

Will the “No New Taxes” Pledge Cause Financial Disaster?

July 19th, 2011 at 9:07 am [Fred Messner](#) | [7 Comments](#) |



The Cato Institute held a debate [yesterday](#) at the Rayburn House Office Building to discuss whether the Republican Party’s “No New Taxes” pledge is an effective tool for Conservatives’ ultimate goals of shrinking the federal government and restoring fiscal responsibility to Washington. Arguing that yes, sticking to the pledge is essential, was Dan Mitchell, a supply-side economist and Cato Institute scholar. Kevin Williamson of the National Review made the opposing case, and argued that it might even cause a financial disaster at the worst possible time.

Mitchell spoke first, “The moment you put taxes on the table, you’re probably gravitating towards something like the 1990 budget deal,” in which President George H. W. Bush broke his own pledge not to raise taxes and ultimately received little in the way of spending cuts, Mitchell said. Also, “a lot of so-called spending savings would really be back-door tax increases.”

So Democrats can’t be trusted to actually cut spending if they are allowed to raise taxes, which, by the way, have extremely adverse effects on economic growth, all of which applies now more than ever. Oh, and don’t forget that “zero-percent of our long-run fiscal problems are due to revenue.”

Williamson contended that the GOP’s pledge is not worth defending because it risks economic collapse for a goal, low marginal tax rates, that has not actually served to limit the growth of government at any level. As long as the federal government has the ability to raise money through capital markets, there is no level of taxation that can actually starve the beast. “Taxes don’t matter that much. The evidence that low tax rates constrain government is non-existent,” he said. What matters is good, old-fashioned

restraint in the appropriations process. In an environment where the government (at least for now) can borrow funds at absurdly low rates, “what determines your level of taxes is your level of spending.” Not the other way around.

And although the Tea Party-driven pledge is unlikely to limit the growth of an already bloated federal bureaucracy, it could be a factor in plunging the global economy back into recession if it becomes a deal-breaker in negotiations to raise the debt ceiling. “New taxes won’t cause financial calamity. U.S. government insolvency will,” Williamson explained.

These may be the best arguments yet against a pledge that has shown remarkable resilience in the face of both economic catastrophe and considerable concessions from the White House. Would the elimination of a few particularly objectionable loopholes really be so bad if they came with serious entitlement reform, especially if the loopholes create their own inefficiencies and capital markets have usurped the power of low tax rates to limit the size of government anyway?

What the panelists did agree on was their shared admiration for the Balanced Budget Amendment (BBA) introduced by Sens. Mike Lee and Orrin G. Hatch, both of Utah.

The Hatch-Lee iteration of the BBA would set arbitrary caps on federal spending as a percentage of GDP, as well as requiring a two-thirds majority to approve any future tax increases. What makes such a measure so attractive? According to Williamson, this BBA “wouldn’t be so much an amendment as it would be a new Constitution. It would radically change the way government operates, in a good way.” So apparently the best way to counter President Obama’s expressed hope to “fundamentally” change the United States of America is to “radically” change it? If the Republican-controlled House does bring the BBA to a vote, this will be an important contradiction to watch.