

Cutting Taxes Increases Spending!

Timothy Noah | June 19, 2012

The *Washington Post's* Ezra Klein has a [fascinating post](#) on the relationship between taxation and spending. It's an article of faith among some conservatives that if you "starve the beast" that is federal spending by cutting taxes then spending will eventually have to come down. It's been pointed out more than once that this hasn't worked very well in the past. Cutting taxes without also cutting spending mainly has the long-term effect of increasing the *deficit*. What Klein contributes to this discussion is the tantalizing suggestion that cutting taxes also increases *spending*.

Klein cites a [2004 essay](#) by the late [William Niskanen](#), an economist and longtime chairman of the libertarian Cato Institute, that says when you cut taxes you actually *increase* the likelihood that spending will go up. That's because cutting taxes discounts government's cost to taxpayers. Niskanen didn't say so, but the implication seems obvious: If you're a conservative and you want to reduce government spending, the best way to do so is to make taxpayers pay the sticker price for government. The only way to do that is to *raise* taxes.

Republicans have lately been using something like this argument to argue that low-income people who pay no income tax at all (the *Wall Street Journal* editorial page actually calls them "lucky duckies") should be faced to pay *something*; otherwise they'll become conditioned to think of government as cost-free. But it never before occurred to me that you can make the same argument to say that *high-income* people need to pay higher taxes. Otherwise the price of government spending to *them* will be too low and they'll end up "buying" more of it.

The argument actually works better for high-income people than for low-income people, because low-income people pay too much payroll tax ever to be deceived into thinking that the federal government is free. High-income people, however, barely notice their payroll tax, because even though it's been rising like crazy, it remains a pretty small portion of what they pay overall. They don't even pay the Social Security part on any [income above about \\$110,000](#). Meanwhile, high-income folks have been paying less in income tax over the years. The 400 richest Americans, Bruce Bartlett [points out](#) today on the *New York Times's* Economix blog, saw their effective tax rate decline from 26.4 percent in 1992 to 19.9 percent in 2009. (The only significant exception to this pattern occurred during the first term of Bill Clinton, who was also the last president to produce a budget surplus.) No wonder spending is out of control!

It might be argued that rich people, unlike poor people, have no financial dependence on spending by the federal government. But this is palpably untrue. As Elizabeth Warren has famously pointed out, government spending on all sorts of infrastructure makes it possible for people to get rich in the first place, and to stay rich. And that's before you take into account the more questionable forms of government spending that rich people benefit from--corporate welfare, tax expenditures, etc. If the rich had to pay for all the government they're getting, they might consider buying a bit less. Republicans shouldn't want to *starve* the beast. They should want to *feed* it.