## \*\*\* Offense

### CP Kills Economy

#### The counterplan hurts the economy—infrastructure stimulus is key.

Weintraub 12 — Victor Weintraub, author, economist, and entrepreneur, President of First Charter Financial Corporation, holds a degree in engineering from New York University and an MBA from Columbia Graduate School of Business, 2012 (“There Is No Fiscal Cliff It Is a Scare Tactic,” *SBWire*, July 19th, Available Online at http://www.sbwire.com/press-releases/there-is-no-fiscal-cliff-it-is-a-scare-tactic-154034.htm, Accessed 07-19-2012)

The expiring tax cuts will increase taxes primarily on the wealthiest 20% of taxpayers. There will also be smaller tax increases on the upper middle level of tax payers. The marginal tax rate will go from 35% to 39.6%. That is not devastating. It will not have much, if any, impact on consumption spending. There are other tax increase items that will occur such a change in capital gains tax rates. These increases also will not hurt consumption. These tax increases take place over the course of a year and will not be felt until the following year for the most part.

So far as defense spending, here again the cuts will take place over a few years. It is not going over a cliff. Defense spending will go down a hill.for several years.

What has not been taken into account is that an increase in the marginal tax rate is stimulative to the economy. The last time that the marginal tax rate was increased to 39.6%, unemployment went down to 4.0% from 7.7%. That was during the Clinton administration. It is my opinion that the marginal rate should be increased to 75% for the highest income earners. That would change the way people think about their business and result in a lot of reinvestment and job creation.

The other factor that has not been taken into account is that as money is not spent on defense it can be spent on programs that stimulate the economy such as infrastructure programs.

In summary we are not looking at a fiscal cliff. We are looking at a tax change that will stimulate the economy and a shift of spending that will also be beneficial.

### CP Hurts Middle Class

#### Extending the tax cuts hurts the middle class.

Kwak 12 — James Kwak, Associate Professor at the University of Connecticut School of Law, 2012 (“Why America Should Stop Worrying and Love Taxmageddon,” *The Atlantic*, May 10th, Available Online at http://www.theatlantic.com/business/archive/2012/05/why-america-should-stop-worrying-and-love-taxmageddon/257010/, Accessed 07-19-2012)

Third, tax cuts are bad for the middle class. This was a staple of Democratic economic analysis during the Bush administration. For example, in 2004, William Gale and Peter Orszag showed that if you take into account the fact that tax cuts must be paid for eventually (either through spending cuts or tax increases), the Bush tax cuts are bad for everyone except the top income quintile. If you make the relatively realistic assumption that the tax cuts will be paid for by proportional financing (everyone's cash income goes down by the same percentage, whether through lower transfers and services or higher taxes), the only beneficiaries are the top 1% (Table 3).

### Stimulus Better Than CP

#### Spending stimulates the economy better than tax cuts.

Kwak 12 — James Kwak, Associate Professor at the University of Connecticut School of Law, 2012 (“Why America Should Stop Worrying and Love Taxmageddon,” *The Atlantic*, May 10th, Available Online at http://www.theatlantic.com/business/archive/2012/05/why-america-should-stop-worrying-and-love-taxmageddon/257010/, Accessed 07-19-2012)

Second, as most Democrats never tire of saying, tax cuts have a lower multiplier than spending increases – especially tax cuts for the rich, who have a lower marginal propensity to consume (and who are more likely to do their marginal consumption overseas). So if we care about economic growth in the short term, then what we really need are things like extended unemployment benefits, payroll tax cuts, or good old-fashioned spending – not more income tax cuts.

#### Stimulus is needed now regardless of tax changes—the plan is key to growth.

Stone 12 — Chad Stone, Chief Economist at the Center on Budget and Policy Priorities, holds a Ph.D. in Economics from Yale University, 2012 (“Misguided ‘Fiscal Cliff’ Fears Pose Challenges to Productive Budget Negotiations,” Center on Budget and Policy Priorities, June 18th, Available Online at http://www.cbpp.org/cms/index.cfm?fa=view&id=3788, Accessed 07-19-2012)

To be clear, the issue of what policymakers should do later this year or early next on long-term deficit reduction is distinct from whether they should act much sooner — in fact, immediately — to provide a further stimulus to an economy that shows increasing signs of weakness. Last week's disappointing reports on economic growth and job creation, as well as growing concerns about Europe's debt crisis and an economic slowdown in China, suggest that U.S. policymakers should act through both fiscal and monetary policy to strengthen the U.S. recovery. On the fiscal front, however, they should be careful to choose policies that will be most cost effective in boosting demand for goods and services while the economy is weak without making the nation's long-term fiscal problem worse.

#### Stimulus empirically beats tax cuts at sustaining growth.

Kamm 10 — Arthur R. Kamm, Adjunct Professor at the Campbell University School of Pharmacy, holds a Ph.D. in Biochemistry from the Medical College at the University of Arizona, 2010 (“Eight Reasons Why the Bush Tax Cuts to the Wealthiest Should Expire,” *Art on Issues*, November 9th, Available Online at http://www.artonissues.com/2010/11/eight-reasons-why-the-bush-tax-cuts-to-the-wealthiest-should-expire/, Accessed 07-19-2012)

2. Supply-Side Tax Cut Policy Has Been Ineffective in Stimulating US Jobs Growth

Median job growth (total non-farm payroll employment) since 1977 from the five complete Republican presidential terms where supply-side tax cut policy was in place versus the 3 complete Democratic presidential terms that utilized progressive tax rate policy was 2.6 million/term (0.0-10.8) versus 11.2 million/term (10.3-11.5), respectively (ref) (ref). Jobs creation during the GW Bush years where tax cut policy was in place was the lowest since the presidency of Hoover (ref). Additionally, time to sustained jobs growth following recessions where supply-side tax cut policy was in place was prolonged – 12 months (the 1990-1991 recession) and 22 months following the March – November 2001 recession). In comparison, time to sustained jobs growth after the current Great Recession was 6 months following passage of the stimulus legislation (ref).

#### Stimulus outweighs—marginal tax rates aren’t key.

Gale 12 — William Gale, Arjay and Frances Miller Chair in Federal Economic Policy in the Economic Studies Program at the Brookings Institution, former Assistant Professor in the Department of Economics at the University of California-Los Angeles, former Senior Staff Economist for the Council of Economic Advisers, holds a Ph.D. from Stanford University, 2012 (“End the Bush tax cuts and start over,” *CNN*, July 12th, Available Online at http://www.cnn.com/2012/07/12/opinion/gale-tax-cut/index.html, Accessed 07-19-2012)

The president's unwillingness to keep Bush-era tax rates for households with the highest income has been criticized on grounds that it will hurt job-creation efforts and in particular small businesses. These criticisms can be overstated, however.

First, in our current economy, with significant number of unemployed workers, job creation will depend much more on creating an economic stimulus – that is, by cutting tax levels and by boosting spending by federal, state and local governments and by the private sector – than a slightly lower marginal tax rate.

## \*\*\* Defense

### No Impact/Solvency

#### No impact—the effective tax rate on new investments and new hires is zero.

Gale 12 — William Gale, Arjay and Frances Miller Chair in Federal Economic Policy in the Economic Studies Program at the Brookings Institution, former Assistant Professor in the Department of Economics at the University of California-Los Angeles, former Senior Staff Economist for the Council of Economic Advisers, holds a Ph.D. from Stanford University, 2012 (“End the Bush tax cuts and start over,” *CNN*, July 12th, Available Online at http://www.cnn.com/2012/07/12/opinion/gale-tax-cut/index.html, Accessed 07-19-2012)

Second, the net tax rate businesses actually pay on new investment and new hires, not the tax rate listed in the tax law, is what should drive business choices. The "effective tax rate" takes into account that small businesses can generally write off all of their investment as a deduction in the year the investment is made. This is sometimes called section 179 expensing.

This provision reduces the effective tax rate on new investment financed by the business owner to zero. Yes, zero, because any tax on future investment returns will simply pay the government back for the cost of the deduction. This is true no matter what the tax bracket is for the taxpayer.

Indeed, if they can finance the investment with tax deductible debt payments, small businesses will face an effective tax rate that is actually negative.

Likewise, the calculus of hiring a new worker should take into account the fact that wage payments are deductible for businesses. Hence, if the law imposes a higher statutory tax rate on higher incomes, while it will raise the tax that has to be paid on the proceeds from new investment and new hiring, it also will raise the value of the deductions that most small businesses can take from the new investment and new hiring, and in a way that exactly balances out.

#### History is on our side—no economic benefit.

Kamm 10 — Arthur R. Kamm, Adjunct Professor at the Campbell University School of Pharmacy, holds a Ph.D. in Biochemistry from the Medical College at the University of Arizona, 2010 (“Eight Reasons Why the Bush Tax Cuts to the Wealthiest Should Expire,” *Art on Issues*, November 9th, Available Online at http://www.artonissues.com/2010/11/eight-reasons-why-the-bush-tax-cuts-to-the-wealthiest-should-expire/, Accessed 07-19-2012)

1. The Key Objective of Tax Cut Policy, Stimulating US Capital Investment, Failed

Tax cuts, largely favoring the wealthiest in the nation who have high saving rates, were supposed to increase US capital investment that in turn would stimulate the economy. This simply failed. US capital investment in the decade following the Bush tax cuts was by far the weakest in the post WWII era (ref) (ref). Additionally, the 1990’s, where supply-side tax cut policy was reversed (taxes were raised on taxable income above $250,000), experienced more than a 3-fold greater growth in US capital investment than did either of the supply-side tax cut periods under the Reagan/GHW Bush and GW Bush administrations (ref); the authors concluded that without better investment growth being associated with supply-side tax cut policy it is difficult to draw any plausible connection between tax cut policy and any observed positive economic performance during the periods this policy was in place.

#### No statistical evidence supports counterplan solvency.

Kamm 10 — Arthur R. Kamm, Adjunct Professor at the Campbell University School of Pharmacy, holds a Ph.D. in Biochemistry from the Medical College at the University of Arizona, 2010 (“Eight Reasons Why the Bush Tax Cuts to the Wealthiest Should Expire,” *Art on Issues*, November 9th, Available Online at http://www.artonissues.com/2010/11/eight-reasons-why-the-bush-tax-cuts-to-the-wealthiest-should-expire/, Accessed 07-19-2012)

3. Supply-Side Tax Cut Policy Offered No Advantage over Progressive Tax Rate Policy in Growing Our Economy

Overall, our Gross Domestic Product (the standard measure of our economy) experienced greater growth during progressive tax rate periods than supply-side tax cut periods from 1978-2005, 12.6% vs 10.7%, respectively. Ranking the presidencies having the strongest to weakest GDP growth during that period: Clinton, followed by Reagan, followed by Carter, followed by GW Bush, followed by GHW Bush (ref). These data argue that there was no advantage associated with supply-side tax cut policy versus progressive tax rate policy in growing the US economy.

#### Tax cuts fail to stimulate growth–empirically proven.

Kamm 10 — Arthur R. Kamm, Adjunct Professor at the Campbell University School of Pharmacy, holds a Ph.D. in Biochemistry from the Medical College at the University of Arizona, 2010 (“Eight Reasons Why the Bush Tax Cuts to the Wealthiest Should Expire,” *Art on Issues*, November 9th, Available Online at http://www.artonissues.com/2010/11/eight-reasons-why-the-bush-tax-cuts-to-the-wealthiest-should-expire/, Accessed 07-19-2012)

The objective of increasing US capital investment and stimulating our economy through tax cuts largely favoring the wealthiest of Americans simply failed. During periods where supply-side tax policy was in place there is no evidence that it stimulated business investment, economic growth, or employment. In fact, periods during which this policy was in place underperformed periods where progressive tax rate policy was in place. The policy has substantially driven up national debt, contributes to lowering the overall tax rate of the wealthiest below that of the middle class, and contributes to income inequality that has been associated with both the Great Depression and this recent Great Recession. But the most damning point about this policy is its unreliability to pump money into the US economy as investors, participating in a global economy, will place the benefit where it will get the best return. During the 2000’s money we borrowed to support US investment went abroad, in some cases back to where we borrowed, and the debt being incurred to support foreign economies is being passed to our future generations. Both the wealthy and ‘Wall Street’ have done quite well with this policy, but the rest of America and our future generations have not.

### Heritage Foundation Indict

#### Their Heritage Foundation evidence recites discredited talking points—disregard it to protect public discourse.

Helfert 12 — Dave Helfert, Professor of Political Communication at Johns Hopkins University, 2012 (“Tax Cut, Cold Cuts,” *The Huffington Post*, July 19th, Available Online at http://www.huffingtonpost.com/dave-helfert/tax-cut-cold-cuts\_b\_1684095.html, Accessed 07-19-2012)

A vigorous debate about public issues is usually a healthy thing. The clash of opposing views and opinions can stimulate the public's interest and thought, and provide substance -- meat -- for people to chew on and digest. Expressing opinions is one of the most sacred hallmarks of American life. However, the audience usually has to trust in the honesty of the person expressing the opinion to ensure it bears some relation to the truth. Unfortunately, in political debate for most of the last 20 years, the truth has been missing in action more and more frequently. Today, the truth is seldom allowed to get in the way of creating a great sound bite or persuasive argument.

For example, the Heritage Foundation has disseminated an op-ed claiming that "Obama's tax plan would definitely hurt job creators." It didn't allow truth to be an impediment in opposing the expiration of the 2001 and 2003 Bush tax cuts for personal income above $250,000 per year. In trying to make a case that allowing Bush Administration tax cuts to expire for the highest 3 percent of income in the country will stifle the economy by raising taxes on "job creators," the Heritage Foundation ignored facts and relied instead on tired and completely discredited talking points.

Let's sprinkle the discussion with just a few factual points:

\* President George W. Bush's original rationale for cutting tax rates in 2001 was to get rid of a sizable budget surplus at the end of the Clinton Administration. Remember?

\* President Bush, Vice President Dick Cheney and Republican Congressional leaders swore up and down that tax cuts would pay for themselves, even though such claims were disputed by the U.S. Treasury Department and Congressional Budget Office.

\* Pushed into law through the same budget reconciliation process used to pass President Obama's Affordable Care Act in 2009, the tax cuts were programmed by Congressional Republicans to expire in ten years to limit their ultimate price tag. So, how does the scheduled expiration of Republican tax cuts now become an Obama tax increase?

\* The tax cuts were zealously guarded by Congressional Republicans at the same time they were passing into law the $1.2 trillion Medicare Prescription Drug Benefit in 2002 and funding the wars in Iraq and Afghanistan into 2009, with a price tag of $2.3-2.7 trillion to date, without including any of those costs in annual budgeting. Ever wonder where $1.6 trillion of our national debt came from?

\* The Heritage Foundation cited an anonymous but "growing list of prominent economists and influencers" calling for the tax cuts to continue. Yet in 2003, 450 of our nation's leading economists, including ten Nobel Prize laureates, signed and published a statement predicting increased income inequality, growing budget deficits and a decrease in the U.S. government's ability to fund essential services or promote economic growth if the tax cuts were enacted. Looks like they might have known what they were talking about.

\* During eight years of the Bush Administration -- with its tax cuts -- job growth was 1 percent, the lowest since 1945. If lower taxes spur job creation, what happened?

\* It is absolutely true that in past years the majority of Americans jobs were created in small businesses. However, it's also true that the likelihood of a small business adding jobs is due, more than anything else, to increased customer demand for its products or services, not the owner's individual tax rate.

\* The Heritage Foundation claimed that restoring previous tax rates for income over $250,000 per year will affect nearly 30 percent of small business owners. But the foundation takes serious liberties with the definition of a small business. According to the Congressional Joint Committee on Taxation, allowing the Bush tax cuts to expire on family income above $250,000 will affect 3 percent of America's small businesses.

\* According to the Tax Policy Center, 1.5 percent of tax filers reporting business income are in the top two income tax brackets that President Obama wants to let expire at the end of this year.

\* A Treasury Department report finds that only 2.5 percent of business owners taxed at the individual rate are in those top two tax brackets.

The idea that allowing the Bush tax cuts to expire -- as Republicans intended -- yet only on income above $250,000 per year will somehow stifle the economy or burden a large proportion of small business owners adds no substance to the public dialog. Instead of meat for a discussion, we're being served very thinly sliced baloney.