

President Obama's Best Gift to Labor

Having just celebrated Labor Day, let's think about an important question. Why do workers in America, or any advanced country for that matter, have higher standards of living than workers in the Third World?

Capital investment is the answer. Workers in advanced countries have access to backhoes, jackhammers, robotic machinery, computers, and software. Workers in less developed countries don't have access to this machinery and often lack access to basic tools. Imagine trying to build a house or a school when a crew of six carpenters has two hammers between them.

Think about a worker choosing to live in one of two different countries. In the first country, the government heavily taxes capital investment – including corporate profits, dividends, and capital gains – using the revenue to give money to workers. In the second country, capital is taxed very lightly and the government redistributes very little to its workers.

Putting aside the morality of redistribution, workers looking for the highest standard of living would choose country number two. Forgoing the opportunity to collect welfare, whether in the form of handouts for not working or subsidies for staying in the workforce, would result in higher wages. We can prove this theoretically, or we can look at real evidence from the world around us. In the end, nothing enhances the living standards of workers more than abundant capital.

It is with this in mind that we see no irony at all in the Obama Administration using Labor Day to leak a proposal, long sought by conservative economists, to let companies fully expense capital investment. It is a sign that even this president's advisers know that there may be no better way to improve the outlook for workers than to give companies the incentive to invest more.

To be blunt: this proposal is, by far, the best economic policy idea from President Obama.

Under current law, companies that buy plant and equipment have to depreciate these expenses over several years. This depreciation makes investment look less attractive, as inflation and the time value of money erode the value of depreciation year by year. Allowing immediate expensing would make it more attractive for companies to buy capital goods, simplify book-keeping and make taxable profits more equal to cash flow.

Right now, it looks like President Obama will support full expensing only through the end of 2011. But that ending date is obviously untenable. Does anyone truly believe the president wants to see a surge in business investment that stops cold in the year he is going to run for re-election? If expensing makes it into law, we believe it will be extended in 2012 and then stands a very good chance of becoming *permanent*.

So: why now? Why is the President, who continues to demagogue capitalism, supporting a conservative move on taxes? One reason is that the Obama team wants to raise taxes on the wealthy in 2011, but Republicans have argued that this will hurt small business and job creation. Many Democrats are in agreement and the Administration does not have the votes to support its vision. So, it is trying to trade full expensing for higher tax rates on dividends, capital gains and higher incomes.

If so, even if politics and spin are the primary reasons for the proposal to move toward full expensing, then that is still good news for those who want to see tax rates stay where they are or go even lower. Negotiating with yourself in public is a sure fire way of admitting you're losing the argument.

The one thing we know is that no one knows for sure how the tax debate will end this year and next. But it seems that, after many years in the wilderness, the political forces supporting smaller government and lower taxes are getting the upper hand. This is very bullish news.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-8 / 2:00 pm	Consumer Credit – Jul	-\$4.3 Bil	-\$5.4 Bil		-\$1.3 Bil
9-9 / 7:30 am	Int'l Trade Balance - Jul	-\$47.0 Bil	-\$49.5 Bil		-\$49.9 Bil
7:30 am	Initial Claims - Sep 4	470K	466K		472K