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Greenstein Assesses Bush Plan

Robert Greenstein, executive director of the Center on Budget and Policy Priorities, said today that the $674 billion "growth package" unveiled by President Bush "represents a radical departure from past, bipartisan actions to help the economy recover from downturns." Greenstein commented that "the plan is remarkable in a number of respects. It is remarkably inefficient as stimulus, costing $674 billion to inject about $100 billion into the economy in 2003, when the economy is weak; remarkable in its fiscal profligacy, swelling budget deficits for years to come; and remarkably tilted toward those at the pinnacle of the income scale, the very group that gains the most from last year's tax cut."

Greenstein noted that "while the plan contains middle-class tax cuts, they are temporary. The middle-class tax cuts simply accelerate tax cuts already enacted. By contrast, the most affluent Americans would receive a lavish new tax cut that is permanent, the elimination of taxes on corporate dividends." He added "over time, middle-class families could be net losers. There is no 'free lunch,' and these tax cuts ultimately would have to be paid for, either through higher interest rates and slower economic growth caused by swollen deficits or through budget cuts, most likely in programs for the middle class and the poor."

He also said that states and working-poor families would likely be immediate losers. States would lose because the dividend tax cut would cost state treasuries $4 billion to $5 billion a year, and the plan contains no offsetting fiscal relief. Working-poor families would lose because they would receive no tax cuts (the plan fails to accelerate the components of last year's marriage penalty relief and child credit expansion that focus on the working poor), and these families could be adversely affected by deeper state budget cuts and higher interest rates.

The full text of Greenstein's statement follows:

Text of Statement

The Administration's $674 billion growth package represents a radical departure from actions taken during previous downturns by Presidents and Congresses of both parties. The proposal is striking in a number of respects.

- **The plan is extremely inefficient as a stimulus.** It would cost $674 billion through 2013 but would put out only $59 billion in the first year, the period when stimulus is needed. With more than $11 in overall cost for every $1 put out this year, the plan may constitute the most inefficient stimulus during any downturn in

recent American history. Furthermore, much of the $59 billion itself would not be injected into the economy in 2003 because it would be saved rather than spent. Both economic research and common sense indicate that tax cuts for high-income individuals are more likely to be saved rather than spent than are tax cuts for middle- and low-income workers, and the dividend tax cut and tax rate accelerations the Administration is proposing — which would account for half of the tax cuts in 2003 — are heavily skewed to the top of the income spectrum. Preliminary data from the Tax Policy Center show that in 2003, some 60 percent of the tax cuts would go to the top 10 percent of taxpayers.

- **The plan is striking in its degree of fiscal profligacy.** It would add at least $925 billion to deficits between 2003 and 2013. (The total figure amounts to at least $925 billion because the Treasury would have to make at least $250 billion in increased interest payments on the debt over this period, as a result of the higher deficits the plan would cause.) It makes sense to increase the deficit during the present period when the economy is weak, but not after the economy has recovered. With the huge costs that will result from the 2001 tax cut, the baby boomers' retirement, and the war on terrorism facing the nation in the years ahead, it is irresponsible for policymakers to be advancing profligate policies that would institute new, permanent claims of this nature on the budget. This action stands in sharp contrast to the steps taken under President Reagan in 1982, when the marked deterioration of the fiscal outlook led to bipartisan action to scale back the tax cut passed the year before, not to large, permanent tax cuts added on top.

- **The plan is heavily tilted to those at the top of the income scale.** While the plan contains middle-class tax cuts, they are *temporary* — they simply accelerate tax cuts that have already been enacted. By contrast, the most affluent Americans would receive a lavish new tax cut that is *permanent* — the elimination of taxes on corporate dividends.

  There is no "free lunch." These tax cuts ultimately would be paid for either by swelling the deficit, which in the long run would likely result in higher interest rates and less economic growth, or by deep budget cuts, most likely in programs for the middle class and the poor. Over time, middle-class families could well be net losers.

- **Two immediate losers would be states and working poor families.** The plan's dividend tax cut would remove more than $4 billion a year from state treasuries, making state budget deficits deeper at a time when states already face their worst fiscal crises in 50 years. Since states must balance their budgets each year, the result would be larger budget cuts and tax increases at the state level. Although some media reports over the weekend suggested the plan would contain some fiscal relief for states, it turns out to contain none. (The plan includes $4 billion for "reemployment training accounts;" this money would finance a new program and does not represent fiscal relief to states.)

  Millions of the low-income working families that pay payroll tax but do not earn enough to owe income tax — such as a married couple with two children that

earns $20,000 a year — could lose because they apparently would receive no tax cuts but could face higher interest rates on purchases they make and be subject to deeper budget cuts in state-financed programs. Interest rates would likely rise for two reasons: 1) eliminating the tax on dividends would make stocks relatively more attractive than bonds, causing interest rates on bonds to rise in order to attract sufficient capital and thereby raising interest rates throughout the economy; and 2) the increase in long-term deficits would likely exert upward pressure on long-term interest rates. Such increases in interest rates would raise the cost of home mortgages and loans for cars and household purchases.

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