Nothing to be Thankful For: Tax Cuts and the Deteriorating U.S. Job Market

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United for a Fair Economy (UFE) is a national, independent, non-partisan organization, founded in 1994 to raise awareness that concentrated wealth and power undermines the economy, corrupts democracy, deepens the racial divide, and tears communities apart. UFE supports and helps build social movements for greater equality.

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Nothing to be Thankful For: Tax Cuts and the Deteriorating U.S. Job Market

Executive Summary

The Bush administration’s promise that tax cuts for the rich would trickle down to workers has been broken. And when tax cuts and more tax cuts haven’t succeeded in job creation or economic stimulus, how can we expect that still more tax cuts or permanent tax cuts somehow will? As another year of jobless recovery draws to a close, this report exposes the false claim that tax cuts have the power to create much-needed new jobs in our economy, and asks the question: “Have tax cuts given most of us anything to be thankful for?”

• **The Bush tax cuts did not produce new jobs.** In 2003, the President’s Council on Economic Advisers promised 1.4 million new jobs by the end of 2004, over and above the 4.1 million jobs expected from normal economic growth. Although the actual jobs created failed to even match those expected in a normally functioning economy, let alone one supposedly supercharged by tax cuts, that hasn’t stopped conservative forecasters from returning to the “tax cuts create jobs” mantra in 2005 (a year in which only 2 million new jobs were created).

• **Changes in tax policy have no clear impact on job growth.** Tax cuts have sometimes been followed by periods of increased unemployment; at other times, tax cuts have been followed by sharp declines in unemployment. By the same token, tax increases have not always been followed by the doomsday predicted by conservatives. One of the most robust periods of job growth and economic expansion followed the Clinton tax increases of 1993.

• **The quality of jobs as measured by income, health insurance and retirement benefits has declined appreciably since the 2001 tax cuts.** Between 2000 and 2004, inflation-adjusted family income has declined, and the number of U.S. workers covered by employer-provided retirement benefits and health insurance has contracted. The less than normal number of jobs created have been less than what is needed to provide a reasonable standard of living.

• **African-American and Latino families have seen their economic security deteriorate at an even greater rate than white families.** Despite the President’s statement that tax cuts would create jobs for all who want them, we have instead seen a widening of the racial economic divide. African-American unemployment remains about twice as high as that of white workers. In addition, the earnings gap between white workers and workers of color has grown even wider since the 2001 tax cuts.

• **Tax cuts for today’s taxpayers are a tax burden for tomorrow’s taxpayers.** While politicians say that tax-cut plans won’t increase the deficit, there’s little evidence that this is anything but an “urban legend” popular in Washington, D.C.
I. Introduction

“For the sake of our economic expansion, and for the sake of millions of Americans who depend on small businesses for their jobs, we need Congress to act to make tax relief permanent ... Making tax relief permanent is a simple step that would keep our economy growing, so that every American who wants to work can find a job.”

— President George W. Bush, January 11, 2004, radio address

Presidents and Congressional leaders alike have boldly forecast a cornucopia of jobs springing from tax cuts, while warning of the dire consequences of tax increases. But has “tax relief” given us anything to be thankful for? In this report, we will examine the linkage between tax cuts and job creation over the last six decades, and especially over the last four years, since the largest tax cut in the nation’s history was enacted.

We find that the jobs promised by the Bush administration as a result of its tax cuts have not materialized. We show that tax cuts have not historically caused job creation, but have caused deficits. Data reveal that the jobs created in the past four years have been poor quality jobs, especially those held by people of color. Tax cuts fattening the rich do not trickle down to put food on the table for the working class or the middle class. Using tax cuts to create jobs is not just a matter of bad economic policy. Last year, one million more people fell below the poverty line, a disproportionate number of them children, while the number of billionaires rose to 374. A policy that takes food from the mouths of hungry children so that the wealthy can eat truffles makes a mockery of the idea of sharing the bounty this country has to offer.
II. Broken Promises

Not satisfied with the tax cuts implemented in 2001, in February 2003 the Bush Administration proposed the “Jobs and Growth Plan,” which would soon lead to the Jobs and Growth Tax Relief Reconciliation Act of 2003. The “Jobs and Growth Plan” proposed deep individual income and corporate tax cuts, and claimed that these tax cuts would create jobs.\(^2\)

“[T]he Jobs and Growth Tax Relief Reconciliation Act of 2003 will deliver substantial tax relief to 136 million American taxpayers... By ensuring that Americans have more to spend, to save, and to invest, this legislation is adding fuel to an economic recovery. We have taken aggressive action to strengthen the foundation of our economy so that every American who wants to work will be able to find a job.”

— President George W. Bush, May 28, 2003\(^3\)

The “Jobs and Growth Plan” promised to generate 1.4 million new jobs — in addition to the 4.1 million jobs expected from the rate of job creation without any tax cuts (called the “normal” rate of job creation) — over the course of the 18 months beginning with June 2003 and ending with December 2004.\(^4\) Figure 1 (on page 4) shows the job growth promised by the Bush Administration, the “normal” level of job growth, and actual job growth, which lags behind significantly.

An Economic Policy Institute (EPI) report from November 2003 proposed judging the success of the 2003 tax cuts on whether 5.5 million jobs were generated by December 2004. The EPI report notes that this is a fair measure of success because the President’s Council of Economic Advisors’ expected “normal” job growth of 3.1 percent per year is in line with recent historical trends, and the tax bill that was passed in 2003 had an even bigger fiscal impact than the original proposal.\(^6\)

Did the White House keep the promises made in the “Jobs and Growth Plan?” From June 2003 to December 2004, only 2.6 million new jobs were created, far less than “normal” job growth, which called for 4.1 million jobs.\(^7\) That’s 1.5 million fewer jobs than expected without
implementing the tax cuts, and 2.9 million fewer jobs than promised with the tax cuts. The next year did not make up the difference: 2005 saw 2 million jobs added to the economy, but this fell about 3.5 million short of what “normal” job growth should have delivered.

Jobless Recovery – Low Quantity, Low Quality

Tax cuts are alleged to create jobs by spurring an economic boom. As the U.S. economy recovered from the 2001 recession, tax cuts — according to this theory — should have boosted us back towards the top of the business cycle, stimulating investments and therefore creating jobs. A new report from EPI compares the economic recovery in the

Under the Bush tax cut plan, job growth lagged far below what could normally be expected if no tax cuts had taken place.

current business cycle (that began in March 2001) to recoveries in other business cycles, and finds today's economy dredging out a new bottom.\textsuperscript{8} The current recovery lags behind the previous six recoveries in terms of GDP, jobs, wages and investment. Employment in the current business cycle (March 2001 to the present) is so low that it falls below the range of the past six recoveries, ranging from the late 1940s to early 2001 (see Figure 2, which reproduces EPI’s Figure E).\textsuperscript{9}

Figure 2.

![FIGURE E: Employment rate also lags all past recoveries](image)

Employment in the current recovery is so low that it falls below the range of the past six recoveries.

\textit{Note: Reproduced with the author’s permission; Lee Price, Economic Policy Institute, “The Boom that Wasn’t: The economy has little to show for $860 billion in tax cuts,” October 2005.}\textsuperscript{10}
Job quality is also lagging behind. A new report by the Center for Economic and Policy Research (CEPR) define “good jobs” as those paying at least $16 an hour, providing employer-paid health insurance, and providing a pension. The report finds that while the amount of goods and services produced per person (GDP per capita) in the U.S. economy has increased by 60 percent since 1979, the percentage of high-quality jobs stayed the same at one-quarter of all workers. Tax cuts have not been translated into an economic boom, and the overall growth of the economy has not been translated into more or better jobs. For those who are now out of work, who didn’t have a job before and still don’t have one, or who have a new job that doesn’t pay a living wage, this economy is a turkey.

Race, Jobs, and Tax Cuts

Tax cuts haven’t been good for the average worker and have had a particularly bad effect on workers of color. Families in groups historically under-rewarded for their labor remain under-rewarded, and in some cases have fallen even further behind during the current round of tax cuts. The quantity and quality of jobs available to people of color has lagged behind that of white workers, and tax cuts have done little to narrow the gulf between relatively high white employment and much lower employment for blacks and Latinos (see Figure 3 on page 7).

There is also considerable evidence that whites disproportionately hold the “good” jobs, as defined by the CEPR. Figure 4 (page 7) reveals an enormous gap between white earnings and the earnings of blacks and Latinos, with the gap for black earnings staying fairly steady in recent years and the larger gap for Latino earnings growing quickly. There is also a racial disparity in who has health insurance. In 2004, 11.3 percent of whites had no health insurance, compared to 19.7 percent of blacks and 32.7 percent of Latinos. Similarly, in 2003, 51.1 percent of whites received employer-based pension benefits, compared to 40.9 percent of blacks and 25.8 percent of Latinos.
Employment for all workers moves up and down over time, but white employment always remains considerably above that of people of color.

Sources: One minus the unemployment rate for persons 16 and over; Bureau of Labor Statistics, Historical Tables, Table A-2, “Employment status of the civilian population by race, sex, and age.”

A wide and growing gap exists between the earnings of whites and people of color.

Sources: Black and Latino median earnings, respectively, subtracted from white median earnings; Census Bureau, Historical Income Tables, Table P-43, “Workers (Both Sexes Combined) by Median Earnings and Mean Earnings;” in 2003 dollars.
III. Do Tax Cuts Create Jobs?

Throughout his administration, President Bush has advocated and implemented large-scale tax cuts. According to Commerce Secretary Don Evans, “The tax relief the president has given to this economy is working. On three separate occasions over the last three years, he’s provided additional tax relief for American workers, American families, businesses across America, and guess what? It’s working. The results are showing that it’s working.” And Treasury Secretary John Snow has called for these tax cuts to be made permanent, saying this would be “the best single thing we can do to encourage the continuing upward course of the economy.” These are strong words demonstrating an unflattering conviction: Tax cuts create jobs.

Sounds simple enough, but is the White House, in fact, using the right economic policy to create jobs? To test the theory that tax cuts create jobs, we looked at the five occasions since World War II when there has been a major tax decrease or increase that was followed — like the current period following the 2001 tax cuts — by at least four years with no major reversal in tax policy. The five four-year periods (as shown in Figure 5, on page 8) are:

- **The 1950 Truman Tax Increase, Revenue Act of 1948, and subsequent acts, increased the top marginal income tax rate from 82.1 to 92.0 percent, and the top corporate tax rate from 38.0 to 52.0 percent.**

- **The 1964 Kennedy/Johnson Tax Decrease, Revenue Act of 1964, reduced the top marginal income tax rate from 91.0 to 70.0 percent and the top corporate rate from 50.0 to 48.0 percent.**

- **The 1987 Reagan Tax Decrease, The Tax Reform Act of 1986, reduced the top marginal income tax rate from 50.0 to 28.0 percent and the top corporate rate from 46.0 to 34.0 percent.**

- **The 1993 Clinton Tax Increase, Omnibus Budget Reconciliation Act of 1993, increased the top marginal income tax rate from 31.0 to 39.6 percent, and the top corporate rate from 34.0 to 35.0 percent.**

- **The 2001 Bush Tax Decrease, The Economic Growth and Tax Relief Act of 2001, lowers the top marginal income rate from 39.6 to 33.0 percent.”**

The top marginal income tax rate is paid on just the amount of income above the cutoff for the top bracket; it’s not the average or effective rate for one’s entire income.
Conspicuous in its absence from this list of large-scale tax changes is Reagan’s Economic Recovery Act of 1981, which decreased the top marginal income tax rate from 69.1 to 50.0 percent. This is certainly a big and important change in tax policy, but it does not meet our second criterion because it was reversed within four years. The U.S. economy fell into a deep recession in 1982, provoking increased taxes via the Tax Equity and Fiscal Responsibility Act of 1982, which included a decrease in the top bracket from $215,400 to $85,600 that dramatically increased the number of people subject to the top rate.\textsuperscript{20}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure5.png}
\caption{Marginal Tax Rate in Highest Income Bracket}
\label{fig:tax_rates}

\textbf{Tax rates for the richest U.S. taxpayers used to be over 90 percent.}

\end{figure}
By looking at a few key components of economic health, like the rate of employment, through the lens of these unambiguous changes in federal tax policy, we should be able to observe whether tax cuts do indeed create jobs.

**No Correlation Between Tax Cuts and Job Creation**

The employment rate doesn’t move to the beat of federal tax policy (see Figure 6). Some tax cuts were followed by job growth, some by job loss. The same is true for tax increases. In light of this information, it would be hard to make a credible prediction that new tax cuts will necessarily cause the creation of more jobs.

![Figure 6: Employment Rate and Major Tax Changes](image)

*Changes in tax rates have no discernible effect on employment.*

*Source: One minus the unemployment rate for persons 16 and over. Bureau of Labor Statistics, Historical A Tables, Table A-1, “Employment status of the civilian population by sex and age.”*
One of the many reasons that tax cuts are not a sure formula for increasing jobs is that tax cuts mean less government revenue and therefore fewer public-sector jobs. Some tax revenues are spent hiring government workers — that’s direct job creation — as well as in purchasing goods and services from private businesses — indirect job creation. Tax cuts may eventually stimulate investment that may generate some new jobs, but less government revenue will eliminate jobs at the same time, offsetting any positive job growth.

The U.S. Economy Grows – With or Without Tax Cuts

While it’s possible that tax cuts could be stimulating the economy since 2000, it is again hard to find clear evidence that this is happening. The most traditional measure of economic growth, gross domestic product (GDP) — or all of the goods and services produced in the economy — also seems to ignore the beat of tax code changes (see Figure 7).

![Figure 7: Gross Domestic Product in Billions](image)

**Figure 7: Gross Domestic Product in Billions**

(adjusted for inflation)

U.S. economic growth shows steady progress whether tax cuts are enacted or not.

Why aren’t these large-scale changes in tax policy good for predicting our economic health in terms of jobs or GDP? Simply put: There are so many big, important factors impacting our economy all the time that it’s nearly impossible to pick out the individual effects with any confidence.

That being said, there are also several key factors that make tax cuts a particularly bad tool for growing the economy. First, tax cuts take a really long time to have any effect on the economy. A tax cut passed today and put into effect next year (or sometime in the next ten years) can’t have a quick stimulating effect on the economy. If tax cuts stimulate the economy, they do it down the road — and in conjunction with other economic factors like interest rates and trade rules — not at the moment when we’re actually in a recession. (The exception to this would be a tax rebate where checks were mailed to recipients right away, and the recipients had low incomes so that they would spend it right away instead of saving all or part of it.)

Second, there’s no way that we can be sure that the windfall from tax cuts giving money to those at the top and to corporations will be spent on productive activities or business investment that will stimulate the economy and increase jobs. Maybe it will be spent unproductively on corporate mergers. Maybe it will be sheltered overseas or otherwise invested somewhere outside of the U.S. economy. Maybe it will be spent on luxury items: diamond encrusted handbags don’t trickle down.

Finally, today’s tax cuts, like the Reagan tax cuts before them, redistribute income and wealth from poor and middle class people to the wealthy. Concerns of fairness aside, societies with more equitable distributions of income very often also have healthy, vibrant economies. Income and wealth inequality, as they relate to social strife or instability, are also very expensive requiring massive outlays for security guards, police and prisons. In addition, societies with high levels of inequality waste precious human resources by making it impossible for a large part of the population to reach their educational, career or entrepreneurial potential.24

Tax cuts are an unsound prescription for job creation and economic good health, and more and more people recognize that the promises have been broken. Asked in an April 2004 CNN poll to choose between the 2003 tax cuts and a job creation program, 76 percent of re-
respondents chose jobs; 50 percent chose deficit reduction over tax cuts; and 60 percent said they had not benefited from tax cuts.\textsuperscript{25}

**Tax Cuts Create Deficits, Not Jobs**

The claim is often made that a tax cut will be revenue neutral, or even that it will have the effect of increasing revenue.\textsuperscript{26} The economic growth necessary to make this true would be unrealistically large, much larger than the growth we’ve seen since the last round of tax cuts.\textsuperscript{27} While tax cuts don’t clearly result in job growth, it is more clear that they result in the growth of the federal deficit (see Figure 8 on page 13): It only takes basic arithmetic to figure that taking in less revenue (through tax give backs) without getting more revenue (through increased individual and business income tax payments due to economic growth) creates debt.

Tax cuts made in a time of deficit and large debt are not really tax cuts: they are tax postponements. Someone will have to pay back the debt that is generated. Just maintaining the interest on the debt currently takes $160 billion a year, or 7 percent of our federal spending.\textsuperscript{29} And when we did have a budget surplus, rather than pay down existing debt, the Bush administration advocated distributing it to the current generation.

Even the conservative chairman of the Federal Reserve, Alan Greenspan, agrees: “We should not be cutting taxes by borrowing...We do not have the capability of having both productive tax cuts and large expenditure increases, and presume (sic) that the deficit doesn’t matter.” (November 4, 2005)\textsuperscript{30} In contrast, the Chairman of the President’s Advisory Panel on Federal Tax Reform, Connie Mack, had this to say in a recent interview in the *New York Times Magazine*:

**Interviewer:** Well, the U.S. government has to get money from somewhere. As a two-term former Republican senator from Florida, where do you suggest we get money from?

**Mack:** What money?

**Interviewer:** The money to run this country.

**Mack:** We’ll borrow it.\textsuperscript{31}

The U.S. is running its largest deficit in history — even after adjusting for inflation. Certainly, we could borrow the money to run the country,
Deficits have regularly occurred following large tax cuts.


but should we? Lost revenue from tax cuts will have to be paid back by extra revenue from future tax increases. The bigger the tax cut, the bigger the deficit — and the interest payments! And large deficits and debt seem to strengthen calls to cut back on government spending, leading to fewer public-sector jobs and a flimsier safety net in a downward spiral for most of us.

For our nation’s children and grandchildren, there will be nothing to be thankful for.
IV. Conclusions

“Tax cuts create jobs” is a great sound bite that unfortunately does not hold true in the real world economy. Tax cuts disproportionately giving public dollars back to the rich foster economic disparity. And overly exuberant tax cutting often creates government deficits sizeable enough to create an undue burden on the next generations. Except for those on the very highest rungs of the economic ladder, if anything is trickling out of today’s tax cut policies, it’s increased economic insecurity.

Since 2001 when the tax cutting party began, declining family incomes, reduced access to health care and anxiety about retirement security have occurred on a widespread scale — not the shared prosperity, high employment and better life that were promised in the invitation to the feast. Only the richest receive these benefits, along with the increasingly low tax rates that are the hallmark of the plan. We see the broken promises of White House forecasts to deliver millions of added jobs. Worse still, we see a widening of the gap between rich taxpayers and everyone else, and an exacerbation of the wealth divide among the races, with unemployment among blacks and Latinos diverging from white unemployment by ever-widening margins.

The perceived public appetite for tax cuts is not born of a desire to deprive government of funding adequate to carry out its mission, as many administration officials would maintain, but rather a desire by insecure citizens to have a more economically secure life. In poll after poll, when voters are surveyed about their desire for tax cuts as opposed to improving valued government services like education and health care, significant majorities choose the government services they most value.

The tax cutting policy is bankrupt — it has no effect on GDP, and its windfalls are just as likely to fund the purchase of jewels or artwork for private collections as to finance new factories that create new jobs. It’s time to recognize that jobs are both created and destroyed during times of tax decreases. The same is true during periods of tax increases. If what we value as a nation is opportunity and economic security for all,
if we believe that everyone should have a job and that work should pay, if we believe our nation has enough so that every hungry child can be fed, then it is these measures that should be evaluated in light of calls to reduce tax cuts.

What have tax cuts given us to be thankful for? Nothing. The 2001 and 2003 tax cuts were a feast for the rich taken directly from the tables of the poor, the working class, the middle class, people of color, children and the elderly. Tax cuts were made in the name of jobs that have not materialized. Instead, they reveal a government acting in service of the voracious appetite of a tiny minority, the very richest few, in the United States.
Are You Better Off Than You Were Before the 2001 Tax Cuts?

INCOME

• Median household income in the United States in 2004: $44,389
• Change in median household income (all races) since 2000: Declined 3.6%
• Change in median household income for blacks since 2000: Declined 7.4%
• Change in median household income for Latinos since 2000: Declined 5.9%

POVERTY

• Percent of U.S. population living in poverty in 2004: 12.7%, up from 11.3% in 2000
• Additional number of individuals living in poverty since 2000: 5,416,000
• Additional number of children living in poverty since 2000: 134,000
• Increase in blacks living in poverty since 2000: Up 2.2 percentage points to 24.7%
• Increase in children living in poverty since 2000: Up 1.6 percentage points to 17.8%
• Increase in black children living in poverty since 2000: Up 2.4 percentage points to 33.6%

HEALTH INSURANCE

• Percent of U.S. population receiving employment-based health insurance in 2004: 59.8%
• Percent of people receiving employment-based health insurance in 2000: 63.6%
• Additional number of people living without health insurance since 2000: 6,016,000
• Percent of Latinos receiving employment-based health insurance in 2004: 41.1%
• Percent of Latinos receiving employment-based health insurance in 2000: 44.0%

PENSIONS

• Percent of population receiving employer-based pension benefits in 2003: 45.9%
• Percent of population receiving employer-based pension benefits in 2000: 48.3%

WORKING HOURS

• Average annual work hours by U.S. workers in 2002: 1,815 hours
• Average annual work hours in other industrialized (OECD) countries in 2002: 1,602 hours
• How much more do U.S. workers work in 2002: 213 hours, or 5 weeks of work

Endnotes


6. Ibid.


8. Ibid.


18. Ibid.

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20. Ibid.
26. For example, the November 1, 2005 cover letter to the ‘Final Report’ by the President’s Advisory Panel on Federal Tax Reform states that, “As directed by the President, our recommendations have been designed to raise approximately the same amount of money as the current tax system. The issue of whether the tax code should raise more or less revenue was outside of our mandate.”