America 2021
Jobs and the Economy

What will America's economy look like in ten years? Will the jobs that we lost come back? And what policies must we put in place now and in the coming years to make sure America will be healthy and prosperous again by 2021?

"America 2021" is a series that we began in our Summer 2010 issue. The idea is to bring together some of our brightest progressive minds to discuss what our country might look like roughly a decade from now.

For this edition, we take a look at jobs and the economy. We brought together five distinguished experts—Robert Atkinson, Heather Boushey, Harry J. Holzer, Thea M. Lee, and Sherle R. Schwenninger—to debate the big picture. E.J. Dionne Jr., *Democracy*'s editorial chair, moderated the discussion. Editors Michael Tomasky and Elbert Ventura also participated.

E.J. Dionne Jr.: It's 2021. America is prospering. We are competitive in the world again. Middle-class incomes are rising. The poverty rate is going down. We're making things again. What did we do right in this period to get U.S. to that point in 2021?

Heather Boushey: Well, I love the vision. I love the idea that in 2021 we've gotten to a good place, so it's a great place to start.

First of all, we did not let the hysteria over long-term deficits stop the United States from doing the right thing. If we're in a good place in ten years, it's because we made the investments we needed to make both in creating jobs and strengthening infrastructure. Also, it means that we did what we needed to do on energy and climate change because that's one of the critical pieces in encouraging domestic manufacturing and investment.

The other thing we did right is refocus our economic policy on sustainable growth and growing the middle class, rather than giveaways to the wealthiest that don't lead to greater investment growth or greater job creation. In terms of the things that I'm certain we would have done right now, I think that's the finite list.

Dionne: Sherle?

Sherle R. Schwenninger: With the departure of Christina Romer and Larry Summers near the end of 2010, the Obama Administration underwent a historical evolution in its economic thinking, from a philosophy of general demand stimulation, short-term, to massive targeted public investment to drive economic growth. That was accompanied by a major push for global currency realignment, with the United States after several false starts putting on a full-court press to mobilize international support for pressuring China and other surplus economies to let their currencies appreciate and stimulate domestic consumption—or else face the imposition of tariffs.

This general shift in macroeconomic strategy was accompanied by three important legislative initiatives. First, there was the passage of the authorization of a national infrastructure bank, which allowed the government to leverage a trillion dollars in private capital for long-term infrastructure investment, greatly enhancing the productivity of the American economy.

That was married, secondly, with a major energy initiative—and here I differ slightly with Heather—to develop America's natural resources, particularly natural gas, that allowed the United States to shift large parts of its heavier transportation fleet to natural gas and to begin the construction of all-truck highways that greatly reduced congestion and moved goods and services in a more efficient way. Finally, in a truly revolutionary moment, the Administration, realizing that the 2010 health-care reform bill was not going to achieve the results it thought, put forward a follow-on reform that opened up Medicare for all and allowed the federal government to more fully regulate health-care costs. Even some Republicans joined Democrats in passing the measure because the thought of endless health-insurance premium increases that were going to drive most employers into dropping coverage and bankrupt states was too much for even ideologically hardened members of Congress.

Dionne: A remarkable set of predictions. Rob, do you want to take it?

Robert Atkinson: We were able to emerge in 2021 as the most innovative and fastest growing—at least from a productivity standpoint—economy in the world because in 2011, we finally realized that neoclassical economics is a fundamentally misguided and bankrupt philosophy and cannot guide a twenty-first-century economy. Instead of bringing in neoclassical economists, we brought in folks with real experience in the economy, and in particular what we would call innovation economists, who understand the real economy and how economics is about institutions and not about prices.

Through the guidance of those folks, we did two big things. One, we finally put in place a tough and aggressive trade policy to stop foreign mercantilism. Not that we erected our own barriers or became mercantilist ourselves, but we took firm and hard steps to go after these countries, particularly China. And not just on currency manipulation but on a wide array of unfair practices, including intellectual-property theft.

Slightly more importantly, we put in place a proactive domestic growth and innovation agenda that I would call the “Chinese menu” strategy: a bunch from column A, a bunch from column B. In other words, there are ideas that Republicans and conservatives have, and there are ideas that Democrats and liberals have. And I think our problem right now in Washington is we can have only one of those menus—you can’t have both. We did something on the corporate tax side—not cut the corporate tax rate per se, but cut the effective rate by doing things like having a workforce-training tax credit, a more generous research-and-development tax credit, and giving companies a tax incentive for investing in new capital equipment. We made the U.S. a more attractive environment. But at the same time, we had a domestic investment agenda that invested not just in physical infrastructure, but also what you might call “New Economy infrastructure.” Intelligent transportation systems. Smart grid. Electric battery charging systems.

This is the last point I’ll make. We really need to figure out how to be an engineering economy. We’re a science economy, and that may have worked in the old economy when there weren’t a lot of people out there absorbing our science. What’s happening now is that there are engineering economies who absorb our science, and then they engineer the products that essentially we can’t compete with. We have to figure out how to be an engineering economy again, and there’s a lot of steps to do that. One idea is to create a National Engineering Foundation, which is actually a Rahm Emanuel idea, but I don’t think he’s pushed it in the White House.

Dionne: Thea?

Thea M. Lee: I want to focus on the trade issue. We’re in 2021, and the economy is growing, and we have a healthy middle class again. It’s because back in 2010, we recognized that we were on a path that was leading to greater erosion of the middle class. The path that we were on was also undermining our ability to innovate and reap the fruits of innovation. I totally agree with the need for massive and targeted public investments in all the areas that we’ve talked about: clean energy, infrastructure, skills, and education. All those things go toward what I’m calling “New American Competitiveness.”

The problem with the economist mindset in terms of trade policy is that there’s been this primitive, textbook view of so-called free trade that for a long time hasn’t matched the world we’re living in. We don’t live in the perfectly competitive, full-employment, balanced-trade, no-externality world where neoclassical trade theory is really useful.

We were at this conference—I think some of you were there—the other day. Andy Grove from Intel was supposed to be our luncheon speaker. He didn't come, but his presentation was made for him. One of the points that the speaker kept making was the difference between designing a product, engineering it, manufacturing it, and bringing it to scale. For a long time, we were under the impression that it was OK if we would just have the brains in the United States of America, we could design the product and that somebody else would engineer it, manufacture it, and bring it to scale. And what we learned over the course of many decades of decline and stagnation was that if we weren't scaling it up and manufacturing it, we would also lose the ability to innovate and to reap the benefits of innovation in the United States.

It's also partly about currency—not having an overvalued dollar and glorying in our overvalued dollar, but trying to use the trade-policy tools available to us to make sure that other countries are playing by appropriate global rules. We need to design our trade policies to encourage our own country to develop and implement new technology and respect core worker rights, and we need to incentivize our developing country partners to have good labor practices as well, so that countries like China, for example, are becoming more democratic and developing their own middle class.

And that's really transformed China from a trade problem for the United States in 2010 to a vibrant trading partner in 2021. We have a strong and reciprocal trading relationship with China in 2021 because back in 2010, our government put some pressure on the Chinese government to take a path that was different from what it had plotted out for itself. And we basically made clear that the U.S. government wasn't willing to continue down the path of massive, chronic, ongoing trade deficits, where Chinese workers lacked the ability to exercise their basic human rights in the workplace and also lacked purchasing power, and those things together created a really toxic trade situation. We were able to address that successfully, and that created the basis for all the other good things that we wanted to do in the U.S. economy, which was rebuild our manufacturing sector, invest in transportation and energy and schools, in a way that positioned the United States to take advantage of a new and different global economy.

Dionne: Thank you. Now I turn to our good economist, Harry.

Harry J. Holzer: I started out having no intention to talk about trade policy, but I must respond to the unanimous bashing of my profession. The only adjectives you can come up with to talk about the trade situation are words like "toxic." Number one, neoclassical trade theory, while very incomplete, has enormous explanatory, predictive power. I think this throwing out the baby with the bathwater is unfortunate, to put it mildly, because it doesn't keep the good. Maybe I'm nuts, but I think that a billion people have risen out of abject poverty in China, in India, in Brazil, in many other places, and I think that's great. It would not have happened without a lot of the trade developments that my friends here have roundly criticized.

How can we talk about America's trade deficits without talking about how we overconsume in this country? And while we rail against China's currency policy, and some of that railing is certainly justified, let's keep it in context. If we successfully enable China to reduce the value of its currency by some amount, by how much would that reduce the overall trade deficit? I would guess it's more modest than some of you have suggested.

About the last decade: I think we've made progress because we started to think about improving worker education and skills, along with the quality of jobs. We started thinking about skills and jobs in a more coherent fashion, making sure that education policy is not just about raising test scores, although that's an important thing to do. It's not just been about getting more people into college. It's been about making sure many more people *complete* college, reducing the enormous dropout rates we had seen previously. It's been about improving completion rates at two-year as well as four-year colleges, making sure people come out with certifications and skills that prepare them for the good jobs our economy is in fact generating in 2021. We also used apprenticeships and high-quality career and technical education, plus better labor-market services and information, to make sure that more workers are getting the skills that are actually relevant for getting good jobs, while we encouraged employers to create more such jobs with tax credits and technical assistance.

Once we recover from the recession by about 2015 or so, employers will go back to having difficulty filling jobs. Good jobs are not just in manufacturing. I would love to rebuild the manufacturing base. But we are at a point where no matter what we do, durable goods manufacturing will constitute under 10 percent of all the jobs in the economy. We have to think more broadly about what we mean by good jobs and where we find them. We find them in many, many other sectors: health care, construction—which did start to bounce back by 2015—the service sector at the middle-skill level, above a high school degree but below a college degree, as well as the high-school level jobs. We started to think about coherent strategies for breaking down the silos that exist in this country that keep education policy and labor market policy completely separate. We started to think more successfully about building career pathways. Combinations of employment services and education are needed for that. We started to think more about sectoral strategies—where Rob and I would have much more agreement—encouraging those sectors and making sure workers are educated to fill them. We started getting much more serious about career guidance for students, so they're not taking courses blindly before they drop out of college. We started thinking about what kinds of career guidance and education is useful for them, and right now the incentives that institutions need to make sure that what they offer fits the needs of the economy don't exist. So I think in 2010 we started on a path where education was made much more relevant to the jobs and the employers working in the economy.

We also started to get a little more serious about improving the supports workers need, especially those low-wage workers who are going to have low wages no matter what we do in our economy. We started to extend successful policies like the earned-income tax credit to low-income workers who now are not eligible. We started to provide parental leave and sick leave to people. And we paid for it. We financed it. We didn't just demand that employers provide it.

Finally, all this was possible, not because we dropped our hysteria about the deficit—some of which I think is actually justified—but because we started being more sensible about how we direct that hysteria. We stopped directing it at the one piece of the federal budget that's not responsible for the deficit: non-defense discretionary spending. We started getting more serious about the growth of the retirement programs, but especially Medicare and Medicaid. We got much more serious about reining in those costs in the past decade, along with Social Security and defense spending.

Dionne: You put a lot on the table. Whenever progressives talk about economics, a trade war breaks out. There's so much to say about trade. I don't want us to get completely hijacked by that. On the other hand it is central, and something that progressives are going to have to figure out. Let me cast the question the way I see it, and you can challenge my way of casting the question, as much as answering it.

When Harry says that a billion people have been lifted out of poverty, that's true. It also means that workers in the wealthy countries are now in competition with a billion, soon to be two billion, more workers, which reduces the bargaining position of workers in wealthy countries. So it's always struck me that the problem with globalization is the people it disadvantages are the relatively disadvantaged in wealthy countries. We haven't really taken that on as a serious problem. Is that a fair thesis, and if not, why not?

Atkinson: I think it's only partly there. I think globalization is a wonderful thing. I think global integration has all these great benefits. What I object to is non-market-based globalization, which many countries practice. As an economist, Harry, you would, I assume, believe that subsidization by governments to distort prices is a bad thing. Yet that is what countries are systemically doing. And when one confronts economists about that and asks them to support the United States taking a stand against it, they will say, "We don't want to become protectionist." That's not necessarily the answer. The answer is to get other countries to stop distorting markets. That gets globalization to be a win-win and work for everybody.

You look at India, and their productivity in retail trade is 6 percent of U.S. retail trade productivity. Most of Chinese domestic sectors are around 10 to 15 percent of U.S. productivity levels. What China and India have to do is they have to figure out how to grow their domestic sectors in terms of good jobs, higher wages, and higher productivity. I think the neoclassical view that "trade's working great, we just have to benefit to work the losers"—that's not really what's going on. Trade is not working great for the U.S. right now. It's undermining our economic engine because of these distortions. I don't think we can frame it that way alone. I agree with you that we need a better system of support, but it can't just be that.

Schwenninger: I agree with Rob about the problem of neo-mercantilism, which I think is one of the big ideological divides of the early twenty-first century. We need to force China to raise wages and consumption.

Where I find Harry's approach coming up short is the understanding that in the traded sectors, productivity in virtually all countries now is expanding and exploding. That's therefore creating the paradox that we've been dealing with for the last 10 to 15 years that got us into the economic crisis. Productive capacity is expanding much more rapidly than wages, and there is demand created by consumption as opposed to demand created by adding fixed investment, which is what is happening in China. Only 35 percent of China's GDP goes to consumption. Even in Japan, consumption was 55 percent during its rise. So when Harry says that a billion people have been lifted out of poverty, the point is that two billion people could have been lifted out of poverty had wages been allowed to more closely follow the growth of productivity.

What we have had from China in the past decade is a dramatic overbuilding and overinvestment, resulting in excess capacity and excess global savings. And this was a big part of the story of the bubble in housing and credit, since these savings needed to go somewhere and they ended up being recycled by Wall Street into American mortgage debt. It is not possible to have a stable world economy when the weight of these high-savings, neo-mercantilist economies is growing so dramatically and when economies that play by liberal rules must absorb their excess production while trying to maintain their middle classes. It just doesn't work.

Boushey: Can I jump in? I think there are two things you have to point out here.

Number one, Sherle, you've been talking about this: Here in the United States, we've seen this massive disconnect during my lifetime between productivity and wages. We're still one of the richest countries on the planet. And you've seen that our economy has become more productive. We've produced more stuff. It's just that workers haven't shared in it. There's a very simple narrative there. Are we going to tax the wealthiest amongst us, or are we going to allow income inequality to continue to grow and grow? Trade is very important, but it's also important what we do with our domestic policies.

And we can look to other countries that have not seen the massive income inequality that the United States has had, even though they're subject to the same trends in terms of globalization and competition. So I think that while trade is important, I would like us to focus on what we are doing here internally, what we would have to do here domestically to refocus our economy toward growing jobs and incomes for the middle class, not just creating a bunch of income and wealth for the most elite amongst us.

Lee: The frame that both Heather and Sherle were talking about right now is right. Is it globalization that's responsible for disadvantaging the relatively disadvantaged in wealthy countries? Globalization isn't the right word. It's not yes or no on globalization—that's not the choice we have. The question is: Do we have the right set of rules in place? And we would certainly argue that the particular rules of the global economy over the last couple of decades have facilitated a massive shift of global bargaining power. Not just from labor to capital but from governments to multinational capital. National governments have less ability to put forward a responsible democratic agenda—whether it's labor-law reform or environmental regulations—because every time they're told, "You're in a global economy now; you really can't do that."

Our task is to remake that global economy in a way that supports democratic government and empowers working people to get their fair share of the wealth they create through globalization. Otherwise, globalization and so-called free trade will fail. You can't have a policy that's bad for the bottom two-thirds of your population and expect to send your trade ministers off to Doha or Cancun or Hong Kong on a regular basis and have them come back with another crappy trade deal that people are going to accept. So part of it is the worker-rights piece, linking worker rights to trade. But in some ways it's a symbolic piece when we talk about linking worker rights to trade. What we're talking about is how to harness the political drive behind economic integration to get something good for working people. And it's hard to do domestically, but it's a crucial piece of the equation.

Just one last thing: We talk about the global bargaining power; we talk a lot about the wage-productivity gap here in the United States. You can look over the last 30 years or so and see productivity in the United States on a fairly steady trajectory upward—and Harry, I know you're familiar with this—and real wages stagnant below that. But it's not just the United States where that's happening; it's happening all over the world. It's happening in China as well.

Schwenninger: It's happening in Germany.

Lee: You see more growing inequality in China in the wake of this massive economic growth and industrialization and trade that is happening. Average working people in China, whether they're in the countryside or they're in the factories, many of them are migrant workers who are working 12 to 16 hours a day. They're not actually getting paid the wages that they had been promised. They're working longer hours and they're working in unsafe conditions. Sometimes they don't even get paid at the end of a month or a year. And if they complain, they get put in jail or sent back to the countryside. So I think that's the challenge, empowering workers so they can get their fair share, not just in the United States but around the world.

Dionne: I just want to inject a great Barney Frank observation. He once said all trade arguments are actually a form of collective bargaining between highly mobile capital and much less mobile labor, and I think there's something to that.

Holzer: There's a lot to counterpunch against in this discussion. All of the economic literature that is credible shows that globalization is quite a small part of the inequality story. It's become more important in the last decade with the emergence of China. But if globalization had never occurred in this form, you would still see dramatically widening inequality.

There have been so many forces, starting with technological change, which have led to so many kinds of changes in how work places are organized, and given employers so many more choices than they used to have about avoiding high-wage labor in the United States. Product markets have become more competitive. Labor markets have become more competitive. Capital markets have become more competitive. And most of that is not about trade. I think we've developed an obsession with this issue, and I think it's out of proportion to reality.

I fully believe there are certain principles of worker rights that need to be respected, need to be promoted, but this notion that we're going to force China to raise its wages seems a little fanciful to me. It's not in our power and ability. We can push against their neo-mercantilist policies that we don't like, but we're constrained by a lot of things, not the least of which is sometimes we need their cooperation in foreign policy, as in trying to restrain Iran.

This conversation seems to be absent any economic history, which shows that all around the world, in all different kinds of regimes that didn't have an AFL-CIO domestically, eventually the wages and incomes of workers rise with productivity. Not always smoothly, not always monotonically, but it does occur. There are economic forces that will make it happen. You start to see the stirrings in China right now as the workers there start to demand a larger share of the pie. So that happens. Historically, I think these same arguments likely could have been made decades ago as other countries were emerging and industrializing. A lot of the same claims were made. But I think a large body of research says that incomes do eventually rise. In the early stages of development, inequality does tend to grow because of capital-skill complementarities, which still do exist. I think the demand for the most productive workers goes up faster, and I think that tends to balance over time, and institutions are part of that process.

I also think we shouldn't overstate this gap between productivity growth and wage growth. It is real, especially at the median, but there are many factors, especially in the United States. How we measure productivity and how we measure wages are completely different. They use completely different price indices, which don't track the same over time. And by the way, it's not wages, it's compensation that matters. And something has happened to the cost of these non-wage benefits like health care in the United States, and you can make this argument elsewhere too. I share the concern about how much of our earnings have been concentrated in the top 1 percent. It's nuts, the shenanigans of the financial markets and executive pay. There is no competitive landmark that dictates those outcomes. All of us would agree on that. But in fact, correctly measured, using the correct price indices, real wages have grown quite handsomely in the United States. It's not that two-thirds of the workers are not sharing at all. If you look at what's happened to women, especially educated women, some groups have done very, very well in this time period. Not all, and less-educated men have done the worst of all. I think we need to think more about that.

But I don't believe we're going to dramatically change the way trade around the world operates. I think we do need to figure out how we're going to adapt to this new world. Where I do agree with Thea is, this defeatism that says we can't do anything is wrong. I think we can do a lot more. It's going to be a tougher world for less-educated workers. And no matter what we do on trade policy or industrial policy or any of these things, we need to adapt a set of institutions that nurtures good jobs in many other sectors besides manufacturing, teaches broadly defined skills, and supplements people's incomes appropriately, as other countries do but we don't do much in this country.

Atkinson: I think the wage-productivity gap is nowhere near as big as some people say. Stephen Rose did a piece looking into whether productivity still benefits American workers. And a lot of it does. Inequality has grown, but productivity growth and economic growth still benefit the median worker in America. I don't think it's a black-and-white thing. And I find it disturbing that the progressive wing in our politics has frankly, I think, given up on growth. And I think that by 2021, why did we turn it around? It's because conservatives were able to abandon their myopic focus on free markets at all costs, and liberals were able to abandon their myopic focus on distribution as the principle goal and finally got a growth agenda. And I think that's really what we're talking about. It's not that I'm unsympathetic to distributional questions. But I think unless you have a real growth agenda in the country, the distributional questions are really hard to solve. There's a 40-year-old study that says if you want to raise the economic well-being of the bottom 25 percent, growth does just as much as distribution. Maybe it's different today, but there has to be a growth component here.

Boushey: I can agree that there has to be more of a growth component, but Rob, I think you said this earlier in a different context: What are you growing and how are you doing so? What we've seen in this country over the last 30 or 40 years has been this massive rise in income equality. What did we end up creating over the past decade? A bunch of huge McMansions that are bad for the environment. We gave tax cuts to all these folks. They bought these big houses and these big cars, and ten years later it didn't do us any good. And we have this massive financial crisis. These concepts are linked. I think we have to rethink what we mean by growth. I don't want to take time here to go through this debate we're having about the gap between productivity and wages, but I certainly disagree with you, Harry and Rob. I do think that's real.

Holzer: I didn't say it's not real; I said that it's exaggerated.

Atkinson: It's certainly real. I just think it's not as big.

Boushey: But the fact that we used to see wages and productivity grow together, and now that we don't—that's a massive shift. And we've seen so much of the gains of our economy go to the top, not to the middle. We've seen the economy move from an investment-based economy to a consumption-driven economy. All of these are linked. So I do think it matters, but I don't want to spend a lot of time debating it if we can all agree it happened in at least some sense, and we think it is important.

But the one last point I wanted to make on this is what's happened to middle-class families. I was glad to hear you, Harry, talk about how if we're going to see middle-class families in a good place in 2021, it's because we've taken the steps to have paid family leave and paid sick days. That acknowledges, implicitly, that one of the ways families have dealt with this gap between productivity and wages is that we work more. In the 1980s and 1990s, we dealt with that by putting more women in the workplace. In the 2000s we dealt with the declining standard of living by taking on more debt. And there's a reckoning with that. We can't take on more debt. That ship has sailed. To get to a good place in 2021, we'll have to have done something. Paid-leave policies are an important piece of that. But I think a reckoning in terms of what that means for labor practices—hours worked, flexibility—is also key.

Schwenninger: It seems a lot of our discussion actually is ending up being about the past, and I want to try to shift it again to look forward and talk about what I think is one of the real major dilemmas that we face, if we're concerned.

I think full employment is essential to both economic security and economic opportunity. But I see a major dilemma of how we get back to full employment in an economy with high private-sector productivity growth, which of course we want to see continue. I do think a major commitment to public-infrastructure investment will help, but even there we are experiencing and enjoying considerable productivity growth. The fact is that the private-sector jobs machine has been broken for not just one or two years but for nearly a decade now, in part because of outsourcing and in part because of productivity growth. Therefore more jobs will need to be actually located in the public sector or generated by public-sector support, simply because we have a more productive private sector. In other words, because of the kind of productivity gains one wants to continue to encourage in the private sector, you're going to have to have the public sector—through supportive health-care education, elderly care, recreation and other things—provide more employment going forward.

But here is the dilemma: that notion goes against the grain of where the country is moving politically and ideologically. There's now something close to an ideological revulsion to the idea of more public-sector jobs. Unfortunately, that dilemma may be with us for some time.

Dionne: In 2021, what are we going to be making? How are people going to earn their livings in 2021 that's different from now? Where are the good jobs going to be?

Lee: What are we going to make in 2021? What does a healthy, globally competitive U.S. manufacturing sector look like? I think there are a lot of models for it. One, you look at a lot of the Western European countries—Germany, for example—that are both high-wage industrialized countries and export powerhouses. In the United States, part of our problem is we're caught between two ideologies. One, we're trying to compete in the global economy by sweated labor, which is what Third World countries do with low education and low wages. And we can't get our wages down below Bangladesh, China, and Mexico. We wouldn't want to even if we could. And yet we haven't been willing to make the investments in infrastructure and skills that the Western European countries have made that would allow us to compete on the high-wage path. But that's where we need to be, whether it's environmental technology or customized products or high-tech or a cutting-edge manufacturing sector. We need to think about developing the high-value-added technology, where having a trained work force and having a unionized work force that's part of the team is an advantage in a fast-changing global economy.

The other point I wanted to make is about distribution versus growth. There's a difference between saying we need to redistribute income to poor people and saying we need labor-market institutions that allow working people to have a fair voice in the workplace and the political system. What we have now is massive concentration of political and economic power in huge, wealthy corporations. And they have a disproportionate influence on the government. And a worker, whether that worker is in an export processing zone in Bangladesh or in a factory in Michigan, has no chance without a union. That's a key part of a solution.

Holzer: I think mostly what we're going to make in 2021 is mostly what we make today, which is services. And by the way, the decline in the American production of manufacturing has not been nearly as great as the decline in manufacturing employment. It's that our workers have become vastly more productive in that sector, and that has led to fewer of them being employed. Durable and non-durable manufacturing are going to count for less than 10 percent of employment under any scenario that we see.

And Thea, I know how much you love unions, but unions now account for about 7 percent of private-sector workers. That fraction will decline whether we like it or not. It's been going down for 55 years. This is not a trend we're going to reverse. And I think the decline in unionism is a shame. But to say that without unions workers have no chance—at 7 percent, I guess you're saying 93 percent of the workers will have no chance, unless we see a dramatic and ahistorical turnaround in organizing rates.

I also have to disagree with Sherle's notion that we can't get back to full employment without the public sector. We've heard this fear so many times in the past—as with the automation scare of the 1950s—that we can't absorb all this productivity; people have predicted that for decades if not centuries. It has never turned out to be true anywhere over the long run.

Schwenninger: How long is the long run?

Holzer: People were saying this back in the 1980s and 1990s, and yet by the late '90s we had 4 percent unemployment.

Schwenninger: My point was that we can't expect the private sector to do it alone because if you look at the last ten years, we've created no new net private-sector jobs.

Holzer: I do have enough confidence in the economy again, if …

Schwenninger: You can have confidence. I have confidence that with the right policies we can eventually generate an enormous private-sector recovery, but still face a question about how to achieve full employment.

Holzer: It will be a very slow recovery. Every time you have a financial bubble that bursts and everyone is de-leveraging at the same time, the recoveries are very slow. Like you, I think the next five years are not going to be great. But given the budgetary pressures, I just don't see where all this public-sector employment is going to come from. I don't see that changing.

And we have this obsession with manufacturing. I think the economy continues to create good jobs outside of manufacturing—in construction, for one—and the biggest growth sectors for jobs will continue to be health care and elder care.

Dionne: Which will be publicly financed, no? A significant part of it?

Holzer: A lot of it. Right now, it is one of the main reasons why wages are not picking up—so much of the costs of health-care benefits are coming out of wages. It's not the only reason we see this, but it's part of the reason. But if you look at that sector, you see very good high-end jobs, not just for doctors, but for registered nurses, occupational therapists, physical therapists. If you look at the middle of that sector, you see millions of good-paying jobs: health-care technologists and technicians, phlebotomists, radiologist-type jobs.

And then of course there are not-such-good-paying jobs. You see it in construction. I think construction will rebound to its pre-bubble trend, which was very positive. You see it in all the installation, maintenance, and repair jobs. And by the way, even if those jobs don't grow in net number, there will be replacement demand when the baby boomers retire. They're going to retire much more slowly than we once thought, but when they do, there will be replacement demand. And the service sector is very heterogeneous. It's not so typecast. You look at professional services. You look at business services. You look at protective and legal services. These are millions of jobs created, good paying jobs even for people without four-year college diplomas. That's where the action is going to be. For high-end workers, I think Rob is right. The STEM [science, technology, engineering, and math] jobs, the engineering jobs—in the most positive scenarios—is where the action is going to be. For middle-skill workers, the jobs will be elsewhere. I think manufacturing will continue to play a small part of the story. I think the public sector will play a small part of the story. But it's in this vast, diverse, mostly service economy that things will happen.

Schwenninger: We will see a boom in the agricultural and commodity-producing parts of the United States for the next five to ten years, or until the Chinese depression hits, in places like North Dakota, South Dakota, Wyoming, Nebraska, Iowa, parts of Vermont, and any place that has oil, coal, and eventually natural gas because more of that will be exported. We could actually work to make this a bigger and better source of wealth and jobs with a new energy initiative emphasizing natural gas, but there seem to be some constraints within the Democratic Party stemming from environmental concerns. But it could create a lot of wealth and generate economic activity in other sectors of the economy. The other boom area of course will remain health care, although we hope it will be from improvements in the quality of care rather than from runaway health-insurance costs.

Dionne: I want to turn to Rob. I had a conversation about a year ago with a friend, a conservative Republican who owns a small business. And I was shocked when he said, "You know what I'd like to hear politicians talk about? I'd like to hear them talk about what industries are we likely to be strong in and how can government help push the country in that direction." All of a sudden I realized that my conservative friend was talking about industrial policy, unapologetically. Where do you think the best prospect for growth in our economy lies? And what should the government do to push in that direction?

Atkinson: Part of the reason why that's a complicated question is you have four big tasks that an economy has to fulfill to be successful: you have to not run chronic trade deficits, you have to raise productivity, you have to create jobs and have low unemployment, and you have to have reasonable distributional effects so people on all levels are advancing at a pretty good rate. There are different challenges for each of those.

Here's my hope: by 2021 we've avoided the "tastes great, less filling" debate about manufacturing. I used to believe manufacturing job loss was all due to higher productivity because that's what the numbers say, but then I dug into the numbers and the numbers, I would argue, are wrong. It's not that manufacturing productivity has not been better than the rest of the economy, and it's not that some of the job loss isn't due to that. But some of the problem has been we have lost U.S. manufacturing share globally that shouldn't have been lost, particularly at the high end. That's going to create some good jobs, that's going to create more tax revenue, so I don't think we can go forward without that.

I agree with Harry that most of the jobs that are going to be created in the future are going to be in the personal-services sector. We're going to have a Baumol's disease economy, where you create jobs where you have low productivity. The challenge is health care, and it's education, and it's some government services and professional services.

We also have to avoid Volckerish-type monetary and fiscal policy. We're going to have to run an expansionary monetary and fiscal policy for a long, long time. We should be erring on the side of unemployment fears as opposed to inflation fears for a long, long time going forward.

Dionne: I think this is one issue on which everyone at this table would agree.

Michael Tomasky: It's been a pretty macroeconomic discussion, so I want to ask a sort of micro-ish question. For the bulk of American workers in five or ten years, how are their lives going to be the same or different? In ten years, are most people going to have employer-mandated health insurance? Will the middle class of ten years from now feel less pinched in any kind of way?

Boushey: Do we still have that optimistic ten-year outcome scenario?

Tomasky: No, we're through with that.

Schwenninger: We're going to have continued growth. You're going to have two or three temporary services that are going to be some of the largest employers of workers, so I think the contingent and half-unemployed work force will unfortunately continue to expand for a period of time. I fear the rise in health-insurance premiums is going to drive more employers to either drop coverage or force workers to contribute even more to the cost. So we're going to have to have serious health-care reform at some point. Health-care inflation is going to continue to impinge on large numbers of individuals who aren't in a position to manage it. It may even create a new fiscal crisis, because we may have underestimated the amount of federal subsidy that will be needed to help individuals purchase health insurance on the exchanges.

There will also be a new form of generational conflict because a lot of baby boomers aren't going to vacate jobs that 25-year-olds normally would get. In other words, we may have a generational crisis over the distribution of jobs in America. Many older Americans, having seen the value of their houses and 401(k)s decline, simply are not going to be able to retire as expected. They will therefore try to hang onto their jobs as long as possible. This will create a bottleneck for generational mobility, affecting the employment prospects of new entrants into the labor market.

Lee: Ten years from now, the trauma of the great recession will still be with a lot of workers. We'll have permanent scars of long-term unemployment that some workers will bear. We worry about the "lost generation," young people coming into the labor force right now and finding they don't have jobs. There might be a several-year period of excessively high unemployment or underemployment where their skills aren't utilized. I have a 16-year-old daughter, so I think about her a lot, what's waiting for her when she enters the labor force.

So it's a little bit terrifying to think about because the labor market is in such terrible shape today. And steps aren't being taken today to respond to the emergency of a 15-million-job hole in the labor market. And according to all the reasonable projections of where we're going to go from here in terms of job growth, you'd have to have really extraordinary job growth to get back to the pre-recession levels of unemployment in the next five, six, seven, eight years, depending on how we go. And we don't see any signs of that extraordinary job growth.

We ask ourselves all the time: What is the next engine for the economy? For a strong recovery, you have the usual drivers: consumption, investment, government spending, and net exports. And there are problems with all of them. Consumption: people don't have jobs, they lost their retirement savings, their house lost much of its value, and they are in debt up to their eyeballs. Investment: the private sector isn't investing right now because they don't have consumers. Net exports is a great idea, but we're not the only country that's thought of it—and we're not really positioned to be the next Germany today. We haven't done our homework in terms of technology, training, or infrastructure. And that leaves government spending—public investment-led growth—and yet we have a political atmosphere that doesn't allow us to do that.

I want to go back to the labor law reform and to the future of the labor market. I guess that's why I would say it's an imperative that we have to figure out how to make it easier for workers to form a union, to have a voice at work, to express that voice. This picture is precisely why that's so urgent.

Boushey: Given the path that we are on right now, it is very scary to think about what the average worker is going to look like in ten years, unless we change course. Thea has already made a bunch of the points, so I won't keep talking about the concerns about young workers and where they're going to be and the scarring effects. I think that's certainly very traumatic.

One of the things I keep thinking about is both how much and how little anger you see out there bubbling up about these issues. I wonder where those 15 million unemployed people are. Why have they not come to Washington to express all of that anger and frustration that we know they're feeling? Seventy percent of people know somebody who's been unemployed or dramatically affected by the recession. Where you see the anger bubbling up is in the Tea Party conversations, which are not focused on any of the kinds of policies that we've been talking about here.

So when we talk about the typical family, and we're concerned about their employment and living standards, we can certainly assume that all adults are going to be in the labor force, actively seeking, trying to find work. Most of the jobs that we expect to grow will probably be jobs that right now disproportionately employ women, so I don't see why that would change. We've already sort of outlined where a lot of the job growth will continue to be. But what are people going to do about the anger and frustration they're feeling about how they're not doing as well as they would like to be? And how's it going to play out in terms of debates around immigration and other issues I think is very disconcerting.

Holzer: This round I disagree with much less. I agree with Thea that there's going to be scarring. This current generation, low-income kids, young people entering the labor market—they will be hurt, long-term, by these developments. My primary fear is this generational conflict. I think baby boomers will work considerably longer mostly because they have to. They didn't save enough to pay for their retirements, but they will retire. In some cases they will have to retire, especially out of the more physically demanding jobs. They will retire, just later. And it's still a big enough bulge, I think, that will contribute to replacement demand in the labor market, which I still believe will be a significant fact of the job market.

My fear is the fiscal situation does look really bad. Heather, you called it hysteria. I think it's misplaced hysteria—but some of the hysteria is justified when you look at the long-term projections, if we can't get retirement and health-care costs under control. We didn't do it this time with health reform. And even where government could play a positive role, I think with the pressure politically, it'll be very hard to make the changes that need to be made. As the debates about death panels indicate, it will be so hard to do anything sensible in terms of reining in the costs. That will constrain what government can do on other issues—things we agree on like more parental leave and child care and all kinds of supports we'd like to see workers have more of—and I think the public sector will probably provide less of what Americans need in this world, rather than more.

There is no typical worker. I can think of three prototypical workers: those with high, middle, and low levels of education. But my fear is that all of them will live, if not with more inequality, certainly with more insecurity over time. Even if we recover from this downturn—which I believe we will slowly, very slowly—if you have a college diploma, it's growing increasingly clear that that's no longer the kind of guarantor of a decent standard of living (though it's better to have one than not to have one) or of job stability. People at all levels will feel more insecurity, and the public sector will provide less of a safety net.

So that's not a very positive outlook, but in other cases, I think good jobs will be created. Quite frankly, in many cases, a lot more positive things happened at the state level than at the federal level. State governments in this country have done a much better job in seeing where good jobs are and establishing partnerships between their educational institutions and their workforce institutions. And I'm hopeful that we'll see more of that develop, so that people can take advantage of good jobs that will in fact emerge. But I fear that growing pressure on public expenditures will get a lot worse before it gets better.

Dionne: One moral of Harry's story is if you want to get elected president, get elected in 2016, and you'll look pretty good.

Atkinson: I'll be the discordant voice here because I think 2021 will be a lot better than today. We've never had a period in American history of negative productivity growth for more than a couple of quarters at a time, and I have no evidence that we're ever going to get that. So we're going to have overall positive productivity growth between now and 2021, and the question is, is it going to be fast or is it going to be slow? Even if it's slow, which I really don't believe—I actually think we're in for another ten years of pretty good productivity growth—I think overall that means that GDP will be probably 25 percent bigger in the next ten years. The downside of that is our traded sector is going to get worse unless we do something, but we have a very good non-traded sector. We have a highly efficient logistics system, a highly effective banking system, hotels, retail trade, you name it, best in the world, and we're going to continue to raise productivity in those.

The real questions are distributional. I don't think distribution is going to get worse. I think it peaked at its "badness." I think the real challenge is going to be *me* in 2021. In other words, people like me, who when retired will be consuming societal resources without producing anything. And there are going to be a lot more of them than there were in 2010, and that's going to be a huge problem. As a society, we have to bite the bullet now and face the real fact that we simply cannot afford to have people retiring early. These government workers who retire at 50 and 55 years old, and corporate workers who retire and so on—we're all going to have to work longer. In some ways the silver lining of the financial crisis is that it's forcing people my age to work longer, which is exactly what needs to happen. If I don't work longer, my son is going to be giving me money one way or another. So if there are relatively a lot fewer people working, they're either going to receive less income, or working people are going to make less. I don't see any way we can avoid that trade-off except to keep raising productivity and to extend the retirement age, probably to 70 for non-hardcore blue-collar workers. There's no reason why most people shouldn't be working until 70. I don't see any way. If we don't do it, how do we avoid having our standard of living going down? We will be better off. The real question is will we be better off by 30 percent or 15 percent? That's the question.

Elbert Ventura: So we see some recovery for the second half of the decade, albeit slowly. What regions of the country will be booming with jobs? Will we be seeing any comeback stories from regions that are hard hit right now?

Holzer: There will certainly be comebacks in all regions. Part of the reason the West Coast was hit so hard economically is it had the biggest housing bubble, and when the housing bubble burst, its labor markets took a beating. But with some amount of time for the excess housing supply to work its way out, there's no reason why the South and Southwest shouldn't recover. I also think the Midwest and places like Michigan will see some recovery eventually. They have human resources and capital that will find some different productive uses. Of course, part of the way declining regions rebound is people move elsewhere. There have been a lot of economic studies showing that when a region takes an economic shock, there are several dimensions on which they adjust, and part of it is that people relocate to areas with stronger economies.

Dionne: Pittsburg is a good case, where it's got half the people, but at a smaller size, it's thriving. But a lot of the people who left are still not earning what they once earned at steel mills.

Holzer: That's right. So there are different adjustment mechanisms, but I think in parts of the industrial Midwest, they will bounce back.

Schwenninger: There's a very simple rule to follow to analyze the prospects for different parts of the country: Those areas will do well if they make, produce, or mine things that China wants. Those parts of the country that make things that China makes and exports will not do so well. So with China's continued rise for the next few years, we will continue to see a boom in those parts of the economy that are related to agriculture, oil, gas, and other commodities.

Dionne: So move to West Virginia and Colorado.

Schwenninger: Global demand for agricultural commodities, metals, and oil and gas is robust. It's going to remain robust until the Chinese depression. Unemployment is around 4 percent in North Dakota. And they're creating tech jobs as well in North Dakota. North Dakota not only has agriculture and an emerging oil economy, it has an emerging Rob Atkinson economy. It is becoming a very innovative economy.

Holzer: Fargo is a boom town.

Schwenninger: The other boom place is Minnesota because it combines the three growth industries. It's part of the direct economy because it still produces a lot of iron ore**.** It's a medical center of America, and insurance continues to be a large producer now. It's another place that's done reasonably well.

Atkinson: I wrote this book a while back called *The Past and Future of the American Economy: Long Waves of Innovation and Power Cycles of Growth*. About every 50 years there's this new technology revolution, and a shift in where boom regions are. In 1850 to 1900, the boom regions were everything from Rensselaer Polytechnic to Boston. Then, 1900 to 1950 it was anything from New York, Pennsylvania, all the way up to Minnesota, Missouri, and most of the industrial Midwest. And then the last 50 years it's been the South and the West. Going forward it's going to be southeastern Asia. I don't think there are going to be boom regions in America anymore. Those days are long gone.

I think what we will see is much more balanced growth in the Midwest. We're not going to see regions that are the hotbeds anymore. I think the days of the South being that are gone. I think Atlanta finally woke up for the first time and saw that it wasn't growing anymore at all. And we've survived these recessions before. So I think that's the new reality, and we just have to come to grips with it with the right policies.

Dionne: We started with the big "what would you do" question. I would love us to end on the more specific, a few discrete policies that are realistic enough to get the economy in a good place in the coming decade.

Holzer: Realistically, I wonder if we'll see progress on any major issues. I'm skeptical about this because the Republican Party didn't move in the direction of David Cameron or even Chris Christie, it moved in the direction of Sarah Palin. There are some practical areas where the polarization could be reduced. On some of the issues we've talked about, where the public sector could be more supportive of the private sector, like with skill-building or trade or immigration reform, there could in fact be agreement on what we need. I just worry that the polarization of the political process is getting worse, not better, and that will prevent the kind of sensible, shared ground from being found. There are all kinds of places, like immigration reform, where sensible people can come together.

Boushey: We need to extend unemployment benefits until the unemployment rate comes down. I think it's possible that we could see more money devoted to infrastructure investment, which is good both for the short term and long term. I was very disappointed that we didn't see more work on the climate bill during this Congress. I understand why it blew up, but I would put it at the top of the agenda for the next Congress. And then I would like to see us make more movement on the issues of what families need, especially in tough economic times, in terms of workplace flexibility, paid leave, paid sick days, people being strapped in terms of wages. There's a lot we could be doing to help families deal with the stress, and a lot of it comes down to helping families cope with the fact that they have nobody at home. They aren't expensive. We can really show we care.

Dionne: Who wants to come in next? Thea.

Lee: The first one, of course, is the Employee Free Choice Act. We haven't given up. We're not going to give up on instituting major labor-law reform because we think rebalancing bargaining power between workers and capital is essential to rebuilding the middle class. That's our top priority. The second thing is echoing what Heather said: major public investment in infrastructure.

Investment in public goods like public transit and public schools seems to me an essential piece of the kind of society we need to build if we're going to grow. The third thing is health care and Social Security. I would say go back to the public option because we have to get health-care costs under control. I know that's not going to happen, but it is what ought to happen. In terms of Social Security, we are heading for a cliff with the erosion of defined-benefit pensions and retirement savings, and Social Security under attack at the same time. It's a fairly simple matter to strengthen Social Security: raise the cap on wages subject to the payroll tax, or lift the cap altogether, so the highest earners pay their fair share into the system and benefits are there for everyone as they go forward. And then the last things I would put out there: End the Bush tax cuts for the wealthy and put in place a financial transactions tax.

Dionne: Thank you. Sherle?

Schwenninger: When you get toward the end, many people have already said the sensible ideas. Certainly the first priority must be a major infrastructure investment program, made possible in part by a national infrastructure bank that could leverage private capital. And within this infrastructure program, I would emphasize first the revitalization of our waterways, which is the cheapest and most energy-efficient way to move goods and services. I would also make a major commitment to converting large parts of our transportation fleet to natural gas, and I would start the construction of truckways (truck-only highways) to ease traffic congestion. I think in order to reduce youth unemployment we need a major job-apprenticeship program, as this is a better way to enhance workplace skills than is the current emphasis on subsidizing colleges and universities.

Atkinson: In terms of the right policies, I'll give you three and they're sort of big buckets. One, we've just got to bite the bullet and say we're underinvesting in the country on many, many things, at least on the order of $100 billion a year. We've got to dramatically fight the Alice Rivlins of the world who say that, with regard to budget cutting, "everything is on the table." Everything should not be on the table. Investment is not one of the things that should be on the table. We need to invest at least $100 billion or more.

Where that goes is another question. I would say, let's come up with a bipartisan compromise, say 50 percent of it is going to go on the corporate tax side—as I've said, I would institute a much larger research-and-development tax credit—and 50 percent is going to go on the public-investment side. On the expenditure side: If we're going to solve global warming, it is not going to be through cap-and-trade, it's going to be through investments in breakthrough clean-energy innovations. We need other investments as well—transportation and other kinds of infrastructure on the physical side, as well as digital infrastructure: broadband, health IT, smart transportation, all those kinds of things.

Second thing, we have got to come up with a new framework for globalization. What we have isn't working. We basically have a zero-sum game. Everybody's trying to export to everybody else. That is simply not sustainable, and it's time we say that phase of globalization is over. And it's up to world leaders—particularly institutions like the World Bank, the IMF, the European Development Bank and other groups, as well as the United States and some countries in Europe and hopefully Japan—to say enough is enough. We need to reshape how globalization works. Let me make it perfectly clear—I want more globalization. I want more trade. But the way we're doing it isn't sustainable. We need to come up with a new vision. The World Bank, by the way, is one of the biggest culprits in this. They encourage countries toward export-led growth—to export products back to the U.S., which is ridiculous.

And lastly, we need a national competitiveness and innovation strategy. We're the only major country in the world without a strategy because we've bought into this mythology that the free market will get us where we want to go. I was speaking with a representative of a foreign car company in the United States, who was advocating how we shouldn't pick winners in America, just leave it up to the market. And I pointed out that the Japanese government invested billions of yen in batteries, seeing them as a critical technology to their future—which is why this car company is able to be the world-leading battery car company today. Yes, we shouldn't be picking narrow technologies, like lithium batteries. We don't know enough to say whether lithium is the right technology. But we do know batteries are a key technology. We know solar is a key technology. We know robotics and advanced manufacturing and biotech and life sciences are key technologies. There is a middle ground between picking narrow technologies and a national champion and leaving it all up to the free market. And we've got to get that sweet spot, and the way to do that is to have a national innovation strategy.