PROSPERITY ECONOMICS
Building an Economy for All

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Executive Summary

The United States faces two pressing economic problems. The first is immediate: Almost five years after the financial collapse, joblessness remains rampant and the economy is recovering far too slowly. The second problem is deeper: the breaking of the historical connection between *growing economic output*, on the one hand, and *middle-class wages and income*, on the other. Over the last generation, the productivity of American workers—output per hour of work—grew substantially. Yet, in a sharp break with the past, wages for most workers stopped rising in tandem with productivity. The gains of economic growth instead accrued disproportionately to affluent Americans. Along with these increased economic gains, wealthy Americans, large corporations, and Wall Street also gained greater political clout relative to the American middle class.

Confronted with these challenges, the leading theory in Washington, which we call "austerity economics," maintains that the answer is getting government out of the way and giving business free rein. It is the same set of prescriptions that has dominated policy making for decades: cut taxes for the wealthy; scale back rules that protect the environment, the financial system, and the workforce; and slash the sources of economic security on which Americans rely—Medicare, Medicaid, Social Security.

This report lays out an alternative to austerity economics, one based on our history, the successful experiences of other nations, and recent currents of research and theory in economics and allied fields. We call this model "prosperity economics." Its central conclusion is that there is no inevitable trade-off between creating a strong, dynamic economy and fostering a society marked by greater health, broader security, increased equality of opportunity, and more broadly distributed growth. To the contrary, societies that cultivate a wider distribution of the returns from increasing social wealth are the ones that flourish economically. When all members of a society share in the rewards of advancement—from better health to greater political freedom, from basic economic security to greater upward mobility—society is more likely to prosper in a sustained way. And when the government plays an active role in the economy through investments in education and scientific research, economies are more dynamic and innovative.

In Part One of the report, we discuss some of the key myths of austerity economics used to justify its painful prescriptions for the middle class, including the myth that spending and deficits are the greatest threat to the economy and that gains at the top drive gains for everyone else. We highlight in particular that, contrary to popular impression, the last generation of tax cuts for the rich has not pushed more Americans to create businesses or become self-employed. Quite the opposite: measures of entrepreneurship have fallen substantially, and our small business sector and rates of self-employment are low compared with other rich nations. What these tax cuts have mostly done is add to the economic gains at the top. At the same time, they have undermined key public investments and our ability to help the middle class and those aspiring to join it.

These regrettable results should not be so surprising. Austerity economics has prosperity backward. Prosperity doesn't just "trickle down" from the top. It depends on the common investments and sources of security we agree on as members of a democracy, on institutions—especially unions—that ensure that gains are broadly shared, and on a healthy democracy that can sustain sound economic policies and check today's economic winners from undermining the openness and dynamism of the economy. This is what prosperity economics shows, as we lay out in Part Two of this report.

Shared prosperity, according to prosperity economics, is built on three pillars: growth, security, and democracy. These three pillars support a strong, secure middle class and reinforce one another. Any agenda for economic reform therefore must focus on:

- dynamic, innovation-led **growth**—first from immediate action to jumpstart our sagging economy, and then, over the coming decades, through investment in people and productivity that leads to good jobs and rising wages;
- **security** for workers and their families, for the environment, and for our public finances;
- a **democracy** that works—one based on accountability and democratic values in the private sector as well as in public life; and on a system of government that is not overwhelmed by money or hamstrung by political procedures that allow the wealthiest and most partisan to dictate policies.

These were the pillars that supported the rapidly growing economy of the mid-20th century. They have also characterized the most successful economic models we see in other rich democracies. And when they are actively cultivated, we see a "virtuous cycle" of shared growth—an increasingly educated, secure, and prosperous middle class reflecting and strengthening a vibrant democracy.

To rebuild the three pillars of shared prosperity, we call for bold, immediate action. This makes up Part Three—our key recommendations for strengthening the American economy now and for the future. To restart economic growth, we recommend major investments in infrastructure. To accelerate growth for the future, we call for a college system that guarantees all qualified students the chance to attend and graduate with a diploma. Economic growth will do little for most Americans, however, unless wages rise with productivity and economic security is strengthened. To this end, we call for empowering workers to engage in collective bargaining. We also show how we can reinforce Social Security and continue to improve health coverage and tackle medical costs, supporting American families and putting families, businesses, and government on firmer fiscal footing. We call too for stricter lobbying rules and public financing of our elections to limit the power of special interests and shape a government more responsive to the middle class. Each of these policies, and the others we suggest, are strongly rooted in American traditions and in solid economic theory and research. Together, they will help build a stronger, more inclusive, and more sustainable economy.

We *can* afford to rebuild America's productive capacity, reconnect earnings and economic security to overall productivity, increase social mobility, and reform our political institutions. Indeed, we cannot afford to ignore these challenges. Increased global competition, growing social diversity, and other changes in our society do not stand in the way of this vision. They make it all the more imperative that we act today to create a virtuous cycle of shared growth, broad economic and fiscal security, and a vibrant participatory democracy. These are the qualities that have historically made America's economic model one to envy—and they must guide us again today.