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Remember the Bush Tax Cuts This Labor Day

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This Labor Day weekend, millions of American workers will enjoy barbeques and spend quality time with their families. They should also celebrate that in 2006 they keep more of the fruits of their labor than they could three years ago—and there's so much more fruit to go around, too. Thanks to the tax relief that President Bush signed into law on May 28, 2003, the economy is strong, jobs are plentiful, and American workers hold on to more of their paychecks each week and face lower taxes on their savings and investments for the future.

In 2003, many commentators criticized the President for reducing the bite government takes out of workers' paychecks. They lambasted the return of "voodoo economics" and argued that lower tax rates would do nothing to lift the economy out of the doldrums. But President Bush and congressional Republicans held firm to two key principles: the American people know how to spend their money far better than Washington does, and the government should not penalize people for working hard and saving for the future. This Labor Day, it is worth looking back and seeing how the economy has performed since Congress and President Bush acted to let American workers keep more of the money they earn.

Way Back When

In June 2003, America was struggling with the aftereffects of recession and the 9/11 attacks. The economy had lost 2.7 million jobs since February 2001, and the unemployment rate stood at a nine-year high. The stock market had not recovered from the collapse of the tech bubble in 2000, and investment in the economy was stagnant.

President Bush had signed a first round of tax cuts into law in 2001, just at the onset of the recession. However, that tax relief was phased-in over several years, and most of it had not yet taken effect. Worse, many of the 2001 tax cuts weren't crafted to change the incentives that affect economic growth.

The 2003 tax cuts did not share this shortcoming. To begin with, the 2003 legislation phased-in all of the 2001 tax reductions immediately. More significantly, they reduced tax rates on savings and investment. The 2003 law reduced the tax burden on all workers who pay taxes and, crucially, lowered the top tax rate paid by small businesses and entrepreneurs, from 39.6 percent to 35 percent. This boosted the incentives for Americans to work, to take risks and innovate, and to expand businesses and create jobs. Still, critics countered that it wouldn't work.

A New Beginning

The economy's performance since the 2003 tax cuts went into effect has been stunning. The unem-

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ployment rate has fallen to from 6.3 percent to 4.7 percent—well below the historical average. Companies and entrepreneurs have created 5.7 million new jobs, including another 128,000 in August. And the typical unemployed worker now needs three fewer weeks to find a job than in June 2003.

The 2003 tax cuts lowered taxes on savings and investment, making it easier for workers to save for the future and reducing the cost of investment. The consequences have been dramatic. Since June 2003, investment in the economy has surged by 28 percent in real terms and is higher now than during the late 1990s. The stock market has also recovered, with the Dow Jones Industrial Average up 2,500 points in since June of 2003. With tens of millions of American workers owning stocks through 401(k) plans, these gains have been broadly shared throughout the economy.

Time to Celebrate

President Bush was right. American workers do know better than the government how to spend their money. The economy has surged since the 2003 tax cuts took effect, and these gains continued in August, with unemployment continuing to fall as the economy adds more jobs. This Labor Day, American workers can relax while enjoying more of their hard-earned money and the freedom and opportunity that lower taxes allow.

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