Minnesota Budget Project

The 2003 Jobs and Growth Package: What Does It All Mean?

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Following months of debate and political wrangling, Congress passed and President Bush signed the "Jobs and Growth Tax Relief Reconciliation Act of 2003" this past May. This legislation, principally composed of dividend tax reductions and the acceleration of previously enacted income tax reductions, has been hailed by the Bush Administration as a much-needed "jump-start" to the struggling economy. Many economists, business leaders, and policy analysts, however, are concerned with a number of shortcomings in the legislation, including:

- the package will not provide enough stimulus to restart the flagging economy any time soon;
- the tax cuts distribute the benefits disproportionately to very wealthy taxpayers;
- certain provisions completely exclude millions of low-income taxpayers;
- "sunsets" and other accounting gimmicks mask the true costs of the legislation;
- the tax provisions are likely to cause additional losses of state tax revenues at a time when states are facing the most severe budget crisis since World War II; and
- the plan will result in enormous deficits that will hobble long-run economic growth and saddle future generations with massive government debt.

This document describes the 2003 Jobs and Growth package, including the distribution of benefits nationally and in Minnesota, who was left out, its cost, whether it is likely to stimulate the economy, its impact on both the federal deficit and on states, the public response, and what the resources devoted to the package could have been used for instead.[1]

Main Components of the 2003 Jobs and Growth Package

The main provisions in the 2003 Jobs and Growth package include:[2]

- **Acceleration of Income Tax Rate Cuts for Upper-Income Taxpayers.** In 2003, the individual income tax rates on the top four brackets are reduced from 27%, 30%, 35%, and 38.6% to 25%, 28%, 33%, and 35%. These changes were scheduled for 2004 and 2006.
- **Acceleration of Middle- and Upper-Income Marriage Penalty Relief.** In 2003 and 2004, the standard deduction for joint filers will be twice the size of the standard deduction for single filers and the start of the 25% tax bracket for joint filers is set equal to twice that for single filers. These provisions otherwise would have been phased in between 2005 and 2009. Marriage penalty relief for low-income working families through the Earned Income Tax Credit (EITC), which is scheduled to take effect in 2008, is **not** accelerated.
- **Acceleration of Child Tax Credit Increases.** The Child Tax Credit is increased from $600 per child to $1,000 in 2003 and 2004, instead of phasing in from 2005 to 2010. The increase in the portion of the Child Tax Credit that is refundable, which benefits low- and moderate-income families, is **not** accelerated and will take place in 2005.
- **Acceleration of the Expansion of the 10% Tax Bracket.** The amount of income subject to the 10% tax bracket is expanded to the first $7,000 (up from $6,000) of federal

[1] See also Robert J. Kozlowski, *The Bush Stimulus Plan: Analysis and Alternatives*, Minnesota Budget Project, www.mncn.org/bp/stimulus.htm.
[2] U.S. Department of the Treasury, *Tax Provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003*, www.treasury.gov/press/releases/js408.htm.

taxable income for single filers and to $14,000 (up from $12,000) for joint filers in 2003 and 2004. This expansion otherwise would have occurred in 2008.

- **Reduction of Taxes on Dividends and Capital Gains.** The maximum tax rate on dividends and capital gains in 2003 to 2008 will be 15%; for taxpayers in the 10% and 15% income tax brackets, the rate will be 5% in 2003 to 2007 and 0% in 2008. Currently, dividends are taxed the same as wage income, and capital gains are taxed at 10% for taxpayers in the 10% and 15% income tax brackets and at 20% for those in higher brackets, with a special 8% rate for long-term gains.
- **Increased Expensing Limit for Small Businesses.** The maximum amount of investment that can be deducted from current business taxes (instead of amortized) is increased from $25,000 to $100,000 in 2003 to 2005.
- **Fiscal Relief to States.** About $10 billion will be distributed to states by temporarily raising the federal government's share of Medicaid costs from April 1, 2003 through June 30, 2004. In addition, the legislation provides grants worth $5 billion each in federal fiscal year (FFY) 2003 and FFY 2004 that states can use for broader budgetary relief.[3]

Who Benefits?

The tax benefits under the Jobs and Growth package are unevenly distributed. As shown in Table 1, while the average tax cut in 2003 for all Americans is $920, the average is skewed by the very large tax cuts received by those with the highest incomes. The 20% of the population with the lowest incomes will receive an average tax cut of only $12 in 2003, the second 20% an average of $109, the middle 20% an average of $298, and the fourth 20% an average of $667, all well below the overall average of $920.[4]

Table 1: Tax Cuts By Income Group, 2003-2006

Income Group	Average Income (2003)	Average Tax Cut				
		2003	2004	2005	2006	4-Year Total
Lowest 20%	$9,900	$12	$20	$3	$1	$36
Second 20%	$22,000	$109	$139	$13	$10	$271
Middle 20%	$36,600	$298	$366	$47	$32	$743
Fourth 20%	$59,800	$667	$757	$168	$84	$1,676
Next 15%	$103,000	$1,819	$1,954	$678	$247	$4,699
Next 4%	$217,000	$3,799	$4,321	$2,111	$1,100	$11,331
Top 1%	$1,082,000	$28,414	$33,516	$22,769	$11,935	$96,634
ALL	**$60,100**	**$920**	**$1,051**	**$457**	**$224**	**$2,651**

Source: Institute on Taxation and Economic Policy Tax Model

The benefits of the tax cuts also vary greatly by household type, with single parents receiving the smallest tax cuts and married parents the largest. The median tax cut for single parent households in 2003 is only $5, while married parent households receive a median tax cut of $958. For taxpayers without children, the median tax cut is $50 for single persons and $332 for married households.[5]

Table 2 shows what share of the total tax cuts go to each income group, and indicates that the vast majority of tax cuts go to high-income taxpayers with practically no tax savings accruing to

[3] See Minnesota Budget Project, *How Did Minnesota Use Its Federal Fiscal Relief?*, www.mncn.org/bp/fedfiscal.htm.
[4] Citizens for Tax Justice, *Final Tax Plan Tilts Even More Toward Richest*, www.ctj.org/pdf/sen0522.pdf.
[5] Citizens for Tax Justice, *Most Taxpayers Get Little Help from Latest Bush Tax Plan*, www.ctj.org/pdf/2003statecut.pdf.

those at the bottom of the income scale. From 2003 to 2006, the bottom 60% of households receive only 7.9% of total tax cuts, while the richest 20% of households receive 79.7%.[6]

While it is sometimes argued that the better-off pay a larger share of total taxes and therefore should receive a larger share of tax cuts, the cuts in the Jobs and Growth plan are out of proportion. For example, the middle 20% of the population pays 9.7% of total federal taxes, yet only receives 5.6% of total tax cuts, while the top 1% of the population pays 22.9% of federal taxes and receives 36.3% of the tax cuts.[7] This skewed distribution of benefits is difficult to reconcile with general notions of fairness.

Table 2: Share of Tax Cuts By Income Group, 2003-2006

Income Group	Share of Income (2003)	Share of Total Federal Taxes (2003)	Share of Tax Cuts from Jobs and Growth Plan				
			2003	2004	2005	2006	4-Year Total
Lowest 20%	3.5%	1.2%	0.3%	0.4%	0.1%	0.1%	0.3%
Second 20%	7.5%	4.4%	2.3%	2.6%	0.6%	0.9%	2.0%
Middle 20%	12.5%	9.7%	6.4%	6.9%	2.0%	2.8%	5.6%
Fourth 20%	20.2%	18.8%	14.4%	14.3%	7.3%	7.5%	12.5%
Next 15%	25.8%	27.1%	29.5%	27.7%	22.1%	16.4%	26.4%
Next 4%	14.1%	15.8%	16.4%	16.3%	18.4%	19.5%	17.0%
Top 1%	16.6%	22.9%	30.7%	31.7%	49.5%	52.8%	36.3%
ALL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Institute on Taxation and Economic Policy Tax Model. "Share of Total Federal Taxes" includes personal income taxes, payroll taxes, corporate income taxes, excise taxes, and estate taxes, and is before the 2001, 2002, and 2003 tax cuts.

How Much Will Minnesotans Save?

The distribution of tax benefits in Minnesota mirrors the national trends, as shown in Table 3. The poorest 20% of Minnesotans will see their federal tax bills fall by only $26 on average in 2003 while the wealthiest 1% of Minnesotans will save $21,899.[8] Over the first four years of the tax cuts, the poorest 20% of Minnesota taxpayers will save, on average, $74 in taxes while the richest 1% will save $72,324.

Table 3: Tax Cuts By Income Group, Minnesota, 2003-2006

Income Group	Average Income (2003)	Average Tax Cut				
		2003	2004	2005	2006	4-Year Total
Lowest 20%	$11,100	$26	$42	$4	$2	$74
Second 20%	$25,100	$138	$187	$28	$23	$376
Middle 20%	$41,100	$404	$487	$86	$58	$1,035
Fourth 20%	$64,200	$810	$920	$231	$101	$2,062
Next 15%	$101,000	$1,959	$2,062	$776	$250	$5,047
Next 4%	$205,000	$3,657	$4,064	$1,900	$824	$10,446
Top 1%	$860,000	$21,899	$25,365	$16,436	$8,625	$72,324
ALL	**$60,100**	**$935**	**$1,054**	**$429**	**$195**	**$2,613**

Source: Institute on Taxation and Economic Policy Tax Model

[6] Citizens for Tax Justice, *Final Tax Plan Tilts Even More Toward Richest*.
[7] Ibid and Citizens for Tax Justice, *Effects of First Three Bush Tax Cuts Charted*, www.ctj.org/pdf/allbushcut.pdf.
[8] Citizens for Tax Justice, *The Bush Tax Plan, State-by-State*, www.ctj.org/pdf/gwb03st.pdf.

Table 4 breaks down the tax cuts by income group under the Jobs and Growth plan and, as in the national data, shows that most of the tax savings goes to high-income taxpayers. From 2003 to 2006, the bottom 60% of Minnesota households will receive 11.4% of total tax cuts, while the richest 20% of households receive 72.9%.[9] This is a slightly fairer distribution than for the nation, which may reflect the fact that Minnesota has a less unequal income distribution than the nation as a whole. Most Minnesotans have higher incomes than their national counterparts (for example, the bottom 20% of Minnesota households have an average income of $11,100, compared to an average income of $9,900 for the bottom 20% of American households), while the richest 20% of Minnesotans have lower average incomes than the richest 20% of Americans.

Table 4: Share of Tax Cuts By Income Group, Minnesota 2003-2006

Income Group	**2003**	**2004**	**2005**	**2006**	**4-Year Total**
Lowest 20%	0.5%	0.8%	0.2%	0.2%	0.6%
Second 20%	2.9%	3.5%	1.3%	2.3%	2.9%
Middle 20%	8.6%	9.2%	4.0%	5.9%	7.9%
Fourth 20%	17.2%	17.4%	10.7%	10.3%	15.7%
Next 15%	31.2%	29.2%	27.0%	19.1%	28.7%
Next 4%	15.4%	15.2%	17.4%	16.6%	15.7%
Top 1%	24.1%	24.8%	39.4%	45.5%	28.5%
ALL	**100%**	**100%**	**100%**	**100%**	**100.0%**

Source: Institute on Taxation and Economic Policy Tax Model

Who Was Left Out?

One of the most glaring omissions of the Jobs and Growth plan is the failure to make the increase in the Child Tax Credit refundable for low-income families who pay little or no federal income taxes, though they generally pay significant amounts of their incomes in payroll taxes. While over 28 million American families will receive refund checks as a result of the expansion of the Child Tax Credit from $600 per child to $1,000 this year, more than 9 million families will receive nothing from that change.[10] These families represent a full 25% of families with children under age 17 who earn less than $110,000 (the current level at which the Child Tax Credit starts to phase out). In Minnesota, 108,000 families with children under age 17 and who earn less than $110,000 — 16% of all such families — will receive nothing from the Child Tax Credit expansion. Consequently, 198,000 low- and moderate-income Minnesota children will not benefit from this tax change.

The original U.S. Senate stimulus bill included a provision to make these families eligible for the expanded Child Tax Credit by making the credit fully refundable. However, that provision was not included in the final legislation. Attempts have been underway to expand the provision to make these over 16 million low- and moderate-income children eligible for the full Child Tax Credit refund. However, it has been difficult to reconcile the Senate position, which would cover these children under the expanded Child Tax Credit, with the House position, which includes additional tax cuts for upper-income families (by raising the income level at which the Child Tax Credit phases out from $110,000 to $150,000).

What Will It Cost?

While the final Jobs and Growth legislation was designed to keep the 10-year cost of the plan below $350 billion, it only stays under this cap by having some portions of the bill expire, or

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[9] Ibid.

[10] Citizens for Tax Justice, *Bush Tax Plan's Child Credit Boost Leaves Behind One in Four of America's Children,* www.ctj.org/pdf/2003statekid.pdf.

"sunset," before 2013. For example, the expansion of the Child Tax Credit is set to expire in 2004, which keeps the cost of this provision at $32 billion. However, if the expanded Child Tax Credit is extended through 2013, as the administration and Congressional leaders have expressed a desire to do, the cost of the expanded Child Tax Credit nearly triples to $90 billion.[11]

Economists at the Center on Budget and Policy Priorities estimate that if all of the sunsets in the Jobs and Growth bill are extended through 2013, the cost of the plan will balloon to at least $807 billion and may even top $1 trillion. Further, if the provisions in the 2001 tax cut legislation, all of which are set to expire in 2010, are extended as well, the combined cost would climb to between $1.25 trillion and $1.5 trillion. These figures may represent a more accurate estimate of the true costs of recent tax policy since many lawmakers have expressed a commitment to extend all of the sunset provisions through 2013 and beyond. As House Speaker Dennis Hastert put it, "The $350 [billion] number takes us through the next two years, basically. But also it could end up being a trillion-dollar bill, because this stuff is extendable."[12]

The extensive reliance on accounting gimmicks to vastly understate the true costs of the stimulus package has caused *The Economist*, an influential free-market-oriented British weekly, to label the Bush tax cut "disingenuous and risky."[13] *The Economist* argues that the Bush tax cut is disingenuous because it greatly underestimates the full cost of cuts and ignores mounting deficits and future demands on entitlement programs such as Social Security and Medicare as baby-boomers reach retirement age, and risky because the tax cuts are not designed for effective short-term stimulus and will instead greatly weaken the federal government's ability to pay for future liabilities.

Will It Work?

Many question how effective a stimulus the Jobs and Growth package will actually provide. One aspect of the plan that hampers its stimulative effect is that its impact is not immediate. Most economists agree that in order to boost the economy out of a temporary downturn or "slow patch," overall spending should be increased by temporary tax cuts, which indirectly increase consumer spending, and/or direct government spending increases, usually resulting in short-term deficits. Once the economy has returned to a solid growth path, these temporary measures should be stopped in order to prevent the economy from "over-heating," which can lead to rapid inflation, and in order to pay off the debts accrued during the recession. In contrast, the Jobs and Growth package takes time to unfold, with much of the tax cuts not occurring until the 2004 tax year, and ongoing cuts in 2005, 2006, and beyond. Because little stimulus is delivered in the short-term when it is needed, and because the tax cuts are not temporary, but instead continue out to future years when they could cause inflation, a more likely outcome from the Jobs and Growth plan is that unemployment will remain at its highest level in 9 years and long-term debts will balloon, particularly if tax provisions are allowed to continue past their sunset dates.

The centerpiece of the Jobs and Growth package is the steep cut in taxes on investment income, promoted by the administration as a way to boost the economy out of its doldrums. But according to *The Economist,* "nobody trying to jumpstart the economy would begin with dividend taxes,"[14] because tax savings from investment income, accrued disproportionately to

[11] Center on Budget and Policy Priorities, *New Tax Cut Law Uses Gimmicks To Mask Costs*, www.cbpp.org/5-22-03tax.htm.
[12] Center on Budget and Policy Priorities, *True Cost of New Tax Legislation May Reach $1 Trillion*, www.cbpp.org/5-28-03tax.htm.
[13] "The latest Bush tax cut: Disingenuous and risky," *The Economist*, May 31, 2003.
[14] Ibid.

the wealthy, tend to be saved at much higher rates than tax savings to middle- and lower-income households, which tend to be spent more immediately.

An example of a more appropriate stimulus measure, rather than reductions in taxes on dividends, would be a temporary payroll tax cut. An immediate cut in payroll taxes would be a much more effective stimulus for at least three main reasons:

- Since payroll taxes are regressive (poorer workers pay a larger share of their incomes in payroll taxes than wealthy earners) and since low- and moderate-income workers spend more of their incomes, a larger proportion of the tax savings would be spent immediately, causing demand for a wide range of goods and services to increase quickly and dramatically;
- Since payroll taxes are also paid by employers, cuts in payroll taxes make hiring and retaining workers cheaper for businesses and cut overall employment costs, making it easier for businesses to stay afloat and to expand employment; and
- Payroll tax cuts can be enacted quickly by simply reducing withholding in paychecks so that the increased after-tax income can flow into workers' pockets – and then into cash registers – much more rapidly than any tax cuts that must wait until April 15 of the following year to be felt fully.

Since the start of the present Bush Administration, 2.6 million jobs have been lost – 2 million of which have been lost since the 2001 tax cut.[15] If recent history is any guide, this long-term tax cut tilted heavily toward the wealthy is likely to do very little, if anything, to improve employment and incomes in the short run while doing a great deal to worsen the federal government's long-term ability to meet its obligations.

Deficits and the Debt

Following limited tax increases under both Presidents George H.W. Bush and Bill Clinton in the early 1990s, federal deficits steadily fell and surpluses were attained by the end of that decade. Even as recently as the current Bush Administration's first budget, released in April 2001, a $334 billion surplus was projected for 2003. According to Princeton economist Paul Krugman, "In its second budget, released in February 2002 — that is, after the administration knew about the recession and Sept. 11 — it projected a deficit of only $80 billion this year, and an almost balanced budget next year. Just six months ago, it was projecting deficits of about $300 billion this year and next."[16] This July, the White House's Office of Management and Budget (OMB) released new estimates that the federal deficit would reach $455 billion in 2003, the largest annual shortfall ever, and $475 billion in fiscal year 2004.[17] According to these new projections, which do not include the costs of operations in Iraq and Afghanistan – currently running at about $5 billion per month — beyond this fiscal year, nearly $2 trillion would be added to the national debt by 2008, bringing the debt total to $8.6 trillion.

Large deficits and a mounting national debt are serious economic problems for a number of reasons. The most common – and contentious – focus of debate on deficits is their effect on interest rates. In order to finance the growing debt, the U.S. government will need to convince investors to move a couple trillion dollars away from other investments and into U.S. bonds. In order to do this, the government will need to increase the interest rates offered on those bonds. Macroeconomic models used by the Federal Reserve Bank and the International Monetary Fund (IMF) "suggest that long-term interest rates would rise by half a percentage point after one year

[15] Paul Krugman, "Passing It Along," *The New York Times*, July 18, 2003.
[16] Ibid.
[17] David E. Rosenbaum, "White House Sees a $455 Billion Gap in '03 Budget," *The New York Times*, July 16, 2003.

and a full point after ten years if America's budget deficit rose by 1% of GDP."[18] By current estimates, then, long-term rates could rise between 2% and 4% if projected deficits are not reversed. An increase of only 1 percentage point in long-term interest rates on U.S. bonds adds tens of billions of dollars in annual interest costs. For instance, if the national debt rises to $8.6 trillion, as it is estimated to do by 2008, then an increase of 2% to 4% in U.S. bonds will raise federal interest payments by between $172 billion and $344 billion per year.

Since interest rates tend to move together, as the rates on government securities rise so do the rates on mortgages, credit cards, and student loans, as well as business and personal loans. Increases in the interest rates on all of these types of debt lead to rising costs to consumers and businesses. Over the past few months, one of the few bright spots in the U.S. economy – steady consumer spending – has been in large part the result of a flood of mortgage refinancing while rates have been relatively low. Mortgage refinancing – estimated to total about $2.3 trillion this year alone[19] — has cut mortgage payments for many homeowners, leaving more cash in their pockets to spend on other goods and services. When mortgage rates rise, as they have already started to do, then homeowners have to spend more on mortgage payments, forcing them to cut back spending in other areas. The same story holds for other types of loans, such as credit cards and student and personal loans.

As the costs of these loans rise, consumers will have to cut back on housing purchases and education as these become less affordable. Similarly, business investment, which has been lagging severely since the "tech bubble" burst, is very sensitive to the costs of borrowing. High interest rates cause businesses to forgo investment projects, further undercutting the sputtering business sector. The higher interest rates that accompany mounting government debt, then, would hamper the economic recovery by damping both consumer and business spending.

Another serious problem with rising deficits is that interest payments (and payments to decrease the overall debt) crowd out other priorities and drain the government's ability to meet citizens' needs. Interest payments on the debt last year already totaled around $171 billion, which is more than was spent on Medicaid and the Children's Health Insurance Program (CHIP) combined.[20]

With mounting debt, eventually taxes will have to be raised or government spending cut or both in order bring the budget back into line – if not balanced, at least returned to a level at which interest on the debt is sustainable. According to Laura D'Andrea Tyson, Chair of the Council of Economic Advisers in the Clinton Administration and current Dean of the London School of Economics, if the deficits continue to rise as predicted and "if Social Security, Medicare, defense, and interest payments on the debt are spared the budgetary axe, government spending on everything else – from education to homeland security – would have to be slashed by more than 80% to restore budgetary balance."[21] Rising deficits would leave Americans with very grim choices over which important programs to cut and how severely to raise taxes in the future.

An even more grave consequence of exploding deficits in the eyes of many economists is the "crowding out" of private investment as the government must use more money to pay for its budgetary shortfalls as well as interest payments on its accumulated debt. As investors are

[18] U.S. Gross Domestic Product (GDP) currently stands at around $10.7 trillion so every $107 billion increase in deficits represents about 1% of annual GDP. "Economics Focus: The Price of Profligacy," *The Economist*, January 23, 2003.
[19] Joshua Partlow, "Refi Crush Leaves a Few Bitter," *The Washington Post*, August 9, 2003.
[20] *Budget of the United States Government (2004)*, www.whitehouse.gov/omb/budget/fy2004/.
[21] Laura D'Andrea Tyson, "The Bush Tax Cuts Are Sapping America's Strength," *Business Week*, August 11, 2003.

induced to purchase government bonds, hundreds of billions of dollars per year are diverted away from more productive investments, and Americans' living standards are eroded. Economic models based on those developed by N. Gregory Mankiw, one of President Bush's chief economic advisors, predict that the current deficits have already lowered future income significantly. According to economist William Gale of the Brookings Institution, these models "indicate that the decline in the fiscal outlook since January 2001 has reduced…national income per household by $2,300 in 2012. These effects will persist over time. To put it differently, controlling the deficit is a pro-growth policy."[22]

It makes economic sense to run temporary deficits during recessions in order to stimulate the economy but the tax cuts in the Jobs and Growth plan are not pro-growth: these cuts are not well targeted to produce the largest "bang for the buck" nor are they temporary. Consequently, the Jobs and Growth package is more likely to hamper economic growth in the long run.

Impact on the States

Most state governments largely follow federal tax definitions in calculating their state taxes. This is called "federal conformity," and it reduces complexity for taxpayers. Because of federal conformity, tax changes enacted by the federal government in the Jobs and Growth package are likely to cost state governments about $3 billion in 2004 and 2005.[23] According to the Center on Budget and Policy Priorities, "This loss of tax revenue, if states do not act to reverse it, would undermine the stimulative impact of the federal tax package and partially offset the direct aid to states contained in the bill."[24] As a result of mounting budgetary shortfalls at the state level, many states will have to make even deeper cuts into public services or find other increased revenues to offset these losses.

These revenue losses stem from three components of the Jobs and Growth plan:

- Expansion and extension of "bonus depreciation" for businesses;
- Expansion of the amount that small businesses can deduct from their tax bills for equipment purchases (known as "Section 179"); and
- Increasing the standard deduction for married couples.

If the federal tax cut provisions in the Jobs and Growth plan are extended beyond their sunset dates, states could lose over $18 billion over the next ten years unless they "decouple," or not conform to the federal changes. Table 5 below breaks down the cost to states from each of these changes for 2003, 2004, and the first 10 years of the legislation if these provisions are extended.

Table 5: Estimated Lost Tax Revenue to States from the Jobs and Growth Package ($ in billions)

Federal Tax Changes	**2004**	**2005**	**2004-2013** (if provisions are made permanent)
Expansion of Bonus Depreciation	$1.1	$0.6	$12.5
Section 179 Expensing	$0.6	$0.5	$5.2
Standard Deduction Increase	$0.1	$0.1	$0.7
Total	**$1.8**	**$1.2**	**$18.4**

Source: Center on Budget and Policy Priorities

[22] William G. Gale, *Perspectives on Long-Term Budget Deficits*, Testimony Submitted to the U.S. House of Representatives Committee on the Budget, www.brook.edu/views/testimony/gale/20030724.htm.
[23] Center on Budget and Policy Priorities, *Federal Tax Changes Likely to Cost States Billions of Dollars in Coming Years*, www.cbpp.org/6-3-03sfp.htm.
[24] Ibid.

Minnesota chose to conform to two of these measures — the section 179 expensing and standard deduction increase — but did not fully conform to bonus depreciation changes, the most expensive provision. This continues Minnesota's decision not to conform to a similar costly bonus depreciation provision in the previous federal stimulus bill. These conformity decisions mean a loss of tax revenue to Minnesota of $103.3 million in the 2004-05 biennium.[25] Minnesota is estimated to receive $360.8 million in FY 2004 and FY 2005 from the state fiscal relief portions of the Jobs and Growth package;[26] about 29% is offset by the lost tax revenue.

The long-term revenue loss could also be significant if these tax provisions are not allowed to expire. For example, if the federal section 179 expensing provisions are extended and Minnesota continues to conform to that change, Minnesota would lose approximately $172 million in state tax revenue from 2004 to 2013 from that provision alone.[27]

What Do the People Think?

Recent opinion polls indicate that while most Americans agree that a stimulus policy is necessary, they do not agree that the administration's approach is the best way to jump-start the economy. According to an NBC-Wall Street Journal poll conducted in mid-May, "More than six out of 10 of those surveyed said they agreed that Bush's economic policy relies too heavily on tax cuts and not enough on direct job creation, that it benefits the wealthy more than average Americans and that it will increase the federal budget deficit."[28] Among five options offered in the poll, respondents favored direct aid to states as the best way to stimulate the economy.

These nagging doubts about the stimulus plan were confirmed in a recent Harris Poll in which only 34% of those surveyed agreed that the tax cuts were "generally fair" while 54% categorized the cuts as "generally unfair."[29] Sixty percent of responders agreed that "low income workers" would benefit "only a little" or "not at all" from the cuts while 72% thought that "the rich" would benefit "a lot" or "some." Aside from fairness, responders were skeptical of the effectiveness of the cuts, with a near-even split between respondents agreeing that the plan would strengthen the economy in the long run (45%) and those who answered that the cuts would weaken the economy or have no effect (44%).

What Could the Tax Cut Have Bought?

The Jobs and Growth plan's tax cuts are particularly irresponsible in light of commitments already made to current and future spending needs. A recent report commissioned by former Treasury Secretary Paul O'Neill indicates that the present value of future tax revenue will fall short of spending commitments by a staggering $44 trillion.[30] Among the many shortfalls and commitments are:

- Social Security and Medicare's streams of revenues are estimated to fall about $24 trillion short of future promised benefits.[31]
- The administration's proposed Medicare prescription drug benefit, which is not included in the above estimate, will cost at least $400 billion over the next decade.[32]

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[25] Minnesota House of Representatives Fiscal Analysis Department, *Summary of the Fiscal Actions of the 2003 Legislature*, www.house.mn/fiscal/files/03budsum.pdf.
[26] Center on Budget and Policy Priorities.
[27] Center on Budget and Policy Priorities, *Federal Tax Changes Likely to Cost States Billions of Dollars in Coming Years*.
[28] David S. Broder, "The Tax-Cut Skeptics Back Home," *The Washington Post*, May 27, 2003.
[29] The Wall Street Journal Online, *Americans Fear New Tax Cuts Will Unfairly Benefit the Rich*, June 20, 2003.
[30] "America's Taxes," *The Economist*, August 2, 2003.
[31] The Concord Coalition, *Facing Facts: The Truth about Entitlements and the Budget*, June 4, 2003, www.concordcoalition.org/facing_facts/alert_v9_n3.html.

- Peacekeeping and rebuilding in Iraq, also not included in the $44 trillion shortfall estimate, will cost anywhere from $100 billion over the next three years (according to Iraq's American administrator L. Paul Bremer) to as much as $450 billion (according to the Brookings Institution).[33]
- Updating the nation's energy grids and power lines to prevent future wide-ranging blackouts, something the Bush Administration has said must be done but has not yet included in any of its budgets, will cost between $50 and $100 billion.[34]
- In homeland security, a top priority of this administration, it is estimated to cost $12 billion over the next three years to fully support state and local emergency personnel.[35]

It's clear there is no room in the budget for both these spending commitments and the cost of the Jobs and Growth plan.

Conclusion

Considering the relatively mild stimulative effect on short-term economic activity and the likely damaging impact on the long-term fiscal position of federal and state governments, as well as the heavy tilt toward high-income earners and the essential alternative uses of federal resources that are going unmet, it is difficult to justify this tax cut. Better-focused and more equitable stimulus packages, such as a temporary payroll tax holiday accompanied by moderate spending increases in vital areas, would have made much more sense.

[32] Augustine Faucher, "MSR = Massive, Stupefying Red (Ink)," *The Dismal Scientist*, July 31, 2003.
[33] David Ignatius, "Bush's Neverland Economics," *The Washington Post*, August 19, 2003.
[34] "Power Grid Needs $50B-$100B in Work," Reuters News Service, August 17, 2003.
[35] Laura McClure and Mark Follman, "What the Bush Tax Cut Could Have Bought," *Salon.com*, May 29, 2003.