Why No Jobs?

By John Goodman **August 12, 2011**

Why aren't employers hiring more workers? Why are so many people seeking work unable to find anything other than part-time positions or temporary employment? And that's when they can find a job at all.

In short, what's causing the continuing stagnation of the U.S. economy?
Former Sen. Phil Gramm observed in the Wall Street Journal recently that we've had recessions before. But at this point in the cycle we should be roaring back. Had we followed the pattern of the previous 10 recessions, almost 12 million more people would be employed right now, producing additional goods and services worth more than $8,000 for every household in America.

So what gives?

Job Creators Alliance (JCA) is an alliance of business leaders who are focused on this very issue. These are employers who are in the trenches, facing the economy's woes day in and day out. Two of them told Fox Morning News that the reasons for slow job growth boil down to basic common sense. (Fair disclosure: my wife Jeanette is the director of the organization.)

Think of it this way. When an employer hires a full-time worker, the employer thinks of the relationship as long term. During an initial training and learning period, the employer probably pays out more in wages and benefits than the company gets back in production. But over a longer period, the hope is to turn that around and make a profit.

When employers hire new employees, then, they are making a gamble. They are betting that over time, the economics of the relationship will pan out.

The problem in the current economy is that hiring new workers and committing to new production has become extremely risky. As the JCA folks explain, an employer who hires workers today has no idea what the company's future labor costs will be. Or its building and facility costs. Or its cost of capital. Or its taxes.

What's causing all this uncertainty? You guessed it. Nobody knows what is going to happen in Washington, D.C.

Take the cost of labor. The Affordable Care Act (what some people call ObamaCare) is designed to force employers to provide full-time employees with comprehensive health insurance in less than three years. While the goal may be admirable, the consequences are not. Although no one knows how much this extra burden will cost, estimates are that the required family coverage will reach $15,000 a year or more — the equivalent of an additional $6 an hour minimum wage.

Employers could decide to drop their health insurance altogether; and if they do so they must pay a fine of $2,000 per employee per year. Yet if a lot of employers do this (and apparently a lot of them are thinking about it), don't you think the federal government will respond by making the fine a lot higher?

Then there is the National Labor Relations Board (NLRB). After the aircraft maker Boeing spent $1 billion building a new plant and hiring 1,000 workers in South Carolina, the agency brought a halt to the whole thing, calling it an unfair labor practice. Boeing's sin? South Carolina is a right-to-work state. The company should have built the plant in Seattle, where it would be required to use union labor.

There is more bad news. The NLRB is considering rule changes that would make it much easier to unionize workers. Would you like to see employers across the country facing the same kind of turmoil state governments are now facing in dealing with public sector unions? Most employers don't relish that idea either.

Under the Obama presidency, the NLRB has made a radical change of direction. Some would say it is much more pro-labor, but this is a misnomer. What the agency is dedicated to is not labor, but making labor more costly.

As for capital investments such as new buildings and new equipment, here again there is considerable regulatory uncertainty. It should come as no surprise that the Obama administration is overly friendly to environmental groups who see carbon dioxide emissions as pollution. Yet every act of production emits carbon dioxide. You even emit it when you exhale.

As for the cost of financial capital, what is going to happen is anybody's guess. When the Bush tax cuts finally do expire, the tax on capital gains will increase by a third and the tax on dividends will more than double. The administration has made no secret that it would like to accelerate these tax increases and make them even higher.

Bottom line: even if there were no Republican opposition in Washington, we would be in trouble. The Obama administration is profoundly anti-labor. It thinks it is pro-labor, of course. But that is because it is so naïve about economics that it doesn't understand that when you make hiring more costly there will be less hiring.

But there are Republicans in Washington, and (ironically) their presence in some ways adds to uncertainty. While the two parties are battling, who knows what the outcome will be? No one can.
So the best strategy from a business perspective is to sit on cash, delay the employment of labor and capital and wait to see what happens next.

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