

**HEARING ON PRESIDENT'S ECONOMIC GROWTH PROPOSALS**

**SUBMITTED TO:**

**THE HOUSE COMMITTEE ON WAYS AND MEANS**

Submitted by:

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## **Introduction**

My name is Raul Yzaguirre, and I am President of the National Council of La Raza (NCLR). NCLR is a private, nonprofit, nonpartisan organization established in 1968 to reduce poverty and discrimination and improve life opportunities for the nation's Hispanics. NCLR is the largest national Hispanic constituency-based organization, serving all Hispanic nationality groups in all regions of the country through a network of more than 300 affiliate community-based groups.

NCLR established its Economic Mobility Initiative several years ago in an effort to address the economic issues faced by Latino working families. The foundation of this project is to explore the financial and economic security of the nation's Latino families, and to develop and propose clear public policy measures to improve the ability of Latino families to move more successfully into the ranks of the American middle class. With this charge, NCLR has committed itself to focusing on many issues relating to asset accumulation and wealth-building, such as personal savings and investment, retirement security, pension coverage, and homeownership – policy areas shaped and influenced by federal tax policy.

Because of the increasingly influential role of Latino workers and consumers in the U.S. economy as well as the economies of cities and states, Hispanic families have a significant stake in the debate over the Administration's economic growth plan. Latinos maintain over \$580 billion in consumer buying power, account for almost half of the growth in the labor market over the last five years, and make up one in five new U.S. homeowners. The right economic plan must include measures that generate real business activity, create more jobs, avoid serious budget deficits, and directly benefit hardworking American families. Most importantly, in our view any economic plan enacted must reach Latino families to the same degree as other American families, especially the millions working hard to succeed and save for the future. Therefore, I appreciate the opportunity to provide remarks on H.R. 2, the *Jobs and Growth Tax Act of 2003*.

## **Budget and Tax Policy**

From a Latino perspective, the debate over how to restore growth in the U.S. economy has everything to do with status and outlook of the federal budget. For Hispanic families, getting our proverbial "house in order" is a major priority.

In the last two years the nation has gone from budget surpluses and widespread prosperity to huge budget deficits. A \$200 billion plus-deficit is projected for this year alone, and it is expected to soar to \$1.8 trillion in the next ten years.

Over half of states are now facing budget shortfalls forcing many to propose cuts in social programs. Deficits were estimated to be deepest in the three states where nearly three in five Latinos live: California, Texas, and New York.

This comes at a time when workers are most in need of assistance in providing for the housing, nutritional, and health needs of their children. The budget situation also comes at a time when we need greater, not smaller, investments in federal and state programs that guarantee equal

opportunity and ensure that those who work hard and support their families through their own efforts are able to do so.

The existing demands on the budget are serious, not to mention new costs for homeland security and as of yet unknown sums to support war efforts abroad, and the Administration's estimated \$726 billion economic plan is just too expensive. There are more modest and affordable ways to restore growth in the U.S. economy, and a better approach than the initial Administration package would ensure that all hardworking American families directly benefit from any economic plan.

### **Tax Cut on Stock Dividends**

Despite their contributions to the economy, many Latino families do not own stock or participate in any employer-sponsored pension plans, including those that rely on dividend income. In fact, while people with income below \$50,000 account for over 40% of those receiving dividends, they receive only 18.5% of all dividend income. With the average Latino household earning a median income of \$33,565, many would likely receive little or no benefit from the \$396 billion tax cut measure on corporate dividends – the centerpiece of the Administration's proposal. Moreover, experts confirm that this measure would have no simulative impact to the economy in the short term, and while some economic growth over the long term is plausible it could be offset by losses in investments in corporations that do not provide dividends.

Implementing a tax cut on stock dividends may also have the unintended consequence of hurting useful tax credit programs for Latino families, such as the low-income housing tax credit (LITC), which has financed more than 1.5 million homes for low-income families. Latinos have a strong desire to become homebuyers and own a piece of the American Dream. LITC is an important tool for families wishing to own a home and build wealth and therefore, efforts to undermine it, however unintentional, will adversely affect the financial security of many low-income families.

In our view, the upside of this measure is dubious at best, while the downside is clear; it has very little direct positive impact on most low- and moderate- income families including most Hispanic families, it will worsen the nation's budget outlook, and will threaten our nation's commitment to long-term domestic priorities. Congress should drop this measure entirely from its economic plan.

### **Acceleration of Tax Cuts on Individual Income**

Carefully targeted tax benefits can stimulate consumer spending and economic activity while providing important financial relief to families. For example, low-income families, including over one-third of Hispanic households, have benefited greatly from the Earned Income Tax Credit (EITC) and the partially refundable child tax credit (CTC). The combined average EITC and CTC refund for Latino families was estimated at \$2,359 in 2000 and will potentially increase to nearly \$3,600 by the end of the decade. When even a modest portion of this refund is channeled into savings, it potentially results in measurable increases in wealth and financial security for Hispanic families. In 1998 the median Hispanic family maintained 4% of the wealth of the median White non-Hispanic family.

Given the potential benefits for low-income workers, NCLR supports certain provisions in H.R. 2. First, we support the expansion of the 10% income bracket, which will lower the tax liability of low-income workers and put more money in the pockets of those who need it the most to support their families. Second, NCLR has in the past formally supported the elimination of the marriage penalty tax and therefore, we currently support accelerating its repeal ahead of schedule. Finally, NCLR supports increasing the child tax credit from \$600 to \$1,000 per child this year. Tax credits, preferably those that are refundable, are a more effective way of reaching Hispanic working poor families who are deeply impacted by taxes and need assistance to offset the tax burden on their families.

In addition to more tax credits geared toward families, tax rebates to low-income workers with no tax liability are promising features of any economic growth plan. Last year during debate over an economic stimulus proposal, the Administration, along with members of Congress from both parties, supported a tax rebate to workers who did not receive a rebate in 2001. A stimulative effect on the economy would most likely result from rebates to low-income workers because these workers are likely to spend a high proportion of any new income they receive. For this reason, NCLR believes income tax rebates of up to \$300 per person and \$600 per working couple, regardless of tax liability, should be included in the economic growth package.

NCLR will remain supportive of tax measures that benefit low- and moderate- income families. However, most of the benefits conferred in the 2001 tax cut legislation missed the bulk of Latino families, especially those in the lowest tax brackets. The tax cuts were egregiously tilted to benefit the wealthiest Americans, and Hispanic families received very few direct benefits. Furthermore, because many Hispanic working poor families are disproportionately burdened by payroll and sales taxes and do not owe federal income tax, the 2001 tax cuts had no impact on those most in need of relief.

### **Incentives for Small Businesses**

NCLR agrees that under certain economic circumstances, such as when consumer spending is strong, encouraging businesses to increase investment spending or hire more workers can stimulate economic growth. H.R. 2 would increase the amount small businesses would be allowed to expense for the cost of new investments – from the current \$25,000 to \$75,000. But given that businesses primarily base production, investment, and hiring decisions on expected consumer demand rather than tax incentives, it remains unclear how effective this provision would be in the short term. The loss of tax revenue associated with this measure, on the other hand, could have a clear and harmful impact on the budget deficit.

### **Conclusion**

NCLR, on behalf of the nation's 40 million Hispanics, wants to support an economic growth plan that is modest in size and yet sufficient to help workers find new jobs, enhance the ability of families to meet rent and mortgage payments, help workers save, and generate enough spending to stimulate the economy. This means that the economic growth package should provide as much direct benefit and relief to Latino families as to other hardworking American families and should not put the government at great financial risk in the long run. Recent figures from the

Congressional Budget Office, which estimate a \$1.8 trillion deficit in ten years, should create considerable alarm as should the warnings from Federal Reserve Chairman Alan Greenspan that the proposed growth plan may, in fact, have dire consequences for the economy. In addition, economic growth plans must also consider the fiscal conditions in the states. H.R. 2 may have an indirect negative impact on state budgets. Budget deficits are already estimated to be severe in key states where Latinos reside. Because many states tax income and investments based on rules under the federal tax system, the tax cuts included in the proposal may significantly reduce state and local revenues, exacerbating the fiscal situation. Therefore, state funding for key programs may be threatened by additional tax cuts. While this falls outside the scope of H.R. 2, I wish to echo the concerns of several state governors who have called for much-needed federal assistance to meet not only critical needs in education and health care but to pay for infrastructure and homeland security expenses.

Yet, in spite of these serious reservations about H.R. 2, it appears that some in the Administration and Congress would rather force Americans to accept their plan as is rather than work with lawmakers to develop a more affordable, less risky, more equitable growth package. The initial plan costs too much, disproportionately benefits Americans in the highest income brackets, and would lead to record-high budget deficits at a time when there are serious economic demands on the nation, not the least of which is an impending war in Iraq. By working with the President, Congress can develop and enact a more balanced and effective plan. But lawmakers will need to fight hard on behalf of all American families if they are to win the support of Latinos.