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The Blue Sky Series: Mark Zandi's plan

Late last week, I spoke with former SEIU president and current Georgetown fellow/fiscal commission member Andy Stern about hosting a series of pieces laying out different ideas to kick-start job creation. The idea here is not to see how many compromises can dance on the head of the congressional pin; it's to see what exactly different experts think needs to be done. In Ben Bernanke's memorable term, "blue sky thinking."

The first piece came, naturally enough, from Andy Stern. The second was from Dean Baker. In the coming days, there'll also be pieces from Rep. Paul Ryan, CAP's Heather Boushey, the Peter G. Peterson Foundation's David Walker and others. Today's comes from Mark Zandi, chief economist for Moodys.com and a former adviser to both the McCain and Obama campaigns.

Two steps that could make a meaningful difference

Mark Zandi
Chief economist for Moodys.com

The U.S. job market has come a long way since the depths of the Great Recession, but that's not saying much. Payrolls are still smaller by some 7.6 million jobs today than they were prior to the downturn, and current job growth is insufficient to keep the unemployment rate, now at 9.6 percent, from moving back into double digits. Longer-term prospects are equally disconcerting; even under the best of circumstances it will take years to recover the ground lost during the recession and bring the jobless rate back to a level consistent with full employment.

The Obama administration and Congress seem to have given up on changing this near-term outlook and haven't been clear on how to address the longer-term problem. The president's recent proposals to provide accelerated depreciation benefits to businesses, to make the R&D tax credit permanent, and to accelerate infrastructure spending are helpful, but they aren't game-changers. Even if passed into law quickly, they wouldn't fundamentally change my economic forecast.

In fairness, policymakers have done a lot to stabilize the job market and the economy. Without their efforts to shore up the financial system, support the auto and housing industries and stimulate the economy, the United States would have suffered a depression costing millions more jobs, and the unemployment rate would be off the charts. The nation's budget deficits and debt load would be even larger than they are today. It is also important to remember that economic magic bullets don't exist: Given the severity of what the economy went through, there is nothing policymakers can do that will quickly ease the suffering in the job market.

Having said this, here are two policy steps that could make a meaningful difference:

To jump-start hiring and stem the rise of the unemployment rate, policymakers should consider an expanded job tax credit, particularly if the recovery doesn't gain traction in the next couple of months. There is a credit in place now that expires at year's end, but it is small and restrictive and consequently has had little impact. Washington could offer a $7,500 tax credit for each additional hire made in the 12 months beginning this October. Allot $50 billion for the credit and make it first come, first serve, so that businesses have an incentive to hire quickly.

So that it doesn't add significantly to the nation's debt load, businesses that take advantage of the credit should be required to increase their future tax liabilities by the same $7,500 per net new hire over, say, a five-year period beginning in 2012. Firms would in effect receive an interest-free loan from the Treasury to hire now. To ensure that big companies don't soak up the available credits, limit them to firms with fewer than 500 employees.

This would go a long way toward addressing the problems small businesses currently have obtaining loans to expand payrolls. It would also encourage mid-size companies that do have cash to deploy it quickly by hiring. Yes, some of these job tax credits will go to businesses that would have hired anyway, but that only means we are rewarding stronger firms, making it more likely they will hire additional workers in the future. Under reasonable assumptions, such a credit would add as many as 1 million jobs by year-end 2011, and ensure that the unemployment rate does not stay long in double digits if it gets there at all.

To address the long-term unemployment problem, let's focus on significantly upgrading and expanding the nation's infrastructure. Big infrastructure projects take years to complete, but we face years of high unemployment. These projects require lots of workers over long periods and could employ many of the construction workers who lost jobs in the housing bust. Jobs would be created in many communities across the country, all the more important now given that millions of homeowners are underwater and can't easily move to find work. They are literally stuck; infrastructure development will take the jobs to them. It is also important to remember that we have underinvested in infrastructure for decades, as is evident from our crumbling bridges and inefficient air and seaports; new investments are thus likely to bring a high economic return.

Instead of government operating the projects, let private investors do them with government backing. Pension funds, insurance companies, sovereign wealth funds and private equity firms are eager to invest in such projects—not just because they can bring high returns, but more important because they also provide steady, long-running revenue streams that match well with long-term fund obligations. But these investors need government help to navigate the myriad roadblocks to development—zoning, rights-of-way, environmental requirements—and to provide a financial backstop in case things go wrong. Getting private investors involved also helps address reasonable concerns about politically driven decisions leading to bad investment outcomes.

To this end, the federal government can help by providing guarantees to back private financing of infrastructure projects. Washington wouldn't issue bonds or make loans to fund projects, but would partially insure investors in case revenues fall far short of projections. The guarantees would lower borrowing costs and make many more projects financially viable. Such insurance could be paid for by tolls or fees assessed on users of the infrastructure.

Both of these ideas—the expanded job tax credit and catastrophic infrastructure investment insurance—are feasible. Neither is outside the policy box. The president proposed a similar tax credit for hiring earlier this year, but it was pushed aside in favor of the current, much smaller credit. Build America Bonds, which open financing of infrastructure projects to more types of investors, have been a big success since they were implemented as part of last year's fiscal stimulus program. And while these ideas could fall completely flat, they won't cost taxpayers a dime if they do.

There is no debate that we have monumental economic problems. The unemployment rate has rarely been higher and the budget deficit has never been larger. Given the plight of the jobless, policymakers must act, but given the deficit, they must act judiciously. The steps proposed here meet these criteria.

Photo credit: Andrew Harrer/Bloomberg.

By Ezra Klein | September 13, 2010; 1:49 PM ET

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