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# Recover Our Spending Power

By ROBERT B. REICH

PRESIDENT OBAMA will have to devote a big part of his State of the Union address to the economy, but which economy?

Corporate profits are up, in part because of reduced costs, especially payrolls, so jobs and wages remain in the doldrums. People with lots of financial assets or who are deemed “talent” by large companies are enjoying a solid recovery, but most Americans continue to struggle. In order for the public to understand what must be done, Mr. Obama has to be clear about what has happened and why.

The Great Recession accelerated trends that started three decades ago: outsourcing abroad, automating work, converting full-time employees to temps and contractors, undermining unions and getting wage and benefit concessions from remaining workers.

Mr. Obama should point out that the United States economy is now more than twice the size it was in 1980, but the real median wage has barely budged; that in the late 1970s, the richest 1 percent of Americans got about 9 percent of total income, while by the start of the Great Recession the richest received more than 23 percent; that wealth is now even more concentrated. And the economy is bogged down because most Americans, unable to borrow as before, no longer have the purchasing

power to get it moving again.

The president should make it clear that corporations aren't to blame; they're meant to make profits. Nor is it the fault of the rich who have played by the rules. But he should stress that a future with no jobs or lousy jobs for most Americans is not sustainable — not even for American corporations, whose long-term profitability depends on broad-based domestic demand.

The solution is to give average Americans a better economic deal. For starters, he should propose to expand the Earned Income Tax Credit (essentially, a wage subsidy) all the way up through the middle class. And he should suggest making the tax system more progressive: The rate on the \$50,000 to \$90,000 income bracket should be cut to 10 percent; on the \$90,000 to \$150,000 bracket, to 20 percent; on the \$150,000 to \$250,000 bracket, to 30 percent. Make up the revenue by increasing taxes on the \$250,000 to \$500,000 bracket, to 40 percent; from \$500,000 to \$5 million, to 50 percent; and anything over \$5 million, to 60 percent. Tax capital gains the same as ordinary income.

In addition, he should call for strengthening unions by increasing penalties on employers who illegally deter them. And he should make college affordable by allowing federal loans to be repaid as 10 percent of earnings for the first 10 years of full-time employment.

Most important, he should make it clear these measures would be good for everyone. Rich Americans would do better with a smaller share of a rapidly growing economy than with a large share of one stuck in a deep hole.

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