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Economy Slows, Momentum Grows to Extend Bush Tax Cuts

Friday, July 30, 2010 02:56 PM

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Startled by new indications of spreading economic weakness, a growing tsunami of top economists is joining with congressional Republicans to call for an extension of the Bush-era tax breaks that are set to expire at year's end.

The latest heavy hitter to come out swinging against President Obama and House Speaker Nancy Pelosi's plans to raise taxes on wealthy Americans and business owners: James Bullard, the president of the St. Louis Federal Reserve Bank.

Bullard told CNBC on Friday morning: "Increasing taxes while you're trying to get the economy to recover is not a good plan."

That remark by the influential Bullard echoed a similar statement last week by Federal Reserve Chairman Ben Bernanke. And it stands in stark contrast to the policies of leading Democrats, including President Obama, who promised during the 2008 campaign to let the 2001 and 2003 Bush tax cuts expire.

Bullard's remarks came as the Commerce Department announced that second quarter economic growth slowed to 2.4 percent annually, its slowest pace in nearly a year.

The chorus of nationally respected economists urging Congress to extend the tax cuts enacted under the Bush administration — which Obama has derided as disproportionately benefiting Americans earning \$250,000 or more per year — appears to be growing almost daily.

On Thursday, respected Deutsche Bank economics expert Peter Hooper warned that failure to extend the Bush tax breaks could essentially kill the economic recovery in 2011.

"If a political stalemate in Washington results in no extension," Hooper advised, "fiscal drag could reach 2.5 percent of GDP next year, enough to bring a sluggish recovery to the stalling point."

Chris Edwards, CATO Institute economist and director of tax policy studies, favors long-term adoption of the Bush tax cuts measures.

"Especially now with 9.5 percent unemployment, you need very strong economic growth to start getting that unemployment rate down ... [otherwise] the unemployment rate will stay stuck at a high level," Edwards tells Newsmax.

Edwards said the second quarter GDP growth probably was even worse than indicated, because growth in government pushed the economy higher than it otherwise would have been. The Commerce Department report indicated that infrastructure expansion by private enterprise — new plants and factories — continues to be surprisingly weak.

Edwards is sharply critical of the administration's handling of the economy.

"The Obama administration has done nothing, nothing in my view to benefit the economy

in the short, or the long run," Edwards tells Newsmax.

"Everything they're doing is anti-business, anti-enterprise, anti-venture capital, anti-investment. It's anti-small business and anti-big business. It's just astounding in my view."

Edwards says the big jobs killer weighing down the economy right now is uncertainty over what will happen next.

"Businesses large and small frankly they're just uncertain, they're fearful about what is coming in the future, and they're holding cash... they're not investing," he says.

Moreover, Edwards says, there is no assurance that when U.S. businesses do finally begin expanding again, that they will do so in the United States. In today's global economy, he said, they can flee to more business-friendly locations — something that pro-stimulus Keynesian economists often overlook, according to Edwards.

"I think our tax and regulatory policies are scaring U.S. and foreign multi-nationals away from investing in America," Edwards says.

How long the administration and Speaker Pelosi can fight what appears to be a growing momentum for extending the tax breaks is an open question. Already several Democratic senators and representatives have broken with the administration to support extending the tax cuts. Allowing the tax breaks to expire would push the top individual tax rate from 35 percent to 39.6 percent. Taxes on capital gains and dividends would go up as well.

If the administration concedes the issue to Republicans, it will take more wind out of a Democratic base that polls show is remarkably unenthusiastic about the upcoming midterm elections.

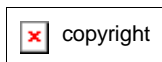
But if Democratic leaders continue to advocate letting the tax cuts expire, it will play into what polls indicate are growing doubts among the electorate generally, and particularly among independent voters, regarding the president's ability to effectively manage the economy.

With the midterms looming, Edwards predicts the politics of the matter will ultimately prevail.

"I think what's going to happen is Congress will kick ahead all of the Bush cuts, probably by a year. We're seeing the debate starting on this already, and I don't think it can help the Democrats.

"I think especially in a recession, to the average person on the street, I think a tax hike in the middle of an economic slowdown just doesn't make any sense. And I think for that reason the Democrats are going to come around, and they're just going to agree to get it off the political plate, and push them all ahead one year."

Doing so would greatly improve the chances of Congress making the tax cuts permanent, Edwards says, because the next Congress is expected to have many more Republicans.



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