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GUEST OPINION

The myth of government-created jobs

Matthew Piccolo | Posted: Sunday, September 18, 2011 12:02 am

Everyone seems to be talking about creating jobs these days. President Barack Obama is advocating for his $447 billion job creation bill; Republican challengers to the president are debating which of them can create the most jobs; and Governor Gary Herbert has announced the latest state tax incentive ($1.5 million) designed to lure jobs to Utah.

All this talk about jobs raises a question: Can government even create jobs? The way politicians talk about creating jobs one might think they can simply pull a lever or wave a magic wand and poof -- a new job appears out of thin air. In reality, government can do very little, if anything, to create jobs.

Who does create jobs? Businesses and entrepreneurs in the private sector. Washington Post columnist Robert J. Samuelson noted, "Businesses create jobs when two conditions are met. First, extra demand for their products justifies more workers. Second, the extra demand can be satisfied profitably." This makes sense. If entrepreneurs believe that getting more goods and services to their customers will earn them more money, then they will hire more employees to expand their operations.

When this occurs, businesses themselves create the jobs, not government. Can government at least prod businesses into creating jobs by influencing the economy?

Perhaps people would spend more if government "stimulated" their spending habits with subsidies in the form of cash, food stamps, or other means. Or maybe government could itself spend more money on things like road construction, office buildings and monuments, or more books and school lunches for children.

Using government spending to spur economic growth, a foundational theory of economist John Maynard Keynes, might seem like a promising proposal, but it has a major flaw: Spending more government resources might create economic activity in particular locations or industries, but it will not necessarily benefit the economy as a whole because, ultimately, those resources come from people, not from government itself.

As Daniel J. Mitchell of the Cato Institute has written, "[Keynesian economics] only looks at one-half of the equation -- the part where government puts money in the right pocket [of the economy]. But where does the government get that money? It borrows it, which means it comes out of the ... left pocket [of the economy]. ... Keynesianism does not boost national income, it merely redistributes it. The pie is sliced differently, but it is not any bigger."

Indeed, increasing taxes picks right out of the economy's pocket, and though borrowing or printing money to spend more could help the overall economy temporarily, taxpayers (and thus the economy) must eventually absorb the costs, canceling out any short-term gains.

This offsetting effect is what prevents government spending from leading to new jobs over time. As one simple example, if government chose to expand a highway it might purchase vast quantities of concrete which could lead to some concrete companies hiring more workers. However, concrete bought by the government would not be available for companies to purchase, which might increase their costs due to delays in getting needed concrete or if the government purchase increased the price of concrete, forcing companies to fire employees due to lower sales.

Government intervention in the economy always produces more than just intended effects, which can mean no net new jobs. Russ Roberts stated clearly the role of government in job creation: "When the economy is healthy, you don't need to spend money from outside to create more jobs. And when the economy is not healthy, all the spending in the world [will not] create jobs."

But what if government creates jobs by hiring more workers, such as teachers, firefighters and health experts? Again, any government spending takes over resources that could be used -- usually more productively -- in the private sector; thus even direct hiring by government creates fewer jobs than would exist without it.

Government often tries to help entrepreneurs create jobs by reducing their costs. Specifically, it lowers tax rates, issues targeted tax deductions and credits, offers subsidies to specific businesses or industries, or eliminates burdensome regulations. But even in these cases it is still the entrepreneur, not the government, who creates the jobs.

Despite government impotency with job creation, elected officials have become experts at redistributing and shifting jobs and wealth around while taking credit for "creating" jobs. These futile efforts are not unique to national government. State and local governments also claim the ability to create jobs. For example, they often offer "incentives" to hand-picked companies willing to expand within or relocate to their jurisdiction. Not only does providing special tax benefits to favored companies not create new jobs overall, but it can also lead to rent-seeking by special interests, cronyism, and kleptocracy.

The bad news is that government central planning efforts, rooted in Keynesian economics and mainstreamed during the New Deal Era, have permeated economic development policy in Utah and the United States. The good news is that many responsible citizens and public officials understand who really creates jobs. For instance, Gov. Gary Herbert declares prominently on his website: "In Utah, we know, it is the private sector, not government, that creates jobs."

We simply need everyone to acknowledge this fact and let it drive economic policy in Utah and nationwide. Government should attempt to create only what it can: a legal and policy framework in which entrepreneurs -- the real job creators -- can do what they do best without government getting in the way.

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