Cascade Policy Institute

Cascade Commentary

February 2002 No. 2002-05

Summary

Governor Kitzhaber's economic stimulus plan to create road-repair jobs is reminiscent of New Deal promises of government-provided jobs. However, history shows that government never creates jobs, it only diverts resources, and does so at a high cost.

Word count: 698

"Government has nothing to give us except what it has first taken from someone, minus an administrative fee."

Leave job creation to private sector

By Angela Eckhardt and Lawrence W. Reed

Governor Kitzhaber wants to create thousands of road-repair jobs through his proposed economic stimulus package. The plan understandably sounds appealing to economically depressed Oregonians whose highways and bridges have been long-neglected. Let's be clear, though, that the goal is road repair, not job creation. Government never *creates* jobs; it can only divert resources.

The state is not our independently wealthy benefactor, money does not grow on trees, and stealing from your neighbor to pay your gardener is not economic stimulus. We recognize these truths, but consistently fall for New Deal-era promises of job-creation through government spending. In times of recession, we are especially susceptible to this wishful thinking.

To combat the job-creation fallacy, let's look at the source. Did the Works Progress Administration (WPA) help the country out of the Great Depression, as is commonly thought, or did it prolong the pain?

Highways, dams, bridges and buildings are what immediately come to mind as visual proof of WPA successes. But behind the scenes were notorious make-work programs—and of course, the crippling taxes that funded them.

Roosevelt's Civil Works Administration, a precursor to the WPA, hired actors to give free shows, paid researchers to study the history of the safety pin, and put men on the public payroll to chase tumbleweeds on windy days. In Kentucky, WPA workers catalogued 350 different ways to cook spinach. Agency head Harry Hopkins said, "I've got four million at work but for God's sake, don't ask me what they are doing."

Begun in 1933, the CWA was intended to be short-lived. Instead it evolved into the massive WPA bureaucracy, which proved difficult to abolish. By 1941 only 59 percent of the WPA budget went to paying workers anything at all; the rest was sucked up in administration and overhead. The last WPA project was not eliminated until 1943.

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Worse than the inefficient spending were the accompanying high taxes that crushed investment incentives and prevented business recovery. Hoover had already raised the top marginal income tax rate from 24 to 63 percent in 1932. Roosevelt took the top rate to 79 and then later to 90 percent.

Roosevelt didn't stop there. He issued an executive order to tax all income over $25,000 at the astonishing rate of 100 percent. He also promoted the lowering of the personal exemption to only $600, a tactic that pushed most American families into paying at least some income tax for the first time. Shortly thereafter, Congress rescinded the executive order, but went along with the reduction of the personal exemption.

In 1938 newspaper columnist Walter Lippmann wrote that, "with almost no exception every measure [Roosevelt] has been interested in for the past five months has been on tending to reduce or discourage the production of wealth." One of the country's leading investors of the time, Lammot du Pont, described the hostile business climate: "Uncertainty rules the tax situation, the labor situation, the monetary situation, and practically every legal condition under which industry must operate."

The first lesson of the WPA is that when job creation becomes the goal and someone else is paying the bill, suddenly every project seems like a good idea. Waste becomes rampant. Cataloging spinach recipes may seem amusing to us now, but at a time of nationwide shortages, it is tragic that scarce resources were frittered away on absurd projects.

The second lesson is that government has nothing to give us except what it has first taken from someone, minus an administrative fee. Economic development projects certainly benefit select recipients, but at best they simply divert resources away from individuals and private sector businesses.

And finally, the history of the Great Depression should remind us that high taxes are counterproductive to economic recovery. Real job creation only occurs in the private sector, where entrepreneurs literally create wealth by offering goods and services to meet demands. Businesses, large and small, are the keys to prosperity.

The silver lining to Kitzhaber's economic stimulus plan is that Oregon's roads might finally get some attention. To meet that need we should shift our current spending priorities, however, not seek new revenue. The more resources left in the private sector, the more jobs will be created in Oregon.

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