



**Testimony of  
John J. Castellani of  
The Business Roundtable  
Before the  
Subcommittee on Oversight and Investigation  
House Financial Services Committee  
On  
The President's Economic Growth Proposal  
Tuesday, March 18, 2003**

My name is John J. Castellani. I am President of The Business Roundtable, an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees in the United States and \$3.7 trillion in annual revenues. It is my pleasure to present the testimony of The Business Roundtable today in support of the President's economic growth and job creation package.

Overview

The Business Roundtable believes it is critically important for Congress to adopt a jobs and economic growth plan that will put more cash in the pockets of consumers, stimulate demand, create jobs, and get the world's strongest, most resilient economy moving again.

The economy is not performing up to its potential. Last November, The Business Roundtable conducted a survey of its 150 members, which cross all sectors of the economy, and we asked them what assumptions about employment, capital spending and economic growth they were embedding in their business plans for 2003. In summary, the results raise serious concerns for American workers, companies and the overall economy.

- 60 percent of CEOs expect their company's employment to drop in 2003; 28 percent expect it to remain the same, and 11 percent expect employment growth.

- 57 percent of CEOs expect their U.S. capital expenditures in 2003 to be the same as 2002 levels, while 24 percent expect a decline. Only 19 percent expect higher capital spending.
- 64 percent of the CEOs are expecting GDP growth rates of less than 2 percent in their 2003 planning, while 36 percent expect GDP growth of more than 2 percent. By comparison, the average annual GDP growth over the past decade has been 3.2 percent.
- 19 percent of CEOs expect their 2003 sales to be flat compared with 2002, while 9 percent expect sales to be lower. Seventy-one percent of the CEOs expect higher sales in 2003.

The BRT survey of CEOs reinforces a series of economic data released over the past several months that indicates a mixed economic performance and an unstable recovery. Consumer confidence fell this month to an eleven-year low. The gross domestic product (GDP) rose by a mere 1.4 percent in the fourth quarter of 2002 – the smallest gain since 2001 – when it could be growing at 4-5 percent without an increase in inflation.

That is why, last November, the BRT urged the President and Congress to take immediate action on a large economic growth package aimed at consumers. Business cannot create demand, so we need to ignite consumer confidence and consumer spending. The war on terrorism and fear of war with Iraq, and depressed equity valuations all have combined to undermine consumer confidence and push demand down. What the U.S. economy needs is significant and immediate tax relief for consumers.

#### The President's Economic Growth Plan

The President's economic growth and job creation package provides exactly the kind of boost our economy needs. It will do this by accelerating the 10 percent bracket expansion and rate reductions, with AMT hold-harmless relief; accelerating the marriage penalty reduction and child tax credit increase; and eliminating the unfair double taxation of dividends.

The President's plan, if enacted, will significantly stimulate the economy in the short-term and boost long-term economic growth. According to the results of a study conducted for The Business Roundtable by PricewaterhouseCoopers (PwC) using the widely-supported Inforum LIFT macroeconomic model housed at the University of Maryland (a copy is attached to this testimony), it will create an average of 1.8 million new jobs in each of the next two years and an average of 1.2 million new jobs per year for the next five years.

To put that in perspective, there are approximately 1.5 million fewer people employed today than the pre-recession high of 2 years ago, and we estimate that enactment of the President's growth package would put just as many people back to work in the first year.

The President's plan would, according to our study, boost the gross domestic product in the U.S. economy by 2.4 percent by the end of 2004. It will boost incomes and jobs and help all sectors of the economy, including housing and capital markets. Working consumers and investors will have more money to spend and more confidence to spend it on goods and services.

#### Eliminating the Double Taxation of Corporate Dividends

The dividend component of the President's plan, according to the BRT/PwC study, will have the single most positive impact on economic growth in both the short-term and the long-term. The dividend proposal alone contributes half of the plan's resulting job and GDP growth over five years. As a result, companies will be more likely to invest in new equipment, build new plants and develop new products, which will sustain economic growth and create jobs.

Abolishing the unfair double taxation of dividends will spur consumer spending by increasing the after-tax income of stock investors in three ways. First, it will put more money in the hands of individuals because shareholders from all income levels will pay less in taxes. Second, it will cause companies to increase their dividend payments to shareholders (by an estimated four percentage points). Third, it will put upward pressure on stock prices.

Eliminating the double taxation of dividends will improve corporate governance in a number of ways. First, as noted in the Joint Committee on Taxation's so-called "Enron Report" to the Senate Finance Committee last month, the different tax treatment of corporate debt and equity is a longstanding problem and motivation for the kind of hybrid financial instruments that Enron Corporation aggressively used to obtain favorable tax treatment on transactions that had little or no business purpose. To prevent such abuses, the Joint Committee urged Congress to "reduce or eliminate the disparate taxation of interest and dividends" (Volume 1, page 35).

Second, under present-law, retained earnings are preferred because they are taxed at the lower capital gains rate while dividends are subject to the higher individual income tax rates. Under the President's plan, dividends would be tax-free to shareholders. While this same tax treatment would apply to retained earnings, shareholders are likely to prefer immediate cash in their pockets in the form of dividends.

Third, the pay-out rate of dividends that are tax deductible to the shareholder would be an important measure of a company's financial health. Under the President's plan, shareholders will reward companies that pay tax deductible dividends, and this will encourage better transparency in the reporting of corporate earnings. Likewise, companies that do not pay tax deductible dividends would be viewed less favorably by investors worried about inflated earnings and liquidity concerns.

Fourth, the tax code currently makes it cheaper for companies to finance new investments with debt rather than with equity because the payment of interest to bondholders is treated as a deductible expense while dividends paid to shareholders are taxed twice, once at the corporate level and again as income to the shareholder. This has led to a number of economic distortions, such as causing many companies to take on excessive levels of debt and risk bankruptcy.

Critics of the dividend component of the President's plan have suggested that it would only help companies that pay dividends and individuals who invest outside tax advantaged retirement accounts. But the resulting increase in equity valuations would benefit companies and investors as a whole. In addition to boosting consumer confidence through greater wealth, increased equity valuation would benefit college and university endowments, IRAs, corporate and public pensions and all savings.

The severe bear market of the past three years has had a particularly damaging effect on employer-provided retirement plans. An AARP survey highlights this fact, finding that investors between the ages of 50 and 70 have experienced average declines of 10 to 25 percent in retirement savings and that 21 percent have postponed the date of their retirement. One of the key challenges facing our private retirement system is to get retirement assets growing again.

Holding all other factors constant, we know that the elimination of the double taxation of dividends will cause stock valuations to rise because it will boost after tax yields and cause companies to pay out more in dividends. Estimates by economists who have looked at the market impact of the dividend taxation proposal range from a 6 percent increase to a 20 percent increase in equity prices. Assuming a modest 7 to 9 percent increase in equity prices, both the defined contribution and defined benefit system would benefit greatly.

**Defined Contribution Plans.** In spite of the effects of the bear market, defined contribution plans remain a vitally important tool in helping Americans achieve a secure retirement. At year-end 2002, there were \$2.1 trillion in defined contribution plan assets, with corporate equities and mutual fund shares totalling \$1.3 trillion (or approximately 62 percent) of plan assets. (Board of Governors, United States Federal Reserve System, *Flow of Funds*, March 6, 2003.) Under an assumed 7 to 9 percent increase in equity prices after enactment of the dividend proposal, defined contribution plan assets would increase by between \$91 billion and \$117 billion.

Similarly, positive results could be expected in a key component of the defined contribution plan market – namely, 401(k) plans. A recent study of 401(k) plans found that at year-end 2001, 45 million Americans held 401(k) plan accounts with a total of \$1.75 trillion in assets, and that 70 percent of plan balances were invested directly or indirectly in equity securities. (Sarah Holden and Jack Vanderhei, “401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2001”, EBRI Issue Brief Number 255, March 2003.) Enactment of the dividend proposal and its positive effect on stock prices could do more than any other policy change to mitigate the damage to participants’ 401(k) accounts, translating into a potential increase of \$4,200 per 401(k) participant and \$110 billion in aggregate 401(k) plan assets.

Defined Benefit Plans. Defined benefit plans differ from defined contribution plans in that the employer bears the investment risk related to plan assets. The combination of the ongoing bear market and a low interest rate environment that artificially inflates plan funding requirements has created extreme plan funding difficulties for many defined benefit plan sponsors. With the number of defined benefit plans declining from 172,642 plans in 1986 to an estimated 32,500 plans today, our defined benefit system is at a crossroads.

Year-end 2002 data shows that defined benefit plans have \$1.6 trillion of assets, with about 48 percent (or \$770 billion) of assets held in corporate equities and mutual fund shares. (Federal Reserve, *Flow of Funds, supra.*) Based on these figures, a modest 7 to 9 percent stock market increase due to enactment of the dividend tax proposal would result in an increase of between \$54 billion and \$69 billion in defined benefit plan funding levels. As a result, millions of Americans will see a substantial improvement in their retirement security, and companies will have additional operating capital to invest, resulting in more profits and increased stock prices.

The economic benefits of a rising stock market are further multiplied when shareholders increase their spending on goods and services, which provides new income to other households. The increase in income leads to more demand, and producers will need to step up their hiring and capital spending in order to meet the increased demand. Because of this “multiplier effect,” an initial \$1 increase in cash income – because of the reduced level of taxation and increase in the dividend payout rate – will result in more than \$1 of new income throughout the economy.

#### Budget Deficits and Fiscal Responsibility

The Business Roundtable acknowledges the importance of federal budget deficits, but also understands the importance of a healthy economy. Short-term budget deficits are understandable when there is below-optimal economic growth and a need to stimulate economic growth by allowing individuals to keep more of what they earn.

We believe the President’s plan is fiscally responsible. Under the plan, deficits would start at 2.8 percent of GDP and decline to 1.4 percent by 2008, and average 2 percent during 2003-2008.

The economy can handle deficits of that relative size. Deficits averaged three percent of GDP during the 1970s and 1980s.

The primary cause of the current deficit situation is declining revenues due to the 2001 recession and the anemic growth coming out of the recession. The key to returning to a balanced budget is to return to higher growth rates by stimulating the employment of underutilized resources in the economy (i.e., people and plant and equipment).

According to the BRT study, one-third of the projected 10-year static deficit increase resulting from enactment of the President's plan would be eliminated as a result of the increased economic growth derived from the plan.

At that level, the return on the government's investment in additional GDP would be 340 percent. On the dividend component alone, the return on the government's investment would be 630 percent. So we view the President's economic growth package as an investment in our economy.

### Conclusion

We urge Congress to move quickly to enact an economic growth plan that will give an immediate boost to the economy and put people back to work. The President's plan is the best means for sustaining new job creation, business investment, and economic growth, both in the short-term and in the long-term. It is the right prescription for an ailing economy.

January 21, 2003

Mr. John J. Castellani  
President, The Business Roundtable  
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Dear John:

We have completed research requested by The Business Roundtable regarding national impacts of the Administration's proposal for economic growth. The results are summarized in this communication, which includes five tables.

Our research relates to the six items in the Administration's proposal that involve components of the individual income tax—specifically, marginal tax rates, the 10-percent rate bracket, the AMT exemption, the marriage penalty, the child credit, and exclusion of dividends. These components account for 97 percent of the proposed static effect on the federal budget deficit, according to the Treasury Department's estimates.

We began by estimating the static revenue loss of the program (official, year-by-year estimates from Treasury and the Joint Committee on Taxation are not available at this writing). The static estimates were then fed into a fully elaborated and well-established macroeconomic model—the Inforum LIFT model—that has been maintained by a not-for-profit economic research corporation housed at the University of Maryland for 35 years. After calibrating the Inforum LIFT model to overlay the CBO baseline of August 2002, we entered the Administration's proposed items (incorporating the three assumptions noted below) and let the model do the work without our intervention.

The results are forecasts of how the Administration's proposal would affect the economy and the federal budget. You will find the static and dynamic budget estimates at Table 2, macroeconomic impacts of the entire proposal at Table 1, and macroeconomic impacts of parts of the proposal at Tables 1a-1c.

As is evident from the tables, the Inforum LIFT model indicates that the Administration's program would be stimulative in the short run and growth-enhancing in the long run. The short-run impacts are a combination of all proposed items and the long-run impacts are due mainly to the proposed exclusion of dividends. The proposal would increase the number of



civilian jobs by an average of 1.2 million per year during the first five years and an average 0.9 million per year for the 10-year forecasting period. The proposal would add between 0.5 and 1.8 percentage points to the growth rate of real GDP through 2005 and lesser increments thereafter. Because of the stimulus it would impart, the proposal would increase the federal deficit, including the additional interest expense, by just two-thirds of the static revenue loss.

It was necessary to make assumptions about a few things:

First, we assume that the proposed items will expire after 2010, except for the proposed exclusion of dividends.

Second, for the purpose of estimating benefits occurring in 2003 we assume that the proposal is enacted and ready for implementation on July 1, 2003. Taking into account the Administration's indications that new withholding tables would be constructed as if tax cuts were effective on or about the enactment date and that checks would be issued promptly for a higher child credit, we assume that the percentage of benefit for calendar 2003 that is realized in calendar 2003 is 100 percent for the child credit; 50 percent for reduced marginal income tax rates and a wider 10-percent rate bracket; 25 percent for marriage penalty relief and excluded dividends; and zero for the AMT fix. These assumptions imply that individuals would have a \$49 billion cash benefit during 2003, receiving the balance of the benefit for 2003 in 2004.

Third, we adopt the Treasury Department's prediction that the proposed exclusion of dividends would increase the dividend payout rate by four percentage points. Specifically, we assume a two-percentage-point increase beginning in 2004 and an additional two-percentage-point increase beginning in 2005.

This summary covers a lot of ground. Let's discuss any questions or comments.

Yours truly,



Kenneth L. Wertz

Enclosures

**Table 1**  
**Analysis of President's Economic Stimulus Proposal: All Provisions Combined**  
**Changes to U.S. Economy**  
[Changes in \$billions except as noted]

| Calendar Year                             | Actual | Forecast |      |      |      |      |      |      |      |      |      | Totals/Averages |               |
|---|--------|----------|------|------|------|------|------|------|------|------|------|-----------------|---------------|
|   | 2001   | 2003     | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1st Five Years  | 1st Ten Years |
| Nominal GDP                               | 10,082 | 76       | 281  | 200  | 91   | 90   | 125  | 167  | 176  | 176  | 179  | 738             | 1,561         |
| Personal income                           | 8,685  | 52       | 205  | 174  | 92   | 89   | 121  | 159  | 170  | 171  | 173  | 611             | 1,405         |
| Wages and salaries                        | 4,951  | 30       | 113  | 87   | 40   | 37   | 54   | 76   | 83   | 83   | 83   | 308             | 687           |
| Dividend income                           | 409    | 19       | 68   | 46   | 25   | 30   | 39   | 49   | 48   | 44   | 43   | 188             | 410           |
| After-tax corporate profits               | 471    | 22       | 75   | 26   | -4   | 1    | 11   | 21   | 17   | 11   | 8    | 121             | 187           |
| Real GDP (\$2002)                         | 10,108 | 55       | 195  | 114  | 17   | 11   | 37   | 62   | 61   | 56   | 54   | 391             | 662           |
| Personal consumption                      | 7,051  | 46       | 163  | 109  | 67   | 63   | 68   | 76   | 73   | 78   | 80   | 448             | 823           |
| Gross private fixed investment            | 1,579  | 24       | 85   | 52   | -25  | -39  | -13  | 14   | 19   | 9    | 4    | 97              | 130           |
| Net exports                               | -208   | -12      | -46  | -45  | -27  | -15  | -18  | -28  | -33  | -32  | -32  | -144            | -287          |
| Unemployment rate (percentage points)     | 6.0*   | -0.6     | -2.0 | -1.2 | -0.2 | -0.1 | -0.3 | -0.5 | -0.5 | -0.4 | -0.4 | -0.8            | -0.6          |
| Total civilian employment (millions)      | 134.0* | 0.8      | 2.9  | 1.8  | 0.3  | 0.1  | 0.5  | 0.8  | 0.8  | 0.7  | 0.7  | 1.2             | 0.9           |
| 10-year Treasury Bond (basis points)      | 500    | 2        | 8    | 10   | 7    | 4    | 0    | 1    | 2    | 1    | 1    | 6               | 4             |
| Inflation rate (percentage points)        | 2.3    | 0.2      | 0.5  | 0.0  | -0.1 | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.1             | 0.1           |
| Personal savings rate (percentage points) | 2.3    | 0.4      | 1.2  | 0.7  | 0.1  | 0.0  | 0.2  | 0.3  | 0.3  | 0.2  | 0.2  | 0.5             | 0.4           |

\* for December 2002 (Department of Labor, Bureau of Labor Statistics)

Source: PricewaterhouseCoopers LLP and Inforum.

**Table 1a**  
**Analysis of President's Economic Stimulus Proposal: Rate and 10% Bracket Adjustment and AMT Hold-Harmless**  
**Changes to U.S. Economy**  
[Changes in \$billions except as noted]

| Calendar Year                             | Actual | Forecast |      |      |      |      |      |      |      |      |      | Totals/Averages |               |
|---|--------|----------|------|------|------|------|------|------|------|------|------|-----------------|---------------|
|   | 2001   | 2003     | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1st Five Years  | 1st Ten Years |
| Nominal GDP                               | 10,082 | 27       | 78   | 63   | 14   | 5    | 15   | 28   | 30   | 8    | 0    | 187             | 267           |
| Personal income                           | 8,685  | 13       | 42   | 44   | 19   | 9    | 15   | 23   | 25   | 10   | 2    | 126             | 200           |
| Wages and salaries                        | 4,951  | 11       | 31   | 27   | 7    | 1    | 6    | 12   | 14   | 5    | 0    | 77              | 114           |
| Dividend income                           | 409    | 1        | 4    | 5    | 4    | 4    | 4    | 4    | 4    | 1    | 0    | 18              | 31            |
| After-tax corporate profits               | 471    | 8        | 20   | 10   | -5   | -4   | 0    | 4    | 5    | -2   | -3   | 29              | 34            |
| Real GDP (\$2002)                         | 10,108 | 20       | 55   | 38   | -2   | -7   | 2    | 13   | 16   | 1    | -3   | 104             | 133           |
| Personal consumption                      | 7,051  | 17       | 47   | 38   | 14   | 11   | 11   | 16   | 16   | 4    | 2    | 127             | 176           |
| Gross private fixed investment            | 1,579  | 8        | 23   | 16   | -10  | -18  | -8   | 2    | 6    | 0    | -5   | 18              | 13            |
| Net exports                               | -208   | -4       | -13  | -14  | -6   | -1   | -1   | -4   | -6   | -3   | -1   | -38             | -54           |
| Unemployment rate (percentage points)     | 6.0*   | -0.2     | -0.6 | -0.4 | 0.0  | 0.1  | 0.0  | -0.1 | -0.1 | 0.0  | 0.0  | -0.2            | -0.1          |
| Total civilian employment (millions)      | 134.0* | 0.3      | 0.8  | 0.6  | 0.0  | -0.1 | 0.0  | 0.2  | 0.2  | 0.0  | 0.0  | 0.3             | 0.2           |
| 10-year Treasury Bond (basis points)      | 500    | 1        | 3    | 3    | 2    | 0    | -1   | 0    | 0    | 0    | -1   | 2               | 1             |
| Inflation rate (percentage points)        | 2.3    | 0.1      | 0.1  | 0.0  | -0.1 | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0             | 0.0           |
| Personal savings rate (percentage points) | 2.3    | 0.1      | 0.3  | 0.2  | 0.0  | -0.1 | 0.0  | 0.1  | 0.1  | 0.0  | 0.0  | 0.1             | 0.1           |

\* for December 2002 (Department of Labor, Bureau of Labor Statistics)

Source: PricewaterhouseCoopers LLP and Inforum.

**Table 1b**  
**Analysis of President's Economic Stimulus Proposal: Marriage Penalty Relief and Child Tax Credit Increase**  
**Changes to U.S. Economy**  
[Changes in \$billions except as noted]

| Calendar Year                             | Actual | Forecast |      |      |      |      |      |      |      |      |      | Totals/Averages |               |
|---|--------|----------|------|------|------|------|------|------|------|------|------|-----------------|---------------|
|   | 2001   | 2003     | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1st Five Years  | 1st Ten Years |
| Nominal GDP                               | 10,082 | 27       | 83   | 44   | 22   | 19   | 21   | 27   | 19   | 6    | 2    | 195             | 270           |
| Personal income                           | 8,685  | 13       | 44   | 35   | 19   | 17   | 20   | 23   | 19   | 8    | 4    | 129             | 203           |
| Wages and salaries                        | 4,951  | 11       | 33   | 20   | 9    | 7    | 9    | 12   | 10   | 4    | 1    | 80              | 116           |
| Dividend income                           | 409    | 1        | 4    | 4    | 4    | 4    | 4    | 5    | 4    | 1    | 0    | 18              | 32            |
| After-tax corporate profits               | 471    | 8        | 22   | 4    | -1   | 0    | 1    | 3    | 1    | -2   | -2   | 33              | 34            |
| Real GDP (\$2002)                         | 10,108 | 20       | 59   | 25   | 4    | 3    | 6    | 11   | 7    | 0    | -1   | 111             | 134           |
| Personal consumption                      | 7,051  | 17       | 50   | 26   | 20   | 17   | 15   | 16   | 11   | 4    | 2    | 131             | 179           |
| Gross private fixed investment            | 1,579  | 8        | 24   | 11   | -10  | -11  | -5   | 0    | 0    | -3   | -4   | 22              | 11            |
| Net exports                               | -208   | -4       | -14  | -11  | -7   | -3   | -3   | -5   | -4   | -2   | -1   | -39             | -54           |
| Unemployment rate (percentage points)     | 6.0*   | -0.2     | -0.6 | -0.3 | -0.1 | 0.0  | -0.1 | -0.1 | -0.1 | 0.0  | 0.0  | -0.2            | -0.1          |
| Total civilian employment (millions)      | 134.0* | 0.3      | 0.9  | 0.4  | 0.1  | 0.0  | 0.1  | 0.1  | 0.1  | 0.0  | 0.0  | 0.3             | 0.2           |
| 10-year Treasury Bond (basis points)      | 500    | 1        | 3    | 3    | 2    | 1    | 0    | 0    | 0    | -1   | -1   | 2               | 1             |
| Inflation rate (percentage points)        | 2.3    | 0.1      | 0.1  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0             | 0.0           |
| Personal savings rate (percentage points) | 2.3    | 0.1      | 0.3  | 0.1  | 0.0  | 0.0  | 0.0  | 0.1  | 0.0  | 0.0  | 0.0  | 0.1             | 0.1           |

\* for December 2002 (Department of Labor, Bureau of Labor Statistics)

Source: PricewaterhouseCoopers LLP and Inforum.

**Table 1c**  
**Analysis of President's Economic Stimulus Proposal: Dividend Exemption**  
**Changes to U.S. Economy**  
[Changes in \$billions except as noted]

| Calendar Year                             | Actual | Forecast |      |      |      |      |      |      |      |      |      | Totals/Averages |               |
|---|--------|----------|------|------|------|------|------|------|------|------|------|-----------------|---------------|
|   | 2001   | 2003     | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1st Five Years  | 1st Ten Years |
| Nominal GDP                               | 10,082 | 9        | 85   | 86   | 77   | 82   | 94   | 121  | 139  | 161  | 171  | 339             | 1,026         |
| Personal income                           | 8,685  | 6        | 70   | 89   | 82   | 86   | 97   | 120  | 137  | 155  | 164  | 333             | 1,006         |
| Wages and salaries                        | 4,951  | 4        | 34   | 37   | 33   | 35   | 41   | 54   | 63   | 73   | 78   | 142             | 451           |
| Dividend income                           | 409    | 2        | 30   | 37   | 35   | 36   | 38   | 45   | 47   | 48   | 46   | 141             | 365           |
| After-tax corporate profits               | 471    | 3        | 24   | 15   | 10   | 10   | 10   | 16   | 16   | 15   | 11   | 61              | 129           |
| Real GDP (\$2002)                         | 10,108 | 5        | 58   | 51   | 34   | 30   | 32   | 44   | 48   | 57   | 58   | 178             | 418           |
| Personal consumption                      | 7,051  | 3        | 48   | 43   | 43   | 45   | 47   | 56   | 60   | 73   | 77   | 182             | 496           |
| Gross private fixed investment            | 1,579  | 4        | 26   | 26   | 8    | 1    | 1    | 8    | 12   | 11   | 10   | 64              | 106           |
| Net exports                               | -208   | -1       | -13  | -17  | -17  | -15  | -16  | -21  | -25  | -28  | -30  | -64             | -184          |
| Unemployment rate (percentage points)     | 6.0*   | -0.1     | -0.6 | -0.5 | -0.4 | -0.3 | -0.3 | -0.4 | -0.4 | -0.5 | -0.5 | -0.4            | -0.4          |
| Total civilian employment (millions)      | 134.0* | 0.1      | 0.9  | 0.8  | 0.5  | 0.4  | 0.4  | 0.6  | 0.6  | 0.7  | 0.7  | 0.5             | 0.6           |
| 10-year Treasury Bond (basis points)      | 500    | 0        | 2    | 3    | 3    | 3    | 2    | 2    | 2    | 2    | 2    | 2               | 2             |
| Inflation rate (percentage points)        | 2.3    | 0.0      | 0.2  | 0.1  | 0.0  | 0.0  | 0.0  | 0.1  | 0.0  | 0.0  | 0.0  | 0.1             | 0.1           |
| Personal savings rate (percentage points) | 2.3    | 0.1      | 0.4  | 0.3  | 0.2  | 0.2  | 0.2  | 0.2  | 0.3  | 0.2  | 0.2  | 0.2             | 0.2           |

\* for December 2002 (Department of Labor, Bureau of Labor Statistics)

Source: PricewaterhouseCoopers LLP and Inforum.

**Table 2**  
**Analysis of President's Economic Stimulus Proposal:**  
**Changes to Federal Budget**

[Changes in \$billions]

|                                       | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1st Five Years | 1st Ten Years |
|---------------------------------------|------|------|------|------|------|------|------|------|------|------|----------------|---------------|
| <b>Calendar Year*</b>                 |      |      |      |      |      |      |      |      |      |      |                |               |
| <b>Static Revenue Effect</b>          |      |      |      |      |      |      |      |      |      |      |                |               |
| 10% Bracket, Rate Cut, AMT fix        | -21  | -59  | -42  | -8   | -8   | -9   | -8   | -8   | 0    | 0    | -138           | -162          |
| Marriage Penalty and Child Tax Credit | -22  | -62  | -24  | -18  | -15  | -13  | -8   | 0    | 0    | 0    | -140           | -161          |
| Dividend Exemption                    | -7   | -47  | -30  | -31  | -33  | -36  | -39  | -42  | -48  | -52  | -148           | -364          |
| Total                                 | -49  | -169 | -95  | -56  | -56  | -57  | -55  | -49  | -48  | -52  | -425           | -687          |
| <b>Net Budget Deficit Impact</b>      |      |      |      |      |      |      |      |      |      |      |                |               |
| 10% Bracket, Rate Cut, AMT fix        | -14  | -37  | -28  | -13  | -15  | -12  | -6   | -5   | -4   | -6   | -106           | -139          |
| Marriage Penalty and Child Tax Credit | -14  | -39  | -18  | -20  | -19  | -14  | -7   | -1   | -5   | -5   | -109           | -141          |
| Dividend Exemption                    | -4   | -20  | -6   | -14  | -19  | -20  | -17  | -17  | -20  | -24  | -64            | -162          |
| All combined                          | -25  | -87  | -53  | -58  | -60  | -48  | -33  | -29  | -30  | -35  | -283           | -458          |
| <b>Fiscal Year**</b>                  |      |      |      |      |      |      |      |      |      |      |                |               |
| <b>Static Revenue Effect</b>          |      |      |      |      |      |      |      |      |      |      |                |               |
| 10% Bracket, Rate Cut, AMT fix        | -14  | -46  | -48  | -19  | -8   | -8   | -8   | -8   | -3   | 0    | -135           | -162          |
| Marriage Penalty and Child Tax Credit | -14  | -48  | -37  | -20  | -16  | -14  | -10  | -3   | 0    | 0    | -135           | -161          |
| Dividend Exemption                    | -4   | -33  | -36  | -30  | -32  | -35  | -38  | -41  | -46  | -51  | -136           | -346          |
| Total                                 | -32  | -127 | -121 | -70  | -56  | -57  | -56  | -51  | -49  | -51  | -406           | -669          |
| <b>Net Budget Impact</b>              |      |      |      |      |      |      |      |      |      |      |                |               |
| 10% Bracket, Rate Cut, AMT fix        | -9   | -29  | -31  | -18  | -14  | -13  | -8   | -5   | -4   | -6   | -101           | -137          |
| Marriage Penalty and Child Tax Credit | -9   | -30  | -25  | -19  | -19  | -16  | -9   | -3   | -4   | -5   | -102           | -139          |
| Dividend Exemption                    | -3   | -14  | -11  | -11  | -18  | -20  | -18  | -17  | -19  | -23  | -57            | -154          |
| All combined                          | -16  | -65  | -65  | -56  | -59  | -52  | -39  | -30  | -30  | -34  | -262           | -446          |

\* Assumes that 7/1/03 is the date of enactment. Assumes, therefore, that the percentage of benefit for calendar year 2003 that is realized in 2003 is 50% for the 10% bracket expansion, 50% for lower income tax rates, 25% for marriage penalty relief, 100% for the child tax credit increase, 25% for the dividend exclusion, and 0% for the AMT fix.

\*\* Fiscal year estimates assume a 65-35 split between the current and following fiscal years.

Source: PricewaterhouseCoopers LLP and Inforum.