



Economic Experts Weigh in on How to help the Middle Class

'World News' Asked a Group of Economic Experts What Needs to be Done

March 17, 2010—

Most experts would agree that no one has been hit harder by this difficult economy than the middle class. So as part of our series "[The Comeback: Saving America's Middle Class](#)," we have reached out to economic experts to get their opinions on what needs to be done to make the middle class as robust as it once was.

We also want to hear from you. What do you think of the solutions provided below? Would they be helpful to you? What do you think needs to be done in order to help the middle class?

Watch "The Comeback: Saving America's Middle Class" all week on "World News with Diane Sawyer" and at ABCNews.com/wn



Robert Reich, Professor of Public Policy, University of California, Berkeley. Secretary of Labor under President Clinton. Member of President-Elect Obama's transition advisory board.

Responsibilities of the big banks: Help out struggling homeowners who are "under water," owing more on their homes than the homes are worth. The big banks should refinance the mortgages, reducing the principal as well as interest rates.

Help out struggling small businesses, whose jobs are the life blood of the economy. The big banks should establish a revolving credit fund to aid small businesses (and the smaller banks that lend to them).

At the least, stop blocking legislation that would allow struggling homeowners to put their homes into bankruptcy and thereby have special masters oversee orderly repayment schedules.

Stop blocking legislation that would establish a consumer financial protection agency, so consumers in the future weren't misled into taking out loans they couldn't possibly repay.

Lobby government for a bailout of public education interest-free loans to states and locales to avoid more

layoffs of teachers, shorter school weeks, shorter school years, and tuition hikes for community colleges and public universities arguing that "human capital" in terms of the skills and insights of our nation's people is even more important than financial capital, which got bailed out.



William Poole, senior fellow at the Cato Institute and the President and Chief Executive of the Federal Reserve Bank of St. Louis from 1998 to 2008

I believe that banks have the same responsibility every business has to do business ethically. But no business, in my view, should view its role as that of a charitable entity. Banks and other businesses do make charitable contributions but should leave charitable decisions to the charities.

The issue is this: Do we want a bank, or any other business, to make judgments as to which of its customers is deserving of help and which is not? No business is well positioned to make such judgments. And if a bank does provide assistance to certain customers, who should bear the cost? Other customers, in the form of higher fees and other charges? Shareholders, some of which may be pension funds and university endowments, for example, that need dividends to support their own missions? Asking any business to help struggling families has surface appeal, but a deeper evaluation shows how flawed the idea is. Indeed, even the way your question is phrased reveals the weakness of the idea. Why should aid go to middle class families rather than to the very poor?



David Kotok, Chairman and Chief Investment Officer, Cumberland Advisors

Banks are obliged to conduct their business with clarity and for profit. That is their role, not giving out grants. They participate in communal ways. But you asked only about "big" banks so you narrowed it to those whose activities are more regional or national or global.



Diane Swonk, Chief Economist, Mesirow Financial

The big help to the middle class came from the excessive credit provided by the shadow banking system, the members of which are either dead or now converted to banks (GMAC was one of largest providers of mortgage credit prior to the crisis. Now it is a bank and faces same constraints as banks.). The shadow banking system was a \$10.5 trillion business. This was a huge provider of credit to the middle class, which big banks competed with, but poorly. We can't escape the fact the shadow banking system is dead. Add to that the fact that credit defaults are rising and we are telling banks to give better-quality loans, and helping the middle class is a bit counterproductive.

Separately, we have to remember that the easy credit environment, combined with our insatiable demand for that credit, was driven in part by a shrinking middle class. Income inequalities in 2007, prior to the recession, were at their highest level since 1929.

That said, what can be done? Many smaller banks are experimenting with principal forgiveness to help accelerate deleveraging but keep people in their homes at same time. This is hard for many big banks to do as they do not hold the mortgage debt that they have, but it would be the biggest gift and help to the middle class at a time when people who put 20 percent down on their homes are now underwater and out of work.

This is a huge area, but the issue is less about what the big banks are or are not doing, more about how the primary source of credit for the middle class is gone, and much of it shouldn't have existed in the first place. They key isn't as much to lend more, but to provide a life raft for consumers who did it the right way to stay in their homes and deleverage in a way that forced more costs onto economy as a whole.

Note: The largest TARP recipient was AIG, not a bank. On the list of what is left, you have GM and Chrysler. The Treasury has made a profit from banks who paid back the TARP.



David Wyss , Chief Economist, Standard & Poor's

I think the biggest responsibility is not to make them loans they can't afford to pay back. More foreclosure relief should be undertaken, but I think the biggest obstacle is the existence of multiple mortgages on the same property, since the second lien holder has little incentive to join in the agreement.



Mark Calabria, Cato Institute, director, financial regulation studies

My response to the question is that the first responsibility of banks getting federal assistance is to pay back that assistance. While many have already done so, more need to.

I do think we need to keep a balance in mind on the topic of expanded lending. As the housing bubble/bust and resulting foreclosures demonstrated, we don't do families a favor getting them into a home they can't sustain. Nor do we do a favor to small businesses giving them loans they can't repay. So government policy should refrain from pushing banks to make loans based on political need rather than sound business practices.

That said, lenders should be encouraged to make responsible, sustainable loans. I am not sure I would call that "help." I don't think banks should be giving subsidies or making loans at a loss; after all that's one of the reasons we are in this mess.

For many loans, such as mortgages, the bank is often just the servicer, not the actual owner/investor in the loan. As the taxpayer is currently the largest investor in mortgages, the taxpayer should not be asked to take any more

losses (I'm opposed to the notion that since banks got taxpayer-funded bailouts, everyone should then get a taxpayer funded bailout).



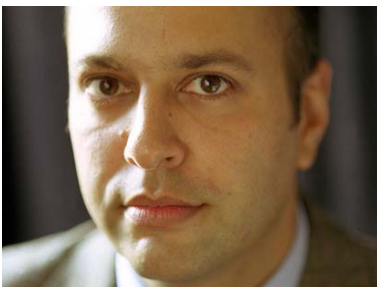
William Donaldson, Senior Financial Executive, Former SEC Chairman

I'm no expert in this area, but would say they could probably help in making sure the design of products sold to middle-class people are well-constructed and understood by the people they are selling them too. This is the thesis behind the CFPA about to be proposed out of Senate Banking Committee.

Think they ought review their whole interface with so-called middle-class customers that would be partially providing services that fit with the resources of middle class clients. Conversely, they would be well-advised to make sure that the kinds of transactions and relationships they are offering are fair and, most importantly, well-understood by the people proposing to buy them.

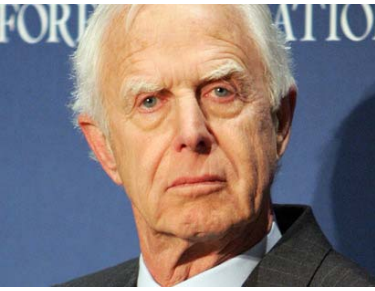
Banks have all sorts of obligations to treat all customers, not just middle class, in a fair way. After all, they are in business to make money, but any well run organization, banks included, should have an ethic, if you will, that recognizes it is a part of their responsibility not just to make a sale, but run an ethical business.

The Wall Street, Main Street issue has been, in a way, overemphasized. I think a lot of the blame for difficulties rests not just with Wall Street, but with other players, most particularly legislators and regulators who interpreted the rules perhaps not strictly enough to head off the problems that we had.



Lakshman Achuthan, Managing Director, Economic Cycle Research Institute

As students of the business cycle (not to be confused with economists) we understand it is normal for non-financial credit growth to continue easing well into the recovery, and only turn up in the wake of the business cycle upturn -- after lenders are less scared and people are eager to borrow again.



Arthur Levitt, former SEC Chairman

I think banks are vital part of our society. Without them we have no business, we have no jobs, we have no growth potential. If the banks are taking something out of society without giving back, in terms of outrageous fees and expenses, that has an equally negative impact.

It should be a balanced relationship, as members of the community, prepared to do good for society. Banks have to lend, but they have to lend responsibly. Forcing them to lend to get money out there as they did in the case of bad loans is counterproductive. We ought to involve them to develop programs to lend, to create jobs, to help communities. I for one am a supporter of the Community Reinvestment Act, very important program.

But the banks have got to be partners in any effort to restore economic stability and to grow the American economy. They have to act responsibly, but that doesn't mean they have to give away money just for the sake of giving it away. There has to be a sense of responsibility for lender and borrower.

Banks, along with other elements of society, have a responsibility to help average Americans who are struggling, yes. We are in a desperate situation today and the banks are one of those elements in our society that are critical to the restoration of economic stability. Do the banks have to do more than usual? Yes, but so do we all.

Banks have got to be creative in terms of lending that stimulates business and creates jobs. I personally believe banks need to take a more active role in cultural institutions because I have never seen a community where the death of the cultural institution hasn't been bad for business. There is an amazing parallel between the health of cultural institutions and growth of business in that community. Communities with healthy cultural institutions are the best ones in which to do business.

In our polarized society today where politicians are playing blood sport to kill one another, it is essential that banks and communities begin to work together rather than throwing bombs at one another. I think it is a responsibility of banks to reach out to communities, not only for the community's survival but the banks' as well.

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