Statement of Representative Dick Armey

Testimony Before the Monetary Policy, Technology, and Economic Growth Subcommittee of the Financial Services Committee

Hearing on "Beyond the Tax Cut: Unleashing the Economy"

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Thank you Mr. Chairman. I am pleased to appear before this subcommittee to talk about the pro-growth elements of President Bush's tax plan. I am also pleased to talk about additional stimulus measures that aren't in the President's proposal, which I believe are needed to ensure the long-term health of the economy.

A Sluggish Economy

First let me say Mr. Chairman, when President Bush took the oath of office last January, he inherited an economy in decline. Recent unemployment numbers and high-profile layoffs are making working Americans nervous.

The U.S. lost 94,000 manufacturing jobs in February alone, bringing the total number of manufacturing jobs lost since June to 371,000. And overall economic growth slowed to 1.1 percent in the fourth quarter of 2000, a stark contrast to the 5.6 percent rate posted during the second quarter.

Growth in real disposable income is the slowest it has been since 1996. Consumer confidence has dropped. And Americans are watching their 401(k)s and their mutual funds shrink while their energy bills double, triple, and in some cases even quadruple.

Some in the political arena have attempted to blame our nation's current economic woes on President Bush, who they claim is "talking down the economy." Such accusations are absurd. The economy has slowed and the American people are concerned. They are looking to us for leadership and it is vitally important that Congress move as quickly as possible to enact pro-growth tax cuts that will strengthen our economy.

The Pro-Growth Components of the Bush Tax Plan

The Bush tax relief plan includes some very important pro-growth components. The most important, and the cornerstone of the Bush plan, is marginal tax rate cuts.

The marginal tax rate is the tax imposed on each additional dollar of income earned. The higher the marginal tax rate, the lower the incentives to work, save and invest. It is particularly important during these uncertain economic times to ensure that our tax code promotes economic growth by encourage work, entrepreneurial risk-taking, and saving and investment.

For example, lower tax rates might encourage a mid-level engineer with a good idea to leave his safe job and take the risk of starting a new business since he'd keep more of the rewards if his new business succeeded. It is these entrepreneurial start-ups that provide many of the new jobs and much of the incremental growth to the economy.

That's why it is critical that we enact the chief element of the President's tax plan: across-the-board cuts in income tax rates.

The President's proposal would also phase out the "death" tax. We all agree that taxing death is not only unfair, it is immoral. There is no justification for taxing the legacy that a parent or grandparent worked so hard to create and pass on to their children and grandchildren.

Eliminating this immoral tax is the right thing to do. But doing so will also have a positive impact on economic growth.

The death tax is a massive tax on business capital, which is vital to increased productivity and job creation. Money that would otherwise be used to invest in new and innovative technologies, or more efficient tools and equipment, is sent to the U.S. Treasury for no other reason than somebody died.

Recently a great deal of media attention has been paid to a few wealthy American who have publicly lobbied against the repeal of the death tax. My support for the death tax repeal is not for them. It's for the small businessmen and farmers who are taking risks and creating jobs all across America. And my support for a repeal of the death tax is for the men and women who work in the small businesses and on the farms, which are hit hardest by the immoral death tax.

The President's plan also makes the research and development tax credit permanent. Technological innovations have increased America's productivity and the R&D tax credit provides an incentive for high-tech America to invest in our future. Making this permanent will allow companies to look forward to the innovations that will help keep our economy growing.

Additional Pro-Growth Tax Cut Measures Needed

President Bush has outlined a remarkable $1.6 trillion tax relief plan. But his was drafted in 1999, when the economy was much stronger. Today, however, circumstances have fundamentally changed.

I believe the state of our economy requires bold action. Today, the tax surplus is bigger and the economy is weaker. We should revise and expand the President's tax relief proposal with additional measures that will do much more to stimulate the economy.

A proposal or a tax relief number that was not designed for the economic situation we face today should not restrict us or limit our ability to do what's right for the American people.

Here's what I think we should do in addition to the President's proposals:

- Enact the bipartisan Portman-Cardin legislation which, by strengthening retirement security, encourages saving and investing.

- Reduce the capital gains tax rates.

- Make the tax cut as retroactive as possible. If we can raise taxes retroactively, we can cut them retroactively.

- Allow immediate expensing of high-tech investments such as computer software, which can often become obsolete quickly.

The Rebate Debate

Recently, considerable attention has been given to proposals that would rebate much of the FY2001 tax surplus. Many opponents of the President's tax proposal are advocating the rebate as a way to "stimulate" the economy.

They are wrong. If our focus is on the economic health of our nation, it is far more important to enact our President's marginal rate cuts and other pro-growth measures like the ones discussed above.

The great economic insight of the last twenty years is that we encourage economic growth by improving supply side incentives to work, save and invest. That's why the Reagan-era policies had such spectacular results. When we cut marginal tax rates and killed inflation, incentives changed, the economy began growing, and it has continued growing almost without interruption since 1982.

By contrast, a tax rebate would do nothing to enhance these all-important supply side incentives.

That's why we should not, under any circumstances, allow rebate proposals to be used as an excuse to delay or kill the pro-growth tax cuts which are crucial to the health of our economy.

If, after doing everything we can to front load the President's pro-growth tax plan and pass other tax measures, there are still tax surplus dollars leftover, we should consider giving that money back to the taxpayers who earned it.

A rebate may turn out to be the only effective means of getting this year's massive surplus back into the hands of the taxpayers who produced it.

Mr. Chairman, the economic concerns of the American people are legitimate and they are serious. The American people expect us to take responsible and decisive action. They don't want gimmicks, and they don't want finger pointing.

The President has given us a blueprint for action, a plan that will help get our economy back on track. It's just the shot in the arm that this economy needs.