Economic Growth Program

Jobs and the New Growth Agenda

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President Obama's December 3rd jobs summit has drawn attention to the debate over policy options for job creation. The case for intelligent and aggressive public policy to promote job creation, in addition to the helpful but inadequate stimulus package, is overwhelming. The official unemployment rate is currently 10.2 percent, and rises to 17.5 percent when marginally attached workers and those working part-time out of necessity are included.[1]

> Instead of a temporary program to be repealed when the economy recovers, what is needed is a sustained economic growth program.

What some call the Great Recession is no ordinary cyclical downturn to be followed in due course by a normal recovery. The economic emergency combines the effects of a global financial crisis with the bursting of a decade-old bubble economy driven by asset inflation. The recovery period will be protracted and characterized by high unemployment. Instead of a temporary program to be repealed pending recovery, what is needed is a sustained economic growth program in which short-term policies are converted into permanent structural reforms as the economy grows stronger.

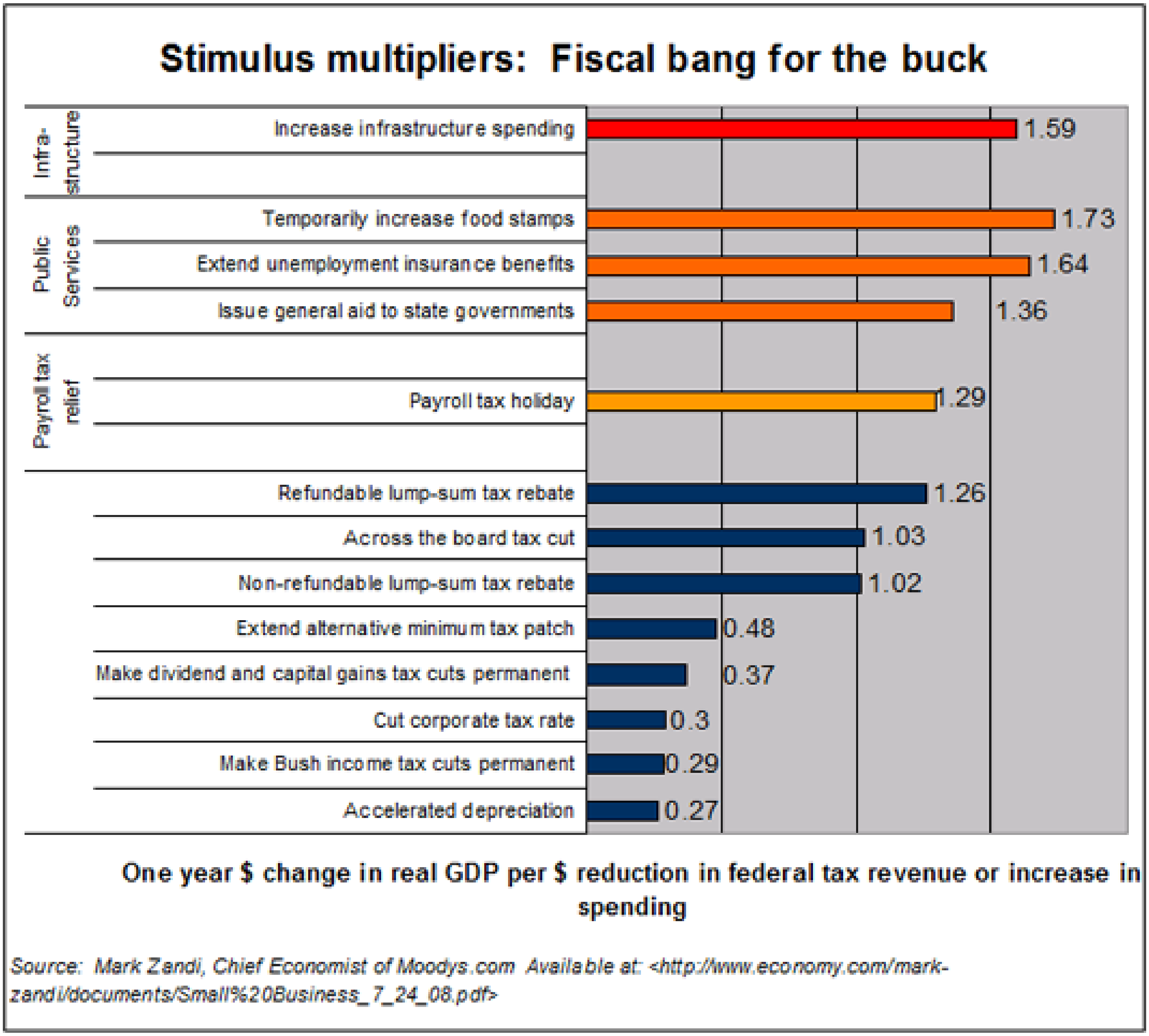
An effective program for creating jobs in the short term while laying the groundwork for future growth must meet several tests. First, public spending or tax expenditures must have high multiplier effects. Second, short-term policies should be of value if they are converted into long-term reforms. Finally, the scale should be adequate and substantial, not inadequate and symbolic.

These tests are met by a new growth agenda with three major elements:

- **Infrastructure Investment**
- **Public Service Investment**
- **Pro-Growth Tax Reform**

Infrastructure Investment. The American Society of Civil Engineers (ASCE) recently concluded that $2.2 trillion would need to be spent over five years in order to meet existing U.S. infrastructure needs.[2] According to one study, every dollar spent on infrastructure produces $1.59 in the economy.[3] Another study estimates that each billion dollars of spending on infrastructure can generate up to 17,000 jobs directly and up to 23,000 jobs by means of induced effects.[4]

Only 19 percent ($150 billion) of the spending in the American Recovery and Reinvestment Act (ARRA) in early 2009 went to infrastructure and energy.[5] In addition, state and local governments have been able to raise more than $55 billion by issuing Build America Bonds (BABs) and Recovery Zone Bonds, tax-credit bonds that are subsidized by favorable federal tax treatment.[6] As part of an economic recovery plan, Congress needs to invest much more on infrastructure and basic R&D. The resources could come from additional stimulus spending, diversion of remaining TARP money, front-loading new spending from the forthcoming highway bill and an expansion of the Build



America Bonds program and other tax-credit bond programs. In the long-term, the U.S. needs to establish a national infrastructure bank capable of using leverage to borrow for infrastructure projects of national and regional significance.

Public Services. Many state and local governments are facing fiscal disaster as a result of revenue losses. Even after the $159 billion spent by the ARRA,[7] the states are facing an estimated combined shortfall of $350 billion for 2010 and 2011.[8] Instead of successive bail-outs, Congress should enact a potentially permanent revenue sharing program that helps to pay for state and local unemployment policies, pensions, fire, police, and public schools. Public health care and pre-K, K-12 and community college education should be expanded, in order to absorb both unskilled and skilled labor from bubble-economy sectors like construction and finance where many jobs have been permanently lost.

Pro-Growth Tax Reform. Greater investment in infrastructure and public services will increase public demand for many private sector goods and services. To lower the costs of hiring for businesses, Congress should temporarily reduce the employer portion of the payroll tax. In addition, Congress should temporarily cut the corporate income tax.

While the economy remains weak, tax increases should be avoided. In the long run, Congress should consider making these payroll and corporate income tax reductions permanent, adopting a new federal value-added tax (VAT) to compensate for these cuts and new spending. If it succeeds in increasing the rate of American economic growth, the new growth agenda will partly pay for itself.

THE NEW GROWTH AGENDA: TOWARD A NEW CONSENSUS

The three elements of the new growth agenda enjoy support from a broad range of experts and policymakers.

Infrastructure Investment. Many economists support government spending over tax cuts because of the greater multiplier effects.[9] Infrastructure investment, in particular, contributes to commerce and productivity growth over the long term, while creating jobs and demand in the short term. Edward Glaeser of Harvard University has called for a separate infrastructure stimulus bill aimed at long-term projects beyond the recession.[10]

Investment in Public Services. James K. Galbraith, among others, has proposed extensive investment in teachers, police, firefighters, librarians, street sweepers and park rangers, police forces, museums, hospitals, and secondary and higher education. This could include the creation of new public service areas, such as a home care corps to care for the elderly and a neighborhood conservation corps to purchase, renovate, and manage mortgages of foreclosed-upon houses in order to preserve neighborhoods.[11]

Payroll Tax Holiday. The payroll tax holiday has been proposed in three different forms: a complete payroll tax holiday for both employers and employees; an employee-only payroll tax holiday; and an employer-only payroll tax holiday.

Complete payroll tax holiday. Robert Reich proposes a payroll tax holiday for employer and employee Social Security and Medicare contributions to decrease the costs of new hires for businesses and put more money into the hands of workers, thus stimulating demand.[12] Reich also proposes that the tax holiday be capped after the first $20,000 of income. However, a complete payroll tax holiday may not be very efficient at stimulating demand for labor or consumption if the credit is saved rather than spent by employers or employees.[13]

Employee payroll tax holiday. Social Security and Medicare contributions for employees only would be cut. The Stanford Institute for Economic Policy Research states that cutting employees' payroll tax will boost demand.[14] But an NBER paper by Matthew Shapiro and Joel Slemrod suggests that the 2008 tax rebates only promoted spending in one third of recipients.[15]

Employer payroll tax holiday. Mark Bils and Pete Klenow of the Stanford Institute for Economic Policy Research believe that cutting employers' payroll tax may boost the job finding rate and lower the layoff rate. Although some of the credit may be saved by employers rather than spent on hiring or retaining workers, an employer payroll tax holiday might be more effective in promoting job creation than an employee payroll tax reduction.[16]

ALTERNATIVE PROPOSALS: A CRITIQUE

Other policies have been proposed to create jobs. Among these are the following:

- **Job creation tax credit**
- **Job sharing tax credit**
- **Direct federal work programs**

Job creation tax credit. Timothy J. Bartik of the W.E. Upjohn Institute for Employment Research and others have proposed a job creation tax credit.[17] The tax credit would promote payroll increases, either through new jobs or increased wages of employees, by refunding part of the costs of wages. The job creation tax credit is estimated to induce 2.8 million jobs in 2010 and 2.3 million jobs in 2011 at a cost of $28 billion ($18 billion in 2010 and $10 billion in 2011).

A similar proposal by the Obama campaign was discussed and rejected by the White House and Congress for inclusion in the original stimulus package. Even supporters of the job creation tax credit acknowledge that the tax credit will go toward 13.2 million jobs in 2010 and 18.4 million jobs in 2011 that would have been created anyway, at a cost of $84 billion in 2010 and $78 billion in 2011.[18] Companies may also 'game' the system to receive more benefits.[19]

Job sharing tax credit. This option, proposed by Dean Baker of the Center for Economic and Policy Research, among others, would use federal tax dollars to incentivize firms to shorten the typical work week for all employees while maintaining the same pay for their workers.[20] The model is the German *Kurzarbeit* program, in which a company and its workers agree to reduce labor costs by reducing all workers' hours across a company rather than laying off workers.[21] The government pays a set amount of each worker's lost wages to individuals (in the *Kurzarbeit* program, the German government pays for 60 percent of the lost wages).[22] The Center for Economic and Policy Research recommends that the credit be capped at $3,000 a year, or 10 percent of the worker's compensation (whichever is lower) to aim the credit at middle and low income workers and limit incentives to exploit the credit.

The program might be more effective in averting new job losses than in generating new employment. Companies may use the program to reduce costs but not hire more workers. The number of jobs created by the German program may have been overstated.[23]

Direct federal work programs. Some have called for the federal government to directly address the job creation problem through a temporary, nation-wide program for projects like infrastructure.[24] Some favor the federal government as an employer of last resort.[25] Another model that has been suggested is the Comprehensive Employment and Training Act (CETA, 1973-1982), in which the government pays a portion of wages (essentially a job creation tax credit).[26]

Expanding public employment by means of a new federal program would be more cumbersome and divisive than channeling federal subsidies to existing state and local government services, including infrastructure, health care, and education. It is unclear whether a federal work program would supplement or replace unemployment benefits. Temporary work programs may result in a less skilled workforce that is less likely to go back into the private sector when the recession ends.[27]

While some of these proposed short-term programs can help reduce unemployment, they are unlikely to form a basis for sustained, long-term economic growth. In contrast, the new growth agenda proposed here can lay the foundation both for short-term recovery and sustained long-term economic growth through a combination of investment in infrastructure, investment in needed public services, and reductions in payroll and corporate income taxes, funded by a federal VAT.

	Short-Term	**Long-Term**
Infrastructure Spending	Paid for by front-loading highway bill; tax-credit bonds; direct appropriations; TARP	Funded by National Infrastructure Bank
Public Service Investment	Paid for partly by TARP	Revenue-sharing with VAT revenues
Pro-Growth Tax Reform	Partial payroll tax holiday, partial corporate income tax holiday	Permanent partial replacement of payroll tax and corporate tax income by VAT

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