# How do we get Job Recovery?

In my last column, I wrote that for jobs to exist, they need a habitat and a food supply. The habitat is investment – by the employer, in plant and equipment; by the employee, in education and training; and by the government, in roads and a legal system and other public infrastructure. And the food supply is demand, the willingness of the ultimate consumers to pay for what the job produces.

So how do recessions occur? And how do we get the jobs to return? Interestingly, jobs disappear because of a loss in habitat. And they return with a recovery in the food supply.

In that last column, I described a taxi job that needed the employer to first invest in a taxi. The employer would typically put down some cash, and take out a car loan on the rest. But what if the bank stops lending?

That's what happened 4 years ago. Financial institutions suddenly realized that a lot of the mortgages and mortgage-backed derivatives that they held were perhaps not all that valuable. So, fearful of going under, they stopped lending – totally.

And therefore just as suddenly, millions of businesses discovered that they could no longer get a loan, no longer finance any investment. So they stopped buying taxis, and then taxi factory jobs disappeared, and the out-of-work taxi workers quit shopping at Kmart. And as the downward spiral continued, the economy quickly imploded.

Recessions almost always begin because the financial sector screws up, panics, and shuts down. That's why we created the Federal Reserve System, a century ago. That's also why we started regulating the financial sector 80 years ago, under FDR. And it mostly worked, with gentler recessions after WWII. The one not-so-gentle recession was the 1981 recession, engineered by the Fed as a quick but bloody way to end the inflation of the 1970s.

But then Ronald Reagan announced that regulation was bad, and so by 2000 most of our financial regulations were history. Which gave the financial sector the opportunity to really screw up, pretty much as royally as it did in 1929. And we've all suffered through the consequences.

So how do we get jobs to recover? Well, we need to find someone the banks are willing to lend to, to borrow a lot of money and start buying, putting taxi workers back to work making maybe fire engines, and shopping again at Kmart, so the spiral will point up and not down. And that someone, since the 1930s, has been the Federal government.

Yes, government deficits are a bad thing, when we're at full employment. Yes, in a full employment economy they crowd out investment. But we're talking about a recession, right? And in a recession, government deficits are part of the cure.

And they work. In less than a year, the Obama stimulus of 2009 turned an economic free fall into a gradual recovery (at least, according to 92% of the economists polled by the University of Chicago). It wasn't 100% effective, but it scored at least a B+. But it wasn't enough. And since the Republicans took over Congress, any additional stimulus has been pretty much blocked.

Sure, you can cut government spending during a recession. And you can use a tight monetary policy to rein in inflation. That's been the Republican prescription. But that’s exactly the policies that Germany's Angela Merkel's has foisted off onto Europe. And they're in a double-dip recession now.

You want economic recovery? That takes government, and it takes government spending. And anyone who claims otherwise is just blowing smoke.