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Three Paths for Obama's Jobs Speech

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President Obama will soon make yet another “major jobs speech.” Small wonder—the Department of Labor announced last Friday that the economy created a net of zero new jobs in August following two months of near-zero growth. Two years after the President signed his first major jobs bill into law, the unemployment rate continues to hover at 9.1 percent.

Unfortunately, the President cannot orate the nation into recovery, and predictions, forecasts, theory, and speculation aside, nearly 14 million unemployed Americans attest that his heavy regulation, debt-based economic stimulus failed.

Obama's Economy Trending from Slow to Slower. Two years ago, the new Administration was remarkably confident in its economic plans, even promising that a burst of deficit spending would create 3 million new jobs by the end of 2010. As of the August jobs report, the Obama jobs deficit now stands at 6.7 million jobs.¹ Coincidentally, that is about the total number of jobs in the President's home state of Illinois.² Now what?

Friday's weak jobs report is consistent with other recent data, such as the downward revision in the estimate of the economy's growth to a paltry 1 percent in the second quarter following an even weaker 0.4 percent growth rate in the first quarter. After an initial acceleration in the first half of 2010, the economy slowed markedly in the latter half of 2010 and dropped another notch so far this year to a hair above stall speed. This trend line is not encouraging.

As if this picture were not bleak enough, inflation appears to be accelerating. As measured by the Consumer Price Index, inflation ran at an elevated 3.6 percent rate over the past year. It rose by at least 4.9 percent on an annualized basis in six of the past eight months. If this trend continues, the Federal Reserve will soon be forced to reverse its loose money stance and turn to fighting inflation, presenting the economy with yet another strong headwind.

Obama's Policy Options. When governments try to create jobs by artificial means, they usually fail. The Obama Administration has thus far failed spectacularly. Only a robust, confident, and largely unmolested private sector can create jobs in the process of pursuing real economic opportunity. Thus, the policy options for his speech are few, but at least they are easily grouped.

1. Small Retreads. The first option is to throw up a long list of minor, inconsequential retreads about which Obama can talk at length. This would satisfy the need—which every politician feels—to appear to “do something” without having to do much at all.

These options would include such things as yet another proposal to ease the housing crisis (remem-

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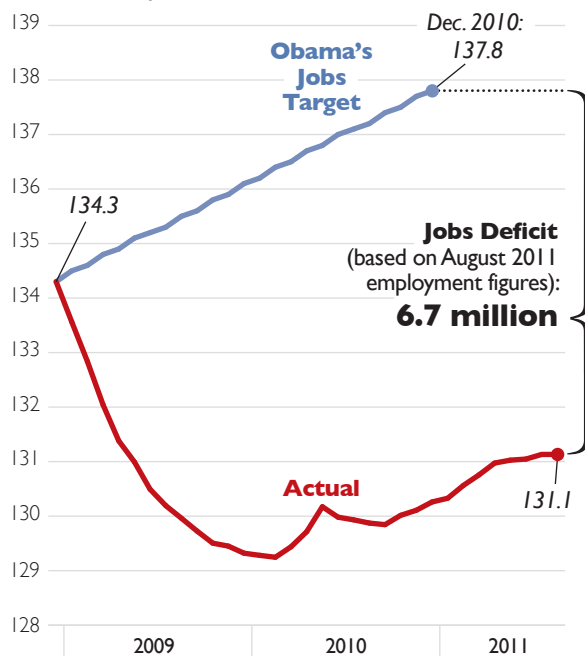
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Obama Jobs Deficit at 6.7 Million Jobs

President Obama pledged to create 3.5 million new jobs by 2010, which would place total U.S. employment at 137.8 million. Using that figure as a target, eight months into 2011 Obama's jobs deficit currently stands at 6.7 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—August 2011," Table B-1, at <http://www.bls.gov/news.release/pdf/empisit.pdf> (September 5, 2011).

Chart 1 • WM 3352  heritage.org

ber the failed first-time homebuyer's credit?) or to extend unemployment checks, again. Or Obama could talk up more "shovel-ready" infrastructure projects while ignoring that such projects are capital

intensive, not jobs intensive, and, as the President now admits, are rarely shovel ready.³

2. More Stimulus. The second option is to double down on all the big-ticket items that have not worked so far—specifically another massive dose of deficit spending. From Obama's viewpoint, this at least has the merit of consistency.

The prospect of another massive dose of stimulus raises the interesting question as to how exactly Obama would convince the nation that government should ramp up deficit spending even further given that he just signed a bill cutting spending by nearly \$900 billion and called for \$4 trillion in deficit reduction. Even in Washington, spending more while spending less is a tough sleight of hand. And it is unclear how he would convince voters that more deficit spending would magically gin up the economy's job machine when deficit spending failed so miserably last time.

The simple fact is that at this stage there are no economic magic pills. What is left is for policy to shift from trying to do more good to trying to do less harm.

3. Restore Confidence. Indeed, at this stage the primary focus should be on government doing less to the economy in its attempt to do anything to spur recovery. The basic strengths of the American economy remain undiminished and undamaged by recent events. What is lacking is not smarter nostrums from Washington, but a chance to breathe, more clarity, and a respite from the flurry of "do somethings" that have spewed from the nation's capital.

The vital missing ingredient in the economy is confidence, while the key debilitating factor today is an excess of *uncertainty*. Many of Obama's efforts—amounting to little more than policy pres-

1. For an explanation of the Obama jobs deficit calculation, see J. D. Foster, "Obama Jobs Deficit Further Evidence of Failure," Heritage Foundation *WebMemo* No. 3035, October 8, 2010, at <http://www.heritage.org/research/reports/2010/10/obama-jobs-deficit-further-evidence-of-failure>.
2. Press release, "Civilian Labor Force and Unemployment by State and Metropolitan Area," U.S. Department of Labor, August 31, 2011, at <http://www.bls.gov/news.release/metro.t01.htm> (September 2, 2011).
3. Ronald D. Utt, "Obama's Peculiar Obsession with Infrastructure Banks Will Not Aid Economic Revival," Heritage Foundation *WebMemo* No. 3346, August 30, 2011, at <http://www.heritage.org/Research/Reports/2011/08/Using-Infrastructure-Banks-to-Spur-Economic-Recovery>.

tidigitation—have not surprisingly only served to sap confidence while heightening uncertainty. For example, the economy would be well-served if the President would stop threatening to raise income tax rates that fall heavily on small businesses and investors, the most productive elements of the economy.

Proposed tax hikes have nothing to do with the budget and everything to do with appearances, specifically the appearance of “fairness” as Obama defines it. Why should businesses large or small have much confidence in the federal government when the President, in proposing to raise taxes, is demonstrating either that he fundamentally does not understand economics or is willing to sacrifice job creation at the altar of traditional liberal redistributionism?

Under legislation signed by President Obama at the end of 2010, the Bush tax relief enacted early in the last decade is set to expire at the end of 2012. As there is little doubt that the nation will suffer from high unemployment even going into 2013, it makes no sense to even suggest allowing such a huge tax hike to occur. Pursuing a “do less harm” doctrine, Obama should press Congress to make current tax policy permanent. At a minimum, he should be leading the charge to extend current policy until the economy returns to near full employment.

This same approach applies to federal spending. Skyrocketing federal debt depletes confidence and adds to uncertainty surrounding federal policy. As

is now abundantly clear, deficit spending does not stimulate the economy as advertised, and substantial spending reductions to restrain the growth of federal debt would not weaken the economy. On the contrary, by resolving the questions about federal debt and working toward the recovery of the nation’s triple-A credit rating, substantial spending reductions become an essential component of a “do less harm” economic growth policy.

There are many more examples, from ending the regulatory assault to ending the governmental blockages to free trade. Each time a government obstruction to growth is eliminated, the economy is given a bit more freedom to expand, to pursue new opportunities, to pursue new efficiencies.

Get Out of the Way. For the economy to create jobs, the President must restore confidence and reduce uncertainty emanating from Washington, pursuing a “do less harm” philosophy of economic recovery. The true pro-growth path President Obama should announce when he gives his big jobs speech requires him to choose job growth over ideology. It requires opting for smaller, less intrusive government over a philosophy that says government should seek to address every problem afflicting the economy and society.

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