The Examiner

Higher taxes won't cure what ails us

July 17, 2012

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The Washington Examiner

Sen. Patty Murray, D-Wash., chairwoman of the Democratic Senatorial Campaign Committee, supports raising taxes on all Americans in January 2013 from levels that have been in effect for more than a decade. She came right out and said so in a major speech at the Brookings Institution, a center-left think tank, on Monday.

"So if we can't get a good deal -- a balanced deal that calls on the wealthy to pay their fair share -- then I will absolutely continue this debate into 2013, rather than lock in a long-term deal this year that throws middle-class families under the bus," she declared. "And I think my party, and the American people, will support that."

Allowing taxes to rise in January -- from 10 percent to 15 percent in the lowest bracket, and from 35 percent to 40 percent at the top -- would throw the American economy under the bus.

Murray's message may have resonated with the elite audience at Brookings, but it's not likely to fly with the 13 million unemployed and the millions more who fear losing their jobs -- especially since the economy seems to be slowing.

Just hours before Murray's address, the Census Bureau and the International Monetary Fund both announced different signs of a weakening economy. Retail sales, the government's measure of consumer spending, declined in June for the third month in a row by 0.5 percent. Economists had forecast an increase of 0.2 percent. And the IMF revised its global growth forecast for 2013 down to 3.9 percent from its previous forecast of 4.1 percent.

Murray doesn't seem to care that higher taxes might drive America into another recession. She is echoing President Obama, who has repeatedly stated his willingness to raise taxes on upper-income Americans. That would be a blow to the many unincorporated small businesses that pay taxes as individuals.

A tax increase, whether it takes effect in 2013 or 2014, would be the wrong way to help America recover from the recession, because higher taxes would further harm our slow rate of economic growth. They could tip the U.S. economy into another recession and discourage employers from hiring.

Obama's first Council of Economic Advisers chairwoman, Christina Romer, in a paper published in the American Economic Review in 2010 with her husband, David, showed that higher taxes caused slower growth in gross domestic product.

The Romers, both professors at the University of California, Berkeley, distinguished between the effects of tax changes arising from legislation and those tax changes that occur automatically as rising income lifts individuals into higher tax brackets.

Looking at data from 1947 to 2006, the Romers concluded, "Our estimates suggest that a tax increase of 1% of GDP reduces output over the next three years by 3%." A major reason is that higher taxes have a markedly negative effect on investment.

Moving from academia to reality, British real estate companies report strong French interest in purchases of British homes. France's top tax rate may soon rise to 75 percent, leading some to consider lower-tax destinations.

Richard Rahn, a senior fellow at the Cato Institute, puts it this way: "Government depends on enterprises generating enough profit to support all the government spending. No profits means no workers, and nothing to support government. The higher the taxes, the fewer new jobs. All Americans are suffering because the president chooses not to grasp basic economic concepts."

Even though Murray is willing to embrace tax increases for all, Democrats should follow the wisdom of Christina and David Romer: Keep tax rates as they are -- or lower them.

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