It's hard to imagine a less satisfactory jobs report at this stage of President Obama's term. The economy is dead in the water. Obama has no plan but to wait for the upturn. Mitt Romney's plan to cut taxes would be disastrously worse, plunging us into a deep financial and social crisis.

It's long past time to face basic facts. America's economic problems are structural and will not be solved by more tax cuts, quantitative easing, or short-term stimulus. Neither party offers real solutions, though the Republicans' policies would drive us much faster to ruin.

The big mistake of Obama and his economic team from the start was to treat the downturn as a temporary recession, albeit a very big one. A temporary recession requires a temporary fix. A structural crisis requires long-term strategies. Here we are in 2012 without any long-term strategies except to wait out the crisis.

Real solutions require fresh strategies to break free of vested interests in energy, healthcare, education, and infrastructure. In other words, in today's political environment, real solutions won't happen any time soon. We are stuck.

All of this was reasonably clear at the start of the Obama Administration. In 2009 I argued against Washington's reliance on short-term Keynesian stimulus:

[T]he stimulus tools of standard macroeconomics are spent. Interest rates are near zero but debt-ridden, unemployed, and frightened households can no longer pick up the pace. Keynesians urge even greater budget deficits, though the $1.4 trillion hole in fiscal year 2009 must give pause. The federal budget gap is now so large that the deficit has itself become a major source of anxiety and uncertainty. Another tax cut would be more likely to frighten than stimulate the economy. Anybody who adds across budget columns will realize that the federal budget is at the breaking point, and needs higher rather than lower tax revenues. The Federal Government collects a mere 18 percent of GNP in revenues, which are fully swallowed up by spending on health and retirement, the military, and interest payments on the debt. The rest of government, including infrastructure, science, education, climate, energy, poverty reduction, and public administration, is financed by borrowing, with China the largest creditor.

The situation is worse today. The tax system has been so gutted by a series of "temporary" tax cuts, agreed by the White House and Congress, that revenues for fiscal year 2012 are below 16 percent of GDP, the lowest rate in forty years.

In the meantime, the job market is stuck. Today's unemployed and under-employed workers do not have the skills that businesses are seeking. Broadly speaking, those with a bachelor's degree are faring much better than those without. Employment for those with a bachelor's degree and above has increased by 1.75 million jobs during the past year (August 2011 to August 2012), while it has declined by 330 thousand jobs for those with at most a high-school diploma. Even many new college grads are having trouble finding work, since their college education did not give them marketable skills and since we have few school-to-work job training programs (as in countries like Germany where youth unemployment is at very low levels).

None of this is going to change any time soon. The lack of federal budget revenues means that there is no funding for education, job skills, training, apprenticeships, and public investments in infrastructure. Yes, President Obama repeatedly calls for all of these good things, but the Administration has no plans to fund them. Obama's plan to raise taxes on the top income earners is good policy but very small, resulting in less than one percent of GDP in revenues. The scary truth is that Obama's budget plans call for a continuing cut of civilian government programs relative to GDP through 2021. If Romney is elected, taxes will be gutted further, so that spending cuts will be far deeper, enough to cripple the economy and create massive social unrest.

A true recovery should be investment led rather than consumption led. We need long-term investments in human capital (skills) and in key infrastructure such as low-carbon energy systems, smart grids for cities, cutting-edge information and management systems for low-cost integrated healthcare delivery, and inter-city fast rail. These investments are inevitably a mix of private investments and public investments, with the mix differing according to the sector in question.

As I pointed out in 2009, the tools to promote such investment-led growth are not the Keynesian tools of short-run stimulus:

Macroeconomists trained in the past thirty years believe that demand increases depend mainly on interest rates and deficit or tax levels. Yet increased spending on renewable or nuclear power plants, a robust power grid, carbon-capture and sequestration, wastewater treatment facilities, fast inter-city rail, higher education, urban co-generation of electricity and heat,
green buildings, and countless other new sustainable technologies, will depend on establishing a policy framework that harmonizes regulations, land use, public financing, and private investment. Large-scale stimulus, in other words, requires the nitty-gritty of public-private planning, technology assessments, demonstration projects, and complex project financing.

We have wasted the past four years trying to revive the economy by turning macroeconomic dials without paying attention to the real economy. We have no serious strategies. Our energy strategy has become "Frack, Baby, Frack." We are going nowhere in advanced transport, renewable energy, or breakthroughs in lowering health care costs.

The question for America is how we are going to break free of this low-level trap. First, we will need a government that is not subservient to the status-quo corporate interests blocking innovation in key sectors such as health, transport, and energy. Second, we need a government that can strategize, not just improvise. Third, we need to end the nonsensical bluster against government. Our specialist scientific agencies are still doing amazing things right before our eyes this year: exploring Mars and unlocking the complex mysteries of the human genome. We could be doing a lot more to solve our social and economic problems and to re-establish our prosperity if we put our confidence back into science, technology, advanced training, and public-private partnerships.

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