

# Blue Sky series: Rob Shapiro's plan



*Two weeks ago, 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; the [third](#) from Mark Zandi; the fourth from [Heather Boushey](#); the [fifth](#) from Michael Lind; the [sixth](#) from an anonymous (ex-)hedge fund manager; the [seventh](#) from Rep. Paul Ryan; and the [eighth](#) from David Walker. Today's comes from Rob Shapiro.*

## **Rebuilding strong, broadly shared growth**

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We face daunting short-term and long-term challenges, if we truly intend to restore strong, broadly shared growth. And it all begins with jobs. For the short term, there's the serious problem of creating jobs for the 8.5 million Americans who have lost theirs since the housing bubble burst and the financial system melted down. But remember that the American job-creating machine slowed sharply during the expansion of 2002-07, when the rate of private-sector job creation fell by half compared with the expansions of the 1980s and 1990s. So for the long term, we face an even larger task in rebuilding the capacity of American businesses to create jobs, in both good and bad times.

## **Short-term fixes**

We have to address directly the forces that destroyed twice as many jobs as were lost during any previous postwar recession. One issue is substandard demand. The administration stimulus stopped the hemorrhaging but could produce only a modest turnaround. The next step entails grappling with the largest factor continuing to dampen demand -- the continuing decline in housing prices that makes every homeowner -- 70 percent of Americans -- poorer every month.

*Keep Americans in their homes*

The best lever to blunt this "negative wealth effect" is to restore normal rates of home foreclosure, still

running three times their typical rate with no end in sight. Attempts to get banks to help with subsidies have largely failed, because few bankers will extend new credit to people who couldn't keep up with their past loans. Only government can assume that risk, as it does for students with no assets. We should create a new, temporary federal loan program modeled on student loans to help homeowners in trouble. Like student loans, these 10-year loans would carry a subsidized interest rate, and interest payments could be deferred for two years while job creation recovers.

#### *Address the mismatch between jobs and skills*

It won't help much to promote demand if most unemployed Americans and involuntarily part-time workers lack the skills to fill the new jobs. It's a big, complicated problem that policymakers can begin to address by recognizing the following mismatch: As American businesses have integrated information technologies throughout their operations, about 40 percent of American workers remain effectively IT-incapable. For starters, we can give community colleges grants to keep their computer labs open and staffed in the evenings and on weekends -- \$300 million per year would do it -- so any adult can walk in and receive computer and Internet training at no charge.

#### *Reduce the cost to business of creating new jobs*

Large multinational U.S.-based corporations account for nearly one in five U.S. jobs. They also hold about \$1 trillion abroad accumulated from their foreign earnings. We can create more than 1 million jobs quickly by providing a steep, temporary tax cut on a share of those funds that the corporations could then bring back home, if they first expand their current U.S. workforce by at least 5 percent.

#### **Bridging the short- and long-term problems with jobs**

Another direct way to induce businesses to create more jobs also involves cutting their costs to do so. The administration took a good step in this direction by temporarily reducing the employer-side of the payroll tax for new jobs filled by long-term jobless people. Now we should expand that measure to cover all new jobs. And since job creation is a long-term structural problem as well, it's time to also consider basic payroll tax reforms. We can permanently reduce the cost of creating new jobs by phasing out the payroll tax, starting with the employer side, once we identify an equally secure revenue stream for Social Security and Medicare.

#### *Boost savings for investment*

A value-added tax is the top candidate: A 6.5 percent VAT on everything except housing, health care and education could replace the employer side of payroll taxes. In the bargain, it also would boost savings and let us reduce our dependence on foreign funds. Most Americans should be held harmless or nearly so by this tax shift, since the VAT would only offset current payroll taxes that come directly out of their wages.

#### *Address energy security and climate change*

We can replace a good part of the rest of the payroll tax with a carbon-based fee, which would help address our energy and climate challenges. Most economists agree that a fee on energy based on its carbon content is the most effective way we have to reduce greenhouse gases. By adjusting energy prices based on each fuel's impact on the climate, we can put in place the incentives that innovators need to develop climate-friendly fuels and technologies, and that businesses and households need to adopt them. A carbon-based fee or tax also would gradually reduce our dependence on foreign oil, another clear win. And again, this tax shift would leave most Americans no worse off financially -- and everyone would benefit from progress on energy security and the climate.

#### **A long-term fix: Blunt the impact of globalization on jobs in good times**

The main structural force holding down job creation and wage progress is a basic feature of globalization. Since its onset in its 1990s, full-bore globalization has driven the creation of tens of thousands of new businesses around the world. In the same period, moreover, the spread of IT and Internet-based ways of doing business has driven companies everywhere to become more efficient. Both developments have intensified competition, which in turn has reduced the ability of companies to pass along their cost increases in higher prices. The good news is that this development holds down inflation, here and around the world. The bad news is that when this intense competition collides with rising costs, businesses have to cut other costs -- and they start with jobs and wages. That's why job creation slowed so much in the 2002-07 expansion.

### *Slow health-care cost increases*

The most important factor driving up U.S. business costs is steady 6 percent to 8 percent annual increases in their health-care costs, through good and bad times. Since globalization isn't going away, we have to blunt these fast-rising costs for both businesses and individuals. If there's any doubt, consider the following: By 2016, an average-income American family should expect to spend one-third of its annual income on health care, including their own and their employers' costs for their insurance, the family's out-of-pocket expenses, and taxes they pay for Medicare and Medicaid.

The president's health-care reforms include small-scale versions of most of the available ways to slow these costs. Now we need to scale them up and add a few more that didn't survive the political gantlet last time. To begin, we should strengthen the emphasis on preventive care and ramp up the investments in health-care IT. For Medicare and Medicaid, the shift to reimbursements based on a treatment's value can be accelerated and expanded, along with the scope and authority of the new board that will give Congress recommendations on how to cut Medicare costs.

The two parties also have to begin talking about the most difficult reforms advanced by the other. Democrats should consider malpractice reforms much more far-reaching than the limited experiments in the president's bill. And Republicans should rethink some form of public option, targeted to places where one or two insurers constitute an effective monopoly or duopoly. Finally, both sides can unite behind a campaign to use mobile devices to alert people with chronic diseases -- heart disease, diabetes, Alzheimer's and so on, which claim up to 70 percent of health-care costs -- to follow their treatment regimens.

Put together these measures -- to stabilize housing prices, reduce the costs for businesses to create new jobs, establish a path for better workers to prepare for jobs in an idea-based economy, and slow the increases in health-care costs that eat away at jobs and wages -- and the economy should once again generate jobs and upward mobility for everyone willing to work for it