

Instead of a Tax Cut, Send Out Dividends

By Richard Freeman
and Eileen Appelbaum

Imagine arriving home at the end of the workday to find a \$500 check from the government waiting for you in the mail. Even better: Imagine a prosperity dividend, paid to every American man, woman, and child, thanks to a record budget surplus.

This may sound far-fetched, but

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it's a plausible way of applying an immediate stimulus to the economy while at the same time giving something back to taxpayers and their children, as President Bush wants to do.

The sudden slowdown in economic growth has rattled the financial markets and caused consumers and businesses to rein in spending. The Bush administration is right to look for a quick way to stimulate the economy and lessen the risk of a recession. Business and consumer debt levels are high relative to income, and the country has accumulated a large foreign debt. A recession, if it develops, could turn nasty. Preemptive action can make a difference.

But revising the tax code is the

Giving everyone a slice of the surplus to lift the economy.

wrong way to go. A tax cut enacted this year won't have much effect until next. That's likely to be too late. Even Alan Greenspan, who supports a tax cut, pointed out in Congressional testimony, "Such tax initiatives . . . historically have proved difficult to implement in the time frame in which recessions have developed and ended."

The tax code is also too important to be tampered with in haste. The consequences of any changes will be felt for years.

Our current surplus is America's return on 10 years of good economic performance, to which all of us have contributed. The government should declare a dividend — a one-time payment that would give a quick lift to the economy, spur consumer spending and help fight off a potentially deep recession.

A dividend payment from the government to the people is not unprecedented. Alaska has a fund through which the state distributes the economic rewards of its ownership of land and mineral resources. In 2000, Alaska sent a check for nearly \$2,000 to every man, woman and child who was a permanent resident and had lived in the state for all of 1999.

But for this kind of stimulus to work, it should meet three criteria.

First, it should be large enough to matter in an economy as large as ours. A tax-free \$500 check to every permanent resident would transfer roughly \$140 billion from the government to the private sector — enough to make a difference.

Second, the stimulus should automatically end once the economy is back on track. The prosperity dividend meets this criterion because it is a one-time payment from the government to the people.

And third, the stimulus should be targeted to people who need it. The prosperity dividend would be distributed equally to everyone living permanently in the United States. But it would mean the most to low- and middle-income families with young children. (A married couple with two children would receive a total of \$2,000). These families would be likely to spend all or most of the dividend on goods and services. If they were in financial distress, they could use it to pay down credit card debts.

With a projected surplus of \$5.6 trillion over the next 10 years and the national debt already below 35 percent of our gross domestic product, we can afford to meet the needs of our communities and families. But neither increased public spending nor tax cuts can be carried out quickly enough to prevent a recession. And either would have long-lasting effects that need careful consideration.

A prosperity dividend check to every person in America is a fair and efficient way to spend a part of the surplus that all Americans helped produce while stimulating the economy quickly without tying government's hands for the future. □

