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VICE CHAIRMAN JIM SAXTON

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TAX DRAG UNDERMINES THE SLOW ECONOMY

-- New Study Shows the Danger of Excessive Taxation --

Washington, D.C. – The negative economic effects of current levels of taxation should be a key focus of policymakers in setting tax policy, Vice Chairman Jim Saxton said today. Over a number of years Joint Economic Committee (JEC) studies have found that an incremental dollar of federal taxes results in an additional economic burden of about 40 cents. This additional excess burden arises from tax-induced reductions in economic output and consumer well-being, and is well established in the public finance literature. Equally important is the fact that a *reduction* in the level of taxation could *reduce* this excess burden by about 40 cents per dollar of tax relief, providing economic gains of 40 cents per dollar of static tax reduction.

"Alternative economic policies must be evaluated in terms of costs and benefits," Saxton said. "In setting tax policy, the excess burden of taxation should be a central concern. The economic costs imposed at current levels of taxation mean that the economic benefits of reducing an incremental dollar of taxation are far greater than one dollar of tax reduction.

"A recent study by the Organization of Economic Cooperation and Development (OECD) shows what happens when levels of taxation and regulation become excessive. Elsewhere this has been referred to 'Eurosclerosis,' a hardening of the economic arteries due to excessive levels of taxation, regulation and government intervention. According to the new study of OECD nations, the marginal excess burden imposed by an incremental tax increase is about two-thirds the amount of incremental revenue raised, with a tax reduction having the opposite effect.

"The good news is that the damage done by taxation to the U.S. economy probably is somewhat lower than that under the tax regimes of several other countries. However, given the condition of the U.S. economy, the economic gains available through tax relief would still be very significant. These gains in the form of higher economic output and consumer welfare would help alleviate the economic sluggishness we are now experiencing. The counterproductive levels of U.S. taxation should be reduced significantly and permanently as Congress considers ways to accelerate economic growth.

"On the other hand, the evidence shows that a short, temporary tax stimulus ending in 2003 will not have lasting positive effects. This short-term policy reflects a complacent view of the economic outlook, whereby tax relief is needed only for the last six or seven months of 2003. However, in my view the economic outlook will not necessarily be very positive unless stronger and more lasting tax relief is put in place soon, along with an easing of monetary policy," Saxton concluded.

For more information on the marginal excess burden of taxation, please visit our website at www.house.gov/jec.

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