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The Call
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“Obama’s Plan for Small Business”

Melissa Francis: President Obama is proposing a five thousand dollar tax credit for small businesses for each new hire this year. Is this the right move to create jobs? Let’s bring in Peter Flaherty, President of the National Legal and Policy Center and Christian Dorsey, Director of External and Government Affairs at the Economic Policy Institute. Thanks to both of you for joining us. Peter, let me start with you. Tax credits are a great idea, in theory, although I got in trouble saying in theory somewhere else yesterday, but is it enough? I mean, five thousand dollars, one time, it seems like it is not enough to really get things going. What is your opinion?

Peter Flaherty: Tax credits also involve a lot of paperwork, but this is truly a bad idea. It is subject to gaming by employers and it has been tried before. In the seventies it was tried and for two thirds of the jobs that were affected, the hires would have taken place anyway. I think this is policy by afterthought. It is the kind of thing that you stick in a speech, although the President did campaign on this. It was such a good idea that it was left out of the stimulus package. What small business needs is across the board tax cuts. Many small business are sole proprietorships....

Larry Kudlow: All businesses, all businesses. I want you to amend that.

Peter Flaherty: That is correct.

Larry Kudlow: All businesses. Christian Dorsey, every single person outside of the Obama Administration believes that American business tax rates are too high. What is wrong with lowering those marginal tax rates on a permanent basis to make us more competitive and rejuvenate incentives? That is the part I don’t get.

Christian Dorsey: Larry, the real issue for businesses is that they don’t have enough demand. They need customers for their goods and services. That is what is going to allow them to prosper. We can talk all we want about tax credits and tax rates, but the real issue is that you have got so many millions unemployed, who are not spending, who are not allowing these businesses to grow. So really the key thing that ought to be done is to not work with tax credits and tax rates but really figure out what we can do to get people back to work so pump that right back into the economy.

Larry Kudlow: Wait, wait.

Melissa Francis: Christian you just undermined your own argument there.

Peter Flaherty: I have it figured out. It is an easy equation. All you have to do is leave more money in the pockets of small businessmen and they will use that money to hire more people.

Melissa Francis: I mean you said you got to put more people back to work. Isn’t that what a tax credit for employing people is all about, Christian?

Christian Dorsey: A tax credit is just one piece of a larger puzzle. You know the Obama tax plan, it is a good thing, it is not a bad thing, but it is not going to be the only thing that is required....

Larry Kudlow: It does not sound like you like it at all.

Christian Dorsey: ...to get small businesses back prospering.

Larry Kudlow: It sounds to me like - it sounds to me like you'd like to raise their taxes and have more government spending. Is that where you are coming from?

Christian Dorsey: No that is not what I am saying at all, Larry. I am certainly not calling for tax increases. But listen, lets understand that cutting – small businesses are not adding jobs to the economy, not because of tax rates, but because they have no customers. They need demand...

Melissa Francis: How do you create demand? How do you create demand?

Christian Dorsey: ...They want people having time for their orders for their goods and services.

Peter Flaherty: Obama's big picture also includes his health care plan. It includes cap and trade. Small businessmen are so frightened, they don't know what to do about the future. What they need is a level playing field and certainty about the taxation and regulatory atmosphere of the future. Right now they are not getting that from Obama. What they get is a set of policy proposals that were developed because somebody had to write a speech.

Melissa Francis: Christian, how do you want to create demand? Do you want the government to go out and buy stuff? Do you want them to...more shovel ready projects? What is your idea?

Christian Dorsey: Well look at our five point seven percent growth today – a good part of that was stimulated by the government pumping demand into the economy...

Melissa Francis: Not according to stats.

Christian Dorsey: ...Certainly, I don't see people upset at that. But there are lots of other...

Larry Kudlow: Christian, Christian, I got to correct you. Christian, I beg your pardon. The government spending component fell. It fell by two tenths of one percent. You know, really over the last year it has gone up about one and a half percent. I mean for eight hundred billion dollars, my friend, I would have hoped for a bigger kicker. Oh, that is, unless those Keynesian multipliers don't work

Christian Dorsey: Oh, Larry we have a disagreement about the effect of the Recovery Act on GDP.

Larry Kudlow: Just suggesting....I'm just looking at this.

Melissa Francis: Ok, well let him finish. Go ahead, tell us how to create demand.

Christian Dorsey: But leaving that aside, what government needs to do at this point is a multitude of things. It is going to include some hiring tax credits. It is going to include some direct investment. It is also going to include investing in industries that get the private sector up and running. Like talking about clean energy...

Peter Flaherty: Oh, come on.

Christian Dorsey: ...This is something that is going to create and spur job creation.

Peter Flaherty: Come on. Green jobs are a farce; they are not going to rescue the economy. The thing that bothers me about this discussion is this view that Obama is some king of potentate, he is all seeing and he will decide who to penalize and who to reward in our society. That is inconsistent with a free economy. If we want to have policy made, lets have it made by the market, not speech writers.

Larry Kudlow: Can I ask Christian, Christian...

Christian Dorsey: We have had policy made by markets and that is in fact why Barack Obama was elected to correct what was an incredible decade of in balance in the market.

Peter Flaherty: So Capitalism doesn't work? So we have the most powerful and rich country in the world because Capitalism doesn't work?

Christian Dorsey: It clearly has not worked for millions of people over the course of the last eight years.

Peter Flaherty: Well maybe it is clear to you, but it is not clear to me.

Christian Dorsey: It is not clear to you? Well you know it was pretty much clear to the county last November.

Peter Flaherty: How about something positive? How about something that Obama could do tomorrow that would cost nothing – add nothing to the deficit. He could suspend Davis-Bacon, which requires government money spent on construction projects to go for something called the prevailing wage where the government pays twenty two percent more for construction than the market would dictate, and in some cities and some professions, sixty percent more. This year that would create a hundred and sixty thousand jobs and not cost taxpayers a penny. Would you favor that?

Christian Dorsey: We have heard the talking points from the right for decades.

Peter Flaherty: It is not a talking point.

Christian Dorsey: Tired talking points, listen.

Peter Flaherty: Well, what is so tired about it, it hasn't been tried?

Christian Dorsey: The fact remains. It hasn't been tried because it is terrible policy. That is why it has not been tried.

Peter Flaherty: No, it is because of a special interest group called the AFL-CIO that will not allow it to happen.

Christian Dorsey: Well, that's right that's right. The AFL-CIO is the reason we are in economic distress. That is completely laughable.

Peter Flaherty: And most construction companies, small construction companies and they tend to be the people who are not unionized. It hurts small business the worst. It hurts small construction companies more.

Larry Kudlow: All right.

Christian Dorsey: To the millions of employees who have had slow wage growth, the fact that you would demonize the AFL-CIO as the reason for their issues just shows how incredibly far reaching and desperate you are.

Peter Flaherty: Well, yeah. That's why people are joining labor unions now. They are now. The only people joining labor unions are public sector employees because they have the cushiest jobs.

Christian Dorsey: Because they are the only ones who have jobs. That is the issue.

Peter Flaherty: Well, if Obama has his way, that is the way we are going to end up, for sure.

Larry Kudlow: Christian, Christian, Christian, can I ask you a question?

Christian Dorsey: Sure, Larry.

Larry Kudlow: Because you are a consistent rigorous thinker. Instead of these teensy tiny temporary tax credits...

Christian Dorsey: Yes.

Larry Kudlow: ...President Obama had the very sensible idea – zero capital gains tax.

Christian Dorsey: Yes.

Larry Kudlow: Unfortunately, it is for a teensy tiny amount of businesses. It is only for a year or two.

Christian Dorsey: Sure.

Larry Kudlow: But if you believe in the zero capital gains tax, why not universalize it for all businesses large and small. If the President is signing on to the benefits of lower capital gains to promote more capital and investment which helps real income and helps create jobs. Why not universalize that Christian?

Christian Dorsey: Because he is trying to level the playing field. Small businesses right now compete unfairly against larger businesses on average for investment. By making capital gains tax on that investment zero, he is making it attractive for larger scale investors. This is not...

Larry Kudlow: How about zero. Lets create a fifty state empowerment zone. No capital gains taxes for a whole bunch of years. We can have a flood of new investment to finance all businesses including new businesses that we do not even know about today.

Now that would put some torque and some animal spirits into this, Christian. I beg you for consistency on this point.

Melissa Francis: I don't think you are going to get there Larry.

Christian Dorsey: You are not going to quite get there Larry. But where Obama is starting is a good place to start and I would hope that you would embrace it.

Melissa Francis: All right.

Larry Kudlow: I think that President Obama has supply side instincts. I am just trying to bring them out of him.

Peter Flaherty: Well, Larry, I am not so sure about that.

Melissa Francis: We have to leave it there.

Peter Flaherty: Why is he starting a year into his Presidency? It is because we have ten percent unemployment, that's why.

Melissa Francis: Ok, we have to go. We have to leave it there. Thanks to both of you for a great debate. We appreciate it.

Larry Kudlow: A very famous person once said, better late than never, sorry.