Center for American Progress Action Fund

Romney Has No Real Jobs Plan

Heather Boushey and Adam Hersh October 16, 2012

Introduction

Former Massachusetts Gov. Mitt Romney claims that if he is elected into office, he will create more than 12 million new jobs in his first term, a pace of 250,000 jobs each month. And the real kicker: The Romney presidential campaign predicts 7 million of these new jobs will be generated simply by cutting taxes.

This is, in a word, unbelievable. Kevin Hassett, economic advisor to the Romney campaign, said on National Public Radio recently that "Gov. Romney's tax plan is modeled after the successful tax plans of the past, and it would generate growth because it would increase the incentive to do things that are good for America's economy and America's workers."[1] But we've heard this hyperbole before. Hassett was a part of the team claiming that President George W. Bush's supply-side economics would create a strong economy.[2] In fact, actual economic performance under these policies fell more than 8 million jobs short of what Bush economic advisors predicted.[3] Hassett was wrong then and he's wrong now.

The truth is, Gov. Romney is ignoring facts and history while employing seriously flawed economic logic. The evidence shows that the kind of tax plan Gov. Romney proposes to implement is a job killer. What's more, successful tax plans of the past followed a different path than the one Gov. Romney now outlines. A number of economists dug into the numbers to demonstrate that the Romney economic plan would, if anything, push our economy back into recession and cost Americans jobs. This issue brief details the following:

- Gov. Romney's 59-point plan for job creation will do the opposite, costing 360,000 jobs in 2013 alone by our conservative estimate.
- Gov. Romney and his advisor's insistence on supply-side economics that didn't work in the past and won't work now.
- There is broad consensus and economic evidence that now is not the time to implement the spending cuts and deficit-reduction measures the Romney campaign is proposing.

In short, Gov. Romney's plan does not contain any new or innovative policies to stimulate job growth and instead will bring back the Bush-era supply-side strategies that stunted job growth and led to the Great Recession. Let's now delve into the details.

Gov. Romney's job plan will lead to job losses

In a white paper outlining his economic platform, "Believe in America: Mitt Romney's Plan for Jobs and Economic Growth," Gov. Romney offers a 59-point plan to create jobs and lower unemployment. The Center for American Progress Action Fund went through this 59-point plan and, by a conservative tally, found that the plan would actually cost the economy about 360,000 jobs in 2013 alone. The 59 proposals in the Romney jobs plan can be grouped into four basic categories:[4]

- Thirteen of Gov. Romney's "jobs" proposals in fact offer no change in policy. It would defy the laws of nature for no change to create changes in employment of the magnitude Gov. Romney is promising. (See numbers 1, 2, 10, 17, 19, 23, 24, 33, 37, 49, 50, 51, 52 of his plan.)

- Twenty-six proposals should be expected to yield no discernible impact on job creation based on available economic theory and evidence because they are not really jobs proposals. Gov. Romney, for example, proposes renewing the president's authority to negotiate trade agreements (number 18), a policy President Barack Obama has shown is not necessary to negotiate trade deals, nor would any new negotiations under a would-be President Romney be completed in any relevant timeframe. Another Romney proposal (number 21) suggests simply renaming some of America's international trade relationships after Ronald Reagan, which may rally the conservative base but will not create a single job.

- Six proposals would directly eliminate jobs from the U.S. economy. These proposals would create tax incentives that encourage corporations to ship jobs overseas (number 7), and would undermine growth-enhancing investments in education, science, infrastructure, and health (numbers 8, 53, 54, 56, 57).

- Gov. Romney himself admits that cuts to public services and investments on the scale he has proposed as job-creating policies could cause an economic "recession or depression."[5] Even assuming a gradual phase-in, the expenditure and public service worker cuts can be expected to cost nearly 450,000 jobs in 2013.[6]

The remaining few of his policies would be expected to yield some modest job creation. The scale of his tax cuts for the rich, for example, would likely lead to at least a little job creation, though far less than supply-side adherents assert. Of course, these proposals rank among the least efficient—and least equitable—policies for promoting job growth.

They would cost billions of dollars in tax revenues but only create between 39,000 and 107,000 jobs in 2013. That's less than the average number of private-sector jobs created per month in 2012 thus far. What's more, these estimates make the generously unrealistic assumption that foregone tax revenues and expenditures of public services would have no adverse economic costs.

This analysis of Romney's jobs plan is consistent with research from the Economic Policy Institute that, using slightly different assumptions, found that Gov. Romney's plan would lead to the addition of 87,000 jobs in all of 2013 if his proposed tax cuts were deficit-financed.[7]

While it may seem like the estimates from these two nonpartisan think tanks are far apart—losing 360,000 versus adding 87,000—in reality, they are both saying that the Romney plan is a jobs bust. Over the past 12 months under President Obama, the economy has added 1.8 million jobs, so keeping on the same path is vastly better for job creation than the Romney plan.

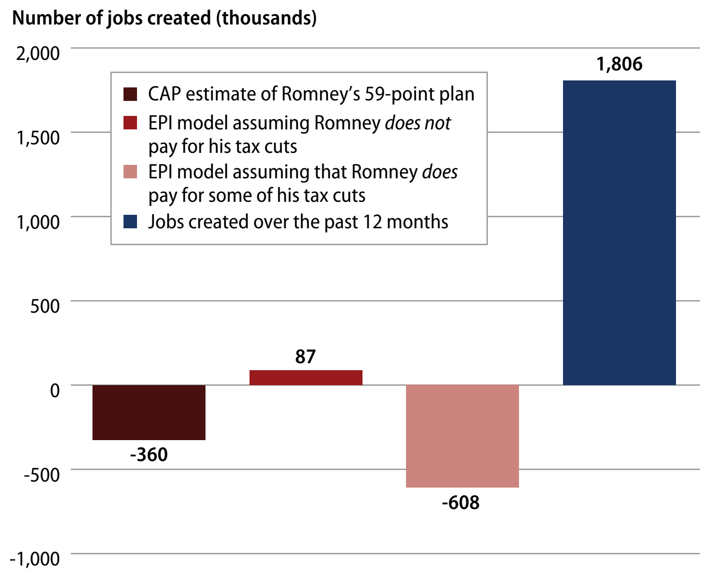
Yet both the Center for American Progress and the Economic Policy Institute calculations overestimate the stimulus effects of the Romney plan because they do not include the elimination of tax deductions and loopholes as yet unidentified by the Romney camp. During the first presidential debate, Gov. Romney insisted that his tax cuts would be "revenue neutral." His tax plan would cut tax rates by 20 percent for all taxpayers, costing the U.S. Treasury almost $5 trillion in lost tax revenue over 10 years. Romney argues it won't cost $5 trillion, because he will offset the losses from lower rates by ending deductions and closing loopholes; he has not, however, indicated which ones.

Indeed, the most likely source of tax increases would be to eliminate loopholes and deductions that benefit the middle class, such as the mortgage interest deduction. EPI's estimate of Gov. Romney's economic plan, assuming that some the cuts are offset to be revenue-neutral—specifically, the 20 percent cut to individual income tax rates and the alternative minimum tax—but the others would be deficit-financed. This is therefore a more accurate representation of Gov. Romney's plan and the resulting job-creation figure. That number is an estimated loss of 608,000 jobs in 2013 and an additional loss of 1.3 million in 2014.[8]

FIGURE 1

Economic analysis of Romney's economic plan for 2013, compared to current trend under Obama

In 2013, Romney's economic plan will either destroy jobs or create a fraction of what Obama's economic policies are currently creating



Source: Adam Hersh and Sarah Ayres, "Assessing the Romney Economic Plan" (Washington: Center for American Progress Action Fund, 2012); Josh Bivens and Andrew Fieldhouse, "Who Would Promote Job Growth Most in the near Term?" (Washington: Economic Policy Institute, 2012); and Bureau of Labor Statistics Current Establishment Survey.

As Figure 1 shows, no matter how you cut it, Romney's plan is worse than the status quo. His plan will either create a paltry number of jobs, far slower than the current pace, or will actually eliminate jobs and push the United States back into recession.

And if you don't believe these estimates of jobs under the Romney plan, simply look to recent history.

Gov. Romney's jobs plan rehashes the failed Bush-era strategies

We know what happened in the 2000s after the Bush tax cuts: After those supposedly job-creating tax cuts, our economy experienced its worst record for growth in investment, employment, and incomes in half a century—devastating our middle class.[9]

The key argument in the supply-side story is that if Americans give the wealthy back their taxes, they will invest those added funds, thus growing the economy, creating jobs, and improving middle-class incomes. Of course, in the 1980s and 2000s, we tried exactly that, and it bears repeating—it didn't work.[10] Both eras experienced significant tax cuts aimed at higher-income households that were supposed to spur investment. But compared to the 1990s, the rate of growth of investment was actually much slower in the 1980s and the 2000s. (see Figure 2) And it turns out that the supply-side logic is backwards. Employment and incomes also grew more slowly in the 1980s and 2000s compared to the 1990s, when tax rates were raised. (see Figures 3 and 4)

FIGURE 2

Investment growth during supply-side eras lagged behind

Average annual growth in nonresidential fixed investment

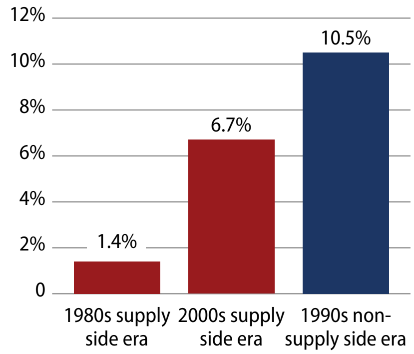


FIGURE 3

Faster job creation without supply-side policies

Average annual growth in overall nonfarm payroll employment

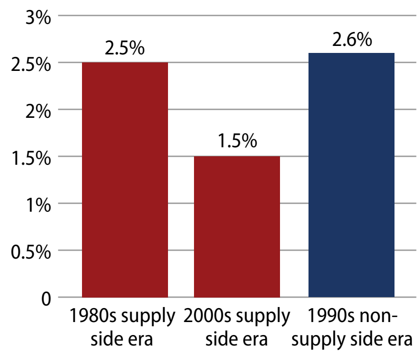
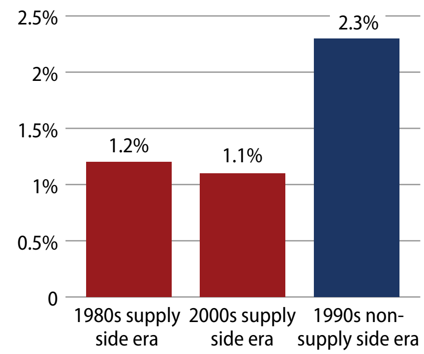


FIGURE 4

Middle-class incomes stagnated under supply-side approach

Average annual growth in real median household income



Sources: Bureau of Economic Analysis, Census Bureau, Bureau of Labor Statistics, and Congressional Budget Office

In telling Americans that the Romney economic plan will create jobs, economist Kevin Hassett doesn't just get his history wrong; his economic logic is off as well. He, like most supply-siders, argues that tax cuts work because they incentivize investors to invest. In their view, inequality is good because it creates that drive that capitalism needs.

As it turns out, incentives matter, but the supply-siders have the logic backwards. Creating the foundations for long-term, sustainable economic growth means using the power and resources that the government can bring to the table to support a strong middle class, which creates the opportunity for more people to become entrepreneurs and highly productive members of our economy. The economy also needs a strong middle class to support stable demand and effective governance—two pieces of the puzzle that have been eviscerated by the high inequality created by supply-side policies.[11]

Moreover, the supply-side notion that higher inequality always creates drive is false in its own right. New research in behavioral economics shows individuals tend to prefer more equitable outcomes. When people's sense of fairness is regularly violated, it can reduce motivation. Along these lines, there is a growing body of experimental research indicating how high levels of income inequality can have counterintuitive effects on people's motivation to work and invest.[12]

In gutting the government and promoting higher inequality, Gov. Romney would underinvest in the kinds of goods and services that support the middle class and improve future productivity and future economic growth. We can now see, for example, that higher inequality is limiting access to education among talented but low-income students.[13] Letting teachers languish in the unemployment queue, instead of in the classroom where they should be, means that we are denying today's children and young people access to a good education. This hurts us all because if today's children cannot access skills that allow them to maximize their talents, they will not be as productive in the labor market in years to come, lowering future economic growth.

These are the reasons why economists across the political spectrum continue to point to the fact that our economy is too fragile to begin to focus on deficit reduction in the near term.[14]

Now is not the time to prioritize deficit reduction over jobs

Besides going against what many economists believe, Gov. Romney's plan for deficit reduction is going against a broad economic consensus that deems austerity measures ill-timed for the current economic climate. In an effort to reduce the deficit, the Romney plan would likely include significant cuts to crucial government services and more layoffs. Spending cuts at this point in the recovery threaten to derail economic growth and job creation. Federal Reserve Chairman Bernanke pointed this out in a recent speech, arguing, "Fiscal policy, at both the federal and state and local levels, has become an important headwind for the pace of economic growth."[15]

And if actually looking at the Romney plan or U.S. history aren't compelling enough, we can look to Europe. Countries that have been implementing the kind of austerity packages that Gov. Romney proposes are now teetering toward, if not already in, recession. The United Kingdom, for example, has been paring back spending, but as they have done so, their rate of growth and job creation have both stalled.[16] In fact, newly released forecasts from the International Monetary Fund show economic growth prospects for Great Britain being revised down as well as for most other European countries where austerity has been aggressive, including Germany and France.[17] According to the IMF's analysis, fiscal contraction now poses one of the top risks not just to the U.S. economy, but also to the overall world economic recovery.

The United States can't afford the Romney jobs plan

Gov. Romney wants us to go backwards in time and rewrite history to say that supply-side economic policies successfully create a strong economy. You can take his word for this argument, or you can look to sound economic analysis and the undisputed historical economic facts under similar policy approaches. The implications of Gov. Romney's economic platform and his advisors' jobs predictions are clear: Don't believe the hype.

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Endnotes

1 John Ydstie, "Romney's Jobs Plan Relies on His Tax Proposal" (Washington: National Public Radio, 2012), available at http://www.npr.org/2012/10/09/162547180/romneys-jobs-plan-relies-on-his-tax-proposal.

2 Kevin A. Hassett, Testimony Before the House Committee on Ways and Means, Hearing on President's Tax Relief Proposals, February 13, 2001.

3 Adam Hersh and Sarah Ayres, "Assessing the Romney Economic Plan" (Washington: Center for American Progress Action Fund, 2012).

4 Michael Linden and others, "The Romney Economic Agenda and Its Effect on the Middle Class and Growth" (Washington: Center for American Progress Action Fund, 2012).

5 Mark Halperin, "The Complete Romney Interview Transcript," TIME, May 23, 2012, available at http://thepage.time.com/2012/05/23/the-complete-romney-interview-transcript/.

6 We use a multipronged approach to calculate the potential jobs impact of Romney's 59 proposals. Several of Gov. Romney's proposals are more political platitude than policy prescriptions. Two proposals (#5, #58) provide insufficient information to be evaluated as job-creation policies, and thus are excluded from the tally. Proposals to eliminate the Dodd-Frank Wall Street Reform and the Consumer Protection Act (#9) and to pursue a balanced budget amendment (#59) would not likely have any immediate jobs impact, though they would have severe employment costs in the future when financial crises and economic recessions arise. For other proposals, we use existing publicly available estimates of the employment impact, or employ widely used estimates of "economic multipliers" and application of what economists call "Okun's Law" to estimate overall employment effects. All job losses stemming from proposed public employment and expenditures retrenchment are assumed to be under the job losses associated with Romney's proposal to cut and cap public spending at 20 percent of GDP (#57); the expenditure cap is assumed to phase-in at the pace of the House Republican budget, or a 1.2 percent of GDP cut in 2013. Estimated job effects pertaining to China and other trade enforcement issues are considered jointly as a policy suite.

7 Josh Bivens and Andrew Fieldhouse, "Who Would Promote Job Growth Most in the near Term?" (Washington: Economic Policy Institute, 2012).

8 Ibid.

9 Michael Ettlinger and Michael Linden, "Three Decades of Empirical Economic Data Shows That Supply-Side Economics Doesn't Work" (Washington: Center for American Progress, 2012).

10 For more charts like this, see: Michael Ettlinger and Michael Linden, "Infographic: Seven Graphs That Show Supply-Side Doesn't Work" (Washington: Center for American Progress, 2012).

11 Heather Boushey and Adam Hersh, "The American Middle Class, Income Inequality, and the Strength of Our Economy" (Washington: Center for American Progress, 2012).

12 See review in ibid., 20-21.

13 Fox, Connolly, and Snyder, "Youth Indicators 2005: Trends in the Well-Being of American Youth" (Washington DC: National Center for Education Statistics).

14 Binyamin Appelbaum, "After Fed Action, Then What?," New York Times: Economix, 2012, available at http://economix.blogs.nytimes.com/2012/09/01/after-fed-action-then-what/; ibid; Sarah Ayres and Heather Boushey, "Economists Agree Romney's Plan Would Spark a New Recession: Austerity and Tax Cuts for the Rich Would Cripple Economic Growth," (Washington: Center for American Progress Action Fund, 2012), available at http://www.americanprogressaction.org/issues/2012/07/romney_economic_plan.html; Ben Bernanke, "Monetary Policy since the Onset of the Crisis" (Jackson Hole, 2012).

15 Bernanke, "Monetary Policy since the Onset of the Crisis."

16 Nick Pearce and Eric Beinhocker, "Obamanomics Offers Just What Osborne Needs," Institute for Public Policy Research, March 13, 2012, available at http://ippr.org/articles/56/8838/obamanomics-offers-just-what-osborne-needs?megafilter=economy.

17 International Monetary Fund, "World Economic Outlook" (2012).