

Who is really holding back the economy? Nancy Thorner and Ed Ingold

Nancy J. Thorner | August 19, 2012

Part 2 – Who is really holding back the economy?

President Obama criticizes Congress, and especially the Republicans, for holding back the economy by refusing to pass his second stimulus package, [otherwise known as the “Jobs Bill.”](#)

The President claims that the stimulus is working, but not enough has been spent. The fact is we are falling further behind, and the President’s ideas are not working because they can’t work. More money in that direction will put us further in the hole.

The House of Representatives have passed 32 bills related to jobs creation over the past two years years which Harry Reid refuses to even debate in the Senate. It is a given that in the months before the election Republicans will be painted as do-nothing obstructionists and not wanting to lower the unemployment rate though [blocking the Democrats’ jobs bill](#).

Since 2007, when the economy began to falter, Congress passed what amounts to three stimulus bills, a bipartisan \$158 billion package of tax cuts signed by President George W. Bush in early 2008, a \$787 billion bill pushed by President Obama when he took office 2009 in the wake of the financial system’s collapse, and a tax cut and unemployment fund extension agreement reached by President Obama and Congressional [Republicans in 2010 and extended to cover 2012](#).

The Democrats lament that we just haven’t spent enough to help the economy. Economist and New York Times columnist Paul Krugman and former President Bill Clinton have both argued that the 2009 stimulus package was too small. Tom Firey of the libertarian Cato Institute, however, estimates that the U.S. has dumped at least [\\$2.5 trillion of fiscal stimulus into the economy](#) since 2008.

Most of us remember [TARP \(Troubled Asset Relief Program\)](#) which was passed with bipartisan support two year ago to stabilize the nation’s financial institutions for the purpose of staving off a second Great Depression.

So far the government has gotten back about \$300 billion of the \$414 billion it has paid out to banks. Some banks in paying back TARP are even using other government money to do so! The most recent cost estimate for [TARP is a loss of \\$60 billion for taxpayers](#).

Now let's examine the partisan \$787 billion stimulus bill ([American Recovery and Reinvestment Act](#)) which President Obama pushed in 2009, which was supposed to stimulate the economy and produce jobs, but did neither.

An official website has been set up by the government that provides easy access to data related to Recovery Act spending and [allows for the reporting](#) of potential fraud, waste, and abuse.

The manner in which the 2009 stimulus was spent by recipients who received contracts, grants, loans, recovery entitlement distributions and tax benefits offers a window into why \$787 didn't have a positive effect on jobs or the economy. Presently our rate of growth is a measly 1.5% over three years, compared to the 2.5% required to maintain the status quo, and 6% needed to catch up with the losses sustained since 2008.

According to The Center for Fiscal Accountability (Americans for Tax Reform) the \$787 billion stimulus package marked a return to the failed policies of the past, the resurrection of Keynesian policies. The stimulus package is indeed a redistributionist package in that it takes money from one group of people through tax hikes in order to give it [to another through government spending](#).

Most of the \$787 billion given out so far in stimulous money was handed to the states to meet current obligations and to repair roads. Some was granted to industry, notably General Motors and Chrysler, and some to promote "Green Energy." In short, the bulk of the money was spent to preserve public sector jobs and largely unsustainable benefit packages to public employees. Since 2008, more than 250,000 Federal employees have been added to the payroll.

But do public sector jobs really help the economy? In one sense, they do, by providing a vital service that only government can provide. Those jobholders have to live and eat just like the rest of us. But in a broader sense, public sector jobs are maintained by redistribution of wealth, from those who create wealth to those who consume it. Democrats are not particularly concerned with this, because since the 1930's they have been devoted to promoting public sector jobs and spending.

The government, in their view, provides the basis on which private enterprise depends. It is no coincidence that unions continue to thrive mainly among public sector employees, and that their union dues go mainly toward electing public officials who are sympathetic to their demands. If we should have a "Stimulus 2", we will get the same results – nothing. Often heard, as in this situation, doing the same thing time and again, expecting different results, is a form of insanity.

The President likes to brag that he saved GM from bankruptcy, and thousands of middle class jobs in the process. Actually, GM did go bankrupt, but in a rather curious manner. When GM's bondholders would not agree to forgive the debt owed them, the company was allowed to transfer all of their valuable assets to a dummy corporation, shielding these assets from liquidation. In that way, GM could declare bankruptcy with few declared assets, forcing bondholders to accept \$0.10 on the dollar, instead of the \$0.30 to \$0.40 on the dollar [they could expect from a real bankruptcy](#).

If you or I were to do that, that transfer would be ruled invalid through fraud, and we could go to jail for the attempt. Who were the bondholders stiffed? Directly and indirectly most of GM

stocks and bonds, considered “blue chip” for decades, were held by retirement accounts, including the teachers, public employees and unions the Democrats are keen to protect.

Would bankruptcy have liquidated GM, along with thousands of jobs? Not really. Large companies, faced by a slowdown in business, seek bankruptcy so that they can continue operations. The airlines are a good example. Most of the time, relatively few employees are discharged. Downsizing happens more often with consolidation than through bankruptcy. Rather than discharge debts, stiffing their creditors, bankruptcy gives the airlines get more time to pay them back, and pay back they do. More important, bankruptcy forces renegotiation of union contracts and unsustainable benefit packages.

At the same time, union work rules are suspended or renegotiated, with great benefit to the company, but little effect on wages. In short, President Obama saved the unions, and left GM saddled with the same obligations that drove them to bankruptcy in the first place. Small surprise that the UAW is among the most ardent supporter of Democratic candidates. When you rob Peter to pay Paul, you can count on support from Paul. The UAW is one of President Obama’s most ardent, and generous, supporters.

Tax relief has worked in the past, why not now? The President reluctantly did agreed to continue the so-called “Bush Tax Cut” of 2001 and 2003 so favored by Republicans. Set to expire in 2010, in December of 2010 Obama reached a deal with Republicans that extended the tax cuts at all income levels until after the November election.

They are now set to expire on Jan. 1, 2013. It has been a battle royale between Republican and Democrats over tax cuts since 2006. Republicans continue to push to make them permanent. Democrats are seeking to end those favoring upper-income households. “Tax cuts for the rich” has now become a slogan for Democrats to advance what they think is a winning issue — class warfare.

The Democrats seem unable to let the term “spending cuts” to cross their lips, and are afraid to utter the only alternative, “more taxes.” What we hear is “deficit reduction,” as though that comes about by spreading pixie dust. It is likely that the tax cut [battle will play a significant role in the November election](#).

Much of the media and all of the Democrats seem to forget this simple fact about the Bush tax cuts. They were passed in response to a recession occurring as George W. Bush and Dick Cheney entered office. After the [initial 2001 tax cut, the annual growth](#) rate went from 0.3% in 2001 to 2.5% in 2002. by 2004, GDP growth was the highest in 20 years. After the 2003 tax cuts, the unemployment rate fell to the lowest level since World War II.

The positive effect of the [Bush era tax cuts were blunted](#), in part, when along came massive new regulations in Sarbanes-Oxley and the incursion into government by Fannie and Freddie. When entering the private lending markets, Fannie and Freddie forced private lenders to launch even riskier ventures to stay profitable. Many private lenders eventually collapsed, taking the economy south with them.

In a display of dishonesty and deception, the President publicly praises private enterprise while working diligently behind the scene to crush free enterprise under a barrage of rules, regulations and the threat of more taxes in the future. If you stick your head up to succeed (or complain), you get whacked, like moles in those games at Chucky Cheese. Where is the Keystone pipeline? New oil drilling in the Gulf of Mexico (far south, off the shores of Brazil)? Why is “fracking”, a technology used for two decades, now subject to such close

scrutiny? Why are we shutting down over 20% of our electricity production over the next two years (coal is bad?), at the same time promoting electric vehicles? (In a very real sense, electric vehicles run on coal, not an extension cord.)

The President said to businesses that “You didn’t build that.” While he meant businesses didn’t build the roads, bridges and schools, he is wrong nonetheless. These public services were created in response to needs of businesses and people, who paid for these things through taxes on the wealth they created. Before modern roads, there were cars, and the industries that built cars and forged the steel they were made of. People who bought those cars simply got tired of getting stuck in mud, and put their resources together to fix the problem.

More important, the “You didn’t build that” statement betrays how the President holds private enterprise in contempt. He confuses opportunity with success. Yes, Mr. President, there are a lot of smart people, fewer now than when you took office, but not enough people who have the intelligence, determination and wherewith all to succeed. There is hope for the future, but not if President Obama gets his way.

Republicans are not stalling because they wish him to fail, they draw the line because his plans cannot succeed. If private enterprise is allowed to succeed, the economy will recover. There will be money for roads, bridges and schools. There will be money for public employees too, and useful work for them to perform. There will be jobs for the middle class, instead of the meager dole promised by the President. Business is the engine that will power the recovery, the way it always has. If something works, we should do it again and again, not wish for “Change.

Part 1: [Dismal August Jobs report nothing to crow about](#) - Nancy Thorner and Ed Ingold