ECONOMIC POLICY INSTITUTE

GENERATING A ROBUST RECOVERY

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LARRY MISHEL: Thank you all for coming today to this forum on how to generate a robust recovery. At EPI we've been trying to sound the alarm that joblessness is high, and that job losses will continue.

This is not to say that the recovery package hasn't worked. We think it's actually been a remarkably bold and effective program. Just remember that we've been thrown into such a huge hole that even throwing a lot of dirt in the hole doesn't really get you able to climb out of it.

So we believe that, in fact, much more can be done. Much more needs to be done. And that's why we're having this forum today. There is a great menu here – an effective policymaker, pollster and leading economists – to talk about what we can do to actually generate more jobs and get a much more robust recovery.

The next panel will be moderated by Steve Pearlstein, who is here already. Thank you, Steve, for coming.

I'm just going to get out of the way; first let me introduce Rosa DeLauro, longtime friend of working people, longtime friend and collaborator with EPI. She's been in Congress for 19 years. She's been a champion of many different things. The last time we had her come speak about paid sick leave and her efforts in that regard. Today it's about jobs, something near and dear to her heart.

She will not be able to stay with us long because there is a conference of the Appropriations Subcommittee of Agriculture that's meeting. So without further ado, our friend, Rosa DeLauro. (Applause.)

REP. ROSA DELAURO (D-CT): Thank you very, very much, Larry. It's a delight to be here. And there will be votes probably as well. They were coming to the end of the suspensions, so I'll make as many of those as I can and then go off to the Ag Appropriations Conference, House and Senate.

And it's a little improbable that Rosa DeLauro, representing the 3rd District of Connecticut, is chair of the Agriculture Subcommittee of Appropriations. So it's not just that I'm going to be sitting there; I'm helping to chair the conference as well.

I am truly delighted to be here this afternoon and back at EPI to take part in this conversation. I might just, if I can, Larry, for a second – I'm looking at Jody Franklin – and you talked about 19 years ago.

Jody Franklin was there 19 years ago when I decided to take the leap from working at EMILY's List to try to help elect women to the Congress. The opportunity opened up and I said, it's been nice talking to you, on my way to try to win this election as well. And I thank her for that effort.

I'm delighted to be here with Geoff Garin, Hart Research, fellow keynoter, and long, longtime friend, and anxious to read about his works.

And I say to Brad DeLong and John Irons, Paul Krugman, Steve Pearlstein, your panelists and your moderator, I just need to tell you all that myself and many of my colleagues on the Hill are great fans of your work, and time and again what we do is we come armed, waving the columns that you write to make some impressions on our colleagues.

Finally, again, a thank you to the EPI for inviting me back here today. I was here in May of 2007 to discuss the pro-family policies that Congress should get to work on passing, and that was despite the ambivalence and even recalcitrance of the Bush administration.

Well, the political landscape has changed quite a bit in the past two years but many of the issues that I discussed then – paycheck fairness, child tax credit, paid sick days – are just as important today, and even more so, in fact.

We have reached a moment of both great opportunity and great peril. On one hand, after eight long years of domestic neglect, we now have a new administration in Washington that understands the many burdens that are faced by American families in today's economy and is working hard to ameliorate them.

On the other hand we have the economic situation that brings us together today. Yes, there are some observers, such as Fed chairman Bob Bernanke, have suggested recently that this recession, the longest we have experienced since the Great Depression, is drawing to a close.

But that news, welcome as it would be, does not seem to be reaching the labor markets, or for that matter the public. And even if the recession ended on paper tomorrow, that would in no way alleviate the real, the considerable and worsening suffering that Americans have already experienced and continue to experience in this economy.

Everyone here knows the numbers. American families lost a staggering 18 percent of their net worth in 2008, the steepest rate of decline in over 60 years. Last month the unemployment rate climbed to 9.7 percent, higher than it has been in over a quarter century.

Our economy has shed 7 million jobs, over one in 20, since the start of this recession. That includes 216,000 jobs lost last month, which is less than the month before and the month before that, but still obviously not the direction that we want to go.

And it is entirely possible – indeed probable – that we will see double-digit unemployment figures before the economic picture starts to really turn around, and that's why we must prioritize the problem of unemployment and look to the policies that alleviate it and reduce it.

However bad the current economic picture looks, it would have been much, much worse had we not passed the recovery act. In January, the month before we acted, the economy shed 741,000 jobs, over 500,000 more than what we lost in August.

Since then we have at least managed to staunch the bleeding. In the seven months since passage, we have dispensed around $175 billion of recovery act funds, with more funding and projects rolling out every day.

According to recent estimates by the Council of Economic Advisors, this funding has boosted the economy by $200 billion and created over a million jobs. This is a good start. I'm proud that we in the Congress and the administration acted decisively. You may recall not too many bills that passed – at that dollar amount that passed as quickly as that bill passed – a recognition of the difficulties.

But while the recovery act seems to be working, we need to remain vigilant in monitoring the economic conditions for families on the ground, and we should be very wary about any overly rosy suggestions that the end of the recession or even an economic rebound of sorts will translate to a recovery at the family level.

I've been dismayed to discover the fiscal damage wrought upon state and local budgets. This recession has left frightening holes in our social safety net. Far too many struggling families are now falling through the tatters. We are in danger of seeing a lost generation of American children as a result.

New data every day shows an acceleration of Americans and children living in poverty. The number in extreme poverty has already reached the highest level in 14 years. And the losses will not stop there. Jobs, consumption and any hope of a meaningful economic recovery will follow.

Let me explain. From unemployment benefits to education and low-income assistance programs, states and local governments are the first responders of our social service network. But with state budget shortfalls higher than they have been since the Great Depression, it is these crucial seams in the safety net that are being cut first, and the cutting is not over.

In the current budget year, state budget shortfalls total $168 billion. That amounts to 24 percent of state budgets in total and about as much as ARRA has dispensed so far. The $140 billion in state fiscal relief included in the recovery act has helped to close between 30 and 40 percent of these state budget gaps but not the rest.

In short, states are cutting back on crucial services, particularly those that are assisting vulnerable populations. Services for the elderly and disabled have been cut in 25 states, health care in 27 states, K-12 education in 25 states, and higher education in 34. Cash assistance for poor families and child services are also bearing the brunt of budget cuts.

That's a problem writ large, but it resonates cruelly and painfully in the details. Cuts to HIV/AIDS patient support, elimination of domestic violence shelter programs, an end to maternal child and adolescent health programs – one state has cut virtually all of its state funding for mental health treatment for low-income individuals. Another has cut funding for early childhood education by 10 percent and cut other youth programs addressing delinquency and homelessness by over 20 percent.

In my home state of Connecticut, where we have a $4.2 billion gap this fiscal year, Head Start programs, state aid to school districts, anti-child abuse programs, higher ed operating funds all have been drastically cut and the gap looks to grow even bigger next year.

And if our society and our work are judged by how they treat the most vulnerable, then we have a moral and ideological and a patriotic responsibility as legislators and as citizens to aid the poorest and the weakest among us.

These are different times than the late 1990s when we implemented welfare reform, and when states are in dire fiscal trouble and cannot afford to help people when they fall, progressives must step up.

Our economic recovery should not just be measured by the liquidity of banks and the size of corporate bonuses. It should be measured by the economic security of families and the health and the nutrition of our children.

It should be measured by how we will live up to our most basic ideals of American government, nurturing opportunity for all, ensuring responsibility from all, supporting the spirit of community, recognizing both our independence and our interdependence and allowing our social services to lapse at the state level would betray those values.

What's more, the looming state deficit problem threatens to put off any hope of economic recovery at all. We are flitting on a precipice. Just as we're trying to create jobs at the federal level, the state budget gaps will mean lost jobs, lost purchasing power, both for those who are newly employed and for the people who desperately rely on these programs, and the private sector businesses that offer services are losing traction as well and going out of business.

These losses, coupled with tax increases, further spending cuts states are forced to institute to make ends meet, will mean economic stagnation, which will mean more lost jobs and purchasing power, and so on, all the way down.

And, you know, frankly, I am surprised that there hasn't been a real national discussion of this critical topic that is affecting so many. We can see the problems before us and we must act.

Last week we passed the Unemployment Compensation Extension Act. It extended benefits for up to 13 weeks in high-unemployment states. We passed the Medicare Premium Fairness Act, froze Medicare Part B rate increases and will help struggling seniors and struggling states because states help to share the cost of premiums for low-income beneficiaries.

The actions illustrate one of the most immediate ways in which Congress can help families and states in need, but now is the time – it's not the time now to dial back economic efforts, to pull back on the resources. We need to pass further extensions of federal programs that help people who are struggling in a downturn and to keep money flowing into the system – food stamps, COBRA, EITC, child tax credits, Pell Grants.

I don't know if you know – many of you may – that a million children have lost their child tax credit in this recession. That's because it is linked to work. You lose your job, you lose your health insurance, you lose your child tax credit. People are not making the connections today, and we need to.

Research has shown us time and time again that income support for parents, efforts like an earned income tax credit, a child tax credit boost employment, employment stability, increase earnings and income, reduce poverty and, yes, even improve kids' school performance.

In the recovery act we lower the eligibility threshold for the child tax credit from $12,550 to $3,000. Some of us wanted to go to zero. We couldn't get there. We couldn't get there. But, you know, you live to fight another day, and we will get there.

This means that a single earner working fulltime at the minimum wage with two or more children now gets a child tax credit of $1,724. Previously he or she would have received only $82.50. It's a critical step but we can do more.

This brings me to a larger point, one that has been made or will be made by others on this program. After four years of recovery under Franklin Roosevelt's New Deal, the economy suffered a significant setback in 1937. Unemployment shot up from 14.3 percent to 19 percent by 1938 while manufacturing output fell by a third back to 1934 levels.

The Roosevelt recession, as it was called by some, represented a significant setback to recovery, and New Deal opponents have pointed to it ever since as the fruits of liberal overreach. But in fact, as the works of Professor Krugman and DeLong have shown us, the major reason for the 1937 recession was quite the opposite.

With production profits and wage levels warily returning to 1929 levels, advisors convinced Roosevelt that it was time to turn off the spigot. And so the president passed sizable spending cuts, slashed the workforce of the Works Progress Administration, slowed down the projects in the Public Works Administration.

The rest, as they say, is history and history we should learn from in 2009. We cannot let the first signs of an economic recovery convince us that we have beaten this recession, particularly with so many people still hurting. And we must not be quick to diminish a federal response to the economic calamity, not when our full recovery is anything but assured.

The second lesson that I take from the Depression experience is a broader one, and that is the measure of Roosevelt's response to the calamity. FDR's administration did not just veer from crisis to crisis or conjure up short-term remedies for the problems at hand. Rather, the team laid the groundwork for long-term American prosperity, a foundation that still pays dividends 75 years later.

When the Great Depression put one-fourth of the nation out of work, Roosevelt answered the challenge not only with jobs programs but with unprecedented investments in our national infrastructure. Roads, bridges, highways, tunnels, parks, public buildings were constructed all across America through the Works Progress Administration.

The REA wired rural areas for electricity. The CCC put hundreds of thousands of young people to work on improving our public parks. The TVA built hydroelectric dams in the Tennessee Valley. The infrastructure investments did more than just put millions of people to work. They generated infrastructure capital that yielded decades of continued prosperity.

So in the midst of our own economic woes, we should take a page from that New Deal. We should invest in the energy, transportation, telecommunications network that will keep America competitive in the 21st century, which is why I, along with my colleagues – Representatives Keith Ellison, Steve Israel, Anthony Weiner – we've introduced the National Infrastructure Development Bank.

The bill would establish a development bank for America, a new independent entity to objectively consider public works projects and provide financing for those with clear economic, environmental and social benefits.

The development bank would issue 30-plus-year public benefit bonds, provide direct subsidies to infrastructure projects from amounts made available from the issuance of the bonds. Funding from the bank would supplement, not supplant, current financing mechanisms.

It's modeled after a European investment bank which has been the [European]Union's long-term lending bank, which has raised private-sector capital from around the globe to leverage infrastructure investment. It has worked wonders for them; it could work wonders for us.

For every billion dollars spent on transportation projects, you've got 47,000-plus jobs that can't be outsourced. They're created and you get $6.2 billion in economic activity generated. Former Transportation Secretary Mary Peters observed upwards of $400 billion is available in the private sector for public investment. It makes good policy sense to begin to tap into that.

Perhaps most importantly, the bank would create new opportunities to directly support and accelerate the kind of transportation, energy, telecommunications projects that will make a significant and long-term impact on American prosperity.

I'm sure you are readers of the *Wall Street Journal*, but this was last Monday's article. And this is both short term and long term. And the development bank obviously is a long-term concept for economic growth, but as well – and this was in the Wall Street Journal on Monday: "Stimulus funds speed transformation toward smart grid."

We'll, that's short term and long term, in which we can look at developing the new technologies that are needed so that we are once again on that cutting edge where we haven't been because, quite frankly – and this is in my view – not only have we outsourced the jobs, we've outsourced the technology as well.

I have fought for 15 year now for this piece of legislation and we are now beginning to get some traction. It's been backed by the President, the National Governors Association, a number of people in Congress.

I'll just mention it to you because it is an unlikely coalition: American Society of Civil Engineers, National Construction Alliance, the Building Trades, the Chamber of Commerce, PolicyLink, SEIU, Association of General Contractors, Transportation for America. We have the support of Governors Rendell and Schwarzenegger and Mayor Bloomberg, who have come together, as you know, on their Build America project.

It's been budgeted in the President's budget for $5 billion annually for five years in order to be able to deal with early operating expenses. The House budget put in 2 billion (dollars) in fiscal 2009 and 5 billion (dollars) in fiscal year 2010.

In my view, it is bold, outside of the box thinking. It's the kind of thinking that we need to have right now to stimulate the economy and generate a recovery that will last years if not decades to come. And I said that this is about jobs. It's about the creation of jobs. And, as I say, it's not the short term in which we've looked at those shovel-ready projects in terms of the stimulus, but this is for the future and they are jobs that cannot be outsourced.

Setting the stage for long-term success – the New Deal did more than build roads and bridges. It laid a strong foundation for broad-based post-war middle class. From Section 7(a) of the NRA to the National Labor Relations Act, New Deal legislation greatly strengthened workers' rights to organize, which has always been the backbone of middle class prosperity.

We would do well to follow the example. And one of the reasons income inequality is now so pronounced is because we have allowed our political opponents to gut the union movement in America. So we need to have strong unions back now more than ever.

We need to protect the right of Americans to organize, to shift the balance. We also need to insure that employees are paid the same amount for the same day's work, regardless of their sex by passing Paycheck Fairness, the pay equity bill.

We need to reward companies who invest in American jobs. We can do that. We can reward people if the keep their jobs here. And the opposite – we ought to do the opposite for those who, for fear of real worker protections, take their jobs overseas.

In short, we need to reassert the importance of the American worker in our economy. Otherwise this recession will only be a prologue to worse economic troubles down the road. No recovery will last long if we continue to leave people behind.

You know, of course, if you ask most Americans about the New Deal they probably would not mention their WPA-built library or their industrial union. They would mention its centerpiece, Social Security. And at a time of great economic hardship, and despite protests from the right, the Roosevelt administration ensured that older and unemployed Americans would never again be left alone to poverty and privation.

We now face a similar decision point in our nation's history with health care, although Republicans and conservative activists would be calling that socialist as well. There is a reason why they are in such a frenzy; because we are – despite all of the reports out there, we are poised to join other modern nations and to be able to ensure that our citizens have affordable health insurance. Not an easy road. Not an easy road.

As with the state budget situation, even if you do not share this moral imperative, the health care situation is inextricably tied to our economic crisis. Health-care costs, health insurance premiums we know are spiraling out of control. There is no way that we can ensure a strong economic recovery without doing something about this problem. And, simply put, we can no longer afford the status quo.

Stakes are high right now, and in my view they're too high to pass piecemeal reform that only benefits an insurance industry and leaves Americans stranded with higher bills. Again, in my view, to insure a strong economic recovery at the level where it matters most – in our homes, in our communities – we need to make sure that health-care savings get passed to the consumer.

I believe there is no better way to reduce the costs and to introduce real competition into the health insurance market than with a very strong public health insurance option, and we will continue to make the fight for that effort as we move down the road here over the next several weeks.

Infrastructure, workers' rights, health care – like the leaders of Roosevelt's time, we should keep an eye to those long-term developments. At this moment of great economic peril we must think past the short-term fixes of rescue plans and bailouts, find ways to proactively invest in our nation's economic growth.

We need to keep an eye to our most basic principles and fashion a recovery that alleviates the economic suffering faced by so many and sets the stage for a longer and a broader prosperity.

I've spoken much about Franklin Roosevelt today, but in the interest of bipartisanship and because of problems that we face transcend party, I will close with some words from across the aisle, and I quote:

"The legitimate object of government," said a lanky Illinois Republican in 1854, and I quote again, "is to do for a community of people whatever they need to have done but cannot do at all or cannot do so well for themselves in their separate and in their individual capacities," end quote.

As someone who has had the privilege of serving in the Congress of the United States for almost two decades, representing more than a half-million people, I do believe that government has an obligation to play a role in making opportunity real, a moral obligation. I do not believe in every man or woman for himself or herself. I believe in values like personal responsibility and shared responsibility. I believe in what we can achieve together.

So as we battle to combat this recession and restore the conditions for long-term prosperity, let us keep these words of Lincoln in mind and make sure that we act for our community of people.

Thank you very, very much for listening to me this afternoon. It's a pleasure to be here. (Applause.)

Kevin, do I have time for questions?

MR. : Yes.

REP. DELAURO: Go. Okay.

Q: Hi. I'm Bob Shull. I'm with the Public Welfare Foundation. And I had a question about the Investment Development Bank legislation.

REP. DELAURO: Sure.

Q: Does it come with any job quality requirements related to wages, labor, peace, health and safety guarantees for workers on projects created by that funding?

REP. DELAURO: Well, you know, it comes with – the legislation talks about Davis-Bacon, and so it's assumed that we will be mindful of all of those efforts. Clearly it's the concept that has to be put together, et cetera, but there is clearly the impetus there, as I say, in putting Davis-Bacon within the legislation to look at the issues that you bring up to make sure that there's strength and security in those areas.

MR. MISHEL: Okay, a question on this side? We'll go back there; Mr. Jayne.

Q: Thank you. Ed Jayne, AFSCME. You mentioned the recovery act and the state and local fiscal relief and how appreciative we are of how well that has worked, except you pointed out that maybe more is needed, or at least there are continuing problems.

I guess I wondered if you've had any thoughts about how to respond and whether there any kind of automatic stabilizer so that we wouldn't have to wait so long when we have these downturns to respond to some of these problems was something anybody was working on.

REP. DELAURO: Well, look, this was a move to deal with a two-year period of time to try to see, you know, where we are. I think there is a constant watching of where we are. We are beginning to see, you know, some of the efforts, and I know that there are efforts to look at this first-time homebuyer effort, and to extend that effort would appear to make some sense to try to do.

And where we have – I don't know what people here thought about the "cash for clunkers," or there were administrative difficulties, but it seemed to be generative of activity of the kind that we were looking for in this effort.

And my sense is, is that we do have to be mindful of – we just can't go off a cliff in two years, but how do we begin to think about how we transition from that into what is a new reality in what we might have to try, you know, to do there.

Look, I will just tell you that many of us are still fighting with our states to make sure that the money is getting out to where it needs to go. And I'll speak of my state, you know, and our governor. I don't have any problem discussing that. It's, you know, a number of the dollars have been used for maintenance of effort instead of getting it out the way it needs to.

So we are still battling those kinds of efforts because we believe – and there are projects that are there where we can put people back to work, and that is what the goal of that effort was. It was to put people back to work. It was to provide some assistance to the states so that they could not have to cut off services and jobs and to put down some marks for longer-term growth. So I'm hopeful that we will get to a point where we can be focused in on that, Ed.

MR. MISHEL: I better let you get to your conference now.

REP. DELAURO: Okay, thank you.

MR. MISHEL: Thank you very much.

REP. DELAURO: Thank you all very, very much. I appreciate it. Thank you. Take care.

(Applause.)

MR. MISHEL: Let me just say that in the effort to pass the initial recovery package, one of the things that so-called moving to the center did is actually substitute relief to the states that was taken out and put in was relief to high-income taxpayers, AMT relief, which would have happened anyway, and so –

MS. : Which was an abomination.

(Laughter.)

MR. MISHEL: – which most economists think didn't actually – if you do what you're going to do anyway, that actually doesn't help the economy, but substituting that for fiscal relief to the states was actually, you know, a wrong move, and we look forward to that being corrected.

We estimate at EPI that half the jobs that are created by fiscal relief to the states are actually private sector jobs in places that are selling to the state or that benefit from the fact that people employed by the state and vendors are still working.

So let me shift to our next speaker, Geoff Garin, who has been president of Peter Hart Associates since 1984. Looking at you that must be almost right out of college. That's pretty impressive, Geoff.

GEOFFREY GARIN: High school.

(Laughter.)

MR. MISHEL: High school. His bio mentions that he's worked on the successful campaigns of 10 senators. I'll just state that it's very interesting; it's both senators from West Virginia, both senators from North Dakota, and some guy from Vermont.

So it's been a wide range of senators. Really, Hart is a leading survey firm and Geoff has done some great job in leading it. He's done a great job on a poll working with EPI and I look forward to hearing your remarks on that.

MR. GARIN: Good afternoon, everybody. So I'd like to do is take you through the results of this survey that we conducted on EPI's behalf. This is hot off the press. We finished the last interview a week ago today.

This is a survey with a representative random national sample of 802 registered voters across the country, and I think it tells a very important story about how Americans view this economy in a way that is very different from the inside-the-Beltway conversation that often have.

The first point that's crystal clear in the results is that for whatever the economists say about the technical situation, the on-the-ground reality for Americans is that we are still in the midst of this recession. When people view the economy they talk about it in extremely negative terms.

Here, when we asked people, how would you rate the condition of the national – I'm sorry, do you think that the country is still in an economic recession today or do you think that the recession is pretty much over, only 13 percent of Americans think the recession is pretty much over. Eighty-five percent say, no, the country is still in a recession today.

When we ask people to describe economic conditions nationally on a five-part scale, only 4 percent – really a pretty meager number – have a positive rating of saying that it is excellent or good. Twenty-three percent take the middle point on the scale and say thing are just fair. And fully three-quarters of all Americans express a negative view of the economy and say that things were either not so good or poor, including more than one out of three who say that things are poor.

In terms of what's driving this view of the economy, it's clear that unemployment is really – remains the dominant concern across the country, and at a moment when we live in a highly polarized country in partisan terms, there is one thing on which Democrats, independents and Republicans agree, and that is that unemployment and the loss of jobs is the number-one economic issue in the country today.

On this chart we gave people a list of seven different economic problems and asked them to say which one or two are most important. You can see at the very top of the list, far beyond anything else is unemployment and the lack of jobs. An absolute majority of 53 percent say this is one of the dominant problems today, really more than – about twice as much as any other problem that people mention.

There is differences between Democrats and Republicans about what the second problem is but no difference in terms of what the first problem is. So you can see in that little box over there that it is number one with Democrats, independents and Republicans.

For Republicans, they mention the deficit as the second most important – or with the next most frequency, and Democrats tend to be less attentive to that. For Democrats, the clear number-two issue is the cost of health care and Republicans care less about that. But on the number-one issue, there is no disagreement.

In terms of diving a little deeper on the economy, 80 percent see it as a big problem today, and while some people foresee some decline in the severity of the unemployment problem, people do not think this is going away fast. Sixty percent say that it will still be a problem a year from now.

So here we asked people how big a problem is unemployment and the lack of jobs today. You can see that 83 percent say it is a big problem, either a very big problem or a fairly big problem, including 59 percent who say it is a very big problem. It is higher among African-Americans than others, but still 58 percent of all white voters, 61 percent of Hispanic voters – and this really goes across the income range and it's particularly high among voters in rural areas.

We also asked people, looking ahead to a year, do you think – how severe a problem will unemployment be? There is some improvement but still 61 percent expect that a year from today unemployment will be a big problem, either a very big or fairly big problem; 33 percent say it will still be a very big problem a year from today.

Non-college-educated men, independent voters and rural voters tend to be most pessimistic about the persistence of unemployment but, again, it is going from very bad to bad as opposed to bad to good in terms of what people's expectations are.

I think one of the really important parts of this poll is the degree to which it documents the feeling and the reality of this recession being quite personal to Americans in terms of how they and people who are very close to them have experienced the recession.

We asked people, are you close to anyone who has been laid off or lost their job. Twenty-four percent say that somebody in their own household has had that happen to them in the course of the past year and another 33 percent say not in my household but somebody who I consider close to me, either a family member or a friend, has lost their job or been laid off.

When we ask about people in their household having had their hours cut or their pay cut, 37 percent say that that has happened to somebody in their own household and another quarter say it's happened to somebody else who was close to them.

When you put all of that together, here really a very significant number is that for four out of nine American voters, this recession is personal, that it is happened in their – it has hit their own households and they have experienced it in a direct and personal way.

So either saying that someone in their own household has lost a job, lost hours or lost pay in the course of the past year, looking just among our respondents who are still – who are not yet retired, this experience is more prevalent, not surprisingly among those with the lowest incomes, under $50,000.

But what is important here and tells really a significant story about the breadth of this experience is that even among households with incomes over $100,000, 43 percent say that somebody in their household has been hit by this recession.

This personal experience with the recession is more prevalent among younger voters, among Hispanics, and while, again, we have lots of partisan differences in America, the experience of being hurt by the recession does not discriminate along party lines, is that Democrats, independents and Republicans were all remarkably equally likely to say that they have been personally hard hit by the recession.

I spend a lot of time traveling outside of Washington moderating focus groups mainly, and this is the biggest disconnect in my experience in terms of what I hear when I am out of town and what I hear when I am here in Washington, is that when you are out of Washington, the misery of this economic experience is hard to escape and hard to miss.

People are suffering in the country today and they feel that people here don't really get that, and to some extent that is true. The experience of the recession here, for lots of people in the policy world, tends to be much more abstract and theoretical. Here people feel comfortable talking about unemployment as a lagging economic indicator.

For people out in the world, in the real America, unemployment is not a lagging economic indicator; it is a devastating personal experience, and that's the America in which we live today.

In addition to the problem of unemployment, we also asked about the problem of stagnant wages; that is, incomes not keeping up with the cost of living. Here people tend to think of it as a slightly less severe problem than unemployment is today, but a big problem nonetheless.

The big difference is while people think there will be some amelioration on unemployment, people see no change ahead in terms of stagnant wages, so that 63 percent say it's a big problem today and 57 percent say it will still be a big problem a year from today. Thirty-nine percent say it's a very big problem today, and that only goes down by about eight points.

So that here, in terms of being able to keep up economically, even with some sense of an improvement in the employment situation, people are not optimistic that this aspect of things will improve particularly.

Here this is a little bit more discriminating in terms of who feels most hard-hit by the problem of salaries and wages not keeping up with the cost of living. It tends to be much more pronounced in lower-income households and there is a substantial gap in terms of educational attainment so that people who do not have a four-year college degree are much more likely to feel and see this as a very big problem compared to college graduates.

I think in one of the – I talked about the sense that people express, when I am out in the country, about folks in Washington not getting all of this. This translates into I think a kind of a really very dramatic way, and at some important levels a very disturbing way in terms of people talking about the effect of the government's economic policies.

So that when we ask about how much the government's policies to deal with the recession have helped various people and entities, we've got this very skewed result where there is a strong proclivity to see the large banks and Wall Street investment firms as having been helped by the government's economic policies.

But when you look at people who have lost their jobs or had hour cuts, the average working person, small businesses, or the respondent himself or herself, they really feel left out of the solution, so that all of 10 percent of respondents say that they feel that they've been helped a lot or a fair amount and 73 percent say at this moment of real economic distress, that they've been helped very little or not at all. That's the view of not just themselves but average working people in general, so that there is this real feeling of the government policies having helped some but not the vast majority of Americans.

In this regard, I want to note that Americans tend to trust President Obama far more than the Republicans in terms of dealing with the economy and having the right approach to the economy.

But, having said that, there is still a broad consensus in the country that the administration has not yet done enough or not already done enough to deal with employment and the loss of jobs and that the Obama administration still needs to do more to deal with unemployment and the loss of jobs, that this story is not ending; the passage of the recovery act is not the alpha and omega of dealing with the recession.

People want to know, at the very least, that the people who have been entrusted with our economy at the highest levels of government understand what people are going through, feel the same sense of urgency about it and wake up every day with a commitment to figuring out how to do more and do better on behalf of people who are struggling through this economy.

When we asked about the recovery bill, which we described in the question not just as the recovery bill but as the stimulus package, the language by which it is more generically known, 65 percent of all Americans say that the recovery bill has helped, but frankly they say it has helped the economy a little more than a lot, but in this economy a little is better than not having helped at all.

And, indeed, when we take people through a debate over the stimulus bill – and it's in your packet; you can read it at your leisure – I think we've faithfully tried to replicate what the supporters of the recovery bill say as well as what the opponents say, that people end up on the side of supporting the recovery bill and taking the position that it was the right thing to do and that it was necessary more than it's been a failure.

Oh, and I should note, you know, we also asked about if Republicans in Congress are so certain that it's been a failure, did they want to just cut off the funding now? That would seem to be an acid test for all of that. If that's the proposition, the American people don't think that that's such a good idea by 55 to 39. They oppose the idea of freezing the unspent stimulus funds at this stage.

There has been a – there is an ongoing discussion inside the Beltway about the deficit versus unemployment in terms of what ought to be consuming our attention right now. Again, the conversation outside the Beltway I think is substantially different.

When we ask people about two different economic facts – one, that the unemployment rate is still rising and expected to go above 10 percent, or that we have had a large increase in the federal deficit and the national debt by 53 to 42 – Americans are more concerned by the fact that unemployment is still rising than by the large increase in the deficit and national debt.

And in terms of what people think the focus ought to be right now for improving the economy, by 61 percent to 36 percent they say the focus ought to be on creating jobs and investing in renewable power and education rather than shrinking government spending in order to shrink the size of the deficit.

Democrats and independents both clearly come down on the side of growing the economy. Republicans, by a very narrow margin, come down for focusing on the deficit. People understand that this deficit is a legacy of the Bush administration and not a creation of the – Obama administration by 52 to 27. And you can see that the independent voters take that view by close to about two to one.

And I think, importantly, in terms of thinking about this, where the public really comes down is that while the deficit may in fact be an important problem, we need to deal with it in a way that is consistent with growth.

I think people – in my experience people do think about this in sequential terms, and that it is inconceivable that you solve the deficit problem without first getting people back to work and getting our economy growing again-- that there is no common sense version of fixing the deficit problem in an economy where people are not employed and that is not growing.

Just to close on a few other slides, we asked – as you heard, people think that there is far more work to do to fix the economy and respond to the impacts of the recession, particularly with regard to jobs and unemployment. We asked about a variety of things. And in terms of persisting in this sense that there is a lot more to be done, voters in fact expressed support – in many cases strong support – for a variety of proposals to improve the economy and help people get back to work.

Uppermost among those is support for a major jobs creation tax credit for businesses that create jobs in the United States in the next two years. Eighty-seven percent favor that. Fifty-seven percent strongly favor that.

People also support what Rosa referred to before, that the House has done and hopefully the Senate will do in short order, which is extending unemployment insurance benefits for those who cannot find jobs in this recession.

There is also support here for putting people back to work in government-funded public service jobs that help meet important community needs. So people really do think that we ought to deal with this with a sense of urgency in terms of attacking this problem in an ongoing way.

On this question of the tax credit, which has broad support when we first describe it to people, we laid out a criticism of it as well as a defense. The criticism is that with the federal budget deficit at already over a trillion dollars, we just can't afford the cost of this $50 billion tax credit plan. The economy has already started to recover and more government spending will do more harm than good.

And even in the face of that criticism, the public comes down much more on the side of those who support the tax credit by 59 to 39 and, again, Democrats are very supportive of this and independent and Republican voters each are no worse than evenly divided, even after hearing the pro and con arguments.

So again, the three big points I want to leave you with is that this is a recession where people have been personally affected, where there is a sense that government needs to do more, and where there is indeed support for specific and tangible efforts to continue to attack the most pressing problem on the economic scene, which is unemployment and the loss of jobs.

So thanks very much.

MR. MISHEL: Thank you. (Applause.) Will you be able to take a couple of questions?

MR. GARIN: Sure.

MR. MISHEL: Why don't you just stay right here? I think we – thank you very much, Geoff, for that. I think this is a very important contribution to the debate about where people are at and what needs to be done and how they balance the sense about jobs and deficits and all that.

I want to leave time for a couple of questions for Geoff.

Q: Hi, I'm Mark Harrison with the United Methodist Church Office. Geoff, your poll shows that the majority of Americans believe that the economic recovery package has helped big business more than people.

MR. GARIN: No, no, not the economic recovery package; the sum of all economic policies.

Q: Does the White House understand that, and what do they say back?

MR. GARIN: Well, I think there is an untold story, and Larry and others, his colleagues at EPI, are helping to tell the story about the real impact that the recovery bill has had, and the truth is that while I think there is a sense that there is much more to be done, I think there is a much more aggressive effort that ought to be undertaken to really tell the story of what the administration is doing in a more consistent way.

President Clinton – when he ran in 1992-- talked about focusing on the economy in a laser-like way, and that's exactly what the public wanted. And then you get to be president and you are confronted with a welter of problems and it is hard to focus on anything in a laser-like way.

But people do want to know that, in terms of what this administration is doing, is that it does understand what the American people are going through and that it is connected to that and working on a whole variety of fronts to address it.

I think that there is both – it's a challenging thing for an administration to do, and frankly I think that it is both about communications and about substance.

MR. MISHEL: Bob Shull again.

Q: Yes, Bob Shull, Public Welfare Foundation. I was curious. You said that the public is responding to a whole set of economic policies. Do you have any sense of whether the Wall Street bailout is dragging down the public's perception of the recovery package and the positive stuff that's supposed to be –

MR. GARIN: Oh, yeah, I have no doubt about that. And we didn't ask in that question, by the way, about the Obama administration's economic policies. We asked about the government's economic policies. And I think the bank bailout is still probably what people respond to most clearly under the heading of government economic policy even more than the recovery bill, but the sense of bailouts in general.

So I do think when people are answering that they are answering as much about the Wall Street bailout as about anything else.

MR. MISHEL: Thank you. All right, let's take one more question over there. Can you go up there? Let Steve Hill ask a question.

Q: Hi. I'm Steve Hill from the Service Employees International Union. I have some fear that as time goes on, that the balance between people's concerns about jobs and employment versus the deficit may shift, and I'm wondering if either from observation from other polls or your own experience, what you think, you know, might happen in the near future.

We've heard about unemployment for a long time. We have short attention spans. Even if employment remains a problem, our attitudes may shift, and I would like to get your views on that.

MR. GARIN: Well, first I would say that people have a personal experience with the economy and their own struggles in the economy, and as long as they are – you know, that continues to be the case, I think those will be primary.

I really am not here to say that the deficit is unimportant or shouldn't be something that we think about and talk about, but I do think that even, focusing on the deficit, what is clear in this poll and I think is durable is that people want to deal with the deficit in a pro-growth way, that the idea of dealing with the deficit only by cutting back on government or undermining federal entitlement programs. Even if you accept the importance of the deficit, it may not strike people into next year as the appropriate approach.

I think that the idea that we have to grow the economy in order to fix the deficit, at the end of the day that was the great experience of the 1990s. It was not just about the '93 budget law but these other changes in the economy that enabled us to move to surplus. And I think that that needs to be very much the democratic model.

I don't think we ought to resist the idea that deficits are unimportant. People don't have an economic analysis of deficits only; they also have a moral analysis of them, that there's something that is wrong about passing on large debts and burdens and obligations to future generations and that there – I think that there is a growing sense that we are doing that in a way that will be harmful to our kids and grandkids.

And people do worry about that. They're not – they don't think so much about crowd-out effects and things of that sort but they do care a lot about kind of these moral questions. And we should not be oblivious to them but I think we ought to be able to engage – really engage in sort of a discussion about what's the right way to go about all of this.

MR. MISHEL: Let me just – maybe I just ought to mention a few facts from the economic landscape. We are going to get a report in late October that will show that the economy actually grew over the summer. At the same time, all the projections are showing that we will continue to lose jobs for at least six months to nine months and that unemployment will continue going up and probably peak either in mid-2010 or continue going throughout the rest of the 2010.

So to the extent that people are experiencing the economy, that's what they're going to both experience and observe, which I guess sets us up for the next panel. Thank you very much, Geoff, for coming and sharing that with us. (Applause.)

I think I'll just introduce the moderator of the next panel, Steve Pearlstein, who I've known and been talking to for a few decades. A few years ago he became a columnist rather than a reporter. Somewhere or another he won a Pulitzer Prize in so doing. I think in the financial crisis he's emerged as a great commentator on that. We appreciate him very much for coming over today and moderating this panel that we have next, all those who are now I guess coming forward.

So thank you very much, Steve.

STEVEN PEARLSTEIN: It's an honor to be here at the "House of Faux" and the "House of Mishel." Just a disclaimer: I am not an economist, I just play one in the movies, and I don't have a blog, which distinguishes me from the others on the panel who I will introduce to you.

At my far left, your far right, is someone I'm sure that needs no introduction from me. He has been a columnist with the New York Times since 1999 and he continues to write twice a week even while he is a professor of economics and international policy at Princeton University, which could have used his help perhaps in managing its endowment recently. (Laughter.)

He is author of 20 books and more than 200 professional articles. And he hasn't yet won the Pulitzer Prize but he – (laughter) – he did win something better – (laughter) – the Nobel Prize for Economics for his work in international trade and geography. He also was the winner of the John Bates Clark Medal a few years before that.

Brad DeLong is a professor of economics at the University of California at Berkeley and a research associate at the National Bureau of Economic Research. It says here he's also a visiting scholar at the Federal Reserve Bank of San Francisco. He was deputy assistant secretary of the Treasury during the early years of the Clinton administration, and he also does a very active and well-read blog.

John Irons has the distinct honor of having joined the Economic Policy Institute in 2007, which involved leaving his old job as director of tax and budget policy at the Center of American Progress. As he explained to me, it involved changing from going to the left elevator to the right elevator in this building. (Laughter.)

Before, he was an assistant professor at Amherst College, worked at Brookings and the Federal Reserve Board, and he's won several awards for his economics blog, which goes by the name of Argmat?

JOHN IRONS: Argmax.

MR. PEARLSTEIN: By the way, Brad, what is the name of your blog?

BRAD DELONG: I'm changing it right now.

MR. PEARLSTEIN: Oh, okay.

(Laughter.)

MR. DELONG: For the moment it's, "Grasping Reality with Both Hands."

MR. PEARLSTEIN: Ah, okay.

I'm going to let the economists do most of the talking here, but I just wanted to suggest that as you listen to them you keep something – I'd like you to keep something in mind, and that is I think something that most people would agree on, that as a matter of accounting, this country lived beyond its means for a long time during the 1990s and particularly during the early 2000s, for all sorts of reasons, which are complicated, and not all of which can be blamed on George Bush.

That reality was the direct cause of a rather large financial bubble. It was a financial bubble that, again, went well beyond subprime mortgages or home mortgages themselves, and that that financial bubble resulted in an economic bubble, an economic bubble in which excess capacity was created, both in the private sector and in the public sector because people thought that we could afford all that stuff and that that was real and that that demand was sustainable.

I think it's fair to say that it wasn't sustainable, that it was based on a mirage, that it was based on a bubble. It was based on too much credit and borrowing, based on living beyond our means, and the recession we're going through now is the process by which economies adjust to those kinds of realities.

And that when you think about what to do about the recession, it's often useful to think about how we got in there and whether we want to recreate the problems that got us in there or find another solution to another more sustainable – I'll say equilibrium although I know we're not supposed to believe in equilibrium anymore.

I think I'd like to – I meant to say something that in fact Geoff Garin just said, but I'll say it in a slightly different way.

The Democratic Party has got into something of a theological or almost Talmudic debate about balanced budgets, a debate which I think has been very divisive and at times very personal as it relates to Mr. Rubin and Mr. Summers.

I cannot spin out an economic study showing that persistent deficits are good or bad, but I think as Geoff Garin just mentioned, the political reality is that the Democratic Party, after a big fight, embraced the long-term goal of balancing budgets in the early 1980s. That has been a winner for the Democratic Party, and it is a context which allows Democrats to talk about – successfully politically to talk about public investment.

It's a context that allows Democrats to talk successfully politically about curbing rent-seekings by business, and it's a political – it's a context that allows Democrats to talk successfully politically about raising taxes on the rich and maybe even on the middle class.

That doesn't mean that short-term deficits at a time like this are a bad thing. It doesn't mean you have to turn off the spigot tomorrow, as Rosa said earlier. But I think it does mean that in the long term, that you give up that issue – which, by the way, voters trust Democrats more to balance the budget than Republicans – that you give up that advantage at your peril.

PAUL KRUGMAN: From your words – from your mouth to Senator Ben Nelson's ear.

(Laughter.)

MR. PEARLSTEIN: Well, I just – (laughter). The difference between a blogger and a journalist is a journalist likes to figure out what's going on and what's true and report it and let whatever happens happen with the information or observations they make. A blogger always tries to think about how is what I say going to be used in this ongoing struggle between good and evil? (Laughter.)

And with that – Larry, I don't actually have an order. Did you have an order in mind?

MR. MISHEL: I think we were going to have Paul go first.

MR. PEARLSTEIN: Okay.

MR. MISHEL: Is that okay, Paul?

MR. KRUGMAN: Yeah, sure

MR. PEARLSTEIN: So Mr. Krugman.

MR. MISHEL: Then Brad and then John.

MR. KRUGMAN: I can't quite contain myself. Steve, what you just said about the slumping part of making an adjustment that needs to be made is almost verbatim what Schumpeter said in saying that depressions serve a purpose and we mustn't do anything to fight them. And he said that in 1934, which is a –

MR. PEARLSTEIN: I didn't say that.

MR. KRUGMAN: I know you didn't. The beginning –

MR. PEARLSTEIN: I didn't say the second part.

MR. KRUGMAN: I know. You didn't say the second part but the first part was – in a way, you know, that actually does get to a point, which is that there is – I think we should be past the stage right now of dwelling on the missteps and evils that brought us here. I mean, I would like to see some people in stocks, maybe in front of the bull on Wall Street, and that sort of thing.

But we really do need to think about what we're going to do. And there's a really problematic position we're in right now, which is that the apocalypse has been postponed, maybe cancelled; that we are – Christina Romer has a new paper out called "Back from the Brink," which is a very good piece, saying more or less that our policies saved us from what could quite easily have been a second Great Depression; I think that's right.

But we're in a position which is in no way satisfactory and is going to do a great deal of further damage if we don't get more of a – more of a recovery than merely a technical recovery, than merely an upturn in GDP.

I think Brad is going to talk more about this, but all of the standard projections now call for a really prolonged period of economic suffering, call for unemployment remaining very high, not just for a year but for a number of years. They basically show a return to anything we might call full employment about five years from now.

And the reason they forecast that is because convention says that forecasts should always predict a return to normal within five years. (Laughter.) So there's really not an underlying even explanation of why that's supposed to happen, but they do show prolonged suffering.

So can we do anything about this? Can we do more to support the economy? And here is where we come to the great difficulty in our discourse, even now in coming to grips with the essential weirdness, the essential nonstandardness of the kind of economy that we're in right now.

Normally we have an economy in which the job of stabilization is primarily the job of the Federal Reserve in which therefore even though full employment is not something that happens all the time, it kind of makes sense to think about it that way, so that if the government borrows more, that is going to probably drive up interest rates, not through some magical process but most approximately because that will tend to expand the economy, which will lead the Fed to raise interest rates, which will transmit itself to longer-term interest rates and so on, which the Fed more or less has to do, so this is the right way to think about it.

But we're not in that kind of economy right now. We're in an economy where it's not just the fact that the economy is depressed but the fact that the front-line tool of stabilization policy, which is monetary policy, is not effective.

So if you take something like a Taylor rule, which says that the Fed raises rates when the economy is near full employment and inflation is a problem and cuts them when the economy is depressed and inflation is not a problem, you can – this is a little bit metaphysical to argue which one you could use, but if you use one that kind of fits the Fed's past behavior, the Fed funds rate now would be about minus 5 or minus 6 percent – minus 500 or minus 600 basis points.

So monetary policy is constrained by the zero lower bound. The Fed is doing other stuff. It's doing a lot of other stuff. And I'm glad that Ben Bernanke came into this having thought about things you might do when you're up against the zero bound but not nearly enough to compensate for the loss of that tool.

Again, we don't have a real – we don't have any solid estimates but the kind of guesstimates from Goldman Sachs say that in order to achieve what we would achieve if we were able to cut the Fed funds rate to minus 600 basis points, we'd probably have to have Fed's balance sheet grow to 11 (trillion dollars) or $12 trillion, and it's not willing to do that.

So monetary policy is constrained. It's way short of where it ought to be, which means that fiscal policy is, in effect, trying to fill the gap that is left by the loss of our usual stabilization tool. In this context, many of the things you hear – many of the things people continue to say about fiscal policy are no longer true. First and foremost, it's no longer true that government spending competes with private spending for a limited supply of funds.

We are in a world – one way to think about this is that we're in a world where the total amount that people around the world want to save, or the amount that they would want to save if we were anywhere near full employment, is greater than the total amount that people are willing to invest, even at zero short-term interest rate.

And so we have this sloshing around excess supply of savings. Government spending, in that context, does not crowd out private investment. In fact, it crowds private investment in. Or to put it another way, look, we've had a sharp drop. Some of the – I just saw John Iron's piece a little bit – we've had a sharp drop in business investment during this slump.

Some of that can be attributed to the financial crisis, which has disrupted financing, but most of it is probably just a response to the fact that the economy is depressed. So we're having much less private investment than we would have normally. That means that we are crimping – we are scarring ourselves is John's phrase, but I would say we're crimping our future potential by having low investment.

To the extent that we were able to have a more effective fiscal policy that meant a stronger economy, which meant stronger investment, this would actually be making us richer in the future, not poorer. The idea that there is a tradeoff between doing more now and burdening future generations is actually wrong. We would be richer in the future if we had a more effective policy of supporting the economy now.

It is true, maybe, that if we just take a more narrow fiscal view, that trying to support the economy now, if it involves deficits, puts a burden on the government's future finances. But the headline number that you see on those things is wildly misleading.

First of all, in the short run, government spending now – you know, think about whether or not to spend $100 billion on infrastructure. And I know, it's not so easily done, but just think about that.

In the short run, that spending, all of it, represents an addition to GDP because it's employing resources that would not otherwise be employed, plus there will be some positive multiplier effect, both though higher consumption and actually through higher private investment as well, so it will actually add more than that.

And all of that increase in GDP leads to higher tax receipts than would otherwise come. And it's very easy to conclude that something like 40 cents on the dollar of spending comes back in the form of higher tax receipts and, to a limited extent, smaller expenditures on things like unemployment benefits.

So right away a dollar of – I think we're supposed to avoid the word "stimulus" – a dollar of recovery spending only costs 60 cents. That's not the end of the story. A persistent nasty slump like the one we're suffering does a lot of damage to the economy's long-run prospects.

And don't believe me; believe the IMF, which just released two chapters from the next World Economic Outlook, and they find that financial crises have a major negative impact on long-run growth in the afflicted economies, an effect that appears to be something you can diminish by responding with aggressive monetary and fiscal policies to offset the slump.

You can see this quite directly – though it's not the only effect – through the effect on investment, the crowding in of investment, which means higher potential in the future, also affects – fewer workers lose their skills through idleness, fewer, you know, disruptions of human capital as well.

That means we're going to have a bigger economy in the future and that we're going to have, as a result, higher revenues in the future as well, which is going to offset part of the interest payments even on the extra debt we incur for the stimulus.

I put this all together – well, the back of my envelope is a total mess and nothing to be believed very much, but when I try to do this I come up with – say we talk about a really, really big stimulus, 10 percent of GDP, $1.5 trillion. How much would future taxes have to be higher to deal with the fiscal consequences of that? And I come up with derisory numbers, 9 (billion dollars) or $10 billion a year in additional tax revenue.

I wouldn't go to the wall for that, but it really is – the notion that we're going to pay a heavy price in future losses for supporting the economy now is just wrong. It's totally wrong from the point of view of the economy as a whole. It's mostly wrong even from the point of view of the fiscal outlook.

This is all very hard to get across. We are still in an environment in politics where people look only at the headline number. And it's, oh, it's government's – and of course if it's a tax cut somehow that doesn't matter but if it's spending, bad stuff.

And so we've actually nickel and dimed this so far. We've done way, way too little, given the scope of this. And we're at this position – I think Brad will say more on this – where people are looking at an economy where the average unemployment rate is expected to be above 8 percent for years and years to come, and saying, well, you know, so we've turned the corner. No more. Maybe we should – you know, this is crazy. This is fundamentally a terrible mistake.

Politically, I don't know, obviously. There are two different issues. There's the issue of Capitol Hill and what you can get through, which is very difficult. I've seen the presentation that you just saw on the current state of politics.

What I learned from my colleagues in politics at Princeton is that what matters in an election is having the economy growing strongly coming up to the election. And I would think that – I hope that policymakers in the White House, and to the extent that they have any allies really on their side in Congress, are thinking about that, that even aside from it being the right thing to do for the economy, doing something more to make sure we really have a recovery is also what matters, no matter how much people may weep crocodile tears over the alleged impact on the deficit.

I'll stop right there. (Applause.)

J. BRADFORD DELONG: Let me go back to – let me go back 13 months to August 2008 when Lawrence Summers, speaking for the Obama campaign, is writing of a gap between actual and sustainable production of $300 billion a year, forecasting that the gap is going to persist for quite a while, a cumulative production shortfall of maybe 1.4 trillion (dollars), in a situation in which our standard tool, monetary policy, can do very little to correct it.

Prudent fiscal policy would raise the government's budget deficit by a third to a half of your forecast cumulative production shortfall, meaning the appropriate size of expansionary fiscal policy, as the situation looked in August 2008, was something like 450 (billion dollars) to $700 billion in cumulative discretionary deficit funding spread out over the next four years.

Then comes September 2008, the horrible month of Lehman Brothers and AIG, and our recession problem doubles. Over the next four-and-a-half months, until the February 17th signing of the ARRA, the problem doubles again as the magnitude of the financial crisis's impact on the real economy became clear.

If 450 (billion dollars) to 700 billion (dollars) was the appropriate size of a short-term deficit spending program for the cumulative production shortfall that Lawrence Summers had anticipated in August 2008, then the appropriate size of the boost as of February 2009 was some 1.8 (trillion dollars) to 2.8 trillion (dollars) over four years or so.

What we actually got was a real fiscal boost number of 600 billion (dollars), roughly one-third aid to the states, one-third tax cuts in an effort by the Obama administration to propose a bipartisan plan that would get Republican legislators to sign onto it, one-third infrastructure and other direct government purchase increases intended not so much to slow the decline as rather to boost the recovery two or three years down the road.

At the technocratic level, the disproportion between the size of the response and the magnitude of the need is obvious. We did somewhere between a third and a fifth of what the technocracy would say we ought to have done with the ARRA.

Now, if you go a little bit west to Lafayette Park and if you address the air and ask why it is that the administration did not pass or at least propose a larger short-term deficit spending fiscal boost program last January, I tend to hear four answers coming back echoing out of the wind.

The first is that the program Obama proposed and got passed was the most he could get 60 senators to vote for in a Senate that, in Majority Leader Harry Reid's words, takes 48 hours to flush the toilet, and we need to spend our time on legislative initiatives that could pass rather than on those that certainly would not.

The second answer is that further expansionary fiscal policy would be counterproductive. It would impose on America a very large long-run debt burden and cause a sharp spike in U.S. long-term interest rates, which would generate a much bigger crisis and deeper depression.

As Austria's issuance of huge amounts of debt in 1931, in the midst of its Creditanstalt crisis set off the wave of economic disruptions that turned the recession of 1929 to '31 in Europe into the European half of the Great Depression.

Paul Krugman has already answered this. The answer is not so long as Treasury bond interest rates stay low it isn't. You'd have to have Treasury bond interest rates explode immediately in order to have current deficit spending put a big long-run burden on the economy and that's not there.

Some places you hear that further expansionary fiscal policy would be counterproductive because it's theoretically impossible for it to work. And I'm going to pass over that in silence. (Laughter.)

And the fourth thing I hear is that the ARRA is only one of a large number of initiatives to stimulate the economy outside of the normal open-market operations' monetary policies. When you include the likely effects of the TARP, the PPIP, the MMIFL, the TALF, the CPLF, the TAC and the other 17 acronyms, you find that even though we have only about 600 billion (dollars) of cumulative expansionary fiscal policy, we have much more in terms of total non-standard monetary policy.

Argument one, the political one, is above my pay grade. Argument two is, I think, a genuine fear but one Paul Krugman has answered. Right now the U.S. government can borrow for 10 years at 3.34 percent in nominal terms. The time since the summer of 2007 has seen a collapse in the price of private and a rise in the price of government securities.

If market prices signal anything, they signal that you should make more of things that become more valuable. Right now the market is sending us a very strong signal that the debt of the U.S. Treasury is very valuable indeed and that we ought to make more of it, for simply free market principles, than we were planning to two years ago.

I'm going to restrain myself with argument three and not say a word about it.

An argument for that the asset purchase, asset guaranteed bank recapitalization polices are about to have a big effect and boost the recovery – I really wish it were true. Yes, spreads have narrowed but asset values are still low. The S&P 500 stands about where it stood last October after Lehman, after AIG. And it is by asset prices that the banking sector support should be judged.

Monetary and financial policy, after all, manipulate asset prices. The Central Bank buys and sells and guarantees and regulates and subsidizes and nationalizes with any eye toward pushing the price of financial assets to levels where businesses seeking to raise capital to expand capacity can easily access enough money to push their spending to a level corresponding to full employment, or at least out of depression.

The Federal Reserve sells these as opaque technocratic adjustments to the money stock or to a federal funds interest rate that real people never see, but the polices are and always have been aimed at manipulating asset prices, for although we may believe in a market economy, we also believe that asset prices are too important to be left to the market to determine when their market levels will produce either depression, unemployment or runaway inflation.

Thus, the thing to focus on is the prices of risky financial assets are still very low because the risk tolerance of the private market has collapsed.

Last week I was listening to a tape of Bloomberg's Tom Keene interviewing University of Chicago's Nobel Prize-winning economist Bob Lucas when Lucas said that his portfolio was now "100 percent in cash," quote.

There is no question that fear is what this liquidity crisis is. I mean, the reason I got into money is I got afraid to leave my pension fund in other securities, so I'm sitting there with a portfolio full of zero-yield stuff just because I'm afraid to do anything else.

Now let me pick on Lucas because he's not here to defend himself, because earlier in the interview he had told Tom Keene, quote, "Our economy has got a remarkable ability to return to its long-term growth trend, and for most of the depressions, with the exception of the Great Depression we've had, the return has been quick – two, three or four years."

That presumably means that in two, three or four years we'll have a normal level of unemployment, a normal share of profits and national income, a normal level of dividends and capital gains. Stock prices will be back to a normal level of long-run earnings, which means an S&P 500 by 2013 of 2,000 or so, compared to its current value of 1,000.

Thus, from Lucas's perspective, the perspective of someone who trusts the market to return to equilibrium, investing in the S&P 500 for a four-year horizon is a no-brainer. It is risky, certainly, but the expected return is 25 percent per year.

So what is Lucas doing, passing up such expected returns, according to his theories, to hold his entire TIAA-CREF portfolio in cash? And the answer is he's irrationally panicked. (Laughter.) And he says there are millions like him.

And I think the lesson is that until such investors recover from their panic, even a perfectly constructed banking financial system will not produce the level of asset prices needed for private investment spending to drive us to full employment.

This is not to say that banking sector support policies have not been a bust. They have surely kept things from getting much worse. But they have not and cannot do much to close the production gap anymore than monetary policy can because the banking policies will only work if we have a private investment community that has a normal risk tolerance, and at the moment it doesn't.

The Congressional Budget Office currently forecasts the unemployment rate will average 10.2 percent in 2010 and 9.1 percent in 2011. If you're happy with that forecast, with unemployment above 9 percent for the next two-and-a-half years and think it's appropriate, then no further support for the recovery appears needed at this time.

If you're unhappy with that forecast and with the enormous red blotch going forward of the shortfall of American employment and production from anything we could call a normal level, then additional federal government action is definitely advisable.

What kinds of action? Well, the obvious would be additional short-term deficit spending on the federal level, but there we run into the 60 votes in the Senate problem, and with a large number of senators who are apparently unable to distinguish between short-term deficits that are good in a recession and long-term structural deficits that are bad in a generational context.

At the very least we can think about triggers to extent existing expansionary fiscal policy measures should the unemployment rate not decline rapidly. Christie Romer of the CEA is already out there saying don't repeat the mistakes of '37, '38.

You could – last January I know a number of us were saying that 800 billion (dollars) now is fine but there ought also to be a trigger in the budget resolution so that if unemployment topped 9 percent, that the fall reconciliation bill could be used to do what additional things were necessary. That didn't happen. It ought to have happened. It would be nice to make it happen.

And there is a deal to be struck with more deficit spending in the short term and triggers to ensure that there is more deficit reduction in the long term should the deficit not return to sustainable levels after the recession passes.

Less obvious, the measures to aid useful deficit spending and other levels of government. One of the many reasons I envy Paul Krugman's pen was his phrase of last year about how the recession was turning the state governments into "50 little and not-so-little Herbert Hoovers."

The obvious thing to do would be to have the federal government support the price of deficit spending bonds issued by state governments that put credible and automatic amortization plans in place, that the Federal Reserve in fact exists, the Treasury exists to help the flow of credit though the economy. And certainly state governments that want to maintain their effort of services in spite of the recession should definitely be allowed to do so.

And let me stop there.

(Applause.)

MR. IRONS: Great. Well, thank you. First let me share a sense of déjà vu. A little-known fact about my career history was that I used to be a teaching assistant for one Paul Krugman during graduate school. And he might not know this about his lectures but they're entirely too clear – (laughter) – and too dense.

Now, why is this a problem? It's a problem because you would routinely have between 80 and 100 undergraduate freshman students who would come out of one or two lectures feeling like they knew all of economics. And this is clearly a problem both in terms of their general attitude towards learning for the rest of the semester but also a problem for their test scores going into the first exams where they routinely did not do so well.

The problem with the lectures being too dense was that I was oftentimes left to try to explain a phrase or two. So in passing he would mention things like economies – economic recessions have long-term consequences, and leave it at that, and it would be up to me as a teaching assistant to try to explain what exactly he meant and to flesh out all the details.

So that's essentially what I'm going to do here today – (laughter) – is to not flesh out all the details of all the points that he mentioned earlier but to pick one. And I'm going to take the one point, which is the subject of the paper that I think you have in your packets, which is the notion that recessions can scar the economy for the long term.

And I'm basically going to say this about a hundred different ways but the main point is simple. The main point is that recessions are not just short-term, one-time events that end after two or three years like Bob Lucas would suggest, but rather they can have long-term impacts on the health, both of the overall economy as well as the well-being of families, and this has consequences for years, not just for five years but for decades and even generations, and I'll show some evidence in a few minutes that supports that.

What this means for policy is that macro-policy is even more important than you would otherwise think. It's not just like getting the economy going back to some equilibrium in the next year or two; it is really about very long-term consequences, which means that when you think about the fiscal costs of what it would take to intervene in the economy, you have to look at those costs over a long-time horizon as well.

So let me dive into this, and I'm basically going to do three things. Like I said, I'm going to explain what these long-run consequences are, relying on economic literature to a certain extent. I'm not going to present the wealth of literature that's out here but rather present a couple of illustrated examples.

I want to spend a couple of minutes thinking about how to think about the long-term costs and benefits of action and then a couple minutes answering the question, should we do more?

So where I started with this is what I call short-termism. It's the notion that everything is short-term cost benefit, the notion that recessions only have short-term economic costs, and that fighting it will only have short-term benefits.

Economists oftentimes think about the short term and the long term. I think that most people don't necessarily make that distinction, that it's all one term. It all matters; it all runs together. And as I said before, the economic literature I think bears this out. There is no clear distinction between short-term economic stabilization policy and long-term growth. It really is all one mixture.

A couple of examples: Job loss and falling incomes can force families to delay or forego a college education. This can have long-term impacts. Frozen credit markets and depressed consumer spending can stop the creation of vibrant small businesses. That has long-term implications. Larger companies may delay or reduce spending on R&D – long-term consequences.

So I'm going to go and talk about four areas of where the long-term damage might be. The first area is education. The second area is lost economic opportunities, in particular loss of incomes and the increase in poverty that results from recessions. Private investment is another area that I want to dwell on briefly, and then also new business creation. And, again, in all these areas, again – I'm saying it again – long-term damage of economic recessions.

On the education front, we know a couple things. From the literature we know that early childhood education and nutrition are exceptionally important. Jim Heckman has pointed this out repeatedly that it's very important in the very earliest years of life to have good nutrition, and that sets the stage for long-term educational achievement.

However, in 2007, 13 million U.S. households, including 12.7 million children, experienced food insecurity – or difficulty finding enough food for all of their family members. That number is only going to get worse. It's going to be worse in 2008 and it's going to be worse in 2009.

We also know that kids need a supportive learning environment, and what does this mean? This means having good health care. This means having a stable housing situation. This means not living in poverty, so if you have opportunities for after-school activities, summer activities and the like.

What we know is that over 7 million kids under the age of 18 are uninsured. We know that poverty – over 14 million kids live in poverty. Four-point-three percent of mortgage loans are currently in the foreclosure process, which means that a lot of kids out there will have problems in terms of keeping up a stable relationship between them and their schools. Homelessness is not good for a kid's education. That should be obvious.

In terms of higher education, there is a recent survey done that asked young adults between the ages of 18 and 29 if they have left or delayed college. One out of ever five respondents said that they had delayed or left college. Again, this is a problem not just for the short term but for the long term.

When it comes to economic opportunity, there are similar areas that really impact long-term economic growth. If you look at the income loss and the increase in poverty that is likely as a result of the recession – let me just throw out some facts here – according to the projections that we've done here at EPI, between 2007 and 2010, the average income of the middle 20 percent of the population will be down by almost 5,000.

The poverty rate will be up 2.6 percentage points to about 15.1 percent, and the child poverty rate will be up 8.6 percentage points to nearly one in four kids living in poverty. And, again, this could have severe consequences for the long term.

In terms of poverty, just the raw economic costs, Holzer and some colleagues at the Center for American Progress did a study looking at the economic costs of kids living in poverty and what that looks like when they grow up to be adults and found that the costs of childhood poverty – just childhood poverty – led to about a cost of $500 billion per year or about 4 percent of GDP.

If you look at the projections I just showed you about the increase in childhood poverty, that would be nearly a 50-percent increase over these numbers if those projections come true.

When you look at displaced workers, there is a long body of economic literature that suggests that losing one's job has long-term economic consequences, and let me throw out one study in this vein.

A study by Farber of a couple of years ago saw that about 35 percent of job losers are not employed at the subsequent survey date, which is two years later. So people who lost their job, over a third did not have a job two years later.

About 13 percent of reemployed fulltime job losers are holding part-time jobs. So when you lose a job, you might wind up in a part-time job two years down the road. Fulltime job losers who find new jobs, even the people who go out and find a new job, see a lasting impact on their wages. They tend to be in jobs that pay 13 percent less on average than the job that they'd lost. So again, if you lose your job this has long-term negative consequences.

Finally, one piece of evidence which I find pretty interesting as well is a recent paper by Lisa Kahn, who looked at the impact on new entrants into the labor market. So she looked at college graduates. So suppose you are a college graduate and you enter the labor market now when there is a recession going on. Compare those graduates to graduates who go into a job market not in a recession.

And what she found was there were large negative and persistent impacts of graduating into a recessionary environment. The dollar values I think are instructive. For each 1 percentage point increase in the unemployment rate, there is a loss of between 6 and 7 percent in initial wages. She also found that after 15 years there is still a wage loss of 2.5 percent for every percentage point increase in unemployment.

So this has 15-year impacts of coming into the labor market when there is a recession versus coming in when there is not, and that's just for each percentage point increase. In the most recent recession we've seen a 4 or 5 percentage point increase, which could mean significant loss in wages and incomes for years.

Finally, I'll mention the generational aspect of this. Again, long literature, which I'm not going to summarize, but there is a lot of evidence that the economic situation of parents trickles down to kids.

In particular, there is one study out there – this is actually in Canada – but it looks at people who have lost their job, not through any fault of their own but through a plant closing or layoff, compares those people with people who do not experience a layoff and look at what happened to their kids. And they found that there was 90-percent lower earnings even a generation later.

So again, the impact is not just on people who lose their jobs but impact on the next generation. We know that educational attainment also is correlated across generations. So if you look at all the factors together and factor in the fact that there's these generational relationships, we know, again, recessions have long-lasting impacts.

Just one factoid here. If you look at college attainment or college completion by income groups, higher income groups have higher levels of college completion than lower-income groups. In fact, there is a dramatic finding here I think that – if you look at the charts here, the three bars are split up by low income, middle income and high income. The three bars in each group represent children who have scored low on tests versus scored high in their test scores.

If you look at people who are in the high-income quintile, 30 percent of the kids in that quintile complete college, of the kids who score lowest on their tests. That 30 percent is higher than the kids who score the highest in the lowest-income quintile.

So again, the income breakdown is very information for how their kids are going to do. If you have long-term economic consequences of job loss, income loss, that's going to impact educational attainment for kids, in this case due to college graduation rates.

On the investment side, obviously – and I think Paul mentioned this as well – when you look at investment, this is, I think, one of the most obvious ways in which economic recessions can lead to long-term damage. We see in this most recent recession a fairly dramatic decrease in investment activity.

The graph on the left shows the decrease in private non-structural – non-structures investment, so equipment and software, as well as total private investment, a significant decline in the last couple quarters, much more severe than any of the last four recessions. Again, this will have long-lasting impacts.

And an important point here is – economists oftentimes talk about technology as being a prime driver of long-term economic growth. Technology is not some disembodied thing. Some of it is when it comes to information and knowledge, writing.

There is some disembodied technology I think that takes place, but most technology is embodied in equipment. It's embodied in a new piece of equipment, a new factory, a new vehicle. If you don't have that new investment, you don't have the adoption of new technologies; again, a long-lasting impact.

In terms of new businesses, just one factoid. It will come as no surprise that recessions are hard on businesses. In particular, two factoids here: In 2008, bankruptcies were nearly twice the level that they were in 2006 with nearly 43,500 businesses filing for bankruptcy in 2008. It's probably going to be worse in 2009.

The number of IPOs [Initial Public Offerings] has dropped dramatically. In 2008 there were only 21 IPOs, which compares to an average of 163 per year in the previous four years. So again, there is a significant impact on new job creation, new job expansion.

And, again, with the technology aspect, a lot of new businesses, a lot of expanding businesses are really expanding into new product areas and taking advantage of new innovations. If you don't have that new business creation, you are not adopting new technologies and new innovations.

So the quick summary: A recession should not be thought of as a one-time event that stresses individuals and families for just a couple of years, but rather should be thought about impacting the future of all family members, including children, that will have consequences for years to come and even generations to come.

Now, I mentioned a couple of other points. In terms of the costs and benefits of thinking about action – let me skip to this one. As Paul mentioned, a boost to the economy will have a stimulative impact on GDP in the short run. It will also have, as I mentioned, long-run benefits as well.

But if you think about the costs of action, I mean, what are the costs of the stimulus package – everyone throws around the $787 billion number. This is deficit financed. So it's not like we are paying $787 billion today to pay for the stimulus package. It's spread out over time. The costs come in terms of interest costs over a number of years.

And when you look at those interest costs, they can be significantly less than both the one-time boost to the economy and also the long-run benefits to GDP going down the road. The calculations that we did show something similar, which is you have very low interest costs over a number of years.

Maybe that's a hint I should wrap up. Let me very quickly talk about what we should do about this. I hope – there we go.

So the fundamental question is, should more be done? There are couple answers to this question. One it's needed. I think we know that projections going forward are dismal. One projected is that if we have the same rate of recovery of the last two recessions, we will still see unemployment at over 8 percent in 2014, so we know we have a long-term hole to dig ourselves out of.

And we know that people want more. Again, the presentation that Geoff showed you earlier today showed that most people think that the recovery helped, at least a little. Sixty-five percent said the recovery packaged helped at least al-little if not a lot.

If you ask people, do you want to do more, 81 percent of the population said – or 81 percent of the registered voters said we still need to do more. So again, there is a need for it and people want to do more.

So what would that look like? There are a number of items that could be included, not necessarily in a second stimulus package per se, but there are elements that could be passed either separately or part of ongoing activities:

Extend expiring provisions. There's a lot of provisions in the recovery package that are going to expire. Unemployment insurance is something Congress is working on currently.

Subsidies for COBRA and other areas that could be extended.

There is additional aid to states, which Rosa DeLauro mentioned earlier today, which you know is both very effective and gets out the door quickly and is completely essential.

There's a number of direct job creation activities that we could engage in, either direct job creation or tax incentives for private industries to create jobs.

And there's also an expansion of other elements of the bill, be it for energy efficiency, nutritional assistance, Pell Grants, any number of areas that we could expand on that were included in the recovery package.

Finally, we should look at maybe the appropriations process, right? The recovery package contained lots of new programs, expanded lots of programs, but we also have the normal course of budgetary policymaking through the appropriations process and that should maybe be viewed as part of the stimulus effort as well.

So again, we need to do more. The recession is going to have long-term economic consequences if we don't do more, and I think there's a number of areas where there is – a lot of options are really pushing forward on this.

I think I'm going to stop there. Thanks. (Applause.)

MR. PEARLSTEIN: So I think we'll go – I've got a few questions of my own for them but I think I'll hold those and let's get some of your questions. So we need the EPI interns here to do their –

MR. MISHEL : Research assistants.

MR. PEARLSTEIN: Research assistants, sorry.

(Laughter.)

MR. PEARLSTEIN: The gentleman with the beard in the back.

Q: Hi. My name is Amin Mosen. I'm a graduate student. None of the panelists have mentioned the role of other, for example, G-20 economies vis-à-vis the U.S. recovery. Would you shed some light on the other economies' role?

MR. PEARLSTEIN: The role of other economies in our recovery? And who would you like to answer that question?

Q: Anyone.

MR. PEARLSTEIN: Anyone. Paul, do you want to give that a try?

MR. KRUGMAN: Well, yeah. I mean, these things – it certainly helps if other countries are also acting. And, I mean, the prize-winner for dramatic response to the recession is China, of course, which is – you know, has certain – doesn't operate under some of our constraints. (Laughter.) No democracy, no worries about corruption and any of those things.

And, by the way, it's a good thing. We actually – things are a little bit better. The main thing, though, is to actually try to do the numbers. There is really strong spillovers for fiscal action within Europe. Beyond that they get substantially smaller. So it's a good thing if other countries do this but it's not going to be make or break for us one way or the other.

MR. PEARLSTEIN: When you talk about spillovers, if we spend a lot to do it, how much of the benefit spills outside our borders and doesn't help us, even indirectly?

MR. KRUGMAN: Enough to be annoying and possibly politically damaging but not as much as people think. The caricature is, well, people will just spend the stuff on Wal-Mart and it all goes to China. First of all, this doesn't all get spent at Wal-Mart. And, secondly, even when you buy a dollar's worth of stuff at Wal-Mart, a lot of that is actually domestic value added, not Chinese.

So it's significant. It's probably 20 cents on the dollars might be spilling over to other countries, but it's not a gigantic number.

MR. PEARLSTEIN: While I have you, let me ask one question I wanted to ask you, and it's not – it's somewhat related to this. You basically said, okay, so what if we spent $1.5 trillion that the annual change –

MR. KRUGMAN: It wasn't really meant to be annual because I don't think we can manage that, but yeah.

MR. PEARLSTEIN: No, but if we spend 1.5 trillion (dollars) over a couple of years, that the annual effect on tax revenue – that is, the annual amount we'd need to raise extra to pay the interest on that later, net of all the economic growth that you calculated would really be almost de minimis, 9 (billion dollars) or $10 billion a year.

So my question is, what assumptions, when you made that calculation, did you make about the dollar and interest rates? Because as Brad pointed out, right now, you know, it's a good time to borrow, a very good time to borrow – it's really cheap – but if you did that, did you assume any change in the cost of that borrowing?

MR. KRUGMAN: No, I didn't. And, of course, if it is de minimis, there shouldn't be, right? If it's a trivial impact on our long-run fiscal position, given the assumption that interest rates stay unchanged, then why should the interest rates change?

MR. PEARLSTEIN: Well, you're assuming a rationality of a market that I don't think you want to assume.

MR. KRUGMAN: Right, but – I mean, I've been using this line a number of places. You do need to worry about market confidence but you also need to – you can get yourself into justifying anything on the basis of, well, that's what the market wants and therefore we have to do it.

MR. PEARLSTEIN: Right.

MR. KRUGMAN: And so, you know, if the market wants us – this line is going to show up in print one way or another somewhere – the market wants us all to dress in black robes and walk down the street flagellating each other, that we have to do that because otherwise we'll lose confidence, right? We don't want that to be our position.

MR. PEARLSTEIN: Isn't that what Michel Camdessus asked the East Asian –

(Cross talk.)

MR. KRUGMAN: Yeah, it is more or less. Well, I'm in favor – we should eliminate the clove monopoly, definitely, if we had one. (Laughter.) This is an East Asian crisis joke, if you weren't there. (Laughter.)

But, no, I mean, the point is that there are reasons to think that markets might conclude at some point that the United States is a banana republic. The amount that we spend or don't spend on stimulus should not be, in any even halfway rational universe, part of that.

I mean, if we can't get health-care reform; if we can't eventually get to the point where someone can actually say the word "tax increase" in public without being stoned, then the markets would be right to conclude we're a banana republic. But in that case, $1.5 trillion more or less on stimulus spending isn't going to make the difference.

MR. PEARLSTEIN: So Brad sort of proposed sort of a grand compromise: Okay, you spend that now but you get a trigger on the way down that might have an effect on people's long-term feeling about the dollar or our interest rates.

MR. KRUGMAN: Yeah. By the way, I should say, on the dollar, I'm worried about interest rates as a possible problem. On the dollar, you know, a weak dollar is a big problem for the Europeans, not for us.

MR. PEARLSTEIN: Okay. Okay, how about this lady here on the first row.

Q: Sure. I'm Melissa Moye, and I'm actually deputy treasurer for the state of Maryland and I speak only for myself.

This is really a question about capital expenditures. And I actually agree with Professor Krugman that there is a real crowding-in force currently. And you take, for example, the balanced budget issue that Brad was talking about, and states that are bumping up against debt service and overall debt limits, at the same time you've got pension funds and endowments, all of which we depend on, that are pushing for inflation-length, fixed-income-like returns at roughly 8 percent, which is their hurdle rates.

And they're looking for private infrastructure funds to invest in. So you've got demand and supply side, really pushing for private infrastructure, privately owned infrastructure. It's a huge force.

Right now, you know, we're all thinking short term. I think that the recession current is going to increase this effect. Could you talk about the changing ownership structure of our infrastructure, any impacts, both based on the impact of the recession and long term? Thank you.

MR. PEARLSTEIN: John, do you want to take that, or did you mean that for Paul?

Q: I'm sorry?

MR. PEARLSTEIN: Did you –

Q: Actually it was Paul's point about crowding in.

MR. PEARLSTEIN: Okay.

MR. KRUGMAN: Yeah, but I think it is your – if I've got it right you're talking about the drive to, you know, privatize infrastructure essentially. Sell the toll roads is what I think of always. And that's not the same thing at all as – you know, what I'm talking about is getting more actual investment spending, actually; more purchases of capital goods, more construction out of the private sector. So it's a very different issue, unless I'm misunderstanding completely.

And I think it's quite a separate thing. In general – I'm highly skeptical. I mean, in general I understand that states are looking for a way to, in effect, raise revenue, and they can do that, but there is this – none of the arguments about the superiority of the private sector seem to apply when you're talking about taking a natural monopoly and handing it over to a private corporation to run.

More likely what you're doing is creating a political economy monster because they you're creating something that will then have the political power possibly to ensure that it gets to exploit the monopoly power in a way that should not be done. But, you know, I can't – the specifics I don't know.

MR. PEARLSTEIN: Particularly at a time when the government borrows at 3.5 and private industry can borrow at, what, 6.5?

MR. : If I'm lucky.

MR. IRONS: If I can add to that, I mean, I think a lot of economists this is kind of a – you know, kind of an interesting question. It's like if you want to build a bridge or road, build a bridge or road, finance it using bonds and you don't need to do all this private/public partnership and bond issuance.

So it comes out in a lot of ways just a purely political question. If you can't get money through the legislature, you've got to find it someplace else then maybe use this as a mechanism. So you know, to me it's much more of a political question than it is an economic question.

MR. PEARLSTEIN: This gentleman here.

Q: Hi, I'm Lloyd Wood with the American Manufacturing Trade Action Coalition. We represent a substantial portion of U.S. textile production. And one of the things that we've seen over the last decade, we've run a $4.2 trillion trade deficit in manufactured goods.

That would suggest that there are a lot of disincentives to produce manufactured goods and other globally traded products in the United States. What can the United States do to reverse those incentives? I see Brad DeLong has talked about a carbon tax. Should that be border adjustable?

And I guess the second question I would throw out there is what do you think of the value added tax? And there are certainly ways to make a value-added tax's impact much less regressive through direct payments to impoverished people, et cetera, et cetera.

MR. DELONG: Yes, a carbon tax should definitely be border-adjustable, right? One of the points is to get the global system up and running, and that has to be a piece of it. Otherwise, I think they should have Tim Geithner go out there someday and say a strong dollar is no longer in America's interest and see what happens.

(Laughter.)

MR. PEARLSTEIN: Yes, sir.

Q: I'm Jim Baas –

MR. PEARLSTEIN: We'll get you next.

Q: Oh, I'm sorry.

Q: No, go ahead.

MR. PEARLSTEIN: Go ahead.

Q: I'm Tom Palley with the New America Foundation. Paul, I would just, by the way – parenthetically here, your comment about the leakage. I would wonder if it's a little larger. If you look at the "cash for clunkers" program, the top five sellers were all imports, and we've got to look at the margin there, not at the average.

MR. KRUGMAN: Were they imports or were they domestic –

Q: Pretty much all imports. Again, check on the facts on that. I looked at them as Hyundais and Kias and so on, who don't do domestic production.

Now, listen with regard to the – thanks for your presentation. It's very, very enlightening and clear all around. I think, in my view, we're suffering from a misunderstanding of the economics of deficits, and I think that's the message that you want to get across here, and it's hindering us with some sort of straightforward short-term policy.

I'd like to kick the ball forward a little bit and ask about long-term policy, and my question is for Brad DeLong. And, again, I'd be pleased to hear Paul's point of view on this too.

Brad, a few months ago you wrote a piece for the Project Syndicate in which you talked about when once this recession is over, we should be going back to running surpluses because surpluses increase national saving, and increasing national saving increases investment.

I want to know if you still hold to that point of view. And, Paul, I want to know if you agree with that point of view.

MR. DELONG: I definitely do, right? I think that if you look at the politics of Washington, that remains an aspiration until the public health-care cost curve is in some sense bent, and what it will take to successfully bend the public health-care cost curve I don't really know.

David Cutler and Peter Orszag seem to place a lot of trust in competition between medical groups and comparative effectiveness research. Doug Elmendorf seems to believe in a public plan and then tighten the screws on reimbursement rates for a public plan, and that's a question that I know just enough health economics to know that I really don't know.

(Laughter.)

MR. KRUGMAN: Yeah, I guess I would say – yeah, the straightforward economics would say that we should actually, as soon as we're well clear of the zero lower bound we should be moving to real strong fiscal retrenchment and surpluses if it's possible.

Now, I actually think that realistically I'm just trying to figure out how, in the political universe, we can even get to just a sustainable fiscal position, something that will finally stabilize the ratio of debt to GDP later on, which is not hard economically at all but it's really hard politically.

So in fact, if we are down to a deficit under 3 percent of GDP by 2019, I'll probably be celebrating. That's not an easy row to hoe.

Q: How can you stabilize the debt to GDP ratio if – (inaudible, off mike)?

MR. KRUGMAN: No, if you can get 1 percent in surpluses we'd bring it way down, which is what happened during the Clinton years. But, I mean, looking forward from here, unless we can have – if somebody would like to invent the Internet all over again and give us, you know, another boom like that, that would be really helpful just about now.

(Laughter.)

MR. PEARLSTEIN: Well, yes, sir.

Q: Thank you. I remain Jim Bass, and I have a question about good and evil investment (inherited ?). Each of you ran up to a line and kind of stopped. And, John, with all due respect, I'd like to take the five-year line on the employment and the modeling that the other two referred to.

What happens if business firms sit around the next two years, three years and think about their investment possibilities? There's some sloshing around of savings; there's possible loosening up of funds from the banks – anywhere the funds can come from, okay?

Now, the more time they've got to think about it, it seems to me the more time they've got to go to their engineering departments and say we'd like to produce more or the same, but possibly with less labor. We'd like for it to be a little bit more labor augmenting it, or technological change that – and this is the line, John, up to which you ran and stopped with embodiment.

But if that's true – first of all, how likely do you think that is? I mean that's a behavioral conjecture. If that's true then, what's going to happen to this normal rate of inflation to which both Brad and Paul referred to, which has typically been 4 or 5 percent, whereas you're – or whatever this normal rate you would choose, whereas the European – whatever the European rate has been has always been higher.

Are we going to be closer, then, to the European rate? And if so, how likely do you think that is? Sorry about heavily loaded and all of that.

MR. DELONG: No, you have described the European recovery of the 1980s –

Q: Right, and –

MR. DELONG: – and here I would like to kick it to Larry Mishel and ask him to get his plan for a new employment tax credit out as fast as possible.

MR. KRUGMAN: Yeah, I'm not sure I quite followed that but I think – look, my –

Q: You get investment funds; businesspeople make decisions. How are they going to make the decisions and what's that going to do about our own employment rate?

MR. KRUGMAN: Well, no, I think that my version – which I think is along the same line but I'm not sure I totally got that, but how do we know we're going to have a recovery even after five years?

There is a – how do we know we're not going to have a Japanese-style lost decade or more? That's the thing that worries me a lot. And, you know, I don't think we can begin planning on that basis now because we can hope that that won't materialize but that's a real issue.

And maybe getting back to the international aspect, what we do know is that historically recoveries from financial crises invariably rely heavily on an export boom; that the afflicted countries move into a large trade surplus and that's how they boot themselves out. That's even how Japan finally emerged from its lost decade. And we have this little problem –

MR. PEARLSTEIN: Because their currency went down, though.

MR. KRUGMAN: Yeah, and we have this little problem that we have a global financial crisis. So lacking another planet to export to, we can't follow that route. And the only precedent for emergence from a global financial crisis is the '30s, which was ended by a large public works program known as World War II.

And since we're not hoping to follow that route, I don't – you know, so there is some question; I really am concerned about that, but I don't think we have to – we can, for the time being, operate as if our best bet is that there will be a sufficient spontaneous recovery in private demand three, four, five years out that we don't need to do that. But then we start to talk about some really outside-the-box policies.

MR. PEARLSTEIN: The gentleman in the back.

Q: Gar Alperovitz, University of Maryland. This is for Paul and Brad and follows right on what you just said, Paul.

Given that dire forecast and the possibility of the Japanese situation, are we not looking at the possibility of long-term inherent structural stagnation, given the distribution of income, the flat wages for a long time, the concentrations at the top, and the inability to get political action of the scale needed? I don't see a way out of that box that is realistic in the discussion we've had so far.

MR. KRUGMAN: Yeah, okay. Structural stagnation was a very popular theory in the 1940s and proved to be wrong because the combination of the baby boom, household balance sheets came out in great shape after World War II, lots of stuff worked, and the temptation is to say that structural stagnation views are never right.

No, I don't think we have any guarantee that can happen. I mean, it was certainly a theme that a lot of smart people took seriously, and it's not the case that the fact that it didn't happen proved that it couldn't happen. But I think that's a bridge – that's sort of we'll jump off that bridge when we come to it. (Laughter.)

MR. PEARLSTEIN: Yes, ma'am.

Q: Hi. Debbie Chalfie with Change to Win. I was at a session this morning, as was Paul, on progressives and the debt, and even though all of the panelists there seem to agree that we shouldn't do anything horrible to address the debt right now – sort of this distinction between short-term and long-term action – there seem to be a consensus emerging about pre-committing to deficit reduction; so taking measures now that would kick in later when supposedly the recovery hit, and not much talk about generating a robust recovery now.

So I was just wondering what the panelists, including Mr. Pearlstein, might think about this notion of pre-committing now. What would that mean – politically you could sort of put off, but what would it mean in terms of recovery and the economy to do that?

MR. KRUGMAN: First, I guess I should say I didn't share that consensus. I'm not sure what I think about pre-committing. I certainly am very much – as you can tell, I'm very much in favor of – you know, the really crucial thing now is to get the robust recovery.

On the pre-committing, I have – why would you want to do it? You might want to do it basically to reassure the bond market. The bond market at the moment seems not to need a whole lot of reassuring. The bond market right now is basically saying, well, you're an advanced country and not a banana republic and you'll be able to do what's necessary when the time comes.

And so I don't think there is a great deal of urgency there. You might want to do it because you think that the political moment is now when you can get it done, which I have a hard time understanding, given that we have – I mean, I suppose you might be able to get all the Democrats together with the reasonable Republicans in the Senate, but she –

MR. PEARLSTEIN: That would be singular.

(Laughter.)

MR. KRUGMAN: Yeah, I was there – I'm not sure that she would sign on to that right now. (Laughter.)

And there is a possible downside. I had the impression – I've been following, to some extent, the British fiscal responses, and their situation is worse than ours because underlying – their underlying – basically they have a bigger financial sector relative to their economy and so their implicit liabilities are bigger, and so they've had much less room for maneuver, and also the spillover is our bigger issue.

But I also had the impression that when the Brown government came out with its stimulus plan, partly it was pretty limited, but also they were – it was almost – they almost stepped over their own words to say, and we're going to do austerity within a year or two, so we're going to give you more money and it's going to be spent but we're going to punish everybody soon.

I think they actually undermined the stimulative effect of the policy by being so eager to talk about the future retrenchment that they hardly even got the message out about the stimulus now. And that is a concern I think for the United States too.

MR. IRONS: Yeah, let me concur with that but add a couple of things.

One, you know, if this works – right, if you actually pre-commit to lowering the deficit at some future date, that's probably bad policy because then you're saying, you know, no matter what the situation is, or maybe it could have some triggers, you're essentially taking something out of the hands of politicians at a time when it might be inconvenient to do so, which might be a time when it might be appropriate to run deficits.

So if it's binding and it works, it's probably not a good idea. If it isn't necessarily that binding, if you leave it up to some choice, then you're essentially saying to people, trust politicians in 10 years to do what's right. And I suspect that if you don't trust politicians now to lower the deficit, you're not going to trust politicians now plus 10 years to do the same thing.

So it seems to me like you're kind of damned if it's strong. You're also damned if it's weak. In either case it doesn't seem to be doing a whole lot of good. In any case, I think it's completely appropriate to have that discussion two years from now after the economy is starting to recover, but having a discussion about that now – I'd rather have this discussion now about what to do about the recovery rather than the discussion about what to do about deficits when we need more now, not less.

MR. PEARLSTEIN: Mr. Froomkin.

Q: Hi. Dan Froomkin from the Washington Post and Nieman Watchdog.

My former colleague, Steve Pearlstein, started this off by reminding us that in Washington it's a political reality that not being for a balanced budge is political suicide. Mr. Krugman later on pointed out that the balanced budget is really basically inconceivable anytime in the near future and not even necessarily desirable.

You all have been very clear that at this point you believe that spending money – spending government money would be a very good idea, but in Washington salons and newsrooms you are not a serious person unless you are very, very worried about the deficit.

MR. KRUGMAN: You can be if you're a Republican.

Q: (Chuckles.)

MR. KRUGMAN: Nineteen-eighty was the last time that any Republican, save George H.W. Bush, was seriously worried about the long-term fiscal picture.

(Scattered applause.)

Q: So my question is, what will it take to make it politically palatable or socially palatable or professionally palatable for someone, a politician or a journalist or an economist, to say let's borrow and spend to put America back on its feet and put Americans back to work?

MR. DELONG: I thought that was what I was doing.

(Cross talk.)

MR. : I thought you were respectable, Brad. (Laughter.)

MR. KRUGMAN: No, I'm not sure if this is helpful but this is one of the things that drives me crazy is the tyranny of seriousness in this town where – and, you know, you're not serious about foreign policy unless you were wrong about Iraq, and you're not serious about economic forecasting unless you were wrong about the housing bubble, and now you're not serious about the response to the crisis unless you are against doing what we actually need to do. I don't know what to do.

MR. DELONG: But there is the long term that – actually, if you were going to freeze medical technology at its 2009 level and say, all you get from now forward off of Medicare or Medicaid is the level of medical technology we had in 2009.

Then the chances we have a significant long-run deficit program, the chance that our national debt grows faster than the rate of growth of GDP as a whole is about 30 percent, right? There is a chance there will be a problem but the weight of that is that there probably won't be.

From one perspective at least, the long-term deficit and the long-term debt problem that America faces truly is an opportunity, right? That is, it's based on the Congressional Budget Office's and the Center for Medicare and Medicaid Services' assessment that our doctors and our pharmacists and our nurses are going to figure out who to do wonderful things and they're going to be expensive and we're going to want them.

That is, both my grandfathers lived to be 95, and I know that when I'm 90 in 2050 I'm going to want to have a heart grown from my own cloned tissue on reserve in the basement of the nearest hospital in case my heart gives out so I can get an extra couple of years. And I'm going to vote against any politician who says that this isn't medically necessary and appropriate.

So that talks about the general long-run fiscal crisis of the American state seem to me, from one perspective, to be greatly counterproductive. There is an opportunity created by future – by expected future developments in medicine, and the question is how to grasp that opportunity to get as much as possible of future medical technology into the bodies of as many people as possible while still having the funding all work out so we don't wind up with a bout of hyperinflation.

And yet that's not what focuses on the long-run deficit or even on the entitlement crisis. That's not the direction that tends to lead people to think.

MR. IRONS: And let me say, you know, it's very easy to tell other people they need to make hard choices. That's what's going on. No one is actually saying what the hard choices are. I mean, they're saying what the choices are –

MR. DELONG: No, I'm not going to get my cloned heart paid for by Medicare.

MR. IRONS: Yeah, I mean –

MR. DELONG: I'm going to have to tell my wife to go to work for some private sector law factory to make the money so I can have it.

MR. IRONS: So I mean, the people who talk long-term deficits, short-term deficits, and the people who sound very serious about, you know, we need to make these hard choices, I think the way you break through some of that is you make these people actually tell you what choices the would make.

If it's, you know, really imperative that we raise taxes or lower entitlement spending or whatever, make people say, okay, what would you do? Would you raise the retirement age? Would you cut benefits? Would you cut Medicare in various ways? How would you do it?

So I think there needs to be – we need to move beyond 'I'm very serious about the deficit' – people need to make hard choices and the next question has to be, how would you do it, and get that answer from people.

MR. KRUGMAN: Let me just say that the debate right now, where we're actually trying to do something, is we've got the party that is – that denounces runaway entitlement spending, in fact campaigning furiously against efforts to make easy choices, to do comparative effectiveness research so that Medicare doesn't spend on treatments that actually make you sicker.

You know, so this is – our political system right now is extremely dysfunctional and it's not because everybody in Washington is wrong; it's because we've got a sufficiently large blocking minority which is against doing anything rational. (Laughter.) And until we get past that point I don't know – we can't do a whole lot of long-term planning.

MR. PEARLSTEIN: Dan, I'd say, in answer to your question, first of all I'm not sure that it's exactly true that you can't be considered respectable and have that position, since I sort of have that position – (laughter) – unless you want to make some comment about my respectability.

But I think the larger question is one that actually Paul raised in his blog just yesterday in preparation for coming down here, I think, which is you – I think you want to be careful about having the Democratic equivalent of the Laffer curve, which is no matter how much you spend, it doesn't matter.

No matter how much you borrow and spend, it just doesn't matter just because spending is good that it essentially either pays for itself in terms of the government, or even if it doesn't pay for itself in the government, pays for itself in terms of overall general welfare.

And there is probably a limit to that. You know, that may be true at certain times and certain amounts of deficit, but I don't think you'd want to take that to its sort of illogical extreme. And you don't want to be seen politically – because people have an intuitive belief and probably a correct belief that – they don't know much about economics but they probably know that that's not right. So you have to be careful, I think, about that.

We've got time, Larry? What do you think? It's 4:30. You're the boss. Who wants questions? Who's got – okay, so I've got two more – I can see two more questions, right here and right there.

MR. DELONG: I have to get back to the other coast to teach tomorrow morning, so –

MR. PEARLSTEIN: So you want to be dismissed?

MR. DELONG: If you would.

MR. PEARLSTEIN: That's fine. Thank you.

MR. MISHEL: Thank you. Thank you very much. (Applause.)

MR. PEARLSTEIN: Yes, sir?

Q: Max Sawicki, GAO. To the remaining two people here, a new rumor on the Internet is that the non-accelerating inflationary rate of unemployment exceeds 7 percent. So my question is, to both of you, do you think there is such a thing? And if so, what do you think the number is?

MR. PEARLSTEIN: Geez, you're going to clear the house if you ask a Nehru question – (laughter) – but go ahead.

MR. IRONS: Are you sure you didn't start that rumor yourself, Max?

MR. KRUGMAN: No, no, I've seen this stuff. I mean, I believe there is such a thing, although squishy. I mean, I put this – there are limits to how much you can inflate demand and how much you can push the economy up by expanding demand without causing what might be an inflation problem that will feed on itself.

We are nowhere near this, near that level. And I – Ned Phelps is pushing this. Some other people are pushing it. I think it's a horrible thing. It is a way of rationalizing this persistent poor performance: Oh, well, there's nothing more we can do. And everything says that's wrong. History says it's wrong.

The arguments that are being made make you want to tear your hair out; that, well, we've got some changes in the structure of the economy and people can't move because their house values – these are all arguments for actually getting an economic recovery going, not arguments for backing off because you can't lower the unemployment rate.

So yeah, one of the fears I have is that we'll have a prolonged period of slow growth, stagnant employment and that will become the new normal. It will become something that we accept as being, well, that can't be changed. That's one of the things we really, really don't want to do.

MR. PEARLSTEIN: Last question, which was that gentleman there, yes.

Q: Hi. Andrew Fieldhouse from the House Budget Committee. There is clearly a strong consensus here that more government action is needed, and I would just like to ask each of you roughly how much short-run recovery spending you'd like to see on top of the current baseline.

MR. KRUGMAN: Oh boy. I mean, there's so much that we ought to be doing that I would actually take anything we could. But, look, the case – I think Brad was about right, that a reasonable, even conservative estimate, knowing what we know now – I mean, knowing what we knew in January, I thought that a trillion dollars made sense, and then the news got worse.

And although, yes, the stock market goes up, the fact of the matter is that in terms of unemployment the news has gotten worse since then, so that we're probably in a position where another package as big as the one we did in the real part of it – there was only $600 billion used – would be a minimum, probably more than that.

I mean, there was a kind of a reason I said 1.5 trillion early on because that kind of is what makes sense as the – possibly as a fairly conservative estimate of what the total stimulus effort ought to be.

But these are – I just want you to bear in mind, we're looking at a cumulative gap between what the economy should be producing and what it will actually produce of – I should know the amounts now but we're heading it up towards $3 trillion of lost output, on a reasonable projection, and we should be doing a lot to close that.

MR. IRONS: Yeah, my only thought – I mean, a couple thoughts. One, if you only look at the state fiscal aid part of this, in fiscal year 2010, states have $168 billion worth of shortfalls. From the stimulus package there's $47 billion coming. So right there, fill all that gap; that's $121 billion. That seems to be an easy one to do, you know, plus or minus, but that's the magnitude.

But I want to approach this as pick a number and then fill it up. I would think about all the stuff that we know needs to be done for the short run, the long run: extent unemployment insurance, extend COBRA, do state aid, and just look at all the categories and whatever it adds up to, it adds up to, and then maybe you double it at that point – (laughter) – to get to a big enough number.

But, you know, there is more than enough need to throw in, you know, everything we did the first time around again, and then you're getting up to a good number.

MR. KRUGMAN: And then subtract 100 billion (dollars) to satisfy the two ladies from Maine. (Laughter.)

MR. PEARLSTEIN: Thank you. Larry is going to answer the final – have the final word.

MR. MISHEL: The point is, let's do some short-term deficits, a significant amount, this year and next, and why don't we, right now, implement a financial transactions tax that will get us 100 (billion dollars) to $150 billion a year, let it take – start taking effect phased in, you know, two years from now, and let it actually, you know, go over the 10-year window so that the actual package could be deficit reducing over 10 years.

If we want, we could actually spend more, you know, government money and use up some of that revenue, but we can be – it can be more than deficit neutral over the next 10 years. And, in fact, one logic would be the financial sector was too large, got us into this mess; why not tax it later and finance more jobs that we need now to make up for what they did to us?

MR. PEARLSTEIN: Actually, to bring this full circle to Rose's idea. You could take the transaction tax and use it to fund the borrowing, which you know, you pay back over time. And if you have 100 million dollars a year, what can you borrow for 100 million dollars a year? You could borrow a trillion dollars, a little bit more than that, so a half trillion dollars of infrastructure spending. That wouldn't be a bad program to promote. Anyway, thanks for coming.

(END)