



JOINT ECONOMIC COMMITTEE DEMOCRATS



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ECONOMIC POLICY BRIEF

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REPUBLICAN TAX-CUTTING STRATEGY FAILS THE ECONOMY

EXECUTIVE SUMMARY

The American economy is “soggy,” according to Treasury Secretary John Snow. A key reason is that the President and the Republican Congress continue to pursue trickle-down policies, instead of offering a real jobs and growth plan that would get the economy back to full employment quickly without undermining long-term growth.

A true stimulus plan would be fast-acting, in order to boost aggregate demand and put people back to work quickly without hurting long-term economic growth. Far from being the best policies to get the economy back to full employment as quickly as possible while enhancing its long-term growth prospects, Republican “jobs and growth” plans provide little job-creating fiscal stimulus now when it is really needed, even as they drain national saving through swollen deficits. Their plans weaken our ability to address fundamental future retirement and health care challenges and merely pass along the responsibilities to our children and grandchildren, all for the sake of more tax cuts that primarily benefit the richest of households.

The tax cuts embodied in the final Congressional compromise that was cobbled together by the Republicans originated with the President’s “Jobs and Growth Initiative” – a plan that would cost \$726 billion in 2003-2013 (a trillion dollars when additional interest costs are included). In the end, however, the conference agreement, like the Republican plans it descended from, share a common set of objectives—and a common set of

flaws—that make them particularly inappropriate for addressing the real economic problems facing the American economy.

The Republican tax-cutting strategy fails the economy over the short- and long-run in the following ways:

- **Gimmicks:** Using a variety of gimmicks, the House-Senate \$350 billion conference agreement squeezes large tax cuts for the wealthy into what seems to be a tight budget constraint. Without those gimmicks, the true costs of these “more affordable” tax cuts are nearly as high as the President’s \$1 trillion original version.
- **Jobs:** Republican tax cuts are not focused on providing incentives for firms to hire back workers and create new jobs now. The Democratic alternative would have created nearly twice as many jobs this year as the President’s plan would.
- **Growth:** By significantly increasing the budget deficit (and well beyond the officially scored cost), the Republican tax cuts would in fact hurt, not boost, national saving and longer-term economic growth. This is because the certain loss in public saving exceeds any likely increase in private saving.

- **Deficits:** The effect of fiscally irresponsible tax cuts is not just a problem for the future: the consensus among economists, starting with Fed Chairman Alan Greenspan, is that the prospect of persistently higher deficits puts upward pressure on *current* longer-term interest rates.
- **Fairness:** The Republican tax cuts would go disproportionately to high-income households, who are less likely to spend their tax cuts than are lower- and middle-income households, and who will already get the bulk of the benefits from the tax cuts already enacted.
 - ◆ Under the conference agreement, the top five percent of households will receive three-fourths of the benefits from reducing the capital gains and dividend tax rate to 15 percent. Republicans now claim that the new zero-percent tax on capital gains and dividends for lower-income households demonstrates the fairness of their plan. But this is absurd: That cut is only for one year (2008), and for the bulk of people in the bottom two brackets – who have no such income – zero percent of zero is still a zero tax cut.
- **Stimulus:** A preoccupation with tax cuts leads Republicans to propose inadequate policies for short-term economic stimulus, which would be better achieved by extending unemployment benefits to the more than 1 million unemployed workers who have exhausted their UI benefits without finding work, and providing additional aid to the states who are facing their worst fiscal crisis in fifty years.
- **True costs:** The Republican plan would exacerbate the deterioration in the budget outlook that began with the 2001 Tax Act. Without the gimmicks of phase-ins and sunsets, and without relying on growing revenues from the Alternative Minimum Tax, the true cost of the 2001 tax cut is much greater than the official \$1.35 trillion cost
 - ◆ A more realistic estimate of the cost of the 2001 tax cut is nearly \$2.5 trillion over the first ten years alone. Adding current proposals puts a staggering \$4.6 trillion ten-year price tag on the full Bush tax cut agenda.
- **Short-Sighted:** The Republican tax-cutting agenda is so large that its permanent cost exceeds the combined Social Security and Medicare HI long-term shortfall, jeopardizing our nation's retirement security as well as unjustly passing the bill to our children and grandchildren.

The tax cuts favored by Republicans provide less job-creating stimulus now when it is needed the most than the Democratic alternatives. Moreover, they provide unnecessary and counterproductive stimulus once the economy is back to full employment and they diminish future income by swelling the public debt and inhibiting investment. Contrary to the claims that Republican plans would provide a bigger boost to the economy now and over the long run, in fact, they would do much more harm than good.