



## How to Create Jobs and Revive the Economy

by John Hendrickson

In an effort to reverse the 9.1 percent unemployment and increase economic growth, President Barack Obama recently outlined his next jobs and economic plan through the American Jobs Act. The American Jobs Act is a continuation of the Administration's policies in utilizing Keynesian-style measures in order to revive the economy. The American Jobs Act is a "\$447 billion package of spending initiatives and tax cuts to boost economic growth," which is a continuation of the \$850 billion stimulus that was passed by Congress earlier.<sup>1</sup> In addition, the plan "calls for tens of billions of dollars in aid to state and local governments, including cash for hiring teachers and refurbishing schools, as well as a \$10 billion infrastructure bank and \$50 billion for transportation projects."<sup>2</sup> The other aspects of the proposal include extension of unemployment benefits and employer and employee payroll tax cuts.<sup>3</sup> In order to reverse high unemployment and revive the economy policymakers must do the opposite of the American Jobs Act and push for policies which include reduced spending, tax reform, and eliminating unnecessary regulations.

President Obama's and the Democrat preference to follow the economic thought of John Maynard Keynes in confronting both the "Great Recession" and unemployment crisis harkens back to the New Deal policies of President Franklin D. Roosevelt, who also utilized massive stimulus spending in confronting the Great Depression. Jim Powell, a historian and Senior Fellow at the Cato Institute, recently wrote about Keynesian economics:

The theory behind such stimulus involves the so-called Keynesian 'multiplier' — each dollar of government spending will supposedly lead to more than a dollar's worth of total spending as the money circulates. But government money doesn't come out of thin air. It comes from taxpayers, and each dollar taken from taxpayers means they have less money, the people they do business with will have less money, and so on. The alleged benefits of Keynesian spending are canceled out by taxation.<sup>4</sup>

Both the \$850 billion stimulus as well as the \$447 billion stimulus outlined in the American Jobs Act follow in this tradition, but the 9.1 percent unemployment rate and the slow economic growth show that these policies fail. Some progressives are even arguing that the administration needs to push for more aggressive policies. As an example, former Secretary of Labor in President Bill Clinton's Administration, Robert Reich, has called for a "bold jobs bill" in which he urges the President to "recreate the Works Progress Administration (WPA) and Civilian Conservation Corps (CCC)."<sup>5</sup> Both the WPA and CCC were prominent New Deal programs that President Roosevelt used in an attempt to bring the economy out the Great Depression and end unemployment. However, as Powell noted, unemployment "averaged 17 percent during the New Deal era (1933-1940)."<sup>6</sup>

Economists Richard Vedder and Lowell Gallaway recently wrote that "our current malaise stems from a series of policy mistakes" which include "the stimulus package, the bailouts, Obamacare (Patient Protection and Affordable Care Act), and the Dodd-Frank financial 'reform' bills. They have probably destroyed more jobs than they created, by sharply reducing investor confidence."<sup>7</sup> In addition, Vedder and

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Gallaway argue that the expansion in the size of the federal government is a leading cause of high unemployment and slow economic growth:

The simplest answer is that government is crowding out private enterprise. Federal spending accounted for around 18 percent of national output during most of the Reagan-Clinton era. The 1980s are known for tax cuts that created incentives for capital investment and job formation. In the 1990s, federal spending fell as a percentage of GDP for eight consecutive years, the longest decline in U.S. history. In stark contrast, the 21st century thus far has been marked by a relentless expansion of the federal government's size (it is approaching 25 percent of GDP)...<sup>8</sup>

Under President Obama's watch the national debt has increased by \$4 trillion.<sup>9</sup> The cause for the massive increase in the national debt is the policies initiated by the Democrats. As an example, the federal government has undergone a significant increase in regulatory activity. "In the first six months of the 2011 fiscal year, 15 major regulations were issued with annual costs exceeding \$5.8 billion. Since Inauguration Day, the Obama administration imposed 75 new major regulations with annual costs of \$38 billion."<sup>10</sup>

Vedder and Gallaway argue that any economic solution must allow "markets to work, promote sound money, government fiscal responsibility, and the rule of law..."<sup>11</sup> Following these policies will be the only way to end the economic uncertainty. Historically, following limited government policies have worked to create economic prosperity as demonstrated by the Presidencies of Warren G. Harding, Calvin Coolidge, and Ronald Reagan. Even Democrat Presidents such as John F. Kennedy, although not a champion of limited government, understood the importance of tax reductions in economic recovery.

#### Endnotes:

<sup>1</sup>Carol E. Lee and Naftali Bendavid, "Obama's bid to spur growth: President asks Congress for \$447 billion in cuts, spending; tepid GOP response," *The Wall Street Journal*, September 9, 2011, <<http://online.wsj.com/article/SB10001424053111904103404576559062901863074.html>> accessed on September 9, 2011.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

<sup>4</sup>Jim Powell, "More unemployment presently, than 2009," *Cato.org*, Cato Institute, Washington, D.C., September 9, 2011, <[http://www.cato.org/pub\\_display.php?pub\\_id=13652](http://www.cato.org/pub_display.php?pub_id=13652)> accessed on September 9, 2011.

<sup>5</sup>Robert Reich, "President Obama needs a bold jobs plan," *San Francisco Chronicle*, August 28, 2011, <[http://articles.sfgate.com/2011-08-28/opinion/29934406\\_1\\_jobs-bill-job-market-jobs-initiative](http://articles.sfgate.com/2011-08-28/opinion/29934406_1_jobs-bill-job-market-jobs-initiative)> accessed on August 28, 2011.

<sup>6</sup>Jim Powell, "Obama's New New Deal at a Dead End," *Cato.org*, Cato Institute, Washington, D.C., August 10, 2011, <[http://www.cato.org/pub\\_display.php?pub\\_id=13559](http://www.cato.org/pub_display.php?pub_id=13559)> accessed on September 9, 2011.

<sup>7</sup>Richard Vedder and Lowell Gallaway, "Where have all the jobs gone: Our current malaise stems from our policy," *National Review Online*, September 8, 2011, <<http://www.nationalreview.com/articles/276398/where-have-all-jobs-gone-richard-vedder>> accessed on September 8, 2011.

<sup>8</sup>Ibid.

<sup>9</sup>Mark Knoller, "National debt has increased \$4 trillion under Obama," *CBS News*, August 22, 2011, <[http://www.cbsnews.com/8301-503544\\_162-20095704-503544.html](http://www.cbsnews.com/8301-503544_162-20095704-503544.html)> accessed on August 23, 2011.

<sup>10</sup>Mike Brownfield, "Five ways to create new jobs in America," *Morning Bell*, September 8, 2011, The Heritage Foundation, Washington, D.C., <[http://blog.heritage.org/2011/09/08/morning-bell-five-ways-to-create-new-jobs-in-america/?utm\\_source=Newsletter&utm\\_medium=Email&utm\\_campaign=Morning%2BBell](http://blog.heritage.org/2011/09/08/morning-bell-five-ways-to-create-new-jobs-in-america/?utm_source=Newsletter&utm_medium=Email&utm_campaign=Morning%2BBell)> accessed on September 9, 2011.

<sup>11</sup>Vedder and Gallaway.

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