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GOP Should Not Rely On CBO Analysis During Fiscal Cliff Talks

By: ROSS KAMINSKY – November 19th, 2012

Cato Institute economist Dan Mitchell has an important note at his web site about how the Congressional Budget Office's approach to analyzing budget proposals has inherent bias against pro-growth policies. Therefore, Dan argues convincingly, "For the Sake of Intellectual Integrity, Republicans Should Not Cite the CBO When Arguing against Obama's Proposed Fiscal-Cliff Tax Hike."

To be sure, the goal of successful politics is not primarily (or perhaps ever) intellectual integrity, a creature as likely to be found under the Capitol dome as an okapi. But when the GOP accepts CBO analysis as nigh-on-gospel, it puts them in a position of being unable to criticize the CBO's frequent ridiculous conclusions, informed by static modeling and a "slavish devotion to Keynesian theory in the short run."

(As if on queue, the Washington Times reports today that the CBO claims both sides' tax plans will add to the deficit.)
From Dan's note:

But I think the short-run Keynesianism is not CBO's biggest mistake. In the long-run, CBO wants us to believe that higher tax burdens translate into more growth. Check out this passage, which expresses CBO's view the economy will be weaker 10 years from now if the tax burden is not increased.

> ...the agency has estimated the effect on output that would occur in 2022 under the alternative fiscal scenario, which incorporates the assumption that several of the policies are maintained indefinitely. CBO estimates that in 2022, on net, the policies included in the alternative fiscal scenario would reduce real GDP by 0.4

> percent and real gross national product (GNP) by 1.7 percent. ...the larger budget deficits and rapidly growing federal debt would hamper national saving and investment and thus reduce output and income.

In other words, CBO reflexively makes two bold assumption. First, it assumes higher tax rates generate more money. Second, the bureaucrats assume that politicians will use any new money for deficit reduction. Yeah, good luck with that.

In an e-mail conversation I had with Dan, he offers the following summary of his view:

> 1. On the rare cases when CBO says the right thing, it's for the wrong reason.
> 2. CBO's methodology implies that growth is maximized with 100 percent tax rates.
>
> But perhaps the key point is that the GOP shouldn't take an intellectual shortcut by citing (what they presumably know to be) shoddy analysis. Don't give CBO any sanction.

After you read Dan's note -- which I highly encourage you to do so that you will better understand the true nature and implications of the important debate we're about to watch -- I also suggest you revisit a recent article of mine in which I lay out some of the key arguments from a paper by Christina Romer, formerly Barack Obama's chief economic advisor, against tax hikes.

Also, when you hear President Obama and congressional Democrats arguing that tax hikes are needed to help close the deficit, I hope you hear Milton Friedman's voice in the back of your head. Reiterating from my article noted just above, "As Milton Friedman taught us, tax hikes do not reduce the deficit because "In the long run government will spend whatever the tax system will raise, plus as much more as it can get away with." (And that is separate from any Laffer Curve effects of higher rates.)"

We simply do not have a revenue problem in this country. We have a spending problem. From a political point of view, I encourage all of you to let your congressmen know that you know that, and that you oppose raising tax rates. Don't let them push back with the nonsense of a "balanced" approach. That's like accepting just a little arsenic in your breakfast cereal. It will just take slightly longer to kill you.