Joint Economic Committee Democrats

Representative Pete Stark (D-CA) – Ranking Member

Economic Policy Brief **June 2003**

Expert Economists Refute Republican Myths About the Tax Cut

In the debate over the recently passed tax cut package, the Republicans claimed their tax bill would strengthen the economy and produce additional jobs. However, their arguments only perpetuate a standard set of Republican myths about tax cuts that most expert economists continue to refute:

Republican Myth #1: The Republican Tax Cut Will Create Jobs

"Regardless of how one views the specifics of the Bush plan, there is wide agreement that its purpose is a permanent change in the tax structure and not the creation of jobs and growth in the near-term."

— Ten Nobel laureate economists: George Akerlof (UC Berkeley), Kenneth Arrow (Stanford), Lawrence Klein (U. Penn.), Daniel McFadden (UC Berkeley), Franco Modigliani (MIT), Paul Samuelson (MIT), Robert Solow (MIT), Joseph Stiglitz (Columbia), Douglass North (Washington U.), and William Sharpe (Stanford); along with Peter Diamond (MIT), Lawrence Michel (Economic Policy Institute), Laura D'Andrea Tyson (London Business School), and Janet Yellen (UC Berkeley), and hundreds of other professional economists, in a signed "Economists' Statement Opposing the Bush Tax Cut"

"We shouldn't call it a stimulus package until there is evidence to show that in fact it is a stimulus package. Right now there is no such evidence. It's a horrendous bill."

— George Akerlof, Nobel-prize winner and Professor of Economics, UC Berkeley

"In the longer run, surging budget deficits would raise interest rates and lower savings rates, while higher investment income would actually discourage job creation."

-- Joel Prakken of Macroeconomic Advisers (also the economist who worked with Joint Committee on Taxation staff to develop an economic model for "dynamic scoring" of tax proposals)

"The administration's policy was never really about job creation. It was about shifting the burden of taxation onto wage earners and off people who have capital income, and about shrinking the government. …The Bush Administration `Jobs and Growth' proposal is not effective at creating jobs and growth in either the short-term or the long-run."

— Lawrence Mishel, president of the Economic Policy Institute

"I don't think tax cuts will (create jobs). I don't believe we will be able to look back three years from now and identify any real job creation from it."

— Donald Straszheim, head of a California consulting firm and a former Wall Street economist

"The tax cuts will generate some job growth, but nothing like the magnitude you hear."

— George Zodrow, Rice University economics professor

Republican Myth #2: The Republican Tax Cut Is Fair—It Will Help Working Families and Will Stimulate Consumer Demand

"Rather than being a net stimulus, it may harm the economy in the short run and certainly will harm it in the long term. Their attempt here was to destroy progressivity under the name of a structural agenda. It is not just that they do not pay much attention to it but they are positively engaged in increasing inequality."

— Nobel laureate Joseph Stiglitz of Columbia University

"The only effect [of Bush's proposals] is to make the very rich richer and the richer you are, the more you benefit. …It is incredible that Congress would even consider such a tax cut."

— Franco Modigliani, MIT Nobel Prize-winning economist

"It's a weapon of mass destruction aimed at middle-income households."

— Nobel laureate Daniel McFadden of the University of California-Berkeley

"Most Americans were never going to get much of a tax cut, anyway. Most families, as best I can estimate, will see their taxes fall by less than $800 — in many cases, much less. Meanwhile, a handful of people will benefit hugely: the top 1 percent of families, with incomes averaging more than $1 million, will get tax breaks to the tune of $80,000 each."

— Paul Krugman, Professor of Economics at Princeton University and New York Times Columnist

"More than three-quarters of the tax break would go to the top 10 percent of taxpayers."

— Bernard Wasow, Century Foundation

"Only half of all households will be getting a tax cut."

— Dean Baker, co-director for the Center for Economic and Policy Research

"This group, more than 8 million taxpayers, ranked lower in the administration's priorities than the 200,000 taxpayers with incomes of a million dollars or more. That just demonstrates how regressive this tax law is."

— Peter Orszag, Senior Fellow at Brookings and co-director of the Urban-Brookings Tax Policy Center

Republican Myth #3: The Republican's Centerpiece Capital Income Tax Cuts Will Spur Investment and Stimulate the Economy

"It's another illustration that the real purpose of this tax bill was not to give a boost to the economy now. The bill really consists of new provisions, like dividend tax cuts, that administration officials and their supporters in Congress have long wanted for other reasons. If they were really serious about boosting the economy, they would not have excluded these people, because they're the ones who spend rather than save."

— Robert Greenstein, executive director of the Center on Budget and Policy Priorities

"The idea of a corporation planning for a dividend tax to be one thing up until 2008 and another thing afterwards just can't be a good thing for rational, long-term, corporate financial planning."

— Joel Slemrod, Professor at the University of Michigan

"Some companies will retain more earnings and have more to invest, but the problem is that other companies will have less to borrow from the government which will go deeper in debt."

— Max Sawicky, senior economist at the Economic Policy Institute

"Who wants to change their (dividend) policy, and then five years from now, you have to change it back? The worst thing you can do if you're trying to help the market is to put in temporary things. The market hates uncertainty more than anything."

— Chuck Hill, director of research at Thomson First Call in Boston

Republican Myth #4: The Republican Tax Cut Is Good for the Long-Run and Will Eventually Reduce Budget Deficits

"[T]he public does not seem to be aware of the extraordinarily serious consequences.… The deficits being contemplated are out of sight. …Most of these tax cuts are envisaged as being permanent. That means a shortfall on revenues as far as the eye can see into the future..."

— George Akerlof, Nobel Prize winner and Professor of Economics at the University of California-Berkeley

"Suppose for a minute we were talking about a developing country that had gaping current account deficits year after year, that had had budget ink spinning from black into red. The IMF would be pretty concerned."

— Kenneth Rogoff, chief economist for the International Monetary Fund

"Given the tax cutting we've done to date and the obvious spending requirements we have with defense and homeland security, we're going to have a very serious fiscal problem."

— Mark M. Zandi, chief economist of Economy.com

"The problem is that the revenue loss from (tax cuts) is pretty substantial. That's going to drive up interest rates and reduce national savings, so in the end it's a wash."

— Gus Faucher, senior economist at Economy.com

"If you get significant increases in deficits that produce a rise in interest rates, you will be significantly undercutting the benefits derived from the tax cuts."

— Alan Greenspan, Federal Reserve Board Chairman

"Long term, deficits are a real problem. We're simply not prepared to deal with the cost of programs like Social Security, Medicare and Medicaid."

— John Shoven, director of the Stanford Institute for Economic Policy Research

"The president's reckless approach to tax cuts is a huge fiscal gamble. It benefits the wealthy, but would impose new and increasing burdens on low-income households and future generations, and it is unlikely to succeed in restoring broad-based economic growth and financial discipline. The sooner fiscal sanity is restored, the better."

— William Gale and Peter Orszag, Senior Fellows at Brookings and co-directors of the Urban-Brookings Tax Policy Center

"These costs are waiting for our children."

— Leonard E. Burman, Senior Fellow at the Urban Institute and co-director of the Urban-Brookings Tax Policy Center