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# BUSH TAX CUTS TO SEND REVENUES, AS A SHARE OF GDP, TO LOWEST LEVEL SINCE 1959

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In 2003 total federal revenues as a share of the economy will fall to their lowest level since the end of the Eisenhower Administration. Based on the latest Congressional Budget Office estimates of revenues (CBO's latest estimates include a range) and the Joint Committee on Taxation's estimate of the cost of the tax-cut legislation signed into law on May 28, 2003, federal revenues this fiscal year will equal between 16.4 percent and 16.7 percent of the Gross Domestic Product.[1] (The Gross Domestic Product is the basic measure of the size of the U.S. economy.) The last time that revenues as a share of the economy fell below 17 percent was in 1959.

To some degree, these figures reflect the effects of weak economic growth, but other factors clearly are at work as well, since revenues will drop to levels well below those seen in the deeper recessions of the mid-1970s and early 1980s. In particular, these historically low levels of revenue collections reflect the impact of tax cuts enacted in the past few years. The tax cuts enacted in 2001 and 2002 will reduce revenues by $126 billion in 2003, based on CBO estimates.[2] The just-enacted tax cuts will reduce revenues by another $49 billion this year. Without those tax cuts, revenues would equal about 18 percent of the economy in 2003, which would not even be close to the lowest level in 44 years.

Moreover, the newly-enacted legislation reduces revenues by $135 billion in 2004, substantially more than the $49 billion in revenue reductions the legislation contains for 2003. As a result, it appears that in 2004, revenues will decline further as a share of the economy.

Other data provide further evidence of the sharp contraction of the revenue base.

- The figures cited so far refer to *total* federal revenues as a share of the economy. The story becomes even more remarkable when just federal *income taxes* are considered. Income tax receipts (including receipts from both the individual and corporate income tax) are on course to drop to *their lowest level, measured as a share of the economy, since 1943.*

[1] The official cost estimate of the tax bill issued by the Joint Committee on Taxation does not assume positive economic feedback effects. Even if rather significant feedback effects are assumed, revenues as a share of GDP still are on course to drop to their lowest level since 1959. In addition, the calculations provided here are based on CBO's March 2003 projection on the expected size of the economy. With actual GDP information available for the first half of fiscal 2003, CBO's GDP projection is on track.

[2] If one assumes the level of positive economic feedback from the 2001 tax cut that the President's Council of Economic Advisors has claimed, the tax cuts enacted in 2001 and 2002 will reduce revenues by an estimated $109 billion in 2003. See the Center on Budget and Policy Priorities publication, "Are Tax Cuts a Minor or Major Factor in the Return of Deficits? What the CBO Data Show," February 12, 2003.

- In absolute dollars, revenues for fiscal year 2003 will fall below their 2002 level. This will mark the third year in a row that revenues have fallen on a nominal basis (i.e., even before adjusting for inflation).[3] The last time that revenues declined on a nominal basis for three consecutive years was from 1920 to 1923.

Looking beyond 2004, several factors will determine whether revenues as a share of the economy remain at such low levels. One is whether the recent downward revision in CBO's revenue estimate for 2003 of between $50 billion and $80 billion, even before considering the new tax cut, turns out to reflect an ongoing reduction in the revenue base or some type of temporary decline.[4] A second, larger factor is whether the numerous tax cuts that now are scheduled to expire between 2004 and 2010 actually end or are extended. The Administration and key Republican leaders in Congress have made clear that they intend to extend most of these provisions. A recent study by two economists from the Brookings Institution finds that the cost of extending all tax cuts set to expire between now and 2010 will amount to 2.4 percent of the economy in 2013.[5]

A third factor is whether new tax cuts are enacted between now and the end of 2004. Recent press reports have suggested the Administration plans to push for a new tax cut every year.[6]

The exceptionally low level to which receipts have already fallen should cause policymakers to pause before enacting new tax cuts or extending current ones. The drop in revenues already explains much of the dramatic deterioration in the nation's fiscal position, and the jump in the deficit. Revenues have now fallen to such low levels as to raise questions about the adequacy of the nation's revenue base, especially with the retirement of the baby-boom generation rapidly approaching. Consideration may, in fact, need to be given to revenue-raising measures after the nation pulls out of the current economic slump.

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[3] Revenues were $2.025 trillion in fiscal year 2000. They declined to $1.991 trillion in FY 2001 and $1.853 trillion in FY 2002. Taking into account the new tax cut and CBO's latest estimate of tax revenues, revenues will total $1.762 trillion to $1.792 trillion in FY 2003.

[4] Congressional Budget Office, "Monthly Budget Review," May 2003.

[5] William G. Gale and Peter R. Orszag, "Sunsets in the Tax Code," The Brookings Institution, May 23, 2003, (forthcoming in *Tax Notes)*.

[6] Dana Milbank and Dan Balz, "GOP Eyes Tax Cuts as Annual Events," *The Washington Post*, May 11, 2003.

**Federal Receipts as a Share of Gross Domestic Product, 1951-2003**

| Fiscal Year | | Fiscal Year | |
|---|---|---|---|
| 1951 | 16.1% | 1978 | 18.0% |
| 1952 | 19.0 | 1979 | 18.5 |
| 1953 | 18.6 | 1980 | 18.9 |
| 1954 | 18.4 | 1981 | 19.6 |
| 1955 | 16.6 | 1982 | 19.1 |
| 1956 | 17.4 | 1983 | 17.5 |
| 1957 | 17.7 | 1984 | 17.4 |
| 1958 | 17.3 | 1985 | 17.7 |
| 1959 | 16.1 | 1986 | 17.5 |
| 1960 | 17.8 | 1987 | 18.4 |
| 1961 | 17.7 | 1988 | 18.1 |
| 1962 | 17.5 | 1989 | 18.3 |
| 1963 | 17.8 | 1990 | 18.0 |
| 1964 | 17.6 | 1991 | 17.8 |
| 1965 | 17.0 | 1992 | 17.5 |
| 1966 | 17.3 | 1993 | 17.6 |
| 1967 | 18.3 | 1994 | 18.1 |
| 1968 | 17.6 | 1995 | 18.5 |
| 1969 | 19.7 | 1996 | 18.9 |
| 1970 | 19.0 | 1997 | 19.3 |
| 1971 | 17.3 | 1998 | 19.9 |
| 1972 | 17.5 | 1999 | 20.0 |
| 1973 | 17.6 | 2000 | 20.8 |
| 1974 | 18.3 | 2001 | 19.9 |
| 1975 | 17.9 | 2002 | 17.9 |
| 1976 | 17.2 | 2003est. | 16.4-16.7 |
| 1977 | 18.0 | | |

Source: Data from 1951-2002 are from the Office of Management and Budget. Estimate for 2003 is the author's, based on data from the Congressional Budget Office and the Joint Committee on Taxation.