

Obama Faces Tight Restraints In Crafting Jobs Plan

Jim Kuhnhenn, Associated Press

WASHINGTON (AP) — Hamstrung by budget cuts and a tight debt ceiling, President Barack Obama is preparing a September jobs package with limited tools at his disposal to prime the economy and crank up employment.

At a minimum, the president's plan will call on Congress to extend current payroll tax cuts and jobless benefits, spend money for new construction projects and offer incentives to businesses to hire more workers. But economists say that while that would eliminate some drag on the economy and maintain the status quo, it won't be enough to propel it to new heights.

The president's plan, which he will announce in a major speech next week, will be far less ambitious than the \$825 billion stimulus of 2009, passed when the economy was still shrinking and when unemployment stood at 8.2 percent. Now the economy is growing sluggishly but unemployment is nearly a full percentage point higher — 9.1 percent for July.

Economists who advocate for government intervention in the economy estimate that it would take a package of at least \$300 billion to avoid backsliding and even more to give the economy a lift.

That's a tall order for a president facing a divided Congress where Republicans, demanding fiscal austerity, reject the notion that short-term infusions of taxpayer money into the economy can prod a sluggish recovery. Even without Republican opposition, such a level of spending would require short-term borrowing that would move the government closer to its new debt ceiling before the November 2012 election, something Obama is determined to avoid.

The president's speech will set the stage for the economic debate to come in Congress. A congressional supercommittee has been given the job of finding at least \$1.5 trillion in deficit reduction. As part of his economic plan, Obama plans to propose even more deficit reduction to help pay for the up-front cost of his jobs initiatives.

The listless economy, which has left millions of Americans out of work and threatens the savings of millions more, is the biggest obstacle facing Obama's re-election. Making the case for his economic programs will be central to the remaining 18 months of his term.

"Our great challenge as a nation remains how to get this economy growing faster," Obama said Monday. "That's our urgent mission."

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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

The president is certain to call for extending a one-year payroll tax cut for workers and unemployment benefits that expire in January, at a combined cost of about \$175 billion. He also has lent support to a proposal to create an "infrastructure bank," a fund that would be seeded by the government but fed by private investment to pay for major road, bridge and other public construction. Even advocates of the plan, however, say that proposal probably would not be in place to generate jobs for about two years.

Among other measures under consideration, but not yet decided:

— A major school construction initiative of up to \$50 billion. Its advocates include Vice President Joe Biden's former chief economic adviser, Jared Bernstein, who monitored progress of the 2009 stimulus. Bernstein said school construction and renovation would be far more labor-intensive than some of the public projects paid for by the stimulus. "We kind of thought during the recovery act that we would see 50 hardhats and 10 machines, and it ended up being the other way around at some of these sites," he said.

— A payroll tax cut for employers, in addition to the one for workers. Persons familiar with the White House discussions say top aides prefer to target such cuts to employers who expand their payrolls, thus serving as an incentive to hire.

— Encouraging corporations to bring into the United States some of their foreign sources of income at preferential tax rates in exchange for job creation measures.

— Tying unemployment insurance payments to on-the-job training. Obama has applauded a program under way in Georgia in which jobless benefits go to employers who hire the unemployed as trainees.

Mark Zandi, the chief economist at Moody's Analytics who has advised Republicans and Democrats, said that without government action, the private sector would have to grow by more than 4 percent to generate enough jobs to keep unemployment from rising.

"That seems like a heavy lift at this juncture," he said.

Bernstein said that if Congress fails to renew the payroll tax cut and unemployment benefits, the jobless rate would probably remain unchanged by the end of next year.

"If they renew them, we have a better chance of a jobless rate that's 8.5 or below, which isn't great either, but is a whole lot better than 9," he said.

Obama's plan is likely to be found lacking on both ends of the political spectrum.

Republicans say Obama should focus on cutting taxes for corporations and reducing regulatory burdens, steps they say will free the private sector to spend and hire. Several have said they would oppose extending the one-year payroll tax cut enacted in December, even if that would be the equivalent of a tax increase on

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workers.

Conservative economist Kevin Hassett, whose thinking often influences Republicans, argues that short-term government spending to spur the economy can backfire in a slow recovery because the dose of stimulus can run out before a recovery takes hold. That creates an economic drag that can push the economy back into recession or forces yet more spending that drives up government debt.

Hassett says a better way is to reduce the costs of long-term benefit programs like Medicare and Social Security and use some of the savings to enact a permanent tax cut for corporations, thus spurring higher earnings.

Some liberal economists say Obama is hardly spending enough to make a difference.

"I don't think their rhetoric matches their actual budget policy," said Lawrence Mishel, president of the liberal Economic Policy Institute.

Mishel said the agreement struck at the beginning of August to increase the debt ceiling by \$2.4 trillion in exchange for budget cuts limited the president's options.

"The debt deal doesn't allow any sizable amount of deficit spending or increased spending," he said. "If you 're going to pay for it later, how do you do that when you have a tight amount of debt that you can take on over the next year and a half?"

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