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Scared still

ECONOMY: Uncertain of the costs that Washington may hit them with next, many employers are too frightened to hire | *Jamie Dean*

FLETCHER, N.C.—When President Barack Obama strode to a podium in the White House Rose Garden on Nov. 6, he offered a rosy response to a bleak statistic: With the unemployment rate in America soaring above 10 percent for the first time since 1982, the president touted government interventions like stimulus programs and lengthening unemployment benefits and declared, "I'm confident we're moving in the right direction."



ASSOCIATED PRESS/PHOTO BY PAUL SANCYA

Nearly 500 miles south in Fletcher, N.C., Gary Scharf isn't so sure. The once-successful small business owner has been job-hunting for 11 months, and he is moving his family into their second rental home in North Carolina since selling a sprawling home in a Florida gated community a year ago. After 20 years of managing and owning businesses, Scharf thinks increased spending won't solve problems created by irresponsible spending: "I think we're moving in the wrong direction."

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A dramatic spike in the unemployment rate draws a dramatic contrast between two camps: a president and Congress that say government intervention will solve a protracted economic crisis, and a growing chorus of economists and businessmen who say too much intervention is making a bad thing worse.

Along with rising government spending comes another problem: rising uncertainty over government policy. Faced with an evolving mass of new or looming policies that could increase the cost of doing business, employers wonder: How much will it cost to expand or hire? How secure is my industry? For those who aren't sure, uncertainty can lead to inertia in hiring and prolonged stretches of unemployment for millions of people eager to work.

Less than four years ago, Scharf was certain about his growing business: The Liberty University graduate owned a successful landscaping company in Cape Coral, Fla., that employed more than 20 people and brought in nearly \$3.5 million at its peak. The successful business led to a comfortable lifestyle: Scharf and his wife, Pam, lived with their two teenage sons in a house they considered their dream home, situated on the fourth hole of a well-kept golf course.

But a problem was brewing: Scharf's success was tied to a precarious housing bubble. Like many buyers in other regions of the country, speculators had swooped into the Cape Coral area and bought up handfuls of homes with easy-to-secure loans, hoping to flip houses for big profits. The boom brought big business to industries like landscaping and construction, but eventually the bubble burst, along with Scharf's business. He laid off employees and started a

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new line of work: serving foreclosure notices full time (see "Shattered dreams," April 5, 2008).

Even that work dried up. With government officials and then-presidential candidate Obama promising to slow foreclosures, Scharf feared his work would slow, too. He put his house on the market and walked away last November with \$30,000. He would need it: Scharf's family has lived on those savings for the past year after moving to Maggie Valley, N.C., where jobs weren't booming, but where the unemployment rate—4.9 percent last September—was lower than the rate in Florida. A year later, things have worsened: Unemployment in western North Carolina has soared to 9.4 percent, and Scharf is still looking for a job.

He's not alone. The U.S. Labor Department reported that 558,000 people joined the ranks of the unemployed in October, raising the tally of unemployed Americans to 15.7 million. Those numbers sent the unemployment rate to 10.2 percent—only the second time unemployment has topped 10 percent since 1948. (Unemployment peaked at 10.8 percent in 1982.)

But those numbers aren't the full story: Economists say that more people have stopped actively looking for work or taken part-time jobs because they can't find full-time work. Add those numbers to the mix, and the unemployment rate tops 17.5 percent.

That's a confounding figure for the White House. The Obama administration predicted that the \$787 billion stimulus package would create some 3.5 million jobs by the end of next year. In late October, White House officials announced that the first \$159 billion in stimulus spending had saved or created nearly 650,000 jobs, but critics widely panned those claims. Allan Meltzer, once an economic adviser to President Ronald Reagan, asked: "How can anyone know that his or her job has been saved?"

An even bigger problem: An Associated Press analysis found the government's report overestimated the number of jobs created by thousands. The report counted some jobs as many as four times, and included other jobs that weren't yet created, based on information submitted by stimulus recipients.

The *Atlanta Journal-Constitution* estimated that Georgia recipients of stimulus funds overstated the jobs they created by 1,500. The *Boston Globe* reported that the estimates of 12,374 jobs saved or created by Massachusetts recipients were "wildly exaggerated." For example, the report lists Bridgewater State College as using more than \$77,000 for 160 full-time work study jobs for students. But Bridgewater State spokesman Bryan Baldwin told the newspaper that the college made a mistake and the actual number of new jobs was "almost nothing."

Desmond Lachman, an economist and fellow at the American Enterprise Institute, called the administration's job creation claims "a joke." "They say the stimulus has created 650,000 jobs, but we've seen 3.5 million jobs lost in the past eight to nine months," said Lachman. "There seems to be a disconnect."

That disconnect extends to how the administration is addressing the problem, according to Tad DeHaven of the Cato Institute. DeHaven says that evolving government policy is creating "regime uncertainty" among employers trying to decide whether to expand or hire: "Businesses right now don't know what Washington is going to do next."

Employers watching Washington see several possibilities: healthcare reform that could raise their costs, climate change legislation that could raise energy costs, regulatory changes that could bring drastic revisions to hiring practices, and excessive spending that could bring tax increases and drain available capital. "All of this contributes to the unwillingness of those who would otherwise be hiring people or keeping people," said DeHaven. "It undermines their willingness to take risk."

Small business owners may be willing to take some risk, but the willingness remains small: The National Federation of Independent Business reported last month that 9 percent of small business owners planned to add workers over the next three months, but that 16 percent planned to cut positions. The Business Roundtable reported that in a survey of executives at large firms, just 13 percent planned to increase employment over the next six months. Some 40 percent planned to cut payrolls.

That's what Scharf is finding. With a background in management, strategic planning, and running small businesses, Scharf estimates that since last year, he's sent nearly 6,000 resumés to employers, including many cold calls to companies in the area. Since January, he estimates around 20 employers have called him. The number of face-to-face interviews: two.

One of those interviews looked promising. The manager of a drug testing company asked Scharf to complete a consulting project and was happy with the results. Scharf thought he had the job. But two weeks later, he says the employer told him he wasn't ready to hire anyone in the current economic climate: "He just got cold feet."

While Scharf waits for employers to warm up, he isn't sitting still: Six days a week he sells cars at a local Ford dealership, hoping to bring in extra cash from commissions. He's thankful for the position, but a pile of debt from his collapsed company and two kids in college mean that Scharf needs a job that pays more.



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For now, he's downsizing again: On a recent Saturday morning, Scharf and his wife unloaded a moving van at their new rental home, a smaller house that will cost \$200 less a month. It's also closer to Mrs. Scharf's job: After nearly 20 years as a homeschooling, stay-at-home mom, she went back to work in June as an administrative assistant at a local Christian helps ministry. "I was scared to death," she says of going back to work after two decades. But she loves her new job and is grateful for the modest salary and benefits.

Gratitude is something that comes up often when the Scharfs talk about the last year. "We've all lost a lot of stuff, but Pam and I are so grateful for what we have," says Scharf. "Our emphasis isn't on things anymore, it's on relationships."

But Scharf is also honest about the difficulties of losing his business, his home, and the family's church and friends in Florida: "I've seen the worst of myself in these times, but I think that's growth." The couple says losing financial security has driven them to trust God more deeply and enjoy His blessing more fully. "Just like the Israelites, God has sustained us," says Scharf. "Our sandals aren't wearing out."

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December 05, 2009, Vol. 24, No. 24



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