

## ***Job Stagnation: Lost Years' Legacy (12/1/10)***

Dr. Robert F. Graboyes / [rfggraboyes@gmail.com](mailto:rfggraboyes@gmail.com) / [www.robertgraboyes.com](http://www.robertgraboyes.com)

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The U.S. Labor Department reported unemployment at 9.0% for January 2011. Include the underemployed (part-timers seeking full-time work) and the discouraged (those who have ceased looking for jobs), and unemployment is 16.1%.

Private-sector job creation has been weak throughout the Great Recession. The federal government has gunned the nation's economic motor for two years with the Stimulus pedal, so why are the wheels still spinning deep in the mud? Since 65 percent of new jobs normally arise from the small-business sector, that's a good place to look, and the top answers are consumer demand, real estate, taxes, and healthcare. The hulking new healthcare law also reinforced the demand and real estate and tax problems, too.

**Low Demand:** The proximate cause of the recession was a decline in consumer spending. Small business hoped for a payroll tax holiday, leaving funds in consumers' pockets so they could start spending again. Instead, Congress opted for \$800 billion in debt-financed government spending (much of it long-term). Sales remained depressed, and small business had little incentive to hire new workers or invest in new equipment.

**Lost Collateral:** Much small business expansion is financed by borrowing on entrepreneurs' real estate equity – in residences, workplaces, and investment properties. Plunging values wiped out much of this equity, leaving limited alternative means of financing expansion. Adding extra damage, start-ups are especially hard-hit by the property crunch.

**Tax Uncertainty:** The outgoing Congress generated profound uncertainty over future tax liabilities. Even businesses with the ability to spend and hire and to obtain credit may have chosen not to do so because of uncertainty over future taxes. With only days left in 2010, businesses and the customers on whom they depend had no idea of whether income tax increases would reverse the Bush-era rates and whether the estate tax would be 0% or 55% or somewhere in-between.

**Healthcare Law:** The healthcare law (PPACA) crushes expansion ideas under layer-upon-layer of costs, red-tape, and years of uncertainty. If a business owner's wife gets a salary increase, PPACA may claim 0.9% of her increase. If they sell their beach house, there may be a 3.8% tax on the profit. If these taxes lead to acid reflux, there's a new tax on Nexium. If that elevates blood pressure, there's a 2.3% tax on the pressure meter. Small-business health insurance plans face a tax that big businesses and labor unions don't. Companies with 50 or more full-time employees face large penalties if even a single employee qualifies for a subsidy. The list goes on, as does the list of new administrative burdens – most notoriously the impossible-to-manage 1099 provision. The extent of these burdens depends on regulations that won't be written for years to come.

The healthcare debate carried a double-wallopp. In late 2008, America and the world faced the most severe financial crisis in two generations. The economy stumbled and unemployment grew. Congress and the White House could have focused on stabilizing consumer demand, finance and real estate, and taxes but chose, instead, to turn their attention to a chronic, but non-crisis, issue – healthcare. (I say all

of this as someone who always viewed healthcare reform as essential to business and whose employer feels likewise.)

They clumsily reinvented one-sixth of the economy on the fly, neglecting the deepening real estate crisis, allowing it to fester and weigh down small business's net worth and, therefore, access to credit. PPACA committed the country to enormous long-term financial obligations of uncertain magnitude. (The CLASS Act, written from Day One in red ink, is a perfect example.) The struggle to fund PPACA delayed efforts to reform Medicare and Medicaid, turning conversation to new tax burdens, like a Value-Added Tax (an especially onerous tax for small business.) PPACA was sold as a path to long-term financial stability – but even the federal government has punted that claim.

The struggle over PPACA did not end on 3/23/10. With each passing week, another piece falls off of the law. Precious time that could be devoted to the housing and entitlement crises is funneled back into scotch-taping PPACA back together again. The civil war sparked by the healthcare debate makes bipartisan efforts on housing and taxes exceedingly difficult.

How do we get business and jobs growing again? How do we get the government's eye back on the ball? Great questions, but they've barely been asked. Not by an assortment of federally micro-managed micro-incentives. Repealing PPACA (followed by more constructive reforms) would be a start. But we will never get back the lost years of 2009-2011, which Congress frittered away on its hobbies.