

USA Today

Bush tax cuts complicate attempts to deal with debt

By Chuck Raasch

11/30/2011

WASHINGTON – Barely four months into his presidency, [President George W. Bush](#) fulfilled a campaign promise by signing a \$1.35 trillion tax cut over 10 years and declared, "This is only the beginning"

How right he was, although in ways he could not have foreseen. A decade later, with a sagging economy and soaring debt, arguments over the tax cuts passed in May 2001 and additional 2003 cuts are a leading cause of the fiscal paralysis of Congress and [President Obama](#). The looming expiration of the cuts at the end of next year has complicated attempts to reduce the nation's \$15 trillion debt.

Obama argues that the cuts unfairly favor higher-income taxpayers and should only be extended for couples earning less than \$250,000 a year and individuals making less than \$200,000. Republicans say Democrats have yet to get serious about cutting spending, and argue that raising taxes on anyone — especially small business owners who create jobs — is financial suicide in a struggling economy. Both sides seem willing to let voters decide which vision they favor in the 2012 elections. But some say that a financial shock might force Congress to act sooner on long-term tax and entitlement reform.

"The political parties are determined to take the issues of entitlement reform and tax reform to the voters in the election," said Clint Stretch, a tax analyst for Deloitte Tax LLP. "But I think there is . . . a chance that the strategy won't work out, that we will be moved by events to act before that."

The tax cuts are temporary for reasons painfully familiar to Americans who have elected bitterly divided Congresses.

Republicans needed 60 votes under Senate budgeting rules to make tax cuts permanent, so they settled on 10-year cuts through the use of a legislative procedure known as "reconciliation" that required only a majority vote. In 2001, the [U.S.](#) was running modest budget surpluses. It was before the 9/11 terrorist

attacks, and the economy was softening, bolstering arguments for a tax-cut stimulus.

Democrats complained the cuts would starve government of money to run necessary programs, but 28 Democrats in the House and 12 in the Senate voted for the Bush tax cuts.

Republicans said restricting revenues fit their vision of smaller government that voters said they wanted in electing Bush, and they vowed to make the tax cuts permanent. They never were able to do that, but they did cut taxes again in 2003. Many knew Congress would face consequences down the road. "Everybody knew we were baking in a problem," Stretch said, because health care costs were skyrocketing and baby boomers would reach retirement by the end of the decade and begin to tax entitlement programs.

Meanwhile, spending went up under Bush and a [Republican Congress](#), and Democrats were often complicit. Bush had promised tax cuts but also initiatives that cost money, such as education reform and the costly Medicare prescription drug benefit pushed through by Republicans.

"He had all these big spending priorities so it made it hard for him to turn around and say, 'I want spending cuts here' when he was spending so much elsewhere," said [Chris Edwards](#), a tax policy analyst at the conservative [Cato Institute](#). Wars in Iraq and Afghanistan cost \$1.2 trillion, adding to what Stretch called "the tectonic plate of Bush tax cuts moving north and the costs of growing entitlement demands moving south."

But blaming all or even most of the debt crisis on the Bush tax cuts misses the bigger picture. [Heritage Foundation](#) tax expert J.D. Foster estimated the Bush tax cuts reduced government receipts by about 1% of the gross domestic product last year, but that the deficit was about 8.9% of GDP.

"One from 8.9 still leaves a very large budget deficit," he said.

Because Congress never made the tax cuts permanent, their extension landed in the middle of the deficit wars. Obama and Republicans agreed after the 2010 elections to a two-year extension in exchange for things Obama wanted, including a temporary cut in the payroll tax that itself is set to expire at the end of this year. The piecemeal approach makes it difficult for businesses to make long-term plans,

and prolongs the uncertainty about revenue expectations necessary for any serious debt agreement between Congress and the [White House](#).

"Tax reform is a lot of hard work, and there really wasn't and still remains nowhere near the pressure for tax reform to go forward," Foster said.

He said he expects pressure for tax and entitlement reform to open a unique window after the November election, when Congress will be forced to either extend the Bush tax cuts, let them expire and risk the political and economic fallout of rising tax burdens, or take a more comprehensive approach to taxing and spending early in Obama's second term or in the opening months of his successor's.

Unless something bad happens first.

"The only reason we have been given a breathing space is that Europe is in such trouble that capital has no place to go except the United States," Foster said.