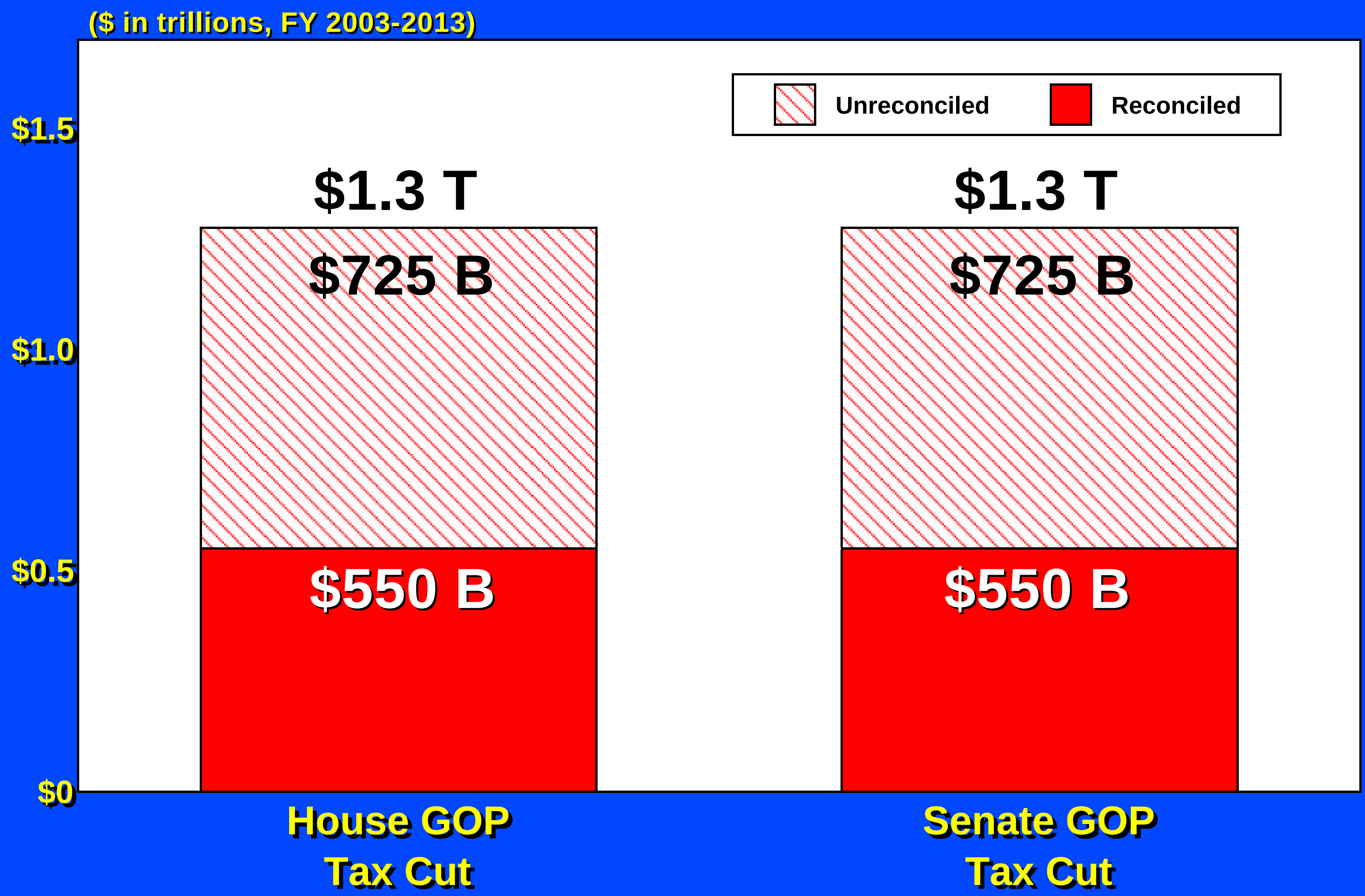
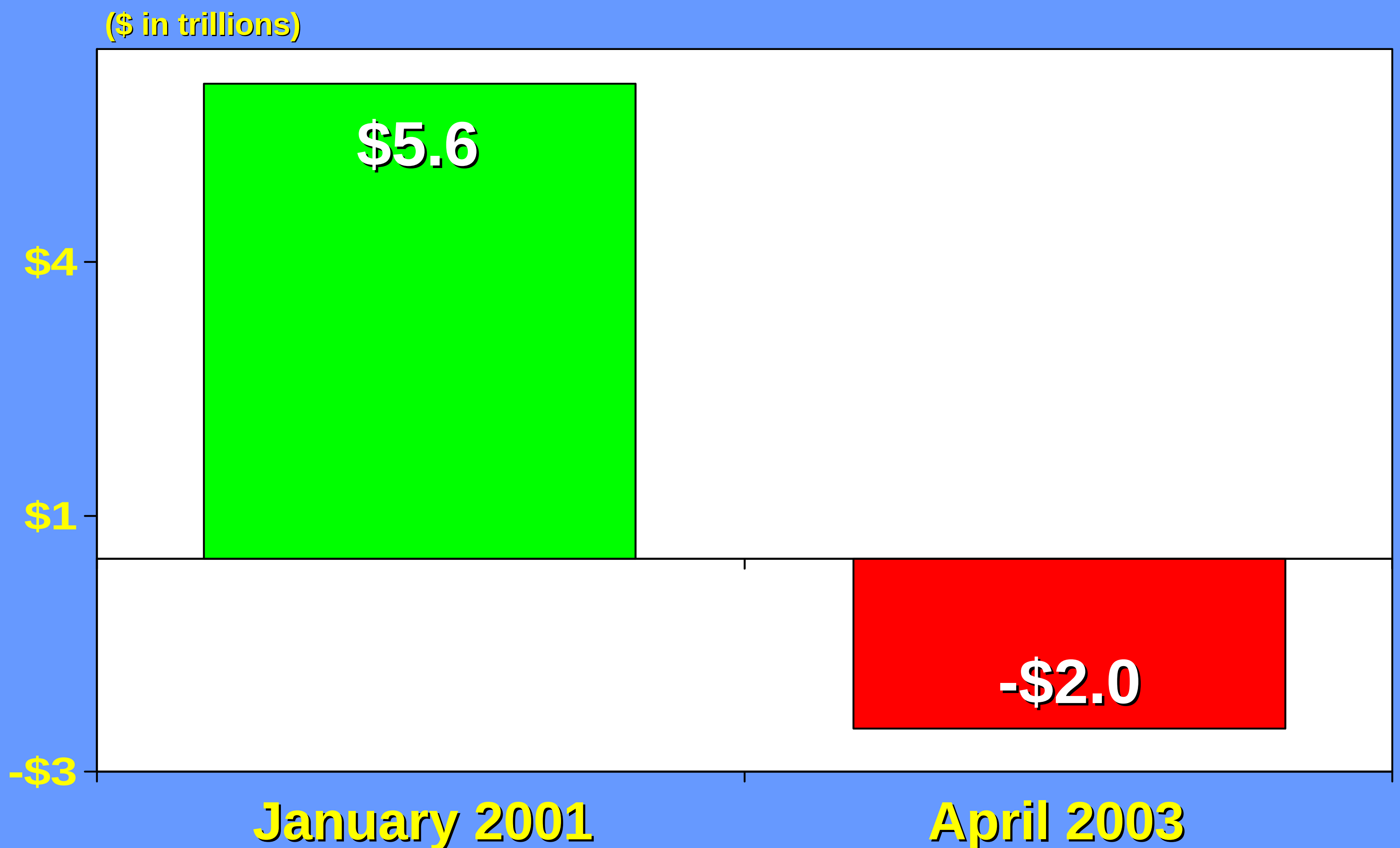
GOP Budget Agreement on Tax Cuts



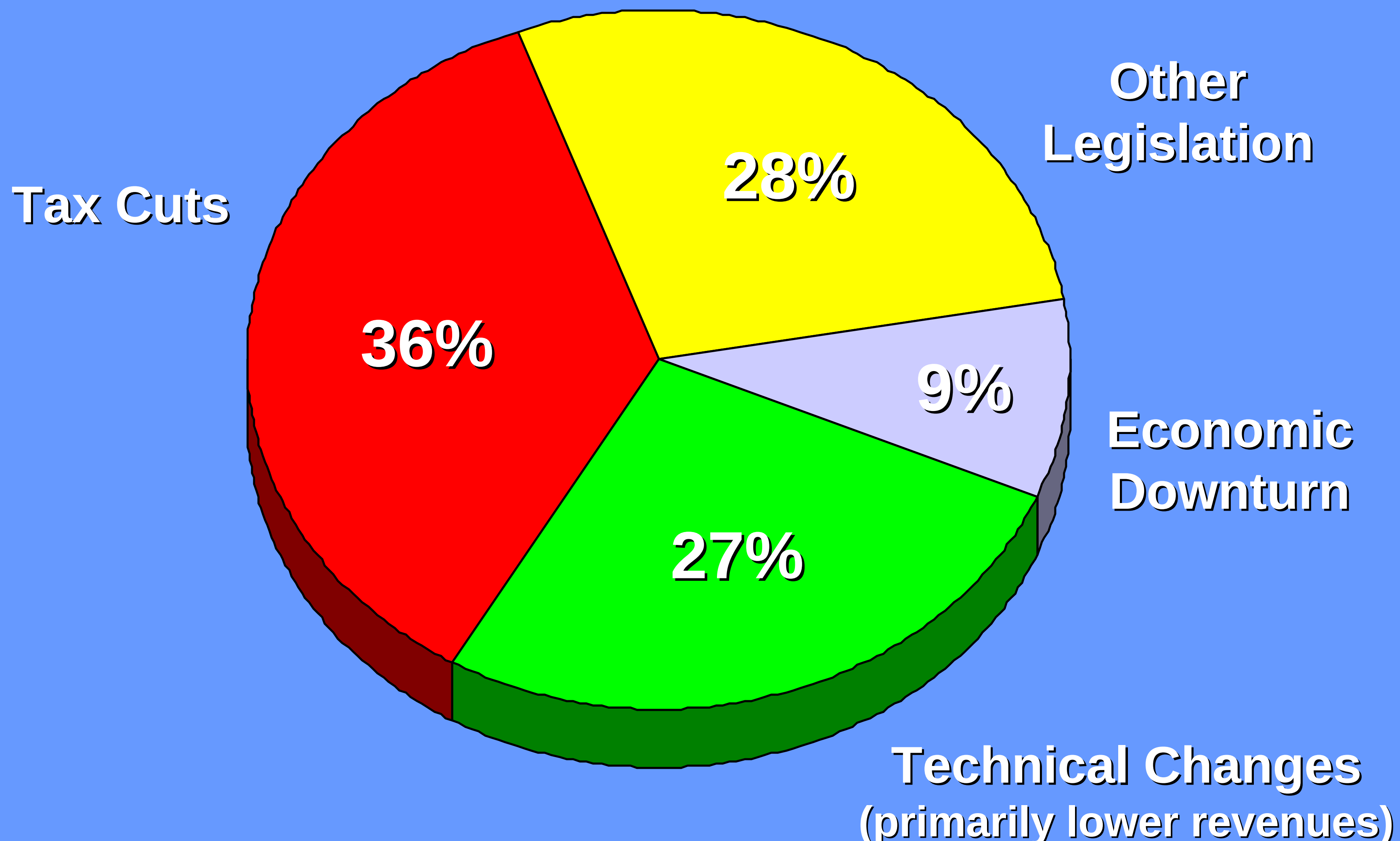
Source: Senate Budget Committee

Unified Surplus Disappears Under GOP Budget Policies
Nearly $7.6 Trillion Reversal in 2 Years
(FY 2002-2011)



Source: January 2001 - CBO January 2001 baseline
April 2003 - GOP FY 2004 Budget Conference Report

Reasons for $7.6 Trillion Reversal in Surplus Projections FY 2002-2011

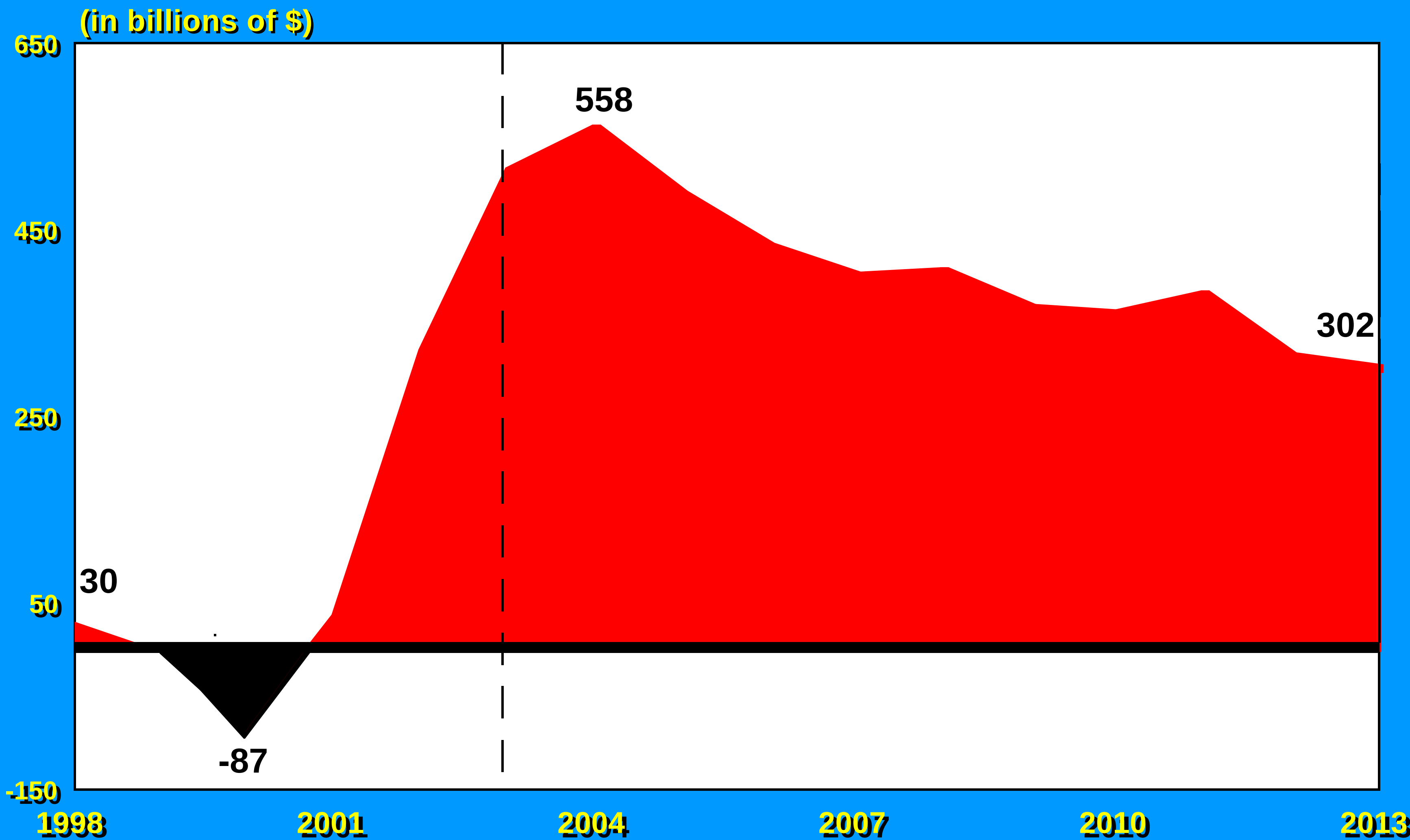


Note: Reflects changes in projections from January 2001 to March 2003, including GOP budget policies

Source: CBO and FY 2004 GOP Budget Conference Report

Skyrocketing Deficits Under GOP Budget Conference Report

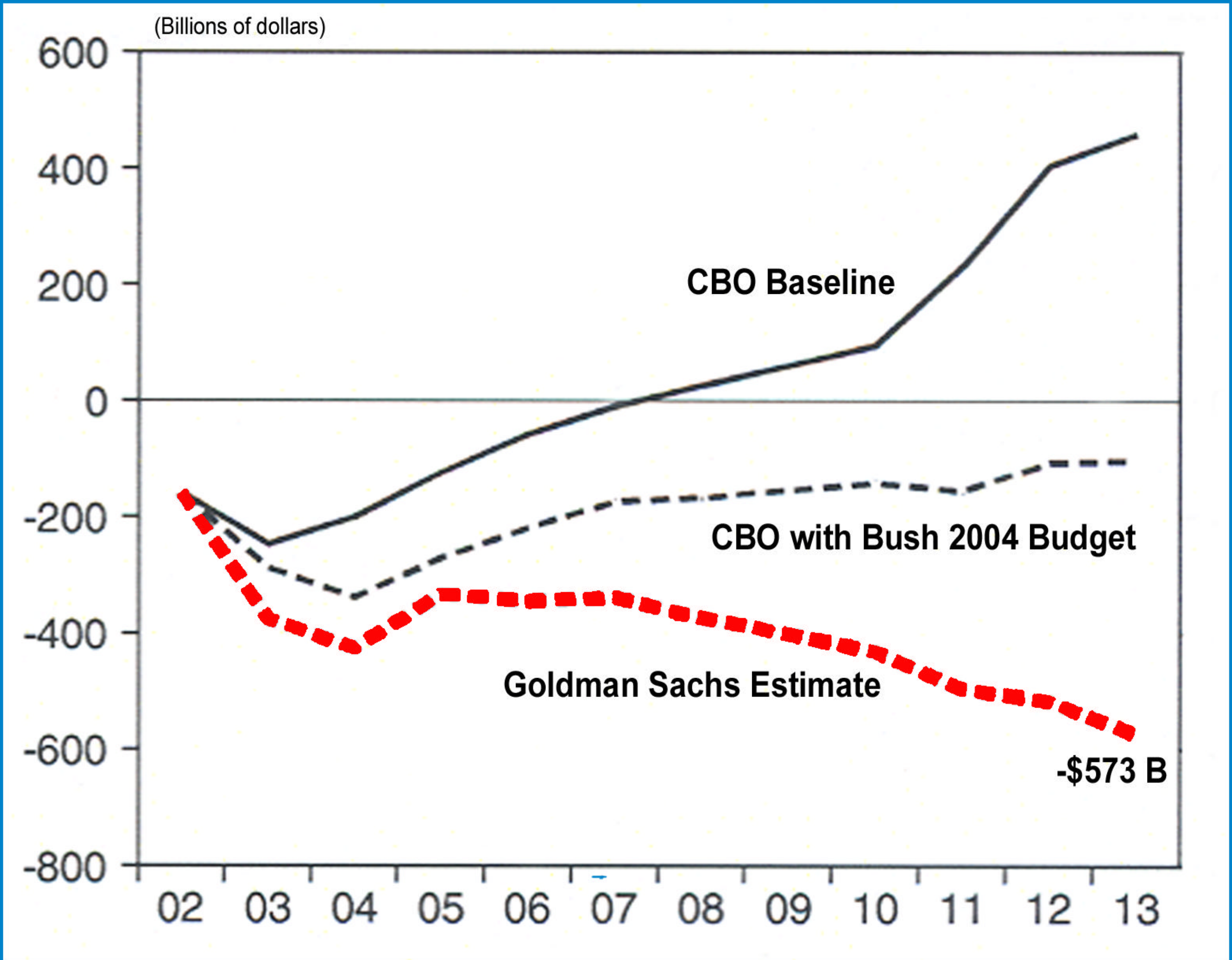
(Without Social Security)



Source: CBO

April 11

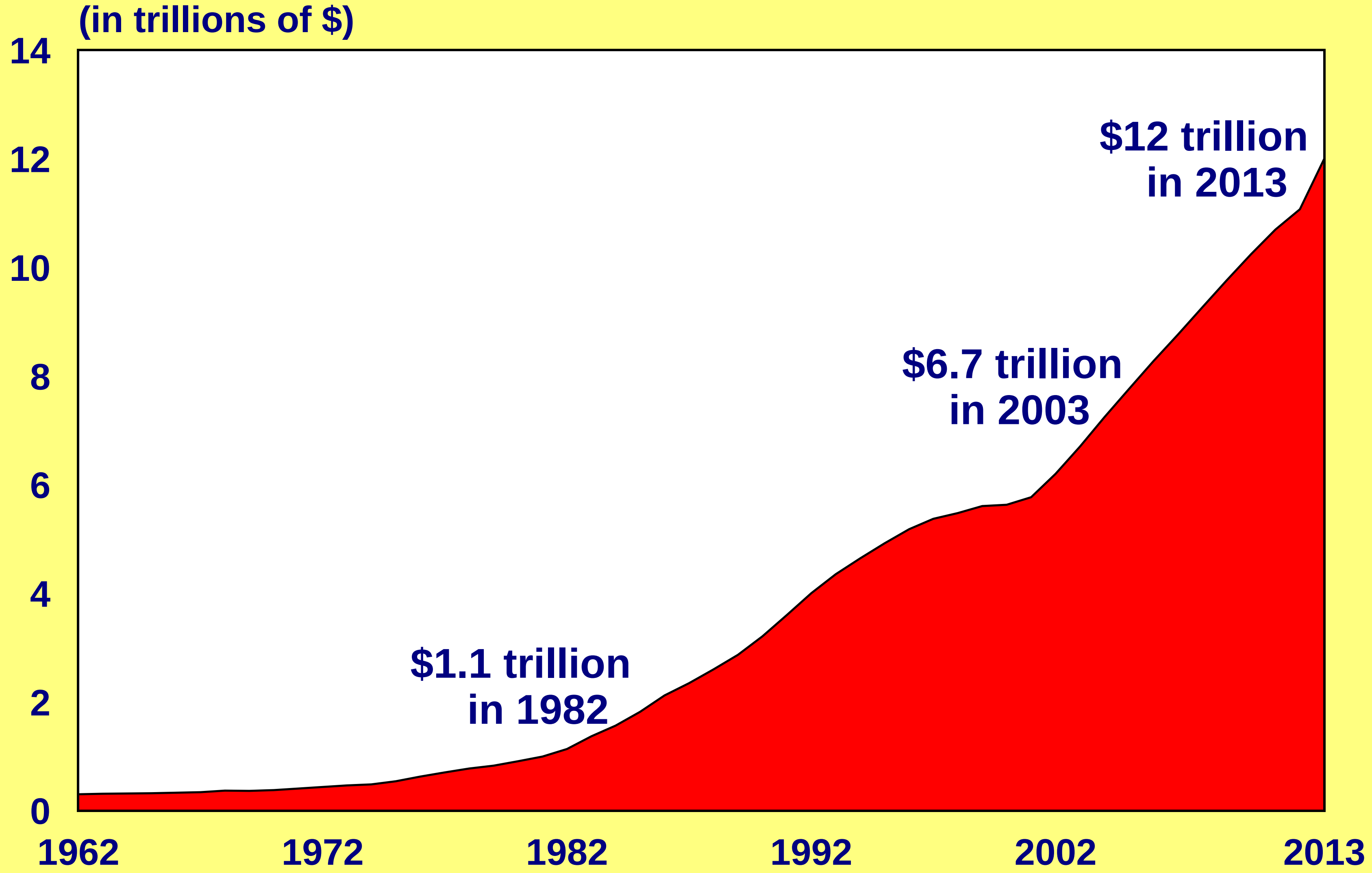
Goldman Sachs Projects 2004-2013 Deficit of $4.2 Trillion
Long-Term Budget Outlook Far Worse than Officially Projected



Source: Congressional Budget Office, Goldman Sachs, *"Global Economic Research"*, March 14, 2003

Gross Federal Debt

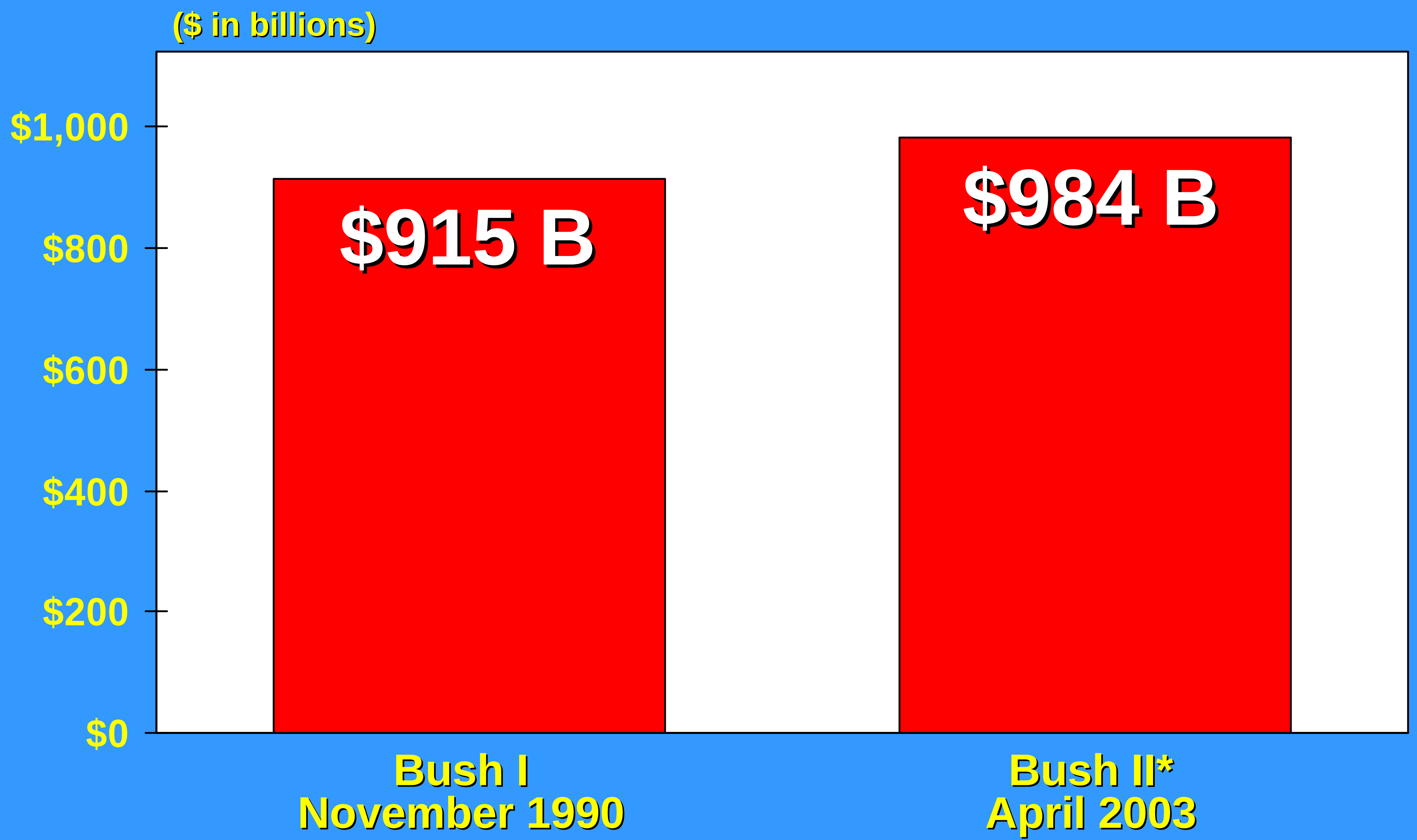
Assuming Enactment of GOP Budget Conference Report



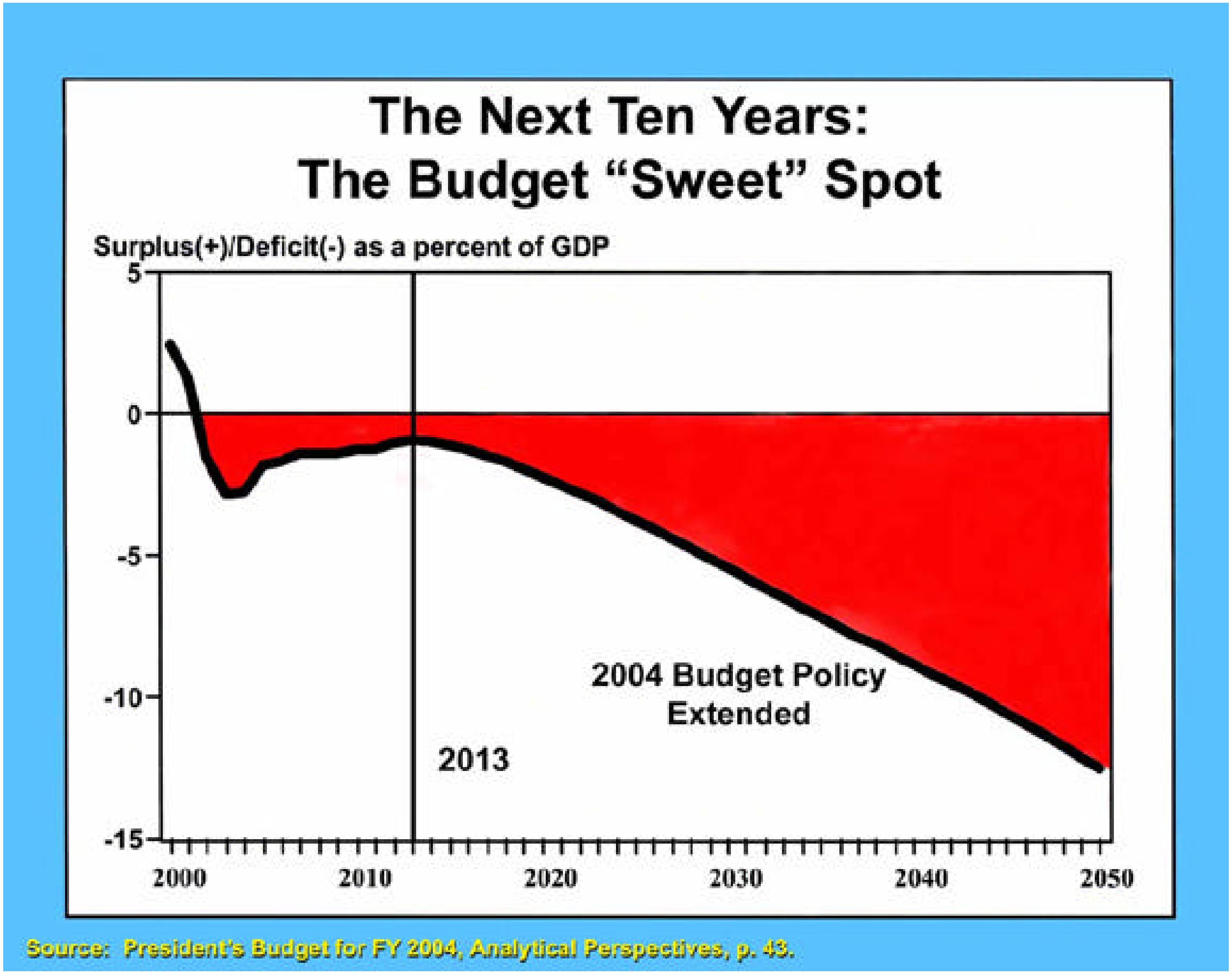
Source: CBO, Senate Budget Committee

April 11

GOP Budget Conference Report Calls for Largest Debt Limit Increase Ever

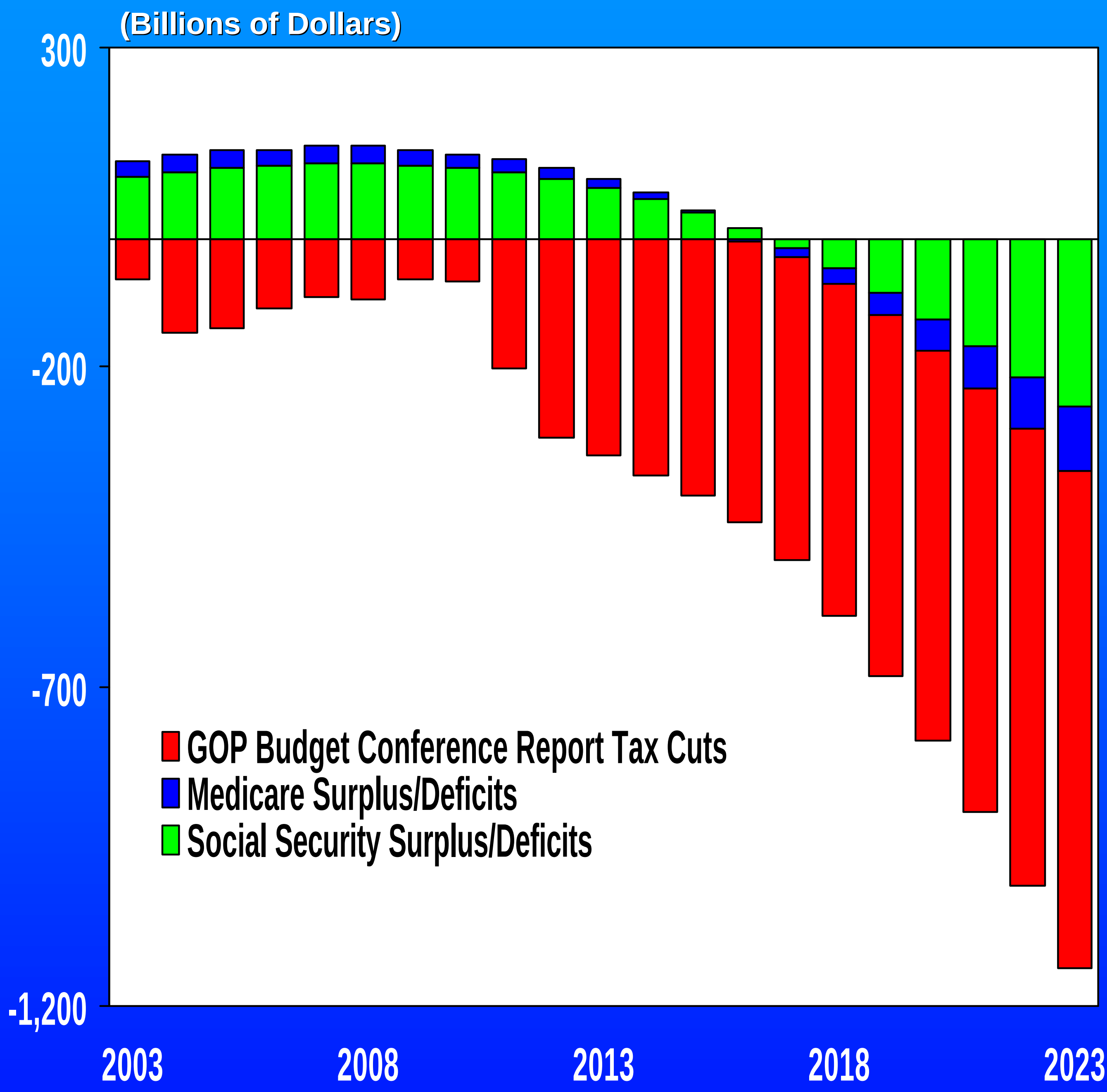


*Amount of debt limit increase automatically passed by House of Representatives as part of FY ’04 GOP Budget Conference Report


The Next Ten Years:
The Budget "Sweet" Spot
Surplus(+)/Deficit(-) as a percent of GDP
5
0
-5
-10
-15
2000
2010
2020
2030
2040
2050
2004 Budget Policy
Extended
2013
Source: President's Budget for FY 2004, Analytical Perspectives, p. 43.

Tax Cuts Explode as Trust Fund Cash Surpluses Become Deficits

FY 2003-2023



Source: 2002 Trustees Report, CBO, and Senate Budget Committee Staff

Note: Tax cut includes associated interest costs.

Fed Chairman Alan Greenspan Believes Deficits Matter

"There is no question that as deficits go up, contrary to what some have said, it does affect long-term interest rates. It does have a negative impact on the economy, unless attended."

–Testimony before the Senate Banking Committee
February 11, 2003

The New York Times

THURSDAY, MAY 1, 2003

Greenspan Says Tax Cut Without Spending Reductions Could Be Damaging

By DAVID E. ROSENBAUM

WASHINGTON, April 30 — Alan Greenspan, the chairman of the Federal Reserve Board, told Congress today that the economy was poised to grow without further large tax cuts, and that budget deficits resulting from lower taxes without offsetting reductions in spending could be damaging to the economy. Opponents of the large cut favored by President Bush took Mr. Greenspan's testimony as support for their position.

Mr. Greenspan's statements to the House Financial Services Committee were made as new Treasury data showed that tax revenues have arrived at a much slower pace than expected this spring. As a consequence of the revenue shortfall and increased spending enacted this month, government and private analysts said today, the budget deficit this fiscal year will be at least $80 billion higher than the Congressional Budget Office projected last month.

With a large deficit, Mr. Greenspan said, "you will be significantly undercutting the benefits that would be achieved from the tax cuts."

The combination of Mr. Greenspan's testimony and the prospects of a higher deficit gave added ammunition to Mr. Bush's political opponents, as the president continued today to press Congress to approve a $550 billion, 10-year tax cut.

"These deficit numbers are just the latest reminder that what many of us have expressed concern about is becoming even more of a problem," said Senator Tom Daschle of South Dakota, the Democratic leader.

The president met today on the tax issue with Republican Congressional leaders. Afterward, Senator Bill Frist of Tennessee, the majority leader, said that the president and all the leaders wanted as large a tax cut as possible and that Congress might consider more than one tax measure this year.

Ari Fleischer, the White House spokesman, played down any disagreement with Mr. Greenspan. Last week, the president announced that he would renominate Mr. Greenspan to his fifth term as Fed chairman, and Mr. Greenspan, 77, said he would accept.

Mr. Fleischer said today that Mr. Bush's first priority was creating jobs immediately and that the government could reduce the deficit "over time." He agreed with Mr. Greenspan that the best way to lower the deficit was to hold the line on government spending.

Mr. Greenspan said that with the end of the uncertainties associated with the war in Iraq, the economy was in a position for strong growth. But if that does not occur, he said, the Fed was prepared to lower interest rates further.

As is his practice, Mr. Greenspan spoke elliptically in his Congressional testimony and never addressed the tax legislation before Congress specifically.

But he said that even without additional stimulus, "the economy is positioned to expand at a noticeably better pace than it has during the past year."

He also said new academic evidence had strengthened his opinion that budget deficits led directly to higher interest rates.

Doug Mills/The New York Times

Alan Greenspan, the Federal Reserve chairman, before a House panel.

Mr. Greenspan's view on tax cuts is similar to one he expressed in February, but the environment has changed. Congress is now on the verge of drafting and voting on actual tax legislation, and the Fed chairman's views on economic matters carry more weight in Congress than the opinions of any other economist.

In response to a question about the need for additional economic stimulus, Mr. Greenspan said that with the tax cuts enacted in 2001 and sizable growth in government spending, "we already have a significant amount of stimulus in place."

He added that he was skeptical of the ability of changes in tax and spending policy to "fine tune" the economy in the short term.

Mr. Greenspan said he strongly supported the president's tax policy, particularly the proposal to eliminate taxes on most stock dividends, "provided it is matched by cuts in spending."

Deficits are especially important in the near future, he said, because of the pressure on the economy early in the next decade when the baby boom generation begins to reach retirement age.

The shortfall in tax revenues has been apparent all spring, but the magnitude did not become clear, economic analysts said, until they examined the Treasury's daily reports of tax receipts in the two weeks since the April 15 filing deadline.

William C. Dudley, chief economist at Goldman Sachs, said he was seeing "a pretty sizable shortfall relative to expectation."

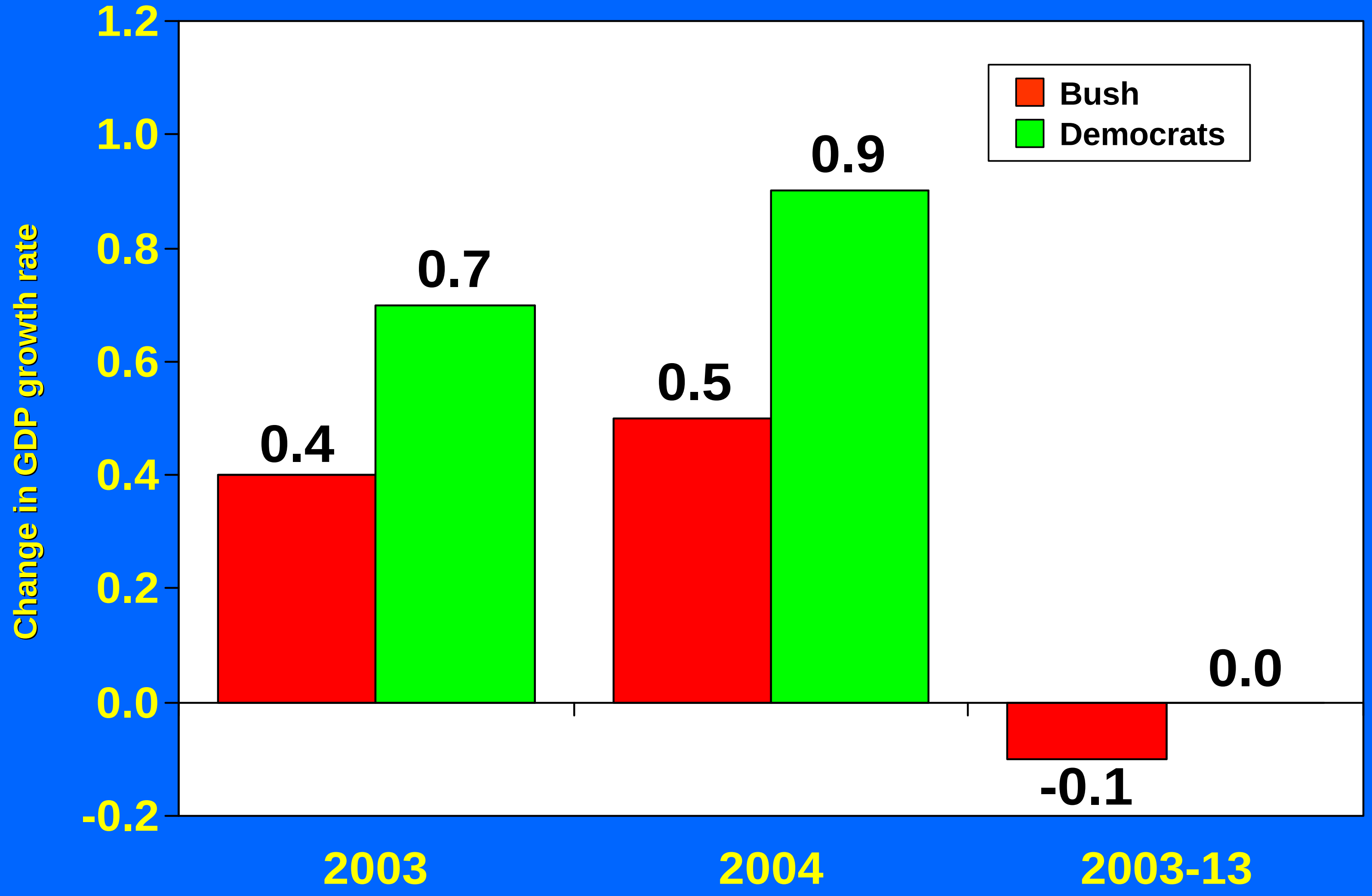
Goldman is forecasting a $425 billion deficit in the current fiscal year, which ends Sept. 30. In February, the White House projected a deficit of $304 billion. Last month, the Congressional Budget Office, using a different method of calculation, projected a deficit of $246 billion.

A senior Republican staff member in Congress who has analyzed the Treasury data said that revenues were running about $40 billion lower than the Congressional Budget Office expected. He said tax refunds were about $20 billion higher than anticipated and tax payments about $20 billion lower.

One reason for the shortfall in revenues, economists say, is that the poor performance by the stock market in 2002 resulted in smaller tax payments of capital gains taxes and fewer taxes paid by business executives who exercised stock options.

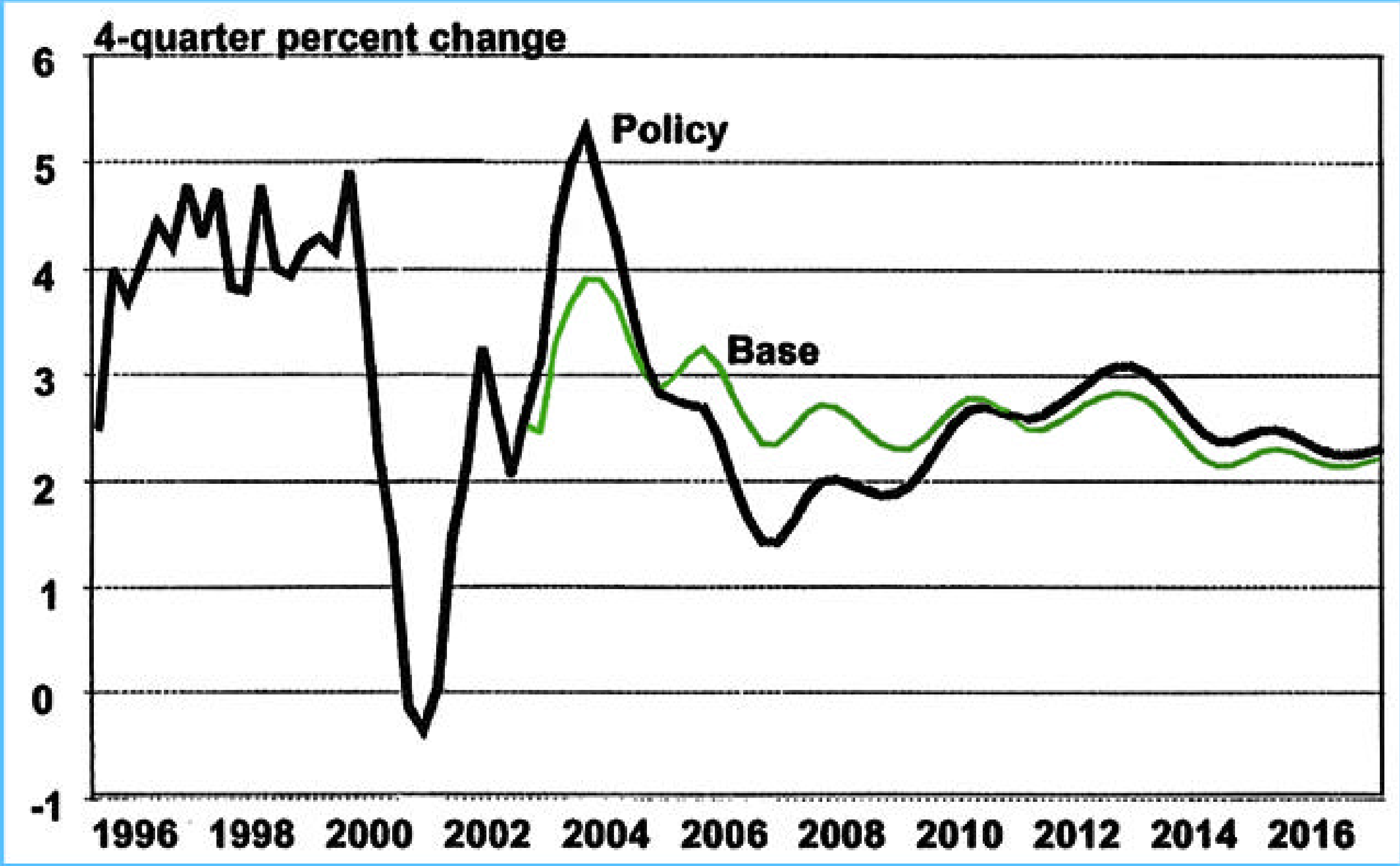
In addition to the deficit increase resulting from lower revenues, the projections by the White House and the Congressional Budget Office do not count the $42 billion in additional spending, mostly for the war, that Congress approved this month. Nor do they consider the likelihood that Congress will approve tax cuts and make at least some of them retroactive to Jan. 1 and the probability that the administration will ask Congress for additional spending authority for reconstruction costs in Iraq.

Democratic Plan Trumps Bush Plan in Both Short and Long Term



Source: Mark Zandi, Economy.com, "The Economic Impact of the Bush and Congressional Democratic Economic Stimulus Plans", February, 2003.

President's Plan Crowds Out Investment, Slows the Economy After 2004



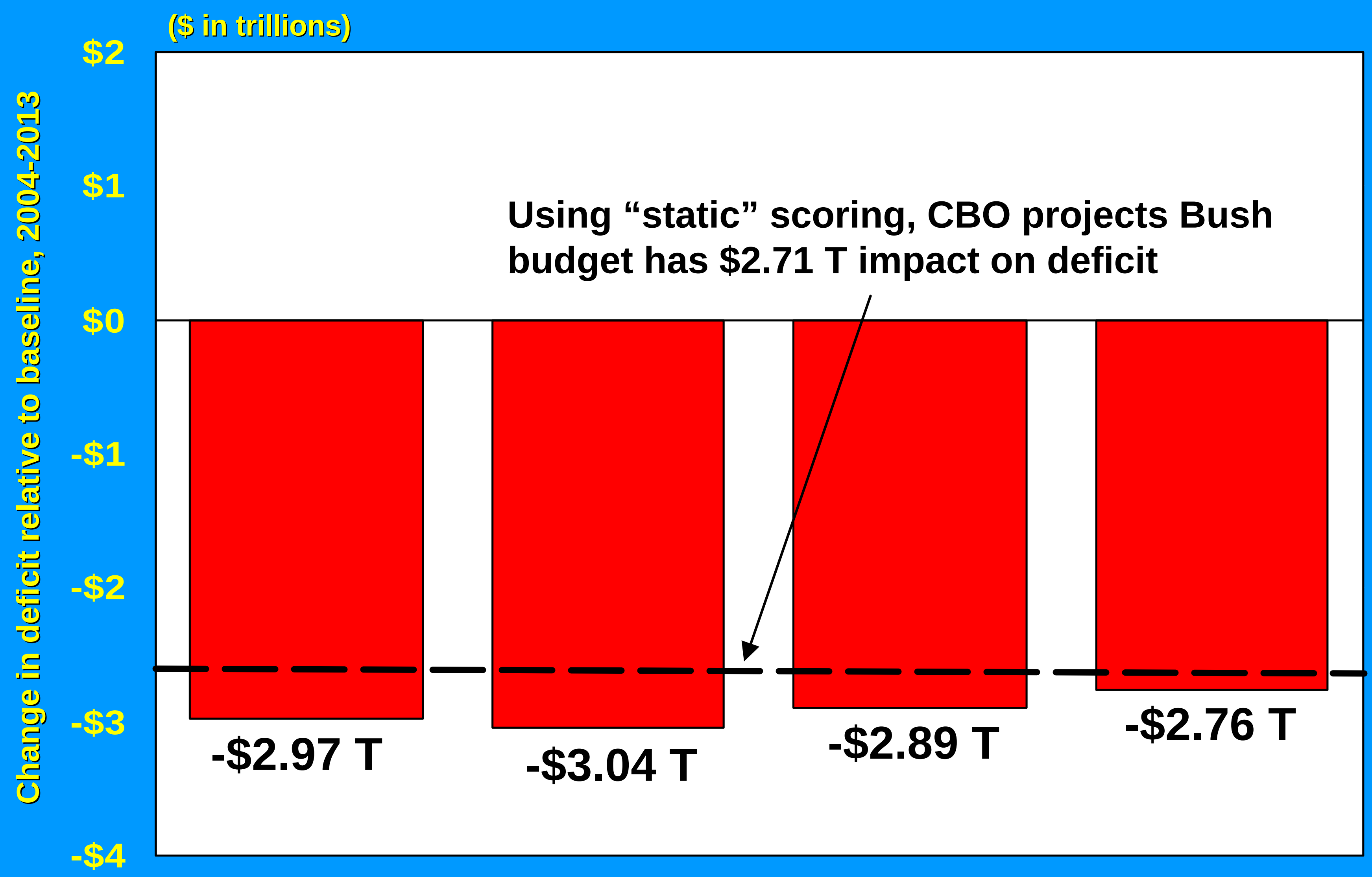
Source: Macroeconomic Advisers, LLC, January 10, 2003,
"A Preliminary Analysis of the President's Jobs and Growth Proposals"

CBO Concludes "Dynamic" Effect of Bush Budget Would Be Small and Possibly Negative

"[T]he net effect [of the proposals in the President's budget] on economic output could be either positive or negative...Importantly, regardless of its direction, the net effect on output through long-term changes to the supply side of the economy…would probably be small."

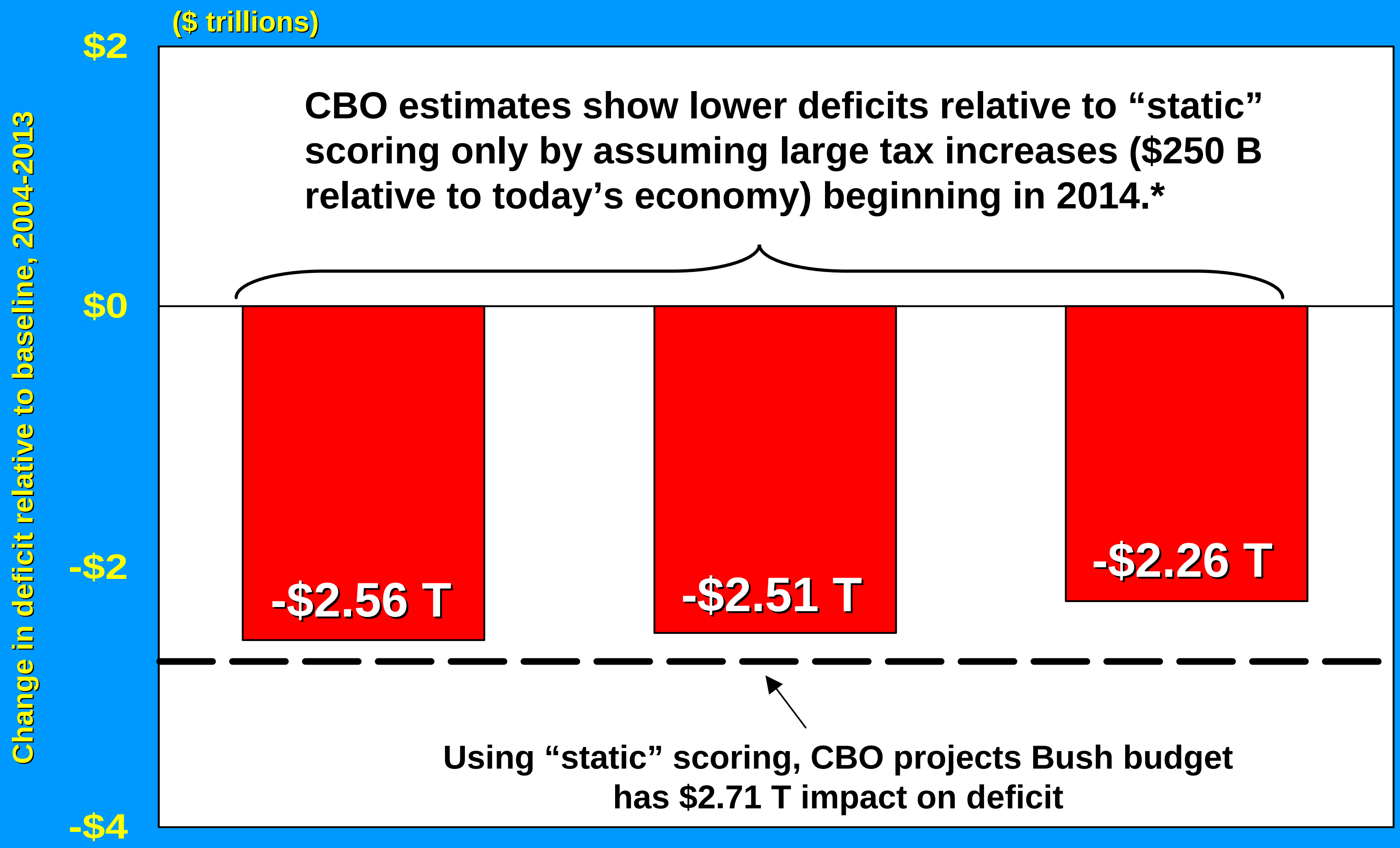
–CBO Analysis of the President's Budgetary Proposals for Fiscal Year 2004
March, 2003

Four of Seven Long-Term CBO "Dynamic" Estimates of Bush Budget Show Larger Deficits Than Under "Static" Scoring



Source: CBO

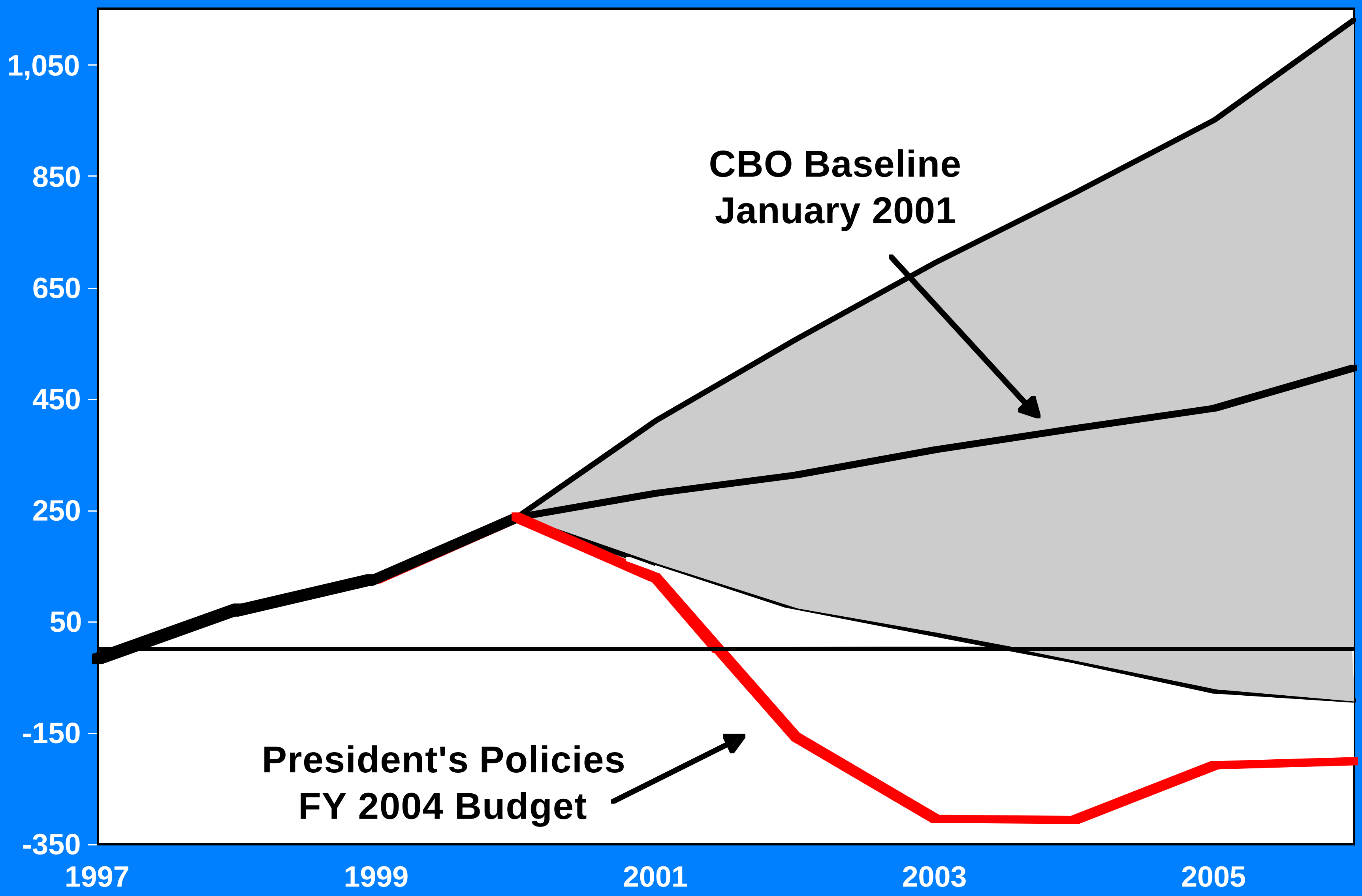
Only Three of Seven Long-Term CBO "Dynamic" Estimates Show Smaller Deficits Than Under "Static" Scoring



*These three CBO estimates assume taxpayers will work harder this decade to save for higher taxes that will be required to balance budget and service debt in 2014 and beyond.

Source: CBO

Uncertainty in Surplus Projections



“The tax cut tour”

Cleveland Plain Dealer, April 24, 2003

“Although the dividends tax cut Bush seeks might someday be a reasonable step, that day is not now. Not amid talk of a federal deficit approaching $500 billion next year. Not when Alan Greenspan, the Federal Reserve chairman Bush just reappointed, sees no economic stimulus in a plan he said, if enacted, should be paid for by offsets elsewhere to avoid the danger of deeper deficits. Not when there is no end in sight to the costs of re-creating Iraq as a democracy.”

“War and taxes”

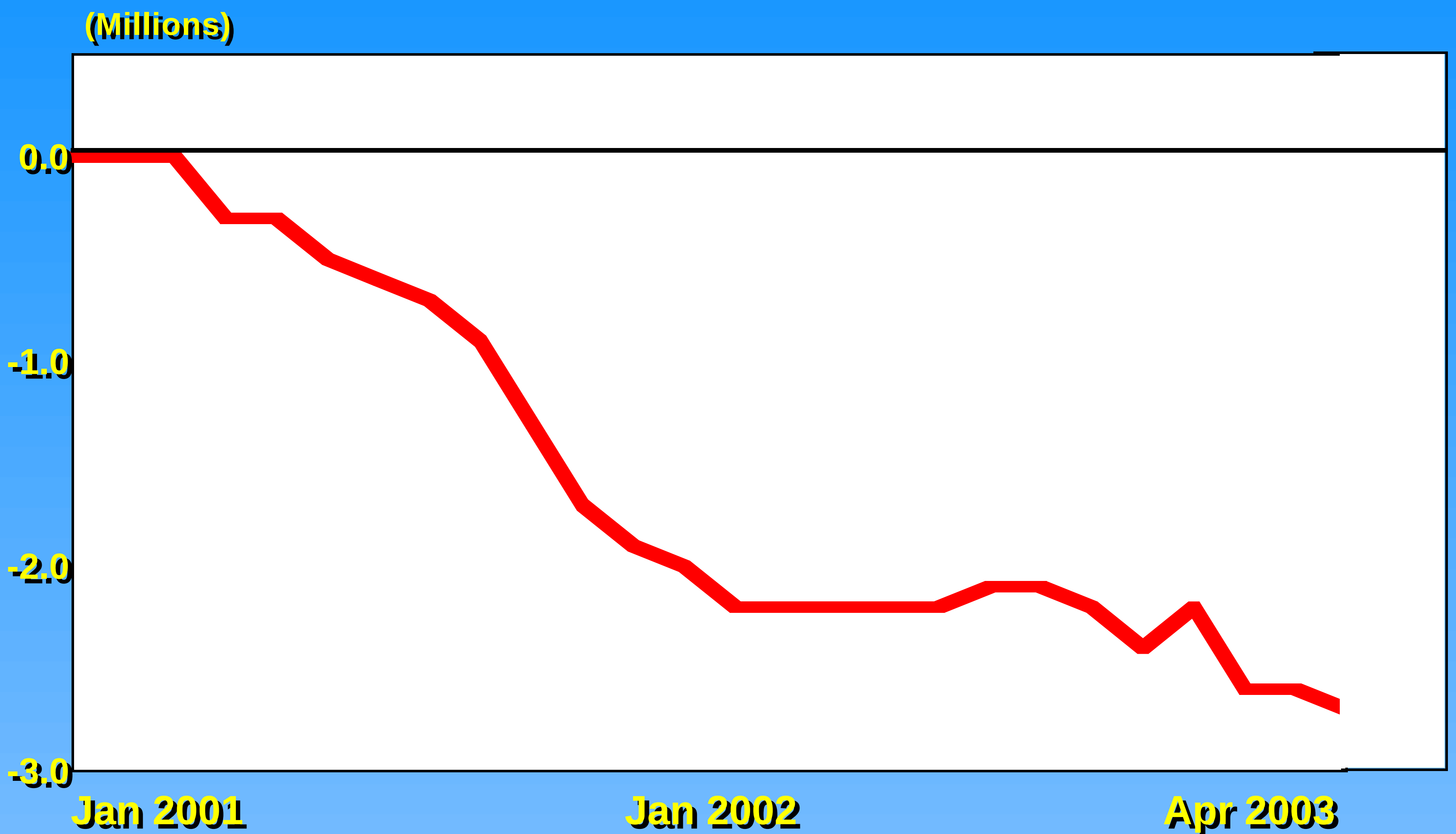
St. Louis Post-Dispatch, April 16, 2003

“The national debt isn't free. We'll pay interest on it for decades. Every dollar of interest is a dollar that can't be used for education, law enforcement, defense, or help for the poor and elderly. The public senses this, and that's why it's not eager for a new tax cut...

“In fact, Mr. Bush is steering the economy toward an iceberg. Massive deficits year after year contribute to higher interest rates. Higher rates can choke off prosperity.”

Jobs Decline

2.7 Million Jobs Lost Since January 2001

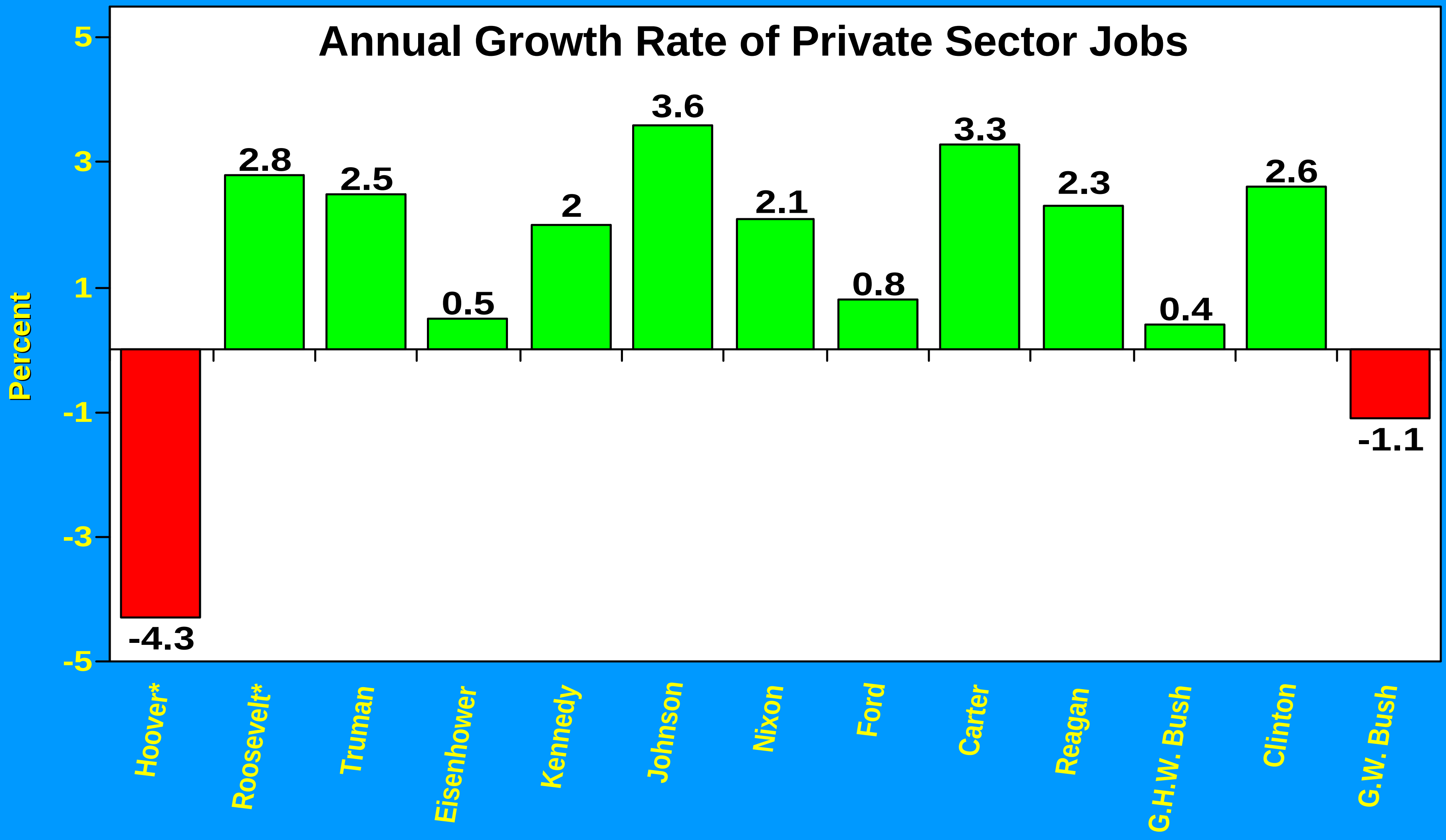


Source: Bureau of Labor Statistics

Note: Private Sector Jobs

Bush Economic Record:

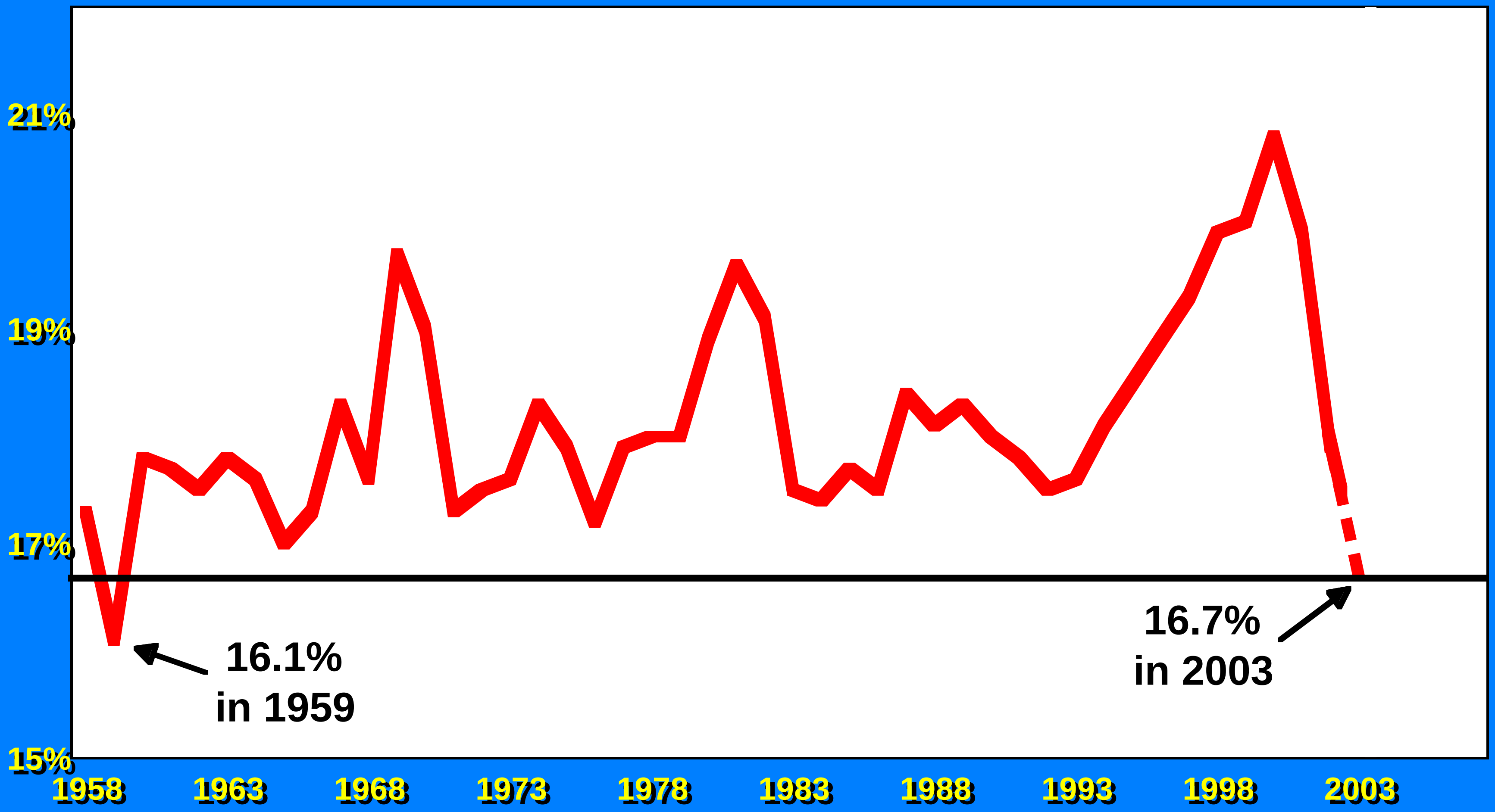
First Administration to Lose Private Sector Jobs in 70 Years



*Total civilian employment

Revenues as a Percent of GDP

Headed Toward Lowest Level Since 1959



Source: OMB and Center on Budget and Policy Priorities

The Washington Post

AN INDEPENDENT NEWSPAPER

Tax Cut Trickery: Part II

THE HOUSE Ways and Means Committee plans to take up a tax plan today that makes President Bush's look like a model of budgeting honesty, fiscal probity and distributional fairness. The plan concocted by Chairman Bill Thomas (R-Calif.) junks the president's proposal to end taxes on dividends in favor of a proposal to cut the top rate on both dividends and capital gains to 15 percent. The Thomas plan is more straightforward than the administration's complicated proposal but has not much else to recommend it. First, it is tilted even more heavily to the very wealthy. An analysis by the Urban Institute-Brookings Tax Policy Center shows that households with annual incomes of more than $1 million would see their taxes drop an average of $42,800 under the Thomas capital gains-dividend cut, compared with $26,800 under the Bush dividend plan. Taking the two plans as a whole, those households would receive an average tax cut in 2003 of $105,600 under the Thomas plan and $89,500 under the Bush plan. Supporters say this calculation fails to take into account extra taxes the well-off would pay on stocks they hadn't been planning to sell and the benefits of job creation further down the economic ladder.

But the Thomas plan also takes tax gimmickry to a whole new level by pretending that most of its provisions (though not the capital gains-dividend reductions) would expire after just three years, at the end of 2005. No one—least of all those pushing the cuts—intends for this actually to happen. This artificial sunset, however, serves to let lawmakers pretend that their tax cut would fit within the spending ceiling—$550 billion through 2013—that they imposed on themselves last month. In fact, the real cost of the package would exceed even the president's original $726 billion plan. According to estimates by the liberal Center on Budget and Policy Priorities, the Thomas plan would cost at least $760 billion through 2013 if its cuts did not expire.

Mr. Thomas has plenty of company in the tax dishonesty game. In the Senate, the dodge du jour is to phase in the president's dividend exclusion over three years, then sunset it after five years—all this masquerade in the service of making the tax cut look as if it fits within the Senate's $350 billion limit. Sen. Olympia J. Snowe (R-Maine)—one of the proponents of that ceiling and an important vote on the Senate Finance Committee—said yesterday that she won't accept that kind of "gimmick."

And then there's Mr. Bush, peddling a woefully incomplete account of how the deficit got so large and dangerously misstating the impact of his tax cut on future deficits. In Arkansas yesterday, for example, Mr. Bush attributed the deficit to the recession and to his decision to send troops into combat. Both have indeed helped turn projected surpluses into deficits. But so has something Mr. Bush's account omits: his first, $1.35 trillion tax cut. Budget director Mitchell E. Daniels Jr. acknowledged to the House Budget Committee in February that next year's deficit would be more than one-third smaller were it not for that cut. Most worrisome, Mr. Bush continues to suggest, implausibly—in contrast to the assessment of his own economists—that his tax cut would more than pay for itself. In Silicon Valley last week, Mr. Bush said, "The way to deal with the deficit is not to be timid on the growth package; the way to deal with the deficit is to have a robust enough growth package so we get more revenues coming into the federal Treasury." The nonpartisan Congressional Budget Office estimated that Mr. Bush's full tax cut would add $2.7 trillion to the deficit through 2013. That's too robust for our tastes.