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In This Issue

Federal Budget

The New Round of Bush Tax Cuts--Inequitable, Ineffective and Costly

Bush's new tax cuts, thinly disguised as an economic stimulus plan, fail every test – whether that of equity, economic stimulus, or responsible budgeting that addresses the nation's needs. The only test that the Bush plan passes is that of making the President's wealthier constituents richer while forcing diminished government services upon the rest of us.

But, this is not 2001, when the first Bush tax cut passed. The nation is not enjoying unprecedented peace and prosperity and anticipating a $5.6 trillion surplus over the next decade. This is 2003, with growing federal budget deficits, fiscal crises in every state, increasing military and security needs, and an economic downturn that has led to rising unemployment, economic insecurity for middle-class Americans, and increasing deprivation for unemployed, low-income, and vulnerable families and individuals. When President Bush took office there was a budget surplus as far as the eye could see. Now there is no surplus, and no evidence that the first Bush tax cut has done anything but siphon off revenue that is sorely needed. Another tax cut should be soundly rejected.

This time there is evidence of strong opposition, even from those who could be expected to be supporters. This time the President has overreached. The American public does not want more tax cuts that require cuts in heating assistance for low-income families and the elderly, less affordable housing, and worse child nutrition, and that continue to fail to address problems like health care that remains out of reach for many people, inadequate education for our children, safe transportation systems, or the health of the environment. As states struggle to balance their budgets by cutting even more services or raising taxes, most Americans don't see any sense in further reducing federal and state revenue in the midst of an existing crisis. To support his tax cuts, the President is planning to hold non-homeland security domestic spending at FY 2002 levels for at least the next two years. Even if that figure is adjusted for inflation, this formula means not only no increases, but big cuts, since it doesn't account for population growth or greatly increased needs that have arisen with the economic downturn and higher unemployment.

On the equity side, the Administration's assertions that the tax cuts will help ordinary Americans are quickly being revealed as false:

The President says that 92 million taxpayers would receive, on average, a tax cut of $1,083 in 2003.
The "on average" qualification is misleading. If you average your income with that of Bill Gates, Jr., you too will be a multi-millionaire ("on average"), though you probably shouldn't quit your job. The President's average includes the big tax cuts people at high-income levels will receive (like the $24,400 tax cut per tax payer in the top one percent) with the small or non-existent tax cuts that people at very low-income levels can expect (like the 39 million taxpayers who will receive no break). Actually, according to an analysis (Table 6) by the Urban-Brookings Tax Policy Center, those with incomes of $1 million or more will receive an average 2003 tax cut of nearly $89,000, while half of tax filers will receive $100 or less.

The President says that 13 million elderly taxpayers would receive an average tax cut of $1,384.
Again, the average is misleading. Tax Policy Center data (see link above) indicates that only 3.4 million elderly taxpayers would get this amount or greater, while 77% would get less.

Further exploiting an appeal to senior citizens in support of his dividends tax elimination plan, the President says about half of all dividends income goes to America's seniors, who often rely on those checks for a steady source of retirement income.
While it is true that many of us who have suddenly been elevated to the new "investor class" by virtue of our investments made to meet our retirement needs, an elimination of the tax on dividends would not really affect nearly as many people as the administration would have us believe. Those of us who are investors primarily by dint of having an IRA or 401(k) retirement account will pay normal income taxes on our retirement savings as we withdraw them whether they consist of wages, interest, capital gains, or dividends. We don't get a break. Secondly, in order to eliminate the tax on dividends, the profit made by a company must first be taxed. If it is not – and we all know that the tax code now affords companies many legitimate ways to avoid paying taxes on profits – the actual dividend paid to an individual will, in fact, be taxable. Again, there is no break for most of us.

The President asserts that his plan will lead to economic growth and job creation.
The President's own Council of Economic Advisers acknowledges that the plan would produce only 190,000 jobs in 2003, less than 10 percent of the jobs lost in the nation's economy in the past two years. The President's plan only provides $59 billion in 2003, with the remainder of the short-term infusion not to come until income tax filings next year – even though we need an immediate stimulus in 2003.

The plan fails to meet any of the criteria widely recognized as being essential for economic stimulus: legislation that will spur economic growth and job creation, is temporary and will not worsen the long-term fiscal situation, will go into effect quickly, is fair, and is targeted to needs. The Bush plan isn't designed to create jobs and income growth in 2003. It includes expensive permanent provisions that will increase deficits and most of it will not take effect this year, but in years to come. It is not fair, since it is overwhelmingly skewed to the wealthy and it does not address needs including the fiscal crisis of the states or increasing unemployment and job insecurity.

Likewise, the President has underestimated the long-term cost of the tax bill. If you add the increased interest charges on the national debt due to the increased deficits from a reduction in tax revenue, the true ten-year cost of the Bush tax cuts is more than $900 billion. (See this Center on Budget and Policy Priorities analysis.) Even that $900 billion cost is a low estimate, since it does not include costs of the federal tax changes to the states. Besides giving financially-strapped states nothing in assistance, the Bush plan will actually cost them revenue. States' dividends taxes are predicated on the federal tax, which means that when Bush cuts federal dividends taxes, states automatically lose that income, as well. Also, because non-taxable dividends will make people less inclined to buy state and, especially, municipal, bonds -- which, while being tax-free, can offer a smaller return than stocks -- states and localities will be forced to increase interest payments on these bonds in order to remain competitive. The Center on Budget and Policy Priorities estimates that states will lose $4 billion a year due to the dividend tax elimination provision alone. Since the elimination of the dividend tax is a permanent provision, states will continue to lose money each year.

What have been some of the responses to the President's Plan?
Sens. Lincoln Chafee (R-RI) and Dianne Feinstein (D-CA) introduced legislation (S. 126) that would freeze the current top income tax rate (which under Bush's plan would go from 38.6 to 35 percent this year) until budget surpluses return. This proposal would save $88 billion, the senators said. This is a good response -- not accelerating the 2001 tax cut, which we can't afford, but postponing the phasing in of the tax cuts.

Several plans to provide assistance to states have been put forward, including increases in the federal matching rate of Medicaid. Most recently, Sens. Susan Collins (R-ME), John Rockefeller (D-WV) and Ben Nelson (D-NE) introduced a bill (S. 138) that would assist states by providing designated Medicaid relief and an increase in social services block grants over 18 months. This, too, is a good response, since states are desperately in need of federal assistance, and such help would create economic growth.

In addition, a number of alternative economic stimulus plans have been put forward. A comparison of the President's plan with those of Sen. Max Baucus (D-MT) and Rep. Nancy Pelosi (D-CA) can be found on OMB Watch's website, and a comparison of some non-Congressional plans is also available.

The first order of business must be to reject the President's plan in its entirety and make a new effort to craft a stimulus plan that is targeted to those who need the help, infuses money into the economy quickly, and is temporary and will not do long-term fiscal damage. It can be done. It's not a class war, it's just common sense.

What Are Some Good Economic Stimulus Plans?

The chart in this article provides a comparison of some economic stimulus plans that have not come out of Congress. For a comparison of the Bush plan with those of Sen. Max Baucus (D-MT) and Rep. Nancy Pelosi (D-CA), see this chart. Please note that the AFL-CIO plan follows the guidelines of the Economic Policy Institute's plan with additional suggestions and has not been fully costed out.

What Goes in to a Good Economic Stimulus Plan?
(Cost in Billions of Dollars)

	Economic Policy Institute ($175)	AFL-CIO Plan ($260 +)	Democratic Governors Association ($157)
State Relief	* One-time grants to states to offset financial crises and preserve health, education, law enforcement, and other critical services ($50) * One-time grants to states for school repair and renovation ($25) * One-time grants to states for other temporary spending ($10)	* Provide states with fiscal relief to cover Medicaid costs, maintain and expand SCHIP, meet security needs, increase the Social Services Block Grant, and assist states in meeting federal education mandates ($85)	* Immediate one-time fiscal relief to states, including a temporary increase in the federal Medicaid contribution ($50) * Add to highway funding and allow postponement of state matching share ($5/$5) * One-time increase in Medicaid share grants ($10/$10) * One-time critical needs grants ($6/$6)

Total State Relief:	*$85*	*$85*	*$50*
Unemployment	* Federal extension of unemployment benefits and one-time grants to states to expand eligibility to part-time and low-income workers ($25)	* Same as EPI plan * Also suggests extension of health insurance benefits to unemployed workers, perhaps through subsidies for maintaining insurance ($25 +)	* Immediate retroactive extension of unemployment benefits for 26 weeks Full reimbursement to states for costs * A six-month $50/month increase in SII benefits to low-income seniors
Total Unemployment Assistance:	*$25*	*$25 +*	*$19*
Tax Cuts	* One-time tax rebates of 3.5% of the first $15,000 in wages ($65)	* Same as EPI plan, or * Flat rebates of $1,000 for low- and moderate-income workers	* A 2.5% refundable tax rebate on the first $15,000 of income, so every worker gets up to $375 * Tax incentives for small businesses to invest in technology * High-speed Internet access for rural and inner city underserved areas
Total Tax Cuts:	*$65*	*$65 - 150*	*$75*
Job Creation and Infrastructure Investments	N/A	* Investments to rebuild the national industrial core * Investments in transporation and transit system and infrastructure * Investments in building and refurbishing our drinking water and wastewater infrastructure * Investments to build, modernize and repair public schools ($185)	* Direct investment into school construction and repairs and security upgrades to highway, port, airport, and borders
Total Cost, Job Creation and Infrastructure Investments:	*N/A*	*Not costed out; some would be included in state grants*	*$13*
Minimum Wage	Raise the minimum wage (Not included in cost)	N/A	N/A

Unemployment Assistance Needs to Go Farther

With last week's round of self-congratulating that followed the President's signing of an extension of federally-funded unemployment benefits, one might think that the bill's benefits would reach all unemployed workers in the country. Indeed, the bill's signing came just in time for those workers whose regular (or state-funded) unemployment benefits ended December 28. Without the extension of the federally-funded "Temporary Emergency Unemployment Compensation" (TEUC), these workers would have been left with no assistance. Under the renewal of the TEUC, this group of unemployed workers will receive 13 weeks of federally-funded unemployment benefits, or up to 26 weeks, if they reside in states with exceptionally high unemployment rates.

According to a recent analysis by the Center on Budget and Policy Priorities (CBPP), however, the plan leaves 1 million unemployed workers without any form of assistance. These workers have been jobless for so many months that they have exhausted both their state unemployment benefits, as well as the federal benefits that kick in after the 26-weeks worth of state benefits expire.

Though House Speaker Dennis Hastert (R-IL) speaks for most when he says that the ultimate goal is to get workers “a pay check – not an unemployment check,” turning an economy with a 6 percent unemployment rate into a full employment economy will not happen overnight. In fact, the latest Labor Department statistics show that employers cut 101,000 jobs in December – and November’s numbers were revised to reflect that 88,000, not 40,000, jobs were cut. Faced with these numbers, some economists have been predicting that the unemployment rate may reach as high as 6.5 percent by summer.

Labor Secretary Elaine Chao attributes the further cut in jobs to employers’ unwillingness to hire workers until they see an increase in demand for their products. While this does argue for the need to get more money into the hands of consumers, it seems unlikely that spending $400 billion on the top 1 percent of consumers would be a very wise use of the country’s resources. To get a better return on our investment, we need to direct the funds to individuals and entities that will, out of necessity, spend the additional money immediately. These include low- and moderate-income earners and financially-strapped, over-burdened states.

For more on a variety of economic stimulus plans that propose to assist these groups, see this chart.

House Republicans Institute Dynamic Scoring; Waive Debt-Ceiling Votes

Included among its questionable first actions in the 108th Congress, the Republican-led House Ways and Means Committee made two new troubling rule changes that will govern House legislation around the federal budget.

Dynamic scoring
The first, the use of “dynamic scoring” to calculate the cost of tax proposals, is perhaps the most troubling. Dynamic scoring refers to the factoring in of possible increases in economic growth when “scoring,” or calculating, the amount of lost revenue a tax cut will result in. Advocates of dynamic scoring argue that the practice offers a more realistic view of the likely budget effects of tax cuts by incorporating increased business activity that they argue accompanies lower tax rates. Opponents point out that dynamic scoring masks the true costs of tax cuts by relying on the potential for an increase in revenue that many economists argue is unlikely.

Neither the Congressional Budget Office (CBO), nor the Joint Committee on Taxation (JCT), the two offices that provide analyses and revenue effects of House and Senate bills, uses dynamic scoring. Since the Senate also does not utilize dynamic scoring in calculating the costs of its bills, a comparison of House and Senate versions of tax bills will likely prove difficult over the course of this Congress.

Debt Ceiling Votes
In a marked departure from their long-time view of the debt ceiling, House Republicans introduced a rule for the 108th Congress eliminating the requirement that a separate vote to raise the debt ceiling be taken when a tax or spending bill that requires an increase in the limit on the country’s debt is voted on in the House. Arguing that support for increasing the debt ceiling is a logical assumption when a Member votes for a bill that will necessitate such an increase, the House Ways and Means Committee decided to do away with a vote they described as redundant.

According to Campaign for America’s Future, these same Republicans were fierce supporters of this separate vote until recently, arguing that it forced Democratic supporters of increased federal spending to be held accountable for increasing the debt.

Continuing Resolution, Take 8

Last week the House and Senate Passed, and the President signed the eighth continuing resolution (CR) of the FY 2003 budget season. This CR will keep the federal government and the programs it funds going through January 31, 2003. Without the CR, there would be no funding for these programs and the government would be forced to shut down – an option no one wanted to serve as the opening to the 108th Congress last week. As discussed in previous issues of the Watcher, there are many problems for agencies trying to operate under a stream of CR's, which only continue last year's funding levels, with no increase for inflation. There is hope that this will be the last CR necessary for FY 2003, as many in Congress want to complete work on the remaining 11 appropriations bills by combining them into an omnibus appropriations bill – to allow them to move on to the FY 2004 budget.

Nonprofit Issues

Agencies Going Full Steam Ahead With Faith-Based Initiative

Since the President issued an Executive Order on December 12, 2002, requiring equal treatment of faith-based and secular organizations when applying for federal grants, three agencies have taken action to fill in the details with provisions that look very much like H.R. 7, the controversial version of charitable choice that passed the House of Representatives in 2001. Both the Department of Health and Human Services (HHS) and Housing and Urban Development (HUD) are seeking public comments on their proposed new grant regulations. The Department of Education has issued new guidelines, with no opportunity for public comment.

In addition, the White House Office of Faith-Based and Community Initiatives (OFBCI) has published Guidance to Faith-Based and Community Organizations on Partnering with the Federal Government, which provides information on what the OFBCI considers to be sufficient separation of government services from inherently religious activity. However, the nonpartisan Roundtable on Religion and Social Welfare Policy published Roundtable Legal Analysis: President's Faith-Based Orders and Proposed Agency Rule Changes Raise Legal Questions January 9, 2003, which questions the administration's approach to separation of government funded services from inherently religious activity, stating it could easily lead to interpretations that are "legally unsound," such as mixing religious concepts with government services.

While the debate over appropriate implementation of the faith-based initiative goes on, the administration continues to slash funding for domestic programs, creating increased competition for a shrinking pot of government funding. Administration efforts to recruit more grant applicants continue through White House Conferences on Faith-Based and Community Initiatives scheduled for January 13 in Denver, CO, February 18 in San Diego, CA, and March 14 in Chicago, IL. Online registration is available.

IRS News

Nonprofits that wish to comment on changes in IRS Form 990 have until January 28 to submit their recommendations on proposed changes in the areas of fundraising, organizational accountability, foreign grants and PACs. For more information, see the OMB Watch summary of proposed changes.

This Internal Revenue Service (IRS) has published a new IRS Continuing Professional Education (CPE) manual on tax-exempt organizations that focuses on consumer credit counseling organizations. Further chapters will be published as they are written. The CEP manuals provide helpful information to nonprofits, but they are primarily for IRS staff training purposes, and cannot be cited as authority. A summary of the 2003 IRS Workplan for exempt organizations is also on our site.

Regulatory Matters

EPA-OMB Collaboration on Diesel Moves Forward

In an "unusual collaboration," EPA and OMB's Office of Information and Regulatory Affairs (OIRA) are drafting new standards to restrict emissions from off-road diesel-powered vehicles, such as bulldozers and tractors. According to the Washington Post, EPA expects to issue a proposed rule next spring that will require emissions to be reduced by as much as 95 percent, in line with recently adopted standards for heavy-duty trucks.

While EPA has garnered praise from the environmental community for its willingness to issue a non-road diesel standard, concerns have been raised about potential loopholes, as well as the rule's effective date. Environmentalists are arguing for a 2008 deadline for large-scale emissions reductions, but "EPA officials say they are leaning toward an alternative approach strongly favored by industry that would require a modest interim reduction in the sulfur content by 2007 and put off the new standard until 2010," according to the Post.

The outcome of this rule will be particularly interesting because, as OMB Watch previously noted, OIRA has never been in the position of crafting regulation from scratch. In the case of air emissions, Congress has delegated this authority exclusively to EPA.

Over the course of the Bush administration, OIRA has been particularly tough on environmental protection, weakening a number of standards in response to industry complaints. In these cases, EPA documented OIRA's changes, as required by Executive Order 12866, which guides White House review of agency rules. For the non-road diesel standard, however, OIRA is operating without any such disclosure requirements, and its influence is hidden from public view. Nonetheless, the Post reports that OIRA Administrator John Graham is behind a strong standard.

Proposed Forest Rule Creates NEPA Loophole

A new U.S. Forest Service rule would grant an exemption to the National Environmental Policy Act (NEPA) for certain small timber sales. The rule, which was proposed last week, would allow timber projects to eschew environmental assessments and impact statements -- normally required under NEPA -- provided that the project area poses a risk of wildfire or contains insect-infested or diseased trees.

The proposed rule outlines three categorical NEPA exemptions, which would allow the harvesting of up to 50 acres of live trees, the removal of up to 250 acres of dead or dying trees, and the removal of up to 250 acres of insect infested or diseased areas. "Through these proposed categories, the agency hopes to reduce bureaucratic red tape and save time, energy and money in preparing small, routine projects that are supported by local communities," said Forest Service Chief Dale Bosworth.

Alarmingly, the public would not be able to initiate administrative appeals, which are guaranteed under NEPA, to block these projects "because of their limited scope," officials said. This seems to forecast the cutting down of more trees with less input from the public. Much like the administration's recent proposal to overhaul forest protection regulations, the rule seems to answer only to the concerns of the timber industry.

The Department of Agriculture will be accepting comments on the proposed rule for 60 days.