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Raising taxes will not prevent economic problems

By Jason Pye – 11/26/12

Negotiations over the so-called “fiscal cliff” are back in full swing, but the White House and congressional leaders are no closer to an agreement on taxes and spending cuts. Just before Thanksgiving, House Speaker John Boehner told ABC News that he wants ObamaCare, President Obama’s signature domestic policy, put on the table during “fiscal cliff” negotiations. Republicans are also pushing for more transparency in the deal-making process, urging their leadership to put everything out in the open.

Boehner has been pushing the idea of pro-growth tax reform that doesn’t raise rates. That seems like a non-starter since White House and Senate Democrats have made it clear that they want to raise rates for higher-income earners. And unfortunately, some Republicans in Congress are getting anxious about a deal and are abandoning their pledge to constituents not to raise their taxes.

Raising taxes in this economy is a bad idea. Just two years ago, President Obama supported extending tax rates for another two years because he realized that the economy would struggle even more if tax rates suddenly changes. The economic climate isn’t much better today.

Michael Tanner, a senior fellow at the Cato Institute, recently explained that raising taxes on the rich isn’t going to balance the budget:

> *President Obama has called for $1.6 trillion in tax hikes over the next ten years. While that is large enough to do serious damage to the economy, it would amount to just 16 percent of the combined deficits that we are projected to face over that period. In fact, the president’s proposed tax hike doesn’t even cover the $2.6 trillion in*

> *spending increases that he has called for over the next ten years. Obamacare alone will add $2.15 trillion in federal spending by 2022.*

Writing U.S. News and World Report, Dan Mitchell, an economist at the Cato Institute,explained that President Obama's tax hikes are worse than going over the fiscal cliff. These tax hikes, which include raising the income tax on the rich and investment income, is "terrible fiscal policy," according to Mitchell, because "politicians would have very little incentive to control budgetary waste if they expect more revenue." In other words, more revenue means more spending, not fixing the budget deficits that have plagued the United States since President Obama took office.

Tanner also noted that raising taxes does nothing to deal with the entitlements, which account for the bulk of long-term budget growth. And while the White House and House Republicans are feverishly trying to prevent spending cuts that were part of last year's debt ceiling deal, Tanner explains that spending is, in fact, the problem:

> *[T]he Congressional Budget Office predicts that even without any tax hikes, government revenue will reach 21.4 percent of GDP by 2022, significantly higher than its postwar average. Why, then, will we still have a deficit? Because spending that year is expected to exceed 22 percent of GDP, compared with a post-war average of 19.8 percent, and just 18.3 percent as recently as Bill Clinton's presidency.*
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> *According to the CBO, even if we never add another government program, federal spending will reach 46 percent of GDP by mid-century. True, some of that spending is interest on an ever-rising debt, but even if one assumes that the government had no interest expenses beyond those on the $16.2 trillion it currently owes, federal-government spending would still approach 30 percent of GDP by 2050. There is no possible way to raise taxes enough to pay for that amount of spending without wrecking the economy.*

Tanner concedes that President Obama has said that he'll offer spending cuts as part of the "fiscal cliff" deal, but he notes that the White House "hasn't actually offered any details beyond smoke and mirrors." And even if the White House and House Republicans come to an agreement on spending cuts, what's to say they'll ever actually happen. Remember, negotiators are looking for a way to prevent spending cuts that were agreed to just last year. And when it comes down to it, these aren't even spending cuts. They're cuts in the rate of spending increases.

Many observers have said that no one is going to like the deal if that ultimately reached by negotiators, assuming one can be made at all. House Republican leaders don't want the blame to fall on them, so they don't seem to have a lot of room to work. That obviously puts them in a bad position. From a political perspective, all they want is to save face.

So really, when it all comes down to it, those of us who want to deal with our fiscal problems in a way that promotes economic growth are the ones that will be looking on whatever deal is reached with disappointment.