In considering stories or editorials about the federal deficit or current deficit reduction negotiations, I hope you find the following information on the tenth anniversary of the Bush tax cuts helpful. Should you need any further information, do not hesitate to contact me at (202) 224-3254.

“The most recent projections from the Office of Management and Budget indicate that, if current policies remain in place, the total unified surplus will reach $800 billion in fiscal year 2011. . . . [We can expect surpluses] “well past 2030 despite budgetary pressures from the aging baby boom generation, especially in major health programs. . . . The most recent projections make clear that the highly desirable goal of paying off the federal debt is in reach before the end of the decade.” – ***Federal Reserve Board, Alan Greenspan, in testimony to Congress five days after George W. Bush took office as President.***

“Tax relief will create new jobs, tax relief will generate new wealth, and tax relief will open new opportunities,” ***President George Bush, April 16, 2001.***

Ten years ago – on June 7, 2001 – President George Bush signed into law the first in a series of tax cuts that disproportionately benefited the highest earners, with claims the tax cuts would stimulate the economy and that the government would still be expected to completely play off the national debt.

The opposite occurred. In the years following passage of these tax breaks, the rhetoric of economic growth did not match the reality, and the fundamental legacy of the Bush tax cuts is debt. In fact, during the decade after the Bush tax cuts were passed, “growth in investment, GDP, and employment all posted their worst performance of any post-war expansion.” [1]

By contrast, the legacy of the Bush tax cuts is very different from the decade prior to Bush taking office, which resulted in large surpluses. With the passage of the 1993 reconciliation bill through 2000, the size of deficits steadily declined, turning into growing surpluses in 1998 that steadily grew to a peak in 2000.

Similarly, compared to the economy under Clinton, the Bush tax cuts of 2001 did not result in employment growth. In the three years after the passage of the 2001 measure, the U.S. actually averaged a 17,000 per month job loss. In contrast, in the three years following passage of the 1993 Reconciliation Act, the U.S. gained 327,000 jobs per month.

The following charts illustrate how the Bush tax cuts have affected the deficit, the economy, and people’s incomes.

During a 2001 address to Congress, Bush said, “At the end of those 10 years [in the 2001 budget], we will have paid down all the debt that is available to retire. That is more debt repaid more quickly than has ever been repaid by any nation at any time in history.” [2] However, **than ks in large part to the Bush tax cuts, the debt ballooned under Bush, with debt held by the public increasing from $3.5 trillion to nearly $6 trillion and gross federal debt going from $5.6 trillion to nearly $10 trillion**

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[3]
As the Center on Budget and Policy Priorities found, “the tax cuts account for $1.7 trillion in extra deficits in 2001 through 2008, and is estimated to cost $3.7 trillion over the 2009-2019 period.”
[4]
In addition, the extra debt-service costs caused by the Bush-era tax cuts, amounts “to more than $200 billion through 2008 and another $1.7 trillion over the 2009-2019 period — nearly $330 billion in 2019 alone.”
[5]

Very simply, during the Bush years, spending rose as revenues dropped precipitously. Over the last decade, government revenues fell from 20.6% of GDP in 2000 to 19.5% in the year of the 2001 tax cuts, and as the tax cuts phased in, continuing to fall in to 17.5% in 2008 before crashing, as a result of the recession, to 14.9% in 2009 and 2010. Concurrently, spending rose from 18.2% of GDP in 2000 to 20.7% in 2008, and then, with the costs of the recession, escalating sharply to 23.8% in 2010, much of this increase due to the higher costs of existing programs and lower tax receipts.

Having already burdened the American taxpayer with this legacy of debt over the past 10 years, now both the House Republican budget and the House Republican “jobs plan” released in May include further reductions in the top tax rate from 35 percent to 25 percent. This plan ignores the facts of the past 10 years and asks middle class Americans to sacrifice so that the wealthy can benefit further. As the Washington Post’s Ezra Klein noted, “You could read [the GOP jobs plan] without knowing the past decade ever happened.” [6]

Despite the performance of the economy in the 1990s, in the last 10 year, most Congressional Republicans have clung to an increasingly rigid ideology that any tax increase is bad and that sharp reductions in spending reductions do not cause economic harm. This stance is in sharp contrast to that of Republicans of the past, who recognized that balancing the budget required a combination of spending reductions and revenue increases. For example, after the 1981 tax cut, Reagan and many Congressional Republicans agreed to tax increases in both 1982 and 1984 because of deficit concerns.

Senator Harkin believes that Alan Greenspan’s testimony over ten years ago reminds us that very good things can happen when our national leaders make tough fact-based decisions to both cut spending and raise revenue. He believes there is no question that the time has come for tough budget decisions, but the smart way to bring down the deficit is for Congress to pursue a balanced approach of major spending cuts and necessary revenue increases, while continuing to make investmentsin areas that are important for maximizing job growth over the long term. These include education, infrastructure and research for innovation, so crucial in our competitive world economy.

For more information, please visit http://harkin.senate.gov/ .