



## **Unmasking the Reality Behind the Democrats' Rhetoric on the Economy**

**Background Briefing Packet for the Press and Interested Parties  
Regarding the "Economic Forum to Discuss the Condition of the  
U.S. Economy" Being Sponsored by the Senate Democratic Policy  
Committee and the "Economic Recovery Room" Being Sponsored  
by the House Democratic Caucus**

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## **Democrats' 1993 Economic Plan**

Democrats like to talk about their 1993 "Economic Plan." The heart of that plan was a \$240 Billion tax increase, the largest tax increase in American history. Contrary to Democrat claims, the economy prospered during the 1990s in spite of, not because of, this tax increase.

### **Democrats Raised Taxes On Every American:**

#### **Tax Increases in the 1993 Democrat Economic Plan (Public Law 103-66):**

- √ Retroactively Increased the Death Tax
- √ Raised Taxes Paid By Senior Citizens on Social Security Benefits
- √ Raised Medicare Taxes
- √ Raised Gas Taxes
- √ Raised Personal Income Taxes
- √ Raised Taxes on American Businesses (*Source: Public Law 103-66*)

### **Democrat Tax Increases Reduced Economic Growth:**

In 1996, the non-partisan Heritage Foundation utilized the Washington University Macro Model – a major economic computer model of the economy used by the federal government and many Fortune 500 companies – to analyze this question: What would our economy be like today if Congress had rejected President Clinton's 1993 tax increase.

According to the economic model, the 1993 tax increase:

- √ cost the economy \$208 Billion in potential output between 1993 and 1996, and
- √ reduced the number of private sector new jobs created by 1.2 million.

**When Congressional Democrats call for a return to the economic policies of 1993, are they calling for another record tax increase on seniors, middle class Americans, and small businesses?**

## **2001 Bush Tax Relief Package**

Democrats like to blame the current economic downturn on George Bush's tax cut for the rich. The economic downturn, however, actually began while President Clinton was still in office. The Bush Tax Relief package actually prevented a deeper economic downturn and benefits all Americans.

### **Economic Downturn Began During the Clinton Administration:**

"It would be nice for us veterans of the Clinton Administration if we could simply blame mismanagement by President George W. Bush's economic team for this seemingly sudden turnaround in the economy, which coincided so closely with its taking charge. But . . . the economy was slipping into recession even before Bush took office, and the corporate scandals that are rocking American began much earlier." (*Source: Joseph Stiglitz, Chairman of President Clinton's Council of Economic Advisors -- "The Roaring Nineties," The Atlantic Monthly, October 2002*)

"What caused the current growth slump? Well, I hate to tell you this but as of the fall - early fall of last year - we in the White House, and the Federal Reserve really, very much saw it coming. So what do I mean by that? Economic growth had started to fade in the fall of 2000 and in my morning briefings in the White House, I developed a reputation for this phrase we've heard today, the gloom and doom economist, because the manufacturing sector was fading and so as I gave my morning briefings to Podesta and others they were beginning to turn to me with that bored look that one gets when talking with an economist and, in addition now, that depressed look, and I developed this line that we better get out while the going is good, because in fact in the fall, during the election, the numbers were still good but they were fading, so it was time to get the election past because things weren't looking rosy." (*Source: Kathryn Shaw, Member President Clinton's Council of Economic Advisors -- Aspen Summit Conference, The Progress & Freedom Foundation, August 20, 2001*)

### **Economists Agree, the Bush Tax Relief Package Has Prevented A Deeper Economic Downturn:**

Rep. Gil Gutknecht: "Given the fact that the economy has been much more sluggish than originally predicted, do you think we did the right thing in reducing taxes last year?"

Federal Reserve Chairman Alan Greenspan: "Oh, I do Congressman." (*Source: House Budget Committee Hearing, September 12, 2002*)

"I think one point I'd like to get across as well, I think it's [the tax plan is] very positive for the long-run economy." (*Source: Mickey Levy, Bank of America -- CBS News, June 8, 2001*)

"The tax cut comes at a good time and could be an important catalyst in the long-awaited recovery." (*Source: Jeffrey Feiner, Lehman Brothers -- Washington Times, June 22, 2001*)

### **The Bush Tax Relief Package Helps All Americans:**

#### When the President's plan is fully phased in:

- √ 104 million individuals and families will receive an average tax cut of \$1,040.
- √ Nearly 43 million married couples will receive an average income tax cut of about \$1,720.
- √ Over 38 million parents with children will receive an average income tax cut of \$1,460.
- √ Over 10 million single mothers will be able to keep, on average, \$770 more of their income.
- √ About 13 million seniors will see their taxes reduced, on average, by \$915.
- √ 33 million business owners who pay business income taxes at individual rates could benefit. (*Source: White House*)

**If Congressional Democrats really believe that the Bush Tax Relief Package is to blame for our current economic situation, why won't they publicly call for its repeal?**

## Corporate Accountability

While Democrats like to talk about doing more on corporate accountability, Republicans have actually worked with Democrats in a bi-partisan fashion to implement tough new reforms and send corporate wrongdoers to jail.

### **Sending Corporate Wrongdoers to Jail:**

Since the Enron scandal broke, there have been 29 indictments against corporate officials. Eighteen of these indictments have been handed down since the enactment of the bi-partisan Sarbanes-Oxley Corporate Responsibility bill.

*(Source: Congressional Research Service)*

The Sarbanes-Oxley Corporate Responsibility Bill increased the maximum penalties for corporate officials who break the law.

**Tough New Reforms:** The bi-partisan, Sarbanes-Oxley bill implemented many tough new reforms, including:

- √ Establishing the Public Company Accounting Oversight Board (created as a nonprofit corporate entity) to oversee the audit of public companies that are subject to the securities laws.
- √ Establishing sanctions for any accounting firm that knowingly violates or repeatedly neglects the rules of the Board or the securities laws related to auditing.
- √ Making it unlawful for an accounting firm to provide both audit and consulting services to a single client.

### **Alan Greenspan Agrees, We Have Addressed the Problem:**

Rep. Gil Gutknecht: “Some on Wall Street have been saying that Congress has been maybe too aggressive in beating up on corporate America relative to the corporate scandals. In your opinion, have we been too tough, not too tough, or just about right?”

Federal Reserve Chairman Alan Greenspan: “My own impression is that the Sarbanes-Oxley Act has appropriately addressed everything of which I’m aware should be addressed.” (*Source: House Budget Committee Hearing, September 12, 2002*)

**If the Sarbanes – Oxley bill didn’t do enough to address corporate wrongdoing, then why did 206 House Democrats vote for it?**

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## Retirement Security

Democrats like to talk about retirement security, but it is Republicans that are working to pass legislation over the objections of Democrats to help current retirees, near retirees, and all Americans with a retirement plan.

### **The Republican House Has Passed Landmark Pension Security Legislation:**

In April, 208 House Republicans were joined by only 46 House Democrats in passing critical pension security legislation. The Democrat-controlled Senate has yet to act on this important legislation, which among other things would:

- √ Require managers of defined contribution individual account plans to provide participants at least quarterly benefit statements that include information about the value of investments allocated to their account, the value of any assets held in the form of employer securities, the non-forfeitable pensions benefits that have accrued, information on the importance of diversifying retirement plans, and information on the risk of holding more than 25% of a portfolio in any one security.
- √ Require that plan participants be notified 30 days in advance of any action which will suspend, limit, or otherwise restrict the ability of a participant to direct or diversify their account for more than three consecutive business days (i.e. “blackout periods”).
- √ Prohibit company executives and those who own more than 10% of any equity security from purchasing or selling any employer securities while plan beneficiaries and participants are precluded from such activity during a “blackout period.”
- √ Provide that employee contributions are immediately diversifiable.

## **Republicans Are Now Trying to Expand On These Reforms To Assist Current and Near Retirees with IRAs and 401(k)s:**

Specifically, despite opposition from all the House Democrats present, the Ways and Means Committee has reported legislation that will be considered by the full House shortly that:

- √ Helps near retirees by increasing the IRA contribution and catch-up amounts enacted last year. Individuals would be able to make a full \$5,000 contribution in 2002 rather than 2008, and those over 50 would be able to make the full \$1,000 IRA catch-up contribution in 2002 rather than 2006. Individuals 50 and over would also be able to make larger catch-up contributions to their 401(k) accounts.
- √ Helps current retirees better protect their retirement savings by raising to 75 the age at which people are required to start making withdrawals from tax-deferred accounts such as IRAs and 401(k)s. Right now the government imposes a 50% excise tax on any amount not withdrawn from such an account in accordance with a life-expectancy based schedule, starting at age 70-1/2 for IRAs and 401(k)s. In a down market that means the government forces some seniors to sell assets at a loss.

**If Congressional Democrats really want to address retirement security, why won't they call on Senator Daschle to pass the House pension-reform bill or for that matter any pension bill. If they are concerned about IRAs and 401(k)s, why do they oppose House Republican efforts to ease restrictions on contributions and withdrawals?**

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## **Social Security**

Democrats like to argue that Republicans will endanger Social Security. Ironically, it was Democrats who proposed having the government invest Social Security in the stock market. Republicans are working to save Social Security from its pending bankruptcy, guarantee current benefits to current Social Security recipients, and provide individuals with more control over their own retirements.

## **It Was Actually Democrats Who Proposed Having the Government Invest Social Security in the Stock Market:**

Democrats, led by President Bill Clinton, proposed to have the government invest Social Security funds in the stock market. “Roughly one-fifth of the unified budget surplus set aside for Social Security would be invested in corporate equities or other private financial instruments.” (*Source: Page 41 of the Budget of the United States Government for Fiscal Year 2000 as submitted by President Bill Clinton*)

Republicans rejected this proposal arguing instead that the government should empower individuals to have more control over their own retirement.

## **Led By President Bush, Republicans Have Endorsed Several Key Principles For Social Security Reform, Including:**

- √ Modernization must not change existing benefits for current retirees or near-retirees, and it must preserve the disability and survivors' components.
- √ Social Security payroll taxes must not be increased, as they have been 20 times since the program began in 1937.
- √ The Government itself must not invest Social Security funds in the private economy.
- √ Successful Social Security reform, which addresses both the long-term unfunded liability and the generational inequities, must be built upon a core of individually controlled, voluntary personal retirement accounts that will augment the Social Security safety net.

**Do Congressional Democrats have a plan for Social Security reform or do they plan to simply let the program go broke?**

## **The Stock Market**

Democrats often try to blame the decline in the stock market on Republicans. Neither Democrats nor Republicans can “control” the stock market. As was noted earlier, the decline in the economy actually started when President Bill Clinton was still in office. Rather than casting blame, we should focus on helping those who lost part of their savings as a result of the decline in the stock market.

### **Republicans Are Now Trying, Over Democrat Objections, to Increase the Amount of Capital Losses Americans Can Deduct:**

The House Ways and Means Committee has passed legislation, opposed by all the Democrats present (despite the fact that was introduced by a fellow Democrat, Zoe Lofgren), to raise to \$8,250 the amount of capital losses that are tax deductible each year. The current \$3,000 amount has not changed since 1978. Increasing the level to \$8,250 would bring it in line with inflation.

Despite Democrat opposition, this legislation is expected to be considered by the full House in the very near future.

**If Congressional Democrats are so concerned about the impact of the decline in the stock market on average Americans, why are they opposing efforts to allow all Americans to deduct more of their capital losses?**

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## **Budget / Economic Summit**

Unable to pass a budget, Democrats say we need to hold a “Budget / Economic Summit.” In fact, the only body in Washington that has failed to produce a budget is the Democrat-controlled Senate. President Bush has produced a Budget, and the Republican House has adopted a Budget not once, but twice.

### **Democrats Call for Summit Is a Masked Attempt to Try to Raise Taxes:**

Democrat National Committee Chairman, Terry McAuliffe let the cat out of the bag when on CBS’ “Face the Nation” he had the following exchange:

Host John Roberts: “[I]f you’re so critical of the President and his handling of the economy...why is there no great hue and cry among Democrats in Congress to repeal the tax cut?”

Terry McAuliffe: “[W]hy do the Democrats want to get into the debate when the president has said he would veto it over his dead body...As soon as the elections are over, Democrats, Republicans, let’s all come together, sit down at a table...”

John Roberts: “But let’s not do it before the election, right?”

Terry McAuliffe: “I don’t think we’ll be able to do it with the political environment the way it is, John.”

Democrats must be operating off of the assumption that they can replicate the outcome they achieved the last time they held an economic summit with a Republican President. In 1990, during a similar budget / economic summit, Congressional Democrats managed to push through a \$137 billion tax increase.

**If Democrats are so concerned about setting a budget, why don’t they call on Senator Daschle to pass a budget?  
Will Democrats go on the record and state that they will not advocate for increasing taxes during any budget or economic meetings?**

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## **Government Spending**

Democrats are always quick to point out when the government isn’t spending “enough” money. The Budget submitted by President Bush and endorsed by House Republicans continues to increase all areas of government, including defense, homeland security, education, health, and social services. Despite their public concern for the deficit, Senate Democrats are proposing to increase spending by \$20 billion above the President’s request (\$9 billion more to their Appropriations Committee, \$9.5 billion in emergency spending; and \$2.2 billion in so-called advance spending).

### Government Agencies Are Already Doing Better Than American Families:

- Over the past five years, the median household income in America has increased by 19%.
- Over the exact same period, discretionary spending by the government has grown by 40.4%. In other words, the government has grown its budget at twice the rate of most American families.
- Some government agencies have done exceptionally well:
  - The Department of State's Budget has grown by 60.6% -- three times more than the average family's budget.
  - The Department of Health and Human Services' Budget has grown by 82% -- more than four times the average increase in the family budget.
  - The Department of Education has done even better, growing by 87% over the same period.
- Out of the 16 largest government agencies funded through discretionary appropriations, just one agency, NASA, has had its budget grow slower than the average American family's budget. The other 15 agencies (Departments of Education, Health and Human Services, State, Treasury, Justice, Interior, Transportation, Commerce, Defense, Veterans Affairs, Energy, Agriculture, and Labor, as well as FEMA and the EPA) have seen their budgets grow more than the average American family's budget has. (*Source: Office of Management and Budget*)

### Increases in Spending Will Increase the National Debt:

- Over the next two years, the additional spending proposed by the Democratic Majority in the Senate will add more than \$50 billion to the deficit.

### Increases in Spending Will Increase Each American's Share of the Public Debt:

- Currently, each American's share of the publicly held debt is \$12,353.
- Under the Senate's Proposed Spending Path, over the next 10 years each American's share of the Publicly Held Debt will go UP by \$5,580. That is a 45% increase the debt each American, including our children, will be burdened with repaying.
- Conversely, under the spending plan advanced by the House and by President Bush, over the next 10 years each American's share of the Publicly Held Debt will go DOWN by \$2,841.

## **Alan Greenspan Agrees, Controlling Spending is Crucial for Economic Growth:**

Rep. Mac Thornberry: “If we are able to finish our business this year with relatively restrained discretionary growth in spending, is that a positive thing for the economy?”

Federal Reserve Chairman Alan Greenspan: “It would be positive.” (*Source: House Budget Committee Hearing, September 12, 2002*)

**If you increase spending on social programs, you must either reduce spending on defense, increase the deficit, or raise taxes. There are no other options. What do the Democrats prefer?**

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## **Taking Action to Improve the Economy**

Democrats are spending an enormous amount of time talking about the economy, however, it is House Republicans that have acted and are continuing to act to help the economy. In addition to the numerous pro-economic growth bills that have passed the House, but which Democratic Majority Leader Daschle refuses to consider, House Republicans continue to push for additional measures to improve the economy.

### **Current Republican Proposals to Encourage Economic Growth**

#### **Eliminate Double Taxation of Dividends:**

- √ Provide relief to the tens of millions of Americans who have been hurt by the stock market downturn;
- √ Help seniors who depend on dividends for income during their retirement; and
- √ Protect investors by ending over-dependence on volatile stock prices and restoring preeminence to the time-honored measure of company health—dividends.

- √ Federal Reserve Chairman Alan Greenspan: “[O]ver the future it’s clearly, for economic reasons, desirable in some way or in some manner to lower or hopefully, basically, eliminate the so-called double taxation on dividends.” (*Source: House Budget Committee Hearing, September 12, 2002*)

Status:

- Idea promoted at the President’s Economic Forum
- Introduced by Rep. Chris Cox

**Reduce / Eliminate the Tax on Capital Gains:**

- √ Stimulate economic activity by reducing the disincentive for investing in the economy.
- √ Generate additional revenue (According to the Joint Committee on Taxation, reducing the current 20 percent capital gains tax rate to 15 percent for the next two years would increase tax revenues to the federal government by \$1.2 billion in 2002, \$1.6 billion in 2003 and \$7.6 billion in 2004.)
- √ Federal Reserve Chairman Alan Greenspan: “I’m also in favor of reducing capital gains taxes, indeed eliminating them completely...” (*Source: House Budget Committee Hearing, September 12, 2002*)

Status:

- Various proposals introduced by a variety of Members, including Rep. Paul Ryan.

**Make the Bush Tax Relief Measures Permanent:**

- √ Provides certainty for taxpayers as they setup business plans, save for their children’s education, plan for their retirement, and plan their estates.

Status:

- The House passed a bill making all of the provisions of the Economic Growth and Tax Relief Act permanent on April 18, 2002. Senate has yet to act.
- The House has passed a variety of measures making individual provisions of the Economic Growth and Tax Relief Act permanent, including the repeal of the death tax, the retirement savings measures, and the reduction in the marriage penalty.

## **Current Republican Proposals to Help Those Hurt by the Economic Downturn**

### **Retirement Assistance:**

- √ Helps near retirees by increasing the IRA contribution and catch-up amounts enacted last year. Individuals would be able to make a full \$5,000 contribution in 2002 rather than 2008, and those over 50 would be able to make the full \$1,000 IRA catch-up contribution in 2002 rather than 2006. Individuals 50 and over would also be able to make larger catch-up contributions to their 401(k) accounts.
- √ Helps current retirees better protect their retirement savings by raising to 75 the age at which people are required to start making withdrawals from tax-deferred accounts such as IRAs and 401(k)s. Right now the government imposes a 50% excise tax on any amount not withdrawn from such an account in accordance with a life-expectancy based schedule, starting at age 70-1/2 for IRAs and 401(k)s. In a down market that means the government forces some seniors to sell assets at a loss.

### Status:

- Introduced by Rep. Rob Portman
- Approved by the House Ways and Means Committee, despite unanimous Democrat opposition

### **Increase Deductibility of Capital Losses:**

- √ Raises to \$8,250 the amount of capital losses that are tax deductible each year. The current \$3,000 amount has not changed since 1978. Increasing the level to \$8,250 would bring it in line with inflation.

### Status:

- Introduced by Rep. Zoe Lofgren (D-CA)
- Approved by the House Ways and Means Committee, despite unanimous Democrat opposition

### **Unemployment Extension:**

- √ Extend the current lower trigger (4%) that allows States to offer an additional 13 weeks of unemployment benefits through March of 2003 (the current lower trigger -- which permits states with a high unemployment level to extend benefits for up to 13 weeks-- sunsets at end of the year).
- √ Allow individuals who are receiving extended unemployment under the stimulus bill (extra 13 weeks) to receive their full extent of benefits (under

current law on December 28 all extended unemployment cuts off, irrespective of whether or not the individual is receiving their 1<sup>st</sup> or 12<sup>th</sup> week of extended unemployment).

Status:

- Being introduced by Rep. Phil English

**Does the Democratic Leadership have their own proposals? If not, will they support these efforts or simply criticize Republicans without offering any concrete solutions of their own?**

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