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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

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COUNTERPRODUCTIVE TAX PROVISIONS GENERATE EXCESSIVE COSTS

— Tax Relief Would Reduce Economic Losses of Tax System —

WASHINGTON, D.C. – Tax relief addressing counterproductive features of the tax code is conservatively estimated to produce about 40 cents of economic gains for every dollar of official revenue reduction, according to a new study released today by **Vice Chairman Jim Saxton of the Joint Economic Committee (JEC)**. The new JEC study, *Tax Reduction and Economic Welfare*, analyzes a range of estimates of the economic costs imposed by current levels of taxation, which economists refer to as “deadweight losses.” The economic literature includes documented estimates of these losses ranging up to 300 percent of revenues collected.

“The current tax code includes many features that are literally counterproductive,” Saxton said. “This new JEC study explains that these tax provisions impose excessive costs on the economy, even if they do generate some additional revenue. The total cost of these tax provisions on the economy for every dollar of revenue collected greatly exceed one dollar and can range as high as \$2.00 or even more. These deadweight losses imposed by the tax system should not only be recognized by policymakers, but should be a central concern of tax policy. I hope this study contributes to an understanding of the problem raised by such additional economic costs.

“As the study notes, one useful way of addressing this problem is to reduce the tax bias against personal saving that is embedded in our income tax. This can be accomplished by measures such as expanding the tax deduction for IRA contributions, and lifting the income limits so that more middle class taxpayers can save without excessive taxation of thrift,” stated Saxton.

JEC member **Congressman Joseph R. Pitts (R-PA)** joined in releasing the paper. “The JEC study presents yet another compelling case for tax reduction this year, especially in light of projected budget surpluses,” Representative Pitts said. “Americans understand and feel the ‘deadweight loss’ suffered through tax hikes and they’re ready for some tax relief.”

The study is co-authored by Professors Richard Vedder and Lowell Gallaway of the Ohio University Economics Department. Both have served on the staff of the Joint Economic Committee.

For more information on taxation, please visit the JEC website at www.house.gov/jec.

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