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Why a jobs summit?

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Government is not the solution to our problem; government is the problem.

-Ronald Reagan

What should the attendees at the White House "Jobs Summit" on Thursday be advising the president? Unlike Ronald Reagan, President Obama was schooled in the law, and not in economics. Thus, he may not understand that there is really no mystery as to why we have our current unemployment, and how we can regain full employment.

Therefore, a jobs summit is really unnecessary. The following is also known to, at least, some of the president's economic advisers, including Paul A. Volcker and Lawrence H. Summers, who have been acquaintances for several decades. Given Mr. Obama's heavy travel and speaking schedule, it is understandable he may have not had time to chat with them about the jobs matter.

First the basics: Employers will hire more workers of any given experience and skill level when the cost of hiring them is lower rather than higher. More people are willing and able to work when their take-home pay is higher rather than lower.

Economists refer to this as the supply and demand for labor. At some wage, the demand and supply of labor meet, which equals full employment in a properly functioning economy (i.e., an economy without government-induced credit bubbles).

A major reason we have unemployment is that the government taxes both employers and employees, thus driving a "tax wedge" between what it costs the employer to hire someone and what the employee actually receives. The employer must pay payroll taxes, unemployment taxes, and other taxes for each worker he or she hires - thus reducing the demand for labor. The employee must pay payroll taxes and income taxes, thus reducing the supply of labor.

If the president's goal is truly to reduce unemployment, the fastest and most straightforward way to do it is to reduce the tax wedge on hiring people. Unfortunately, the administration has been doing just the opposite and has endorsed and advocated many policies to increase the labor tax wedge, which will lead to much higher unemployment than would otherwise occur.

Temporary tax credits, particularly to specific industries and groups, and other gimmicks do little, if anything, to increase the general level of employment. There is considerable empirical evidence showing that both employers and employees respond most strongly to permanent or long-term changes in taxes, regulations and government spending.

For instance, in an October 2009 National Bureau of Economic Research paper (No. 15438), Alberto Alesina and Silvia Ardagna, using empirical evidence in the Organization for Economic Cooperation and Development countries from 1970-2007, summarized their findings as follows: "Fiscal stimuli based upon tax cuts are more likely to increase growth than those based upon spending increases. As for fiscal adjustments, those based upon spending cuts and no tax increases are more likely to reduce deficits and debt ... than those based upon tax increases." These conclusions are in line with most other empirical studies.

The president seems to be under the misconception that increasing income tax rates on married couples making more than $250,000 a year will not lead to even more unemployment, and that other taxes on businesses have little or no effect on employment levels.

The president's proposed tax increases, along with many of the tax-increase proposals by members of the Democratic Party in the Congress, fall heavily on small-business owners.

These tax increases have two effects. The first is that business owners will have less money to pay their existing workers, let alone hire new ones; and second, these tax increases reduce their incentives to remain in or expand their businesses.

The rational small-business owners are most reluctant to add to their work force, given all the personal and business tax increases coming their way (also regulatory costs have much the same impact as tax increases - and thus new ones should be avoided, particularly during a recession).

Job creation should be at the top of the administration's domestic priorities, because the inability to find a job causes more misery and hardship to far more Americans (and particularly to those who can least afford it) than the lack of health care for the 10 percent who are uninsured or potential global warming ever will.

If the president really wants to see employers go back to hiring large numbers of people, the administration will do the following:

(1) Rescind the minimum wage increase that went into effect this past summer. This was equivalent to a 100 percent tax on the least experienced and least skilled workers. Employers predictably laid off many minimum-wage workers after the increase. It is both unfair and cruel not to let low-productivity workers get their first jobs where they can learn how to become high-productivity workers.

(2) Keep the Bush tax rate cuts rather than let them expire. Recently released empirical studies done for the Institute for Research in the Economics of Taxation clearly show Mr. Obama's proposed increases in capital gains and dividend tax rates will decrease tax revenues, not increase them, and will cost many jobs.

(3) Hold off on the House and Senate health care bills, the "cap-and-trade" bills, and "card check," all of which will be huge job killers and are enormous disincentives for employers to hire new workers.

The Reagan tax cuts became fully effective within months after the recession ended in late 1982; as a result, the unemployment rate fell 2 1/2 points within two years and economic growth surged to 7.6 percent in 1984. The Obama administration forecasts continued high unemployment and low economic growth for years.

As has often been said, those who do not know history are doomed to repeat it. Rather than on a jobs summit, perhaps the time could be better spend reading some recent economic history.

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