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Conn Carroll: Obama's employment policies not in demand

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Bill Cosby loves cars, but he has no idea how they work. In his 1968 album, "200 mph," he even joked about how he couldn't find the gas tank on a new Ferrari.

His routine described how he once pulled into a gas station and asked the attendant to "fill 'er up." But the attendant hadn't seen a Ferrari before and asked, "Where's the gas tank?" Cosby replied: "I don't know. You're the gas man, you find the gas tank." After a couple of frustrating minutes failing to find the tank (including an attempt to put the gas in the tires) the attendant turned back to Cosby and asked, "OK, well, what if I just pour it over the car and maybe it will seep in somewhere, all right?"

Cosby presumably rejected this offer. But as Cato Institute adjunct scholar Arnold Kling has noted, the attendant's suggested plan was essentially the same as the textbook liberal response to unemployment.

President Obama and other liberals espouse the view of British economist John Maynard Keynes, that high unemployment is caused by insufficient levels of aggregate demand. If government can just boost people's demand for goods and services, they believe, then the economy will quickly spring back to life. The preferred liberal method of boosting aggregate demand is to increase government spending. Hence Obama's $800 billion economic stimulus.

But as Kling and others point out, economies are not as simple as the liberal economists would suggest. The U.S. economy is not just one giant gross domestic product factory where people can be put back to work at the flip of a switch. Rather, jobs must be created by entrepreneurs who can identify new ways to employ people profitably.

Government stimulus spending is ill-suited to this task. Rather than help entrepreneurs create jobs, it actually makes the process harder by keeping unsustainable business models on life support with a dose of cash. Take as examples Obama's cash-for-clunkers program, and the first-time homebuyer subsidy. Both policies temporarily and artificially boosted demand in a given sector of the economy. Neither policy helped those employed in the affected economic sectors find sustainable jobs after the government spending ran out.

Can government simply keep subsidizing inefficient and failing areas of the economy forever? Keynes seemed to think so. Pressed to justify the long-term borrowing costs of his short-term stimulus policies Keynes famously once said, "In the long run, we're all dead." Unfortunately for the United States, the long run is now here in the form of a $14.3 trillion debt. And there is evidence that the size of the current debt is making it harder for entrepreneurs to create jobs.

A study released earlier this year by Stanford economist John Taylor found a strong relationship between private sector investment and employment: The higher private investment is as a share of total economic activity, the lower the unemployment rate. But, more than 20 months into the Obama recovery, private sector investment has not returned to pre-recession levels. And the federal government's uncertain fiscal future is a big reason why.

How much will taxes rise in the upcoming debt limit deal? $500 billion? $1 trillion? And even after that tax increase is done, will the 2001 and 2003 tax cuts be extended in 2012? Letting the current rates expire would increase taxes by $5 trillion. How can businesses be expected to make long-term investment decisions when they don't even know what their tax liabilities will be?

Governments don't create sustainable jobs. Entrepreneurs do. Obama would do well to get out of their way.

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