



Before the Bush Recession

Supply Side Tax Cuts Failed to Deliver Jobs and Income Growth between 2001 and 2007

By Joshua Picker February 2009

Introduction and summary

In his final days in office, President George W. Bush told the American Enterprise Institute:

[T]he benefits of the tax cuts have been obscured by the recent economic crisis, no question about it. But when they finally take a look back at whether or not tax cuts were effective or not, it's hard to argue against 52 uninterrupted months of job growth as a result of tax policy. And so my hope is, is that after this crisis passes—and it will—that people continue to write about and articulate a public policy of low taxes.¹

This and other efforts of the “Bush Legacy Project” to rehabilitate the last administration’s job creation image and defend its tax cuts ignore the stark reality that the Bush administration’s tax policies fostered the weakest jobs and income growth in more than six decades, and ignored alarming labor market trends in minority communities. This record of anemic job creation was accompanied by sluggish business investment and weak gross domestic product growth that characterized the period after the Bush tax cuts of 2001 and 2003 went into effect.²

Yet conservatives continue to argue for another round of permanent tax cuts similar to those of the Bush administration. Even if all of the Bush tax cuts are allowed to expire as scheduled, the projected cost of the Bush tax cuts to the federal budget over the next ten years is \$3.9 trillion, an average of 1.4 percent of the country’s total economic activity (GDP)³ per year. Those asking for more permanent tax cuts continue to justify the cost, claiming tax cuts create jobs.

But their analysis ignores what actually happened during the economic cycle that began in March 2001 and ended in December of 2007—which almost exactly coincides with the Bush presidency and the implementation of the Bush tax cuts. This period registered the

weakest jobs and income growth in the post-war period. Overall monthly job growth was the worst of any cycle since at least February 1945, and household income growth was negative for the first cycle since tracking began in 1967. Women reversed employment gains of previous cycles. And for African Americans, the worst job growth on record was matched by an unprecedented increase in poverty.

Given this incredibly weak record, it is astounding that some conservative members of Congress held up—and eventually voted against—the Obama administration’s economic stimulus and recovery package because it did not contain additional permanent tax cuts. The anemic Bush economic cycle directly contradicts the idea that those tax cuts delivered broad-based economic growth and job creation—never mind the promise of long-term economic growth so quickly squelched by the onset of the recession beginning in December 2007.

This paper will examine the jobs, income and poverty legacy wrought by supply-side ideology over the course of the Bush presidency. This review is important not least because conservatives continue to pitch supply-side remedies as valid alternatives to the Obama recovery package amid a worsening recession. And beyond the economic recovery, the upcoming fiscal 2010 and 2011 federal budget debates will prominently feature questions about whether to extend some or all of the Bush tax cuts. The evidence in this paper demonstrates that conservative rhetoric about the job creation potential of supply-side tax cuts does not match up to the anemic Bush-era record.

The evidence

The Bush administration's tax policies produced the weakest economic cycle since February 1945. The data is now available to evaluate the full job-creation record of the Bush economic cycle that began in March 2001 and ended in December 2007. What we find is that in terms of jobs, incomes, and poverty reduction, the Bush policies helped produce one of the weakest economic cycles on record.

Comparing this most recent business cycle to other economic cycles since World War II allows us to judge how economic growth under Bush following the end of the 2001 recession compared to job growth in previous cycles, and whether the Bush policies fostered job creation. The Bush economic cycle was 81 months long, slightly longer than the average economic cycle in the post-World War II period of 68.5 months. Despite an above-average length of recovery, overall and average job growth were both extremely weak (see Table 1).

This paper compares the Bush economic cycle to prior cycles by looking from one peak of economic activity to the next peak. The peaks are defined by the National Bureau of Economic Research and are when the economy was at its highest level in a particular cycle, which usually coincides with low unemployment and high Gross Domestic Product, among other things. Thus, the data included in this analysis includes the low points in GDP that occurred during the recessions between the peaks of each cycle. Examining peak-to-peak data gives us a sense for the overall effectiveness of economic policy, since it measures both the depth of the recessions between the peaks, and the level to which the economy recovers.

Total average monthly job growth was the second worst since World War II

Looking at the economic cycle from peak-to-peak, March 2001 to December 2007, the U.S. economy added only 5.6 million jobs, an average of 68,000 jobs per month. Excluding the brief cycle that came with the so-called double-dip recession of the 1980s, the Bush business cycle produced the third-worst record of job creation of any cycle since World War II. Even looking just at the period between August 2003—when the second round of tax cuts went into effect—and the end of the expansion in December 2007, average monthly job growth was still only 158,000 per month, or barely half a percent per month, the second-weakest pace of any economic cycle since World War II.

TABLE 1

Business cycles and jobs growth in the post-World War II era

Jobs growth during the last business cycle was the weakest since 1945

Years	Total average monthly job growth (Thousands)	Average annualized monthly growth (Percent)
February 1945 – November 1948	73	2.0%
November 1948–July 1953	95	2.4%
July 1953–August 1957	53	1.2%
August 1957–April 1960	53	1.2%
April 1960–December 1969	142	2.7%
December 1969–November 1973	142	2.3%
November 1973–January 1980	174	2.5%
January 1980–July 1981	44	0.6%
July 1981–July 1990	168	2.0%
July 1990–March 2001	178	1.8%
March 2001–December 2007	68	0.6%

Source: National Bureau of Economic Research and Bureau of Labor Statistics

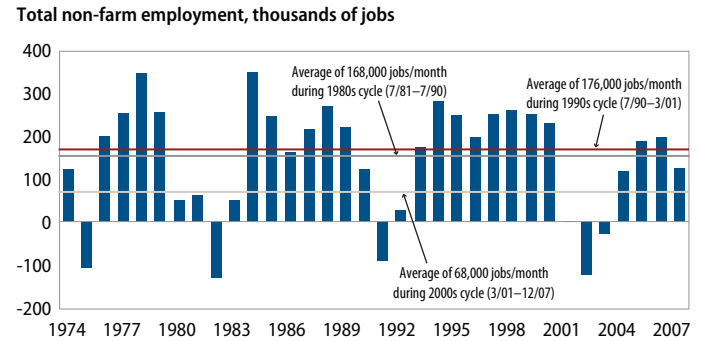
In fact, previous periods of economic growth were more robust in overall and average monthly job growth. The last economic cycle, from July 1990 to March 2001, created nearly 23 million jobs, with an average growth rate of 1.8 percent per month. Even shorter economic cycles—from December 1969 to November 1973, and from November 1973 to January 1980—created more jobs than the Bush cycle, 6.7 million in the 1969 cycle and 12.9 million in the 1973 cycle (see Chart 1).

The employment picture is even less robust for workers in their prime work years (ages 25 to 54). For these workers, the 2001-2007 economic cycle featured the slowest jobs growth on record. Looking only at prime-age workers, which excludes retirees and those approaching retirement—whose labor force participation varies widely—as well as younger workers who may still be pursuing higher education, the record shows that the Bush economic cycle provided the fewest job opportunities since the cycle from August 1957 to April 1960, and the slowest job growth on record.

As the Chart 2 demonstrates, from March 2001 to December 2007 the economy added 1.8 million jobs for workers aged 25 to 54, only 22,000 per month. That translates to an average annualized growth rate of only 0.3 percent per month—the slowest of any cycle on record since the end of World War II and one-fifth the growth rate during the 1990s.

Bush era jobs growth record trumped by predecessors

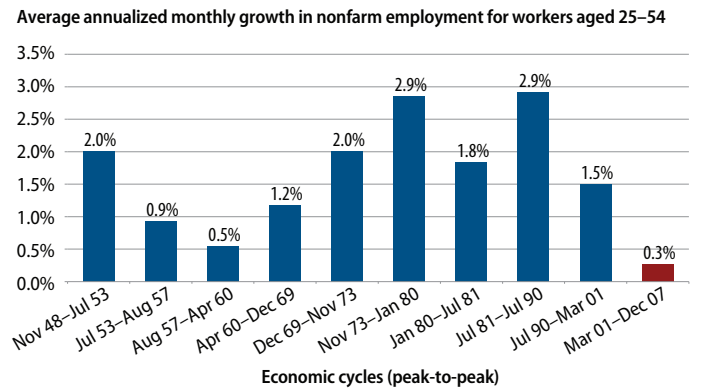
Average net jobs per month during three recent economic cycles



Source: Author's calculation from the Bureau of Labor Statistics.

Workers in their prime saw the worst job growth under Bush

Monthly job growth for prime-age workers in the Bush economic cycle was the worst on record



Source: Bureau of Labor Statistics, current employment survey.

Women's job growth during the Bush economic cycle was the worst on record

The Bush tax cuts did nothing to promote expanded employment opportunities for women. Looking at the average monthly growth in the ratio of employed women to the female population—a measure that better accounts for the variation in women's labor force participation since 1948—women's employment growth declined, for the first time since 1948, during the Bush economic cycle. Over the course of the economic cycle from March 2001 to December 2007, the employment-to-population ratio for women declined at an average annualized monthly rate of -0.3 percent.

In all previous post-World War II economic cycles, the employment-to-population ratio for women grew, ranging from 0.6 percent in the 1990s cycle to 1.9 percent per month in the 1970s. The numbers are even more telling for prime-age women from ages 25 to 54. As the chart below shows, women’s employment-to-population ratio decreased by -0.4 percent per month during the Bush cycle, by far the weakest on record (see Chart 3).⁴

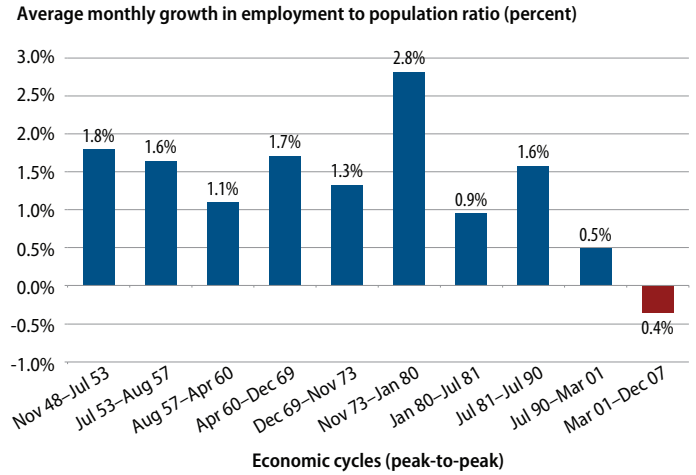
African-American job growth the worst of any economic cycle on record

Over the course of the Bush economic cycle, African-American employment increased by only 900,000 jobs, or 11,000 jobs per month. In both absolute and percentage terms growth terms, this is the worst employment growth for African Americans over an economic cycle since the Labor Department began reporting black employment patterns in 1972. The 0.9 percent average monthly increase in African-American employment during the Bush cycle is roughly one-quarter of the 2.9 percent average monthly increase in the 1980s, and barely one-third of the average monthly increase of the 1990s.

Looking just at prime working-age African Americans paints a starker picture yet. For this group, employment increased by only 411,000 jobs during the 2000s, a rate of 5,000 jobs per month—less than one-third the monthly growth of 17,200 during the 1990s and barely one-fifth the monthly growth during the 1980s (see Chart 4).

Job growth for women declined for the first time under Bush

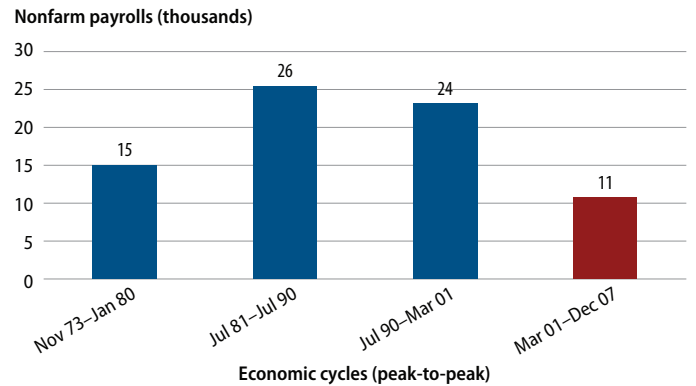
Employment-to-population ratio for prime working-aged women since 1948



Source: Bureau of Labor Statistics, current employment survey.

Black job growth suffers under Bush

Average monthly job growth for African Americans since 1972



Source: Bureau of Labor Statistics, current employment survey.

No real income growth during the Bush economic cycle

Beyond job creation, in any broad-based economic expansion, average wages and household incomes should increase alongside improved GDP growth. In other words, gains in productivity should translate into widespread prosperity. Although productivity growth was healthy during the Bush economic cycle measured on an annual basis—averaging 2.5 percent annually from 2000-2007—that annual cycle saw the worst income growth of any cycle in at least four decades.

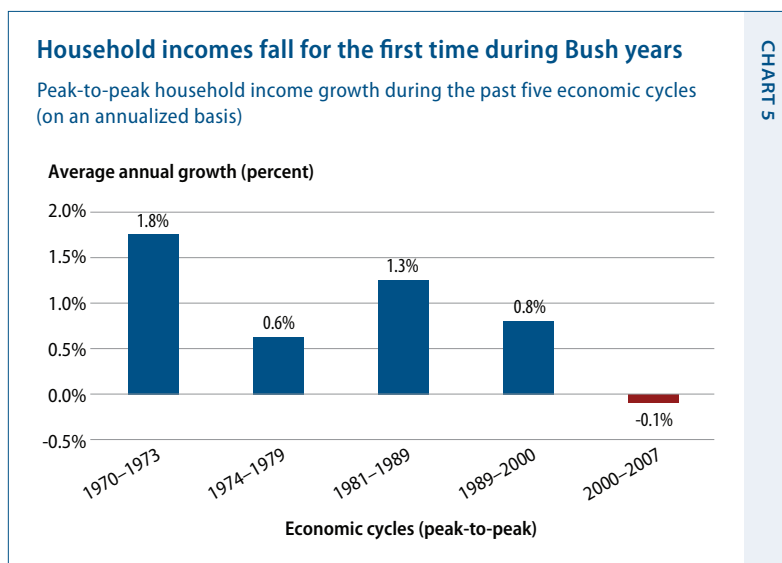
Note that the wage and income data analyzed below is released on an annual—rather than a monthly—basis. Though the precise peak of economic activity occurred in March 2001, where only annual data is available this paper defines the first economic peak as occurring in the year 2000. The year 2001 data artificially inflates the income growth picture since it includes the depressed incomes that came with the 2001 recession. Measuring from 2000-2007 better captures the income gains and losses made between two peaks of economic activity.

Looking at this annual data, real median wages rose by 35 cents an hour over the Bush economic cycle from 2000 to 2007, according to BLS data provided by the Center for Economic and Policy Research.⁵ Even looking just at the period from 2003 to 2007 (after the second round of Bush tax cuts), real median wages actually *declined* by 28 cents from their 2003 level of \$15.78. Since the start of the current recession, real incomes have looked relatively healthy, but that is due to a decline in inflation, as the Consumer Price Index dropped by 0.4 percent overall from January 2008 to December 2008. That means despite stagnant growth in workers' nominal salaries (before factoring in inflation), those salaries are now worth more in inflation-adjusted terms.

Similarly, wage growth was flat for African Americans and women during the Bush economic cycle. The real median hourly wage for women workers grew by only 69.5 cents an hour, or 0.7 percent per year from 2000-2007, about half the growth of \$1.44 an hour (1.2 percent average yearly) during the 1990s. For African-American workers the picture was even worse: During the Bush economic cycle, real median African-American wages grew less than one cent.

Household incomes declined during the Bush economic cycle, for the first time on record

Looking at median household incomes is even more telling than median wage growth because it gives a better sense of a family's total resources. Whereas



Source: Census Bureau Historical Income Statistics 2008.

a high median wage might be offset by fewer hours worked, median income is an overall measure of income. The Bush economic cycle saw the first decline in median household incomes of any cycle since 1967, when the Census Bureau began tracking household data (see Chart 5).

According to the Census, real median household incomes decreased \$324 (or -0.9 percent per year) from 2000 to 2007. Previous cycles saw significant annual increases—1.75 percent real average annual growth in the 1970-1973 cycle, 1.10 percent real annual growth in the 1980s cycle, and 0.8 percent real growth—or a real annual increase of \$3,887—in the economic cycle from 1989 to 2000.

Economists at the Center on Budget and Policy Priorities and others have advocated looking just at the incomes of working-age households (headed by workers under 65 years of age) to get an even better sense of the incomes of actively employed Americans. That working-age household data shows real incomes declined a whopping \$2,176 from 2000 to 2007.

Worst antipoverty record registered during Bush economic cycle

Economic policy should promote growth that raises living standards for a broad swath of Americans, not lead more Americans to fall into poverty. That didn't happen during the Bush presidency—not by a longshot.

The Census Bureau began to track poverty statistics in 1959. Since then, the U.S. economy has experienced six business cycles, not counting the brief recovery in the double-dip recession of the early 1980s. In four of those six cycles, the number and percentage of Americans in poverty declined significantly. In contrast, during the Bush economic cycle from 2000 to 2007, overall poverty, African-American poverty, and child poverty all increased—giving the Bush cycle the worst record on poverty of any economic cycle.

During the Bush economic cycle, the U.S. economy saw a greater percentage of its population fall into poverty than during any previous cycle on record. In 2007, 12.5 percent of the U.S. population was in poverty, up 1.2 percentage points from 11.3 percent in 2000, the previous peak of economic activity when looking at annual data. That means that an additional 5.7 million Americans were in poverty over that period.

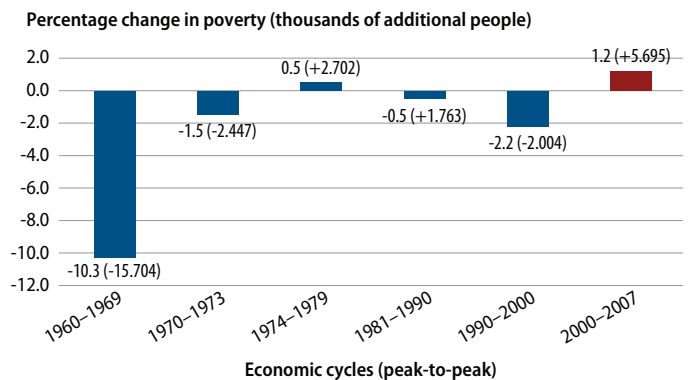
Only one other economic cycle saw an increase in poverty since the Census Bureau began tracking poverty data. That period, from 1974 to 1979, had a 2.7 million (0.5 percentage point) increase in poverty, less than half the Bush increase. Every other major cycle saw a decrease in poverty of at least 1.5 percentage points and as much as 10.3 percentage points. In contrast, during the 1990s cycle, the number of people in poverty dropped by over 2 million (see Chart 6).

African Americans lost significant economic ground during the Bush economic cycle. African-American poverty increased more over the 2000 to 2007 economic cycle than over any cycle on record. During this cycle, an additional 1.7 million African Americans fell into poverty, or an additional 1.9 percent of the African-American population. In only one prior economic cycle—from 1974 to 1979—did African-American poverty increase in percentage point terms, and even then the increase was less than half the increase under Bush.

Similarly, child poverty increased more—in both absolute number and percentage point terms—during the Bush economic cycle than any other cycle on record. Under Bush, child poverty increased every

Bush economic cycle also expanded poverty levels

Poverty decreased during five out of six cycles



Source: U.S. Census Bureau.

year from 2000 to 2004, declined slightly in 2005 and 2006 to 17.4 percent, and jumped back to 18.0 percent in 2007. In raw numbers, Bush presided over an additional 1.7 million children falling into poverty during the economic cycle from 2000 to 2007.

As the table below demonstrates, in percentage point terms from 2000 to 2007 child poverty increased by 1.8 percentage points, more than any other cycle on record. Table 2 tells the tale for African Americans and for children.

TABLE 2
African Americans and children suffer most during Bush economic cycle

Poverty rates for African Americans and children over the past five and six economic cycles, respectively

	Start	End	Additional people in poverty (thousands)	Percentage point change of people in poverty
African-American poverty (thousands)				
1970–1973	7,548	7,388	-160	-2.1
1974–1979	7,182	8,050	868	0.7
1981–1990	9,173	9,837	664	-2.3
1990–2000	9,837	7,982	-1855	-9.4
2000–2007	7,982	9,668	1686	1.9
Child poverty (thousands)				
1960–1969	17,634	9,691	-7943	-12.9
1970–1973	10,440	9,642	-798	-0.7
1974–1979	10,156	10,377	221	1.0
1981–1990	12,505	13,431	926	0.6
1990–2000	13,431	11,587	-1844	-4.4
2000–2007	11,587	13,324	1737	1.8

Source: US Census Bureau 2008

The real Bush jobs and income legacy amid the still deepening Bush recession

Conservatives justify calls for a supply-side stimulus by claiming that the Bush administration's fiscal policies promoted sustained economic growth and job creation. As this analysis shows, the Bush economy in fact produced the most shallow jobs growth of any economic cycle in the post-war period, the worst inflation-adjusted income gains in at least three decades, and an unprecedented increase in poverty. Even measuring just the portion of the cycle after the 2003 tax cuts went into effect, the weak overall record remains.⁶

Given the shallowness of the Bush economic cycle, it is baffling that some conservatives would suggest the same supply-side policy prescription as prevailed over the past eight years. But in the recent debate over stimulus, and even after the package was finalized, conservatives have been sticking to their supply-side orthodoxy. When the debates begin in Congress over any additional stimulus measures, the FY2010 and FY2011 budgets, and the expiring Bush tax cuts, progressives need to remind conservatives of the sorry Bush jobs and income growth record.

Endnotes

- 1 George W. Bush, Speech to American Enterprise Institute, December 18, 2008.
- 2 Michael Ettlinger and John Irons, "Take a Walk on the Supply Side" (Washington: Center for American Progress and Economic Policy Institute, September 2008), available at http://www.americanprogress.org/issues/2008/09/supply_side.html; U.S. Congressional Joint Economic Committee, "Stemming the Current Economic Downturn Will Require More Stimulus," October 29, 2008, Washington, D.C.
- 3 Aviva Aron-Dine, "Extending the President's tax cuts and AMT relief would cost \$4.4 trillion through 2018," Center on Budget and Policy Priorities, March 28, 2008, available at <http://www.cbpp.org/1-31-07tax.pdf>.
- 4 Many attributed weak employment growth among women to women voluntarily opting out of work in favor of motherhood, but the empirical evidence shows that the problem was not children, but rather the weakness of the 2000s economic recovery. See: Heather Boushey, "Opting Out? The Effect of Children on Women's Employment in the United States," *Feminist Economics*, Vol. 14 (1) (2008): 1 – 36.
- 5 Data is from the Current Population Survey Outgoing Rotation Group Files. The wage series includes tips and overtime and top-coded data is adjusted using a Pareto distribution.
- 6 Aviva Aron-Dine, Chad Stone, and Richard Kogan, "How robust was the 2001-2007 economic expansion?" Center on Budget and Policy Priorities, April 22, 2008.