Privacy Policy

Keith Hennessey
Assistant to the President for Economic Policy and Director of the National Economic Council
Biography

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Keith Hennessey
Good afternoon from the West Wing of the White House. Last Wednesday marked the 5th anniversary of the 2003 tax relief, and this Sunday is the 7th anniversary of the 2001 tax cut. Just yesterday, the President spoke about the importance of making both tax relief bills permanent. If Congress fails to do so, taxes will go up on 116 million American households – a typical four person family with $40,000 in income would pay $2,345 more in taxes; a single mother with two kids would face a tax increase of $1,615. I look forward to taking questions and providing more information about the importance of providing certainty in the tax code for families, businesses, and our economy.

Hank, from **New York City** writes:
Mr.Hennessey: What is the projecting long term effect(after more than 20 years) of the tax relief for U.S economy?

Keith Hennessey
Our experts project that making the tax cuts permanent would increase the size of our economy by about 0.7%. That may not sound like a lot, but in a $14 trillion economy, that's more than $300 per person per year, forever.

Aaron, from **Minnesota** writes:
I'm a college student. With increases in tuition and other expenses, how will tax reforms affect me?

Keith Hennessey
Well, after you graduate, you'll be in your first post-college job, and you'll experience the pain of paying income and payroll taxes. Like many recent college graduates, you may be struggling to make ends meet, and you're going to need every dollar of your paycheck just to get along. If we don't prevent taxes from going up on January 1, 2011, you'll have less money to spend on food, rent, and paying off your student loans.

In addition, research shows that marginal tax rates affect people's decisions about whether to pursue additional education. The lower tax rates are, the more sense it makes both for you to complete your education, and to pursue more learning after you've graduated.

Max, from **Washington DC** writes:
Dear Mr Hennessey,I can fully understand the importance of fuelling the economy by putting more money into the people's hands. However, in a situation where we're experiencing record deficits, where we have to borrow astronomic amounts of money from China, are you sure that reducing the government's income is the right thing to do? Thanks for taking time to read this, Max

Keith Hennessey

Max – Good question. We think of it a little differently, in that it's your income that the government has to justify taking from you, not the reverse. So we'd probably ask, "With gas prices approaching $4/gallon on

average, is reducing your income (in the future) the right thing to do?" And then we'd answer ourselves "No, it's not."

Also, we're not experiencing record deficits. The deficit is higher this year because we're letting you keep some more of your income as part of the stimulus law, but without the stimulus the deficit would have been below historic averages.

We do have a serious deficit challenge, but it's a long-term problem, and it's driven by trends in future entitlement spending programs (especially Social Security, Medicare, and Medicaid). Our deficit challenge is driven by future spending growth, not by taxes being "too low."

A good indicator of this is when we see that, even after the President cut taxes in 2001 and 2003, the federal government is taking a larger share of total national income (18.9% in 2007) than the historic average (18.3% since about the end of WWII).

Our deficit problem is long-term and driven by spending.

Susan, from **New Jersey** writes:
While some tax relief is in place now, will there be a "locked in plan" for tax relief when you leave office?

Keith Hennessey
That's what we're trying to Congress to pass. The law the President signed in 2003 is in effect through the end of 2010. If Congress does nothing, then taxes will spike upward on January 1, 2011. That would be bad.

We're encouraging the Congress to make the enacted tax relief permanent law, without a "sunset", so that your taxes won't go up in a couple of years.

Susan, from **Derby,KS** writes:
In the stimulus package, was the unemployment extended for those individuals who are on unemployment?

Keith Hennessey
No, it was not. If you're now unemployed and qualify for unemployment insurance, you're eligible for 26 weeks (half a year) of unemployment insurance benefits.

The US national unemployment rate is now 5.0%, which is fairly low, and it's certainly below the historic average. While employment isn't growing rapidly right now, a low unemployment rate suggests that most people who don't have a job can find one.

Cliff, from **Brimfield, Ohio** writes:
Director Hennessey: Has the President's tax policy and with the stimulus checks starting to go out. How long do you think it will take before we see some improvements or are we seeing some now? Thank You

Keith Hennessey
Cliff – excellent question. We're hearing anecdotal evidence now about the positive effects of the stimulus law, but it will be a while before we get official data that allows us to confirm this.

We have seen a slight improvement in the overall economic picture compared with a few months ago, and we anticipate that the second half of this year will be stronger than the first, in part due to the effects of both the stimulus law, and the past rate cuts by the Fed.

Jake, from **WI** writes:
Do you sincerely believe that we are in a recession? According to all economic indicators, the Democrats are wrong in assuming that we are.

Keith Hennessey
No, I don't think we are. The word "recession" is significant in two separate contexts. It is a technical

economic term with a precise definition. A specific group of seven economists use that definition to make the official call. They apply their professional judgment to the aforementioned definition. The opinions of any elected official, or of any of the countless pundits in the mainstream or financial press who throw the term around so loosely, are just that, opinions.

The incorrect but popular definition of "recession" is "two successive quarters of declining GDP". By that measure (the actual definition is more complex), we've had ZERO quarters of declining GDP. And when our experts look at the official data that fit the actual more complex definition, they reach the same conclusion: our economy is growing, albeit much more slowly than we would like.

That's not to suggest that things are great right now. Our economy is facing some serious challenges that it needs to work through, the three most obvious of which are: (1) ongoing problems in the housing market, (2) continued financial market pressures, and (3) high gasoline prices.

Moshe, from **New York City** writes:
Mr. Hennessey, Does the President believe in reducing the income tax rate for middle class Americans? And if so, is there a possiblilty that the Administration will sponsor legislation that will cut income tax rate for middle class workers?

Keith Hennessey
Yes he does, and that's what he did in 2001, and then again in 2003. The President's tax priority going forward is to prevent a future Congress from undoing those successes. As much as we'd like to cut income tax rates in the future, the priority is convincing others not to raise your taxes.

Ted, from **Wilmette, IL** writes:
Is it true that the President's tax cuts have not helped low income workers?

Keith Hennessey
No, it's completely false. The easiest way for me to demonstrate that is to explain what would happen to a single mom with two kids and $30,000 of income if the tax cuts were to expire.

Her taxes would by more than $1600 per year. That's a lot of money to someone trying to raise a family on $30K/year.

Jessica, from **Trenton, NJ** writes:
Mr. Hennessey, can you discuss what type of impact you expect on businesses if the tax cut fails to become permanent?

Keith Hennessey
Small business owners will face massive tax increases if the tax cuts expire. When you hear people in Washington say they want to raise taxes on the rich, remember that most small businesses pay taxes as if they were individuals. Raising the top individual income tax rate would raise taxes on millions of small business owners, from restaurants and dry cleaners, to carpenters and architects.

In addition, taxation of dividend income would in some cases more than double, and capital gains rates would increase from 15 percent to 20. In today's market-driven economy, investors include seniors living on dividend and pension income, families invested in prepaid college tuition plans, and tens of millions of households invested in the market.

Raising taxes on capital income also would lead to less saving and less investment. If instead the capital gains and dividends tax rates are made permanent, we could increase our capital stock by more than two percent, increasing the productivity and wages of American workers.

Finally, higher dividend taxes would undo the corporate governance benefits of the 2003 tax cut. That law created an incentive for firms to pay out profits to their shareholders through higher dividend payments,

rather than retain the earnings in the firm. This allows millions of investors to choose the best investment opportunity for those profits, rather than a few firm managers with different incentives.

Keith Hennessey
Thanks everyone for joining me today on Ask the White House. I hope you will help us explain the importance of making the enacted tax relief permanent, and preventing future tax increases.

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