

# EPI JOURNAL

ECONOMIC POLICY INSTITUTE WINTER 2006

BY EPI RESEARCH DIRECTOR LEE PRICE

## The Boom That Wasn't Bush's tax cuts jeopardize tomorrow's living standards

Politicians of both parties often exaggerate the role that taxes play in economic decisions. As a result, they tend to believe that small tax cuts can have huge positive effects on the economy and that tax increases run the risk of dire negative effects. Contrary to those widely held beliefs, the experience of the last five years has shown disappointing benefits from tax cuts and remarkable resilience in the face of reductions in specific tax breaks.

In early 2001, when the economy reached a business

cycle peak, Congress passed the first of a series of major tax cuts. The tax cuts passed between 2001 and 2004 had the combined effect of lowering revenues by \$860 billion through September 2005. Together, they reduced revenues by \$225 billion (or 1.9% of gross domestic product) in the last fiscal year alone. The tax cuts have created excessive permanent deficits largely financed by foreign lenders. Servicing those debts will lower Americans' future standard of living.

In the annual debates over taxes from 2001 to



**New year,  
new home,  
new look...**

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2006, EPI's offices will be  
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To go along with our new office, we've update our look:  
our new logo is seen here for the first time!

**Economic  
Policy  
Institute**

2004, controversy has swirled over how deeply to cut taxes, for whom, and for how long, but not over whether taxes should be cut at all. Each year, the president proposed relatively deep tax cuts and the Congress cut even deeper. Each year, the benefits flowed disproportionately to those with greater income and wealth. And, with one notable exception (discussed later), the tax cuts have not been allowed to expire. Proponents justified the permanent, regressive structure of the tax cuts with the promise that it would lead to greater investment and labor supply. Because the tax cuts began early in a recession, it

is only fair to compare the last four-and-a-half years with similar periods of past business cycles. We have had five previous business cycles that lasted at least four-and-a-half years from one business cycle peak to another. The performance of major indicators, such as GDP, jobs, personal income, consumption, and non-residential investment, has been notably worse over the last four-and-a-half years than the average of the previous five business cycles (see chart on page 10).

GDP has grown at an average rate of 2.6% since early 2001, more than a percentage point slower than  
*(continued on page 10)*

### Inside this issue

- 2 Institute economists cover family budgets, tort reform, and education.
- 3 EPI responds to Hurricane Katrina; Black policy makers address recovery efforts.
- 6 New books from EPI on education, jobs, retirement, and tax reform.

# EPI JOURNAL

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## New report online and calculator measure real income needs for working families

The Economic Policy Institute released *Basic Family Budgets*, by EPI economist Sylvia Allegretto, in September. The briefing paper, accompanied by an online calculator, measures the actual costs that families of various sizes need to secure safe and decent living standards in over 400 communities in the United States.

The report and calculator allow easy comparisons between urban and rural

costs and costs between family sizes and configurations. More than two out of 10 families headed by a full-time, full-year worker fall below basic family budget levels. Generally, households headed by single parents rarely attain income above basic family budget thresholds. Just 40.1%, 26.3%, and 7.5% of single-parent families with one, two, or three children, respectively, have enough income to meet their basic needs.

“The basic family budget reflects the real-world variations in housing and other costs for a wide range of urban and rural areas, and for different sizes of families,” said EPI economist Sylvia Allegretto. “The calculator reveals significant shares of families with incomes that fall below what is needed to maintain a modest living standard.” To access the calculator, visit [www.epi.org](http://www.epi.org).

## EPI weighs in on tort reform system at Loyola Law School symposium

EPI Vice President Ross Eisenbrey was a panelist at a symposium on September 30 on the costs of the U.S. tort law system. Sponsored by Loyola Law School in Los Angeles, the two-day symposium brought together legal scholars, political scientists, insurance executives, and other experts to discuss the costs of access to civil justice.

Eisenbrey presented findings from a paper he wrote with Lawrence Chimerine entitled, *The Frivolous Case for Tort Law Change*. In the paper, the authors refute the notion that there is a “tort crisis” facing



EPI Vice President Ross Eisenbrey (seated, left) attends tort reform symposium at Loyola Law School in September.

the nation, noting that tort filings per capita and in absolute numbers have been falling for more than a decade, and tort costs as a share of GDP are no higher than they were 15 years ago. Eisenbrey also cited the huge

benefits in patient safety generated by the anesthesiologists and their professional society in response to the threat of tort lawsuits as the rate of fatalities from anesthesia is one-fifth what it was 25 years ago.

# EPI responds to Hurricane Katrina disaster relief

On September 8, 11 days after Hurricane Katrina smashed the Gulf Coast, President Bush added a new burden to the misery of the victims—he suspended the Davis-Bacon prevailing wage law and gave construction companies the right to pay substandard wages on the Katrina rebuilding contracts. EPI responded immediately. By the end of the day, EPI economist Jared Bernstein and EPI Vice President Ross Eisenbrey had worked with the *New York Times* staff on an editorial that appeared two days later, excoriating the president’s action as “A Shameful Proclamation.”

Together with analysts from several other think tanks, Bernstein and Eisenbrey issued a policy memo that set out the principles for an effective and equitable reconstruction effort, including the need to maintain prevailing wages in the Gulf Coast communities. The memo was distributed on Capitol Hill and reported in the press.

Bernstein, Eisenbrey, and EPI senior fellow William Spriggs all made appearances on radio over the ensuing weeks, explaining to audiences around the country that Bush’s suspension of the Davis-Bacon Act would hurt working people, slow the recovery, encourage the use of undocumented

laborers from outside the damaged communities, and fail to save the federal government any money, given that contractors were not required to lower their prices to account for lower labor costs.

On September 28, EPI published an *Economic Snapshot* that revealed how low prevailing wages already were in Louisiana and Mississippi and how unfair it was for Bush to encourage federal contractors to pay even lower wages. Some of the established prevailing wage rates were below the poverty threshold for a family of three, and virtually all were well below national averages.

On October 6, EPI published a Briefing Paper by University of Utah Professor Peter Philips entitled *Lessons for Post-Katrina Construction*. Philips documented how efficiently and cost-effectively the Los Angeles highways were rebuilt after the Northridge earthquake in 1994, when President Clinton refused to suspend the Davis-Bacon Act. The report demolished the argument that Davis-Bacon in

any way impedes the post-Katrina recovery.

On November 3, the president issued a proclamation revoking the suspension of the law.

## IN THE NEWS...

“We’ve wiped out the opportunity for half a million people to work right away and some of those people have moved to other parts of the country. They will be looking for jobs, but there won’t be more jobs being created in those places.”

—EPI RESEARCH DIRECTOR LEE PRICE,  
COMMENTS ON THE EFFECTS OF HURRICANE KATRINA  
INTERVIEW ON CNN WITH LOU DOBBS, SEPT. 13, 2005



## BLACK POLICY MAKERS AND SOCIAL SCIENTISTS ADDRESS GULF COAST RECOVERY EFFORTS

Frustrated at how the Bush Administration’s post-Katrina rebuilding process seemed to be excluding many working poor and African American Gulf Coast residents, EPI senior fellow William Spriggs assembled a group of national black policy makers and social scientists who drafted a more inclusive plan for rebuilding the Gulf.

The half-dozen authors—many of whom had direct ties to the Gulf region—attended a Capitol Hill briefing and participated in a conference call to alert the public of their nonpartisan plan. It suggests ways money already allocated for relief can be spent without using extra money. At the October 26 briefing, Spriggs warned that such Bush solutions as business tax incentives won’t solve the problems there. “Tax relief on its own won’t do it because it doesn’t let a

lot of players in on the planning process,” he said.

The group called for, among other things, relief funds that expand anti-poverty programs and replenish exhausted unemployment benefits; affordable housing; job placement assistance, tuition-free training and higher education; full participation of minority-owned firms in restoration; and a commission on racial inequality.

Along with U.S. Rep. Bennie Thompson (D-Miss.), the authors included officers with the National Organization of Minority Architects; Association of Black Sociologists; the Black and Urban Planning Division of the American Planners Association; National Association of Black Social Workers; and National Forum for Black Public Administrators.

**EPI FOCUSES ON EDUCATION AND WORKER SKILLS**

Education program publications in 2005 focused on two major debates. One is the impact of charter schools, particularly on low-income minority students. The other is whether inadequate school performance and skill development is damaging the economy and workers' ability to earn decent wages.

EPI's book, *The Charter School Dust-Up: Examining the Evidence on Enrollment and Achievement* by Martin Carnoy, Rebecca Jacobsen, Lawrence Mishel, and Richard Rothstein, examines the available evidence on charter schools and finds that typical charter school students are not more disadvantaged than students in public schools in the same locations.

school bureaucracy and teacher union contracts were major obstacles impeding student achievement—has been found wanting.

EPI's book, *Worker Skills and Job Requirements*, by Michael Handel of Northeastern University, provides an overview of the skills mismatch debate, reviews research on skill levels, and scrutinizes trends in the skills workers possess, the skills employers demand, and the evidence for a mismatch between the two.

The study finds that charter schools are not held more accountable than public schools, that there are many charter schools that are low-performing, and that there is little evidence that competition from charter schools has led to improvements in other public schools. The authors conclude that the original theory behind charter schools—that

In coming months look for new EPI research that builds on recent, important EPI studies on teacher compensation, teacher quality, and the returns on investments in early childhood education.

**IN THE NEWS...**

“Proponents of charter schools have a deregulationist view of education that says the marketplace leads to better schools. The facts suggest that this view is without merit.

— EPI PRESIDENT LAWRENCE MISHEL  
 BOSTON GLOBE OP-ED, MARCH 30, 2005



## GPN works on research projects, partners with ORIT

The Global Policy Network (GPN) began 2005 implementing the Ford Foundation-funded Workforce Development Study, a project examining the factors that destroy or create good jobs.

Phase one of the study saw the publication of *Good Jobs, Bad Jobs, No Jobs: Labor Markets and Informal Work in Egypt, El Salvador, India, Russia, and South Africa*, a collection of studies examining the labor market in each country, with a specific emphasis on the informal economy.

Phase two of the study is looking at all other factors that destroy or create good jobs, such as trade policy, privatization, labor market deregulation, and child labor, among other issues.

A major focus of the year was working with the Hemispheric Labor Organization (ORIT) to develop Labor's Platform for the Americas that was officially presented to the Summit of the Americas in Mar del Plata, Argentina in November. It was officially adopted by the Joint Parliamentary Commission of the Mercosur countries, Argentina, Brazil, Paraguay, and Uruguay. Victor Baez, ORIT's secretary



EPI's International Policy Coordinator Tony Avirgan (seated, second from right) addresses a meeting of trade unionists at the Summit of the Americas in Mar del Plata, Argentina, in November.

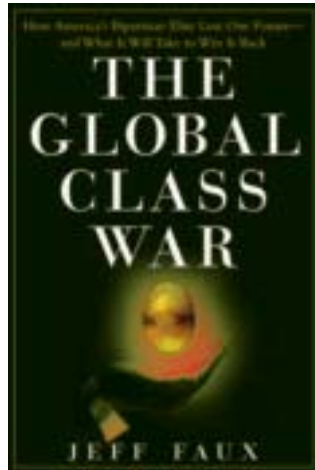
general said that because of GPN's efforts on the platform, “organized labor in the Americas has never been so united.”

This past year also saw GPN members conduct studies of the impact of privatization on jobs and the delivery of goods and services in Bolivia, Bulgaria, El Salvador, South Africa, and Turkey. Visit [www.GPN.org](http://www.GPN.org) for more information.

# EPI founder releases book on the rise of the new global elite and globalization

Anyone who follows the news, even fitfully, can't help but see some disturbing trends. Inequality is growing between the "haves" and the rest of the population. Middle-income families are losing ground even as corporate profits soar. U.S. trade deficits reach ever higher, financed largely by foreign governments. What does it mean? And where will it end?

These are some of the urgent questions that EPI founder Jeff Faux examines in his new book, *The Global Class War*. Faux explores the interconnections between globalization and politics, and traces the rise of a new global elite who identify more with each other than with the middle classes and poor who happen to share their nationality. This elite, and the world economy that made them possible, has undermined the social contract that



had since the New Deal allowed for a sharing of the benefits of market growth.

Faux's analysis leads him to conclude that the average American workers is in for a period of falling living standards, as trade remains seriously out of balance and more good jobs fall victim to off-shoring.

Is there a way out? Faux proposes that the three NAFTA nations could create a new social contract, built on democratic ideals, as a model for cross-border politics and economic integration.

*The Global Class War: How America's Bipartisan Elite Lost Our Future—and What It Will Take to Win It Back*, written by Jeff Faux and published by John Wiley (January 2006).

## EARN group sponsors two conferences in Minn. and Ohio

In the fall of 2005, the Economic Analysis and Research Network (EARN) hosted its eighth annual conference on September 29-October 1 in Cleveland, Ohio, as well as a conference on state minimum wages, held in St. Paul, Minn. on October 26-27.

The annual conference, "Believing in the Future," brought together a record 170 state-level researchers, policy analysts, and advocates along with national experts on a wide range of issues. The conference covered topics such as data analysis, state responses to the health care crisis, national and state economic condi-

tions, and how to better communicate about the role of government in our society.

The Raising State Minimum Wages Conference was a forum to share the experiences of states that have raised their minimum wages above the federal level with advocates, researchers, and organizers from states that have not, with a particular focus on northwestern states. National experts included pollsters, communications experts, and organizers, as well as featured speakers Beth Schulman, author of *The Betrayal of Work: How Low-Wage Jobs Fail 30 Million Americans*, and Zach Pollett, national politi-

### IN THE NEWS...

"Raising the [retirement] age doesn't help older Americans get jobs. If we're going to insist on people working longer ... we have to think there are going to be that many more jobs in the economy to be able to employ people of all ages.

—EPI ECONOMIST ELISE GOULD  
*NEWSDAY (NEW YORK), JULY 9, 2005*



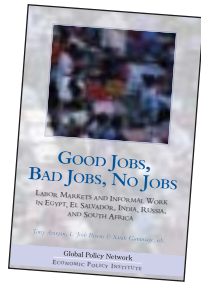
cal director of the Association of Community Organizations for Reform Now (ACORN).

EARN serves as the hub of a collaboration of 47 state and regional groups in 36 states, as well as dozens of national groups. For more information on the state-based EARN initiatives, visit the group's Web site at [www.earncentral.org](http://www.earncentral.org).

# EPI books target education, jobs, retirement

## GOOD JOBS, BAD JOBS, NO JOBS Labor Markets and Informal Work in Egypt, El Salvador, India, Russia, and South Africa

By Tony Avirgan,  
L. Josh Bivens, &  
Sarah Gammage, eds.



not more disadvantaged, yet their average achievement is not higher. This book reviews the existing research and suggests how such debates could be improved in the future.

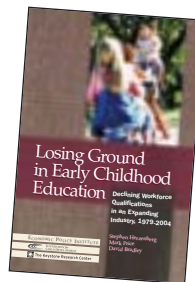
192 pages, ISBN 0-8077-4615-0,  
\$16.95

When workers in developing countries cannot find opportunities in traditional wage employment, they often turn to day labor, street vending, or domestic employment. Unfortunately, this informal employment is often characterized by poor working conditions, low pay, and a lack of basic labor standards. The studies collected in this volume analyze the informal work situation in five countries, outlining trends and a comprehensive response to workforce development issues that could benefit the working poor.

502 pages, ISBN 1-932066-17-9,  
\$17.95

## LOSING GROUND IN EARLY CHILD- HOOD EDUCATION Declining Workforce Quali- fications in an Expanding Indus- try, 1979-2004

By Stephen Herzenberg, Mark  
Price, & David Bradley



There is growing concern about the increasing difficulty of recruiting and retaining experienced and educated workers in the field of early childhood education (ECE). Using new data, this primer co-published by EPI and the Keystone Research Center shows a substantial decline in workforce qualifications for center- and home-based ECE. Both areas of ECE today have workforce education levels well-below those needed to improve long-term academic outcomes for children.

16 pages, ISBN 1-932066-22-5, \$5.00

are not adequate for the demands of jobs in the modern economy. But many simple assumptions regarding skills mismatch in the U.S. labor market do not stand up to closer examination. This EPI book provides an overview of the debate, reviews research on skill levels, and scrutinizes trends in the skills workers possess, the skills employers demand, and the evidence for a mismatch between the two.

94 pages, ISBN 1-932066-16-0,  
\$12.50

## GRADING PLACES

### What Do the Business Climate Rankings Really Tell Us?

By Peter Fisher

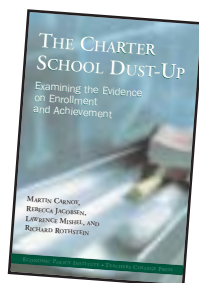


Numerous groups produce “business climate rankings” of states and cities that are widely cited in arguments for changing public policy in order to enhance economic growth. But are these rankings scientific? Do they have biases? Do they work as predictors of economic activity? The major indices analyzed in EPI’s new study have one point of view in common: they all advocate that cities and states should cut taxes, shrink government, and reduce regulations. Find out why none of these “business climate rankings” are of any value in shaping these important policy debates.

94 pages, ISBN 1-932066-21-7,  
\$12.50

## THE CHARTER SCHOOL DUST-UP Examining the Evidence on Enrollment and Achievement

By Martin  
Carnoy, Rebecca Jacobsen,  
Lawrence Mishel, & Richard Rothstein

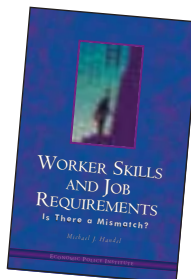


When federal statistics showed test scores lower in charter than in regular schools, some charter school supporters insisted this must result from charter schools enrolling harder-to-teach minority students. Data show, however, that typical charter school students are

## WORKER SKILLS AND JOB REQUIREMENTS

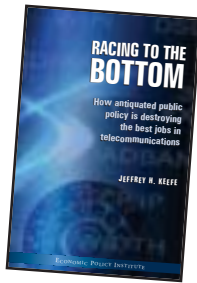
### Is There a Mismatch?

By Michael J. Handel



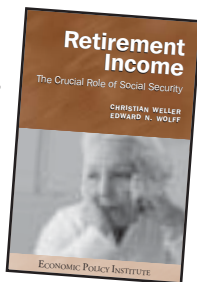
There is a widespread belief that U.S. workers’ education and skills

**RACING TO THE BOTTOM**  
**How Antiquated Public Policy Is Destroying the Best Jobs in Telecommunications**



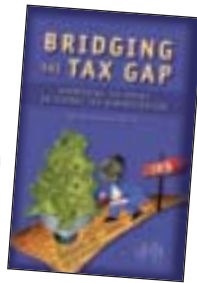
*By Jeffrey H. Keefe*  
 Federal and state telecommunications policies have largely failed to keep up with advances in the industry, with the unintended consequence of supporting the worst employers with favorable tax and regulatory treatment, while greatly disadvantaging good employers and their workers and unions. EPI's book explains why the FCC and Congress need to re-examine these policies and create a level playing field.  
 52 pages, ISBN 1-932066-19-5, \$16.50

**RETIREMENT INCOME**  
**The Crucial Role of Social Security**  
*By Christian Weller and Edward N. Wolff*



This follow-up study to EPI's 2002 *Retirement Insecurity* argues that a truly accurate assessment of Americans' retirement adequacy must consider all forms of wealth, including private pensions, housing, and financial assets in addition to Social Security. This broader analysis shows that Social Security is, in fact, more necessary than ever—not only is the program nearly universal, but its value has risen faster than other forms of retirement savings for households that need additional retirement benefits the most.  
 66 pages, ISBN 1-932066-20-9, \$11.50

**BRIDGING THE TAX GAP**  
**Addressing the Crisis in Federal Tax Administration**



*By Max B. Sawicki, editor*  
 The Internal Revenue Service estimates that about \$350 billion in taxes are not paid voluntarily and on time each year. Only about \$50 billion of that is eventually collected by the IRS. Much of this enormous gap results

from offshore financial manipulations, abusive tax shelters, the complexity of the tax code, and failures to implement basic reporting and withholding procedures. Compounding the compliance problem is the enforcement burden on an inadequately funded IRS. This anthology brings together experts in the field of tax enforcement to provide an accessible overview of the crisis facing federal tax administration.  
 160 pages, ISBN 1-932066-23-3, \$16.95

**BUZZ ON BOOKS**

**CLASS AND SCHOOLS**  
**Using Social, Economic, and Educational Reform to Close the Achievement Gap**

— Winner, Critics' Choice Award 2005 by the American Educational Studies Association.

“This book should be on the reading list of every educator who plays a role in public policy development.”  
 — Teachers College Record

**THE CHARTER SCHOOL DUST-UP**  
**Examining the Evidence on Enrollment and Achievement**

“An up-to-date, sound, and with respect to some central education questions, definitive report for educators, administrators, and policy makers.”  
 — Midwest Book Review

**THE STATE OF WORKING AMERICA 2004/2005**

“This well-written, soundly argued, and important reference book belongs in all libraries.”  
 — Library Journal

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## **TRUTH AND CONSEQUENCES OF OFFSHORING**

### **Recent Studies Overstate the Benefits and Ignore the Costs to American Workers**

*By L. Josh Bivens*

This report examines three studies touting the supposed benefits that will accrue to the U.S. economy through the offshoring of white-collar work, showing how they overstate the case and ignore the likely economic costs to American workers.

*Briefing Paper #155, 17 pages, August 2005*

## **COLLISION COURSE**

### **The Bush Budget and Social Security**

*By Max B. Sawicki*

President Bush's budget for 2006 significantly undermined future funding for programs such as Medicare and Social Security. Far from guaranteeing benefits to current retirees and workers over the age of 55, as the president promised, the administration's budget policies threaten to underfund these crucial programs.

*Briefing Paper #156, 18 pages, March 2005*

## **ADVANTAGE NONE**

### **Re-Examining Hoxby's Finding of Charter School Benefits**

*By Joydeep Roy and Lawrence Mishel*

Widely cited past research on charter schools reported that these students were more likely to be proficient on their state's exams when compared to students in the nearest public school with a similar racial composition. But this past research claiming a "charter advantage" inadequately controlled for differences in racial composition and socioeconomic status. When properly examined, the perceived advantage of charter schools vanishes completely.

*Briefing Paper #158, 33 pages, April 2005*

## **BASIC FAMILY BUDGETS**

### **Working Families' Incomes Often Fail to Meet Living Expenses Around the U.S.**

*By Sylvia A. Allegretto*

Unlike poverty rates, basic family budget measurements account for variations in living standards around the country by calculating the costs for "basic needs" items like food, housing, and transportation. This report updates much of the analysis found in the 2001 EPI study, *Hardships in America*.

*Briefing Paper #165, 10 pages, September 2005*

## **AN OFF-KILTER EXPANSION**

### **Slack Job Market Continues to Hurt Wage Growth**

*By Jared Bernstein and Lee Price*

Despite historically low measured unemployment levels, there was still much slack in the job market in 2005. Data on wages, employment, and the current job deficit portray a labor market that still has a long way to go before it is performing at potential and lifts the fortunes of all working families.

*Briefing Paper #164, 17 pages, September 2005*

## **DO-IT-YOURSELF TAX CUTS**

### **The Crisis in U.S. Tax Enforcement**

*By Max B. Sawicki*

According to the latest estimates, as much as \$353 billion in taxes—16% of the total owed—went unpaid in 2001. Recovery of unpaid taxes would eliminate the bulk of projected federal budget deficits over the next 10 years. This report provides an overview of what a former IRS commissioner calls "the crisis in tax administration" and discusses some remedies.

*Briefing Paper #160, 14 pages, April 2005*

## **THE RISING STAKES OF JOB LOSS**

### **Stubborn Long-Term Joblessness Amid Falling Unemployment Rates**

*By Andrew Stettner and Sylvia A. Allegretto*

In a sharp break from historical precedent, long-term joblessness has stubbornly persisted in this recovery, despite the falling unemployment rates.

*Briefing Paper #162, 13 pages, May 2005*

## **THE FRIVOLOUS CASE FOR TORT LAW CHANGE**

### **Opponents of the Legal System Exaggerate Its Costs, Ignore Its Benefits**

*By Lawrence Chimerine and Ross Eisenbrey*

This report provides a clear understanding of why changing the tort system will have little effect on the economy and might even hurt job creation rather than help it.

*Briefing Paper #157, 20 pages, May 2005*

## **THE PRESIDENT'S TAX REFORM PANEL**

### **Increased Burdens for Working Families, Less Tax for the Wealthiest Americans**

*By Max B. Sawicki*

This report analyzes how the Advisory Panel on Tax Reform's recommendations to President Bush reduce the tax burdens of the wealthy and increase taxes on working families.

*Briefing Paper #169, 10 pages, October 2005*

## **LESSONS FOR POST-KATRINA RECONSTRUCTION**

### **A High-Road vs. Low-Road Recovery**

*By Peter Philips*

In the aftermath of Hurricane Katrina's destruction, politicians could learn much from the resoundingly successful post-earthquake reconstruction of the Southern California freeways in 1994, as this report outlines.

*Briefing Paper #166, 14 pages, October 2005*



## ISSUE BRIEFS

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### PROGNOSIS WORSENS FOR WORKERS' HEALTH CARE Fourth Consecutive Year of Decline in Employer-Provided Insurance Coverage

By *Elise Gould*

Last year's decline in employer-provided insurance coverage represented the fourth consecutive year of disappearing health care for U.S. workers, with nearly 46 million Americans going without health insurance. This report provides an analysis of the trends at the state and national levels.

*Briefing Paper #167, 14 pages, October 2005*

### THE BOOM THAT WASN'T The Economy Has Little to Show for \$860 Billion in Tax Cuts

By *Lee Price*

Since 2001 President Bush and congressional leaders have promised that enacting each of a series of tax cuts would strengthen the economy by bringing faster growth, more jobs, and greater investment. EPI examines a broad range of measures to show how this economy's performance compares poorly to past averages.

*Briefing Paper #168, 14 pages, October 2005*

### WORKER CENTERS Organizing Communities and the Edge of the Dream

By *Janice Fine*

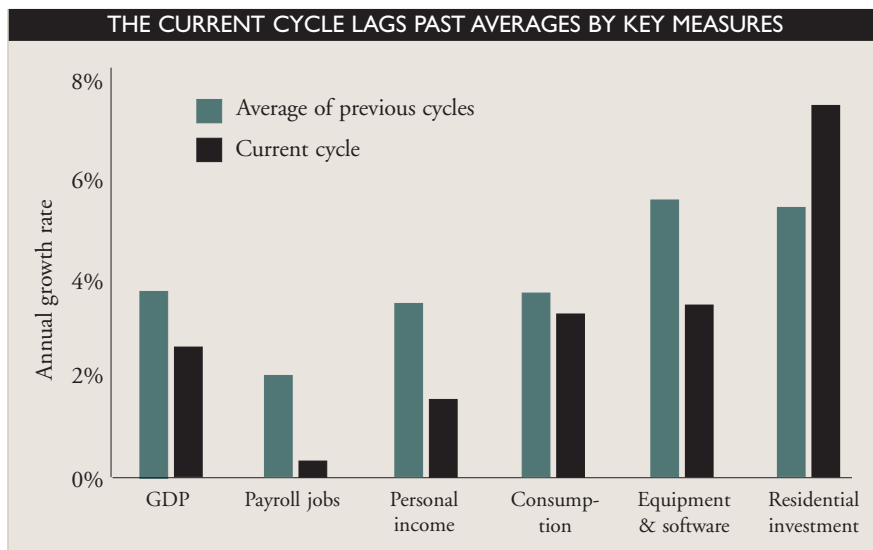
Millions of immigrants in the U.S. workforce face poor pay, bad working conditions, and few prospects to advance to better jobs, while groups that once existed to help them integrate into society have disappeared or declined dramatically. EPI takes a comprehensive look at the recent rise of immigrant worker centers—a fast-growing phenomenon around the country that aims to improve the lives of immigrant workers through advocacy and organizing.

*Briefing Paper #159, 24 pages, April 2005*

# The boom that wasn't (continued from page 1)

the average 3.7% rate of the prior cycles. For three other important measures—payroll jobs, personal income, and non-residential investment (equipment and software)—growth over this cycle has fallen about two percentage points below the average of the past. Unlike past cycles, consumption has grown much faster than personal income because of rapid growth in debt. Because the tax cuts failed to stimulate either investment or employment, it seems difficult to attribute the strong performance of productivity to the tax cuts.

There is one clear instance in which the Bush Administration explicitly projected a concrete benefit that would result from his tax cuts. With jobs still declining for almost two years, the Council of Economic Advisers projected that 4.1 million jobs would be created between mid-2003 and the end of 2004 *without* the 2003 tax cuts, and that 5.5 million jobs would be created *with* the tax cuts (see *JobWatch* below). In fact, Congress enacted even deeper tax cuts than those on which the Bush Administration's estimates were based. Even so, only 2.6 million jobs were



created over that 18-month period. Thus, by the Bush Administration's own analysis, the 2003 tax cuts failed to create more jobs than would have been expected without the tax cuts.

Contrary to proponents of lower tax rates, another measure of employment has also had disappointing results. By 56 months after a business cycle peak, the share of the population employed rose by an average 0.6 percentage points in past cycles, but it has fallen by 1.5 percentage points in this cycle.

Not only have \$860 billion in tax cuts not led to faster than normal growth, but reductions in specific *tax breaks*—housing and business investment—have not impeded economic gains. Changes in tax law since 2001 have worked against the housing sector because lower income tax rates reduce the effective value of deductions for mortgage interest and real estate taxes. For a person with a marginal tax rate of 35%, taking on a mortgage with \$10,000 in interest lowers taxes by \$3,500. Reducing that person's marginal rate to 30% lowers the subsidy for that mortgage to \$3,000. Despite reduced incentives to spend on homes, residential investment has risen from 6.2% to a record 8.5% of personal consumption expenditures. In

fact, as the chart shows, residential investment stands out for expanding 2.1 percentage points faster a year than the average of prior cycles—7.4% versus 5.3%. Obviously the reductions in tax breaks have been more than counterbalanced by other factors since 2001.

The same holds true for the expiration of "bonus depreciation" at the end of 2004. "Bonus depreciation" for business investment was passed in 2002, expanded in 2003, and expired at the end of 2004. It reduced business tax payments by \$62 billion in FY2004. Expiration of the "bonus depreciation" tax break has contributed to higher revenues since then, but had virtually no effect on continued growth of investment. Essentially, businesses got a nice short-term tax break with little evidence of benefit to the economy.

As the Congress debates whether to enact new or extend expiring tax cuts, it should carefully weigh their substantial effects on the already excessive deficit against their insubstantial effects on economic performance. We would enhance the standard of living of most Americans in the future if the tax cuts for those with high income and wealth were allowed to expire.

## JOB WATCH

EPI did a monthly analysis on its JobWatch Web site of the failure of the 2003 tax cuts to deliver the promised benefits. To see the above-mentioned projections by the Council of Economic Advisers, read its "Strengthening America's Economy: The President's Jobs and Growth Proposals," at [www.JobWatch.org](http://www.JobWatch.org).

# Media looks to EPI as source of economic analysis for Katrina, Social Security, and minimum wage

When the media were reporting on the economic effects of the two major hurricanes that hit the Gulf region, EPI was an effective source that was just a phone call or email away. Dozens of radio talk shows had our economists on the line as Katrina, then Rita, unfolded.

In the aftermath, EPI economists continued to be on the air with analysis, especially senior fellow William Spriggs. Spriggs organized a group of leading black social scientists and policy makers to develop guidelines on how to make the reconstruction of storm-ravaged New Orleans truly beneficial for the area's residents.

Social Security, the political third-rail, sparked over 300 media citations as policy battles raged over whether to change or keep the nation's system of survivor and retiree benefits. EPI published over 27 items on this topic over the year. They are all easily accessed through our online *Social Security Issue Guide*.

Although attempts to raise the federal minimum wage have faltered over the past year, several states have passed their own increases, leading to generous media coverage of the work EPI is doing on this issue. Not only local newspapers, but national media outlets—like NPR, CNN, the Associated Press, and Gannett News Service—quote EPI in reports on the minimum wage, as five states over the last year raised their minimum wages above the federal level.

Working with the Economic Analysis and Research Network (EARN), EPI co-released 10 papers over the last year. These state groups are able to articulate the impact these economic issues have at the state level. EPI released its *Basic Family*

*Budgets* briefing paper and online calculator with seven EARN partners. In addition to national coverage through the Associated Press, Scripps Howard News Service, MSNBC, and other national outlets, the report was covered in over 22 states.

Other EPI co-releases with EARN partners included the books *Grading Places* and *Losing Ground in Early Childhood Education*. This year 22 EARN groups published their own state-level *State of Working America* to complement EPI's national release.

Journalists also turn to EPI for analysis of the global economy. From the *New York Times* to the *Financial Times*, from the *South China Morning Post* to Agence France Presse, EPI was widely cited on its analysis of global trade issues and the impact of America's unsustainable trade deficit.

## IN THE NEWS...

“It's not rocket science. We're simply importing far more manufactured goods than we export and our manufacturing sector ... is suffering competitively under these kinds of international pressures.”

— EPI economist Jared Bernstein  
On NPR's *All Things Considered*



Academy Award-nominated director Morgan Spurlock interviews EPI senior fellow Bill Spriggs for his new television series, “30 Days.” This episode of the new series explores what life is like living on minimum wage for 30 days. The concept for the show stemmed from the transformation Spurlock underwent when he ate nothing but fast food for 30 days in his movie *Super Size Me*. The series premiered June 15th on FX.

# TOP 10 REASONS TO SUPPORT EPI

10 You think that people who work should be rewarded with a decent standard of living.

9 You think that the kind of education children get shouldn't be based on how much money their parents earn.

8 You think that cutting wages for residents of New Orleans is not a good way to help them get back on their feet.

7 You think that people who work hard all their lives should have a secure source of funds when they retire. Especially if they've been told to count on it.

6 You think that big companies that violate labor laws should be punished and stopped from doing it again.

5 You think that people who propose giving public money to private schools should have to show why it would help.

4 You think that the minimum wage should, at the very least, lift people who earn it out of poverty.

3 You think that, if we want smart, dedicated people to teach our children, then we should pay salaries that will keep smart, dedicated people in the field.

2 You think that people who protect the health of others should have their own health, and their children's, protected as well.

1 You know that these are the issues that EPI fights for, and wins, every day.

## SUPPORT EPI

EPI operates and relies on the generous contributions of its supporters to respond to the economic issues and emerging opportunities that affect working Americans. We welcome support of our efforts to secure a prosperous, fair, and sustainable economy.

Please use code 0839 to designate your CFC gift to EPI. To find out more about a tax-deductible giving opportunity with EPI, please e-mail Michael Pitch at [mpitch@epi.org](mailto:mpitch@epi.org) or call 202-775-8810.

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