Tax cuts and tax expenditures hurt the economy: Concord Coalition

By Editor Test *Wed, Mar 7, 2012*

Deficit-financed tax cuts don’t pay for themselves and “are not a free lunch,” said Diane Lim Rogers, chief economist at the independent research group.

Reducing tax regulations that favor some taxpayers could reduce the deficit, encourage economic growth and promote fairness, the chief economist for The Concord Coalition told the Senate Budget Committee last week.

Diane Lim Rogers told lawmakers to broaden the tax base by reducing so-called tax expenditures, which she described as “upside down subsidies” for high-income taxpayers at the expense of others.

Deficit-financed tax cuts don’t pay for themselves and “are not a free lunch,” she said, adding that such cuts have generally reduced national savings and can harm long-term economic growth.

Given the progressive rate structure of the federal income tax system, she said, the current array of exemptions, deductions and preferential rates benefits high-income individuals the most.

On the question of tax cuts, Rogers pointed out that projections from the Congressional Budget Office “show economically unsustainable deficits under a business-as-usual baseline where tax cuts are repeatedly extended and deficit-financed.” Such deficits inhibit saving, she said.

She challenged the consensus among elected officials in Washington that most of the tax cuts originally approved in 2001 and 2003 should be extended and financed with additional federal borrowing, adding that the cuts have worsened the deficit and contributed to income inequality.

Advocates of extending tax cuts have suggested that government revenues of about 18% percent of GDP – the average over the last 40 years – should be adequate. But Rogers pointed out that demographic trends and rising health care costs make that untrue.

She suggested that Congress consider either letting the 2001 and 2003 tax cuts expire as scheduled or at least offsetting the cost of whatever cuts are extended.