

## JOB CREATION: A COMMON SENSE APPROACH

Continuing Commentary by Thornburg: The Truth About the Stimulus Plan – Can America Recover?  
(Full Disclosure series released 2/09/2010 taken from an October 2009 Thornburg interview)

*"Those who don't know history are destined to repeat it." Edmund Burke (1729-1797)*

The United States has lost 8.4 million jobs since this recession began in December 2007. On February 17, 2010 President Obama said the stimulus plan created or saved 2.0 million jobs to date and is on target to create or save 1.5 million more jobs, bringing up the estimated total to 3.5 million. He is asserting that without the American Recovery and Reinvestment Act job losses would now total 10.4 million.

On that same day the official "Track the Money" government recovery website claimed that only 595,263 jobs had been reported created or saved as of December 31, 2009 – at a cost of \$125,000 per job created. Of these jobs more than 90% have been related to the government sector which represents approximately 23% of the economy. Most of these "saved government jobs" will have to be shed this year - if cities and states like Los Angeles and California are going to get their fiscal houses in order. It should not be a surprise that pollsters are reporting only 6% of the American people believe the Administration's job figures.



In the speech President Obama made repeated references to how well, in his view, his government has done with the stimulus. He said: *"There has never been a program of this scale, moved at this speed, that has been enacted as effectively and as transparently as the Recovery Act."* He is correct about scale and speed - the record \$787 billion bill was passed before printed copies were made available to the legislators. With respect to effectiveness, there are many studies that can be cited to refute this claim. Here are just two examples:

- On February 18, 2010 the GAO issued its analysis of the \$5 billion program to weatherize 593,000 homes and create 87,000 jobs in 2009. The DOE claims 124,000 homes (21% of the target) had been weatherized in 2009. The GAO claims the DOE spent \$522 million, or \$4,210 per low income homeowner. A reality check: The DOE estimates the average US household pays \$1,900 for energy, 13.5% of which can be reduced by weatherization or \$265 per year. Not including interest, the payback per household for this government run program is 16 years. It is another example of a government run, make work, micro-project with uneconomic returns, high administration costs and the potential for large scale fraud and abuse. When the government funding goes away, so will the "new" jobs. Unfortunately, the debt these jobs created will not just "go away."
- In January 2009 The White House website boasted that the Obama-Biden comprehensive New Energy Plan for America would create 5,000,000 new jobs over 10 years and that by 2025, 25% of US electrical energy would be produced from renewable sources. Cap and trade was also included in the plan. The plan was largely based on Spain's program that is now producing 20% of its electricity from renewable sources. In March 2009 a comprehensive study by Spanish economists reported that Spain, one of Europe's sickest economies, had lost

9 jobs for every 4 jobs it had created with the increase in renewable energy. This should come as no surprise as the DOE calculates that solar generated power, highly touted by President Obama, is 30% to 61% more costly than nuclear power and generates more greenhouse gases in a project's lifecycle. In 2008 the DOE reported to Congress that their cap and trade legislation alone could reduce US manufacturing by 2.9% to 7.4%. Today the White House website contains no reference to the Obama-Biden New Energy Plan for America.<sup>(1)</sup>

The President now says: ***“The government can build confidence and demand and rescue people in hard times during a severe economic slide, but it will always be businesses of the private sector that ultimately generate jobs and a recovery.”*** His economic education has come at a very high cost.

How do we create jobs? In this author's opinion it is time to scrap the Stimulus Plan, with its micro-meddling-make work mentality (I have dubbed it their 3M policy), and focus on broad private sector based tax policy initiatives and removing obstacles to major projects that strengthen our economy. For example ANWAR, nuclear power and offshore drilling energy projects that can be funded by the private sector have been held up by the government for years. These projects - which need only government approval and require no public funds - will create well paid jobs, improve our balance of payments and be a source of tax revenue for the states and federal government for decades. We can learn from history what principals work in severe recessions.

Compare President Obama's debt driven job creation policies with the following excerpts from President Reagan's first State of the Union message in January 1982:

*“The last decade has seen a series of recessions. There was a recession in 1970, in 1974, and again in the spring of 1980. Each time, unemployment increased and inflation soon turned up again. We coined the word “stagflation” to describe this. “*

*“In the last six months of 1980, as an example, the money supply increased at the fastest rate in postwar history - 13 percent. Inflation remained in double digits and Government spending increased at an annual rate of 17 percent. Interest rates reached a staggering 21 1/2 percent. There were eight million unemployed.”*

***“Our economic problems are deeply rooted and will not respond to quick political fixes, we must stick to our carefully integrated plan for recovery. And that plan is based on four common-sense fundamentals: continued reduction of the growth in Federal spending, preserving the individual and business tax deductions that will stimulate saving and investment, removing unnecessary Federal regulations to spark productivity and maintaining a healthy dollar and a stable monetary policy - the latter a responsibility of the Federal Reserve System.”***

*“The only alternative being offered to this economic program is a return to the policies that gave us a trillion-dollar debt, runaway inflation, runaway interest rates and unemployment. “*

Regan's common-sense approach worked as did Paul Volcker's management of the Fed. Twenty-eight years later, it seems common sense is a very rare commodity in Washington, D.C. and Paul Volcker's sage advice is ignored.

In his 1796 Farewell Address, George Washington advised:

***“As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible ... avoiding likewise the accumulation of debt ... not ungenerously throwing upon posterity the burden which we ourselves ought to bear.”***

This Congress and Administration are ignoring what Washington learned from history over 200 years ago.

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(1) See our report: “A Constructive Critique of President Obama's Energy Plan” 4-2-2009 which analyzes why none of the goals set forth in the now abandoned Obama-Biden New Energy Plan for America can be achieved. <http://www.thornburgandco.com> or <http://www.cleoconsultingpartners.com>

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## About the Author

### H. Andrew Thornburg

President, *Thornburg & Co., Inc.* and Principal, *CLEO Consulting Partners*

Mr. Thornburg has over thirty-five years operating and consulting experience having served as an executive, consultant and investment banker for more than 200 companies ranging in size from startups to Fortune 50 companies. He has extensive operating experience as both a CEO and CFO for both healthy and troubled companies and as a director of twenty-eight companies. He has been responsible for the turnarounds of more than thirty companies in the U.S., Latin America and Asia. His industry experience includes technology, manufacturing, service, wholesale, retail, utilities, processing and natural resource companies.

His operating experience includes technology, service, manufacturing, processing, retail and financial enterprises:

- Executive at three turnaround firms: XRoads Solutions Group, LLC, Principal; Kibel Green Inc., Managing Director; and Thornburg & Co., Inc., President. He has served as interim CEO, CRO and CFO in turnaround situations providing crisis management and operations consulting for manufacturing, retail, distribution and service businesses. Engagements included Chapter II proceedings, bank workouts, and the sale of businesses.
- Investor, Advisor and Director. He has played an active investor and investment banking role in seventeen high tech startups including B2B software applications, streaming video, VOIP services, networking products, laser marking, internet retailing, gas sensing systems, medical devices, consumer health products and food service systems.
- CEO and CFO Bridgewater Resources Corp. a diversified holding company with twenty subsidiaries in manufacturing, resources, farmlands and real estate. The manufacturing businesses included electronic educational toys, roofing products, forest products, lumber, sports flooring, welded chain and wire forms. Operations included multi-plant manufacturing with union and non-union work forces, outsourcing from China and supply to major retailers: Wal-Mart, Kmart and Toys-R-Us.
- Vice Chairman and Director Security Pacific Capital Markets Group, Inc. He was responsible for Corporate Finance, Mergers & Acquisitions and Specialized Financing (project financing, leasing, bankers' acceptances and commercial paper backed transactions) investment banking advisory activities and personally was involved in more than 100 transactions. He was a director of wholly owned subsidiaries including Ralli Bank (a private Swiss Bank) and Hoare Govett Limited (London's largest stockbroker and major factor in Asian capital markets).
- Manager of International Finance, The Ralph M. Parsons Company (international engineering and construction). Responsible for international finance and client project financing activities world wide for all divisions of the company: Petroleum and Chemicals, Mining and Metallurgical, Power and Systems Engineering. He served as the company's lead negotiator for all Divisions regarding international finance matters with private clients, banks, export credit agencies (U.S., U.K., France, Germany, Italy and Japan) and contract negotiations with governments (among them Algeria, Iran, Saudi Arabia, and Peru).
- Principal advisor to the Swiss based industrial group on the development of new management information systems for a newly acquired marketing company with sales of over \$2 billion in Asia and Europe. Mr. Thornburg mentored the establishment of a comprehensive, multi-discipline approach to sales planning, budgeting, financial reporting, purchasing, logistics, cash management, accounting, taxes, retail sales, wholesaling and industrial customer sales.

Mr. Thornburg is a guest lecturer on entrepreneurship at the University of Southern California Marshall School of Business and has judged the annual USC all campus business plan competitions.



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***H. Andrew Thornburg***  
*President*



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