THE DAILY CALLER

Hiding the cost of government leads to bigger government

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There you are, about to sign the papers, when the car salesman offers to throw in a $1,000 options package. He knows those options will cost you a further $440 by reducing the performance of your new car's engine, but he doesn't tell you that.

Sounds sleazy, right? Congress does it every day.

Politicians love to rail against car dealers and mortgage lenders who surprise consumers with hidden costs. Yet Congress hides from voters a huge part of the cost of government: the hidden costs of taxes, which include lost income and jobs. Failing to account for these costs creates a bias in favor of bigger government and a less efficient tax code.

When the government taxes apples, people buy and sell fewer apples. That leaves both buyers and sellers worse off. The same thing happens when government taxes other goods, labor, or capital.

Economists call that lost economic output the "deadweight loss" of taxation. People still work, consume, and invest. They just do it less often, which leaves the nation poorer.

Everyone from President Reagan's economic advisor Martin Feldstein to President Obama's economic advisor Jonathan Gruber agree that this hidden cost of taxation is very real and very large.

When the federal government takes an additional dollar from taxpayers, the actual cost to society is generally $1.44. That extra 44 cents represents the deadweight loss of taxation. Every time Congress shifts another dollar from Peter to Paul, it leaves society 44 cents poorer.

The deadweight loss of taxation can be much higher, though. For example, if Congress allows income-tax rates to rise in January, as current law provides, it will cost society $1.50 for every dollar of new tax revenue. Feldstein estimates that each dollar of new income-tax revenue could cost society $2.65!

Yet Congress never tells voters about these hidden costs before raising our taxes. It doesn't even measure them.

A striking example is President Obama's new health care law. ObamaCare includes roughly $500 billion in new taxes over the next 10 years, but also includes provisions that could result in further tax increases (such as the so-called "doc fix"). If all those additional taxes materialize (which some argue is the most likely scenario), then ObamaCare will impose an additional cost of roughly $550 billion in foregone economic output. That's more than half of the law's official cost. The deadweight losses may be even higher if Feldstein's estimates are accurate.

If Congress ends up borrowing money to finance ObamaCare's new spending or the "doc fix," the deadweight losses could climb higher still. University of Chicago economist Harald Uhlig estimates that federal borrowing carries a much higher deadweight loss, such that every $1 of deficit spending ultimately costs society $4.40.

Politicians are defrauding the American people by not accounting for this hidden cost of government.

Congress can address this problem with a simple change: require the Joint Committee on Taxation and the Congressional Budget Office to account for the deadweight loss of taxation in their cost estimates of legislation, baseline budget projections, and budget options.

This would hardly be a radical step. The Office of Management and Budget already directs federal agencies to include the deadweight costs of federal taxes when doing cost-benefit analyses of federal spending. Congress should do the same.

Members of Congress — and the people they represent — have a right to know the full cost of laws like ObamaCare before making up their minds.

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