washingtonpost.com

A Heckuva Claim

Mr. Bush is oblivious to the consequences of his tax cuts.

Saturday, January 6, 2007; A16

PRESIDENT BUSH wrote in a Wall Street Journal op-ed Wednesday that "it is also a fact that our tax cuts have fueled robust economic growth and record revenues." The claim about fueling record revenue is flat wrong, and it is shocking that the president should persist in making such errors. After all, tax cuts are the central plank of his domestic policy. How can he fail to understand the basic facts about them?

This is not just our opinion. Harvard's N. Gregory Mankiw, an economic conservative who served as chairman of Mr. Bush's Council of Economic Advisers, has tested the hypothesis on which Mr. Bush's claim is based: He looked at the extent to which tax cuts stimulate extra growth and the extent to which that growth generates extra tax revenue that offsets the initial loss of revenue from the tax cut. Mr. Mankiw's conclusion: Even over the long term, once you've allowed all of the extra growth to feed through into extra revenue, cuts in capital taxes juice the economy enough to recoup half of the lost revenue, and cuts in income taxes deliver a boost that recoups 17 percent of the lost revenue. So a $100 billion cut in taxes on capital widens the budget deficit by $50 billion, and a $100 billion cut in income taxes widens the budget deficit by $83 billion.

If Mr. Bush does not believe Mr. Mankiw, perhaps he may believe the Congressional Budget Office. In a period when it was run by Douglas Holtz-Eakin, another economic conservative who worked in Mr. Bush's White House, the CBO estimated the extent to which a 10 percent reduction in personal taxes might pay for itself. On the most optimistic assumptions it could muster, the CBO found that tax cuts would stimulate enough economic growth to replace 22 percent of lost revenue in the first five years and 32 percent in the second five. On pessimistic assumptions, the growth effects of tax cuts did nothing to offset revenue loss.

If Mr. Bush believes neither Mr. Mankiw nor the Congressional Budget Office, he should at least respect his own Treasury. Prodded by the White House, Treasury economists have calculated how much extra growth would result from making the Bush tax cuts permanent. They have concluded that economic output would rise by about 0.5 percent in the first six years and by an additional 0.2 percent in the "long term." Since the federal government collects around 18 percent of gross domestic product in taxes, enlarging GDP by 0.7 percent would result in extra tax revenue equivalent to 0.13 percent of GDP. That would offset less than a tenth of the revenue that would be lost because of the tax cuts.

Mr. Bush's op-ed included nice statements about bipartisan cooperation. But the Democrats would be more likely to cooperate with the president if he stopped making things up.