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Point: The Bush Tax Cuts

Extending high-income tax cuts is the wrong answer for the recovery

President Obama has made it clear that he favors extending the 2001 and 2003 tax cuts for middle-income families, but letting those for high-income earners expire as called for in current



Romer

the high-income tax cuts would provide very little job creation in 2011. There is widespread agreement that the short-run economic benefits of high-income tax cuts are small. The Congressional Budget Office lists a tax cut for high-income

law. Recently, some have argued that extending the high-income cuts is necessary for the economy. This is simply wrong.

First, extending

earners as a particularly ineffective job creation measure. Private sector forecasters have reached the same judgment. The vast majority of economic research shows that higher-income earners spend less of a tax cut and so tax cuts to those earners create fewer jobs throughout the economy.

That doesn't mean that all tax cuts are ineffective in creating growth. In fact, tax cuts designed in the right way can be highly effective. That is why the President supported numerous tax cuts in the Recovery Act and why continuing the middle-class tax cuts from 2001 and 2003 is so important. The view that tax cuts focused on the middle class can be important to the recovery is consistent with a wide range of research, including a paper that I wrote with David Romer before coming to government and that was recently published. This paper showed that tax changes in the postwar United States had larger short-run impacts on

output growth than previously believed. Since most postwar tax changes have been broad-based, our evidence indicates that broad-based tax cuts have large effects. But it's important to note that our study did not distinguish among tax cuts for different groups and did not focus on high-income earners. Thus, it provides no basis for doubting the compelling evidence that tax cuts for high-income earners are less effective than broad-based tax cuts focused on the middle class.

If lawmakers are truly concerned about job creation, as they should be given the painfully high rate of unemployment, many approaches would be more cost effective than extending the Bush tax cuts for high-income earners. For example, a private sector study recently concluded that a third year of the Making Work Pay tax credit would be far more stimulative. Likewise, estimates by the Council of Economic Advisers suggest that spending \$10 billion to prevent the layoffs of teachers, firefighters and police would lead to nearly twice as many jobs as the estimated \$30 billion of high-income tax cuts - that's twice as many jobs for one-third the cost. The small business jobs bill currently before the Senate, which contains both targeted tax cuts for small businesses and measures to improve their access to credit, would also be a far more powerful and cost-effective way to stimulate economic growth and job creation.

It is ironic that many who are now arguing that the high-income tax cuts must be extended on stimulus grounds opposed the Making Work Pay tax credit in the Recovery Act. That tax cut, which totaled

\$110 billion (spread over tax years 2009 and 2010), went to 95 percent of working families and by all accounts has made an important difference to the trajectory of the economy. In its third quarterly report to Congress on the American Recovery and Reinvestment Act, the Council of Economic Advisers estimated that the tax cuts and other income support provisions in the Recovery Act saved or created more than a million jobs just through the first quarter of 2010. The evidence from my work with David Romer implies that the Making Work Pay tax credit may have been even more effective than conventional estimates indicate.

Finally, near-term stimulus measures must be taken in the context of developing a credible plan to address our Nation's long-run fiscal challenges. A benefit of all three of the alternatives mentioned above is that they are clearly temporary measures aimed at jumpstarting job creation. In contrast, extending the high-income tax cuts would increase pressure to make them permanent. While the Office of Management and Budget estimates the high-income tax cuts would cost about \$30 billion in 2011, the yearly cost is expected to grow as the economy recovers. Extending them permanently would add about \$700 billion to the ten-year deficit. That is a cost that we simply cannot afford, particularly for something that does so little to aid our recovery.

Christina Romer has worked as the chairwoman of the White House Council of Economic Advisers. Effective Sept. 3, she will return to her former position as an economics professor at the University of California at Berkeley.

IBJ Business News

Best Lawyers names Sandberg Phoenix as top-listed firm

Best Lawyers in America 2011 has named Sandberg Phoenix & von Gontard PC as the top-listed defense firm in Missouri for Medical Malpractice Law and the top-listed defense firm in St. Louis for Products Liability Litigation, with four attorneys listed in each category. This is the second consecutive year that Sandberg Phoenix has received the most attorney listings for Medical Malpractice Law. Sandberg Phoenix attorneys have consistently been named to the *Best Lawyers* list since 1999. For the current 2011 edition, the following Sandberg Phoenix attorneys have been selected by their peers for inclusion: Kenneth

W. Bean (inducted in 2005), G. Keith Phoenix (inducted in 1999), Jonathan Rhoes (inducted in 2007), John S. Sandberg (inducted in 2005) and Peter von Gontard (Inducted in 2006).

Ballance named to Greater Belleville Chamber board

The Greater Belleville Chamber of Commerce welcomes Amy Ballance to its board of directors.

Environmental Operations welcomes Adkins

Andrew Adkins has joined Environmental Operations Inc. as an environmental technician in the firm's EHS division.



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Counterpoint: The Bush Tax Cuts

Letting the tax cuts expire: a coming tax increase we cannot afford

The American people are in for a massive tax increase at the end of this year when the tax cuts implemented by Congress in 2001 and 2003 expire.



Adams

The media continually brand this situation as "tax cuts for the rich." In reality, it will be a universal tax increase that will push

the economy over the precipice.

Unless Congress acts, the automatic tax increase that is set to begin on January 1, 2011 includes an across the board increase on marginal income tax rates. Additionally, if the Bush tax cuts are not renewed, capital gains taxes will rise by one-third and dividend tax will almost triple.

The Estate Tax, commonly known as the Death Tax, will increase to 55 percent. It will discourage savings and investment, and break-up job-creating businesses. Moreover, it will take a sizable portion from those who have diligently saved in the hopes of passing the fruits of their labor on to loved ones.

The Bush tax cuts of 2001 and 2003 proved a remarkable success. Each series of tax cuts did the job, pulling our nation out from under recession after the collapse of the "internet bubble" in the late 90s and the economic shock of 9/11.

According to a study by the Heritage Foundation, in the six fiscal quarters

following the enactment of the 2003 tax cuts, the economy's growth rate was 4.1 percent. In that same period, 307,000 new jobs were added. Seven months after that, five million jobs were added.

According to the same study, the tax cuts were beneficial to businesses as well. Prior to the tax cuts, the Standard and Poor's index dropped 18 percent. Following the implementation of the tax cuts, the S&P grew by 32% and dividend payments increased.

Clearly, it has been a tide lifting all boats.

Capital gains taxes levied on the sale of investments will also be increased. Following the Tax Reform Act of 1986, the last time capital gains taxes were increased, investment in business equipment fell off by one third. If the tax cuts are not renewed, dividends will be taxed as regular income. Thus, the tax rates on dividends could climb as high as 39.6 percent.

A massive tax increase in the midst of the worst recession since the Great Depression would be cataclysmic to our nation's broken economy. It is imperative for Americans to tell Congress and the Obama Administration to stop this job-killing tax increase now. The tax cuts were introduced to spark a flagging economy and they did the job. Allowing them to expire is bad politics and bad policy.

By letting the tax cuts expire, effectively the largest tax hike in American history, people will see a dramatic shift in the economy, negatively.

Such a tax increase will hit the most entrepreneurial and most successful wage earners in the country with new taxes.

This will only reduce consumer spending and cut capital investments at a time of economic crisis.

But just don't take it from me. A former Bank of England official issued an urgent warning recently, telling Americans to forget about a "double-dip recession."

He says if we don't extend the Bush Tax Cuts, a major depression will hit the U.S.

"If we don't act fast, a plunge into Depression is a growing risk in... the U.S.," writes economist David Blanchflower, in a column for Bloomberg News.

Martin Regalia, an economist for the U.S. Chamber of Commerce, echoed Blanchflower's fears.

"That is going to be a bullet in the head

for an awful lot of people that are going to be laid off and an awful lot of people who are hoping to get their jobs back," Regalia said.

Federal Reserve chairman Ben Bernanke has repeatedly told Congress this is not the time to raise taxes and has called for the tax cuts to be fully renewed. Harvard economist Niall Ferguson says that businesses are refraining from hiring new employees.

We have had ample warnings from our economic history to the counsel of experts. If we allow the tax cuts to expire, we do so at our own peril.

Bob Adams is executive director of the League of American Voters (www.USALeague.com), a national nonpartisan membership organization.

IBJ Business News

SIUE cited again by U.S. News as leader

Southern Illinois University Edwardsville has for the second consecutive year been cited by its peers and reported in *U.S. News & World Report* as an "up and coming school."

SIUE is listed as one of only three Midwestern regional universities for making "innovative changes in the areas of faculty, student life, campus life and facilities." The listing is in the magazine's *Best Colleges of 2011* issue.

In addition, for the sixth consecutive year SIUE is listed in the senior capstone experience category, among 15 universities - including Brown, Princeton and Stanford - for its comprehensive

program measuring the competency of graduating seniors.

At SIUE, the program is called Senior Assignment and is a required culminating curriculum experience for all seniors to demonstrate their degree of general education knowledge, as well as knowledge within their disciplines prior to graduation.

Also, according to the *U.S. News* rankings, SIUE is among the top 20 public universities in the best Regional Universities Midwest (master's granting) category for the fourth consecutive year. The overall scores are based on the academic preparedness of students, graduation rates, faculty characteristics and the reputation of SIUE in higher education.

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