Tax cuts won't cure economic ills, area analysts say

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Middle-class tax cuts proposed by the House Democrats won't do much to stimulate spending or to propel the economy, local economists say.

Instead, policy-makers should consider measures such as tax credits for companies that invest in technology or for first-time home buyers, they say.

Democratic congressmen proposed a bill that would give tax credits this year and next of up to $150 for single persons and up to $300 for families to compensate for their Social Security taxes. The maximum credit would be available for families with incomes less than $50,000 and for single persons with incomes less than $35,000. Some credits would be available for families with incomes up to $70,000 and for single persons with income up to $50,000.

The credits would be paid by increasing taxes on wealthy people. In 1994, middle-class persons would receive up to $300 in credits for each child.

The measure was vetoed Friday by President Bush.

Area economists see the proposal as weak.

"Tax deduction is the last thing we need now," said Daniel Levy, an economist at Union College in Schenectady. Overall consumption would not improve as a result of tax credits, he said.

Levy supports increasing taxes and decreasing government spending to cut the deficit and help the economy.

"It has little or nothing to do with getting the economy moving at a fast enough pace to get employment up," said Ed Renshaw, an economics professor at the State University of New York at Albany.

"I'm not sure we should take it too seriously," said Hugh Johnson, chief economist with First Albany Corp., responding to the proposal, given the president's veto and the expected difficulty of overriding that veto.

"It would not have any effect on the economy or spending," he said.

Renshaw recommended other ways to spur spending, including tax breaks for first-time home buyers or the ability to borrow money without penalty from an individual retirement account. "I would like a credit to people who bought an American-built car," he said, adding that he would leave it to policy-makers to determine what constitutes an American-built car.

Johnson recommended legislation that restores the investment tax credit. The credit was removed under the 1986 tax act.

He proposes tax breaks if companies purchase technology and equipment that enhances productivity and saves on labor. He said equipment, such as computers, facsimile machines and other communications devices, could help spur business to invest and help move the economy. The tax breaks should be available within a two-year period, he said, thereby motivating companies to invest now rather than later.

He also suggests legislation that would allow more rapid depreciation of buildings and equipment to further spur investment.

Lee Irving, treasurer of KeyCorp, said the Democrats' proposal seems to show that people are paying too much in Social Security taxes, but it doesn't address unemployment problems.

"Congress needs to do something to spur investment, to create jobs," he said.