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Investment Falls Off A Cliff, Threatening Economy

by HANS BADER *on NOVEMBER 19, 2012* · 0 COMMENTS

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Investment has fallen "off a cliff" reports *The Wall Street Journal*, as companies worry about the "fiscal cliff" at the start of next year, which will likely bring a wide array of "tax increases":

> U.S. companies are scaling back investment plans at the fastest pace since the recession, signaling more trouble for the economic recovery. Half of the nation's 40 biggest publicly traded corporate spenders have announced plans to curtail capital expenditures this year or next, according to a review by The Wall Street Journal of securities filings and conference calls. Nationwide, business investment in equipment and software—a measure of economic vitality in the corporate sector—stalled in the third quarter for the first time since early 2009. Corporate investment in new buildings has declined.

This matters, because investment is as much a part of the economy as consumption, and it is essential to long-run economic growth. It was investment that truly crashed in the recession, not consumption. Indeed, as the Cato Institute's Mark Calabria noted, investment has been fairly anemic over the last four years. By the middle of 2010, "private personal consumption" had already risen "higher than at any point during the" previous economic "boom, after reaching bottom in the Spring of 2009." But the same was not true of investment. As he noted in August 2010, "unlike consumption, which has largely rebounded, investment today is about 20 percent below its peak." To keep the economy going, investment needs to increase by a much larger multiple than consumption. Yet the Obama administration supports tax increases on investment income that will discourage investment further. Due partly to Obamacare's new taxes on investment income, which take effect in 2013, "the tax on dividends will skyrocket from 15 percent to 43.4 percent" for many investors. Capital gains taxes will also rise substantially. America already has higher capital gains taxes and taxes on investment income than most countries, which tax consumption more and investment less than we do. While some tax increases may be necessary to rein in skyrocketing trillion-dollar budget deficits, investors should not bear the brunt of those tax increases, especially since our tax code, and many government policies, already discourage saving and investment (such as government bailouts for irresponsible borrowers; subsidized loans; downpayment assistance; and college financial aid programs that exclude people whose families have saved too much money over the years).

The Obama administration has created a political climate that discourages businesses from expanding and creating jobs. Obamacare, which has already caused layoffs in the medical device industry, will wipe out as many as 800,000 jobs and turn other jobs into part-time jobs. The Dodd-Frank Act has also wiped out jobs and driven other jobs overseas. The Obama administration has discouraged investment by imposing costly, harmful new labor andemployment rules on American manufacturers. Steve Wynn, a disenchanted liberal businessman, called Obama "the greatest wet blanket to business and progress and job creation in my lifetime." Obama and many lawmakers want to rescind the automatic budget cuts contained in the 2011 deal to lift the national debt ceiling, rather than cutting record federal spending. But those cuts are needed to prevent the country from going bankrupt. And while they might temporarily reduce employment, over the long run, the economy will grow faster if the budget cuts are allowed to take place, just as Canada's economy boomed after it slashed government spending in the 1990s, and America experienced an "economic boom" after the federal government slashed spending in 1946. Over the long run, the economy would benefit if we cut massivewelfare spending that discourages work, market-distorting agricultural subsidies, and wastefulPentagon spending.