By Kevin McCarthy September 28, 2011

America's history has been written by innovators and their inventions, from Edison's light bulb to Henry Ford's assembly line. Our inherent entrepreneurial spirit and competitive drive have made America the No.1 economy in the world.

This long tradition in our country, and specifically California, continues today here in Silicon Valley. It is embodied by companies like Facebook, Apple, eBay and Google -- all started by young idealists in humble surroundings. Only here could college students create a product in a garage and watch it grow into a Fortune 500 company.

I was at Facebook's headquarters Monday for a town hall meeting with my colleagues and friends, Majority Leader Eric Cantor and Budget Committee Chairman Paul Ryan, to discuss how, with our country's slow economic growth, we can move forward in a better direction.

We laid out our fundamental economic principles: Empower the private sector by providing certainty through less regulation; lower taxes; and increase access to capital. We must allow entrepreneurs and small businesses to innovate, create jobs and get the economy moving again.

Increasing taxes on those who help these entrepreneurs grow and create jobs is counterintuitive, as it would negatively impact job creation. Yet, just last week, President Barack Obama proposed a $1.5 trillion tax increase, beginning in 2013, reversing course after stating in 2009, "you don't raise taxes in a recession."

One specific component of his plan would change the tax treatment of carried interest, which is the share of profits that managers of some partnerships receive as compensation. Rather than being taxed as investment income at capital gains rates, it would be treated as ordinary income and taxed at a significantly higher rate. This could reduce the incentive to invest in startups or other entrepreneurial endeavors.

Carried interest shouldn't be treated as ordinary income because the amount of compensation that can be earned from carried interest isn't guaranteed. It's not like a salary — there is risk involved. The way most investment partnerships are structured, managers receive carried interest only if the group makes enough profit to return the investors' capital plus an agreed-upon rate of return. If the partnership doesn't meet its obligations to investors, managers do not get paid. This model better aligns the interests of managers and investors.

We need incentives to get investment dollars off the sideline and back into the innovation economy to fuel economic growth. Entrepreneurs and investors need to take risks to start businesses, but must be balanced with the possibility of creating value and making a profit. This concept has always been a tenet of the American free-market system.

Venture capital in Silicon Valley is a perfect example of the success this model has had providing emerging businesses and startups with the capital necessary to expand and succeed. It has nurtured numerous startups, and almost every country from China to France to Brazil has tried to replicate it. So why would we now change the risk-reward equation and punish job creators? I'd place my faith in entrepreneurs over the government any day when it comes to job creation.

We also need to pursue comprehensive reform of the corporate and personal tax codes to close loopholes, lower marginal rates and provide an environment where businesses can thrive and compete. Only by encouraging innovation and allowing entrepreneurs to thrive will we get Americans back to work. That is the true solution to our nation's economic crisis.