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# What Would Roosevelt Do?

By **ROBERT J. SHILLER**

ACROSS the United States, thousands of federally financed stimulus projects are under way, aimed at bolstering the economy and putting people to work. The results so far have not been spectacular.

Why not? There's nothing wrong with the idea of fiscal stimulus itself. We need more stimulus, not less — but we need to focus much more on actually putting people to work.

Two friends of mine, both economists, came upon a stimulus project recently that illustrated the problem. On a Wyoming highway they saw a sign that read "Putting America to Work: Project Funded by the American Recovery and Reinvestment Act" and prominently featured a picture of a worker digging with a shovel. Out on the road, there was plenty of equipment, including a gigantic asphalt paver, dump trucks, rollers and service vehicles. But there wasn't a single laborer with a shovel. That project employed capital, certainly, but not many human beings.

Like many such stimulus projects, it could be justified if you accept the idea that **gross domestic product**, not jobs, is central — a misconception rooted in economic theory, or at least in the way that Keynesian economic theory has evolved.

The conventional concept of "**recession**" has been defined in terms of G.D.P., not unemployment, which is perceived as a "lagging indicator." It is widely assumed that jump-starting "the economy," as measured by G.D.P., is the most fundamental move we should make.

Stimulate the economy, so the theory goes — get that economic engine humming — and it will provide plenty of rides for the unemployed, and good rides too, as healthy businesses expand. In addition, focusing on increasing the G.D.P. rather than on creating jobs is related to the notion that we need *real* jobs, jobs that are not make-work, jobs with a future. And there is something to this: We would not want to see teams of laborers with shovels at construction sites that could operate more efficiently without them.

Yet unless we take new measures, we face the prospect of protracted unemployment. In June, the unemployment rate stood at 9.5 percent and the rate of long-term unemployment, defined as joblessness for at least 27 weeks, was 4.4 percent — its highest level since 1948. Both **Ben Bernanke**, chairman of the **Federal Reserve**, and **Christina Romer**, chairwoman of the **White House Council of Economic Advisers**, recently said that high unemployment was likely to persist for years.

This would have an enormous human cost, and it is especially worrisome for people who are young or otherwise vulnerable and may be inclined to give up and drop out entirely. Ultimately, of course, this will show up in the traditional measures of G.D.P., as well.

So here's a proposal: Why not use government policy to directly create jobs — labor-intensive service jobs in fields like education, public health and safety, urban infrastructure maintenance, youth programs, **elder care**, conservation, arts and letters, and scientific research?

Would this be an effective use of resources? From the standpoint of economic theory, government expenditures in such areas often provide benefits that are not being produced by the market economy. Take New York subway stations, for example. Cleaning and painting them in a period of severe austerity can easily be neglected. Yet the long-term benefit to

businesses from an appealing mass transit system is enormous. (This is an example of an “externality,” which the market economy, left to its own devices, will neglect.)

Such benefits are hard to measure precisely because there is no current market price for them. Cost-benefit analysts tend to be in endless debate about such programs, and so the social impetus for them often becomes blurred. Keep this in mind, though: Whatever the merits of specific programs, the cutoff that we choose for classifying a project as “good” or “bad” should be adjusted downward in periods of widespread unemployment.

Some researchers have expressed doubts, for example, that “throwing more resources” at students — providing more teachers and aides — is cost effective, in terms of objective measures of educational outcome.

In a period of severe joblessness like this one, however, someone who is sitting unemployed who would rather be working at a modest salary as a teacher’s aide should be given a chance, at least until the economy improves. In other words, the unemployment rate itself should be a major factor in evaluating such programs.

In 1936, **John Maynard Keynes** made **much the same point**: “Thus we are so sensible, have schooled ourselves to so close a semblance of prudent financiers, taking careful thought before we add to the ‘financial’ burdens of posterity by building them houses to live in, that we have no such easy escape from the sufferings of unemployment.”

**PRESIDENT FRANKLIN D. ROOSEVELT’S** New Deal, though no more than partly successful, was much more focused on job creation than our current economic stimulus has been. It seems that the New Deal was also more successful at inspiring the American public.

Consider one of the most applauded of Roosevelt’s programs, the Civilian Conservation Corps, from 1933 to 1942. The program was open to young men, initially those 18 to 25, a group that was quite vulnerable economically. The C.C.C. emphasized labor-intensive projects like planting trees.

The public appreciated the tree planting because the projects addressed big problems that had been ignored. Major dust storms in and around Oklahoma raged from 1930 to 1936, denuding whole regions of agricultural land. The storms were vivid evidence of an externality that environmentalists had warned about for years, to little avail. Unregulated farming and lumbering had allowed pervasive soil erosion.

Aside from the environmental benefits, the C.C.C. encouraged a sense of camaraderie, taught young men new skills and gave its workers a sense of participation in something historic.

Congress has recently set plans for tripling the size of **AmeriCorps**, the modern counterpart of the C.C.C., which now takes both sexes and has no age cap. At its peak, the C.C.C. employed 500,000 young men. Under current plans, AmeriCorps would top out at 250,000 people in 2017, even though the nation now is two and a half times larger. We ought to be bolder.

Big new programs to create jobs need not be expensive. Suppose the cost of hiring a single employee were as high as \$30,000 a year, several times typical AmeriCorps living allowances. Hiring a million people would cost \$30 billion a year. That’s only 4 percent of the entire federal stimulus program, and 0.2 percent of the national debt.

Why don’t we just do it?

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