



Why the President's Jobs Plan Won't Create Jobs

An interview with Cato's Daniel Mitchell: Why he'll argue against the motion, "Congress should pass Obama's jobs plan – piece by piece," at the Oct. 25 *Slate*/Intelligence Squared U.S. debate.

By [Elizabeth Weingarten](#) | Posted Friday, Oct. 21, 2011

Daniel Mitchell was puzzled when he first heard about President Barack Obama's decision "to double down on a failed approach and advocate more government spending" with the [American Jobs Act](#). The Cato Institute senior fellow contends that the president's new legislation will neither boost the economy nor create jobs. That's why he'll argue *against* the motion "Congress should pass Obama's jobs plan—piece by piece," at the [Oct 25. Slate/ Intelligence Squared U.S. debate](#). "For reasons we can only speculate about, the president has not relented at all in his view that Greek-style fiscal policy will help America," Mitchell told me in an email this week. Read on for excerpts from the rest of our email conversation about Obama's job creation propositions and what he thinks Americans don't understand about the President's legislation.

Slate: As an opponent of the act, what do you propose the government do instead to help spur job creation?

Daniel Mitchell: The folks in Washington should focus on removing government-imposed barriers to growth. Lowering tax rates and [reforming the tax code](#) would reduce penalties on productive behavior. [Restraining the growth of federal spending](#) would allow resources to remain in the private sector where they are far more likely to be used productively. A more rational approach to regulation—such as cost/benefit analysis—would lower [the burden of red tape](#).

Slate: Of course, the American Jobs Act in its entirety died in the Senate last week. Now, the President vows he'll try to get it through the chambers piecemeal. Are there any elements of the act, you think, that will be adopted?

DM: The president's payroll-tax holiday is something that Republicans presumably will support (although it's unlikely to help the economy since [temporary tax breaks don't have much if any impact](#) on long-run incentives to create jobs and expand output). It's also possible for there to be a compromise package. Republicans in the House and Senate have various proposals for tax relief. Some of these plans are gimmicky while others are laudable, but what matters from a political perspective is that both the White House and congressional Republicans may decide at some point that it is politically useful to combine their respective plans into one big proposal. The self-styled deficit hawks would probably be upset since the "cost" of the plan would soar, but this type of agreement would sail through both the House and Senate. I hope this doesn't happen, though, since I fear such a package would combine more spending with gimmicky tax provisions.

Slate: In a [2010 article for the New York Post](#), you wrote that the key issue of jobs creation is getting companies to believe they have a reason to invest—that if they spend money

and hire workers, they'll earn money. Is there any way that the current jobs act could be altered to promote or support that central idea?

DM: At the risk of being snarky, the answer is yes. Simply take the president's proposal, remove everything after the introductory "Whereas" and replace it with a simple and fair flat tax. But let's focus more on the premise of the question. One of the problems with Keynesian-ism is that it assumes the economy operates like some big machine and that government spending is fuel for the motor. If we want the economy to grow faster and generate more jobs, we need to realize that people respond to incentives. Companies only create jobs when they think that a new employee will generate profits. This may sound heartless to the Occupy Wall Street crowd, but employers only create jobs when they think the total revenue generated by a new worker will exceed the total cost of employing that new worker. This is why [taxes and regulation can be so harmful to job creation](#).

***Slate:* What do you think is most commonly misunderstood about the Jobs Act among average Americans?**

DM: The average person in the country probably has several misperceptions about what the president is proposing. Not because ordinary people are stupid, but rather because they make rational choices to spend their time focusing on things such as work, family, and community. I wouldn't be surprised to learn, for instance, that conservatives automatically assume that the president's plan is nothing but new spending. Heck, some of them may think it is nothing but new income-redistribution outlays. The folks on the left, by contrast, are probably more likely to make conceptual errors, such as [failing to realize that government can't spend a dollar with first taking that dollar out of the economy by taxing or borrowing](#).

***Slate:* You've spoken, and written, a lot about the dangerous reliance the Jobs Act has on Keynesian economics. Why is Keynesian spending so deadly?**

DM: Keynesianism is the [economic version of a perpetual motion machine](#). It assumes you can take money out of the economy's left pocket, put it in the economy's right pocket (probably spilling a lot of it in the process), and somehow be richer as a result. A major problem with the theory is that supporters focus on how an economy's output is allocated. Is it better for more of the economy's output to be used for consumption? Or for investment? Or, as Keynesians often argue, should more of our output be used for government spending? But economic growth [isn't boosted by redistributing how gross domestic product is allocated](#). Economic growth happens when we get more gross domestic product. That is why policies that focus on incentives and disincentives are more likely to generate positive results.

***Slate:* Is there anyone else right now—in either party—who you think has a good jobs creation plan? Or have you heard about any bills or proposals that might be in the works?**

DM: This may be a good opportunity to say that there is no difference between good short-run policy and good long-run policy. Moreover, policies that are good for growth are the same as policies that are good for job creation. With this in mind, lawmakers should focus on the policies that will make it easier for people to work, save, invest, and be entrepreneurial. But not by [giving them handouts, subsidies and special favors](#). The way to generate growth is by removing government-imposed impediments.

This is why tax reform, such as [a flat tax](#), would be so helpful for job creation and competitiveness. But interim measures also would help, such as [lowering the corporate tax rate](#) (especially since the U.S. is tied with Japan for the highest corporate tax burden in the industrialized world). Implementing policies to [restrain the burden of government spending](#) also would be critically important. On the macro level, some sort of [cap on government spending](#)

would help, such as the plans proposed by Sen. Corker of Tennessee and Rep. Brady of Texas. On the micro level, it's important to figure out the programs, agencies, and departments that should be mothballed, both because they are not appropriate functions of the federal government and because they hinder prosperity.