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Politics

Jeffrey Sachs: A Real Jobs Program (Updated)

Barack Obama sends his American Jobs Act to Congress today. Supporters are thrilled that the president is taking his fight to the people. Even many skeptics are saying that at least Obama is offering a first step, while acknowledging that the plan is not enough.

Unfortunately, the facts are more prosaic. Obama's proposals are simply the same as since the start of 2009: temporary tax cuts (half the new program) and temporary spending increases. These policies are not effective.

The theory behind Obama's policies is Keynesian: that a temporary package of tax cuts and spending increases can provide a short-term boost while the economy returns to self-sustaining growth. Many economists agree with this logic, but the underlying economic theory is much weaker than supporters realize. It fails on two counts.

First, the US economy needs more than a temporary stimulus to return to self-sustaining growth and full employment. Our growth and employment problems are structural, and need a structural response. Second, the stimulus might not actually stimulate very much even in the short term.

Obama's economic strategy assumes that the U.S. economy has a strong natural tendency in the medium term (say three to five years) to bounce back from the 2008 recession with renewed growth. The interpretation is that demand for new homes has temporarily declined as a result of the bursting of the housing bubble and the bankruptcy of Lehman Brothers, but that private demand will quickly recover, especially if jolted by a temporary stimulus. Yet the problem in the US is deeper. The collapse of housing is actually a symptom rather than the fundamental source of US economic weakness.

The structural problem is that America has lost its international competitiveness in basic industries including textiles, apparel, and several other areas of manufacturing. The production jobs are now in China, India, and elsewhere, where wages are much lower while productivity is more or less comparable to the US (and where production often involves US companies, using US technologies, producing overseas and re-exporting to the US market). Only US college grads can resist the international competitive pressures; high-school grads have found the labor market fall out from beneath their feet.

The housing boom between 1998 and 2008 was an indirect reaction to the loss of manufacturing. As the US shed manufacturing jobs in the 1980s and 1990s, the Federal Government and Federal Reserve tried to compensate by boosting jobs in construction and other sectors shielded from international competition (so-called non-traded sectors). The Fed cut interest rates and the White House and Congress promoted housing finance, including through reckless deregulation and irresponsible behavior by government-backed entities like Fannie Mae. These efforts produced a temporary boom in housing, followed by the bust in 2008.

Obama and his advisors have believed, in effect, that they can reignite the housing boom. Rather than reacting to the underlying problem -- the loss of manufacturing competitiveness -- they have acted as if a bit of pump priming and the passage of time will recreate consumer-led growth in housing, autos, and other sectors.

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Yet this approach has been doomed to fail, and continues to do so. Consumers will not return quickly to buying houses, cars, and other big-ticket items in large numbers. They are exhausted and in debt, and in no mood to repeat the earlier disasters of over-borrowing.

The other mistake has been the White House's confidence that stimulus works reliably and predictably to raise employment and output. Yes, many economists outside of the White House also share this faith, even though the evidence for a stable «multiplier» linking tax cuts or spending increases with higher employment is very weak. Because households and firms view the tax cuts as temporary, knowing that the government will have to reverse them in order to close the budget deficit, they are prone to use the tax cuts to pay down debts («deleverage») rather than to engage in new spending or hiring.

One of the common errors of our recent policy debate has been the belief that various studies of the Congressional Budget Office (CBO) «prove» that the stimulus measures have raised employment and output. Careful readers of the CBO reports know that the CBO has proved nothing of the sort. The CBO reports have assumed that the stimulus works, relying on multipliers found in its mathematical models of the US economy. The CBO hasn't in fact re-examined its model for purposes of estimating the impacts of the stimulus policies.

Yet the actual outcomes of the US economy have been far worse than were expected. Unemployment, of course, remains above 9 percent when it was expected in early 2009 to fall to below 7 percent by today. There is, alas, no reason to believe that the stimulus packages have done much of anything to stimulate the economy even in the short term, much less to bridge the gap to the revival of sustained growth.

There is an even deeper reason for the public's disorientation over Obama's rhetoric. President Obama repeatedly and rightly discusses the longer-term prerequisites for restoring competitiveness: investments in infrastructure, renewable energy, job training, and quality education. Yet these alluring long-term visions are almost completely disconnected from Obama's actual budget policies, which are relentlessly short-term and without strategies beyond a year or two. This disconnect between Obama's soaring rhetoric and lack of long-term plans was on display in the jobs speech this week.

Obama is right that the Republican vision of relentless tax cuts, deregulation, and shrinking government is the road to ruin. Yet Obama's alternative of short-term and shortsighted stimulus is only marginally better. Neither approach is getting America back on track.

America requires at least a decade of well-designed and well-executed national investments in people, infrastructure, and innovative technologies, in order to boost competitiveness and renovate the economy. Yet such an effort requires serious plans, careful deliberation, and higher taxation on deadbeat corporations and the super-rich. (Obama's endorsement of lowering corporate tax rates in return for ending loopholes augers poorly once again, since it invites yet another gimmicky tax negotiation in the interests of the rich.)

I have no joy in expressing my skepticism of the latest «plan» (the fourth this year by my count, including the February budget, the April course correction, the August debt deal, and now the September jobs plan.) I want the president to succeed. I find the Republican opposition to be the epitome of greed and shortsightedness. Yet the truth remains: both parties are failing the American people. The needed professionalism of government and shared responsibility by America's elites have proven to be elusive for the political and economic establishment.

This post has been updated from a previous version.

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