The Heritage Foundation MEMO TO: President-Elect Clinton

No. 1

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AN ACTION PLAN TO CREATE JOBS

Putting people first demands, above all, that we put America back to work.... My national economic strategy will reward the people who work hard creating new jobs, starting new businesses and investing in our people and our plants here at home. To restore economic growth, we need to help free enterprise flourish, put our people back to work and learn again how to compete.

Bill Clinton
Putting People First: A National Economic Strategy for America

EXECUTIVE SUMMARY

Analysis of voter surveys indicates, President-elect Clinton, that you were elected President in large part because voters believed you were the candidate most likely to restore economic growth and stimulate job creation. During the campaign, you pointed out that President George Bush had the worst record for economic growth since the Great Depression. You declared, by contrast, that you had a plan to "grow the economy" and create jobs. Now you must show that this plan is sound and based on the record of what really works, and not empty rhetoric.

For you to be successful, you must learn the right lesson from George Bush's defeat: A growing, prosperous economy is not compatible with a growing, more burdensome government sector. Bush threw the economy into recession and destroyed jobs by allowing record increases in taxes, spending, and regulation. This increase in the size and cost of government had terrible consequences; both the number of jobs in the productive sector of the economy and the median income of families declined under Bush.[1]

The economy is beginning to recover from the policy mistakes of the past four years, but robust economic growth and job creation are unlikely to return until pro-growth policies are enacted. Jobs are created when businesses expect the income generated by additional workers will exceed the total cost of employing those new workers. Government policy can encourage job creation by either removing investment barriers to increase productivity and boost worker output or reducing the government-imposed cost of hiring additional workers. You should be aware that government does not create jobs. Higher government spending, whether financed by taxes or borrowing, drains resources from the productive sector of the economy and inhibits

1 *Money Income of Households, Families, and Persons in the United States, 1991*, Bureau of the Census P-60, No. 180; and Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, Vol. 39, No. 9, September 1992.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

economic growth. The 1983 Emergency Jobs Act, for instance, destroyed four private sector jobs for every one it created.[2]

One of the worst things you could do is raise taxes. Higher taxes reduce incentives to work, save, and invest, thus undermining job creation. Some argue that tax cuts enacted over eleven years ago are responsible for today's deficits and that tax increases are needed to balance the budget and create jobs. This analysis could not be more wrong. Consider:

- **Reagan's tax cuts did not cause the deficit.** The deficit grew largely as the result of the 1980-1982 recession, a downturn which began before Reagan took office and which was caused by deeply flawed monetary and tax policies in the late 1970s. The tax cuts enacted in 1981 were not even fully implemented until July 1, 1983. Moreover, once the tax cuts went into effect, the economy entered a record expansion and the deficit began to fall. After peaking in 1983 at 6.3 percent of gross domestic product (GDP), the deficit fell to 3.0 percent of GDP by the year Reagan left office. This was the result not only of strong economic growth, but also of the spending constraints imposed by the Gramm-Rudman-Hollings legislation. If Congress and the White House had continued to comply with Gramm-Rudman, the deficit problem would be largely solved by now.

- **Tax increases lead to higher federal spending and reduce the tax base.** Each dollar of higher taxes in the post-World War II era has been correlated to an average of $1.59 of new spending, according to the Joint Economic Committee.[3] New taxes also hinder the economy's performance. People without jobs do not pay taxes and businesses losing money do not pay taxes.

- **As a result, tax increases do not reduce the deficit.** Taxes were raised in 1982 and the deficit went up the following year. Taxes were raised in 1984, and the deficit climbed the next year. The same thing happened in 1987. And, of course, Congress imposed the largest single-year tax increase in America's history in 1990 and the deficit has since climbed to record levels.

An Action Plan to Create Jobs

If you develop an economic recovery package based on the right lessons from America's economic history, you will move to reduce the suffocating burden of government. Government cannot create jobs, but it can make the creation of new jobs more likely if prudent policies are followed. Among the actions needed:

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2 "Anti-Recessionary Job Creation: Lessons From the Emergency Jobs Act of 1983," Testimony of Lawrence H. Thompson, General Accounting Office, GAO/T-HRD-92-13, February 6, 1992.

3 Richard Vedder, Lowell Galloway, and Christopher Frenze, "Taxes and Deficits: New Evidence," Joint Economic Committee, October 30, 1991.

Action 1: Using executive authority, index the capital gains tax. You can stimulate investment and job creation by deciding that capital gains taxes should be paid only on real increases in an asset's value, not that portion due only to inflation.

Action 2: By executive order, suspend the Davis-Bacon Act. You should use your presidential authority, as Bush did after Hurricane Andrew, to create more job opportunities by suspending the Davis-Bacon law's requirement that union wages must be paid on federal construction projects.

Action 3: Using executive authority, reinstate the Gramm-Rudman deficit reduction targets. You should exercise the option the 1990 budget gives you to reinstate the fixed deficit targets that made Gramm-Rudman an effective spending control measure during Reagan's second term.

Action 4: Propose legislation to cut payroll and income tax rates. Tax cuts triggered economic growth in the 1960s and 1980s; the same policy will work for you today.

Action 5: Propose legislation to cap domestic spending. Your best hope to tame deficit spending is an enforceable limit on the growth of domestic spending, including entitlements.

Action 6: Propose real budget process reform legislation. You can address structural imbalances in the budget process by strengthening Gramm-Rudman, enacting a strong line-item veto, repealing the current services budget, and supporting a tax limitation/balanced budget constitutional amendment.

Action 7: Veto mandated benefits legislation. You cannot create jobs if you allow Congress to increase the cost of hiring new workers.

Action 8: Promote school choice legislation and other real education reforms in Congress and in the states. You can ensure a more productive, better-paid work force by improving education with a comprehensive school choice program.

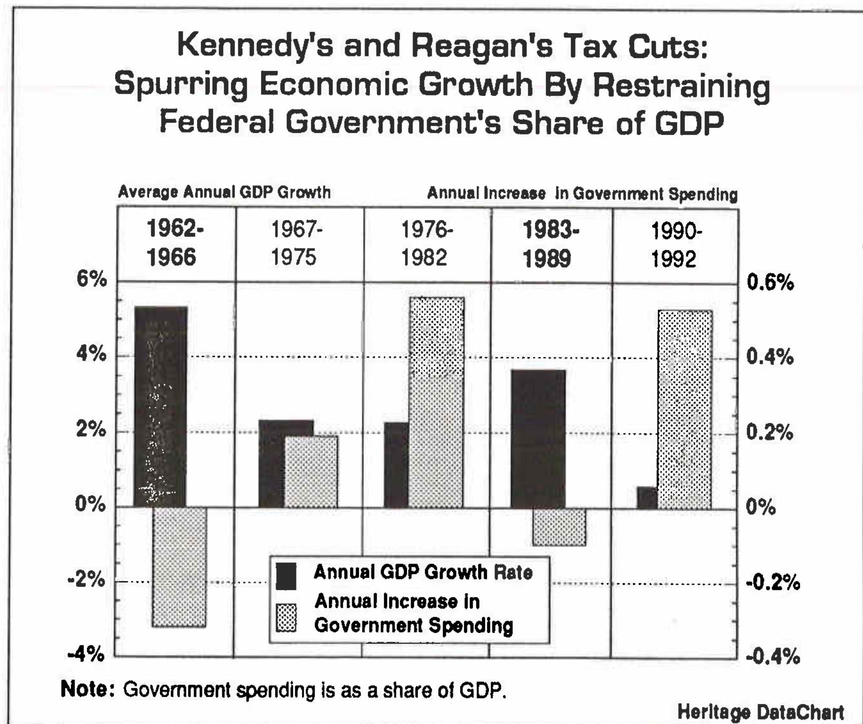
Action 9: Reject government make-work programs. You should say no to programs that consistently have been shown to destroy more jobs than they create.

Many of the actions proposed are within your power to achieve, either by executive order or by use of the veto. Your willingness to take such actions, based on what policy makers have learned about job creation, will allow Americans to determine whether you intend to be an innovative leader or whether you will follow politics as usual. If you meet this test, you will be able to reverse the damage caused by the policies of Congress and the Bush Administration, and almost certainly fulfill your promise to boost economic growth and create jobs. It is in the interests of all Americans that you do so.

CHOOSING BETWEEN KENNEDY/REAGAN AND CARTER/BUSH

Your ability to fulfill your campaign promise to create jobs and stimulate economic growth will depend on whether you and your advisors have learned the right lessons from George Bush's defeat. Bush agreed to record increases in taxes and spending, and imposed a new wave of regulation on the American economy.[4] But these policies did not work any better for Bush than they did for Jimmy Carter. The reason is that Bush's reversal of Ronald Reagan's policies reduced incentives to work, save, and invest, and thus undermined job creation. And because the burden of government increased so rapidly, Bush presided over a period of rising unemployment and falling family incomes.[5] If you are serious about creating jobs and stimulating economic growth, you will reverse the big-government policies of the Bush Administration and instead emulate the pro-growth policies of John F. Kennedy and Ronald Reagan, who presided over the two best periods of economic growth since the 1920s.[6]

Notwithstanding their different party affiliations, Presidents Kennedy and Reagan followed similar policies. In each case, tax cuts were the centerpiece of their economic plans, particularly reductions in marginal tax rates and lower taxes on capital. Kennedy and Reagan also were both strong advocates of free trade. And during the times their policies were in effect, the actions of both leaders reduced the size of government relative to the size of national output. The result: the United States economy performed strongly under both Kennedy and Reagan. The Kennedy tax cuts triggered an economic expansion that lasted until 1970, while the Reagan tax cuts unleashed the longest period of peacetime economic growth in American history. During each expansion, the unemployment rate fell as large numbers of new jobs were created.



Note: Government spending is as a share of GDP.

Your ability to restore economic growth and job creation, President-elect Clinton, will depend on whether you adopt the Kennedy/Reagan model or the Carter/Bush model. Unfortunately, some of the policies you proposed during the campaign suggest you might follow the Carter/Bush prescription of more taxes, higher spending, and increased regulation. Or you may follow a different course. Campaign proposals are intended to win elections as much as to re-

4 See Daniel J. Mitchell, "Washington's Budget Binge: Getting Even Worse," Heritage Foundation *Backgrounder* No. 912, August 19, 1992, and William G. Laffer III and Nancy A. Bord, "George Bush's Hidden Tax: The Explosion in Regulation," Heritage Foundation *Backgrounder* No. 905, July 10, 1992.

5 *Money Income of Households, Families, and Persons in the United States, 1991*, Bureau of the Census P-60, No. 180, Washington, D.C.

6 Dr. Richard W. Rahn, *Congressional Testimony*, Joint Economic Committee, November 6, 1992.

veal the shape of future policy. And, as President Bush demonstrated, campaign rhetoric often bears little relationship to the policies an Administration actually pursues.

HOW REAL JOBS ARE CREATED

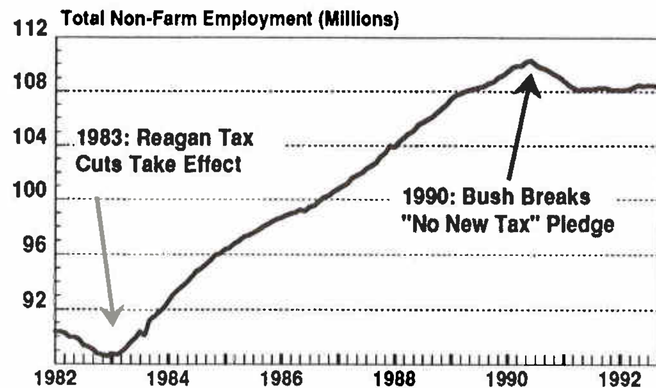
If you are to fulfill your campaign promise, there are two fundamental facts about job creation that you must certainly bear in mind.

Fact #1: Government spending does not create jobs.

When politicians claim that federal programs create jobs, they are looking at only half of the equation. Government programs unquestionably do employ many people, and in that sense create jobs. There are three million Americans directly on the federal payroll, and many more, such as contractors and consultants, whose wages and salaries stem from federal spending. But to argue from this that federal spending thereby "created" jobs, assumes not only that the money would vanish in the absence of federal spending, but also that the money government spends is raised without imposing any costs elsewhere in the economy.

In reality, of course, every dollar of government spending comes from either taxation or borrowing. As such, more federal spending unambiguously means less spending and investment in the private sector. This reduction in private resources destroys jobs since money that otherwise would be used to purchase products, pay salaries, finance investment, and increase savings in the private sector has been taken by government. The issue therefore is not whether government spending creates some jobs, but whether the number and quality of jobs created by government spending exceeds the number it destroys in the productive private sector of the economy.

Bush's 1990 Budget Deal: Ending Seven Years of Job Growth



Note: President Bush indicated in June that he would agree to tax increases as part of the 1990 Budget Agreement, which was signed in November.

Source: Bureau of Labor Statistics.

Heritage DataChart

The preponderance of evidence from America and around the world points to the answer. No serious observer can claim that resources are allocated more wisely and efficiently by government. A dollar in the private sector is far more likely to be used in ways that encourage job creation than a dollar controlled by politicians. A General Accounting Office (GAO) investigation revealed that the most recent "jobs" creation bill, the 1983 Emergency Jobs Act, required $128,000 for each job created.[7] The private sector, by contrast, creates four jobs with that amount of money. But even the GAO's analysis understates the argument against federal spending as a tool to boost economic growth. Simply comparing how the private sector spends money with how the government spends money ignores the fact that the method by which government acquires money also can impose heavy costs on the economy.

7 Thompson testimony, *op. cit.*

How Taxes Reduce Incentives. Federal taxes significantly affect incentives to work, save, and invest. Taxes on income reduce production. Taxes on savings and investment reduce capital formation. Indeed, research by tax expert James L. Payne has found that the tax code imposes $1.65 of cost on the economy for every dollar the federal government collects.[8] As such, in order to believe that government spending creates jobs, one must not only accept the unreasonable premise that the federal government spends each dollar more efficiently than the private sector, but actually must believe that a dollar of spending by the federal government will create more jobs than $1.65 of spending by the private sector.

A similar analysis applies to debt-financed government spending. Every dollar the government borrows from private credit markets is a dollar that is unavailable for other purposes. Federal deficits crowd out credit for consumers who are seeking car loans; they make it more costly for families in the market for homes to obtain mortgages; and they use up funds that businesses could otherwise use to finance new factories. And while inflows of foreign capital may alleviate some of the ill effects of government borrowing, American workers would benefit much more if overseas funds were invested in our economy's productive sector. Government borrowing also makes private borrowing more expensive. Research indicates that the budget deficit has a surprisingly small impact on interest rates, but even a small rise due to government deficits adds to the cost of private borrowers.

Beware The Infrastructure Bait-and-Switch. Most immediately, you should beware of the phony government-stimulus theory in the form of infrastructure spending. Record spending increases under the Bush Administration clearly have not stimulated economic growth or encouraged job creation. Rather than admit that federal spending hinders the economy's performance, advocates of bigger government argue that the problem is that enough money is just not being spent in the right areas. They have told you that if the federal government were to spend more on infrastructure programs, such as highways and other federal projects, there would be a surge of new jobs and growth.

It turns out, however, that transportation spending by the federal government already is at record highs.[9] And there is little reason to believe that increasing infrastructure spending even further will have desirable effects. Indeed, the most likely impact of increased federal spending is decreased infrastructure spending by state and local governments. In the past, state and local jurisdictions have responded to boosts in federal spending by cutting back their own outlays.[10]

Fact #2: Reforming government policies can encourage job creation and rising wages.

When businesses hire workers, they expect that the production of goods and or services created by new workers will generate enough income to exceed the total cost of employing those workers.[11] One way government policy can influence the decision to hire workers thus is by reducing the cost of employing people or by enacting policies that will help make those workers more productive. So although government cannot create jobs directly, government policies can strongly influence the private sector's capacity to create jobs. This suggests that if you wish to use government to create jobs, the best approach would be to reduce government-erected disincentives and barriers to economic growth.

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8 James L. Payne, "Unhappy Return: The $600-Billion Tax Ripoff," *Policy Review*, Winter 1992.

9 *Budget of the United States Government Supplement*, "Historical Tables," pp. 5-123 to 5-126, Fiscal Year 1993.

10 John A. Tatom, "Should Government Spending on Capital Goods Be Raised?" *Federal Reserve Bank of St. Louis Bulletin*, March/April 1991.

11 The same analysis applies for self-employed individuals. They decide to start small businesses, farms, and other enterprises when the income from their activities is expected, at least at some future point, to exceed expected expenses.

Keep Costs Down. Government can encourage job creation directly by reforming policies that increase the cost of hiring new workers. When businesses contemplate bringing a new employee on board, managers do not look just at the wage or salary the new worker would receive, but also factor in Social Security taxes, income taxes, unemployment insurance taxes, unemployment compensation, health benefits, life insurance, liability insurance, compliance with federal labor and civil rights laws, and training costs. Many of the expenses on this partial list of costs either result directly from government or are much more expensive because of government policies. Payroll taxes, for instance, have more than doubled since 1960. Health insurance costs are private, but the cost of insurance is artificially high in many states—especially for smaller firms—because state governments mandate coverage for everything from drug and alcohol treatment to hair transplants. Requiring all employers to either provide health insurance or pay a tax equalling at least 7 percent of payroll, as you have urged, would add to the cost of hiring workers and destroy more than 700,000 jobs.[12]

As President, you can encourage creation of new jobs by supporting legislation to cut Social Security payroll taxes, tort reform, and health insurance reform that would not simply push the cost onto employers. Repealing the 1931 Davis-Bacon Act would help create new jobs, especially for those on the lower rungs of the economic ladder. This law forces contractors to pay the "prevailing wage" on all federally funded construction contracts. In practice, this means the union rate must be paid. When the legislation was enacted, the general purpose was to keep black workers off federal construction sites. That is precisely what it has done in large part during the past sixty years. The reason is that artificially high wage rates for federal projects make it uneconomical to recruit lower-skilled local workers, who are disproportionately minority Americans.

Just as important, you should discourage legislation and avoid regulations that will add to the cost of hiring workers. Mandated parental leave, for instance, would increase the cost of employing workers, particularly women of child-bearing age. Play-or-pay health care, which would impose a 7 percent to 9 percent payroll tax, would dramatically boost labor costs. Other tax increases, including a 1.5 percent training tax, would discourage job creation. Likewise, an increase in the minimum wage would price less-qualified workers out of the labor market.

Increase Productivity. Government also can stimulate job creation by increasing the expected output of prospective workers. If workers can produce more, businesses not only will want to hire more employees, they will also be able to pay them more. The ability of workers to produce is determined principally by the quantity and quality of the capital stock with which they work. Employees who work with modern equipment, technology, machines, and production processes can produce more than workers who use outdated technology and work with obsolete equipment and old machinery. That chiefly explains why workers in the U.S., Germany, and Japan earn more than workers in Brazil, India, and Nigeria. Similarly, workers in America today earn more than their parents because of net investment—increases in the capital stock. As a result, they are more productive; they generate more output per hour of labor.

Boosting investment is why cutting the capital gains tax is so important. The goal is not to give "rich" people a tax break or to boost government tax revenues. Instead, cutting capital gains taxes is a crucial part of any plan to increase wages and productivity by reducing government-imposed investment disincentives.

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12 *Putting People Out of Work: First-Year Growth and Employment Effects of the Clinton Economic Plan*, Joint Economic Committee, August 1992.

The relationship between investment and wages is recognized by economists of all persuasions. Writes Nobel Laureate Paul Samuelson, one of the economists who endorsed you for President:

> What happens to the wage rate now that each person works with more capital goods? Because each worker has more capital to work with, his or her marginal product rises. Therefore, the competitive real wage rises as workers become worth more to capitalists and meet with spirited bidding up of their market wage rates.[13]

Similarly, as the Democrat-controlled staff of the Joint Committee on Taxation wrote in a report on economic growth:

> When an economy's rate of net investment [gross investment less depreciation[14]] increases, the economy's stock of capital increases. A larger capital stock permits a fixed amount of labor to produce more goods and services. The larger a country's capital stock, the more productive its workers and, generally, the higher its real wages and salaries. Thus, increases in investment tend to cause future increases in a nation's standard of living.[15]

Worker productivity is also determined by the education and skill level of the work force. As Nobel prize-winning economist Gary Becker and others have pointed out, people "invest" in education to make themselves more productive and boost their future earnings.[16] Unfortunately, the public school system lacks the proper incentives to do the best job possible. Bureaucracy, the lack of innovation, and virtual monopoly status thwart education progress. A full-fledged choice program would ensure that children were given the education needed to become part of the 21st century work force.[17]

A GROWTH PACKAGE FOR AMERICA

If you are to boost growth and job creation in the U.S. economy, it is vital that you institute policies based on this experience of what works and what does not. You can do this in two broad ways. You must, of course, seek legislation to reform taxation and institute other changes to sharpen incentives. But as President you can also use presidential authority to issue executive orders that would boost economic growth and encourage job creation. Among these:

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13 Paul A. Samuelson and William D. Nordhaus, *Economics*, XII Edition (New York: McGraw-Hill, Inc., 1985), p. 789.

14 Depreciation refers to the amount of capital that is used up or wears out each period. For instance, a machine may have a life expectancy of five years. In order to accurately measure increases in the capital stock, increases in investment should be adjusted to reflect depreciation.

15 "Tax Policy and the Macroeconomy: Stabilization, Growth, and Income Distribution," Joint Committee on Taxation report for the House Committee on Ways and Means, Washington, D.C., December 12, 1991, p. 21.

16 Gary S. Becker, *The Economic Approach to Human Behavior* (Chicago: University of Chicago Press, 1976).

17 See Jeanne Allen, "Nine Phoney Assertions About School Choice: Answering the Critics," Heritage Foundation *Backgrounder* No. 852, September 13, 1991.

Action 1: Use your authority to index the capital gains tax.

You can use your existing executive authority to stimulate investment by indexing the capital gains tax so that those who invest in America's future economic growth do not pay taxes on the increase in an asset's nominal increase in value due to inflation.[18] Most of America's major trading partners do not tax capital gains at all, much less the portion due to inflation. Ideally you should heed the words of those economists who press for an elimination of the capital gains tax. Investment is driven primarily by the after-tax rate of return on capital.[19] When taxes on capital are reduced, more money will be invested, wages will increase, and living standards will rise. Capital gains taxes are a direct tax on job-creating investment. If not eliminated, the tax should be cut dramatically and indexed for inflation so investors are not paying taxes on purely nominal gains. The few countries that do apply American-level tax rates on capital gains, such as Australia and Britain, allow taxpayers to inflation-index.[20]

Capital Gains Tax: U.S. Rate is Among Highest in Industrial World

Nation	Maximum Long-Term Capital Gains Tax Rate	Holding Period
Germany	0.0 %	Six Months
Hong Kong	0.0	None
Italy	0.0	None
South Korea	0.0	None
Taiwan	0.0	None
Japan	5.0	None
France	16.0	None
Canada	17.51	None
Sweden	18.8	2 Years
United States	**28.0**	**1 Year**
United Kingdom	40.0	None
Australia	50.25	1 Year

Source: American Council for Capital Formation, 1989.

Action 2: Issue an executive order to suspend the Davis-Bacon Act.

The 1931 Davis-Bacon Act requires all construction jobs funded by the federal government effectively to pay union wages. This requirement, in combination with the Act's restrictions on the use of helpers by skilled workers, falls particularly heavily on young minority workers, who are effectively shut out of federal construction jobs. President Bush used his authority to suspend the Davis-Bacon Act in Florida, Hawaii, and Louisiana after recent natural disasters. You could do the same, on an emergency basis, in areas of high youth unemployment. That would create jobs and demonstrate your commitment to creating economic opportunity for minorities.[21]

18 Charles J. Cooper, Michael A. Carvin, and Vincent J. Colatriano, *The Legal Authority of the Department of the Treasury to Promulgate Regulation Providing for Indexation of Capital Gains* (Washington, D.C.: National Chamber Foundation and National Taxpayers Union Foundation, August, 1992).

19 For a detailed explanation, see "Capital, Taxes and Growth" by Gary Robbins and Aldona Robbins (National Center for Policy Analysis: Dallas, TX, January, 1992).

20 See Scott A. Hodge, ed., *A Prosperity Plan for America* (Washington, D.C.: The Heritage Foundation, 1992), p. 28.

21 Scott A. Hodge, "Creating Inner-City Jobs By Suspending the Davis-Bacon Act," Heritage Foundation *Executive Memorandum* No. 333, May 21, 1992.

Action 3: On the day after your inauguration, use your executive authority to reinstate Gramm-Rudman targets.

The 1990 budget deal gutted the Gramm-Rudman-Hollings Deficit Reduction Act.[22] As a result, inflation-adjusted domestic spending since 1990 is growing nearly eight times faster than it did under Gramm-Rudman.[23] Under current law, deficit targets are virtually meaningless since the maximum deficit amounts are adjusted constantly for economic and technical "re-estimates." As President, you will have to decide on January 21, 1993, whether to require fixed deficit targets. You should use your authority to suspend the economic and technical re-estimate provisions that took the teeth out of Gramm-Rudman, and thus return to a policy of meaningful deficit targets enforced by the threat of automatic budget cuts.

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Within the first few weeks of your term, you will be submitting a budget for the 1994 fiscal year. As the major economic policy document of any President, you will be including in this document your core legislative proposals for economic expansion. In this first budget, you should:

Action 4: Propose across-the-board reductions in income tax rates and/or payroll tax rates, and other tax relief to stimulate investment.[24]

Tax cuts enacted under Presidents Kennedy and Reagan triggered lengthy economic expansions which created millions of new jobs.[25] By helping to undo the damage caused by the 1990 budget deal, the same approach will work today. The proposal should be designed to reduce tax rates on labor income and capital formation. The Economic Growth and Jobs Creation Act (S. 318, H.R. 960), introduced by Senator Malcolm Wallop of Wyoming and Representative Tom DeLay of Texas, both Republicans, would be a good model for you to follow.[26]

Tax cuts should seek to stimulate savings and investment by ending the tax penalties on investment earnings. Thus in addition to a rate cut or the elimination of the capital gains tax, your proposal should include a provision to end the double taxation of dividend income. Corporate profits are not only penalized by the corporate income tax, they also are subject to the personal income tax when paid out as dividends to individual stockholders. This policy sharply reduces incentives to invest. Further, the proposal should stimulate personal savings by expanding Individual Retirement Accounts (IRAs). In a tax code designed to interfere as little as possible with economic growth, savings would not be taxed at all. Sadly, America taxes savings at a much heavier rate than its major trading partners. By punishing savings and thus encouraging consumption, this policy inhibits capital formation.[27]

Finally, the tax proposal should encourage business investment by allowing full expensing of business investment. Under current tax law, the cost of business investment only can be de-

22 See Daniel J. Mitchell, "Bring Back Gramm-Rudman: It Worked," *The Wall Street Journal*, August 12, 1991.

23 Daniel J. Mitchell, "Washington's Budget Binge: Getting Even Worse," Heritage Foundation *Backgrounder* No. 912, August 18, 1992.

24 Daniel J. Mitchell, "The Facts About Cutting Social Security Taxes," Heritage Foundation *Backgrounder* No. 817, March 15, 1991.

25 Daniel J. Mitchell, "Tax Rates, Fairness, and Economic Growth: Lessons From the 1980s," Heritage Foundation *Backgrounder* No. 860, October 15, 1991.

26 Daniel J. Mitchell, "A Proven Formula to Restore Economic Growth," Heritage Foundation *Executive Memorandum* No. 295, February 13, 1991.

27 See *Prosperity Plan*, *op. cit.*

ducted over several years, rather than in the year the cost is incurred. This policy increases the inflation-adjusted and tax cost of investment, and also reduces incentives for long-term investment.[28]

Bearing in mind your particular concern about high unemployment in the inner cities, and the bipartisan support for enterprise zones—including their endorsement by yourself and the other two principal presidential candidates—you should press for enactment of the enterprise zone legislation vetoed by President Bush last month.

Action 5: Propose a cap on domestic spending.

Defense spending already is falling and presumably will fall faster during your term. Domestic spending, however, is increasing at record levels. Moreover, many members of Congress want to use future defense savings to fund even larger increases in domestic spending, rather than returning those funds to the more productive job-creating private sector. If you are serious about reducing deficit spending and thereby increasing the amount of savings available for job-creating private investment, you must take bold steps to control the growth of domestic spending.[29] Freezing domestic spending at current levels, or even limiting its growth to, say, 2 percent annually will allow you to reverse the huge expansion of domestic spending approved by the Bush Administration.

Action 6: Propose real budget process reform.

Not only should you use your executive authority to reinstate Gramm-Rudman, you also should ask Congress to strengthen the deficit reduction law by creating outlay targets that would enforce a domestic spending cap. And while enhanced rescission is a welcome step, you should also request a strong line-item veto that strengthens your ability to weed out bad provisions from legislation. In addition, you should request legislation repealing the current services budget, the dishonest system of measurement that allows legislators to increase spending while claiming that they are cutting spending because the increase is not as large as previously planned.

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Finally, your commitment to job creation will be tested by your willingness to block legislation that will increase the long-term costs of creating jobs, and by your support for measures that will improve the productivity of the U.S. work force. If you are serious about taking firm action, you will:

Action 7: Veto mandated benefits.

Imposing extra labor costs on the private sector destroys jobs. Businesses are not charities. Entrepreneurs do not create jobs because they worry about the unemployment rate or because they want to be socially responsible. They do so when they expect the income generated by new workers to exceed the cost of hiring new workers, wages, taxes, and benefits included. Mandated benefit laws, such as required family leave or play-or-pay health care requirements, will only destroy jobs.

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28 *Ibid.*

29 See Scott A. Hodge, "What George Bush is Not Being Told About Federal Spending," Heritage Foundation *Backgrounder* No. 886, March 4, 1992.

Action 8: Urge enactment of legislation promoting true school choice and other education reforms.

You pointed out during the campaign that America's public schools are not doing an adequate job of educating children to be the productive workers of tomorrow. And you expressed your support for choice—at least within the public school system. As Brookings Institution scholars John Chubb and Terry Moe have pointed out, however, throwing more money into a failed system will not work.[30] But they also point out that parents need to be able to choose schools from the private sector if the public school monopoly is to be shaken up.

As President, you should thus urge Congress to enact school choice legislation that includes private schools. And you should urge more states to enact school choice programs—already 23 states have enacted some form of choice program. And further, you should back the enactment of charter school legislation, which would free schools from many of the burdensome state and local regulations and mandates that inhibit education reform and consume scarce educational resources.

Action 9: Reject government make-work job training and job creation legislation.

Study after study has shown that such programs destroy more jobs than they create, squander taxpayer money, foster bad work habits, and subsidize politically favored private businesses.[31] During the 90-month Reagan expansion, an average of more than 240,000 jobs were created each month. The Emergency Jobs Act of 1983, by contrast, created just 35,000 jobs at its peak, at a cost of $9 billion.[32] That program drained the private sector of $128,000 (about $160,000 in 1992 dollars) for every job "created." Since an average of about $40,000 is required to create a job in the productive sector of the economy, the 1983 "jobs" legislation actually destroyed almost four jobs for every one it created.

In addition to reforming the tax code, government should remove barriers to growth in the regulatory arena. Regulation now is costing our economy at least $850 billion annually, a cost of more than $10,000 for each family of four.[33] Policy makers should eliminate needless economic regulations, such as those which inhibit the transportation, financial, energy, and telecommunications industries. Health and safety regulations should be subjected to realistic cost-benefit analysis, including a review to determine whether the adverse health impact caused by lower economic growth outweighs the alleged benefit on the regulations.[34]

Daniel Mitchell
John M. Olin Fellow

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30 John E. Chubb and Terry M. Moe, *Politics, Markets, and America's Schools* (Washington, D.C.: The Brookings Institution, 1990).

31 James Bovard, "JTPA: Another Federal Training Fraud," *Policy Analysis, #131*, The Cato Institute, Washington, D.C., March 27, 1990.

32 "Anti-Recessionary Job Creation: Lessons From the Emergency Jobs Act of 1983" Testimony of Lawrence H. Thompson, General Accounting Office, GAO/T-HRD-92-13, February 6, 1992.

33 See Laffer and Bord, *op. cit.*

34 Daniel J. Mitchell, "The Deadly Impact of Federal Regulations," *Journal of Regulation and Social Costs*, June 1992.