

Open Letter to President George W. Bush

October 4, 2004

Dear Mr. President:

As professors of economics and business, we are concerned that U.S. economic policy has taken a dangerous turn under your stewardship. Nearly every major economic indicator has deteriorated since you took office in January 2001. Real GDP growth during your term is the lowest of any presidential term in recent memory. Total non-farm employment has contracted and the unemployment rate has increased. Bankruptcies are up sharply, as is our dependence on foreign capital to finance an exploding current account deficit. All three major stock indexes are lower now than at the time of your inauguration. The percentage of Americans in poverty has increased, real median income has declined, and income inequality has grown.

The data make clear that your policy of slashing taxes – primarily for those at the upper reaches of the income distribution – has not worked. The fiscal reversal that has taken place under your leadership is so extreme that it would have been unimaginable just a few years ago. The federal budget surplus of over \$200 billion that we enjoyed in the year 2000 has disappeared, and we are now facing a massive annual deficit of over \$400 billion. In fact, if transfers from the Social Security trust fund are excluded, the federal deficit is even worse – well in excess of a half a trillion dollars this year alone. Although some members of your administration have suggested that the mountain of new debt accumulated on your watch is mainly the consequence of 9-11 and the war on terror, budget experts know that this is simply false. Your economic policies have played a significant role in driving this fiscal

collapse. And the economic proposals you have suggested for a potential second term – from diverting Social Security contributions into private accounts to making the recent tax cuts permanent – only promise to exacerbate the crisis by further narrowing the federal revenue base.

These sorts of deficits crowd out private investment and are politically addictive. They also place a heavy burden on monetary policy – and create additional pressure for higher interest rates – by stoking inflationary expectations. If your economic advisers are telling you that these deficits can be defeated through further reductions in tax rates, then you need new advisers. More robust economic growth could certainly help, but nearly every one of your administration's economic forecasts – both before and after 9-11 – has proved overly optimistic. Expenditure cuts could be part of the answer, but your record so far has been one of increasing expenditures, not reducing them.

What is called for, we believe, is a dramatic reorientation of fiscal policy, including substantial reversals of your tax policy. Running a budget deficit in response to a short bout of recession is one thing. But running large structural deficits over a long period is something else entirely. We therefore urge you to consider the fiscal realities we now face and the substantial burden they are placing on our economy.

We also urge you to consider the distributional consequences of your policies. Under your administration, the income gap between the most affluent Americans and everyone else has widened. Although the latest data reveal that real household incomes have dropped across the board since you took office, low and middle income households have experienced steeper declines than upper income households. To be sure, the general phenomenon of mounting inequality preceded your administration, but it has continued (and, by some accounts, intensified) over the past three and a half years.

Some degree of inequality is inherent in any free market economy, creating positive incentives for economic and technological advancement. But when inequality becomes extreme, it can be socially corrosive and economically dysfunctional. Problems of this sort are visible throughout much of the developing world. At the moment, the most commonly accepted measure of

inequality – the so-called Gini coefficient – is far higher in the United States than in any other developed country and is continuing to move upward. We don't know where the breakpoint is for the U.S., but we would rather not find out. With all due respect, we believe your tax policy has exacerbated the problem of inequality in the United States, which has worrisome implications for the economy as a whole. We very much hope you will take this threat to our nation into account as you consider new fiscal approaches to address the nation's most pressing economic problems.

Sensible and farsighted economic management requires true discipline, compassion, and courage – not just slogans. Given the tenuous state of the American economy, we believe that the time for an honest assessment of the problem and for genuine corrective action is now. Ignoring the fiscal crisis that has taken hold during your presidency may seem politically appealing in the short run, but we fear it could ultimately prove disastrous. From a policy standpoint, the clear message is that more of the same won't work. The warning signs are already visible, and it is incumbent upon all of us to pay attention.

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