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<u>In This Issue:</u>

Job Deficits Deepen as Budget Deficits Explode: A Brief Guide to the Labor Market Recession

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Most Americans today appear unusually anxious and confused about what is happening to the economy and why. And with good reason. For every optimistic news flash about rising stock prices, corporate profits, and productivity, there seems to be a contradictory report on worsening unemployment, mounting government deficits, and falling wages. Seldom has there been a greater need for independent economists to help clarify the "what" and the "why," as well as outline realistic policy options.

Is the Economy Improving or Not?

There are several key indicators of economic well-being, and they don't always point in the same direction:

Production: Optimists put particular emphasis on recent gains in one measure, the volume of goods and services produced – Gross Domestic Product (GDP). GDP shrank for most of 2001, but has been expanding ever since (after adjustment for inflation and seasonality). Signs of output growth led economists to declare the official end to the recession in November 2001. In the most recent 3-month period through December, GDP rose at a solid 4.1% annual rate. This was all the more notable because it was a result of higher employee productivity (output per worker-hour), up at an annual rate of 2.6% over the same period. However, both the Oct. – Dec. GDP and productivity growth rates were less than half their levels in the July – Sept. quarter.

Jobs. Employers have not, so far, shared these productivity gains with workers, either in decent job creation or better wages and benefits. Businesses have continued to lay off workers and/or resist new hiring or pay raises. Productivity gains have mostly come from firms squeezing more effort out of smaller work forces, rather than from any revival of business investments in new plant and equipment. Though the month-after-month job hemorrhaging ended last September, job growth since then (averaging 108,000 per month) has been far weaker than in normal recoveries. Even after including the burst of 308,000 new jobs in March, the country's *total* job count was still lower by 2.135 million fewer jobs than in March 2001. Without the additions to government employment, the *private sector* alone was still down by 2.79 million fewer jobs – a huge 2.5% decline. This ranks as the worst sustained job loss of any business cycle since the Great Depression. Until the present (36 months since the start of the 2001 recession), all previous downturns saw the restoration of the pre-recession peak job level no more than 31 months after the recession began.[1]

The true "job deficit" is even worse than this, for in addition to replacing the 2.1 million jobs lost since 2001, the economy needs to generate millions more for the new jobseekers normally entering the labor market each year. The Bush/Cheney administration promoted its 2003 tax cut last spring by claiming it would be a bonanza for the unemployed, creating over 1 million new jobs. However, the president's own Council of

Economic Advisers (CEA) predicted in February 2003 that – even without any new tax cuts – the U.S. should expect 4.4 million new jobs over the next 2 years. The only way White House claims for 1 million new jobs from the tax cut can be defended is if at least *5.4 million new jobs* somehow appear by the end of 2004. Since only 759,000 jobs have been added in all of March 2001 to March 2004, there is, based on the White House's own figures, a wide "job deficit." = - 4,641,000 jobs.

Even this understates the problem, since it will take even more new jobs to approach the full employment of the late '90s. Each year, about 1.44 million new graduates and others enter the American labor market looking for work.[2] To accommodate this normal labor force growth had it occurred over the 3 years through this March would have required a total of 4.32 million jobs.[3] In addition, another 2.1 million jobs are still needed to replace those lost since March 2001. By this more comprehensive measure:

New Jobs Created (through March 2004):	759,000
New Jobs Needed to Replace Lost Jobs (2001-03):	- 2,135,000
- New Jobs Needed for New Labor Force Entrants:	-4,320,000
"Job Deficit" *equals*	**- 5,696,000**

For White House job promises of creating 4.64 million new jobs to be fulfilled by December 2004, the economy will somehow have to set a record-breaking pace of creating an average of 515,667 net new jobs each month from April through yearend. Even more new jobs -- 629,000 per month – on average will be needed to approach full employment again.

Unemployment. As of March, the U.S. Department of Labor reported that the official unemployment rate (after seasonal adjustment) was rising again, to 5.7%. This is far above the pre-recession low of 3.9% in 2000. But it is still below the 6.4% rate last June (the highest in 9 years) and below the levels in earlier periods with stronger job growth than at present. Why is the unemployment rate today not far higher? Because the prolonged hiring slump has so discouraged jobseekers that there has been a sharp drop in the fraction of the population still actively seeking work and thus counted in the labor force. The government's own estimates show that, if the official rate is adjusted to include the many discouraged labor force dropouts and marginally employed, the actual, more comprehensive rate of "underemployment" is now 9.9% ![4]

Minorities and youth have been especially hard hit by the hiring drought. The official unemployment rate rose in March to 10.2% for all African Americans (up from the previous month's 9.8%) – twice the white jobless rate. African American men have been disproportionately hurt by the deep cuts in manufacturing, long a source of better paying, unionized jobs. Unemployment is now 16.5% among all teenagers, and 29.4% among black youth. Young people have been suffering through their worst job market in many years. Nationwide, the fraction of teenagers finding summer jobs was the lowest since 1948, and their unemployment rate the highest in a decade![5]

Long-term unemployment has leapt to a 20-year high: over one-fifth of the officially unemployed have been jobless for 6 months or more. The average spell of unemployment rose from 21.5 weeks in March 2003 to 23.9 weeks this March. Yet, the White House has failed to renew Temporary Extended Unemployment Compensation (TEUC) since it expired in late December. Through the end of March, an estimated 1.15 million jobless workers across the country – and 103,000 in New York State alone -- exhausted their regular unemployment benefits without receiving additional aid. Never before have so many of the unemployed gone without extended benefits in any comparable period on record.[6]

So, while the national economy is no longer in an "official recession," it can certainly be said to be mired in a "labor market recession."

Wages and Benefits. Job quality has deteriorated along with the quantity of available jobs. Among those still employed, many are finding both their earnings and fringe benefits at risk. Wage and salary growth has been another victim of job cuts and labor's weakened bargaining power. Weekly earnings, adjusted for price inflation, fell by –1.3% among adult full-time middle-income men and stagnated for most other workers. This is the worst wage record in five years.[7]

Employers have resisted wage and employment increases and raised profits so far by squeezing more output per hour out of their work forces and limiting new hiring to mostly temporary or part-time workers at low wages and few benefits. Two little noticed facts in the government's March employment news were that the total amount of hours worked fell and that the number of additional involuntary part-timers grew by 300,000. The latter statistic comes from the monthly household survey, which is not directly comparable with the jobs reported in the establishment survey. But, taken together, these figures suggest that much of the latest hiring may be limited to low-wage and low-benefits temporary and part-time positions.

Coupled with the job shortage, wage losses have helped increase by 1.3 million the number of Americans with incomes below the poverty line in 2002.[8] One-fifth of small children now live in poverty, a far higher child poverty rate than in most other developed nations. However, thanks to the restrictive 1996 welfare reform law, the number of poor families receiving federal cash benefits to the poor (now called "Temporary Assistance to Needy Families," TANF) has been cut in half to just over 2 million. Should these trends continue, the likely result will be to constrain consumer demand and dampen recovery hopes in the near future.

These worrisome trends help explain why, despite largely upbeat White House and media claims about the economy, a nationwide *CBS News/NY Times* poll recently found that only one-third of adults felt that the economy was improving.[9]

The Local Economy. New York State has suffered twice as steep a pace of job decline (-3.6%) as the national average. As the latest available local figures in Table 1 show, New York City has continued to be especially hard hit. Though the pace of hiring began improving last fall, the city lost a total of 17,000 jobs over the 12-month period through December. Over the entire 2001-2003 span, the city's job total shrank by nearly 239,900. This was a job loss rate (-6.3%) not only far higher than the nation and the state, but nearly 5 times worse than that of neighboring Long Island.

Every major sector of New York's labor market suffered last year (Figure 1). Manufacturing shrank at the steepest rate (-9.2%), losing over 12,000 jobs. Employment dropped –8.3% in finance/insurance, –5.4% in construction, -4% in information-related activities, and -2.4% (-14,000 jobs) in the public sector. Only retail trade and the services supersector remained relatively flat, with less than 1% net job contractions over the year.

The city's unemployment rate averaged 8.5% in 2003, compared to 5.7% in 2000. In both years, New York's rate was far above the national average, but the gap has widened. After peaking at 8.6% early last year, the city's jobless rate slowly fell to 8% by November, but turned upward to 8.1% in December (after seasonal adjustment; see the *Data File* section in this issue). However, the main reason why the official unemployment rate is not far higher is that, like the national pattern, more and more jobseekers have given up and dropped out of the labor force. The city's labor force participation rate plunged from 65.4% in December 2002 to 58% at the end of 2003 (seasonally adjusted).

About two-fifths of the unemployed have been out of work at least half the year -- nearly twice the national rate of long-term joblessness. Yet the U.S. Labor Department still refuses to count New York State among the handful of "high-unemployment states" eligible for special extended unemployment benefits. Hence, some 103,000 unemployed New Yorkers exhausted their regular unemployment benefits without receiving additional aid, from December through this March.

African American men have experienced the worst of the job recession. According to an analysis of Census Bureau household survey data by the Community Service Society, the employment–population rate of non-Hispanic black men fell a startling 12 percentage points – from a high of 64% in 2000 down to 51.8% in 2003.[10] They even lost ground relative to black women and to Hispanic men, who had smaller employment declines. The sharpest declines have been in black and Latino youth employment. Fewer than 1 in 5 city teenagers has a job, far less than in other cities, and less than half the suburban teen employment rate.

What explains the apparent contrast between the much gloomier figures on lost payroll jobs reported by employers (Table 1) compared to the employment totals reported by households (in Table 2)? Detailed research has now shown that the employer payroll survey is the more accurate. It is based on a monthly survey of 400,000 establishments nationwide with some 40 million jobs, and covers 600 times as many workers as the monthly Current Population Survey (CPS) of households. Moreover, the CPS has just been found to contain inflated immigration estimates that have biased upward its employment counts.[11]

Tax Cuts: Solution or Trap?

Politicians' promises of "tax cuts" are meaningless until one pins them down with 3 crucial questions:
1. ***Which taxes*** are being cut?
2. ***How much*** are my *total* taxes (federal+state+local) being lowered?
3. ***What service cuts*** will be made to pay for the tax cuts?

There are two main types of federal taxes on individuals: the **income tax** and "**payroll taxes**" (Social Security and Medicare taxes). Only the income tax has been the focus of recent White House tax cuts, and mainly the rates paid by the highest-income groups. But that is *not* the tax that should be cut to relieve the tax burden on most households in a fair way. The income tax is our only "progressive tax:" that is, it taxes smaller shares of income among low-and middle-income households and higher shares of income among the rich.

Three-fourths of Americans now must pay more payroll taxes than income taxes. In contrast to income taxes, Social Security/Medicare payroll taxes are "regressive," imposing relatively heavier burdens on low- and middle-income households. Any such taxes that hit only work-related income are biased against most working people and spare mainly the wealthy who receive more of their income from stocks, bonds and other property. In fact, the Social Security/Medicare tax only applies to earnings up to $87,900. This tax cap means that the average corporate CEO has paid his entire annual payroll tax by the end of his first week on the job each year.

An historic change is underway today, forcing more and more of the tax burden onto average working people and onto state and local governments. The share of all tax revenue collected from regressive taxes -- federal payroll taxes and state/local sales, property and excise taxes – has jumped dramatically since the 1960s. At the same time, the share of all government revenue from progressive income taxes and business taxes has shrunk. Corporate income taxes accounted for over 20% of federal revenue in the 1960s to just 7% today.[12] And, relative to the size of the economy, corporate taxes have dropped to levels not seen since the 1930s! According to a new study by the U.S. General Accounting Office, almost 2 out of 3 companies operating in this country owed no income taxes from 1996 to 2000.[13]

An astonishing number of Americans are confused and/or uninformed about the true impacts of different tax cuts on their own take-home pay, on the government services they rely on, and on income inequality. Large majorities surveyed in January think that “big business” has too much influence on the Bush administration (64%) and believe that its policies favor the rich, not the middle class or poor (57%). And similar majorities have for years expressed support for protecting Social Security and increasing government spending on education and the environment.

Why then, puzzled economists ask each other, do large majorities of low- and middle-income Americans tell pollsters they favor the latest White House tax cuts, which seem increasingly likely to threaten the future of the very services those Americans support without easing their net tax burden? One likely answer – economic ignorance -- is evident in a recent survey showing that 70% favor elimination of the federal estate tax. Why? Half of respondents think that “most families have to pay the federal estate tax when someone dies.” Wrong. Despite a well-funded lobbying and media campaign against “death taxes,” the fact is that only the wealthiest 2% of estates (families transferring $3 million and up) are still subject to that tax. Rarely are any small businesses taxed: barely 3 of every 10,000 people leave behind a taxable estate of which most is a family business.[14] Yet it brings in about $20 billion in tax revenue each year to help fund government services.

Another possible explanation – “unenlightened self-interest” -- comes in a recent Princeton study. Author Larry Bartels concludes that, even if they suspect most of a tax cut is captured by higher-income families, the middle class reflexively favors them in the hope of getting even the smallest tax reduction for themselves. But, in their focus on small short-term federal tax benefits, they ignore or deny the resultant longer-term impacts: defunding valued federal government services, forcing state and local tax increases, and worsening income inequality.[15]

The Bush/Cheney Tax Cuts

When the Bush/Cheney administration took office early in 2001, the economy was completing an extraordinary 10-year economic boom, the longest in US history. Over that decade, job growth averaged 3 million new jobs each year; unemployment fell to 3.9% by 2000 – the lowest since the 1960s -- and all races and education levels enjoyed rising employment. Wages and salaries, after 2 decades of falling behind inflation for most Americans, scored impressive gains. From 1995 to 2000, hourly wages rose by a healthy 1.4% per year (inflation adjusted) among private sector non-supervisory workers. [16]

Thanks to strong income growth and to a small income tax hike (1993) on the richest households, the Clinton administration was also able to finally reverse the trend of huge Reagan/Bush budget deficits in the 1980s and early ‘90s. In fact, the federal government’s budget was in the black and on track toward a $5.6 trillion surplus in the coming decade, 2000-2010.

During the 2000 presidential campaign, candidates George W. Bush and Dick Cheney promised an income tax cut of at least $1 trillion. The main rationales given for this huge cut at the time were: “to give people their money back” and “to shrink big government.” They repeatedly claimed that, with the federal government then projecting a ten-year $5.6 trillion surplus, the country could well afford a huge tax cut – and still have a sizable surplus to shore up Social Security and Medicare for the rest of the century.

Early in 2001, signs appeared that the long boom had finally run its course. The normal expansionary strains of overproduction and overinvestment left more and more businesses with both excess inventory and unused capital. Stock market corrections, particularly in the tech sector, as well as revelations of corporate and accounting scandals, contributed as well. As the job market cooled, most economists recommended a modest $100 billion or so payroll tax cut for low- and middle-income workers, the consumers whose spending would be most directly stimulated by any tax cut. Another common recommendation was to increase federal aid to hard-pressed states and cities, both to help them avoid painful layoffs and public service cuts, as well as for direct job creation, such as infrastructure projects. Such a package was widely viewed as the fastest and most cost-effective means to soften any downturn and stimulate a recovery.

However, the Bush/Cheney administration chose to simply add the call for “economic stimulus” to its older justifications for a massive income tax cut. After a concerted political effort in the first half of 2001, the administration won passage in June of its $1.35 trillion tax cut. Among its major changes were: reductions in the top 4 personal income tax rates (28%, 31%, 36% and 39.6%) by 1 percentage point each and elimination of the estate tax by 2010. While these changes overwhelmingly benefited high-income households, the White House succeeded in focusing media and public attention on a small, hastily added tax refund ($300 for singles; $600 for married couples). Only the latter could be claimed to offer any immediate economic stimulus. In fact, most of the tax reductions were to be phased in late in the decade.

Two years later, with larger Republican majorities in Congress after the 2002 elections, the Bush/Cheney team pushed through another huge income tax cut, labeled the “Jobs & Growth Act.” Among its main changes are:

(1) another sharp cut in the top marginal tax rate on high incomes, down to 35% from 38.6%;
(2) slashing the income tax rate on most dividends and capital gains from stocks (down to 15%);
(3) a first-year tax break for equipment that companies purchase through 2004;
(4) a $400 per child increase in the child credit on income taxes;
(5) a small temporary reduction in the marriage tax penalty; and
(6) $20 billion in federal aid to states with the severest budget crises.

The 2003 tax package was said by backers to cost the government about $350 billion in lost revenue over the next decade. That, however, depends whether its built-in “sunset” provisions are allowed to end most of the specific tax cuts between 2005 and 2010. Since the administration’s main economic priority now seems to be to make the cuts permanent, the full cost to government revenue and services will be far more severe.

Will the "average taxpayer receive $1000 or more" as the president repeatedly said in promoting the 2003 plan? Hardly. The little-reported fact is that the majority of Americans will get little or nothing back from this tax cut now, and less in later years. Independent economic estimates reveal that: in 2003 & 2004: about half of all taxpayers get $100 or less back in lower taxes & the median refund for all taxpayers = $120. In 2005 – 06: over 3 in 4 get $100 or less back in lower taxes.

Who *does* win big from the tax cut? The richest 10% of taxpayers will get two-thirds of the tax cut's benefits! While the bottom 60% of taxpayers will get back an average of under $100 in the next 4 years, the **richest 1%** will receive an average windfall of $96,634 ! Millionaires (fewer than 200,000 households) will reap about $90 billion in new tax cuts over the coming decade.[17]

The cuts in the estate tax and in the dividend tax cut will overwhelmingly benefit only an elite few. Most Americans own stock only through pension plans like 401(k)s whose dividends have long been tax sheltered. Only the wealthy owning big stockholdings outside retirement accounts stand to benefit most from the new dividend tax cut. This is already becoming apparent in the current leap in the pay of top corporate execs. For example, Wal-Mart, the huge low-wage employer, is rewarding Chairman S. Robson Walton with dividends of $878 million in 2004 alone. CEOs at media giant Clear Channel, Citigroup, Microsoft, and Nike are among others with multimillion dollar dividend windfalls.[18]

One billionaire critic of the 2003 dividend tax cut is Warren Buffett, CEO of Berkshire Hathaway, who wrote in an opinion piece in the *Washington Post*:

> "Now the Senate says that dividends should be tax-free to recipients. Suppose this measure goes through and the directors of Berkshire Hathaway (which does not now pay a dividend) therefore decide to pay $1 billion in dividends next year. Owning 31% of Berkshire, I would receive $310 million in additional income, owe not another dime in federal tax, and see my tax rate plunge to 3%.
>
> And our receptionist? She'd still be paying about 30%, which means she would be contributing about 10 times the proportion of her income that I would to such government pursuits as fighting terrorism, waging wars and supporting the elderly."[19]

Little wonder then that fewer than 1 in 5 Americans (19%) say that their tax burden has been eased by the latest tax cuts, according to a nationwide *New York Times/CBS News* poll in January.[20] For many, any small refunds now will be erased by higher property and sales taxes as states and cities are forced to pay for more of the vital services and regulatory burdens for which the federal government is increasingly unwilling to foot the bill. Since 2000, the state/local share of the national tax burden has increased 15%. Unlike the federal government, most states and cities must balance their budgets each year. Over the last 3 years of recession and fiscal crisis: 17 states have raised sales tax rates; 10 have raised income tax rates (including New York); and 34 have cut Medicaid and State Children's Health Insurance expenditures.[21]

In fact, millions of middle class households are soon to be surprised by much higher federal income taxes as they are forced to pay the "Alternative Minimum Tax" (AMT). Dubbed "the stealth tax" by a recent *Business Week* cover story, the AMT could long be ignored by most families since it was originally designed only to close tax loopholes of the very rich. But because its minimum eligible income threshold was not inflation adjusted, over the years normal price and earnings inflation has pushed more and more upper-middle income households into its harsh grasp. The AMT will soon ensnare one-third of all households and nearly all married families with 2 or more children in the $75,000 – 100,000 income bracket by 2010. In New York, California, Illinois and other states with relatively high income taxes, nearly 3 out of every 4 taxpayers in the $75,000 - $300,000 income range will be caught by the AMT by 2010. Since New Yorkers and others subject to the AMT can no longer deduct their state or local income taxes, these states will face growing public pressure to slash their own taxes and services just as the need grows for them to replace the services lost by the federal government's ongoing non-military cuts. In the words of a new Brookings Institute study:

> "Unfortunately, the large tax cuts enacted by this Administration will make coming up with the resources needed to address the AMT problem an even more difficult challenge than it would otherwise be."[22]

Do Big Budget Deficits Matter?

Whenever an economy falls into recession, it is to be expected that the resulting drop in jobs and earnings will depress government income tax revenues. At the same time, increased needs for unemployment benefits and other income supports push up government spending. This, in turn, usually causes the government budget to fall into deficit during recessions. Mainstream economics has long viewed such temporary, cyclical budget deficits as a necessary evil, so long as the extra government spending is devoted to softening the downturn in income and consumer spending in order to achieve what should be the top priority: ending the recession as quickly as possible. Once the recession has ended and job and income growth resumes, prudent government policymakers can then take the opportunity to wipe out the deficit as tax revenues rise to their pre-recession levels.

The current Bush/Cheney government deficits are an extreme departure from the mainstream approach. They threaten to be long-lasting and structural, and to cannibalize major government programs. The government's own economists at the CBO predict a staggering $477 billion budget deficit in 2004 – and 10-year total additions to the national debt of at least $1.9 trillion. But these estimates are based on the highly dubious assumption that the White House will somehow fail to push its top economic priority through the Republican-dominated Congress: extending the 2001-03 tax cuts permanently. That will add at least another $2 trillion to the debt through 2014. In addition, it is widely expected that Congress will inevitably be forced to fix the Alternative Minimum Tax as it increasingly takes bigger tax bites out of middle-class incomes. Doing so will add about another $469 billion to the 10-year debt burden. Finally, these estimates are artificially lowered by including the Social Security surplus. More realistic estimates that exclude Social Security funds project that, for the period 2002 – 2014, federal borrowing will jump by a total of <u>$10.3 trillion in additional deficits</u>! Over half of that -- $5.5 trillion – is attributable to the Bush/Cheney tax cuts if they are extended.[23]

By these estimates, the annual deficit would hit nearly $1.2 trillion in 10 years, equaling 6.5% of the GDP. That would be higher than at any time since World War II. Of course, governments have many more options for managing debt than do private households. Governments can sell the debt as Treasury bonds (and roll over old debt in new bond issues) and/or they can raise taxes or print more money.

However, today's enormous, fast-growing national debt has a number of potentially damaging consequences. One of the clearest to understand stems from the required interest payments that the government will have to pay each year. Annual interest on the debt will more than triple from $235 billion in 2004 to $738 billion in 2014 (see Figure 3). Forced to pay those billions to its bondholders each year, the government has that much less money available each year for unmet national educational, health care, environmental and other public needs. Also, since Treasury bondholders are higher-income investors, high interest payments on the national debt redistribute even more income from low- and middle-income taxpayers into the hands of the wealthy.

In addition, the larger and more prolonged that federal budget deficits become, the more that government borrowing needs "crowd out" private borrowers from affordable credit. The long-term result could be higher interest rates that hurt home sales, consumer indebtedness, and business investment and job creation.

Who's to blame for the huge deficits? According to the Bush/Cheney administration's Treasury Secretary John Snow in a written statement this March:

> "Large and unwelcome as they are, the deficits are understandable. They are understandable in the sense that the president inherited an economy in steep decline, an economy greatly weakened by the excesses of the late '90s. That situation required tax-cut incentives to give oxygen to the American economy through a very difficult period. And by the third quarter, those incentives were beginning to work. Then the unthinkable happened: Sept. 11, 2001. It took the wind out of the recovery."[24]

Have today's huge government budget deficits been caused by the recession or the so-called "war on terrorism"? Not according to the Congressional Budget Office (CBO), the budget research agency of the U.S. House and Senate. In their March 15 report, the Republican-led agency estimated that slower economic growth will account for a mere 6% of this year's deficit, and less in the following year.[25] In fact, well before Sept. 11, the projected budget surplus for the year (inherited from the Clinton administration) shrank by $122 billion. Why? According to the CBO, two-thirds of the shrunken surplus was attributable to the White House's $1.3 trillion tax cut, passed in May 2001. Over the next 2 yrs., the CBO estimates, these tax cuts will cost nearly 3 times more than the Iraq and Afghan wars and occupation plus 9/11 reconstruction plus homeland security combined.

Are the deficits caused by high government spending on non-military domestic programs? That has been the charge of some conservatives, which the administration has used to justify new budget cuts for regulatory agencies and social programs. But it is clearly a false charge. The only federal spending being increased at above-average rates is for the military and homeland security. Military spending jumped 16% in 2003 – the fastest in 2 decades –and double the average rise in non-military (7%). In sharp contrast -- thanks largely to the tax cuts and recessionary earnings losses -- federal revenue as a share of the national economy has dropped from 20.9% in 2000 to 15.7% today – the lowest level since 1950.

How then can the huge 2001-2003 income tax cuts be defended? Some leading Republican Congressmen still appeal to Reagan-era "Supply-side Economics." According to this theory, "tax cuts pay for themselves;" that is, cutting tax rates automatically spurs such huge increases in production, jobs and income that the resulting boost to income tax revenues is enough to replenish the original revenue loss from rate cuts. Thus, in late March, House Republican leader Tom Delay argued for making the Bush/Cheney tax cuts permanent in starkly ideological terms:

> "We, as a matter of philosophy, understand that when you cut taxes the economy grows, and revenues to the government grow. The whole notion that you have to cut spending in order to cut taxes negates that philosophy, and so I'm not interested in something that would negate our philosophy."[26]

To most economists, the evidence is overwhelming that such claims are dead wrong. The Reagan record of early 1980s' tax cuts, followed by a tripling of the national debt, was enough to convince most. But last year, both Congress's Joint Committee on Taxation and its Congressional Budget Office conducted tests of the supply-side "revenue feedbacks" of the 2001-03 tax cuts. Their conclusion – that the tax cuts would clearly *not* pay for themselves – are reflected in the CBO's latest projections of huge 10-year deficit increases through 2014.

A bolder defense of tax cuts biased toward the wealthy has recently merged the old "trickle-down" theory with the startling claim that the rich are "overtaxed." The chairman of the White House's Council of Economic Advisors last year, Glenn Hubbard, complained that: "The income tax is paid almost entirely by the well-to-do." He based this claim on IRS data indicating that the richest 1% of taxpayers accounted for 37% of federal income taxes paid in 2000.[27]

However, this claim fails to reveal the huge increase in the richest taxpayers' share of the income pie and also fails to look beyond the income tax at the full tax burden. In 2000, the richest 1% received a staggering 21% of all pre-tax income in the country, but paid only 4.2% of all payroll taxes. When all federal income and payroll taxes are considered, the share paid by the richest 1% is only 7 percentage points above their income share. Moreover, if not only federal taxes but also state and local taxes are considered, the tax share paid by the rich falls even more.[28]

The evidence is overwhelming that the biggest winners in the 1990s, as in the '80s, were the wealthiest Americans. Inequality slowed, during the record 1990s' boom, but the income and wealth gap between the rich and the rest continued growing. For example, comparing the highest-income one-fifth of households with the middle fifth: from 1973 – 2000, income growth among the top fifth was 2.6 times greater than for middle-income households (reversing the 1947-73 equalizing trend of slightly slower growth at the top).[29] Compared to the average worker's pay, average CEO pay was 42 times higher in 1980, but had skyrocketed to 531 times higher by 2000. Business Week's annual national survey of CEOs at large corporations.[30]

On the other hand, the average private sector real wage, which had risen over the '90s to $488 per week by 2000, still had not recovered the 1979 level ($514). This is all the more surprising, since total hours worked per week by the average middle-income family jumped by an extra 660 more hours/year, between 1979-2000: ie., an extra 16 weeks of full-time work! Average US work hours are now longer than all industrial nations but South Korea. Fringe benefits have also came under growing pressure. With the failure of the early '90s efforts to overhaul the costly private health insurance system, the number of Americans unable to afford employer-provided health insurance kept rising. Unionized workplaces were best able to protect wage and benefits, but employer resistance to new union organizing drove down the fraction of workers unionized. Young peoples' prospects have been especially weakened. Mobility up the income ladder has slowed since 1970s: now, fewer than 8% starting the decade in the lower 60% income group make it to the top quartile in 10 years.

So, the wealthy and high-income households have gained far more than anyone else over the past two decades. Why then, critics wonder, should they be disproportionately gifted with new income tax cuts at the cost of more tax burdens shifted onto the middle class and the working poor and of huge long-term government budget deficits that threaten vital public services for years to come?

Finally, more and more Republican strategists and even some Congressmen now speak openly of their long-term goal: systematically destroying the tax base for major government programs and services. For this anti-government agenda, tax cuts are expressly aimed at creating deficits, in the hope that this will, in turn, force drastic downsizing or elimination of non-military federal programs like Social Security, Medicare, Medicaid, welfare, environmental protection and labor standards. Making the 2001-2003 tax cuts permanent, as the administration now intends, will lock in budget deficits so massive that these programs will no longer be affordable. One business columnist suggests that a 6-step program seems to have been adopted: *1. Slash taxes; 2. Create big deficits; 3. Express surprise! 4.Demand offsetting cuts in social programs; 5. Rinse; 6.Repeat.* [31]

Do Tax Cuts = Service Cuts?

This February, the administration released its federal budget proposals for the 2005 fiscal year. This document clearly reveals that an unprecedented array of basic government services and programs are now at risk. The only substantial increases in funding are for the military (a 7% budget increase to $401.7 billion) and homeland security (+9.7% to $30.5 billion). Under the banner of “fiscal restraint,” the White House plans to eliminate or cut funding to 128 programs in the coming year, including:

- the Environmental Protection Agency will have its budget cut by 7.2% (to $7.8 billion), including nearly $500 million less for community water pollution control and nearly $100 million less for research;
- the Justice Dept. budget will be cut by 3.1% (to $18.7 billion), including $931 million less for the Sept. 11th victims’ fund;
- the Health and Human Services budget will be reduced by 1.6% (to $68.2 billion);
- the Labor Dept. budget will be increased by only 1.3% (to $11.9 billion), but cuts will be made in employment services for people with disabilities (-$38 million). The White House has cut worker training programs 3 years in a row. It now proposes only a small grant to community college programs;
- the Education Dept. budget will be increased by only 3% (to $57.3 billion) mostly for the president’s “No Child Left Behind” program. But cuts will be made in 38 other programs, including school dropout and drug abuse prevention. And Pell Grant financial aid for college students will be frozen at the current $4050 maximum, despite recent double-digit increases in college tuitions.

While these funding cuts will be quite painful to the public, the money saved – a total of only $4.9 billion – will barely make a dent in the massive $364 billion budget deficit that the administration says it expects in 2005.

Except for the military, homeland security, Social Security and Medicare, the White House insists that all domestic programs are to face legally binding limits on added spending of no more than 0.5% per year for at least the next 5 years (through 2009). Since price inflation averages well above that, this effectively means all such programs will suffer cuts in real funding levels. By 2009, according to White House figures examined by the Center on Budget and Policy Priorities, spending cuts (after inflation) will include:[32]

-20% in environmental protection funds;
-17% in veterans’ medical benefits;
-11% in health care funds; and
-7% in education and training funds.

Over the next 10 years through 2014, if the 2001-2003 tax cuts are made permanent, far more draconian service reductions will be required in order to balance the budget. According to the independent Tax Policy Center, the government’s main options would be to:[33]
1) Cut all domestic non-defense programs (except Social Security and Medicare) by 53%; or
2) Cut Social Security benefits by 48%; or
3) Cut Medicare by 57%; or
4) Raise payroll taxes by 34%; or
5) Raise corporate taxes by 124%.

Fed Chairman Alan Greenspan recently made headlines by proposing that the government lower the ballooning federal deficits through an increase in Social Security payroll taxes and in the retirement age for full benefits. Though the White House issued a statement distancing itself from this idea, the administration appears firmly committed to at least partial privatization to “solve” the “Social Security crisis.”

Is Social Security “in crisis?” No. Despite the alarming claims of the pro-privatization lobby, the most reliable projections show no financing shortfall for nearly 40 years. In their annual report, the system’s trustees project that Social Security’s surplus, trust fund and interest income through at least 2041. From 2041 – 2076, even after covering retired baby boomers, Social Security will still have enough to cover two-thirds of its promised benefits. These projections, however, are based on pessimistic assumptions about GDP real growth (assume low 1.8%) and average productivity growth rate of 1.6%). Higher productivity and consequently faster real wage growth -- which have both historically been about 2.0% -- would be more realistic and improve Social Security's finances.

Greenspan’s proposal caused an immediate wave of public protest, for not only has Greenspan supported the very income tax cuts that have today turned budget surpluses to deficits. But, in 1983, as the Reagan tax cuts were creating then-unprecedented deficits, Greenspan headed the very commission whose recommendations led to an increase in the payroll tax and the retirement age to 67. But, even if the most pessimistic scenario happens, draconian measures like Greenspan’s are both unfair and unnecessary. A far easier and more equitable way to fully fund the system through the end of this century would be to extend the Social Security payroll tax above the present earnings cap ($87,900).

In contrast to Social Security, public health care programs are in some danger of underfunding. Unpredictable, volatile health care costs, plus private health insurance firms’ inflated overhead costs and premiums, render long-term projections of health costs far less reliable than Social Security projections. The White House Medicare prescription drug program is expected by the government’s own estimates to accelerate the danger of underfunding. The original 10-year cost of the new drug plan was put at $400 billion just before it narrowly won Congressional approval last November. Barely a month later it was revealed that the actual cost could be $534 billion through 2014, plus another $2 trillion in the following decade. And the chief Medicare actuary, Richard Foster, recently said that he was ordered not to reveal his cost estimate of $600 billion in the months prior to the bill’s passage.

According to the latest annual report by the Medicare trustees, the hospital insurance part of Medicare is now expected to deplete its trust fund by 2019 (7 years earlier than was predicted just last year). The other component of Medicare, covering doctors’ services and the new prescription drug plan, is funded mainly by general government revenue. But with revenue declining and the health cost rising still faster, it too faces a budget squeeze. Unfortunately, few experts expect the new White House approach to do anything but exacerbate these financing pressures, since it explicitly avoids any serious measures to ensure cost-containment, much less reductions by private drug companies. In fact, it offers sizable subsidies to private plans, through increased payments to HMOs.

With nearly 44 million Americans lacking health insurance coverage today and millions more struggling to afford the coverage they now have, the White House response is a proposal to cover some of the low-income uninsured with a new refundable tax credit. Only individuals with annual incomes up to $15,000, or families earning no more than $25,000 who have no private health coverage would be eligible. And the tax credits are limited to just $1000 for individuals and $3000 for families. These limits are as inadequate now as when first proposed during the 2000 presidential campaign. Health insurance premiums have jumped 40% since then. Moreover, there is serious risk thath many small businesses might respond to the new plan by dropping existing coverage for their workers. An MIT study estimates that 2.4 million low-wage workers would lose their current employer coverage. And, nearly three-fifths of them would be unable to get their own private insurance due to age and health conditions.[34]

The administration puts the 10-year cost of the plan at $70 billion, but claims this would be funded by cuts in other programs. Concerns have been raised that Medicare and Medicaid could be likely victims of those future cuts.

A number of other recent White House policies and proposals could make both the quantity and quality of American jobs worse, not better:

Pension Theft. The White House is opening the way for many more companies to switch from traditional pension plans to "cash-balance" plans that will cut billions from the retirement pay of older workers. Unlike standard "defined-benefit" pension plans, which grow more rapidly the longer an employee works, cash balance plans offer no such premium for longer job tenure. The losses of conversion to a long-time employee can reach hundreds of thousands of dollars. Hence, when IBM threatened to switch to a cash-balance pension plan, a nationwide revolt among worried workers and retirees led the Internal Revenue Service in 1999 to begin a moratorium on future conversions.

Now the Bush/Cheney administration is trying to end this moratorium, thereby permitting an expected flood of corporations dropping their traditional pensions. This threat to retirement security could be even more damaging if the problems of the government's pension watchdog agency worsen. The Pension Benefit Guaranty Corporation, the FDIC-like agency that insures 44 million pensions, has increasingly been asked to cover pension defaults at near-bankrupt airlines and manufacturing companies. As a result, it finished 2003 with a $3.6 billion deficit, compared to its $7.7 billion surplus in 2001.

The number of employers offering health insurance to retired employees has been cut in half since 1989. Older Americans are increasingly being forced by eroding pensions and health insurance to keep jobs or rejoin job-seeking ranks beyond retirement age – thereby worsening competition for jobs with younger workers.

Overtime Pay Cuts. 2003 opened with the U.S. Labor Dept. making a startling reduction in the number of workers eligible for overtime pay protections. About 8 million workers – from secretaries and sales reps to paralegals and medical techs -- will be redefined as ineligible for overtime pay. Though it *does* make overdue increase in earnings level (now raised to $22,100) below which all automatically qualify for overtime, this adds far fewer than the millions who will lose their overtime rights.

Employers will be handed unprecedented discretion to decide who deserves overtime pay. Until now, strict criteria set to only make true managers & professionals with professional degrees and/or position of "independent judgment" are excluded.

The Labor Department's changes allow vague "*position of responsibility*" and non-degree *work experience alone* to strip worker of overtime rights! Among the likely consequences – besides a further decline in workers' take-home pay – is less new hiring by employers. Why? Because they can now work current workers longer without paying anything extra. That gives them less incentive to meet production or sales goals by hiring more employees to work the extra hours needed.

Immigrant Guestworker Plan. In January, the White House announced a new immigration plan that would allow employers to hire undocumented immigrants on 3-year legal status (akin to older so-called guestworker programs). The workers could fill any of a wide array of jobs for which employers claim they can't find a willing non-immigrant. A wide spectrum of critics, including the AFL-CIO and immigrant advocacy organizations, quickly denounced the plan. It could trap immigrants in a 3-year "indentured-servant" dependency on employer, since losing a job could mean losing legal status. It offers no improved procedures to expedite the slow citizenship process for these workers. And the "evidence" of a "shortage" of U.S. job candidates that employers are required to offer before they can hire immigrants is even weaker than under current law -- one Internet ad for each low-pay job vacancy may suffice. The more that current labor policies drive millions of native-born workers into lower-wage non-union labor markets, the more they may increase job competition with the foreign born.

Welfare Work Rules. Congress is moving quickly to reauthorize the expiring 1996 welfare reform law that placed unprecedented workfare restrictions on the poor. Despite over 8 million unemployed and millions more so discouraged they have vanished from the official jobless rolls, the White House is stiffening welfare rules to require more hours worked each week to qualify for benefits. This will compel more welfare recipients to compete for jobs with other low-skilled workers.

Minimum Wage. The federal minimum wage has not been raised from $5.15/hr. since 1997. Given inflation, this means its purchasing power has shrunk by 15%. Even a full-time/year-round minimum wage worker makes $7,000 less than poverty level. Yet, the White House continues to resist efforts to finally raise the minimum to at least $7 per hour. It has even delayed reauthorization of the 1996 welfare reforms in order to avoid inclusion of an amendment to raise the minimum wage. Instead, it has offered a radical change, making it optional for individual states whether to continue following federal minimum wage guidelines. This opens the likelihood of a "race to the bottom" among the states, driving down not only the wage of the lowest-paid, but of many other workers as well.

Civil Service and Union Rights.
At all levels – federal, state and local – labor unions currently find themselves under extraordinary pressure to accept wage freezes or large wage and benefit concessions, as well as new policy changes designed to curtail their organizing and bargaining capacity. The proportion of workers in unions has dropped from one-third in the mid-'50s to 12.9% in 2003 – and to only 8.2% of private sector employees. Anti-union employers have become increasingly aggressive in thwarting workers' search for union representation through firing of union organizers and other unfair labor practices. The costs of such actions to employers are often minimized by low fines and weak government enforcement. Nowhere is the assault on unionization more pronounced today than in the White House. For example, the administration delayed reorganizing security services for months until they could strip 170,000 federal employees of their democratic rights to join unions and of Civil Service protections (on seniority, grievance procedures, benefits, etc.) as a requirement for establishing the superagency.
And. though the White House has celebrated the 9/11 rescue contributions of firefighters, ironworkers and other blue-collar workers (nearly all union members), it defeated a Congressional effort to permit police and firefighters to vote for union representation in the 19 states that still outlaw this.

Indeed, some Republican leaders' antagonism against unions is barely concealed anymore. Tom DeLay (House Repub. Majority leader) mailed signed fund-raising letters last February (2003) questioning fire and police unions' patriotism. It said in part:

> " the union bosses drive to use the national emergencies we face today to grab more power… presents a clear and present danger to the security of the United States." [35]

When confronted publicly with the letter, DeLay claimed he had never seen it and did not agree with it. Likewise, earlier this year, U.S. Education Secretary Rod Paige told a meeting of state governors that the nation's largest teachers' union (the National Education Association) was "a terrorist organization!" Why? Because they were disagreeing with parts of the White House "No Child Left Behind" law. Paige later had to apologize for his "poor choice of words," but continued attacking the union as "obstructionist."

Job-Killing or Job-Creating Policies?

Among the policy options that currently appear to offer more promising ways to improve the employment prospects of a wide range of workers are:

Reverse the trend shifting the tax burden onto work:
Tax cuts should be focused on the payroll tax rates of low- and middle-income workers, while restoring pre-2001 estate taxes and income tax rates on high-income households. This alone will bring greater fairness to the tax system, generate greater increases in consumer demand, and will sharply improve the future deficit picture. Lower payroll tax rates will also reduce employers' labor costs, thereby spurring increased hiring.

Cut Wasteful Military Spending:
The massive amounts of taxpayer funds being lavished on military contractors have drawn growing attention thanks to the wasteful no-bid contracts in Iraq granted to Halliburton. Still today, much-criticized Cold War weapons systems continue to be funded, regardless of their modern usefulness. Chief among them is the 1980s "Star Wars" missile shield system. Even after consuming $130 billion so far, the costly system's technical feasibility is more widely challenged with every test failure. Yet the White House still is able to find another $53 billion to spend on it over the next 5 years. One alternative recently offered by a group of 49 retired generals and admirals is to end the program and reallocate its funding to antiterrorist measures at the country's borders, nuclear weapons storage sites, and ports.

It is all the more startling that federal taxes on high-income Americans are being slashed just as defense expenditures are skyrocketing. In justifying its initial request for *$79 billion for the invasion* of Iraq, the Bush/Cheney administration claimed that Iraqi oil revenues would be used to minimize further costs. Only in mid-summer – just after winning approval of another $350 billion tax cut -- did Defense Secretary Donald Rumsfeld admit that U.S. military costs in Iraq had doubled to nearly $4 billion per month. Barely a month later, the president announced that *another $87 billion* more was needed for the coming fiscal year, two-thirds of it for military spending on the Iraqi occupation. The total $166 billion Iraq bill so far is equivalent to: 2¼ times the entire federal budget for education, or 21 times the budget of the Environmental Protection Agency.

Even if the invasion of Iraq brings stability in that country soon, there will remain widespread concerns that the White House foreign policy of unilateral action may compel American taxpayers to fund many billions in reconstruction funds and in future interventions elsewhere, as well as protracted anti-terrorism measures at home. The so-called Bush Doctrine, contained in the "National Security Strategy" released in September 2002, dismisses international treaties and instead advocates unilateral "preventive" action by the U.S. not only against terrorist attacks, but against any country that the U.S. deems a challenger to its superpower dominance – whether or not it is posing any imminent threat to our country. Such a policy is as risky and controversial as it is likely to be costly for both the U.S. and the rest of the planet. U.S. foreign interventions have for too long propped up corrupt authoritarian governments abroad, thereby allowing industrial pollution to endanger public health, perpetuating the appalling wages and working conditions of their people, and compelling many into unauthorized migration to the U.S.

End "Corporate Welfare" & Tax Avoidance:
Each year, an astounding $150 – 200 billion in taxpayer money is lavished on large corporations in the form of tax breaks and subsidies. The current debate on outsourcing of American jobs abroad has focused attention on one corporate tax break: deferral of taxes on profits of U.S. companies abroad. Likewise, the current administration energy policy offers $7.2 billion in tax breaks to giant oil and related corporations over the next 10 years (down from $25 billion offered in the original November bill!). Another increasingly controversial and expensive form of corporate welfare is the government's crop subsidy program. Despite White House speeches on free trade and fiscal restraint, in May 2002 the president approved wasteful farm subsidies costing taxpayers nearly $100 billion over the next 6 years. At a time of record low agricultural prices, the grain and cotton subsidies encourage more overproduction and further undercut Third World farmers. Nearly all such subsidies have long been captured, not by small farmers, but by the biggest 10% of agro-business giants.[36]

The IRS estimates that extensive corporate tax avoidance continues unabated, including: $132 billion in individuals' income tax avoidance/evasion or unpaid in 2002, $46 billion in corporate tax evasion, and $30 billion in partnerships' tax evasion. In July, Manhattan District Attorney Robert Morgenthau testified before a U.S. Senate committee that, according to previously secret Federal Reserve data, Americans' illegal use of offshore tax havens was far worse than earlier thought. He charged that these accounts are a "product of huge and growing tax evasion by wealthy Americans who have little if any fear of prosecution." Sen. Carl Levin noted that fewer than 6,000 of 1.1 million offshore bank accounts and businesses were properly disclosed and legal. The estimated annual losses to the U.S. are some $70 billion. Yet, one of the first acts of the Bush/Cheney administration was to refuse to join a new international effort to pressure the Cayman Islands and other havens to cooperate with criminal investigations of tax evasion and money laundering. And, the current White House budget proposal lacks any additional funding for IRS enforcement activities.

Build an Affordable Health Insurance System:
Ensure affordable health coverage for all Americans by developing an American version of successful European single-payer universal plans. Any such plan needs mechanisms that both guarantee universal access to high quality care and minimize inflated prescription drug costs and insurers' bureaucratic marketing and processing costs (over 10% of costs in the U.S. private insurance industry, at least twice as high as in Medicare or in the Canadian system). While the quality of health care in this country can be second to none, 21 other advanced economies with more efficient public programs have achieved higher life expectancy than the U.S. Universal, affordable health insurance coverage will be a boon to workers and employers alike, removing a major impediment to more robust job creation in this country.

Restructure Social Security financing:
Contrary to the claims of privatizers, there is no Social Security "crisis" and no need for radical schemes to "fix" what's not broken. Even assuming the Social Security trustees' most pessimistic scenario, cautious financing reforms will be sufficient to cover benefits through the end of this century. Rather than once again putting the

burden on workers through benefit cuts and another extension of the retirement age, a fairer solution would be to lift the cap on taxable earnings. Currently, annual earnings above $87,900 are not subject to the Social Security payroll tax. Eliminating this cap would provide Social Security with sufficient income to cover at least three quarters of any potential shortfall. The added revenue could also permit lower tax rates for young and low-wage workers.

Social Security remains a solid, risk-free program, not subject to investor luck or stockbroker fraud. Social Security benefits are the most important source of income for the majority of elderly households. All households, where the head of the household is 65 and older, receive an average of 58% of their income from Social Security. The bottom 40% of the income distribution among aged workers receive close to 80%. Middle-class seniors, those in the middle 20% of the income distribution, depend largely on Social Security as their main source of income. In 2000, middle-class seniors received 64% of their retirement benefits from Social Security. Social Security is a successful anti-poverty program; without it, an additional 40% of seniors would live in poverty.

Raise the Minimum Wage
Raising the legal minimum to at least $7 would help the working poor, as well as lift the pay of others near the minimum. Already, some states have taken lead: most of New England now has state minima above $6.50/hr. and many cities and counties have established even higher “living wage” levels for certain government-funded jobs, with no apparent dampening of job growth.

Restore Democratic Rights at Work
Although the fundamental right of employees to freely choose workplace union representation has long been enshrined in U.S. law and United Nations conventions, it has been effectively denied by more and more American employers. A large body of research has shown that unions dramatically improve workers ability to obtain better pay and fringe benefits that comparable non-union workers. Substantial improvements in federal and state labor enforcement staff and resources, as well as stiffer fines, would be a valuable start toward leveling the playing field. So too would be passage of a new U.S. Senate bill (introduced by New York’s Charles Schumer) requiring companies to recognize unions as soon as a majority of employees sign pro-union cards, rather than through a lengthy election. This “card check” process is standard in Canada, and has helped unions win recognition by one-third of the work force.

Renegotiate Global Trade Agreements:
Outsourcing American jobs abroad has sparked new anxiety among a wide swath of blue-collar and, increasingly, white-collar workers in recent months. It has also become a political issue in February when the chief White House economist, Gregory Mankiw, defended outsourcing as a long-run “plus” for the U.S. economy. Despite widespread criticism of Mankiw’s remarks, a month later John W. Snow, the Treasury secretary, told the Cincinnati Enquirer that outsourcing “is part of trade” and that it “makes the economy stronger.”

NAFTA is praised by advocates as a model for other trade accords because it has increased U.S. exports to Mexico and Canada. Unfortunately, recent estimates indicate that it has generated far more imports than exports, at a net cost in lost U.S. jobs so far of 879,200.[37] It has also helped weaken workers’ bargaining power, stymie unionization efforts, and put downward pressure on wages and benefits.

Human rights and labor spokesmen argue that there is no “free trade” with unfree countries. Authoritarian systems, whether in China, Southeast Asia, Central America or elsewhere, subsidize the profitability of U.S. production there by repressing labor rights, refusing to enforce basic labor pay and safety standards and allowing unchecked environmental pollution. The White House was forced to confront this argument by a mid-March petition from the AFL-CIO to determine whether widespread violations of worker rights in China provides an implicit government subsidy to Chinese manufacturers. “Fair trade” requires that no trade agreements should be continued or new ones initiated without building in serious enforcement and independent monitoring provisions to ensure decent wages and working conditions, full labor rights and adequate environmental standards. Enforceable labor & environmental protections for all workers will improve both the quantity and quality of jobs in the US and abroad.

Table 1
Number of Nonfarm Jobs (in thousands) by Place of Work: 2000-2003

	Dec. 2003	Dec. 2002	Dec. 2000	% Change 2000-2003	% Change 2002-2003
U.S.	130,955.0	133,234.0	132,367.0	-1.8%	-0.0%
NY State	8,514.9	8,523.3	8831.4	-3.6	-0.1
New York City	3,581.5	3,598.5	3821.4	-6.3	-0.5
Long Island	1,236.8	1,234.9	1253.8	-1.4	0.2

Source: Establishment data (not seasonally adjusted) from US Dept. of Labor & NY State Dept. of Labor.
Note that the data reflect regular revisions made by the Dept. of Labor.

Table 2
Civilian Labor Force, Employment & Unemployment:
New York City, Long Island & All U.S., Dec. 2002 – Dec. 2003
(in thousands, not seasonally adjusted)

	Labor Force		Employed		Unemployed		Unemp. Rate	
AREA	Dec. 2003	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	Dec. 2002
U.S.	146501.0	144808.0	138556.0	136599.0	7945.0	8209.0	5.4%	5.7%
NYC	3696.2	3789.8	3407.7	3475.1	288.5	314.7	7.8	8.3
Brooklyn	1040.3	1068.1	951.7	970.5	88.6	97.6	8.5	9.1
Bronx	523.2	532.9	469.4	478.7	53.8	54.2	10.3	10.2
Manhattan	824.4	849.2	762.5	777.6	61.9	71.6	7.5	8.4
Queens	1092.0	1119.4	1022.9	1043.1	69.1	76.3	6.3	6.8
Staten Island	216.4	220.2	201.2	205.2	15.2	15.0	7.0	6.8
Long Island.	1502.3	1490.7	1441.0	1429.8	61.3	60.9	4.1	4.1
Nassau Co.	728.3	722.9	700.9	695.4	27.4	27.5	3.8	3.8
Suffolk Co.	774.1	767.9	740.2	734.4	33.9	33.5	4.4	4.4

Source: CPS household survey data from NY State Department of Labor, 2003 Note that the data reflect regular revisions made by the Dept. of Labor.

Figure 1
NYC Job Growth by Industry: Dec. 2002 – Dec. 2003
(in thousands of jobs, and percent change)

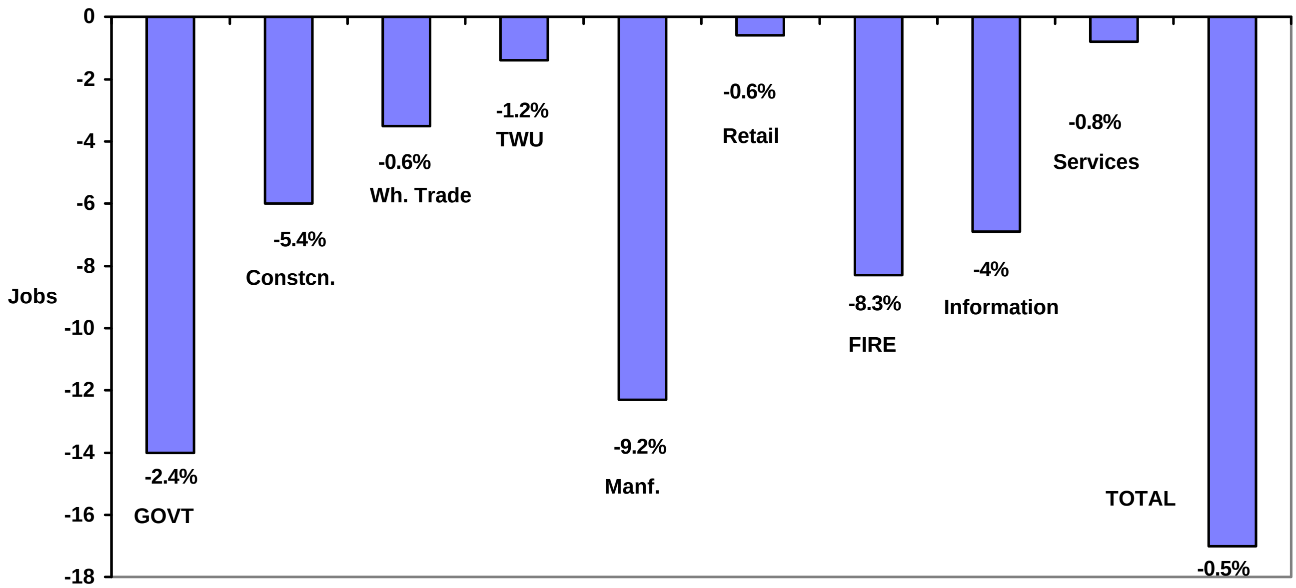
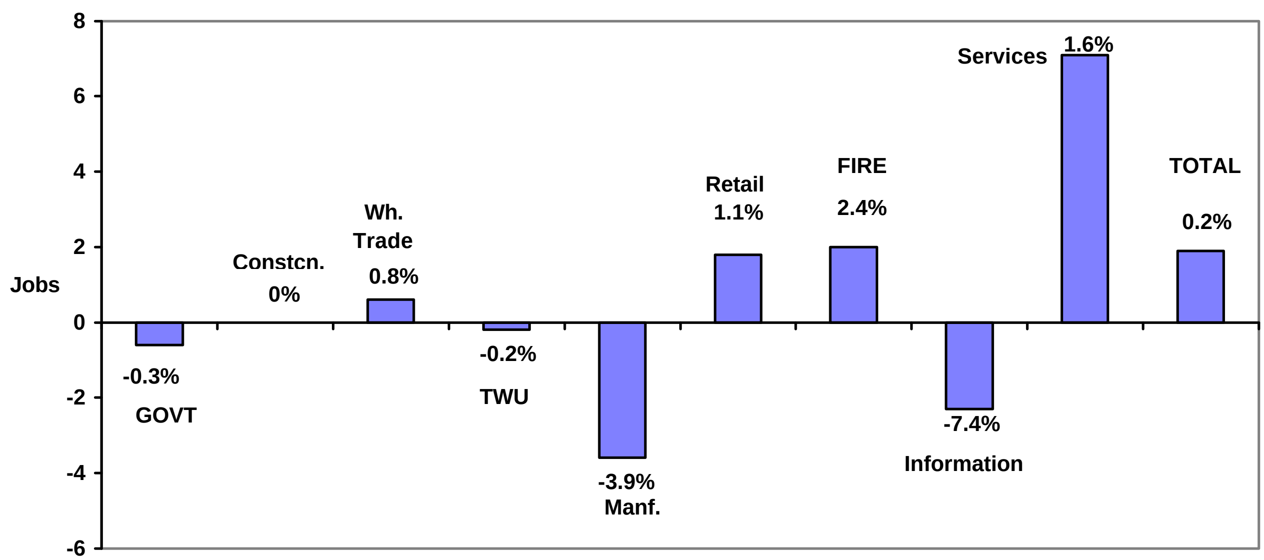
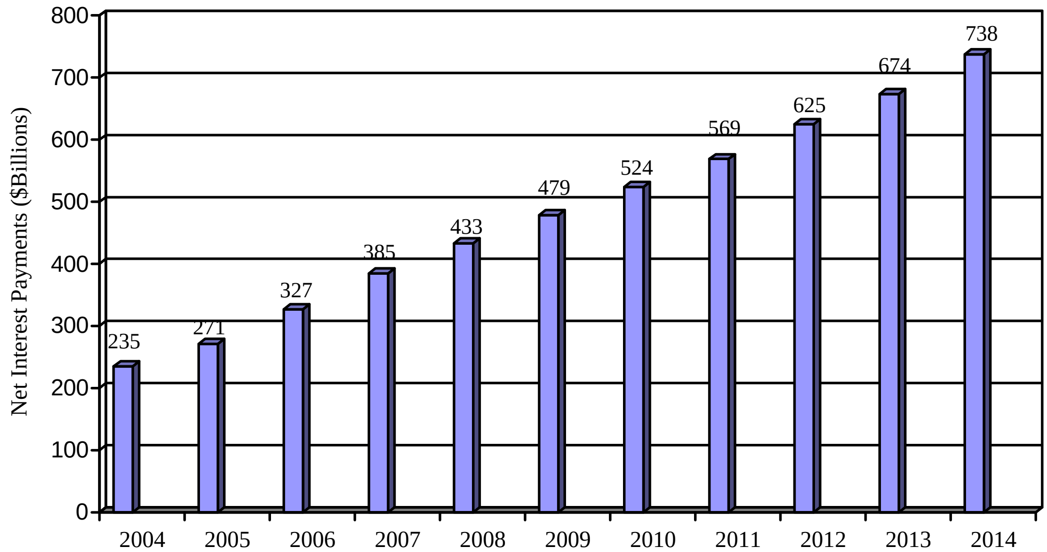


Figure 2
Nassau-Suffolk Job Growth by Industry: Dec. 2002 – Dec. 2003
(in thousands of jobs, and percent change)



Source: NYS Dept. of Labor: nonfarm payroll job data from CES establishment survey. Year-to-year changes, not seasonally adjusted.
Note: FIRE = Finance, Insurance & Real Estate; TW U= Transport, Warehousing & Utilities. These data are based on the new North American Industry Classification System (NAICS), which replaced the Standard Industrial Classification (SIC) system in March.

Figure 3: Annual Interest Due on Federal Debt is Projected to Triple



Source: Net interest (on-budget) payments due on federal government debt. Data from Congressional Budget Office, *The Budget and Economic Outlook: FY 2005-2014* (Washington: CBO, Jan. 2004). Additional calculations by Citizens for Tax Justice (1/30/04).

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[30] "Executive Pay," cover story, *Business Week* (4/16/01).

[31] R. Kuttner, "The Compassionate Conservative's Bait-and-Switch Budget," *Business Week* (3/10/03).

[32] Center on Budget and Policy Priorities, *Deep, Widespread Cuts in Domestic Programs over Next 5 Years under Administration Budget* (2/27/04) <www.cbpp.org>

[33] W. Gale and P. Orszag, *Should the President's Tax Cuts Be Made Permanent?* Tax Policy Center Urban Institute/Brookings Institute (Feb. 2004). Their estimates assume that the 2001-03 tax cuts are made permanent along with the minimal AMT adjustments included in these tax cuts.

[34] T. Gruber, *Testimony before Health Subcommittee, Ways and Means Comm*., US House of Reps. (2/13/02).

[35] Congressman Tom DeLay, quoted in *NY Times* (2/8/03): A11.

[36] An attempt was made in the Senate to limit subsidies to $275,000 per farmer, but agro-business lobbyists succeeded in replacing it with a merely symbolic, loophole-ridden $360,000 limit.

[37] Robert.E. Scott, "The High Proce of 'Free' Trade: NAFTA's Failure Has Cost the U.S. Jobs Across the Nation," *EPI Briefing Paper* (Economic Policy Institute, November 2003).