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Government's Proper Role in Creating Jobs: Top Five Actions to Take

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Abstract: *America needs jobs. A government committed to free enterprise, limited government, and individual freedom, and not to more borrowing and spending, can properly help. To help unleash the private sector to invest and create jobs, Congress should promptly take five specific actions: enact the New Flat Tax, free America's energy resources, grant effective free trade negotiating authority, stop excessive government regulation, and end the artificially high pricing of labor for federal construction projects under the Davis-Bacon Act and government-mandated project labor agreements.*

Talking Points

- More government borrowing and spending to intervene in the economy does not cure economic recession and solve joblessness.
- Government action to help a weak economy should advance free enterprise, limited government, and individual freedom.
- Economic well-being results when businesses invest and create jobs so that they can meet demand for goods and services.
- Congress should take promptly five actions to get government out of the way of private sector job-creation: enact the New Flat Tax, free America's energy markets, support free trade through international negotiation, halt unwarranted overregulation of markets, and repeal the government's labor price-fixing for federal construction.

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Baron John Maynard Keynes of Tilton, Companion of the Most Honourable Order of the Bath and Fellow of the British Academy, died in 1946. Liberal politicians in America have tried to keep alive one of his worst ideas—that the solution to a weak, job-losing economy is a government that borrows more money and then spends it, hoping to create demand for goods and services that might spur investment and create jobs. That idea is now finally passing away, too, as such government spending to "prime the pump" of the economy has proved a dismal and obvious failure.[1] Instead, attention should focus on how to get government obstacles out of the way so that the private sector can invest and create jobs.

After the economic downturn began in 2008, calls came from Keynesian politicians for Congress to enact "stimulus" legislation in the hope that a sharp

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increase in government spending would cause the private sector to create more jobs. As government revenue dropped in a contracting economy, Congress drove America further into debt with government spending in the name of economic "stimulus," most egregiously with the American Recovery and Reinvestment Act of 2009 (ARRA).[2] The Act provided for $637 billion in increased federal spending, about 80 percent of which the government has already spent.[3] The jobs expected by Keynesian politicians did not materialize.

In February 2009, when the ARRA became law, 12.5 million Americans (8.1 percent of the work force) lacked jobs.[4] In December 2011, with 80 percent of the ARRA's government "stimulus" money spent, 13.1 million Americans (8.5 percent of the work force) lacked jobs.[5] A larger percentage of Americans lack jobs today than when ARRA became law. The sharp jump in government "stimulus" spending did not produce new jobs and a healthy economy—it just helped to produce a bigger national debt.

The proper role of government in this weak economy is not to spend us all into oblivion. Government's proper role—consistent with the conservative principles of free enterprise, limited government, and individual freedom—is to unleash the creativity of the private sector. If the Congress and the President take the five actions described below, it will help the private sector greatly in encouraging economic growth, more investment, and creation of jobs.

Action No. 1: Move to the Pro-Growth, Job-Creating New Flat Tax. The New Flat Tax will encourage economic growth, investment, and job creation, improve federal finances through growth-generated revenues without tax increases, strengthen the economy against future economic shocks, and improve American competitiveness in the global economy.[6] The New Flat Tax abolishes the individual income tax, payroll tax, capital gains tax, dividends tax, estate tax, and corporate income tax and instead imposes a simplified, single-rate tax on expenditures of individuals and a single tax on the domestic net cash flow of businesses.[7] From an individual's income, the amount the individual spends would be taxed, but the amount the individual saves would not be. The universal principle of tax-free individual savings would create a strong incentive for pro-growth, job-creating saving and investment. Similarly, the reduction in business tax rates will spur investment, job creation, and competition. The New Flat Tax is a key element in

1. Brian M. Riedl, "Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics," Heritage Foundation *Backgrounder* No. 2354, January 5, 2010, at *http://s3.amazonaws.com/thf_media/2010/pdf/bg_2354.pdf*. See Stephen Moore, "Is Keynes Finally Dead?" *The American Spectator*, October 2011, at *http://spectator.org/archives/2011/10/06/is-keynes-finally-dead*.
2. ARRA, Public Law 111-5 (February 17, 2009). In February 2009, when ARRA became law, the total public debt subject to the statutory debt limit was $10.7 trillion. Department of the Treasury, Financial Management Service (FMS), *Daily Treasury Statement: Cash and Debt Operations of the United States Treasury* (DTS) (for February 17, 2009), at *http://www.fms.treas.gov/dts/index.html*. At the end of December 2011, with 80 percent of the ARRA's government "stimulus" money spent, that debt was $15.1 trillion. Department of the Treasury, FMS, DTS (for December 30, 2011), at *http://www.fms.treas.gov/dts/index.html*. Implementation of ARRA contributed to the debt increase.
3. Director's Blog, Congressional Budget Office, "Actual ARRA Spending Over the 2009-2011 Period Quite Close to CBO's Original Estimate," (posted January 5, 2012, 9:50 a.m.), at *http://cboblog.cbo.gov/?p=3084*.
4. U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation: February 2009," USDL 09-0224, March 6, 2009.
5. U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation: December 2011," USDL 12-0012 (January 6, 2012).
6. J. D. Foster, "The New Flat Tax: Easy as One, Two, Three," Heritage Foundation *Backgrounder* No. 2631, December 12, 2011, at *https://thf_media.s3.amazonaws.com/2011/pdf/bg2631.pdf*.
7. As used here, the term "domestic net cash flow" means the business's annual cash receipts less cash payments for its activities within the United States.

Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity.[8]

If Congress cannot take America to the New Flat Tax quickly, it should at least take pro-growth, job-creating action now to make permanent the 2001 and 2003 tax reductions that expire in December 2012, and to cut permanently the maximum corporate tax rate, on the way to enacting the New Flat Tax.[9] When Congress achieves the New Flat Tax, it should then leave the tax code alone, as the economic benefits from tax reform depend in significant part upon the certainty among businesses that, as they make long-term investment and hiring plans, the tax code will remain stable over time.[10]

Action No. 2: Allow Expanded Exploration, Recovery, Transport, and Use of American Fossil Fuels. Expanding opportunities to increase America's energy supply will encourage job-creating investment in the oil, gas, and coal industries.[11] Congress should enact legislation to encourage exploration and recovery of domestic oil, gas, and coal supplies, such as through environmentally sound exploration and recovery of oil under the sea off America's coasts and under the Arctic National Wildlife Refuge. Congress also should enact legislation to facilitate prompt improvements in the pipeline transportation system, such as the Keystone XL Pipeline and the Alaska Natural Gas Pipeline projects, and construction of efficient, more environmentally sound coal-fired energy generating plants. For proposals to explore, recover, transport, and use American fossil fuels, Congress should enact legislation that narrows the scope and timeline of administrative approvals (including permit processes), environmental reviews (including the Endangered Species Act and the National Environmental Policy Act processes), and judicial review (including any appeals) to what is truly necessary, so that businesses can invest, hire, and carry out projects more quickly.[12]

Action No. 3: Grant Free Trade Agreement Negotiation Authority. As a general proposition, whenever businesses in the United States can produce a useful product at a lower relative cost than businesses in another country, and the businesses in that country can produce a different product at a lower relative cost than can businesses in the United States, the economies of both the United States and that country would benefit if their businesses trade those products between them. But as a practical matter, governments often impose taxes on that trade, known as tariffs, or erect non-tariff barriers to trade, such as unnecessarily complex importation procedures or limitations.

For much of the last half-century, the United States was a world leader in reducing tariffs and non-tariff barriers to trade, so as to encourage free trade and thereby foster private-sector investment

8. The Heritage Foundation, May 2011, at *http://www.savingthedream.org/about-the-plan/plan-details/SavAmerDream.pdf*.
9. Regarding tax cut expirations in December 2012, see Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312, December 17, 2010), as amended by the Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law 112-78, December 23, 2011). Regarding reduction of the corporate income tax, see Curtis S. Dubay, "Corporate Tax Reform Should Focus on Rate Reduction," Heritage Foundation *WebMemo* No. 3146, February 11, 2011, at *http://thf_media.s3.amazonaws.com/2011/pdf/wm3146.pdf*. See also Karen A. Campbell and John L. Ligon, "The Economic Impact of a 25 Percent Corporate Income Tax Rate," Heritage Foundation *WebMemo* No. 3070, December 2, 2010, at *http://thf_media.s3.amazonaws.com/2010/pdf/wm3070.pdf*.
10. For a discussion of the economic damage of tax uncertainty, see J. D. Foster, "Promoting Job Creation and Reducing Unemployment in the U.S.," Testimony before the U.S. Senate Committee on the Budget, September 21, 2011, at *http://www.heritage.org/research/testimony/2011/09/promoting-job-creation-in-the-us*.
11. Nicolas D. Loris, "Natural Gas Policy: Access, Not Over-Regulation and Subsidies," Heritage Foundation *Backgrounder* No. 2608, September 21, 2011; Loris, "Energy Exploration Would Create Jobs and Raise Revenue Without Raising Taxes," Heritage Foundation *WebMemo* No. 3357, September 8, 2011, at *http://thf_media.s3.amazonaws.com/2011/pdf/wm3357.pdf*; and Loris, "A Good Energy Bill Can Make Gas Prices and Electricity Affordable," Heritage Foundation *WebMemo* No. 3126, February 1, 2011, at *http://thf_media.s3.amazonaws.com/2011/pdf/wm3126.pdf*.
12. See "Solutions for America," The Heritage Foundation, August 2010, p. 11, at *http://www.heritage.org/research/reports/2010/08/meeting-america-s-energy-and-environmental-needs*.

and job creation. The United States should continue to encourage the free flow of goods and services across the globe, opening foreign markets to U.S. goods and services and giving U.S. consumers a greater range of choice by allowing foreign goods and services to compete in U.S. markets. In years past, Congress granted to the President authority to negotiate free trade agreements with foreign countries that Congress considered promptly, with up-or-down votes on legislation to implement the agreements, commonly called "fast-track" authority.[13] The most recent grant of fast-track negotiation authority expired in 2007.

Congress should grant to the President renewed fast-track negotiating authority, preferably permanently but at least for five years. The new grant of authority should take effect at noon on January 20, 2013, so as to encourage legislators to focus on the substantive economic importance of granting the authority rather than on political assumptions based on who will exercise the authority. With that authority, the President, whoever that may be in January 2013, can begin promptly to negotiate effective new free trade agreements for the United States, yielding more opportunities for U.S. goods and services in foreign markets, and prompting associated private-sector investment and job creation.

Action No. 4: Cut Overregulation of the Economy. Massive federal regulations operate as a hidden charge on the economy, often requiring businesses to divert money from job-creating investment into paying for the costs of implementing regulations. In the first six months of fiscal year 2011 alone, federal agencies issued regulations that imposed on the economy one-time costs of about $6.5 billion and recurring costs of $5.8 billion per year—and those are just the costs of the new regulations issued and not the costs of complying with the shelves full of regulations that already exist.[14]

Congress should receive proposed major rules from agencies, to approve their issuance before the rules take effect. Congress should enact legislation to require that, before a major rule takes effect, Congress signify its approval through enactment of a law.[15] Major rules are those likely to result in an annual effect on the economy of $100 million or more, a major increase in costs or prices, or significant adverse effects on competition, employment, investment, productivity, innovation, or U.S. foreign trade. Enactment of such legislation will help ensure that agencies take appropriate account of any significant job destruction impact of rules they propose, as agencies will know that Congress will review the proposed rules.

Agencies should, to the extent consistent with applicable law, base regulations on sound science, public safety, and the needs of the American economy. Often the needs of the economy receive short shrift. Congress should enact a requirement that an agency proposing a regulation determine the value of all costs and benefits of the proposed regulation and not proceed with the regulation unless the agen-

13. For the most recent version of statutory fast-track free trade negotiating authority, see the Bipartisan Trade Promotion Authority Act of 2002, 19 U.S.C. §3801 and following.

14. James L. Gattuso and Diane Katz, "Red Tape Rising: A 2011 Mid-Year Report on Regulation," Heritage Foundation *Backgrounder* No. 2586, July 25, 2011, at *http://thf_media.s3.amazonaws.com/2011/pdf/bg2586.pdf*. There are, of course, many federal regulations affecting a range of particular aspects of the economy that impose unwarranted and costly burdens, whose removal would avoid the loss of jobs or increase the likelihood of job-creating investment. See, for example, the vast array of regulations imposed and to be imposed by the Patient Protection and Affordable Care Act (Public Law 111-148, March 23, 2010), as amended (sometimes called "Obamacare"), and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203, July 21, 2010), as amended. James Sherk, "Obamacare Will Price Less Skilled Workers Out of Full-Time Jobs," Heritage Foundation *WebMemo* No. 3390, October 11, 2011, at *http://thf_media.s3.amazonaws.com/2011/pdf/wm3390.pdf*; David S. Addington, "Congress Should Promptly Repeal or Fix Unwarranted Provisions of the Dodd-Frank Act," Heritage Foundation *Backgrounder* No. 2615, October 13, 2011, at *http://thf_media.s3.amazonaws.com/2011/pdf/bg2615.pdf*.

15. See, for example, the Regulations of the Executive in Need of Scrutiny (REINS) Act, H.R. 10 of the 112th Congress, as passed by the House of Representatives on December 7, 2011. See James L. Gattuso, "Taking the REINS on Regulation," Heritage Foundation *WebMemo* No. 3394, October 13, 2011, at *http://thf_media.s3.amazonaws.com/2011/pdf/wm3394.pdf*.

cy finds and demonstrates that the value of the benefits exceeds the value of the costs. The requirement should apply generally to all regulations affecting an element of the public, including environmental regulations. With such a statutory requirement, agencies would issue fewer rules whose costs of implementation are out of proportion to their benefits. Issuance of fewer such rules should reduce the diversion of funding from job-creating investment to compliance with unwarranted rules.

Action No. 5: Repeal the Davis-Bacon Act and Prohibit Government-Mandated Project Labor Agreements, so the Market Sets Wage Rates for Federal Construction Contracts. Congress should repeal the Depression-era Davis-Bacon Act (DBA), and eliminate government-mandated project labor agreements, to allow the private sector to create more jobs in doing federal construction work.[16]

Senator James J. Davis of Pennsylvania and Representative Robert L. Bacon of New York shepherded the original Davis-Bacon Act through Congress and President Herbert Hoover signed it into law on March 3, 1931. The DBA requires companies that carry out construction contracts for the federal government in a locality to pay not less than the wage rates prevailing on other construction contracts in that locality. The U.S. Department of Labor determines what the prevailing wage rates are in a locality for purposes of the DBA. The DBA prevailing rates average about 22 percent more than the actual market wages.[17]

Under Executive Order 13502, issued by President Obama on February 6, 2009, consistent with section 8(f) of the National Labor Relations Act (NLRA), a federal agency can require companies performing construction projects for the agency valued at $25 million or more to enter into pre-hire collective bargaining agreements with construction labor unions. Those project labor agreements establish the terms and conditions for employment of the employees to be hired for the project.[18] Such government-mandated project labor agreements raise the cost of construction projects and reduce the number of jobs that project budgets can support.[19]

Under the Davis-Bacon Act and under Executive Order 13502, the federal government—that is, the American taxpayer—pays substantially more for construction work than it otherwise would pay. Thus, a given sum of federal money ends up creating fewer jobs than it would otherwise create. Congress should repeal the Davis-Bacon Act and prohibit government-mandated project labor agreements in federal construction work, so that markets set wages and create more jobs.

Conclusion

In dealing with a weak economy, America's elected leaders should stop overspending and overborrowing and instead focus on getting the government out of the way of the private sector. Government should reduce its unnecessary interference in the marketplace, which will help encourage America's businesses to invest and create jobs. Congress should adopt the pro-growth, job-creating New Flat Tax; encourage development and use of America's vast energy reserves; encourage free trade that opens foreign markets to American goods and services; stop unwarranted overregulation of the marketplace; and repeal the government's labor price-fixing for federal construction.

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16. Davis-Bacon Act, 40 U.S.C. §§3141-3148.
17. James Sherk, "Why the Davis-Bacon Act Should be Repealed," Heritage Foundation *WebMemo* No. 3451, January 12, 2012, available at *http://thf_media.s3.amazonaws.com/2012/pdf/wm3451.pdf*.
18. Sections 2 and 3 of Executive Order 13502; see 29 U.S.C. §158(e) and (f).
19. David G. Tuerck, Sarah Glassman, and Paul Bachman, "Project Labor Agreements on Federal Construction Projects: A Costly Solution in Search of a Problem," The Beacon Hill Institute, August 2009.