"Starve the Beast" Does Not Work

For nearly three decades, many conservatives and libertarians have argued that reducing federal tax rates, in addition to increasing long-term economic growth, would reduce the growth of federal spending by "starving the beast." This position has been endorsed, among others, by Nobel laureates Milton Friedman and Gary Becker in *Wall Street Journal* columns in 2003. There are two problems with this position.

First, this position is *not* consistent with the evidence, at least beginning in 1981. In a professional paper published in 2002, I presented evidence that the relative level of federal spending over the period 1981 through 2000 was coincident with the relative level of the federal tax burden in the *opposite* direction; in other words, there was a strong *negative* relation between the relative level of federal spending and tax revenues. Controlling for the unemployment rate, federal spending increased by about one-half percent of GDP for each one percentage point decline in the relative level of federal tax revenues. Although not included in the sample for this test, the first three years of the current Bush administration were wholly consistent with this relation.

What is going on? The most direct interpretation of this relation is that it represents a demand curve—that the demand for federal spending by current voters declines with the amount of this spending that is financed by current taxes. Future voters will bear the burden of any resulting deficit but are not effectively represented by those making the current fiscal choices. One implication of this relation is that a tax *increase* may be the most effective policy to reduce the relative level of federal spending. On this issue, I would be pleased to be proven wrong.

Second, acceptance of the "starve the beast" position has led too many conservatives and libertarians to be casual about the sustained political discipline necessary to control federal spending directly and to succumb to the fantasy that tax cuts will solve this problem. President George W. Bush, for example, has proposed and won the approval of most congressional Republicans for large increases in federal spending for agriculture, defense, education, homeland security, and Medicare, and he has yet to veto a single spending bill. As a consequence, real federal spending during the Bush administration is now growing at the fastest rate since the Johnson administration. And Congress has yet to act on the expensive energy and transportation bills or Bush's proposal for a base on the moon and manned exploration of Mars!

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The political discipline necessary to control federal spending, especially without a tax increase, must involve a sustained commitment to principle. Members of the administration and Congress must increasingly ask why, rather than only how or how much. Does the Constitution authorize the program or activity? Is there any reason that the federal government is better qualified to perform the activity than state and local governments or the private sector? Is the proposed federal activity the best of alternative ways to accomplish a shared goal? Is the marginal benefit of the federal activity higher than the marginal cost to the economy of the taxes necessary to finance the activity? A negative answer to any of those questions should be sufficient to deny, reduce, or eliminate the activity, whether it is already funded or merely proposed. A focus on domestic discretionary spending other than for homeland security will not be enough. Such spending is now only 18 percent of total outlays and includes most of the spending that benefits specific districts that is especially valued by members of Congress, particularly in an election year.

Above all, keep in mind that the size of government is best measured by the level of spending and regulation. Reducing tax revenues only shifts part of the burden of government spending to future generations.

—William A. Niskanen