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Congress Must End the Tax Cuts for the Wealthy

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Congress has one major piece of unfinished business that must be tackled before the year ends. Policy makers will need to decide what to do about tax cuts that will expire at the end of 2010.

During the Bush administration Congress passed two enormous tax cuts that were skewed to benefit people with the highest incomes. To make the revenue losses appear less extreme, the cuts were phased in over a number of years and then scheduled to abruptly end on December 31, 2010. These gimmicks greatly reduced the 10-year cost of the tax cuts and made them more palatable to anyone concerned about the impact on the federal budget of trillions in lost revenue. But at the same time, supporters of the cuts assumed that Congress would make them permanent before they expired.

Now with the tax cuts fully phased in, the predicted impact on the federal budget has become a reality. In 2009, the cuts were responsible for over one-quarter of the federal government deficit. Of course, the economic downturn was the most important factor driving up the deficit. Fewer people working means people pay less in taxes. And while our safety net is meager, it is still costly when millions of additional people are forced to rely on unemployment insurance, food stamps, and Medicaid.

As members of Congress consider the tax cuts, they need to remember that many voters believe the nation's priority must be putting people back to work. People need jobs. Moreover, the deficit will shrink only after the economy has regained strength, when working people and thriving businesses are paying taxes, and fewer people need to rely on safety net programs.

President Obama is proposing to extend the Bush tax cuts for lower- and middle-income tax payers. But he wants to end the cuts for 2% of tax

payers: couples with incomes over \$250,000 and singles with income over \$200,000. This would bring in \$40 billion in additional tax revenue in 2011 and over \$600 billion over the next ten years.

So what is a responsible member of Congress to do? Should the skewed Bush tax cuts that bestowed the greatest benefits on our wealthiest citizens be extended, allowing the wealthiest to keep the \$40 billion next year? Or should this money be used for job creation? Of eleven options examined by the nonpartisan Congressional Budget Office, extending the tax cuts for the wealthy was the least effective way to create jobs. Providing a job-creation tax credit for businesses would generate four to six times as many jobs, and providing financial aid to state governments to minimize layoffs would create two to three times as many.

In recent years, the rich have gotten richer and everyone else has gotten the left-overs. Ending the Bush tax cuts for the highest-income tax payers would slightly reduce this disparity. The additional tax revenue could create jobs in the short run and reduce the deficit in the longer term. Congress should have no doubt about the best decision to make.

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