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THE ADMINISTRATION'S TAX CUT BLITZ: ASSESSING THE MESSAGE

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On April 15, President Bush gave a speech on taxes that kicked off a two-week effort in which Administration officials are spreading out across the country, participating in 60 or more events in 26 states according to the White House, to promote the Administration's tax cut "growth" package. This analysis examines the basis for some of themes and statements the President made in his speech. These themes and statements are likely to be echoed by an assortment of Administration officials in coming days.

Administration Theme: The Tax Cut Package is Designed to Provide Immediate Relief to the Economy

With concern continuing to mount over the state of the economy, the primary emphasis of the President's speech was to draw a link between the tax cuts and immediate economic stimulus. In his speech, the President made the following statements (all Presidential quotes in this analysis are drawn directly from the text of his April 15 speech, as posted on the White House website):

> "The nation needs quick action by our Congress on a pro-growth economic package. We need tax relief totaling at least $550 billion to make sure our economy grows. And American workers and American businesses need every bit of that relief now…."
>
> "And a significant part of the benefit [from the tax cut package] to our economy will come within the first two years of the plan."
>
> "…economic and job growth will come when consumers buy more goods and services from businesses such as your own. And the best and fairest way to make sure Americans can do that is to grant them immediate tax relief so they have more of their own money to spend or save."

However, contrary to what the President suggested, most of the tax cuts he has proposed would *not* have a large immediate impact. The substantial majority of these tax cuts would occur in years *after* 2004. The official estimates of the Joint Committee on Taxation show that *fewer than six percent* of the tax cuts in the President's package would occur in the current fiscal year, which ends September 30. Only 21 percent of the tax cuts would occur by the end of fiscal year 2004.

	Administration's "growth" package, distribution of its tax cuts by fiscal year
2003	5.5%
2004	15.7%
2005-2013	78.8%

Administration Theme: The "Growth" Package is Specifically Designed to Address the Problems the Economy Now Faces

The President stated on April 15 that "The proposals I announced three months ago were designed to address specific weaknesses slowing down our economy and keeping companies from hiring workers."

In fact, proposals that account for nearly half of the tax-cut "growth" package consist of measures to accelerate provisions of the 2001 tax cut. The 2001 tax-cut package was designed and announced during the early stages of the 2000 Presidential campaign, at a time of large surpluses and robust economic growth, and was not crafted to address the weaknesses the economy faces today. Furthermore, few economists believe that the elimination of tax cuts on dividends — the principal new item in the package — would provide a significant immediate boost to the economy. Indeed, as reports by organizations such as the Committee for Economic Development and analyses and statements by many economists indicate, a broad spectrum of economists believes the package is poorly designed for such purposes. (A companion Center on Budget and Policy Priorities analysis looks at what various economists and economic institutions have said about the Administration's proposals.)

Administration Theme: The Benefits of the Package Would be Widespread

The President advanced this theme by citing the large numbers of people who would benefit from the package, emphasizing how seniors are harmed by the taxation of dividends, and noting that half of Americans own stock. In the April 15 speech, the President said:

> "All together, these tax reductions will help 92 million Americans."
>
> "…some 23 million small business owners will see their taxes cut."
>
> "It [taxing dividends] falls especially hard on seniors, who receive half of all dividend income."
>
> "And since half of American families own stock, the reform will help them save and help our economy grow."

A White House fact sheet linked to the speech went further, repeating a stylized and misleading fact the President has used in previous speeches. The White House Fact Sheet, "Strengthening America's Economy," states that "Under the President's proposal to speed up tax relief, 92 million taxpayers would receive, on average, a tax cut of $1,083 in 2003."

In making these pronouncements, the President and the White House fact sheet did not mention that a small slice of each of these groups would reap huge gains from the Administration's tax cuts while most people would benefit only modestly.

- Analysis of the Administration's tax cut plan by the widely-respected Urban Institute-Brookings Institution Tax Policy Center shows that the average tax cut that tax filers in the middle fifth of the population — the filers right in the middle of the income spectrum — would receive under the "growth" package would be $256 in calendar year 2003, or less than one-fourth the "average tax cut" the Administration cites. Some 80 percent of tax filers would receive less than the $1,083 average tax cut the Administration trumpets. Some 49 percent of tax filers would receive a tax cut of $100 or less.

- By contrast, the top one percent of tax filers would receive an average tax cut of $24,100 in 2003. Those with incomes of more than $1 million would get tax cuts averaging $90,200.

  Indeed, the principal reason the *average* tax-cut figure of $1,083 that the Administration cites is much larger than the tax cut a typical household or family would receive is that in generating these figures, the Administration averaged the massive tax cuts those at the top of the income spectrum would receive with the much more modest tax cuts those in the middle of the income spectrum would get.

- Similarly, slightly more than half of all "small business owners" — 52 percent — would get between $0 and $500 in tax cuts, while small business owners with incomes of more than $1 million would receive tax cuts averaging nearly $93,000.

- In addition, while the share of the population that owns stocks has grown over the years, high-income individuals continue to possess the bulk of such stock holdings. As a result, Tax Policy Center data show that 79 percent of the tax-cut benefits from eliminating taxes on dividend income would go to the 9.7 percent of tax filers with incomes exceeding $100,000, and 29 percent of the benefits would go to the top 0.2 percent of the population — people who make more than $1 million per year.

- Tax Policy Center data also show that nearly 43 percent of the benefits of the dividend exemption that would accrue to elderly individuals would flow to the 2.5 percent of elderly people with incomes exceeding $200,000.

- Elderly people with incomes below $50,000 — a group that represents two-thirds of all of the elderly in the nation — would receive *only 4 percent* of the total dividend tax cut.

Administration Theme: Tax Cuts Can Help Reduce the Deficit

In a striking passage of his April 15 speech, the President stated: "In two years' time, this nation has experienced war, a recession and a national emergency, which has caused our government to run a deficit. The best way to reduce the deficit is with more growth in our economy, which means more revenues to our Treasury and less spending in Washington, D.C."

These sentences are remarkable in two respects. First, they ignore altogether the role that the 2001 tax cuts have played in contributing to our deficit problems. Second, this statement implies that the proposed tax cuts will ultimately *reduce* the deficit, leading to such substantial economic growth that revenues will rise. (Both the President and Vice President Cheney have said on other occasions that the proposed tax cuts would reduce deficits over time.[1]) On both counts, the Congressional Budget Office, among others, has found otherwise.

- Since 2000, the budget has deteriorated by an amount equal to 4.0 percent of the economy (i.e., of the Gross Domestic Product). CBO data indicate that nearly *one-third* of this deterioration has been caused by tax cuts enacted in the last two years, making the tax cuts one of the principal factors behind the budget deterioration. The CBO data also show that the share of the budget deterioration that is attributable to the tax cuts grows larger each year over the course of the decade.[2]

- CBO recently issued a study assessing the potential economic effects of the President's budget. It found that the economic effects are "not obvious," "could be either positive or negative," and "would probably be small." Accordingly, the report also found that the likely impact of the President's budget on deficits, when such effects are taken into account, is similar to the impact when such effects are *not* taken into account, and that the effects could either lower the deficit predictions modestly or raise them modestly.

- Furthermore, the most recent *Economic Report of the President*, which the President's own Council of Economic Advisers issued in February 2003, explicitly acknowledges that tax cuts are unlikely to pay for themselves.[3] Similarly, the President's budget contains no indication that the tax cuts would come close to paying for themselves. To the contrary, the budget projects that

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[1] See Richard Kogan, "Will the Tax Cuts Ultimately Pay for Themselves?," Center on Budget and Policy Priorities, March 3, 2003.

[2] See Richard Kogan, "Are Tax Cuts a Minor or Major Factor in the Return of Deficits? What the CBO Data Show," Center on Budget and Policy Priorities, February 12, 2003

[3] Council of Economic Advisers, *Economic Report of the President*, pp. 57-58.

under the President's policies, federal revenues will grow at a slower annual rate between 2001 and 2008 than in any comparable period over the last *five decades*. The budget also projects that under Administration policies, federal income tax revenues will grow at only one-sixteenth the annual rate they grew between 1990 and 2001. In addition, the budget projects that under Bush policies, the budget will be in deficit every year for the next 50 years.

A Bit of Revisionist History

The Administration's "growth" package would accelerate implementation of many of the 2001 tax cuts forward to this year. In discussing this feature of his package, the President has often attributed the slow phase-ins of most provisions of the 2001 tax cut to Congress, as though he had little to do with it. In his April 15 speech, the President stated:

> "In 2001, the Congress passed broad tax reductions in income taxes. And promised much of this tax relief for future years. With the economy as it is, the American people need that relief right away. The tax cuts are good enough for the American taxpayers three or five or seven years from now, they are even better today.
>
> Instead of lowering taxes little by little, the Congress should do it all at once and give our economy the boost it needs."

Yet the President's own proposal to Congress in 2001 gradually phased in its key provisions. Under the President's original plan, his proposed rate reductions, expansion of the child credit, and marriage penalty provisions would not have taken full effect until 2006. The final legislation did lengthen the phase-in periods for the child credit and marriage penalty provisions, but both the President and Congress were heavily involved in crafting this strategy. The primary reason for the slow phase-ins of the tax cuts in both the President's original proposal and the final legislation enacted in 2001 was to lower the cost of the package so that the tax cuts would appear less expensive than they really are, thereby enabling more tax cuts to be packed within the total amount allowed for that tax legislation.

A further irony here is that in 2001, the President and Congressional leaders had to hold the overall cost of the tax cut to $1.35 trillion over ten years to secure enough votes to pass it. The official cost of the proposal was reduced from the $1.64 trillion the President had originally proposed to $1.35 trillion to meet the concerns of a number of centrist Senators of both parties who were uneasy about the proposal's large cost. At the time, budget surpluses were forecast as far as the eye can see. Today, by contrast, the Administration itself projects deficits every year for the next 50 years. In other words, a faster pace for these tax cuts was considered ill-advised and unaffordable at a time of large budget surpluses, but the Administration now supports a faster pace at a time when surpluses have been replaced by an ocean of red ink. Indeed, one reason that the Administration and some of its supporters may be so intent on accelerating the tax cuts enacted in 2001 is that doing so will ensure that those tax cuts are fully in effect — and thus locked in politically — *before* the mounting toll of deficits is fully understood by the public and pressures may mount to defer or cancel some of the tax cuts not yet in place.