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Economic Downturn of 2001-02: Recession-Recovery, the Role of Policy, and Risks

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Economic Downturn of 2001-02:
Recession-Recovery, the Role of Policy, and Risks

by Allen Sinai*

A Dangerous U.S. and Global Recession

In one of the most unusual and dangerous business cycle episodes on record, the U.S. and Global Economy have fallen into Recession—very difficult times for businesses and individuals now and to-come in the U.S. and around-the-world, with a severe business sector downturn, falling profits and increased losses, rising joblessness, less growth of income, increasing pressure through recession-related declines of tax receipts on the budgets of the U.S. Government, states and localities, and those of the G-7, developing, and emerging countries. Global trade is shrinking with travel, tourism, and related activities all suffering around-the-world.

The current U.S. downturn, which began in March, on the surface seems like it might be nearing an end, nine months in length against the 11-month average of nine post-W.W. II recessions, far along chronologically relative to the historical average, but, in the aftermath of a long expansion and then excessive U.S. boom, *functionally* far from the point of recovery, in large part stemming from the unusual nature of the downturn, inability of easier monetary policy to reverse the economic slide, and too little fiscal stimulus.

Most previous recessions generically have come from a fully employed economy with undesirable rises in price and wage inflation, accompanied by excesses and imbalances in housing, real estate and the consumer, Fed-induced sharp increases of interest rates, credit crunches, and sometimes negative External Shocks like the Oil Price Shocks of 1973-75 and 1979-80. Such a generic process has propelled the economy downward, mainly through reductions in housing activity, consumption, inventories and capital spending, areas that later became amenable to easier monetary policy given the initial sources of the downturn.

This downturn has not been typical; indeed, it is the *only* one since W.W. II clearly initiated from the U.S. business sector, which, in 2000, retreated from a boom state to set in motion downwaves for production and inventories, a collapse of capital spending, less jobs creation, then a global slowdown through reduced trade flows and because of the multinational nature of U.S. corporations, and now, last, weakness in consumption and housing.

This downturn started in the U.S. business sector, not the typical place nor from the typical sources of too much inflation, very tight Fed policy, high and rising interest rates, a credit crunch, residential and nonresidential real estate collapses, weakness in business, falling profits, declines in jobs, rises in unemployment, and continuing, but diminishing, negative interactions.

The slide in the U.S. business sector that started the U.S. and global downturns stemmed from a number of reasons, some inherently cyclical, some related to an excessive boom, in some cases "bubble," in technology and telecommunications, and some from higher interest rates. But, *mostly the slowdown came from a diminution of the boom pace of growth in business activity, a slowdown in the growth of profits, disappointment in business expectations, and then a business sector response of cutting-back on production, inventories, capital spending, imports, and people to maintain profits and to maximize shareholder value.*

Cutbacks in production and inventories produced one downcycle. An inventory cycle usually is short-lived. A second downcycle was a downwave and retreat in the growth of capital spending. Capital spending downcycles are usually long-lived. Through trade flows, the "lifeblood" of a global economy, and the multinational nature of U.S. and global business corporations, the "virus" of U.S. business cutbacks spread throughout the world, into our major trading partners Canada and Mexico; to an already recessed Japan, directly and indirectly through increased weakness in a number of Southeast Asian economies heavily exposed to the United States on exports and in technology; then to Germany, a very open economy which lost exports to all the global economy; into France and Italy, heavily exposed to Germany through exports; now the whole Eurozone, Latin America, and the U.K..

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The business sector cutbacks in the U.S. initiated a spreading and cumulative weakness throughout the world, in turn reverberating back to the U.S. through reductions in U.S. exports, adding to the recessionary forces in the U.S. in an unusual way through the new economic dimension of globalization.

With this causal sequence and aggressive reductions of interest rates by the Federal Reserve starting this past January, to stem what, at first, appeared to be just an inventory cycle, consumption and housing expenditures were supported, although less so over time as increased layoffs and unemployment began taking a toll on consumer spending, along with less growth in incomes, worsened household financial positions, diminished confidence, and increased uncertainty over the economy and lost jobs. A Bear Equity Market since March 2000 and less capital gains realizations also have depressed consumer spending. The most positive aspect of the sharply lower interest rates engineered by the Federal Reserve has been a wave of household mortgage refinancing that has reduced mortgage costs and released funds to households for spending, saving, and/or debt reduction off increased asset values of residential real estate collateral. This also constitutes a risk should real estate prices fall for any reason.

Now, the U.S. and global economy are in the heart of an interactive and mutually reinforcing cumulative downturn, made worse by the negative shock waves generated from the September 11th Terrorist Attack and its Aftermath, a recessionary and disinflationary/deflationary External Shock coming on top of the processes already in-place.

The Terrorist External Shock has intensified the U.S. economic downturn through its negative effects on consumption, directly and indirectly on business through interruptions to production and increased security costs, with the latest downward wrench in U.S. economic activity spreading throughout the world to intensify the global recession already in place, much as the first negative demand shock did from the U.S. business sector over a year ago.

This External Shock, like many other External Shocks in U.S. business cycle history, if lasting long enough can become integrated into the cyclical experience, in this case a recessionary force through its impacts on the consumer and on business, the risks and uncertainties that have arisen because of the Event, and the ripple effects out of the U.S. to around-the-world.

Financial markets are quick to react to changes in the risks surrounding the fundamentals of the economy occasioned by External Shocks, but the economy itself reacts slowly. Initially, stock prices fell and so did U.S. interest rates on the prospect of a worse downturn and increased uncertainty around next year's economy and profits. Lately, on the positive strides made in the War Against Terrorism in Afghanistan, stock prices have risen, along with interest rates, on decreased risks and the possibility that an economic recovery may occur soon.

So long as the Terrorist Event remains recessionary for the U.S. and Global Economy, inflation should show a significant disinflation thrust, with some deflation. Declines in crude oil prices are part of this process and so long as they remain significantly lower than before, an offset to the recessionary thrust of the Terrorist Event is provided.

The Terrorist Event, like many other external shocks in business cycle history, e.g., the Gulf War in 1990-91, is serving to deepen, intensify and prolong the downturn, but if it leaves no lingering effects or does not last long, the economy can spring back quickly to its previous position.

However, such does not appear to be the case for the Terrorist Event, where fundamental shifts in consumer and business behavior, occasioned by the need for ongoing security and large increases in costs for security, essentially a tax that weakens economic activity as well as producing an inflationary thrust in costs, also disrupts production and productivity. The increased federal government spending associated with the War Against Terrorism can lift GDP, but very likely will have no lasting positive effect on the supply-side of the U.S. economy; indeed, probably will reduce productivity growth and the potential rate of growth of the U.S. economy.

If the diagnosis for the genesis of the 2001-2002 economic downturn is roughly right, then easier monetary policy, through sharp reductions of interest rates, is unlikely to quickly, or easily, reverse the recession, in the U.S., or globally.

It is well-known that reductions of interest rates alone, even increased availability of credit, are *not* the prime motivator for business sector spending, the area of activity that is undergoing the sharpest downturn.

In such a situation, unusual in U.S. business cycle history, the standard medicine of easier monetary policy cannot work in its normal time span. Such has been the case so far, 11 months since monetary policy began to be aggressively eased in early January.

To the credit of the Federal Reserve, monetary policy was eased aggressively *before* the onset of the Recession, through the contemporary central bank approach of managing the "risks" around economic and inflation prospects. Under such a policy, the central bank need not wait for, nor even expect, nor forecast, a Recession, before taking the appropriate easing, or in the opposite case, tightening decisions.

Thus, *it becomes absolutely essential to employ fiscal policy stimulus, and soon, in this episode,* along with the necessary easier monetary policy, to restart the economy and set into motion forces that can begin and build a cumulative upswing.

The stakes are high in this unique business cycle downturn where *both* the U.S. and global economy are in recession, the worst global economic downturn since 1982.

Since the U.S. started the downturn, it must be the U.S. that will have to be the catalyst to reverse the downturn, to be the engine that gets restarted to reverse the global recession.

Poor economic performance, bad business, and rising unemployment are undesirable in both the U.S. and elsewhere, but even moreso in these times given the historical record of political instability that stems from bad economic times, let alone to be fodder for terrorist activities.

An economic stimulus package totaling $125 billion to $150 billion, in addition to whatever stimulus will be forthcoming from the personal income tax reductions legislated last year, would be appropriate for the next and subsequent fiscal years.

Already, *some $60 billion to $80 billion of government spending stimulus appears committed* over the next year through increased federal government expenditures relating to the War Against Terrorism.

This amount of federal government spending will lift aggregate GDP and growth of real GDP for a time, but have little lasting effect in terms of permanent jobs creation, productive activities in the private sector, rising productivity and the potential growth of the economy. Such is the case in modern economies, unless federal government spending is targeted to enhance productivity and efficiency, perhaps focusing on education, targeted infrastructure, or new technology development.

Additional tax reductions to stimulate the economy would be appropriate, some $60 billion to $70 billion over the next fiscal year to round out the economic policy stimulus.

The main objective should be to stimulate the area of the economy that is currently most depressed, namely the business sector, especially since last year's tax reductions were aimed almost solely at households.

Measures to enhance business capital spending should be favored, including accelerated depreciation, and/or corporate profits tax reductions. Investment tax credits can increase capital spending, but tend to displace future expenditures.

In order to *provide demand-side incentives for business spending and jobs creation*, however, it is necessary to stimulate the sales of business, hence earnings and cash flow.

This can be done through tax reductions for consumers, in order to raise the growth in consumption spending that has markedly diminished and is next in-line for recession-like behavior.

Accelerating the phase-in of the already legislative marginal income tax rate reductions would be stimulative and appropriate, particularly for middle- to low-income taxpayers. Accelerating the phase-in of legislated reductions in higher income tax brackets is more a long-run stimulus than short-run, so that a quicker phase-in of income tax reductions from the 27% to 25% bracket and through increasing the number of households eligible for the new 10% bracket should be favored.

One advantage of the acceleration of income tax reductions in lower income tax brackets is the permanence of the tax reductions. Permanent tax cuts tend to have more beneficial effects on the economy, short- and long-run, than temporary. Of course, with rising unemployment, increased transfers through extending unemployment benefits, a temporary measure, should be put into place.

The advantage of accelerated depreciation, or even full expensing of certain categories of capital spending, is that it is targeted toward the area of the economy that has tumbled the most and where there is considerable risk of delays in reversing the downturn.

Total fiscal stimulus of around $130 billion to $150 billion, along with $40 billion to $50 billion of tax reductions for individuals coming this year from legislation last year, is essential to assure recovery of the economy in 2002.

Table 3 shows the economic impacts for a policy package of about this size, comprised of increased federal government spending and tax reductions for business and individuals.

Tax policy stimulus aimed at consumers and business is assumed, a step-up in the expensing of equipment write-offs by business and lower income taxes through modest rebates in the first half of next year and an accelerated phase-in of the current 28% tax bracket to 25% ahead of what the legislation scheduled for 2006.

Without it, the U.S. economic recovery would be significantly delayed, perhaps until late next year or early 2003, considerably fewer jobs would be created, and productivity growth and potential output of the economy would be significantly less.

The program adds 0.8 percentage points of real economic growth to the U.S. economy in 2002. Without it, the decline in GDP would be about 1%, a significant recession, with economic recovery put off until 2003.

Given the lags in the reaction of businesses and households to reductions in taxes, it is important to legislate tax reductions soon, before the end of this year, to take effect on January 1, 2002. All tax reductions have more beneficial short- and long-run effects on the economy, both on the demand- and supply-side, if permanent, rather than temporary.

Economic Outlook—U.S. and Global

The current Decision Economics, Inc. forecast is a Recession for the U.S. economy and for the Global Economy, a 48-country aggregate, accounting for nearly 97% of total global GDP.

Tables 1 and 2 present the latest projections.

The worst of the U.S. and global downturn appears in-process now, in the U.S. moderate to severe in the *private* sector, the business sector, for consumers and in trade, but quite mild in terms of overall GDP, a poor measure of the state of the economy during times of recession or boom. GDP is propped by compensating and offsetting movements in net exports to the declines in private sector activity, as imports decline by more than exports fall. Declining trade flows, however, imports and exports, are a sure sign of ill health for a given country's economy and, if widespread throughout the world economy, the case now, is a symptom of major global economic weakness. Also, government spending, federal, state and local, a total near 17% of U.S. GDP, is rising, propping GDP, but is narrowly focused in its private sector economic impact.

The Decision Economics, Inc. expectation is for declines of real GDP in the 1% to 2% range during the current quarter and first quarter of 2002, then a modest positive by next spring, and growth in the 2-1/2% to 3-1/2% range in the second half of next year.

In the private domestic U.S. economy, however, the downturn could well last longer, depending upon how consumers react to lower interest rates, mortgage refinancing, and tax reductions, the propensity to spend of a beleaguered U.S. business sector, the rest-of-the-world economies in relation to U.S. exports, and, in particular, when the deep collapse of business capital spending gets reversed.

For 2001, fourth quarter-over-fourth quarter, real GDP is forecast at –0.2%; over a similar period in 2002, at 1.1%. Full-fledged economic recovery is expected to begin sometime around the middle of next year, extending through the second half, with a strong year in 2003, 3.2% growth, about trend potential growth for the U.S. economy.

This forecast assumes additional reductions of interest rates by the Federal Reserve, to 1-3/4% or perhaps as low as 1-1/2% in the key federal funds rate, with a long period of relatively stable, low interest rates, along with increased funding of private sector activities from financial and other intermediaries.

An economic stimulus package also is assumed in the Decision Economics, Inc. forecast, increased federal government spending of $50 billion to $70 billion over the next-year-so, mainly on defense, and through transfers, the latter including support of the airline and insurance industries, and increased unemployment benefits.

Tax reductions for individuals and business also are assumed, approximately $75 billion, consisting of tax rebates to lower income individuals who did not receive them in 2001, an acceleration in the phase-in of the 28% income bracket to 25%, and a 3-year 30% across-the-board reduction in tax lifetimes for all capital equipment.

Without the stimulus package, the expectation for 2002 on GDP would be lowered to between -0.5% and –1% instead of –0.2%. Fourth quarter-to-fourth quarter, the economy would be expected to grow only about 0.5%.

Viable and sustained economic recovery is forecast in the second half of 2002 and the recession, measured as beginning in March 2001, ends in June 2002, 14 months in length, one of the longest in post-W.W. II history.

Globally, the approximate 1% growth for the Global Economy in calendar years 2001 and 2002 constitutes the worst economic downturn for the global economy since 1981-82.

The dividing line for global recession on the global statistics is +1-1/2%.

One danger in the current recession environment lies in the uncertain nature of the global downturn and its pervasiveness and impacts on the U.S. economy. Most countries that are in recession are not able to aggressively stimulate their economies through fiscal policy, only through monetary policy.

Japan shows an intensifying downturn, with not much improvement next year. Germany is now in recession, likely to remain so for another quarter or two. Canada very probably will recess and Mexico is already now in a recession. Several countries in Southeast Asia also are declining in economic activity. And, Latin America, in the aggregate, is down.

The widespread global nature of the current economic downturn is one of the major risks going forward.

Fiscal Policy and Tax Policy Possibilities

Numerous candidates for tax reductions exist.

An across-the-board reduction of tax lifetimes for all equipment is one possibility. Yet another is to fully expense the 5-year tax lifetime equipment, which consists mainly of “high tech” categories of spending, basically Information Technology (IT) and Software.

The combination of tax measures that increase sales and targeted tax incentives for business to spend on capital goods and/or new technology goes to the heart of where the U.S. economy is currently most damaged.

Tables 4 to 5 present the results for several tax policies to stimulate the economy, 1) personal and corporate capital gains tax reductions, 2) accelerated depreciation, and 3) sizeable reductions in corporate profits taxes. These are meant to be illustrative of the relative impacts, not necessarily specifically programmatic.

Generally, for the long-run, capital gains tax reduction shows up most favorably. But, for various reasons, including the need to stimulate the economy soon, action to reduce capital gains taxes can be postponed to a later time.

Of the various business tax reductions examined, accelerated depreciation shows up favorably in most economic performance dimensions, particularly in terms of “bang-for-a-buck,” i.e., the increase in real GDP per dollar of lost revenue, at least for the programs examined in the Sinai-Boston Macroeconometric Model simulations.

Risks—Pluses and Minuses

The risks around the forecast for the next year are numerous, with a number of pluses and a number of minuses.

Some pluses—

1. certainly, the amount of stimulus, monetary and potentially fiscal, in the "pipeline," which appears to be large.

   Interest rates are at the lowest level since the early 1960s, with short-term interest rates reduced 10 times by the Federal Reserve this year, a total of 475 basis points. Long-term interest rates, particularly mortgage rates, also are lower, by about one-half to one percentage point.

2. an economic stimulus package of tax reductions and increased government spending totaling around $150 billion, including increased government spending for the War Against Terrorism, represents a sizeable 1-1/2% of GDP, one of the more stimulative fiscal packages in history. This stimulus is in doubt, however, with Congress and the Administration not yet having agreed upon a package. *Its presence, in the current unique business cycle downturn, is an important ingredient for economic recovery.*

3. lower crude oil and energy costs, if maintained, should raise purchasing power for consumers and businesses, help offset real income lost through jobs losses and the inability to get new jobs, and to shore up profits.

4. then, there are the funds released for mortgage refinancing, available to spend or to save.

5. the underlying structural fundamentals of the U.S. economy appear sound—higher trend productivity growth than previously, a strongly competitive workforce and management, a pro-growth and pro-business administration.

But, despite all these pluses, the recession has rolled on in the U.S. and global economy for quite some time with no real signs of a turnaround yet.

Some minuses—

1. one is that lower interest rates and easier money do little to stimulate business spending in the U.S. and global economy when it is depressed and when there is considerable overcapacity. Permanently higher sales, earnings, cash flow, and expansion opportunities are necessary for business to spend aggressively.

2. a second is the reliquification of household balance sheets by consumers that is being reflected in a rising personal savings rate, as households use funds released through tax cuts and mortgage refinancing to rebalance the imbalances in household financial positions.

3. yet another impediment to recovery lies in the global downturn, intensifying now in several major regions of the world, such as Japan, Southeast Asia and Germany, and reverberating back to weaken the U.S. economy, prolonging its downturn.

4. The final minus is noneconomic, the Terrorist Event and its Aftermath, along with the uncertainty and risks that Terrorism presents to the U.S. and world economies.

Disruptions to production and increased security costs definitely impede business and prevent businesses from making expansionary decisions.

Households save more and are reluctant to spend in a troubling situation.

A possibility of more terrorist attacks that could disrupt the U.S. or other economies, or an extension of the current War Against Terrorism, is yet other potential negative.

Concluding Perspectives—When Will Recovery Come?

By-and-large, the question as to when the U.S. economy will recover, whether and how much help it needs from policy, lies in answers to two simple questions.

The first is what will make business spend? How long will it take before business begins to produce more, rebuild inventories, and spend for capital goods and for expansion, most importantly, for new hiring?

The second revolves around the consumer and how much of any tax reductions or funds released through mortgage refinancing will be spent and how much will be saved.

Ultimately, every business sector downturn gives way to an upturn; it is simply the inherent internal mechanisms of the business cycle that produce a revival.

Where policy can help, and should do so, is in jump-starting the process of a cumulative upturn.

Once done for the United States, given the leverage of the U.S. economy in the rest-of-the-world, the global economy likely will be helped as well.

Stimulative monetary and fiscal policies also need to be applied in Japan, Asia, and the Eurozone, since the U.S. economy alone, even as a primary engine for growth, will not be able to fully bring about global economic recovery all by itself—it can only start it.

In the best of circumstances, economic recovery could come in the first quarter. This actually is very unlikely.

In the worst of circumstances, economic recovery might not start until 2003, also unlikely, particularly if an economic stimulus package is passed.

Most likely, economic recovery should begin somewhere around the middle of next year, making this recession, the tenth since World War II, one of the longest, almost as long as the 16-month episodes in each of 1973-75 and 1979-80.

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Table 1

U. S. Economic Forecast

November 26, 2001

(Baseline, Most Likely)

	Quarters							Years			
	2000:4	**2001:1**	**2001:2**	**2001:3**	**2001:4**	**2002:1**	**2002:2**	**2000**	**2001**	**2002**	**2003**
Economy											
Gross Dom. Prod. (GDP)											
Bils. Chain 96 $'s	9303.9	9334.5	9341.7	9333.4	9287.7	9252.7	9270.2	9224.0	9324.3	9307.0	9575.9
Ann. % Chg.	1.9	1.3	0.3	-0.4	-1.9	-1.5	0.8	4.1	1.1	-0.2	2.9
% Chg. Yr.-over-Yr.	2.8	2.5	1.2	0.8	-0.2	-0.9	-0.8	2.8	-0.2	1.1	3.2
Consumption	6341.1	6388.5	6428.4	6447.8	6429.2	6419.5	6454.5	6257.8	6423.5	6479.3	6653.6
Ann. % Chg.	3.2	3.0	2.5	1.2	-1.1	-0.6	2.2	4.8	2.6	0.9	2.7
Bus. Fixed Invest.	1374.5	1373.9	1320.9	1279.8	1235.4	1204.5	1181.1	1350.7	1302.5	1191.1	1245.1
Ann. % Chg.	1.0	-0.2	-14.6	-11.9	-13.2	-9.6	-7.6	9.9	-3.6	-8.6	4.5
Res. Const.	365.3	372.9	378.3	380.0	369.1	362.9	359.3	371.4	375.1	360.5	365.5
Inven. Invest.	42.8	-27.1	-38.3	-50.4	-52.4	-49.7	-47.7	50.6	-42.1	-46.8	-35.2
Net Exports	-421.1	-404.5	-406.7	-395.0	-392.5	-388.1	-383.4	-399.1	-399.7	-383.6	-396.5
Fed. Govt.	547.9	552.2	554.7	561.0	580.7	579.5	578.5	545.9	562.2	579.3	593.8
Ann. % Chg.	4.6	3.2	1.8	4.6	14.8	-0.8	-0.7	1.7	3.0	3.1	2.5
State and Local Govt.	1034.3	1050.5	1067.4	1068.4	1076.4	1082.3	1087.1	1026.3	1065.7	1086.7	1109.6
Ann. % Chg.	2.7	6.4	6.6	0.4	3.0	2.2	1.8	3.2	3.8	2.0	2.1
Fed. Bdgt. Surpl.											
Unified (Qtry. Rate, NSA, FY)	-2.3	-22.5	193.7	-41.8	-45.7	-37.2	66.1	236.9	127.2	-76.2	-94.0
Trade Bal., Gds. & Servs. - Bils. $'s	-401.2	-380.1	-355.2	-299.9	-348.8	-348.0	-321.3	-375.7	-346.0	-327.2	-333.9
Vehicles, Housing, Production											
Vehicle Sales (Mils. Units)	16.3	16.9	16.6	16.1	18.0	15.7	14.9	17.2	16.9	15.1	15.4
Autos - Total (Mils. Units)	8.3	8.6	8.4	7.9	8.9	7.6	7.4	8.9	8.5	7.5	7.9
Light Trucks (Mils. Units)	8.0	8.3	8.2	8.2	9.1	8.1	7.5	8.4	8.5	7.6	7.6
Hous. Starts (Mils. Units)	1.539	1.627	1.623	1.597	1.510	1.455	1.447	1.575	1.589	1.478	1.510
Indus. Prod. (1992=1.000)	1.457	1.435	1.413	1.396	1.364	1.351	1.361	1.457	1.402	1.367	1.414
Ann. % Chg.	-2.6	-6.1	-5.9	-4.8	-8.8	-3.7	2.9	4.5	-3.8	-2.5	3.4
Inflation and Wages											
GDP Price Defl. (% Chg.)	1.8	3.3	2.1	2.1	1.5	1.6	1.7	2.3	2.3	1.7	1.9
PCE Price Defl. (% Chg.)	1.9	3.2	1.3	-0.4	-1.8	1.3	1.5	2.7	1.7	0.6	1.4
CPI- All Urban (% Chg.)	2.9	4.2	3.1	0.7	-0.8	1.1	1.3	3.4	2.8	1.0	1.8
PPI-Fin. Goods (% Chg.)	4.1	5.3	1.6	-3.6	-6.0	0.5	0.8	3.7	2.1	-0.8	2.2
Hrly. Comp. (% Chg.)	8.9	5.1	4.8	4.5	5.0	4.9	5.0	6.1	6.1	4.9	5.2
Unemployment Rate (%)	4.0	4.2	4.5	4.8	5.4	5.7	5.9	4.0	4.7	6.0	6.2
Profits, Income, Saving											
Corp. Profs. Aftertax - Bils. $'s	563.0	518.9	510.3	415.0	455.1	428.5	443.2	574.0	474.8	448.7	481.0
% Chg. Yr.-over-Yr.	1.0	-8.6	-12.3	-28.9	-19.2	-17.4	-13.1	9.7	-17.3	-5.5	7.2
Real Disp. Inc. - Bils. 96 $'s	6634.9	6679.0	6719.2	6923.9	6884.5	6940.3	7000.3	6539.2	6801.7	7022.0	7273.9
Ann. % Chg.	4.2	2.7	2.4	12.8	-2.3	3.3	3.5	3.5	4.0	3.2	3.6
Pers. Saving Rate (%)	1.0	1.1	1.1	3.8	3.4	4.3	4.5	1.0	2.3	4.5	5.4
Interest Rates (%)											
Fed. Funds	6.50	5.60	4.19	3.42	2.16	1.78	1.79	6.26	3.84	2.17	3.23
3-Mos. Treas.	6.01	4.90	3.70	3.27	1.96	1.73	1.80	5.83	3.46	2.20	3.39
2-Year Treas.	5.69	4.67	4.17	3.64	2.78	2.65	2.78	6.21	3.82	3.09	3.75
Prime	9.50	8.62	7.26	6.87	5.13	4.75	4.76	9.23	6.97	5.23	6.23
10-Yr. Treas.	5.55	5.04	5.30	4.97	4.67	4.52	4.37	5.99	5.00	4.54	4.77
30-Yr. Treas.	5.68	5.45	5.71	5.52	5.23	4.98	4.80	5.91	5.48	4.95	5.01
New AAA-Equiv. Corp.	7.45	6.68	6.92	6.47	6.27	5.92	5.80	7.49	6.59	6.00	6.39
Bond Buyer	5.47	5.17	5.27	5.10	5.05	4.87	4.74	5.71	5.15	4.92	5.20
Stock Market											
S&P 500	1364.2	1275.2	1233.0	1144.5	1128.3	1205.6	1222.5	1426.5	1195.2	1231.0	1326.2
Ann. % Chg.	-27.1	-23.6	-12.6	-25.8	-5.5	30.4	5.7	7.5	-16.2	3.0	7.7
Div. Yld. - S&P 500 (%)	1.17	1.24	1.27	1.37	1.42	1.45	1.49	1.15	1.33	1.47	1.55
S&P 500 EPS ($'s, Rep.)	9.07	9.18	4.83	10.44	9.14	10.20	10.55	50.00	33.59	42.06	46.88
% Chg. Yr.-over-Yr.	-29.0	-33.2	-64.2	-23.9	0.8	11.1	118.4	3.8	-32.8	25.2	11.4
S&P 500 EPS ($'s, Oper.)	13.11	12.34	11.72	10.80	10.58	10.40	10.75	56.13	45.44	45.15	49.58
% Chg. Yr.-over-Yr.	-4.8	-11.7	-21.2	-23.8	-19.3	-15.7	-8.3	8.6	-19.0	-0.6	9.8
P-E Ratio - S&P 500 (Reported)	37.6	34.7	63.8	27.4	30.9	29.5	29.0	29.3	39.2	29.3	28.4
P-E Ratio - S&P 500 (Operating)	26.0	25.8	26.3	26.5	26.7	29.0	28.4	25.4	26.3	27.4	26.7
Dollar											
Trade-Wted. Exch. Rate (Index)	1.167	1.167	1.208	1.189	1.212	1.247	1.278	1.123	1.194	1.279	1.313
Ann. % Chg.	13.0	0.2	14.9	-6.3	8.0	12.1	10.3	4.0	6.3	7.1	2.7
Yen/$	109.8	118.1	122.6	121.5	122.9	128.2	131.4	107.8	121.3	132.5	134.8
DM/$	2.25	2.12	2.24	2.19	2.21	2.26	2.31	2.12	2.19	2.30	2.36
$/Euro	0.870	0.923	0.874	0.893	0.884	0.866	0.848	0.924	0.893	0.850	0.827
C$/$	1.53	1.53	1.54	1.54	1.59	1.61	1.63	1.49	1.55	1.63	1.65
$/Stg.	1.45	1.46	1.42	1.44	1.43	1.39	1.37	1.52	1.44	1.37	1.35

Decision Economics

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Table 2

World Economic View

November 26, 2001
(Baseline, Most Likely)

	Real Growth (1)§ (Percent Change)				Inflation - Consumer Prices (2)§ (Percent Change)				Unemployment Rate§ (Percent)				Current Account (3)§ (Billions of U.S. Dollars)			
	1999	**2000**	**2001****	**2002****	**1999**	**2000**	**2001****	**2002****	**1999**	**2000**	**2001****	**2002****	**1999**	**2000**	**2001****	**2002****
United States *	**4.1**	**4.1**	**1.1**	**-0.2**	**2.2**	**3.4**	**2.8**	**1.0**	**4.2**	**4.0**	**4.7**	**6.0**	**-324.4**	**-444.7**	**-440.7**	**-421.3**
Canada *	**5.1**	**4.4**	**1.1**	**0.9**	**1.7**	**2.7**	**2.5**	**2.0**	**7.6**	**6.8**	**7.0**	**7.5**	**1.2**	**18.1**	**24.5**	**20.8**
United Kingdom (4) *	**2.1**	**2.9**	**2.2**	**1.4**	**2.3**	**2.1**	**2.2**	**2.0**	**6.0**	**5.5**	**5.1**	**5.4**	**-31.0**	**-27.8**	**-23.5**	**-23.5**
Europe	**2.5**	**3.4**	**1.5**	**0.8**	**1.1**	**2.2**	**2.6**	**1.4**	**10.2**	**9.2**	**8.6**	**9.0**	**54.0**	**9.1**	**4.2**	**-8.7**
France *	3.0	3.4	2.0	1.1	0.6	1.7	1.6	0.7	11.0	9.5	8.9	9.2	37.5	17.8	20.0	17.0
Germany *	1.7	3.2	0.7	0.5	0.6	1.9	2.5	1.3	10.5	9.6	9.3	9.7	-17.9	-18.1	-9.0	-9.0
Italy *	1.6	2.9	1.8	0.5	1.6	2.5	2.8	1.6	11.5	10.6	9.6	9.9	8.1	-5.6	-7.6	-10.0
Switzerland *	1.6	3.0	1.6	0.4	0.8	1.5	1.0	0.2	2.7	2.0	1.8	2.5	28.9	31.5	25.0	21.0
Asia - Pacific																
Japan *	0.8	1.5	-1.2	-0.1	-0.3	-0.6	-0.6	-0.4	4.7	4.7	4.9	5.8	108.3	117.6	81.3	53.5
Australia *	4.7	3.3	2.0	3.5	1.5	4.5	5.0	4.1	7.0	6.3	6.0	6.4	-22.9	-15.4	-8.9	-10.9
New Zealand *	3.8	3.8	4.9	5.1	0.3	3.0	2.2	2.1	6.8	6.0	5.9	6.2	-3.6	-2.7	-2.3	-2.5
Newly Industrialized Countries	**7.0**	**8.4**	**-0.5**	**2.3**	**-0.4**	**0.7**	**2.8**	**2.5**	**4.9**	**3.8**	**4.1**	**4.3**	**64.7**	**50.6**	**50.5**	**48.3**
Korea *	10.9	8.8	2.0	3.3	0.8	2.3	4.5	3.8	6.2	4.1	4.9	5.1	24.5	11.1	16.1	14.6
Taiwan	5.4	6.0	-2.8	0.7	0.2	1.3	2.2	2.0	2.9	3.0	3.2	3.4	8.4	8.9	15.5	14.2
Hong Kong (5)	3.0	10.5	-0.3	2.7	-4.0	-3.5	0.5	1.0	6.1	5.0	4.6	4.9	10.5	8.8	7.6	6.0
Singapore	5.9	9.9	-3.1	2.4	0.0	1.4	2.7	2.3	3.5	3.1	2.8	3.1	21.3	21.8	11.3	13.5
Latin America	0.3	4.4	-0.2	0.3	7.9	5.1	5.1	4.9	7.9	7.7	8.2	6.1	-45.7	-38.7	-41.9	-40.4
Argentina	-3.4	-0.5	-2.3	-3.7	-1.8	-0.7	-1.0	2.8	14.2	15.1	15.4	11.0	-11.9	-9.0	-6.3	-2.7
Brazil	0.8	4.8	0.6	0.7	8.6	4.4	6.6	4.2	7.6	7.1	7.6	5.2	-25.1	-24.6	-24.1	-23.4
Mexico *	3.9	6.9	-1.1	1.8	12.3	9.0	5.7	5.8	2.5	2.2	3.1	2.8	-14.2	-17.5	-16.6	-14.4
Venezuela	-6.2	4.7	2.8	1.5	20.0	13.4	11.8	14.1	14.2	13.0	14.0	14.0	5.5	13.4	7.1	1.6
Chile	-1.1	5.4	2.3	1.6	2.3	4.5	3.7	3.6	9.7	9.2	7.5	5.0	0.0	-1.0	-2.0	-1.5
World	**3.0**	**3.9**	**1.0**	**0.9**	**2.7**	**3.1**	**3.1**	**2.0**	**6.5**	**6.0**	**6.1**	**6.7**	**-122.4**	**-222.2**	**-248.7**	**-303.5**
OECD	**2.9**	**3.6**	**0.8**	**0.5**	**2.4**	**3.1**	**2.9**	**1.7**	**6.4**	**5.9**	**6.1**	**6.8**	**-198.6**	**-333.8**	**-338.4**	**-368.0**
EU	**2.4**	**3.3**	**1.6**	**0.9**	**1.2**	**2.1**	**2.6**	**1.4**	**9.2**	**8.2**	**7.7**	**8.0**	**13.5**	**-31.3**	**-26.5**	**-36.2**
Eurozone	**2.7**	**3.5**	**1.5**	**0.8**	**1.1**	**2.3**	**2.6**	**1.4**	**9.9**	**8.8**	**8.4**	**8.7**	**38.0**	**-5.5**	**-14.8**	**-23.7**
Asia-NICs, Emerging	**6.5**	**7.4**	**3.3**	**4.7**	**0.8**	**1.2**	**2.5**	**2.9**	**4.2**	**3.9**	**3.9**	**3.9**	**114.4**	**102.1**	**93.4**	**87.7**

(1) Real GDP.
(2) Annual averages, except for Latin American countries and Russia, which are percent change, December-over-December.
(3) Hong Kong, balance on goods and services.
(4) Retail Price Index ex-mortgage interest.
(5) Average of high-income and low-income CPI measures.
* OECD countries.
** Forecast.
§ Regional and world totals are weighted averages of countries shown.
§ Current account totals are the sum of the countries shown.
§ Growth and inflation totals include the 7 largest Latin American economies, 11 largest industrializing Asian economies and 14 major European economies.

Table 2 (Cont.)

World Economic View

November 26, 2001
(Baseline, Most Likely)

	Real Growth (1)§ (Percent Change)				Inflation - Consumer Prices (2)§ (Percent Change)				Unemployment Rate§ (Percent)				Current Account§ (Billions of U.S. Dollars)			
	1999	2000	2001**	2002**	1999	2000	2001**	2002**	1999	2000	2001**	2002**	1999	2000	2001**	2002**
Europe																
Spain *	4.1	4.1	2.6	1.5	2.3	3.4	3.7	2.3	15.9	14.1	13.2	13.0	-13.7	-17.4	-16.5	-17.0
Portugal *	3.4	3.4	1.7	1.1	2.3	2.9	4.3	2.4	4.4	4.0	4.0	4.2	-9.6	-10.8	-10.6	-13.3
Netherlands *	3.7	3.5	0.8	0.6	2.2	2.5	4.6	2.2	3.1	2.6	2.1	2.8	15.2	13.6	9.7	10.6
Belgium *	3.0	4.0	1.3	0.1	1.1	2.5	2.4	1.3	11.7	10.9	10.7	10.8	14.8	11.8	8.8	8.2
Austria *	2.8	3.3	0.8	0.2	0.6	2.4	2.6	1.4	6.7	5.8	6.0	6.2	-4.4	-5.1	-4.4	-4.7
Greece *	3.4	4.3	3.5	2.5	1.9	2.8	3.2	2.2	9.9	9.6	9.2	9.5	-5.2	-8.1	-11.7	-11.7
Ireland *	10.8	11.5	6.0	2.0	1.6	5.6	4.8	3.1	5.5	4.1	3.8	4.0	0.3	-0.5	0.5	0.2
Scandinavia	**2.9**	**3.5**	**1.1**	**1.0**	**1.5**	**2.4**	**2.6**	**1.6**	**5.9**	**5.6**	**5.1**	**5.3**	**25.6**	**41.9**	**37.8**	**36.0**
Denmark *	2.1	3.2	1.2	1.1	2.5	2.9	2.3	1.6	5.7	5.4	5.2	5.4	2.9	3.2	5.3	5.0
Sweden *	3.9	3.5	1.6	0.9	0.5	1.0	2.4	1.4	5.6	4.7	3.9	4.2	8.8	6.9	6.5	6.0
Norway *	1.2	2.2	1.0	1.3	2.3	3.1	3.1	2.1	3.2	3.5	3.4	3.5	6.2	23.0	20.0	19.0
Finland *	4.0	5.7	0.0	0.7	1.2	3.4	2.6	1.6	10.2	9.8	9.1	9.4	7.7	8.8	6.0	6.0
Eastern Europe	**-1.4**	**5.9**	**-3.8**	**2.9**	**37.3**	**33.5**	**31.2**	**23.0**	**9.0**	**8.8**	**9.4**	**9.5**	**-16.1**	**-23.5**	**-10.3**	**-11.6**
Poland *	4.1	4.1	0.1	1.4	7.3	10.1	6.4	5.0	12.0	14.0	15.8	15.4	-11.6	-9.9	-5.9	-5.9
Hungary *	4.5	5.2	3.6	3.1	10.1	9.9	9.7	7.9	9.7	9.3	8.5	8.4	-2.1	-1.5	-1.6	-1.7
Czech Republic *	-0.4	2.9	3.2	2.3	2.1	3.9	4.7	4.6	8.6	9.0	8.4	7.9	-1.0	-2.3	-2.3	-2.5
Turkey *	-4.7	7.2	-7.4	3.6	64.9	54.9	52.5	37.4	7.7	6.6	7.1	7.5	-1.4	-9.8	-0.5	-1.5
Russia	**3.0**	**8.3**	**4.9**	**3.9**	**36.6**	**20.1**	**18.0**	**14.2**	**12.6**	**10.4**	**10.7**	**10.5**	**24.1**	**46.2**	**39.5**	**19.6**
Emerging Asia	**6.2**	**6.9**	**5.2**	**5.9**	**1.4**	**1.4**	**2.4**	**3.1**	**4.0**	**3.9**	**3.8**	**3.7**	**49.7**	**51.5**	**42.9**	**39.4**
China	7.1	8.1	7.5	7.6	-1.4	0.3	1.4	2.5	3.1	3.1	2.9	2.9	15.7	20.5	28.9	24.9
India	6.4	5.8	3.4	4.9	3.0	2.8	2.9	3.0	5.6	5.4	5.3	5.3	-2.7	-4.1	-6.1	-6.3
Indonesia	0.8	4.8	2.5	2.9	20.5	3.7	7.3	7.5	4.4	4.2	4.3	4.3	5.8	8.0	7.2	7.5
Malaysia	6.1	8.3	-0.1	2.3	2.7	1.6	2.8	3.3	3.4	2.8	2.5	2.5	12.6	8.4	4.1	2.0
Philippines	3.4	4.0	2.4	3.5	6.6	4.3	6.8	6.5	9.8	11.2	10.8	9.5	5.8	9.3	1.8	2.1
Thailand	4.2	4.4	0.6	1.8	0.3	1.5	2.5	2.7	1.4	1.5	1.6	1.6	12.5	9.4	7.0	9.2
Middle East	**3.1**	**5.4**	**2.3**	**3.4**	**3.4**	**1.8**	**2.8**	**3.1**	**8.9**	**8.8**	**8.3**	**8.7**	**-4.1**	**-2.5**	**-1.2**	**-1.6**
Israel	3.1	6.4	0.9	2.7	5.2	1.1	2.1	2.4	8.9	8.8	8.3	8.7	-3.0	-1.4	-0.3	-0.6
Egypt	3.1	4.4	3.9	4.3	1.6	2.7	3.6	3.8	---	---	---	---	-1.5	-1.2	-1.0	-1.2
Jordan	3.1	3.9	2.1	2.4	0.6	0.7	3.2	3.4	---	---	---	---	0.4	0.1	0.1	0.2
South Africa	**1.9**	**3.1**	**2.3**	**2.2**	**5.2**	**5.3**	**7.0**	**6.9**	---	---	---	---	**-2.2**	**-1.9**	**-0.6**	**-0.6**

(1) Real GDP.
(2) Annual averages, except for Latin American countries and Russia, which are percent change, December-over-December.
§ Regional and world totals are weighted averages of countries shown.
§ Current account totals are the sum of the countries shown.

* OECD countries.
** Forecast.

Table 3

Macroeconomic Effects of Accelerated Depreciation (30 Percent Reduction for Equipment, Temporary),
"Permament" Reduction in the Personal Income Tax Rate to 25 Percent from 28 Percent,
Personal Income Tax Rebate of $14 Billion in 2002 (Temporary -- First and Second Quarters),
$35 Billion Increase in Defense Spending, $10 Billion Increase in Unemployment Insurance
and $5 Billion Loan Guarantee for the Airline Industry*
Changes From Baseline

	2002	2003	2004	2005	2006	Average 2002-06
Real GDP - Level (Bils. '96 $'s)						
(Diff. in Level)	70.6	99.5	105.7	110.9	98.1	97.0
Growth						
Difference	0.8	0.3	0.0	0.0	-0.2	0.2
Business Capital Spending, Total (Bils. '96 $'s)						
(Diff. in Level)	18.1	60.7	83.6	83.6	71.3	63.5
Plant, Base						
(Diff. in Level)	0.5	2.9	5.9	5.7	3.1	3.6
Equipment, Base						
(Diff. in Level)	18.9	61.9	82.8	83.0	73.2	64.0
Consumption (Bils. '96 $'s)						
(Diff. in Level)	36.2	47.9	48.5	50.7	47.1	46.1
Net Exports (Bils. '96 $'s)						
(Diff. in Level)	-14.2	-19.9	-21.5	-22.8	-20.4	-19.8
Inflation (Annual Pct. Chg)						
GDP Chain Price Index						
Difference	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Consumer Price Index (All Urban)						
Difference	-0.0	-0.0	-0.0	0.0	-0.0	-0.0
Household Net Worth (Bils. $'s)						
Difference	75.6	87.4	39.6	105.3	172.7	96.1
Capital Gains Realizations (Bils. $'s)						
Difference	3.2	5.1	4.4	5.5	5.9	4.8
Unemployment Rate (Percent)						
Difference	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2
Employment (Mils. Jobs)						
(Diff. in Level)	0.233	0.388	0.566	0.568	0.419	0.435
Potential Output (Bils. 1996 $'s)						
(Diff. in Level)	41.6	73.0	91.8	118.5	141.0	93.1
Productivity (Annual Pct. Chg.)						
Difference	0.4	0.3	0.1	0.2	0.1	0.2
Labor Force (Annual Pct. Chg.)						
Difference	0.0	0.1	0.1	0.0	0.0	0.0
After-tax Profits (Bils. $'s)						
(Diff. in Level)	-78.0	-70.8	-57.5	-12.5	33.1	-37.1
Real Dispos. Income						
(Diff. in Level)	79.6	75.6	74.3	66.4	53.4	69.9

* Macroeconometric model simulation with the Sinai-Boston Model of the U.S. Economy.
Policy changes effective Jan. 1, 2002.

Table 3 (Cont.)

	2002	2003	2004	2005	2006	Average 2002-06
Nom. Dispos. Income						
(Diff. in Level)	87.3	81.9	80.3	72.6	55.3	75.5
Interest Rates (Percent)						
Federal Funds Rate						
(Diff. in Level)	-0.01	0.11	0.09	0.12	0.10	0.08
90-day Treas. Bill						
(Diff. in Level)	0.09	0.15	0.13	0.15	0.12	0.13
US 10-Year Note						
(Diff. in Level)	0.19	0.34	0.19	0.09	0.00	0.16
AAA-Equiv. Corp. New Issue						
(Diff. in Level)	0.14	0.27	0.12	0.02	-0.06	0.10
Aftertax Weighted Average Cost of Debt & Equity						
(Diff. in Level)	0.02	0.04	0.03	0.03	0.05	0.04
S&P 500 Price Index						
(Pct. Diff. in Level)	1.0	1.1	0.5	0.0	-0.3	0.5
S&P 500 Operating Earnings per Share						
Difference	0.89	1.98	2.19	1.88	1.51	1.69
Exchange Rate Morgan Trade-Weighted Index						
(Pct. Diff. in Level)	0.3	0.8	1.3	0.7	0.6	0.8
Budget Surplus (Unified), FY						
(Diff. in Level)	-90.6	-66.6	-40.8	-19.8	1.6	-43.2
Budget Surplus (NIPA)						
(Diff. in Level)	-98.9	-60.1	-34.3	-13.9	-1.7	-41.8
Personal Savings						
(Diff. in Level)	48.2	30.5	27.2	14.5	1.1	24.3
Business Savings						
(Diff. in Level)	48.4	57.0	53.7	30.7	4.9	39.0
National Savings						
(Diff. in Level)	-4.4	26.9	47.7	35.2	10.0	23.1
Personal Savings Rate						
(Diff. in Level)	0.6	0.3	0.3	0.1	-0.0	0.3

Table 4

Macroeconomic Effects of Tax Policies*

Changes from Baseline

	2002	2003	2004	2005	2006	Avg. 2002-06
GDP Growth (Pct. Pts.)						
Capital Gains Tax Reduction (a)	0.4	0.6	0.3	-0.0	0.0	0.2
Accelerated Depreciation (b)	0.1	0.3	0.2	0.0	0.0	0.1
Corporate Profits Tax Reduction (c)	0.0	0.2	0.3	0.3	0.1	0.2
GDP (Bils. '96$'s)						
Capital Gains Tax Reduction	35.5	92.3	121.2	124.3	128.4	100.3
Accelerated Depreciation	9.0	39.7	64.4	70.2	74.3	51.5
Corporate Profits Tax Reduction	4.4	21.7	52.9	84.6	100.7	52.9
Consumption (Bils. '96$'s)						
Capital Gains Tax Reduction	35.6	68.7	85.4	90.7	99.6	76.0
Accelerated Depreciation	2.9	11.2	20.4	24.3	28.3	17.4
Corporate Profits Tax Reduction	1.3	4.3	13.0	30.4	45.1	18.8
Business Capital Spending (Bils. '96$'s)						
Capital Gains Tax Reduction	11.3	47.2	67.5	65.3	58.0	49.9
Accelerated Depreciation	9.2	39.1	62.4	66.3	65.7	48.5
Corporate Profits Tax Reduction	5.6	27.0	58.8	86.3	94.5	54.4
Net Exports (Bils. '96$'s)						
Capital Gains Tax Reduction	-14.7	-28.1	-35.1	-35.0	-34.6	-29.5
Accelerated Depreciation	-2.2	-7.0	-12.1	-16.2	-17.6	-11.0
Corporate Profits Tax Reduction	-1.3	-4.6	-8.9	-20.4	-27.4	-12.5
Inflation (CPI-U, Pct. Pts.)						
Capital Gains Tax Reduction	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Accelerated Depreciation	0.0	-0.0	-0.0	0.0	0.0	-0.0
Corporate Profits Tax Reduction	0.0	-0.0	-0.1	-0.1	-0.0	-0.0
Unemployment Rate (Pct. Pts.)						
Capital Gains Tax Reduction	0.1	-0.1	-0.2	-0.2	-0.2	-0.1
Accelerated Depreciation	-0.0	-0.0	-0.2	-0.2	-0.2	-0.1
Corporate Profits Tax Reduction	-0.0	-0.0	-0.0	-0.2	-0.2	-0.1
Nonfarm Payrolls (Mils. Jobs)						
Capital Gains Tax Reduction	0.083	0.307	0.617	0.713	0.704	0.485
Accelerated Depreciation	0.085	0.168	0.453	0.562	0.589	0.371
Corporate Profits Tax Reduction	0.044	0.088	0.066	0.377	0.548	0.225

a) Individuals to 10 Percent, Corporations to 17.5 Percent
b) 25 Percent Reduction in Lifetimes for Equipment, 25 Years for Structures
c) 35 Percent to 23 Percent over Three Years

* Macroeconometric model simulations with the Sinai-Boston Model of the U.S. Economy.
Policy changes effective Jan. 1, 2002.

Table 4 (Cont.)

Productivity Growth (Pct. Pts.)						
Capital Gains Tax Reduction	0.1	0.5	0.2	0.1	0.1	0.2
Accelerated Depreciation	-0.0	0.2	0.2	0.1	0.1	0.1
Corporate Profits Tax Reduction	-0.0	0.1	0.3	0.2	0.2	0.2
Potential Output (Bils. '96$'s)						
Capital Gains Tax Reduction	13.0	58.8	83.3	101.0	118.0	74.8
Accelerated Depreciation	-0.3	19.9	37.3	49.8	62.6	33.9
Corporate Profits Tax Reduction	-0.3	10.0	45.4	74.4	98.3	45.6
New Business Incorporations (Thous.)						
Capital Gains Tax Reduction	5.9	15.3	16.6	17.0	17.6	14.5
Accelerated Depreciation	0.2	0.8	1.2	1.4	1.4	1.0
Corporate Profits Tax Reduction	0.1	0.4	0.8	1.3	1.6	0.8
90-Day Treasury Bill (%)						
Capital Gains Tax Reduction	0.12	0.31	0.40	0.34	0.41	0.32
Accelerated Depreciation	-0.01	0.05	0.09	0.08	0.05	0.05
Corporate Profits Tax Reduction	-0.01	0.05	0.11	0.19	0.26	0.12
10-Year Treasury Note (%)						
Capital Gains Tax Reduction	0.08	0.19	0.27	0.20	0.20	0.19
Accelerated Depreciation	0.02	0.11	0.14	0.08	0.04	0.08
Corporate Profits Tax Reduction	0.05	0.13	0.20	0.25	0.22	0.17
S&P 500 Price Index (% Chg.)						
Capital Gains Tax Reduction	1.1	2.1	2.3	2.1	1.7	1.9
Accelerated Depreciation	0.5	0.9	0.9	0.7	0.7	0.7
Corporate Profits Tax Reduction	0.2	0.4	0.5	0.3	-0.1	0.3
S&P 500 Operating Earnings per Share						
Capital Gains Tax Reduction	0.83	1.75	1.87	1.58	1.28	1.5
Accelerated Depreciation	0.39	1.11	1.48	1.36	1.18	1.1
Corporate Profits Tax Reduction	0.22	0.67	1.10	1.44	1.31	0.9
National Savings (Bils. $'s)						
Capital Gains Tax Reduction	2.7	-8.2	-6.9	-27.0	-48.2	-17.5
Accelerated Depreciation	8.6	28.7	44.7	44.9	40.5	33.5
Corporate Profits Tax Reduction	3.5	6.1	19.1	34.5	34.0	19.4
Personal Savings (Bils. $'s)						
Capital Gains Tax Reduction	36.5	14.1	1.4	-21.2	-37.2	-1.3
Accelerated Depreciation	1.9	7.9	13.2	12.6	8.9	8.9
Corporate Profits Tax Reduction	1.6	3.4	13.3	24.3	28.0	14.1
Business Savings (Bils. $'s)						
Capital Gains Tax Reduction	21.7	35.1	34.2	31.2	30.2	30.5
Accelerated Depreciation	31.8	38.8	40.2	42.0	39.5	38.5
Corporate Profits Tax Reduction	24.5	50.0	75.2	72.8	67.7	58.1
Federal Budget Surplus (NIPA, Bils. $'s)						
Capital Gains Tax Reduction	-57.3	-61.1	-48.1	-42.2	-46.0	-50.9
Accelerated Depreciation	-21.8	-15.9	-8.5	-9.4	-7.8	-12.7
Corporate Profits Tax Reduction	-22.9	-47.8	-71.0	-66.3	-66.4	-54.9

Table 5
Before and After Feedback "Cost" of Tax Policy Changes

Capital Gains Tax Reduction
Individuals to 10 Percent, Corporations to 17.5 Percent

	2002	2003	2004	2005	2006	Avg. 2002-06
Ex-Ante Cost (Bils. $'s)	-75.0	-78.0	-74.1	-73.5	-74.3	-75.0
Ex-Post Cost (Bils $'s)	-55.5	-58.6	-48.7	-50.1	-51.0	-52.8

Accelerated Depreciation
25 Percent Reduction in Lifetimes for Equipment, 25 Years for Structures

	2002	2003	2004	2005	2006	Avg. 2002-06
Ex-Ante Cost (Bils. $'s)	-31.9	-30.4	-27.1	-28.7	-24.5	-28.5
Ex-Post Cost (Bils $'s)	-21.8	-15.3	-9.1	-10.6	-8.3	-13.0

Corporate Profits Tax Reduction
35 Percent to 23 Percent over Three Years

	2002	2003	2004	2005	2006	Avg. 2002-06
Ex-Ante Cost (Bils. $'s)	-24.0	-48.0	-72.0	-72.0	-72.0	-57.6
Ex-Post Cost (Bils $'s)	-22.7	-46.2	-67.6	-62.6	-61.3	-52.1

* Macroeconometric model simulations with the Sinai-Boston Model of the U.S. Economy.
Policy changes effective Jan. 1, 2002.