
Jeffrey Sachs: How to Escape Our Economic Problems

The Labor Department announced Friday that the [U.S. economy lost 95,000 nonfarm jobs](#) in September, higher than the 8,000 loss anticipated by Wall Street economists. Jobs growth was underwhelming as well, with private-sector nonfarm employment expanding by 65,000 in September, as opposed to an expected 85,000. On the plus side, economists had forecast the unemployment rate to rise to 9.7 percent, but it remained steady at 9.6 percent, and earnings are up 1.7 percent in the past year.

Noted economist Jeffrey Sachs says short-term policies have set us up for long-term failure—and outlines an escape from this trap.

A recent bestseller, *The World Without Us*, describes how our built world would fall apart with stunning speed if humanity suddenly disappeared from the planet. New York's subways and underground tunnels would quickly flood with water as soon as the pumps stop. The collapse of manmade structures above ground would soon follow. A scientist would classify the rapid collapse as another example of the second law of thermodynamics: Unless we invest high-quality energy to maintain order, increasing disorder (entropy) becomes inevitable.

An economy, including its subways and tunnels, is a highly ordered system, requiring constant investments to maintain structures, and even more investments needed to make progress. America is falling apart in many ways because the world's most complex and highly ordered economic system is starved for meaningful investments. America has under-saved and under-invested for a generation.

Macroeconomists have failed to recognize or to emphasize this basic point. Their over-emphasis on short-term issues—stimulus, aggregate demand, and tax cuts—have helped to blind policymakers, politicians, and the public to the real weakness of the economy: chronic over-consumption and under-investment in a range of critical areas, including human, intellectual, infrastructure, natural, social, and business capital.

Most of these investments will require an effective mix of public and private efforts. Human capital, for example, is built through public education, private education, and on-the-job training in the private sector. An astounding 20 percent of America's children are growing up in poverty, and these kids will have almost no chance to complete a university degree in the future unless there is an expanded, long-term, and thoughtful public effort. Today's unemployment crisis is heavily concentrated among workers with lower levels of educational attainment. By neglecting the poor, we are simply building a far larger employment crisis in the future.

One can examine every major dimension of economic disorder, and find evidence of deep and chronic under-investment. The infrastructure is crumbling, the energy system is deteriorating as domestic resources are depleted, the climate crisis is growing through America's faith-based denial, and the R&D needed to solve major challenges such as the transition to a low-carbon economy and a climate-resilient agricultural system.

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Resumes are reviewed at the BostonHires job fair in a hotel in Boston, MA. (Steven Senne / AP Photo)

The American economic debate in the face of these looming challenges has been dismal. Everything has been short term, and largely oriented towards boosting car, home, and consumer-durable sales. Even investments have had to be “shovel ready.” The Government’s time horizon has been months, as long as to the mid-term elections. Most economists have played along, talking about mostly short-term multipliers (a dubious analytical construct in any event) without any attention to the real underpinnings of the crisis.

• [Over 160 economists back The Daily Beast’s Reboot America! Manifesto](#) Macroeconomists have debated tax cuts versus spending increases mainly, and sometimes solely, according to relative multipliers, with no recognition that a tax cut can’t substitute for a spending increase if the spending is actually needed to educate a child, or build a bridge, or reduce a carbon emission. Some macroeconomists are using historical data to claim that spending cuts rather than tax increases are more likely to balance the budget, again ignoring the present needs for

particular kinds of government outlays. Government, in short, matters not only for aggregate demand, but also for the contributions of government to public investments and social wellbeing. This is a basic and perhaps primitive point, no doubt, but one that has been largely ignored in our learned macroeconomic debates.

The problem with short-term stimulus is that it has crowded out long-term thinking, financing, and politics. Economic policy has been an improvisation, with no evidence of a serious plan or medium-term expenditure framework. One reason, clearly, is that any serious medium-term program would have to acknowledge the need for tax increases, but Obama apparently feels that acknowledging that would be a death knell for his re-election. In this sense, all American political economy these years is based on tax-cutting fantasy.

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Even worse, the stimulus legislation, predictably, proved to be a one-shot wonder. It was so scatter shot and unconvincing to the public that it gave a black eye to public spending in general. Around one-third was tax cuts (useless and unwise given the budget deficit), one-third was transfers to states (much of it needed, but a grab bag without much public confidence), and around one-third was “shovel-ready” public investments, but without any clear planning or serious strategic thinking. The package as a whole reflected no clear philosophy, and no demonstration of a serious approach to the management of the public’s money. The recent \$50 billion infrastructure proposal of the Administration is another example of basically correct direction but more than a year late in coming and without evidence of a proper plan to underpin it.

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The gung-ho stimulators have leaned heavily on their faith in stable, predictable, and sizeable short-term Keynesian multipliers. There is a whole generation of macroeconomic reasoning that in fact casts doubt on this Keynesian faith, based on the insight that adverse expectations about the future can weigh heavily on the impacts of current policies. America's bulging budget deficit, nearly 10 percent of GNP, casts a dark shadow over the future economic environment, plausibly leading households and firms to hold back on spending today because of the likelihood of swingeing spending cuts, tax increases, economic crisis, or policy reversals, within the next five years. Paul Krugman seems certain that more tax cuts (or deficit-financed transfers) have the expected effects of a static Keynesian model. I'm not so sure, since they would also raise uncertainties and the possibility of a future fiscal crash. I'm quite sure, however, that a much greater focus on long-term investments and budget framework will be vastly more valuable than more short-run policy improvisations and medium-term budget uncertainties.

The politicians' timeline is drastically short term, too short for the public good. Economists should therefore help to enlarge the time horizon, as a contribution to the public good. The world should not be arranged for the convenience of politicians.

In the short term, a few things are feasible. There should of course be relief for those in trouble, not only unemployment compensation but also help to get young people off the unemployment rolls and back to school, and also to trim long working hours in order to share jobs, as has worked successfully in much of Europe. We should also limit CEO compensation, to leave more for the workforce. The CEO compensation process is scandalous. The CEOs choose the Board members who set the CEO's salary, while the CEO in turn ensures lucrative compensation for the Board members.

Yet short-term measures will not solve America's deeper economic malaise. It's time to push a long-run perspective, and not the vacuous one of cutting entitlements for the poor and working class, but a serious one of investing in human capital, infrastructure, technology, and the environment. The claim that Social Security and Medicare benefits need to be cut in order to balance the budget is absurd in an era when the richest percent of households now bring in around 25 percent of national income. Before cutting benefits for the poor and middle-class, the rich should first be required to pay in line with their vast incomes and wealth. That would be at least another couple percent of GNP, collected ideally through a steeply graduated consumption tax.

Jeffrey Sachs is a professor at Columbia University, the director of The Earth Institute and a special adviser to United Nations Secretary-General Ban Ki-moon. From 2002 to 2006, he was director of the [U.N. Millennium Project](#). Sachs is also president and co-founder of [Millennium Promise Alliance](#), a nonprofit organization aimed at ending extreme global poverty.