RANKING MINORITY MEMBER'S VIEWS AND LINKS TO MINORITY REPORTS

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I. Overview

In 2006, President Bush and his supporters claimed that the economy was doing well and that all Americans were benefiting from his policies. For many Americans, however, those claims rang hollow because their own incomes were not growing fast enough to keep up with higher costs for energy, health care, and other critical expenditures, and they were not confident about their economic future.

A disconnect between aggregate indicators of economic performance and the experience of typical American families has been a feature of the economy under President Bush. While corporate profits and executive pay rebounded after the dot.com collapse and the 2001 recession, the wages and incomes of most Americans did not. Since 2001, the economy has grown but the benefits of economic growth and productivity have shown up in the bottom lines of companies and in the incomes of highly compensated individuals—not in the paychecks of most workers.

For the most part, the Bush Administration and the Republican majority in the Congress have been blind to the challenges facing American families struggling with high energy prices, rising health care expenses, and the mounting costs of sending their kids to college. A rare exception came only recently when Treasury Secretary Paulson, shortly after taking office, acknowledged that,

> *…we still have challenges, and amid this country's strong economic expansion, many Americans simply aren't feeling the benefits. Many aren't seeing significant increases in their take-home pay. Their increases in wages are being eaten up by high energy prices and rising health-care costs, among others.*

Instead of pursuing policies that address those problems, however, the Administration has espoused policies such as repeal of the estate tax and Social Security privatization that aggravate underlying market trends toward widening income inequality and increasing income insecurity. At the same time, they have opposed policies such as increasing the minimum wage.

In 2006 the Bush Administration and the Republican majority in the Congress once again pursued budget and tax policies that added to the deficit, lowered taxes for the well-to-do, and reduced spending for programs that benefit middle- and lower-income families. The major tax legislation enacted, for example, was a $70 billion tax reconciliation bill that extended dividend and capital gains provisions that were not set to expire for at least two years and that mainly benefit high-income taxpayers. Yet that legislation made only a temporary one-year fix to the alternative minimum tax (AMT) and failed to extend popular expiring provisions such as the R&D tax credit.

The Republican majority tried several times to eliminate or substantially scale back the federal estate tax, the most progressive tax currently on the books. Had that effort been successful it would have added almost $1 trillion to the federal debt in the first ten years after going into effect. At one point, the Majority tried to achieve near elimination of the estate tax by holding hostage a long-overdue increase in the minimum wage and the extension of several popular tax measures that were due to expire.

That ploy failed, but an increase in the minimum wage will have to wait until the Democratic-controlled 110th Congress convenes in January. Unless the 109th Congress acts in its final lame-duck week, so too will the extension of tax measures such as the deduction for qualified tuition and related expenses, the deduction for state and local sales tax, the research and development credit, the work opportunity and the welfare-to-work credits, the deduction for expenses of school teachers, and the election to treat combat pay as earned income for the earned income credit.

The United States is at war and yet there is no sense of the shared sacrifice that has united this country in past conflicts. Ironically, the estate tax was first adopted in the nineteenth century to pay for government shortfalls due to wartime spending. Our military families are making tremendous sacrifices, and too many of them have made the ultimate sacrifice in service to our country. With $320 billion appropriated or pending for Iraq operations to date and the number of service men and women killed approaching 3,000, the human and financial tolls are each more staggering than imagined.

The country faces mounting war costs of about $10 billion per month, the impending retirement of the baby boom generation, and deficits as far as the eye can see. Yet the Bush Administration has focused its efforts on bettering the lives of those that need it the least while leaving hard working families further behind.

The President's tax cuts are a drain on national saving and our children and grandchildren will pay the price. The personal saving rate, which these tax cuts were presumably designed to stimulate, has been going down and is now negative. On average, people are spending more than their current income. To be sure, soaring corporate profits and retained earnings have boosted the business part of private saving. But this is offset by budget deficits, which these tax cuts will only increase.

Ultimately, the result of the Administration's irresponsible fiscal policy is that many domestic priorities get shortchanged. We need a change in direction for the majority of American families to share in the benefits of economic growth and productivity and to secure the country's economic future.

II. The Economy in 2006

In early 2006, the U.S. economy rebounded from the previous year's hurricanes and continued its business-cycle recovery from the 2001 recession. However, weakness in the housing market became an increasing drag on growth in the second and third quarters of the year. Because other sectors such as business investment and net exports did not provide sufficient offsetting strength, economic growth slowed to a rate below what most forecasters think is a pace consistent with achieving and maintaining full employment.

Inflation was a worry as energy prices rose sharply through the first eight months of the year. However, energy price declines in September and October produced a fall in the overall consumer price index (CPI) and an easing of concerns about underlying ("core") consumer price inflation.

Monetary policy reached a critical juncture in 2006. The Federal Reserve switched from a policy of gradually raising interest rates to one of holding rates constant as economic growth moderated. The Fed has indicated that it will be sensitive to incoming data on the outlook for both economic growth and inflation in setting the course of monetary policy going forward.

The budget deficit declined more than expected in 2006. Nevertheless, the deficit remains large, the budget outlook going forward has not improved, and the country has an unsustainable payments imbalance with the rest of the world. The consequences of large federal budget deficits have been depressed national saving and increased borrowing from the rest of the world. Low national saving and the need to pay back foreign borrowing with interest means future national income will be lower than if we were financing our national investment with our own national saving.

Economic Growth

The economy slowed during the first three quarters of 2006. Most forecasters recognized that the first-quarter's growth rate of 5.6 percent at an annual rate was a temporary spurt that reflected an economic rebound from the Gulf Coast hurricanes and other special factors that had tempered growth late in 2005. The sharpness of the subsequent slowing, however, may have been greater than many forecasters were expecting. The economy grew at a 2.6 percent annual rate in the second quarter and then slowed even more sharply to just a 2.2 percent annual rate in the third quarter. That pace is well below the 3 to 3½ percent range that most economists, including Fed Chairman Bernanke, believe is sustainable without generating inflationary pressures.

The key contributor to the growth slowdown was residential investment, which plunged at an 18.0 percent annual rate in the third quarter after falling 11.1 percent in the second quarter. That decline in new housing investment subtracted 0.7 percentage point from the overall growth rate in the second quarter and 1.2 percentage points from the overall growth rate in the third quarter.

Employment and Wages

After fluctuating in the 4.6 to 4.8 percent range for the first nine months of 2006, the unemployment rate dipped unexpectedly to 4.4 percent in October. Other labor market indicators, however, suggested caution before concluding that there has been any significant tightening of the labor market.

First, the decline in the unemployment rate was not matched by increased entry into the labor force that might indicate greater confidence in finding a job. In fact, both the fraction of the population working or looking for work (the labor force participation rate) and the proportion of the population with a job (the employment-to-population ratio) remained a full percentage point lower than they were at the start of the 2001 recession.

Second, employers added just 92,000 jobs to their payrolls in October, when 125,000 to 140,000 jobs per month are needed to keep pace with normal growth in the labor force. In the six months ending in October payroll employment growth averaged just 138,000 jobs per month. The unemployment rate and payroll employment come from two separate surveys that do not always agree, but most experts think that payroll job growth is the better indicator of the strength of the labor market.

Finally, the stagnation of real (inflation-adjusted) wages over most of the recovery from the 2001 recession does not point to a tight labor market. Productivity (output per hour) has grown at a healthy 2.8 percent annual rate during the recovery from the 2001 recession, but real hourly compensation of employees (wages plus benefits) has grown at less than half that rate (1.3 percent annually). Historically, growth in real hourly compensation has tended to grow roughly in line with productivity.

Benefit costs have grown much faster than wages and salaries, not because employers are providing more generous benefits but because health insurance costs are rising and employers have had to make contributions to restore the solvency of their pension plans. Those higher benefit costs are squeezing take home pay. From August 2003, when job losses peaked, until August 2006, real average hourly earnings fell 1.4 percent. Recent sharp declines in inflation have pushed up real wages but the overall picture since January 2001 remains one of stagnation.

Inflation and Monetary Policy

After rising 3 percent in the first eight months of 2006, the consumer price index declined by 0.5 percent in September and another 0.5 percent in October. Energy prices were the driving force in the rise and subsequent decline of the CPI. Consumer energy prices rose 14.4 percent in the first eight months of this year, and then fell 7.2 percent in September and another 7.0 percent in October. Nevertheless, energy prices remain high. In October 2006, consumer energy prices were 35 percent higher than they were in January 2001, while the overall consumer price index was 14.9 percent higher.

The core CPI, which excludes the volatile food and energy prices, rose at a 2.8 percent annual rate in the first 10 months of 2006. That rate is higher than what the Fed would be comfortable with on a long-term sustained basis, but core inflation has moderated over the course of the year. Four months of 0.3 percent increases from March through June, were followed by three months of 0.2 percent increases, and the core CPI rose just 0.1 percent in October.

In the fall of 2006, the Fed still sees inflation pressures as likely to moderate over time, in part because the economy is slowing. Recent declines in energy prices reduce the chance that energy prices will feed into future core inflation. Wages have not been a source of inflationary pressure so far in the recovery from the 2001 recession. Nominal wages have picked up some recently, but Federal Reserve Chairman Bernanke has said that growth in real wages is not incompatible with stable inflation. With profit margins unusually high, companies can absorb increases in real wages without raising prices excessively.

The Fed has cautioned that it still sees some inflation risks. The challenge it faces is that if it raises interest rates further to keep inflationary trends and expectations from rising, it could choke off the economic expansion, slowing job growth further, and leaving working Americans with only meager gains in take home pay with which to cover their already high energy, tuition, and health care bills.

Fiscal Policy

The federal budget deficit for fiscal year 2006 was $248 billion. That is smaller than the deficit in the preceding three years and smaller than the estimate in the President’s January budget. However, it is still one of the largest deficits on record in nominal dollars. More importantly, the reduction in the deficit does not reflect explicit deficit-reduction efforts on the part of the Bush Administration. The overwhelming majority of policy actions by the Bush Administration and the Republican majority in the Congress have added to the deficit not lowered it.

Tax revenues grew in fiscal year 2006, as they always do in a business-cycle expansion. Revenues also came in higher than expected for other reasons unrelated to policy actions. Nevertheless, the real story of the budget under President Bush continues to be a deterioration compared with the situation he inherited. The $5.6 trillion 2002-2011 budget surplus that was being projected when President Bush took office in January 2001 has turned into a deficit over that same period projected to be at least $2.9 trillion.

The direct consequence of those large federal budget deficits has been to reduce government saving. Neither the tax cuts nor anything else has stimulated an offsetting increase in private saving, hence national saving has declined as well. Because foreigners, including foreign governments, continued to be willing to lend to the United States and acquire U.S. assets, the United States was able to draw on foreign saving to make up for the loss of national saving. Without that foreign borrowing, long-term interest rates would have been much higher. However, the returns from investment financed by foreign saving mainly go to the foreign investors and not to raising future U.S. national income.

At some point, the United States will have to pay for the irresponsible budget policies of the last six years. That day of reckoning has been postponed by our ability to draw on foreign saving. If the rest of the world suddenly decides that the risks from investing its savings in the United States outweigh the benefits, there could be a run on the dollar, a sharp increase in U.S. interest rates, and possibly an international financial crisis. Even if the rest of the world continues to lend to the United

States, the U.S. external debt will continue to mount and interest on that debt will have to be paid out of future national income.

III. The Bush Economic Record

Throughout the year the JEC Democrats have issued fact sheets and economic policy briefs documenting the discrepancy between the claims of the Bush Administration about how well the economy is doing and the experience of ordinary middle class and working families. The following are some of the salient facts about the Bush Administration's economic record.

Unemployment and Job Growth

Through November 2006, unemployment remains higher than it was when President Bush took office in January 2001, and job creation has been lackluster. In particular:

- 688,000 more people are unemployed.
- The unemployment rate is up 0.2 percentage point to 4.4 percent.
- Long-term unemployment (26 weeks or more) is 60 percent larger at 1.1 million.
- Job growth has averaged just 49,000 jobs per month—and just 31,000 per month in the private sector (monthly growth of 125,000 to 150,000 is necessary to absorb a growing labor force).
- 2.9 million manufacturing jobs have been lost.

Job losses continued until August 2003 and did not regain their pre-recession level until February 2005—the most protracted jobs slump since the 1930s. Job growth from August 2003 through October 2006 averaged just 159,000 jobs per month, whereas it was common to see job gains of 200,000 to 300,000 in the expansion of the 1990s. In the six months ending in October 2006, monthly job growth averaged just 138,000.

Wages and Other Measures of Economic Well-Being

Most American families have seen their standard of living erode on President Bush's watch. American workers have seen their productivity grow at a very strong rate, but productivity and economic growth have not translated into higher real wages. Income gains have been concentrated at the top of the income distribution, while poverty and economic insecurity have increased. In particular, since President Bush took office:

- The median usual weekly earnings of full-time wage and salary workers have declined by 0.9 percent after inflation.
- Median household income has declined by $1,273 or 2.7 percent after inflation.
- 5.4 million more people live in poverty, for a total of 37 million people in poverty.
- 1.3 million more children live in poverty, for a total of 12.9 million children in poverty.
- 6.8 million more people lack health insurance, for a total of 46.6 million uninsured.
- 3.7 million fewer workers have an employer-sponsored retirement plan.

A Legacy of Deficits and Debt.

When President Bush took office, the federal budget was in surplus and the national debt was declining. Under President Bush, however:

- A $128 billion federal budget surplus in FY 2001 turned into a $248 billion deficit in FY 2006.
- A $5.6 trillion 10-year projected surplus from 2002 to 2011 has turned into a projected deficit of at least $2.9 trillion.
- Federal debt issued to finance budget deficits rose by $1.5 trillion.

The broad economic indicators preferred by President Bush show that the economy has experienced a business cycle recovery from the 2001 recession, with strong productivity and rising output. However, most American workers have not seen the benefits of that recovery in their paychecks. Now, with the economy slowing before it has produced an improved standard of living for the typical American family, people have a right to ask of the Bush economic record, “Is that all there is?”

IV. Links to Minority Reports

The following reports were issued by the Joint Economic Committee Democrats in 2006:

Is That All There Is? The Bush Economic Record From the Perspective of Working Families
November 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Releases/isthatallthereis.pdf

The Way We Were: Comparing the Bush Economy with the Clinton Economy
November 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/BushIsNoClinton03nov2006.pdf

Relying on the Kindness of Strangers: Foreign Holdings of U.S. Treasury Debt
November 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/foreigndebtkindnessofstrangers.pdf

Losing Ground: The Middle Class in the Bush Economy
September 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/losinggroundthemiddleclasssep2006.pdf

Some Perspective on Bush Administration Economic Claims
September 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/HBCJECJointDoc29sep2006.pdf

Poverty Rate Unchanged From 2004, Up Since 2000
August 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/poverty2006.pdf

The Number of Americans Without Health Insurance Rose for the Fifth Year in a Row in 2005
August 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/healthinsurance2006.pdf

Household Income Up Slightly in 2005, But Down Since 2000
August 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/income2006.pdf

Strange Bedfellows: Minimum Wage Workers and the Wealthy
August 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/estatetax2.pdf

We'll Be Forever in Their Debt: The Economic Consequences of Irresponsible Budget Policy
June 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/debtandtaxes2006.pdf

Who Will Pay for Repealing the Estate Tax?
June 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/whowillpayestatetax2006.pdf

Highlights of the 2006 Social Security Trustees' Report
May 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/sstrustees2006.pdf

Highlights of the 2006 Medicare Trustees' Report
May 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/medicaretrustees2006.pdf

How Strong Is the Economic Recovery and Is Everyone Benefiting?
April 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/busheconomyapr2006.pdf

An Overview of the Gender Earnings Gap
April 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/earningsgap25apr2006.pdf

Measuring Poverty
April 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/memapr2006.pdf

Administration's Health Insurance Tax Credit Proposal Fails to Provide a Real Solution to the Uninsured
Updated April 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/hitaxcredit17apr2006.pdf

Fact Sheet: The Impact on Families of the FY 2007 House Budget Resolution
Updated April 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/housebudgetfactsapr2006.pdf

Administration's Health Insurance Proposals: A Boon to the Healthy and Wealthy but No Help for the Uninsured
Updated April 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/hsas05apr2006.pdf

The Effects of the President's Social Security Proposal on Women
March 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/womenandpriv30mar2006.pdf

The Impact on Families of the President's Fiscal Year 2007 Budget Proposals
March 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/fy2007budgetmar2006.pdf

The President's Savings Proposals: Bigger Tax Breaks but Less National Saving
Updated February 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/presidentssavingsaccounts14feb2006.pdf

Association Health Plans: The Wrong Medicine for Small Businesses' Health Insurance Ills and no Help for the Uninsured
February 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/ahpreportfeb2006.pdf

Administration's Proposed Tax Deduction for High-Deductible Health Insurance: A Boon to the Healthy and Wealthy but No Help for the Uninsured
January 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/hsas31jan2006.pdf

The Bush Economy: The Facts Behind the White House Facts
January 2006
Link:
http://www.jec.senate.gov/democrats/Documents/Reports/sotu2006.pdf