

November 11, 2012 4:39 pm

Obama has four years to fix the economy

By Jeffrey Sachs

The US election was fought on first principles: should government be strengthened or dismantled? The answer was resounding. The public wants better government, not less government.

Much of the economic debate in the US has been over short-term stimulus but the election turned on long-term structural issues. Barack Obama solidly carried much of the Midwest because he championed an industrial policy for the automobile and allied industries. What saved the Midwest was not a temporary stimulus but a skilful rescue package, complete with government financing and public investment in research and development directed at next-generation electric vehicles.

Though climate change was the issue, neither candidate wanted to mention it played the leading role in the final act, in the form of Hurricane Sandy. Not only was the east coast reminded of the furies of a rising ocean level; it was reminded again of the need for collective action to anticipate, ameliorate, and respond to emergencies.

The problem for Mr Obama in the second term is that he does not yet have an economic strategy commensurate with his vision of a proactive government. Low tax revenues continue to leave the US vulnerable. The US government collected only 32 per cent of gross domestic product in revenues last year, compared with 38 per cent in Canada, 45 per cent in Germany and 49 per cent in Sweden. The latter countries can overcome budget deficits, poverty and outdated infrastructure. The US cannot. It will need a tax ratio like Canada's by later this decade to get the job done.

Yet revenues are not enough. The entire Keynesian apparatus that dominates Democratic party circles is also outdated and outmoded. It is a cyclical theory trying to fit a secular (that is, long-term) structural challenge. The US needs massive overhauls of its key economic sectors, almost all of which have public and private sector components that are deeply intertwined. Aggregate demand management cannot fix excessive healthcare and college costs, broken infrastructure, or an economy based on fossil fuel that needs to be decarbonised.

The modern president must therefore not be the overseer of aggregate demand but the

conductor of deep-seated structural changes. He should be the convener of governors, mayors, university presidents, CEOs, healthcare providers and scientists to clear the obstacles from investment programmes in energy, education, infrastructure, health and skills.

Mr Obama's legacy should be to foster the overhaul of the US economy. The IT revolution can and should lead to low-cost online universities, radically lower healthcare costs, smart grids, smart cities and smart low-carbon energy systems. The government can lead the way, for example, using the federally supported land-grant universities to lower the costs of higher education through IT-enabled delivery. It can truly leave no child behind – as President George W. Bush's education reform promised – not through a naive test regime, but through upgraded pre-school programmes for poor kids, IT-enabled schools, e-tutoring, and countless other innovations already taking hold around the world but strangely lagging behind in the US.

Who will pay and who will back this new dispensation? It is easier than it looks. Wipe out the tax havens by charging a minimum 20 per cent corporate tax rate on all companies whether they book their profits in the Cayman Islands or not. Cap deductions for high-income taxpayers. Impose a modest wealth tax on the mega-rich. And tax carbon emissions and financial transactions. These measures are tough politics but good economics, and they are good revenue raisers. And they would fund a true reform agenda.

As for the governing coalition, the president need not put the fate of his reforms in the hands of Congressional holdouts and K-Street lobbyists. The business is with the people, and notably with the mayors and governors around the country. They want answers to storm surges, flooding, traffic jams, overpriced education and healthcare, and so on. They need electricity every day. This means four years of problem-solving out in the country. Yes, I'm sorry to say it, but the campaign has just begun. Yet this one is for America's future, not for an elective office.

The writer is director of the Earth Institute at Columbia University and author of 'The Price of Civilization'

You may be interested in

Attention quickly turns to fiscal cliff

Myriad worries fail to dim the allure of stocks

Obama fires first in fiscal battle

Place in legend is secured

Cobham concerned over US fiscal cliff

It's the post-election earnings, stupid

Re-opening of Olympic Stadium delayed

US election: Four more years

Would-be mayors unite against Severn barrage

Private banks go the extra mile

Printed from: <http://www.ft.com/cms/s/0/146b2002-2a64-11e2-a137-00144feabdc0.html>

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

© **THE FINANCIAL TIMES LTD 2012** FT and 'Financial Times' are trademarks of The Financial Times Ltd.