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Raising taxes on 'carried interest' will hurt Main Street

Bob Johnson - 05/26/10 02:46 PM ET

With an exploding national debt and burgeoning budget deficits, Congress is singularly focused on raising revenue. But in their rush to plug the hole in America’s budget, policymakers cannot lose sight of a simple fact: It would be disastrous long-term fiscal policy to create permanent roadblocks to economic growth, especially for the nation’s minority communities and entrepreneurs, as a short-term fix for today’s exuberant spending.

Perhaps the prime example of this short-sighted approach is Congress’ attempt to impose a tax hike of more than 150 percent on the profits earned by venture capital, real estate, private equity and other private investment partnerships – partnerships that together have made a significant contribution in recent decades to job creation and America’s economic growth.

This move is seen by many as a “soak-the-rich” tax on wealthy investment managers on Wall Street. But the fact is these investment partnerships are crucial engines of economic growth for Main Street. There are literally hundreds of these partnerships in America – most of them small – working and investing in every state. They are especially important in minority and underserved communities that are often cut off from traditional sources of capital.

Think for a second about how America will grow and proposer in the coming decades. According to census data, groups that historically have been considered ethnic minorities in this country — principally African-Americans, Hispanics and Asian Americans — are expected to account for more than 50 percent of children under the age of 18 by as early as 2023 and a majority of working-age Americans by 2039.

This emerging class of executives, managers and workers represents the future and the hope for America. Unless we encourage investment today in the businesses that employ them and the communities that nurture them, our future will be that much less bright.

A recent study conducted by the National Association of Investment Companies (NAIC), which represents minority-owned and managed private equity firms and those who invest in ethnically diverse communities, found that private capital investment can play a critical role in promoting job growth, higher wages, better benefits and overall economic development in the nation's growing minority communities.

The study of seven NAIC investments found, on average, annual job growth after private capital investment was 14 percent, compared to 1 percent for all U.S. non-farm jobs between 2003 and 2008. Two-thirds of those new jobs went to minorities, compared to the overall U.S. minority employment rate of 30 percent. Revenue at the emerging market companies receiving private equity investments grew at an average annual rate of 35 percent, compared to a 5 percent rate for all U.S. businesses.

But we don’t need studies to prove that capital investment in minority businesses can transform companies, employees and whole communities. I’ve spent a lifetime investing in these communities and I’ve seen the first-hand how private investment can strengthen minority-owned companies and enrich the lives of employees and families in underserved communities. And I know that lifting up these communities provides a foundation and a model for the rest of the country.

As America’s demographics shift and its workforce becomes much more diverse, we cannot afford to move backwards in our effort to create economic opportunities for a new generation.

But that’s exactly where we’d be headed if Congress raises taxes on private investment partnerships. Make no mistake: Despite claims by policymakers and others that raising taxes on so-called “carried interest” will only affect a small group of wealthy fund managers, the real impact will be felt by workers and small business owners on Main Street who desperately need access to private capital to survive, prosper and grow.

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