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O's jobs errors

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The White House last year released a supposedly sci entific analysis that claimed to show that adopting the "stimulus" bill would cut unemployment. Indeed, the report specifically estimated that the unemployment rate today would be down to 7.5 percent.

Something obviously went wrong. The actual unemployment rate is 9.5 percent, a statistic that doesn't include the millions who've given up looking for work or can only find part-time jobs. What were President Obama's biggest mistakes?

Part of the problem was a misplaced faith in Keynesian economics -- that is, in the discredited notion that politicians can borrow money from the economy's right pocket and increase prosperity by dumping money in the economy's left pocket.

But the bigger stumbling block is the folks in the White House seem to have no clue how the real-world economy works. Critics have noted that the Obama Cabinet sets the record for the lowest-ever level of private-sector experience. That doesn't *necessarily* mean people who don't understand how and why jobs are created -- but that seems to be the case with this administration.

Profit and Investment Are Necessary

For Job Creation

LET'S start with two common- sense observations. First, businesses are not charities. They only create jobs when they think that the total revenue generated by new workers will exceed the total cost of employing those workers. In other words, if it's not profitable to hire workers, it's not going to happen.

Second, it takes money to create jobs. More specifically, labor isn't very useful or productive unless investors are providing capital. Truck drivers won't get jobs unless someone has invested to buy trucks. Software programmers aren't worth much if their employer doesn't buy computers for them to work on. Even the green-energy companies the White House favors can't hire workers unless somebody (ideally venture capitalists rather than taxpayers) provides seed money.

The problem is not a lack of capital. Businesses have plenty of extra cash -- with the Federal Reserve reporting this month, for example, that nonfinancial firms are sitting on $1.8 trillion, about a quarter more cash-on-hand than when the recession started.

The key issue is whether companies have a *reason* to invest. In other words, if they start spending money and hiring workers, will they make money?

Unfortunately, almost everything Washington's done the last 18 months has sent the opposite message.

* The "stimulus" boosted federal spending, thus draining funds from private-capital markets and diverting resources from the productive sector of the economy. The main jobs that it "saved" were employees of state and local governments -- shielding the public sector from pain even as it inflicted more agony on the private sector.

* The health-care law is a cornucopia of new taxes, mandates and regulations -- directly increasing the cost of hiring new employees (as well as of keeping old ones on). By

telling employers that the cost of hiring is set to rise sharply in the years ahead, it makes them far more cautious about hiring.

* The new bailout legislation, though labeled "financial reform," raises costs for financial firms, meaning loans will be more expensive. That is, investing in that truck or computer for that new hire will cost you more.

TO be fair to President Obama, the problem began before his inauguration. President George W. Bush signed a big minimum-wage hike that has hit hard at less-experienced and lower-skilled workers. If a worker is only worth $6.50 per hour, then a required wage of $7.15 is a one-way ticket to the unemployment line.

And Bush was responsible for the TARP (Troubled Asset Relief Program) bailout, which has squandered precious capital by steering it to such inefficient firms as Citigroup and General Motors, which are unlikely to create jobs over the long run.

Of course, Obama supported these and other Bush economic policies, so the "mess he inherited" is also a mess he helped to make. All that matters from a jobs perspective, though, is that government has made it more expensive to hire workers and more expensive to provide the capital needed to make workers productive. This is a bad combination -- whether

politicians call themselves Democrats or Republicans.

What *Else*

Is Washington

Going To Hit Us With?

INVESTORS, entrepreneurs and other job creators also look into the future. If they think economic conditions will improve and that they can make money by expanding employment, they're more likely to take that risk. But what's happening in

Washington gives them little reason to feel optimistic.

A big challenge is that tax rates are going to rise. The 2001 and 2003 tax cuts are scheduled to expire as the ball drops in Times Square on New Year's Eve. This means higher income-tax rates, higher dividend-tax rates, more double-taxation of capital gains and a reinvigorated death tax. Each provision will increase the cost of productive behavior and specifically make it more expensive to provide the capital needed for job creation.

But that's just part of the story. On top of the scheduled tax hikes, the alternative-minimum tax is a ticking time bomb waiting to explode. Millions more Americans are on track to be swept into this surreal world where you have to calculate your taxes twice and then pay the government the larger of the two amounts.

The White House claims it wants to alter the law to avoid that -- but any reforms to reduce the impact of the AMT probably will be financed by some other form of tax hike.

AND let's not forget that the White House wants higher payroll taxes to bail out Social Security. We don't know how big the tax hike will be, just as we don't know what taxes it would raise to "fix" the AMT, but it all just adds to the uncertainty and makes it hard for business owners to create jobs.

Last but not least, we have the looming threat of a European-style value-added tax, which may even be part of the post-election surprise package being concocted by Obama's so-called Deficit Reduction Commission. Nobody in the administration has explained, however, why making America more like France is a good idea -- especially since growth tends to be slower on the other side of the Atlantic and unemployment tends to be higher.

The final straw -- and it's a big one -- is the potential for a radical global-warming bill that would give politicians sweeping powers to control and limit energy consumption. Even for those who think it will lead to good climate effects, there's no hiding from the fact that direct and indirect energy taxes will have a dampening effect on production and competitiveness.

Further fueling uncertainty is the fact that the administration may try to seize those powers even if it can't get a bill through Congress -- by having the Environmental Protection Agency treat the gases said to cause warming as pollution.

A Not-So-Silver Lining

The good news is that the economy is creating some jobs. This is to be expected -- the private sector is naturally self-correcting and capable of withstanding lots of bad policy. It takes a lot of missteps in Washington to keep an economy in recession.

The bad news is that the United States is gradually becoming a European-style welfare state. This means that we'll have growth in most years, but it will be tepid growth. It means jobs will be created -- but probably not enough to move the unemployment rate from its unacceptably high level.

To get truly robust job creation, we need to stop growing government and start getting it out of the way.

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