Obama on Jobs: Flip-floppin' & Flying Blind

The rhetoric at the White House radically changed on September 27. The event was the signing by President Obama of the Small Business Jobs Act.

Until the afternoon of that ceremony in the East Room, the party line expressed by President Obama and Congressional Democrats was that the income tax hikes on "the rich" that they were proposing for January would not have any negative impact on job creation.

Stuck with the fact that we need millions of new jobs and the reality that nearly 70 percent of the nation's jobs are created by small businesses, President Obama and the Democrats had been dancing for a year around the obvious link between job creation and their proposed tax hike on job-creating individuals with incomes above $200,000 and on married couples with incomes above $250,000.

They said the proposed income tax increase would apply to only a tiny sliver of America's small-business owners, a small group of people who "can afford it," and therefore any effect on job creation would be negligible, an impact not important enough to be worth considering.

Adding specific numbers to the party line, House Speaker Nancy Pelosi declared that "98% of American families and about 97% of small businesses" would be exempt from the planned higher taxes on incomes above $200,000 and $250,000.

Vice President Joe Biden echoed Pelosi's numbers, stating that only three percent of small businesses would have to pay the higher tax rate.

The continual repetition of those numbers was supposed to create the belief that the Democrats' proposed income tax hikes wouldn't take a dime from 97 percent of the nation's small businesses and that the number of jobs being created in the economy would be basically the same with or without the tax increase.

The distortion that's inherent in repeatedly citing the 97 percent figure, the intentional falsification, is explained by Alan D. Viard and Kevin A. Hassett, a resident scholar and the director of economic policy, respectively, at the American Enterprise Institute: "According to IRS data, fully 48 percent of the net income of sole proprietorships, partnerships, and S corporations reported on tax returns went to households with incomes above $200,000 in 2007. That's the number to look at, not the 3 percent."

On September 27, the tone at the White House completely changed. Gone was the talk of raising taxes on "the rich." Instead, President Obama, speaking before signing the Small Business Jobs Act, said that government "can create the conditions for small businesses to hire more people, through steps like tax breaks." Tax breaks, not increases.

Continued Obama, sounding not unlike an advocate for free markets, "Government can't guarantee success, but it can knock down barriers to success."

He didn't mention any of the numerous "barriers to success" that he and his congressional allies have advocated over the past year, his own set of proposed costs and controls that have produced high levels of uncertainty and low levels of business expansion and job growth — higher energy costs via cap and trade, higher business costs by way of new healthcare mandates, more barricades to business growth via a broad expansion of federal regulations, higher levels of unionization via "card check," a measure designed to strip workers of their right to a secret ballot in unionization drives, and higher federal taxes on dividends, inheritances, capital gains, and income.

Obama also promised billions in new loan money for small businesses, something that would be less needed if the government simply didn't confiscate such a high and growing level of business income in the first place.

Bottom line, taking more and more income from small businesses via higher taxes, more mandates and more regulations and then offering more loans to those same businesses isn't exactly the most efficient or rational strategy for creating jobs.

Ralph R. Reiland *is an associate professor of economics at Robert Morris University in Pittsburgh.*