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Congress of the United States

JOINT ECONOMIC COMMITTEE

Democratic Staff

107TH CONGRESS

804 HART SENATE OFFICE
BUILDING
WASHINGTON, DC 20510-6602
202-224-0372
FAX 202-224-5568
www.senate.gov/~jec/

PATRICIA RUGGLES
STAFF DIRECTOR

For Immediate Release
Tuesday, August 13, 2002

Contact: Nan Gibson
202-224-0377
202-320-4545

MAKING BUSH TAX CUTS PERMANENT WOULD WORSEN BUDGET DEFICITS AND SLOW ECONOMIC GROWTH, LARGELY TO BENEFIT THE WEALTHY, FINDS NEW JEC DEMOCRATIC STAFF REPORT

Washington, D.C. – Despite mixed news about the economic recovery and an ever worsening federal budget picture, the Bush administration has called for permanently extending the tax cuts enacted last year beyond their 2011 expiration. A new analysis by the **Democratic staff** of the **Joint Economic Committee (JEC)** finds that the provisions of the tax cut yet to come would worsen budget deficits, have a negative impact on the short- and long-term growth of the economy, and almost exclusively benefit upper-income taxpayers.

To date, neither the Congressional Budget Office nor the Joint Committee on Taxation has provided official estimates that break out the cost of provisions that are already in place from those that are not yet in effect. The Democratic staff of the JEC has prepared estimates of these separate parts of last year's Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) that are consistent with the official estimates for the entire act.

Key findings of the report, ***Rethinking The 2001 Tax Act One Year Later***, include the following:

- ***High but hidden costs.*** Provisions of EGTRRA that are not yet in place will cost about $600 billion over the 2003-2012 period, assuming that the tax cut is not allowed to expire in 2010. The costs are substantially higher once the tax cuts fully phase in, however, reaching **$116 billion per year by 2012**, which consists of new tax cuts of $143 billion and tax increases of $27 billion from expiring provisions.

- ***Benefits skewed to upper-income taxpayers.*** Two-thirds of the income tax cuts yet to come benefit the 20 percent of taxpayers with the highest incomes. A full 60 percent of the benefits go to the 1 percent of taxpayers at the very top of the distribution. Including the effects of repealing the highly progressive estate tax tips the scales even further. More than 70 percent of the benefits from scheduled future income and estate tax cuts go to the 10 percent of taxpayers with the highest incomes.

- ***The AMT hides the true cost and distribution.*** The tax cuts that take place after this year would be even more costly and even more skewed toward high-income taxpayers if the AMT did not take back most, and in many cases *all*, of the tax cut from millions of

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taxpayers. For example, the tax cut will push about 17 million additional taxpayers onto the AMT in 2010.

- ***No short-term stimulus.*** The tax cuts already in place may have provided some stimulus and moderated the recession that began in March 2001. Tax cuts that are not yet in effect provide little if any stimulus and will be harmful if projected higher budget deficits materialize, leading to higher interest rates.

- ***Harm to long-run economic growth.*** Fewer than 20 percent of taxpayers will see any further cuts in tax rates. Overall, the additional reduction in marginal tax rates from tax cuts not yet in effect is about one percentage point or less. The most effective way to promote economic growth is to insure an adequate level of national saving. The likely adverse effects on national saving and long-run growth from larger budget deficits will easily swamp any positive growth effects from the small marginal rate cuts expected.

- ***Preserving a More Progressive Tax Cut.*** Rather than allowing the costly and heavily-tilted future scheduled tax cuts to take effect, Congress could instead extend the tax cuts already in place with some modifications. For example, extending the tax cuts in place this year while accelerating to 2003 future scheduled increases in the child tax credit, the earned income tax credit, and indexing of the 10-percent tax bracket would make the tax cut enacted in 2001 less costly and more progressive, and still provide tax relief to everyone helped by the original legislation.

"Economic and budget conditions have changed dramatically since tax cuts were enacted last year. Under these circumstances it is appropriate to reconsider the direction in which tax policy is headed over the next decade, and whether the path is still in the country's best short- and long-term interest," said **Sen. Jack Reed, D-RI, Vice Chairman of the Joint Economic Committee**.

"The Bush Administration seems to believe that more tax cuts are the silver bullet to fix all of our current and future economic problems, but budget-draining tax cuts skewed toward upper-income taxpayers don't address the concerns of ordinary Americans. This Administration needs to provide a fiscally responsible economic plan that creates jobs, protects Social Security, and strengthens our future economic security and prosperity," said Reed.

The Joint Economic Committee, established under the Employment Act of 1946, was created by Congress to review economic conditions and to analyze the effectiveness of economic policy.

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