TAX CUTS AND THE FISCAL CLIFF

Chris Woodward - Friday, November 16, 2012

An expert on Social Security says the entitlement's finances will only get worse if lawmakers follow the CBO's recommendations on improving the economy.

This month, the Congressional Budget Office (CBO) reported that America's gross domestic product would grow by 2.2 percent if the Bush-era tax rates were extended. If President Obama's Social Security payroll tax cut and jobless benefits for the long-term unemployed are extended, it is projected to expand by nearly three percent.

Author Michael Tanner, also a senior fellow at the Cato Institute, points out that Social Security ran about a $100 billion deficit this year, due in part to the payroll tax cut. Further, Social Security is $22 trillion in the red going forward.

"If that payroll tax cut is extended, Social Security's finances will only grow worse," Tanner warns. "The problem is that if you have a dedicated revenue source that's already inadequate to pay benefits, and you further reduce that revenue, you're only making Social Security's problems more immediate."

So why does the Congressional Budget Office not take this into account?

"The Congressional Budget Office remains wedded to a Keynesian model that essentially says that the more money the government puts in the hands of consumers, the more economic growth you get," the author explains. "But it doesn't sort of deal with the other side of that equation of how you're going to get more investment in the economy, which means tax cuts for businesses that hire workers and invest in them."

Tanner adds that it does not answer the question of whether money will be taken out of the pockets of those businesses through more borrowing and higher debt -- not to mention higher taxes on the businesses in order to pay for the tax cut to consumers.

Regardless, he asserts there is very little evidence that the payroll tax cut did what Vice President Joe Biden once claimed it would do in the first place: stimulate the economy.

"Most economists would agree that one-time or short-term tax cuts don't have much stimulus, that people generally save that extra money or pay off existing bills," the Cato Institute senior fellow offers. "They don't buy new products; and businesses, of course, can't plan into the future. One-time tax cuts don't do much good for businesses, which need stability in the tax code in order to plan long-term investment."

Meanwhile, the same CBO report asserts that doing nothing to stop the country from going off the fiscal cliff would send the economy back into recession and cause the jobless rate to spike at 9.1 percent by next fall.