NATIONAL CENTER FOR POLICY ANALYSIS

Fiscal Policy and Economic Recovery

Policy Report No. 322 by Gerald W. Scully June 2009

The Obama administration is committed to using federal spending over the next few years in hopes of turning the economy around. It will be funded by continuous, massive budget deficits. Will deficit spending bring about economic recovery? Will a return to Keynesian economic policy bring us economic prosperity?

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ISBN #1-56808-189-8
www.ncpa.org/pub/st/st315/st315.pdf

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Executive Summary

The $787 billion stimulus bill the president signed into law in March represented a 26.2 percent increase over federal spending in 2008. This does not include the omnibus appropriations bill for the second half of fiscal year 2009, the remaining $350 billion of the Troubled Assets Relief Program (TARP) or any other public monies deemed necessary to aid the recovery effort. The total increase in federal spending from 2008 to 2009 is projected to be the largest percentage increase since the Korean War. The 2009 federal budget deficit is expected to be $1.84 trillion. As a percentage of gross domestic product (GDP), this is the largest budget deficit since the end of World War II.

The effectiveness of fiscal stimulus depends on the "multiplier effect," which holds that an increase in government spending will yield a multiple increase in aggregate spending by the individuals and businesses that receive the money. For its stimulus package, the Obama administration is assuming a multiplier of 1.5. That is, for every $1 of additional government spending, GDP will increase $1.50.

However, an analysis of data on federal outlays and GDP for fiscal years 1947-2007 shows that the multiplier coefficient is 0.46, meaning that a dollar's worth of additional federal government spending yields about 50 cents worth of additional GDP.

Assuming that 75 percent of the $787 billion in stimulus money will be spent in 2009 and 2010, as the Obama administration expects, and that all the monies will stimulate the economy — for example, a dollar's worth of food stamps has the same impact on GDP as a dollar's worth of road construction — the result is:

- The $300 billion in stimulus spending in 2009 will yield about $138 billion or 1 percent of additional GDP.
- This is less than one-fifth of the decline in annual GDP as a result of the recession, most recently estimated to be about $938 billion.

- More realistically, if only half of the monies are spent in 2009 and 2010 and only about half of the spending is stimulative, it will yield $47 billion in additional output, which is roughly 5 percent of the GDP lost in the recession.

If the federal budget deficit is on the order of $1 trillion per year for 2010-2012, as the Obama administration has signaled, the federal debt will total approximately $15 trillion by the end of 2012, and it will more or less equal 100 percent of GDP. The Congressional Budget Office (CBO) asserts that government borrowing to service this debt will tend to reduce the stock of productive capital. In their judgment, the stimulus bill actually will lead to a lower rate of growth in 2012 and subsequent years. After a decade, according to the CBO, national output will be lower than if no stimulus bill had been passed.

A principal justification for the huge fiscal intervention in the economy is to reverse the decline in employment. However, a 1 percentage-point increase in the rate of economic growth is associated with a decline in the unemployment rate of only 0.12 percentage points. Thus, it will take several years of vigorous economic growth to return to a 5 percent unemployment rate. With sluggish growth, it could take many years.

About the Author

Gerald W. Scully (1941–2009) was a senior fellow with the National Center for Policy Analysis and professor emeritus of economics in the School of Management at the University of Texas at Dallas. His articles have appeared in the *American Economic Review*, the *Journal of Political Economy*, the *Journal of Law and Economics*, *Public Choice* and other scholarly journals. Dr. Scully was also an expert on the economics of sports. He wrote or edited a number of books, most recently *The Market Structure of Sports*.

Introduction: The Return of Keynesian Economics

The Obama administration is committed to using federal spending over the next few years in hopes of turning the economy around. It will be funded by continuous, massive budget deficits. Will deficit spending bring about economic recovery? Will a return to Keynesian economic policy bring us economic prosperity?

Fiscal Policy versus Monetary Policy. About the time Richard M. Nixon declared, "We are all Keynesians now," academic economists were abandoning the idea of countercyclical macroeconomic policy as a fundamental tool to stabilize the economy.

A precipitating cause was the discovery that there was no permanent trade-off between the rate of inflation and the unemployment rate. The Phillips curve implied that policy makers could "buy" a permanent reduction in the unemployment rate with an increase in the price level.[1] Milton Friedman, along with Robert Lucas and Edmund Phelps, revolutionized macroeconomic theory by showing that only short-run gains to employment were possible with an increase in the inflation rate.[2] In the long run, successive increases in the price level yield no change in national output and thus no change in the unemployment rate. All that results from expansionary macroeconomic policy is an increase in the price level.

> *"Stimulus spending raises prices, not long-term employment."*

The secondary cause of the abandonment of Keynesian macroeconomics was the growing acceptance of monetary policy as the fundamental tool for macroeconomic stabilization. Milton Friedman, the leading architect of monetarist theory, showed that it was the lack of an adequate supply of money, not inadequate fiscal stimulation that led to the depth and duration of the Great Depression. The monetarists also identified the printing of money as the source of general price inflation. In general, they advocate stabilizing the rate of growth of the money supply as the principal tool for moderating economic busts or booms.

Is there a reason to change directions again and rely more on fiscal policy to combat the current recession? Empirical evidence from past recessions shows that large injections of government spending have not worked.

Aspects of Past Recessions. By virtue of the duration and the depth of the decline in industrial production and employment, the 1974-75 and 1981-82 recessions were the worst of the post-World War II period. Table I shows certain features of these recessions. Both lasted 16 months. Although the government spending response in these two recessions differed somewhat in scale, spending increases were particu-

TABLE I

Features of the 1974–75 and 1981–82 Recession

Year	Change in Spending	Change in GDP	Unemployment	Inflation*
1974	9.7%	8.5%	5.6%	9.0%
1975	23.3%	9.2 %	8.5%	9.4%
1976	11.9%	11.4 %	7.7%	5.8%
1977	10.1%	13.0%	7.1%	6.4%
1981	14.8%	12.2%	7.6%	9.4%
1982	10.0%	4.0%	9.7%	6.1%
1983	8.4%	8.7%	9.6%	4.0%
1984	5.4%	11.2%	7.5%	3.8%

*Note: Measured by the implicit GDP deflator.
Source: Bureau of Economic Analysis and Bureau of Labor Statistics.

larly strong in 1975 and in 1981. The percentage increase in federal spending in 1975 over spending in 1974 was the greatest since the Korean War.

During both the recession and the recovery, gross domestic product (GDP) clearly increased. But Table I shows most of the increase was due to a rising price level, or inflation. Real GDP shrank in 1974 and 1975, but recovered in 1976 and 1977. In the process, the inflation rate in 1974 and 1975 was 9 percent and above.

- Economic growth was positive in 1981 and negative in 1982, but it recovered in 1983 and 1984. Along the way, the inflation rate hit 9.4 percent in 1981.

Despite the resumption of economic growth, unemployment rates remained high throughout these cycles. From its peak of 8.5 percent in 1975, unemployment declined slowly in 1976 and 1977. In the 1981-82 recession, the unemployment rate pushed up toward 10 percent. It remained at or above 7 percent until 1987. [See sidebar "Unemployment and Economic Growth in Past Recessions."]

"Unemployment remains high after recessions."

Stimulus Spending and the Size of Government. The purpose of Keynesian macroeconomic stabilization is to smooth out the business cycle by running a government budget deficit during contractions and a surplus during expansions. Over time, these deficits and surpluses should cancel out and the size of the government should remain unchanged. However, in practice, this is never the case: Government spending may decline slightly as a percentage of GDP, but it doesn't return to the prerecessionary baseline. Although there have been variations in the length of the business cycle, the economy has had 16 years of contraction and 45 years of expansion since 1947. Yet, the federal budget was in surplus in only 12 of those years. As Table II clearly shows, the federal budget was in deficit during nearly all of the economic expansions.

The Obama Stimulus Program

Today, the federal government commonly uses both monetary and fiscal policies in its efforts to restore economic growth and reduce un-

Unemployment and Economic Growth in Past Recessions

A principal justification for the huge fiscal intervention in the economy is to reverse the decline in employment. However, during past recessions, after it peaked, unemployment was slow to decline, even after economic growth resumed. Declining unemployment and positive annual economic growth (adjusted for inflation) characterized the five vigorous expansionary periods since the 1960s. Each lasted 5 to 10 years and [see Table II]:[3]

- The unemployment rate declined from 6.7 percent in 1961 to 3.5 percent in 1969, but it dropped below 5 percent only after 3 to 4 years of significant economic growth.
- Over the entire expansionary period, the average rate of real growth in GDP was 4.7 percent, due to increased military spending for the Vietnam War.
- The unemployment rate also averaged 4.7 percent.

Unemployment remained relatively high during the recoveries from the severe recessions of 1974-75 and 1981-82, averaging about 7 percent. This is partly due to the fact that economic growth was not very vigorous. On the other hand, the 10-year expansion that began in March 1991 lowered the unemployment rate to 5 percent by 1997. Unemployment remained low through 2000. The GDP growth rate averaged 3.7 percent, similar to the 1975-79 recovery.

employment. This is the case with the current recession. Congress passed a massive fiscal stimulus program that was signed into law by President Obama on March 11, 2009. The administration expects this spending program to increase consumption and investment, leading to increases in employment. The president claimed that unless a massive fiscal stimulus is undertaken for 2009, 2010 and beyond, the economy is heading for catastrophe. Declaring the current crisis as the worst in modern times, the administration called for an $800 billion stimulus. Congress settled on a $787 billion plan.

Monetary Actions. Since the financial meltdown in 2008, the Federal Reserve has aggressively sought to encourage more lending by increasing liquidity in the market and lowering interest rates. By the end of the year, the Federal Reserve had injected a trillion dollars of additional funds into the economy. The interbank lending rate, the interest rate at which banks loan funds to each other, was pushed down to nearly zero. In order to halt the slide in output and having exhausted the customary tools of monetary policy, the Federal Reserve and the Treasury turned to the partial nationalization of more than 200 banks by injecting public capital — the $700 billion Troubled Assets Relief Program (TARP).

However, these efforts have had limited success in loosening the financial and credit markets. Many prominent observers of the current economic crisis, such as former Federal Reserve Board Chairman Paul Volcker, believe that much more public money will have to be injected into the financial sector before lending returns to prerecessionary levels. Under the Treasury Department's plan, the administration is committed to pouring $2.5 trillion into the financial system.

Deficit Spending. In 2008, the federal government spent approximately $3 trillion, including the first $350 billion of TARP funds under the Bush administration. The

TABLE II

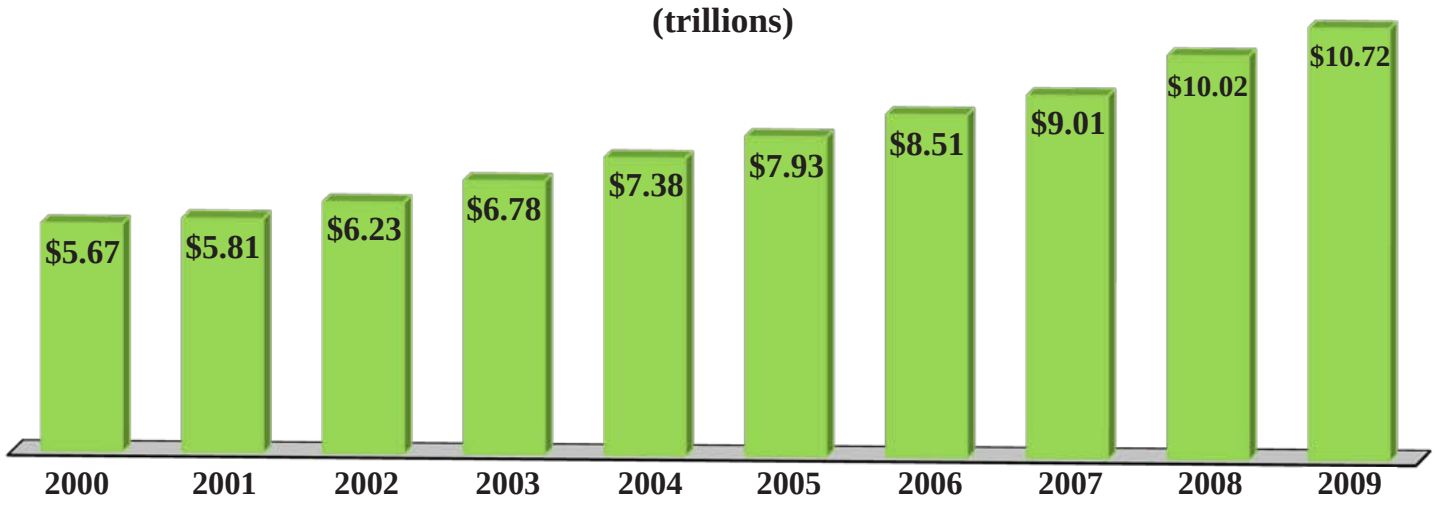
Unemployment, Economic Growth and Deficits During Expansion

Year	Unemployment Rate	Real Growth Rate	Budget Deficit/Surplus (+/-) as a Percent of GDP
Trough of 2/61 to Peak of 12/69			
1961	6.7	2.3	-0.6
1962	5.5	6.1	-1.3
1963	5.7	4.4	-0.8
1964	5.2	5.8	-0.9
1965	4.5	6.4	-0.2
1966	3.8	6.5	-0.5
1967	3.8	2.5	-1.1
1968	3.6	4.8	-2.9
1969	3.5	3.1	0.3
Average	4.7	4.7	-0.9
Trough of 3/75 to Peak of 1/80			
1975	8.5	-0.2	-3.4
1976	7.7	5.3	-4.2
1977	7.1	4.6	-2.7
1978	6.1	5.6	-2.7
1979	5.8	3.2	-1.6
Average	7.0	3.7	-2.9
Trough of 11/82 to Peak of 6/90			
1983	9.6	4.5	-6.0
1984	7.5	7.2	-4.8
1985	7.2	4.1	-5.1
1986	7.0	3.5	-5.0
1987	6.2	3.4	-3.2
1988	5.5	4.1	-3.1
1989	5.3	3.5	-2.8
Average	6.9	4.3	-4.3
Trough of 3/91 to Peak of 3/2001			
1992	7.5	3.3	-4.7
1993	6.9	2.7	-3.9
1994	6.1	4.0	-2.9
1995	5.6	2.5	-2.2
1996	5.4	3.7	-1.4
1997	4.9	4.5	-0.3
1998	4.5	4.2	0.8
1999	4.2	4.5	1.4
2000	4.0	3.7	2.4
Average	5.5	3.7	-1.2
Trough of 11/2001 to Peak of 12/2007			
2002	5.8	1.6	-1.5
2003	6.0	2.5	-3.5
2004	5.5	3.6	-3.6
2005	5.1	3.1	-2.6
2006	4.6	2.9	-1.9
2007	4.6	2.0	-1.2
Average	5.3	2.6	-2.4

Source: National Bureau of Economic Research.

FIGURE I

Federal Debt by Fiscal Year
(trillions)



Source: United States Treasury.

Obama administration's stimulus bill of $787 billion represents a 26.2 percent increase over federal spending in 2008. This does not include the omnibus appropriations bill for the second half of fiscal year 2009, the remaining $350 billion of TARP or any other public monies deemed necessary to aid the recovery effort. Including these other expenditures, the increase in total spending over 2008 will be 34 percent — the largest increase since the Korean War. As a result of increased spending:

- The budget deficit for the fiscal year ended September 30, 2008, was $455 billion.
- Adding in the remaining TARP funds and other spending, the 2009 federal budget deficit is expected to be $1.84 trillion.[4]
- This will bring the 2009 budget deficit to about 12.5 percent of GDP, the largest since the end of World War II.

Federal Debt. From the end of fiscal year 2000 to February 5, 2009, outstanding total federal debt ballooned from $5.67 trillion to $10.72 trillion, or about 75 percent of GDP. [See Figure I.] The Bush administration added $4.35 trillion to public debt for a compound growth rate for federal debt of 7.5 percent. If the federal budget deficit is on the order of $1 trillion per year for 2010-2012, as the Obama administration has signaled, the federal debt will total approximately $15 trillion by the end of 2012, and it will more or less equal 100 percent of GDP.

Why Deficit Spending Will Not Revive the Economy

Technical and political difficulties make fiscal policy, at best, a crude instrument of macroeconomic stabilization. Experience from every recession since World War II suggests that most of the stimulus funds will be spent after a recovery is underway. Because the stimulus spending is financed by increased government debt, the government borrowing necessary to service that debt will compete with the private sector for capital. This "crowd-out effect" could slow the recovery. Moreover, there is little evidence that increased government spending will expand real economic output.

The Impossibility of Accurate Timing. First, it is difficult to know precisely when the economy is contracting. For example, it was not until January 2009 that economists definitively recognized that the peak of the business cycle had occurred in December 2008. Second, the president and Congress must agree on a tax and spending program to stimulate the economy, a process that takes time. Finally, stimulus spending takes time to impact the real economy. The typical post-World War II contraction lasted 10 months. Because of the time lag, most stimulus spending will occur after an economic recovery has

begun, and thus does not contribute to a recovery.

Crowd-out Effect. Another consequence of the administration's spending programs is that government borrowing may crowd out the very private investment and increased consumption necessary for the next expansion. As the government issues bonds, and the public purchases them, this money is not available for private loans. The supply of loanable funds decreases, thus producing a crowd-out effect.

Assuming the demand for loans is initially unchanged, the interest rate (the cost of borrowing) must increase. Higher interest rates choke off private investment and retard consumption.

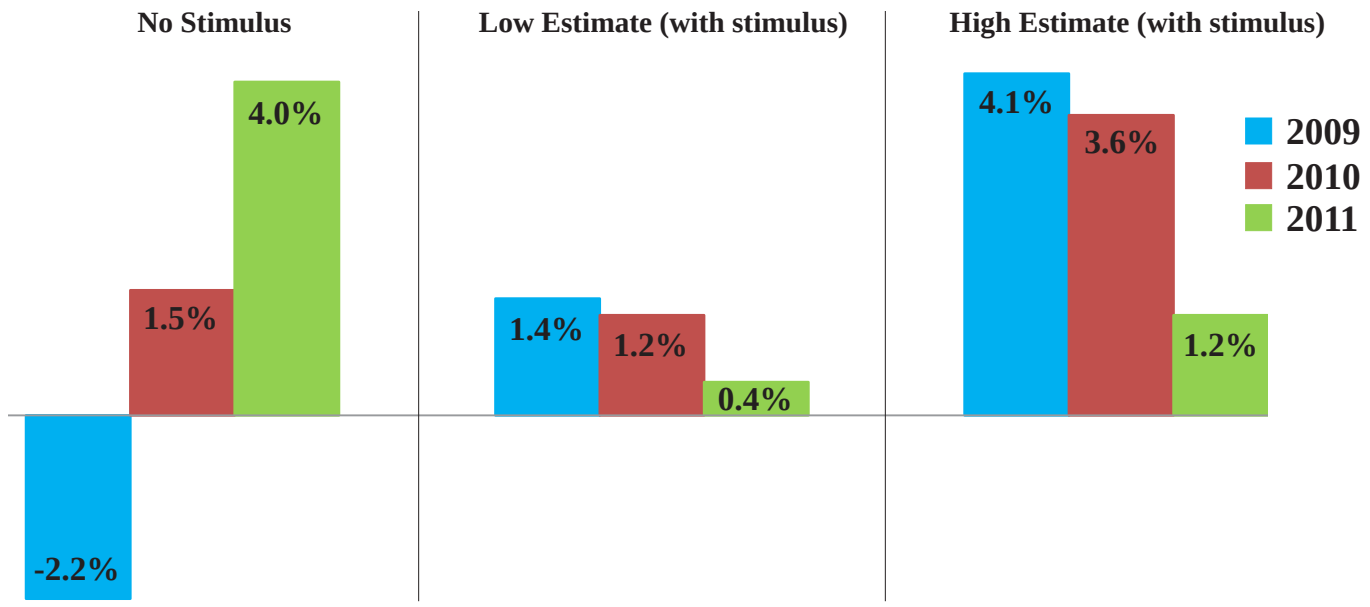
The Congressional Budget Office (CBO) recognizes the crowd-out effect of the deficit-financed stimulus plan. The CBO asserts that the increased government debt and the borrowing needed to service that debt will tend to reduce the stock of productive capital. In their judgment, within a decade the stimulus bill actually will lead to a lower GDP than if no stimulus bill had been passed.[5] [See Figure II.]

> *"Borrowing to finance government deficits crowds out private investment."*

The Multiplier Effect. Classical economics proved impotent in devising macroeconomic policies to combat the very large contraction in economic output that began in 1929. John Maynard Keynes argued that wages and prices were not flexible as the classic economists claimed and that the economy was not self-correcting.[6] He identified reduced aggregate demand as the source of economic contractions and argued for government fiscal intervention to stimulate a recovery. While the federal budget was in deficit during the 1930s, an aggressive spending program was not adopted in the United States

FIGURE II

Estimated Growth in Annual Gross Domestic Product with and without Economic Stimulus Spending



Source: Letter by Douglas W. Elmendorf, Director, Congressional Budget Office to Honorable Judd Gregg, United States Senate, dated February 4, 2009; and Congressional Budget Office and Statement of Douglas W. Elmendorf, Director, Congressional Budget Office, "The State of the Economy and Issues in Developing an Effective Policy Response," January 27, 2009.

during the Great Depression. It was not until after World War II that Keynesian macroeconomics became accepted in this country. Specifically, the Full Employment Act of 1946 commits the federal government to undertaking policies that will contribute to economic stabilization.

A primary feature of Keynesian macroeconomic theory is the "multiplier effect," which holds that an increase in government spending will yield a multiple increase in aggregate spending by the individuals and businesses that receive the money. Consumption, investment and employment all increase, raising aggregate demand as the money is passed on to the next group of individuals and businesses, and so on.

For its stimulus package, the Obama administration is assuming a multiplier of 1.5. That is, for every $1 of additional government spending, GDP will increase $1.50. This multiplier value has no basis in fact.

The Multiplier Effect through 2007. In order to test the effect of government spending programs on economic growth, data on federal outlays and GDP for fiscal years 1947 to 2007 in were analyzed for the effect of fiscal spending on output.[7] [For details, see the Appendix.] The results are that the multiplier coefficient is 0.46, meaning that a dollar's worth of additional federal government spending yields about 50 cents worth of additional GDP.[8]

Thus, the data show that the federal government spending has a multiplier effect about one-third as large as the Obama administration's original assumption. A dollar of additional government spending won't significantly increase GDP, but it will add to the debt of future generations.

The Effect of the Current Stimulus Program. Using the estimated multiplier (0.46), the impact of the Obama administration's stimulus package on GDP can be determined. The Obama administration expects that 75 percent of the money will be spent in 2009 and 2010. Assuming that all the monies will stimulate the economy — for example, a dollar's worth of food stamps has the same impact on GDP as a dollar's worth of road construction — the result is:

> *"A dollar of additional federal spending raises output by about 50 cents."*

- The $300 billion in stimulus spending in 2009 will yield about $138 billion or 1 percent of additional GDP.
- This is much less than the decline in annual GDP reported in March 2009, estimated to be about $938 billion.
- More realistically, if only half of the monies are spent in 2009 and 2010 and only about half of the spending is stimulative, it will yield $47 billion in additional output, which is roughly 5 percent of the GDP lost in the recession.

Unemployment during the Current Recession. The Obama administration expects its massive federal spending program will increase consumption and investment, leading to increases in employment. As of March 2009, the unemployment rate was 8.5 percent, the highest since 1983. The Obama administration and its economic spokesmen have stated that a rise in employment will take considerable time, which can provide a reason for further deficit spending beyond the stimulus package. Experience shows that a return to an unemployment rate on the order of 5 percent (the normal, or natural rate of unemployment) occurs gradually.

A more precise estimate of the relationship between past returns to positive economic growth rates and falling unemployment rates was obtained from regression analysis using data on the real growth rate of GDP and the unemployment rate over the period 1947 to 2007. [See Appendix for details.] The results indicate that a 1 percentage-point increase in the rate of economic growth is associated with a 0.12 percentage-point decline in the unemployment rate. Thus, it will take several years of vigorous economic growth to return to a 5 percent unemployment rate. With sluggish growth, it could take many years.

Conclusion

The estimated effect of the stimulus program on the current recession falls short of the assumptions made by the Obama administration. Experience also suggests that increased deficit spending combined with the Federal Reserve's "pump priming" will lead eventually to price inflation and slower economic growth.

Appendix

Two statistical problems arise in estimating the relationship between federal government spending and GDP. First, both series contain trend, which brings the prospect of spurious regression due to common trend. Second, both series contain cycles, which means that the errors cannot be normal. The standard solution to these problems is to include a trend variable and to estimate the relationship with a correction for autocorrelated errors. Regression analysis of government spending on GDP (Ln GDP) produced the following coefficients and standard errors (in parentheses):

$$\text{Ln GDP} = \underset{(0.23)}{5.07} + \underset{(0.049)}{0.093}\ \text{lnG} + \underset{(0.004)}{0.061}\ \text{Time}, \text{ RSQ(Adj.)} = .99, \text{ DW} = 1.64.$$

The coefficient of government spending (G) on GDP is .093. The coefficient is significantly different from zero in a statistical sense at the .066 confidence level.

Because both series contain business cycles, the disturbances are autocorrelated. Corrected for autocorrelation, the estimated coefficient of the unemployment rate on the growth rate is -0.12.[9] The estimated coefficient is statistically significant.

Using GDP growth and unemployment data from 1947 to 2007, a regression analysis of the effect of GDP growth on unemployment (U) produced the following coefficients and standard errors (in parentheses):

$$U = \underset{(0.51)}{5.80} - \underset{(0.038)}{0.124} g_{RGDP} \qquad \text{RSQ(Adj.)} = .64, \text{ D.W.} = 1.50$$

Corrected for autocorrelation, the estimated coefficient of the unemployment rate on the growth rate is -0.12. The estimated coefficient is statistically significant.

Endnotes

1. A.W.H. Phillips, "The Relation Between Unemployment and the Rate of Change of Money Wages in the United Kingdom, 1861-1957." *Economica,* New Series, Vol. 25, No. 2 (No. 99),1958, pages 283-299.

2. Milton Friedman, "The Role of Monetary Policy," *American Economic Review,* Vol. 28, No. 1, 1968, pages 1-17; R.E. Lucas Jr., "Econometric Testing of the Natural Rate Hypothesis," in O. Eckstein, ed., *The Econometrics of Price Determination* (Washington, D.C.: Federal Reserve System, 1972); E. S. Phelps, "Phillips Curves, Expectations of Inflation and Optimal Employment over Time," *Economica*, New Series, Vol. 34, No. 3 (No. 135), 1967, pages 254-281.

3. This is known as Okun's law: as output falls, unemployment rises.

4. "Treasury Bulletin, March 2009," available at www.fms.treasury.gov and "The President's Budget: Summary of Receipts, Outlays and Surpluses or Deficits," available at http://www.whitehouse.gov/omb/budget/Historicals/.

5. Letter by Douglas W. Elmendorf, Director, Congressional Budget Office, to Honorable Judd Gregg, United States Senate, dated February 4, 2009.

6. Keynes, J.M. *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1936).

7. Data from *Economic Report of the President*, Council of Economic Advisers, P.R. 42.9. Available at http://fraser.stlouisfed.org/publications/ERP/.

8. Regression results showed the actual coefficient to be 0.46, but this was not statistically significant at the 0.05 percent confidence level, which is the commonly used threshold for a finding to be judged significant. A 0.05 confidence level indicates that of repeated samplings of data, 95 percent of the time the true population mean will fall between the estimated parameters calculated in the regression (the coefficient plus/minus the standard deviation). However, the coefficient was statistically significant at the 0.066 confidence level, which is less than the 0.05 confidence level researchers typically use. Thus, there is weak statistical evidence that federal government spending has a multiplier effect about one-third as large as the Obama administration's original assumption.

The NCPA is a nonprofit, nonpartisan organization established in 1983. Its aim is to examine public policies in areas that have a significant impact on the lives of all Americans — retirement, health care, education, taxes, the economy, the environment — and to propose innovative, market-driven solutions. The NCPA seeks to unleash the power of ideas for positive change by identifying, encouraging and aggressively marketing the best scholarly research.

Health Care Policy.

The NCPA is probably best known for developing the concept of Health Savings Accounts (HSAs), previously known as Medical Savings Accounts (MSAs). NCPA President John C. Goodman is widely acknowledged (*Wall Street Journal*, WebMD and the *National Journal*) as the "Father of HSAs." NCPA research, public education and briefings for members of Congress and the White House staff helped lead Congress to approve a pilot MSA program for small businesses and the self-employed in 1996 and to vote in 1997 to allow Medicare beneficiaries to have MSAs. In 2003, as part of Medicare reform, Congress and the President made HSAs available to all nonseniors, potentially revolutionizing the entire health care industry. HSAs now are potentially available to 250 million nonelderly Americans.

The NCPA outlined the concept of using federal tax credits to encourage private health insurance and helped formulate bipartisan proposals in both the Senate and the House. The NCPA and BlueCross BlueShield of Texas developed a plan to use money that federal, state and local governments now spend on indigent health care to help the poor purchase health insurance. The SPN Medicaid Exchange, an initiative of the NCPA for the State Policy Network, is identifying and sharing the best ideas for health care reform with researchers and policymakers in every state.

NCPA President John C. Goodman is called the "Father of HSAs" by *The Wall Street Journal*, WebMD and the *National Journal*.

Taxes & Economic Growth.

The NCPA helped shape the pro-growth approach to tax policy during the 1990s. A package of tax cuts designed by the NCPA and the U.S. Chamber of Commerce in 1991 became the core of the Contract with America in 1994. Three of the five proposals (capital gains tax cut, Roth IRA and eliminating the Social Security earnings penalty) became law. A fourth proposal — rolling back the tax on Social Security benefits — passed the House of Representatives in summer 2002. The NCPA's proposal for an across-the-board tax cut became the centerpiece of President Bush's tax cut proposals.

NCPA research demonstrates the benefits of shifting the tax burden on work and productive investment to consumption. An NCPA study by Boston University economist Laurence Kotlikoff analyzed three versions of a consumption tax: a flat tax, a value-added tax and a national sales tax. Based on this work, Dr. Goodman wrote a full-page editorial for *Forbes* ("A Kinder, Gentler Flat Tax") advocating a version of the flat tax that is both progressive and fair.

A major NCPA study, "Wealth, Inheritance and the Estate Tax," completely undermines the claim by proponents of the estate tax that it prevents the concentration of wealth in the hands of financial dynasties. Actually, the contribution of inheritances to the distribution of wealth in the United States is surprisingly small. Senate Majority Leader Bill Frist (R-TN) and Senator Jon Kyl (R-AZ) distributed a letter to their colleagues about the study. In his letter, Sen. Frist said, "I hope this report will offer you a fresh perspective on the merits of this issue. Now is the time for us to do something about the death tax."

Retirement Reform.

With a grant from the NCPA, economists at Texas A&M University developed a model to evaluate the future of Social Security and Medicare, working under the direction of Thomas R. Saving, who for years was one of two private-sector trustees of Social Security and Medicare.

The NCPA study, "Ten Steps to Baby Boomer Retirement," shows that as 77 million baby boomers begin to retire, the nation's institutions are totally unprepared. Promises made under Social Security, Medicare and Medicaid are completely unfunded. Private sector institutions are not doing better — millions of workers are discovering that their defined benefit pensions are unfunded and that employers are retrenching on post-retirement health care promises.

Pension Reform.

Pension reforms signed into law include ideas to improve 401(k)s developed and proposed by the NCPA and the Brookings Institution. Among the NCPA/Brookings 401(k) reforms are automatic enrollment of employees into companies' 401(k) plans, automatic contribution rate increases so that workers' contributions grow with their wages, and better default investment options for workers who do not make an investment choice.

The NCPA's online Social Security calculator allows visitors to discover their expected taxes and benefits and how much they would have accumulated had their taxes been invested privately.

Environment & Energy.

The NCPA's E-Team is one of the largest collections of energy and environmental policy experts and scientists who believe that sound science, economic prosperity and protecting the environment are compatible. The team seeks to correct misinformation and promote sensible solutions to energy and environment problems. A pathbreaking 2001 NCPA study showed that the costs of the Kyoto agreement to reduce carbon emissions in developed countries would far exceed any benefits.

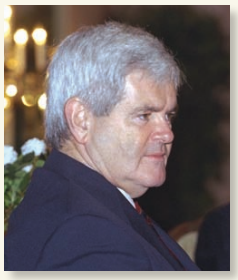
Educating the next generation.

The NCPA's Debate Central is the most comprehensive online site for free information for 400,000 U.S. high school debaters. In 2006, the site drew more than one million hits per month. Debate Central received the prestigious Templeton Freedom Prize for Student Outreach.

Promoting Ideas.

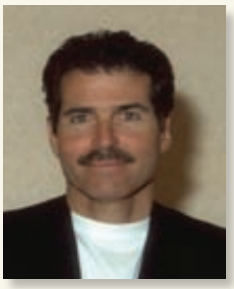
NCPA studies, ideas and experts are quoted frequently in news stories nationwide. Columns written by NCPA scholars appear regularly in national publications such as the *Wall Street Journal*, the *Washington Times*, *USA Today* and many other major-market daily newspapers, as well as on radio talk shows, on television public affairs programs, and in public policy newsletters. According to media figures from Burrelle's, more than 900,000 people daily read or hear about NCPA ideas and activities somewhere in the United States.

What Others Say About the NCPA



"The NCPA generates more analysis per dollar than any think tank in the country. It does an amazingly good job of going out and finding the right things and talking about them in intelligent ways."

Newt Gingrich,
former Speaker of the U.S. House of Representatives



"We know what works. It's what the NCPA talks about: limited government, economic freedom; things like health savings accounts. These things work, allowing people choices.We've seen how this created America."

John Stossel,
co-anchor ABC-TV's *20/20*

"I don't know of any organization in America that produces better ideas with less money than the NCPA."

Phil Gramm,
former U.S. Senator

"Thank you . . . for advocating such radical causes as balanced budgets, limited government and tax reform, and to be able to try and bring power back to the people."

Tommy Thompson,
former Secretary of Health and Human Services

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