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## Higher Taxes, Smaller Government?

*To curb spending, Republicans will have to insist on clear, enforceable measures to induce greater discipline, and stick to them.*

By Steve Chapman - 12/3/2012

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It comes as no surprise to hear anti-tax activist Grover Norquist talk about tax cuts, but it does come as a surprise to hear him raise the subject of pink unicorns.

Pink unicorns are purely imaginary—a trait he says they share with the spending curbs that Republicans hope to get from the administration in exchange for a tax increase. Norquist says Democrats only want to enlarge the government and his GOP allies would be naive to make any deals with them.

History, he says, vindicates him. Congressional Democrats, he told National Public Radio, "cheated Reagan, OK, and they said we'll cut \$3 of spending for every dollar of tax increase. Spending went up, not down. They did the same thing to Bush a few years later in 1990." Reagan and Bush traded for a pink unicorn and didn't get it.

In this view, the only way to make politicians behave frugally is to reduce taxes and revenues. "If you raise taxes, they just spend it," he said.

That is often true. But it's apparent that if you reduce taxes, the politicians will also spend more. Ronald Reagan won big tax cuts, and federal spending rose by more than 20 percent, adjusted for inflation. George W. Bush did the same, and the budget ballooned. If tax increases aren't a sure thing, neither are tax cuts.

In his review of history, Norquist omits the one time in the past four decades when the budget actually came into balance: the 1990s. Why? Because it badly undermines his case.

Under Bill Clinton, income tax rates rose. In fact, his critics reviled him for enacting "the biggest tax increase in American history." Yet the tax hike did not open the spending floodgates. In inflation-adjusted terms, federal outlays grew very slowly, and as a share of the economy, they shrank dramatically—from 21.4 percent to 18.2 percent, about what they were during the Eisenhower administration.

Why did that happen? Not because Clinton was a tightfisted Scrooge eager to dismantle big government, but because congressional Republicans, led by Newt Gingrich, forced him into an agreement to balance the budget, which required constraints on spending.

Under Clinton, total federal expenditures grew by just 1.5 percent per year, inflation-adjusted—40 percent less than under Reagan and 70 percent less than under George W. Bush. And did George H.W. Bush really get snookered? During his presidency, spending growth was only slightly higher than under Clinton.

Most conservatives are of the "starve the beast" school, which says that if you deprive the government of revenue by cutting taxes, it will be forced to shrink. That would be true if the government couldn't spend money it doesn't have. In fact, it does so year in and year out. There is no point cutting off a wayward teen's allowance if he still has your credit card.

In 2006, a study published by the late economist William Niskanen debunked this theory of spending dynamics. Niskanen, who was Reagan's chief economist and chairman of the libertarian Cato Institute in Washington, looked at the historical data and found that revenue increases actually curtailed spending growth. Revenue reductions, however, caused it to accelerate—the exact opposite of what Norquist claims.

University of Alabama political scientist Michael New later took another look at the evidence and confirmed those findings. "Like Niskanen, I find

statistically significant evidence that low levels of federal revenues actually stimulate expenditure growth," he wrote in *The Cato Journal* in 2009.

It's not hard to see why. Americans are more likely to support a bigger federal budget if they don't have to pay the full cost each year. Tax cuts allow us to get \$100 worth of programs and services for only \$80. As with any commodity, price discounts increase consumption. Tax increases force us to pay something closer to the real cost of government, which dampens demand for it.

We fought two wars without raising taxes to pay for them. If Americans had known that invading Iraq was going to cost them real money, right away, they would have said: No, thanks.

Tax increases don't produce automatic improvement, particularly with a president who shows minimal interest in budget cutting. If Republicans want to curb spending, they will have to insist on clear, enforceable measures to induce greater discipline, and stick to them. That's not the easiest thing to achieve. But unlike a pink unicorn, it's happened before.

*Steve Chapman is a columnist and editorial writer for the Chicago Tribune.*