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**PERMANENT TAX REDUCTIONS
SEEN AS MOST STIMULATIVE**

WASHINGTON, D.C. – Permanent tax reductions would offer more economic stimulus than would temporary tax relief measures, according to a new study released today by Joint Economic Committee (JEC) Chairman Jim Saxton and Congresswoman Jennifer Dunn. According to the new JEC study, *The Effects of the Duration of Federal Tax Reductions: Examining the Empirical Evidence*, permanent tax reduction offers more stimulus because most taxpayers perceive it as a permanent increase in income, whereas temporary tax relief correctly is not viewed as a sustained improvement in income.

“This study documents the superiority of permanent tax reduction in stimulating the economy,” Saxton said. “According to the statistical evidence, most taxpayers respond to permanent changes in their after-tax incomes, not temporary changes that they know will disappear almost immediately. The basis for this outcome is the permanent income hypothesis first made by Nobel Laureate Milton Friedman many decades ago, modified by consideration of the impact of the life cycle.

“The empirical literature over many decades has produced a mountain of evidence supporting the significance of the life cycle permanent income hypothesis. Its policy implication under current circumstances is very clear: tax rate relief should be accelerated and made permanent in order to stimulate the economy. Furthermore, attempts to tamper with the tax relief already provided will undermine the prospects for economic recovery. Although there are promising signs that the recession has bottomed out, an insurance policy is needed to ensure that the recovery is sustained. A debate about revisiting the tax cuts is exactly what is not needed. As noted by a number of JEC studies, permanent tax reduction would encourage economic growth both in the short run as well as the long run,” Saxton concluded.

“Taxpayers need predictability in order to plan for their future,” Congresswoman Jennifer Dunn said. “To think that last year's tax relief measures may disappear within the decade means that all the gains we have worked so hard to produce for the people we represent are only Pyrrhic victories.

“Death tax repeal in particular was an enormous victory for America's families. Even now, without the promise of permanency, family businesses and farms have been left in taxpayer purgatory, forced to continue spending millions of dollars and time on estate planning.

“The sooner we achieve permanency, the sooner these taxpayers can begin to reinvest in jobs and capital improvements knowing the government's death tax policy won't force them to sell their businesses or be forced to give it away to the government,” Dunn concluded.

For more information on tax policy and the economy, please visit the JEC website at www.house.gov/jec

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