The Wrong Signals for Job Creation *(SB News-Press)*

(April 23, 2011) The debate over government's negative impacts on the U.S.The debate over government's negative impacts on the U.S. economy continues to heat up, as unemployment remains just under nine percent nationally, and right at twelve percent here in California – the second highest in the country behind Nevada. Some analysts say that employers are slowly gaining confidence in the recovery, and are ready to hire more workers. But several troubling issues on the state and federal levels are poised to dash any fledgling optimism, all with ramifications for the Central Coast. If these are not addressed, they will bring additional uncertainty to the business environment and companies will be less inclined to invest capital, expand operations, and hire more workers at the pace necessary to fuel a robust and sustained recovery. Remember, we need 300,000 new jobs added every month for the rest of 2011, all of 2012, and through IIIQ of 2013 to get unemployment back to the pre-recession norm of the five percent range.

The first concern happened last Monday when Standard + Poor's downgraded its outlook on the long-term rating for the U.S. from "stable" to "negative." The last time this happened was in December 1941, just after the attack on Pearl Harbor. This kind of negative news has typically been reserved for the likes of Spain, Greece, and Portugal – nations each looking for bail-outs from others to address their runaway government debt accumulation. This sends a clear signal to the president and lawmakers about the imminent severity of the current battle in Washington over the debt ceiling, endless trillion-dollar deficits, and how to remedy entitlements that control 63% of federal spending. Without a clear plan to hold the debt ceiling in place and dramatically reduce deficits, while also recalibrating social security, Medicare, Medicaid, and other automatic budget line items, this lack of progress is a *very negative signal* strong potential for inflation and much higher interest rates, which will likely dampen private sector spending, borrowing, and investing.

This segues directly into the second issue – that the president is now clearly demonstrating he will not roll up his sleeves and substantively tackle federal deficits and entitlement spending, even though he proclaimed just a few weeks ago, "…we can find common ground on a budget that makes sure *we are living within our means.*" This, while he completely disregarded his blue ribbon commission's recommendations and crafted his own budget with another trillion-dollar-plus deficit – his third in his three years. The 2011 deficit is now a record $1.645 T, following $1.412 T in 2009 and $1.293 T in 2010, with $1.1 T projected for 2012. Such disregard for "living within our means" sends a *disheartening negative signal* to the capital markets and the private sector – that greater uncertainty about federal fiscal policy will force investors, businesses, and households to postpone capital expenditures until there is a stronger degree of surety that Washington is serious about controlling spending and lowering taxes.

Taxes are then the third issue. The president spoke a week ago at George Washington University on the deficits and debt, saying he reluctantly agreed to extend the Bush tax cuts for two years, he will not let those cuts become permanent, and he fully plans to increases taxes on American households and businesses. Charles Krauthammer of the Washington Times was dead on when he described the two-year extension of the Bush tax cuts as essentially a short-term stimulus without addressing the long-term. While certainly better than higher taxes with the government spending the money, the two-year deal did not help long-term certainty for investors, households, and businesses. Anyone trying to plan four-to-five years out understands there remains tremendous uncertainty about taxes and compliance. Coupled with the president's continued call for raising taxes when the extensions end, this is yet another disparaging negative signal that cripples profit outlooks, capital expenditures, and job creation.

The fourth and fifth issues are much closer to home. First, California must cover its $26 billion deficit, even as the governor begs his union supporters and voters statewide to extend higher taxes that were previously instituted "temporarily" to cover other budget short-falls. This is coupled with our state's unemployment insurance fund being completely insolvent, with a projected $13.4 billion gap between payroll deductions coming in and benefits going out. Checks to recipients will have to be cut, or businesses will have to pay in more at a higher rate. But raising taxes and fees on individuals and companies sends the absolutely wrong signal about the economic climate for pursuing business in California. Silicon Valley, the LA Basin, Orange County, San Diego, and our own Central Coast have long track records of dynamic job creation. They would flourish again if the governor and the legislature got spending under control and reduced the taxes and regulations that choke profit opportunities. Eliminating capital gains taxes and the $800 LLC and Sub-S tax, cutting business and individual tax rates, and repealing/reducing countless layers of unnecessary regulatory bureaucracy would send a clearly positive signal – that California is once again "OPEN FOR BUSINESS." Company flight to other states would slow or cease, and new ventures would mark the Golden State as one of the best places to launch operations due to its excellent certainty about capital investment and profit opportunities.

The same positive signals would also work on the national level. But current federal and state actions (as well as inactivity on many crucial issues) combine to send the wrong signals about the long-term prospects for economic growth and job creation. While the president claimed in his state of the union speech that over a million private sector jobs were created in 2010, he disregards the Bureau of Labor Statistics' figure that around 1.2 million individuals have given up looking for work. These are definitely unemployed, but not "officially" counted as such. It's time for lawmakers to send the right signals that will give the private sector great incentives to invest capital and create new jobs. Without these, the meager hints of short-term recovery will likely be unsustainable.