Kevin Dombrosky 9/29/16

Prospectus Section 1

When Bush entered office, he inherited the rising problems of the dotcom and tech bubble of 2000 and 2001. Leading up to the Tech Bubble Crash, there was a great amount of excitement around the new domain of the internet. With many more people wanting to become connected to the internet than was originally expected, businesses and investors wanted to exploit as many ways to get connected to these potential customers. Individuals and entities loaning funds to businesses and startups were looking more for the next big idea than a solid or even feasible business plan. As a result, many companies were given millions of dollars and were expected to grow at astronomical rates. Due to many of these big ideas being poorly thought out or executed, many of these companies quickly fell apart as they had no idea when they would be able to produce a profit. With so much invested funds not giving any real return to the investors, the Tech Bubble Crash eventually occurred in 2001, causing massive losses in the tech industry. The Nasdaq Composite stock lost 78% of its value in a very short period of time (Beattie, “Market Crashes: The Dotcom Crash”). The effects of this crash were felt as a recession across the nation’s economy, reaching its height in 2001.

The effects of the Tech Bubble Crash were felt in the forms of a relatively mild recession as well as a mild rise in unemployment, eventually reaching an unemployment rate of 6%. In response to this recession, President Bush enacted his first major piece of economic legislation. In June of 2001, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) was passed. The EGTRRA caused many changes in tax policy, but some of the most influential included allowing increased tax deductible contributions to individual’s IRA accounts, doubling the child tax credit to $1000, increased the earned income tax credit, increased tax deductions for education, reduced the “marriage penalty” by doubling the standard deduction for married couples, increasing the income threshold for couples in the 15% tax bracket, and finally reduced the income tax by about three percent across the board. The idea behind this policy was to ultimately stimulate the economy and end the 2001 recession. Bush wanted to give additional tax relief to families by giving them extra money. By doing so, the idea is that families having more money available to them would allow for an increase in demand and in turn raise the economy to lift it out of recession. However, these desired outcomes were never fully realized as a result of this legislation. Ultimately the tax cuts were far too gradual to actually have had a quick effect on the economy. The economy only saw a 1.0% growth in 2001 and a 1.8% growth in 2002. While it is estimated that these tax cuts saved taxpayers about 1.35 trillion dollars over the following ten years, these tax cuts mostly benefited families with children and those with $200,000 or higher incomes. Any higher income families usually already had enough income to cover expenses, so any rebates they received as a result of these tax cuts were saved instead of spent. In the long run, it is thought that these particular tax cuts hurt the government due to decreasing government revenues. By extension this also means an increase to the US’s debt and deficit (Amadeo, “EGTRRA: The Economic Growth and Tax Relief Reconciliation Act of 2001”).

Not too long after this, the awful September 11th terror attacks occurred, the worst of which targeted the Twin Towers in New York City. Economically, the attacks relatively little immediate impact on the US economy. There was an initial shock that could mostly be described in people’s uncertainty in the economy as opposed to actual failures in output. For the quarter immediately following the attacks, the economy only contracted by 1.1%. The attacks did however briefly revive the recession that was occurring in 2001 (Amadeo, “How the 9/11 Attacks Still Affect the Economy Today”).

It can be further argued that the terror attacks had even further implications, as they are a large part of the beginning of the Bush administration’s wars in both Iraq and Afghanistan. Dubbed the “War on Terror”, the military was ordered into both Afghanistan and Iraq for eventually well past the conclusion of the Bush presidency. Over the course of the Bush presidency, approximately $864 billion was spent between both wars (Amadeo, “How the 9/11 Attacks Still Affect the Economy Today”). As a result of this military action, the increased spending was not met by economic growth (Global Policy Forum).

Some time passes and the 2001 recession is still in effect, unfixed by the EGTRRA. Additional economic uncertainty was caused by the months leading up to the Iraq and Afghanistan wars, and while the EGTRRA did cut income taxes, it ultimately didn’t help businesses. To respond to these conditions affecting the economy, Bush implemented his next major tax plan, the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA), enabled May 28th, 2003. The JGTRRA reduced the capital gains tax, increased tax deductions for small businesses, accelerated the slowly scaling elements of the earlier EGTRRA, and applied the changes retroactively back to January 1st of 2003. President Bush was a proponent of supply side economics, wanting to put money into the hands of the businesses to allow them to create more jobs (Froyen 376). The outcomes of the JGTRRA were mostly positive. Investment in the stock market was encouraged by decreasing the capital gains and dividends taxes. Dividend stock paying companies saw growth due to an increase in dividend stock demand. The economy grew by 3.8% in 2004, prompting the Federal Reserve to raise the interest rates to slow down the growth of the economy to a healthy level. However, this still caused a decrease in tax revenues and increased the deficit, all while the wars were still being fought (Amadeo, “Jobs and Growth Tax Relief Reconciliation Act (2003)”).

The economy appeared to be recovering until 2006 when the housing crisis occurred which led to the 2008 financial crisis. After the earlier tech bubble burst and recession, the federal reserve kept short term interest rates low. Also, foreign developing nations began to save large quantities of money, creating large financial reserves that were eventually invested driving interest rates even lower. As a result of lower returns, investors sought higher risk opportunities for higher returns. The global financial markets enter a period called the “Great Moderation” due to higher than average returns on investment on relatively stable assets. The Great Moderation happened alongside an increase in the housing market. Prices rose very quickly as a result of rampant real estate speculation and excessive consumer spending, making it difficult to pay for mortgages. There was an inherent belief that home prices couldn’t fall that was unfortunately proven false. Mortgages backed by securities fell drastically causing widespread losses across many banks, and this eventually spread to other classes of investments as well. The confidence in the large banks fell when Lehman Brothers declared bankruptcy (Beattie, “Market Crashes: Housing Bubble and Credit Crisis (2007-2009)”). To counteract this new financial crisis, the policy of quantitative easing was put into place. This entailed increasing the money supply and lowering interest rates to increase borrowing and spending, thus increasing economic growth (Trefis Team). Ultimately a complete financial collapse was avoided, but the world felt the Great Recession for an extended period of time (Beattie, “Market Crashes: Housing Bubble and Credit Crisis (2007-2009)”). Leading up to this period, foreclosures on homes were limited to 21,000 per month. However, from 2008 to 2012, 3.9 million foreclosures were completed (“CoreLogic Reports 57,000 Completed Foreclosures in September”).

Bibliography

Amadeo, Kimberly. "EGTRRA: The Economic Growth and Tax Relief Reconciliation Act of 2001." The Balance. N.p., 8 Sept. 2016. Web. 30 Sept. 2016. <https://www.thebalance.com/economic-growth-and-tax-relief-reconciliation-act-3305764>.

Amadeo, Kimberly. "How the 9/11 Attacks Still Damage the Economy Today." The Balance. N.p., 08 Sept. 2016. Web. 30 Sept. 2016. <https://www.thebalance.com/how-the-9-11-attacks-still-affect-the-economy-today-3305536>.

Amadeo, Kimberly. "JGTRRA: The Tax Cut to Help Wall Street After 9/11." The Balance. N.p., 8 Sept. 2016. Web. 30 Sept. 2016. <https://www.thebalance.com/jobs-and-growth-tax-relief-reconciliation-act-2003-3305769>.

Beattie, Andrew. "Market Crashes: Housing Bubble and Credit Crisis (2007-2009)." Investopedia. N.p., 07 Jan. 2004. Web. 29 Sept. 2016. <http://www.investopedia.com/features/crashes/crashes9.asp>.

Beattie, Andrew. "Market Crashes: The Dotcom Crash." Investopedia. N.p., 07 Jan. 2004. Web. 29 Sept. 2016. <http://www.investopedia.com/features/crashes/crashes8.asp>.

"CoreLogic Reports 57,000 Completed Foreclosures in September." MultiVu. CoreLogic, 31 Oct. 2012. Web. 30 Sept. 2016. <http://multivu.prnewswire.com/mnr/corelogic/56990/>.

Global Policy Forum. "Economic Consequences." Global Policy Forum. N.p., n.d. Web. 30 Sept. 2016. <https://www.globalpolicy.org/humanitarian-issues-in-iraq/consequences-of-the-war-and-occupation-of-iraq/35722.html>.

Trefis Team. "Quantitative Easing In Focus: The U.S. Experience." Forbes. Great Speculations, 16 Nov. 2015. Web. 9 Sept. 2016. <http://www.forbes.com/sites/greatspeculations/2015/11/16/quantitative-easing-in-focus-the-u-s-experience/>.