



Dear Editor:

We were delighted and fully support Robert Pollin's call for a federal program to create 18 million jobs by 2012! We have been promoting a 20 million job creation proposal since February of last year (see: www.cpegonline.org for technical documentation of this and other points below). The failure of most mainstream economists and political leaders to recognize the seriousness of our economic crisis and advance programs on the scale necessary to address it has been inexcusable. Pollin should be commended for putting forward a job creation proposal of the magnitude that we desperately need.

We do, however, have some concerns regarding the details of the Pollin proposal. In the article Pollin assumes that 5% GDP will produce approximately 4% employment growth (p. 4 of web version). The PERI technical appendix for the article explains that this is based on a "rule of thumb" that is borrowed from the Romer/Bernstein January 2009 paper which assumes that 1% of GDP growth will produce 0.75% of employment growth (p. 2) so that 5% GDP growth will produce 3.75%, or approximately 4%, employment growth.

This "rule of thumb" strikes us as much too optimistic. BEA and BLS data for the most recent 2002-2007 expansion shows average real GDP growth of 2.6% supporting average employment growth of 0.9%. At this ratio 2.2% GDP growth is necessary for 0.75% job growth so that *11% GDP growth would be necessary for 3.75% employment growth*. Perhaps this 11% could be reduced somewhat if some share of the private investment was directed to green activities as Pollin suggests, but it is very hard to see how a mostly private investment boom in the U.S. economy could lead to anything close to this rate of growth on a sustained basis for three years.

This suggests that much greater direct public spending for job creation, that will both increase the employment/GDP ratio and directly increase GDP growth, will be necessary even if private finance can be cajoled and induced to increase investment by \$ 700 B a year. It appears to us that a major and permanent increase in public sector spending, along with changes in trade and industrial policy, will be necessary to achieve sustainable and equitable long-term prosperity for the U.S. and world economies. We estimate that a modest financial transactions tax would raise approximately \$ 750 B annually for this kind of job creation program.

Sincerely,

Ron Baiman for the
Chicago Political Economy Group