

US Economy Needs President's Priorities

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Critics of President Obama's domestic priorities fall into three main camps; those who want the government to concentrate on fixing the credit system and maybe house prices, those who say the economy will fix itself if the government leaves it alone, and those who just want less government. All say his priorities for health care, energy, environment, education, transportation, and infrastructure are costly ideas that will saddle future generations with too much debt. And they all avoid saying how to solve America's basic economic problem—not enough middle class jobs.

For decades, the financial services industry, or Wall Street for short, prospered by creating credit to feed growth on the consumption side of the Main Street economy while forcing companies to cut domestic payrolls in order to inflate stock prices on the production side. Now, there are not enough middle class incomes to support the circular flow between the two sides. As people learn frugality and buy less, the economy is spiraling down.

In addition to being stunted, the production side of the economy also became distorted; it can make far more things like large houses and automobiles than the consumption side can buy. Retail, real estate, and financial industries have more capacity than they will need for years. Many neighborhoods are also distorted with more large houses than middle class families can afford. The consumption side of the economy cannot just go back to running on credit so the production side must be strengthened to support it.

The country's aging baby boomers will be a big factor. Few of them have saved enough to retire, most who did save lost money on stocks, and the savings in their homes have shrunk. In addition, their stock-based retirement plans have two big flaws. First, the plans rely on the same assumption of continuously increasing asset prices that led to the housing and mortgage bubbles. Second, when the plans gradually shift from the buying half of the stocks-for-retirement cycle to the selling half, the primary domestic buyers will have to be the same younger workers that some say will not be able to sustain Social Security in its present form.

Wall Street continues to ignore credible warnings as it promotes stock-based retirement plans, and it fails to provide any due diligence analysis or feasibility study that explains how they can work for boomers. They probably can't work because they fit the definition of a Ponzi scheme—a fraud that promises returns to early investors that can only come from later investors. The plans were not intended to be fraudulent but there is a high risk that they will depress stock prices for a decade or more.

Most boomers who are able, will have to work into their later years. To make that possible, the production side of the economy must grow rapidly enough to provide jobs for them, for those who are unemployed because of the recession, and for young people coming into the workforce. To avoid costly relocations, the jobs must be near major population centers and to avoid charges of protectionism, they will have to be done locally and not be subject to globalization. This will require creating many more

domestic jobs than most observers are considering, and that in turn, will require major investments of the kind that Wall Street has been forcing companies to reduce in order to inflate stock prices.

In order for the production side of the economy to expand rapidly enough, it will probably have to operate on new principles. Long term investments to meet the needs of future decades will be required that extend way beyond present time horizons, and employee compensation may have to be treated as an intended output, not a cost to be reduced. “Investment” should be defined in terms of principles like these and rewarded on the basis of their benefit to Main Street.

Wall Street’s concentration on short term, zero-sum trading, and using money just to make money, often at the expense of the production side of the economy, cannot lead this transformation. Nor are large corporations likely to take the lead until they shake off the Wall Street influence and the attractions of globalization.

This is where President Obama’s priorities come into play. Each is directed at meeting widely recognized, national needs. Each requires large, long term capital investments. Each involves large amounts of labor-intensive work that must be done locally and cannot be exported. And each can create multipliers through countless interactions and developments that can evolve into a new national growth cycle. The priorities are not just optional projects that can wait until the economy recovers, they are foundation stones for rebuilding the production side of the economy in order for there to be a recovery.

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