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The past week brought news of US double-digit [unemployment](#) and the Federal Reserve's decision to maintain [near-zero interest rates](#). Both pieces of news expose the inadequacy of US economic policymaking. The [Obama](#) administration's stimulus policies are not well-targeted. The Republican alternatives are even worse. Both sides are missing the key fact: the US economy needs structural change that requires a new set of economic tools.

Consumer and investment demands are too low for full employment. Consumer sectors such as housing no longer generate adequate spending by households and businesses.

Potential investors exploring more promising areas, such as low-carbon energy and infrastructure, are stymied because of the lack of a clear policy framework. Neither the Keynesian approach favoured by the Obama administration, nor the tax-cuts favoured by Republicans, addresses the problem at this structural source.

Following a Keynesian approach, the Obama administration has focused on restoring consumer spending. They have gone about this with a combination of near-zero interest rates, massive Fed financing of mortgages and various consumption incentives, such as rebates for new homebuyers and cash for clunkers.

During the previous bubble, the US consumer was encouraged to over-borrow. Recreating a new bubble is like offering just one more drink, on the government's account, to overcome a mass hangover. With budget deficits of about 10 per cent of gross domestic product, government spending needs to

be far more consequential than temporary boosts to [consumer spending](#).

The Republican alternative is equally fatuous. For every problem there is a single Republican answer: tax cuts. Simple arithmetic reveals the stunning shortsightedness of this proposition. The federal government collects about 17 per cent of GDP in tax revenues. That roughly equals the outlays on social security, Medicare, Medicaid, veterans' benefits, defence and interest payments on debt.

All the rest – roads, rail, clean energy, science and technology, diplomacy, international disease control, space, education, job training, water, transport, courts, poverty relief, homeland security, conservation, climate adaptation – is financed on borrowed money. All of these critical areas are underfunded, which hinders productivity, national security and private investment.

There are three parts of a long-term solution. The first is to promote greater exports, partly through dollar depreciation and partly through expanded government support for export financing, for example extended to credit-constrained low-income countries that want to purchase US-produced technology. Dollar depreciation is under way but other kinds of export promotion have not begun.

A second component is a massive expansion of education spending and job training. The unemployment rate among college graduates is only 4.7 per cent, while it is 15.5 per cent among those without a high-school diploma. The US woefully under-invests in education outlays for the poor, who drop out of school and then cannot find gainful employment.

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A massive expansion of education and training would address the current unemployment crisis in three ways: by shrinking the numbers of young people searching for work, by building job skills for the future, and by increasing total spending in the economy through education outlays.

The third component is to spur an investment boom in areas of high social return that are currently blocked by the lack of clear policies. The conversion to a low-carbon economy would create jobs in the short run, a more productive economy in the medium run, and US technological leadership in the longer run.

The same is true with the overhaul of America's ageing infrastructure at a time when cutting-edge technologies can dramatically improve the efficiency of resource use, the safety of the built environment, and the sustainability of our ecosystems.

During the Obama campaign we were told about a green recovery – one where the jobs would come through a massive expansion of low-carbon energy. We were told about plug-in hybrids, intercity fast rail and new water and sewerage plants to replace the crumbling infrastructure. We were told about a new infrastructure bank to fashion complex multi-state projects that would employ huge numbers of workers while building a cutting-edge economy.

Little bits of these efforts are strewn through the stimulus legislation, the pending climate legislation and elsewhere. But the administration has not done the hard work to bring these complex initiatives to reality. Intercity rail does not just appear by itself. Direct-voltage transmission lines require a new federal and regional power grid strategy. Nuclear power requires presidential leadership to get moving again. Carbon-capture and storage requires a partnership of science and industry, backed in early stages by public technology funds.

The president has lost the economic initiative, weighed down by a tedious fight between two out-moded ideologies: Keynesianism and supply-side tax cuts, as well as by the president's excessive deference to Congress.

The president occasionally sings these lyrics but has not yet presented a plan. Move now, Mr President, or we will spend our time digging out of the next consumer bust and buying our technology from China.

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