Not More of the Same

WHEN he introduced Alan B. Krueger, his new economic adviser, in the Rose Garden last week, President Obama offered a few hints about his new economic plan. So far it sounds much like the old plan, which is too bad because that plan didn't work very well.

One part of the new plan, the president said, is to "put more money in the pockets" of people. That was tried in the 2009 stimulus, when the federal government borrowed money and gave it to people in the form of one-time payments or temporary refundable tax credits. The temporary transfers created little or no increase in aggregate consumption or, in turn, in jobs.

Another part of the new plan would "put construction crews to work rebuilding our nation's roads and railways and airports." That too was tried in the 2009 stimulus. My colleague John F. Cogan and I found that state and local governments put most of the money in their coffers. The federal government also undertook its own construction programs, but, with few shovel-ready projects, it could only increase infrastructure spending by an immaterial 0.05 percent of G.D.P.

In my estimation, those interventions and most others — cash for clunkers, the first-time homebuyers' tax credit, quantitative easing by the Federal Reserve and the sharp increase in federal spending — have not only been ineffective but have also lowered investment and consumption demand by increasing concern about the federal debt, another financial crisis and threats of inflation or deflation. Most businesses have plenty of cash to invest and create jobs. They're sitting on it because of those concerns.

Rather than more of such temporary interventions, the American economy needs a new comprehensive economic strategy. A natural starting place is the debt-limit cum spending-control agreement reached this summer. It reduces projected increases in spending over 10 years by $2.1 trillion to $2.4 trillion. The agreement reduces spending growth in a very gradual way, which is appropriate in a weak economy.

But it does not fully deal with the debt and the deficit problem, which is why it needs to be embedded in a broader economic strategy with the goal of closing the rest of the budget gap through pro-growth reforms.

There are of course sharp differences of opinion about the reforms needed to achieve that goal. The biggest differences of opinion will probably have to be hammered out in the 2012 election. Entitlement reform, tax reform, regulatory reform, monetary reform — indeed, the fundamental role of government in the economy — should be part of that debate, but with a clear commitment to America's living within its means.

That strategy will take us toward a more stable and predictable economic policy with less uncertainty about the future. It will thereby increase both demand and supply and cause the economy to grow and create jobs again.

— JOHN B. TAYLOR, an economics professor at Stanford and the Treasury under secretary for international affairs in 2001-5