THE HILL

The right tonic at the right time

By U.S. Rep. Phil English (R-Pa.)
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At a time when the economy is teetering on the edge of a recession, official Washington must show real leadership and embrace the kind of timely remedy that will reinvigorate the economy and provide real relief to working families and entrepreneurs. This week the House leadership united behind a bipartisan economic stimulus plan that, although not perfect, should keep the American economy on a growth path. Given the polarization that has plagued the 110th Congress thus far, this pro-growth, pro-family, pro-business initiative is a strong and thoughtful compromise that provides the right tonic at exactly the right time. However, if we are to succeed, and truly limit the depth of the pending economic downturn, Congress must act and we must act now.

To be sure, the heart of the plan focuses on putting more money back into the hands of America's hard-working, middle-class families. Through tax rebates and, in essence, a bump in the child tax credit, this agreement will quickly inject a cash infusion into the economy to assist families with skyrocketing food and energy costs. In addition, temporary increased limits on loans backed by the Federal Housing Administration (FHA) and Government Sponsored Enterprises (GSE), will, without doubt, give reprieve to families in the face of financial ruin from the sub-prime mortgage crisis, which has crippled the momentum of a once booming housing market.

But, perhaps the most pro-growth elements of this stimulus are its provisions to expand investment and create new jobs. Indeed, as we learned from the 2001 and 2003 tax cuts, we can reignite the economy by rewarding capital investment in our country. After all, when the ratio of capital investment to labor is high, productivity increases and the economy grows. This means jobs.

Importantly for American employers, this proposal will further loosen the choke chain on entrepreneurial investment and reduce the cost of capital to improve the competitiveness of capital-intensive industries. Specifically, it will bring back significant bonus depreciation, allowing businesses to deduct up to 50 percent of the cost of equipment purchased this year. In addition, small businesses, the proven engines of our economy, will be able to fully expense $250,000 for new investments made this year. That is double the current amount, of up to $125,000. By creating a narrow window of extra incentive for new investment, businesses will seize the opportunity of more affordable capital, spur new spending and jolt the lagging economy. Expensing, or partial expensing, provides the biggest-bang-for-the-buck, enjoys broad bipartisan support and does its part to abate the cyclical challenges of business. The positive effects of expensing have been demonstrably shown time and time again, helping to make large investments attainable for even our smallest employers.

While these provisions are exactly the right direction to go in to spur new investment, Washington should, in my view, keep the fresh lessons learned in dealing with the individual Alternative Minimum Tax in mind. Namely, that the AMT is a lurking troll waiting to erode pro-growth tax policies put in place to drive a strong economy. In this instance, however, the AMT in question is the corporate AMT and it will, without question, dilute the benefits included in the stimulus bill.

There is an easy fix to fully get these incentives to all employers from the Rust Belt to the Sun Belt: totally exclude the cost of all machinery from the corporate AMT. In this way, the benefits of expensing and bonus depreciation are not diminished or reversed by any of the tax penalties imposed on investment by the AMT.

Yet, while not perfect, the recipe for success with any effective stimulus lies as equally in its timing as it does its contents. The bipartisan stimulus compromise will be effective in stimulating the economy. For this reason, Congress was right to act swiftly and not let the perfect be the enemy of the good. However, as Congress continues to examine the state of the economy and make proactive adjustments going forward as needed, it is my view that taking the AMT into account should be part of the thought process.

English is a member of the House Joint Economic Committee.

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