Zacks INVESTMENT MANAGEMENT

Mitch on the Markets

If Robots Take American Jobs, Should We Tax Them?

By Mitch Zacks
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The age of automation has arrived. If you're wondering whether that's a cause for celebration or panic, don't worry – you are not alone.

On one hand, the 'rise of the robot' could mean great things for corporations and consumers. It could lower the cost of labor, increase profit margins, lower the cost of goods sold, drive up incomes for skilled laborers, create new jobs in engineering and customer service, and more. From an investor standpoint, cheaper goods for consumers and higher profits for corporations both register as positives for stock prices.

On the other hand, robots will replace the need for humans in many ways, meaning lost jobs. Warehouse workers and taxi drivers could become extinct in the next 10 – 20 years, and who knows where else a robot can step-in to perform a task once performed by a human. If job losses occur at a faster pace than the training needed to move displaced workers to new jobs, it could lead to a soaring unemployment rate. This would be bad for the economy and stocks.

Which brings us to the argument at hand. If robots are going to take jobs and perhaps create a social cost in the process, should they be taxed? Let's have a look at both sides of the argument.

Tax the Robots!

Bill Gates recently weighed-in on this topic, and perhaps should even be credited for starting the debate. His idea is to tax the robots. Gates asserts that automation technology is arriving simultaneously with business needs to automate and cut costs, and the combination of those two forces could result in a wave of displaced workers. He argues that we need to manage this displacement, and we'll need funds to do it.

By taxing the robots taking human jobs, we can use the proceeds to train

workers for more skilled labor or different jobs altogether. Gates has an altruistic viewpoint on this matter – he cites how understaffed the human and health services sectors are in care for children, the elderly, and people with special needs. He argues that funds could be used to train more people for jobs there. Training and hiring more teachers, he argues, would be a net positive for the economy.

The other argument is that any process that creates a social cost should be taxed. For instance, if a company wants to install a bunch of coal burning machines and the government decides they are creating a social cost in the process (pollution), then robots should be treated the same. Robots are creating a social cost by removing jobs from the economy, so they should pay a price for that.

Don't Tax the Robots!

The other side of the argument has a few bullet points. The first is that taxing robots could stifle innovation. If the objective is to slow down the onset of automation technology, then maybe a tax could be effective. But that begs the question: do we really want to penalize companies for *innovating*, and for taking measures to enhance productivity? Productivity has been weak in the U.S. for the better part of a decade, and automation may be the crutch to jumpstart it again. The government can't simultaneously complain about low productivity while also justifying a tax on the very thing that could improve it.

The other argument is that any effort to stifle productivity or reducing the cost of labor is essentially a tax on the American consumer. Productivity gains and lower labor/input costs result in lower cost of goods, which benefits the biggest part of our economy: consumer spending.

Bottom Line for Investors

At Zacks Investment Management, we're not in the business of policy-making, so we can't say which side has the correct argument. But, we are in the business of making informed investment decisions, and we think corporations that effectively use robots and automation to streamline their businesses, increase productivity, lower costs, and increase profits will be the companies that lead in the era of automation.

-**Mitch**

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

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