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# Economic Policy Institute

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**SEE REPORT:** [\*The Boom That Wasn't\*](#)

## TAX CUTS: REPORT FINDS MUCH HARM, LITTLE GOOD

As Congress stands poised to expand its menu of tax cuts, both by making previous cuts permanent and adding new ones, a new analysis of the cuts already instituted since 2001 should give lawmakers pause.

In his report titled [\*"The Boom That Wasn't,"\*](#) the Economic Policy Institute's research director, Lee Price, shows that the positive effects of the \$860 billion in tax cuts since 2001 have been negligible or nonexistent, and the largest effect has been negative: expanding the federal deficit to unsustainable levels for the foreseeable future.

"If tax cuts were ever going to produce economic growth, the evidence would have shown up in the economic data by now – but it's simply not there," said Price. "It's time to declare this administration's tax-cutting strategy a failure and start strategizing about how to rebuild the economic strength we have lost."

Price's report provides a comprehensive look at today's economy by comparing the major indicators of the past four-and-a-half years to those from comparable periods for all other business cycles since the 1940s. Price's analysis shows that by virtually every measure, the current economy has performed worse than in all past business cycles, including the early 1990s, which was a period of major tax increases. He finds that by creating these excessive permanent deficits, the tax cuts have lowered our future standard of living.

Price's examination of key indicators finds:

- **Overall economic growth**, as measured by GDP, increased at an annual average rate of 2.8 percent over the past 17 quarters, compared to average annual growth of 3.5 percent over the past six cycles. A similar comparison of Gross Domestic Income (GDI) shows growth of 2.3 percent for the current business cycle and 3.4 percent for the previous ones.
- **Employment growth** has also fallen short: there are only 1.3 percent more jobs this cycle (excluding Katrina's impact), compared to an average of 8.8 percent in previous cycles. Private-sector employment grew only 0.8 percent in the current cycle, compared to 8.6 percent previously.
- **Growth of income from wages and salaries**, only 1.3 percent per year currently, is lower than in all previous cycles and nearly 2 percentage points below their 3.2 percent average annual growth rate.

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- Although **personal income** grew faster than wages and salaries in this cycle (up 1.8 percent per year), that pace is barely half the average growth rate of 3.4 percent in previous cycles.
- **Overall spending** has risen faster than GDP because imports have grown faster than exports; nevertheless, spending increases in the past 17 quarters have averaged 3.1 percent, compared to a 3.7 percent average for all previous cycles.
- **Personal spending**, boosted by additional borrowing and shrinking savings, has risen 3.2 percent annually in the current business cycle, down from the 3.7 percent average of previous cycles.
- **Business investments** in structures, equipment, and software, even with substantial tax cuts that were supposed to spur business expansion and hiring, grew only 3.6 percent from the first quarter of 2001 to the second quarter of 2005 – less than half of the 8.2 percent growth in the weakest of the six previous cycles and only one-eighth as large as the 27.5 percent growth in the strongest prior cycle.
- Business investment trends from late 2004 and early 2005 – before and after the **expiration of a raise in the “bonus depreciation”** passed by Congress in May 2003 – undermine the argument for tax cuts. If tax cut proponents were right, there should have been a significant drop-off in investments at the start of 2005; such a drop did not occur.
- **Housing**, the one positive growth area, also undercuts the tax-cutting strategy. Growth in construction and remodeling of homes has outpaced the average of past cycles: 35 percent growth since early 2001, compared to average gain of 22 percent in previous cycles. The current phenomenal growth has occurred even though tax changes have actually reduced incentives for spending on homes since 2001.

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*The Economic Policy Institute is an independent, nonprofit, nonpartisan research institute – or “think tank” – that researches the impact of economic trends and policies on working people in the United States and around the world.*