



## **\$8 a week in taxes isn't bad**

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***By Donald Cohen***

The \$800 billion stimulus package Congress passed in February contained tax cuts for millions of Americans and major investment in infrastructure and public programs. The debate and negotiations that led up to the bill's passage echoed a 60-year-old debate between Keynesian, demand-side economics and conservative, supply-side dogma.

Obama and Democrats argue that tax cuts for workers stimulate growth by putting spending money in the pockets of American families. More cash for workers means more spending, leading to more hiring and ultimately more spending. The Republicans, on the other hand, believe you give tax cuts to the wealthy so they invest, innovate and create jobs.

Obama prevailed and included \$230 billion in middle-class tax cuts of the nearly \$800 billion stimulus package, a sizable federal expenditure. But for each taxpayer, it turns out that the tax cut puts an average of only \$8 per week in their pocket. Eight dollars is hardly enough to generate significant spending beyond a couple of lattes or three quarters of a movie ticket or to pay for parking at a Padres game.

We had real choices between spending stimulus dollars on tax cuts or on critical public investments. There are 1,231,752 taxpayers in San Diego County. At an average of eight dollars per week we could have raised over \$250 million just in the next six months for a major project. We could fund the downtown library, we could build a trolley from downtown to job centers in Sorrento Mesa, we could put solar cells on the roof of every public building, school and high rise in the county, and the list goes on.

In California, the numbers are even bigger. In 2006, there were 14,382,677 tax filers. Their \$8 a week would generate nearly \$6 billion a year. Just this year, Governor Schwarzenegger failed to convince lawmakers to impose the surcharge on property insurance that would have raised \$278 million to fund desperately-needed fire protection crews, engines and helicopters.

In other words, we could pay for significant projects at the state or local level that we desperately need and don't have the money for. This in turn, would help build a stronger, more productive regional economy.

There is no doubt that working families need more money. They will use it to buy things and re-stock their savings account. There are certainly times when a targeted middle-class tax cut could be used as an effective economic stimulus. But there are needs that we can only address as a community and may help our family as much as the extra lattes. My \$8 a week won't rebuild an aging infrastructure. My \$8 a week — along with everyone else's — will.

The allure of promising a tax cut during campaigns has been a feature of modern American politics for several decades. Therefore, it was nearly certain that tax cuts would have to be part

of the package. Fortunately, Obama understood that cutting taxes for working families would generate spending and put money right into the economy.

On the contrary, President Bush used anti-tax populist rhetoric to push through a tax cut for the wealthy, based on the failed notion that investors paying fewer taxes would put those funds into productive investments that would generate growth.

Obama's commitment to demand-side tax cuts were bolstered by the failed track record of the supply-siders promises. In fact, the 2001 and 2003 tax cuts were actually followed by a marked decrease in the fraction of GDP devoted to business investment. The portion of GDP, devoted to business investment, also fell after the enormous tax cuts during the Reagan years. And contrary to conservative economic predictions, investment rose after the tax increases during the Clinton administration. In fact, investment, GDP, household income, wages, and employment all grew after the 1993 tax increases, while Federal budget deficits and national debt decreased.

Dogmatic tax-cutters believe that any government spending is somehow illegitimate and distorts a market economy. They argued that tax cuts are the only legitimate stimulus. Yet during the debate on the stimulus package there was remarkable consensus that government spending on infrastructure would create the greatest economic multiplier effect.

Mark Zandi, a Republican economist who had advised Sen. John McCain, found that reduced taxes on corporations or the wealthy delivers significantly less than a dollar in GDP for every dollar invested, while infrastructure spending generates an impressive \$1.59 in GDP for every \$1 invested.

The debate about what kind of tax cuts or the appropriate mix of cuts and spending obscures a far more significant choice. An additional \$8 a week versus hundreds of millions of dollars for libraries, mass transit, or greening our energy grid, produce very dramatic differences in terms of increased long-term productivity for the region.

Both would generate spending, but only one would change the future.

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