



To: Interested Parties
From: Dr. Robert Shapiro and Simon Rosenberg
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Re: A Stimulus for the Long Run

When Congress goes back to work next week, its first job should be another stimulus package for the sinking economy. President-elect Obama also has said he wants another stimulus of his own design after he is sworn in. We know that more stimulus is necessary, because the ongoing financial and housing market crises will very likely produce an unusually long and deep recession. We also need additional stimulus as insurance against the possibility of another economic shock that would worsen the downturn, such as a run on the dollar that drives up interest rates, or worsening housing foreclosures that trigger more failures in financial institutions and further drive down consumer and business confidence.

The path of least resistance to deliver that stimulus is another round of tax rebates for American families, which in theory families would spend to jumpstart demand and, ultimately, the business investments and jobs to meet that demand. However, the catch is that approach is very unlikely to work this time. Most of the rebates from the spring 2008 stimulus were saved rather than spent; and given the recent, sharp decline in confidence, even a greater share of another round would be saved and so provide little stimulus. Moreover, President Obama and Congress can put those billions of dollars to uses that will stimulate long-term growth and income gains much more effectively.

Instead of tax rebates, congressional leaders and President-to-be Obama should look to targeted tax changes and targeted spending increases, with the lion's share going in a new direction: investments in the basic elements of growth for a 21st century economy. The stimulus should and will include traditional measures such as aid to the states facing serious revenue shortfalls and an extension of unemployment insurance. But for its major thrust, President-elect Obama should use the stimulus to drive policy reforms that will affect the shape and strength of the economy for the next decade, rather than simply affecting the timing of the next recovery. The stimulus should be first steps toward delivering on the change that President-elect Obama has pledged to bring to America.

This change should be directed toward creating a 21st century, low-carbon, innovation-driven economy, as the development, spread and efficient use of economic innovations will continue to be the most important factors driving all our future progress in growth, productivity, and incomes. For example, productivity gains are increasingly tied to an employee's capacity to operate effectively in workplaces dense with information and telecommunications technologies. Within a decade, workers who cannot perform in such

work environments will be marginalized economically. Therefore, the stimulus should help businesses and workers prepare for the ideas-based economy, through grants to community colleges to keep their computer labs open and staffed in the evenings and on weekends for any adult to walk in and receive free computer training, a plan Obama endorsed as Senator. The stimulus also could include an innovative program to provide inexpensive laptops to every sixth-grader in America and spread broadband installation to schools, local libraries, and human services offices that currently lack it.

There is already a broad consensus on the need to include infrastructure investment in the stimulus, but instead of addressing only roads and bridges, America can also take this opportunity to invest in a new generation of clean infrastructure. The federal government can lead the way, through greening its buildings and vehicle fleets and putting 1,000 megawatts of solar power on its roofs. It also can provide funding to help modernize the electrical grid and build a new generation of light rail systems for urban areas, as well as greater support for research and deployment in renewable energy and energy efficiency technologies, and tax credits and other incentives for greening America's homes and private buildings.

Aside from energy, the other rapidly rising business cost squeezing wages and jobs is health care. To help hold down these costs for the long haul, the stimulus can provide support for hospitals, clinics and physicians to purchase and install the hardware and software for standardized electronic medical records systems. This will serve as a first down payment for 21st century health care reform, and will ultimately reduce costs and promote best-practices at the nation's hospitals.

These are all investments we know we have to make if we intend to make the U.S. economy more efficient, innovative and sustainable. They also are all investments that will ultimate pay for themselves several times over. Congress and President-elect Obama can use this opportunity not only to create more jobs, but to do so in ways that will help drive the development of a real, 21st century workforce and genuine 21st century economic infrastructure. And taking this course by passing a stimulus for change could be an early and important opportunity for him to practice both his new politics and a new form of economic leadership.