The Heritage Foundation Backgrounder

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PREPARING FOR THE "JOBS SUMMIT": THE FIVE PRINCIPLES OF JOB CREATION

INTRODUCTION

Leaders from the major industrialized countries are scheduled to meet in Detroit, Michigan, on March 14-15, at the request of President Clinton, to discuss the causes of the persistently high levels of unemployment in their countries. Announcing the goals of the summit in Europe this January, President Clinton declared that, "We simply must figure out how to create more jobs and how to reward people who work both harder and smarter in the workplace."[1]

The President is right to focus on how to create more jobs in this country. Although he boasted during his State of the Union address that 1.6 million jobs were created in 1993, job growth, in fact, is much weaker than normal this long after a recession. Since World War II, total employment growth has averaged 9.2 percent 33 months after a recession. But since the bottom of the 1990-1991 recession, total employment in the United States has climbed by just 2.5 percent.[2] President Clinton would do well to ponder the anemic job growth in Europe, because European firms are encumbered with costly mandates and taxes on employment that have discouraged hiring and held back employment growth. The President should recognize that his Administration's policies are repeating the mistake of the Europeans, and contributing to slow growth of earnings and employment in the United States. For example, the Administration has:

- ✘ **Enacted the biggest tax increase in American history,** which will discourage new business investment and job creation by raising corporate and individual tax rates.

1 David R. Sands, "Clinton Announces Plans for Jobs Summit," *The Washington Times*, January 11, 1994, p. B7.
2 Daniel J. Mitchell, "The Budget and the Economy: A First Year Assessment of the Clinton Presidency," Heritage Foundation *Backgrounder Update* No. 213, February 7, 1994, p. 2.

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.

- ✗ **Signed the mandated Family and Medical Leave Act,** which will raise labor costs and force employers to be far more selective about whom they hire, since they are required to offer certain employees more time off.
- ✗ **Proposed a massive overhaul of the health care system,** which would raise labor costs by mandating that employers cover workers. According to Lewin-VHI, one of the country's leading health care econometrics firms, the Clinton health plan would mean that among firms now providing health insurance, 19.9 percent would see costs per employee rising $500-$1,000 per year, 51.6 percent would face cost increases per employee of $1,000-$2,500, while another 15.2 percent would face costs per employee of more than $2,500.[3]
- ✗ **Proposed worker training and unemployment insurance reform,** that would cost between $3 billion and $9 billion per year.[4]
- ✗ **Considered a hike in the minimum wage from $4.25 to $4.75 an hour,** which would further increase the disincentive to hire teenage and poor, inner-city unemployed individuals.
- ✗ **Moved ahead with an ambitious environmental regulatory agenda** rangeing from global warming to new logging policies.[5]

These policies signal an apparent misunderstanding of the employment and job policies that led to the creation of over 20 million new jobs in the 1980s.[6] Each of these new programs or proposed policies add to the three principal governmental barriers that discourage employers from creating new jobs: taxes, credit barriers, and regulatory and mandated benefit burdens. These barriers, which have steadily increased over the past few years in the United States, have discouraged business expansion and increased the cost of hiring new workers. Failure to reduce these barriers or—worse still—the imposition of new barriers, means that America will become a slow-growth economy.

President Clinton should realize that high wages and mandated benefits are ruining the European economies and leading to high unemployment rates. In fact, several European countries and Japan are now trying to lower their labor costs and dismantle their generous "safety nets." Instead of continuing to add more burdens on employers, President Clinton should take the opportunity of the summit to advocate five simple principles of job creation:

Principle #1: European-style job training and employment policies have proven incapable of keeping unemployment low or raising the worker's overall standard of living.

3 Lewin-VHI, *The Financial Impact of the Health Security Act* (Fairfax, VA: Lewin-VHI, 1993).

4 David R. Sands, "Hill Republicans Criticize Clinton's Jobless Measure," *The Washington Times*, February 23, 1994, p. B8.

5 *Federal Register* pages, a rough estimate of the overall amount of regulatory activity, ran 60,950 for 1993, the highest level since the Carter Administration left office in 1980.

6 See Daniel J. Mitchell, "Tax Rates, Fairness, and Economic Growth: Lessons from the 1980s," Heritage Foundation *Backgrounder* No. 860, October 15, 1991, p. 2.

Principle #2: High tax rates on employers and capital is the quickest way to insure high unemployment.

Principle #3: Excessive financial and banking regulations, which restrict the amount of capital firms can obtain, greatly limit business and job expansion.

Principle #4: Increasing the regulatory burden and mandating numerous employee benefits is a recipe for job destruction.

Principle #5: Sustained job growth results from competitive, efficient industries that are free of excessive government interference.

Only by talking bluntly to the European allies and shunning "solutions" to the continuing problems of unemployment that will only slow wage growth, can President Clinton help the industrialized world to correct its economic ills. Adopting European-style employment policies, on the other hand, will lead only to European-style results.

UNDERSTANDING THE FIVE PRINCIPLES OF JOB GROWTH

PRINCIPLE #1: European-style job training and employment policies have proven incapable of keeping unemployment low or raising the worker's overall standard of living.

During his speech announcing the jobs summit, President Clinton declared, "We Americans have a lot to learn from Europe in matters of job training and apprenticeship, of moving our people from school to work into good-paying jobs."[7] Undoubtedly, Americans have much to learn from the Europeans, but not about their employment policies.

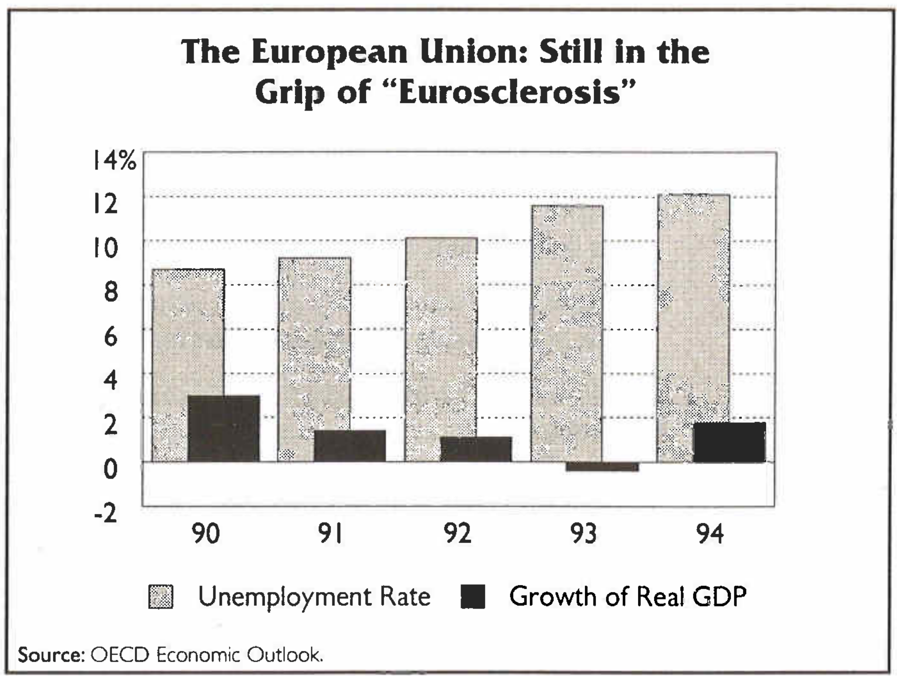
The true effects of the European policies which the President and others glorify are best illustrated by the case of Germany. German workers enjoy roughly six weeks paid vacation each year, the shortest work week of any major industrial nation, high wages (averaging $26 an hour), and extensive health benefits mandated by the government. But as Ferdinand Protzman of *The New York Times* notes, "Unfortunately, [the German system] no longer works. Instead, the social contract that once made Germany's economy a model of stability has helped erode the nation's competitiveness as it struggles to recover from the worst recession in postwar history."[8]

Like many of its European neighbors, Germany is struggling with what has come to be known as "Eurosclerosis," which signifies a stagnant growth environment. As the chart on the following page shows, adherence to this model has brought the European Union (EU) slow growth and high unemployment. Unemployment has averaged almost 10 percent over the past decade in the major European countries, and is projected to average 12.1 percent in 1994 for the members of the EU. At the end of last

7 Sands, "Clinton Announces Plans...," *op. cit.*

8 Ferdinand Protzman, "Rewriting the Contract for Germany's Vaunted Workers," *The New York Times*, February 13, 1994, p. F5.

year, approximately 32 million Europeans were jobless, which is roughly equivalent to the combined workforces of Spain and Sweden.[9] Overall, the U.S. rate of employment growth has far outstripped Europe. Observes C. Fred Bergsten, director of the Institute of International Economics, "The U.S. has kept labor costs down and created 40 million new jobs over the past 20 years. In Europe, wages have risen about 60 percent during that span but only 2 or 3 million jobs have been created."[10]



Source: OECD Economic Outlook.

Peter Gumbel of *The Wall Street Journal* maintains this Eurosclerosis is caused by a "tangle of labor regulations and rising costs for employers [which] acts as a major disincentive to job-creation—and a powerful incentive to moving production elsewhere."[11] Not surprisingly, perhaps, some 30 percent of business surveyed recently by the German Chamber of Commerce say they are considering shifting production to a more hospitable business environment.

Beside the European burdens on employers which discourage job expansion, employment is also discouraged through extensive unemployment insurance programs. Explains David R. Henderson of the Hoover Institution, "A single 40-year-old previously employed at the average production worker's wage would get benefits equal to 59% of previous earnings in France, 58% in Germany and 70% in the Netherlands."[12] These benefits can be collected for many years as well. Hence, although the broad safety net available to displaced workers seems compassionate on the surface, it actually creates disincentives to full employment and a productive workforce. Absenteeism, for example, ran at 9 percent in Western Germany in 1992, 8.2 percent in France, and 12.1 percent in Sweden. By way of comparison, the U.S. rate is only 3 percent.[13]

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9 Stella Dawson, "Global Jobs Summit Delayed Amid NAFTA Battle," *The Reuters European Business Report*, November 4, 1993.

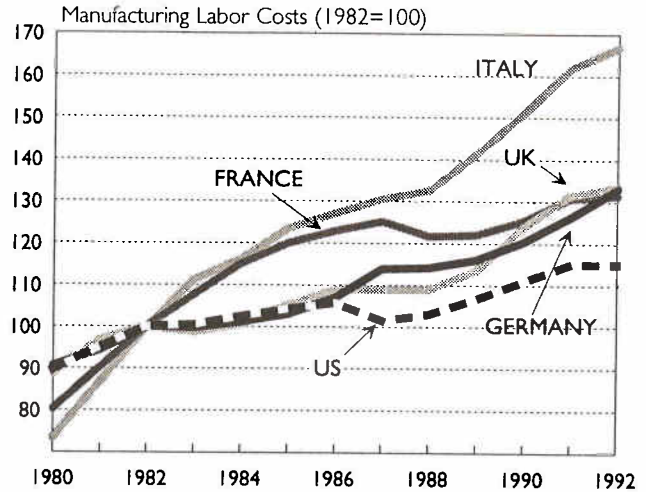
10 Quoted in Protzman, *op. cit.*

11 Peter Gumbel, "Western Europe Finds That It's Pricing Itself Out of the Job Market," *The Wall Street Journal*, December 9, 1993, p. A1.

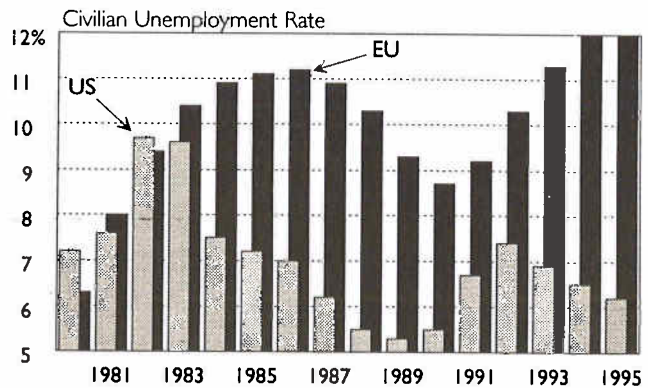
12 David R. Henderson, "Eurosclerosis Spreads to Our Shores," *The Wall Street Journal*, October 14, 1993, p. A16.

Also overrated is the German job training system, which Clinton and his Labor Secretary, Robert Reich, seek to emulate. While the German educational system focuses on highly technical training for its future workers, the U.S. system focuses on generalized training. Some academics, such as Lester Thurow of MIT argue that the German approach has created a superior workforce which enjoys a better standard of living. But a recent comparison of the two systems by Kenneth A. Couch, of Syracuse University, disputes this belief. Couch concludes that, "an apprenticeship program by itself is unlikely to have widespread positive effects either on economic measures such as employment or indirectly related social problems."[14] For example, comparing German and American 24 - to 33-year-old high school graduates without further education, Couch found roughly the same percentage were employed (with actually more Americans than Germans possessing manufacturing jobs), more of the Americans in the sample group were married, and slightly more Americans had children. Likewise, from 1983 to 1988, Couch found American workers outperformed their German counterparts overall. America experienced average annual employment growth during the period of 2.4 percent, versus Germany's meager 0.4 percent. And real GDP growth over the same period averaged 3.9 percent for America and 2.3 percent for Germany. Other European countries have fared no better relative to America.

Europe's Labor Costs Are Skyrocketing...



While Unemployment Continues to Rise



Source: Bureau of Labor Statistics, OECD Economic Outlook.

13 Protzman, *op. cit.*

14 Kenneth A. Couch, "Germans and Job Training, Education and Us," *The American Enterprise*, November/December 1993, p. 18.

If American policymakers choose to move toward a more technical-based educational system, the German approach thus is not the obvious model to follow. As Couch notes, "Emulating the German approach may in fact give us an educational system that will not perform better but will cost more than our current one."[15]

Following the Failed Model. European-style job training and employment policies which have been implemented in America have met with failure. Public employment programs have proven to be net job destroyers, since the amount of money required to create a public sector job is typically several times that of private sector job creation.[16] A recent study of public transit investment by John Semmens of the Chandler, Arizona-based Laissez Faire Institute, notes that for the $61.5 billion invested since 1965, only 800,000 jobs were created. If that same amount of money had been invested by private business through a corporate tax cut, 8 million jobs could have been created.[17] Likewise, Semmens found that 13 million to 20 million jobs would have been created if the $61.5 billion had instead been devoted to a capital gains tax cut, or an expansion of Individual Retirement Account investment in Treasury bills or common stocks.[18] Most important, instead of producing the high-wage, well-skilled jobs the current Administration calls for so frequently, public programs only provide low-wage, low-skill, temporary employment, which often costs taxpayers dearly in the process.

U.S. CITIZENS STILL TOP WORLD IN PURCHASING POWER

PER CAPITA GROSS DOMESTIC PRODUCT

Country	
United States	**$22,130**
Switzerland	**$21,780**
Germany	**$19,770**
Japan	**$19,390**
France	**$18,430**
United Kingdom	**$16,340**

Note: Data are for 1990. Figures represent Purchasing Power Parities, which take into account exchange rates, inflation, and other currency differences.
Source: *United Nations World Development Report*, 1993.

Further, it cannot be argued that gov-

15 *Ibid.*, p. 13.

16 See Edward L. Hudgins, Ph.D., "Why Infrastructure Spending Won't Jump Start the Economy," Heritage Foundation *Memo to President-Elect Clinton* No. 9, January 15, 1993.

17 John Semmens, "Government Investments Yield Poor Results," Heartland Institute, *A Heartland Perspective*, October 18, 1993, p.2.

18 John Semmens, "Federal Transit Subsidies: How Government Investment Harms the Economy," *The Freeman*, February 1994, p. 71-75.

ernment sponsored employment training policies provide European citizens with greater purchasing power and a higher standard of living than Americans. Purchasing power parity, which is the most accurate measure of comparative consumer power, shows that U.S. consumers have a clear advantage over foreign citizens (see table on preceeding page). Following Europe's poor example, therefore, likely will lead not only to lower growth and fewer jobs, but also to a lower standard of living for American citizens.

The "Europeanization" of the American Labor Market. Despite the failure of the European system to sustain employment and a higher standard of living, America's federal labor market policy is being molded to resemble German, French, and other European models. This "Europeanization" of the American labor market policy threatens to undermine industrial competitiveness, increase budgetary strains, and lower the average worker's standard of living.

PRINCIPLE #2: High tax rates on employers and capital is the quickest way to insure high unemployment.

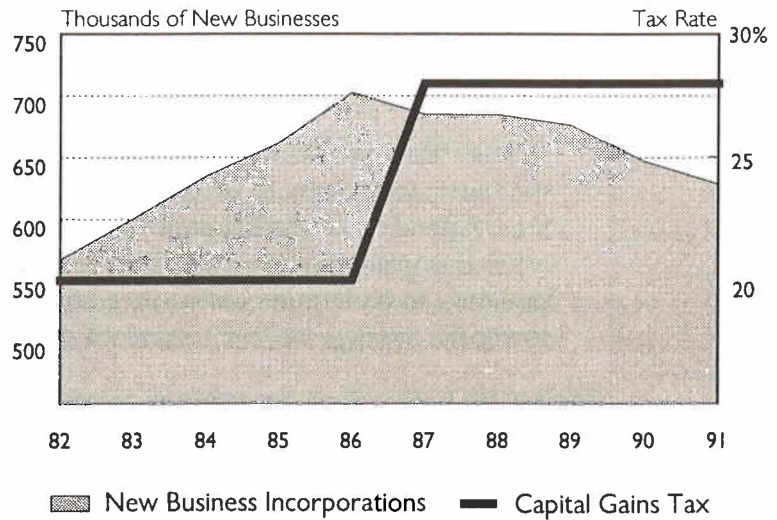
To hire additional workers, employers need capital. Capital fuels job creation by allowing employers to invest in the various means of production, including land, equipment, factories, new technologies, and labor. Capital can be acquired in one of two ways: saving it from profits or borrowing it. Examining each method of capital accumulation indicates why U.S. employers are finding it increasingly difficult to obtain the fuel for job creation.

The Current Tax Environment. Past recoveries show that the U.S. economy is performing below typical levels. Whereas employment in the previous post-war recoveries averaged 9.2 percent 33 months after the end of the recession, the current recovery has only seen approximately 2.5 percent growth over a similar period of time. One factor that aided recoveries during the early 1960s and early 1980s was a reduction in tax rates.

Unfortunately, the most recent recession, which followed the 1990 tax hikes, has been followed by tax rate increases. The Clinton tax plan adopted by Congress last year increased taxes on business and investment. The corporate tax rate on business, for example, was raised from 34 percent to 36 percent. Likewise, top individual rates moved up from 31 percent to as high as 42.5 percent. This is important since approximately 80 percent of small businesses pay taxes under the personal income tax code. The excessive taxation of capital gains also continues. The capital gains tax on individuals currently stands at 28 percent, up from 20 percent in 1986. As the chart on the following page shows, before this rate jump, new business incorporations had risen steadily throughout the 1980s. After the increase, start-ups fell immediately and sharply. The aggregate effect of these taxes is a huge barrier to job creation, as capital shifts from the hands of investors to the government.

The Effects of the Tax Barrier. High taxes reduce investment in businesses and slow job growth by encouraging individuals and firms to seek alternative investments with a more profitable return on their dollar. It should be no surprise that America's current savings and investment rates are lower than those required for robust, long-run economic growth. This is due directly to the trade-off investors face when contemplating increasing consumption versus saving or investing. Increasing consumption car-

ries little penalty; few taxes or other disincentives exist for immediate purchases. But forgoing current consumption to invest assets represents an increasingly unattractive option if the rewards of profitability springing from investment are penalized with higher tax rates. Moreover, earnings in the U.S. are still penalized twice through taxation, first at the corporate level and then later at the individual level. Therefore, if an investor had $10,000 to spend or invest, spending currently would more than likely represent a more attractive choice than investing.



Source: Bureau of Economic Analysis.

Taxes raise the cost of capital for industrial equipment and machinery. As the American Council for Capital Formation (ACCF) reports, "Recent research confirm[s] ...that the volume of investment in equipment is a critical factor in the pace of economic growth and development. [I]nvestment in equipment is perhaps the single most important factor in economic growth and development."[19] Yet, ACCF points out that despite the beneficial effects of the tax-reducing Economic Recovery Act of 1981 on such investment, tax policy in the following years became heavily biased against such investment incentives. The tax acts of 1982 and 1986, which raised taxes, each resulted in an increase in the cost of capital for equipment as investors found such opportunities less attractive. Largely as a result of these high-tax policies, the total cost of capital for manufacturing equipment increased by 22.9 percent from 1981 to 1986. The most recent revisions of the tax code are likely to further discourage investment, and thereby increase barriers to expansion and job creation.

Hence, the potential for long-term job creation in the current tax environment is not encouraging, since entrepreneurs are less able to entice investors to risk their money on new business ventures. Because taxes create disincentives to invest in businesses, capital for future job creation is being produced at a lower rate.

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19 Mark Bloomfield and Margo Thorning, Ph.D., "The Impact of President Clinton's Tax Proposals on Capital Formation," American Council for Capital Formation, Testimony to the House Ways and Means Committee, March 16, 1993, p. 5.

PRINCIPLE #3: Excessive financial and banking regulations, which restrict the amount of capital firms can obtain, greatly limit business and job expansion.

In recent years, the term "credit crunch" has been coined to refer to how difficult it has been for many businesses to obtain loans. One reason this crunch has occurred has been the sharp rise in banking regulation in recent years. In addition to $10.7 billion in general regulatory compliance costs in 1992, bankers face costs from lost interest payments on reserves they are required hold at the Federal Reserve, and deposit insurance premiums.[20]

The Effects of the Credit Barrier. How do these trends affect job creation? This regulatory burden has had a restrictive effect on credit growth in recent years. The American Bankers Association observes that over this same period, more than 40 major federal regulations affecting bank operations were promulgated.[21] Although estimates of the regulatory burden on banks are not available for previous recessionary periods, there is no doubt that the number of regulatory restrictions and burdens the banking industry faces have increased significantly over the past 20 years. Declares the American Bankers Association: "Hog-tying the banking system with regulatory red tape means two things—more expensive bank credit and less of it."[22]

Just as higher taxes restricted job creation by holding back entrepreneurs, so too has the credit crunch. Without easy access to credit, American firms are forced to postpone plans for job expansion. A 1993 survey of small and mid-size businesses by the Arthur Anderson Enterprise Group revealed that 38 percent of all businesses surveyed were unable to fulfill their capital needs. Perhaps more important, 58 percent of businesses that were in their first three years of operation have been unable to fulfill their capital needs. The same survey noted that, due to the lack of capital, 39 percent of the surveyed businesses were unable to expand operations and almost 20 percent of them reduced employment.[23] Limited access to capital has also made it more difficult for firms to purchase their own equipment, forcing an increasing number of small businesses to lease equipment, often at very high interest rates.[24]

In response to this problem, the Clinton Administration has called for new banking regulations governing how loans are made. The Administration hopes to boost the number of loans made through the Small Business Administration to "make SBA more responsive to those industries with the potential for creating a higher number of jobs, those involved in international trade, and those producing critical technologies."[25] But this is unlikely to be a solution to the underlying problem of restricted

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20 Not included in the $10.7 billion figure are the potential costs from the FDIC Improvement Act of 1991, which could push regulatory costs even higher.

21 American Bankers Association, "The Banking Industry: The Key to Jobs and Economic Growth," February 1, 1993, p. 8.

22 American Bankers Association, "Cutting the Red Tape: Let Banks Get Back to Business," November 1992.

23 Arthur Anderson Enterprise Group, *Survey of Small and Mid-Sized Businesses: Trends for 1993*, June 1993, p. 11.

24 Michael Selz, "Many Small Businesses Are Sold on Leasing Equipment," *The Wall Street Journal*, October 27, 1993, p. B2.

25 The National Performance Review, Creating a Government That Works Better & Costs Less, September 7, 1993, p.

credit growth. The SBA loan program accounts for only a small percent of capital for new firms, and in any case tends to funnel dollars to favored businesses rather than the best investments.

Clinton's new plan to reform banking regulation through agency consolidation will not help either. Monopolizing regulatory power in the hands of one agency will make it easier for heavy-handed and manipulative policies to be implemented, thereby raising the regulatory burdens faced by banks. Lawrence Lindsey, a member of the Board of Governors of the Federal Reserve System, says, "Monopoly regulation is a bad idea. [It] will greatly harm both the banking industry and the economy, and lead to an unfortunate politicization of bank regulatory policy."[26]

PRINCIPLE #4: Increasing the regulatory burden and mandating numerous employee benefits is a recipe for job destruction.

The number of regulations and mandated benefit requirements that employers are forced to comply with has grown steadily in recent years. Estimates of the total cost that regulations impose on the economy range from a low of $615 billion to a high of $1.7 trillion.[27] This burden translates into millions of foregone job opportunities.[28] For example, Michael Hazilla and Raymond Kopp have estimated that environmental regulations reduced aggregate employment by 1.18 percent as of 1990,[29] which means over one million jobs would have existed without the regulations.[30]

Regulation and mandated benefits take their toll indirectly. When the government increases this burden on the private sector by promulgating new rules, firms must adjust their behavior accordingly. This adjustment process may require an increase in worker training, paperwork requirements, or even retooling. Regardless of the adjustment method, costs will be incurred. The costs of adjustment directly affect the firm's profits since a greater than expected amount of earnings will be exhausted in compliance measures. In addition there may be extra costs associated with hiring new workers. As a result, firms will try to pass the costs of adjustment on to their consumers, or, if that is not possible due to competitive market conditions, scale back future production, investment, or new hiring. If the new compliance and adjustment costs are sufficiently high, firms may scale back existing production and lay off workers.

The Effects of the Regulatory and Mandated Benefits Barrier. Several studies point to the job-destroying effect of the regulation and mandated benefits explosion that has taken place in recent years.[31] With the passage of mandates included in the

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26 Lawrence Lindsey, "How to Corrupt Banking," *Forbes*, January 31, 1994, p. 100.

27 See "Manhandled by Mandates," *Forbes*, October 25, 1993, p. 39; 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.

28 William G. Laffer III, "How Regulation is Destroying American Jobs," Heritage Foundation *Backgrounder* No. 926, February 16, 1993

29 Michael Hazilla and Raymond J. Kopp, "Social Cost of Environmental Quality Regulations: A General Equilibrium Analysis," *Journal of Political Economy*, Vol. 98, No. 4 (1990), p. 867.

30 Laffer and Bord, *op. cit.*, p. 6.

31 See Laffer, *op. cit.*, p. 7; Gary Anderson and Lowell Gallaway, "Derailing the Small Business Job Express,"

Clean Air Act Amendments of 1990, the Americans With Disabilities Act of 1990, and the Civil Rights Act of 1991, and the increases in the minimum wage in 1990 and 1991, the burdens on employers have ballooned.

The dramatic rise in the minimum wage alone, from $3.35 in 1989 to $3.80 in 1990 and $4.25 in 1991, helped push teenage unemployment to the highest rate in a decade. If the Clinton Administration proceeds with plans for a 50 cent hike in the minimum wage, and the labor market adjusts as it has in the past, there is likely to be an increase in the teenage unemployment rate of between 0.5 percent and 3 percent.

Another burdensome employer mandate will be the "employer trip reduction" requirement of the Clean Air Act. Starting this year, this will require employers in nine metropolitan areas to reduce the number of employees driving to work. Although no employment loss estimates are available, over 12 million employees will be covered by the act, making it difficult to believe that some jobs will not be effected.[32]

LEGALLY REQUIRED BURDENS EMPLOYERS FACE

Payroll Taxes
- ✗ Social Security (FICA)
- ✗ Unemployment

Other Taxes
- ✗ Corporate Income Tax
- ✗ Sales Taxes

Mandated Benefits
- ✗ Minimum Wage Act of 1938
- ✗ Worker's Compensation
- ✗ Davis-Bacon Act of 1931 (Prevailing wage requirements)
- ✗ Family and Medical Leave Act of 1993
- ✗ Americans With Disabilities Act of 1990
- ✗ Consolidated Omnibus Budget Reconciliation Act of 1985 (health benefits)
- ✗ Equal Pay Act of 1963

Various Regulations
- ✗ Various environmental regulations (e.g. Clean Air Act)
- ✗ Occupational Safety and Health Act of 1970
- ✗ Equal Employment Opportunity Act of 1972
- ✗ Age Discrimination Act of 1967
- ✗ Fair Labor Standards Act of 1935 (overtime regulations)

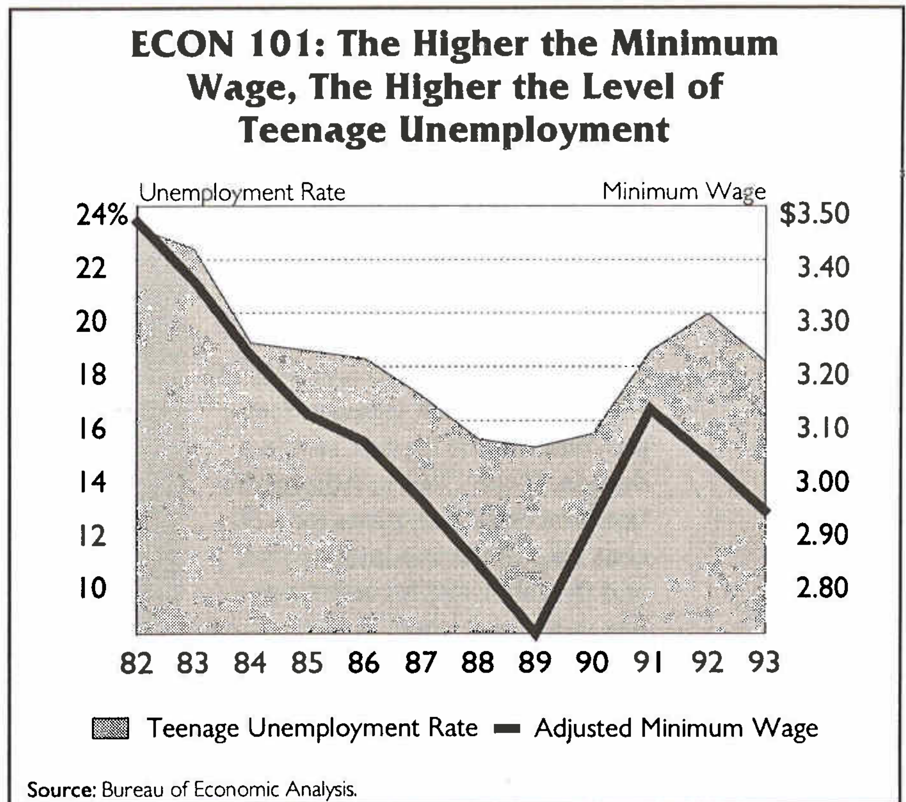
Whatever their intentions, civil rights employment mandates also take their toll. Peter Brimelow and Leslie Spencer of *Forbes* recently estimated the total cost of civil rights regulation to be $236 billion, which translates into a loss of 4 percent of GNP.[33]

(Washington, D.C.: Joint Economic Committee, November 7, 1992); Lowell Gallaway and Richard Vedder, "Why Johnny Can't Work: The Causes of Unemployment," *Policy Review*, Fall 1992; Alan Reynolds, "Cruel Costs of the 1991 Minimum Wage," *The Wall Street Journal*, July 7, 1992, p. A14.

32 See David Andrew Price, "Newest Mandate—Everyone Into the Carpool," *The Wall Street Journal*, November 8, 1993, p. A14.

33 Peter Brimelow and Leslie Spencer, "When Quotas Replace Merit, Everybody Suffers," *Forbes*, February 15, 1993, p. 82.

The Family and Medical Leave Act of 1993, which grants employees as much as 12 weeks unpaid leave each year, discourages job creation. Because many employers will not be able to absorb the high costs and lost output resulting from mandatory worker leave, the policy will have the unintended consequence of encouraging struggling businesses not to hire individuals who might take advantage of the leave policy. The SBA has found the overall costs of this act to total as much as $1.2 billion.[34]



Other employer mandates that currently burden the labor market include the health care requirements found in the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), the prevailing wage requirements of the Davis-Bacon Act, and workers and unemployment compensation payments. These factors create added disincentives to job expansion since taking on an additional worker means steadily higher employer payroll burdens.

Employment Thresholds. In recent years, many legislators have come to realize that added regulation and mandates have a destructive effect on job growth, particularly in the small business sector. But, instead of attempting to craft more sensible policies or deregulate where possible, they tend to respond to small business concerns by adopting employment thresholds. Employment thresholds exempt smaller-sized businesses from certain regulations. For example, the Americans With Disabilities Act currently exempts all firms with fewer than 25 employees from the regulation; this will be lowered to cover firms with fewer than 15 employees after July 26, 1994. Other examples include the Family and Medical Leave Act, which exempts business

34 Eileen Trzcinski and William T. Alpert, "Leave Policies in Small Business: Findings From the U.S. Small Business Administration Employee Leave Survey," Small Business Administration Office of Advocacy *Research Summary* Number 99, March 1991.

with fewer than 50 employees and the Plant Closing Law, which exempts businesses below 100 employees.

These thresholds have the unfortunate side-effect of discouraging employers near the threshold from hiring new employees. Pointing to the Family and Medical Leave Act, Ruth Stafford, president of the Kiva Container Corporation, says, "Fifty is the magic number."[35] Her firm, like many others, plans to hold employment stable just under the 50 employee barrier using more temporary or part-time workers. This phenomenon is already being seen: according to the Bureau of Labor Statistics, temporary employment grew by 20 percent in 1993, up from 6 percent in 1990.

PRINCIPLE #5: Sustained job growth results from competitive, efficient industries that are free of excessive government interference.

Steering America onto a path of greater job creation, low unemployment, and a higher standard of living will require a shift of current American economic policy. The three primary governmental barriers to job expansion—high taxes, limited credit through irrational financial regulations, and excessive regulations and added mandated benefits—all must be corrected. Adopting the European system would be a mistake. America should instead learn from history that where goods, services, labor, and wages have been allowed to move or fluctuate freely, prosperity, entrepreneurship, and high employment have been the result.

To put America back on the high-employment, high-wage track, President Clinton should take several specific and immediate steps to ensure American industries remain strong and competitive:

Step #1: Lower tax rates on businesses and capital. The effects of high tax rates on employers and capital are direct and damaging. Lowering both corporate tax rates and the capital gains tax rate (while indexing it for inflation) would provide an immediate and strong job stimulus by reducing the cost of hiring workers and unlocking the capital needed for business expansion.

Step #2: Reject all attempts to establish a European-style employment policy, especially expensive job training programs. High wages, sustained employment, and increased business activity should be guiding goals of public policy. Mandating them should not. Costly and ineffective job training programs should be ruled out as job-creating options. Americans need only look at the failure of European programs to understand why such an approach is a mistake. Such programs require massive amounts of public spending for the small number of jobs which are created.

Step #3: Cap federal spending. This will aid job creation by increasing the amount of private savings available for business investment.

Step #4: Enact comprehensive regulatory reform. The "hidden tax" of regulation and increased mandated benefits directly increase the cost of employing workers. The President and Congress should establish a federal regulatory budget and esti-

35 Jeanne Saddler, "Small Firms Try To Curb Impact of Leave Law," *The Wall Street Journal*, August 5, 1993, p. B1.

mate the employment impact of regulations before they take effect. The regulatory budget would place a limit on the total cost that is imposed on the economy each year by new federal regulations. When the budget had been passed, no new regulations could be imposed—unless other rules were withdrawn.

Step #5: Adopt rational health care reform based upon consumer choice and not new employer mandates. No new policy action threatens to do as much damage to the labor market in the immediate future as does employer-based health care mandates. While reform is needed, it should not simply push the cost of comprehensive health coverage onto employers through expensive new payroll taxes. Accomplishing reform in this manner will result in the loss of millions of jobs.[36]

Step #6: Reform America's archaic financial and banking laws. Financial restrictions such as the McFadden Act of 1927, the Bank Holding Act of 1956, and the Glass-Steagall Act of 1933 retard bank stability and expansion and, therefore, limit the credit opportunities they can offer to businesses. Eliminating these impediments to financial efficiency would allow businesses to take advantage of expansionary opportunities by borrowing needed capital.

Step #7: Overhaul antiquated antitrust laws. America's outdated antitrust laws, such as the Sherman Antitrust Act of 1890 and the Clayton Antitrust Act of 1914, make it difficult for firms to enter into joint production alliances that could raise industrial efficiency and create new job opportunities.

Step #8: Pass product liability reform and other tort reform legislation. Currently, America's tort system saps private sector entrepreneurialism, hinders product innovation, and threatens the continuation of numerous businesses. Without reforms limiting punitive damages and streamlining costly court procedures, an increasing number of jobs will be placed at risk.

Step #9: Continue to push for trade liberalization globally while eliminating domestic barriers to free trade. While the job gains will result from the wise actions already taken of passing the North American Free Trade Agreement (NAFTA) and General Agreement on Tariffs and Trade (GATT) agreements, further efforts should be made to expand free trade agreements while lowering the domestic barriers to imports.

Step #10: Encourage the use of privatization and contracting out whenever possible. Privatization and contracting out not only insure that services are delivered more efficiently for less money, they also allow private firms to raise capital and re-invest in more productive, long-term private sector jobs. Vice President Gore's National Performance Review failed to tap such methods of real government reform.[37] Undertaking such measures would encourage increased private sec-

36 See Daniel J. Mitchell, "The Economic and Budget Impact of the Clinton Health Plan," Heritage Foundation *Backgrounder* No. 974, January 13, 1994.

37 See Scott A. Hodge and Adam D. Thierer, "The National Performance Review: Falling Short of Real Government Reform," Heritage Foundation *Backgrounder* No. 962, October 7, 1993.

tor employment while demonstrating that the Administration is serious about changing the way Washington works.

CONCLUSION

The Jobs Summit affords President Clinton the opportunity to outline the fundamental principles of job creation to the industrial nations of the world. Unfortunately, many nations, specifically in Europe and more recently the United States, have forgotten that low taxes, easy access to credit, rational regulations, and vigorous exposure to competition, are the foundation for a healthy, job-creating economy.

The most important lesson that President Clinton can bring back from Detroit is that government policies that increase the cost of hiring people mean that fewer people will be hired.

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