Jobs Bill: The Law of Intended Consequences

With great fanfare, the Obama administration celebrated its first policy victory of the year — the $17.6 billion jobs bill. Eleven Republican Senators helped push the bill through the Senate, 68-29.

The economically flawed and unconstitutional law provides employers an exemption from Social Security tax withholding through the end of the year on any employees added to the payroll who have been unemployed for at least 60 days. And if the employees stay on that payroll for at least a year, the employers would receive an additional $1,000 tax credit. In addition, the law spends $20 billion on federal highway construction and other public improvement projects.

Timothy Bartik at the Institute of Employment Research estimated that the new law might create as many as 200,000 new jobs. However, according to a Cornell economist, John Bishop, the law would only benefit those employers with high turnover such as fast-food restaurants. He said, "To get the subsidy, it doesn't require that a company actually grow."

Senators Charles Schumer (D-N.Y.) and Barbara Boxer (D-Calif.) helped President Obama celebrate the victory in the Rose Garden on Thursday. The President said, "There is a lot more [that] we need to do to spur hiring in the private sector and bring about a full economic recovery." Schumer added, "The American people sent us a message in Massachusetts and elsewhere. It was [to] focus on jobs, the economy, helping the middle class stretch its paycheck. Our answer today: We heard you."

The flaws in the bill just signed into law are so vast and breathtaking that it's hard to know where to begin. First of all, doing the math reveals that each job "created" will cost taxpayers at least $88,000. Since most of these potential jobs will be at fast-food restaurants, staffed by entry level workers making perhaps $10 an hour, each job will cost four times the annual salary earned by each worker, if they stay employed that long.

John Browne, at Euro Pacific Capital, points out that "if this bill has any effect [at all], it will be to encourage cash-strapped entrepreneurs to make hiring decisions that are unjustified by current business activity." In other words, the law would encourage employers to make economically unsound business decisions that they wouldn't otherwise make, except for the perception of the tax breaks offered. This is the farthest thing from genuine job creation.

The law has been hailed as an effort to stimulate the economy. But not only do such bills fail to stimulate the private economy, they increase government debt and add more government workers to administer the programs. In fact, an increase in government spending actually has a negative impact on the overall economy. Harvard economist Robert Barro, writing in the *Wall Street Journal* makes the case that the "spending stimulus will likely raise GDP by less than the increase in government spending." And there it is, from a Harvard economist no less: One cannot spend oneself into prosperity.

To claim that such stimulus bills do create jobs is to believe in the "broken window" fallacy — otherwise known as the law of unintended consequences. This fallacy is presented in Henry Hazlitt's book, *Economics in One Lesson*:

> A young hoodlum, say, heaves a brick through the window of a baker's shop. The shopkeeper runs out furious, but the boy is gone. A crowd gathers, and begins to stare with quiet satisfaction at the gaping hole in the window and the shattered glass over the bread and pies. After a while the crowd feels the need for philosophic reflection. And several of its members are almost certain to remind each other or the baker that, after all, the misfortune has its bright side. It will make business for some glazier. As they begin to think of this they elaborate upon it. How much does a new plate glass window cost? Two hundred and fifty dollars? That will be quite a sum. After all, if windows were never broken, what would happen to the glass business? Then, of course, the thing is endless. The glazier will have $250 more to spend with other merchants, and these in turn will have $250 more to spend with still other merchants, and so ad infinitum. The smashed window will go on providing money and employment in ever-widening circles. The logical conclusion from all this would be, if the crowd drew it, that the little hoodlum who threw the brick, far from being a public menace, was a public benefactor.

The fallacy comes from thinking that's all there is to know about the transaction. Here's the rest of the story: The baker has $250 less to spend elsewhere. It's gone. It's a net loss to the capital in the economy. No amount of expository obfuscation can explain that away.

And so, what are the hidden costs involved with the current "jobs" bill just signed into law? First, the $17.6 billion has to be borrowed from somewhere, probably from those good friends, the Chinese. And the government will pay interest to them for the privilege. Let's forgo any discussion about the threat to national sovereignty involved with such borrowing for the time being. There will be administrative costs to funnel the money to those employers making hiring decisions. But that funnel is going to be the Internal Revenue Service, who will have to hire additional employees to monitor, track, and follow the money. And there will be lawyers (always lawyers) to "interpret" and "clarify" the rules. And other lawyers to defend employers who fail, wittingly or not, to follow the rules. And the employees will likely be moved from unemployment to full employment, at perhaps, as suggested earlier, $10 an hour. But there will be bookkeeping costs, training costs, and, as suggested, turnover costs that approach 50 percent annually in such establishments. One could go on and on. But Hazlitt nicely summarized the fallacy by saying, "Everything we get, outside [of] the free gifts of nature, must in some way be paid for." Robert Heinlein summarized it with the acronym, TANSTAAFL: There Ain't No Such Thing As A Free Lunch.

There are some who say that politicians don't know what they are doing, or that they're just doing the best they can with incomplete information. Or that they are following bad economics, or bad advice, or caving in to pressure or temptation to enjoy the spoils. However, Charles Schumer does know what he's doing. According to the New York Times, Schumer is "brash and brainy [with] perfect SATs and double Harvard degrees … [and] quickly showed a keen grasp of complex financial issues." And "as vice-chairman on the Joint Economic Committee and a member of the finance committee, Mr. Schumer helped with the 2009 economic stimulus package."

And so how could the man *not* know that the stimulus bills, including the latest "jobs" bill scam, won't work? How could he *not* know that these would expand government power, further restrict the ability of the free market to operate efficiently, and create additional incursions into freedom of citizens to make their own good economic decisions? How could he *not* know that these stimulus bills would take jobs away from the private sector and move them into government? How could he *not* know that these bills would continue to create increasing dependency upon government? How could *he not know*?

Happily, the fallacy of the broken window — the intended consequences of more government and less freedom — is becoming more widely known by voters, as is the fallacy of continuing to vote for those who intend for them to "enjoy" those intended consequences. And with that increased understanding comes the beginning of the end for such politicians. The other senator in the Rose Garden along with Schumer and President Obama, Barbara Boxer (D-Calif.), is having her reelection difficulties. In a liberal district in a liberal state, Boxer until recently was a shoo-in for reelection this fall. But according to Rasmussen Reports, "Incumbent Democrat Barbara Boxer is now in a virtual dead heat with former Congressman Tom Campbell in California's U.S. Senate race [and what is] worrisome for her is her inability to rise out of the 40s where she's been stuck for months while her opponents have been gaining ground. Incumbents who capture less than 50 percent of the vote at this stage of a campaign are considered potentially vulnerable." Further, Rasmussen reported that 59 percent of all California voters say, "It would be better for the country if most incumbents in Congress were defeated this November."

More and more informed voters do understand the "broken window" fallacy, and they do intend the consequences of their actions!

Photo of Barbara Boxer and Charles Schumer: AP Images