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CBO Report Says Deficit Reduction Will Cause New Recession



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A new government report said spending cuts scheduled to go into effect in 2013, coupled with the simultaneous expiration of Bush-era tax cuts, will shrink the U.S. economy and raise unemployment -- contradicting the Republican claim that reducing the federal budget deficit will spur economic growth.

The Congressional Budget Office report, released on Tuesday, estimated that the policies slated to kick in on Jan. 1 would slash the deficit and shrink the national economy by 1.3 percent during the first half of next year, likely throwing the country over a "fiscal cliff" into another recession.

If left in place, the current policies would reduce the federal deficit by \$607 billion, or 4 percent of gross domestic product, the report said. That reduction, from immediate tax increases or spending cuts, would "represent an added drag on the weak economic expansion," the CBO noted in its report.

"The resulting weakening of the economy will lower taxable incomes and raise unemployment, generating a reduction in tax revenues and an increase in spending on such items as unemployment insurance," the report said.

The CBO report offers a stark contrast to a standard Republican argument. While Republicans frequently target President Barack Obama for the approximately \$5 trillion increase in federal debt since he took office in 2009, this report suggested that rapid deficit reduction would cause short-term harm to the economic recovery.

Many expect Congress to act on the fiscal restraints imposed as a result of last year's failed "super committee" negotiations, prior to the Jan. 1 deadline.

HuffPost's Ryan Grim reported on the situation last fall:

A lame duck Congress would have two months after the 2012 election to stave off the expiration of both that tax policy and the super committee's "automatic" cuts.

The most likely scenario: The super committee locks up along partisan lines and, after the 2012 election, bipartisan negotiators deal with the tax cuts and the super committee's sequestration cuts, along with a basket of other expiring provisions, in one set of negotiations. Democrats will be pressured by the coming sequestration, while Republicans will be motivated by the expiration of the Bush tax cuts. And all of their negotiations will take place in a political and economic climate impossible to predict today.

While noting that action would eventually become necessary to combat rising debt, the CBO said that GDP would grow by about 4.4 percent in 2013, versus the projected 0.5 percent under current law, if Congress decides to remove or offset the policies set to go into effect next January.
