

WebMemo



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Big Gains for the Automakers from Senator Jim DeMint's "American Option"

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In order to jump start the economy, Senator Jim DeMint's (R-SC) economic stimulus plan—known as the "the American Option Act"—proposes to aggressively and immediately lower taxes on businesses and individuals. By cutting taxes, DeMint's plan supports rapid growth of wages and business incomes, which in turn will significantly help struggling sectors of the economy.

This potential for rapid growth will come as especially good news to U.S. automakers, whose sales have slumped from international competition and the slow economy. If current forecasts for 2009 sales hold up, consumer spending on new automobiles and light trucks will have declined by 25 and 32 percent, respectively, by the end of 2009.

However, the DeMint plan strengthens the U.S. auto and light truck markets.¹

Between 2009 and 2011, total sales of new automobiles and light trucks would rise \$24.5 billion once the DeMint plan is enacted. In other words, with the plan, these sales would be \$24.5 billion higher than they would otherwise be.

Sales in 2009 alone would be \$8 billion higher than they would be without the plan.

The American Option Act makes such growth—in the auto industry as well as the rest of the economy—possible by:

- Reducing business taxes from 35 percent to 25 percent;
- Making the tax policy changes of 2001 and 2003 permanent;
- Dramatically reducing the estate tax rate to 15 percent; and
- Keeping tax rates on dividends and capital gains at 15 percent.

These tax rate reductions will substantially boost investment and build stronger and higher incomes, largely through wage and salary growth. Consequently, higher incomes and lower interest rates will increase sales of automobiles and light trucks.

—*William W. Beach is Director of the Center for Data Analysis at The Heritage Foundation.*

1. Analysts in the Center for Data Analysis at The Heritage Foundation developed these sales estimates using a mainstream model of the U.S. economy, the IHS Global Insight US Macroeconomic Model. Leading government agencies and Fortune 500 firms use this model to study how public policy changes will affect key economic indicators.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2259.cfm

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