

# Tax diets backfire

Surprise: Lower taxes generate more government spending

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Sarah Palin may hunt moose with a rifle, but when she's out for bigger game, she relies on an unorthodox approach to bring down her quarry: Deprive it of food. "Please, starve the beast!" she recently implored a Tea Party Express rally in Boston.

The critter in question is the federal government, which has been expanding like an oil spill in recent years. Palin's idea, a favorite among small-government advocates, is that the best way to shrink Washington is a permanent regimen of low taxes.

The theory is worth assessing as President Barack Obama's debt commission grapples with ways to stop the gusher of red ink in Washington. It traces back to President Ronald Reagan.

"We can lecture our children about extravagance until we run out of voice and breath," Reagan said in 1981. "Or we can cure their extravagance by simply reducing their allowance." With that in mind, he pushed through cuts in federal income tax rates.

What he neglected to consider is how much kids would curb their consumption if they could circumvent that restriction with Dad's credit card. Under Reagan, spending rose 22 percent (adjusted for inflation) and the government debt tripled. But Republicans have stuck to the strategy ever since.

When they began, this approach seemed worth a try. But 30 years later, confirmation is hard to find. Like Reagan, George W. Bush reduced income tax rates. In spite of that, inflation-adjusted federal outlays this year are 60 percent higher than they were the year Bush became president.

Advocates could write off this experience as a fluke or claim that without tax cuts, Big Government would be Ginormous Government. But new studies from economists at opposite ends of the political spectrum leave little doubt that even on half-rations, the beast never fails to feast.

The first documentation of this phenomenon came from the most unlikely source — William Niskanen, who chaired the president's Council of Economic Advisers under . . . Reagan. In 2006, he examined the evidence and mournfully admitted that "starve the beast just does not work."

Last year, University of California, Berkeley economists Christina Romer (now head of President Obama's Council of Economic Advisers) and David Romer undertook an even more extensive review of the data and came to a similar conclusion.

"Following long-run tax cuts, government spending does not fall," they wrote in the Brookings Papers on Economic Activity. "Indeed, if anything, spending rises." In time, "tax cuts tend to lead to tax increases."

Tea partiers will not put much stock in the findings of scholars who hang out in notorious outposts of the counterculture or in the Obama White House (assuming the two are not the same thing). They may find it harder to ignore University of Alabama political scientist Michael New, an adjunct scholar of the libertarian Cato Institute in Washington.

Writing in the Cato Journal, he reports that "federal expenditures grow faster when revenues are relatively low." Even nondefense discretionary spending — which excludes military costs and fast-growing entitlements — experiences a growth spurt when taxes are cut, according to New.

This really shouldn't be surprising. In the first place, cutting taxes doesn't deprive the government of funds as long as it can tap the credit markets on a vast scale. Locking up the ice cream does no good if there's an endless supply of burgers and fries.

In the second place, cutting taxes instead of spending is seductively pleasant. It lets citizens enjoy more government services at no extra cost on April 15.

Forced to pay for everything they get, right away, Americans would undoubtedly choose to make do with less. But given the opportunity to party now and pay later — or never, if the tab can be billed to the next generation — they find no compelling reason to do without.

Think of it this way. If you want people to consume more of something, you reduce the price. If you want them to consume less, you raise the price. For most of the last 30 years, federal programs have been on sale, and they've found lots of buyers.

That's how the low-tax strategy has worked in practice. So if we are going to reduce the size of the federal government, we can't rely on starving the beast. We will have to tackle it and wrestle it to the mat.

Steve Chapman is a member of the Tribune's editorial board and blogs at [chicagotribune.com/chapman](http://chicagotribune.com/chapman)