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The public spoke, and it wants jobs

By Former Reps. John B. Breaux (D-La.) and Jim McCrery (R-La.) - 11/17/10 07:16 PM ET

The well-worn tradition of analyzing election results is in full swing on cable news and talk radio. Not surprisingly, talking heads on the right and left disagree on the big question of what it all means. But strip away all the noise and one conclusion is obvious: Voters want Washington to fix the economy or get out of the way.

Lawmakers on both sides of the aisle would be wise to take heed. In the waning days of this Congress, we believe there ought to be bipartisan agreement on at least one important element of the Bush tax cuts: Extending the current tax rates for capital gains and dividends. This is Congress's opportunity to make an immediate and important contribution to job creation, business investment and the economic recovery in general.

Allowing current rates to expire would be a negative shock to the economy. Currently, the maximum tax rate for long-term capital gains and dividends is 15 percent. As those rates expire on Jan. 1, some taxpayers could see a whopping tax hike of 164 percent as top rates on dividends jump to 39.6 percent in 2011, followed in 2013 by another increase to 43.4 percent.

Make no mistake, the impact will be felt broadly, not just by the country's top earners. It will hurt small businesses seeking to expand or just to survive; low- and middle-income workers who are invested in safe, dividend-paying stocks through their pension or 401K; and senior citizens who rely on dividend payments to supplement their fixed monthly incomes.

A study by the Cato Institute found that the level of taxes on dividends has an inverse relationship to the number of companies that pay a dividend. So if the tax rate on dividends increases—even if it's only for high earners — less dividend money will be paid out, hurting investors at all income levels.

If that wasn't bad enough, it will raise the cost of capital for businesses across the board, creating yet another barrier to economic recovery at the worst possible time and making it harder for businesses to create jobs. In a study released earlier this year, former Deputy Assistant Secretary to the Department of Treasury, Bob Carroll determined that allowing the dividends and capital gains tax rates to expire — even if only for those in the top income bracket — would significantly increase the overall tax burden on capital income, leading to reduced aggregate investment and capital formation, which contributes to lower labor productivity. In turn, this would stagnate job growth at a time when our leaders in Washington must be focused on getting Americans back to work.

This view is echoed by one of President Obama's former top economic advisers. Dr. Christina Romer, the previous chairwoman of President Obama's Council of Economic Advisers concluded that such tax increases would have a contractionary effect on our economy, "which stems in considerable part from a powerful negative effect of tax increases on investment."

With an unemployment rate stubbornly remaining near 10 percent, this potential for continued job loss would demonstrate a clear disregard for the message voters so clearly sent in this election. Members of Congress should realize that letting these tax rates expire would be economic malpractice.

The specter of a rate hike also has a negative impact on the markets. Financial advisers are already telling investors to consider the impact of these potential tax hikes when making investment decisions. Without decisive action in the lame-duck, the stock market could see a massive sell-off as investors look to cash out while rates are still low. A Barclay's Capital report found that if the current tax rates are allowed to expire, stock prices could decline by as much as 8 percent, affecting every American's 401K or pension plan holdings, irrespective of their income tax bracket.

The bottom line is as straightforward as the message voters sent Washington on Election Day: Now is not the time to raise taxes on investment income. As they return to work this week members of Congress from both parties must speak clearly and act decisively to extend these rates.

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