

ARNE KALLEBERG: Good afternoon. Welcome to the plenary session on “Reinventing the American Dream.” This is an especially timely topic in light of recent events. Globalization, the spread of neo-liberal political ideology and growing population diversity are three of the major drivers producing change in work and society in the 21st century. Increasing inequality and insecurity have made the attainment of a good job, a comfortable retirement, home ownership, affordable health care and a better future for one’s children problematic for millions of people in the United States. The percentage of people living in poverty remains high despite the economic boom of the 1990s, and the middle class has become increasingly vulnerable. All of these phenomenon have made the attainment of the American Dream a distant reality for many people. This plenary will discuss the kinds of social and economic policies that may help to restore economic prosperity and fairness.

We are lucky today to have three prominent social scientists and public intellectuals’ who will present their ideas about these policies: Christopher Jencks, Robert Kuttner and Donna Shalala. I will introduce each of the speakers’ right before they speak. Each of the speakers will limit themselves to about 25 minutes, and then we would like to open up the discussion to the audience. There will be mikes in the aisles and people are free to ask the panelists to elaborate.

Our first speaker is Christopher Jencks, who is the Malcolm Wiener Professor of Social Policy at the Kennedy School at Harvard University. He is a well-known sociologist who has written extensively on inequality and its correlates for over three decades. His recent research deals with changes in family structure over the past generation, the costs and benefits of economic inequality, extent to which economic advantages are inherited, and the effects of Welfare reform. His books include, The Academic Revolution, Inequality: Who Gets Ahead?, The Urban Underclass, Rethinking Social Policy, The Homeless, and The Black-White Test Score Gap among others. Christopher?

CHRISTOPHER JENCKS: Thank you, Arnie. I’m usually a numbers kind of guy, but some time back when I started thinking about still another project on inequality I decided that that was not necessarily the way to go. Today, I am going to eschew numbers and talk about politics, because I think it is actually pretty clear what policies would deal with the problems that Arnie listed. The problem is you have to somehow mobilize the political will to enact those policies, so I thought I would start there and leave the hard part to the next two speakers.

The American Dream – It sounds like motherhood or apple pie; everyone is for it, but whenever you get an ideal that everybody is for, whether it is The American Dream, or equal opportunity or justice, you can be pretty sure that the people who are all for it

disagree about what it means. And the appearance of agreement is maintained by having people talk past each other. I think that's the case with The American Dream... and so I think if you want to talk about reinventing it, a good place to start is deciding whose dreams need reinvention. I want to argue today that there are two competing versions of The American Dream, and that they are not only different, they are completely incompatible with each other. I also want to argue that both versions need to be reinvented and that otherwise then our grandchildren won't have any place to live on this planet.

In one version of The American Dream, this country is the place where anyone who builds a better mousetrap can get rich. To do that, of course, mousetrap builders need a lot of help. They need workers to make mousetraps, they need salespeople to put them in the hands of consumers, and they need security guards to make sure that the world doesn't beat a path to their door. In order to get rich, mousetrap builders also have to pay their workers a lot less than they make themselves. Otherwise, there wouldn't be enough money left over from the mousetrap sales to make them rich. This is a version of The American Dream that emphasizes individual talent, effort, it's for freedom, it's opposed to government regulation, particularly the wages of those workers, and it belongs to the Republican Party. This version of the dream is surprisingly widely shared.

A few years back, a Washington Post survey found that about a fifth of all American adults said they were in the top 1% of the income distribution. Now – hold your breath – another fifth expected to be in the top 1% soon. So that gets you to 40% Republicans just there. Now, some of those who thought they were in the top 1% may just have been poorly informed about how much money you needed to be in the top 1%. So, just so everyone in this room knows where they stand, I want to tell you that the IRS released data recently that suggests that in 2006 you needed an income of \$105,000 to be in the top 10% - that's the top 10 - \$148,000 to be in the top five and \$382,000 to be in the top 1%. I'm sure most of you are qualified! The census bureau puts those numbers a little higher.

Now, when you think about that, another thing to bear in mind is that the Congressional Budget Office – in its wisdom – calculates that the top 1% has 18% of all the income received by Americans in 2006, they had it that much, and that they paid 27% of all federal taxes. Now, if you are in the top 1% and you pay 27% of all federal taxes, your enthusiasm for more taxes is often diminished. Now, if you are in the top hundredth of 1%, it may not matter. But when you are only in the top 1%, you know, it looks like a lot of money. That means there's not universal support for new federal programs for the people who subscribe to that particular dream, probably as little support among the people who expect to be in the top 1% as among the people who are.

The Democrats have another version of The American Dream. In this version, everyone who works hard and behaves responsibly can achieve a decent standard of living. The problem here is that the definition of a decent standard of living is a moving target. We're on what has often been called the hedonic treadmill; you get something, you get used to it, you need something more. For those who came of age before 1950, that decent standard of living usually meant a steady job, owning a house in a safe neighborhood with decent schools, and thinking that your kids would have a chance to go to college if they wanted to, even if you didn't. Now, of course, there were a lot of people in that era who worked hard, behaved responsibly and didn't realize that dream. There were blue-collar workers who got laid off and didn't get their jobs back. There were lots of people whose jobs simply disappeared because, even in that era, technological progress was making it possible to produce more with fewer workers. Nonetheless, more and more people achieved those goals between 1945 and 1970. So, this Democratic version of the American dream had pretty broad appeal, broader than the Republican version in which a very small number of people could get rich. Now, I don't know whether it was really smaller because I don't know of any surveys from the 1950s that asked this question about how many people think they're in the top 1%. It may have been that even in the 1950s people thought that, but somehow I have a feeling they did better at arithmetic back then.

In any case, all this changed in the early 1970s. Since 1973, the American economy has been under siege, as we all know. It's true that real per-capita disposable income, which is probably as good a measure as we have of what's available for consumption, has kept going up. But the average increase has fallen from 2.7% between 1947 and 1973 to about 1.8% since 1973. Now, even a 1.8% annual increase in our standard of living and your standard of living or mine would be a lot more than the human species has managed to achieve in most of its history. And, as I will argue in a minute, it's probably a lot more than most people will achieve in the next 100 years.

What transformed the political landscape after 1973 wasn't just that growth slowed down, it was that the distribution of income changed drastically, so that who got the benefit of the slower growth was almost entirely the people at the top – not quite entirely. From 1973 to 2006, the bottom 95% - that's a lot of people – the bottom 95% of the income distribution enjoyed an annual increase in their standard of living of 0.6%; that's about one-half of 1%. The top 5% managed 2%, which is just about what they had managed before 1973. Now that's a lot of numbers and, as my students at the Kennedy School would say, the takeaway is pretty simple. After 1973 when growth slowed, we had a choice. We could have tried to share the pay equally by maintaining a social contract under which the standards of living had risen at roughly the same rate among families at all income levels, which is what had happened before 1973, since the end of World War II, or we could have treated the slowdown as evidence that the Democratic version of The American Dream doesn't work and that we should try the Republican

version in which everybody looks out for themselves – some people get rich and the rest get left behind.

We pretty much chose the Republican option. Now that formulation is misleading, of course, because voters didn't get a very clear choice. Many Democratic politicians bought, or at least rented, the Republican argument that the cure for slow growth was to make markets more competitive and government regulation less onerous. It's not an entirely a dumb argument, I should say, but people get rather carried away with it. Very few Democrats during that period argued that an adverse shift in the distribution of income was a kind of natural disaster that the government ought to protect people from, like a Mississippi River flood or a terrorist attack on the World Trade Center. Now in that respect, the Democrats were unlike the parties of the left in France, Germany, the Low Countries and Scandinavia, and like the parties of the left in the English-speaking world.

Now, what is it about the English-speaking world that makes them so much more sympathetic to rising inequality? I'm not sure I know the answer to that, but I have a hypothesis that I want to propose because I know people here will like it. And the hypothesis is that the thing that is wrong with the English-speaking world is that almost almost all economists speak English. And during this period, most economists were arguing that the rise in economic inequality was driven by what they called, with a felicitous phrase skill-bias technological change. Now that argument, I believe, is accurate in the sense that there was skill-bias technological change, but it's a half truth, and it is, therefore, like most half truths, it's perhaps even more misleading than no truth.

In their new book, The Race Between Education and Technology, Claudia Goldin and Larry Katz, who I must concede are economists, but they are friends of mine so I won't, argue that there is very strong evidence that there was skill-bias technological change after 1973. But, they also argue that there was skill-bias technological change before 1973, and there is no real evidence that it accelerated after 1973. Their data go back to 1910, so this is a story about the American economy needing more skilled workers throughout the whole 20th century. But, they say change – and since I have said the same thing, I naturally believe that to be correct – is that the supply of skilled workers stopped growing anywhere near as fast as it had grown before 1973.

From 1940 to 1980, the educational attainment of the labor force rose by almost a year every decade. After 1980, it rose about half that fast. If you exclude GEDs, the high school dropout rate didn't fall at all. The college graduation rate grows a little; the only thing that really rose a lot was the college entrance rate. Now, those changes might not have produced deterioration in the wages or working conditions of unskilled workers or semi-skilled workers — if we had decided that we wanted to protect the livelihoods of

those people, but we didn't. We let the minimum wage lag behind inflation; large employers in the NLRB made it harder to organize unions; weaker unions found it harder to protect their workers so people were reluctant to join. When they were reluctant to join, the unions got still weaker.

This is a complicated story, but the bottom line is pretty simple. Since 1973, both the federal government and state governments have made less effort to raise the educational attainment of the young than they did before 1973. They have also made less effort to protect the incomes of the less educated. Well, you can see where that's leading; if you don't reduce the number of less educated people much, and you don't do much to protect their jobs and incomes, you're in trouble.

Now one alternative to protect the people at the bottom alternative would have been to regulate the economy in ways that have been tried and tried reasonably successfully in Germany, France and so forth. But that arouses tremendous opposition from American employers. And, unlike their continental European counterparts, American employers seem to have something close to a veto over policy in the United States unless, of course, it involves National Security and it's hard to argue with this as an example of that. The employers argue that regulating the market drives up costs and slows job growth, and then they point to Europe, and so look at the unemployment rate in Europe compared to the United States. There are two things that you need to bear in mind about that argument. One is that unemployment is higher in many European Countries than it is in the United States. The other is that the standard of living in European Countries has risen less than in the United States and Britain since 1980, but the growth rate over this period – the difference is about one tenth of 1%. Now if you're an economist you say, well, if you compound the difference of one tenth of 1% for long enough, we could be twice as rich as the Europeans, but nobody in this room is going to live that long. If you look back to 1960 to 1980, it went the other way. So this is a very fragile argument.

The second thing to notice about this argument is that although regulating the economy does produce unemployment when it is done stupidly, it doesn't seem to necessarily produce a high rate of unemployment in countries that do it sensibly. Now it is an article of faith among people who are opposed to regulation, that if it's done in the United States it will be done in the stupidest imaginable way. And, I think all of us should concede that if that is true, it won't be a good idea. But I don't see any reason for believing that it needs to be done that way, and we could talk at length about the other alternatives.

Nonetheless, having said all that, very few Democratic politicians seem to think that voters would accept that approach to solving our economic problems. Not only that, I'm afraid I think they're right, at least in the short run. In the long run, I think a concerted

effort to revive the Democratic version of The American Dream might change the rhetorical environment, and that might make it possible to actually do some of these things. But I think that that kind of a long-run strategy is a tough one because some Democrats would have to resign themselves to a period in the wilderness on the short run, I think, in order to mount that kind of an attack. And they wouldn't have any assurance that it would work. Now you could say the Republicans did the same thing, but they didn't seem to have any choice, or at least they weren't imaginative enough to think of a choice when they were in trouble after 1964. Anyway, not many Democratic politicians would seem to want to take this risk.

Now I want to conclude by saying something which is more fundamental than this which is, I think in the long run both the Democratic and the Republican version of The American Dream need to be rethought. They both focus heavily on income and material consumption. The idea that we can keep raising our material standard of living without making most of the planet too hot to live in, it's just a mistake. Even the idea that we have 20 or 30 years to make the adjustments, we may well be mistaken. My sense as a non-expert outsider is that it probably is a mistake. So I think reinventing The American Dream also has to mean trying to wean ourselves from the equation between what we dream about, and the idea that what we should dream about is going to the mall or getting more stuff. We need to think about what The American Dream is supposed to accomplish and what that stuff is supposed to accomplish. That's a huge redirection of attention away from consumption in the ordinary sense and toward things like physical health, material security, security not more, just not the fear of less and less. And we need to incorporate into it the elements of freedom that the Republican version of The American Dream influence.

And I would say most important of all, probably, we need to incorporate into it enough time so that people are not working the kinds of hours that people who now are struggling to achieve that level of consumption, and aren't anymore among the super rich, are devoting to their work. We need time to play with our children. We need time to smell the roses. Now I am not saying material goods are unimportant. People need food to sustain themselves; they need a home in which they can afford to live until they die; they need medical advice when they're sick. On the other hand, I am not sure that people my age need a million-dollar machine to keep them alive for another two years; that may be a luxury that we can't afford if we're going to keep the planet habitable. When you look what goes into those machines, it ain't good.

Now, I am reasonably sure that most of us could live without about 85% of the stuff we buy in places other than grocery stores and gas stations. So we need to think about what kind of an American Dream would reduce our rate of energy consumption and reduce the rate in which we invest our time in the pursuit of *stuff*. Perhaps the most important thing of all is that we need to put more emphasis in the American Dream on what we can do for other people instead of what we can get for ourselves. Now, having

said all that, there is just one small problem; I have no idea at all of how to get from here to there. That makes me a pacifist, so now I am going to yield the microphone to my friend Bob Kuttner who has always been an optimist even when I said the sky was falling.

ARNE KALLEBERG: Thank you very much Sandy. Robert Kuttner, our next speaker, is a co-founder and co-editor of the American Prospect Magazine for which he writes regularly on issues related to economic policy. He is also a distinguished Senior Fellow of the think tank, Demos. For four decades his intellectual and political project has been to revive the politics and economics of harnessing capitalism to serve a broad public interest. He has pursued this ideal as a writer, editor, teacher, lecturer, commentator and public official. He is also the author of 7 books including his most recent, The Squandering of America, which explores the political roots of American's narrowing prosperity and the systemic financial risks facing the U.S. economy. His column, which first appears in the Boston Globe, is distributed to 20 major newspapers nationwide. Bob?

ROBERT KUTTNER: Thanks, thanks to both of you. I feel a bit like an imposter. I guess when you edit a magazine and you get to publish people like Sandy, after a while you metamorphose into a public intellectual. It's one of the joys of not quite being a scholar but publishing the work of a lot of scholars. I also need to tell you that because of the floodlights up here, I have no idea if anyone's in the room. All I can see is the monitor, which has my own face on it, which I am going to try to not look at. And I would also like to say for the record, that this is a rare occasion when none of us is doing a power point. As you know from Lord Acton, power corrupts and power points corrupt absolutely.

I am currently working on two books. One is called Globalization of the Good Society, and the other is on the financial collapse and the recession that is going to face the next President of the United States and what he might do about it. And, of course, the two phenomena are closely connected; what connects them is the demolition of the next economy, of a managed form of capitalism or a social market form of capitalism that was common in the industrial countries after the great depression and World War II. I want to talk a little bit about how the mixed economy was demolished, the instruments of that demolition, the politics of it, and how, in a serious economic crisis, we might stand a chance of getting it back.

You all know the story of the 30-year trend of increasing inequality and insecurity, and I think the important fact to keep in mind is that virtually all of the counterweights to laissez-faire were undermined during that 30-year period, as was the ideology, as was the historic role – thank you, the monitor is now off – as was the role of the Democratic Party as the champion and the custodian of that particular kind of social contract. We

can talk a little bit more about the particular instruments in a moment, but all of the policy changes cut in the same direction, and this turn helped create and reinforce a politics of declining expectations, about what political democracy could do, about what government could and should do. It created a politics in which many Democrats were playing on Republican turf.

And now, after 30 years of increasing inequality and insecurity and weakening of counterweights to a market society, on top of that we now have the most severe financial collapse since the great depression. So, the next President will take office having to deal with this financial collapse, which is probably going to be worsening next January. On top of that, there is a severe erosion in purchasing power because the purchasing power of the American household had been sustained by debt, which in turn was sustained by inflated housing prices, and all of that has gone into reverse. And then the third problem is a whole set of international constraints, some of which are coincidental, some of which are related to the other two pathologies but which limit the ability of the U.S. Government to use traditional instruments like low-interest rates by themselves to generate a recovery. We now have, of course, rising energy prices and other forms of imported inflation in commodities such as food and raw materials and a very weak dollar. So, I think the next President is going to have to be a very bold president, or he will be a failed President because people are going to expect a recovery program. And, if you look at the instruments of what that recovery program might be, all of them have one thing in common. They all have in common the fact that all of them are outside of mainstream political discourse. The kind of reregulation of financial markets, the order of magnitude of public outlay, and the resurrection of government as an instrument of the public good – in the past 30 years, all of these have been consigned to the margins of political debate, but if we are going to get out of this economic collapse, all of them are going to need to be resuscitated.

In addition, you have a kind of undertow of conventional wisdom that weighs on the next President as bad advice. You have more people worried about the crisis of entitlement spending in 2050 than you do about the prospect of a depression in 2009. And I have a piece coming out in the next American Prospect about these dueling groups of budget experts, one of which is a coalition between the Heritage Foundation and the Brookings Institution making the argument that we need to cap Social Security and Medicare and Medicaid, but somehow we don't need to put Bush's tax cuts on the table. The other is saying, yes we do have a very severe crisis of entitlements, but we do need to put Bush's tax cuts on the table. Now, that's not much of a debate when the country is having the most crisis since the great depression. And, the shortfall in Social Security is basically a rounding error, and the shortfall in the Medicare accounts is the result of National Health Insurance not being on the table. But all of those things are pretty much not spoken of by mainstream politicians.

In researching this book, I went back and did some reading on what I call a transformational precedence. It turns out this is not a novel insight to me; in doing the reading, I discovered that James McGregor Burns was talking about this 30 years ago, but this is the pleasure in going back and doing reading. And, if you look at Roosevelt when Roosevelt took office, he took office wanting to balance the budget. He actually, in his first two weeks in office, extracted a 31% cut in Federal spending and, while Eleanor was out on the mall serving coffee to the bonus marchers, Franklin was cutting their pensions. Franklin also took office being a real skeptic about the value of Public Works spending. He did embrace the Civilian Conservation Corps early on, because he believed in the bracing effects of outdoor labor on urban youth that paid a dollar a day. The unions were very skeptical of it. It took a lot of convincing by his Secretary of Labor, Frances Perkins, to persuade him that he needed more robust public works. And Roosevelt was also opposed to deposit insurance. He got snookered by Senator Arthur Vandenberg and his own Vice-President, John Nance Garner, who sneaked it through the Senate as part of the Omnibus Glass Steagall Act that Roosevelt couldn't veto. But, within the course of about a month, FDR understood what he was facing and became a transformational figure.

I think the same thing can be said of the good Lynden Johnson, the Lynden Johnson of the Civil Rights Revolution as opposed to the Lynden Johnson of Vietnam. People often forget that when the 1964 Civil Rights Act was passed, it was the same 88th Congress that had been elected in 1962, that had not been willing to do the bidding of John Kennedy. It was before the landslide election of November 1984. But Lynden Johnson from his first Joint Session of Congress, which was about the importance of passing the Civil Rights Act, put his entire presidency on the line to move Civil Rights to the top of the national agenda, which in turn emboldened the movement activists, which in turn put more pressure on Johnson to deliver. If the president happens to be Barack Obama, the interesting question is not whether he has the raw material to be a transformational president or whether the moment is such that we need him to be that kind of a president, but whether he will have the political nerve to reject a lot of the bad advice and rise to the occasion and transform this vicious circle of the passivity of depressed expectations.

Now, despite the fact that people like Sandy and me like to invoke Europe as a counter model, Europe lately is looking rather different. The European Union, which many of us have looked to as a kind of fortress of a more managed or more social democratic form of capitalism, is in neo-liberal hands. There is a political alliance between the new member states of Eastern Europe and the British Labor Government, so called, on behalf of a very neo-liberal model of how the EU is supposed to work. And, while social benefits are still much more generous in the EU than they are here, in many countries the European social model outside of Scandinavia is degenerating into a politically unsustainable bifurcated system of a society of insiders and outsiders where the insiders hang on to the benefits they get; the outsiders – who include a lot of young people, a lot of immigrants, a lot of women, a lot of people in part-time employment –

don't get the benefits, and the coalition fractures and that's why you have center-right governments in most capitols in Europe, whereas 10 years ago you had center-left governments in 13 out of the 15 states of the then EU.

There are three very worrisome court cases that have recently been handed down by the European Court of Justice. There is a piece on this that I did in the last issue of The American Prospect called Continental Drift. I hadn't quite realized how serious this was until I spent some time doing a lot of interviews last spring and then this past spring. But, the Maastricht Treaty, which is basically the EU Constitution privileges over all other fundament doctrines, the free movement of goods, services, capital and persons. And the so-called social chapter is secondary, it's not fundamental law, and a lot of my trade union friends in Europe have used this as a time bomb waiting to go off. Lately it has gone off. Could somebody pour me a water? No water? OK. And there were three court cases, one involving a Latvian construction company that had a contract in Sweden, and the Swedish Unions went after the company to collectively bargain. The company took the position that it did not have to collectively bargain. The Swedish LO has been very emphatic on the point that it doesn't want a lot of government regulation; it wants to use collective bargaining to achieve just outcomes. And the European Court of Justice held that while the Latvian construction company needed to follow Swedish law, it had no obligation to collectively bargain, and if the union tired to harass them, to use perfectly-normal-in-Sweden techniques, that would be illegal.

The second case was a case of a reflagging of a Finish Ferry Line on the Baltic where the Finnish crew was fired and an Estonian crew was hired at much lower wages and benefits. Courts said that was perfectly fine.

The third case arose in one of the German Linder – one of the German States – and the German States have something very much like Davis-Bacon where in public construction contracting, you need to pay prevailing wages. In this case, the German contractor hired a Polish subcontractor that paid 47% of the German wage. The European Court said free movement of persons – no problem. And, in fact, we don't think you ought to have prevailing wage regulation at all, because we think that might discourage free movement of capital and goods.

So, you do have this problem of the neo-liberal model affecting the EU, not just at the level of doctrine and ideology, but at the level of very concrete policies. And the other problem, and I think here my data or the new Russell Sage Series on low wage work in Europe – which I highly recommend — with the exception of Denmark and to a lesser extent, Sweden — there is a very distressing trend where much of the rest of Europe is becoming almost as unequal as the United States because these equalizing mechanisms are under assault.

Now, globalization, I think, is the common element of the story. Why? Well, because when capital is global, corporations can play games of regulatory tax and wage arbitrage, where they can move to the venue that has the weakest regulation, the lowest wages and the lowest level of taxation, particularly taxation on capital. When you have speculative movements of capital unleashed, it becomes very hard to have a managed form of capitalism at all. And, I did a piece that was published in Foreign Affairs Magazine last spring called The Copenhagen Consensus asking whether the Danish model, which I think comes as close as anybody to really reconciling equality and efficiency as any. Can the Danish model survive globalization? And the story is very interesting. The Danes spend 4.5% of GDP on labor market policies. By American standards, that would be 600 billion dollars a year. They have a National commitment to the goal that there shall be no low-wage sector at all. And, in the Russell Sage series, they've had less income quality more than any other European Country.

Now what is threatening the Danish model is not trade; it is financial globalization. One of the case studies is the privatization of the Danish National Telephone Company by a hedge fund based in Britain that had no interest whatsoever in respecting the Danish social model, which is a long-term model in which workers and works councils and trade unions have a great deal of institutional influence. No, the hedge fund was interested in stripping assets as quickly as possible. The Danish Unionist who I interviewed said, we can live perfectly well with trade. We actually think that some Danish Multinationals ought to be doing more outsourcing so that the component can be made more cheaply in Eastern Europe or in China, and we can keep the high-end jobs at home; and the product, when it is all put together, can be financially competitive on global markets. But we think financial deregulation at the global level can kill us, and then this is compounded by another dimension of globalization, which is immigration in the sense that if a model like the Danish or the Swedish model is based on the premise that you invest heroically in your work force and they can then justify the high wages that you pay them. And you have people there who don't have the basic education levels, who don't have the skill levels and weren't even interested in learning Danish, and then you have a little bit of prejudice on the part of Native-Born Danes. It becomes very difficult – it becomes more difficult – to pull this model off. And the whole question of what kinds of rights people who find themselves working in other people's countries where they are not citizens need to have, in order to sustain some kind of decent form of economy; that's a whole other dimension of this debate.

So, in conclusion, and Professor Galbraith always used to say, "You have to say 'in conclusion' to give the audience hope." I think there are a lot of things a new American President could do. I have laid some of them out in some of my American Prospect pieces. The new president could sign the Employee Free Choice Act, and not only sign it, but honor American Trade Unionists. And so, where Bill Clinton in his State of the Union Address in 1993 took pains to seat Chairman Greenspan next to the First

Lady in the balcony, I look forward to the day when President Obama seats 10 rank-and-file people who risk their jobs in order to organize a union and says those people in the balcony there are American Heroes. And then Andy Stern or Bruce Raynor can say 'President Obama wants you to joint the union.'

I think leadership and citizenship can be self-reinforcing, and I hope the next president does that. I think there can be a national commitment to more good jobs. One of my favorite pet projects is the idea that every job in the human services should pay a living wage. They should all be professional jobs; jobs taking care of our children, taking care of our parents, taking care of ourselves when we are sick. If these jobs were redefined as professions on which you could live, not only would the workers be better off, but the people who they would be taking care of would be better off. And I actually costed this out – it could be done for about 1% of GDP. That to me is a quite reasonable price. This is one of those times, and this may not be news to a lot of you; I congratulate those of you who knew it all along. But, this may be one of those times when, in order to be a liberal, you have to be a radical.

ARNE KALLEBERG: Our final speaker is Donna Shalala, who is President of the University of Miami, an accomplished scholar, teacher and administrator. She served as the U.S. Secretary of Health and Human Services for eight years under President Clinton and in that role directed the Welfare Reform process, made health insurance available to an estimated 3.3 millions children and revitalized the National Institutes of Health, among many other accomplishments. The Washington Post described her as one of the most successful government managers of modern times. President Shalala was also the Chancellor of the University of Wisconsin, Madison, and was named by Business Week as one of the top five managers in higher education in 1992. President Shalala has more than three dozen honorary degrees and a host of other honors including the Presidential Medal of Freedom, the nation's highest civilian award, which she received this year. President Shalala?

DONNA SHALALA: Thank you, Arnie. I know you got your degree at Wisconsin. Thank you very much. My grandfather actually arrived here about this month in 1900 with four dollars in his pocket from Lebanon, and one of my grandmothers arrived 10 years later, and she was turned away from Ellis Island because she had some kind of eye disease. So, she went all the way around the country and ended up sneaking across the Mexican Border, so I share in my history some of the history of the immigration to this country, both legal and illegal and have a very soft spot in my heart for people who have struggled to get here and have struggled even more to make it in this country. I pointed out to Arne that I came here to American Sociology Meeting a decade ago – a little bit more than a decade ago – as a lamb to slaughter to defend the president's signing of 1996 it was standing room only – and the only reason I survived

was because it was very clear as we got into the debate that I was the only one that knew what was in the bill; everybody else had an impression of what was in the bill. But, people were actually quite polite, probably because there were so many Wisconsin graduates in the room at the time. In that sociology department, I had a special place in my heart for...I do want to acknowledge, of course, Bob Johnson and the Miami sociologists who are here, and he's hiring if anyone's looking for a job.

I did, at that point, at least explain the President's Welfare Reform Bill even though I had advised him not to sign it at the time. We now know after a decade of research what impact that bill had. We know much of it because of the work that has been done – very good work that has been done – at the Urban Institute and by sociologists and political scientists and economists from around the country – that welfare reform has been a partial success, and the research agenda tells us a lot about what the next president ought to do if we are going to not only cut rolls, which we did – we cut them in half – but, if we are going to do more than simply move people to low-paying jobs without support for each one of them. It was dumb luck for Clinton that we did welfare reform in the midst of a strong economy. It was not dumb luck that we added to that pill significant investment in childcare, over four billion dollars, and implemented and passed the Children's Health Insurance Plan, which moved a very high percentage of low-income working children to health insurance at the same time.

What was more powerful than anything we did in that bill, and I know that Bob Kuttner knows this very well, was the earned income tax credit, which turned out to be far more powerful in lifting people out of poverty at least to the working class than almost anything else that we did in the Clinton Administration. But, what we did was simply increase the numbers of low-wage workers, but you were less likely to return to the welfare rolls if you had child support, health care and other kinds of supports; it was a very important lesson to all of us.

The good news is there are less welfare recipients. The bad news is that we simply have created a larger group of low-wage workers, and the income and inequality in this country continues. They look like low-wage workers in general. A fourth of our children are growing up in these families; the kids fare worse in terms of physical health, emotional health and their success in school. The family stress is certainly significant. It does, however, mean the public policy can shift from stereotypes of welfare recipients to crafting a new safety net built around work and around the basic benefits, opportunities and protection that parents need to raise healthy children. And that is – I would argue that the significance of the Welfare Reform Bill was to take welfare and the criticism welfare off the table and allow us to focus on workers and their children and the significant things that the next president can do. I see two great policy challenges for the next president. Childcare is clearly one of them. I think the significance of that is not that I am dismissing housing and income supports for housing as important, but the federal

government isn't very good at it even though the new bill provides billions for rental help and we should not ignore the opportunity that that provides.

The prospects for a new president to take on these issues in the context of the economy that has just been described and the ward seems quite bleak, but I'm an optimist about this because somewhere near the end of January a new cabinet will take place, and someone at the White House will have recorded everything that the presidential candidate has said in a book which the cabinet members have affectionately labeled, "Promises, Promises." All that book does is tell you the presidents ought to watch what they say because some little minion has written down everything that the presidential candidate said in great detail. They take the book and they tear it apart and hand it to each cabinet officer, and basically, the chief of staff says 'implement it.' And you look at the book – your part of the book – and say, 'He didn't say that, did he?' but sometimes it is, in fact, guidance to what you can do. And I would suggest to you that there are some things that the next president can do, there in agenda that we have learned from past presidents, and we have learned in particular from understanding what's happened to low-wage workers. I would argue, in addition to the global economic issues as well as the war that the president has to deal with, there are some very specific things that the new president can do to make a difference, and they are not tax subsidies because we well know that they will not help this group in particular; either they pay little or no taxes, and even John McCain's refundable tax credit for purchasing health care will not help this particular group in our society, which has been left out of the mainstream which has, in fact, a quarter of our children and that really need to be lifted out of poverty. Part of it is what Bob's talking about, and that is essentially making their jobs stronger or creating new jobs that pay better. And part of it is the role of government and what it can do for this particular group to really make work pay for the first time. I believe the way many people do that to move this group, we need substantial investments in education and health, in childcare; we need new job pathways and we, in particular, need an economy turnaround that includes an understanding of the health care issue and how much that health care determines family's income and the kind of burden on families.

Health care looks like not being discussed very much in this campaign. It also looks like it is not being discussed very much in the polls. If you look at the polls, everybody is listing the economy as number one and the war as number two; we started out with the war being number one and the economy number two, but if it's not discussed there is little chance it will be on the first year agenda of the president, and it will also reflect that there may not be a stomach for a bipartisan and perhaps centrist deal for both the congress as well as the president.

There are a number of elements that I could talk about, but I would like to talk about health care and the importance of health care in this campaign; the importance of health care for low-income workers in particular. And I want to say something about those polls because Molly Brodie at the Henry J. Kaiser Foundation has been polling for

some time on the economy issues as well as the health care issue, and she sees within the economy polling the affordability of health care as the number one issue within that polling, which means that large number of Americans are talking about the kind of stress that they're under and their deep concern that if their health care system collapses on them, they'll go into bankruptcy, and larger numbers of them – 47 million – don't have any kind of health insurance and another 20 million, in my judgment, have lousy health insurance. So, we often don't add them into the equation, but it is very clear that when the polls report that most Americans believe that the economy is the number one issue, that they are also talking about health care at the same time.

Now, what can the new president do about that? There are a number of incremental things, as Massachusetts has demonstrated, that the new president could do. They could—and the fundamental questions are whether we will have a president that is committed to universal coverage or near universal coverage. Certainly the democrat's answer to that is yes; the republican's answer to that is no or maybe. How would they organize coverage? Senator Obama would build on the existing system, have greater regulation of insurers and insist they accept all applicants. Senator McCain prefers a system where people purchase it on their own with very few requirements on insurers. He likes the individual marketplace. Not one of them proposed scrapping the current system, not one of them is proposing a very radical approach to health care. The parties differ on the base purpose the democrats favor a front-end system that has lots of prevention; the republicans favor a high deductible and catastrophic coverage on the far end.

It's clear from the polls that the public is very afraid of moving away from employer-based coverage. In fact, President Clinton's own health care plan was very much brought down by the fear that a combination of the ads and the interest groups instilled in the American People that those people who thought they had decent coverage thought they were going to lose it, and it was that fear that continues this day. If you look very carefully at the polls, people are very afraid of moving away from a system in which employers are responsible for health care. That doesn't mean the people that don't have employer-based health care want just that. They'll take what they get, and hopefully, it'll be affordable for them.

Finally, the question is, can the states do it? Massachusetts doesn't satisfy either the liberals or the conservatives. It does not achieve universal coverage. It has a big affordability cost issue for both the state as well as for individuals. It is very clear, though, that they have moved more than 300,000 people into insurance. They've cut the rate of uninsured in half, but it's also clear that to do this they used a lot of federal funding. Half of the new funding came from the federal government in a variety of different ways, taking it away from safety net hospitals and putting it into a pool so that individuals could get coverage. So, that if health care failed at the national level, there is some hope that using a variety of federal resources and waivers that we could move to

the states and try to get some coverage. But, most of us do not believe – because the states are much more sensitive to economic downturns and use their health care programs to adjust their budgets – that it's a very good idea to be totally dependent on the states for coverage for this particular group of people, though certainly we could learn some things if we went through that process at the state level.

I believe that the next president can get expanded coverage in health care. I believe that it would make a difference for low-income workers in this country. I also believe that that president has to be enormously sensitive about the cost of that coverage. I ask everyone who provides me with services how much they are willing to pay for health insurance that they don't have themselves, though often their children are covered by state health insurance plans. The answer is not very much because that fifty dollars a month is the only discretionary income that they have. That discretionary income is a lifestyle issue for them on whether they can buy their kids another pair of shoes or whether they can take them out perhaps to a restaurant or to the movies once a month. So, they're very sensitive about the use of that income and getting it locked into something like that, so whatever we do has to be very sensitive. It will be interesting to see what happens in Massachusetts with a mandate of coverage, but low-income workers are very sensitive to taking parts of their income as opposed to it being additive in those cases. And, we underestimate the price sensitivity about the elderly as well as low-income workers when it comes to the cost of health care.

I do believe that the next president could do some things and that there are ways of paying for it both in savings, in reducing fraud, in remanaging and readjusting the Medicare program, and that there is a chance, if we get a president that's creative enough, that we can actually significantly reduce the role of the uninsured. I see nothing out there that suggests that we'll get a radical change in the system, a single payer system. As I said to Bob, I just spent six months of my life with Senator Dole looking at a payer system. The federal government's system of health care for the military and for Veteran's Affairs – it doesn't give me great confidence in a single-payer system because it looks like it's just as fragmented, though better financed, as the current system that we are living with. So, we would have to make some major changes to get us there. Ultimately, to reduce income inequality and to provide strong supports under low-income workers, we will need to make adjustment in wages, to probably make a reinvestment in the earned-income tax credit, to certainly do something about childcare and health insurance and I haven't even taken on the issue of education, which Sandy has written so much about and what we need to do there. Can we do some of these things in the next administration? We can. Yes, we can – thank you very much!

ARNE KALLEBERG: I want to thank our three distinguished panelists for their perceptive and formative remarks. I'm sure that there are many of you out there who would like to ask some questions of the panelists and I believe there are mics coming down. So, if you would care to line up and ask your questions, we would be happy to take them and try to see who's out there.

Why don't we start over here? Yes, sir?

AUDIENCE MEMBER: American Dream has a community component. Do we believe that the American Dream includes the ability to live in a community where you receive a share of public services including protection from crime and quality schools? If so, that means addressing as we go forward the fragmentation of metropolitan areas into very rich and very poor neighborhoods. I would just like to hear a comment on that.

ARNE KALLEBERG: Great! Would someone like to...

CHRISTOPHER JENCKS: One of the things that's happened in the last 30 years is that we produced racial segregation in our city, not much but some, an increased economic segregation, not a little but quite a lot. I find it really puzzling that it wasn't higher to begin with. Every theory that one thinks about says, well, rich people should try to segregate themselves into places where they don't have to pay for services for anybody else. And it is always reassuring and somewhat startling to me that that doesn't happen more. The only way around this as far as I can see is to centralize, which is of course the un-American way. But, if you don't centralize the financing of this stuff, as far as I can see, you're fried.

ARNE KALLEBERG: Maybe someone over here?

AUDIENCE MEMBER: I wanted to ask a question about health care, so I guess that is addressed to Donna Shalala. Very nice to hear you all. I live in Montana, which is a state that has a very large area and very small population, and we are really struggling to keep hospitals there. And I know the legislature in the state has come up with a lot of different ideas, and some people have been pushing for that VA-type nationalized health care that you were talking about, but some others have suggested that at least in states like Montana that rather than having one or two VA hospitals for all the veterans – very high percentage of veterans in Montana as well – that are inaccessible to most people, that if the way the funding was would go to local hospitals by the percentage of veterans that are in the area, that would also shore up some of our more rural hospitals which are in deep financial difficulty at the moment. Has anybody heard anything like that being discussed?

DONNA SHALALA: Actually I know a lot about Montana hospitals. Montana has got some very innovative things with their hospitals. They turned them into welfare centers. What has happened in Montana is that you have a decline in population. You can't maintain hospital beds, and there is a real question on whether what you need is beds or outpatient clinics or different configurations. In fact, one of the things that is

interesting after Katrina in New Orleans, the health system is being completely rethought to reduce the number of actual beds, increase the amount of outpatient and since the science of the medicine has changed as opposed to going back to the charity hospital model to actually increase the number of ambulatory care outpatient facility. That is also true in places like Montana. The real question is, if the veteran's hospitals have empty beds in rural areas, should we make those accessible for instance to Medicare patients. The VA would love that because it would bring some more income into those places but the purists once they start doing that will be very wary that is unless you have some kind of a universal system, you cannot use all of your facilities very efficiently, but it's very difficult to maintain those hospitals at any kind of standards when you don't have the population to fill the beds even though the reimbursement rate may be pretty good and what you really need is doctors, ambulatory care, outpatient and then a way to get to these people to hospital beds when you can. But, Montana is one of the places that has done some very imaginative thinking about the facilities whether turning them into nursing homes or turning them into wellness facilities combined with outpatient. But, they are struggling, and it is very difficult in rural America to maintain quality health care because you have such a define in population. That's why so many of the formulas and so many of the people will argue that you have to look at those scarcity and density for more money because both of them cost more money for very different reasons.

ARNE KALLEBERG: Perhaps we can identify ourselves and tell us where you are from.

AUDIENCE MEMBER: Yes, my name is Peggy Wireman; I'm from Madison, Wisconsin, and Transaction has just published my book, Connecting the Dots – Government, Community, and Family, and one of the things that I look about is what's going to happen with the new jobs projected between 2006 and 2016? It is not a pretty picture. Fifty percent of them will be in 28 categories and, of those, nine will not support families of four at the self-sufficiency level. I really have two questions: One is, can we change the conversation so instead of talking about poverty level, we start talking about the self-sufficiency standard, which is about twice as high? And two, as far as I can see the only things you can do in terms of the wages, and this is our childcare workers and our people who take care of us in hospitals, is either to increase the minimal wage to 16 or 17 dollars an hour or the earned income tax. Anybody got any comments?

ROBERT KUTTNER: I think the next president, because of the economic crisis this country is facing, is really going to have to think big. One big idea that I think would get a lot of support and could even get support for the money to pay for it is the idea of creating millions and millions and millions of middle-class jobs. Now, something like 50% to 60% of all human service jobs are ultimately federal money. And, if you had some kind of a principle such as a Davis-Bacon for Human Services where the feds are not going to pay for it unless it is a professional living wage job and then the feds put up additional money so that you don't just have an unfunded mandate. You could change

the whole trajectory of how we define jobs, not just childcare jobs, but child development jobs; early childhood education jobs, not custodial 7-dollar an hour jobs with people who have 10 or 20 hours of training and a 250% annual turnover rate but the kind of jobs that the Swedish system or the French system has where people caring for the elderly are professionals and are treated and paid as professionals. It is one of the places where the federal government with adequate resources and a national policy to match could have direct leverage on the system. Now, for the jobs where the feds don't have direct leverage on the system, then you are yes, you're talking about a higher minimal wage, you're talking about a much stronger labor movement, and I think the other thing I mentioned in my talk, given the 1.6-trillion dollar deferred maintenance bill in basic infrastructure and the need to put the economy on a clean energy path, and the need to use public investment to stimulate demand in a severe recession, I would think the next president may not want to go in and congress may not want to, but by the time the president takes office with unemployment rates much higher, there is a very good case for a 21st-Century Public Works program that would, along the way, create lots of good jobs.

ARNE KALLEBERG: Over here? I'm Susan Ostrander from Tufts University, and I heard the other day that Bill Gates was thinking that one solution to poverty in the world was for poor people to save more money, which struck me as a rather odd idea. But, it did remind me that we have been hearing a fair amount a few years ago about asset-based approaches, and I'm wondering what in addition to income, jobs, health care, and the other important issues you've talked about where the people on the panel would put – if anywhere – these more wealth-based, asset-based approaches?

ROBERT KUTTNER: Let me take a stab at it! I've done a lot of reading and attending conferences on the whole asset strategy. I think assets obviously include things like houses and financial savings and also human capital and it does make sense to invest more in all of them. And then you have to look at sub-prime where 30 years of progress in getting lower-income people into the status of homeowners, which is the way the vast majority of Americans accumulate net worth. Thirty years of progress were wiped out. It has been particularly devastating among African Americans and other populations of color. This needs to be named as a casualty of deregulation. It did not have to happen. There are proven strategies for making home ownership more available to moderate-income people, and this was a totally perverse way of doing it. So, before we can have new asset-based strategies we need to undo some of the damage that really malevolent policies have done in the last couple of years.

AUDIENCE MEMBER: I noticed that – this is kind of a double question – I noticed that nobody on the panel or assiduously, you seem to be avoiding the word poverty, and there is quite a debate out there about whether or not we should be talking —so we've been talking about low wage and lower income, etc., whether we should tackle this is a problem of poverty the part of The American Dream is wiping out

poverty? There is increasing interest in doing this, and part of that is also to redefine poverty as the previous questioner on this side said, define it at a reasonable level, which is done through the self-sufficiency standard or some similar kind of measure that's realistic in order to be able to both measure impact and redefine the problem. But some people really believe we've got to avoid that word altogether – like the mobility agenda in a number of groups. Others say we now have the working poor like Donna Shalala's saying. We've moved from welfare poor to the working poor, but should we include that word? Should we be using that word, or what do you think strategically is going to work best in this political climate to get these kind of programs?

DONNA SHALALA: Whatever works, I'm for.

AUDIENCE MEMBER: But which do you think is going to work?

DONNA SHALALA: Look, 80% of the people who don't have health insurance in this country get up every morning and go to work. There is someone in their family that's working. So, it is easier for us to make the case when we are trying to build some kind of a coalition that if you get up and go to work in this country, you ought to be able to take care of your family – whether you're talking about expanding the earned income tax credit or you're talking about an expansion of existing platforms to get more people covered. But I'll call it a banana if it will get more income support and more access to health care for people in our society that are clearly being left out of whatever is happening.

CHRISTOPHER JENCKS: I was really going to say essentially the same thing. I think it's much easier to sell this kind of thing when you use the words low-wage worker than when you use the word poverty. There is no particular reason that should be the case, but there is a long history that has identified the word poverty with people who are not working, and just as a tactical matter I think it probably works better, but if it turns out it works better the other way, it's alright with me! I've no investment in these names. I believe that---

ROBERT KUTTNER: Bill Clinton managed to get both things in. I mean, the famous phrase, "People who work hard and play by the rules shouldn't be poor," is one of the best things a progressive president said a long time, and what you need now is the more robust policies to match the principle.

ARNE KALLEBERG: Barry?

AUDIENCE MEMBER: Barry Bluestone, Northeastern University. I think this is probably for Bob and maybe Donna. Sandy, I would like to hear you speak to it, if you could. Obviously, if we are going to do anything about any of the things we're talking

about, health care, poverty, low-income jobs, we're going to have to spend a lot of money. State governments are in terrible trouble right now as are local governments. California has a 15-billion-dollar deficit, we have a 1.3-billion-dollar deficit this year, and having looked at the budgets, they look pretty bad out in the future in the states. We're running a 400-billion-dollar-plus deficit in the federal budget this year. President Bush, in his eight years, has doubled the federal debt took us from 1787 to 2000 to get to 5.4 billion, we are going to have a 10.5-trillion-dollar federal debt. Where are we going to get the resources or money for any of the programs that you're talking about?

ROBERT KUTTNER: I'm so glad you asked that question because I just costed this out. I think in order to stimulate a recovery we need to increase public spending by three or four percentage points of GDP. We're now spending about 20%. I think, depending on how severe the recession is, hopefully it is not depression. Whether we need to spend as much as a trillion dollars recapitalizing America's banks, that's going to have to be 23% or 24%. Now, you can get at least half of that by taking back the Bush tax cuts and not using it to balance the budget but using it for social investment. There is also a widely accepted figure that 300 billion dollars a year of collectible money. Almost all of it, the top one-tenth of one percent of the income distribution, goes uncollected because under Bush the IRS's enforcement machinery was retargeted from partnerships that are tax evasions onto the earned income credit, which is mostly technical violations. And then, of course, you've got about another 100 billion by winding down the war. I think having a deficit of 3% of GDP during a period of severe economic meltdown is perfectly good policy. It is even necessary policy. The debt to GDP ratio is 37%; that's less than it was by a whole order magnitude than during the entire post-war boom.

Under Clinton, something that made great sense tactically, which was deficit reduction and surplus has metamorphosed into principal. And I think our friends over did that. There are times when you need deficits, and this is one of those times. But, I think most of this could be paid for by either getting rid of the Bush tax cuts on the top two percent, which is the cutoff that Obama has talked about, restoring tax enforcement on abuses used by very wealthy people, and retargeting spending that's gone for war.

DONNA SHALALA: I would add to that list – Jack Lindberg and his colleagues at Dartmouth have pointed out that 30% Medicare spending is waste – certainly we can get the fraud piece out of that fairly quickly, and I would just throw it into the pot with Bob's piece, but a reorganization of the Medicare program could produce simply one-shot savings, but ongoing savings in that program like it's finance part of it.

ROBERT KUTTNER: Just one other thought; less people think this is insane, federal spending relative to GDP topped out 22.6% in 1983, and that was a period of a military build-up. It was a period when Reagan hadn't quite gotten around to cutting

back all the social programs of the 60s and 70s that were still perking along. You know, you can spend 23% of GDP through the federal government and nothing terrible happens and a lot of people benefit.

ARNE KALLEBERG: Sir?

AUDIENCE MEMBER: My name is Bruce Russell, and I like to come to these meetings because I have the opportunity to share in common expectations about the future. We've talked a lot about Obama likely being elected, and I have a real concern that that may not be the case, and it has to do with an issue of political organization. Part of The American Dream, at least we discussed or thought about this in the session just before this one, was the notion that if you go to the trouble of creating a constitutional political system, those people you hire for four years, if they don't follow it you throw them out, and we had George Washington follow the tradition and establish a tradition that was followed for a very long time to do that. However, last Friday there was an impeachment hearing held by the Judiciary Committee of the Congress, the chair said it was the best committee meeting that they'd had in this Congress. The next day, Nancy Pelosi arrived in my small town in Montana, in Missoula, where she was met by 14 activists who wanted to convince her that impeachment needed to be on the table. Here's my concern: The presidential candidates for three parties – this is the beginnings of a third-party movement – all stand for impeachment, and the response we got from Nancy Pelosi was not just to dismiss it, but to smack it down. And it is my belief that if we don't somehow incorporate the issue of paying attention to our political organization and protecting it, that we may not have Obama doing the things that we would like to have in the fall. Any comment from any of the three members?

ROBERT KUTTNER: Well, I actually wrote a piece last year in The American Prospect saying that I thought we ought to have an impeachment and we ought to start with Cheney who is the real president. Most people disagreed with that. I mean, if I were Nancy Pelosi and it were the first of August of an election year three months before election day, I would probably argue that that close to an election an impeachment would be a diversion. I don't think that you would get much disagreement in this room that this administration has been probably even more extra constitutional than Nixon's, but my own view having once thought that an impeachment could do a lot of good, I think in practice the moment has probably passed just as a matter of tactics.

AUDIENCE MEMBER: Just as a point of information, I believe Andrew Johnson, who refused to institute reconstruction, 10 days is what it took.

ARNE KALLEBERG: Okay, let's thank again our terrific panel and thank them for their comments.