

Rewarding Work

By Edmund S. Phelps

Capitalist systems have no preset course, no predictable destination. Every government, though, seems to have a mission. We have just been through a regime of "compassionate conservatism," with its crusade to boost homeownership over renting, give free pills to the elderly, and implant democracy overseas. There was not much compassion, though, for the low skilled and those depending on fiscal responsibility for their future Social Security benefits.

Now a staggering economy impels the new administration to take on a different mission—to remake the economy on the "ideas of our forebears." I welcome the announced projects for more and better infrastructure—roads, bridges, airports, broadband, and the electric grid. This initiative—even if taken by every country—will contribute a net increase to employment in the capital goods sector and to aggregate employment in the U.S. In contrast, global tax cuts to households, to the extent they stimulate a worldwide increase in consumer demand, will drive up world interest rates and could thus damage employment.

I confess, though, that investing in infrastructure does not make my heart soar. Glaringly omitted from President Obama's announced plans is the idea of boosting another kind of social investment. In his victory speech after the North Carolina primary win, he spoke feelingly of the centrality of work in everyone's life, recalling how much his father-in-law's job had occupied his thoughts and given him pride. He spoke of "rewarding work," the title of my 1997 book on using tax credits to induce companies to employ more low-wage workers.

Instead, a proposed cut in the payroll tax rate—up to a certain earnings level—is planned. Low-wage earners will get their piece of it. But that will not be enough of a pay boost to create careers of self-discovery and transform neighborhoods and cultures among the least advantaged. My hope is that it is not too late to revert to the ideas expressed in North Carolina.

Mr. Phelps, a professor at Columbia University, won the 2006 Nobel Prize in economics.