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## Would a Capital Gains Tax Cut Stimulate the Economy?

On September 20, the Center on Budget and Policy Priorities released a report, *Would a Capital Gains Tax Cut Stimulate the Economy?* The report examines a proposal being promoted by some Congressional leaders to reduce the maximum tax rate on long-term capital gains from 20 percent to 15 percent. While proponents of a capital gains cut have traditionally claimed it would provide long-term (rather than short-term) benefits for the economy, they now argue it will provide a short-term economic stimulus. The proposal, however, would do little for the economy in either the short or the long term while yielding a bonanza for the highest-income taxpayers. The report's findings include:

The full report can be viewed at  
<http://www.cbpp.org/9-20-01tax.htm>

- The country's current economic challenges center on short-run difficulties. Most economists believe the underlying fundamentals of the economy remain strong and that the principal problem we face is the prospect of a short-run downturn.
- Even those who believe that a capital gains tax cut would encourage business investment have previously acknowledged that it is a poor short-term recovery tool because its effects are felt too slowly.
- A capital gains rate reduction would likely accelerate the collection of tax revenues in the next couple of years, as investors sell more assets to take advantage of the lower capital gains tax rates. These short-term revenue gains, however, would give way to revenue losses in subsequent years — even if the rate cut were only temporary. Lower revenues later in the decade would add to the long-term fiscal burden created by the recently enacted tax cut.
- These long-term revenue losses could exert upward pressure on long-term interest rates. Federal Reserve Chairman Alan Greenspan has stated that the long-term cost of this year's tax cut has placed upward pressure on long-term interest rates. This is preventing the Fed's rate-reduction policy from being as successful as it otherwise would be in stimulating the economy. Further long-term revenue losses, such as those associated with a capital gains tax cut, would exacerbate this problem.
- The best evidence from respected neutral analysts such as the Congressional Budget Office indicates that a capital gains tax cut would produce little economic benefit, even in the long run. CBO found that a capital gains tax cut would increase the size of the economy, as measured by the Gross Domestic Product, by about only *a couple hundredths of one percent after ten years*, an imperceptible change. Similarly, while supporters of a capital gains tax cut often assert that it would spur economic growth by fostering risk-taking, a Congressional Research Service study concluded that "there is no apparent relationship between venture capital investments and the capital gains tax."
- A capital gains tax cut would provide large tax subsidies to the very top earners who garnered a highly disproportionate share of the recently enacted tax cut. Based on estimates by the Congressional Research Service, it is likely that 80 percent of the benefits of this proposal would accrue to the top two percent of taxpayers, since they pay roughly 80 percent of all capital gains taxes. Taxpayers in this group have incomes exceeding \$200,000.