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Book Summary

The Reconnection Agenda: Reuniting Growth and Prosperity

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While there are many uniquely positive attributes about the U.S. economy, something is fundamentally wrong: economic growth can no longer be counted on to deliver broadly shared prosperity. Moreover, the policy agenda put forth by those with the power to do something about this problem has either proven to be inadequate to the task or has been blocked by gridlocked politics.

This book sets out to answer the question: how can we reconnect middle-class prosperity and overall growth? Following a presentation of the dimensions of the problem, each chapter offers a policy solution to one aspect of the problem, and the last chapter discusses changes that need to occur in the political landscape if we are to get back to a politics that can implement needed change.

The following is a chapter-by-chapter summary.

Chapter 1: Introduction

For too many low- and middle-income families, growth is something they hear pundits crow about on TV, not something they see in their paychecks. This chapter also introduces a related, long-term economic constraint: we also need to create a sufficient quantity of high-quality jobs.

These problems persist in part because of the limited policy tools in the economic toolbox. Therefore, a robust reconnection agenda requires a new set of both diagnostic and prescriptive tools. In terms of diagnosis, we must recognize that market failures are more common than we think. For example, slack labor markets have been the norm over the past few decades; we've only been at full employment 30 percent of the time since the late 1970s.

But government failure at the federal level has become a serious problem in recent years, and a reconnection agenda that taps government solutions must also provide solutions to the problem of government dysfunction. This is not a natural condition for government, but a reversible tactic used by those with a vested interest in keeping it from working.

In terms of policies, we must recognize the importance of full employment and ask ourselves why tight labor markets have been so relatively rare over the past 30 years. This examination leads us to consider:

- the importance of fiscal and monetary policy and their complementary characteristics;
- the persistence of trade deficits as a barrier to full employment;
- the need for policies like direct job creation to reach those who are left behind, even in robust recoveries;
- the need to ramp up financial market oversight so that once we get to full employment, we can stay there;
- a strong safety net that invests in low-income families and children;
- the need for a functional federal government, amply funded by progressive taxation;
- the importance of breaking the political gridlock that is keeping a reconnection agenda from ever seeing the light of day.

Chapter 2: Growth Without Prosperity

The U.S. economy in early 2015 is doing well in a macroeconomic sense. Real growth in gross domestic product was 2.4 percent in 2014, compared to less than 1 percent in the eurozone. Though our unemployment rate paints too rosy a picture these days for reasons explained in the chapter, it most recently dipped to 5.5 percent, well below its recessionary peak of 10 percent in late 2009. In the eurozone, the jobless rate was still above 11 percent, pushed up by countries like Greece and Spain with unemployment rates hitting 20 percent. Though it took a long time for job growth to gain strength in the current U.S. recovery, employers here were expanding their net payrolls at a healthy clip by early 2015, close to 300,000 per month.

And yet wage growth remains flat and the real income of the typical household still hasn't recovered what it lost in the downturn, much less grown beyond it.[1]

Chapter 2 shows that this pattern is a familiar one, as there have been numerous periods in recent decades when overall growth failed to sufficiently reach the middle class and poor. Data featured in the chapter show secular growth (meaning not just in downturns but in expansions as well) in the inequality of income, earnings, and wealth over the past few decades, patterns that stand in stark contrast to prior decades when these economic variables were more likely to grow together across the pay scale.

The chapter identifies three main concerns regarding this increase in economic inequality. First, inequality works as a wedge between productivity growth and the wages and incomes of middle- and low-income families, leading to broad-based earnings stagnation. Second, the inequality of economic outcomes is reducing the long-term opportunities facing those on the wrong side of the divide. Third,

[1] That is, wage growth remains flat in nominal terms. Very low inflation due to falling energy prices helped boost real earnings in early 2015. Sentier Research analysis shows that real median household income remains 1 percent below where it was at the start of the recovery in June 2009 and about 3 percent below its pre-recession level; http://www.sentierresearch.com/pressreleases/Sentier_Household_Income_Trends_Press_Release_January2015_03_04_15.pdf.

high levels of inequality are interacting with politics and deregulatory zeal to generate macroeconomic bubbles and busts that make it much harder to sustain full employment.

The causes of the growing gap between growth and broadly shared prosperity include increased globalization (not trade per se, but persistently imbalanced trade), high wage premiums for those with top positions in particular sectors, the absence of full employment, "financialization" (the partially bubble-induced growth of the finance sector), the decline of union power, the erosion of labor standards that protect vulnerable workers, the inadequate policy toolbox to ameliorate these challenges, and the lack of a politics interested in addressing these challenges.

The reconnection agenda sets forth a detailed policy agenda at both the federal and state levels to push back on these inequality-inducing factors and in doing so, reconnect overall economic growth to the incomes and opportunities of middle- and low-income families.

Chapter 3: Full Employment

During the years when low, middle, and high incomes grew together, the U.S. job market was at full employment 70 percent of the time. Since then, growth has mostly failed to reach middle- and low-income households, and our labor market has been at full employment only 30 percent of the time.

Of course, correlation isn't causation, and just because two things happened at the same time doesn't mean one caused the other. But this chapter builds the case that the absence of full employment was and is a main reason for the disconnect between growth and income and thus is central to the reconnection agenda.

Full employment is nothing more than a tight matchup between the number of people seeking jobs and the number of job openings. That doesn't mean an unemployment rate of zero. There are always people between jobs or finding their way into the job market for the first time. The last time the U.S. economy was at full employment, in the latter 1990s, the jobless rate was around 4 percent.

The unemployment rate consistent with this tight matchup between people seeking jobs and job openings is the lowest jobless rate consistent with stable inflation. The problem is that we can't pin that rate down with the needed accuracy to guide policy. Some say full employment is around 6 percent; others say 4 percent. And that uncertainty matters: The difference between those two numbers is about 3 million jobs.

One might infer that uncertainty paints the reconnection agenda into a corner: Full employment is key to the agenda, but we can't identify the unemployment rate consistent with full employment. But that's not necessarily a problem, or, more accurately, it's only a problem if we slavishly and mistakenly try to target a phantom number. Instead, we must define full employment from the perspective of the disconnect we're trying to fix. Conditional on stable inflation, we'll know we're at full employment when real wages are rising across the wage scale, not just at the top.

The chapter also presents evidence that the benefits of full employment push in exactly the opposite direction of inequality, raising work, wages, and incomes a lot more at the bottom than at the top.

Full employment is central to the reconnection agenda and thus must be elevated as a national economic goal. If a politician or policymaker is talking about solving the middle-class squeeze, increasing opportunities for those hurt by rising inequality, or unsticking our "sticky" poverty rates (so that poverty once again falls when growth is strong), and full employment is not at the top of his or her agenda, they're just tinkering around the edges.

Chapter 4: Fiscal and Monetary Policies That Work for Working People

In modern, advanced economies, the two biggest tools to achieve full employment are fiscal and monetary policy. And since we're trying to put the right tools in the reconnection agenda toolbox, then these two are most essential, the veritable hammer and drill, the tools without which we will be unable to reconnect growth and more broadly shared prosperity.

Fiscal policy is taxing and spending, and while we often associate fiscal policy with raising the necessary resources to support major social insurance programs like Medicare and Social Security, defense, our public infrastructure, and public education, the part that's most critical to the reconnection agenda is stabilizing the economy when markets fail. It's also the part that major, advanced economies have been getting wrong in recent years by imposing fiscal austerity (fiscal consolidation in weak economies) at tremendous cost to their citizens.

While monetary policy may seem a bit more mysterious than fiscal policy, it's really nothing more than the actions of the nation's central bank—the Federal Reserve—to try to control two opposing forces: unemployment and inflation. Though the negative relationship between these two forces has lessened in recent years (meaning they've become somewhat less likely to move in opposite directions), it is still generally the case that slack in an economy—e.g., weak demand, lots of people out of work—leads to lower inflation and vice versa.

The Fed's main tool in its efforts to manage its dual mandate—maintaining both full employment and stable prices—is the interest rate it controls, called the federal funds rate. Based on its extensive analysis of the economy, the Fed adjusts that rate up to slow growth and inflation, and down to try to speed them up.

The chapter stresses the interaction between these two policy behemoths, arguing strongly against the notion that Fed policy is all we need. In economic slumps and periods of weak demand, where unemployment and wealth losses drive weak wage and income growth, the Fed can and does lower the cost of borrowing so businesses and households are incentivized to take on new investments. But there are two problems.

One, the Fed controls a powerful interest rate tool, but once the interest rate hits zero, which is where it's been stuck for more than five years as of early 2015, the tool is far less effective. Two, absent more income growth, even at zero interest rates, people are less likely to take advantage of cheap loans.

That's where fiscal policy comes in. The chapter argues that fiscal and monetary policy must work together to be most effective. Monetary policy sets the table but it takes fiscal policy to bring people into the restaurant. Chapter 4 shows evidence of their joint effectiveness during the early years of the downturn, but equally compellingly, I provide evidence of the negative outcomes that occurred when we prematurely shut down the fiscal side of the effort.

Not only are fiscal and monetary policy essential tools in the reconnection toolbox, they're likely to increasingly be so in coming years as low rates at the Fed suggest the "zero lower bound" problem is not nearly the anomaly most economists thought it was. That means there's the potential for monetary policy to have less firepower in future downturns, which in turn means the fiscal response becomes that much more important.

With that possibility in mind, the chapter also argues that there are a variety of ways to ratchet up the effectiveness of both fiscal and monetary policy when it comes to getting to full employment. These include fiscal triggers based on not just the unemployment rate but broader indicators of state economic conditions; wage (versus unemployment rate) targeting at the Fed; the tolerance of a job market tight enough to pull sideliners back in; and a people's campaign such that people from all walks of life can interact with an institution—the Fed—that has real sway over their economic lives.

Chapter 5: Lowering a Steep Barrier to Full Employment: The Persistent American Trade Deficit

This chapter adds another important diagnosis of the fundamental problem of growth without prosperity: the persistently and substantively large trade deficits that the U.S. has sustained since the mid-1970s. Note that that was the period when income growth diverged by income class and full employment became the exception. Once again, correlation isn't causation, but the chapter argues there's more than just correlation at work here.

The chapter starts by emphasizing that export-boosting strategies are half-baked, as what really matters to growth and jobs is "net" trade, i.e., exports minus imports. But why have we long had such large trade deficits, averaging about 4 percent of GDP since 2000? Perhaps surprisingly, the answer lies not exclusively in our own proclivity to consume or invest hundreds of billions of dollars more each year than we produce. Our deficits are driven by countries that purposefully run large trade surpluses—the mirror image of our deficits—and use those surpluses to buy dollars in currency markets. That practice in turn pushes up the value of the dollar relative to their currencies, and the higher dollar acts like a subsidy to their exports to us and a tax on our exports to them.

In order to offset the impact of these deficits on growth, we've had to boost the other parts of GDP besides trade, i.e., consumer spending, investment, and government. That's led to highly damaging bubbles, most recently in housing, and large budget deficits.

The key to fixing these imbalances is the exchange rate—the value of the dollar compared to the currencies of our trading partners. They manage their currencies to get a trade advantage, and we don't do much to stop them.

The chapter offers three simple ideas to fight back.

We could impose a tax on the imports of offending countries. In fact, congressional majorities, even in our highly partisan Congress, have voted in support of just such a plan,[2] one that would allow us to place tariffs on subsidized exports, something current legal strictures prevent us from doing even if we

[2] See http://www.bloomberg.com/news/2011-10-03/china-currency-measure-sending-a-message-advances-in-senate.html .

wanted to, and block currency managers from procuring U.S. federal contracts or low-cost financing from U.S. government sources.

We could also temporarily cancel the trade privileges of those who manage currency in the way described until they allow their currency to re-appreciate. This option is particularly germane in that, as of this writing, the United States and 11 other countries are in what may be the late phases of negotiating a multilateral trade agreement called the Trans-Pacific Partnership. The agreement should definitely contain a currency chapter specifying that signatories who are found to manage their currencies will temporarily lose some of the privileges under the treaty.

A final idea to block currency management, lower our trade deficits, and get back to full employment is simple and could be effective without being a heavy lift: reciprocal currency intervention. Currency management rests on the ability of countries to go into international currency markets and buy the currency, often dollars, against which they want their own currency to depreciate. But various countries engaged in this strategy employ "capital controls," meaning they don't put their own currencies up for sale in those same markets.

Reciprocity simply says, "if you can buy ours, then we must be able to buy yours." That's it. But that simple move would block China, for example, from buying hundreds of billions of U.S. treasuries in order to boost the value of the dollar to lower the cost of their exports to us.

These interventions are not without risk, of course. But the current system is not working and is, in fact, fraught with actual, living risks that have been playing out in the forms of global savings imbalances, persistent U.S. trade deficits, the loss of manufacturing jobs, and an economic "shampoo cycle" (bubble, bust, repeat), a problem I return to in Chapter 7.

Chapter 6: A Full Employment Agenda That Reaches Everyone

Even were we to do everything suggested so far—use smart fiscal and monetary policies to move the economy toward full employment and keep it there, fight back against currency manipulation and level the playing field for our exporters, establish full employment as a national goal—and it all worked the way it should—there would still be pockets of underemployment, particularly among the people facing the tallest barriers to entry into the job market. These people include the long-term unemployed, those with low skill levels and little workplace experience, older displaced factory workers who haven't been able to find their way back into the job market, the millions with criminal records, and those who face labor market discrimination.

The size of this disadvantaged population is such that we cannot reliably get to full employment without a strategy for them, and this chapter presents such a strategy: a set of policies designed to reach every able-bodied adult who wants to work. They include subsidized employment, or direct job creation; apprenticeships or "earn-while-you-learn" programs; so called "sectoral employment training"; youth employment programs; and fair hiring practices targeted at those with criminal records, including "ban-the-box" initiatives that remove the conviction history question from initial job applications and delay the background check until a later stage in the hiring process.

All of these ideas are essential parts of the reconnection agenda, designed to help disadvantaged job seekers and potential job seekers realize their potential and, in doing so, contribute to their families and communities. Perhaps the simplest and most compelling of these policies is direct job creation, a commonsensical and obvious solution to the problem of inadequate employment opportunities. That's not to say it's costless or simple. As with any public policy, unintended consequences occur. But the chapter tells of a highly successful direct job creation program that was born in the American Recovery and Reinvestment Act in 2009 and lives on today in pockets around the country. It could be scaled up with a price tag of perhaps $2 billion per year.

Anti-poverty policy in the United States is increasingly conditioned on work. Decades ago a poor person did not necessarily have to be employed in the paid labor market to receive various government benefits. Now, with few exceptions, the largest non-health benefits are tied to employment.

Advocates of a robust safety believe it's important for poor families to have ample opportunities in the job market that would allow them to work their way out of poverty, and my experience as a social worker in New York City (many decades ago, but I doubt this has changed) was that poor parents want decent jobs as badly as do middle-class parents.

Yet when one hears conservatives talk about the importance of work as a path out of poverty, they implicitly assume that the only thing you have to do to get a job is to want one. But labor supply doesn't create labor demand. If it did, we would not have the problem that partially motivates this book: the American labor market's inadequacy in terms of job quantity and job quality.

So, work should be a ladder out of poverty for able-bodied adults, and if the private labor market is not providing adequate opportunities, then we must be willing to use public policy to provide the working poor with enough jobs of requisite quality to support our goal.

Chapter 7: Maintaining the Reconnection: Policies to Sustain the Booms and Bust the Busts

It's not enough to get to full employment. We must stay there long enough so that the bargaining power it imparts to middle- and low-income families has a chance to take hold and deliver growth to families who have been left behind for decades. Just as keeping a light bulb shining requires not just an electrical connection but a persistent connection, maintaining an economic reconnection requires not just getting to full employment but also avoiding the bubbles and busts that have characterized the U.S. economy in recent years.

As mentioned above, in the shampoo cycle of bubble, bust, repeat, regular implosions of the financial sector spill over into the rest of the economy and undermine the best efforts of policymakers. This chapter defines and explores that problem and prescribes solutions designed to promote steady growth that doesn't fall prey to risky finance.

The chapter begins with a schematic of the cycle linking inequality and the wedge between productivity growth and income growth to stagnant middle-class earnings; an excess of cheap, loanable funds; under-regulated, large-scale borrowing; and thus a bubble followed by a bust.

Four interventions, each connected to the Dodd-Frank financial reform law, can break the cycle:

Large capital buffers: Financial institutions need to have on hand enough of their own capital between their market bets and their liabilities such that if their bets go bad, they can cover the losses with their own money. That is, they mustn't be so overleveraged that their solvency is at risk.

A strong Volcker Rule: Banks that hold insured deposits—i.e., deposits ultimately backstopped by the rest of us—should not be able trade their own books in ways that expose taxpayers. This rule doesn't stop investment banks, hedge funds, currency shops, and high frequency traders from getting their risk on 24/7, 365. It just hives such activities off from the insured banks.

A strong, activist Consumer Financial Protection Bureau (CFPB): The mission of the CFPB, created under Dodd-Frank, is "…to make markets for consumer financial products and services work for Americans—whether they are applying for a mortgage, choosing among credit cards, or using any number of other consumer financial products."

Its mission in the context of breaking the shampoo cycle is a particular one: to enforce the adequate underwriting of loans. If underpriced risk is the evil genius of financial bubbles, then bad underwriting is the work of her minions. This chapter goes through what it would take to clean up this critical function, including putting a stake through the heart of some explosive mortgage products, under the basic principle that a consumer shouldn't be given a loan if he or she can't realistically service that loan. Certainly, a CFPB worth its name would support such a reasonable definition.

A Federal Reserve that's vigilant around systemic risk underpricing and bubbles: The Fed needs to be a muscular and vigilant overseer of financial markets, and not just because it's the Fed's job to oversee the health and safety of the banking sector, but also because of its role in achieving full employment. Specifically, the Fed must be willing to (1) spot and deal with bubbles, and (2) ratchet up its financial market oversight role so that it can preserve its monetary policy to promote full employment. As the Fed itself might say, it mustn't conflate macro-management with macro-prudential management.

With regard to bubbles, former Fed Chairs Alan Greenspan and Ben Bernanke both said that it was beyond the Fed's scope to identify and safely deflate bubbles. To her credit, current Fed Chair Janet Yellen has said otherwise. Yellen has also said "…efforts to promote financial stability through adjustments in interest rates would increase the volatility of inflation and employment. As a result, I believe a macro-prudential approach to supervision and regulation needs to play the primary role."

In other words, the Fed should focus its growth tools on growth and its regulatory tools on breaking the bubble/bust cycle. And it should not conflate the two.

Chapter 8: The Federal Government and the Reconnection Agenda

Much of the reconnection agenda focuses on market outcomes. These policies are generally designed to rebalance the primary distribution of income—before taxes and government transfers kick in—that has become so skewed over the past few decades. Since much of the increase in inequality is a pretax phenomenon, it cannot be fundamentally corrected through redistributive tax policies. Politically, leaving everything to the secondary distribution means going back to Congress every year or two to beg for another fix to this or that program to replace the lost income to the poor or middle class. Not a good plan.

However, there are many important—truly vital—ways in which hard-won government policies directly reconnect less-advantaged households to growth. Also, there are no pure market outcomes. There's no firewall between the two distributions—they hugely influence each other. The earned income tax credit (EITC), a wage subsidy for low-income workers, not only lifts millions of low-income households out of poverty, but it's also pro-work: It's been shown to sharply increase labor supply in private-sector jobs. Another germane point in this discussion is that, when top marginal tax rates were much higher than they are today, executive compensation—*before tax*—was much lower (and growth was not negatively affected).

In other words, a well-functioning and amply funded federal sector must be part of an effective reconnection agenda. As such, it can serve as a vital complement to goals like full employment. It sets the rules of the road, such as labor standards and collective bargaining rights that can either lift or diminish worker bargaining power. Federal policies also provide direct support to those who lack the means to meet their own and their families' basic needs.

This last function—the safety net—turns out to be even more "reconnective" than we might think. Many safety-net programs do more than boost the near-term consumption of the poor. They also play an investment role, boosting children's outcomes later in life. The chapter cites research on food stamps, Medicare, and wage subsidies that reveals long-term, positive outcomes in health, educational attainment, and earnings later in life.

What would it mean for the government sector to be "amply funded"? Based on demographics alone and the cost implications of an aging society, we'll likely need more, not less, government going forward. This chapter goes through other future fiscal challenges, including infrastructure, climate change, education policy, safety nets, poverty, inequality, and demand shortfalls requiring countercyclical policy, all of which play a reconnecting role and thus cannot be ignored.

Of course, that implies a functioning federal government, something we've been lacking for a while, and which is the topic of the book's final chapter.

Chapter 9: The States of Things to Come: The Reconnection Agenda at the Subnational Level

One of the promising aspects of this work is that there's strong demand across the country for an agenda to reunite growth and prosperity, and this latent demand can be tapped in the interest of a new, functional politics that supports and implements such an agenda. However, political dysfunction at the federal level means that purposeful action on behalf of reconnection is not likely there for years to come.

We are, however, a nation of states and cities and communities, and while national politicians can spend years casting "symbolic" votes that do nothing other than signal to some narrow constituency that Congress is doing its bidding, politicians at the state and local levels have to actually get things done.

They can't blame Obamacare for their failure to remove the snow from the streets, at least not if they want to be there for the next snowfall.

Of course, ideology is alive and well at every level, and so great variation exists at the state level in terms of reconnection policies. But this chapter features a number of such policies in action across the land.

One of the most pervasive reconnectors in place at the subnational level is the minimum wage. As of this writing, 29 states and DC have minimum wages above the federal level, ranging from $7.50 in Arkansas, Maine, and New Mexico to $9.47 in the state of Washington ($9.50 in DC). Several cities have raised their own minimums as well, including San Francisco ($11.05), Oakland ($12.25), Chicago ($10 effective on July 1, 2015), and Santa Fe, New Mexico ($10.66). Seattle is famously going up to a national high of $15, but with a multi-year phase-in. A number of states and cities have, unlike the federal policy, indexed their minimums to inflation.

The chapter shows that, despite the lobbyist-backed fight to stop this progress, these state variations have been a huge boon, and they have provided researchers with the opportunity to compare outcomes across areas that are economically similar except for their minimum wage. Analysts can then look for outcomes that isolate the impact of the higher wage floor to test the frequent claim of opponents of higher minimum wages that the policy hurts those it's aiming to help by pricing them out of jobs. As stated in one study:

> Bearing in mind that the estimates for the United States reflect a historic experience of moderate increases in the minimum wage, it appears that if negative effects on employment are present, they are too small to be statistically detectable.[3]

Other examples of state-level reconnection agenda items include subsidized employment programs; sectoral training and earn-while-you-learn apprenticeships; fair chance hiring (e.g., "ban-the-box") measures to help those with criminal records get a better shot at employment; infrastructure, including green infrastructure; and worksharing (a variant of unemployment insurance that keeps more people on the job).

The chapter also reflects on a couple of very bad state-level ideas, ones that might better be associated with a *dis*connection agenda: so called "right-to-work" laws that undermine unions, and supply-side cuts in state taxes, such as those implemented in Kansas.

Chapter 10: Politics and the Reconnection Agenda

So, there you have it, the reconnection agenda, put forth in the hopes that its application could help to reconnect the economic prosperity of low- and middle-income families with that of the broader economy. None of these ideas—full employment, more balanced trade, countercyclical fiscal and monetary policies, strong financial market oversight—are particularly radical or even outside the realm of common sense. But they do require a functional government, and in these hyperpartisan times, every idea has powerful opponents.

[3] Dale Belman and Paul Wolfson, *What Does the Minimum Wage Do?* Upjohn Inst. Press, 2014.

No one overtly opposes full employment but, as discussed in Chapter 4, if you depend on paychecks, you weight the unemployment/inflation tradeoff differently than if you depend on asset portfolios (unemployment disproportionately hurts those who depend on paychecks, while inflation erodes assets). No one wants financial markets to boom and bust every few years, but if you work for the financial lobby, you're a lot more motivated by your client's interest than by breaking the shampoo cycle. Few will say they don't care about persistent, large trade deficits. But the inflow of cheap goods from abroad is central to the business model of some of our largest retailers.

In other words, agendas invoke politics. But that's always been the case, and a strong leader with a deep understanding of the need for the reconnection agenda, backed by a congressional majority, could in normal times legislate much of what is proposed here.

In this regard, it is encouraging that politicians from both sides of the aisle are finding today that they cannot avoid talking about the fundamental problem of growth absent prosperity.

Perhaps the best example is former Massachusetts governor and presidential candidate Mitt Romney, who briefly considered another presidential run. In the 2012 contest, Gov. Romney argued that income inequality reflects nothing more than "the bitter politics of envy" among the less well-off and should be discussed only in "quiet rooms."[4] Yet in his most recent incarnation, he has inveighed against the Obama White House for not doing enough to lower poverty, reduce inequality, and boost the middle class.[5] And he's not the only one: Other rising Republicans, including Paul Ryan, Marco Rubio, and Jeb Bush, have made similar points.[6]

One could easily be cynical about the motives behind this newfound interest, and there's of course ample room for such cynicism in today's politics. But in any case, it's good to have broad participation in the reconnection discussion, and one important revelation from this new dynamic is that there's a real demand among those on the wrong side of the inequality divide—who, of course, constitute the majority of Americans—for some version of these types of ideas.

But "some version" is the key. Every reconnection agenda is not created equal, and some of what we'll be hearing in coming months will be the words "poverty," "inequality," and "middle-class wages" tacked on to the "trickledown" growth agenda.

Of course, growth is necessary, but a central point of the inequality debate is that it's not sufficient, and thus it is essential to remember that trickledown economics has been a demonstrable failure. The idea of trickledown is that by lowering the tax and regulatory burden on the wealthy, investment capital will be freed up to flow into productive investments and drive up productivity. But even if that worked—and it doesn't (there's little correlation between cuts in taxes on investment income and investment)—the heart of the problem is the inequality-driven wedge between productivity and middle-class

[4] http://nymag.com/daily/intelligencer/2012/01/romney-quiet-rooms.html

[5] http://www.washingtonpost.com/blogs/post-politics/wp/2015/01/16/romney-moving-toward-2016-run-outlines-vision-to-eradicate-poverty/

[6] http://www.washingtonpost.com/posteverything/wp/2015/01/20/the-president-lays-out-an-inequality-reduction-agenda-that-will-reverberate-well-beyond-tonight/

compensation. In other words, even if trickledown tax cuts actually led to higher productivity, they would not necessarily lead to bigger middle class paychecks.

Thus, given the newfound bipartisan concern for the fundamental disconnect between growth and broadly shared prosperity, it's extremely important to separate the real reconnection agendas from the phony ones.

Still, even if people demand a robust reconnection agenda, they don't necessarily believe that our government is capable of delivering it. That's not just the result of a terrible launch of the Obamacare website. It's a much deeper response to a federal government that's been overtly malfunctioning for years.

Yet there are two reasons why this constraint cannot persist forever.

First, no other institution outside of government can do what needs to be done. By definition, private businesses will not provide the public goods that are part of the agenda. No private firm will finance a national program to repair our public infrastructure. Neither, of course, will private industry provide public education, defense against our global adversaries, social insurance, actions against potential pandemics,[7] a safety net for the poor, or countercyclical policies in recessions.

And, in fact, for all their rhetoric to the contrary, few if any politicians really want to meaningfully cut Medicare or Social Security, and for good reason: the federal government can more efficiently provide such insurance and health coverage to retirees than can the private sector. It is the same with safety-net measures like nutritional support and low-income wage supports, like the EITC (which, for the record, has been beloved by conservatives since Reagan; most recently, Republican budget leader Paul Ryan argued for expanding the credit[8]).

We can observe government efficiencies at work in the sharp decline in the growth of health care spending, some of which relates to improved delivery mechanisms introduced with the Affordable Care Act. Earlier this year, the Congressional Budget Office estimated that the cost to the government of providing health care over the next decade will be $680 billion *lower* than it projected in 2010, before the launch of Obamacare.[9]

Second, dysfunction is not an accident; it is a focused and extremely effective political strategy designed by those who benefit tremendously from its success. In recent years, there's been an influx of politicians with a vested interest in dysfunction, elected officials who basically run on the line: "Washington is broken—send me there and I'll make sure it stays that way."

Who benefits from government shutdowns, threats to default on the national debt, the inability to pass adequate or lasting appropriations, pledges to lobbyists never to raise taxes, endless, fruitless, time-

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[7] http://www.nytimes.com/2015/02/21/opinion/finishing-off-ebola.html?ref=international

[8] See http://www.nytimes.com/2015/02/02/us/obama-budget-to-seek-to-stabilize-deficit-and-address-income-inequality.html?_r=0. Though critical of President Obama's budget in general, Rep. Ryan agreed with the President on the need to increase the earnings subsidy to low-income childless workers.

[9] http://www.offthechartsblog.org/projected-health-spending-has-fallen-since-2010-even-with-health-reforms-coverage-expansions/

wasting votes to repeal Obamacare? It is those whose incomes rise with tax cuts, deregulated industry, and eroded labor standards. Government dysfunction is thus a complementary force to rising income inequality, concentrated wealth, and money in politics.

The forces behind dysfunctional government embrace classical economic ideology to bolster their case. "Markets will self-regulate," so pay no attention to that bubble. "Government doesn't create jobs," so ignore the 22 million existing government jobs (federal, state, and local) and the half trillion in private contracts the government signs each year. "Deficit spending crowds out more efficient private investment," so ignore the damaging impacts from premature fiscal tightening (austerity here but even more so in Europe).

The reason for people's lack of trust in government is not because government cannot function effectively. It is because the conservative strategy of breaking government so no one will believe it can do anything useful is working.

Resistance, however, is not futile. This playing of the dysfunction card is self-defeating, and its defeat may be, if not imminent, then closer than we think. Persistent government dysfunction can only work if, at the end of the day, we really do not need functioning government. But the fundamental disconnect is real and persistent and is generating demand for a reconnection agenda. And it's not just about reconnecting middle-class incomes and growth. It's also about reliable roads and bridges and airports and water systems, functioning credit markets, public schools and universities, environmental health, and protection from global threats.

We are thus ripe for a revealing debate in the runup to the next election, a debate that is likely to be in no small part a contest between reconnection agendas. I believe the policies set forth here have the best chance of reconnecting growth and prosperity, and I hope this reconnection agenda proves to be a useful benchmark against which to compare ideas as we move forward, hopefully toward a more equitable future.