

RETURNING TO ECONOMIC VITALITY

America's power rests on our economic strength. And it is precisely this strength that the terrorists targeted on September 11th.

The attacks on the World Trade Center and the Pentagon inflicted serious short-term harm on the U.S. economy. The terrorists' hopes of doing more lasting damage, however, will be disappointed. The American economy is the most productive and most innovative on earth. Free market domestic policies, free trade, sound monetary policy, moderate regulatory burdens, and declining tax rates will soon restore growth and employment.

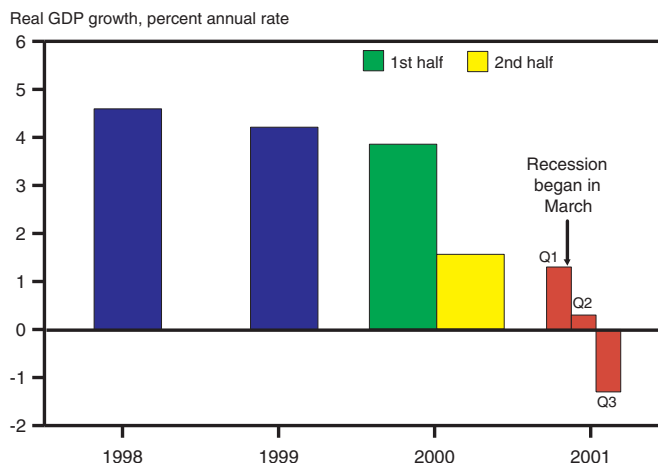
We can achieve an even speedier recovery by adopting the economic-recovery and job-creation principles proposed by President Bush on October 4th, nearly one million lost jobs ago.

Signs of Economic Slowdown

The economic impact of the terrorist attacks was magnified by the fact that growth had already begun to slow in the middle of 2000. In March 2000, stock market indices peaked. Over the following year, household equity wealth fell by over \$4 trillion. After expanding at a double digit pace for eight years, business equipment investment slowed markedly in the third quarter of 2000 and turned negative in the fourth quarter. At about the same time, energy prices jumped to painful new levels. Manufacturing was hit particularly hard: in the five quarters starting in the summer of 2000, the manufacturing sector lost some 1.4 million jobs.

The Administration addressed the looming recession as soon as it took office, and the Congress quickly passed a bipartisan tax relief package. The June tax package reduced marginal tax rates across a wide spectrum, including for lower income citizens earning their way out of poverty. It also doubled the per-child tax credit, lightened the marriage penalty, and put \$36 billion directly in consumers' hands through immediate rebates.

Economy Slowed Beginning in Mid-2000



Chronology of the Recession

The economy weakened beginning in 2000:

- The stock market fell after March 2000.
- Manufacturing output decreased after June 2000 and manufacturing jobs after July 2000.
- Real GDP growth slowed sharply from the second half of 2000 onward.
- Consumers became less confident after September 2000.
- The unemployment rate rose after October 2000.
- Overall jobs fell after March 2001, the official start of the recession.

September 11th deepened the contraction:

- The stock market dropped 12 percent by September 21st.
- Consumer confidence plummeted 26 percent by October.
- Overall jobs fell by 943,000 in the last three months of 2001, and the unemployment rate jumped by 0.8 percentage points.
- Real GDP growth fell at a 1.3 percent rate in the third quarter.

Besides allowing Americans to keep a greater portion of what they have earned, these policies deliver both short-term and long-term benefits. Tax relief allows taxpayers to keep more of their own money, supporting consumption in the near-term. Meanwhile, the nation's long-term outlook is brightened by improved incentives for work, entrepreneurship, and investment.

Before September 11th, there were signs that the economic slide had begun to slow. Retail sales picked up in July and August. Steep declines in nondefense capital goods orders appeared to have ended in August, and the National Association of Purchasing Managers Index of manufacturing activity improved sharply.

The terrorist attacks cut short these promising developments. Business and consumer confidence plunged after September 11th. Airlines were grounded. Travel and tourism were devastated. The finances of the world's insurance industry were damaged. And firms and individuals throughout the economy were forced to make heavy new investments in security. These events drove the economy into a recession. Indeed, The National Bureau of Economic Research—the designator of recessions—said, “Before the attacks, it is possible that the decline in the economy would have been too mild to qualify as a recession. The attacks clearly deepened the contraction and may have been an important factor in turning the episode into a recession.”¹

The terrorist attacks imposed heavy new costs on government as well. The economic shock combined with unexpected new expenditures for defense, homeland security, and domestic reconstruction pushed the federal government back into deficit. However, if we make the right choices by stimulating growth and controlling spending, deficits will be small and temporary.

The Administration and the Congressional Leadership agreed in principle that further fiscal stimulus was needed to prevent a worsening of the recession. The House passed a stimulus plan

¹ National Bureau of Economic Research, “The NBER’s Business-Cycle Dating Procedure”, December 13, 2001, page 7.

and a bipartisan majority for a similar plan coalesced in the Senate. Regrettably, the Senate chose not to act.

Need for Economic Security Plan

There have been some encouraging trends in the latest economic releases. Yet the number of unemployed workers continues to rise, incomes are stagnating, business investment remains soft, and the global economy is weak. The Administration therefore believes that additional measures must be taken to promote economic growth, create jobs, and avert future economic weakness. The Administration urges quick passage of an economic security plan modeled along the lines of the recent bipartisan compromise and has set aside resources for that purpose in this budget.

To both create new jobs and assist dislocated workers, this package should include:

- Speeding up the tax reductions the Congress passed last year. The faster tax rates come down, the faster the economy will grow.
- Giving tax refunds to lower- and moderate-income individuals and families. This will put money in the hands of people with children to support and bills to pay.
- Providing immediate assistance to laid-off workers, both by extending their unemployment benefits, increasing resources available for job training, and by helping them retain their health insurance coverage.
- Reforming prospectively the alternative minimum tax on businesses. This will ensure that employers no longer see their tax rates rise as their profits shrink. In tough times, entrepreneurship should be encouraged, not punished.
- Offering better tax treatment for employers and entrepreneurs who invest in new equipment. This will help both the people who use the equipment and those who manufacture it.

The Dignity of a Paycheck

It's important to help workers who've lost their jobs. It's even more important to help workers find new jobs. In tough times, people need an unemployment check; but what they want is a paycheck. Americans want the independence of a job, and the satisfaction of providing for their families themselves. A job is more than a source of income; it is a source of dignity.

President George W. Bush
January 5, 2002

The Council of Economic Advisers has estimated that the Administration's economic security plan could boost 2002 GDP growth by 0.5 percent and lead to the creation of 300,000 more jobs.

The Administration has built its economic forecasts around the assumption that an economic stimulus package will be enacted. If this does not occur, our growth estimates would be overstated by the above amount. Unless economic growth can be restored, it will mean fewer jobs, smaller growth in incomes, and smaller budget surpluses.

Quick action on an economic security plan makes sense. It will speed up the economic recovery and will help bring laid-off workers back into the job market more quickly.

While the primary emphasis of this budget is the quick recovery from the terrorist attacks on the United States, the President's Budget outlines a plan that also provides the fundamental underpinnings for long-term economic growth. The federal government does not create economic growth. However, it should foster an environment to allow entrepreneurs, small business, and

others in the private sector to generate economic growth. Such economic opportunity comes through promoting free trade, restraining costly regulatory burdens, maintaining low tax rates, simplifying the tax code, promoting a sound energy policy, controlling federal spending and increasing the efficiency of government operation. By taking action to reinvigorate growth in both the short- and long-term, we can thwart the terrorists' efforts to undermine our economy and our well being.