Adding jobs is the immediate problem
SAUL D. HOFFMAN and LAURENCE S. SEIDMAN
Dec. 5, 2011, News Journal and Delawareonline.com

What policy actions should Congress take now to address the twin issues of high unemployment and the growing national debt? Dealing with the after-effects of a recession as deep as this one is difficult enough. But the federal debt is a second serious problem that must also be addressed.

Which should get priority? Unemployment or the debt?

We think that Peter Diamond, last year's Nobel Prize winner in Economics, put it perfectly in a recent public forum. "The U.S. has an unemployment crisis and a debt problem, but many people in Washington are behaving as if we have a debt crisis and an unemployment problem." In other words, it is the unemployment crisis that needs action now.

More than 13 million Americans are unemployed. Nearly six million of them have been unemployed for 27 weeks or longer. Another 9 million are working part-time because they can't find anything more. While a few positive signs have emerged -- the unemployment rate and new unemployment insurance claims are both down -- the labor market is nowhere near where it should be. It is well worth remembering that the unemployment rate was under 5 percent in the months before the financial crisis and had been in that range for nearly the whole decade before.

None of the unemployed or under-employed workers had any role whatsoever in creating the financial crisis and the ensuing recession. They are all casualties of other persons' errors, actions, inactions and greed. Whether you think the financial industry or the government played the key role is irrelevant. The unemployed did not. They and their families deserve our attention now.

In contrast, what the debt problem needs now is a commitment to act later when the recession is behind us. It is easy to forget that back in 2007, the annual federal deficit was less than 2 percent of GDP and the federal debt was only 36 percent of GDP. But the Great Recession that began in 2008 caused a fall in tax revenue and a rise in government spending for both economic stimulus and programs like food stamps and unemployment compensation.

Together, those changes caused the big increase in the deficit and the debt. When a solid recovery finally takes hold, tax revenue will rise and recession-related government spending will end, reducing the deficit and debt as a percent of GDP.
We do indeed have a serious future debt problem, due primarily to the projected growth of Medicare, Medicaid and Social Security benefits relative to tax revenues over the coming decades. As soon as the economy has recovered, we will need to implement changes to those programs and to the tax code. Frankly, there is no secret about what has to be done. Two national bi-partisan commissions have already provided useful proposals. It just takes political courage and compromise.

So what should Congress do right now to address the unemployment crisis? The answer is that it should enact another round of fiscal stimulus in the form of tax cuts and infrastructure spending. First and foremost, it should enact an employee payroll tax holiday for 2012. This would get an additional $3,100 into the pocket of an employee making $50,000 in 2012, thereby boosting consumer spending which will, in turn, cause employers to hire and produce more.

Congress should also fund infrastructure repair projects to employ construction workers, provide cash grants to states to avoid firing police and teachers, and give tax incentives to businesses to invest in equipment and technology. This fiscal stimulus package can and should be paid for as soon as the unemployment rate is down to normal.

Will this help? You have probably heard that today's high unemployment rate proves that the $787 billion economic stimulus passed in 2009 didn't work. But those facts provide no basis whatsoever for that conclusion.

The right comparison is between what would have happened in the absence of the stimulus and what actually did occur. No one can ever know exactly how bad the recession would have become without the Recovery Act. Nothing in the experience of previous recessions provided a useful roadmap of how deep the financial collapse would cut.

The best serious economic analysis shows that the 2009 Recovery Act increased employment by nearly three million persons in 2010 relative to what would have happened without any intervention and that the unemployment rate would have been a full two percentage points higher. The major mistake that the Obama administration made in January 2009 was in underestimating exactly how bad things were and how much intervention was needed.

We think the path forward is clear. Congress should attack the crisis of unemployment now through fiscal stimulus and then aggressively address the problem of the government debt with a bipartisan package of future spending cuts and tax revenue increases that will begin as soon as the economy has recovered.
Saul D. Hoffman is a professor of economics and department chair at the University of Delaware. Laurence S. Seidman is Chaplin Tyler Professor of Economics at the University of Delaware.