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TENTH ANNIVERSARY OF THE BUSH-ERA TAX CUTS

A decade later, the Bush tax cuts remain expensive, ineffective, and unfair

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The Economic Growth and Tax Relief Reconciliation Act of 2001 (the first of a series of Bush-era tax changes) was enacted on June 7, 2001. Since then, the Bush tax cuts have exacerbated the trend of widening income inequality, accompanied the worst economic expansion since World War II, and turned budget surpluses into deficits.

On this 10th anniversary of the first Bush-era tax changes, the following 10 facts should be noted:

1 The Bush tax cuts disproportionately benefited the wealthy.

The Bush-era tax cuts[1] conferred disproportionate benefits on those at the top of the earnings distribution, exacerbating a trend of widening income inequality.

- In 2010, the top 1% of earners (i.e., tax filers making over $645,000) received 38% of the breaks in the 2001-08 tax changes; 55% of the tax breaks went to the top 10% of earners (those making over $170,000).[2]
- The top 0.1% of earners (i.e., making over $3 million) received an average tax cut of roughly $520,000, more than 450 times larger than the share received by an average middle-income family.[3]
- A multitude of tax cuts overwhelmingly benefited the wealthiest Americans. These cuts included lower tax rates on capital gains and dividends, elimination of both the personal exemption phase-out and the limitation on itemized deductions, lower marginal rates for the top two tax brackets, and lower estate tax rates and an increase in the estate tax exemption. For instance, individuals in or below the 25% tax bracket (single-filers making less than $83,000 and joint-filers making less than $138,000) received only 16% of the benefit from reducing rates on long-term capital gains and qualifying dividends in 2005.[4] Similarly, the top 5% of earners received 100% of the benefit from partially repealing the personal exemption phase-out and the limitation on itemized deductions in 2006.[5]

These changes came at a time when high earners were seeing large income gains relative to low-income taxpayers and the middle class.

- In 2007 (the date for which the latest data is available) the top 1% of earners (making over $382,000) took home 19% of pre-tax national income, while the bottom 90% (making under $112,000) took home just 58%.[6]
- The top 1% of earners captured 65% of total income gains during the 2002-07 economic expansion.[7]

2 The Bush tax cuts did little for low-income families.

Lower-income and working families saw very little of the benefits from the tax changes.

- In 2010, tax filers in the bottom 20% of the income distribution (tax filers making less than $20,000) received only a 1% share of the tax cuts, and 75% of these low-income families saw no reduction at all.[8]
- The middle 20%—tax filers making between $40,000 and $70,000 a year—received only 11% of the tax cuts.[9]
- The lower 60% of earners (making less than $70,000 a year) received less than 20% of the total dollar benefit.[10]
- A middle-income family received roughly one-eighth of the average tax cut received by a family in the top 20% of the income distribution; a family in the lowest 20% received less than one-hundredth of the average tax cut received by a family in the top fifth of the earnings distribution.[11]

3 The Bush tax cuts never trickled down.

The Bush economic expansion had the worst wage and salary growth and total compensation growth of any postwar economic expansion. Workers also fared progressively worse the lower they were in the income distribution.

- Inflation-adjusted median weekly earnings fell by 2.3% during the economic expansion from 2001Q4 to 2007Q4.[12] Over this same period, nonfarm business productivity (output per hours worked) increased 15.4%;[13] in essence, wage growth became further decoupled from productivity growth.
- Between 2002 and 2007, real hourly earnings fell 1.7% for men in the bottom 10th percentile of wage earnings, fell 0.4% for men in the 50th wage percentile, and increased 2.4% for men in the 90th wage percentile, continuing a trend of very uneven wage growth.[14]
- The bottom 90% of earners were left with just 13% of total income gains, significantly less income than the 24% captured by the top 0.01% (those with incomes above $9.5 million).[15]
- Total employment increased just 0.9% annually—one-third of the average growth in postwar economic expansions—just barely keeping pace with population growth. The 2002-2007 expansion was the only postwar expansion in which the employment-to-population ratio did not rise.[16]
- The national unemployment rate never once returned to prerecession levels.[17]

4 The Bush tax cuts were a poorly designed economic stimulus.

The first Bush tax cuts were enacted four months into the 2001 recession and were touted as a plan for economic stimulus.

- In reality, the bulk of the Bush tax cuts were scheduled to be phased-in over nine years, with full implementation only after the economy was projected to recover.
- The Bush tax cuts were targeted to higher-income individuals,[18] who are less likely to spend extra dollars of disposable income.
- Moody's Analytics Chief Economist Mark Zandi estimates that making the Bush income tax cuts permanent would currently generate only 35 cents in economic activity for every dollar in forgone revenue. Targeted refundable tax credits included in the American Recovery and Reinvestment Act, on the other hand, are estimated to generate much more bang-per-buck, ranging from $1.17 for the Making Work Pay Credit to $1.38 for the Child Tax Credit.[19]
- Direct spending on infrastructure, unemployment benefits, and state fiscal relief—widely agreed to pack an even bigger economic punch[20]—would have made for an even better stimulus.

5 The Bush tax cuts failed to create strong long-run growth.

Not only were the Bush-era tax cuts a poor stimulus coming out of the 2001 recession, they did not lead to faster economic growth during the economic expansion leading up to the Great Recession.

- Between the end of the 2001 recession (2001Q4) and the peak of that expansion (2007Q4), the U.S. economy experienced the worst economic expansion of the post-war era.[21]
- Growth in investment, GDP, and employment all posted their worst performance of any post-war expansion.[22]
- The tax cuts were supposed to encourage business investment, but nonresidential fixed investment increased a meager 2.1% annually—a third of the average increase and less than half that of the next poorest post-war increase in business investment on record.[23]

6 The Bush tax cuts were so expensive that they added greatly to the debt.

In the end, the Bush tax cuts cost a huge amount of money and significantly increased debt levels.

- Federal tax revenue fell from 20.6% of GDP in FY2000 (the last year of the 1991-2000 expansion and reflective of Clinton-era tax rates) to 18.5% of GDP in FY2007 (the last year of the Bush economic expansion and reflective of Bush-era tax rates).[24]
- From 2001 through 2010, the cuts added $2.6 trillion to the public debt,[25] nearly 50% of the total debt accrued during this period.[26]
- The decade of the Bush tax cuts had, on average, lower revenue levels as a share of the economy than any previous decade since the 1950s.[27]

Some proponents, including Senate Minority Leader Mitch McConnell (R-Ky.), have suggested that the Bush tax cuts paid for themselves by inducing economic growth. However, economic performance during this period was poor, income tax revenue immediately fell in response, and in real per capita terms tax revenue has never recovered. Supply-side theories have not held up to empirical scrutiny.[28]

- Bush administration economists widely acknowledged that the tax cuts lowered revenue. Alan Viard, a senior economist with the Council of Economic Advisers under Bush, said in 2006 that "Federal revenue is lower today than it would have been without the tax cuts. There's really no dispute among economists about that."[29]

7 The Bush tax cuts were much more expensive than advertised.

The Bush tax cuts were designed using a few budget gimmicks to obscure their true cost.

- The estimated cost of the Bush tax cuts did not account for their budgetary impact on maintaining current policy for the Alternative Minimum Tax. Every year, Congress "patches" the AMT, adjusting its parameters for inflation to keep middle-class tax filers from falling within its reach. By lowering tax liabilities for many taxpayers without adjusting the AMT accordingly, the Bush tax cuts pushed even more filers within the reach of the AMT. In other words, the Bush tax cuts have made the current policy of patching the AMT each year much more expensive. This interaction effect between the Bush tax cuts and the AMT patch would cost an additional $779 billion (including debt service) over the next decade if both policies are continued.[30]
- Permanently patching the AMT would have revealed that the Bush tax cuts cost far more than advertised, and might have jeopardized their passage.
- The tax cuts were initially scheduled to last only until the end of 2010. By making the tax cuts expire during the last year of that window, the Senate was able to avoid the "Byrd rule" and pass the tax cuts using the filibuster-proof reconciliation process. This was purely a gimmick to ensure easy passage.

8 The Bush tax cuts continue to be expensive.

As expensive as the Bush tax cuts were in the last 10 years, the cost over the next 10 years will be much, much higher.

- Making the changes permanent would cost about $4.6 trillion over the 2012-21 period.[31]
- The extension of the Bush tax cuts in the December 2010 tax deal is projected to decrease revenue by $423 billion over 2012-21, pushing the total cost above $5.0 trillion over the next decade.[32] This represents about half of the total projected deficits over this period.[33]
- Just allowing the Bush tax cuts to expire would put public debt on a sustainable trajectory over the next decade, maintaining a constant share of the economy through the entire 10-year period.[34]

The opportunity cost of the Bush tax cuts is significant. If continued, they will crowd out budget priorities such as economic security programs and investments in education, infrastructure, research, and health.

9 The Bush tax cuts eliminated the most progressive federal tax: taxes on large estates.

The Bush tax cuts repealed the tax on large estates for the first time since 1916, eliminating the only federal tax on concentrated wealth.[35] According to the Urban-Brookings Tax Policy Center, the estate tax is the most progressive federal tax.[36]

- The Bush tax cuts raised the estate tax exemption from $675,000 to $3.5 million (single filer) and lowered the top rate from 60% to 45%, from 2001 to 2009.[37]
- In 2009, the top 5% of earners paid 93% of estate taxes, while the bottom 90% of earners paid just 5% of estate taxes. The wealthiest 0.1% paid 42% of estate taxes.[38]
- The Bush tax cuts fully repealed the estate tax in 2010. The estate tax was reinstated on January 1, 2011 at a record $5 million exemption and a very low 35% rate. Relative to the 2009 parameters, this represented a tax cut benefiting only the wealthiest one-fourth of one percent of estates.[39]
- Wealth remains incredibly concentrated at the top of the income distribution, making a strong case for taxing large estates. In 2009, the top 1% of the income distribution controlled 35% of wealth, while the top 5% controlled 64%. The bottom 80%, on the other hand, controlled just 13% of national wealth.[40]

10 A decade of Bush tax cuts are increasing interest spending today.

The Bush tax cuts cost $2.6 trillion through 2010, but not all of that was revenue lost. A sizeable portion was higher interest payments necessary to finance the increase in the debt.

- Over the last decade we have spent more than $400 billion on increased interest to finance the debt created by the Bush tax cuts.[41]
- Just under $50 billion will be spent *in this year alone* financing this debt; that is almost twice the size of the entire Department of Energy's budget, and about half of our entire federal transportation investment.[42]

Endnotes

1. The policies in this memo include the 2001 EGTRRA and the 2003 Jobs and Growth Tax Relief and Reconciliation Act, and other (more minor) policies enacted between 2001 and 2008, unless otherwise noted. The American Reinvestment and Recovery Act of 2009 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 have most recently modified and extended these tax cuts.
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10. Ibid.
11. Ibid.
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13. Bureau of Labor Statistics. Major Sector Productivity and Costs Index. Nonfarm business output per hour.
14. State of Working America. 2011. "Wages at the high end are growing faster." EPI analysis of U.S. Census Bureau, Current Population Survey. http://www.stateofworkingamerica.org/files/files/7%20Wages%20at%20the%20high%20end%20grow%20faster.xlsx
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16. Bivens, Josh and John Irons. 2008. "A feeble recovery: the fundamental weakness of the 2001-2007 expansion." Washington, D.C.: Economic Policy Institute, December 9. http://epi.3cdn.net/ff1869e11dfc0ef295_xxm6b9cj9.pdf
17. Bureau of Labor Statistics. National Unemployment Rate. The national unemployment rate stood at 4.2% in February 2001 and 4.3% in March 2001, when the economy entered a recession.
18. Tax Policy Center. 2008. "T08-0151 – Individual Income and Estate Tax Provisions in the 2001-08 Tax Cuts, Distribution of Federal Tax Change by Cash Income Percentile, 2010." Washington, D.C.: Urban-Brookings Tax Policy Center, July 2. Distributional analysis is measured relative to Clinton-era rates in terms of tax units filing together. Tax units with negative federal income tax are excluded from the earnings quintiles. Tax brackets in 2008 dollars have been adjusted to April 2011 dollars (CPI-U-RS).
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27. OMB. 2011. Historical Tables. "Table 1.2 – Summary of Receipts, Outlays, and Surpluses or Deficits (-) as Percentages of GDP: 1930-2016." http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/hist01z2.xls
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31. CBO. 2011. "Budget and Economic Outlook: Fiscal Years 2011 to 2021." Table 1-7, lines 49 and 50. http://www.cbo.gov/ftpdocs/120xx/doc12039/BudgetTables%5B1%5D.xls. Assumes continuation of the individual income tax and estate and gift tax provisions scheduled to expire on December 31, 2012, excluding the one-year payroll tax cut.
32. Joint Committee on Taxation. 2010. "Estimated Budget Effects of the "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010." http://www.jct.gov/publications.html?func=startdown&id=3715 This reflects the cost of individual income tax cuts, the AMT patch, and the reinstatement of the estate tax at a $5 million exemption and 35% rate.
33. EPI calculations based on CBO's "Budget and Economic Outlook: Fiscal Years 2011 to 2021" and "An Analysis of the President's Budgetary Proposals for Fiscal Year 2012." Projected current policy deficits are based on CBO's March 2011 baseline, adjusted for continuation of the 2001 and 2003 tax cuts, the AMT patch, the doc fix (maintaining Medicare physician payment rates), and the overseas contingency operation funding estimates in the president's 2012 budget request.
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41. EPI calculations based on CBO budget and economic updates.
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