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Economic Malpractice

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President's policy has a long history of failure

If a medical doctor prescribed a treatment for a patient that only worked in theory, and the patient did not get better, the doctor could rightly be sued for medical malpractice if tried-and-true cures were known. When members of Congress and a president engage in economic malpractice, the patient's (i.e., the American public's) only recourse is to vote them out of office.

The Obama administration claimed that the unemployment rate would not go above 8 percent and that both the economy and job growth would be strong by this time if Congress passed the "stimulus" bill. Instead, the economy is barely growing, and the unemployment rate is rising.

How did they get it so wrong? It is because they have an economic theory, which did not and does not work in practice. If Team Obama had known American economic history, it would have known there was no case where a big increase in government spending - correctly measured as a percentage of gross domestic product - led to both higher private consumption and significant job growth (including World War II, when private consumption by necessity was severely restricted).

There are almost no key members of Team Obama who have ever started or run a real business. If they had, they would understand that a prudent person responds to tax and regulatory uncertainty by taking fewer risks, such as expanding the business rapidly or hiring new people. The Obama administration and Congress have spent two years dithering about what tax rates will be for both individuals and businesses in a mere four months from now, so it is only prudent to assume the worst. Higher tax rates mean less money to hire new workers or buy new equipment. This is not rocket science but, as simple as it is, Team Obama doesn't get it.

The Obama administration, while recognizing that small business creates most of the new jobs, argues that most small-business people make less than $200,000 per year. But these are not the small-business people who create most of the jobs; many are just one person part-time or even full-time businesses run out of

homes. The big job creators are a small subset of all businesses that are innovative in creating new goods or services or doing it better than their competitors - i.e., the most successful small businesses.

People making less than $200,000 do not have the income to create many new jobs. Team Obama's tax-increase proposals are not aimed at the mega-wealthy like Sen. John Kerry, Massachusetts Democrat, who have inherited or married into major money and create few jobs, but instead are aimed at the entrepreneurial class who creates most of the wealth and jobs. Punishing these people with higher taxes is nothing more than economic masochism - and malpractice.

The administration is now proposing that businesses be allowed to deduct the cost of new investment made in one year (but for only one year) rather than depreciate it over time. This would be a good idea if it were made permanent rather than temporary, because businesses still will not have a strong incentive to invest as long as demand and their income is down. In sum, Team Obama wants to increase tax rates largely on the same people to whom it proposes to give certain tax benefits, thus choosing a more complex and cumbersome procedure, in contrast to the simple and readily understandable solution of just extending the current lower tax rates to everyone.

To fund the stimulus spending, Team Obama is forced to sell an extra trillion dollars or so in government bonds. To whom does the government sell these bonds? The buyers are U.S. businesses and individuals (often through funds), and foreigners. When businesses and individuals buy these government bonds, they have less money for productive investment (government bonds primarily fund transfer payments, not productive investment) or private consumption. Less productive investment and/or private consumption means fewer private-sector jobs. Government can create government-sector jobs at the expense of private-sector jobs, but not at a higher real wage - which is one reason why a growing welfare state and/or a socialist economy always fail. Team Obama seems to have missed these basic historical lessons.

It is possible to keep domestic investment and consumption high and also expand the size of government, as long as foreigners invest in the U.S. economy. But again, the Obama administration seems to have missed a few key points. In March, Congress passed the Foreign Account Tax Compliance Act, which President Obama signed into law, with the goal of trying to snag a few Americans who were attempting to evade taxes by investing in the U.S. through foreign financial entities.

At most, this act will raise a few billion dollars in taxes, but it might cost the U.S. economy a trillion dollars or so in lost foreign investment, which will result in

hundreds of billions of dollars in lost tax revenue - a true act of stupidity and economic malpractice.

The U.S. Treasury and Internal Revenue Service could have partially mitigated the problem by coming up with a few simple, clear safe-harbor rules for foreign financial entities so that they and their officers would not be at risk by investing in the United States. But that would have been too sensible. So now, the United States is suffering a decline in foreign investment when it is most needed and increasing numbers of foreign financial institutions are refusing - for good reason - to invest their clients' money in the United States.

Team Obama persists in passing and implementing legislation and regulations that are obvious job-killers, yet it seems to be surprised when other countries that are not engaged in self-flagellation and economic malpractice are growing more rapidly and creating many new jobs.

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