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What Happens If Republicans Keep Cutting Taxes?



itsyourworld_changeit asked:

Ever hear of "Starving the beast"? It's an American conservative political strategy which uses budget deficits to attempt to force future reductions in government expenditure, especially spending on socially progressive programs. The term "beast" is used to denote government and the social programs it funds, including publicly-funded health care, welfare, educational financial aid, and Social Security. Some empirical evidence shows that the strategy may

actually be counterproductive, with higher taxes actually corresponding to lower spending: "Controlling for the unemployment rate, federal spending [from 1981 to 2000] increased by about one-half percent of GDP for each one percentage point decline in the relative level of federal tax revenues." The article (written by William Niskanen and Peter Van Doren of the Cato Institute) shows that "a tax increase may be the most effective policy to reduce the relative level of federal spending."

Sources include:

<http://www.wikipedia.org>

<http://www.nader.org>

<http://www.catoinstitute.org>

<http://www.ctj.org>

The Administration has reduced its economic growth projections but is still arguing that its tax policy is stimulating the economy. President Bush is now touting projections that the federal budget deficit for fiscal year 2007 will be only \$205 billion as proof. The projections came Wednesday in the Mid-Session Review from the Office of Management and Budget. The Center on Budget and Policy Priorities rightly points out that revenues have increased, reducing the deficit from its high of \$413 billion in 2004, but that always happens in an economic recovery, and usually revenues increase by more (by around 12 percent, as opposed to the 3 percent increase that we've seen since the beginning of this economic cycle in 2001). What's more, revenue increased by 16 percent in a similar period in the economic cycle during the 1990s after taxes were increased. Finally, the Administration actually reduced its growth forecast for this year from what it projected back in February.

The only thing we would add is that the real deficit is bigger than \$205 billion. The Mid-Session Review clearly indicates (on page 32) that the Administration will borrow \$180 billion from the Social Security Trust Fund this year to keep the total deficit as low as \$205. Social Security is projected to collect \$180 billion more in payroll taxes than it will pay out in benefits this year. Social Security was changed back in the 1980s to collect a surplus that would make it easier to pay benefits later on, when the baby boomers retire in large numbers and more Social Security benefits must be paid out. The Social Security Trust Fund is essentially the accounting mechanism that keeps track of this, and it was never intended to be used to make budget deficits appear smaller than they really are. Not counting the Social Security surplus, this year's budget deficit is really \$385 billion.

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