Policymakers Offer 2004 Tax Cut Forecast

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With lawmakers back in their districts until mid-January, tax watchdogs and public policy leaders last week laid out their legislative wish lists in a series of economic discussions as President Bush remained noncommittal on his upcoming fiscal agenda. Meanwhile, a pair of academics suggested that the list of agenda items might look different if voters applied to their tax decisions the timely holiday precept of thinking less about oneself and more about others.

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Bush jump-started the rumor mill by telling reporters December 15 that his administration would continue to pursue a pro-growth agenda — including the stalled-out energy bill (H.R. 6) and a set of broad-reaching regulatory reforms — in the new year.

But when pressed about the chances of unveiling his fourth tax package in as many years, Bush demurred, saying only, "We'll see." White House spokesman Scott McClellan similarly brushed aside inquiries about tax packages but did mention the administration remained committed to extending the life of previous tax cuts.

"That's one of the top priorities for the president — to make those tax cuts permanent," McClellan said.

Grover Norquist, an administration ally and president of Americans for Tax Reform, was less cryptic about the tax outlook. While some White House aides were considering an either-or strategy for moving Bush's lifetime savings account (LSA) and retirement savings account (RSA) initiatives in 2004, Norquist told members at a December 17 New America Foundation forum that Bush's joint savings proposals would serve as the centerpiece of his reelection bid.

"The good news is that as of about 11 o'clock [December 17], they were going to go for both," Norquist said.

Investor Accord, Savings Split

Norquist and Gene B. Sperling, a former Clinton economic adviser, Richard Nadler, political director for the Republican Leadership Coalition, and Ruy Texiera, senior fellow at the Center for American Progress and the Century Foundation headlined the New America Foundation debate on Bush's plans to create an "ownership society."

Most of the disagreement focused on the languishing LSA and RSA provisions, which would allow for up to $30,000 or more in annual savings (joint filers) by dissolving the current income limitation rules and removing some other tax-free distribution hurdles. Bush tucked the twin "supersaver" measures into last year's budget only to watch the plans sputter on Capitol Hill.

The Joint Committee on Taxation estimated that the LSA and RSA proposals would raise money through 2008 (gains of $3.2 billion in 2004 and $2.8 billion in 2005) before becoming a revenue loser in the latter half of the decade ($3.2 billion through 2013). Those figures would double if Bush adds to the mix employee retirement savings accounts ($4 billion through 2013).

Sperling argued that the new tax-preferred vehicles would do little to promote new savings while allowing well-off families to amass "unchecked wealth" for generations to come. He called the savings push the "largest fiscal gimmick" ever and said any near-term infusion from a nationwide investment swap — taxpayers would have to cash out their current holdings before setting up the new LSAs and RSAs — would be overshadowed by the loss of future revenue collections.

"This is a huge drain on the future in terms of saving," Sperling said. "I do not see any strategy in their strategy for actually building the investor class."

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Touting data showing that low-income workers and minorities remain on the sidelines of the savings game, Sperling said the best way to foster investment building would be to marry universal 401(k) accounts with a government match.

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Texiera added that the expanded 401(k) option would give everyone from ordinary pensionholders to upper-income earners more portability while widening the base for those workers in need of a retirement vehicle. "You have to have a program for the ordinary person . . . [because]

these are the people who are the future of the investor class," he said.

Nadler welcomed the endorsement of a universal savings account-type vehicle, saying, "Give me USA accounts tomorrow, and we'll have privatized Social Security accounts in five years."

Norquist predicted that Democratic reforms would ring hollow with voters because the party had alienated stock market investors by promoting corporate tax increases as a victimless crime. With roughly half the U.S. workforce controlling employer-backed 401(k) accounts, mutual funds, or privately held stocks, taxpayers look at big business and now see themselves, Norquist said.

"The enthusiasm of corporate bashing didn't work," he said. "Because a whole bunch of the country now hears, 'We're going to get you!'"

Finish What You Start

Martin Regalia, U.S. Chamber of Commerce chief economist, said the proposed savings changes are worthwhile. He stressed, however, that business leaders want Bush to follow through on making his tax cuts permanent before he focuses on other budget priorities.

"Having them temporary is a ticking time bomb, and we're closer to the big boom than we were three years ago when they were passed," Regalia said December 18. "So I think that the number one priority has got to be pushing for permanence of those tax cuts and making sure that the benefit that we've received isn't wasted."

While eager to join the pro-savings chorus, Regalia suggested that the LSA and RSA proposals are unlikely to produce a major jump in

MARKET FOR HSAs TO BLOOM NEXT YEAR, FORUM PANELISTS SAY

Public and private policy analysts at a December 12 forum hosted by the American Enterprise Institute predicted the market for new tax-preferred health savings accounts (HSAs) would thrive in 2004 as individuals and businesses learn about them. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. 108-173) allows companies to set up HSAs for individuals who purchase high-deductible health insurance policies.

Panelists said they expect Congress to make HSAs compatible with traditional flexible savings accounts (FSAs) and health reimbursement arrangements (HRAs) in the next year.

Shahira Knight, a senior tax and budget adviser for House Ways and Means Committee Chair William M. Thomas, R-Calif., predicted the committee next year would reconsider a plan to allow taxpayers to roll over up to $500 in unused funds from FSAs into their HSA — a proposal Medicare conferees dropped from the final conference agreement — as well as other items to expand coverage for the uninsured.

Greg Scandlen of the Galen Institute said he expects the Ways and Means Committee to also return to a broader tax-preferred savings plan known as health savings security accounts (HSSAs). Thomas tried to include the $163 billion HSSA proposal (H.R. 2596) in the Medicare bill but later dropped the plan during conference negotiations.

"I think I can almost guarantee that will be back on the agenda very shortly," Scandlen said. He added that he considers the HSA proposal to be a "milestone" in a shift in health policy trends, which have been based on the "industrial age model" of the 1940s.

All the panelists pointed out problems associated with the "third-party payer" system, which they said constrains consumer-based purchasing power. They predicted HSAs would transform the health care system if the market develops "management support" products that would give consumers access to information about the costs and qualities of local health care.

Scandlen predicted that individuals and midsize employers with 100 to 1,000 workers are the most likely candidates for finding HSAs attractive. He does not expect small companies that do not provide health care coverage to adopt HSAs, and he thinks large companies would stay with HRAs.

Several audience members and panelists raised questions about how state and federal regulators would implement the plans. According to Knight, taxwriters considered writing language into the Medicare conference to ensure states would approve HSAs but ran into complications over jurisdiction. She said taxwriters could still propose legislation to address state regulatory issues.

Kate Sullivan of the U.S. Chamber of Commerce said she thinks Congress still needs to clarify that HSAs will not be treated as employee benefits and needs to make compatible legislative changes to ERISA. "We definitely see a few things that need technical clarifications," Sullivan said. But she added that small businesses are prepared to embrace the plan almost immediately. "They have been very excited to see anything new come into the marketplace," she said. ■

— Patti Mohr

the national savings rate — although they are clearly a step in the right direction.

"I think they [LSAs and RSAs] will move in the proper direction and this is the kind of movement that will enhance savings, improve investment, and help us to fund our own growth," he predicted, adding that "any vehicle that is only taxed once . . . is a good thing."

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Regalia was less optimistic about Bush's budget promises. He estimated that the confluence of close elections, mandatory spending growth, and sustained antiterrorism commitments would likely undercut attempts at restraining spending.

"I think it's going to be very tough to get a balanced budget by 2009," Regalia stated. Bush and other administration officials have repeatedly vowed to halve the federal deficit within five years but have so far been tight-lipped about the details.

Political Astigmatism

A pair of scholars warned that at least a portion of public support for steep tax cuts and fundamental tax reform can be attributed to confusion and misconception.

It's a case of "unenlightened self-interest," Princeton University Professor Larry Bartels said December 16 at a forum hosted by the Tax Policy Center, a joint project of the Brookings Institution and the Urban Institute. Bartels maintained that many people do not have the information needed to make a connection between tax policies and economic inequalities.

Joel Slemrod, University of Michigan economist, concurred, stating that people believe a flat tax or a national sales tax would be more progressive than the income tax and therefore lend those alternatives much of their support.

"Support for either of those two reforms is strongly related with a belief that the current tax structure is unfair," Slemrod said.

Both scholars said that people tend to base their opinions about tax policy on their own tax burdens. Bartels presented the findings of a study that concluded that in forming their views on tax policy questions, many people give no weight to the effect the proposed changes will have on the very rich, even when it comes to the estate tax, which affects relatively few taxpayers.

Slemrod reported that 51 percent of people believe middle-income taxpayers pay more in income tax than the wealthy. "This is inconsistent with a progressive tax system and the truth as we know it," he said.

Slemrod said that when people were told that both flat tax and sales tax alternatives would be more regressive than the income tax, support for the reforms plummeted. When supplied with more information — "political information," as Bartels calls it — those surveyed opposed tax policy decisions that Slemrod and Bartels said might not be in their interest.

Some tax policy preferences proved tenacious, however. Bartels found that support for repealing the estate tax remained high among survey respondents who were unlikely to ever pay the tax. And Slemrod presented evidence that while more information eroded support for the flat tax and national sales tax, backing remained strong, even among survey respondents who knew the income tax is progressive. According to Slemrod, after respondents were given more details about tax reform options, support for the flat tax slipped from 52.9 percent to 42.5 percent and support for a national sales tax fell from 39.4 percent to 31.1 percent. ■