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POLICY POINTS

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DO THE FACTS SUPPORT THE PRESIDENT'S CLAIMS ABOUT THE ECONOMY?

In his speech in Chicago today, President Bush praised the economy's recent performance and gave his policies a large amount of the credit. The fact that the economy is growing is not itself remarkable, since the American economy has always resumed growing after downturns. The critical point is that neither the economy nor the President's policies are performing as well as the President claims.

The President's claim that "the American economy heads into 2006 with a full head of steam" ignores the fact that the current economic recovery has been *below average* in historical terms thus far.

- In six out of seven economic indicators, growth rates during the current recovery have been below average for post-World War II recoveries. The seven indicators are growth in GDP, personal consumption, private domestic investment, net worth, income from wages and salaries, employment, and corporate profits. The current recovery is above average in only one of these seven areas: corporate profits, which have grown far more rapidly than average.

- The labor market is below average for a post-World War II recovery as well. For example, job growth during the current recovery has been slower than in all but one postwar recovery. The pace of job growth has picked up this year, but even this more recent pace compares unfavorably with historical patterns.

The President's claim that "we are still on track to cut the federal deficit in half by 2009" is true only if one does not count future costs that are very likely to be incurred, such as additional funding for Iraq, Afghanistan, and relief from the Alternative Minimum Tax.

- Administration budgets meet the goal of halving the deficit by 2009 only on paper. These budgets omit a series of very likely or inevitable costs in taxes, defense spending, and other areas. For example, they omit the large costs in future years associated with continuing relief from the Alternative Minimum Tax to prevent it from encroaching on millions of middle-class households. They also omit costs related to continued operations in Iraq and Afghanistan; while such costs may decline markedly in the future, they clearly will not be zero, as Administration budgets assume.

- The deficit is projected to decline as a share of the economy over the next few years, but this is *in spite of* the Administration's policies, not because of them. The Administration's policies would expand the deficit over the next five years, mostly because the budget cuts that the Administration has proposed in domestic programs are more than outweighed by its proposed tax cuts and increases in defense and homeland security spending.

The President's claim that "By cutting the taxes on the American people, this economy is strong, and the overall tax revenues have hit at record levels" ignores the fact that the tax cuts have caused large federal revenue *losses* and swelled the deficit.

- According to the Congressional Joint Committee on Taxation, tax cuts enacted since President Bush came into office reduced revenues by $211 billion in 2005, a year in which the federal deficit was $319 billion.

- Revenue growth was better than expected in 2005, but this followed three consecutive years (2001-2003) in which revenues declined in nominal terms, an extremely rare occurrence, and one year (2004) in which revenues were lower as a share of the economy than in any year since 1959. Thus, the significant revenue increase in 2005 should not be too surprising.

- Even with the recent increase, revenues in 2005 remained at historically low levels. Over the past 50 years, revenues have hovered around 18.5 percent of GDP, according to the Congressional Budget Office. In 2005, revenues were 17.5 percent of GDP.

- Moreover, even with the recent increase, revenues in 2005 were well below the levels at which they were projected to be after the 2001 tax cut was enacted (after disregarding the additional revenue losses caused by the tax cuts enacted after 2001).

- N. Gregory Mankiw, the former chairman of the President's Council of Economic Advisers and a Harvard economics professor, wrote in his well-known 1998 textbook that there is "no credible evidence" that "tax revenues … rise in the face of lower tax rates." Mankiw compared an economist who says that tax cuts can pay for themselves to a "snake oil salesman who is trying to sell a miracle cure."

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