the next 10 years, below what they otherwise would have been.
- » To do it all on the revenue side, you must raise tax revenues by a quarter relative to what they would have been.

Most people would agree that Social Security and Medicare aren't coming down by 25 percent. And most people would agree that taxes aren't going up by such a substantial amount. The conclusion, then, is that we need to effect some balanced package that will involve both of those things.

Doing so will require bipartisan compromise and tough choices. I believe that's possible. I'm encouraged that Democrats are much more aware than they were five years ago that Medicare is out of control and that some adjustments will need to be made in Social Security. I'm equally encouraged that many Republicans have embraced the idea that closing a tax expenditure—a deduction or credit or exemption from income—is not raising taxes but, rather, is reducing a kind of expenditure.

ACHIEVING FAIRER DISTRIBUTION OF REWARDS

A third great challenge involves the broad structural changes that are happening in our economy and what they mean for the distribution of rewards. What information technology is bringing is very good for some of us, but it is not very good, at least in the short run, for many Americans. It is

fantastic for us as consumers. Think of the iPod and the iPad and much else.

But as producers, increasingly, the skills of the most able are being complemented better than they have before. More information technology, more access to the Chinese market, more access to low-wage labor to implement an idea. For those whose traditional work is more routine, the jobs are going away.

One example is the publishing and book industry over the last 25 years. First there were wholesalers and distributors and bookstores—Waldenbooks, Barnes & Noble, Borders. Then there was Amazon distributing books, and the bookstores went away. Today, the books themselves are going away; Amazon sells more eBooks than physical books. At each stage of this process, there has been more to read at lower cost (again, great for Americans as consumers), but there has been less work for people to do (again, not so great for Americans as producers).

Think about this: In 1965, one in 20 men in the U.S. between the ages of 25 and 54 was not working. Today, one in five men between the ages of 25 and 54 is not working. And even when the economy has fully recovered, it will still be only one in six. How are we going to grapple with the consequences of this trend? That question isn't just about bringing people in Washington together but about figuring out the right answer. It's one of the most difficult public policy questions we face over the next generation—that is, our children's generation.

Achieving a balanced package of spending cuts and revenue enhancements will require bipartisan compromise and tough choices.

MAKING BUDGET REFORM A PRIORITY

For whomever is sitting in the Oval Office on January 20, 2013, the first order of business must be budget reform. It should encompass comprehensive tax reform that vastly broadens the base and achieves some rate reduction, while at the same time collecting more revenue than we do now. We need a compromise on Social Security that marginally slows the growth of benefits but provides continued increases in benefits for all future generations and returns the program's revenue base to what it has normally been.

We must also address healthcare reform in a way that emphasizes cost containment. Some of that is a matter of bidding better and paying better for services. Some of it means going after things like malpractice that egregiously add to cost. And some is a matter of making smart investments that come close to paying for themselves via prevention and the like.

Combined, these measures—tax reform, Social Security reform, healthcare reform—offer the prospect of a sustainably financed federal budget, which will be a boon to confidence and constructive for the economy. This kind of budget reform will be the main agenda for the first post-election year of the Obama or Romney administration. And I'm optimistic that something in that direction will happen.

OVERCOMING POLITICAL POLARIZATION

Much of America's power and leadership in the world has depended on the power of our example. Showing that we are able to confidently keep doing things, working together and solving problems are crucial not just to our own interests but to the future of the world. Recently, however, American leadership has come into doubt because of increasing political polarization, not only in Washington but across the heartland.

For all the talk about the disabilities of gridlock, however, consider this: Over the past 40 years, there has never been more

consequential legislation passed than in 2009 and 2010. You can debate how good that legislation is. But no one can debate the quantity of consequential legislation passed in our "gridlocked" system recently.

So we can do things. We will need whoever is elected president in November to go back to doing major things. But we will also need to recognize and change the character of our political dialogue. When we disagree, we must do so with the recognition that it is through productive disagreement, and ultimately compromise, that America has always moved forward, can move forward again and, indeed, must move forward. That means taking down the tone of partisanship, the pervasiveness of money and some of the sheer meanness that has entered too much of our politics. My expectation is that whoever is president this January will summon legislators and thought leaders in a spirit of optimism.

WHY IT ALL CAN BE DONE

Why can the above goals be achieved? In a word, history. Ask why the world has now gone for nearly 70 years without a war between major powers, without a major trade war, with more rapid growth than at any time in global history. Much of that can be attributed to American leadership, the power of American example and the role that America plays in the world. That is something that is in too much doubt today. In my opinion, that doubt is unwarranted.

Yes, we face a variety of difficulties and challenges. But speaking for myself, I would rather be playing the hand that history has dealt the United States in 2012 than the hand that history has dealt the leaders of any other major country in the world. That is something that we should all be very grateful for. But we must recognize that with that gratitude comes an obligation: to do right by our children... and our children's children. |||