White House Warns “Fiscal Cliff” Threatens Holiday Shopping

Despite the report of record “Black Friday” and weekend sales to kick off the holiday shopping season, the White House Council of Economic Advisors warned Monday that the tax hikes due to take effect on January 1 could slow the holiday shopping spree unless Congress and the president agree on a way to avoid going over the much anticipated “fiscal cliff.”

Retailers nationwide amassed a record $59.1 billion in sales from Thanksgiving Day through Sunday, a nearly $7-billion increase over the $52.4 billion of a year ago, according to estimates from the National Retail Federation. But the report of the White House panel, consistent with forecasts from the non-partisan Congressional Budget Office and many private economists, is that the anticipated tax hikes may yet cast a pall over the remainder of the shopping season and have the potential to cut consumer spending by about $200 billion throughout 2013. Overall economic growth would likely be reduced by 1.4 percent, according to the report, a significant drop in an economy that has been growing by barely two percent since the less-than-robust recovery began in the middle of 2009. Recent modest increases in housing prices and jobs growth have contributed to renewed optimism on the part of consumers, the report said, while warning that “the hard-earned rise in consumer confidence will be at risk if the middle-class tax cuts are not soon extended with a minimum of political drama.”

The “political drama” refers to the standoff thus far between President Obama and congressional Republicans over tax policy. Republicans favor extending the lower rates for all income levels, while Obama is insisting on a rate increase for household incomes of $250,000 or more and individual incomes of $200,000 or more. Recent remarks by some key Republicans have indicated a softening of their anti-tax stand, however, citing a need to raise revenue as well as make adjustments to entitlement programs in order to stem a tide of red ink that has produced annual deficits exceeding $1 trillion in recent years and pushed the official national debt above $16 trillion. Republicans expressing a willingness to compromise on taxes include Eric Cantor of Virginia, the House majority leader, and Senators Lindsey Graham of South Carolina and Saxby Chambliss of Georgia, in addition to Arizona Sen. John McCain, the party's standard-bearer in the presidential election of 2008. Their comments brought a swift rebuke from Grover Norquist, president of Americans for Tax Reform, who repudiated the lawmakers' "impure thoughts" on tax hikes.

"No Republican has voted for a tax increase," Norquist said on CNN's *Starting Point*. "We've got some people discussing impure thoughts on national television." Rep. Peter King (R-N.Y.) said the Americans for Tax Reform pledge he signed when he first won his House seat 10 years ago was for that term only and does not apply in the current fiscal crisis. But Norquist pointed out that the pledge congressional candidates sign is a commitment to oppose tax increases during their entire time in either the House or Senate. The anti-tax crusader also dismissed as unrealistic Sen. Graham's belief that there will be an enduring bipartisan commitment to cut $10 in federal spending for every $1 in increased revenue.

"Senator, you're agreeing to a tax increase in exchange for a pink unicorn," Norquist said he told the South Carolinian. Cantor, meanwhile, said the tax pledge is not what's foremost in voters' minds.

"I will tell you when I go to the constituents that reelected me, it is not about that pledge; it really is about trying to solve problems," Cantor said on MSNBC's *Morning Joe*.

Along with the tax increases, Congress faces the sequester provision of the 2011 budget agreement that mandates across the board cuts in military spending as well as most domestic programs, not including Social Security or payments to Medicare beneficiaries. Some economists predict the combination of tax increases and cuts in federal spending could have a $500 billion impact next year and would throw an already fragile economy back into recession. Most of the cuts in federal programs, however, are reductions in anticipated increases in spending over the next 10 years. All money for federal spending is either taken out of the private sector through taxes or borrowed, thereby reducing private economic activity or adding to future debt. The effort to meet government spending demands by continuing to print more money, meanwhile, carries with it the threat of runaway inflation, as dollars lose their purchasing power in an artificial expansion of the money supply.

The fiscal crisis has renewed in some quarters the debate over the economic policy made popular by the British economist John Maynard Keynes and adopted by Franklin Roosevelt's New Deal during the Great Depression. Keynesian economic theory holds that the way to revitalize a weak or depressed economy is through increased deficit spending to "prime the pump" of economic activity. The $787-billion economic stimulus program passed in the first year of the Obama administration and the $1-trillion deficits that have followed failed to produce a robust economy, however, and most conservative Republicans oppose the Keynes theory in principle. Yet in frequently opposing cuts in military spending, conservatives both in and outside of Congress often defend the spending on the basis of the jobs it supports. That has prompted retiring Rep. Barney Frank (D-Mass.) to accuse some of his conservative colleagues of embracing a policy of "weaponized Keynesianism."