

Labor's Great, Capital is Key

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For centuries, the philosophical, economic and intellectual debate has swung back and forth between the creation of wealth and the redistribution of wealth. In politics, this debate often shows up as a battle between capital and labor.

Labor Day celebrates labor, and it's really worth celebrating. Labor creates things; including self-worth. "Look what I accomplished" is a sentiment anyone who has labored to create something can relate to.

Unfortunately, many believe labor is undervalued, while capital is unjustly rewarded. But, labor and capital have a symbiotic relationship. One cannot prosper without the other.

Capital boosts productivity and productivity boosts living standards. Workers could seize this capital and redistribute it. But, without new capital to seize, the temporary lift to living standards would fade. Rapidly.

If labor wants higher living standards for a lifetime and their children's as well, public policies must protect and nurture capital so it's as plentiful as possible.

For example, auto workers in the Detroit-area often won contracts giving them more lifetime compensation (particularly health benefits) than the companies they worked for could consistently generate. The long-term result: a city that's a rusted skeleton of its former self, bankrupt, with fewer jobs, and lower living standards relative to the rest of the country.

Attempts to redistribute wealth in Detroit ended up redistributing the capital to other states, and to the suburbs. In fact, when looking at wealth disparity look no further than the disparity between Detroit and its surrounding suburbs.

The best way to increase capital investment is to increase the after-tax return to capital, by cutting taxes on corporate profits, dividends, and capital gains, as well as hastening the ability to write-off the cost of buying new plant and equipment.

What doesn't work is a modern mix of central planning and crony capitalism, where politicians grant favors or regulatory punishment. Think "green energy."

Rather than making capital more plentiful, and creating jobs, subsidies siphon capital away from companies that would use it more effectively. Wind and solar may make it on their own someday, and we hope they do, but current policies result in less overall capital and lower returns on average to all capital. The impact is fewer jobs and lower incomes.

We know a better set of capital friendly policies are not immediately on the way. As a result, we suspect that the medium-term future will look a lot like the most recent five years. States and industries that have higher returns to capital will flourish (be Race Horses), but places which treat capital more poorly, will flounder (call them Dead Horses). Make a Race Horse drag a Dead Horse, and you get a Plow Horse.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-2 / 9:00 am	ISM Index – Aug	57.0	57.5		57.1
9:00 am	Construction Spending – Jul	+1.0%	+0.6%		-1.8%
9-3 / 9:00 am	Factory Orders – Aug	+11.0%	+10.9%		+1.1%
Afternoon	Total Car/Truck Sales – Aug	16.6 Mil	16.7 Mil		16.4 Mil
Afternoon	Domestic Car/Truck Sales – Aug	13.2 Mil	13.2 Mil		13.0 Mil
9-4 / 7:30 am	Initial Claims – Aug 31	300K	300K		298K
7:30 am	Q2 Non-Farm Productivity	+2.4%	+2.3%		+2.5%
7:30 am	Q2 Unit Labor Costs	+0.5%	-0.1%		+0.6%
7:30 am	Int'l Trade Balance – Jul	-\$42.4 Bil	-\$42.3 Bil		-\$41.5 Bil
9:00 am	ISM Non Mfg Index – Aug	57.6	57.6		58.7
9-5 / 7:30 am	Non-Farm Payrolls – Aug	226K	202K		209K
7:30 am	Private Payrolls – Aug	213K	187K		198K
7:30 am	Manufacturing Payrolls – Aug	15K	25K		28K
7:30 am	Unemployment Rate – Aug	6.1%	6.1%		6.2%
7:30 am	Average Hourly Earnings – Aug	+0.2%	+0.2%		0.0%
7:30 am	Average Weekly Hours – Aug	34.5	34.5		34.5