House Committee on the Budget
Democratic Staff

Hon. John M. Spratt, Jr.
Ranking Democratic Member

202.226.7200
www.house.gov/budget_democrats

Joint Economic Committee
Democratic Staff

Sen. Jack Reed
Ranking Democratic Member
Hon. Carolyn Maloney
202.224.0372
www.jec.senate.gov/democrats

Some Perspective on Bush Administration Economic Claims

In recent months, President Bush and other administration officials have used any sign of improvement in the economy to make a number of claims about the success of their economic policies. While any positive economic news would be welcome, the Administration cites a selective set of economic statistics to support their claim that the economy is strong and everyone is benefitting. Unfortunately, the experience of most Americans does not match up with the picture of success being painted by the Administration. When the Administration's claims are viewed in the context of a fuller set of economic facts, it is clear that its record fails to match its rhetoric.

<u>Jobs</u>

Claim: Job creation has been strong and unemployment is low.

> *"The government released new jobs figures – 121,000 jobs created in June. The economy has created about 1.85 million jobs over the past 12 months – and more than 5.4 million since August 2003. The unemployment rate is 4.6 percent – lower than the average of the 1960s, 1970s, 1980s, and 1990s."* (White House fact sheet, July 7, 2006)

Facts: The net job gain during this Administration is just 2.8 million jobs. While the economy has added 5.4 million jobs since August 2003, including 1.85 million over the past 12 months, this job growth follows a loss of 2.7 million jobs between January 2001 and August 2003.

- Employment growth during the Bush Administration has averaged just 42,000 jobs per month. That is the lowest monthly rate for any administration since Eisenhower, when the labor force was much smaller. The monthly job growth under President Bush is less than one-fifth the average of 237,000 jobs per month achieved during the Clinton Administration, when 22.7 million new jobs were created. Typically, about 140,000 to 150,000 total new jobs are needed each month to absorb new workers coming into the labor force, and months with 200,000 to 300,000 jobs created are common in a typical recovery.

- Just 1.6 million private-sector jobs have been added to the economy under the Bush Administration. This yields just 25,000 new private-sector jobs per month, far less than the monthly rate of 217,000 new private-sector jobs added under President Clinton.

- In percentage terms, average annual job growth during the Bush Administration is the lowest of any administration since Herbert Hoover.

- The unemployment rate has averaged 5.4 percent under President Bush and remains 0.4 percentage points higher than it was when the President took office. There is also other, hidden unemployment not captured by the official unemployment rate: the Bureau of Labor Statistics estimates that the unemployment rate would be nearly twice as high – 8.4 percent – if it included people working part-time who want a full-time job and people who want a job but have not looked for work recently enough to be counted as officially in the labor force.

Productivity and Wages

Claim: Productivity is soaring and workers are benefitting.

> *"Productivity increased at a strong annual rate of 3.7 percent in the first quarter. Productivity growth during the past five years has been at the fastest rate in nearly four decades. Real hourly compensation rose at a 3.2 percent annual rate in the first quarter."* (White House fact sheet, July 7, 2006)

Facts: Productivity has grown at a healthy 3.3 percent annual rate since the end of 2000, but has not been accompanied – as it usually has been historically – by healthy growth in the compensation of American workers. Profits are at record levels, but wages are stagnating.

- Hourly compensation for workers in private industry, adjusted for inflation, dropped 0.9 percent over the past year.

- Real compensation (wages plus benefits) has increased at less than half the rate of productivity since the end of 2000, with most of the growth coming from higher costs for benefits, not from wage increases. In fact, wages are being squeezed by higher costs for health insurance and employer contributions necessary to make pension programs more actuarially sound.

- Inflation-adjusted hourly wages have decreased by 1.3 percent since August 2003, when the economy stopped losing jobs. Even though the average hours worked has increased since August 2003, this increase has not been sufficient to keep inflation-adjusted weekly wages from dropping − since August 2003, inflation-adjusted weekly wages are down 0.4 percent.

- Over the course of the Bush Administration, inflation-adjusted weekly wages have barely increased, rising by just 0.8 percent between January 2001 and June 2006. In contrast, inflation-adjusted weekly wages increased by 6.4 percent during the Clinton Administration.

- The Administration's Mid-Session Review estimated that aggregate wages and salaries this year will drop by $71 billion relative to the level it predicted five months ago in February. The Mid-Session Review also lowered its estimates for wages and salaries in each of the next five years.

Economic Growth

Claim: Economic growth is booming.

> *"Real GDP grew at an annual rate of 5.6 percent for the first quarter of this year. This is the fastest growth in two-and-a-half years and even stronger than previous estimates. It follows economic growth of 3.5 percent in 2005 – the fastest rate of any major industrialized nation."* (White House fact sheet, July 7, 2006)

Facts: While real gross domestic product (GDP) growth is a characteristic of an economic expansion, the economy has been growing at a slower rate than usual in the current recovery. Since the start of the economic recovery in the fourth quarter of 2001, the economy has grown at a rate of 3.4 percent annually, significantly below the 4.2 percent average growth rate experienced in post-war recoveries.

- GDP growth in the first quarter of this year was a strong 5.6 percent annual rate, but most forecasts, including the Administration's, see growth moderating to around 3 percent over the next few quarters.

- In January 2001, the Congressional Budget Office (CBO) estimated that annual economic growth would average 3.0 percent between 2001 and 2005. Instead, annual economic growth was nearly one-half percentage point lower, averaging just 2.6 percent over this period.

- The economic recovery probably owes more to the natural resilience of the American economy – aided by low interest rates through mid-2004 – than it does to the President's tax cuts.

- As economic stimulus, the Administration's tax cuts in 2001-2003 had particularly low "bang-for-the-buck" because they generated so little job-creating spending in the short run for each dollar that they added to the budget deficit in the long run.

- The moderate economic growth has not been dispersed to most American families. After accounting for inflation, the typical American family's income has decreased every year of the Bush presidency for a total reduction of about $1,700.

Investment

Claim: Americans are investing more, and the American economy is attracting investment from foreign investors and businesses abroad.

> *"Lower tax rates on dividends and capital gains reduced the effective tax rate on business investment by more than 15 percent. When these cuts were passed in 2003, business investment had been dropping for several years. Since then, business investment has been growing at more than 9 percent per year. Spending on equipment and software has hit record levels, and businesses have hired millions of new workers to fill the jobs this investment creates."* (White House fact sheet, May 17, 2006)

Facts: Business investment in this economic recovery has been sluggish compared with past business-cycle recoveries. Because of the budget deficits and low national saving, the United States is financing a large fraction of its investment with foreign borrowing.

- Since the economy last peaked in early 2001, the average annual rate of growth for non-residential fixed investment has been only 2.0 percent, just under half of the 3.5 percent average annual increase in previous post-war business cycles.

- The level of foreign-owned U.S. Treasury debt has more than doubled during this Administration, increasing from $1.0 trillion in January 2001 to $2.1 trillion in May 2006. In just six years, the Bush Administration has already accrued more foreign debt than the previous 42 presidents combined.

- The nature of foreign investment has changed during the Bush Administration. Between 2000 and 2005, the percentage of direct investment by foreign investors in the U.S. economy and foreign holdings of U.S. corporate stocks declined, while the percentage of U.S. government liabilities to foreign investors, especially foreign governments, increased. In other words, much of the foreign "investment" in the U.S. has come from extra lending, particularly foreign lending to the U.S. Treasury.

- Budget deficits created by the Bush Administration have been primarily financed by foreign investors. Between January 2001 and May 2006, the rise in foreign-held debt equaled three-fourths the rise in publicly held debt, indicating that the vast majority of new Treasury debt was financed by foreign investors.

Deficits

Claim: We're making progress on the deficit.

> *"Let's just be patient about solving this federal deficit; we're not going to take money out of your pocket; let's grow our way out of it; let's keep – let's set priorities when it comes to spending, and keep the people's taxes low, and these revenues will catch up into our Treasury, and they have. And we're reducing that federal deficit, through the people's hard work and the wise policies in Washington, D.C."* (President Bush, July 11, 2006)

Facts: Any modest short-term progress in reducing record annual deficits should not be confused with a meaningful improvement in the long-term budget outlook – which remains bleak – and should not distract attention from the Administration's overall fiscal record. When this Administration took office, it inherited a $5.6 trillion ten-year projected surplus, which has now been converted into a $2.9 trillion projected deficit over the same time period – a swing in the wrong direction of nearly $8.5 trillion. Unfortunately, none of the Administration's budgets have included a plan to return the budget to balance. Democrats have repeatedly proposed budgets that return to balance.

- The Administration's updated estimate of a $296 billion 2006 deficit makes 2006 one of the four largest deficits in history. When the Social Security surplus is excluded the 2006 deficit is $473 billion.

- In January 2001, the Administration estimated that, after enactment of its policies, the 2009 surplus would be $420 billion. The Administration now anticipates a deficit for 2009 in the range of $157 billion. This figure would be smaller than the record 2004 deficit of $412 billion, but would still be $577 billion worse than the Administration's projection.

- Since President Bush took office six years ago, Republicans have added $1.4 trillion to the public debt – an increase of 42 percent.

- The Republicans have voted four times to raise the debt limit in the past four years – increasing the debt ceiling by $3.0 trillion. The Administration's own forecast projects the gross federal debt to reach $11.1 trillion in 2011.

- During 2007, interest on the national debt will be the fourth largest item in the President's budget, exceeded only by Social Security, Defense, and Medicare. Over the next five years, debt service will be the fastest growing item in the federal budget.

Taxes

Claim: The tax cuts have stimulated economic growth, which has led to higher revenues.

> *"The President's tax relief has helped spur growth…Strong growth is helping raise more tax revenues for the federal government. In 2005, tax revenues grew by $274 billion, or nearly 15 percent – the largest increase in 24 years. The economy is continuing to grow, and tax revenues are growing with it. So far this year, tax revenues are 13 percent higher than they were at the same point last year, which is significantly better than projected."* (White House fact sheet, July 7, 2006)

Facts: Most economists, including the current chairman of the President's Council of Economic Advisors, dispute the claim that tax cuts increase revenues.

- In recent testimony before the Joint Economic Committee, CEA Chairman Edward Lazear said: "I certainly would not claim that tax cuts pay for themselves."
- Former Federal Reserve Chairman Alan Greenspan said in testimony before the House Budget Committee: "It is very rare and few economists believe that you can cut taxes and you will get the same amount of revenues…When you cut taxes, you gain some revenue back. We don't know exactly what this is, but it's not small, but it's also not 70 percent or anything like that."
- Former Chairman of the Council of Economic Advisors Greg Mankiw wrote in his macroeconomic textbook that there is "no credible evidence" that tax cuts pay for themselves.
- Dynamic analyses of tax cuts by both the Congressional Budget Office and the Joint Committee on Taxation conclude that the negative effects of budget deficits tend to outweigh any positive benefits from the tax cuts on economic growth. A Congressional Research Service analysis of the dividend tax cut reached the same conclusion.

Facts: Tax receipts usually increase year to year because of inflation and population growth, especially when the economy is coming out of a recession. In the five decades prior to the Bush Administration, revenues increased in 45 out of 50 years. Revenues dropped for the first three years of the Bush Administration before rising in 2004 and 2005. Despite the increase in revenues, total federal tax revenues fell to a 30-year low as a percentage of GDP in 2004.

- Actual receipts for 2001 through 2005 were $2.1 trillion (18 percent) below CBO's projection from January 2001, which assumed that no tax cuts would be implemented. In 2006 alone, even with recently increased estimates of tax receipts, revenues are still projected to be almost $300 billion below the pre-tax cut level projected by CBO.

- Even with the improved revenue estimates in the Mid-Session Review, the Office of Management and Budget's (OMB) projection of 2006 revenue is still $128 billion below its estimate in February 2001, which included the revenue impacts of the President's tax policies.

- Revenues from individual income taxes – the primary taxes affected by the Bush tax cuts – for the last complete year are still below their 2000 levels, even before adjusting for inflation and population growth.

Claim: The tax cuts allow Americans to keep more of their own money.

> *"Together, these tax cuts left nearly $1.1 trillion in the hands of American workers and families and small business owners, and they used this money to help fuel an economic resurgence that's now in its 18th straight quarter of growth. The tax cuts we passed work." (President Bush, July 11, 2006)*

Facts: Tax cuts that occur in times of deficit depend on borrowed money – which will have to be repaid by current taxpayers or future generations. President Bush's economic policies have helped add $1.4 trillion to the public debt, an increase of 42 percent over just five and a half years. This increase in debt amounts to approximately $12,000 in extra debt for every family in the United States. This is far more than most families have received in tax cuts, because the Administration's tax cuts have disproportionately benefitted those with the very highest incomes. Even without factoring in each household's share of the growing national debt, the average American household is poorer under the Bush Administration's economic policies.

- Median annual household income has *decreased* by $1,700, or by 3.6 percent, after accounting for inflation over the course of the Bush Administration. During the Clinton Administration median annual household income *increased* by $5,600, or 13.9 percent, after accounting for inflation.

- The personal saving rate dropped to -1.4 percent in the first quarter of 2006, the lowest level since the Depression.

- The most recent data for family debt shows that in the first three years of the Bush Administration the average value of family debt increased by 33.9 percent, after accounting for inflation.

- Inflation-adjusted net worth was essentially stagnant during the first three years of the Bush Administration. From 2001 to 2004, net worth increased by just 1.5 percent, compared to a gain of 10.3 percent between 1998 and 2001 and 17.4 percent between 1995 and 1998, after accounting for inflation.