

WebMemo



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Obama Jobs Deficit Up Again; Course Correction Required

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President Obama announced a renewed focus on jobs in his State of the Union address. His budget stated that “it is critical that we take steps to jump-start job creation.”¹ This is an explicit admission of failure for last year’s \$862 billion stimulus program.² Even politicians cannot duck the data forever, such as Friday’s jobs report released by the Labor Department. The good news is that the U.S. economy has almost stopped losing jobs, as total employment fell a modest 20,000 jobs.³ The bad news, however, is more extensive.

The Growing Jobs Deficit. The unemployment rate stands at 9.7 percent, almost double the rate thought consistent with full employment. Further, the only reason the unemployment rate is not even higher is that millions of Americans have left the workforce altogether, as shown by a drop in the labor force participation rate to 64.7 percent from a peak in 2007 of 66.4 percent. Since January 2009, 1 million Americans have simply left the workforce.

The bad news for President Obama in particular is that he is falling further and further behind on his promise to create millions of new jobs. Obama promised that if elected he would create 3.5 million jobs by the end of 2010 through new economic policies, beginning with a massive economic stimulus package.

Accompanying his jobs promise, the President also emphasized accountability and measuring his presidency by results. The President’s jobs promise means total employment, which in January stood at

129.5 million, should be at least 138.6 million by the end of 2010, leaving the Obama jobs deficit at just over 9 million jobs.

Fortunately, the economy’s natural resilience, spurred by powerful monetary stimulus from the Federal Reserve, means the economy is growing again, albeit at a slow trend pace. Even so, job gains are likely to be small, and job losses may persist as suggested by the recent upward trend in first-time unemployment insurance claims.

Even the Administration’s extraordinarily rosy forecast for economic growth for the next two years leaves the unemployment rate around 10 percent through all of 2010 and well into 2011. By his own official forecast and by his own standard, the Obama jobs deficit attests that the President’s policies have failed. (See Chart 1.)

Promises, Promises, and the Growing Jobs Deficit. President Obama’s oft-repeated promise to create 3.5 million jobs demonstrates that this was a serious campaign promise, and the figure itself was apparently chosen with care. The original target set in the fall of 2008 was 2.5 million jobs, but as employment fell at the end of 2008, he increased the employment target to 3.5 million.

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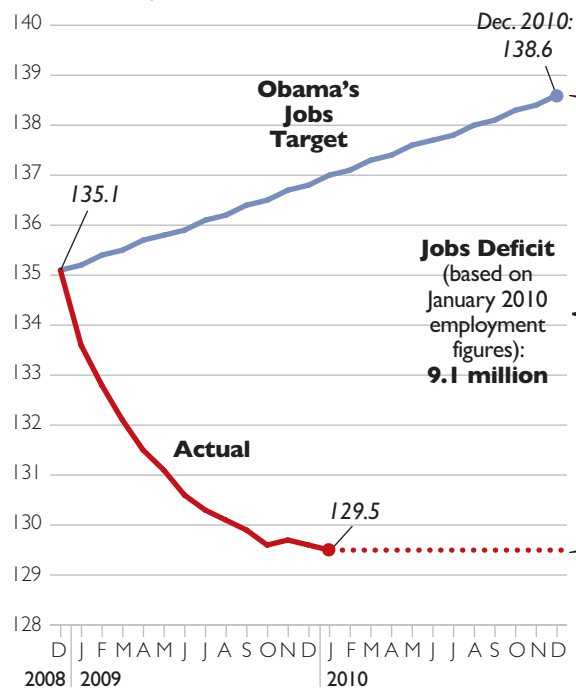
When Obama made his 3.5 million jobs promise, employment stood at about 135.1 million according to the Department of Labor's most com-

monly used measure. This establishes the Obama jobs target for December 2010 at 138.6 million. It also establishes a basic trajectory for employment the economy would need to approximate to hit that target.

Obama Jobs Deficit: 9 Million Jobs

President Obama pledged to create 3.5 million new jobs by 2010, which would place total U.S. employment at 138.6 million. Using that figure as a target, Obama's jobs deficit currently stands at 9.05 million.

Total U.S. Employment, Targeted and Actual, in Millions of Jobs



Note: Figures have been rounded.

Source: Heritage Foundation calculations and U.S. Department of Labor; Bureau of Labor Statistics, "The Employment Situation—January 2010," Table A-1, at <http://www.bls.gov/news.release/pdf/empstat.pdf> (February 5, 2010).

Chart 1 • WM 2796 heritage.org

According to the latest jobs report, total U.S. employment fell to 129.5 million in January, which means the cumulative Obama jobs deficit—the difference between the end target and the current employment level—stands at 9 million.⁴ Employment would have to grow by an astounding 823 thousand jobs a month for the remainder of the year to close that gap. Yet that is what Obama promised.

Why Has the Stimulus Failed? The centerpiece of Obama's short-term stimulus program was a massive now-\$862 billion collection of tax cuts and spending increases he signed into law last spring. Obama had one shot at really helping the economy and he took it, holding nothing back.

By all accounts, this legislation was poorly crafted. But poorly crafted or not, as short-term economic stimulus it was doomed from the outset, as it was based on the erroneous assumption that deficit spending can increase total demand in a slack economy.

The theory underlying Obama's stimulus was that the economy was weak because total demand was too low. The suggested solution is then to increase demand by increasing the budget deficit. This theory of demand manipulation through deficit spending ignores the simplest of realities: Government spending must be financed. So to finance deficit spending, the government must borrow from private markets, thereby reducing private demand by the same amount as deficit spending increases public demand.⁵

In effect, the theory says that if I take a dollar from my right pocket and put it in my left, then I am a dollar richer. No wonder it always fails.

1. See U.S. Office of Management and Budget, "Reviving Job Creation and Laying a New Foundation for Economic Growth," at <http://www.whitehouse.gov/omb/budget/fy2011/assets/foundation.pdf> (February 5, 2010).
2. The original Congressional Budget Office (CBO) estimate of the bill was \$787 billion, but CBO included a re-estimate in its January 2010 Budget and Economic Outlook report. See <http://www.cbo.gov/ftpdocs/108xx/doc10871/frontmatter.shtml> (February 5, 2010).
3. Press release, "Commissioner's Statement on the Employment Situation," U.S. Department of Labor, Bureau of Labor Statistics, December 4, 2009, at <http://www.bls.gov/news.release/empstat.nr0.htm> (February 5, 2010).
4. The actual figure is 9.1 million (138.6 million in December 2010 minus 129.5 million in January 2010).

Next Steps. The Obama budget now projects a budget deficit for 2010 of \$1.6 trillion, pushing the national debt as a share of the economy to nearly 64 percent.⁶ So while the Obama stimulus failed to strengthen the economy or create jobs, it did manage to push the U.S. on a newly unsustainable path of unprecedented budget deficits.

Even as he refocuses on job creation, Obama's options are severely limited by his own budget deficits. Thus, his budget is long on rhetoric and optics and short on meaningful proposals like a moratorium on new taxes and onerous regulations.

In addition to the usual policy bling of government-directed investments in everything from distressed urban communities to welfare for farmers, Obama has proposed a tax credit for new hires. This crusty old proposal has been considered and discarded repeatedly over the years.⁷

Even worrying Democrats understand that the time for expensive, ineffective policies is past. Congressman Mike Thompson (D-CA), in questioning Treasury Secretary Tim Geithner at a House Ways and Means Committee hearing, said, "I don't know anybody in business who hires an employee because they're going to get a tax credit." And uber-liberal Lloyd Doggett (D-TX) nailed it when he said that the "general consensus among tax experts is that the credit is a stinker."⁸

Jobs Will Come—If We Let Them. The U.S. economy is on the precipice of recovery, but

numerous serious threats remain, from a surge in domestic inflation to a sovereign debt crisis emanating out of Europe. The federal government needs to do what it can to shore up the recovery in fact, not in fantasy. The time for ideological experiments and feel-good policies is over. Too many Americans remain out of work. The federal government can stimulate the economy in the short term not by increased borrowing and shuffling demand across the economy through wasteful deficit spending but rather by improving incentives and the general economic environment. Businesses invest not when they are manipulated by Washington but when they are confident enough to take risks in pursuit of opportunity.

Individuals and businesses across the nation see tremendous opportunities for starting new businesses, investing, hiring new workers, and expanding into new markets. Many are holding back, however, due to concerns about the economy, while others are holding back due to concerns about the threatening policies from Washington, and others are holding back because existing tax and regulatory burdens are already excessive. For private-sector job creation to "jumpstart" in the President's words, step one is for Washington's job destruction machine to take a long vacation.

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5. See J. D. Foster, "Keynesian Fiscal Stimulus Policies Stimulate Debt—Not the Economy," Heritage Foundation Backgrounder No. 2302, July 27, 2009, at <http://www.heritage.org/Research/Economy/bg2302.cfm>.

6. For comparison, national debt averaged about 37 percent of the economy in the eight years of the Bush Administration.

7. See Curtis S. Dubay, "Hiring Tax Credit Will Not Create Long-Term Jobs," Heritage Foundation WebMemo No. 2791, February 3, 2010, at <http://www.heritage.org/Research/Taxes/wm2791.cfm>.

8. See Jennifer Haberkorn, "Democrats Pan Payroll Tax Credit," *Washington Times*, February 4, 2010, at <http://www.washingtontimes.com/news/2010/feb/04/democrats-pan-payroll-tax-credit> (February 5, 2010).