Economic Policy Institute

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NOBEL LAUREATES, 450 OTHER ECONOMISTS FAULT BUSH TAX CUT PLAN

Dividend Tax Cut Called "Misdirected"

Ten Nobel laureates, joined by more than 450 other economists from all over the country, today cautioned that the tax cut plan proposed by the Bush administration will not only fail to help the economy in the short run, but will also weaken it over the longer term by deepening projected deficits.

The warning note was sounded in a joint statement unveiled at the National Press Club today by three of the Nobel economists: Joseph Stiglitz (Columbia University), Franco Modigliani (Massachusetts Institute of Technology), and Lawrence R. Klein (Universitiy of Pennsylvania). The statement, along with the names of all of its endorsers, will appear as a full-page ad in Tuesday's (2/11) New York Times.

The economists' statement notes that there are now more than two million fewer private sector jobs than at the start of the current recession, and that the tax cut plan proposed by the administration is not the answer to our current economic problems.

It further notes that the proposed tax cuts would not produce adequate growth or jobs and would lead to fiscal deterioration that would, in turn, "reduce the capacity of the government to finance Social Security and Medicare benefits as well as investments in schools, health, infrastructure, and basic research" and will "generate further inequalities in after-tax income."

Kenneth Arrow, a Nobelist from Stanford University who is one of the statement's signers, summarized it this way: "The Administration's tax cut proposals will probably have a negative effect on the current economic situation. The large anticipated deficits mean increased government competition in the capital market and possible inflation and, therefore, higher long-term interest rates. These higher rates, in turn, will inhibit new investment. There is no compensating advantage in encouraging consumption."

In addition to Drs. Klein, Modigliani, Stiglitz and Arrow, other Nobelists joining in criticism of the Bush plan are Daniel McFadden and George Akerlof, both of the University of California at Berkeley, Douglass North of Washington University, Paul Samuelson and Robert Solow of the Massachusetts Institute of Technology, and William Sharpe of Stanford University.

The statement acknowledges that the economy is experiencing some slow growth, but notes that it is too slow to prevent unemployment from rising. To stimulate the economy, the statement says, "a stimulus plan should rely on immediate but temporary spending and tax measures to expand demand, and it should also rely on immediate but temporary incentives for investment."

For a preview of tomorrow's *New York Times* ad and a state-by-state list of the statement's signers, visit EPI's Newsroom: http://www.epinet.org/newsroom/index.html

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The Economic Policy Institute coordinated the gathering of endorsements for the statement on behalf of the Nobel laureates and other leading economists. The letter attracted widespread support, garnering over 450 signatures in only a week.

"The enormous response we have seen among economists reflects deep concern that our economy's problems are not being recognized or adequately addressed by policymakers," said EPI's president, Lawrence Mishel. "Our economy needs jobs, and the President's proposal will not create jobs either in the short or the long term."

The full text of the Economists' Statement follows:

ECONOMISTS' STATEMENT OPPOSING THE BUSH TAX CUTS

Economic growth, though positive, has not been sufficient to generate jobs and prevent unemployment from rising. In fact, there are now more than two million fewer private sector jobs than at the start of the current recession. Overcapacity, corporate scandals, and uncertainty have and will continue to weigh down the economy.

The tax cut plan proposed by President Bush is not the answer to these problems. 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. The permanent dividend tax cut, in particular, is not credible as a short-term stimulus. As tax reform, the dividend tax cut is misdirected in that it targets individuals rather than corporations, is overly complex, and could be, but is not, part of a revenue-neutral tax reform effort.

Passing these tax cuts will worsen the long-term budget outlook, adding to the nation's projected chronic deficits. This fiscal deterioration will reduce the capacity of the government to finance Social Security and Medicare benefits as well as investments in schools, health, infrastructure, and basic research. Moreover, the proposed tax cuts will generate further inequalities in after-tax income.

To be effective, a stimulus plan should rely on immediate but temporary spending and tax measures to expand demand, and it should also rely on immediate but temporary incentives for investment. Such a stimulus plan would spur growth and jobs in the short term without exacerbating the long-term budget outlook.

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