



The Impact of Tax Relief on Deficit Reduction

Deficit Levels

In 2004, the federal budget deficit was projected to be \$521 billion, which was 4.5% of Gross Domestic Product (GDP). This deficit was significant, but was largely spending-driven as a result of major challenges facing America, such as on-going military operations in Iraq and Afghanistan and the creation of the Department of Homeland Security. While Democrats heralded the “record deficit,” it is important to view it in the context of our overall economy.

When analyzing the actual deficit in 2004 as a percentage of GDP – a concept used by most economists — it was not only manageable, but historically low.

12 Largest Post-War Deficits As a Percentage of the Economy

In Billions of Nominal Dollars, and Percentages of Gross Domestic Product

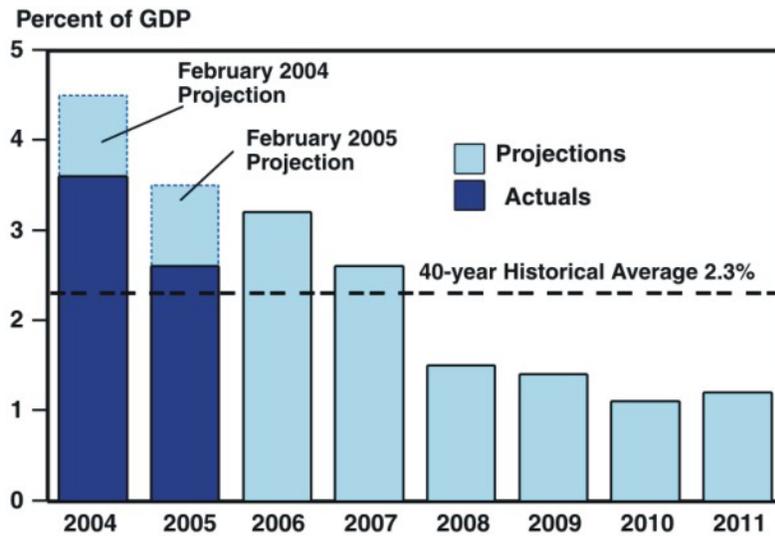
Rank	Year	Nominal Dollars	Percent of GDP
1	1946	\$16B	7.2
2	1983	\$208B	6.0
3	1985	\$212B	5.1
4	1986	\$221B	5.0
5	1984	\$185B	4.8
6	1992	\$290B	4.7
7	1991	\$269B	4.5
8	1976	\$74B	4.2
9	1982	\$128B	4.0
10	1993	\$255B	3.9
11	1990	\$221B	3.9
12	2004	\$412B	3.6

Prepared by the House Budget Committee.

Within the 2005 budget proposal, President Bush made a commitment to cut the deficit in half over the next five years (by 2009). Since then, budgets passed by the House have consistently remained on course to reduce the deficit in half by 2009.

The Mid-Session Review (MSR) – recently released by the Office of Management and Budget (OMB) – indicated that, under the President’s policies, the goal of a 50% reduction in the deficit will be achieved an entire year early (2008). Some have even indicated that it may come earlier. As a percentage of Gross Domestic Product (GDP) according to the MSR, the projected deficit level of \$296 billion for 2006 “is equal to the 40 year average of 2.3 percent and is lower than the deficits in 17 of the last 25 years.” While major financial obligations remain – such as the response to Hurricane Katrina and the Global War on Terrorism – deficits are being dramatically lowered at a pace that few expected.

Cutting the Deficit in Half



Information courtesy of the Office of Management and Budget.

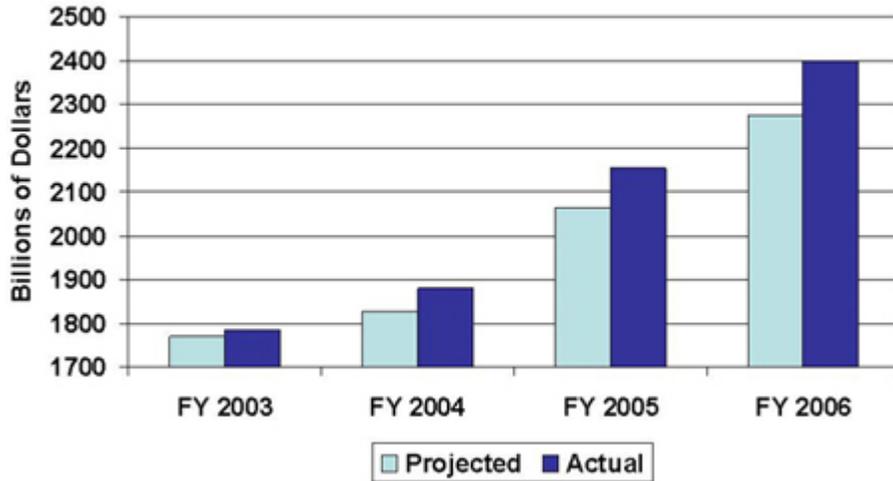
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Historically, tax relief has proven to grow economies and, with the larger tax base, revenues to the Federal government. This ultimately leads, with spending restraint, to lower deficit levels. In explaining impacts of tax relief on revenues, President John F. Kennedy stated:

“Our true choice is not between tax reduction, on the one hand, and the avoidance of large Federal deficits on the other. It is increasingly clear that no matter what party is in power, so long as our national security needs keep rising, an economy hampered by restrictive tax rates will never produce enough revenues to balance our budget just as it will never produce enough jobs or enough profits...In short, it is a paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now.”

Since full implementation of the tax relief packages passed by Congress, there has been a dramatic increase in revenue and, therefore, a decrease in deficit levels. Eighteen consecutive quarters of economic growth – which followed the tax relief passed by Congress – has led to unprecedented revenue growth. In fact, the increase in tax receipts between 2004 and 2005 (15%) is the largest increase in two decades, and is expected to be followed by an 11 percent increase in 2006 under the latest OMB projections. Both the levels of revenues and their rates of growth exceeded expectations at the time when the Congress passed the tax relief legislation, as shown in the following chart.

Federal Revenues Exceed Expectations After Implementation of GOP Tax Reductions



Projected reflects CBO's August 2003 baseline, which includes both the 2001 and 2003 tax reduction packages. 2006 Actual figure is an estimate from OMB's July 2007 Mid-Session Review.

Prepared by the House Budget Committee.

Spending Restraint

While full implementation of the tax relief packages has generated unprecedented revenue growth – through expansion of the economy – fiscal restraint has been an important part of deficit reduction as well. Deficit reduction is occurring because spending growth has been sharply below revenue growth – which is a product of economic expansion and greater spending restraint.

House Republicans have rejected a total of \$106 billion in additional spending proposed by Democrats over the last four years. Additionally, House Republicans have proposed 95 terminations of programs that

are outdated, duplicative or ineffective. Last year, House Republicans terminated 53 programs for a total savings of \$3.5 billion.

Conclusion

Allowing the American people to keep more of their money through comprehensive tax relief has led to unprecedented growth in the economy. Economic growth, increases in tax receipts and constrained spending have led to lower deficit estimates and the achievement of the President's deficit reduction targets ahead of schedule by an entire year.

Since full implementation of the tax relief packages passed by Congress, the economy has experienced record growth, revenues have increased dramatically and the deficit has decreased.

Democrats consistently opposed the tax relief packages, claiming tax relief would only increase deficit levels. Ironically the very tax relief Democrats opposed has created the revenue to dramatically lower the deficit.

DEMOCRATS ON TAX RELIEF

- ★ Economic Growth and Tax Reconciliation Act of 2001 (PL 107 - 16) **153 Democrats Opposed.**
- ★ Jobs and Growth Reconciliation Act of 2003 (PL 108 - 27) **198 Democrats Opposed.**
- ★ Working Family Tax Relief Act (PL 108 - 311) **65 Democrats Opposed.**

House Republicans have rejected over \$106 billion in proposed Democratic spending over the last 4 years.