RSC
Republican Study Committee

Rep. Sue Myrick (R-NC), Chairman
Neil Bradley, Executive Director
432 Cannon House Office Building
Washington, D.C. 20515

http://www.house.gov/burton/RSC/ (202) 226-9717

Message of the Week

May 7-13, 2003

Presented by Rep. Mike Pence (R-IN)

"All tax cuts are not created equal."

- As Congress considers an economic growth package, and as this package seems to decrease in size, it is critical to focus on tax cuts that yield the most economic growth.

- Tax cuts that increase people's incentive to work, invest, or save are the ones that contribute the most to economic growth. Not all tax cuts encourage this behavior. For example, tax credits, deductions, and exemptions tend not to encourage growth.

- Tax cuts that reduce the cost of capital and labor are the most likely to spur economic growth.

- Reducing the cost of capital and labor is especially important now because (as the Joint Economic Committee reported):
  - The use of existing factories and equipment fell in February and March to a rate that is six percentage-points below the long-term average;
  - Manufacturing, mining, and utility output declined in February and March; and
  - Payroll employment declined by 465,000 jobs in February and March, with job losses spread across most sectors of the economy.

- The tax-cut proposals in the latest version of the Economic Growth Package that would yield the most economic growth, according to the Heritage Foundation and other sources, are:
  - Reducing the personal capital gains tax rate and the personal dividends tax rate;
  - Accelerating the marginal income tax rate reductions for individuals and small businesses (and accelerating the 10% bracket expansion);
  - Increasing the bonus depreciation for businesses; and
  - Increasing the small business expensing cap and widening the definition of "small business."

- Accelerating the child tax credit and marriage penalty relief, while desirable proposals, would not generate nearly as much economic growth as these other tax cuts and should therefore not be part of a scaled-down Economic Growth Package.

- Since all tax cuts are not created equal, it is critical that Congress put all its eggs in the high-growth basket.