University of Richmond Law Review

Volume 45 | Issue 4 Article 2

5-1-2011

Economic Policy After a Lost Decade--from Over-Spending to Innovation

Timothy M. Kaine
Former Governor of Virginia (2006-2010)

ESSAYS

ECONOMIC POLICY AFTER A LOST DECADE—FROM OVER-SPENDING TO INNOVATION

Timothy M. Kaine *

Writings on the economic collapse that began in 2007 are legion.[1] Analysts take different perspectives on the causes of the recession and on the policies that must be implemented to return to prosperity. And, at the national level, the President and Congress vigorously contend over the appropriate strategies to put in place to both grow the economy and guard against future collapses such as we've experienced in recent years.

As part of *The University of Richmond Law Review*'s annual Allen Chair Symposium, appropriately focused in 2011 on recent policy developments in the area of financial regulation, I offer the perspective of a policymaker who served as a Governor during the most significant economic downturn in America since the 1930s. I was inaugurated in January of 2006 when America still was in the midst of a sustained economic expansion. By late 2006, I was telling the Virginia General Assembly that the economy was softening, driven first by a major slowdown in the real estate market. In late 2008, I gathered in Philadelphia with the nation's

* Former Governor of Virginia (2006–2010); Senior Distinguished Lecturer on Law and Leadership Studies, University of Richmond. The author thanks Tricia A. Dunlap for research assistance.

1. A brief list of recent books follows: GLENN HUBBARD AND PETER NAVARRO, SEEDS OF DESTRUCTION: WHY THE PATH TO ECONOMIC RUIN RUNS THROUGH WASHINGTON, AND HOW TO RECLAIM AMERICAN PROSPERITY (2010); ANATOLE KALETSKY, CAPITALISM 4.0: THE BIRTH OF A NEW ECONOMY IN THE AFTERMATH OF CRISIS (2010); MICHAEL M. LEWIS, THE BIG SHORT: INSIDE THE DOOMSDAY MACHINE (2010); ROBERT B. REICH, AFTERSHOCK: THE NEXT ECONOMY AND AMERICA'S FUTURE (2010). For an excellent review of recent publications, see Jeff Madrick, *How Can the Economy Recover?*, NEW YORK REVIEW OF BOOKS, Dec. 23, 2010, at 74.

governors to communicate a bipartisan consensus to President-elect Obama that the nation's economy needed bold steps in order to reform and recover. By the time I left office in January 2010, I had led numerous rounds of budget cuts during an economic collapse that had achieved global proportions. Like many other governors who served at the same time, I am the only Governor in recent Virginia history to leave office with state revenues lower than in the budget I inherited at the start of my term.

To be sure, Virginia retained its traditional place as one of the most robust American economies, even during the worst recession since the 1930s.[2] The state's unemployment rate, though rising, stayed significantly below national averages.[3] The state's median income remained high compared to other states.[4] Virginia retained its coveted triple-A bond rating from all major ratings agencies.[5] And, we were singled out by prominent business publications for having the most business-friendly environment of any American state.[6] But Virginia's workers, business owners, families and communities were not strangers to the pain of a dramatic

2. *See, e.g.*, Kurt Badenhausen, *The Best States for Business*, FORBES.COM (Sept. 23, 2009, 6:00 PM), www.forbes.com/2009/09/23/best-states-for-business-beltway-best-states.html.

3. *See, e.g.*, News Release, Bureau of Labor Statistics, U.S. Dep't of Labor, Reg'l & State Unemployment—2009 Annual Averages 5 (Mar. 3, 2010), http://www.bls.gov/news.release/archives/srgune_03032010.pdf (showing Virginia's unemployment rate in comparison to the national average).

4. U.S. CENSUS BUREAU, THREE-YEAR-AVERAGE MEDIAN HOUSEHOLD INCOME BY STATE: 2007 to 2009 (2010), http://www.census.gov/hhes/www/income/data/incpovhlth/2009/statemhi3_09.xls.

5. *See Virginia Bond Sales Could Save State $46 Million in Debt Service Payments*, GOV MONITOR (Oct. 26, 2009), http://www.thegovmonitor.com/world_news/united_states/virginia-bond-sales-could-save-state-46-million-in-debt-service-payments-12378.html. For a general review of Virginia's fiscal management during the recession, see THE PEW CENTER ON THE STATES, TRADE-OFF TIME: HOW FOUR STATES CONTINUE TO DELIVER 2, 5, 16–19 (2009); Katherine Barrett & Richard Greene, *Grading the States '08: The Mandate to Measure*, GOVERNING, Mar. 2008, at 24, 90.

6. *See, e.g.*, Badenhausen, *supra* note 2; Kurt Badenhausen, *The Best States for Business*, FORBES.COM (July 31, 2008, 6:00 AM), http://www.forbes.com/2008/07/30/virginia-georgia-utah-biz-cz_kb_0731beststates.html; Kurt Badenhausen, *The Best States for Business*, FORBES.COM (July 11, 2007, 6:00 AM), http://www.forbes.com/2007/07/10/washington-virginia-utah-biz-cz_kb_0711bizstates_print.html; Kurt Badenhausen, *Virginia: The Best State for Business*, FORBES.COM (Aug. 16, 2006, 8:00 AM), http://www.forbes.com/2006/08/15/Virginia-business-climate_cz_kb_0815virginia.html; *CNBC's Top States for Business in 2009—And the Winner Is . . .*, CNBC (July 23, 2009, 2:23 PM), http://www.cnbc.com/id/31763805/CNBC_s_Top_States_For_Business_2009_And_The_Winner_Is; Scott Cohn, *Virginia Is Tops for Business in 2007*, CNBC, www.cnbc.com/id/19558099/ (last visited Apr. 15, 2011).

collapse that wiped out jobs, shrunk home values, and reduced savings.

Thankfully, we see the American economy coming back to life. Our economy lost jobs for twenty-two straight months—hitting a peak loss of nearly 800,000 jobs in a single month in January 2009.[7] Today, the private sector has experienced growth in jobs for twelve straight months.[8] The massive collapse of values in the stock market has rebounded strongly with the Dow Jones up well over 40% since January 2009.[9] The national gross domestic product ("GDP") that was shrinking at over 6% a year by 2009 has now grown for six straight quarters.[10] These trends are positive, but the sheer magnitude of the collapse suggests that the nation still has a long way to go.

In this article, I want to focus on one aspect of our economic recovery—namely, how do we grow an economy without relying upon debt-fueled overconsumption? I argue that the magnitude of the 2007–2009 collapse was based significantly on unsustainable spending that had propped up the previous expansion. National policy during the first years of the last decade turned a sizable national surplus into a huge deficit through war spending, tax cuts, and expansion of public programs that were not paid for. The spending patterns of American families followed a similar pattern in which traditional savings rates shrunk precipitously while family debt expanded. The combination of deficit spending at the federal level and expansion of family spending, fueled by savings reduction and overuse of debt, had a positive effect on economic growth while it lasted. But the trend could not continue. So now, as the economy is once again growing, we have to make sure that growth occurs in a way that is sustainable.

---

7. *See* News Release, Bureau of Labor Statistics, The Emp't Situation—January 2011 chart 2 (Feb. 4, 2011) http://www.bls.gov/news.release/archives/empsit_02042011.pdf.

8. Steve Benen, *Private Sector Job Growth*, WASH. MONTHLY (Jan. 7, 2011), http://www.washingtonmonthly.com/archives/individual/2011_01/027424.php.

9. *Compare* Alexandria Twin, *Stocks Battered on Recession Fears*, CNNMONEY.COM (Jan. 20, 2009, 6:11 PM), http://money.cnn.com/2009/01/20/markets/markets_newyork/index.htm, *with* Ben Rooney, *Stocks Trim Losses, Close Modestly Lower*, CNNMONEY.COM (Jan. 20, 2011, 6:51 PM), http://money.cnn.com/2011/1/20/markets/markets_newyork/index.htm.

10. *See* Press Release, Bureau of Econ. Analysis, U.S. Dep't of Commerce, Economy Picks Up in Fourth Quarter (Feb. 25, 2011), http://www.bea.gov/newsreleases/national/gdp/2011/pdf/gdp4q10_2nd_fax.pdf; Timothy R. Homan, *U.S. Economy: GDP Shrinks 6.2%, More Than Estimated*, BLOOMBERG (Feb. 27, 2009, 4:45 PM), http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aJsot7dyr5kQ.

In Section I, I will examine some of the dynamics of the recent economic collapse with a special focus on the overconsumption driven by national deficit spending and family spending patterns. One element of my argument is that there is some parity between governmental and family behavior in the last decade. This has a political resonance in that the strong critique of government spending being leveled by many in the electorate was actually occurring at the same time as American families were spending beyond their means.

In Section II, I will look at the fact that our economy is resetting to a different consumption strategy. In the aftermath of the economic collapse, families are increasing savings, reducing use of debt, and reining in spending. After the stimulus bill, recommended by a broad cross-section of economists, policy debate at the federal level has been focused on reducing the size of the federal base budget. The Obama administration (the "Administration") has already signaled this intent through a series of program reductions and spending freezes and is now deep into negotiations with Congress about the appropriate way to reduce the base federal budget. This return to discipline, though positive in many ways, also poses a real problem. It is prudent for families to live within their means, borrow less, and return household savings to a more traditional level. It is prudent for government to do a better job in controlling spending. However, a reset of economic activity that reduces governmental spending and family consumption also equates with a lower level of economic growth and job creation, at least in the short run.

Section III analyzes the economic conundrum posed by the economic reset of family and national spending patterns. Our last expansion was fueled by overconsumption that inevitably led to collapse. We still need a robust growth strategy, yet the overspending model has been discredited. So, how do we build a path to robust economic growth in an economy with a lower spending and consumption profile? In this Section, I will discuss some of the Administration's ongoing efforts to solve this economic challenge.

I. ANATOMY OF A COLLAPSE

The first decade of the twenty-first century was a lost decade in American economic life. Private sector jobs grew by only 1.1% for the entire decade—by far the worst performance since the Depression.[11] Real median family income was lower at the end of the decade than at the beginning.[12] Stock market investments—important to a larger percentage of the population than ever before because of widespread family holdings in retirement funds—were worth less at the end of the decade than at the beginning.[13] Income inequality was wider at the end of the decade than at the beginning.[14] And, a national budget that had attained a record surplus at the start of the decade had converted into a record deficit by 2009.[15]

The downward trend of the last decade was not a straight line. There was solid growth after the dot-com bust of 2001 until the beginning of the two-year recession in 2007.[16] As that recession intensified, its effects were felt across sectors and around the world. By the decade's end, the declines had wiped out any gains experienced early in the decade and left the American economy weaker than it had been ten years earlier.[17] The only equivalent decade in American life was the 1930s.[18]

---

11. Michael Mandel, *A Lost Decade for Jobs*, BUSINESSWEEK (June 23, 2010), http://www.businessweek.com/the_thread/economicsunbound/archives/2009/06/a_lost_decade_f.html. This anemic job growth was dramatically outstripped by the 9.7% increase in the population during the identical period. Press Release, U.S. Census Bureau, U.S. Census Bureau Releases Data on Population Distrib. & Change in the U.S. Based on Analysis of 2010 Census Results (Mar. 24, 2010).

12. Carmen DeNavas-Walt et al., U.S. CENSUS BUREAU, INCOME, POVERTY, AND HEALTH INSURANCE COVERAGE IN THE UNITED STATES: 2009, at 7, 33 (2010), *available at* http://www.census.gov/prod/2010pubs/p60-238.pdf; *see* Erik Eckholm, *Recession Raises Poverty to a 15-Year High*, N.Y. TIMES, Sept. 17, 2010, at A1.

13. *A Sampled History of the Dow Jones Industrial Average from 1900 to the Present Including the Most Recent, Week-Ending Close Value*, DOW JONES INDUSTRIAL AVERAGE HISTORY, http://www.nyse.tv/dow-jones-industrial-average-history-djia.htm (last visited Apr. 15, 2011).

14. *See* Hope Yen, *Income Gap Widens: Census Finds Record Gap Between Rich and Poor*, HUFFINGTON POST (Sept. 28, 2010, 10:42 PM), http://www.huffingtonpost.com/2010/09/28/income-gap-widens-census-_n_741386.html.

15. *Compare President Clinton Announces Another Record Budget Surplus*, CNN POLITICS (Sept. 27, 2000), http://articles.cnn.com/2000-09-27/politics/clinton.surplus_1_budget-surplus-national-debt-fiscal-discipline?_s=PM:ALLPOLITICS, *with* Brian Wingfield, *U.S. Unveils Record Deficit*, FORBES.COM (Oct. 16, 2009, 7:15 PM), http://www.forbes.com/2009/10/16/federal-deficit-obama-business-washington-geithner.html.

16. *See* Aviva Avon-Dine et al., *How Robust Was the 2001–2007 Expansion?*, CTR. BUDGET & POLICY PRACTICES (Aug. 29, 2008), http://www.cbpp.org/cms/?fa=view&id=575.

17. *See generally* Eckholm, *supra* note 12.

18. *See* Martin Feldstein, *Economic Conditions and U.S. National Security in the 1930's and Today*, 1–2, 14 (Nat'l Bureau of Econ. Research, Working Paper No. 15290, 2009), *available at* http://www.nber.org/papers/w15290.pdf.

The causes of the lost decade are numerous and hotly debated. Predatory financial practices, skyrocketing health care costs, lax regulation, widening income disparities among the American population, corporate behavior focused on short-term profit maximization at the expense of long-term growth, more aggressive global competitors, and policies that favored outsourcing of jobs to other nations all played a role.[19] But, I argue that one of the most critical challenges was an interesting linkage between governmental and family behavior. After a decade of close efforts to monitor and control federal spending during the 1990s, the last decade saw an explosion of federal spending and a dramatic reversal of the American balance sheet from surplus to deficit, with little to show for it.[20] Similarly, a remarkably stable set of family spending and savings trends went out the window in the last decade, with families increasing spending beyond normal levels through a combination of savings reductions and overreliance upon debt.[21] These twin trends were the equivalent of a "sugar high" for the economy. The high couldn't last—the very factors that contributed to growth contained the seeds of destruction.

The trends at the federal level are well-known. President Clinton worked with Congress to pass a deficit-reducing tax package in 1993.[22] He then worked with Congress to take meaningful steps to reduce spending throughout the remainder of his term.[23] By the end of the Clinton presidency, the national budget was running a surplus—$69 billion in fiscal year ("FY") 1998, $122 billion in FY 1999, and $230 billion in FY 2000.[24] These surpluses were driven

19. *See, e.g.*, Sewell Chan, *Financial Crisis Was Avoidable, Inquiry Finds*, N.Y. TIMES, Jan. 26, 2011, at A1; Michael A. Fletcher, *Rising Health Costs Cut into Wages*, WASH. POST, Mar. 24, 2008, at A1; Roger Lowenstein, *The Inequality Conundrum*, N.Y. TIMES, June 10, 2007, at A1; Madrick, *supra* note 1, at 75, 78.

20. *See* David Leonhardt, *Sea of Red Ink: How It Spread from a Puddle*, N.Y. TIMES, June 10, 2009, at A1.

21. *See* Neil Irwin, *Aughts Were a Lost Decade for U.S. Economy, Workers*, WASH. POST, Jan. 2, 2010, at A1; Daryl G. Jones, *Personal Savings Rate: Worse than We Thought*, CNNMONEY.COM (June 30, 2010, 3:39 PM), http://money.cnn.com/2010/06/30/news/economy/personal_savings_decline.fortune/index.htm.

22. *See* Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, 107 Stat. 312; *see also* Jeff Lemieux, *Federal Budgeting in an Era of Surpluses*, 5 GEO. PUB. POL'Y REV. 7, 10 (1999) ("The 1993 law included spending cuts and tax hikes to reduce the deficit.").

23. *See* Steven Thomma & David Hess, *Clinton: Will Talk on Budget*, PHILA. INQUIRER, Feb. 7, 1997, at A1.

24. *President Clinton Announces Another Record Budget Surplus*, CNN POLITICS (Sept. 27, 2000), http://articles.cnn.com/2000-09-27/politics/clinton.surplus_1_budget-surplus-national-debt-fiscal-discipline?_s=PM:ALLPOLITICS.

by policy decisions and also by dramatically expanding federal revenue due to the late 1990s bubble in the valuation of technology companies.[25]

The policy focus on the deficit evaporated after 2000, as was best exemplified by a much-quoted remark of Vice President Cheney that "deficits don't matter."[26] A combination of policy decisions and economic conditions during the decade created a record budget deficit of $1.416 trillion by FY 2009.[27] The FY 2010 budget deficit declined, but only slightly, to $1.294 trillion.[28]

One remarkable fact about the growth in the deficit from 2000 through 2010 was the absence of any meaningful economic improvement from the spending. Much of the deficit was driven by policy choices to fund two wars, provide a Medicare prescription drug benefit to American senior citizens, and cut taxes on individuals and businesses.[29] But, the single largest component of the switch from surplus to deficit was the significant economic slowdown which led to a decline in federal revenues.[30] The persistence of revenue declines despite accelerated federal spending and tax cuts demonstrated that neither had any meaningful long-term effect on growing the American economy.

While the federal government used excess spending as a primary strategy in the last decade, an examination of household behavior shows that American families did basically the same thing. For many decades, the consumption rate of American households was approximately 90%, with a savings rate of slightly less than 7%, and interest/transfer at slightly over 3%.[31] But, the years between 2000 and the late years of the decade saw

25. *See* Floyd Norris, *Unreal 'Real' Figures and Other Good News*, N.Y. TIMES, Feb. 14, 2003, at C1.

26. Robert Kuther, *What Killed Off the GOP Deficit Hawks?*, BUSINESSWEEK (Dec. 27, 2004), http://businessweek.com/magazine/content/04_52/b3914021_mz007.htm.

27. Donna Smith, *Fiscal Deficit Thins to $1.29 Trillion*, REUTERS (Oct. 16, 2010, 12:59 AM), http://www.reuters.com/article/2010/10/16/us-usa-economy-deficit-idUSTRE69E54M20101016.

28. *Id.*

29. *See* Leonhardt, *supra* note 20, at A1.

30. *See id.* ("[T]he business cycle . . . accounts for 37 percent of the $2 trillion swing. It's a reflection of the fact that both the 2001 recession and the current one reduced tax revenue [and] required more spending on safety-net programs . . . .").

31. *See* JAEWOO LEE ET AL., INT'L MONETARY FUND, U.S. CONSUMPTION AFTER THE 2008 CRISIS 3, 10 (2010).

a dramatic increase in consumption and a decline in savings.[32] By 2001, the American household was only saving 4% of its income, and this figure declined to only 2.1% by 2007.[33] The expansion of consumer spending during these years, with a consequent savings reduction, was great for economic growth, but it couldn't last.

The rise in consumption from current income was accompanied by a second consumption generator—a massive expansion in American household debt. In the late 1990s, total household debt in America was less than $5 trillion and represented about 90% of disposable family income.[34] By 2007, total household debt had ballooned to $12.5 trillion, nearly 133% of disposable family income.[35] In a single three-year period—from 2001 through 2004—median household debt rose by 34% while household net worth increased by only 1.5%.[36]

These factors about household behavior—tremendous increases in consumption fueled by reduced savings and debt—explain why the 2007–2009 recession was so deep and why the rebound is so slow. As compared with recessions in 1990 and 2001, the 2007–2009 recession was a "consumer-led" recession rather than a "business-led" recession.[37] Consumers were hit hard because of three linked trends. First, falling stock prices affected more American families than ever before because of a significant expansion of the percentage of the population that is invested in the stock market (largely in retirement accounts).[38] Second, falling home prices hurt more American families than ever before because of record levels of homeownership.[39] And third, American families entered into the recession with much higher debt levels

32. *See, e.g.*, Martin Feldstein, *America's Saving Surprise*, PROJECT SYNDICATE (Aug. 31, 2010), http://www.project-syndicate.org/commentary/feldstein26/English.

33. EMPLOYEE BENEFIT RESEARCH INST., EBRI DATABOOK ON EMPLOYEE BENEFITS (2011), http://www.ebri.org/pdf/publications/books/databook/DB.Chapter%2009.pdf [hereinafter EBRI DATABOOK].

34. William Galston, *There is Only One Way Out of the Recession*, THE NEW REPUBLIC (Aug. 26, 2010, 12:00 AM), http://www.tnr.com/blog/77215/getting-out-the-recession-stimulus-spending-debt-banks.

35. *Id.*

36. Brian K. Bucks et al., *Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances*, FED. RES. BULL., at A1, A6 (2009).

37. KEVIN B. MOORE & MICHAEL G. PALUMBO, FED. RES. BD., THE FINANCES OF AMERICAN HOUSEHOLDS IN THE PAST THREE RECESSIONS: EVIDENCE FROM THE SURVEY OF CONSUMER FINANCES 2 (2009).

38. *See id.*

39. *See id.*

and thus were less able to buffer themselves from economic shock.[40] Taken together, the American consumer was exposed more broadly to economic risk and had less protection from the economic downturn than in earlier recessions.[41]

In recounting the unusual change in family spending and saving practices that preceded the 2007 recession, I am not suggesting that families just made a series of irresponsible decisions to spend more, borrow more, and save less. Irresponsible spending no doubt played some part. But, financial institutions preyed on consumers, pushing risky debt onto consumers who were not financially qualified to take on the responsibility.[42] Some financial institutions steered consumers into riskier debt products that generated higher income for the institutions even though the consumers actually qualified for safer and lower cost financial products.[43] Finally, and most notably, much of the reduction in traditional household savings rates was clearly driven by years of stagnant wages for middle-class families who faced rising costs for significant expenditures such as housing, health care, and education.[44]

Whatever the assessment of culpability, an economic growth model that depended upon overconsumption was not sustainable. Steadily increasing demand that led to overvaluation of consumer and business assets eventually came to an end. The falloff of consumer activity eventually led to a sharp restriction in asset values, thus restricting credit markets and the availability of debt financing.[45] Once the excess consumer spending that kept the economy afloat dried up, the consequences were severe.

---

40. *See id.*

41. *See id.* For a related analysis of the collapse as driven by an instability in consumer debt, see Steven Gjerstad & Vernon L. Smith, *From Bubble to Depression?*, WALL ST. J., Apr. 6, 2009, at A15.

42. *See* Sue Kirchhoff & Judy Keen, *Minorities Hit Hard by Rising Costs of Subprime Loans*, USA TODAY (Apr. 25, 2007, 11:49 PM), http://www.usatoday.com/money/economy/housing/2007-04-25-subprime-minorities-usat_N.htm.

43. *See* Rick Brooks & Ruth Simon, *Subprime Debacle Traps Even Very Credit-Worthy*, WALL ST. J., Dec. 3, 2007, at A1.

44. *See* Edward Luce, *The Crisis of Middle-Class America*, FIN. TIMES (July 30, 2010, 5:04 PM), http://www.ft.com/home/us (search "Search News" for "crisis of middle class"; then follow "The crisis of middle-class America" hyperlink).

45. *See* Fredric S. Mishkin, Governor, Fed. Reserve Sys., Speech at the Risk USA 2007 Conference: Financial Instability and Monetary Policy (Nov. 5, 2007), *available at* http://www.federalreserve.gov/newsevents/speech/mishkin20071105a.htm.

II. A RETURN TO FISCAL DISCIPLINE AND THE CHALLENGES THAT DISCIPLINE CREATES

There is evidence today that the hard lessons of the past few years are creating a reset in family spending behavior and national policy. Families are saving more and borrowing less. And, federal policymakers are returning to a concern over the deficit that was largely absent during the last decade.

At the family level, we have already seen a significant uptick in the savings rate from the low of 2.1% where we bottomed out in 2007.[46] Recent estimates suggest that family savings have returned to approximately 4–5%.[47] And, economic modeling forecasts that the family savings rate will continue to rise to the 5–7% range, very close to the traditionally stable savings rate.[48]

In addition to an increased level of savings, America has seen a reduction in consumer debt. This is obviously a function of both conscious choice by consumers and conditions in the financial market that make it harder to access credit. As asset values drop during a recession, their value as collateral also decreases, which depresses borrowing.[49] By the first quarter of 2010, total household debt had fallen from the late 2007 high of $12.5 trillion to slightly under $11.7 trillion, or from 133% of household disposable income to about 122%.[50] And, the reduction in debt appears likely to continue for some time.[51]

The increase in family savings and reduction in household borrowing are positive developments in many ways.[52] The reduction in borrowing means that fewer families will be choked off by debt.

---

46. EBRI DATABOOK, *supra* note 33, at 2.

47. *See* Feldstein, *supra* note 32.

48. *See* LEE ET AL., *supra* note 31, at 3; *see also* Catherine Rampell, *Shift to Saving May Be Downturn's Lasting Impact*, N.Y. TIMES (May 10, 2009), http://www.nytimes.com/2009/05/10/business/economy/10saving.html.

49. *See* LEE ET AL., *supra* note 31, at 5.

50. Galston, *supra* note 34. Compare with recent figures showing that Canadian household debt continues to rise and is now equivalent to 148% of family disposable income. Monica Gutschi, *Canada Fin. Min. Tightens Mortgage Rules as Household Debt Soars*, WALL ST. J. (Jan. 17, 2011, 1:08 PM), http://online.wsj.com/article/BT-CO-2011 0117-706559.html.

51. *See* Nathaniel Popper, *U.S. Household Debt Keeps Shrinking*, L.A. TIMES (Aug. 17, 2010), http://articles.latimes.com/2010/aug/17/business/la-fi-consumer-debt-20100817.

52. For a broader discussion of the moral positives associated with reducing consumption, see DOUGLAS A. HICKS, MONEY ENOUGH: EVERYDAY PRACTICES FOR LIVING FAITHFULLY IN THE GLOBAL ECONOMY (2010).

And an increase in savings expands available funding for long-term investments. But, in the short term, a slowdown of spending—even if caused by virtuous decisions regarding saving and borrowing practices—can have a major impact on economic activity. One recent study suggested, for example, that a return by families to a normal savings rate of 5–7% will depress national GDP by approximately 3%.[53] At a time when too many Americans are without work, the reduced GDP that accompanies a return to normal savings practices is very troubling.[54]

The reset of family economic activity toward a lower consumption model matches an intense focus on deficit reduction at the federal level. Both presidential candidates ran in 2008 promising to tackle the deficit that had been allowed to skyrocket during the preceding years.[55] President Obama announced after election that his first goal was restarting the economy even if that meant an increase in the deficit in the short term.[56] But, since the passage of the economic stimulus in February 2009, key programs have been passed only after making sure that revenues were raised to cover program costs or that the programs received appropriate clearance as deficit neutral from the Congressional Budget Office.[57] In January 2010, the President imposed a three year spending freeze on certain nonsecurity federal spending items and more recently announced a freeze of pay increases for federal employees.[58]

---

53. *See* LEE ET AL., *supra* note 31, at 15.

54. For an argument that the likely long-term reduction in consumer spending is the most important issue in future hiring decisions, see Neil Irwin, *With Consumers Slow to Spend, Businesses Are Slow to Hire*, WASH. POST, Aug. 21, 2010, at A1.

55. *See* Mike Allen, *McCain Promises to Balance Budget*, POLITICO (July 6, 2008, 10:41 PM), http://www.politico.com/news/stories/0708/11553.html; *Obama on the Deficit*, THE REAL CLEAR POLITICS BLOG (Sept. 9, 2008), http://realclearpolitics.blogs.time.com/2008/09/09/obama_on_the_deficit/.

56. *See Obama Preps for Post-Election Presidency*, USA TODAY (Oct. 24, 2010, 1:46 PM), http://www.usatoday.com/news/washington/2010-10-24-Obama-presidency_N.htm.

57. *See, e.g.*, Ezra Klein, *CBO: Health-care Reform Bill Cuts Deficit By $1.3 Trillion Over 20 Years, Covers 95%*, WASH. POST (Mar. 18, 2010, 9:35 AM), http://voices.washingtonpost.com/ezra-klein/2010/03/cbo_health-care_reform_bill_cu.html; Ezra Klein, *The Student Loan Reform*, WASH. POST (Mar. 19, 2010, 1:16 PM), http://voices.washingtonpost.com/ezra-klein/2010/03/the_student_loan_reform.html; Lisa Mascaro, *Senate Advances Small-Business Lending Bill, Handing Democrats a Victory*, L.A. TIMES (Sept. 14, 2010), http://articles.latimes.com/2010/sep/14/news/la-pn-small-business-20100915; *SCHIP Expansion Financed with a 62-Cent Increase in the Federal Cigarette Tax*, ROBERT WOOD JOHNSON FOUND. (Feb. 5, 2009), http://www.rwjf.org/publichealth/product.jsp?id=38429.

58. *See* Jackie Calmes, *Obama to Seek Spending Freeze to Trim Deficits*, N.Y. TIMES, Jan. 25, 2009, at A1; Lisa Rein & Perry Bacon, Jr., *Obama Proposes 2-Year Pay Freeze,*

The midterm 2010 election results have been widely interpreted as underlining the public's focus on the need to rein in federal spending.[59] The National Commission on Fiscal Responsibility and Reform—appointed in February 2010 by the President after the Senate blocked an effort to establish the commission via act of Congress—has reported out a series of recommendations on how to bring the base federal budget down.[60] Other similar proposals have also gained notice in recent months.[61] And the President has placed the issue squarely before Congress in his 2011 State of the Union address, arguing that it is the responsibility of both parties to return to a close focus on deficits, with a necessary commitment to long-term deficit reduction that does not negatively affect an economic recovery that is still not sufficient to bring down an unacceptably high rate of unemployment.[62]

While the fact of renewed federal attention to the deficit issue does not guarantee that significant action will be taken, the strong consensus that a deficit reduction plan is necessary represents a political sea change from the laissez-faire attitude toward the deficit that was common during the last decade. The danger, of course, is that a deficit reduction effort that cuts spending too sharply will have a negative impact on recovery.[63] Instead, a long-term plan with a phased reduction of spending is needed and likely. As Christina Romer, former Chairwoman of the President's Council of Economic Advisors, wrote on the eve of the 2011 State of the Union,

> With unemployment at 9.4 percent and the economy constrained by lack of demand, it would be heartless and counterproductive to move to fiscal austerity in 2011. . . . But legislation that gradually and

---

WASH. POST, Nov. 30, 2010, at A1.

59. *See Public's Wish List for Congress—Jobs and Deficit Reduction*, PEW RES. CTR. FOR THE PEOPLE & THE PRESS (July 12, 2010), http://people-press.org/Report/633/.

60. *See* Exec. Order No. 13,531, 75 Fed. Reg. 7927 (Feb. 23, 2010); *see generally* NAT'L COMM'N ON FISCAL RESPONSIBILITY & REFORM, THE MOMENT OF TRUTH: REPORT OF THE NAT'L COMM'N ON FISCAL RESPONSIBILITY AND REFORM (2010) (presenting its proposal to solve the nation's fiscal challenges).

61. *See* Dan Balz, *Bipartisan Deficit Commission Puts Politicians on Notice*, WASH. POST (Dec. 3, 2010, 4:32 PM), http://www.washingtonpost.com/wp-dyn/content/article/2010/12/03/AR2010120303778.html; John Maggs, *Rivlin, Domenici Present Deficit Plan*, POLITICO (Nov. 17, 2010, 2:00 PM), http://www.politico.com/news/stories/1110/45284.html.

62. *See* 157 CONG. REC. H457, H460–61 (daily ed. Jan. 25, 2011) (State of the Union address by Pres. Barack Obama).

63. *See* Paul Krugman, Op-Ed., *Fiscal Scare Tactics*, N.Y. TIMES, Feb. 5, 2010, at A25.

> persistently trims the deficit would not harm the economy today. Indeed, it could increase demand by raising confidence and certainty.[64]

This is the current state of affairs in the American economy after the lost decade. Families overborrowed and overspent and are now correcting that imbalance. The federal government turned an historic surplus into a massive deficit, but policymakers are now endeavoring to correct that trend. The corrections occur in the midst of an economic recovery that is still fragile and that could even be jeopardized by a rapid return to more prudent spending practices. I argue that this is the single toughest economic challenge facing our nation. We let our economic growth model devolve to short-term expansion through excess leverage. Now, we have to reel the excess in and construct an economic growth model that is more sustainable and less subject to the boom/bust trend that we have lived through. Fortunately, we have both the assets to make that transition and an Administration that understands the long-term policy direction that will get us there.

III. SMART REFORM AND INNOVATION AS LEVERAGE IN THE NEW AMERICAN ECONOMY

The huge policy challenge in climbing out of the economic tailspin of the last decade can be broken into two important steps. We first had to stop the freefall. Second, we need to work persistently to create a better model for economic growth than the debt-leveraged overconsumption model that failed the nation.

In the first task—stopping the freefall—the operative policy in the Administration has been "reform, not rescue."[65] Some basic rule changes were needed to ensure the smooth operation of the financial system and to avoid catastrophe. Some of that stabilization required government investments as well, but the investments had to be coupled with demands for change and not just subsidize failed business approaches.

---

64. Christina Romer, *What Obama Should Say About the Deficit*, N.Y. TIMES, Jan. 15, 2011, at BU5.

65. *See, e.g.*, Andrew Clark, *Theme Is Reform Not Rescue, as Paulson Plan Goes Through Shredder*, THE GUARDIAN (U.K.), (Sept. 29, 2008), http://www.guardian.co.uk/business/2008/sep/29/wallstreet.useconomy; Remarks in New York City, 2009 DAILY COMP. PRES. DOC. 1–7 (Sept. 14, 2009) (featuring remarks by President Barack Obama on financial rescue and reform).

Amidst an ambitious reform agenda during the last two years, the following five reforms are the most fundamental: (1) Troubled Asset Relief Program ("TARP"), (2) Reform of the Auto Industry, (3) Credit Card Reform, (4) Health Insurance Reform, and (5) Financial Regulation.

At the same time as the nation has pursued fundamental reform, there has also been emphasis on a new growth strategy. Relying upon assets such as our education system, the diversity and mobility of our population, and the productivity of the American worker, the Administration has pursued an Innovation Agenda that focuses on three pillars: (1) Talent Expansion, (2) Aggressive Globalism, and (3) Promotion of New Industries.[66]

There has been accomplishment in all these areas. But there remains significant work to do as well. In this Section, I will highlight the work that has been done and the distance we still need to go.

A. *Reform Not Rescue*

There has been popular anger over the notion that the federal government, in order to stop economic collapse, has "bailed out" industries and companies. A close review of the key work done to stabilize the economy, however, shows that the steps taken were not "bailouts" but fundamental reforms. To the extent that the government had to put money into the reforms to make them successful, the track record thus far demonstrates that the investments were prudently structured so that the money could come back into the public treasury as the industries improve.

1. TARP

The first reform, the TARP, passed in the last months of the Bush administration as the American financial system hovered at the brink of complete collapse, may be the most controversial of all the programs thus far.[67] TARP allowed the federal government

66. *See* EXEC. OFFICE OF THE PRESIDENT, NAT'L ECON. COUNCIL OFFICE OF SCI. & TECH., A STRATEGY FOR AMERICAN INNOVATION: DRIVING TOWARDS SUSTAINABLE GROWTH AND QUALITY JOBS, at i–ii (2009).

67. Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, 122 Stat.

to purchase or insure up to $700 billion of troubled financial assets so as to stabilize the financial system, with provisions for taxpayer recoupment of value once asset values stabilized and were sold.[68] Despite huge controversy over the "$700 billion bailout for Wall Street," the most recent estimates of the Congressional Budget Office suggest that the total cost of the program should net about $25 billion.[69] And a recent economic study suggests that TARP, together with the American Recovery and Reinvestment Act, was critical to stopping the 2007–2009 recession, saving 8.5 million jobs that would have been lost in the absence of such bold steps.[70]

2. Auto Industry Reform

Within the last few years, the American auto industry—the archetypal domestic manufacturing industry—was on the ropes. The Administration used TARP funds to rescue Chrysler and, most notably, General Motors, in order to avoid collapse.[71] But, with a set of tough labor and environmental reforms (including a breakthrough deal on higher fuel efficiency and lower emissions for American-made vehicles), the domestic industry has come back strongly positioned for the future, with increasing sales and full repayment by GM of its government loans.[72]

3. Credit Card Reform

In May of 2009, the Administration and Congress worked together to pass the Credit Card Accountability Responsibility and Disclosure Act of 2009.[73] The bipartisan legislation protects card-

---

3765 (codified as amended at 12 U.S.C. §§ 5201–5261 (Supp. III 2009)).

68. *See* 12 U.S.C. §§ 5211, 5225 (Supp. III 2009).

69. CONG. BUDGET OFFICE, REPORT ON THE TROUBLED ASSET RELIEF PROGRAM (2010); Lori Montgomery, *U.S. to Pay $25 Billion for TARP CBO Says*, WASH. POST, Nov. 30, 2010, at A18.

70. ALAN BLINDER & MARK ZANDI, HOW THE GREAT RECESSION WAS BROUGHT TO AN END 1 (2010), http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf; *see also* Mark Price, *How the Great Recession Was Brought to an End*, PENN. POL'Y BLOG (July 28, 2010), http://66.147.242.158/~papolicy/?p=4056.

71. BLINDER & ZANDI, *supra* note 70, at 2.

72. *See Government Motors No More*, ECONOMIST, Aug. 19, 2010, at 11; *see also* STEVEN RATTNER, OVERHAUL: AN INSIDER'S ACCOUNT OF THE OBAMA ADMINISTRATION'S EMERGENCY RESCUE OF THE AUTO INDUSTRY 296–99 (2010).

73. Credit Card Accountability Responsibility and Disclosure Act of 2009, Pub. L. No.

holders from arbitrary rate increases,[74] prohibits penalties on consumers who pay bills on time,[75] requires the elimination of misleading credit terms and provisions,[76] allows consumers to set limits on their own credit,[77] protects consumers from excessive fees,[78] and provides special protections for college students and other youngsters who might be accessing credit for the first time.[79] This legislation was motivated by the awareness of skyrocketing family debt, often fueled by overuse of credit cards.[80]

4. Health Insurance Reform

While the full ramifications of the national debate over health insurance reform are not the subject of this article, it is the case that the Patient Protection and Affordable Care Act ("PPACA"), signed into law in March 2010, is partially directed at reforming a sector of the economy that has seen skyrocketing costs to the detriment of American families, businesses, and taxpayers.[81] America spends more of its GDP on health care than virtually any country in the world, yet our system has traditionally left huge numbers of our citizens without health care coverage.[82] And based on a series of health benchmarks, the quality of American health care is seriously lacking compared to other nations, especially given the size of the collective public and private expenditure.[83] The health reform bill, in addition to providing access to expanded coverage and protections against insurance abuses of patients, provides tax incentives to small businesses for health care

---

111-24, 123 Stat. 1734 (codified at 15 U.S.C. § 1601 (Supp. III 2009)).

74. *See, e.g.*, 15 U.S.C. § 1666i–1 (Supp. III 2009).

75. *See, e.g.*, *id.* § 1637(j).

76. *See, e.g.*, *id.* § 1637(m).

77. *See, e.g.*, *id.* § 1637(p).

78. *See, e.g.*, *id.* § 1665d.

79. *See, e.g.*, *id.* § 1650(f).

80. Derek S. Witte, *The Bear Hug That Is Crushing Debt-Burdened Americans: Why Overzealous Regulation of the Debt-Settlement Industry Ultimately Harms the Consumers It Means to Protect*, 14 TEX. REV. L. & POL. 277, 279–80 (2010).

81. Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (2010) (to be codified in scattered sections of 42 U.S.C.).

82. *See* Toni Johnson, *Healthcare Costs and U.S. Competitiveness*, COUNCIL ON FOREIGN RELATIONS (Mar. 23, 2010), http://www.cfr.org/health-science-and-technology/healthcare-costs-us-competitiveness/p13325.

83. For an excellent comparison of the American health care system, prior to passage of the PPACA, to the systems of other nations, see T.R. REID, THE HEALING OF AMERICA (2009).

expenditures, builds incentives for reduction of health care costs, and significantly reduces projected governmental health care expenditures for the nation's health care costs over the next two decades compared with the likely costs of the pre-reform status quo.[84]

5. Financial Regulation

The last of the five major reforms to stabilize the economy and position for a new economic path was the Wall Street Reform bill passed and signed in July 2010.[85] The bill contains a number of reforms, including a series of future changes that will be driven by drafting implementing regulations.[86] In order to avoid a 2008-style financial collapse in the future, the key components include: an independent agency to protect consumers against abuses in mortgage, credit, and other lending,[87] a new system for regulating financial derivatives,[88] increased shareholder rights to oversee and control key decisions such as executive compensation,[89] greater accountability for credit ratings agencies,[90] and new power for federal regulators to seize and shut down financial institutions whose financial decline poses threats to the broader financial system.[91]

The combined effect of these five reform efforts will be manifest in the future, but the scope is clearly broad. Taken together, these steps averted a more fundamental collapse of the American financial system, created new protections to help consumers avoid excess and risky debt, provided a key assist to a central part of the American manufacturing economy, and put reforms in place to bring down health care costs that render American firms uncompetitive with global counterparts. The implementation of the financial regulation bill via regulation will require a careful ba-

---

84. KAISER FAMILY FOUND., SUMMARY OF NEW HEALTH REFORM LAW, 1, 3, 6, 8–9, 13 (2010).

85. Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010) (to be codified in scattered sections of the U.S.C.); Brady Dennis, *Congress Passes Financial Reform Bill*, WASH. POST, July 16, 2010, at A1.

86. *See, e.g.*, 12 U.S.C.A. § 5368 (West 2011).

87. *See id.* § 5491.

88. *See generally* 7 U.S.C.A. § 2 (West 2011).

89. *See* 15 U.S.C.A. § 78n (West 2011).

90. *See id.* § 78o-7.

91. 12 U.S.C.A. § 5384(a) (West 2011).

lancing of competing interests. Many have argued that the financial reforms have not yet had an appreciable effect upon unacceptably high rates of mortgage foreclosures or the lack of credit access for small and medium-sized businesses.[92] But their effect in guiding institutional behavior and providing key checks to protect consumers from the kinds of overexposure that exacerbated the recession are notable.

B. *American Innovation*

With reforms in place to establish better financial ground rules and consumer protections, the second challenge posed by our economic condition is to find paths forward to sustainable economic growth. We cannot rely upon excess debt and overconsumption without courting the same risks that tanked the economy in the last decade. So, America needs a more focused strategy to grow in a reduced-consumption environment.

The focused growth strategy that has emerged in the last few years has centered on the phenomenal track record of American innovation. We can find a path to growth, even in a reduced-consumption environment, if we aggressively connect such American assets as our education system, the increasing globalization of our population, and the strong productivity of American workers.[93] This strategy is being pursued by the Administration in

---

92. *See, e.g.*, Charles Pope, *Sen. Jeff Merkley Asks Obama for Sharper Focus on Foreclosure Crisis*, OREGONLIVE.COM (Jan. 20, 2011, 1:29 PM), http://blog.oregonlive.com/politics_impact/print.html?entry=/2011/01/sen_jeff_merkley_asks_Obama_fo.html (discussing Senator Jeff Merkley's view that the White House needs to attack the mortgage crisis more aggressively); Scott Shane, *Has Small Business Access to Credit Improved?*, SMALLBIZTRENDS.COM (Feb. 21, 2011), http://smallbiztrends.com/2011/02/has-small-business-access-to-credit-improved.html.

93. *See, e.g.*, Bill Gates, *How to Keep America Competitive*, WASH. POST (Feb. 25, 2007), http://www.washingtonpost.com/wp-dyn/content/article/2007/02/23/AR2007022301697_pf.html; Neil Irwin, *Holding Back Job Growth? Workers' Awesome Output*, WASH. POST, Mar. 31, 2010, at A1 (discussing the recent strength of productivity of American workers). These themes have been written about extensively by commentators and economists. For a sample list of writings that focus on innovation as the primary competitiveness strategy, see CURTIS R. CARLSON & WILLIAM W. WILMOT, INNOVATION: THE FIVE DISCIPLINES FOR CREATING WHAT CUSTOMERS WANT 12–15 (2006); JUDY ESTRIN, CLOSING THE INNOVATION GAP 1–5 (2009); RICHARD FLORIDA, THE RISE OF THE CREATIVE CLASS 4–8 (2002); THOMAS L. FRIEDMAN, THE WORLD IS FLAT: A BRIEF HISTORY OF THE 21ST CENTURY 244–45, 253 (2005); Anne-Marie Slaughter, *America's Edge: Power in the Networked Century*, 88 FOREIGN AFF. 94, 95–99 (2009); David Brooks, *The Crossroads Nation*, N.Y. TIMES, Nov. 8, 2010, at A35.

three closely linked areas: 1) Talent Expansion, 2) Aggressive Globalism, and 3) Promotion of New Industries.

1. Talent Expansion

In today's world, the most precious asset is talent. The societies that know how to recognize, grow, attract, reward, and expand talent will be those that have the best chance of success going forward.

The most significant component in expanding talent is reform and improvement of the American education system. American students today do not perform as strongly as their foreign counterparts in many testing areas, especially math and science.[94] In addition, the college attainment rate of American adults has fallen dramatically in the past two decades, compared to our competitor nations.[95]

The Administration is taking a number of steps to accelerate student performance in the elementary and secondary grades, and also increase higher education attainment of American adults. The American Reinvestment and Recovery Act included nearly $100 billion for improving American education.[96] One component of the stimulus bill, the Race to the Top program, has the ambitious goal of moving past the focus on minimum standards that was the centerpiece of education policy in the last decade.[97] The Administration has also won the largest expansion in the student loan program in American history to make sure that rising college costs are not barriers to attaining higher education degrees.[98] Together, these strategies are key to an announced pol-

94. *See, e.g.*, Nick Anderson, *International Test Score Data Show U.S. Firmly Mid-Pack*, WASH. POST (Dec. 7, 2010, 6:00 AM), http://washingtonpost.com/wp-dyn/content/article/2010/12/07/AR2010120701178_pf.html.

95. *See, e.g.*, LUMINA FOUND., A STRONGER NATION THROUGH HIGHER EDUCATION: HOW AND WHY AMERICANS MUST ACHIEVE A "BIG GOAL" FOR COLLEGE ATTAINMENT 3 (2010) (discussing the fall of the United States in college attainment rates).

96. *See, e.g.*, Arne Duncan, *Historic Opportunity for Action*, 24 NEW ENG. J. OF HIGHER EDUC. 27, 27 (2009).

97. *See, e.g.*, Greg Toppo, *Race to the Top Education Grant Propels Reforms*, USA TODAY (Nov. 4, 2009, 11:40 AM), http://www.usatoday.com/news/education/2009-11-04-obamatop04_st_N.htm.

98. *See, e.g.*, Peter Baker & David M. Herszehorn, *Obama Signs Overhaul of Student Loan Program*, N.Y. TIMES, Mar. 30, 2010, at A14; *see generally* Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (to be codified at 42 U.S.C. § 1305).

icy of returning America to first in the world in higher education attainment among adults.[99]

An unfinished item in maintaining America as the talent society is comprehensive immigration reform. We need to attract the best and brightest to our country and keep them here, instead of erecting difficult barriers to the talent that has always sought the opportunities of American life.[100] Some view the increasing internationalizing of the American population as problematic,[101] but the nature of global economic life today actually demonstrates that a globally connected population can be a strong asset.

2. Aggressive Globalism

Just as America should have policies that demonstrate that we are attractive to talent from around the globe, we need to aggressively court global economic opportunities. If American consumers reset family spending to a lower level, one way to make up the consequent decline in economic activity is through an aggressive export strategy. With productive workers and cutting-edge technology, we can be confident in our ability to create goods and services that will be in demand around the globe. This is a fundamental reason why President Obama is pushing a plan to double the amount of American exports over the next five years.[102] And, early results in this effort are encouraging—American exports have been increasing in recent years significantly faster than our economic growth rates.[103]

---

99. *See, e.g.*, Duncan, *supra* note 96, at 27.

100. *See, e.g.*, Gates, *supra* note 93.

101. *See, e.g.*, Julia Preston, *After a False Dawn, Anxiety for Illegal Immigration Student*, N.Y. TIMES, Feb. 8, 2011, at A15 (discussing recent hostility towards illegal immigrants through the failure of the DREAM Act to pass in the Senate).

102. *See, e.g.*, Dave Cook, *Obama Touts US Exports Plan Again, as Voters Stew Over Slow Economy*, CHRISTIAN SCI. MONITOR (Sept. 16, 2010, 12:20 PM), http://www.csmonitor.com/layout/set/print/content/view/print/326125.

103. *See, e.g.*, Brune Katz & Jonathan Rothwell, *Five Myths About U.S. Exports*, WASH. POST, Sept. 5, 2010, at B3 (discussing how U.S. exports have grown faster than the U.S. economy from the second quarter of 2009 to the second quarter of 2010).

3. Promotion of New Industries

One of the best measures of economic health is the rate at which a society allows the creation of new businesses and industry sectors. The success in talent-promoting measures described above is one way to foster such an entrepreneurial environment. In addition, the government must pay attention to overall issues such as the regulatory climate and the availability of broad-based incentives for job growth.

There is little doubt that alternative energy is a critical twenty-first century industry and that the United States has much to do to attain global leadership in the area. This is the reason that the President and Congress made alternative energy investments such a major portion of the American Recovery and Reinvestment Act.[104] The Act's focus on alternative energy has been described as follows:

> [T]he Recovery Act is the most ambitious energy legislation in history, converting the Energy Department into the world's largest venture-capital fund. It's pouring $90 billion into clean energy, including unprecedented investments in a smart grid; energy efficiency; electric cars; renewable power from the sun, wind and earth; cleaner coal; advanced biofuels; and factories to manufacture green stuff in the U.S. The act will also triple the number of smart electric meters in our homes, quadruple the number of hybrids in the federal auto fleet and finance far-out energy research through a new government incubator modeled after the Pentagon agency that fathered the Internet.[105]

In addition to promotion of green energy, a key factor in the creation of new industries is assurance that regulations are appropriately calibrated to protect the public while also encouraging economic innovation. The desire to spur innovation is part of the reason why the Administration is embarking upon a broad initiative to examine and streamline regulations that touch upon the economy and job creation.[106]

---

104. *See, e.g.*, Steve Hargreaves, *How Stimulus Saved Renewable Energy*, CNNMONEY.COM (Jan. 26, 2010, 1:06 PM), http://money.cnn.com/2010/01/24/news/economy/stimulus_wind/index.htm.

105. Michael Grunwald, *How the Stimulus Is Changing America*, TIME (Aug. 26, 2010), http://www.time.com/time/printout/0,8816,2013683,00.html.

106. *See, e.g.*, Lori Montgomery, *Obama Orders All Fed Agencies to Review Regulations*, WASH. POST (Jan. 18, 2011, 3:04 PM), http://www.washingtonpost.com/wp-dyn/content/article/2011/01/18/AR2011011801416_pf.html.

Taken together, these basic strategies—talent expansion, aggressive globalism, and new industry promotion—point a path to an economic growth model that will learn the lessons of the lost decade and build a more sustainable future. The strategy's virtue is its reliance upon important assets that the American economy already possesses—an entrepreneurial and risk-taking culture, a network of strong educational institutions, and strong productivity and flexibility among the workforce.

Times of crisis test individuals and nations. We've been in crisis and are coming out of it. Serious economic challenges remain both domestically and in the characteristics of our global competitors. One of the challenges is a reset of domestic economic activity due to increased prudence about spending at both the family and governmental levels. America can successfully negotiate this shift by relying on smart reform and accelerated innovation.