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## How to Create More Jobs

By Richard W. Rahn

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Why aren't more jobs being created? Ask President Bush's political opponents and even some of his friends. It is a legitimate question and it deserves a serious answer.

Mr. Bush's Democratic opponents blame him but fail to admit the recession began on the Clinton/Gore watch. Neither do they tell us precisely what they would have done or will do now about the problem.

To understand the real problem and its solutions, it is important to start with the basics. For a job to be created, there has to be a demand for a good or a service. When business people see the demand for their products increasing, they hire more workers to produce and sell the products. They will hire workers as long as the cost of hiring the additional worker is less than the net revenue cost of the worker.

So, to increase employment, we can increase economic growth and/or reduce the cost of hiring workers.

The other day I heard the president say, "The tax cuts worked because they put money in people's pockets." In fact, the president misstated his own case.

The tax cuts worked by reducing the existing disincentives for working, saving and investing. (The tax cuts were financed by increasing the deficit. The same amount of money as was taken from the economy by government borrowing was returned as a result of rate reduction -- but the tax cuts did improve incentives to work, save and invest.)

One reason for the slow employment growth has been the rapid growth in government spending. Some people think government spending creates jobs (the old Keynesian myth) but, in fact, government spending reduces more jobs in the private sector than it can create in the government sector.

The reason is private sector jobs tend to be more productive than government jobs, and there is a considerable cost (i.e., dead weight loss) when government extracts monies from the private sector by taxing or borrowing to pay for the government jobs. Therefore, countries with large government sectors, like France and Germany, tend to have much higher unemployment rates than countries with smaller government sectors.

Slowing the growth in government spending would speed job growth.

Another major reason for the slow growth in jobs is that tax cuts are now temporary and set to expire in stages over the next few years. The president has asked Congress to make the tax cuts permanent, which is the responsible thing to do.

However, business people are uncertain whether the tax cuts will be made permanent and, hence, are reluctant to expand as rapidly or hire as many workers as they would if they believed the tax cuts would remain. Those members of Congress who have said they will not vote to make the tax cuts permanent are, in effect, reducing job opportunities for their fellow Americans and ought to be held accountable.

Yet another major reason for slow job growth is the drop in the dollar and the rise in oil prices. The rise in oil prices and price increases of other internationally traded goods resulting from the drop in the dollar has the same effect as a tax increase on the American consumer.

This "tax increase" offsets some of the benefits of the rate reduction. When consumers pay more for gasoline, they have less money to spend on other goods and services; hence, the economy grows more slowly than it otherwise would, and fewer new jobs are created.

If the price of oil and other commodities continue to rise in dollar terms, this will not only slow our economic growth but could stop the recovery.

The administration needs to be far more aggressive about stopping the oil price increases. Remember, the price of oil is not set by the market but is set by the Organization of Petroleum Exporting Countries. We should tell the Saudis and other major OPEC oil-cartel members that the current price of oil is unacceptable and we will take action against them if they do not significantly reduce it.

If the Saudis attacked us and weakened our economy, we would not tolerate it. And we ought not to tolerate them using the price of oil as a weapon against us. If the administration does not take immediate action to rein in OPEC, its political opponents are likely to start accusing it of being too beholden to oil interests, thus putting at risk jobs of American workers.

Policy-makers in the administration have also been too passive regarding the fall in the dollar. Their rhetoric has been weak, and they have actually engaged in activities to discourage foreign investment into the U.S. economy that has added to the dollar's weakness.

They should immediately withdraw the Internal Revenue Service's proposed interest reporting regulation (which virtually every economist who has commented on the issue has denounced as wretched policy) and reduce the withholding rates on dividend payments to foreign persons in line with the just passed dividend tax cut for Americans. These actions would again signal that the U.S. welcomes foreign investment.

Job growth has been too slow, and that is due to bad government policies. Both Republicans and Democrats are to blame. Unless the administration takes the actions recommended above, job growth will continue to be slow, which may cost the Republicans the election. They will have only themselves to blame.

Only if the administration cleans up its own mistakes, can it legitimately blame the Democrats for advocating policies -- higher taxes -- that slow job growth.

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