

## THE ECONOMY WILL SUFFER IF TAX CUTS AND JOBLESS AID ENDS



A tax cut that reaches 160 million Americans and government aid for the long-term unemployment will expire at the end of this year--sucking \$165 billion out of the economy next year--unless Congress takes action. Economists had hoped that the co-called congressional supercommittee would decide whether to extend both measures. But the committee couldn't even agree on how to reach its main goal, cutting \$1.2 trillion from the federal budget deficit. If the tax cut goes away, the average family would pay somewhere around \$1,000 more in taxes next year, the equivalent of an extra tank of gas every two weeks. Someone that earned \$100,000 would pay \$2,000 more. If the long-term unemployment benefits were allowed to end, than about 6 million people would lose weekly checks averaging about \$300. For most of the long-term unemployment, that is their main source of payment.

"There's an awful lot of uncertainty ahead," said Michael Hanson, who is the senior U.S. economists at Bank of America Merrill Lynch. Both of the changes would leave Americans with an estimated \$165 billion less to spend. The Federal Reserve expects the economy to grow only 2.7 percent in the next year, and economists say that the expiration of the two programs could reduce growth by a full percentage point. On Tuesday, the government said that the economy grew at a 2 percent rate in July, August and September, down from earlier estimates of 2.5 percent. To bring unemployment down significantly, the economy must grow more than twice as fast as it grew this summer. Congress could extend the tax cute and unemployment benefits when it returns from Thanksgiving break next week. But the same partisan philosophical differences that sank the supercommittee could defer the debate. At the same time, Congress may be unwilling to force what it essentially a tax increase on tens of millions of Americans just as an election year will begin. Both of the measures were part of a deal struck in December 2010 by President Barack Obama and Republicans in Congress. The cut will apply to the tax that pays for Social Security. The tax applies to the first payment of \$106,800 a person makes in a year. The deal lowered the rate paid by individuals to 4.2 percent from 6.2 percent for this year. Companies will pay a 6.2 rate on their payroll. Some of the Republicans have indicated they could support extending the tax cut, but there would almost certainly be a fight over how to pay for it. Without spending cuts or other tax increases, renewing the Social Security tax cut could swell the deficit. Obama, as part of his jobs bill in the month of September, proposed lowering the rate further, to 3.1 percent, and cutting the employer portion to 3.1 percent up to the first \$5 million on their payrolls. Cuts at that level would pump around \$250 billion more into the economy compared with last year, when individuals and employers both paid the 6.2 percent rate. Obama, speaking Tuesday in New Hampshire, urged the Republicans to continue the tax break.