



## C H A P T E R 1

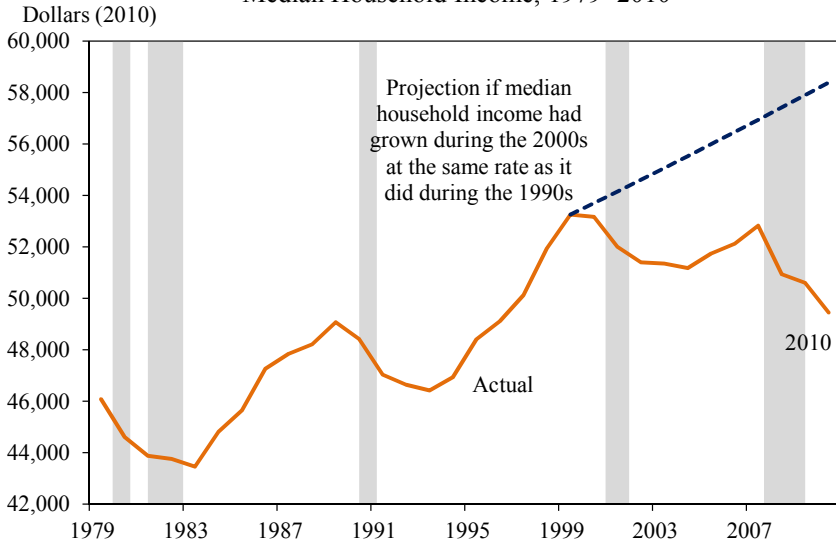
# TO RECOVER, REBALANCE, AND REBUILD

The problems that caused the deep recession that began at the end of 2007 and lasted until mid-2009 were a long time in the making and will not be solved overnight. But in 2011, the Nation continued to recover from the Great Recession and to make progress toward building a stronger foundation for more balanced and sustainable economic growth in the future. The economy has expanded for 10 straight quarters. As a result of this growth, by the third quarter of 2011, the real gross domestic product (GDP) of the United States had surpassed its peak level at the start of the 2007–09 recession. Sustaining and strengthening the ongoing recovery remains a top priority for the Obama Administration, while seeking to address the fundamental imbalances and other problems that had built up for decades and erupted with the financial and economic crisis in 2008.

The pace of the recovery has not been faster because of the severity of the financial and economic crisis and the unique nature of the problems that led to the crisis in the first place. These problems included excess borrowing in the run-up to the financial crisis that subsequently caused massive deleveraging by households, a massive loss of wealth during the financial crisis that continues to constrain consumption, and excess residential home building during the housing boom that continues to cause weakness in residential construction and the housing sector.

Fundamentally, many of the problems that have plagued the economy in the past decade can be traced to weak income growth for middle-class workers. This can be seen in Figure 1-1, which displays the median household's income each year after adjusting for inflation. Income growth was stagnant for middle-income earners in the 2001–07 period and, as is common, declined in the recessions at the end and beginning of the decade. Had income grown at the same average annual rate in the first decade of the 2000s as it did in the 1990s, middle-income households would have greatly improved their financial situation.

Figure 1-1  
Median Household Income, 1979–2010



Note: Shading denotes recession.  
Source: CEA calculations and Census Bureau.

A related phenomenon is that the size of the middle class has shrunk. This disturbing trend has taken place over several decades. While those at the top of the income distribution have seen strong income growth, many in the middle and at the bottom have struggled. Many economists have argued that, when confronted with easy credit and nontransparent terms, many families borrowed at an unsustainable rate to make up for the weak income growth they experienced in the 2000s. Strengthening and expanding the middle class, and adequately reforming the financial sector, are therefore at the root of the Obama Administration’s strategy to reestablish an economy that is built to last.

In addition to lingering effects of the financial crisis and the long-standing problem of weak income growth for the middle class, the recovery in 2011 faced additional shocks from natural disasters in Asia, unrest in the Middle East that caused oil prices to spike, self-inflicted wounds to confidence from the contentious debt ceiling debate over the summer, and stress in European debt markets. Despite these encumbrances—and with the support, in part, of measures the President signed into law in December 2010, including the payroll tax cut, the extension of unemployment insurance, and 100 percent business expensing—private-sector employment has increased for 23 straight months, and the unemployment rate fell from a high of 10.0 percent in October 2009 to 8.3 percent in January 2012. Over the course of

2011, the unemployment rate fell by 0.9 percentage points, the largest drop in any year since 1994. Most of that decline occurred in the last three months of 2011.

The sharp drop in unemployment toward the end of 2011 took economic forecasters by surprise, because unemployment was projected to remain in the high-8-percent range by many forecasters, including the Council of Economic Advisers (CEA). As part of the Budget process, the CEA, together with the Office of Management and Budget and Treasury officials, made its forecast of economic outcomes in mid-November 2011. Since that forecast was locked down, the reported unemployment rate has now fallen by 0.7 percentage points, and the advance estimate of GDP growth for the fourth quarter of 2011 exceeded what most forecasters had expected in November. In view of the new information, the consensus of Blue Chip forecasters lowered its forecast of the unemployment rate for the end of 2012 by about 0.8 percentage point, to 8.1 percent. The more optimistic private forecasters expect the rate to be below 8.0 percent at the end of the year. In Chapter 2, the *Report* illustrates the latest forecasting range for the unemployment rate. One of the reasons for the range of forecasting uncertainty is that it is unclear how many of the President's job creation initiatives Congress will enact in the coming year. Respected private forecasters have estimated that a continuation of the 2 percentage point payroll tax cut and extended unemployment insurance benefits through the remainder of 2012 could significantly boost economic growth and job creation.

The Administration's economic strategy continues to be to: 1) pursue avenues to raise demand for U.S. goods and services in the short run to support the ongoing recovery and put more people back to work; 2) develop credible policies to return to a fiscally sustainable path in the intermediate and long term; and 3) invest in education, innovation, research, domestic energy, and infrastructure in order to build a stronger foundation for future economic growth and an expanding middle class. Put simply, the Nation needs to recover, rebalance, and rebuild. As described in this *Report*, in many instances, when Congress has not acted, the President has taken steps to implement this agenda.

## **RECOVERING FROM THE GREAT RECESSION**

When President Obama took office on January 20, 2009, the U.S. economy was contracting at an alarming rate, and employment was falling by more than 700,000 jobs a month. The plunge in economic activity was even deeper than the Bureau of Economic Analysis initially reported: revised estimates showed that the economy contracted at an 8.9 percent annualized

### **Data Watch 1-1: Innovation in Measurement**

Economic statistics are central to understanding how the economy is working—whether consumer spending is growing or shrinking, the extent to which businesses are investing in equipment and software, the number of people currently employed, and the wages they are earning, among many other examples. This year’s *Economic Report of the President* highlights the role that accurate and timely economic measurement plays in supporting sound economic decisions by policymakers, businesses, and families. In a series of Data Watch boxes, the *Report* offers examples of recently developed data series that shed light on economic performance, significant gaps in available economic data, and opportunities for improvements in the Nation’s economic measures.

The growing integration of technology in our daily lives has created an abundance of new possibilities for producing better and more timely data based on nontraditional sources of information. As Census Bureau Director Robert Groves has written, “(t)he volume of data generated outside the government statistical systems is increasing much faster than the volume of data collected by the statistical systems; almost all of these data are digitized in electronic files” (Groves 2012). Nontraditional sources of information include both digital administrative data (e.g., tax records and records related to participation in government transfer programs) and records generated in the private sector (e.g., data from Internet searches, scanner data and social media data).

There is a long history of using administrative records to produce economic statistics—under strict standards of confidentiality. The Obama Administration has endeavored to create new databases that track student performance across different stages of education, as well as the performance of postsecondary educational institutions. Once these databases have been developed, analyses of the outcomes achieved by students with different educational experiences will help to guide improvements in instructional quality and college choice.

Innovative statistics based on electronic records compiled as a byproduct of commercial activity also can be informative. Adding series based on Google Trends to economic forecasting models, for example, can improve those models’ predictive power. The number of search queries for a particular make of automobiles in the last two weeks of a month, for instance, turns out to be a good predictor of sales of that car, and the number of searches for real estate agencies is one of the best predictors of current home sales (Choi and Varian 2009).

Unlike government survey data, data based on electronic records generated for commercial or administrative purposes may not be nationally representative, and expanding access to these records, even

for purely statistical purposes, can pose privacy concerns that must be addressed. But their use also has the potential to improve and enrich existing official statistics. The Bureau of Economic Analysis, for example, plans to use credit card data to improve its statistics on international travel services. The Census Bureau is exploring the use of administrative data on receipt of government benefits to improve estimates of income in its household surveys. Other uses of both commercial and administrative data to improve official statistics can easily be imagined. Government statistical agencies can play a vital role in this burgeoning field by providing survey data to improve the representativeness of nonsurvey data, and the Federal statistical agencies can improve their measures by integrating private-sector information. Progress in this area will ultimately lead to better informed decisions by policymakers, businesses, and families.

rate in the last quarter of 2008, from the initial advanced estimate of 3.8 percent, the largest quarterly downward revision in history. The Administration immediately took bold steps to turn around an economy in free fall. It worked to stem the job losses and put people back to work through the American Recovery and Reinvestment Act of 2009 (the Recovery Act), and it shored up the banking system and stabilized the financial sector through a series of measures including stress tests for banks and rigorous requirements for banks to raise private capital and repay the government for funds from the Troubled Asset Relief Program, and it rescued the American auto industry.

Soon after the Recovery Act was passed, the contraction of GDP slowed markedly to -0.7 percent in the second quarter of 2009 from -6.7 percent in the preceding quarter. Economic growth turned positive in the third quarter of 2009, and the economy has grown at an annualized growth rate of 2.4 percent over the past 10 quarters.

The economy is continuing to recover from the most severe downturn since the Great Depression. Despite numerous adverse headwinds—both domestic and international—that threatened the recovery, the U.S. economy displayed notable resilience in 2011. Private nonfarm employment growth, shown in Figure 1-2, averaged 174,000 jobs per month in 2011, and 218,000 jobs per month over the past three months (ending in January 2012). Private employers added more than 2.1 million jobs in 2011, the most in any year since 2005. At \$15.3 trillion dollars, real GDP now exceeds its pre-recession peak. Clearly, this improvement since the end of the recession represents real progress. Nevertheless, given the depth and severity of the Great Recession,

## Data Watch 1-2: Revisions to Estimates of the Gross Domestic Product

The gross domestic product (GDP) is a summary measure of the Nation's economic activity, constructed as the sum of personal consumption, gross private investment, net exports, and government expenditures. The first estimate of GDP appears within a month after the end of the quarter to which it applies and is based, in part, on source data that are preliminary and incomplete. More complete data are available for the second estimate, published the following month, and the third estimate, released the month after that; each of these revisions incorporates new or revised information from private and public sources, including monthly and quarterly Census Bureau surveys. Annual revisions to the National Income and Product Accounts allow the Bureau of Economic Analysis (BEA) to catch up in an organized way with further revisions to the source data used to compute GDP and to incorporate additional data available only at yearly frequencies. About every five years, a benchmark revision incorporates data from the Economic Censuses (Landefeld, Seskin, and Fraumeni 2008).

Between 1983 and 2009, revisions in the annualized growth rate of real quarterly GDP between the first and latest available estimate averaged 1.2 percentage points in absolute value (Fixler, Greenaway-McGrevy, and Grimm 2011). A dramatic example is provided by the revisions to the GDP growth rate for the fourth quarter of 2008, which was originally reported as -3.8 percent and later revised down to -8.9 percent in the annual revision released in July 2011. This was the largest downward revision to the quarterly data ever reported. Taken as a whole, the revised data for 2008 and 2009 indicated that the recent recession was considerably more severe than originally reported.

While revisions to initial GDP estimates for the United States can be substantial, they are smaller than the average for other large developed economies (see, for example, Faust, Rogers, and Wright 2005). And despite sometimes sizable revisions, early estimates of quarterly GDP growth generally do a good job of capturing increases or decreases in growth rates, as well as the timing of cyclical peaks and troughs (Fixler and Grimm 2005). Further, research has found that there is only limited potential to improve the initial GDP estimates given the contemporaneous information available to the BEA (Dynan and Elmendorf 2001; McKenzie, Tosetto, and Fixler 2008).

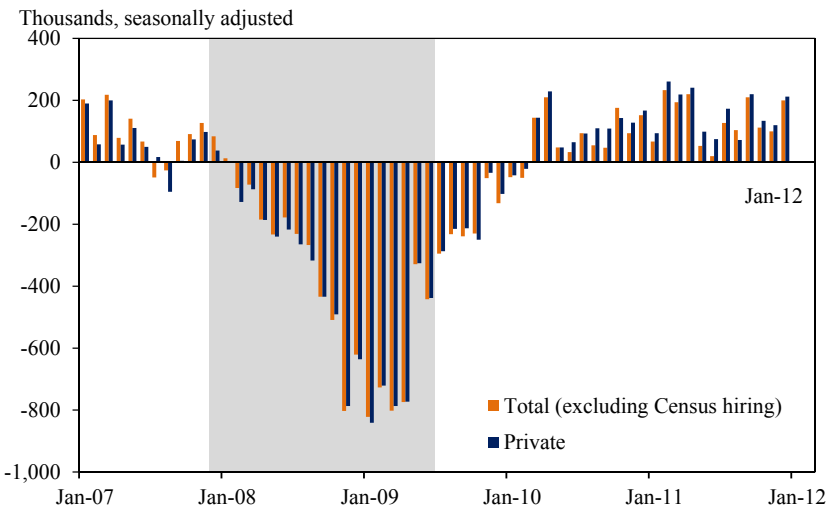
Still, more accurate early estimates of GDP would be helpful to policymakers and businesses. Improving the quality and timeliness of the source data available to the BEA is the best way to accomplish this objective.

stronger economic growth and faster job gains are needed to make full use of the Nation’s human and physical resources.

On the whole, the pace of real GDP growth so far during this recovery has been almost as fast as was the case at a similar stage of the recoveries following the 1991 and 2001 recessions, which is noteworthy progress given that the earlier recoveries received a strong boost from residential home building and State and local government spending. Because of the excess home and office construction during the housing bubble, construction of structures has been notably weak so far in this recovery. In addition, once Recovery Act funds began to phase out, State and local governments cut spending and laid off workers at a faster pace. Both of these developments are unprecedented headwinds that were not present during other postwar recoveries.

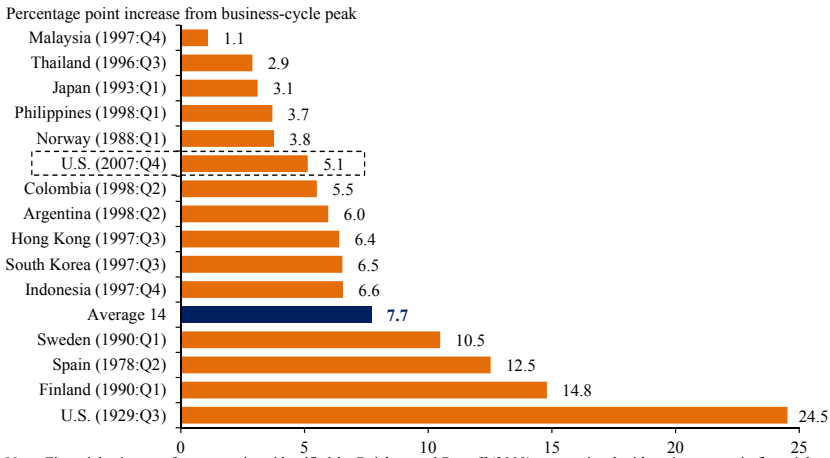
As has been the pattern in recent recoveries, job growth has lagged a resumption of economic growth. Job growth started in February 2010, 8 months after the official conclusion of the 2007–09 recession, versus 11 months after the end of the 1991 recession and 21 months after the end of the 2001 recession. From February 2010 through January 2012 (months 8 through 31 after the official end of the recession), private-sector employers added a net total of 3.7 million jobs. Over the comparable period of the recovery from the 1991 recession, businesses added 3.0 million jobs (from November 1991 to October 1993), and over the comparable period of the

Figure 1-2  
Change in Nonfarm Payrolls, 2007–2011



Note: Shading denotes recession.  
Source: Bureau of Labor Statistics.

Figure 1-3  
 Unemployment Rate Increases in Recessions  
 Associated with Financial Crises



Note: Financial crises are from recessions identified by Reinhart and Rogoff (2009) as associated with major, systemic financial crises. Each data point represents the increase from the business-cycle peak to the subsequent peak in the unemployment rate. U.S. business-cycle peaks are defined by the National Bureau of Economic Research, and the business-cycle peaks of other countries refer to the peaks of real GDP. Unemployment rates for Argentina, Colombia, Indonesia, Malaysia, and Thailand are based on annual data. "Average 14" excludes the 2007–2009 U.S. recession.  
 Source: Reinhart and Rogoff (2009); National Bureau of Economic Research; International Monetary Fund, World Economic Outlook and International Financial Statistics; Moore (1961); national sources; CEA calculations.

recovery from the 2001 recession, businesses added 1.1 million jobs (July 2002 to June 2004).

The catastrophic financial crisis that exacerbated the economic downturn during the second half of 2008 is an important reason why the pace of the recovery has not been stronger. As discussed in Chapter 2, previous research finds that recessions associated with financial crises not only tend to be deeper than other types of economic downturns but also longer lasting. Yet, as bad as the Great Recession was, the United States appears to have fared relatively better than other countries that have experienced severe financial crises, in large part because of the emergency actions that were taken to strengthen the economy and stabilize the financial system. In a group of 14 countries identified by the economists Carmen Reinhart and Kenneth Rogoff as having experienced severe financial crises, these crises were followed by a real GDP decline of more than 10 percent, on average. In contrast, U.S. output decreased by substantially less. In addition, from each country's business cycle peak to their subsequent peak unemployment rate, the unemployment rate across these 14 countries increased by an average of 7.7 percentage points as a result of their financial crises (Figure 1-3).<sup>1</sup>

<sup>1</sup> Figure 1-3 shows the average increase in the unemployment rate across 14 financial crisis recessions, regardless of how many quarters it took the unemployment rate to reach its peak. Figure 2-4, in contrast, shows the average rise in the unemployment rate in each quarter elapsed from the beginning of each recession.



Although still a large increase relative to previous postwar recessions, the U.S. unemployment rate rose by 5.1 percentage points from the last quarter of 2007 to the fourth quarter of 2009, about 2.6 points less than the average country's experience.

The financial crisis was precipitated largely by lax credit standards, inadequate oversight, excessive debt, and a boom-and-bust cycle in housing prices, which led to unsustainable expansions in residential construction and consumer spending. Chapter 4 highlights the challenges that remain in the housing market, deriving primarily from institutional frictions, and explains the Administration's initiatives for addressing many of the inter-linked housing market problems.

## **REBALANCING AT HOME AND ABROAD**

Once economic recovery began in mid-2009, the Obama Administration took steps to restore balance to the U.S. economy to help prevent the sorts of excesses that led to the financial crisis that erupted in 2008. In June 2009, the President presented his proposals for Wall Street reform. Those proposals began a process that culminated at the end of July 2010 with President Obama signing the Wall Street Reform and Consumer Protection Act of 2010.

Progress is being made on rebalancing the sources of economic growth as well. Business investment has begun to rebound. The mix of business investment has shifted from residential and structures toward equipment and software, the types of investments that expand capacity, help workers become more productive, and build a foundation for sustainable growth. Exports as a share of GDP have also grown by 13 percent since the end of the recession. The growth in exports puts the United States on track to meet the President's goal of doubling exports by the end of 2014.

More rebalancing is needed, and the adjustment process may continue to cause headwinds for the recovery. As Chapter 3 details, government balance sheets need to shift by both cutting unnecessary spending and raising revenue to continue needed investments in the future. In September 2011, President Obama submitted a balanced plan to the Joint Select Committee on Deficit Reduction that would have reduced the deficit by \$4 trillion over 10 years with a mix of spending cuts and additional revenue, and the President remains committed to pursuing a balanced approach to put America on a sustainable fiscal path.

Finally, rebalancing in the economy is required so that the gains of economic growth provide more opportunity for the middle class and those struggling to get into the middle class. One step in this direction is provided

by the landmark Affordable Care Act, which will provide premium assistance tax credits for those without access to affordable health insurance to obtain coverage. The new law will also begin to lower the rate of health care cost growth. Additionally, improvements in K–12 education and greater access to postsecondary education will provide more opportunity for middle-class families and those struggling to get into the middle class.

### ***Restoring Fiscal Responsibility***

In the late 1990s, the Federal Government was generating budget surpluses, both annually and throughout the 10-year budget window, as well as actually paying down the national debt. Since 2001, Federal debt has been growing unsustainably, primarily as a result of the 2001 and 2003 tax cuts that were skewed toward the wealthiest, increased military operations, the unfunded Medicare prescription drug benefit, and slow job and economic growth. Although safety net stabilizers and job creation measures in the short term are important to keep the recovery gaining momentum, the long-term Federal debt must be reduced.

Chapter 3 details how Federal debt shifted sharply from a downward to an upward path to reach today’s unsustainable heights, and what the options are for reducing the long-term debt. Recognizing the economic risks associated with increased budget deficits, the Administration and Congress agreed on a \$1 trillion deficit reduction package in the Budget Control Act of 2011—with an additional \$1.2 trillion to \$1.5 trillion in further reductions scheduled to follow. In his Fiscal Year 2013 Budget, the President has proposed a balanced approach that recognizes the need to prioritize spending initiatives while aligning revenues with current spending.

## **REBUILDING A STRONGER ECONOMY**

President Obama has emphasized that the United States can out-educate, out-innovate, and out-build the rest of the world. Accomplishing this goal will require a Federal Government that lives within its means and makes targeted cuts to government spending while maintaining essential safety net services. But it will also require continuing to invest in the Nation’s future—training and educating workers; increasing the commitment to research and technology; and building new roads and bridges, high-speed rail, and high-speed Internet. In cities and towns throughout America, the benefits of these investments are clear.

Investments in education, innovation, clean energy, and infrastructure are an essential down payment on the future. These investments today will be the foundation of long-term output and employment growth in the

future, robust wage growth for all Americans, and improvements in the quality of life. As emphasized, the Nation can afford these investments only by getting its fiscal house in order. The Federal Government has to live within its means to make room for things it absolutely needs, without jeopardizing essential safety net programs or the ability to make investments for the future. That is why President Obama urged Congress to find common ground so that government policies can, with the private sector, accelerate, not impede, economic growth and sharpen America's competitive edge in the world.

Measured GDP growth is not the only contributor to the quality of life that Americans seek to enjoy. Government investments as well as regulatory policies can improve well-being by correcting market failures and protecting safety, health, and environmental quality. In fashioning long-term policies, the Nation should not overlook those factors that contribute to well-being even if they are not fully captured in economic statistics.

### *Jobs and Income: Today and Tomorrow*

Problems that were building in the labor market for well over a decade were amplified by the Great Recession. Chapter 6 explains where the labor market is today and distinguishes between the effects of the recession and longer-term trends in employment and income that predated the recession. The goals of current policies are twofold: to increase job growth in the near term, and to prepare Americans of all ages for the jobs of the future. The chapter discusses the President's job creation proposals and the key role they can play in supporting job growth in the near term.

One notable long-term trend that can be stopped is the sharp decline in manufacturing jobs. From 2000 to 2007, the economy lost nearly 4 million manufacturing jobs, as these positions migrated overseas. Another 2 million manufacturing jobs were lost during the 2007–09 recession. Thanks, in part, to the President's efforts to rescue the American auto industry, manufacturing companies have been adding jobs for the first time since the late 1990s. On net, 400,000 manufacturing jobs have been added in the past two years. The auto industry was central to the rebound in manufacturing: although the auto industry accounts for only 6 percent of industrial production, it is responsible for 23 percent of the increase in industrial production since the end of the recession.

As discussed in Chapter 5 and Chapter 6, a number of companies have indicated that they are bringing jobs back to the United States because of the Nation's high productivity and growing cost advantages. The President has laid out a bold agenda to support this trend and to encourage more manufacturing production at home.

Investments in education will build on America's highly productive workforce and are essential to prepare today's children for the jobs of tomorrow. Increasing educational attainment for low-income children would substantially improve their chances of moving up the rungs of the ladder of opportunity. As shown in Figure 1-4, the average earnings of college-educated workers has risen to a level twice as high as that of workers with only a high school diploma. And the unemployment rate of college graduates is about half of the national average. Yet while the benefits of education have grown, the growth in the relative share of college-educated American workers has slowed since 1980 (Goldin and Katz 2008). In the last few years, however, there has been an increase in school enrollment, and the President has set a goal for the United States to have the highest share of 25- to 34-year-olds with a college degree of any country by 2020. Chapter 6 lays out the strides the Obama Administration has made in bettering the education system at every level, making higher education more affordable, and improving job training programs.

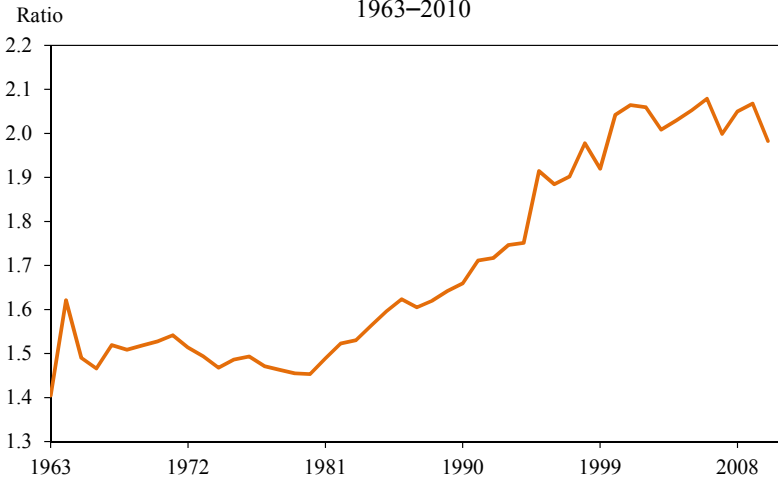
Making sure American workers have the right set of skills is also critical for a revival of manufacturing jobs and jobs in other high-paying sectors. The United States has a comparative advantage in high-technology, innovative sectors, but jobs in such sectors require a highly skilled workforce. As technology changes, advanced manufacturing products can become an even more important segment of the U.S. economy. Cars, for example, are now a highly advanced product: fully 30 percent of the value of many automobiles is derived from computer software, electronic components, and intellectual property, according to industry estimates. Thus, the President's education and job training strategy is a necessary complement to proposals to strengthen the manufacturing sector.

### *Preserving and Modernizing the Safety Net*

The recession highlighted the need for a strong safety net as millions of Americans, through no fault of their own, lost their jobs and saw their savings decline. In addition to cushioning the shock of income loss, safety net programs are important for long-term growth because they help maintain consumer demand in a downturn and make it easier for entrepreneurs to take risks, knowing that if they fail, they will have access to a minimum level of support.

As the economy has undergone major changes, the safety net has not always adapted with it. Chapter 7 describes this changing landscape and the steps the Administration has taken to modernize the safety net for a more dynamic economy and more mobile workforce. The President has already reformed health care to give millions more Americans access to care and to

Figure 1-4  
Earnings Ratio: College Degree or More to High School Degree,  
1963–2010



Source: CEA calculations using March Current Population Survey data for workers aged 25–65 who worked at least 35 hours a week and for at least 50 weeks in the calendar year. Before 1992, education groups are defined based on the highest grade of school or year of college completed. Beginning in 1992, groups are defined based on the highest degree or diploma earned. Earnings are deflated using the CPI-U. Calculations are based on survey data collected in March of each year and reflect average wage and salary income for the previous calendar year.

bring down costs. He has also called for the largest changes to the unemployment insurance program in 60 years and proposes to improve retirement preparedness by broadening the reach of individual retirement accounts, simplifying financial decisions for retirement savers and retirees, and promoting financial literacy.

### ***Improving the Quality of Life through Smart Regulation, Innovation, Clean Energy, and Public Investment***

Rebuilding the American economy entails investments in the foundations of economic growth—education, infrastructure, and research and development. Government investments in innovation and infrastructure and smart government regulations improve the quality of life and help the economy to operate more efficiently.

The President has reduced burdensome regulations, where possible, but smart regulations have also enabled Americans to live longer, healthier, and more productive lives. As discussed in Chapter 8, the Obama Administration has made significant reforms to the regulatory system to

better measure relevant costs and benefits and to establish a review process that will result in continual improvement of the regulatory architecture.

A focus on quality of life also emphasizes public investments in innovation and infrastructure. Technological breakthroughs improve the quality of life in ways that are not fully captured by measures of economic activity. Cellular telephones, for example, generate large increases in convenience that benefit consumers without being fully captured in measures of GDP. Similarly, investments in infrastructure improve productivity but also have other, even larger benefits. A strong infrastructure system, for example, facilitates shorter commuting times, increasing leisure time and improving well-being.

Ensuring that America has abundant clean energy to power the economy of the future is also a prerequisite for raising the quality of life and enhancing the Nation's security. Early in 2011, President Obama noted that, "The United States of America cannot afford to bet our long-term prosperity and security on a resource that will eventually run out." The Administration laid out a *Blueprint for a Secure Energy Future*, a comprehensive strategy that focuses on three key areas: developing and securing America's energy supplies, including oil and natural gas; providing consumers with choices to reduce costs and save energy; and innovating our way to a clean energy future. This past year has seen remarkable progress toward reaching many of these energy goals. In 2011, domestic oil production was the highest it has been in the past eight years and natural gas production reached an all-time high. At the same time, the Administration has advanced common-sense new standards to ensure the safe and responsible development of these resources.

## CONCLUSION

The U.S. economy has been expanding for two and a half years, but the pace of economic growth and job growth has not been fast enough given the deep hole that was created by the sharp recession that started at the end of 2007. The economic challenges that the United States faces are the direct result of problems that took years to build up and that came to a boil in the financial and economic crisis of 2007–09. While actions taken to prevent a deeper recession and to strengthen the recovery have made a difference, the Nation is still recovering from that profound crisis and the problems that led to it. Because household income for vast swaths of the middle class had stagnated, many families borrowed to support their consumption and to buy houses that later fell in value. Families are now paying down debt, which is restraining consumption and economic growth. Meanwhile, because of the

collapse of the housing boom, builders have been reluctant to build new homes, and construction workers had a 16.4 percent unemployment rate in 2011. And the government budget moved from surplus and debt reduction at the end of the 1990s to deficit and increasing debt in the early 2000s, as the priorities in Washington at that time shifted to increased spending to prosecute two wars while cutting taxes in a skewed and inefficient way.

These are the Nation's principal economic challenges, not uncertainty about economic policies, taxes, or regulations. To economists, the solution to these problems is clear: the Nation needs to raise demand for its goods and services in the short run to strengthen and sustain the economic recovery and put more people back to work, while pursuing credible policies to return to a fiscally sustainable path in the intermediate and long term *and* investing more in education, innovation, clean domestic energy, research and development, and infrastructure to raise long-run growth and expand the middle class.