Economic Adviser Krueger Links President's Policies to Continued Economic Growth

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Excerpts from Dr. Krueger's Remarks

Will the Nation Fall Off the Fiscal Cliff? The answer is that we shouldn't. These are solvable problems. We are working away at them…. The President has been clear all along that he is looking for a balanced solution, a solution that is balanced in terms of raising additional revenue raised from the most fortunate top 2% of income earners in the U.S., and also that reduces spending. So I think the President's position has been clear. These are solvable problems. We have it within our capacity to solve them. It's a matter of the political will.

What's the Goal of the President's Budget? The goal of the President's budget is to put the U.S. on a sustainable fiscal path, to put us in a position where our debt is not rising relative to the size of the economy, as well as to support the economy in the short run and make the important investments we need to make sure that we remain the most competitive, productive Nation on Earth.

How Impartial Are Bureau of Labor Statistics Figures on Unemployment? [The BLS], which is probably the most respected statistical organization in the world, or certainly among the most respected in the world, I think is really beyond reproach when it comes to the integrity of their data.

What About Raising the Tax on Income Above $250,000 from35% to 39.6%? We'd like to see a Tax Code that's more fair, more efficient. The President laid that out in his budget. What the President has laid out in his budget is an increase in the top rates back to where they were in the Clinton years, which, as you know, were very successful years for the economy, as well as a broader base, which most economists would agree is a way of having a more efficient Tax Code.

Raise the Capital Gains Tax from 15% to 20%? That's what he put in his budget. And as you know, that's the rate in the budget. The President also made very clear yesterday that he's open to new ideas. But I think we have to be clear-eyed when we look at this problem. The U.S. can't afford the tax cuts that were passed 10 years ago, over 10 years ago now – and feels that the most fair way to address our revenue shortfall is by raising revenue from the very top.

Do You Have Any Interest in Being Chairman of the Federal Reserve? My interest is in seeing the economy recover as best as it can.

Are You Worried About Inflation? Obviously we monitor inflation. Obviously we try to interpret movements in prices. The focus, from my corner of the world, has been more on some relative price movements – price of energy, price of food. The overall level of inflation, as you point out, has been quite low, and a division that we have, of course, is that the Federal Reserve is most focused on policies related to inflation. And they've been addressing that situation, I think, quite well.

Right Strategy for Federal Economic Policy? My job is economic policy adviser, so I really am best leaving the politics of all of this to someone else. I could tell you, as an economist, the right strategy is to get our fiscal house in order, make lasting commitments to show that we can do that and that we're going to do that. That requires additional revenue as well as spending cuts. And we also want to help the economy in the short run.

Now, the President proposed tax cuts that actually would help the economy in the short run. The worst kind of stimulus is tax cuts for the wealthy; the group that has the lowest marginal propensity to consume are the wealthy. The Congressional Budget Office last week released a report which concluded that extending the middle-class tax cuts would create 1.6 million jobs, compared to allowing them to expire, and those at the very top, it was only around 200,000.

And that misses the fact that if you take the revenue raised from allowing the top rates to expire and use that to do things like hire more schoolteachers, use it to provide unemployment benefits for those who are unemployed, or use it for infrastructure investment, that will create additional jobs. I think that's the best way to support the economy in the short run, as well as to help us in the long run, because, of course, the students will benefit from the additional science and math teachers, and the economy will benefit in the future from that infrastructure investment.

DAVID RUBENSTEIN: Welcome, members and guests of The Economic Club of Washington, welcome to this luncheon event at The Capital Hilton in Washington, DC. We are very pleased today to have the Chairman of the President's Council of Economic Advisers with us, Alan Krueger. Alan is a native of New Jersey. He went to undergrad at Cornell, where he was not only top of his class but also a high jumper on the track team; then went to Harvard to get his Ph.D. in economics, and his thesis adviser was none other than Larry Summers.

In his academic career, he has been a named professor at Princeton, teaching economics, but is now on his second tour of duty in the Obama Administration. At the beginning of the Obama Administration, he served as Assistant Secretary of Economic Affairs at Treasury, went back to Princeton, and was then lured back by the President to become Chairman of the Council of Economic Advisers, a position he assumed about a year ago, confirmed in November 2011. So we're very pleased to have you here, Alan.

Everybody wants to know one thing: Are we going to fall off the fiscal cliff or not? What's the answer?

ALAN KRUEGER: The answer is that we shouldn't. These are solvable problems. We are working away at them. The President yesterday met with business leaders to discuss end-of-the-year issues, the fiscal cliff, also other issues of concern to business. The day before, he met with labor leaders other leaders. The President has been clear all along that he is looking for a balanced solution, a solution that is balanced in terms of raising additional revenue raised from the most fortunate top 2% of income earners in the U.S., and also that reduces spending. So I think the President's position has been clear. These are solvable problems. We have it within our capacity to solve them. It's a matter of the political will.

MR. RUBENSTEIN: OK, so let's talk about the process to put it in context. How much revenue does the President want to pick up? Let's use 10-year numbers. Over the next 10 years, what would he like to have as a solution that you can get in the lame-duck session? How much revenue is he trying to pick up?

DR. KRUEGER: Well, what I would point people to is the President's budget. The President's budget has in it about $1 ½ trillion of additional revenues.

MR. RUBENSTEIN: Over 10 years.

DR. KRUEGER: Over the 10-year budget window. And also, step back and say, what's the goal of the President's budget? The goal of the President's budget is to put the U.S. on a sustainable fiscal path, to put us in a position where our debt is not rising relative to the size of the economy, as well as to support the economy in the short run and make the important investments we need to make sure that we remain the most competitive, productive Nation on Earth.

MR. RUBENSTEIN: Well, right now the President's talked about, in the campaign, having marginal rates go up for the upper 2%. And those are people who make $250,000 and above are the upper 2%. So he would like, as I remember, to take the marginal rate from 35% to 39.6%. But does he also want, as part of that, to have deduction limitations for that element, or is he just happy to get the increase in marginal rates?

DR. KRUEGER: We'd like to see a Tax Code that's more fair, more efficient. The President laid that out in his budget. What the President has laid out in his budget is an increase in the top rates back to where they were in the Clinton years, which, as you know, were very successful years for the economy, as well as a broader base, which most economists would agree is a way of having a more efficient Tax Code.

MR. RUBENSTEIN: What about the capital gains rate? It's now 15%. Does the President want it to go to 20%? Is that an essential part of this package that he's negotiating now?

DR. KRUEGER: Again, look at what the President wants. That's what he put in his budget. And as you know, that's the rate in the budget. The President also made very clear yesterday that he's open to new ideas. But I think we have to be clear-eyed when we look at this problem. The U.S. can't afford the tax cuts that were passed 10 years ago, over 10 years ago now – and feels that the most fair way to address our revenue shortfall is by raising revenue from the very top.

MR. RUBENSTEIN: OK, explain to everybody, if you would, right now we have roughly $16 trillion of total federal debt, not counting Fannie Mae and Freddie Mac. Under Bowles-Simpson, it was projected that we would probably have, if no budget policy changes occurred, another $10 trillion of debt over the next 10 years, roughly. Is that right? So you'd have $10 trillion plus $16 trillion – $26 trillion. Bowles-Simpson said, reduce the $10 trillion dollars by $4 trillion dollars, more or less. So even if you had Bowles-Simpson, $6 trillion is added to the $16 trillion. Why is that OK to have $22 trillion of debt in 10 years? I mean, why is that still considered a good thing to do?

DR. KRUEGER: Not specifically about Bowles-Simpson – we're going to have a much larger economy 10 years from now. And what's important is that we can meet our financing needs. And the best metric of our capacity to do that is the size of the debt relative to the economy. So what the President has proposed, and Bowles-Simpson as well, is to put us on a path where the debt is stabilized or coming down relative to GDP, relative to the size of the economy.

MR. RUBENSTEIN: Right, so it would be roughly still a hundred percent of GDP. And you think our economy can sustain a hundred percent of GDP of debt, more or less? I assume you do.

DR. KRUEGER: No, I would also explain a little bit about the numbers. So the $16 trillion figure that you mentioned includes debt that we owe to ourselves. So I don't think that's an appropriate way of thinking about – I mean, it's a measure of debt, but it's not the measure of debt that I think that's most economically relevant. What's most economically relevant is debt owed to the public outside of the government, which is –

MR. RUBENSTEIN: OK, and that's $10 trillion to $12 trillion?

DR. KRUEGER: – which is closer to $12 trillion. And you're talking about being on a path where it's 75%, 76 % of GDP.

MR. RUBENSTEIN: OK, the unemployment rate became an issue in the campaign. The unemployment rate went down below 8%, went down to 7.8%, then 7.9%. Some people said that maybe the numbers had been played with by some people. Who knows who was doing that? Can you assure people that nothing improper happened on the unemployment rate?

DR. KRUEGER: Claims that there was political manipulation with the unemployment rate are truly absurd. I've watched the Bureau of Labor Statistics for a long time. I worked in the mid-'90s as Chief Economist with the Labor Department, where I interacted with the BLS. The unemployment rate is assembled by career employees who are dedicated to their craft. They use the same methods that they've used over a period of years. They are insulated from the politics. They inform us of the unemployment rate after they have calculated it. At the moment, there is no political appointee at the Bureau of Labor Statistics, because at the moment there's not a confirmed Commissioner of the Bureau of Labor Statistics. So this entire enterprise, which is probably the most respected statistical organization in the world, or certainly among the most respected in the world, I think is really beyond reproach when it comes to the integrity of their data.

MR. RUBENSTEIN: And do they call you the day before they release it and give you the numbers, and you can give them to the President the day before, so at least you know what they're going to be before they're announced?

DR. KRUEGER: The long-standing procedure is that they share the unemployment report with us the afternoon before it's released. The Office of Management and Budget set up procedures back in the 1970s which govern how we transmit that to the President, and that's the procedures that we follow and other Administrations have followed, the Bush Administration, the Clinton Administration.

MR. RUBENSTEIN: OK, so no, the President doesn't say to you, could you see if they could lower it a little bit more, nothing like that? [Laughter.]

DR. KRUEGER: The President has never –

MR. RUBENSTEIN: Never said that?

DR. KRUEGER: – has never said that to me. Nor to anyone.

MR. RUBENSTEIN: We measure unemployment by people who are looking for jobs in the last four weeks, more or less. Why is that the appropriate measure of the unemployment rate? Some people say the appropriate measure is people who would really like jobs but have stopped looking. And that rate – it would be 14 ½%, something like that. Can you explain why we do it this way? And do other countries do it the same way?

DR. KRUEGER: That's an excellent question. We started in the 1940s to regularly measure the unemployment rate. And to the unemployed, by the definition the Bureau of Labor Statistics has used for decades, three conditions need to be met. Someone needs to be without a job in the reference week. They need to have made some active effort to find a job in the preceding four weeks, where active effort means they took some action that could have resulted in them getting a job offer, as opposed to just reading help-wanted ads or browsing the web; they need to file an application or go on a job interview and so on. And number three, they need to be available for work, because it may be the case that someone is searching for a job but, because of other obligations, would not be able to work in that survey week. So those three conditions need to be met. That's the same definition that most other countries use. There are international agreements to try to harmonize the way we measure unemployment.

Now, in the U.S., starting in the 1980s, we have added a broader set of measures of labor underutilization, which include people who have given up looking for a job because they don't think one is available, and includes people who are working part-time but would like a full-time job and they haven't been able to find a full-time job. So we have a whole suite of measures.

The official unemployment rate, I think, is economically quite meaningful, if we look at the relationship between a host of other variables and the unemployment rate. We find pretty stable relationships. Moreover, if we look at people's behavior, which is the way economists like to judge measures, we find that people who have searched for a job in the last four weeks are a lot more likely to make a transition to finding a job than are people who say they would like a job but they haven't looked in the last year.

So these are economically meaningful measures. We have a whole suite so people can look at a variety of these measures. And importantly, David, they all show that the unemployment rate has come down. We'd like it to come down more, and the President has proposed actions to bring that employment rate down further, but they all are painting a similar picture of an economy that's slowly healing.

MR. RUBENSTEIN: Normally after a recession, two years after the recession is over – this recession was officially over June 2009 – the unemployment rate pretty much has gone back to where it was before the recession. But why in this recession has it not gone anywhere close to the pre-recession level?

DR. KRUEGER: This was a very different recession than the typical postwar recession. This was a recession that destroyed a tremendous amount of wealth, that disrupted the financial system. And researchers found that financial crises tend to lead to deeper recessions, particularly crises that affect the housing market, which is where most Americans have the largest amount of their wealth, and they're just slower to recover from and the hole is deeper.

We have seen the unemployment rate come down about 2 points from the peak. We want to keep working on that progress, to build on that progress. That's why the President has proposed in his budget funds to invest more in infrastructure, funds to help state and local governments keep teachers on the payroll and other actions that'll help the economy in the short run, even while we address the longer term fiscal problems.

MR. RUBENSTEIN: One year from today, what do you think the unemployment rate will be?

DR. KRUEGER: I have to give you the following answer: We make projections twice a year. And we are in the process right now of working – finalizing our projections for the budget. Just tell you a little bit of the background, the Council of Economic Advisers together with the Treasury Department and the Office of Management and Budget form the troika, the forecasting group. And one needs to have forecasts of the future path of the economy for the budget. As part of the budget process, we make these forecasts. Then we update them, typically during the summer. And I'm not going to front-run our budget forecast –

MR. RUBENSTEIN: All right, but just give us a hint. [Laughter,] Do you think it could be lower or more likely to be lower? I assume it'll be lower, no?

DR. KRUEGER: You know, I think if we take the actions the President has been calling for, the unemployment rate will be lower. And I think the right economic path is pretty clear. I think it's what the President has called for in terms of addressing our fiscal problems, protecting the middle class.

The Senate passed an extension of the middle-class tax cuts. That could take a good deal of the concern, the anxiety over the fiscal cliff right off the table if the House of Representatives were to do what the Senate did and pass that bill and also continue to support the economy in the short run. If those actions are taken, I'm quite confident that you'll see a continued decline in the unemployment rate.

MR. RUBENSTEIN: When I went to college, textbooks used to say full employment, more or less, in the United States was 4% or 4 ½% or 5%. What do you consider today full employment?

DR. KRUEGER: You know, if you look at our budgets, if you look at the out years when we think the economy has recovered from this very deep crisis that began back at the end of 2007, we have the unemployment rate in the 5% range. And there are a lot of factors that affect the natural rate of unemployment, some having to do with the demographic structure of the population. And if you want to get some sense of what we think the steady state unemployment rate is, you look at year 9, 10 of our budget.

MR. RUBENSTEIN: You give advice to the President on economic affairs. How – you've advised a lot of business people, government officials over the years. How would you rate his economics quotient? Does he understand economics, and do you think he picks up everything about the economy that you tell him?

DR. KRUEGER: [Laughter.] Well, first of all, as you know, no good adviser goes into details about their advising. I will say it's been a great honor to work for President Obama. I didn't expect that I would return to Washington. It's only because of the tremendous respect I have for the President and what he's trying to accomplish that I did agree to come back after having served at the Treasury for two years. And in a way, it's kind of similar to the experience I had when I was at Treasury, to work for someone who could do your job better than you. And that's been the experience I've had working for the President.

MR. RUBENSTEIN: So when you were at Princeton teaching economics, was Ben Bernanke there as well?

DR. KRUEGER: Ben and I were colleagues for many years. Ben and I like to point out that, before he was Chairman of the Fed, before he was Chairman of the Council of Economic Advisers, even before he was chairman of the Princeton Economics Department, he was chairman of my tenure review committee. [Laughter.]

MR. RUBENSTEIN: OK. So you have a very high regard for him, I guess. [Laughter.]

DR. KRUEGER: [Chuckles.] Yes. The man has wonderful judgment.

MR. RUBENSTEIN: Right. [Laughter.] OK. And do you expect he'll be coming back to Princeton anytime soon? [Laughter.]

DR. KRUEGER: I can't comment on his – [laughter] – on his plans.

MR. RUBENSTEIN: He held this position, and Arthur Burns held this position, and Alan Greenspan held this position that you now hold, and they all went on to be Chairmen of the Federal Reserve. So do you have any interest in being Chairman of the Federal Reserve? [Laughter.]

DR. KRUEGER: My interest is in seeing the economy recover as best as it can. [Laughter.] And it's been a wonderful opportunity for me to serve the President, serve the country in this capacity. I'm sure that all past Chairmen of the Council feel this way – a tremendous opportunity to use our training to be in a position to provide objective advice to the President, which is what he asked for. He told me to stay out of the politics, to give him the unvarnished, objective advice that the economics profession can provide.

MR. RUBENSTEIN: Right. The President has said he would like to protect the middle class, and obviously he would. But the middle class really would be much lower than the $250,000 number. Explain to me why he says the middle class, he wants to protect them, but $250,000 dollars] is 2% of the population. The middle class would be something like $70,000 for a family of four. Why not decrease or get rid of the tax cuts for people with incomes of $100,000, because they're presumably middle class or above middle class?

DR. KRUEGER: No, there are lots of different definitions of the middle class. And for analytical purposes, many of them are very useful. I think one way of thinking about this issue is that we've had an opportunity gap in this country – and that goes back more than one decade – where people who are not born to fortunate circumstances have much greater challenges moving upwards in the American economy. That has taken place for a number of reasons related to technology, related to globalization.

And what I think is important about our proposals is that by asking the top 2% to pay more, that will provide more opportunity for others to have the same types of chances that they've had. So, for example, what is that extra revenue going to be used for? It's going to be used to help keep student loan rates low. It's going to be used to provide STEM education—science, technology, mathematics, engineering— education for more individuals to have the kinds of opportunities that have made it possible for so many Americans to thrive.

And if you look at what has happened to the distribution of income in the U.S. over the last 30 years, we've seen the very top pull away. It's wonderful that they've done so well. What's important is that we pursue the policies that will reduce this opportunities gap and provide more opportunity for those from the middle and lower income families.

MR. RUBENSTEIN: So you think that 10 years from today our budget deficit is likely to be under $500 billion a year, or what would you project the budget deficit is going to be? We're now running a $1.1 trillion deficit. Where do you think it realistically will be?

DR. KRUEGER: Right. Well, what I would like to see is for the President's fiscal path to be enacted. So again, I'm going to refer you and the audience to the President's budget. And the President inherited an economy where the deficit was exploding, where policies were baked in from the previous Administration that were going to cause the deficit to rise even more. Then, on top of that, the Great Recession reduced revenue and required additional spending to help families through these very difficult times. So all of that was kind of the starting conditions.

What I would like to see over the next 10 years is for us to make the kinds of effort that will put us in a place where we're on a sustainable path, where the debt is not growing, where it's manageable, where it's not crowding out private-sector investment, when the private sector is closer to full employment.

MR. RUBENSTEIN: Do you think the dollar is in reasonably good shape, and do you expect the dollar to appreciate in value against the euro or against the RMB over the next year or so? [Note: RMB stands for renminbi, the official currency of People's Republic of China. Ed.]

DR. KRUEGER: Well, this will reveal that I spent two years at the Treasury, and what I learned there is that it makes a lot of sense to leave the Treasury Secretary a sole voice on the value of the dollar.

MR. RUBENSTEIN: OK. [Laughter.]

DR. KRUEGER: – for good reasons. I mean, it – we don't want to send mixed signals, and I'll let you ask Secretary Geithner that question.

MR. RUBENSTEIN: OK. Well, I'll see if I can track him down to ask him, but – [laughter] – what about the euro? You're allowed to comment on the euro? You can comment on that? [Laughter.]

DR. KRUEGER: [Laughs.] Good try.

MR. RUBENSTEIN: No, you can't comment on that either. OK. [Laughter.]
So what propelled you to go into economics? Was it excitement about the profession? What is it that you – [laughter] – why did you decide you want to be an economist?

DR. KRUEGER: It's a wonderful question. When I started college, I had no idea about the field of economics. I didn't study economics in high school. The only thing I knew when I started college was in a history course I took, I was assigned a wonderful book, called *The Worldly Philosophers.* So I knew a little bit about Adam Smith and Keynes and Thorstein Veblen.

And when I started in college, I had every intention of becoming a lawyer. I found economics remarkably attractive as a discipline, in a number of respects, attractive as a field to do research, where I felt we have a body of principles that make up economics, but they're largely untested. And my interests were in trying to do empirical analysis, to say where does the standard model do well and where does it need to change?

MR. RUBENSTEIN: So were your parents disappointed when you told them you weren't going to be a lawyer? No? [Laughter.]

DR. KRUEGER: No, they were rather indifferent, actually. [Laughter.]

But let me also add, David, because I think it's important, one of the reasons why I wanted to be a lawyer is I thought being a lawyer is one way to help people who needed help. And you know, you think about some of the major court cases that provided more opportunity for children to go to school, for example, and *Brown v. Boa*rd as an example. So I thought that law is a field which could help people who are in need of help.

I thought economics was very much the same kind of field, and in fact what I liked about economics is that it made you think really deeply about the solutions to those problems.

MR. RUBENSTEIN: OK. And what was Larry Summers like as a thesis adviser? Was he easy to work for? [Laughter.]

DR. KRUEGER: Larry was a wonderful adviser. I was actually very fortunate in my education, both undergraduate and graduate school. Larry happened to return to Harvard just when I was starting as a graduate student. And I had macroeconomics class from him and then public finance, and then I worked as his research assistant, and we wrote two papers together in graduate school.

And what was wonderful about Larry is that he thought big. And I remember he said it takes just as much work to write a paper that is unimportant as it does to write a paper that's important; so why not try to write a paper that's important, that's going to influence people's views on important subjects? And he was very encouraging to me and to my classmates.

MR. RUBENSTEIN: So your thesis adviser was Larry Summers. Your tenure adviser, I guess, was Ben Bernanke. Who is smarter, Larry Summers or Ben Bernanke? [Laughter.] You've worked in both – both of them.

DR. KRUEGER: [Laughs.] You know, they're both – [chuckles] – they're both brilliant. [Laughter.] And they're both extraordinarily talented in what they do.

MR. RUBENSTEIN: So if we were to fall off the fiscal cliff, so-called, what would be the impact on the GDP of the United States? Would it be a 5% reduction in GDP or something like that?

DR. KRUEGER: It's a very good question. And I think the way an economist would think about it is, what does it mean to fall off the fiscal cliff? Does it mean that we quickly work these problems out after tax rates return to their higher levels, or does it mean that we never go back? Which is an important consideration.

And what economics is pretty good at is calculating the cash flow consequences of different tax policies, different spending policies – how much money do families have to spend, how much money is the government putting into the economy for defense purchases and other things. That we can calculate pretty well.

If it's a temporary fall off the fiscal cliff, the cash flow consequences are not all that great, and families, if they know it's temporary, can in many cases smooth over those effects.

What's, to me, much more worrisome is the psychological effects of falling off of the cliff, in a number of respects. First, I think it would mean to many people that the government is not capable of solving problems that it's theirs to solve. That's obviously not very good for confidence.

I think the uncertainty of not addressing these problems will have an effect on business behavior and then later on household behavior. And those in the short term could be considerably larger than just the cash flow effects.

MR. RUBENSTEIN: You know, when I was in the government, we had to worry about something you haven't mentioned, that you don't worry about anymore. It was inflation. We managed to get it to 19% – very difficult to do that. [Laughter.] And do you worry about inflation at all now, or is it just something that it's not even in your lexicon anymore?

DR. KRUEGER: Obviously we monitor inflation. Obviously we try to interpret movements in prices. The focus, from my corner of the world, has been more on some relative price movements – price of energy, price of food. The overall level of inflation, as you point out, has been quite low, and a division that we have, of course, is that the Federal Reserve is most focused on policies related to inflation. And they've been addressing that situation, I think, quite well.

MR. RUBENSTEIN: Now if the President called you and said, I know what our economy's doing, because I talk to people all the time, but I really don't know what the Chinese economy's doing, I can't really understand their numbers; what's the growth rate in China? Suppose the President asked you. What would you tell him the GDP growth rate is in China these days?

DR. KRUEGER: That's a really good question. I would have to consult with a lot of people myself in order to answer that.

MR. RUBENSTEIN: So you have no view now on whether it's growing at 7 %, 6 ½%, 7 ½%, or that's not something you focus on as much?

DR. KRUEGER: I have enough trouble focusing on the U.S. economy. I have to say, China's economy has been slowing down. What I think is important from our perspective as well is that we address some of the imbalances that we have with the Chinese economy, which means partly that their consumption increases. But understanding their statistical system is a challenge.

MR. RUBENSTEIN: You're a labor economist, and so we've talked about the unemployment rate. But if you are a white male living in Washington, D.C., and you have a graduate degree and you're 40 years old, what's your chance of being unemployed compared to, let's say, a black teenager living in the District of Columbia?

DR. KRUEGER: It's certainly much lower, and this relates to the opportunity gap I mentioned earlier as well. It's partly a skills gap. It's partly a historical gap. And we have longstanding differences in unemployment by race in the U.S. and by age. There are vast differences in the unemployment rate by educational attainment, for example.

MR. RUBENSTEIN: Right. Now in my generation, the so-called baby boomer generation, a lot of them lost their jobs in the recession, and they decided to retire. So the result is the labor force is smaller than it's been in many years. Is that a reason why the unemployment isn't actually higher than it is, because the labor force is smaller? Can you explain that?

DR. KRUEGER: It's an excellent question. The labor force participation rate peaked in 2000. And we have had many crosscurrents affecting the share of the population that's either employed or looking for a job. That's the labor force.

On the one hand, the labor force participation rate for men has been declining for several decades, for over 30 years it has been declining. For women, up until 2000, labor force participation rate had been rising. Then it peaked around 2000 and has been gradually coming down since then. So what was boosting the labor force participation rate was labor force participation rate of women.

And then the last group I would highlight is teenagers. For teenagers, in part because school enrollment has risen, labor force participation has declined. And in the long run, I think that's a healthy development for the U.S. economy, because we'll have a better-educated workforce.

Now as to your question about the drop in the labor force participation rate, a good chunk of it is just a result of past trends because of demographics, because we have more people in retirement years.

If you look at the drop in the unemployment rate in the last year, in the last 12 months the unemployment rate has come down from 8.9% to 7.9%. That's entirely a result of more people finding work. So the improvement that we've seen over the last year is all the result of more people finding work. And what we want to do is keep pursuing the actions that have helped to bring about this improvement.

MR. RUBINSTEIN: OK. Let's see if we have some questions from our members.

QUESTIONS FROM THE AUDIENCE

QUESTIONER: David asked the question whether the President understood economics; I'm going to ask whether he understands the difference between income and wealth. In the District of Columbia, there are some 80-plus cops who make over $110,000 a year, and a really good teacher in a bad part of the city teaching something people really need can make $145,000. Do you think they think they're wealthy?

DR. KRUEGER: Not entirely sure your salary numbers are right. But if you look at what's happened to the U.S. over the last 30 years, we've had a pulling apart of the income distribution. And the group that's done particularly well is the top 2%. And they did also quite well when their taxes rose under the Clinton years. And, in fact, after tax, their situation improved.

So the President's economic strategy have been to pursue a balanced approach where we address the fiscal problems that had been building over a very long period of time, economic problems that had been building over a very long period of time, by asking all Americans to make contributions. The spending cuts are going to fall disproportionately on middle-class families. The increase in tax revenue that the President has called for will fall on the top 2%. And 98% of Americans, 97% of small businesses won't be affected by the change in taxes that the President has called for and wouldn't be affected by the bill that the Senate passed. And I think one way of addressing our problems very quickly is for that bill to pass through the Congress, through the House.

MR. RUBENSTEIN: Other questions?

QUESTIONER: My question for you is, if you listen to what former President Clinton said before the third debate or some of the stuff that former Labor Secretary Rob Reich has said, they both said the same version of the following. They said, for the markets, for the long-term sustainability of the economy, we have to fix the deficit. And what Clinton said is, let's go ahead and get that deal and make it ironclad, but delay it for a year or two, because what we need right now is continuation of stimulus, which is really reflective of what he said when he was standing by President Obama's side when they extended the Bush tax cuts.

So the question is, do you agree with the conversations that you're having that we need to have a grand bargain, and it needs to go into effect right away, or do you agree with this get the grand bargain, but delay it for a year or two, as some people even on the Democratic side of this debate have argued?

DR. KRUEGER: My job is economic policy adviser, so I really am best leaving the politics of all of this to someone else. I could tell you, as an economist, the right strategy is to get our fiscal house in order, make lasting commitments to show that we can do that and that we're going to do that. That requires additional revenue as well as spending cuts. And we also want to help the economy in the short run.

Now, the President proposed tax cuts that actually would help the economy in the short run. The worst kind of stimulus is tax cuts for the wealthy; the group that has the lowest marginal propensity to consume are the wealthy. The Congressional Budget Office last week released a report which concluded that extending the middle-class tax cuts would create 1.6 million jobs, compared to allowing them to expire, and those at the very top, it was only around 200,000.

And that misses the fact that if you take the revenue raised from allowing the top rates to expire and use that to do things like hire more schoolteachers, use it to provide unemployment benefits for those who are unemployed, or use it for infrastructure investment, that will create additional jobs. I think that's the best way to support the economy in the short run, as well as to help us in the long run, because, of course, the students will benefit from the additional science and math teachers, and the economy will benefit in the future from that infrastructure investment.

MR. RUBENSTEIN: OK. Another question right here.

QUESTIONER: Could you talk about Social Security and some of the so-called pork-barrel programs and Medicare? I think this is a part of the solution that is consistently overlooked.

MR. RUBENSTEIN: You mean talk about the entitlements and what's going to happen with them? In 30 words or less. [Laughter.]

DR. KRUEGER: I appreciate that.

You know, first of all, I'd like to refer people to the President's budget, because one of the things we learned last week is, it's been a bit of a revelation to many that the President has in his budget $1.6 trillion of additional revenue. He also has in his budget some pretty serious reforms to the health programs, which ultimately are the driver of our long-term budget deficit. So the President said he's open to new ideas, to creative solutions, and in the budget, I think there are many proposals that will address the entitlement issue.

MR. RUBENSTEIN: OK. We have time for one more question

QUESTIONER: I have a question about the Tax Code. People get excited about the income level number, but if the rest of the federal government can accommodate a cost-of-living concept, why can't the Tax Code accommodate the cost of living? Because obviously, the cost of living in different parts of the country is different, so $250,000 would be vastly different in Toledo than in Washington.

MR. RUBENSTEIN: OK. I guess the question is, why don't you use a different standard for people in different parts of the country, of the $250,000 versus, let's say, $230,000 or something?

DR. KRUEGER: I have to say, that's a question I haven't thought about before. The Tax Code does have certain indexation in it. You know, certain provisions are indexed in the tax for inflation. They're not regionally indexed. And we do have a very mobile society, and people move across regions. And I think it would be quite difficult to administer that type of a Tax Code. We are certainly open to looking at innovative solutions to problems. And, you know, I think, as a labor economist, developing better measures of cost of living in different parts of the country can be very valuable for public policy. And it's an interesting idea.

MR. RUBENSTEIN: What about the death tax? You talk about that. You think people will live longer if you have higher taxes on their death? [Laughter.] Or they just want to live longer? Or – you don't know.

DR. KRUEGER: I prefer to call it the estate tax.

MR. RUBENSTEIN: Estate tax. OK. [Laughter.]

Alan, thank you very much. I want to you give you a gift on behalf of The Economic Club of Washington –a copy of the first map of the District of Columbia. [Applause.]

DR. KRUEGER: Wow. Thank you. You know, my walls are pretty barren.

MR. RUBENSTEIN: Thank you again.

Alan B. Krueger

Alan B. Krueger is the Chairman of President Barack Obama's Council of Economic Advisers and a member of the Cabinet. He was confirmed by the Senate on November 3, 2011. Previously, he served in the Obama Administration as Assistant Secretary for Economic Policy and Chief Economist at the Department of the Treasury.

He is currently on leave from Princeton University, where he is the Bendheim Professor of Economics and Public Affairs. He has held a joint appointment in the Economics Department and the Woodrow Wilson School at Princeton since 1987. In 1994-95, he served as Chief Economist at the U.S. Department of Labor. A labor economist, Krueger has published widely on unemployment, the economics of education, income distribution, social insurance, regulation, terrorism, finance, and the environment.

Prior to assuming his current position, Mr. Krueger was a member of the Board of Directors of the MacArthur Foundation and the Center for Economic Research and Graduate Education at Charles University in the Czech Republic, and a senior scientist for the Gallup Organization. He also has been a research associate of the National Bureau of Economic Research, a member of the editorial board of *Science,* and has served as chief economist for the Council for Economic Education. He was named a Sloan Fellow in Economics in 1992 and an NBER Olin Fellow in 1989-90. He was elected a Fellow of the Econometric Society in 1996, a Fellow of the Society of Labor Economists in 2005 and a member of the Executive Committee of the American Economic Association in 2004. He was awarded the Kershaw Prize by the Association for Public Policy and Management in 1997 and the Mahalanobis Memorial Medal by the Indian Econometric Society in 2001. In 2002, he was elected a Fellow of the American Academy of Arts & Sciences, and in 2003 he was elected a Fellow of the American Academy of Political and Social Science. He was awarded the IZA Prize in Labor Economics with David Card in 2006. From March 2000 to February 2009, he was a regular contributor to the "Economic Scene" and Economix blog in *The New York Times*.

Alan Krueger received a B.S. degree, with honors, from Cornell University's School of Industrial & Labor Relations in 1983, an A.M. in Economics from Harvard University in 1985, and a Ph.D. in Economics from Harvard University in 1987.