# Economists Say Tax Hikes Will Curb Economic Growth

As the deadline to extend the Bush-era tax cuts looms, economists have agreed that the pending tax hikes would be devastating to the economy, and that permitting their expiration would have about twice the impact on economic growth as government spending cuts under the sequester.

Responding to a survey, the majority of economists said elevated marginal income tax rates would spur up to 40 percent of the economic slowdown if the United States were to "jump off" the fiscal cliff — which refers to the impact of the expiring tax cuts and automatic reductions in government spending set for 2013. Comparatively, the economists attributed about 20 percent of the slowdown to cuts in government spending.

"This assessment mostly reflects the amount of money the higher taxes would take out of the economy compared to the lower spending," *The Hill* explains. "Returning marginal income tax rates to where they were in the Clinton administration would take a bit more than $200 billion out of the private sector, while the sequester would require a cut of about $100 billion in 2013 government spending."

Recent reports by Moody's Analytics chief economist Mark Zandi, Douglas Holtz-Ekin of the American Action Forum, and other economic experts at Goldman Sachs project a 2-to-1 ratio of taxes to spending reductions in the fiscal cliff. The Hill explains further:

> These assessments estimate new government revenues of roughly $560 billion for fiscal 2013, and more than $700 billion in calendar year 2013, if all elements of the fiscal cliff were implemented. Aside from ending the Bush-era tax levels and the sequester, the fiscal cliff also includes the end of the Alternative Minimum Tax (AMT) patch, the payroll tax holiday, emergency unemployment insurance, the Medicare "doc fix" and other tax extenders, in addition to the implementation of new taxes under the 2010 Affordable Care Act (ACA).

While the analyses of these economists differ in some areas, their variations are meager, as they all conclude that a failure to maintain current tax levels would shave off a considerable percentage of GDP next year. The Congressional Budget Office offers a similar conclusion, estimating that avoiding the fiscal cliff would prompt GDP growth next year of at least 1.7 percent, while projecting a 0.5-percent drop if the fiscal cliff takes effect.

Even outside of recession-level economies, tax increases have a notably adverse impact on economic growth, according to Christina Romer and David Romer of University of California, Berkeley. Looking at post-World War II tax changes in the U.S., the two economists discovered that boosting taxes by one percent of GDP curbs growth by about three percent.

While the effects of the tax hikes would be devastating, mounting levels of government spending cannot be discounted. The reason? Spending, in itself, is a tax. Indeed, according to Rep. Ron Paul (R-Texas), the tax code is merely a symptom of government spending.

During last November's CNBC Republican presidential debate, Mr. Paul explained this enigma, responding to a question about where jobs from federal departments would go if the agencies were shut down:

> Eventually they go into the private sector. Then don't all leave immediately when the plan goes into effect. But what my plan does is it addresses taxes in a little different way. We are talking about the tax code. But that's the consequence, that's the symptom. The disease is spending. Every time you spend, spending is a tax. We tax the people, we borrow, and then we print the money and the prices go up, and that is a tax. So you have to address the subject of spending. That is the tax. That is the reason I go after the spending.

Frank Shostak, an adjunct scholar at the Ludwig von Mises Institute, echoed Paul's assertion and added that the spending reductions that would accompany the fiscal cliff would in fact improve the economy — because increased government outlays only lead to economic degradation. "We suggest that a cut in government outlays should be seen as great news for wealth generators," Shostak asserts. "It is of course bad news for various artificial forms of life that emerged on the back of increases in government outlays."

In effect, Shostak and Paul acknowledge that tax hikes are detrimental to the economy, but reckless government spending is the underlying culprit. So curbing such spending — which may include bulldozing a few federal departments — would benefit everyone in the long run, as it would curtail the need for high tax rates and eliminate the giant elephant in the room: The Federal Reserve.

*Photo of locked plant: Rusty chain hanging on a door via Shutterstock*