



AMERICANS FOR PROSPERITY

**Americans for the
Preservation of Liberty**



Center for Individual Freedom



CITIZEN OUTREACH

Putting the Public Back in Public Policy

**CITIZENS
for
Limited Taxation**

January 28, 2008

**An Open Letter to the United States Congress:
Don't Fall for "Stimulus" Fairy Tales!**

Dear Member of Congress:

On behalf of the millions of members of our respective organizations, we write to urge caution regarding the so-called "economic stimulus" plan that may soon be before you. As more details emerge about this initiative, it is becoming clearer that it would favor wealth redistribution over true economic expansion.

The recently announced plan has some questionable elements, chief among them a \$100 billion income tax rebate scheme that will distribute checks of up to \$600 for individuals making less than \$75,000 and \$1,200 for couples making less than \$150,000. Even those who had no income tax burden will be eligible for checks worth \$300, provided they earned more than \$3,000 in 2007. These tax rebates don't create any new wealth, they simply redistribute resources that the Treasury extracted from others.

In addition, the plan will increase the limits for loans purchased or insured by the Federal Housing Administration as well as Fannie Mae and Freddie Mac. It would increase those loan limits to \$725,000 and \$625,000, respectively. This expansion of federally sponsored mortgage debt is but a continuation of risky lending practices, backed implicitly by the American taxpayer.

The plan laudably includes roughly \$50 billion in tax incentives for business. But while enhanced expensing and carryback provisions constitute worthy tax relief for businesses, the fact that the provisions only apply this year simply means that many businesses will shift their future investments up to 2008, potentially leading to a slowdown of investments in 2009. Consistent and stable business expansion requires long-term policies, not temporary changes.

Despite claims by its proponents, this plan will not lead to the kind of economic stimulus that has been advertised. Congress has no mechanism for "creating" additional wealth in America over the short term, as 1970s experiments in tax rebates and spending increases proved. This plan amounts to taking a bucket of water from the deep end of the pool and pouring it in the shallow end; the result yields neither new water nor a larger pool.

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Kansas Taxpayers
Network

Furthermore, the focus on consumer spending is ultimately misguided. To quote economist Don Boudreaux, “Spending power is not so much the fuel for economic growth as it is its reward. [T]he key to economic growth is investment that raises worker productivity.” If Congress seeks true stimulus that is economically sound, it ought to reduce tax rates and avoid bailing out the housing market. **Making the lower capital gains tax rate permanent and reducing inordinately high corporate taxes would have a much more stimulative effect than any rearrangement of existing tax revenue.**

Sincerely,*

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