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Who should you believe?
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A letter signed by a couple of hundred well-known economists appeared under the headline "Bush tax cuts are the wrong approach" in a paid ad in the Feb. 11 edition of the New York Times. The White House also has released a list of a couple of hundred well-known economists, including this author, who endorse the president's package. How are you supposed to know which group to believe?

It is common practice for both political parties to round up their supporters to sign such letters. Frequently those who sign such letters do not read all the fine print of the proposals. However, most of us try to make sure the proposals we endorse or oppose do not contradict the solid empirical evidence and what we believe to be true.

When I read the New York Times letter ad from the anti-Bush group, my curiosity was triggered by what seemed to be strange wording in light of what I knew of the president's proposals, and by what I knew about the previous positions and work of some who signed the letter.

The Bush proposal as released by the Treasury Department is 153 pages long. I offer a couple of ways for you to decide whether the president's tax proposals are sound. You can actually read all 153 pages, as I did, to decide if, on balance, you think they are desirable and worth supporting.

(Note, the document is well-written and no previous knowledge of tax economics is needed. It can be downloaded from http://www.treas.gov/offices/tax-policy/library/bluebk03.pdf.) The easier route is to read my critique of the opponents' letter ad, which follows.

The substance of the letter ad begins as follows: "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 a creation of jobs and growth in the near-term."

This statement is only partially correct in that some aspects of the plan change the tax structure in ways that almost everyone (and implicitly most of the letter signers) acknowledge to be desirable over the long run. However, contrary to the statement in the letter ad, accelerating the reduction in the previously scheduled tax rate cuts, as the president proposed, will clearly give the economy an immediate boost by increasing incentives to work, save and invest.

The letter continues: "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."

These statements are gratuitous because no one in administration has claimed this particular provision is "a short-term stimulus," but one needed to increase fairness and spur long-term investment. Legitimate arguments can be made either way as to whether the elimination of the double tax on dividends should be made at the corporate or individual level. The administration chose the individual way because the static revenue cost is less since it will only benefit taxpayers who are now subject to the double tax and not taxpayers (or accounts) with no immediate dividend tax liability.

According to the signers of the letter ad: "Passing these tax cuts will worsen the long-term budget outlook, adding to the nation's projected chronic deficits." This statement may or may not be true, depending on how effective the tax cuts are in stimulating economic growth, and the additional tax revenue that ultimately comes from higher economic growth. The argument against having a deficit is that it may slightly raise interest rates.

However, the proposed tax changes, by reducing the cost of capital (investment), will swamp this interest rate increase, thus spurring new investment and job creation, and providing a higher living standard for most Americans.

The ad signers also claim: "Moreover, the proposed tax cuts will generate further inequalities in after-tax income." This statement is flat out untrue, if the president's entire package is taken into account. The percentage rate cuts and credits are larger at lower incomes than higher, making the tax system more progressive rather than less, while raising income levels for all, which has a greater benefit for the poor.

Finally the ad signers state: "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." This statement is wrong on a number of counts. Virtually all the empirical research (including some by several who signed that letter ad) has shown that permanent tax changes have a much more powerful positive impact on spending and investment than do temporary measures. The president's budget projects an approximately $300 billion dollar deficit.

Even those who believe in the discredited Keynesian idea of more government spending to increase demand are not calling for deficits larger than this.

The fact is whether you are a supply-side, classical or even a Keynesian economist, it is objectively hard to argue that the president's proposals are not a big step forward. Those who are opposing the plan in general have made either weak or false arguments, without presenting a credible alternative.

That is why I believe those economists or politicians who argue the president's plan "is the wrong approach" have either not read it, or are choosing to ignore objective empirical evidence for political reasons. This is not to say one cannot have legitimate disagreements with the particulars, but sweeping negative misstatements about the plan reflect poorly on those who make them.

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