A new economic strategy for America

Almost the entire country seems to agree that the debt deal is miserable. Yet the shouting does little to clear up what is really wrong with the deal and with the U.S. economy. Democrats blame Republicans, and Republicans blame Democrats. But both parties are partners in America’s decline.

We need a new direction in the country, and that requires taking on the powerful interests represented by both political parties.

President Barack Obama has failed to lead the country out of crisis. This is not just because of right-wing opposition, but also because Obama has promoted the wrong ideas. He came to office following the end of a Wall-Street-fueled consumption binge that had started during the Clinton administration and collapsed in 2008.

Obama’s misguided strategy was to try to revive America’s over-consumption, through a series of tax cuts, increases in government spending, wasteful programs like “cash for clunkers” and a flood of liquidity from the Federal Reserve Board. The strategy was misconceived: once a bubble bursts, it cannot—and should not—be recreated.

Obama surrounded himself with the Wall Street types who had deregulated the financial sector and thereby created the bubble economy under President Bill Clinton – Robert Rubin, Larry Summers, Gene Sperling and many others.

What kind of economic policy can one expect when nearly every senior administration official on the economic team is tied to Wall Street? The answer is predictable: One that is unfair, shortsighted and loaded with gimmicks. Yet in our exhausted, post-binge economy, the gimmicks don’t even create a blip in jobs and growth, much less a sustained recovery.

Obama’s fiscal policies have been especially naïve. He inherited a $1 trillion deficit and immediately announced a “stimulus” bill to raise the deficit by another $400 billion or so per year. His idea was to throw money at the recession, in the name of raising “aggregate demand.”

Instead of being a careful steward of the nation’s budgetary resources, Obama acted as if it did not matter to run up the public debts at an unprecedented rate. He was egged on by an incredibly crude version of Keynesian economics that should have had no place in national policy making.

The Republican opposition is, of course, far nastier and its economics are even worse. The GOP holds that there is one and only one answer to every problem: lower taxes on the rich.

In the Republican ideology, the super-rich are the job-creators and therefore deserve all the money we can shove their way, even as tens of millions of Americans struggle to make ends meet. There is also the idea that the poor are unworthy — for example, an illegal minority migrant household.

The Republicans forever prey on a divide-and-conquer mentality, which is indeed leaving our country divided and conquered by hate and fear.

The United States has therefore been left in the lurch between two deeply flawed positions. One side shows little concern for the government’s moun-
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ting debts. The other side is greedy and cruel. We have thereby ended up with both the Obama and
tea party worlds: in deep debt and in deep division.

Instead of building a productive society, we are living in a broken economy in which vast numbers
of Americans are left without decent skills and jobs, and the United States finds itself unable to compete
effectively in world markets.

Here is what Obama should have done. He should have started his term in early 2009 by recognizing
that he (and we) had inherited a budget deficit unprecedented since World War II, as well as an
economy that was neither competitive internationally nor able to continue with the consumption
binge of the preceding 12 years.

Instead of trying to recreate the consumption bubble by a short-term, and shortsighted, stimulus package,
he should have said the following to the American people.

“We will put Americans back to work only by regaining the job skills and productivity needed to
compete in world markets, with a workforce equipped with quality education, advanced technology,
scientific know-how and world-class infrastructure. Our recovery must be led by new investments and
exports that will strengthen our country during the coming decade and beyond.

“I have been advised by some Clinton-era economists to stimulate the economy by cutting taxes and
raising spending on “shovel-ready” projects. I am rejecting this. We can’t afford to expand our budget
deficit above the dangerously high level that my administration inherited. Nor can we rebuild our
economy with shovels. We should not rebuild with low-skilled jobs and technologies that will not serve
our needs in the 21st century.

“In the spring of 2009 I will send Congress several bills. This will include legislation to build advanced-
technology job skills, invest in the health and education of our children, create an advanced energy
system that taps our vast renewable resources, build a 21st-century transportation network and
invest in scientific research to open new frontiers of knowledge and ensure U.S. leadership in 21st-
century technologies.

“My program will provide a new economic framework for a new century. It won’t solve our problems all at once, but can lay the foundations for eco-
nomic renewal for a generation to come. Meanwhile, we will help those who have been displaced by the
economic crisis, through job training, scholarships to return to school and temporary income support.

“We will restore high-quality jobs by regaining our competitiveness in an increasingly demanding glo-
bal marketplace.

“Our budget spending must be paid for. We must start immediately to reduce the deficit from the $1
trillion mark. The starting point will be to end the two useless and destructive wars. I am announcing
the complete withdrawal of troops from Afghanistan and Iraq by the end of 2009. We will thus save
up to $1 trillion in direct outlays and indirect costs during my term — as well as countless lives.

“We also call on all Americans, particularly the richest, to do their part. The rich have never had it
so good. Bankers have been taking home tens of billions of dollars in annual bonuses, and are now
turning to us for bailouts. I say: No More.
We will tax the banks, tax the hedge funds, cap the bonuses and crack down on the overseas tax havens that super-rich Americans and corporations use to stash away trillions of tax-free dollars. All Americans – especially the richest – will pay their taxes to help our society build a productive, inclusive and sustainable future. That is the price of civilization.”

This is the speech we didn’t hear then, and indeed haven’t heard to this day. Instead, the administration has offered us a string of improvisations, excuses and costly brawls, when the nation cries out for leadership and a direction out of the crisis.

America will recover when we again start looking past the next election to the next decade and beyond. When we stop crippling the government with short-term gimmicks and tax cuts, and again start investing in our nation’s future.

Americans know that there is no quick fix. But they expect more than policy paralysis and government of, by and for the lobbyists.

It is time for America to start anew, with a political movement and economic strategy to rebuild the foundations of a productive and fair society.

*Jeffrey Sachs is an economist and director of the Earth Institute at Columbia University. His new book “The Price of Civilization” is due out Oct. 4.*