Joint Economic Committee
Republicans
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# STATEMENT OF VICE CHAIRMAN KEVIN BRADY

## *"How the Taxation of Capital Affects Growth and Employment"*

**Washington, DC -** Today, April 17th, is Tax Day. In recognition of America's hardworking taxpayers, it is appropriate that the Joint Economic Committee holds the first of two hearings on how taxes affect America's economy. Today's hearing focuses on the taxation of capital and on Wednesday, May 16th; the second hearing will focus on the taxation of labor.

My goal, as Vice Chairman of the Committee, is to ensure America has the strongest economy in the world throughout the 21st Century. To do that, we must get our monetary policy right and our fiscal policy right. A competitive tax code is more than just getting the rate right. It's about creating a pro-growth tax code that recognizes the importance of the cost of capital.

There are two schools of economic thought on how taxation of capital affects long-term economic growth and job creation. The purpose of this hearing is to examine the empirical evidence offered by both sides of the debate.

Some economists contend that taxes on capital have, at most, modest effects on the economy over time. These economists cite studies that show a large variation in both the size and direction of responses to tax changes. Therefore, these economists claim that the effects of tax changes on long-term growth and job creation are either insignificant or unpredictable.

The Joint Committee on Taxation uses these arguments to justify the static scoring of proposed tax changes. Static scoring may acknowledge some behavioral changes among taxpayers due to changes in tax policy, such as realizing capital gains before an increase in the tax rate on capital gains, but does not acknowledge any effect on the overall growth of gross national product over time. Under static scoring, tax policy is, by definition, impotent in stimulating or suppressing long-term growth and job creation.

Other economists contend that tax policy has significant and predictable effects on economic growth and job creation. In particular, these economists find that business investment in new buildings, equipment and software is highly responsive to changes in the after-tax cost of capital.

From my chamber of commerce experience prior to serving in Congress, there's little doubt that tax policy affects business decision-making on Main Streets across America. States and local governments have long used tax incentives to attract investment, especially since U.S. businesses face global competition. Tax policy affects where businesses choose to locate and expand their operations.

It is also common sense that the decisions of all businesses collectively of whether and how much to invest affect overall economic growth and job creation. In contrast, the assumption that changes in tax policy cannot affect long-term economic growth and job creation in predictable ways defies common sense.

However, we should not rely on common sense alone. We must also look at the empirical evidence. In his written testimony, Dr. Hassett reviews major studies conducted by prominent economists in recent years on various aspects of the taxation of capital: the corporate income tax, tax depreciation and expensing of business investment, taxes on capital gains, and taxes on dividends. The conclusions of these studies are remarkably consistent – taxes on capital have significant, adverse effects on business investment, economic growth, job creation, and the real wages of workers.

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Despite a growing body of empirical evidence on the adverse effects of taxing capital, President Obama and many Congressional Democrats are advocating a series of tax increases that will raise the cost of capital. These tax increases include:

- Imposing higher income tax rates on sole proprietorships, partnerships, and subchapter S corporations;
- Boosting the tax rate on dividends from 15 percent to 44.6 percent;
- Raising the tax rate on capital gains from 15 percent to 20 percent;
- Tripling the tax rate of traditional local real estate partnerships;
- Eliminating long standing business expensing for energy manufacturing; and
- Lengthening tax depreciation schedules.

If the empirical studies are correct, these tax proposals will reduce business investment, slow economic growth, and deter job creation. Moreover, these tax increases will hurt hardworking taxpayers by reducing their real wages over time. These are the very men and women which the President and Democrats in Congress claim that they want to help.

The purpose of today's hearing is to determine whether the empirical evidence supports these adverse economic assumptions, or whether we should continue to accept the static scoring currently used by the Joint Committee on Taxation.

I look forward to the testimony of our distinguished witnesses.

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