

The big-bang story of U.S. private business  
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Did you know that just over the past 11 quarters, dating back to the June 2003 Bush tax cuts, America has increased the size of its entire economy by 20 percent? In less than three years, the U.S. economic pie has expanded by \$2.2 trillion, an output add-on that is roughly the same size as the total Chinese economy, and much larger than the total economic size of nations like India, Mexico, Ireland and Belgium.

This is an extraordinary fact, although you may be reading it here first. Most in the mainstream media would rather tout the faults of American capitalism than sing its praises. And of course, the media will almost always discuss supply-side tax cuts in negative terms, such as big budget deficits and static revenue losses. But here's another suppressed fact: Since the 2003 tax cuts, tax-revenue collections from the expanding economy have been surging at double-digit rates, while the deficit is constantly being revised downward.

For those who bother to look, the economic power of lower-tax-rate incentives is once again working its magic. While most reporters obsess about a mild slowdown in housing, the big-bang story is a high-sizzle pick-up in private business investment, which is directly traceable to Bush's tax reform. It was private investment that was hardest hit in the early decade stock market plunge and the aftermath of the 9-11 terrorist bombings. So team Bush's wise men correctly targeted investment in order to slash the after-tax cost of capital and rejuvenate investment incentives.

The move paid off. Investors now keep nearly 50 percent more of their after-tax capital returns -- an enormous increase that has resulted in a remarkably profitable and highly productive business sector. While the overall economy has grown by one-fifth since mid-2003, private business investment has expanded by 37 percent.

The dirty little secret here is that record low tax rates on capital are leading to continued job and income gains, as businesses continue to expand.

"But," you might respond, "I thought job gains were soft." Well, the marquis employment report for June may have showed "only" 121,000 new non-farm payroll jobs, below Wall Street expectations. But this leads to another factoid that the mainstream media largely ignores: The household survey of job creation has been booming at a much faster clip than headline corporate payrolls.

When this last happened in 2003-04 (remember the "jobless recovery" election-year rant of Democrats?), it was corporate payrolls that caught up to the more entrepreneurial household survey -- which more accurately records job creation by small-business owner-operators. This is the source of the bulk of American job creation.

According to the U.S. Small Business Administration, firms with less than 500 employees created 88 percent of the net new jobs in the United States between 1990 and 2003 (the last year for Census Bureau data). During this 14-year period, the share of total jobs created by small businesses was never less than 50 percent and was sometimes double the employment total. Large corporations are reluctant to hire because it is so expensive to do so. Think health care and pension costs, as well as payroll add-ons for unemployment compensation and worker disability. The modern cost-cutting pressures of globalization also force large firms to take a highly cautious hiring approach.

But newly minted entrepreneurs don't face all these costs -- at least not initially. And that is why the household survey has become so important in the 21st century economy.

Wages are rising today, so we know domestic labor markets must be tightening, not softening. To wit, average hourly compensation has risen to 3.9 percent over the past year, while average weekly earnings have grown to 4.5 percent. In early 2004, these wage measures were only up 1.5 percent.

The June Labor report also revealed a 2.3 percent annual gain in aggregate hours worked -- which is consistent with 3.7 percent real GDP growth and a 6.6 percent gain in wages and salaries. These hefty numbers will bolster consumer spending in the period ahead.

The U.S. Bureau of Labor Statistics is recognizing the importance of the small-business-driven household survey, and has suggested averaging household jobs with the corporate payroll survey to get a clearer jobs picture. Doing this yields a strong 186,000 new jobs per month over the past year, which is the key reason why the unemployment rate stands at a historically low 4.6 percent rate, with total employment now at a record high 144.5 million.

These data points hardly suggest a slumping economy. Instead, they reveal a low-tax, durable, resilient and flexible American market system that easily shifts from one sector (housing) to another (business investment). It is this American economic dynamism that separates our ongoing prosperity from the overtaxed and overregulated stutter-start stagnation of industrial economies in Western Europe and Japan. Did someone say prosperity?

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