

# President Obama's Jobs Dilemma



## Jagadeesh Gokhale

Tomorrow's much heralded jobs speech by President Obama before a joint session of Congress will contain many proposals -- including new spending on infrastructure and education, tax credits for job-creation, jobs training for workers displaced by the recession, tax breaks for employers to hire workers among particular voter groups, and so on. This late summer re-enactment of annual State of the Union spectacles won't ramble on about a wide range of policy issues. The President will focus on just one topic -- federal policies meant to foster job creation. That means the President's list of proposals will be long and, according to media reports, will cost about \$300 billion. But for an economy debilitated by policy uncertainty, this is exactly the wrong thing to do.

This summer's bruising debate on increasing the debt limit has left lawmakers with no appetite for more spending, whether financed out of taxes or borrowing and the proposals will be DOA. Among Democratic lawmakers, only those with a suicidal urge would suggest that we enact new spending programs financed out of new taxes. That would simply reinvigorate political support for the Tea Party with already proven credentials on successfully opposing any and all tax increases.

The new jobs stimulus includes an extension of the two percentage point reduction in the payroll tax paid by workers due to expire Dec. 31 and a new decrease in the portion of the payroll tax paid by employers. The President will call on Congress to offset the cost of the short-term jobs measures by raising tax revenues in later years. But that means his jobs stimulus will be deficit financed -- a policy that is incongruous with the charge of the super-committee convened by the Deficit Control Act of 2011 to reduce federal deficits and debt. And the President, who was calling for eliminating tax loopholes as recently as four weeks ago, is now proposing a large new loophole himself.

There was a time when responsible lawmakers enacted new spending programs together with new revenues to pay for it. Social Security was enacted in 1935 together with payroll taxes to pay for its expenditures. So was Medicare in 1965 -- where Part A was fully funded out of dedicated revenues and Part B was funded partly out of beneficiary premiums and partly out of federal general revenues. But the Medicare Part D prescription drug program was enacted in 2003 with zero new dedicated funding.

The many stimulus programs enacted after the recession began in late 2007 were entirely deficit financed. The combination of reduced revenues from the recession and failed stimulus programs is why we now face a debilitating explosion of federal debt. The

economic uncertainty created by rising debt -- about how debt will be reduced and who will bear the financial cost -- is the fundamental reason for a moribund economy. Proposing new deficit financed spending programs that are impossible to pay for is precisely the wrong thing to do.

But elections have their own compelling logic.

In many earlier speeches, President Obama has revealed a proclivity to criticize and admonish others -- mostly lawmakers in a recalcitrant Congress. But such speeches only alienate rather than attract, divide rather than unite. And we're already battered from those experiences: When we hear President Obama exhort lawmakers in Congress to make sacrifices and put country before politics and serve the people's needs rather than their own narrow political priorities, we should remember that he's doing the latter himself.

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