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The Government Job Creation Myth

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By Tad DeHaven

At the beginning of 2009, the president's economists told the public that passing an $862 billion "stimulus" package was the medicine the sick economy needed. We were told that its pas sage would keep unemployment from going above 8 percent. Instead, unemployment has remained close to 10 percent ever since.

The overall unemployment rate in Virginia has also increased but remains below the national average. However, counties that don't border the D.C. spending epicenter have unemployment rates that often match or exceed the national average. Virginia has been awarded some $4.5 billion in stimulus funds, yet private sector employment remains flat.

Never mind all that, says the administration. The stimulus package prevented a second great depression, it says. Last month, the White House's Council of Economic Advisors released an analysis claiming that the stimulus created or saved between 2.5 million and 3.6 million jobs.

Sounds good, but how did the CEA arrive at this conclusion?

Fuzzy math.

The first analysis used economic modeling to estimate the number of jobs created or saved. The model the CEA used assumed that government spending will have a positive multiplier effect on the economy. Voilà — the stimulus created jobs!

In the second analysis, the CEA estimated the stimulus bill's effects by comparing real changes in gross domestic product and employment against a baseline forecast. However, even the CEA admits that this approach is subject to "considerable margins of error," and that "the comparison will reflect not just the impact of fiscal policy, but all other unusual influences on the economy following passage of the Act."

Translation: "We don't know."

That the stimulus did create jobs isn't in question. The real question is whether it created any net jobs after all the negative effects of the spending and debt are taken into account. How many private-sector jobs were lost or not created in the first place because of the resources diverted to the government for its job creation?

Don't expect the administration's economists to attempt an answer to that question any time soon.

Here's another question that the administration would prefer to ignore: How many jobs are being lost or not created because of increased uncertainty in the business community over future tax increases and other detrimental government policies?

The economist Robert Higgs coined the phrase "regime uncertainty" to describe Franklin Roosevelt's anti-business climate, which prolonged the Great Depression. Unfortunately, this president is repeating the same mistake.

Health care mandates, cap-and-trade legislation, new financial regulations, union protections,

and the probability of higher taxes to pay for the administration's debt spree have caused innumerable businesses to remain on the sidelines.

As one small business owner recently told me, "I want to hire but I'm afraid the administration's policies are going to force me to turn around and let them go."

The president is countering these objections by traversing the country handing out government checks to pet industries. Apparently in the president's economic Field of Dreams, "if we subsidize it, they will come." Too bad past administrations have already poured billions of taxpayer dollars down the drain on similar failed top-down planning schemes.

So what should the administration do?

Put simply, the opposite of what it has been doing. It has become gospel in some quarters that massive deficit spending is necessary to get the economy back on its feet.

History offers no support for this contention.

Most recently, the Japanese tried to spend their way out of their economic doldrums in the 1990s. The result was Japan's "lost decade."

Our own history offers evidence that reducing the government's footprint on the private sector is the better way to get the economy going. Take for example, the "Not-So-Great Depression" of 1920-21. Cato Institute scholar Jim Powell notes that President Warren G. Harding inherited from his predecessor Woodrow Wilson "a post-World War I depression that was almost as severe, from peak to trough, as the Great Contraction from 1929 to 1933 that FDR would later inherit."

Instead of resorting to deficit spending to "stimulate" the economy, taxes and government spending were cut. Hello Roaring Twenties.

Similarly, fears at the end of World War II that demobilization would result in double-digit unemployment when the troops returned home were unrealized. Instead, spending was dramatically reduced, economic controls were lifted, and the returning troops were successfully reintegrated into the economy.

Policymakers today have no choice but to drastically reduce spending if we are to head off the looming fiscal train wreck. Stimulus proponents generally recognize that our fiscal path is unsustainable, but they argue that the current debt binge is nonetheless critical to an economic recovery. Nonsense.

Not only has Washington's profligacy left us worse off, our children now face the prospect of reduced living standards and crushing debt.

Tad DeHaven is a budget analyst on federal and state budget issues for the Cato Institute.

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