By Robert Pollin

A PEOPLE'S ECONOMY IS POSSIBLE

THE PRIMARY GOALS OF WHAT WOULD CONSTITUTE AN EFFECTIVE EGALITARIAN ECONOMIC program for 2008 are straightforward. They would include:

- something close to full employment at decent jobs;
- universal health care;
- dramatically expanding decent educational opportunities at all levels;
- creating a clean environment on the foundation of conservation and renewable energy;
- rebuilding an effective system of business regulations, in particular, in the areas of financial markets and antitrust.

The problem with these goals is not establishing their worthiness, but rather in recognizing and overcoming the obstacles to making them a reality—both the economic and political obstacles. What would likely be considered as the main economic obstacles to this type of agenda are well-known. They include (1) the federal government's fiscal deficit; (2) the prospect of an investment strike by private business; (3) controlling inflation; and (4) countering the pressures resulting from globalization, including the trade deficit, immigration, and managing the dollar.

All of these are serious, but not insurmountable concerns. The greater challenges are political—that is, whether the Left could develop the political power to force this type of agenda on politicians who will always hear the voices of Wall Street, private HMOs, big oil, and union-busting consultants in at least one ear, no matter what commitments they make as candidates. After all, the country elected Bill Clinton in 1992 on a mildly progressive economic agenda that he called "Putting People

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First." But Clinton's program changed drastically even during the two-month interregnum between his November election and his inauguration in January 1993. Clinton himself acknowledged only weeks after winning the election that, with his new policy focus, "we help the bond market and we hurt the people who voted us in."

By contrast, George Bush 2, the candidate of the Republican Right, exercised tremendous political will after he took office, despite the fact that he didn't actually win the 2000 election. He had promised tax cuts for the rich during the election and he delivered on it. He also wanted to invade Iraq and accomplished that as well, in the face of massive worldwide opposition. Bush succeeded in pushing through both tax cuts for the rich and the Iraq invasion by elevating these priorities to the status of moral imperatives, whose urgency superseded details about the fiscal budget or inflation.

The Left now needs to think in terms of moral imperatives—for decent jobs, universal health care, quality education, and a clean environment. Indeed, a first major step toward achieving these goals would be for the Left to gather the political strength to exactly reverse Bush on the Iraq war and tax cuts for the rich. As we will see, pushing a directly anti-Bush agenda on these issues can go far toward building the foundation for a progressive economic agenda.

All of the Democratic Party candidates for president have offered broad statements of support for an agenda along these lines. Among the leading candidates, John Edwards has, to date, offered both more details and a greater level of passion. But we won't really know whether any of the candidates are serious in their commitments while they are still candidates. Our focus now should therefore be on building grassroots support for a serious progressive agenda, which will then be the foundation on which we can bargain effectively with newly elected policymakers to take such an agenda seriously.

WHAT REVERSING BUSH CAN ACCOMPLISH

In 2007, the U.S. government spent $138 billion on the Iraq war. That is approximately $370 million per day, used for destroying a country and providing the most effective possible recruiting tool for Al Qaeda. So step one toward advancing an effective progressive agenda is to end the war and use the $138 billion for jobs, health care, education, the environment, and poverty reduction. In addition, repealing the Bush tax cuts for everyone earning over $200,000 would generate roughly another $60 billion in annual revenue for the U.S. Treasury. In short, reversing Bush on Iraq and tax cuts for the rich would, by themselves, generate $200 billion that could be redirected to financing a progressive economic program. What could we get with this $200 billion?

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There are obviously a very large number

of ways to spend $200 billion toward meeting crucial social needs. For illustrative purposes here, I consider three basic spending targets:

- Extending public medical insurance at a level equivalent to Medicaid to all 45 million U.S. citizens that are currently uninsured, at a net cost of $130 billion;
- Investing in public education at all levels, starting with Head Start and other pre-school programs, and moving up to college and university scholarships, for $35 billion;
- Investing in home weatherization, mass transit, and other forms of energy conservation, for the remaining $35 billion. These energy conservation initiatives would be part of a broader program that would also include dramatically expanding the economy's renewable energy sector.

Two kinds of benefits would result by this kind of transfer of tax and spending priorities. First, of course, it would produce dramatic improvements in health, income security, educational opportunities, and the quality of the environment. The provision of decent, Medicaid-type health insurance for everyone in the United States would obviously raise living standards and the level of security for those currently uninsured. A simple program for weatherizing older houses through installing attic insulation, caulking, weather stripping, and similar measures, at $2,500 per house, can reduce home energy consumption per house by about 30 percent.

The second, less obvious impact of initiatives like these would be on jobs. All else equal, a program based on the priorities I have outlined would increase total employment within the United States. by about 1 million jobs. It would also increase the total amount of wages and benefits received by workers by about $60 billion. This positive job impact would result because the industries associated with health, education, and energy conservation require more labor by people within the U.S. economy for a given amount of money spent than the industries associated with the military. For example, increasing the quality of health care for those currently uninsured, or weatherizing older homes, will produce more jobs within the domestic U.S. economy per dollar of spending, than bombing Baghdad or administering the Abu Ghraib prison. This would also be true for other types of social investments, such as education or expanding the use of solar energy technologies.

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At the same time, it wouldn't necessarily follow that the average pay level would rise as a result of the shift in spending from military to domestic social needs. Specifically, the average amount of total compensation for all jobs associated with military spending—including, among others, auto and electrical mechanics,

weapons designers and their support staff, as well as privates, bomber pilots, generals, and Halliburton executives—is about $66,000 today. The comparable figure for education is higher, at $74,000, but is lower for health care, at $57,000, and construction, at $48,000. In other words, part of the way that more jobs get created by shifting spending out of the military and into health care and energy conservation is by spreading out a given amount of money among a larger number of lower-paid workers.

This is not true with education, where more jobs get created per dollar of spending because less money is spent on equipment, buildings, and raw materials such as energy, even while the average pay is also higher than the military. But even with health care and construction, a large majority of jobs pay above $32,000 per year, which is a reasonable threshold for a minimally decent basic needs income standard. Meanwhile, the proportion of jobs in health care and energy conservation paying below $20,000—a level below any reasonable definition of a living wage standard in the United States—is not significantly larger than in the military-related industries. And, of course, both health care and energy conservation are high public policy priorities.

The story is somewhat different with the $60 billion that would come from rescinding the Bush tax cuts for the rich, since the industries associated with servicing the consumption needs of the rich—including hotel and restaurant workers, accountants and their support staff, and housekeepers—are obviously different than those needed by the military, or for expanding education, health care, or energy conservation. In fact, the total number of jobs created for a given amount of spending for private consumption is higher than the military, but lower than education, health care, or energy conservation. And the average compensation for workers in this area, at $46,800, is lower than all the other sectors. Thus, lowering taxes on the rich—besides showering rewards on the already over-privileged—is also the weakest possible means of promoting decent jobs.

OVERALL EFFECT ON U.S. LABOR MARKET

There are presently 6.8 million people unemployed within the U.S. labor force of 152 million, producing an official unemployment rate of 4.5 percent. If we assume that all else would remain equal in the U.S. labor market after the $200 billion transfer of funds had occurred, the net increase of 1 million jobs would therefore reduce the total number of unemployed people to 5.8 million, a decline of 15 percent. This would cut the unemployment rate to 3.8 percent. This is an unemployment rate comparable to the late 1960s and late 1990s. In both of these previous periods of near full employment, the high demand for workers led to rising wages and benefits, including, in particular, at the low end of the job market. Poverty fell as a result. Near full employment in the late 1960s also brought better working conditions and less job discrimination against minorities.

Of course, we cannot assume that everything about the U.S. labor market would stay unchanged after 1 million new jobs were created in health care, education, and energy conservation, while jobs connected with the military and consumption of the rich would contract. There would no doubt be skill shortages in some areas and a labor glut in others. There would also be some rise in inflationary pres-

sures that would have to be managed carefully. But, at least as an illustrative exercise, we can see that large-scale job creation within the United States is possible through concerted policy interventions—and all of this could be achieved as an outgrowth of ending the disaster in Iraq and modestly reducing the lifestyles of the over-privileged.

DEFICIT REDUCTION: THE RESPONSIBLE ALTERNATIVE?

It is often argued—primarily by centrist Democrats around Bill Clinton's Treasury Secretary Robert Rubin—that money taken out of either the military or domestic spending programs should be used first and foremost to reduce the federal government's fiscal deficit. The federal fiscal deficit in 2007 was $244 billion. Rescinding tax cuts for the rich and transferring all of the Iraq war spending into deficit reduction would therefore lower the deficit to $44 billion, a reduction of 82 percent.

Is this the best use of the funds released by the Iraq war and the tax cuts for the rich? Of course, the United States cannot run a reckless fiscal policy, no matter how pressing are the country's social and environmental needs. But a $244 billion fiscal deficit in today's economy is not reckless. It amounts to about 1.8 percent of GDP. This is slightly below the average-sized fiscal deficit between 1960 to 2006, of 1.9 percent of GDP. The largest deviation from this long-term average occurred under Ronald Reagan's presidency, when the fiscal deficit averaged 4.2 percent of GDP—i.e. more than twice as large as the current deficit as a share of the economy. And, of course, the Reagan era is constantly being invoked by conservatives as a period of unparalleled economic and military strength for the United States. These invocations are certainly an exaggeration. But it remains true that even the Reagan-era deficits did not lead to economic collapse.

We would need to worry about the deficit today if it were running persistently at Reagan-era levels. This is because the federal government would soon end up consuming upwards of 20 percent of the total federal budget in interest payments, as it did at the end of the Reagan era. This is opposed to the 10 percent of total government spending we now pay to the Japanese and Chinese bondholders, U.S. banks, and wealthy private Americans who own the bulk of U.S. government debt. But because the deficit is now at a reasonable level, the primary problem with the U.S. Treasury's fiscal stance is not the size of the deficit per se but how the money is being spent.

A BUSINESS INVESTMENT STRIKE?

With or without the funds being transferred out of the military, the program I have outlined still means raising taxes for the rich to finance domestic social spending. At least some sectors of business will resist such measures, given that they opposed even Clinton's tepid Putting People First agenda in 1992. Would this mean that the program is simply unviable, no matter how desirable in principle?

Like it or not, we cannot ignore the reality that the U.S. economy, like all capitalist economies, depends on private businesses being willing to spend money to hire workers and expand their operations. But it doesn't follow that the only way to promote private investment is to undermine the living standards of the work-

ing-class majority. Consider the following comparative evidence on the fifty U.S. states according to the relative conditions for workers in each state, including the unemployment rate, overall compensation, and the climate for union organizing. Recent research that I did with two colleagues found that high-ranking states do no worse than low-ranking states in terms of new business start-ups, employment growth, and overall economic growth. We did not find that states with good work environments will necessarily *create* more positive investment climates for business. But we do see that there are many situations in which decent work environments and good investment climates can go together.

Wall Street and financial markets would not tend to be impressed by such evidence, and would instead focus on the undeniable fact that the program is taking money away from the rich and giving it to the non-rich. Wall Street always has reacted negatively to any kind of egalitarian economic initiatives, and this would be no exception. But such a reaction still won't necessarily produce negative effects on productive activity beyond Wall Street. Financial markets have exerted a serious destabilizing influence on the economy over the past twenty years. Financial regulations have been weakened, and speculative financial bubbles now occur regularly. The stock market bubble of the 1990s threw off great surges of spending during the upswing, but the bursting of the bubble in 2001 brought the economy into recession. A similar cycle is occurring now with the housing market. Average home prices rose by nearly 60 percent from 2001 to 2005. But now the market is in a slump, and the sub-prime mortgage market is teetering on the brink of crisis. *Business Week* magazine recently (7/9/07, p. 26) surmised that the situation could lead to "mutually assured destruction" of Wall Street bankers, hedge fund managers, and other big financial players unless they all make major financial concessions to prop up failing operations.

Over the longer term, the only solution is to reintroduce effective financial regulations. In his eighteen-year tenure as Federal Reserve Chair, Alan Greenspan consistently opposed regulating financial market speculation and bubbles. But Greenspan needs to be reversed here, just as Bush needs to be reversed on spending priorities and the Iraq war. In addition to this, business should actually welcome parts of the program I have suggested because they will stimulate the construction industry and thereby counteract the ongoing housing and mortgage market slump. The home weatherization proposal would most directly serve that function, as would all construction-related public investments in the areas of health care, education, and energy conservation.

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WOULD DANGEROUS INFLATION EMERGE?

PUSHING THE UNEMPLOYMENT RATE BELOW 4 percent and keeping it there could cause an increase in inflation. The conventional story is that at very low unemployment rates, work-

ers gain bargaining strength, and can force businesses to grant decent wage increases. But businesses then pass on their increased labor costs to consumers by raising prices.

Supporters of a progressive economic program should be concerned about this. Conservative economists and Wall Street do certainly exaggerate the costs to society of inflation. An advanced capitalist economy can operate effectively at inflation rates higher than the extremely low 1 to 3 percent range being targeted today by the U.S. Federal Reserve. But this does not gainsay that there are costs to high inflation. Among the most important is that regulating financial markets becomes more difficult, because inflation will force lenders to raise interest rates to protect their wealth against the erosion in the value of the dollar. To the extent that the Left neglects such issues, it only strengthens the hand of the Right in claiming they alone have the wherewithal to run an economy.

At the same time, when U.S. unemployment fell below 4 percent in the late 1990s, and average real wages did begin rising quickly, inflation stayed below 3 percent. This is because average productivity was rising even faster than wages. Productivity growth means that the overall economic pie is growing. If wages are growing, but below the productivity growth rate, then workers' share of the expanding overall pie is getting smaller; and the share going to business profits is correspondingly growing.

The general point is that, as long as wages are rising more or less in step with average productivity growth, low unemployment and wage increases should not produce rising inflationary pressures. If wages are rising only in step with productivity growth and prices are increasing anyway, the cause of this inflationary pattern cannot be low unemployment and rising wages. It rather means that businesses are simply pushing up prices rapidly. This could be due to a sharp increase in oil prices or simply increased monopolistic pricing power by big business more generally. If these are the causes of rising inflation, we then need to strengthen antitrust policies to control the excessive power of oil companies and other big firms—that is, here again, to reverse the efforts of both the Bush Justice Department and the Roberts Supreme Court to weaken antitrust enforcement. We certainly don't need to hold back workers' ability to get raises in line with productivity.

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TRADE, IMMIGRATION, AND THE DOLLAR

We have proceeded thus far without mentioning immigration, trade, the value of the dollar, or globalization more generally. How can a progressive economic program be taken seriously in 2008 without tackling these questions head-on? In fact, the intense debates

around these questions are really primarily about jobs and living standards in the United States, and they should be refocused on these central matters of concern. If the U.S. successfully implemented a serious jobs program such as I have outlined—meaning that the number of decent jobs were growing at a healthy rate, regardless of how many immigrants were in the country or how many imports we purchase—it would then follow that the costs to U.S. workers of opening the economy to exports and immigrants would fall sharply. Similarly, the need to push the dollar further downward to make U.S. exports more competitive would also diminish in importance.

From the standpoint of U.S. workers, restrictions on imports and immigrants are a form of social protection, aimed at preserving the workers' jobs and bargaining power by reducing the pool of foreign workers with whom they have to compete. U.S. workers deserve effective social protections. But restrictions on trade and immigrants are poor substitutes for an aggressive jobs program. They do not explicitly target the expansion of decent jobs, and it isn't clear that, as indirect measures, they would succeed in significantly promoting job expansion in the United States. By the same token, the case on behalf of generally open trade and migration policies becomes much stronger when government policy is seriously committed to promoting decent jobs. An effective jobs program will not, by itself, eliminate all tensions around trade, immigration, and the dollar. But it could downgrade these issues to second-order concerns.

To the extent that the Left neglects issues such as inflation, it only strengthens the hand of the Right in claiming they alone have the wherewithal to run an economy.

There is another angle to this question. Developing countries also need to advance serious programs to promote decent jobs and the expansion of their domestic markets. Even the poorest countries can take serious measures now to promote job expansion and poverty reduction. Over the past few years, I myself have worked on proposals along these lines for both South Africa and Kenya, under the auspices of the United Nations Development Program. The general principles guiding these programs are quite similar to those that I have outlined here for the United States.

If there were more decent jobs within Mexico, Guatemala, Ecuador, Kenya, Uganda, and India, and if their domestic markets were expanding, this would relieve pressure for workers there to migrate to the United States. Instead, for a generation now, developing countries have been trapped inside a neoliberal straightjacket that has forced them to eliminate fiscal deficits, stamp out inflation, and open their economies to imports, foreign investors, and financial speculators. The International Monetary Fund and World Bank have insisted on such programs throughout the developing world, which is not surprising, since the United States basi-

cally controls the agenda for both of these institutions. U.S. policymakers—including the new administration taking office in 2008—therefore have the power to enable developing countries to shift away from neoliberalism toward a path focused on job creation and expanding domestic markets.

It is true that the IMF/World Bank-guided neoliberal programs have succeeded generally in the very narrow sense of holding down deficits and inflation, and in increasing speculative trading on their emerging financial markets. But neoliberalism in developing countries has failed in terms of advancing economic growth and, in particular, expanding decent employment opportunities. The share of informal jobs in developing countries—including, for example, agricultural day laborers, urban street vendors, or at-home producers of clothing—is now about 35 to 50 percent of all employment and is rising. This is the reality that has pushed more poor people in developing countries into trying to carve out a living in the United States and other rich countries, where their average pay can be ten times higher or more, even working in low-end jobs in the rich-country labor markets.

The basic point is that the expansion of decent jobs as well as social investments—for health care, education, and environmental protection—need to become the cornerstone of economic policy, both in the United States and elsewhere. Major challenges will certainly emerge in making any such program workable.

As long as wages are rising more or less in step with average productivity growth, low unemployment and wage increases should not produce rising inflationary pressures.

But, as we have seen, none of the strictly economic challenges is insurmountable. Enough money can be found, as we certainly saw when Bush wanted to invade Iraq; the fiscal deficit need not explode; and destructive inflation need not emerge. The most daunting barriers remain political. But perhaps having workable policy proposals on the table can themselves help weaken this political resistance, and consequently help clear space for a viable economic program for jobs, healthcare, education, and green growth. ■