THE JOBS PROGRAM HOAX

The recent surge in unemployment is prompting Democratic and Republican leaders to push for jobs programs that they claim will put unemployed Americans back to work. Beginning with the Depression-era Works Progress Administration, the federal government has responded periodically to times of high unemployment by undertaking various job creation programs. Regrettably, there is little evidence that these strategies have been effective. Jobs programs in the short run may make good politics, but they are very bad economics. Even worse, they mislead and betray those most in need of work, the chronically unemployed. Jobs programs, in short, are a cruel hoax on America's unemployed.

Jobs program advocates ignore the damaging side-effects these programs have on the economy--including real job creation. The money to finance the programs will not come out of thin air, but out of new taxes or increased borrowing. This drains resources from the private sector, discouraging the job-generating expansion of existing firms and the creation of new enterprises. These financing policies are particularly devastating to small businesses, which tend to be labor intensive and are responsible for creating at least two-thirds of net new jobs. Public jobs programs may provide visible jobs that Congress can point to as a sign that it is taking action. But such programs merely transfer resources and jobs from the private sector to the government sector. As such, while some Americans go to work on federally created jobs, some of their fellow citizens are being laid off or cannot find employment in private firms because the new taxes depress private sector activity. New taxes thus are the invisible cost of "jobs" programs and those losing their jobs may actually outnumber those added to the employment rolls thanks to government projects.

Congress now appears to be considering funding for public works projects to generate jobs, and even President Reagan may be seduced by the siren call. Historically, these programs have provided few jobs per dollar invested. A recent New York Times article pointed out that each job created through public works spending on highways, bridges and sewage treatment plants costs the taxpayer from $28,000 to $40,000. Not only are these jobs expensive, but they may well appear months after economic recovery begins. Even if jobs programs made sense (and they do not), the timing for the current proposals is wrong. Since the unemployment rate is a lagging economic indicator and since economic indicators now suggest that the economy is moving toward recovery, passing a jobs program now may prove to be a costly and unnecessary exercise. For example, Title VI of the CETA program originally was enacted to create public service employment to combat the high unemployment of the 1974-1975 recession. The program reached its peak, however, in 1977-1978, when the unemployment rate had already fallen appreciably. Because economic conditions are difficult to forecast and public works programs require considerable lead time, it is almost guaranteed that they will take effect when they no longer are needed. Moreover, if they are put together too hastily, they may lead to even greater waste and inefficiency.

Jobs programs suffer from other flaws. The areas where public works are needed are seldom those with the highest levels of unemployment. There may also be a mismatch between the skills needed for these projects and those of the unemployed. Few unemployed auto workers, for example, have the skills to build bridges. Even if these workers can be retrained, they are unlikely to find similar jobs in the private sector when the program expires. In fact, the availability of such temporary employment may actually delay their assimilation into long-term employment in the private sector.

The real cause of unemployment is slow economic growth. Spending money on public works and so-called job-creation programs only exacerbates the problem by either fattening already huge federal deficits or raising taxes--either of which costs jobs in the private sector. President Reagan's original economic package of reduced federal spending and tax cuts was a step in the right direction. But it was a small step. If the economy once again is to start growing, more spending cuts and marginal tax rate reductions need to be enacted. In particular, further reductions in personal and capital gains taxes would stimulate the formation of new, small businesses that can more cheaply and productively employ the jobless. Costly spending for bogus jobs programs is not part of the solution; it is part of the problem. If federal help is to be provided for those most in need, then it should be targeted as effectively as possible and lead to long-term private jobs. This is precisely what the Reagan jobs training bill, replacing CETA, aims at doing. It was signed by the President in October 1982.

Another Reagan backed measure, designed to stimulate real private-sector jobs in urban areas of mass unemployment, is the enterprise zone bill. But it is being blocked by the very liberals in the House who now push for a costly and proven-ineffective jobs program. If Congress truly is concerned about putting the unemployed to work, it should cut the taxes and spending needed for an expanding economy.

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For further reading see: Peter Germanis, "The Job Training Act of 1982," Heritage Foundation Issue Bulletin No. 84, May 6, 1982. Peter Germanis, "Job Training vs. Son of CETA," Heritage Foundation Issue Bulletin No. 88, September 2, 1982. Janet W. Johnson, "An Overview of Federal Employment and Training Programs" in National Commission for Employment Policy, Sixth Annual Report to the President and Congress, December 1980, pp. 49-139. Stuart Butler "The Enterprise Zone Tax Act of 1982: The Administration Plan," Heritage Foundation Issue Bulletin No. 80, March 29, 1982.