FOR EVERYONE WILLING TO WORK, A JOB

The recession of 2001 has been over for a year, but its effects linger. Though the economy has expanded, the rate of growth has not been fast enough. Too many Americans remain out of work; too many Americans are concerned about their economic futures; and too many businesses hold back in the face of this economic uncertainty, unwilling to make the investments in new production facilities, new machinery, and new technologies needed to re-ignite the full potential of our economy. To deal with this situation, the President has proposed a bold, new jobs and growth program. This program, when combined with the effects of earlier actions by the Administration, will help the economy achieve maximum growth.

The ground is fertile for strong and sustained growth. Inflation is firmly under control. Interest rates are at historic lows. Our markets enjoy a flexibility that is envied around the world. And the rate of growth in worker productivity at 5.6 percent for the first full year of recovery is astounding for this, indeed any, stage of a business cycle.

Yet the economy has suffered a series of shocks that have cost tens of thousands of jobs. Just as economic recovery was poised to begin, the attacks of September 11, 2001 caused a massive disruption. Flights were cancelled, tourism fell, stock trading was halted, and consumers and businesses retrenched as they sorted through the implications of this new threat to the nation.

Our economy then faced a new threat from within when Americans discovered serious abuses of trust by some corporate leaders. We learned that a handful of companies across a wide range of industries had engaged in dishonest practices that cost innocent people their jobs and savings. Penalties in the marketplace and the courts were prompt and severe, but much damage was done to investor confidence.

The President has acted aggressively. In 2001, just when relief was needed most, he signed the most sweeping tax relief in a generation. He followed this action by winning passage in 2002 of investment incentives to help businesses sustain their level of employment and output and to invest more, further strengthening the recovery.

The Administration pushed terrorism insurance through the Congress so building and real estate projects could go forward. Historic reforms were enacted to assure corporate integrity and to defend the interests of workers and investors. And the Administration successfully completed the first phase in the war on terrorism by eliminating the safe haven for terrorists in Afghanistan.

Despite this progress, the threat of terrorism continues, as do many purely economic uncertainties. The President has decided to act again to ensure the strongest possible economy, one in which every willing worker can find a job.

A Program to Move from Slow Growth to Real Prosperity

The growth and jobs package the President unveiled on January 7th of this year is a focused effort to clear the way for faster growth and greater prosperity. This program will operate quickly to accelerate recovery but also to produce a stronger, more resilient economy for years to come. The four key elements of the program are:

- Accelerating in 2003 certain elements of the Economic Growth and Tax Reform Reconciliation Act of 2001 (EGTRRA), such as the marginal rate reductions and the marriage penalty relief, that would otherwise take effect later.
- Eliminating the unfair double taxation of dividends paid to individuals.
- Immediately increasing the amount that small businesses are allowed to deduct from $25,000 to $75,000.
- Creating new Personal Re-employment Accounts to help unemployed workers search for new jobs and to provide a "re-employment bonus" for those finding work quickly.

Under the President's proposal, 92 million taxpayers would receive a tax cut averaging $1,083 in 2003, and would receive a similar reduction in their tax bills in future years. The proposal would provide an average tax cut of $1,716 to married couples in 2003, and families with children would see their tax burden fall by an average of $1,473. Six million single women with children would keep an average of $541 more of their own money, and 32 million seniors would receive, on average, a tax cut of $2,042.

Accelerating Tax Relief

The President's 2001 tax cut played a vital role in sustaining the economy as it struggled to recover in the face of a declining stock market, the September 11th attacks, and the corporate governance scandal. The increase in the child tax credit, the creation of the new 10 percent tax bracket, and the first tax rate reductions all contributed to consumer confidence and purchasing power.

The tax cut was not originally designed as a remedy for recession, however, and much of the proposed tax relief was delayed. Much of the delayed relief, such as the full reduction in the tax rates and the full increase in the child tax credit, would have major short-term impacts on the economy. It would be foolish to wait to implement this tax relief when it is needed today. So the Administration proposes to accelerate this relief to January 1, 2003. In addition, the Administration proposes to change the individual Alternative Minimum Tax (AMT) to prevent the AMT from depriving taxpayers of the tax relief intended for them. Specifically, the Administration proposes that:

- The remaining tax rate reductions scheduled to take effect in 2004 and 2006 take effect at the start of this year, 2003.
- The increases in the 10 percent tax bracket amounts scheduled for 2008 and beyond take effect at the start of this year.
- The remaining marriage tax penalty relief provisions that would take effect in later years would take effect at the start of this year.
- The increase in the child tax credit from $600 to $1,000 scheduled to phase in from 2005 to 2010 would instead take effect at the start of this year.
- The AMT exemption would be raised to $8,000 for couples filing joint returns, and to $4,000 for single filers through 2005.

Accelerating these provisions will have powerful, positive effects on the economy. One reason the recovery has been subpar is that uncertainties about the future have restrained the willingness of businesses to invest in new factories and new equipment. Lower tax rates will increase the reward to investment, economic risk-taking, and starting new businesses. These tax rate reductions, along with the elimination of double taxation of dividends and the less punitive tax rules on business depreciation described later, are the right measures to reignite business investment.

To be truly effective in supporting the economy's growth as soon as possible, the 2003 tax relief needs to be put into effect as soon as possible. Much of this tax relief will begin to work into the economy by changing the withholding tables employers use to determine the amount of federal income tax held back from employees' wages. However, to ensure that the most tax relief possible makes its way into taxpayers' hands as soon as possible, the Administration is prepared to deliver promptly to qualifying taxpayers the benefit of the $400 increase in the child tax credit through advance refund checks.

Ending Double Taxation of Dividends

The Administration has proposed to end the unfair double taxation of dividends by allowing individuals to exclude their corporate dividend income from income tax. Under current law corporate income is taxed once at the corporate level and taxed again when paid out to shareholders. As a general rule, all income should be taxed once; it is unfair to subject any income to double taxation, and especially unfair to millions of senior citizens who rely extensively on dividend income in their retirement and who receive over half of all dividend payments.

Doubly taxing dividend income is also bad economic policy. Knowing that a business' income will be taxed once at the business level and again as dividend income, prospective shareholders demand an unnecessarily high rate of return before risking their savings. In effect, this raises the price of capital to businesses that need to raise new equity to expand. Ending double taxation is especially important to small and medium-sized businesses that are ready to take the important step of issuing new equity.

The double taxation of dividends also creates a perverse incentive for businesses as they manage their mix of debt and equity financing. Because interest income is taxed only once while dividend income is taxed twice, the tax system creates a well-known incentive for businesses to carry too much debt and too little equity. This distortion in how some corporations finance their investments can make the corporations more susceptible to economic downturns.

The tax system should not affect how a business chooses to finance itself or how much of its earnings it retains and how much it pays out as dividends. Eliminating the double taxation of dividends would be a great stride forward in achieving this kind of tax neutrality. Under the Administration's proposal, businesses will have more ready access to less expensive capital. Investors will have a stronger incentive to put money back into the market and investor confidence will improve. And business investment will accelerate in the near term and be permanently and significantly higher in future years.

Small Business Expensing

Small business is the "job factory" and special advantage of the American economy. Most of the new jobs created in recent years have occurred in our small enterprises.

To simplify the tax system, and especially to encourage small businesses to invest and hire additional workers, the income tax allows small businesses to "expense"—or deduct immediately—all of their investments in a year up to a total of $25,000. To increase small businesses' ability to invest and grow, the Administration proposes to triple the expensing limit to $75,000 and index the limit for inflation. Larger investments by small firms, and investments made sooner triggered by this step will help restart America's job factory and lead to more rapid jobs growth.

Unemployment Assistance

The President proposed this jobs and growth package because the economy is not growing fast enough to create new jobs. As part of his package, the President called on the Congress to act as quickly as possible to extend Unemployment Insurance benefits to those workers currently between jobs. The Congress responded immediately to this appeal and, just one day later, on January 8th, the President signed legislation extending these benefits.

Even with the extension of unemployment insurance benefits, many individuals will exhaust their benefits before finding work. To help speed re-employment, the President has proposed $3.6 billion in new Personal Re-employment Accounts for unemployment insurance recipients who need the most help in getting back to work. These funds will enable states to offer accounts of up to $3,000 to eligible individuals who will have the power to choose whatever training and services, such as child care and transportation, they believe will help them get back to work. Recipients will be able to keep the balance of the account as a cash re-employment bonus if they succeed in finding a job within 13 weeks. About 1.2 million Americans who are most in need of help will be assisted under this flexible, new program. Personal Re-employment Accounts will inaugurate a new era in unemployed worker assistance with greater emphasis and rewards for transitioning from unemployment to work.

The Budget Effects of the Jobs and Growth Package

(In billions of dollars)

	Estimate		Total
	2003	**2004**	**2003–2008**
Accelerate EGTRRA Tax Relief	23.4	76.7	226.9
Alternative Minimum Tax Relief	3.1	8.5	29.0
Full Dividend Exclusion	3.8	24.9	144.0
Small Business Investment Incentive	1.0	1.7	9.4
Extending Unemployment Benefits/Personal Re-employment Accounts	8.7	1.5	8.8
Total	40.0	113.3	418.1