“The long term impact of the 2001 and 2003 tax cut policies on consumer spending”

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ABSTRACT

This paper examines the effect of the two tax cuts enacted by President Bush in 2001 and 2003 on consumer spending. Our analysis, using the macroeconomic variables affecting consumer spending, is based on a sample of 210 data of the U.S. population from 1960 to 2012. The study of an interaction between disposable income and the 2001 tax cut demonstrates that the 2001 fiscal policy did not significantly influenced the level of consumption while the 2003 tax cut significantly stimulated consumer spending. The previous literature attempted to evaluate of the tax policy effectiveness by analyzing its short term impact and implications on the entire economy. To some extent, the previous literature presents different results concerning the impact of tax cuts policies. This paper studies the effectiveness of tax cuts on consumption, while controlling for other variables. In order to explain consumption with the 2001 and 2003 tax policies, this paper builds four different models derived from the original consumption model developed by John Maynard Keynes. Our contribution demonstrated that the impact of the 2001 and 2003 tax cuts was not significant as expected. Rather, other variables such as unemployment rate, federal government expenditures, the 2008 tax cuts as well as disposable income had significantly influenced the consumer behaviors before and after the implementation of the fiscal policies