The Bush Tax Cuts: 10 Years of Economic Disaster

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This month (June 2011) marks the tenth anniversary of the first of the two tax cuts sought by the President George Bush. The Economic Growth and Tax Relief Reconciliation Act was enacted in 2001 to be followed, in 2003, by the Jobs and Growth Tax Relief Reconciliation Act. Ten years later, it is time we assess the actual results of these tax cuts, looking at economic performance rather than political promises. The results have been a disaster for the US economy and for almost all of the US people. We have experienced (i) very slow income and employment growth for almost all families; (ii) an extremely unequal distribution of the direct financial benefits from these measures; and finally (iii) extremely slow growth in the economy as a whole.

Supporters of tax cuts for high income households, such as House majority leader John Boehner, argue that these people are the “job creators” and that tax cuts will encourage them to create jobs and that these new jobs will, in turn, increase employment opportunities and improve the wages of the remainder of the population. Did any of these benefits occur after the Bush tax cuts? The quick and accurate answer is, no, they did not. Adjusted for inflation, the median weekly earnings of working Americans actually fell by 2.3% from the end of the 2000 – 01 recession to the onset of the Great Recession. This is unique in the post WWII period. Further, the recovery from the 2000 – 01 recession was the slowest of any post WWII recession to date, requiring 39 months before simply the number of employed Americans reached the pre-recession level. Where is even a scintilla of evidence that tax cuts such as those passed in 2001 and 2003 generate income and employment growth for the vast majority of the population?

A significant part of the failure of the Bush tax cuts to generate jobs and income growth flows from the top heavy distribution of the benefits conveyed by these measures. First, the vast bulk of the reduced taxes were reaped by a very small number of families. In 2011, the average tax reduction to families receiving an income of $1 million or more (about 321,000 families) will be $139,199. For this less than 0.5% of all families this is a reduction in taxes of $860 million/week. Compare these tax benefits to the yearly savings proposed by cutting the WIC program: $833 million. An obvious question is, why can’t this very small group of extremely high income families give up just one week of their tax cut to provide nutrition for the tens of thousands of women and children that benefit from the WIC program? More significantly, in light of the deficit hysteria gripping Washington D.C., the combined impact of the 2001 and 2003 Bush tax cuts has been the addition of more than $2.6 trillion to the federal debt. This included more than $400 billion interest payments on the debt necessary to pay for the cuts.

Of course, one might forgive much or even all of the foregoing if the promise of economic growth had been fulfilled. On this measure, however, the record is even worse. The 2000 – 01 recession ended in the fourth quarter of 2001, just in time for the first Bush tax cut to take effect. From the end of the recession until the onset of the Great Recession, the economy grew at a slower rate than in any other post recession period since WWII. Thus, despite promises from the advocates of the tax cuts, the reality was slower growth rather than faster growth. The additional tax cut in 2003 did nothing to increase the pace of economic growth.

In sum, the Bush tax cuts were a bad idea at the time and are an even worse idea today. Ending these cuts for income over $250,000 would generate over $100 billion/year in additional revenue. If we also created additional tax rates for very high income families (e.g. at $500,000, $1,000,000, $5,000,000 and $10,000,000) we could increase federal revenue by more than double that amount and put us on the road to reducing deficits and debts.