



MEMORANDUM

TO: Citizens of the 16th Congressional District of Pennsylvania
FROM: Congressman Joe Pitts
DATE: January 28, 2009
RE: My Vote Against The Economic Stimulus Bill

The American economy is hurting. That means Americans are hurting. Many of our neighbors are out of work and facing hardship. Recently, the federal government estimated that unemployment has jumped to 7.2 percent—higher than it has been in a very long time. Congress needs to act responsibly to address it. I am afraid that this isn't happening.

Today, the House of Representatives passed hugely expensive legislation that, though called a “stimulus” bill, will not do much to help the economy any time soon. Only 7 percent of the plan's spending on infrastructure will be spent before fiscal year 2010. This bill spends more than the total cost of the wars in Iraq and Afghanistan combined. It spends billions of dollars on liberal policy priorities that have no relation to economic stimulus. After hearing from a great many people, I voted no. A substantial majority of constituents who wrote or called urged me to vote no. Every lobbyist I heard from wanted me to vote yes. I do not believe that's a coincidence. It's important, though, that you understand why I voted the way I did.

The bill passed by the House today is based on the faulty notion that massive government spending will create prosperity. This is clearly not true in the short term, and may in fact have the opposite effect over the long term. It takes a significant amount of bureaucracy to spend \$825 billion. Thirty-two new government programs have to be created and old ones have to be expanded. Rules and procedures for disbursing the money have to be established. The current recession may in fact be over by the time most of this money is spent.

While this legislation does contain some good provisions that will help the economy a little, it is primarily a massive government spending bill. It is hard to understand how a bill like this will stimulate the economy. It entitles unemployed millionaires (like the former CEOs of Lehman Brothers and Fannie Mae) to free healthcare and makes \$1.75 billion available to ideological groups like ACORN. This bill will bring the government's one-year deficit to an unprecedented level of over \$2 trillion. Still more deficit spending is in the works.

Prosperity is not something the government can simply “create.” That may be a difficult thing for Congress to admit, but it's true. Only the American people and the businesses they work for can do it, through hard work, smart investing, and creative entrepreneurship. Still, as we have

recently seen, the government can significantly hamper economic growth through bad policy and ham-fisted regulation.

We also must recognize that all government spending takes money out of the economy. The government cannot spend money without first taxing or borrowing. Taxing takes money directly away from families and employers. Government borrowing does more than add to our huge federal debt. It also diverts money to the federal treasury that might otherwise be invested in growing companies (when investors buy government bonds instead of corporate bonds or stocks). Over 90 percent of new jobs in this country are created by new and growing small businesses. Diverting investment capital from them to the government is bad for the economy.

Less than five percent of the bill's money is spent on public works projects like roads and bridges, and even that five percent is subject to the "Davis-Bacon" requirement that forces the government to pay artificially high union wages. Even those jobs, however, will promptly disappear as soon as the stimulus dollars are exhausted.

At best, twelve percent of this bill goes to creating jobs. The rest is simply old-fashioned government spending, which will not grow the economy:

- It creates 32 new federal programs, totaling \$136 billion (37 percent of the total cost)
- It expands 60 existing programs, mostly programs favored by the political left
- It spends \$6 billion in corporate welfare to help broadband companies get more customers
- It spends \$600 million to "prepare our country for universal healthcare"
- It spends \$1 billion on Amtrak
- It spends \$400 million on climate change research
- It spends \$50 million on the National Endowment for the Arts
- It spends \$3 billion on a new "prevention and wellness" fund, which includes \$335 million for sexually transmitted disease education and prevention

What will create economic growth? The only thing that can create real growth is an American public confidently engaged in spending, investing, and entrepreneurship. Congress can help to create that confidence by leaving money in the economy instead of removing it to pay for more bureaucracy. It can do that by encouraging entrepreneurship and investment—once again through lower taxes. It can do that by helping open new markets abroad for American exports. It can do that through wise regulation that does not impede innovation and entrepreneurship but does stop the excesses of greed and foolishness.

The bill includes some temporary tax relief to help the economy. I agree we need tax cuts, but making them temporary is counterproductive. Businesses that might be able to create jobs will only do so if they are confident that they can predict their costs well into the future. "Temporary" tax cuts do not create confidence. Instead, on-again, off-again tax cuts create uncertainty.

We should also reduce the cost of investing. For individuals, this means a lower capital gains tax. This would remove a disincentive for people to invest in American companies working to invent the next iPod or hybrid car. For employers, it means reducing America's corporate tax rates, which are presently the second-highest in the developed world. High corporate taxes hurt job creation, research and development, and the competitiveness of our economy.

America has the most productive and educated workforce in the world. There is no reason we can't compete successfully in the global marketplace. More trade agreements should be negotiated worldwide so that American-made products can be sold to more people. Trade needs

to be free as well as fair, and we should not allow American companies to be taken advantage of. However, we should not let fear prevent us from selling our wares around the world.

President Obama told an audience recently, “Only government can provide the short-term boost necessary to lift us from a recession this deep and severe.” I disagree. This recession was largely created by a federal government that thought it could defy the laws of economics in order to do good. An expensive big-government stimulus will do more harm than good—perhaps even in the short term. Mr. Obama should instead learn from his predecessor Ronald Reagan who knew that tax cuts and common sense would invigorate the economy like nothing else. His policies created one of the most powerful and durable bull markets in American history.

Some simple math demonstrates the problem with our new President’s stimulus package the House passed today. Proponents say they want to spend \$825 billion stimulating the economy. Because we have to borrow every dime of it, the total cost with interest will be around \$1.2 trillion. Mr. Obama says he wants to create 3 million new jobs with this money. If the government simply divided \$1 trillion evenly among 3 million people, Congress could simply mail out 3 million checks for \$333,000 each. Instead, this legislation creates complicated government programs that proponents can only hope will create temporary jobs that will pay a fraction of that amount—and probably not for a year or two.

A project as critically important as stimulating the economy deserves to be done carefully and thoughtfully. A faster and more effective approach to stimulating the economy should be adopted. There is no shortage of good ideas. For instance, Republicans proposed an alternative today that would have:

- Created 6.2 million new jobs
- Reduced the bottom two income tax brackets
- Allowed small businesses to take a tax deduction equal to 20 percent of their income
- Eliminated taxes on unemployment benefits
- Extended unemployment benefits
- Expanded net operating loss carryback rules to help struggling businesses
- Extended bonus depreciation and small business expensing to encourage new investment
- Repealed the three percent withholding requirement for government contractors
- Created a new health insurance deduction

There are also two very good bills I am urging Speaker Nancy Pelosi to allow the House to vote on:

The Economic Recovery and Middle Class Tax Relief Act (H.R. 470) *is an alternative stimulus bill that I strongly support. It would accomplish a number of the stimulative goals I have outlined here and go a long way toward reinvigorating our economy.*

The Economic Growth Through Tax Stimulation Act (H.R. 301) *makes the 2001 tax cuts permanent, reduces individual income tax rates by five percent for five years, and reduces the top business and individual tax rate to 25 percent for five years.*

Following are four things I believe we must do to stimulate the economy.

1. Offer Permanent Tax Relief

In the past, tax cuts have led to tremendous prosperity. When President Reagan cut taxes in the 1980s, the government actually increased its tax revenue due to the proceeding economic growth caused by lower tax rates. Presidents Kennedy and Bush generated similar prosperity by reducing our tax burden. Tax cuts will have an immediate effect on the spending power of employers and families. New government programs will take months or years to have any effect. Therefore, Congress should:

Make the 2001 Tax Cuts Permanent: *In 2001, Congress passed tax relief for every American taxpayer. At the end of next year, Congressional leaders intend to allow those tax cuts to expire, causing your taxes to increase at an alarming rate. New taxes in 2011 include a) an increase from 10 percent to 15 percent for the lowest tax bracket, b) the return of the marriage tax penalty, c) increased dividend taxes, d) increased capital gains taxes, and e) the return of the federal estate or "death" tax, with a top rate of 55 percent. According to a Heritage Foundation report, making the 2001 tax cuts permanent would increase GDP by \$111 billion and decrease unemployment by 1,087,000 jobs per year. Unfortunately, Speaker Pelosi is committed to raising taxes, "as soon as possible." I am doing my best to make sure that does not happen.*

Reduce the Corporate Capital Gains Tax Rate: *Americans are subject to one of the highest capital gains tax rates in the world. A reduction in the capital gains rate would encourage corporations to sell unwanted assets, including the so-called "toxic" securities based on shaky mortgages. This would unleash funds and materials with which to create jobs and grow the economy.*

Provide Unemployment Relief: *Currently, the Federal Government imposes an eleven percent tax on unemployment benefits. Congress should remove this tax, which amounts to a bad joke at the expense of people who are out of work.*

Provide Small Business Relief: *A net operating loss (NOL) is incurred when a business doesn't make a profit and has negative taxable income. An NOL can be used to obtain a refund for taxes paid in the past. The process of using an NOL to refund previously paid taxes is known as an NOL carryback. Under current law, there is a 2-year carryback period. Congress should allow businesses to carryback NOLs 7 years, providing small businesses with the additional cash necessary to pursue pro-growth investment opportunities that would stimulate the economy.*

Provide Relief for Families: *The child tax credit is currently \$1,000. Congress should increase that amount to \$5,000 so that low and middle class American families are able to save for their children's futures.*

Repeal the Alternative Minimum Tax: *Congress passed the AMT in 1969 to ensure that 155 ultra rich people did not use tax credits and loopholes to get out of paying their taxes. However, it was not indexed to inflation, and it now jeopardizes 50 million Americans, the great majority of whom are middle class families who hardly qualify as "rich." This bill would fix that problem so that millions of middle class taxpayers do not have to pay a tax intended for the wealthiest one percent of Americans.*

2. Reform America's Energy Infrastructure

Our economy runs on energy. Without energy, we couldn't even drive to work or turn the lights on when we got there. Fortunately, America is blessed with abundant supplies of natural gas, wind, coal, and offshore oil. We have the technology to produce nuclear power, clean coal, and hydrogen powered vehicles. One of the best things government can do to stimulate the economy is encourage energy growth. New investments in clean, safe and efficient power made in this country would create millions of jobs and provide the groundwork necessary for tremendous economic growth.

Congress should act quickly to encourage growth in these energy sectors through tax incentives and the elimination of excessive regulation. Congress should:

Pass the Green Roofing Energy Efficiency Tax Act: *Currently, the roof depreciation schedule is 39 years, even though the average roof lasts only 17.5 years. This bill would reduce from 39 years to 20 years the depreciation timetable for new, energy efficient roofs. This bill would encourage businesses and homeowners to install new, energy efficient roofs.*

3. Stabilize the Housing Market

The real-estate market is paralyzed as potential buyers wait on the sidelines fearing that prices will fall even further. This is becoming a self-fulfilling prophecy. At the current rate that homes are being sold in the U.S. it would take over eleven months to sell all the homes currently on the market, and that assumes no new homes go up for sale. Congress should:

Offer a home-buyers credit *of \$7,500 for those buyers who can make a minimum down-payment of five percent. This would help encourage responsible buyers to enter the market and stabilize prices, which would, in turn, decrease foreclosure rates.*

4. Remove Trade Barriers and Reform Federal Regulations

When Americans are free to do business with the rest of the world, Americans win. Trade allows small businesses to get products at a competitive rate so that they can compete with big businesses. Trade allows Americans to take advantage of global resources. Likewise, red tape and regulation can force businesses to spend money complying with rules instead of investing, growing and hiring. Congress should:

Pass pending free trade agreements *that will open up new markets and stimulate growth in the American economy and around the world. Only those that guarantee a truly level playing field should be ratified, others should be renegotiated.*

Pass the Highway Trust Fund Reform Act: *Due to decreased revenue from the gas tax, and a struggling economy, the Highway Trust Fund is quickly running dry. This bill would help solve that problem, without an expensive Federal Government bailout, by repealing outdated, burdensome, and costly labor provisions in the 1931 Davis-Bacon Act. This will reduce Highway Trust Fund expenditures by ten to fifteen percent.*