Federal Government can restore full employment – If only it wanted to do so

By Mark Weisbrot
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Three years after our worst recession since the Great Depression officially ended, the U.S. economy is still very weak. The people most hurt by this weakness are the unemployed and the poor, and of course the two problems are related. We have about 23 million people who are unemployed, involuntarily working part-time, or have given up looking for work — nearly 15 percent of the labor force. And poverty has reached 15.1 percent of the population; amazingly, a level that it was at in the mid-1960s.

The first priority of the U.S. government should therefore be restoring full employment. This is a relatively easy thing to do. As Nobel laureate economist Paul Krugman aptly put it: "It's like having a dead battery in a car, and while there may be a lot wrong with the car, you can get the car going remarkably easily, if you're willing to accept that's what the problem really is."

Most economists are well aware what the problem really is, since it is so simple and basic. The economy lost about $1.3 trillion in private annual spending when the real estate bubble burst in 2007, and much of that has not recovered. State and local governments continue to tighten their budgets and lay off workers. If the federal government had simply funded these governments' shortfalls, we would have another two million jobs today.

The right says we can't borrow and spend our way to full employment, but there is no economic basis for their arguments. In fact, the federal government can borrow at 1.6 percent interest today for 10 year bonds. This is basically free money, and for those who want it to be absolutely free, the Federal Reserve has created $2.3 trillion since 2008 and can create more if the federal government is willing to spend it. The inflation-paranoids haven't noticed, but the Fed hasn't created any inflation problem in the U.S.: the Consumer Price Index is currently running at just 1.7 percent annually.

We won't have a federal public debt problem either, at least not any time soon. The easiest way to see this is to look at the net interest payments on our federal public debt: these are less than 1.4 percent of GDP, which is as low as it has been in the post-World War II period. This is the real burden of the debt; all those big numbers you hear about trillions of dollars are mainly thrown around to frighten people.

In the long run, there is a budget problem — but this is entirely due to health care spending. If you pick any country with as high a life expectancy as ours, and plug their health care costs per person into our budget, our long-term budget deficit will disappear. So we just need to have normal health care costs — not budget cuts.

If this sounds different from what you have been hearing from the media, that is a problem of public education. The airwaves and cyberspace are filled with junk promoted by people who would like to cut spending on Social Security, for people receiving an average of just $1100 a month. Most of these senior citizens are relying on this modest payment for most of their income.

There are plenty of things that the federal government can spend money on that will make this a better country, like funding for state and local governments so they don't have to lay off teachers, or public transportation and renewable energy. The government can also save millions of jobs, as Germany has successfully done, by subsidizing employers to keep workers on the job at shorter hours, rather than laying them off. The problem is not a lack of solutions, but a lack of political will.