

Question: The tax cuts enacted in 2001 and 2003 are set to expire after 2010 and many U.S. leaders say we should extend them. What's the skinny?

Williams: The biggest argument for extending the tax cuts right now is our economy is very weak and raising taxes during a recession, or the recent weak recovery from the recession, could reverse our economic growth, could put us right back down to what some economists fear will be a double-dip recession. So we don't want to raise taxes across the board. That said, the question is should we raise taxes at all? And what the president has proposed is allowing the Bush tax cuts to expire for the top two or three percent of income earners in the country, those people making more than \$200,000 as singles and \$250,000 as couples. Raising those taxes would save us a lot of money in terms of revenues raised. Over 10 years, we would save nearly \$700 billion, which is [a] substantial dent in our budget deficit.

Question: But would it be fair, or prudent, to exclude top earners from the tax cut extensions?

Williams: The president's logic in proposing to raise taxes only on the very wealthy is predicated on his observation of what's happened to incomes over the past few decades. If you look between 1979 and 2005 and ask how incomes have changed in this country, the bottom 20 percent, the poorest 20 percent of the population, has seen their incomes rise 1 percent after inflation. People in the middle 20 percent, [who] might be viewed as a narrow view of the middle-class, [their] incomes have risen about 15 percent over that same period. People in the top 20 percent, [their] incomes have risen about 75 percent. And if you focus on the very top, the top 1 percent, their incomes have roughly tripled after inflation. The president observes this and says ok people in the middle and the bottom of the distribution are having trouble making ends meet. Their incomes haven't risen very much and raising taxes on them would put them in an even worse situation than they are. People at the very top end have done very, very well in recent years and therefore raising taxes on them does not impose [an] especially hard, heavy burden on those who are quite well-off.

Question: So what would be the net effect for those in the highest tax bracket?

Williams: One of the important things to realize about what is being proposed by the president is that while he would deny extension of the tax cuts to the wealthiest of Americans, their taxes would not rise as much as they would if the Bush tax cuts were to expire in their entirety. In particular, many of the things the president would extend, the lower tax rates, the reduction in marriage penalties, a few others things, would benefit people at the very top of the distribution. It would not raise the tax on dividends, for example, back to the ordinary tax rates, but instead cap that at 20 percent. That would save a lot of

money for people at the top end of the distribution. Similarly the lower tax rates in the lower tax brackets saves those high tax individuals a lot of money. To give you an idea of what this means for people at the very top of the distribution, the top one-tenth of 1 percent, the richest one in one-thousand Americans, extending the Bush tax cuts would save them roughly \$370,000 a year on average relative to what they would pay if the tax cuts were allowed to expire. If we follow what the president has proposed, allowing lower tax rates to maintain, allowing dividends to be taxed as long-term capital gains, albeit at a higher rate, those very high income individuals, the top one-tenth of 1 percent, would save \$60,000 in tax. They would pay \$310,000 more than they would under full extension, but they'd still be better off by more than anyone else in the distribution on average. These are people who are making at least \$2.7 million a year and on average making eight-and-a-half million dollars a year, that's what you have to do to be in the top one-tenth of 1 percent. So while [a] \$300,000, or \$370,000 increase in taxes sounds like a lot of money, relative to an average \$8.4 million income, it is not exactly going to put them in the poor house.

Question: What is the underlying economic thinking behind the president's proposal?

Williams: Extending the tax cuts for all but the wealthy maintains the after-tax incomes for that 97 percent of the population that would not see their taxes rise and for them that means they can continue their spending and consumption at the levels that they are currently doing. If, on the other hand, we allow the taxes to expire for them, they would have less money to spend, they would cut their spending, that would reduce demand, and would stifle our nascent economic recovery, might turn us into a recession, a double-dip recession many economists are worrying about. Economists are not terribly worried about people at the top end of the distribution. For them, much of their tax savings go right into the bank. They are not being spent. Any additional dollar of income, a much smaller portion gets spent by them. In fact, if you look at the Congressional Budget Office analysis of alternative ways of stimulating the economy, one of the things they said was extending this would have the least bang for the buck of any of 11 different options they looked at. The estimate was for each dollar given up in revenues by extending the tax cuts; we'd get a ten to forty cent increase in the economic, the level of economic activity. Compared to other kinds of programs for stimulating the economy, spending programs, they would boost the economy by \$1.50 or more for each dollar spent.

Question: How would extending the tax cuts impact the budget deficit?

Williams: Relative to allowing all the Bush tax cuts to expire as scheduled next year, extending the tax cuts for all but the wealthiest Americans would increase our budget deficit by an aggregate \$3 trillion over the next ten years. In contrast, extending the tax cuts for everyone would increase the deficit by

about \$3.7 trillion. So the savings by not extending the tax cuts for the wealthiest Americans brings in just under \$700 billion over ten years. The Congressional Budget Office estimates that if we allow all the tax cuts to expire that by the middle of the decade our deficit will be running about half-a-trillion dollars a year. If we extend all the Bush tax cuts, we'd roughly double those deficits to nearly a trillion dollars a year and rising in the future. And if we don't extend it for the top end of the distribution, the wealthiest 2 or 3 percent, we'd save between \$60 billion and \$80 billion each year, bringing down the deficit somewhat, but not solving our deficit problems.