



Helping senior citizens with tax credits Working off taxes

They lived and struggled through the Depression. Many of them served in World War II or Korea. They are part of what Tom Brokaw calls "The Greatest Generation." These are the men and women who, through sacrifice, hard work and dedication, helped steer the United States into the second half of the 20th century.

Along the way, they bought homes, started families, built careers and paid their fair share of taxes. Now as senior citizens, the homes they worked to buy and maintain are threatened by rising property values, especially in the increasingly coveted suburbs surrounding Boston. Recent property assessments have caused a large increase in tax bills even though tax rates have not increased. For seniors, most on fixed incomes, paying burgeoning property tax bills is increasingly difficult.

Recognizing this troubling development, the town of Braintree is among those that have instituted a creative measure

to help alleviate the tax burden senior citizens face. In 2001, the Braintree Town Council adopted a tax credit for seniors provided for under Massachusetts General Law, Chapter 59, Section 5K. Braintree established a program to allow persons over the age of 60 to volunteer to provide services to the town. In exchange for a minimum number of hours of volunteer services, the town reduces the senior citizens' property tax bill by up to \$500 annually. The program allows the town to recoup some of the foregone tax money through services rendered, often by highly skilled individuals, at very little additional cost to the town. Jane Hanley, Services Coordinator at the Braintree Council on Aging said, "BCA didn't need to hire any additional staff and the additional staff hours we do need are provided by senior volunteers. The only cost associated with the program is the paper we use for record keeping."

Sandra Young, Volunteer Coordinator, and Bertha Tuerck, Assistant to the Volunteer Coordinator, aim to put volunteers in positions where they can make the best



GETTING THE JOB DONE - In an effort to lower the tax burden on local seniors, the Town of Braintree last year established a Senior Citizen Municipal Service program. Seniors who perform specific tasks for town agencies are able to earn up to a \$500 credit to defray their tax bills. Bertha Tuerck (c) is one of the 30 seniors participating in the program managed by Sandra Young (l) and Jane Hanley (r).

possible contribution and receive, in exchange, the greatest possible personal satisfaction. By every account, satisfaction is high, both on the part of

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BHI State of the Household Survey 2002 Readers see state economy improving

Although the state faces a recession, BHI *NewsLink* readers believe that the Massachusetts economy may be on the road to recovery. According to BHI's State of the Household Survey 2002, 43% of respondents expect to see the state's economy improve over the next year — signaling a turnaround in confidence from last year's survey. Only 29% believe the state's economy will worsen over the next year while 24% said it would neither improve nor worsen.

Last year's survey results, collected before the official start of the

current recession, found that more than 57% believed that the Massachusetts economy would worsen in 2001, while only 14% thought it would improve. Layoffs and budget woes that began last year appear to confirm this expectation. However, the growing confidence of respondents mirrors conventional sentiment about improvement in the economy later this year.

Since 1999, *BHI NewsLink* has surveyed its readers for their opinions on a variety of economic and public policy issues. The *BHI Household Survey* is part of our ongoing State of the Household Project, which seeks to assess the thoughts and economic well-being of Massachusetts households. We received 247

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From the Executive Director

The state's largest newspaper is for it. So is the head of the largest bank in New England. And, so are the chief executive officers of one of the largest insurance companies and one of the largest advertising agencies. The state's leading taxpayer watchdog group is emphatic about it — as are a couple of Democratic candidates for governor. The former president of the Federal Reserve Bank of Boston, an economist who perhaps should know better, is also for it.

The idea floating around the halls of power is to delay the voter approved income tax so that the Commonwealth can recover from the dramatic drop-off in state revenues. The growing consensus among at least one element of the state's business elite appears to be that the only way to stop the state's slide into fiscal calamity is to postpone the tax cut. No consideration is given to cutting spending which has grown over the rate of inflation for the last decade. Everybody's favorite scapegoat is tax cuts.

One can't put down a newspaper these days without feeling overwhelmed about the rollback-the-tax cut juggernaut. So much so, that you have to feel sympathy for Acting Governor Jane Swift, who finds herself standing alone in the path of the unimaginative group-think of Chicken Littles. To be in the Governor's shoes is to be an object of scorn and ridicule.

Thus, we are treated to Steve Bailey of the *Boston Globe* who belittles the Acting Governor for having a painfully tin ear to the no-tax-cut ensemble. The Acting Governor, he suggests, should listen to Richard Syron, the former Fed chief and now CEO of Thermo Electron, who told the *Globe*: "I would be willing to forgo some of the proposed tax cuts... Postponing the tax cuts will not be a fiscal retardant. I don't think state taxes act much on the state economy... We have some substantial experience with that here in Massachusetts."

According to the dominant political philosophy, there is a broad swath of humanity — "working families," women, the poor, minorities" — that must be protected. This protection must naturally come from government, which needs a lot of money to do its protecting.

The problem is that sometimes the people who are being protected forget themselves and act like they don't want protection at all. Take for example, in 2000, when 59% of voters approved a reduction in tax rates that, along with the economic slowdown, is making it necessary to slow down state spending.

Several years ago, the state legislature also cut the state capital gains tax in exchange for a pay raise. Now we are told to rethink that tax cut as well. Then there's the charitable tax cut deduction, also approved by the voters in 2000, and also on the list of tax cuts that are making it tough for the protectors to do their job.

So we have a phalanx of businesses and their spokespeople aligning themselves with the worst anti-business forces in the state. Where, we might ask, were these self-appointed guardians of fiscal integrity when the legislature and past governors were cranking up state spending? How do they know that the voters didn't really mean it when they said that the state should learn to get along without the billion dollars in revenue that the income tax cut could be expected to "cost"?

If these heads of business really cared about the people, as well as fiscal integrity, they would forge a campaign for the state to level fund the budget for a few years, while the economy recovered and the state had a chance to adjust to recent tax cuts. They might even look for places to cut the budget.

It does not take an economist to explain that the state's troubles aren't the result of tax cuts. The legislature refused to uphold a promise to scale back a temporary tax cut well into the late 1990s. It was only when voters pushed the issue that tax cuts became a reality. Meanwhile, the legislature spent the revenues as quickly as it could.

In fact, the Commonwealth has increased spending by nearly six percent a year. Medicaid, local aid, and education reform all received substantial increases. As did another voter approved measure — anti smoking programs. The so-called guardians of fiscal virtue remained silent when Medicaid expenditures grew at a rate of 6.3% from 1996 to 2001. They looked the other way, when the state committed itself to education reform knowing that it would be political suicide to cut such spending once it was marbled into the body politic. The mavens of the financial community who now clamor for a delay in tax cuts were nowhere to be found when courageous voices questioned police details and the nefariously expensive Quinn Bill which pays police officers a

25% increase if they earn a master's degree. Nor did the same business groups raise a voice when previous administrations attempted to reduce health insurance costs by bringing state employee contributions in line with those in the private sector. Ironically, these same firms are probably the same firms that marshaled their workforces into managed care plans.

In January when the Acting Governor released House 1, the hue and cry was immediate. Yet Governor Swift's budget blueprint calls for a spending increase of 2.7 percent. Bay State arithmetic construes this as a budget cut. In fact, what is needed is a few years of zero percent increases, in deference to the stated will of Massachusetts voters and the undeniably important goal of budget balance.

David G. Tuerck

NewsLink is published quarterly by the Beacon Hill Institute for Public Policy Research at Suffolk University. The Beacon Hill Institute focuses on federal, state and local economic policies as they affect citizens and businesses, particularly in Massachusetts. The institute uses state-of-the-art statistical, mathematical and econometric methods to provide timely and readable analyses that help voters, policy makers and opinion leaders understand today's leading public policy issues.

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BHI releases *State Competitiveness Report 2001*

Why is California better off than New York? Why is Massachusetts better off than almost every other state? Why do some states fail to improve the lives of their citizens? A new study from the Beacon Hill Institute at Suffolk University in Boston suggests that the answer may be found by looking at the "competitiveness" of states.

Defining "competitiveness" as the ability to ensure and sustain a high level of per capita income and its continued growth, BHI authors Jonathan Haughton and Vadym Slobodyanyuk combined more than three dozen variables into nine subindexes, each of which (e.g., "government and fiscal policy," and "infrastructure") represents an element of competitiveness. The authors then combined the nine subindexes into an "overall index" and ranked the states according to their overall competitiveness. The final product is an extensive and accessible work entitled, *State*

Competitiveness Report 2001, a study that goes beyond conventional standards to examine all aspects of a state's economy.

Commenting on the study, co-author Haughton observed that "the new BHI ranking provides important information for any state seeking to improve its competitiveness." Said Haughton: "If a state wants to be more competitive, it should look at the details of our study and find out where it ranks high and where it ranks low. States that take our findings to heart will find themselves better positioned to attract business investment and workers, to improve their productivity, and in general to make their residents more prosperous."

The study may be obtained at www.beaconhill.org. A print version is available for \$20.00 by calling 617-573-8750.



CASTING A JOB SHADOW ON BHI – Two Brighton High School students visited the Beacon Hill Institute as part of Job Shadow Day on February 1. Omar Cueto and Harvey Oribhabor, two sophomores from the school's Business and Technology program, take a look at BHI's *State Competitiveness Report 2001*. Job Shadow Day, run by the Boston Private Industry Council, exposes students to the working world. Cueto (r) and Oribhabor (c) observed their workplace mentor, Frank Conte (l) in his responsibilities as Director of Communications and Information Systems. The two students also helped prepare material for this edition of *NewsLink*. BHI has participated in the program since 1999.

Media Mentions

On October 30, 2001, the *Quincy Patriot-Ledger* covered the release of *Cashing in on Cable: Warning Flags for Local Government* with its story "Cable, Internet called risky for towns." On November 1, the *Norwood Bulletin* also covered the study in a report "AT&T asks for level playing field."

Knight Ridder/Tribune News Service made available to member newspapers on November 6, a opinion editorial by Chris Middleton of the Pacific Research Institute: "Gov. Davis' economic policies will quash growth, hurt lower-income Californians" which was based on a STAMP analysis of taxes in the Golden State.

On November 12, the *Boston Herald* cited comments by David Tuerck who questioned the wisdom of massive budget cuts and repealing the voter approved income tax cut in "Dire straits: Finneran backs governor's call for massive spending cuts."

On November 15, the *Boston Herald* published an opinion editorial

"Budget crisis is a looking-glass war," by David G. Tuerck. The article examined Massachusetts's budget shortfall.

On November 20, David G. Tuerck appeared on *New England Cable News* with evening anchor R.D. Sahl to discuss the detrimental consequences of price supports in the cranberry industry.

On November 22, the *Albuquerque Journal* carried a news story, "Tax cuts would boost employment, study says," about the Beacon Hill Institute's analysis of proposed tax cuts in New Mexico.

On November 23, the *Boston Globe* cited BHI's work on charitable tax deductions in a story titled, "Tax incentives raise charity groups' hopes."

The *Neponset Valley Daily* of Sharon, MA ran an editorial on December 19 citing BHI'S study on publicly-owned cable systems, "Cable plan is the right move."

Health Care News, the monthly newspaper for health care reform published by the Heartland Institute, carried a front-page feature in its January 2002 edition, on BHI's

STAMP analysis of a proposed single payer proposal in the state of Maryland.

BHI's State Competitiveness Report 2001 widely cited in media

Dr. Tuerck was interviewed on December 18 by Janet Wu of WCVB-TV Channel 5 and on December 19 by The Boston Business Journal AM with *David Anthony and the Money Couple* on WBIX Business 1060 about the *State Competitiveness Report 2001* released that morning. Meanwhile, Anthony Silva of WBZ-Radio interviewed Professor Jonathan Haughton, one of the authors of the report, about the implications for Massachusetts. In addition, WPRO of Providence ran a news segment on the report. Also, Dr. Haughton was a guest on the *Boston Neighborhood Network News*, a nightly cable news program, on January 16, 2002.

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Survey 2002

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responses after mailing this year's survey to 2500 readers in January. The results have a margin of error of plus or minus seven percent.

As for the timing of an economic turnaround, 60% of those responding to this year's survey believe that the recession will end in the second half of the calendar year. On the international front, a plurality of respondents (34%) said the global economy would neither improve nor worsen while only 29% thought that it would improve in 2002.

The *Household Survey* also touched upon issues relating to the state's economic competitiveness. The *Survey* found that 85% of respondents continue to believe that labor in the state is more expensive than other states. Only 25% believe that quality of high schools is very good. Only 10% believe that Massachusetts students excel in math and science.

These perceptions are in line with the findings of BHI's just-released *State Competitiveness Report 2001*, a 50-state analysis of how Massachusetts and other states are doing in their efforts to compete with each other for jobs, capital and markets. The *State Competitiveness Report*, like the *Household Survey*, shows that, within Massachusetts, perceptions about the state's competitiveness are generally negative. A survey conducted in summer 2001, in conjunction with the *Competitiveness Report*, found that opinion leaders believe that the state continues to operate at a competitive disadvantage.

Interestingly, the perceptions identified by the *Household Survey* and the survey conducted in conjunction with the *Competitiveness Report*, are in stark contrast to the underlying reality. Contrary to the negative perceptions revealed by these surveys, Massachusetts is doing very well, when assessed according to objective data relating to human resources, the strength of its high-tech and finance sectors and other indicators of competitiveness. Said

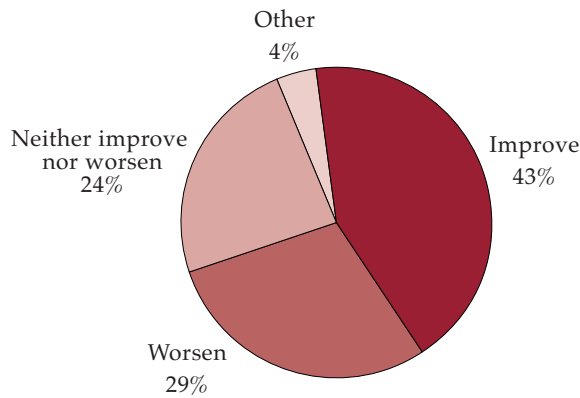
David G. Tuerck, executive director of the Beacon Hill Institute: "The biggest deterrent to the well being of Massachusetts and its residents may be the state's inability to shake off its reputation as a haven for tax-and-spend politicians and powerful labor interests."

On other matters, respondents expressed strong support for an idea discussed on Beacon Hill that would move the state toward a two-year budget cycle. Fifty-five

the numbers remain relatively unchanged from last year.

When asked how best to provide affordable housing, respondents favored the use of tax incentives (38%) and cutting government red tape (21%). The other choices — enforcing the state's "anti-snob" law, increasing funding for state housing vouchers and enacting the Community Preservation Act all received a combined 25%.

During 2002 do you expect the Massachusetts economy to:



Source: BHI State of the Household Survey

Tough talk on taxes

Respondents continue to oppose proposals to increase taxes. Indeed, a slight majority (53%) favor a proposed ballot initiative that would abolish the state income tax. The survey found that 32% oppose the abolition of the income tax while 14% had no opinion.

When asked whether they favor property tax surcharges to fund open space, community preservation projects and affordable housing, 66% said they were opposed, seven percent neither favored nor opposed, and only 25% favored the surcharge.

Survey respondents also opposed, by a margin of 50% to 38%, any increase in liquor taxes that would be earmarked for substance abuse programs. Ten percent neither favored nor opposed the idea.

When it came to earmarking dollars from the state's landmark tobacco settlement, respondents told a different story. More than 70% said they wanted to ensure that funds from the settlement were earmarked for health or health-insurance-related programs.

The survey also found continued opposition to any law mandating universal health care in Massachusetts, with 62% opposed, 28% in favor and 8% voicing no opinion. Last year a slightly larger number of respondents (69%) opposed universal health care.

In an effort to measure the adoption of new technologies among its readers, BHI also asked respondents how they connect to the Internet from home. Most (42%) said they used the older technology — dial-up modems — while cable modem and digital subscriber users accounted for 28% and 11% respectively. Twenty percent said they used other means or did not answer the question.

percent approve of the idea while 19% oppose it.

Respondents approve of a measure to abolish the current bilingual education system by an overwhelming margin of 79%. The measure will appear on this fall's ballot. Only 13% favor the current system.

Seventy-four percent oppose a proposal that would extend unemployment benefits to parents who stay at home with a newborn or newly-adopted child, while only 14% support this so-called Baby UI bill. Last year the *Survey* found that 78% of respondents opposed the measure.

BHI survey respondents continue to support proposals to redirect funds from government to nonprofit organizations. This year 69% expressed such support while only 18% opposed the idea — virtually the same percentage as last year.

Survey respondents continue to support education reform in Massachusetts with 62% favoring current spending levels. Only 20% oppose and 25% neither favor nor oppose a continuation of current funding levels. Here too

Senior tax credits

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the volunteers and of the agencies where they are placed.

Senior citizens also receive tangible recognition for the value of their volunteered time. The seniors frequently volunteer more than the required hours needed to receive the maximum \$500 credit. In the three months that the program was operational during 2001, six of the 30 seniors in volunteer positions had surpassed their required hours, but continued to volunteer essentially for free. There are also non-monetary gains from allowing seniors to volunteer, especially in town schools. According to Hanley, students and volunteers at Braintree schools very often form a mentor-like relationship, giving advice and passing along life-learned knowledge.

In addition to Braintree schools, seniors also volunteer at the Council on Aging, Department of Fair Housing, Braintree Electric Light Department, Department of Personnel and Management of Information Systems Department. The volunteers produce personnel manuals, videotape town events that are cablecast on the local access channel and help design department websites.

Although the tax credit was first proposed in Braintree in 1994, it did not make it past the town meeting stage. Then, in May of 2001, through the perseverance and pro bono work of a local lawyer on the Board of Assessors, the Town Council passed the measure for fiscal year 2002. The program is monitored and administered by the BCA, which keeps track of each volunteer's hours and sends records to the taxpayer and the town assessor. Seniors volunteer for city agencies at the prevailing minimum wage, currently \$6.75, for up to the maximum \$500 dollar property tax credit, or 74 hours. No money actually changes hands; the assessor's office credits the taxpayer's bill for the proper amount prior to mailing it.

The Town Council estimated that approximately 60 seniors would take advantage of the program and, on that basis, allotted \$30,000 to fund the program, which would fund 60 seniors earning the maximum \$500 credit. The \$30,000 is appropriated from the assessor's

overlay account, which consists of funds put aside after everything has been paid for from the previous fiscal year. The account may not exceed one million dollars in any fiscal year and is used primarily to refund property tax abatements. If more than 60 seniors volunteer in any given year, then need-based criteria are instituted to give priority to those seniors who are most deserving of a tax credit.

Ready and willing but no place to go

During the first year, however, the program's first challenge wasn't a shortage of volunteers but a shortage of positions. In 2001, only 30 positions were available for the 63 seniors who applied for the tax credit. In order to receive the tax credit, seniors may volunteer only for a town agency; they are not permitted to volunteer for private organizations. There is a formal procedure followed by the town of Braintree personnel department before a position can be deemed eligible to be filled by a volunteer. Town agencies submit requests to the town personnel department for a volunteer to perform a certain task, such as light maintenance work in a town school. The town Director of Personnel and Personnel Board then reviews the request to determine if the request should be filled by a volunteer.

One obstacle arises over union jobs. The public employees' union is involved in the process, and it reluctant to allow senior volunteers to fill many of the positions. This is a

In the face of higher spending and increased property assessments, Braintree's program for senior tax credits makes sense for everyone.

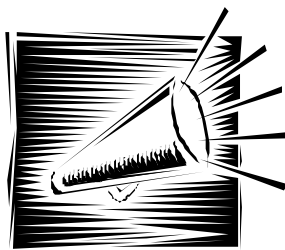
disincentive since managers, knowing that potential opposition is always around the corner, are discouraged from submitting requests.

Such work rules adversely affect both seniors and the town. Union workers perform jobs at three to four times the wage that volunteers implicitly earn. The failure to allow a qualified senior to fill a position ultimately costs the town taxpayers' money.

Although volunteer positions for 2002 have increased to 40, there is still a significant shortage of opportunities for seniors.

Senior citizens have worked all their lives and have paid taxes to provide public services. In the face of higher spending and increased property assessments, Braintree's program makes sense for everyone.

A policy that helps senior citizens keep their own homes, reduces the need for elderly public housing and, in this instance, helps the town reduce costs, is clearly worthwhile. ❖



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Media Mentions

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The *Boston Sunday Globe* of January 20 published a letter from David G. Tuerck, "Bay State is doing fine, thank you," challenging a column that alleges that Massachusetts "has begun to fall behind a country that once looked to it for leadership."

In New England, the report drew the attention of *The Rutland Daily Herald*, (January 14) "VT gets high marks for competitiveness"; the *Sunday Valley News* of White River Junction, Vermont (December 30), "VT ranking in business study comes as surprise," and the *Providence Journal* on December 19, "Where does Bay State rank?" The largest paper in Vermont, the *Burlington Free Press* ran an editorial, "Economic Game Plan," on January 21 based on BHI's study. The editors wrote "By drawing on the strengths identified by the BHI study, Vermont could get a better idea of where to put its energies and resources to improve the quality of life for its citizens."

BHI also received national exposure for the report. *Freedom News Daily*, an online publication of *free-market.net* carried a link to

the study in its Dec. 21 edition. The *Rocky Mountain News* of Denver ran a story on January 3, "Colorado's competitive edge: State No. 6 in ability to attract companies and workers, perform in key area, study says." *The Las Vegas Business Press* on Dec. 31, 2001 ran a column by Kevin Rademacher on Las Vegas 47th ranking. The *Birmingham Business Journal* of Alabama ran "Study: Alabama No. 45 in nation for 'competitiveness'". The *Oklahoma Journal Record* in its Around Town column reported on Dec. 20, "Oklahoma ranks 44th most competitive, report says."

The *Boston Herald* ran a feature on its business pages on Dec. 19, "In business, state's No. 2: national analysis pleasantly surprises."

BHI was the subject of editorial commentary in newspapers. The *Boston Herald* ran an editorial, "The good news: What's behind it," on December 20 noting that BHI "provides a valuable corrective to much of the pessimism about Massachusetts that gets tossed about in conversation."

The BHI study was the basis for a lead editorial, "How Mass. stacks up", in the Dec. 21 edition of the *Boston Business Journal*. Also, the *Daily News Tribune* of Waltham MA

ran an editorial, "Pass it on," that underscored the need to promote Massachusetts's standing.

Calling it an "imaginative attempt to rank states in terms of its attractiveness to business," David Warsh of the *Boston Globe* mentioned the study in his column on Jan. 22, "A high price to pay."

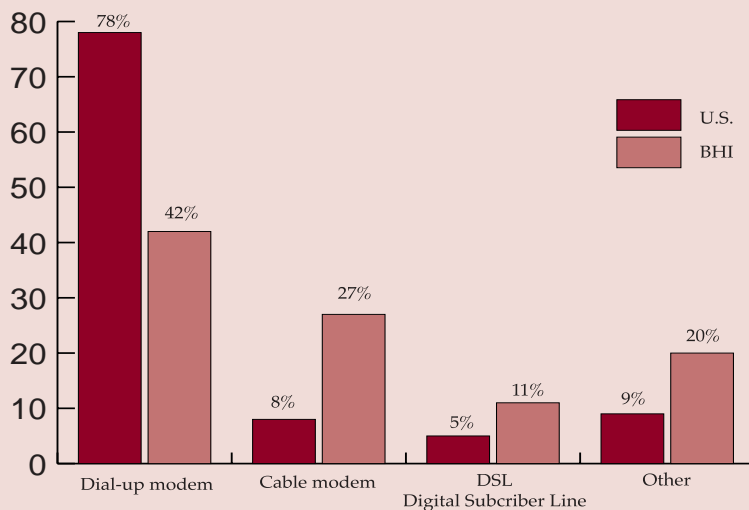
The *Berkshire Eagle* of Pittsfield, MA, the *Sentinel and Enterprise* of Fitchburg, MA and the *Lowell Sun* ran a piece by Frank Tutalo on Dec. 20 and 21. "State found to be very competitive: Economic study surprises some."

Massachusetts News ran a page-one story by former BHI intern Georgia Pellegrini in its February 2002 edition: "Massachusetts is high in 'competitiveness' for businesses but scores very low for 'taxes' and 'environmental policy'".



It's still a dial-up world! High-speed broadband slows itself down

Modem connectivity by technology: US and BHI Survey



Source: BHI State of the Household Survey 2002, CyberAtlas, Telecommunications Reports International

Conventional wisdom suggests that residential consumers are chomping at the bit for broadband Internet connections and are willing to pay extra for cable modem and digital subscriber lines (DSL) to take advantage of rich media. Yet less than 10 million customers use high-speed connections. However, the overwhelming majority of the nation's 70 million users continue to log on in the low-tech manner that America Online has come to love: dial-up modems. According to industry observers, 78 percent of all online customers use dial-up modems to get online – a statistic that reflects the popularity of e-mail over streaming video and music. Approximately 13 percent of US customers prefer the high-speed services of cable modems and DSL. The pattern holds for respondents to BHI's *State of the Household Survey 2002*. Forty-two percent of all respondents reported using dial-up. Meanwhile, 38 percent of BHI survey respondents said they used high-speed modems (27 percent cable modems; 11 percent DSL). Dial-up is not about to go away anytime soon. According to the Cahners In-Stat Group, most households will continue using dial-up access in the year 2005. Dial-up technology benefits from troubles in the high-speed Internet service market. Rising prices for broadband and fewer DSL service providers have dampened the growth in this market.



Whose fuzzy math?



Fuzzy Math: The Essential Guide to the Bush Tax Plan

Paul Krugman, W.W. Norton & Company; 2001, 112 pages

Reviewed by Edward Rombach

In his 1998 State of the Union address, President Clinton rhetorically asked Congress, "What should we do with this projected surplus? I have a simple four-word answer: Save Social Security first." With this question, President Clinton set the terms of the current debate about the nation's retirement system. Since then the debate between Republicans and Democrats has been recast in a new context of a recession with both parties seeking to blame the other for the ever-shrinking surplus.

Against this backdrop, Professor Paul Krugman of Princeton University and a columnist for the *New York Times*, has emerged as the most vociferous press critic of President George W. Bush's fiscal policy. From his two perches of power, Krugman, revisiting Keynesianism one more time, has comforted those in Congress who believe that good politics has trumped good economics. His latest book *Fuzzy Math*, written during the 2000 presidential campaign and published in the early days of the new Bush administration, is a short, easy-to-read primer on the political economy of our times. To his credit, Krugman does a decent job explaining federal revenues and expenditures for the layman. But that's about as good as his book ever gets.

From the outset, Krugman wastes no time attacking, as he always does, the notion of tax cutting as a fiscal policy tool. "Is the tax cut being proposed by George W. Bush a good idea? No. It is much too large, even given optimistic forecasts of future surpluses." Having stated his position, Professor Krugman reassures the reader that his book "is not a diatribe." If only it were so. Krugman cannot resist passing his data through an ideological filter, arguing that the Bush tax cuts are really nothing more than tax cuts for the rich.

Ironically, Krugman is disappointed that the administration hasn't sold the tax cuts forthrightly. "So we have a remarkable scene: the administration, having committed itself to a plan that can be justified only in terms of supply-side ideology, never refers to that ideology in its efforts to sell the plan. We never hear the argument that tax cuts will produce an acceleration in the rate at which the economy's productive capacity grows."

Kudos to Krugman! On this score he shares common ground with his philosophical opponents. For whatever its reasons, the timid Bush Administration failed to sell the tax cuts as a reputable supply-side solution. The argument was there to be made: Tax cuts are important, and remain so, because they provide the incentives for individuals to earn, save and invest, enabling economic growth. Whether

Krugman is facetious or not, the boldness of the pages of Reagan's playbook is worth copying. Krugman asks the same question that supply-siders have asked: "If tax cuts are a good idea, why phase them in so slowly?" Why indeed?

Krugman himself would never take Reagan or his ideas seriously. Supply-side economics is a dirty term.

Thus, when he shifts from devil's advocate to economic analyst, he finds it necessary to twist the experience of the Reagan era to fit his own, Keynesian mold: "The U.S. economy did not experience an acceleration of growth in its productive capacity after Reagan cut marginal tax rates in the 1980s; it did experience such an acceleration after Clinton raised that top marginal rate in the 1990's."

Huh? Under Reagan's watch U.S. GDP doubled from \$3 trillion to \$6 trillion, creating 18 million jobs. Furthermore, productivity growth is highly sensitive to technical progress that is itself notoriously insensitive to government policy. The professor still has some explaining to do here.

Not to worry. He has a rationalization. The growth rates experienced during the 1980s can be attributed exclusively, he says, to the Federal Reserve.

"If you admit that monetary policy is a highly effective policy tool, you are very close to giving credit for the economic boom that started in late 1982 to the Fed's dramatic

interest rate cuts the preceding summer, not to the tax cut pushed through by Ronald Reagan the year before."

Krugman's central theme is that the Bush tax cut is irresponsible because it is too big and costs the government too much, thus putting in jeopardy Social Security and Medicare surpluses.

However, his alternative policy of setting aside \$3.3 trillion in the so-called Social Security lock-box is itself a hoax. Al Gore's favorite metaphor certainly animates Krugman.

"Any reform of Social Security will require additional money over and above the system's surplus, because any reform would involve paying off some of that implicit debt...Again and again we hear that by allowing young workers to put some of their payroll taxes into private investment accounts we can 'Save Social Security'. In fact such accounts would undermine Social Security because the benefits owed to older Americans must be paid out of the same taxes." Krugman reminds the reader that Social Security benefits to retirees are funded from the payroll taxes of currently employed workers. He wonders what would happen if younger workers were to opt out of the system and invest their money themselves. "Who would pay the benefits to today's retirees?" he asks.

The answer, of course, is that by taking some of the Social Security contributions out of the trust fund, the government would simultaneously reduce the future liabilities of the trust fund to retirees. Retirees paying into private investment accounts would look to those accounts, not the trust fund, for a return on the money they paid into them.

Krugman writes that the Bush tax cut is irresponsible because it places Social Security in jeopardy. However his alternative is itself a hoax.



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In Point of Fact

More than a hill of beans!

The Bush administration recently put off making a politically risky decision to cut soybean subsidies. Economists say the current subsidy rate encourages overproduction of soybeans because it is too high in relation to corn. Reducing the subsidies could save taxpayers \$1 billion or more but would risk a political backlash in states with key Senate races this year. Last year, farmers harvested 74 million acres of soybeans, 11 million more than in 1996, when the subsidy rate, or "loan rate," was raised to \$5.26 per bushel. It has not been changed since. "It's causing disparities in planting decisions and disparity in the markets," said J.B. Penn, USDA's undersecretary for farm and foreign agricultural services.

Associated Press, "Soybean Subsidies Decision Delayed," January 5, 2002.

So what else is new?

People calling the Internal Revenue Service for help with their tax returns waited an average of four minutes to speak to a representative in Year 2001 and often get inaccurate information, a new government

report says. The average wait increased 15 percent over 2000, said the report, by the General Accounting Office, an investigative arm of Congress. More than 70 million people called for tax help this year. About 25 percent of the time, customers asking about tax law were given wrong information. About 12 percent of the time, customers asking about their account were given wrong information. *Associated Press, "I.R.S. Help by Phone Is Slower and Often Wrong, Study Finds," December 31, 2001.*

We're shocked, shocked!

It may not come as a surprise to Bay State drivers accustomed to worn shock absorbers, but a transportation group reported recently that roads in Massachusetts are some of the most poorly maintained in the nation. With 25 percent of the Bay State's roads rated "poor" and another 39 percent "mediocre," only Californians contend with a more pockmarked street system, according to The Road Information Program, which is based in Washington, D.C. Only 8 percent of the roads in Massachusetts were considered to be in good condition, according to the study, which analyzed state and federal highway data from 2000 - the most recent data available. That was by far the lowest percentage in the country. Raphael Lewis, "State's roadways rate near the worst," *Boston Globe*, December 30, 2001.

Big Steel wags its tin cup. Thomas J. Usher, the chief executive of the U.S. Steel Corporation has been given an open door at the highest levels of the Bush administration, which has been surprisingly sympathetic to the pleas of Big Steel. He wants the government to impose tariffs on imported steel of up to 40 percent, to protect U.S. Steel and other tariffs that could raise the price of every refrigerator and automobile sold in America and that could threaten thousands of jobs in steel-using companies. Finally, he wants it done soon, he says, to prevent the domestic steel industry from collapsing. "Although my proposal is ugly," said Mr. Usher, who has been rallying the industry and its unions behind his plan, "it's not as ugly as liquidating some of these steel companies and putting 20,000 or 60,000 steelworkers..." Aspects of his proposal are so audacious that the Nucor Corporation, a mini-mill steel maker, has taken out newspaper advertisements denouncing some elements as "corporate welfare." Leslie Wayne, *New York Times*, "Parched, Big Steel Goes to Its Washington Well," January 20, 2002.



BookMark

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What is the principle according to which a dollar paid to the Social Security trust fund cannot be diverted to a private investment account? Why is it okay for the trust fund to use Social Security contributions to buy government debt but not okay to allow workers to use those very same contributions to build up their own private retirement accounts?

Along with his pedantic sermons about how "irresponsible" the tax cuts are

and why the government "can't afford" them, Krugman attributes dark motives to tax cutters. Thus the reader must continually wade through statements like: "Whatever the reason, the arguments made for tax cuts have been startling in their intellectual dishonesty." Or: "But what has happened since Bush moved to Washington— the deliberate misstatements and suppression of the facts—is , as far as I know, unprecedented in the history of American economic policy."

President Clinton recast himself as a New Democrat in 1992 — promising tax

cuts for the middle class. Once in the White House he pivoted and levied the largest tax increase in American history upon the taxpaying public. Perhaps it is Clinton's playbook from which Krugman reads in his tireless rants against Bush and supply-siders.

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