COMPARISON OF PARTIAL EXPENSING WITH THE MANUFACTURER'S CREDIT

VERSUS A LOWER CORPORATE TAX RATE

Gains to GDP and Changes in Federal Budget Resulting from:	GDP (%)	Private GDP (%)	Capital Stock (%)	Federal Revenues		% Reflow (%)	Federal Outlays (billions)	Change in Budget Surplus (billions)
				Static (billions)	Dynamic (billions)			
Adding 100% Expensing for Equipment	2.71%	2.81%	7.64%	-$34.20	$48.70	243%	$14.60	$34.10
Lowering Corporate Tax Rate to 22%	2.75%	2.85%	7.74%	-$64.50	$21.60	133%	$14.80	$6.80
Adding 50% Expensing for Equipment	1.36%	1.41%	3.80%	-$17.40	$24.60	241%	$7.40	$17.20
Lowering Corporate Tax Rate to 29%	1.30%	1.35%	3.62%	-$28.40	$12.20	143%	$7.00	$5.20

Numbers are comparative statics results after all economic adjustments (5-10 years). Base is 2008 GDP with MACRS, no PEPs and Pease.

The figures for expensing show the advantage added by expensing assuming the manufacturer's credit remains in place.

In the model runs, the reductions in the corporate tax rate are trimmed by a half percentage point to reflect a repeal of the manufacturer's credit, which is about its economy-wide value over manufacturing and non-manufacturing. Most proposals to reduce the corporate tax rate assume an end to the manufacturer's credit as a partial pay-for (a pay-for that would actually lose revenue).

Private sector labor income lies in line with private sector GDP, in the form of higher wages and higher hours worked. The federal wage bill rises in line with private sector hourly wages, which raises federal outlays as GDP increases.

Expensing boosts GDP, the capital stock, and labor income by more than a reduction in the corporate tax rate, per dollar of apparent static revenue loss. For the same gains in GDP, expensing costs less, generates more revenue reflow, and raises the budget surplus more than the tax cuts.

Both the rate cuts and the expensing increase the budget surplus (reduce the deficit), so there is no need to trade one for the other. Just use dynamic estimation and, if necessary, phase in the rate cuts over time.