WebMemo
Published by The Heritage Foundation

No. 2808
February 18, 2010

No-Cost Stimulus Would Spur Business Hiring and Create Jobs

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Last year, President Obama pushed through a massive $862 billion jobs bill emphasizing "shovel-ready" projects. Yet the 2009 stimulus did little to promote new private investment; unsurprisingly, it failed to create jobs. This failure was expected because government spending only shifts spending in the economy: It neither increases overall demand nor gives private businesses a reason to invest in new projects.

Congress should jettison ideology and instead promote entrepreneurship and investment with a no-cost stimulus that would create jobs without adding to the deficit. Congress can do this through a combination of explicit actions and by eliminating specific, Washington-based threats to the economy:

- Freezing all proposed tax hikes and costly regulations at least until unemployment falls below 7 percent;
- Freezing spending and rescinding unspent stimulus funds;
- Reforming regulations to reduce unnecessary business costs, such as repealing Section 404 of the Sarbanes–Oxley Act;
- Reforming the tort system to lower costs and uncertainty facing businesses;
- Removing barriers to domestic energy production;
- Suspending the job-killing Davis–Bacon Act (DBA);
- Passing pending free-trade agreements with South Korea, Colombia, and Panama; and
- Reducing taxes on companies' foreign earnings if they bring those earnings home.

Congress must recognize that a strong recovery and new hiring depends on the confidence businesses have in the future. Uncertainty is a fact of life for all businesses, but when Washington adds materially to that uncertainty, businesses invest less and hire less. This is especially true following a deep recession, with so many producers still struggling with excess capacity. The most powerful, no-cost strategy Congress can adopt is to stop threatening those in a position to hire—no more taxes, no cap-and-trade legislation, no government takeover of private health care, and no massive increase in the public debt.

No New Taxes. First, Congress should announce it will do no harm. Many items on the congressional agenda would significantly raise business costs. For example, uncertainty surrounds the extension or expiration of the 2001 and 2003 tax cuts, and new taxes are regularly proposed. Businesses can only guess how much Washington will raise their costs in the near future.

In the face of such a threatening environment, it is not surprising that companies are investing less. Indeed, one in every eight small business owners who say that now is not a good time to expand gives the political climate as their reason.[1]

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2808.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
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The Heritage Foundation
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Congress can remove this job-killing fear overnight. The leaders of both Houses should issue a joint statement announcing that Congress will prevent any tax increases until unemployment falls below 7 percent.

Bring Spending Under Control. Second, Congress should bring federal spending under control. Congress should rescind the unspent stimulus funds and further reduce spending.

Government spending generally hurts the economy. Countries in which the government spends heavily do not have low unemployment rates. In fact, countries with greater government employment have higher unemployment. The same is true for nations whose governments spend more heavily.

Government spending eliminates more jobs than it creates because the resources the government spends do not materialize out of thin air: Government spending consumes resources that would otherwise be available for private consumption and—more importantly for job creation—private investment. Each $1.00 increase in government spending reduces private investment between $0.46 and $0.97 after two years and $0.74 and $0.95 over five years.

Reducing Red Tape. Many government regulations raise business costs while providing little public benefit. If Congress eliminated these regulations, it would reduce costs and encourage business expansion and hiring.

For example, Section 404 of the Sarbanes–Oxley Act requires publicly traded firms to have an annual external audit of their financial controls. This regulation provides little benefit to shareholders, but it costs a lot: an average 0.5 percent of revenues ($1.5 million a year) for small- to medium-sized companies. Nationally, Section 404 costs the economy $35 billion a year.[2] Eliminating this regulation would reduce business operating costs, raise profits, and spur new investment.

Another example of needless regulation comes from the Environmental Protection Agency, which has started regulating CO_2 emissions. If these regulations become law, every business that uses a lot of energy will see its costs skyrocket. These higher costs will in turn reduce investment and jobs. Congress would save jobs, for example, by amending the Clean Air Act to state that carbon dioxide is not a pollutant.

Tort Reform. America spends an extraordinary 1.8 percent of the economy on the direct costs of the tort system. Enterprising lawyers have strong incentives to sue to win multi-million-dollar judgments. As a result, businesses spend heavily on lawyers to defend themselves instead of creating jobs that produce goods and services. Bringing U.S. tort costs in line with the rest of the industrialized world would reduce a major cost and risk to businesses.

The effects of such tort reform on employment could be dramatic. A recent study found that just one element of the U.S. legal system—lawsuits allowed in some states when companies lay off workers—reduces employment by between 0.8 and 1.6 percentage points.

Domestic Energy Development. Federal law and regulations heavily restrict domestic energy production. To encourage production and job creation Congress should:

- Permit environmentally responsible oil and natural gas production in the Alaska National Wildlife Refuge;
- Open up off-limits areas of the Outer Continental Shelf for oil drilling;
- Require the U.S. Department of the Interior to allow oil shale development;
- Streamline the licensing of nuclear power plants;
- Reform the National Environmental Policy Act's environmental and judicial review process to reduce to 270 days the maximum amount of time it takes to award construction permits on federal lands.

The Heritage Foundation has estimated that increasing domestic oil production by 2 million

1. William Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends Survey," National Federation of Independent Businesses, January 2009, p. 5, at *http://www.nfib.com/Portals/0/PDF/sbet/sbet201001.pdf* (February 18, 2010).
2. Jiamin Wang, "Sarbanes-Oxley Section 404 Places Disproportionate Burden on Smaller Public Companies," Heritage Foundation Center for Data Analysis, August 2008, at *http://www.heritage.org/CDA/upload/SOX-CDA-edited-3.pdf.*

barrels a day would create 270,000 jobs.[3] Royalties from the production would also lower the deficit.

Suspend the Davis–Bacon Act. Congress should reduce spending, and it can better leverage the funds it spends by suspending an antiquated labor law. The DBA requires federal construction contractors to pay "prevailing wage" rates that average 22 percent above market rates. Under DBA, the government hires four construction workers for the price of five. This will add $11.4 billion to the cost of federal construction in 2010.

Federal policy should not give some workers inflated wages while others remain unemployed. Suspending DBA would allow the government to build more for the same amount of money, employing 160,000 additional workers in the process.

Implement the Free Trade Agreements. Nearly all economists agree that removing trade barriers helps the economy. However, Congress has not ratified free trade agreements pending with South Korea, Panama, and Colombia. The U.S. International Trade Commission has estimated that these trade agreements would increase U.S. GDP by $12.6–$14.4 billion.

The trade pact with Korea alone would be the second largest free trade area for the U.S. (in terms of dollar value) after NAFTA. Ratifying these trade agreements would boost the economy and create jobs.

Repatriating Foreign Profits. Multinational companies earning money in foreign countries must pay U.S. taxes on those earnings if they bring them into the U.S. As a result, many firms leave profits overseas rather than repatriating them to America.

Congress should allow multinational corporations to bring their earnings to the U.S. without levying prohibitive tax rates. Freed of this distorting tax, those firms would be able to pursue efficiencies otherwise unavailable to them in terms of new investment or reducing debt, or they would pay those earnings out to their shareholders to invest elsewhere in the economy.

Washington Must Be Part of the Solution, Not the Problem. When it comes to job creation, Washington is currently part of the problem, not the solution. Businesses in a position to hire and expand recognize the threats to their own future and to the overall economy from higher taxes, higher deficits and debt, cap and trade, the hostile takeover of private health care, and growing protectionist sentiments. In light of those threats, the reasonable reaction from businesses more often than not is to stand pat and wait—not expand and hire new employees. Congress could most effectively stimulate the economy by simply vowing to do no harm.

But Washington could be even more helpful. Congress should look to no-cost stimulus legislation that promotes investment and entrepreneurship. Congress should freeze spending at current levels and announce it will not vote on higher taxes or anti-business legislation until unemployment returns to normal levels. Congress should also eliminate costly regulations, reform the tort system, permit more domestic energy production, and suspend the DBA. Congress can further boost the economy by passing pending free trade agreements and permitting multinational businesses to return their foreign profits to the U.S. At no cost to the Treasury, these measures would spur the economy and create jobs.

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3. David Kreutzer, "The Economic Case for Drilling Oil Reserves," Heritage Foundation *WebMemo* No. 2093, October 1, 2008, at *http://www.heritage.org/Research/EnergyandEnvironment/wm2093.cfm.*