

Washington and the Jobs Market

A familiar definition of insanity is to keep doing the same thing and expecting different results. So in the wake of Friday's report that the U.S. jobless rate climbed to 10.2% in October, we suppose we can expect the political class to demand another "stimulus." Maybe if Congress spends another \$787 billion in the name of job creation, it can get the jobless rate up to 12% or 13%.

It's hard to imagine a more complete repudiation of Keynesian stimulus than the evidence of the last year's job market in the U.S. We've now had two examples of such stimulus—President Bush's \$160 billion effort in February 2008 and President Obama's mega-version a year later—and neither has made even the smallest dent in employment. As the nearby chart shows, Mr. Obama's economic advisers sold the stimulus by saying it would keep the jobless rate below 8%. Actual results may differ, as they say.

The U.S. economy shed another 190,000 jobs in October, taking the total job losses to 3.5 million since January. The larger measure of joblessness that includes marginal and part-time workers jumped 0.5% to 17.5%. And the average hours worked in a week stayed the same at 33.0, which means that millions of Americans working part-time will have to become full-time before employers start hiring new workers.

Job creation typically lags coming out of recession, and there were some signs of hope in the October report. Temporary employment increased for the third month in a row, often a key early sign of a healthier jobs market. The job losses

for August and September were also revised lower. But with an economic recovery clearly under way, corporate earnings rising and productivity soaring, we should be seeing a sharper turn in the job market.

The White House says the stimulus created as many as one million new jobs, but this is single-entry economic book-keeping. No one doubted that such spending would create some jobs and "save" others, especially in government. But such spending isn't free. Every dollar in new government spending is taxed or borrowed from the private economy, which might have put it to better use.

If the government takes \$1 from Paul, who would have invested it in a new business, and gives it to Peter, who spends it on a new lawn mower, the government records it as a net gain for economic growth via consumption. But the economy is hardly more productive as a result. Especially with so much of the Obama stimulus going to transfer payments—such as Medicaid and jobless



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benefits—the net effect on job creation has probably been negative. The bally-hooed Keynesian multiplier that every dollar of government spending yields 1.5 times that in economic growth has been exposed again as false.

The policy lesson here is for both political parties. President Bush's cave-in to Democrats in 2008 meant that there was no debate in Washington over policies that might have produced a much better stimulus at that early point in the recession. Like so much else in Mr. Bush's final year, he lost his policy bearings and forgot the lesson of 2003: A stimulating tax cut needs to be immediate, permanent and at the margin of the next dollar earned. Instead, for the last two years, the U.S. and most of the world have been pouring money into a Keynesian cul-de-sac.

Not that businesses can expect anything better now from Washington. Congress's panicked response this week has been to extend and expand the \$8,000 first-time home-buyer credit and to add another 20 weeks in jobless benefits.

The latter will help some families but it won't create any new jobs and some will use it as an excuse to postpone their job hunt for another few months. As for the home-buyer credit, everyone concedes that this sop to the real-estate lobby is one of the most inefficient ways to stimulate home ownership. Four out of five home buyers who use it would have bought a home anyway, and a recent Treasury report showed it has been rife with fraud. The credit will postpone the day when the housing market hits a floor and can start

a durable recovery.

If Democrats really want to create jobs and save themselves from a debacle in 2010, their best policy option is to stop creating so much investment uncertainty and additional barriers to business hiring.

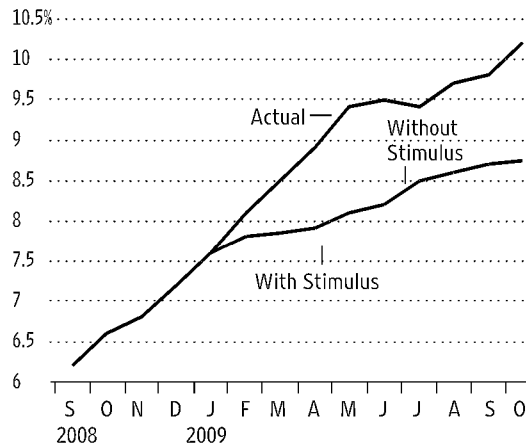
Stop trying to raise business costs by making it easier to unionize via "card check." Stop trying to raise energy costs with a cap-and-tax bill. Stop adding to the deficit and future tax burden with a 12% increase in domestic spending for 2010.

Above all, stop trying to ram through Congress on a partisan vote a health-care bill that imposes a 5.4-percentage-point income tax "surcharge" on anyone making more than \$500,000 a year. The Joint Tax Committee reports that one-third of this \$460.5 billion tax increase will be paid by small business job creators who file their taxes under the individual income tax code. Amid a 10.2% jobless rate, the highest in 26 years, this tax increase, which narrowly passed the House Saturday, is the definition of insanity.

The sooner Democrats stop what they're doing, the faster the private job market will recover on its own.

Stimulus and Jobs

Team Obama's estimate of the impact of its spending program on employment, compared to the actual jobless rate



Source: "The Job Impact of the American Recovery and Reinvestment Plan," by Christina Romer and Jared Bernstein, Jan. 9, 2009