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Can Washington Find the Jobs?

(Page 4 of 7)

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Private-sector hiring during July 2011 overcame cuts in state and local government jobs to yield 117,000 net new jobs. But the unemployment rate remains stubbornly above 9 percent. The economy is not yet out of the hospital, and employers and investors know that. Their recent exit from stock markets is attributed to weak data on the consumer and manufacturing sectors. But that weakness, in turn, could be traced to the disappointing process and outcome from protracted budget negotiations. It does not bode well for next month's jobs report.

What must happen for the economy to recover and employers to begin hiring? There is only one answer: Lawmakers must chart a stable policy course with low taxes to create a competitive business outlook. But the just-concluded budget deal only increased market uncertainty.

Lawmakers have failed to deliver a stable policy environment. Protracted budget negotiations demonstrated their dysfunction, and the final budget deal delivered a much smaller budget consolidation than investors would have hoped for — one that excludes changes to major future-deficit drivers Social Security, Medicare, and Medicaid.

Market participants know full well that the more we postpone rationalizing entitlement programs, the more firmly rooted will future tax increases become. The substantial market decline (over ten percentage points) that occurred since it became clear that a sizable budget deal won't be achieved reflects that concern. Moreover, high policy uncertainty continues, because the precise composition of budget cuts has yet to be determined by the super-committee constituted under the deal, which may or may not address the key deficit drivers.

Last month's better-than-expected job gains may reflect earlier business expectations that the budget deal will address the nation's over-spending problem substantively. It will be no surprise if next month's jobs report reflects employers' disappointment with the budget deal we actually got.

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