

The Volokh Conspiracy

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Starve the Beast:

Todd Zywicki • May 3, 2010 7:52 am

When I was in college during the Reagan years the accepted wisdom on the limited government side of the aisle was that the only way to limit government spending was to first reduce government revenues. The logic was that the dynamics of interest-group politics were such that spending would rise indefinitely until it hit some ceiling but that raising taxes above some level would be politically unacceptable (see, e.g., Mondale for President). That ceiling, it seemed, was the amount of revenue taken in plus some limited amount of government debt. The assumption was that there was some limit that reality imposed on government debt, either politically or economically. Eventually, so went the reasoning, something would have to give—either Washington would have to cut spending or raise taxes. And at that point, spending would have to yield. Milton Friedman was particularly associated with this position.

A few years ago I heard Bill Niskanen speak when his book, *Reflections of a Political Economist* came out. Niskanen argued that “starve the beast” doesn’t work—that tax cuts bring about more, rather than less, spending. The logic is that people demand more of something if the cost is subsidized. If the cost of government is subsidized by pushing off the costs to later generations, then people will demand more government. Niskanen provides empirical evidence to support the hypothesis.

Over time, the empirical evidence has largely turned me from the Friedman position to the Niskanen position. Steve Chapman has an excellent summary of the theory and empirical findings in *The Examiner* today. the column is [here](#). Michael New’s article from the *Cato Journal* that Chapman cites is [here](#).

Categories: Uncategorized

63 Comments

1. **Colin says:**

The Romer and Romer paper that the article cites is quite thorough and empirically convincing.

Quote

May 3, 2010, 7:57 am



2. **SuperSkeptic says:**

Best line (regarding "starve the beast"):

"The critter in question is the federal government, which has been expanding like an oil spill in recent years."

[BTW— this sounds to me like an argument for increased taxation. I don't see how that would be productive, either — unless the idea is to spur crisis, which I do not think is the case... I'll await better informed opinions.]

Quote

May 3, 2010, 8:02 am



3. **Mark N. says:**

SuperSkeptic: [BTW— this sounds to me like an argument for increased taxation. I don't see how that would be productive, either — unless the idea is to spur crisis, which I do not think is the case... I'll await better informed opinions.]

I think the argument is that if, as has been the case for some years now, taxes can keep going down *without* spending decreasing, because deficit spending makes up the difference, people may come to think spending isn't so bad after all. Put differently, the demand for \$X of government spending paid for with \$X in Treasury bonds is higher than the demand for \$X of government spending paid for with \$X in tax increases. People vaguely realize that piling on \$X more debt is bad, but they don't, on average, have the same negative reaction to it as they do to \$X in taxes.

Quote

May 3, 2010, 8:29 am



4. **Blue Neponset says:**

This also means the Democrats were right about this. Please don't forget that.



The “starve the beast”/“tax cuts pay for themselves” crowd is well represented by the Republican Party and they don’t seem to be changing their tune.

Quote

May 3, 2010, 8:52 am

5. **A. Zarkov says:**

If you want to curtail federal government spending then spread the federal tax burden more equally. As long as most people think they someone else is paying, they will demand more and more.

As I listened to the debate on Obamacare held at the University of Colorado Law school on April 28, I was struck by Dubofsky’s comments about the federal government helping states pay their Medicaid expenses. She seems to think that somehow foreigners or extra-terrestrials pay federal taxes, not the states. I have to say she put on a poor performance, generally coming across as a complete nitwit.

I have never understood why the federal government should provide funds to states and cities for local projects or expenses. If Seattle wants an ice skating rink, then they should pay for it. Why should the feds give money to the states for their schools? Of course I know why. Having Washington pay creates the illusion that someone else is paying. If you want less government, then make people pay for it, and pay right now. When people see that they really have to pay for wars and other government spending they will want less of it.

Quote

May 3, 2010, 9:05 am

6. **Darel Finkbeiner says:**

Apples and Oranges. One is a political problem (borrow more money!), the other is an economic reality (at some point you have to actually do something about the debt). Being the wealthiest country in the world, we can hold off the economic reality for a very, very, very long time.

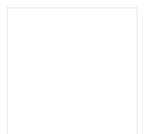
“Starve the Beast” doesn’t work as a political strategy. You have to actually cut spending. You need to find a political strategy that will actually accomplish this goal of smaller government. (I have no problem with it as a mantra though... might as well keep taxes low while we figure out how to accomplish the end goal)

Quote

May 3, 2010, 9:11 am

7. **A. Zarkov says:**

Blue Neponset: This also means the Democrats were right about this. Please don’t forget that.



The “starve the beast”/“tax cuts pay for themselves” crowd is well represented by the Republican Party and they don’t seem to be changing their tune.

You’re absolutely right. The Republicans can’t seem to face up to the fact that most people want all that government spending. Ask people what they want cut and about the only thing you get is foreign aid, which is about 1% of the federal budget. On the other hand, they don’t want to pay for it either. The governor of California, Schwarzenegger, put some cost cutting provisions on the ballot and they got voted down. He also put revenue measures on the ballot and they got voted down too. The message from the voters: “We want all that stuff, don’t cut it. And BTW we don’t want to pay for it either. Just do what we do, charge it.” And so he did. Now the credit card bill has come due. We know what’s going to happen: Washington to the rescue. California is America’s Greece.

Quote

May 3, 2010, 9:13 am

8. ***Carl The EconGuy says:***

The Friedman logic never worked. Indeed, I think there is now a reverse-Friedman logic in operation.

Inside the Reagan Administration, there was a heated debate on deficit financing. There were those who argued that deficits would drive up interest rates, the standard more-government-borrowing, higher-interest-rates argument. Reagan knocked that one back by simply saying this: I don’t see the difference between a dollar taken through taxes and a dollar spent by borrowing, it’s still a government dollar spent. I think Friedman thought that higher borrowing would force spending restraint through higher interest rates, even though that’s a firmly held Keynesian belief.

Well, simplistic Reagan was more right than sophisticated Friedman. Any supposed correlation between deficits and interest rates (which are standard elements of even modern macro models) does not exist, that’s been shown empirically, nor is there any noticeable effect on exchange rates which would be the other way deficits could have macroeconomic effects (higher borrowing, raising interest rates, but offset through investment capital influx from abroad, should result in higher exchange rates). So the old myth of deficits having interest or exchange rate effects does not hold up, which is one reason why there aren’t any multiplier effects of deficit spending either (as Barro showed, multiplier effects assume that government bonds are net wealth, and not offset by increases in private debt recalculations resulting from higher future tax liabilities).

From that, it appears that increased government debt has no macroeconomic effect apart from the initial expenditure, substantiating Reagan’s point. So the pressure to stop spending when deficits rise simply isn’t there — see the Obama Administration’s astounding facility in this regard, not that Bush II was any slouch on this score either. Deficit spending begets more spending, once Congress figured out that deficits don’t matter much.

But here’s the thing — deficits are politically unpopular. Congress does not like to

reduce even the growth rate of spending, too many special interests oppose that, especially the particular special interest of Congressmen to get themselves reelected. Modern democracies lack the will to cut spending in any big way — the power of organized interests offset the greater non-organized ones, and old transaction costs argument in public choice theory that is still fundamentally valid.

So, to respond to the polity's demand for deficit reduction — rational or not — deficits seem to lead, inexorably, to higher taxes. Reagan and Friedman didn't see that one at all. But Obama knows it, in his bones, and will ride it for all it's worth. The deficit commission is all about increasing taxes. So here we are, riding a tiger: deficit spending does not affect the macroeconomy at all, but simply leads to more government spending, higher deficits, and sooner or later higher taxes. In fact, it seems much easier to grow government through deficit spending — the very opposite effect posited by Reagan and Friedman. Deficits are the liberals' best friend, and have become the scourge of conservatives and libertarians.

Since that is the case, I support a balanced budget amendment to the Constitution. Not that Congress would ever pass it. For them, outlays is a commons game — use up any spending authority you can lay your hands on, before someone else gets to it first.

Quote

May 3, 2010, 9:14 am

9. **A. Zarkov says:**

Darel Finkbeiner: Apples and Oranges. One is a political problem (borrow more money!), the other is an economic reality (at some point you have to actually do something about the debt).

I have little confidence the disconnect between spending and taxing will ever get resolved. It's a basic defect of democracy. Eventually the U.S. will go the way of Argentina. Notice how as we get more Hispanics our political culture more and more resembles Latin America. Surprise! Right now our deficit to GDP ratio is so high the U.S. would not qualify for membership in the EU.

Quote

May 3, 2010, 9:20 am

10. **Houston Lawyer says:**

I'm with Zarkov on this one. Tax everyone's income at the same rate and wait for the reaction. Nothing drives down demand faster than rising prices.

Quote

May 3, 2010, 9:21 am

11. **Steven Lubet says:**

Small parochial point: Steve Chapman's column originally appeared in the Chicago Tribune (the Trib is his home paper).



Quote

May 3, 2010, 9:24 am

12. **Steve says:**

This conclusion needs to be harmonized with the increasing number of conservatives who appear to sincerely believe that cutting taxes always or almost always makes government revenues go up.

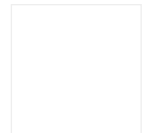


Quote

May 3, 2010, 9:30 am

13. **David M. Nieporent says:**

There are two psychological reasons why "starve the beast" hasn't worked. The first is the one alluded to in the post: deficit spending creates the illusion that government is cheaper than it is. If I can get \$2T in government services for only \$1.5T in taxes, that's better (in the short term) than getting \$1.5T in services for the same price. Who would turn down \$500B in "free" services?



The second is that all the numbers are so big that people don't focus on the level of deficit spending, but *whether* there's deficit spending. It's a lot easier, if the government is mildly in surplus, to say that we can't go into the red than it is if the government is \$100B in the hole already to say that we can't go \$200B in the hole. After all, if there hasn't been a catastrophe at a huge number like \$100B, then what's just a bit more?

As long as the federal government can keep borrowing money with little pain, deficits will never restrain politicians. In short, the federal government needs what Reagan always wanted: a balanced budget amendment.

Quote

May 3, 2010, 9:42 am

14. **Moderate Democrat says:**

The problem I have with this post by Zywicki suggesting that the Starve the Beast theory should be ended is that the theory hasn't even been tried yet. So much has been invested in the strategy, that it should at least be seen through to completion. The whole point is that it is politically impossible to cut spending directly. Republicans and moderates need the political cover of a crisis in order to do it. So, it is important to create a crisis in order to test the theory. If it doesn't work, then it might make sense to try to convince voters to cut spending directly, even though that is much more difficult.

Quote

May 3, 2010, 9:44 am

15. **Bama 1L says:**

Carl The EconGuy: In fact, it seems much easier to grow government through deficit spending — the very opposite effect posited by Reagan and Friedman.

Reagan should have been able to figure this out, because it's exactly what he did in office.

Quote

May 3, 2010, 9:54 am

16. **Bama 1L says:**

Houston Lawyer: I'm with Zarkov on this one. Tax everyone's income at the same rate and wait for the reaction.

How do you know the reaction won't be "I'm paying so much in taxes that I ought to be getting something"? I.e., greater demand for government services. This is what I tended to hear anecdotally in Europe: not that taxes should be lower but that all the things it pays for should be better, more available, etc.

Quote

May 3, 2010, 9:57 am

17. **mattski says:**

The public is in denial about paying for the services it desires.

The GOP is in denial about the public desire for services.

Quote

May 3, 2010, 10:00 am

Cornellian says:

Over time, the empirical evidence has largely turned me from the Friedman position to the Niskanen position.

And over that same time period I've seen the Republican position go from "balanced budgets" to "tax cuts / deficits don't matter."

I'd like them to go back to the old position.

Quote

May 3, 2010, 10:04 am

19. **Moderate Democrat says:**

Bama 1L: Carl The EconGuy: In fact, it seems much easier to grow government through deficit spending — the very opposite effect posited by Reagan and Friedman. Reagan should have been able to figure this out, because it's exactly what he did in office.

You don't get it. Starve the Beast is not supposed to be a short-term strategy. It isn't politically feasible to cut much spending in the short-term, except for waste, fraud, and abuse. Basically, as Reagan put it:

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.

The thing is, given the capacity of the Federal Government to borrow, you cannot reduce its allowance in the short run. As long as Republicans and moderates stick to their guns on this, the bond market will finally reduce the Federal Government's allowance by sharply jacking up interest rates as the perceived risk of default increases. This will cause a crisis which will give us the political cover we need to cut spending.

Look, I wish that you could just convince people to cut spending without a crisis. But the American people are too childish. They want both low taxes and low spending. They have grown too dependent on handouts. What is really crazy is the percentage of our GDP devoted to spending. It is always popular to cut taxes. So, lets cut taxes. In the long run, the American people will learn to grow up.

Quote

May 3, 2010, 10:05 am

20. **neurodoc says:**

He may not be the intellectual author of "starve the beast," but the name that comes to my mind when I hear that is Grover Norquist's ("I don't want to abolish government. I simply want to reduce it to the size where I can drag it into

the bathroom and drown it in the bathtub.”) And if there was any doubt about what Norquist stands for other than outreach to terrorists, the Abramoff revelations should have removed them, along with any possible ones about Ralph Reed. Reduce the size of government, but not by so much that there isn't enough left in the system for corrupt pigs like Norquist and Reed.

Quote

May 3, 2010, 10:31 am

21. **Moderate Democrat says:**

mattski: The public is in denial about paying for the services it desires. The GOP is in denial about the public desire for services.

That isn't true. If the GOP were in denial about the difficulty of cutting services, it would try to cut them directly rather than resort to the indirect Starve the Beast strategy.

Quote

May 3, 2010, 10:32 am

22. **Moderate Democrat says:**

neurodoc: He may not be the intellectual author of “starve the beast,” but the name that comes to my mind when I hear that is Grover Norquist's (“I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub.”) And if there was any doubt about what Norquist stands for other than outreach to terrorists, the Abramoff revelations should have removed them, along with any possible ones about Ralph Reed. Reduce the size of government, but not by so much that there isn't enough left in the system for corrupt pigs like Norquist and Reed.

Wow. That is pretty harsh.

Quote

May 3, 2010, 10:34 am

23. **zuch says:**

You're saying that the lower-my-taxes people actually want something for nothing?

Mirabilie dictu!

Cheers,

Quote

May 3, 2010, 10:51 am



Lucius says:

Zywicki: "Overt time, the empirical evidence has largely turned me from the Friedman position to the Niskanen position."

Carl the EconGuy: "Any supposed correlation between deficits and interest rates (which are standard elements of even modern macro models) does not exist, that's been shown empirically..."

The use of the term "empirical" implies that these conclusions are scientifically verifiable. Unfortunately, when it comes to economic and other social phenomena, there is no opportunity to use negative controls, positive controls, or multiple repetitions of a test stimulus. As there is no possibility of performing a controlled experiment on a human economic system, it is best to avoid suggestions that observations or anecdotes rise to the level of empirical verification of a specific conclusion.

Quote

May 3, 2010, 10:54 am

25. **geokstr says:**

Moderate Democrat says:

As long as Republicans and moderates stick to their guns on this, the bond market will finally reduce the Federal Government's allowance by sharply jacking up interest rates as the perceived risk of default increases. This will cause a crisis which will give us the political cover we need to cut spending.

Unless, and until, the left (i.e., Democrats) are in charge when we reach a point of no return (as we are pretty close to now). They have already specifically stated in public that "a crisis is too good to waste", and will simply use it as a ploy to further the takeover of the economy. Cloward and Piven articulated this as a strategy all the way back in the 1960's. Deliberately orchestrate the overwhelming of the system until it breaks down and then use the resulting chaos to increase your power.

Quote

May 3, 2010, 10:58 am

26. **geokstr says:**

zuch says:

You're saying that the lower-my-taxes people actually want something for nothing?

Well, at least the 47% side who actually pay no income taxes do and that support your side do anyway. And they're mostly a part of highly organized special interests wielding a lot more power than the generally disorganized tax-paying majority.

That's why the Tea Parties simply must be destroyed, by any means necessary, fair

or foul, right? On the brink of it finally being too late, the “silent majority” that doesn't work for government and actually pays for all this political maneuvering and vote-buying is getting together to be heard.

Can't have that now, can we?

Quote

May 3, 2010, 11:10 am

27. ***ShelbyC*** says:

The only way to reduce government spending is to reduce government spending. If you lower taxes and increase government spending, spending goes up. If you increase taxes and increase spending, spending goes up.

Quote

May 3, 2010, 11:16 am

28. ***yankee*** says:

I think all this talk of long-term “strategies” for cutting spending is beside the point. What's really required is to convince the people that they want less of the things the federal government spends most of its money on: Medicare, Social Security, and national defense. Or, at the state/local level, education and law enforcement. Unless you can convince people that they don't really want police or public schools or health care for Grandma, you're not going to get anywhere cutting spending.

FWIW, I would be elated to cut spending on what we euphemistically refer to as “defense,” but I have no illusions about the prospects.

A. Zarkov: Ask people what they want cut and about the only thing you get is foreign aid, which is about 1% of the federal budget. On the other hand, they don't want to pay for it either. The governor of California, Schwarzenegger, put some cost cutting provisions on the ballot and they got voted down. He also put revenue measures on the ballot and they got voted down too. The message from the voters: “We want all that stuff, don't cut it. And BTW we don't want to pay for it either. Just do what we do, charge it.” And so he did. Now the credit card bill has come due. We know what's going to happen: Washington to the rescue. California is America's Greece.

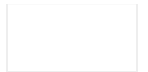
Yeah, the voters of California have made it very clear what happens when you give the people the power to vote themselves lower taxes and higher benefits.

Quote

May 3, 2010, 11:18 am

29. ***OrenWithAnE*** says:

She seems to think that somehow foreigners or extra-terrestrials pay federal taxes, not the states. I have to say she put on a poor performance, generally coming across as a complete nitwit.



Most Federal taxes are paid by the blue States that are going to vote for expanding Federal spending anyway.

Quote

May 3, 2010, 11:20 am

30. **Thales says:**

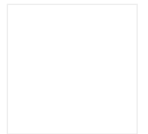


In other words, see presidencies of Reagan, R. and Bush, G.W. for a practical refutation of starve the beast; Clinton at least had the courage to break a campaign promise and tell the upper middle class that he needed to increase their taxes to pay for everything the government was doing. [G.H.W. Bush of course also recanted "no new taxes" but did so in a less transparent manner by allowing the personal exemption deduction to phase out faster instead of raising statutory rates.] Clinton did agree with Congressional Republicans to cut tax rates on capital gains, apparently under the logic that people should easily be able to exit from being "locked in" to a "bad" investment (though, which, ex hypothesi, still resulted in a gain); query whether the anti-progressive/flat taxation folks in the comments above would also support equalizing tax rates on wage and non-wage income (the latter of which is disproportionately earned by the wealthy).

Quote

May 3, 2010, 11:20 am

31. **OrenWithAnE says:**

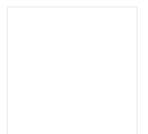


What is really crazy is the percentage of our GDP devoted to spending. Yes, really crazy except when compared to every other first world country.

Quote

May 3, 2010, 11:25 am

32. **Elliot says:**



"You're absolutely right. The Republicans can't seem to face up to the fact that most people want all that government spending."

I'd suggest it is no longer useful to speak of the people. We have to talk about the 47% that don't pay income taxes, and the 53% that do. When the price is zero, demand is infinite.

Quote

May 3, 2010, 11:25 am

troll_dc2 says:

I wonder whether China will come to our rescue by cutting its purchases of Treasuries. I think I read that that its net position has fallen in recent months. If this continues, interest rates cannot help but rise. In fact, long-term rates already have started to go up. We may be forced to deal with the never-ending expansion of the debt regardless of the political desire to kick the problem down the road.

geokstr, the problem with the Tea Party people is that they are all mixed up. They demand that "spending" be cut, except that they don't want to see the really big-ticket items cut. They think that taxes are too high and want them cut, and yet they complain about the deficit. I am glad that they are angry about the situation, but I suspect that they are not going to be at all useful in doing anything about it.

The starve-the-beast people never understood the reality of deficit spending.

Quote

May 3, 2010, 11:27 am

34. **james says:****Elliot:**

I'd suggest it is no longer useful to speak of the people. We have to talk about the 47% that don't pay income taxes, and the 53% that do. When the price is zero, demand is infinite.

So their consumption taxes don't count for anything?

Quote

May 3, 2010, 11:28 am

35. **Gordo says:**

It's quite INTERESTING that Professor Zywicki's "over time" conversion to the Niskanen position coincides quite conveniently with the accession of a Democrat to replace a Republican as President of the United States.

Quote

May 3, 2010, 11:33 am

36. **uh_clem says:**

james: So their consumption taxes don't count for anything?

Or their FICA / Medicare taxes?

Quote

May 3, 2010, 11:35 am

37. **OrenWithAnE says:**

In fact, long-term rates already have started to go up. We may be forced to deal with the never-ending expansion of the debt regardless of the political desire to kick the problem down the road.

What treasury auctions are you looking at? The ones I see show a nearly infinite demand for 10 year notes at ~3.75% and 30 year notes selling for 4.5%.

IOW, the market does not share your pessimism.

Quote

May 3, 2010, 11:41 am

38. **Bama 1L says:**

Moderate Democrat: As long as Republicans and moderates stick to their guns on this, the bond market will finally reduce the Federal Government's allowance by sharply jacking up interest rates as the perceived risk of default increases. This will cause a crisis which will give us the political cover we need to cut spending.

In trying to figure out where you lost me, I realize it's when you said "moderates" should "cause a crisis." It's not at all clear that such a crisis would result in the policies you want.

Moderate Democrat: Basically, as Reagan put it:

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.

If Reagan laying out some sort of long-term strategy in that speech, made right after he took office, he was too subtle. A more natural reading is that he was making a facile comparison between running government and raising children, as though you could curb government spending by reducing tax revenues just as easily as you could restrain your children's spending by decreasing their allowances.

I suppose, to continue the analogy, Reagan should have gone on to say that after you reduce your children's allowances, they start buying things on credit. In fact they will buy more, because it's not real money. Eventually they will face a crisis, which will cause them to live within their means. Sounds great.

Quote

May 3, 2010, 11:56 am

39. **mattski says:**

Moderate Democrat: Look, I wish that you could just convince people to cut spending without a crisis. But the American people are too childish. They want both low taxes and low high spending. They have grown too dependent on handouts. What is really crazy is the percentage of our GDP devoted to spending. It is always popular to cut taxes. So, lets cut taxes. In the long run, the American people will learn to grow up.

First, I'd like to say: *Yikes.*

Second, fixed it for you.

Third, why do you call yourself "Moderate Democrat"? Honest, I'd like to know.

Quote

May 3, 2010, 11:57 am

40. ***mattski says:***

Moderate Democrat: If the GOP were in denial about the difficulty of cutting services, it would try to cut them directly rather than resort to the indirect Starve the Beast strategy.

If you want to play this game I suggest you pay more attention to what people are writing.

Now, what did I accuse the GOP of being in denial about?

Quote

May 3, 2010, 12:01 pm

41. ***CJColucci says:***


The Republicans can't seem to face up to the fact that most people want all that government spending. Ask people what they want cut and about the only thing you get is foreign aid, which is about 1% of the federal budget. On the other hand, they don't want to pay for it either.

That says just about everything that needs to be said on the subject. Just a footnote; the people who want to cut foreign aid, which is about 1% of the budget, have no idea how small the foreign aid component is. When asked what they think is an appropriate percentage, they come up with something like 4%. So if the federal government spent what they themselves think is an appropriate amount for foreign aid, spending on it would nearly quadruple. And still be chump change in the larger scheme of things.

Quote

May 3, 2010, 12:08 pm

42. ***Moderate Democrat says:***

mattski: The GOP is in denial about the public desire for services. 

This is what you said mattski. And of course the GOP is not in denial about the public desire for government services. If cutting spending was easy, the strategy would be just to cut spending. Did I misunderstand you?

And thanks for the fix! You are right. It is low taxes and high spending.

Quote

May 3, 2010, 12:10 pm

43. **cityduck says:** 

A. Zarkov: Notice how as we get more Hispanics our political culture more and more resembles Latin America. Surprise!

Nice to know that the racists find this venue a friendly forum to spew the hate.

What an ignorant post. I'd like to know who all "the Hispanics" are in the past four Administrations who ran up all the deficits. The CATO paper lays the blame for the low tax/high spending culture on Friedman's theories as adopted by the Reagan Administration. Who were "the Hispanics" you blame for that.

Quote

May 3, 2010, 12:17 pm

44. **Blue says:** 

Lucius: Zywicki: "Overt time, the empirical evidence has largely turned me from the Friedman position to the Niskanen position." The use of the term "empirical" implies that these conclusions are scientifically verifiable. Unfortunately, when it comes to economic and other social phenomena, there is no opportunity to use negative controls, positive controls, or multiple repetitions of a test stimulus. As there is no possibility of performing a controlled experiment on a human economic system, it is best to avoid suggestions that observations or anecdotes rise to the level of empirical verification of a specific conclusion.

Astronomy and Geology called. They want their science back.

Quote

May 3, 2010, 12:18 pm

45. **Moderate Democrat says:** 

Bama 1L: In trying to figure out where you lost me, I realize it's when you said "moderates" should "cause a crisis." It's not at all clear that such a crisis would result in the policies you want.

Sometimes you have to take strong action for a moderate result. Like going to war in order to establish a longer term peace and prosperity. And I wouldn't necessarily be for Starve the Beast policies, except that we have already invested so much in them. I may be hesitant to go to war, but once our country is in war, I am committed to seeing it through. We are on the edge of achieving success with these policies. You are talking about the cumulation of a 30+ year strategy starting in the 1980s. It bothers me that people like Bruce Bartlett are turning away from policies he once supported. He should have followed through to the end. (Although I must say I am not happy about how he has been treated by the right. On the other hand, his attacks on GW Bush were a little harsh...)

Quote

May 3, 2010, 12:20 pm

46. **Jason Orendorff says:**

For Niskanen's position to be correct, people would have to consider their taxes the price of the government services they receive. Then they could think, "Hey, this product is great for the price! I'll take two." Do people really think that way? In fact, using economic theories based on rationality to analyze voter preferences might be a little silly to start with.

I think the truth here is a lot simpler. The "starve the beast" theory is just self-evidently wrong. Reducing revenue doesn't magically cause reduced spending. I can't figure out why anyone ever thought this made sense. It's embarrassing. And it has been self-destructive. I think my mostly-liberal friends might be more willing to consider Republicans if they didn't believe (with evidence) that they were insanely fiscally irresponsible.

As if the mainstream isn't bad enough, someone in this thread actually wants conservatives to trigger a debt crisis on purpose. Can we please not intentionally crash the car? That won't do what you want. Crises are uncontrollable. They have unpredictable effects—and the predictable effects in this case (high inflation, for starters) are bad enough.

Quote

May 3, 2010, 12:23 pm

47. **Moderate Democrat says:**

A. Zarkov: Notice how as we get more Hispanics our political culture more and more resembles Latin America. Surprise!

Wow. I do believe this is a genuinely racist statement... It is sort of hard to believe, in this day and age.

Quote

May 3, 2010, 12:24 pm

mattski says:

Moderate Democrat: Did I misunderstand you?

Well, you wrote:

If the GOP were in denial about the difficulty of cutting services

I said nothing about “the difficulty of cutting services.” You appear to be accepting the GOP premise that services *should be cut* despite a consensus that Americans don’t want them cut.

I’d also refer you back to Oren’s link showing relative Gov’t spending/GDP for industrialized countries. *And* to my question: why do you call yourself “moderate democrat”? Maybe “moderate republican” would suit you better?

Perhaps.

Quote

May 3, 2010, 12:27 pm

49. **Dave Lloyd says:**

Todd wrote:

Eventually, so went the reasoning, something would have to give—either Washington would have to cut spending or raise taxes.

Is there not a third option: Monetize the debt — as we do now?

Quote

May 3, 2010, 12:30 pm

50. **Careless says:**

Blue:

Astronomy and Geology called. They want their science back.

Astronomy and geology both want you to apologize for comparing them with economics

Quote

May 3, 2010, 12:32 pm

51. **Moderate Democrat says:**

mattski: You appear to be accepting the GOP premise that services should be cut despite a consensus that Americans don’t want

them cut.

I do not think we should foster a culture of dependency. As the great moderate Benjamin Franklin once put it:

I have sometimes doubted, whether the laws peculiar to England which compel the rich to maintain the poor, have not given the latter, a dependance that very much lessens the care of providing against the wants of old age.

Also, as you noted, Americans may not want services cut, but they also do not want taxes raised. That is, they are extremely childish. So, of course the decision must be made for them in their own best interest by someone who is responsible.

mattski: And to my question: why do you call yourself “moderate democrat”? Maybe “moderate republican” would suit you better?

I dislike too many things about the GOP. For example, its support of the immigration law in Arizona. I could go on. Also, the rhetoric it uses is often too extreme. Overall, I consider myself a Democrat.

Quote

May 3, 2010, 12:41 pm

52. ***Moderate Democrat says:***

Jason Orendorff: As if the mainstream isn't bad enough, someone in this thread actually wants conservatives to trigger a debt crisis on purpose. Can we please not intentionally crash the car? That won't do what you want. Crises are uncontrollable. They have unpredictable effects—and the predictable effects in this case (high inflation, for starters) are bad enough.

Quit it with the extremist rhetoric about crashing the car. I do not believe we actually should default. And even if we did, this is America. We would recover. But I think an actual default would be unnecessary. All we need to do is rile up the bond market to provide political cover for serious spending cuts.

Quote

May 3, 2010, 12:45 pm

53. ***Ben P says:***

Carl The EconGuy: Any supposed correlation between deficits and interest rates (which are standard elements of even modern macro models) does not exist, that's been shown empirically, nor is there any noticeable effect on exchange rates which would be the other way deficits could have macroeconomic effects (higher borrowing, raising interest rates, but offset through investment capital influx from abroad, should result in higher exchange rates). So the old myth of deficits having interest

or exchange rate effects does not hold up, which is one reason why there aren't any multiplier effects of deficit spending either (as Barro showed, multiplier effects assume that government bonds are net wealth, and not offset by increases in private debt recalculations resulting from higher future tax liabilities).

The the problem with this is that is has been shown to be true with other countries, just not the US. Any number of times it's been shown that a countries monetary position can spiral out of control in a heartbeat if the country is printing more money than people are willing to buy.

As scary as trillions in debt is, we just don't appear to have hit a point where people are nervous enough to demand higher return on their investments in US Debt. It's still perceived as essentially a zero risk transaction.

Whereas, say, if Zimbabwe wants to borrow money, People very rapidly decide that there's no rate of return that can compensate for the risk. The government just prints money and inflation skyrockets.

Quote

May 3, 2010, 12:46 pm

54. **Mark Field says:**

Wow. I do believe this is a genuinely racist statement... It is sort of hard to believe, in this day and age.

Wait till you spend more time on this site.

Quote

May 3, 2010, 12:49 pm

55. **David M. Nieporent says:**

cityduck: The CATO paper lays the blame for the low tax/high spending culture on Friedman's theories as adopted by the Reagan Administration. Who were "the Hispanics" you blame for that.

Nit, because this is such a common error: Cato is a name, not an acronym. It's Cato, not CATO.

Quote

May 3, 2010, 12:51 pm

56. **Carl The EconGuy says:**

Careless, you need a little more careful reflection than just lumping all economists together like that. There are parts of economics that would give palm readers and astrologists a bad name — in particular, modern macroeconomics,

of course, i.e., the experts who should know all about the effects of deficit spending but never have figured it out.

But there are other parts, I'd hold up public choice theory, that are very relevant here. Someone above said that "people want all that spending so you'll never cut it."

Well, it ain't necessarily so. Through various tricks like agenda manipulation, rent seeking, and other overt or covert political practices, strong minorities can often control the outcomes. You lawyers should know all about that — process is just as important as substance, for the former can often control the latter. In democracies, all the power the people ultimately have is to kick the bastards out when they vote. Our democratic process could stand a lot of improvements.

Quote

May 3, 2010, 12:53 pm

57. **David says:**

"Starve the Beast" resonates because it matches the experience of people who are fiscally conservative in their own finances and expect their government to behave similarly.

A number of years ago, an accident set me back for about 11 months. I acquired debt and then compounded the problem when I went back to work by continuing the habits of buying on credit. The result was around \$11,000 in credit card debt. Coupled with a mortgage and school loans, my wife and I were on track for disaster. A frank conversation with my father-in-law (a fiscal conservative of the first order) led to the curious choice of reducing our take-home pay by diverting money to a savings account with no ATM card. His reasoning was that our money problems, while having their genesis in an actual crisis were the result of too easy credit and sufficient income to cover the day-to-day costs of that credit. It took years to get out of debt but the practice is one we continue to employ today.

My point is only this, I have read the above comments carefully but remain unconvinced that a government is so very different from her people as to be able to thrive by spending deficit monies. Surely the formula for fiscal health is the same for individuals, businesses, and government — contract only such debts as cannot be avoided and pay off your debts as quickly as possible. Meaning no disrespect to anyone here, the Vice President said something to the effect that we have to "spend ourselves out of this crisis." I am no more convinced of the self-evident truth of that statement because it comes from commentators on the VC than I was when the VP said it.

Quote

May 3, 2010, 1:12 pm

58. **Moderate Democrat says:**

Carl The EconGuy: Well, it ain't necessarily so. Through various tricks like agenda manipulation, rent seeking, and other overt or

covert political practices, strong minorities can often control the outcomes. You lawyers should know all about that — process is just as important as substance, for the former can often control the latter. In democracies, all the power the people ultimately have is to kick the bastards out when they vote. Our democratic process could stand a lot of improvements.

This is exactly right. Process is extremely important. The only way to really cut spending to, say reasonable pre-WWII levels or lower is to implement starve the beast policies. Of course, starve the beast isn't really a policy, so much as a process. You cannot really say that things like the prescription drug benefit are in or out. If Bush needed to do that to win re-election in the short-term, then it doesn't matter since starve the beast is a long term process. That and much much more can be cut when the starve the beast process comes to fruition.

I personally think that the so-called "fiscal conservatives" who criticized Bush for the medicare prescription drug benefit were not true fiscal conservatives but really short-sighted phonies. They are too short-term in their thinking.

In fact, to the extent that the prescription drug benefit accelerates the deficits needed to starve the beast, it is actually not only a minor nothing helpful to win re-election, but actually fiscally conservative. The same could be said of increases in defense spending or spending on the war on terror. The sooner we see the starve the beast process to its logical endpoint, the better.

Quote

May 3, 2010, 1:18 pm

59. **t1 says:**

Remember that federal spending increased in 7 of the 8 years that Reagan was president.

I, too, recall the talk about "starving the beast" but that's all it was: talk.

Quote

May 3, 2010, 1:44 pm

60. **LN says:**

This is simple stuff, actually. Taxes are unpopular, spending is popular. Deficits are also unpopular but less tangible than either taxes or spending. "Starve the beast" is first and foremost a strategy for conservative politicians to achieve the miracle of appearing to do popular work on all fronts.

I'm surprised Zarkov's "Hispanics" comment made it past his internal censor. Normally he restricts himself to "reasonably racist" remarks.

Quote

May 3, 2010, 1:46 pm

Dan Weber says:

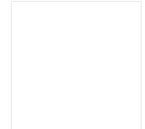
Carl The EconGuy: But here's the thing — deficits are politically unpopular

They are unpopular. But not as unpopular as raising taxes or cutting spending.

We have met the enemy and he is us.

Quote

May 3, 2010, 1:56 pm

62. **A. Zarkov says:**

Moderate Democrat: Wow. I do believe this is a genuinely racist statement... It is sort of hard to believe, in this day and age.

Do you assert that all countries have the same political culture? What planet do you inhabit? Latin America (including Brazil) has been plagued with excessive debt and spending for more than 50 years. A debt which forces their governments to issue bizarre debt instruments such as the Argentine BOCON Pre4, which you can read about here. These countries have also defaulted on their debt, particularly Brazil and Argentina.

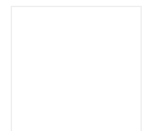
Look at the change in political culture in California, particularly Los Angeles. Do you think that has absolutely nothing to do with the massive immigration from Latin America (mostly Mexico)? Do you think if (say) 30 million Japanese suddenly moved into Mexico that would not change the way they do business there? Surely after that we could drink the water without getting sick, and the buildings wouldn't fall down so quickly in an earthquake.

Finally what does race have to do with any of this? Latin America is multi-racial and the worst of the financial offenders, Argentina, has a population mostly descended from Europeans. Look at Argentine Demographics here.

Perhaps if you knew anything you would not fling insults so carelessly.

Quote

May 3, 2010, 1:56 pm

63. **ShelbyC says:**

mattski: You appear to be accepting the GOP premise that services should be cut despite a consensus that Americans don't want them cut.

People want more and better services, and they want to pay less money for them. The private sector can deliver such. Government, not so much.

Quote

May 3, 2010, 2:03 pm