United States Senate
Republican Policy Committee
Jon Kyl, Chairman

November 24, 2003

Bush Economic Plan Has Economy on Road to Recovery

Executive Summary

The U.S. economy is well into a period of robust recovery, thanks in large part to the pro-growth tax relief signed into law by the President:

- Gross Domestic Product grew by 7.2 percent in the third quarter of 2003 – the fastest growth in nearly 20 years – and consensus economic forecasts suggest that it will grow by at least 4 percent in the fourth quarter of this year and the first quarter of next year.
- Shareholder wealth has increased by $3.1 trillion in the past 13 months. Half of this 22-percent increase in shareholder wealth has occurred since the passage of the 2003 tax relief act.
- Spending by businesses (fixed investment and expenses) grew at an 11.1-percent annual rate in the third quarter, following an impressive 7.3-percent gain in the second quarter. In October, inventories decreased for the fifth consecutive month and new export orders increased for the third consecutive month.
- Payroll employment increased by 125,000 jobs in September, and increased again by 126,000 jobs in October. The unemployment rate fell from 6.1 percent to 6.0 percent in October and the number of people who have reported being employed has increased by 1.8 million since the end of the recession.
- Non-farm labor productivity grew at a rate of 8.1 percent in the third quarter of 2003, which has raised real wages and reduced inflationary pressure so that interest rates have remained at their lowest level since 1954.
- The economic recovery is evidence that the Bush economic plan is working. The tax relief should be made permanent in order to provide taxpayers with certainty about future rates. This certainty will further assist the recovery.

Introduction

The U.S. economy is well into a period of robust recovery, thanks in large part to the pro-growth tax relief signed into law by the President. President Bush's policy prescriptions have been precisely the tonic necessary for the economy to recover from the collapse of the stock market bubble in 2000, the terrorist attacks of September 11th, and the revelations of corporate wrongdoing in 2002. The fact that the economy not only absorbed these shocks, but also returned to vigorous growth shortly thereafter is testament to the resilience of the American people and the wisdom of Republican policies.

Nonetheless, many Democrats and political opponents of the President are attempting to convince the American people that the Bush tax relief and economic growth plan has failed and that the economy is ailing. Although false, these attacks, if not confronted, could undermine the recovery and turn public sentiment against President Bush and Republican economic policies.

Ramification of Democratic Attacks

This situation is precisely what happened during George H. W. Bush's reelection campaign, when a steady torrent of negative reporting led many Americans to believe the country was much worse off economically than it actually was.[1] In fact, the economic data reveal that the recession had ended in the first quarter of 1991, meaning there had been six quarters of positive economic growth when the election was held in November of 1992.[2] Yet perception was reality and President Bush lost.

Recent polling suggests that this could be happening again. A Gallup Poll conducted in late October of 2003 found that "more consumers continue to rate the economy as 'poor' than rate it as 'good' or 'excellent'."[3] Armed with the facts about the economic recovery, Republicans must challenge Americans' misperception and not allow the ongoing recovery to fall prey to the Democrats' attempts at distortion.

Data Show Economic Recovery is Well Underway

The Bush tax relief and economic growth plan has three main components: the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L.107-16, enacted June 7, 2001), the Job Creation and Worker Assistance Act of 2002 (P.L.107-147, enacted March 9, 2002), and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L.108-27, enacted May 28, 2003). Together, these cumulative rounds of tax relief were intended "to shore up near-term growth prospects and raise output in the long

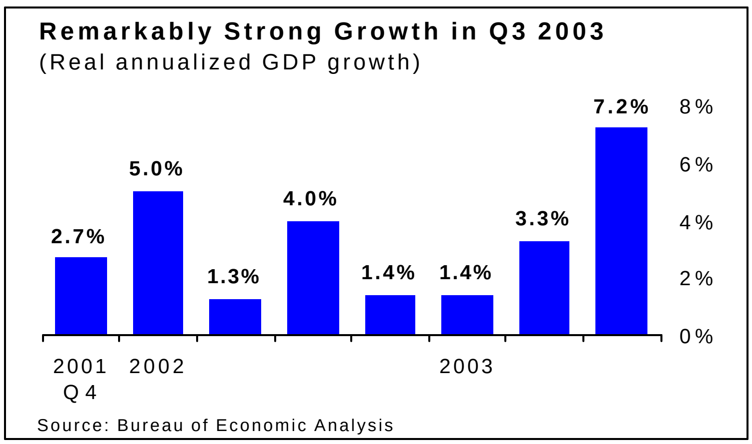
[1] *The Wall Street Journal,* "What Voters Really Want from Clinton," November 16, 1992.
[2] Department of Commerce, National Economic Accounts, *Bureau of Economic Analysis*, available at: http://www.bea.doc.gov/bea/dn/home/gdp.htm.
[3] The Gallup Organization, "Why Aren't Consumers More Optimistic?" *Poll Analyses*, October 31, 2003, available at: http://www.gallup.com/poll/releases/pr031031.asp.

term."[4] While it may be too early to assess the plan's long-term effectiveness, the economy's near-term response has been as predicted. As the following sections will demonstrate, virtually every statistical assessment points to a rapidly growing economy.

1. Growth in Gross Domestic Product Best In Nearly 20 Years

The Bureau of Economic Analysis (BEA) reported that real gross domestic product (GDP), the most comprehensive measure of overall activity in the U.S. economy, grew at an estimated 7.2-percent annual rate in the third quarter of 2003. This was the fastest pace of growth since 1984.[5] As Chart 1 indicates, growth has been positive in each of the past eight quarters, intensifying in the three months following the 2003 tax cut. The good economic news was broad-based with healthy increases in consumer spending and business investment.

Chart 1



According to the November *Wall Street Journal* survey of leading economic forecasters, consensus estimates suggest that quarterly growth will remain above 4 percent in the fourth quarter of 2003 and the first quarter of 2004. Some of those surveyed, including the chief forecasters at the University of Michigan, Citibank, and Prudential Securities, predicted that quarterly growth would exceed 5 percent in the first quarter of 2004.[6]

Although many economists predicted a cyclical recovery in 2003 after two years of sub-potential growth, there can be little doubt that this year's tax relief fueled the recent surge. As economist Lawrence Kudlow recently noted:

> The economic story has quickly gone from blah to rosy, and the Bush tax cuts implemented this past summer provided the turning point. After three

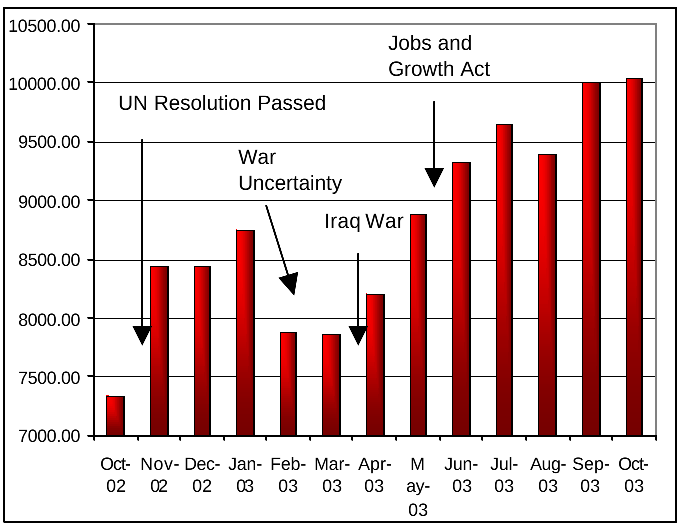
[4] R. Glenn Hubbard, "Do Budget Deficits Affect Long-Term Interest Rates?" *The International Economy*, June 22, 2003.
[5] Department of Commerce, *Bureau of Economic Analysis*, October 30, 2003, available at: http://www.bea.doc.gov/bea/newsrel/gdpnewsrelease.htm.
[6] *The Wall Street Journal*, Monthly Economic Survey, November 14, 2003.

years of investment drag, stock market decline, profit downturn and business recession, lower tax rates on high-income earners, dividends and capital gains – along with faster business depreciation write-offs for the purchase of new equipment – sparked the growth that is now developing.[7]

2. Bulls Return to Wall Street

Strengthening economic growth, increased corporate profits, and investor tax relief have contributed to an increase in stock prices. According to the American Shareholders Association (ASA), shareholder wealth has increased by nearly $3 trillion in the past 13 months. Of this 22-percent increase in stockholder wealth, half of it has occurred since the passage of the 2003 tax relief act.[8] Even more impressive, the Wilshire 5000 index (see Chart 2), which includes more stocks than any other equity index, has increased by 38.5 percent since October 2002. That is four times the average annual growth over the past 25 years.[9]

Chart 2



Source: American Shareholders Association

Over the past 13 months, shareholder wealth has been increasing at an average of $10.7 billion for every day the market was open for trading. However, this rate of growth has intensified to an average of $12.6 billion per trading day since the 2003 tax relief act was passed.[10] Moreover, the Dow Jones Industrial Average, the S&P 500, and the

---

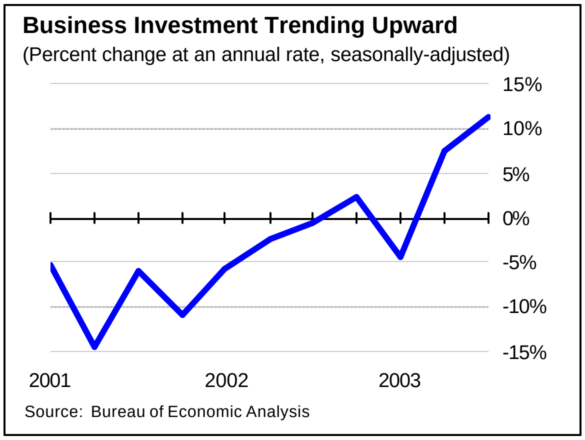
[7] Lawrence Kudlow, "The New Economic Reality: Jobs Run with Bull Market," *Investor's Business Daily*, September 9, 2003.
[8] American Shareholders Association, "Jobs and Growth Tax Relief Reconciliation Act Scorecard. GDP Up, Unemployment Down, Stock Market Rising," October 30, 2003.
[9] American Shareholders Association, "Jobs and Growth Tax Relief Reconciliation Act Scorecard: $2.82 Trillion of New Stock Market Wealth," October 13, 2003.
[10] American Shareholders Association, October 30, 2003.

technology-laden Nasdaq composite index are all currently within 2 percent of their 17-month highs.[11]

3. Business Activity and Investment Rebounds

The increase in stock prices coincides with rapid increases in overall business activity and investment. Spending by businesses (fixed investment and expenses) grew at an 11.1-percent annual rate in the third quarter, according to the BEA, following an impressive 7.3-percent gain in the second quarter (see chart 3).[12] Business spending has been supported by gains in after-tax corporate profits and improving corporate balance sheets.

Chart 3



Business activity (defined as purchasing managers' assessments of the overall demand for their particular product) also continues to improve. As Chart 4 (on page 6) displays, both manufacturers and service producers reported increased activity throughout the summer.

The Institute for Supply Management (ISM) reported that the manufacturing sector "enjoyed its fourth consecutive month of growth as new orders continue to lead the recovery" and that "production made a sharp swing upward during October, signifying growth for the sixth consecutive month."[13] At the same time, "Non-manufacturing Business Activity increased for the seventh consecutive month in October."[14]

---

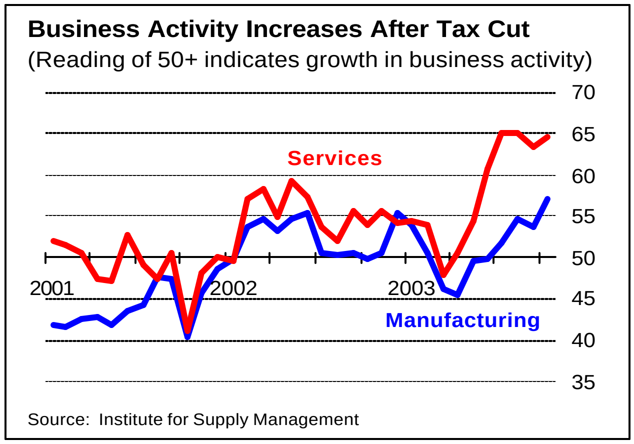
[11] See "Historical Prices" for ^DJ1 (Dow Jones), ^IXIC (Nasdaq), and ^GSPC (S&P 500), at http://finance.yahoo.com/.

[12] Department of Commerce, Bureau of Economic Analysis, News Release, October 30, 2003, http://www.bea.doc.gov/bea/newsrel/gdpnewsrelease.htm.

[13] Institute for Supply Management, Indicator Qualities of the NAPM Report on Business, http://www.ism.ws/.

[14] Institute for Supply Management, "October Non-Manufacturing ISM Report on Business," and "ISM Report on Business Frequently Asked Questions," both available at www.ism.ws.

Chart 4



ISM's monthly Purchasing Managers' Index (PMI) also provided encouraging news.[15] It stood at 57 percent in October, an increase of 3.3 percentage points when compared to the 53.7 percent September figure, which signifies growth within the manufacturing sector of the economy. This growth prompted the ISM's Manufacturing Business Survey Committee to write: "This is the best report that we have seen in quite some time in terms of the overall strength of manufacturing. The picture continues to improve, and it appears that manufacturing will finish 2003 on a very positive note."[16]

Also worth noting is the gain measured by the New Orders Index (which reflects the level of new orders from customers): it increased from 59.9 percent in September to 64.4 percent in October. The Manufacturing Report on Business finds that "inventories decreased for the fifth consecutive month" and "new export orders increased for the third consecutive month." Both developments suggest future increases in business activity as production is ramped up to meet new demand.

4. Growing Economy is Creating Jobs

Recent Democrat criticisms of the President's economic policies have almost maniacally focused on one indicator of the strength of the economy – the unemployment rate. But these charges are misleading for two reasons: critics have been selective in their application of the actual data; and, as the National Bureau of Economic Research explains, "unemployment is generally a lagging indicator,"[17] which is to say that accelerations in hiring typically follow increases in other economic indicators, such as GDP and business activity.

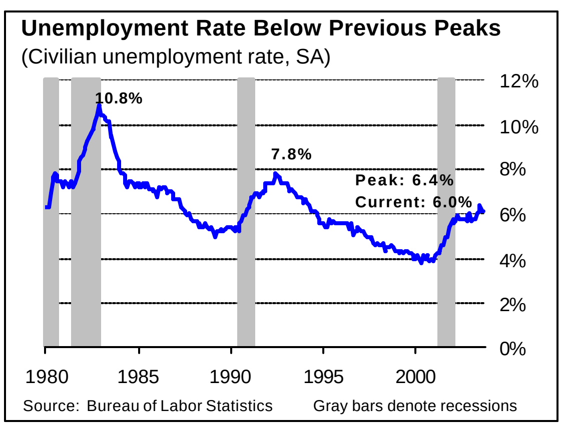
[15] The PMI is a composite index based on seasonally adjusted estimates for: new orders, production, employment, supplier deliveries, and inventories.
[16] Preceding information was obtained from the Institute for Supply Management's "October Manufacturing ISM Report on Business" and the "ISM Report on Business Frequently Asked Questions," available at www.ism.ws.
[17] National Bureau of Economic Research, "The NBER's Recession Dating Procedure," October 21, 2003, http://www.nber.org/cycles/recessions.html.

It is important to note that the Bureau of Labor Statistics (BLS) uses two distinct surveys to measure the number of jobs in America. The payroll survey measures the number of people that employers have on their payrolls. This measure indicates that the economy has lost 768,000 jobs since the end of the recession and is the measurement that most of the President's critics emphasize. However, BLS also provides analysts with the household survey, which measures the number of individuals who report being employed. This measure indicates that *the number of people employed has increased* by 1.8 million since the end of the recession and also serves as the basis for the unemployment rate published by BLS.[18] Few, if any, of the President's critics point to the fact that the economy has already created 1.8 million new jobs.

Economists cannot yet fully explain the gap between the two measures of employment, but part of the reason for the divergence, according to the National Bureau of Economic Research, is that there has been a large rise in the number of self-employed workers who are not counted in the payroll survey but are counted in the household survey.[19] The Joint Economic Committee notes, "Focusing only on the payroll survey is misleading. Analysts should consider both the household and payroll surveys in trying to understand the employment situation."[20]

It is also important to keep in mind that the fact that employment growth is a lagging indicator means that today's 6.0 percent unemployment rate, which decreased from 6.1 percent in September, should not be overemphasized. As Chart 5 shows, the increase in unemployment during the recession was not as severe as in previous downturns, and it appears that the peak of unemployment has passed.

Chart 5



The ISM Employment Index (which reports the rate of increase or decrease in the level of employment) was at 47.7 percent for October – lower than the other ISM indices, but 2 percentage points better than September.[21] Moreover, according to BLS data,

---

[18] Joint Economic Committee calculations based on Bureau of Labor Statistics data.

[19] National Bureau of Economic Research, "The NBER's Recession Dating Procedure," October 21, 2003, http://nber.org/cycles/recessions.html.

[20] Joint Economic Committee, "A Tale of Two Employment Surveys," September 26, 2003.

[21] "October Manufacturing ISM Report on Business."

payroll employment increased by 126,000 in October, while the number of jobs added in September has been revised, to 125,000, up from a previous estimate of 57,000.[22]

Downward trends in jobless claims, reported by the Employment and Training Administration of the U.S. Department of Labor, also indicate improving labor markets. The Department of Labor reported other positive data on recent labor market activity recently, including an increase in the average work week, continued growth in business hiring of temporary help, and declines in manufacturing job losses in recent months.[23] In the week ending November 15, initial jobless claims decreased by 15,000 to 355,000, which dropped the four-week average of claims to 367,250, its lowest level since February 2001.[24]

Finally, many private economists expect the current unemployment rate of 6.0 percent to decline to about 5.7 percent by the end of 2004.[25] Further projections and estimates point to an expected increase in payroll jobs of about 2.3 million through the end of 2004 – or roughly 150,000 to 175,000 per month on average.[26] Still, there remains much to accomplish on this front, but current trends are encouraging. As the President has said, "We've had some good news recently about our economy. But we won't rest until everybody who wants to work can find a job."[27]

5. 'Startlingly Large Rise' in Labor Productivity

The fact that the economy has been able to grow for the past eight consecutive quarters without substantial gains in employment is a product of what Federal Reserve Board of Governors Chairman Alan Greenspan has called a "startlingly large rise" in labor productivity.[28] Simply defined as the quantity of output produced per hour of labor input, productivity growth allows firms to produce more goods with fewer employee-hours worked.

The increased efficiency of American businesses is reflected in the BLS preliminary productivity data for the third quarter of 2003. The report found that labor productivity increased 7.4 percent in the business sector, as output grew 8.8 percent and hours increased 1.3 percent. The report also found that non-farm labor productivity increased by 8.1 percent, with an 8.8 percent growth in output and a 0.7 percent rise in

---

22 News Release, Bureau of Labor Statistics, "Employment Situation," November 7, 2003, http://www.bls.gov/news.release/empsit.nr0.htm.

23 News Release, Bureau of Labor Statistics, "Employment Situation: Summer," November 7, 2003, http://www.bls.gov/news.release/empsit.nr0.htm.

24 Jon Hilsenrath, "Job Claims Fall Again; Indicators Up," *The Wall Street Journal*, November 21, 2003.

25 Blue Chip Economic Indicators, "Top Analysts' Forecasts of the U.S. Economic Outlook for the Year Ahead," Vol.28, No. 11, November 10, 2003.

26 Committee on the Budget, U.S. House of Representatives, "Budget & Economic Monitor," October 29, 2003.

27 Remarks by President George W. Bush, Winston-Salem North Carolina, November 7, 2003.

28 Remarks by Chairman Alan Greenspan, Securities Industry Association Annual Meeting, Boca Raton, Florida, November 6, 2003.

non-farm business hours.[29] As Table 1 (below) demonstrates, the sensational productivity growth of the past three years is nearly twice as fast as during the late 1990s' "U.S. productivity miracle," and over three times as fast as the rate of productivity growth between 1973-1995.

Table 1[30]

Period	Average Annual Growth in Labor Productivity
1948-1973	3.3 %
1973-1995	1.5 %
1995-2000	2.6 %
2001-present	5 %

As the Federal Reserve's July Report to Congress explains, such remarkable productivity growth has had a negative short-term impact on the labor markets as, "businesses have remained reluctant to expand their payrolls and instead have focused on cutting costs in an environment of sluggish – and uncertain – demand."[31] Part of the recent productivity gains, according to the Report to Congress, "appear to have come mainly from efficiency-enhancing changes in organizational structures and better use of the capital already in place."[32]

While this development may have slowed employment growth in the short-term, it is highly beneficial for workers in the long run: the more productive a worker, the higher the wages that he or she will command in a competitive economy. And from a macroeconomic perspective, the more productive an economy is, the higher will be its citizens' standard of living. As economists William Baumol, Sue Anne Blackman, and Edward Wolff have written: "It can be said without exaggeration that in the long run probably nothing is as important for economic welfare as the rate of productivity growth."[33]

6. No Inflationary Pressures; Interest Rates to Remain Historically Low

While in previous recoveries, such rapid growth may have caused some policymakers to worry about the onset of inflation, as seen in Chart 6 (on page 10), inflation remains near historical lows, according to price indexes released by BLS.[34]

---

[29] Department of Labor, Bureau of Labor Statistics, "Productivity and Costs, Third Quarter 2003," November 6, 2003.

[30] Table based on data from: Rene Lalonde and Danielle Lecavalier, "The U.S. Miracle," The Bank for International Settlements, April 18, 2001, and remarks by Chairman Alan Greenspan, Securities Industry Association Annual Meeting, Boca Raton, Florida, November 6, 2003.

[31] The Federal Reserve Board, "Monetary Policy Report to the Congress," July 15, 2003, http://www.federalreserve.gov/boarddocs/hh/2003/july/FullReport.htm.

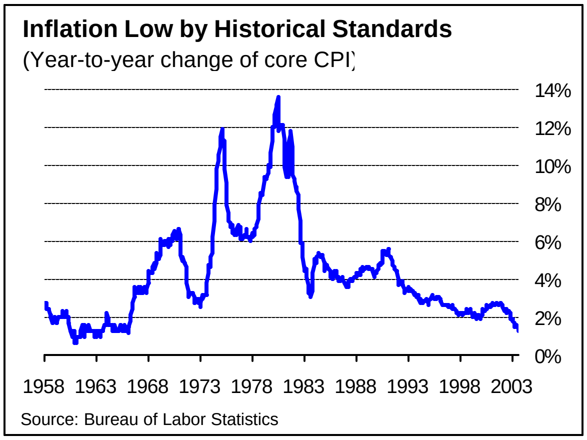
[32] The Federal Reserve Board, July 15, 2003.

[33] William J. Baumol, Sue Anne Blackman, and Edward N. Wolff, *Productivity and American Leadership*, Princeton University, 1989.

[34] U.S. Department of Labor, Bureau of Labor Statistics, News Release, October 16, 2003, http://www.bls.gov/news.release/cpi.toc.htm.

And, as Federal Reserve Board Governor Ben Bernanke explains, the "ongoing productivity growth" means that there is very little chance of much of an increase in inflation, even with interest rates as low as they are today.[35]

Chart 6



The Federal Reserve's current Fed Funds target rate (the overnight interest rate banks charge one another) is 1 percent and is expected to remain this low "for a considerable period."[36] To put in context how low interest rates currently are, the last time the Fed Funds rate was below its current level was November of 1954 – when Dwight D. Eisenhower was in his first term.[37] Perhaps even more remarkable, at its most recent rate-setting meeting, the Fed's Open Market Committee noted that it is less concerned with a rise in inflation than it is with an "unwelcome fall in inflation."[38]

At some point, interest rates will have to rise as a consequence of increased demand for capital in a growing economy.[39] But when that increase does occur, it likely will be measured and caused by an increase in investment, not inflation. According to the November *Wall Street Journal* survey of leading economic forecasters, consensus estimates suggest the Consumer Price Index (CPI) will be roughly the same in June of next year as it is today (near 2 percent) and the Fed Funds rate will be about one-fourth of one percent higher.[40]

7. Housing Market is Robust

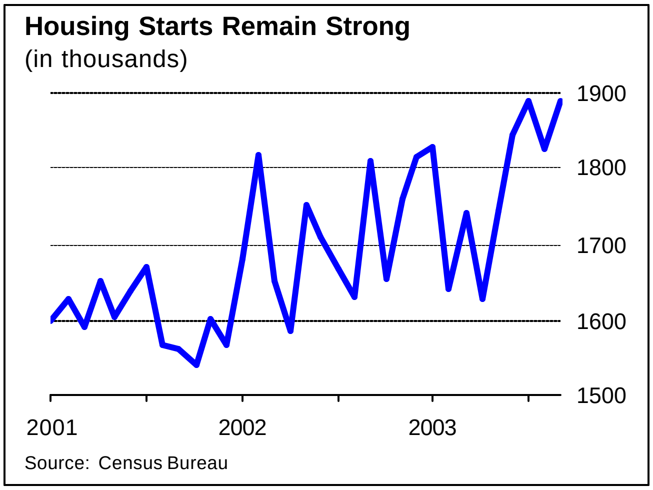
One of the beneficial consequences of historically low interest rates has been a robust housing market. Housing starts (groundbreaking for the building of a new home)

---

[35] Remarks by Governor Ben Bernanke, Global Economic and Investment Outlook Conference, Pittsburgh, Pennsylvania, November 6, 2003.
[36] Federal Reserve Board of Governors, Federal Open Market Committee statement, October 28, 2003.
[37] Federal Reserve, "The Effective Fed Funds Rate, historical averages," November 17, 2003. Available at: http://www.federalreserve.gov/releases/h15/data/m/fedfund.txt.
[38] Federal Reserve Board of Governors, October 28, 2003.
[39] William Dewald, *Monetary Trends*, Federal Reserve Bank of St. Louis, February 1998.
[40] *The Wall Street Journal*, Monthly Economic Survey, November 14, 2003.

remain at high levels (see Chart 7), reflecting continued builder confidence.[41] In fact, according to the Commerce Department, housing starts rose 2.9 percent in October to a seasonally adjusted annual rate of 1.96 million units, the highest rate of activity since January 1986.[42] Data reported by the National Association of Realtors show that sales of new homes have leveled off from the peaks of mid-summer (as is typically the case), but remain at a very high level.[43] With interest rates expected to remain low for some time, 30-year fixed mortgage rates are expected to increase to no more than 7 percent (current rates are about 5.9 percent) before the end of 2005.[44]

Chart 7



8. Increase in Disposable Personal Income Helps Fuel Increased Consumption

As a recent report by the Joint Economic Committee noted, "Recent tax relief is boosting household disposable incomes and, thereby, consumer spending."[45] In other words, when Congress passed across-the-board reductions in personal income taxes and implemented the child-tax-credit refunds, Americans' disposable income (the amount an individual retains after paying taxes) increased – leading to an increase in consumer spending that helped spur the economy.

According to the BEA, growth in third quarter personal-consumption spending and disposable income was extremely strong. Consumer spending in the third quarter grew 6.6 percent, the strongest growth since the fourth quarter of 2002, while disposable income was up 7.2 percent from the previous quarter.[46] Demonstrating the importance of

---

[41] U.S. Census Bureau, "Census Bureau Housing Topics," http://www.census.gov/hhes/www/housing.html.
[42] Jon Hilsenrath, "Housing Starts Increase 2.9% Led by Single-Family Homes," *The Wall Street Journal*, November 20, 2003.
[43] National Association of Realtors, "September Existing-Home Sales Set Another Record," October 27, 2003, http://realtor.org/PublicAffairsWeb.nsf/Pages/SeptEHSRpt03?OpenDocument.
[44] Mortgage Bankers Association, Long-Term Forecast for U.S. Economy and Housing Market, October 22, 2003.
[45] Joint Economic Committee, "The Economy Builds Momentum," September 10, 2003.
[46] Department of Commerce, Bureau of Economic Analysis, News Release, October 30, 2003, http://www.bea.doc.gov/bea/newsrel/gdpnewsrelease.htm.

the growth in disposable income and consumption, consumer spending (fueled by increased disposable income) accounted for nearly two-thirds of the GDP growth.[47]

While this may seem to be a one-time bump, the surge in labor productivity growth means that nominal wage growth is increasing faster than inflation, with real wages and purchasing power rising as a result.[48] As Federal Reserve Board of Governors Vice Chairman Robert Ferguson observed, "the fundamental determinants of consumer spending remain favorable, and consumer sentiment is increasingly upbeat."[49]

9. Dividend Tax Relief Leads to Increased Distribution of Corporate Profits

According to data from the U.S. Census Bureau, robust corporate profit growth resumed this year. The Census data show that profits from current production increased by $80.6 billion in the second quarter (the most recent numbers) after increasing by $20.4 billion in the first quarter.[50] Corporate profits are important because they help fuel growth in investment spending, inventory rebuilding, and job creation, all of which bode well for future GDP and job growth. Increases in profits also fuel equity price increases that are important for the ever-expanding group of investors.

By reducing the tax on dividends, the 2003 tax relief act led a record number of companies to issue new dividends or increase the number of dividends issued. This has led to a much greater percentage of corporate profits being returned to shareholders and has helped to bolster the economic recovery. The ASA found that following the tax-relief bill's passage:

> The number of combined increases and initiations of dividends of non-S&P 500 companies is increasing 43.5 percent above last year, while S&P 500 companies is running 50 percent above last year. As a result of the increased and initiated dividend payments, a recent S&P analysis found that an extra $47 billion net would be returned to shareholders over the next twelve months.[51]

10. Recovering Economy's Revenue Narrows Budget Deficits

The economic growth associated with the Bush tax relief is having positive effects on the budget deficit. In its latest estimate, the Congressional Budget Office (CBO) estimated that the federal budget deficit for Fiscal Year 2003 was $374 billion, down $27

---

[47] Department of Commerce, October 30, 2003.
[48] For a discussion about the role of productivity growth in wages and purchasing power, see: Sylvia Nasar, "Productivity," *The Concise Encyclopedia of Economics*, 1999.
[49] Remarks by Federal Reserve Board of Governors Vice Chairman Robert W. Ferguson, Executive's Club of Chicago, November 21, 2003.
[50] Department of Commerce, Bureau of Labor Statistics, News Release,September 26, 2003, http://www.bea.doc.gov/bea/newsrel/gdp203f.htm.
[51] American Shareholders Association, "Jobs and Growth Tax Relief Reconciliation Scorecard. Dividend Cut Changes Behavior, Empowers Shareholders," October 13, 2003.

billion from its August estimate of $401 billion – a 7-percent reduction. Higher-than-expected revenues and lower-than-expected spending accounted for the change in the deficit projection.[52]

Meanwhile, the Office of Management and Budget (OMB) recently announced a budget deficit for Fiscal Year 2003 of $374 billion, down $81 billion from its Mid-Session prediction of $455 billion – an 18-percent reduction. In a statement accompanying the updated deficit numbers, Treasury Secretary John Snow noted:

> Increased consumer income and spending, a robust housing market, improved business spending – coupled with low inflation and low interest rates – all show we are heading in the right direction of an accelerating recovery. As the economy grows, government revenues will go up, which will help keep the deficit under control.[53]

The Bush Plan is Working; Next Step: Make Tax Relief Permanent

The economic data clearly demonstrate that the Republican economic plan is working. Congress must adhere to the Bush plan and reject calls to raise taxes or implement fiscally irresponsible government programs. To reverse course now and repeal any tax relief, or agree to pass domestic spending programs designed to "create jobs" or "kick-start the economy," would ignore overwhelming evidence of a recovering economy.

Furthermore, it is critical to provide taxpayers with certainty about their tax rates. Certainty improves individuals' incentives to work, save, and invest, and reduces the risks businesses face when deciding whether or not to make long-term, fixed investments. As a Heritage Foundation paper explains:

> People act on their ambitions and expectations of the future. In tax policy, certainty, immediacy, and permanence are common-sense principles that lead to effective planning. Uncertainty about the future breeds caution and makes it much more difficult for people and businesses to plan properly.[54]

Repealing the Bush tax relief – or even suggesting the possibility – imposes a level of uncertainty that impedes economic decision-making needed to assure continuation of this economic growth. Making the Bush tax relief permanent would ensure that the lower rates that made our current economic growth possible would remain

---

[52] Joint Economic Committee, "2003 Deficit Lower Than Projected," October 15, 2003.
[53] "Joint Statement of John W. Snow, Secretary of the Treasury, and Joshua B. Bolton, Director of the Office of Management and Budget, on Budget Results for Fiscal Year 2003," October 20, 2003.
[54] Lawrence Whitman, "Making Tax Cut Permanent and Fully Effective Now," The Heritage Foundation, November 22, 2002.

in place to further assist economic growth. As economist and National Taxpayers Union President Dr. John Berthoud recently noted:

> It is imperative that Congress makes the 2003 tax cuts permanent. Permanence will help our financial markets by boosting certainty in this volatile economic environment. And locking in lower tax rates will ensure that the economic benefit of the tax cuts continue. Repealing the tax cuts (i.e., raising taxes), as some have proposed, would be pure economic poison.[55]

Finally, it is vital that Congress maintain fiscal responsibility next year by containing non-defense domestic spending. The more the government spends, the more it pulls vital resources out of the market, hampering our economic recovery and exacerbating deficits.

Conclusion

Many Democrats and members of the media are attempting to convince Americans that the Bush economic plan has failed and that the economy is in free fall. In fact, most economic indicators demonstrate that the economy is growing rapidly, thanks in no small part to the Bush economic plan. Republicans must stay the course and reject Democrat suggestions to repeal portions of the Bush tax relief plan or to dramatically increase domestic spending.

Furthermore, Congress should make permanent the Bush tax relief and economic growth package to ensure that the recovery is a sustained one. The economic evidence shows the economy is recovering, the Bush economic plan is working, and that making the tax relief permanent will further assist the recovery.

---

[55] John Berthoud, in correspondence with the authors, November 7, 2003.