Economists and other experts outline how to create jobs

By Paul Davidson, USA TODAY

More than two years after the Great Recession ended, some 14 million Americans are out of work, nearly half of them for six months or longer.

What's worse, this bleak picture shows no signs of brightening soon. Economic growth is expected to plod along at a lackluster 2.5% pace next year, leaving the jobless rate hovering just below 9% by the end of 2012.
August's unemployment rate remained at 9.1%, unchanged from July.

And so for the second time since early 2009, the government is looking to jump-start a job market caught between tight-fisted consumers and wary businesses. President Obama on Thursday is expected to propose more government spending on construction projects, aid to budget-strapped states and new tax credits to encourage hiring, among other strategies.

Republicans have signaled they're firmly opposed to another large economic stimulus that adds to the $1.3 trillion deficit. They prefer less-costly steps to promote job growth long term, such as cutting the corporate tax rate and streamlining regulations.

USA TODAY decided to look past the partisan crossfire and ask more than a dozen think tanks, economists, industry groups and lawmakers a simple question: What can Washington do to get America back to work again?

Repair roads, bridges, schools

Fixing the nation's aging infrastructure would create jobs more quickly than tax cuts — in as little as a few months — and meet critical needs that must be addressed eventually. Transportation bottlenecks are costing the country about $200 billion a year, or 1.6% of economic output, according to a study by a bipartisan coalition of state and local politicians. It would take $2.2 trillion over the next five years to upgrade the USA's roads, highways, seaports, rail lines and bridges, the American Society of Civil Engineers estimates.

With yields on 10-year Treasury bonds at about 2%, borrowing costs for the U.S. government are as low as they've ever been. "There's never been a more opportune time to invest in infrastructure," says Andrew Fieldhouse, policy analyst for the liberal Economic Policy Institute (EPI).

To make a tangible impact, Congress could go big, spending $200 billion each of the next two years. Fieldhouse says that would create more than 2 million jobs and reduce unemployment about 0.8 percentage points. While that may seem ambitious in an era of fiscal austerity, each dollar spent generates $1.44 in economic output, according to EPI and Moody's Analytics. As a result, about half the money would come back to the government through increased tax revenue. Some funds also could be used to build out a smart electric grid, bring broadband to rural areas and upgrade water systems.

Political and budget realities, of course, may mean shrinking grand visions. A growing chorus of economists are calling for a more targeted plan to upgrade the nation's schools with projects such as fixing up playgrounds, removing mold and installing solar panels. Unlike highway or rail improvements that take months to launch, cash could be funneled to states and school districts within 30 days through existing funding formulas, and much of the work could be done in the winter. And since the projects are more labor-intensive, they would largely pay for salaries rather than heavy capital equipment.

Such a plan could draw wide public support, says Jared Bernstein, former economic policy adviser for Vice President Biden and now a senior fellow at the Center on Budget and Policy Priorities. "These are the public schools in our communities where we drop our kids off."

A broad jobs bill by Jan Schakowsky, D-Ill., calls for spending $100 billion to create 650,000 school construction and maintenance jobs in two years.

Yet anything that looks even remotely like the $800 billion economic stimulus might face an uphill fight in Congress.

A more politically palatable option that's gaining some traction is an infrastructure bank that would provide loans and loan guarantees to private firms that could recoup their investments through highway tolls or local sales taxes. Obama has pushed the idea. And a bill by Sens. John Kerry, D-Mass., and Kay Bailey Hutchison, R-Texas, would leverage $10 billion to $160 billion in public financing to generate up to four times as much in private investment.

U.S. Chamber of Commerce CEO Tom Donohue this week said, "There is lots of private money there" to invest in infrastructure improvement.

Here's the rub: Such a bank could take at least a year or two to get up and running, so it wouldn't provide the kind of short-term stimulus needed to quickly jump-start the anemic job market.

Give statesa helping hand

Since early 2010, budget-crunched state and local governments have cut 425,000 jobs even while private employers have added 2.3 million. States face budget shortfalls totaling $103 billion in the current fiscal year, helping to force an additional 300,000 state and local layoffs by the end of 2012, according to the Center for Budget and Policy Priorities and Mark Zandi, chief economist at Moody's Analytics.

The government could provide up to $20 billion to states to save about 200,000 teaching and other government jobs. That's probably the quickest way to prop up payrolls, says Michael Ettlinger, vice president for public policy at the liberal Center for American Progress. A $50 billion program would close half the $97 billion deficit states face for Medicaid payments, saving about 500,000 jobs, Fieldhouse says.

Schakowsky's bill would spend $227 billion to create 2.2 million jobs in two years, at a per-job cost of about $50,000 a year, all through existing funding programs that can disburse the money within weeks to states and localities. Besides the school repair projects, her plan would hire about 350,000 teachers, police officers and firefighters, 40,000 health care workers and 100,000 youths to spruce up parks.

Add workers, at a discount

If you want to boost sales, cut the price. That's basically the idea behind a tax credit for each new employee a business hires over its staffing level the previous year. To make an impact, the government should offer a per-employee credit of $10,000 as well as 10% of increased wages for two years, says Michael Greenstone, a senior fellow at the Brookings Institution.

"This is most directly targeted at the thing you want: more employment," he says.

A similar tax credit last year didn't appear to light a fire under employers. Those that hired people who were jobless at least eight weeks were exempt from the 6.2% Social Security payroll tax. Employers of 10.6 million workers from February through October 2010 were eligible for the credit, which saved as much as $3,480 for the addition of a $40,000-a-year worker. But the Treasury Department acknowledges it doesn't know how many of those workers would have been hired anyway.

Both the U.S. Chamber of Commerce and the National Federation of Independent Business oppose a hiring tax credit, saying companies add workers because of increased sales, not temporary windfalls.

Yet a sizable credit could nudge companies thinking of hiring but hesitant to pull the trigger amid economic uncertainty, Greenstone says, adding that last year's credit was too small. He also would not limit hiring to employees who've been jobless for a minimum period as that discouraged businesses that simply wanted to recruit the best workers.

Studies found a $4,500 tax credit in 1977 — $14,400 in 2008 dollars — increased employment by 3% at firms that knew of the program vs. others that didn't, creating 700,000 jobs. Greenstone estimates that under his plan, employers would add about 6 million jobs that would be eligible for a tax credit, about 900,000 of which would not have been created otherwise.

Share jobs to save jobs

Perhaps the least expensive way to bolster payrolls is through work sharing, a program that encourages employers to avoid layoffs by cutting all workers' hours instead. For example, instead of laying off 20% of its staff, a company could trim all workers' hours by 20%. The government then would make up half the workers' lost pay with unemployment insurance — so it's basically a wash or a small expense for state and federal coffers.

"It keeps people employed and at very little cost," says Dean Baker, chief economist of the Center for Economic and Policy Research.

Twenty-two states have work-sharing programs, but they're sparsely used. Baker says a federal initiative would be better publicized and could give employers more flexibility during the program to modify the number of employees getting reduced pay.

Although the recession's widespread job cuts are over, businesses are always laying off some workers, even when total payrolls are growing. An average of about 650,000 workers a month this year have been temporarily laid off, according to the Bureau of Labor Statistics.

If 10% of their employers adopted work sharing, 65,000 jobs a month could be saved.

In Germany, widespread adoption of work sharing helped lower unemployment to 6.7% from 7.1% before the global downturn despite economic growth that has lagged behind the U.S.

Lower corporate taxes

Many economists call for cutting the average 35% federal corporate tax rate to make the U.S. more competitive in a global economy. The average tax rate in Europe is 23%. Chris Edwards, senior fellow at the conservative Cato Institute, calls cutting the rate to 25% "the single best thing we could do" to grow jobs. Obama has said he wants to reduce tax rates while eliminating loopholes and deductions.

Trimming the rate to 22% would cost the government $81 billion in lost revenue but create 350,000 manufacturing jobs directly by 2019 as it prompts U.S. and foreign companies to open factories here instead of overseas, the non-partisan Milken Institute says. An additional 1.7 million jobs would be added as benefits ripple through the economy, Milken says.

Economists say it could take a few years for any tax cuts to grow jobs. But Aparna Mathur, an economist for the conservative American Enterprise Institute, says creating certainty about tax policies could lead firms to hire in the short term.

Train the jobless

At least part of the reason for the high jobless rate is that many laid-off construction and manufacturing workers, for example, lack the skills for growing jobs in heath care and technology. Thirty percent of companies surveyed by McKinsey Global Institute say they have had positions unfilled for six months or longer.

Darlene Miller, CEO of Permac Industries and a member of Obama's Jobs and Competitiveness Council, is helping spearhead a 16-week course in advanced manufacturing at two Minnesota colleges. The program, she says, aims to promote better coordination among colleges, businesses and area career centers to identify and train workers. Officials hope to expand the initiative across the country in three to six months, Miller says.

The council, she says, also wants to help schools graduate 10,000 more engineering students each year to meet a dire shortage of engineers. The panel aims to raise $100 million in private funding for scholarships, launch a media campaign to trumpet engineering careers and encourage schools with high graduation rates to share their strategies.

Cut red tape

The Chamber of Commerce calls regulatory roadblocks that delay construction, environmental and other permits "the most significant obstacles to new hiring." McKinsey says "inconsistent and sometimes lengthy" reviews can add months or years to project development, discouraging foreign firms from locating in the U.S. Susan Lund, McKinsey's research head, says the government should allow one-stop shopping so companies can secure various permits from a single agency as well as enterprise zones in which many permits would be pre-approved.

It would be no surprise if the job-creation debate bogs down in political wrangling, with Democrats favoring new stimulus and Republicans supporting tax cuts. But Ross DeVol, Milken's chief research officer, says any viable plan must include both.

"We can't allow ourselves just to be in one or two camps and believe those are the only prescriptions that will work," he says. "Think of it as portfolio of stocks and bonds. You wouldn't want to have all your investments in one particular area."