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The New Republican Tax Policy

By BRUCE BARTLETT - November 20, 2012

Although it is commonly believed that the Laffer curve – the idea that tax cuts pay for themselves – is the core Republican idea about tax policy, this is wrong. The true core idea is something called starve-the-beast – the idea that tax cuts will force cuts in spending precisely because they reduce revenue. But there are slight indications that some conservatives have awakened to the reality that not only does starve-the-beast not work, but it also leads to higher spending.

The notion came into being in the 1970s to allow conservative Republican economists to reconcile their support for a balanced budget with their party's intense desire to cut taxes without worrying about the deficit. Proposition 13 in California had proven unmistakably that voters didn't much care whether spending was cut; they just wanted lower taxes.

I have traced the origins of Republican starve-the-beast theory to testimony by Alan Greenspan before the Senate Finance Committee on July 14, 1978 – just weeks after the passage of Proposition 13 on June 6. In explaining why he supported the Kemp-Roth tax bill, which proposed an across-the-board tax rate reduction of 30 percent, while also supporting deficit reduction, Mr. Greenspan said:

Let us remember that the basic purpose of any tax cut program in today's environment is to reduce the momentum of expenditure growth by restraining the amount of revenues available and trust that there is a political limit to deficit spending.

Among those who totally bought into this theory was Ronald Reagan. When criticized for proposing a tax cut in 1981 even though the deficit was high and rising, he replied in a national television address on Feb. 5, 1981:

Over the past decades we've talked of curtailing government spending so that we can then lower the tax burden. Sometimes we've even taken a run at doing that. But there were always those who told us that taxes couldn't be cut until spending was reduced. Well, you know, we can lecture our children about extravagance until we run out of voice and breath. Or we can cure their extravagance by simply reducing their allowance.

In 2001, George W. Bush justified his tax cut on starve-the-beast grounds, saying it would constitute a "fiscal straitjacket for Congress." According to the journalist Ron Suskind's book, "The Price of Loyalty," the Bush adviser Karl Rove often invoked the starve-the-beast approach as "conservative economic theology" in White House meetings. By 2003, using deficits strategically to slash the size of government was widely considered to be party doctrine among Republicans.

During the Obama administration, the principal enforcer of that doctrine among Republicans is the anti-tax crusader Grover Norquist. He continually argues against tax increases because they feed the beast and lead to higher spending. As he put it in an Op-Ed page column last year in *The New York Times*, "Raising taxes is what politicians do instead of reforming and reducing the cost of government."

The problem for Republicans, as is so often the case, is that the real-world impact of their theories doesn't measure up to their theories. There was no reduction in spending as a share of the gross domestic product despite a sharp fall in revenues as a share of G.D.P. during the Reagan years. By the time Reagan left office the spending/G.D.P. ratio was about the same as it was in Jimmy Carter's last year: 21.7 percent in 1980 vs. 21.3 percent in 1988.

During the George W. Bush administration, spending increased sharply even as revenues collapsed. Revenues as a share of G.D.P. fell to 17.5 percent in 2008 from 20.6 percent in 2000, yet spending rose to 20.1 percent in 2006, before the economic crisis hit, and 20.7 percent in 2008, from 18.2 percent of G.D.P.

In short, we have tested starve-the-beast theory in the laboratory, and it has failed miserably. At least a few conservatives have had the courage to acknowledge that lowering the tax cost of spending may be a culprit. After all, the main reason to oppose higher spending is that it will lead to higher taxes. But if people can have tax cuts and higher spending at the same time, why should they not have their cake and eat it too?

In 2007, Ramesh Ponnuru of National Review made this perceptive observation about starve-the-beast theory:

The theory made sense so long as the maximum politically acceptable deficit was an independent variable. But if in fact the effort to cut taxes increased the political system's tolerance for deficits, then spending could go up. And it's easy to see how cutting taxes could make deficits more acceptable. As for practice: The last decade has not been kind to the idea that cutting taxes would restrain spending.

The late economist William Niskanen of the Cato Institute was another pioneer on the right in recognizing the perversity of starve-the-beast theory. His work has been revived by The Weekly Standard's Andrew Ferguson in a new article for the conservative magazine. This is significant because The Standard often sets the agenda for Republicans. This article may signal a change in thinking about whether tax increases may be a better way of starving the beast than tax cuts.

At the risk of reading the tea leaves too closely, I think Mr. Ferguson's article needs to be read in conjunction with comments made by The Standard's editor William Kristol on "Fox News Sunday" on Nov. 11. Said Mr. Kristol: "You know what? It won't kill the country if we raise taxes a little bit on millionaires. It really won't, I don't think."

Mr. Kristol is not a fool and can read the polls as easily as I can; he knows Republicans are holding a losing hand on taxes. A Nov. 14 Gallup poll shows the percentage of Americans favoring a spending-cuts-only approach to the deficit has fallen in half, to 10 percent from 20 percent last year; the percentage willing to accept higher taxes to reduce the deficit has risen to 86 percent from 73 percent.

Taxes are going to rise; that is no longer in doubt. The question for Republicans is what can they get in return. Starve-the-beast is dead.

Bruce Bartlett held senior policy roles in the Reagan and George H.W. Bush administrations and served on the staffs of Representatives Jack Kemp and Ron Paul. He is the author of "The Benefit and the Burden: Tax Reform – Why We Need It and What It Will Take."