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VICE CHAIRMAN JIM SAXTON

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NEW HOUSE TAX BILL WOULD BOOST INVESTMENT AND ECONOMIC GROWTH

WASHINGTON, D.C. – The new tax legislation recently reported by the House Ways and Means Committee would improve economic growth by addressing a major soft spot in the economic expansion – investment – according to a study released today by Joint Economic Committee (JEC) Vice Chairman Jim Saxton. The study, *Near-Term Stimulus and Long-Term Economic Growth*, analyzes the economic impact of the *Jobs and Growth Tax Reconciliation Act of 2003*.

The study finds that the legislation would increase business investment by lowering the cost of capital in several ways, including accelerated depreciation and higher levels of small business expensing. By reducing the tax rate on dividends and capital gains, the legislation would also help investors rebuild nest eggs damaged by the bursting of the stock market bubble in the first quarter of 2000.

"The major explanation for the slow pace of the current economic expansion is the weakness in business investment, which started in the middle of 2000," Saxton said. "Until there is a revival in business investment, the prospects for strong economic growth are not favorable. But with higher levels of investment and economic growth, employment growth would also resume.

"The bursting of the stock market bubble has also led to three consecutive years of declines in household net worth, another negative drag on the economic outlook addressed in the legislation by reducing tax rates on dividends and capital gains. In addition, the acceleration of marginal income tax rate reductions will further lower the tax drag on the economy and provide tax relief for small business owners.

"Significant tax relief will have a significant impact on the economic outlook, but small temporary tax rebates and similar gimmicks will not. Such measures in the past have not proven effective in boosting demand, which can most effectively be done through monetary policy," Saxton concluded.

For more information on tax policy and the economy, please visit our website at www.house.gov/jec.

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