

> Ezra Klein



Ezra Klein

Economic and Domestic Policy, and Lots of It

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Yes, tax cuts increase the deficit

There are a couple of weird arguments that come up when you talk about tax cuts. One is [that](#) "tax cuts do not cause deficits. Spending does." This is pretty easy to test: If we cut taxes this year but leave spending unchanged, will anything happen to deficits next year? The answer, of course, is yes. They will go up. Fast.

Now, you could say that tax cuts don't *have* to cause deficits, and that's true. But then they need to be accompanied by spending cuts equal to their size. (The same goes for spending increases, of course, which can be offset by tax increases.) But the GOP is not proposing spending cuts equal to the size of the Bush tax cuts (and, to be fair, President Obama is not proposing spending cuts equal to the size of his reduced extension of the Bush tax cuts). So these tax cuts will increase the deficit by \$3.9 trillion over the next 10 years.

For awhile, conservatives tried to dodge the need to propose spending cuts -- which are, after all, terribly unpopular -- by saying that the tax cuts would do the work for you: Since revenues were going down, spending would simply follow at some later point, like night comes after day. But as William Niskanen, former chairman of the libertarian Cato Institute, has [argued](#), that theory wasn't just wrong. It was *disastrously* wrong.

"My study finds that there was a strong *negative* relation between the federal spending percent of GDP and the federal revenue percent of GDP from 1981 through 2005, even controlling for the unemployment rate," writes Niskanen. So when you look at the numbers, the reality is that when revenue went up, spending went down. And when revenue went down, spending went up. When Congress is being fiscally irresponsible, it simply is fiscally irresponsible, and it both cuts taxes and increases spending. And then when it needs to be responsible again, it cuts spending and increases taxes.

What's worse, Niskanen said, is that this belief has robbed the budget of its traditional guardians. "An increased belief in the 'Starve the Beast' assertion has substantially reduced the traditional Republican concern for fiscal responsibility," he continued, "leading to a pattern of tax cuts, increased spending, and increased deficits."

In the absence of offsetting spending cuts, tax cuts increase the deficit. And when a party is fooling themselves and their supporters into believing otherwise, they are embracing a theory that has been proven to increase the deficit. They are as much pro-deficit spending as they are pro-tax cuts.

By Ezra Klein | September 15, 2010; 10:47 AM ET
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- I frequently read:
1. Starve the beast does not work. It has been proven not to work. So there.
- and
2. Oh, if only we weren't saddled with this awful deficit! The wonderful things we could spend money on! So sad!

Posted by: ostop666 | September 15, 2010 11:13 AM | [Report abuse](#)

"There are a couple of weird arguments...."

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