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The Bush Economic Record: No Reason to Cheer

August 2, 2007

Summary

- ***This economy has left many American workers and families behind.*** Under this Administration, unemployment has risen, job creation has been low, the real income of a typical family has actually *fallen*, and national saving has declined. As energy and health-care costs rise, it is becoming harder for families to make ends meet.
- ***Republican fiscal policies have made the problems worse,*** by financing tax cuts for the most fortunate with an explosion of the debt—owed in large part to foreign investors—while chipping away at funding for education, health care, and other investments critical to the strength of the U.S. economy.
- ***Democrats are steering the economy in a new direction*** by restoring budget discipline while funding education and scientific innovation, raising the minimum wage, making it easier for kids to afford to go to college, and providing health insurance for millions of needy children.

The Bush Economy Has Left Many American Families Behind

Jobs Have Become Harder To Find — The economy, which created more than 200,000 jobs per month between 1993 and 2000, has averaged only 72,000 new jobs a month since 2001 — only about half the pace needed to keep up with the growth of the working-age population. (*See Chart 1.*) This weak job market has left over 900,000 more workers unemployed and increased long-term unemployment by 65 percent. The manufacturing sector has been particularly hard hit, with a *loss* of 3 million jobs.

Hard Work Is Not Being Adequately Rewarded — American workers are more productive than ever, but they are not benefitting much from their increased output. Productivity has grown robustly since 2001, yet the real income of a typical family has *fallen* by almost \$1,300. (*See Chart 2.*) Real income has declined for most households, but our most vulnerable citizens have fared the worst: in 2005 (the last year for which data are available), the official poverty rate was 12.6 percent. That is 37 million Americans living in poverty — an increase of 5.4 million people since 2000.

Families Are Being Squeezed — Rising energy prices and health care costs are making it harder for American families to make ends meet. In 2005 (the last year for which data are available), 46.6 million Americans were making do without health insurance. From 2000 to 2005, 6.8 million people lost their coverage. Those with health insurance are losing more and more of their paychecks to premiums, without receiving more generous benefits.

Families Can't Afford to Save Enough — Household saving rates went negative in the third quarter of 2005 and have hovered near zero ever since. As costs are rising and incomes are falling, American families are being forced to go deeper in debt. Data after 2004 are not yet available, but between 2001 and 2004 alone, the typical family took on \$14,000 of additional debt. That is an increase of over a third in just three years. Families have had to devote more of their income to debt service, and they are finding it increasingly difficult to make payments on time.

Republican Fiscal Policies Have Weakened the Overall Economy

Administration Tax Policy Produces Weakest Economic Expansion Since World War II — Since the implementation of the tax cuts, economic growth has failed to match the Congressional Budget Office (CBO) estimate of economic growth without the tax cuts. The current expansion is now the weakest of all the economic expansions since the end of World War II. *(See Chart 3.)* The latest report of the Bureau of Economic Analysis (BEA) shows an increase in real GDP growth to 3.4 percent in their advance estimate for the second quarter of 2007, which is up from the anemic growth of 0.6 percent in the first quarter. But average annual real GDP growth during this recovery still remains substantially below that of other recoveries. That same BEA report revised *downward* real GDP growth for all three years between 2004 and 2006 – for a cumulative reduction of 0.8 percentage points in measured real GDP.

Administration's Own Forecast Shows Slowing Economic Growth — The BEA's latest downward revisions to real GDP growth are leading forecasters to revise downward their economic outlooks. The Administration's own economists now acknowledge their prior forecast for 2007 was too rosy; real GDP growth for 2007 was revised downward in the Mid-Session Review from 2.7 percent to 2.1 percent.

Economic Growth Depends on National Saving — The weakness in the economy in large part stems from lack of adequate national saving. In several hearings that the Budget Committee has held since January, experts have testified that the decline in national saving since 2001 has been driven in large part by the record budget deficits. A projected \$5.6 trillion budget surplus has turned into a \$2.4 trillion deficit – a dramatic \$8.0 trillion deterioration. *(See Chart 4.)* The dependence of economic growth on national saving, and of national saving on public saving, is one of the most important reasons why deficits *do* matter.

Reliance on Foreign Financing Is Unsustainable — Foreign-held debt has skyrocketed under the Bush Administration, rising to \$2.2 trillion in May 2007 – an increase of \$1.2 trillion since January 2001. Half of the existing stock of outstanding, marketable Treasury securities is currently held by foreign investors, including foreign governments, and more than 80 cents of every dollar of new debt added since 2001 is owed to foreign purchasers. *(See Charts 5 and 6.)*

Revenue Recovery Since 2003 Is Now Waning — CBO's latest monthly budget review (July 6) indicates substantial slowing in the growth of corporate tax receipts, which had been responsible for more than three-fourths of the growth in overall federal revenues from 2003 to 2006. The Administration revised downward its projections of revenue growth in the Mid-Session Review to bring its (still-rosier) revenue forecast closer to that of CBO.

Budget Would Be In Surplus If Not for the Deficit-Financed Bush Tax Cuts — CBO’s recent analysis confirms that without the 2001 and 2003 tax cuts (EGTRRA and JGTRRA), the budget would be in surplus this year. (*See Chart 7.*) That holds even accounting for any “dynamic” effects of the tax cuts on the economy, which CBO says “have largely dissipated by now” and are “probably small.” CBO estimates that the cost of the tax cuts in 2007 alone, including debt service, is \$211 billion, and even with “dynamic” offset is at least \$195 billion. (CBO’s latest projection of the 2007 deficit – to be updated later this month – is \$177 billion.) The CBO calculations are summarized in the following table:

CBO Analysis of Cost of EGTRRA and JGTRRA Compared with Projected Deficits

Numbers provided by CBO in letter to Chairman John M. Spratt, Jr. dated July 20, 2007.

	(Amounts in billions of dollars)				
	2007	2008	2009	2010	2011
Revenue effects plus interest costs of EGTRRA and JGTRRA (from original JCT revenue estimates and CBO-calculated interest costs)	211	233	245	269	215
CBO’s latest projected deficits (-) from March 2007 baseline	-177	-113	-134	-157	-35
Implied surpluses without tax cuts	34	120	111	112	180

Memorandum:

<i>Minimum cost of tax cuts with "dynamic" offset</i>	195
Implied surplus without tax cuts with "dynamic" scoring	18

A Fortunate Few Have Gained the Most — Income growth during the Bush Administration has been concentrated at the very top of the income distribution, with the top one percent receiving large gains compared to the rest of the population. Nevertheless, the Administration has repeatedly pursued policies that exacerbate these trends. In 2007, the Administration’s tax cuts will hand an average of \$119,500 to households making over \$1 million per year. This is more than 100 times the average tax cut going to middle-income households.

Critical Needs Have Been Neglected — Over the last six years, previous Congresses regularly underfunded investments in our families and communities. The President’s 2008 budget continues these skewed priorities: freezing funding for child care; permanently cutting the Social Services Block Grant (SSBG, or Title XX) by \$500 million (29 percent); cutting the Low-Income Home Energy Assistance Program (LIHEAP), which helps low-income families pay their heating and cooling bills, by \$420 million (19 percent) below what is necessary to keep pace with inflation; and slashing the Community Development Block Grant (CDBG) program by \$1.1 billion.

It's Time for a New Direction for the U.S. Economy

Democrats Are Leading the Way to Restore Fiscal Balance — The 110th Congress made a commitment to the American public to get the country's fiscal house in order, and it is delivering on that promise. So far this year the Congress has adopted a budget that reaches balance over five years, restored pay-as-you-go discipline, and provided program integrity funding to crack down on waste and fraud. Congress has passed Democratic appropriations bills for fiscal year 2008 that make tough, but balanced, choices – cutting low-priority, low-return spending while rejecting the President's harmful cuts to programs that serve our nation's most critical needs. The 110th Congress inherited large deficits and neglected priorities. Congress has now begun the hard work of digging out of that ditch, to reestablish a balanced budget with balanced priorities.

Investing in Innovation — Keeping America competitive requires sustained federal investment in science and technology research and education. Congress is working on two comprehensive pieces of legislation: a competitiveness package that will support our economy through improved basic research, science and math education, and technology development and transfer; and an energy package that will start the country down the path toward energy independence.

Investing in Workers and Families, Our Nation's "Human Capital" — Congress has already increased the national minimum wage from \$5.15 per hour to \$7.25 per hour, the first pay raise since 1997 for the country's lowest paid workers. The 2008 budget substantially increased funds available for education, social services, and job training programs, in part to improve achievement in K-12 education programs under the No Child Left Behind Act. In addition, Congress has passed legislation to cut excessive subsidies to lenders and reinvest most of the savings in programs to help millions of high school graduates afford college through increased grant aid and lower cost loans. Congress also has passed a bill to create an affordable housing fund – not financed by taxpayers but through profits from government-sponsored enterprises such as Fannie Mae and Freddie Mac – that will provide billions to construct and maintain affordable housing nationwide, concentrating the first year on Gulf Coast areas hit by hurricanes.

Jobs Growth Anemic Under Current Administration

Average Monthly Increase in Jobs

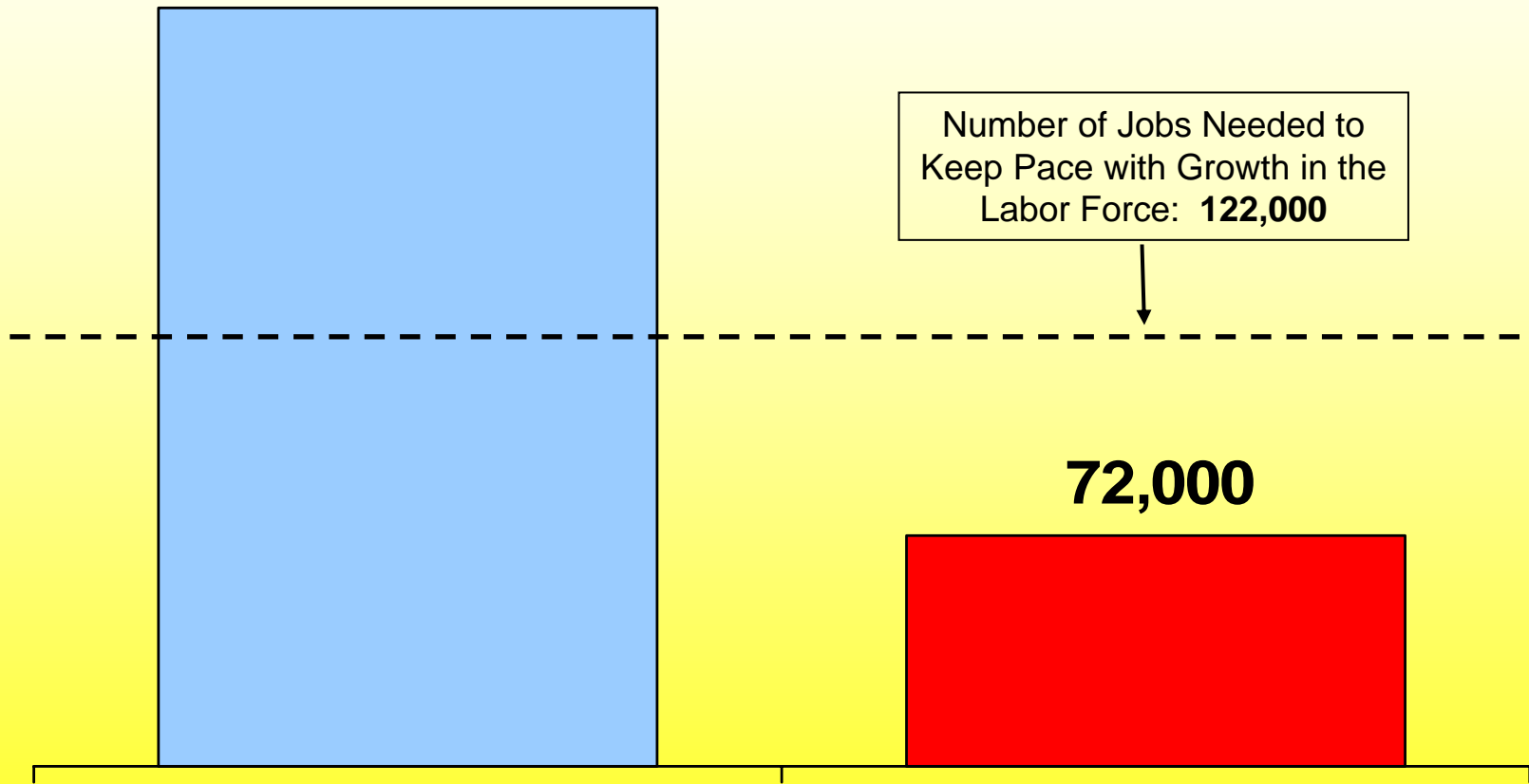
237,000

Number of Jobs Needed to Keep Pace with Growth in the Labor Force: **122,000**

72,000

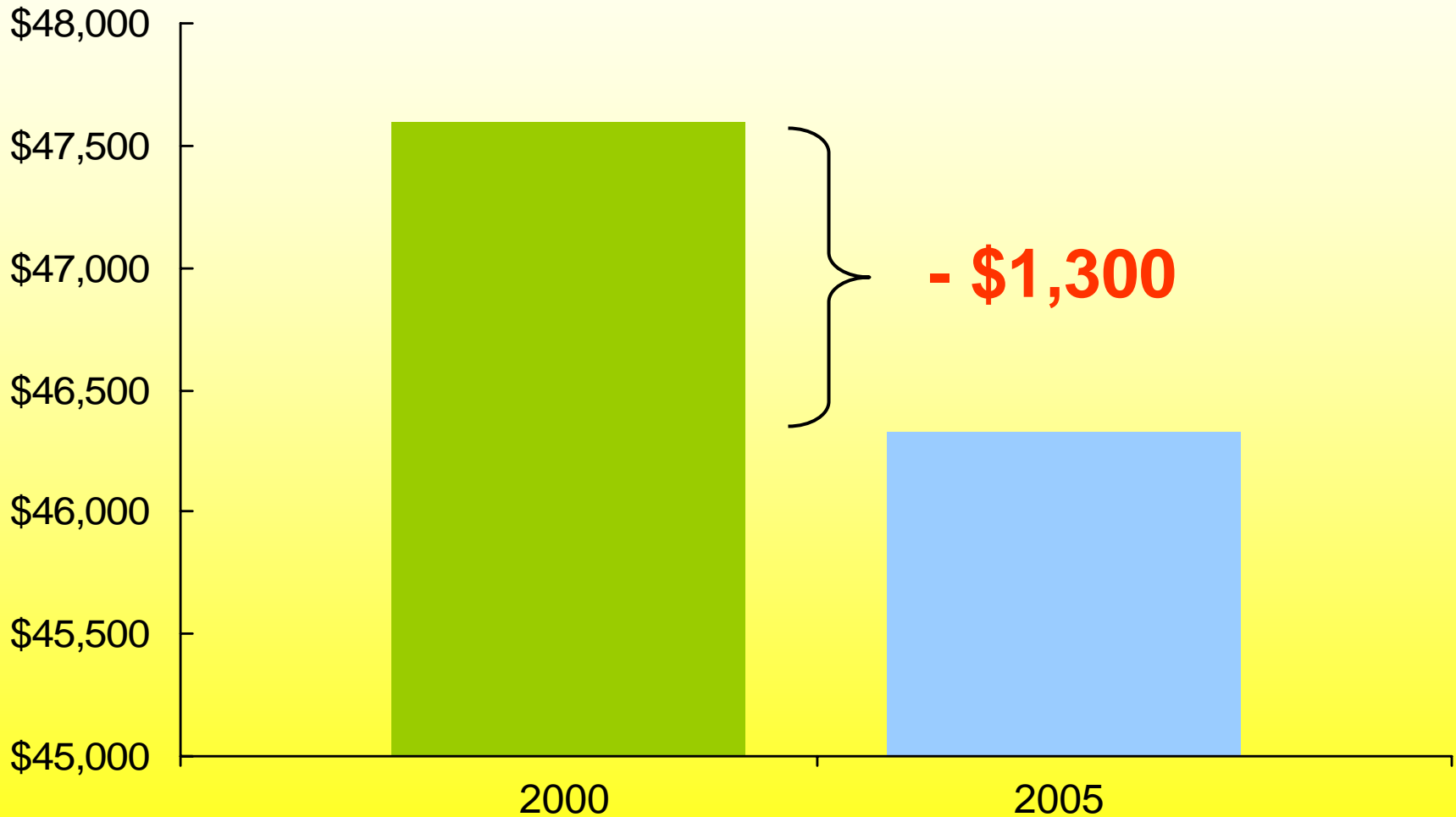
Clinton

Bush



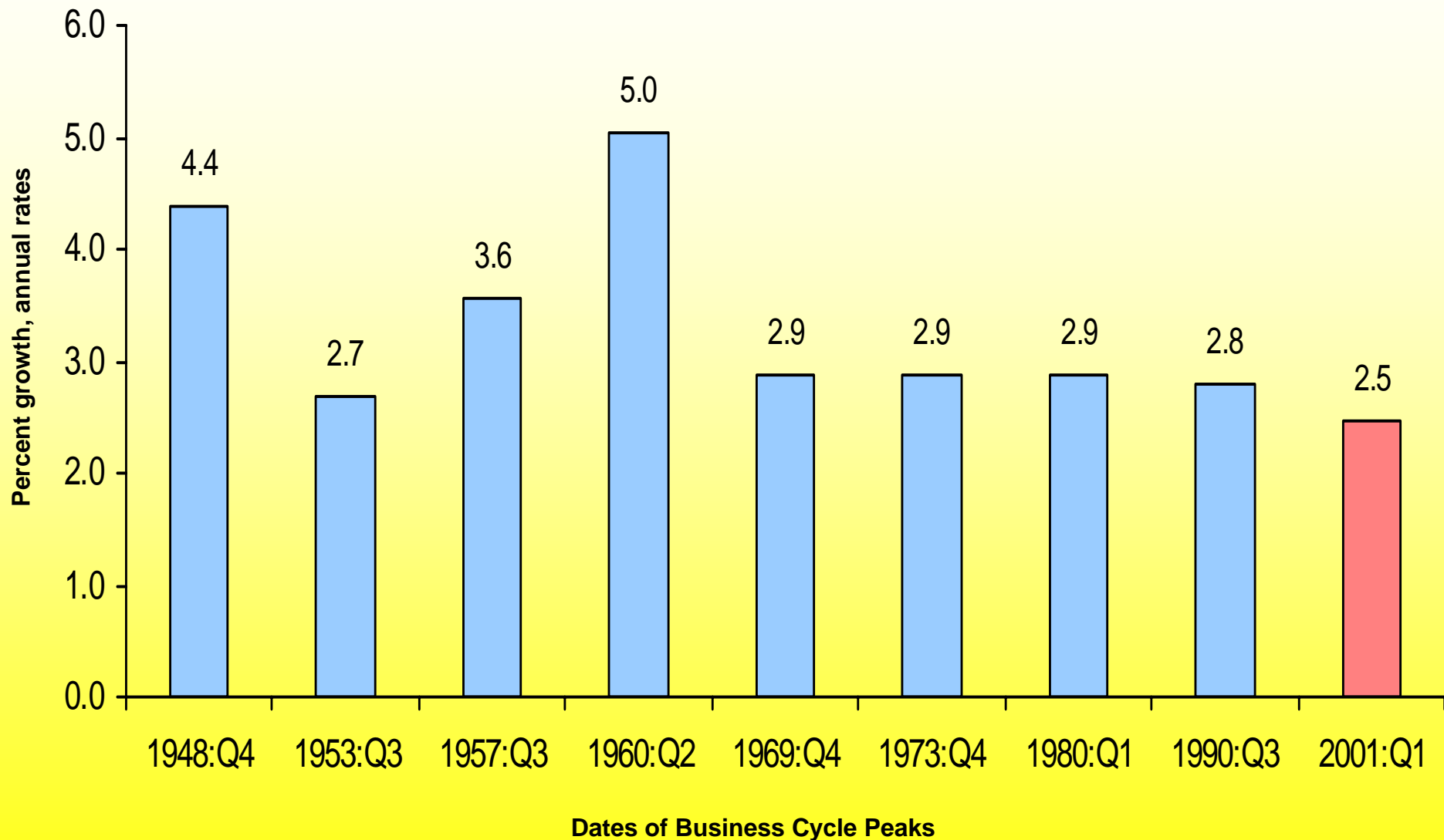
Typical Family Income Decreases Under Bush Administration²

(Median Household Income, Constant 2005 Dollars)



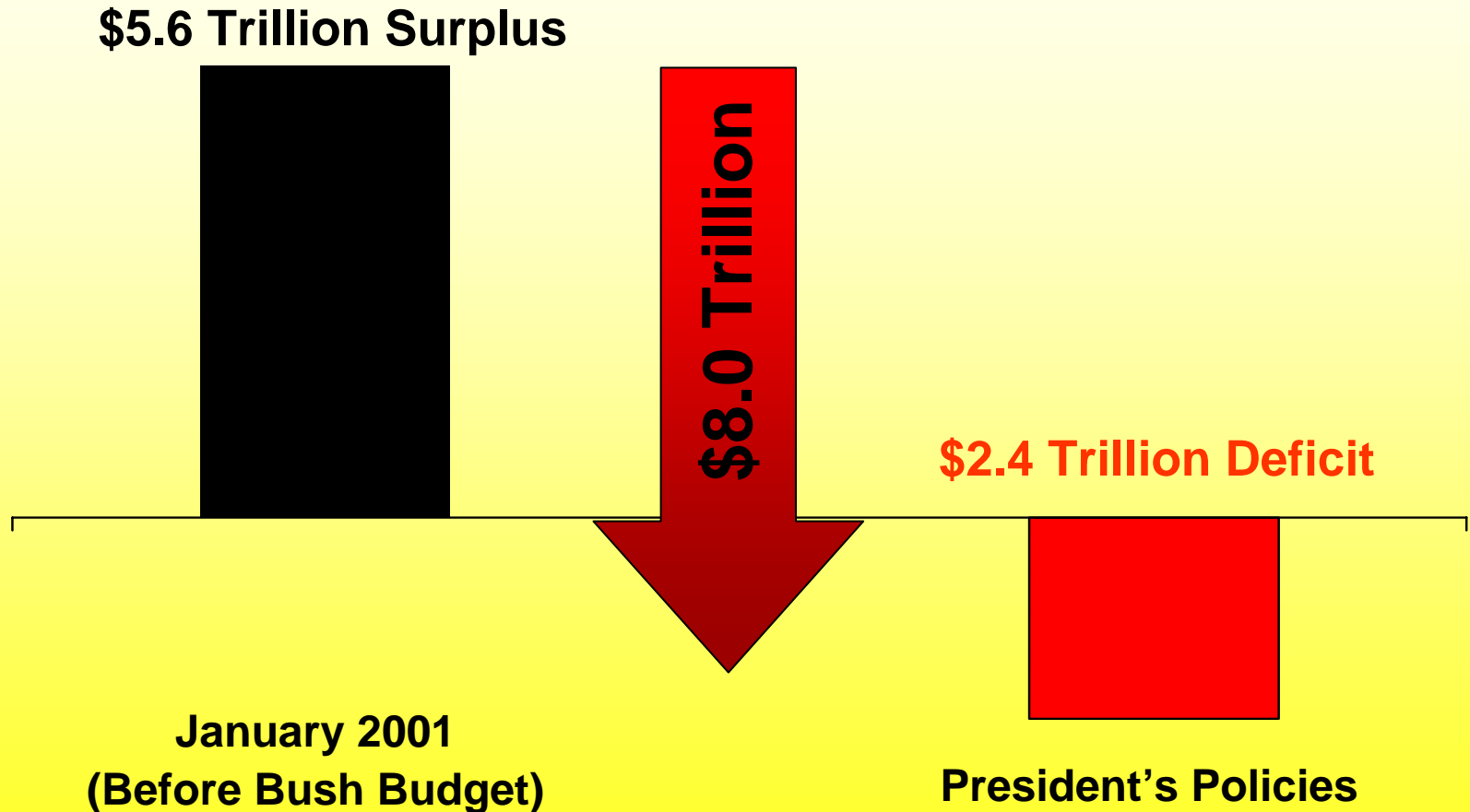
Current Economic Recovery Weakest in Post-War History

Average Growth of Real GDP Over First 25 Quarters Following a Business Cycle Peak



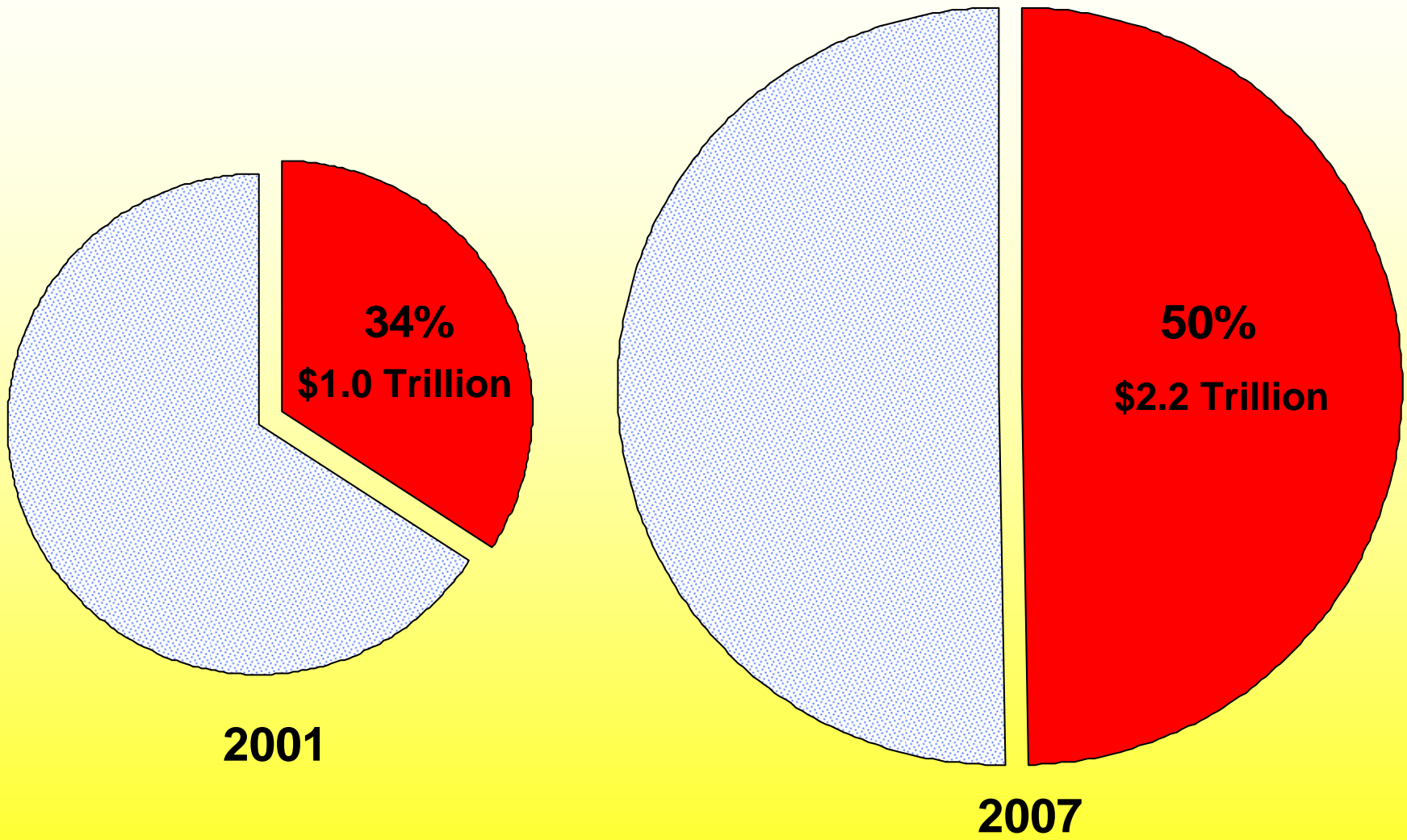
Surplus Declines \$8.0 Trillion Under President's Policies

Actual and Projected Surplus/Deficit, FY2002-2011



Foreign-Held Debt Has Ballooned Since 2001

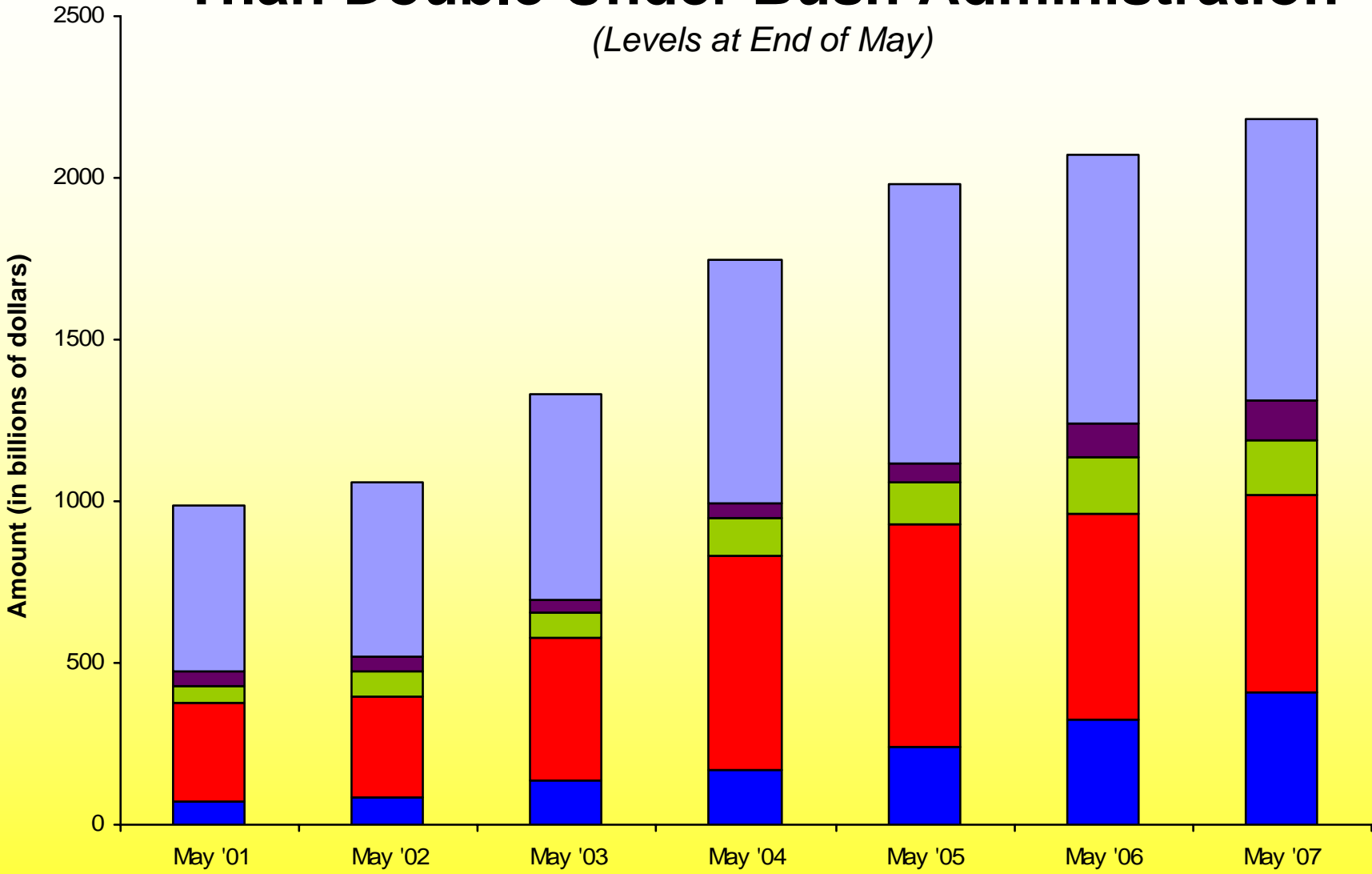
Foreign Holdings as Percentage of Marketable U.S. Public Debt



Source: U.S. Treasury Department, 7/17/2007

Foreign Holdings of Treasury Securities More Than Double Under Bush Administration ⁶

(Levels at End of May)



Without Bush Tax Cuts, Budget Would Be In Surplus

