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## The Agenda

NRO's domestic-policy blog, by Reihan Salam.

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### On 'Starve the Beast'

By Reihan Salam

July 15, 2010 10:42 AM

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Michael J. New of Cato wrote a very provocative and by my lights very convincing short essay on "starve the beast," following up on arguments made by William Niskanen.


There is some confusion among conservatives regarding what Milton Friedman. Many cite Friedman as believing that tax cuts increased government revenues. Friedman did not favor tax cuts on the grounds that they increased revenues. Rather, he favored them as a means of *decreasing* revenues, and thus forcing a reduction in expenditures. Mark Skousen included the following notable quotable in a very short piece on his last lunch with Friedman: "If a tax cut increases government revenues, you haven't cut taxes enough." Friedman enthusiastically endorsed the Bush tax cuts not because he believed they'd preserve the existing level of government revenue let alone increase it; he favored the Bush tax cuts because he believed they would reduce revenues.

Indeed, Alan Greenspan made a related argument on behalf of a large tax cut circa the latter days of the Clinton administration and the early days of the Bush administration. Greenspan and others feared that large budget surpluses would lead the federal government to start investing in equities, thus increasing government influence over the private sector.

Greg Mankiw, who was involved in the discussion surrounding the design of the Bush tax cuts, has said much the same:

I used the phrase "charlatans and cranks" in the first edition of my principles textbook to describe some of the economic advisers to Ronald Reagan, who told him that broad-based income tax cuts would have such large supply-side effects that the tax cuts would raise tax revenue. I did not find such a claim credible, based on the available evidence. I never have, and I still don't. The book made clear that the critique applied to a particular reason to favor the tax cuts, not necessarily to the policy of cutting taxes. There are many reasons a person might favor tax cuts besides the belief that tax cuts are self-financing. I hope it is not too pedantic to point out that there is a big difference between rejecting a policy and rejecting one argument made by some proponents of the policy.

Mankiw then summarizes his own work on the impact of tax cuts on revenues:



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In [a paper on dynamic scoring](#), written while I was working at the White House, Matthew Weinzierl and I estimated that a broad-based [income tax](#) cut (applying to both capital and labor income) would recoup only about a quarter of the lost revenue through supply-side growth effects. For a cut in capital income taxes, the feedback is larger—about 50 percent—but still well under 100 percent. A chapter on dynamic scoring in the 2004 Economic Report of the President says about the the same thing.

Despite the fact that Mankiw is a firm believer in limited government and an advocate of low, sustainable tax rates, my guess is that his arguments will nevertheless be dismissed by many in favor of wishful thinking. My goal is to speak to conservatives who aim to do something about the spending burden on American families, which is the real driver of the tax burden, and to persuade the persuadable on how we can reform our public sector to make it cheaper and more effective while giving grassroots entrepreneurs [the space](#) they need to flourish.

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The Democrats passed "PayGo" in the HouseOfReps, but, being Democrats, they don't even follow their own rules.

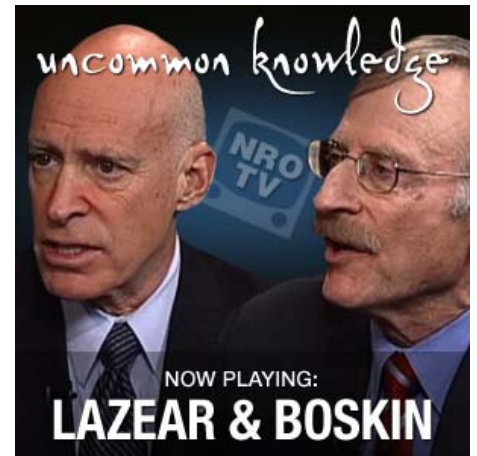
BUT, if a GOP Congress could somehow make Pay Go statutory, so that Congress would have to conform, then the "Starve the Beast" strategy should work. No?



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The Franklin Center is a non-profit group dedicated to providing investigative reporters and non-profit organizations at the state and local level with the training, expertise and technical support necessary to pursue journalistic endeavors.

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