



“STARVE THE BEAST”: ORIGINS AND DEVELOPMENT OF A BUDGETARY METAPHOR

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Summary

- The “starve-the-beast” budget concept rose to prominence in the late 1970s when the Republican Party—seeking a way to revive the economy and its political fortunes—transformed from a party focused on balanced budgets to a party that saw cutting taxes and limiting revenue available to the government as the best path to restrained spending and a smaller government.
- The “starve-the-beast” idea was seen as a way in which conservatives could support tax cuts without abandoning a commitment to fiscal responsibility. This notion played an important part in the modern evolution and success of conservatism in the political sphere.
- Are tax increases the inevitable consequence of higher spending—or do tax increases lead to higher spending? What effect do tax increases have on the budget deficit? Are tax cuts effective in inducing reduced spending? This paper examines the debate and the evidence.
- For related budgetary analysis that focuses on the dynamic “Laffer Curve” effects of tax changes—which are generally not discussed in this paper—see: Bruce Bartlett, “Supply-Side Economics: ‘Voodoo Economics’ or Lasting Contribution?” Laffer Associates, 11/11/03.

In recent years, one of the most common metaphors for using tax cuts to discipline spending is “starve the beast.” The idea is that if revenues are unilaterally reduced, this will lead to a higher budget deficit, which will force legislators to enact spending cuts. Thus, using tax cuts to bring about spending cuts has been called starving the beast.

The budgetary experience of recent years, in which Congress has enacted large tax cuts and large spending increases at the same time, has caused some former supporters of the starve-the-beast idea to reconsider their view. However, the metaphor remains a powerful one. The purpose of this paper is to trace the origins and development of the idea and the reasons why it rose to prominence not just among policymakers, but professional economists as well.

Earliest References

The earliest reference to the term “starve the beast” that I have been able to locate appeared in a *Washington Post* article 100 years ago. The author, one Charles Edward Barnes, used it literally to refer to intentionally starving an animal (Barnes 1907).

In Barnes’ account, an Indian native had captured a tiger in a pit and needed to get it into a cage so that it could be transported and sold. The tiger had no desire to enter the cage and so the Indian simply starved it until it was forced to enter the cage to get some food that had been placed inside. Thus, it is a variation of the old carrot-and-stick idea.

The oldest expression I have been able to find of the notion that tax cuts will hold down government spending comes from economist John Kenneth Galbraith. In the early 1960s, he was on leave from teaching and serving President John F. Kennedy, whom he had tutored at Harvard, as Ambassador to India. Despite being far from Washington, Galbraith remained keenly interested in economic policy debates in the U.S., especially the idea of a big tax cut to give the economy a Keynesian boost.

On a trip to the states in June 1962, he first heard about the administration’s plans for a big tax cut and argued strenuously against it, even going so far as to tell Kennedy himself that it was a bad idea. In his diary, Galbraith said his main concern was that “lower tax revenues will become a ceiling on spending (Galbraith 1969: 381).” Being an administration appointee, Galbraith had to keep private his reservations about the tax cut. But by 1965, he was back at Harvard and free to speak his mind publicly. On February 24 of that year, he was invited to testify before the Joint Economic Committee of Congress, where he had this to say:

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I was never as enthusiastic as many of my fellow economists over the tax reduction of last year. The case for it as an isolated action was undoubtedly good. But there was danger that conservatives, once introduced to the delights of tax reduction, would like it too much. Tax reduction would then become a substitute for increased outlays on urgent social needs. We would have a new and reactionary form of Keynesianism with which to contend (Joint Economic Committee 1965: 13).

Galbraith was prescient. At the time, most conservatives were adamantly in favor of a balanced budget under just about any and all circumstances. In Congress, Republicans largely opposed the Kennedy tax cut for this reason.² However, as Galbraith anticipated, they would eventually come to change their view on this matter.

The earliest recent reference I have been able to find to the precise term "starve the beast" as it relates to the budget appeared in a *Wall Street Journal* news story in 1985. Reporter Paul Blustein quoted an unnamed White House official as lamenting that not enough had been done to cut spending during the Reagan Administration. "We didn't starve the beast," the official said. "It's still eating quite well—by feeding off future generations."³

Balanced Budget Orthodoxy

Although Republicans had enacted tax cuts in the 1920s (Murnane 2004), by 1932 Herbert Hoover supported a large tax increase to shore-up federal finances, which were ravaged by the onset of the Great Depression (Blakey & Blakey 1932). Economists today generally view this as one of the worst economic policy mistakes in American history, one that did much to make a bad situation worse (Brown 1956).

Nevertheless, when the next Republican president, Dwight Eisenhower, took office in 1953, he strenuously resisted efforts by Republicans in Congress to cut taxes. He was quite insistent that balancing the budget had to take precedence, even though tax rates were at historically high levels due to the Korean War.⁴ As Eisenhower explained at a press conference on February 17, 1953:

Whether we are ready to face the job this minute or any other time, the fact is there must be balanced budgets before we are again on a safe and sound system in our economy. That means, to my mind, that we cannot afford to reduce taxes, reduce income, until we have in sight a program of expenditures that shows that the factors of income and of outgo will be balanced. Now that is just to my mind sheer necessity (Eisenhower 1960: 48).

Richard Nixon, who had served as Eisenhower's vice president, continued this policy of resisting tax cuts and supporting tax increases after his election to the White House in 1968. One of his earliest actions in 1969 was to ask Congress for extension of the 1968 surtax, despite having promised during the campaign to allow it to expire on schedule.⁵ Gerald Ford, who succeeded Nixon in 1974, similarly resisted political pressure to cut taxes permanently, supporting only a temporary tax rebate in 1975, while asking for higher taxes on individuals and corporations, and allowing inflation to raise taxes automatically as taxpayers were pushed into higher tax brackets and business depreciation allowances were eroded (Greene 1995: 72-81).

In an influential article in early 1976, *Wall Street Journal* editorial writer Jude Wanniski blasted Ford for timidity in cutting taxes. He argued that the nation needed each political party to be a different type of Santa Claus—the Democrats being the spending Santa Claus and the Republicans being the tax cut Santa Claus. By refusing to play its proper role and instead being the party of the balanced budget, Republicans had not only hurt themselves politically, but the nation as a whole. Said Wanniski:

The political tension in the marketplace of ideas must be between tax reduction and spending increases, and as long as Republicans have insisted upon balanced budgets, their influence as a party has shriveled, and budgets have been unbalanced (Wanniski 1976).

²See the views of the Republican members in House Ways & Means Committee (1963: c5-c28). In the House of Representatives, 126 of 155 Republicans voted against the Kennedy tax cut on September 25, 1963.

³Blustein (1985). An Office of Management and Budget official during that period, Lawrence Kudlow, later wrote an article saying, "Tax cuts will starve the beast (Kudlow 1996)." Kudlow tells me that he remembers first hearing the term "starve the beast" from Senator Pat Moynihan at a hearing in early 1981. This makes sense if the term is indeed of Indian origin since Moynihan served as U.S. Ambassador to India from 1973 to 1975 and may have picked it up there. However, I cannot find him using the term on the record at any hearing in 1981. It appeared in Moynihan (1993: 49).

⁴For a recent review of Eisenhower's opposition to tax cuts, see Linder (1996). The Revenue Act of 1951 raised the bottom surtax rate from 17 percent to 19.2 percent and the top rate from 88 percent to 89 percent. All taxpayers paid a normal tax rate of 3 percent. Thus the top rate was 92 percent when Eisenhower took office. However, there was a provision in the legislation that capped the effective tax rate at 88 percent and another that automatically lowered the top statutory rate to 91 percent on January 1, 1954. The cap on the effective rate was also reduced to 87 percent (Joint Economic Committee 1952: 2-3).

⁵Matusow (1998: 39-40). The Revenue and Expenditure Control Act of 1968 imposed a 10 percent surtax on corporate and individual taxes through the end of fiscal year 1969, which ended on June 30 in those days. At Nixon's request, Congress extended this tax through the end of calendar year 1969, and in the Tax Reform Act of 1969 further extended the surcharge to June 30, 1970 at a 5 percent annual rate.

After Ford's defeat, Republicans in Congress and in the states began experimenting with tax cuts, both as a way of reviving the economy and their political fortunes. In 1977, Congressman Jack Kemp, Republican of New York, and Senator Bill Roth, Republican of Delaware, introduced the Kemp-Roth tax bill, which would have cut statutory tax rates by about 30 percent across-the-board without corresponding spending cuts.⁶ In 1978, voters in California enacted Proposition 13, which cut and capped property tax rates, leading to further tax reduction efforts in other states and giving rise to a national tax revolt (Adams 1984).

Changing Perspectives

The political popularity of these two measures encouraged a reconsideration of the balanced budget orthodoxy among conservative intellectuals. They found the starve-the-beast idea to be a way in which they could support tax cuts without abandoning a commitment to fiscal responsibility. At a hearing of the Senate Finance Committee on July 14, 1978, Alan Greenspan, who had lately been chairman of the Council of Economic Advisers (CEA) under Ford, endorsed the Kemp-Roth bill with this explanation:

Let us remember that the basic purpose of any tax cut program in today's environment is to reduce the momentum of expenditure growth by restraining the amount of revenues available and trust that there is a political limit to deficit spending (Senate Finance Committee 1978: 172).

At same time, University of Chicago economist Milton Friedman addressed the question of deficits that might arise from a reduction in taxes without a concomitant cut in spending. He argued that the deficit is essentially meaningless, that what mattered is the size of government as measured by spending.⁷ Thus a cut in taxes, even without accompanying spending cuts, was not a matter of concern for conservatives. As he wrote:

There is an important point that needs to be stressed to those who regard themselves as fiscal conservatives. By concentrating on the wrong thing, the deficit, instead of the right thing, total government spending, fiscal conservatives have been the unwitting handmaidens of the big spenders. The typical historical process is that the spenders put through laws which increase government spending. A deficit emerges. The fiscal conservatives scratch their heads and say, "My God, that's terrible; we have got to do something about that deficit." So they cooperate with the big spenders in getting taxes imposed. As soon as the new taxes are imposed and passed, the big spenders are off again, and there is another burst in government spending and another deficit (Friedman 1978a: 11).

In a column in *Newsweek* magazine, Friedman made his point more succinctly: "I have concluded that the only effective way to restrain government spending is by limiting government's explicit tax revenue—just as a limited income is the only effective restraint on any individual's or family's spending (Friedman 1978b)."

Writing on the *Wall Street Journal's* editorial page, which often sets the Republican agenda on economic policy, columnist Irving Kristol made clear the political connection between tax cuts and government spending. Tax cuts, Kristol explained, are essential to shrinking the size of government. Republicans and conservatives, he said,

have learned the lesson of Proposition 13, which is that tax cuts are a prerequisite for cuts in government spending. The politics of the budgetary process is such that a cut in any particular program will provoke intense opposition from a minority, and only indifference from the majority. In such a case, it is unreasonable to expect politicians to pay the high political costs involved. They can only cut when they are seen to have no alternative (Kristol 1978).

At this point, the circle was largely squared. Instead of being viewed as the height of fiscal irresponsibility, cutting taxes without any corresponding effort to cut spending was now seen as the epitome of conservative fiscal policy. Trying to cut spending in isolation was both doomed to failure and counterproductive because focusing attention on the deficit was more likely to lead to tax increases, thus expanding the size of government. The only way off the treadmill of higher spending, leading to higher taxes, leading to still more spending was to refuse to play the game. Just cut taxes, the conservative intelligentsia now argued, and concern about deficits will be channeled into lower spending.

The political popularity of tax cuts would also help elect more members of Congress with a desire to shrink government. Republicans believed that the Democratic coalition, which had controlled Congress continuously since 1953, was vitally

⁶The Kemp-Roth tax bill was subsequently endorsed by Ronald Reagan, who made it the centerpiece of his 1980 presidential campaign. Upon his election, the essence of the Kemp-Roth bill was incorporated into the Economic Recovery Tax Act of 1981, which was enacted into law in August, 1981.

⁷Supporting this idea was the development of "Ricardian equivalence." In an extraordinarily influential article, Robert Barro (1974) had argued that deficits were essentially capitalized into future taxes. Therefore, the deficit *per se* was economically irrelevant. All that mattered was total spending. Despite the counterintuitive nature of this conclusion, it continues to hold up to empirical analysis. See de Mello, Kongsrud & Price (2004), and Seater (1993).

dependent on ever-increasing spending to buy the votes needed to keep it together. If spending could be cut or just kept from rising, Republicans thought, the Democratic coalition would break apart. Many Democrats agreed. As Congressman Tom Foley (D-WA), a Democratic leader who was later Speaker of the House, put it in a 1979 interview:

Tight budgets strain all the natural fault lines of the Democratic Party. The pressures will intensify as we approach the presidential election year and each group starts pressing its claims. You can see it happening already. Holding this team of wild horses together is a job for the most skilled congressional coachman (Farney 1979).

Public Choice

This changing view of what defined fiscal conservatism—smaller government via tax cuts replacing smaller deficits—became a topic of increasing theoretical discussion as well, especially among those belonging to the Public Choice school of economics. Public Choice integrates economics and political science and looks especially at the way institutions affect political and economic outcomes.

For many years, James Buchanan, who later won the Nobel Prize in economics for his work in developing Public Choice theory, had been the leading academic supporter of a balanced budget amendment to the Constitution.⁸ He thought that if politicians were forced to consider the cost of new government spending programs in terms of taxes instead of implicitly costless deficits, then there would be much less support for new spending. The deficit, in his view, allowed voters to feel that they were getting something for nothing: new spending at no cost in terms of taxation.

In 1977, Buchanan published an influential book laying the blame for destruction of an implicit balanced budget requirement imposed by the Founding Fathers on economist John Maynard Keynes (Buchanan & Wagner 1977). Until the 1930s, he argued, deficits were universally viewed as evil—sometimes necessary, but evil nevertheless.⁹ Keynes' great error was in viewing them as sometimes good. This destroyed the stigma attached to deficits and opened the floodgates to ever higher spending.

The passage of Proposition 13 in California seems to have influenced Buchanan's thinking about other ways of constraining government besides a balanced budget requirement. In a series of papers culminating in his 1980 book, *The Power to Tax*, Buchanan endorsed Proposition 13-style tax cuts unaccompanied by spending cuts as an appropriate way of restraining the size of government.¹⁰

Subsequent research is mixed on whether tax limitation initiatives such as Proposition 13 were successful in the long run in holding down government spending.¹¹ However, it is important that at a critical moment in time in the late 1970s, an economist so well known for his commitment to a balanced budget rule would also endorse Proposition 13-style tax cuts as a way of forcing action to downsize government. It was an important step in making the starve-the-beast theory an idea to be taken seriously, and not just a populist slogan.

In the 1980s, Public Choice theory developed the idea that conservative governments might intentionally increase the national debt through tax cuts in order to bind the hands of a subsequent liberal government.¹² More of the budget would now be dedicated to interest payments, thereby precluding a liberal government from spending as much on consumption as it would like. It has also been argued that conservative governments prefer inefficient tax systems in order to restrain the ability of a future liberal government to raise revenue to finance new spending.¹³

Ronald Reagan

During the 1980 campaign, Ronald Reagan endorsed the Kemp-Roth tax cut, but also insisted that he would sharply cut government spending. Upon taking office in 1981, he followed through on this promise and asked Congress for spending cuts as well as tax cuts (White House 1981). However, Reagan was unwilling to hold his tax cuts hostage to congressional inaction on spending. In explaining to the American people why tax cuts should precede spending cuts, he said that the

⁸See, for example, his testimony in Senate Judiciary Committee (1975: 59-64).

⁹See also Burkhead (1954), Kimmel (1959), and Savage (1988).

¹⁰Brennan & Buchanan (1977, 1979, 1980), Buchanan (1976). These ideas were known on Capitol Hill during debate on the Kemp-Roth bill. For example, on December 15, 1977, Senator Orrin Hatch, Republican of Utah, put a speech by Buchanan summarizing some of this research into the *Congressional Record*.

¹¹Abrams & Dougan (1986), Matsusaka (1995), and Sherwood-Call (1987).

¹²Alesina & Tabellini (1990), Persson & Svensson (1989), and Pettersson-Lidbom (2001).

¹³Becker & Mulligan (2003). See also Fischer & Summers (1989) and Holcombe & Mills (1994) for evidence that more efficient taxation leads to higher spending. Thus many conservatives oppose a value-added tax precisely because it is too efficient. For example, Ronald Reagan opposed a VAT on these grounds at a February 21, 1985 press conference (Reagan 1988: 204). The evidence on whether a VAT actually is a “money machine,” however, is decidedly mixed. See Ebrill et al. (2001: 25-39) and Stockfish (1985).

former would pave the way for the latter, as the starve-the-beast theory presupposed. In a national television address on February 5, 1981, Reagan put it this way:

Over the past decades we've talked of curtailing government spending so that we can then lower the tax burden. Sometimes we've even taken a run at doing that. But 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 (Reagan 1982: 81).

Milton Friedman endorsed the Reagan strategy. In particular, he supported Reagan's call for a permanent tax cut and argued against the idea of a temporary one just to deal with the economic slowdown. A one-year tax cut could too easily be offset with one-shot spending cuts, Friedman said. Thus one of the virtues of a permanent tax cut was precisely that it would force permanent cuts in spending.¹⁴

Although Reagan was successful in getting his tax cut through Congress in 1981, he was much less successful in getting the kinds of permanent spending cuts he had hoped for. With an economic recession beginning in July of that year, projections of budget deficits began growing, leading to calls in Congress and the media for tax increases. Reagan addressed this issue directly in his State of the Union Address in January 1982:

The doubters would have us turn back the clock with tax increases that would offset the personal tax-rate reductions already passed by this Congress. Raise present taxes to cut future deficits, they tell us. Well, I don't believe we should buy that argument.... Higher taxes would not mean lower deficits. If they did, how would we explain that tax revenues more than doubled just since 1976; yet in that same 6-year period we ran the largest series of deficits in our history.... Raising taxes won't balance the budget; it will encourage more government spending and less private investment (Reagan 1983: 74).

Reagan made a promise not to ask for a tax increase in 1982, but this proved to be one that he could not keep. Later that year, he signed into law the Tax Equity and Fiscal Responsibility Act of 1982 (known as TEFRA), the largest peacetime tax increase in American history.¹⁵ This proved to be the first of many tax increases that Reagan would ultimately acquiesce to, as shown in Table 1.

Table 1
Legislated Tax Changes by Ronald Reagan as of 1988

Tax Cuts	Billions of Dollars
Economic Recovery Tax Act of 1981	-264.4
Interest and Dividends Tax Compliance Act of 1983	-1.8
Federal Employees' Retirement System Act of 1986	-0.2
Tax Reform Act of 1986	-8.9
Total legislated tax cuts	-275.3
Tax Increases	Billions of Dollars
Tax Equity and Fiscal Responsibility Act of 1982	+57.3
Highway Revenue Act of 1982	+4.9
Social Security Amendments of 1983	+24.6
Railroad Retirement Revenue Act of 1983	+1.2
Deficit Reduction Act of 1984	+25.4
Consolidated Omnibus Budget Reconciliation Act of 1985	+2.9
Omnibus Budget Reconciliation Act of 1985	+2.4
Superfund Amendments and Reauthorization Act of 1986	+0.6
Continuing Resolution for 1987	+2.8
Omnibus Budget Reconciliation Act of 1987	+8.6
Continuing Resolution for 1988	+2.0
Total legislated tax increases	+132.7

Source: Office of Management and Budget (1989: 4-4)

Although Republicans saw Reagan's support for tax increases as a betrayal, Democrats concentrated on the spending side of the budget deals that contained the tax increases. They saw the spending cuts as culmination of the starve-the-beast

¹⁴Friedman (1981). Not everyone in the Reagan Administration agreed with this strategy. Murray Weidenbaum, Reagan's first CEA chairman, thought it was "wishful thinking" to believe that tax cuts would lead to cuts in spending (Weidenbaum 1988: 19).

¹⁵Tempalski (2003). The 1968 surtax was slightly larger as a share of GDP, but was in effect only temporarily, whereas TEFRA was a permanent tax increase. Over a four-year period, it raised federal revenues by 0.98 percent of GDP per year versus an increase of 1.09 percent of GDP for one year only from the surtax.

philosophy. Senator Daniel Patrick Moynihan, Democrat of New York, regularly blamed his former student, Office of Management and Budget (OMB) Director David Stockman, for selling Congress a pig in a poke—promising that the 1981 tax cut would so expand the economy that revenues would not fall, while knowing all along that they would, thereby forcing massive cuts in social spending.¹⁶

Stockman’s response, basically, was that no one in the Reagan Administration was that smart. “In truth, not six of the six hundred players in the game of fiscal governance in the Spring and Summer of 1981 would have willed this outcome,” he later wrote (Stockman 1986: 267-68).

Another liberal charge was that Reagan intentionally increased the deficit by cutting taxes in 1981 in order to fool Democrats into taking the lead in proposing politically unpopular tax increases (Wicker 1986). If so, Walter Mondale, the Democratic presidential nominee in 1984, fell right into the trap by endorsing a big tax increase during the campaign. Said Mondale at the Democratic National Convention, “Mr. Reagan will raise taxes, and so will I. He won’t tell you. I just did.”¹⁷

Do Taxes Feed Spending?

Reagan’s support for TEFRA in 1982, which took back much of the 1981 tax cut, led to considerable debate about whether tax increases were effective in reducing deficits.¹⁸ A number of economists argued that they led to higher spending—feeding the beast instead of starving it. This debate continued throughout the 1980s and constituted a variation of the starve-the-beast idea. If tax cuts forced spending cuts, then the flip side is that tax increases raised spending.

The first to argue against tax increases on the grounds that they fed spending was a top Reagan Administration economist, Beryl Sprinkel, Under Secretary of the Treasury for Monetary Affairs. He would later go on to become Chairman of the CEA under Reagan. Writing in the *Wall Street Journal*, he rejected the charge that the deficit resulted from inadequate revenues. Therefore, tax increases were an inappropriate response. The problem was too much spending and would only be cured by spending cuts. Said Sprinkel:

Clearly, it is in the interest of the big spenders to blame the deficit on under-taxation, rather than on their own spending habits. The argument for tax increases is analogous to a compulsive shopper blaming his continued need to borrow on the boss, who will not finance that habit by granting continual salary increases that represent an ever-increasing share of the company’s total budget (Sprinkel 1983).

Academic economists quickly took up the challenge of determining whether tax increases fed the beast—leading ultimately to higher spending with no meaningful impact on the deficit—or whether they did in fact reduce deficits. The first academic paper to address this question was by economists George M. von Furstenberg, Jeffrey Green and Jin-Ho Jeong (1985). They concluded that the direction of causality was from spending to taxes. Higher taxes were, in effect, a late charge for excessive spending.¹⁹ Therefore, the only way of controlling spending was to tackle it directly.

In response, Michael Marlow, an economist in Reagan’s Treasury Department, published several studies showing that tax cuts may not do much to hold down spending, but tax increases do nothing whatsoever to reduce deficits in the long run. As he concluded in the first of them:

The most important conclusion to be drawn from these causality tests is that proposals that endorse tax increases to close the Federal budget deficit do not necessarily offer permanent solutions to underlying fiscal problems. While our tests do not indicate final answers to the deficit issue, it is obvious that our results do not favor tax increases over spending reductions as a means of closing future deficit levels of the Federal government.... In general, a tax increase may not even offer a temporary solution to unacceptably large Federal deficits.²⁰

¹⁶Moynihan (1983, 1985). It has often been argued that the Reagan Administration tricked Congress into enacting the 1981 tax cut by promising that it would so expand the economy that there would be no net revenue loss. In fact, all the administration’s official documents clearly indicated that large revenues would be lost based on standard revenue-estimating methods (Anderson 1988: 140-163; Niskanen 1988: 19). The Congressional Budget Office (1981: 47) showed revenue loss estimates from the 1981 tax cut almost identical to those of the Reagan Administration. Of course, Congress has its own budgetary and tax-estimating organizations, the Congressional Budget Office and Joint Committee on Taxation, and would not be solely reliant on administration estimates in any event, even if they were bogus, not to mention those generated by the private sector.

¹⁷Quoted in Birnbaum & Murray (1987: 35). On the same page, they report that Mondale turned to House Ways and Means Committee Chairman Dan Rostenkowski (D-IL) a few minutes later, pointed to the crowd and said, “Look at ‘em. We’re going to tax their ass off.”

¹⁸As Table 1 indicates, overall TEFRA took back about 22 percent of the 1981 tax cut. However, the impact was greater in the early years. In fiscal year 1984, TEFRA offset 29 percent of the 1981 tax cut.

¹⁹See also Furstenberg (1991), and Furstenberg, Green & Jeong (1986).

²⁰Manage & Marlow (1986: 625). See also Marlow & Manage (1987) and Marlow & Orzechowski (1988).

Subsequently, several papers were published supporting the view that higher taxes had no effect on stimulating spending, but were the inevitable result of too much spending—the late charge argument.²¹ Others concluded that higher taxes stimulated additional spending, leaving the deficit largely unaffected.²² Finally, some studies found the causality running in one direction during some periods and circumstances but not during others.²³

One explanation for these contradictory findings is the existence of a binding balanced budget requirement, either implicit or explicit. If, as discussed earlier, there was a hard implicit balanced budget requirement at the federal level through the 1930s and a soft requirement through the mid-1970s, then it stands to reason that higher spending would tend to force tax increases during these periods. This would show up as well in causality studies based on state and local data, since governments at that level have always operated under a hard explicit balanced budget constraint. Since the Republican Party abandoned strong support for a balanced budget in the late 1970s, it is not surprising that the data since then would fail to show causality, which will influence studies utilizing more recent data.

Even James A. Baker, Reagan's chief of staff and Treasury Secretary, who was widely viewed as being the driving force behind the many budget deals of the 1980s resulting in higher taxes, eventually admitted he had been wrong. Echoing the modified starve-the-beast theory, he concluded that the tax increases largely fueled additional spending (Baker 2003).

The *Wall Street Journal* continues to hold steadfastly to this view. As recently as June 2006, its principal economics editorial writer said, "For 25 years, virtually every bipartisan budget deal has meant higher taxes, higher spending and political carnage for the GOP (Moore 2006)."

Political Developments

In many respects, ultimate empirical resolution of the starve-the-beast debate is irrelevant to its political implications. The data are sufficiently ambiguous that studies, especially of the informal sort that proliferate on Capitol Hill, can always be generated to support the political preferences or demands of the moment.

One such study was done by economists Richard Vedder, Lowell Gallaway and Christopher Frenze in 1987. It concluded that higher taxes actually led to higher deficits, because each dollar of tax increase led to an increase in spending of \$1.58. In other words, the deficit rose by 58 cents for each dollar of tax increase. This study was significant because a version of it was cited by Ronald Reagan during a radio address on October 24, 1987 (Reagan 1989: 1231).

In the 1988 campaign, George H. W. Bush endorsed the modified starve-the-beast theory that tax increases feed spending and are ineffective in reducing the deficit. "Unless you can control Congress's spending, increased revenues will go to increased spending," he said.²⁴

On Capitol Hill as well, the modified starve-the-beast theory made inroads even among moderates who had previously supported tax increases to reduce budget deficits. Apparently, after taking so much political heat, many members of Congress were dismayed to see that so little progress was made toward permanent resolution of the deficit problem. One of these was Senator Bob Packwood, Republican of Oregon, who said this during floor debate on Bill Clinton's tax increase in 1993:

*The history of the U.S. Government is that when we increased taxes, we spent them; we did not apply it to the deficit. It does not matter that the President has stated, "Let us have a deficit reduction trust fund." We have never followed that; we instead spent it. I predict that if we raise these new taxes, we will spend them, also. We will not cut spending. We will spend it on new programs or expansion of existing programs.*²⁵

Ronald Reagan endorsed this soft version of the starve-the-beast theory in a *Wall Street Journal* op-ed article that same year. He now essentially disowned all of the budget deals he had signed into law, saying he had been double-crossed into supporting tax increases in return for spending cuts that never emerged. Said Reagan:

Despite the "assurances," "promises," "pledges" and "commitments" you are given, the spending cuts have a way of being forgotten or quietly lobbied out of future budgets. But the tax increases are as certain to come as, well, death and taxes.

²¹ Anderson, Wallace & Warner (1986), Baack & Ray (1985), and Congressional Budget Office (1987).

²² Ahiakpor & Amirkhalkhali (1989), Blackley (1986), Calomiris & Hassett (2002), Joulfaian & Mookerjee (1990), and Ram (1988).

²³ Bohn (1991), Hoover & Sheffrin (1992), and Lee & Vedder (1992).

²⁴ Remarks at the Intel Corporation, Portland, Oregon (May 14, 1988).

²⁵ *Congressional Record* (May 18, 1993), p. S5987.

In 1982, Congress wanted to raise taxes. It promised it would cut federal spending by \$3 for every \$1 in new taxes. Being a new kid in town, I agreed to this. Unfortunately, although the new taxes went into effect, Congress never cut spending by even a penny (Reagan 1993).

During the 2000 campaign, one of George W. Bush's major themes was the need for a tax cut to reduce the budget surplus that had been accumulated during the Clinton Administration.²⁶ Again echoing the starve-the-beast theory, Bush argued against the virtues of a surplus, saying that it would only fuel additional spending. Commenting on Federal Reserve Board Chairman Alan Greenspan's suggestion that the surpluses be saved, Bush countered,

Mr. Greenspan believes that money around Washington, D.C. will be spent on a single item—debt reduction. I think it will be spent on greater government. He has got greater faith in the appropriators than I do.²⁷

Bush's campaign budget adviser, economist John Cogan of Stanford's Hoover Institution, later put it this way: "It is wrong to allow surpluses because these surpluses invariably lead to higher spending."²⁸

According to journalist Ron Suskind, influential Bush adviser Karl Rove invoked the starve-the-beast idea during tax debates within the White House (Suskind 2004: 300). It also remained popular among Republicans in Congress. In 2003, Senator Rick Santorum, Republican of Pennsylvania, said this:

I came to the House as a real deficit hawk, but I am no longer a deficit hawk. I'll tell you why. I had to spend the surpluses. Deficits make it easier to say no.²⁹

George W. Bush

Once in office, Bush justified his proposal for a big tax cut in 2001 partly on the grounds that budget surpluses led to bigger government (Office of Management and Budget 2001: 172). Therefore, the prudent, fiscally conservative thing to do was get rid of the surplus by reducing taxes (Schick 2002: 48). As he put it at an August 2001 press conference, the tax cut would put Congress into a "fiscal straitjacket."³⁰

Thus the starve-the-beast theory continues to be operationally important in terms of Republican political strategy. It is routinely invoked by conservatives as if it is self-evident.³¹ However, the budgetary performance of recent years, which has seen substantial spending *increases* along with large tax cuts, has caused some conservatives to reassess their position. As columnist Steve Chapman of the *Chicago Tribune* recently put it:

For years, conservatives have said [tax cuts] would yield a smaller government, through a process known as "starving the beast." Allow Congress less money to spend, they reasoned, and it would have to spend less.

If that were the case, big government would be pretty emaciated by now. Instead, the beast looks more like a product of the obesity epidemic. Since the GOP won control of the House of Representatives in 1994, federal outlays have grown by nearly a third, after accounting for inflation (Chapman 2005).

Bill Niskanen, chairman of the libertarian Cato Institute and a member of the CEA under Reagan, argues that the starve-the-beast theory has actually been perverse. It has led many libertarians and conservatives to think that tax cuts are the *only* thing necessary to restrain the growth of government. Passage of large tax cuts during the George W. Bush Administration led them to become "casual about the sustained political discipline necessary to control federal spending." Niskanen says it is a "fantasy" to think that tax cuts have any restraining influence on spending (Niskanen 2002, 2004).

²⁶The budget surplus emerged following the tax increases of 1990 and 1993 mainly because of unique circumstances. The quick end to the first Iraq war and the end of the Cold War permitted a large reduction in defense spending of 1.4 percent of GDP between 1993 and 2000. The election of a Republican Congress led to a decline in domestic discretionary spending of 0.5 percent of GDP, temporary demographic factors caused entitlement spending to fall by 0.4 percent of GDP, and improved Federal Reserve policy brought down interest on the debt by 0.7 percent of GDP. Thus there was a total decline in spending of 3 percent of GDP—from 21.4 percent of GDP in 1993 to 18.4 percent in 2000. Revenues also rose over this period by 3.3 percent of GDP, partly due to enacted tax increases, but mainly due to a massive increase in capital gains realizations resulting from the high tech boom on Wall Street. According to the Treasury Department, total capital gains realizations increased from \$126.6 billion in 1992 to \$644.3 billion in 2000, raising capital gains tax revenue from \$29 billion to \$127.3 billion over the same period.

²⁷Quoted in Wolfe (2000).

²⁸Quoted in Rosenbaum (2003).

²⁹Quoted in Nichols (2003). Santorum served in the House of Representatives before being elected to the Senate.

³⁰Remarks by the President and Secretary Rumsfeld in Announcement of Chairman and Vice-Chairman of the Joint Chiefs of Staff, Crawford, Texas (August 24, 2001).

³¹For example, see Firestone (2003), Jenkins (2003), Novak (2005), and Will (2003).

To the extent that the "true" burden of government is measured by its spending rather than its taxes, as Milton Friedman long argued, the recent lack of budgetary discipline resulting from over-reliance on the starve-the-beast theory could mean that taxes will be higher in the long run. As one study recently argued, "abandoning fiscal discipline on one side of the budget could induce...fiscal irresponsibility on both sides of the budget."³² This may explain why Niskanen now finds that tax cuts actually appear to cause spending to rise (Niskanen 2006).

Some Republicans and conservatives, such as former Federal Reserve Chairman Alan Greenspan and former Bush CEA Chairman Glenn Hubbard, now talk about the inevitability of a major tax increase in the not-too-distant future to pay for all the government spending now in the pipeline, resulting mainly from the aging of society and its impact on entitlement programs such as Medicare.³³ Even Gary Becker, who supported the 2001 tax cut on starve-the-beast grounds, conceded at the time that if lower taxes didn't restrain spending, then tax increases would be justified. Said Becker:

If large tax cuts get enacted in order to restrain government spending when sizable fiscal surpluses are expected, then subsequent tax increases would be appropriate if these surpluses failed to materialize (Becker 2001).

Nevertheless, despite the lack of evidence during the George W. Bush Administration that tax cuts even restrain spending, let alone cause spending to be cut, a number of leading conservative economists continue to maintain the basic correctness of the starve-the-beast theory, including Edward Lazear, who became chairman of the CEA under President Bush in May 2006.³⁴

One possibility is that the deficit just hasn't begun to really bite yet. When it does, somewhere down the road, perhaps the starve-the-beast theory will then lead to large cuts in basic entitlement programs. Joshua Bolten, Bush's OMB Director who became White House Chief of Staff in 2006, suggested this possibility by saying that projected spending was now so great that it would be impossible to eliminate future deficits only on the tax side:

In the longer run, no plausible amount of tax increases could possibly close the enormous gap that will be created by the unsustainable growth in entitlement programs. Our real fiscal danger can be solved only by reform of the entitlement programs themselves (Bolten 2006).

This statement is just factually wrong. Practically every country in Europe has a tax/GDP ratio high enough to cover all of the projected increase in spending in the U.S. just through higher revenues. In 2004, the European members of the Organization for Economic Cooperation and Development had a tax/GDP ratio of 38.3 percent, compared with a U.S. ratio (total government) of 25.5 percent (OECD 2006: 19). The difference between these figures would be more than enough to pay for all of the projected entitlement spending in the U.S. for many decades to come.³⁵

Nevertheless, many on the political left have long charged that the ultimate goal of the starve-the-beast advocates has been to create a deficit so massively large that entitlements would have to be cut when a fiscal crisis finally emerges. In the words of Peter Beinart, editor of *The New Republic*:

It's middle-class entitlements, however, such as Medicare and Social Security, which make the federal government so big (and so popular). And the GOP's only hope of undermining them is to create a fiscal crisis so huge that now-unpopular Republican solutions, such as privatizing Social Security and turning Medicare into a voucher program, become politically feasible. In roughly a decade, when multiple Bush tax cuts and an enormous defense buildup run smack into the baby-boom retirement, they might just get their wish (Beinart 2003).

Others on the left, such as economist Paul Krugman (2003a, 2003b, 2004, 2005), have made a similar argument, just as Daniel Patrick Moynihan did in the 1980s. It would have a lot more plausibility, however, if George W. Bush and a Republican Congress hadn't massively expanded Medicare spending in 2003 by adding a new prescription drug benefit to the program. Moreover, most Republican concern about federal spending these days tends to be channeled into demands that "pork barrel" spending on public works projects be curtailed, even though—perhaps *because*—it is a trivial component of overall spending.³⁶

³²Gale & Orszag (2004: 999). See also Shaviro (2004).

³³See, for example, Bartlett (2005), Henderson (2005), Hubbard (2006), Porter (2005), and Samuelson (2006).

³⁴See Barro (2003), Becker, Lazear & Murphy (2003), and Friedman (2003).

³⁵On long-term budgetary trends, see Congressional Budget Office (2005) and Office of Management and Budget (2006: 184-94).

³⁶According to Citizens Against Government Waste, a budgetary watchdog group, total pork barrel spending in 2006 came to just \$29 billion. Downloaded at www.cagw.org. The total budget was \$2.7 trillion, meaning that abolition of all pork would reduce spending by just one percent.

Despite the apparent failure of the starve-the-beast theory to restrain spending in recent years, there is still a theoretical argument to be made on its behalf. One option would be to channel the desire for specific tax cuts into a mechanism that will reduce spending in some general way (Baron & McCaffery 2006). This might possibly be done by reviving interest in a balanced budget amendment to the Constitution. Clearly, if tax cuts were achieved under a hard balanced budget rule, then spending would necessarily have to give way (Sullivan 2005).

If voters knew there was a hard balanced-budget requirement, then presumably they would also know that their support for tax cuts would manifest itself in spending cuts as well. There is some support for this idea in the poll data. In September 2004, a Fox News/Opinion Dynamics poll asked likely voters if they would rather support a larger government that provided more services and required them to pay more taxes, or a smaller government that provided fewer services but allowed them to pay less taxes. The former position was supported by 38 percent and the latter by 45 percent. A December 2003 poll by the same organizations found that 57 percent of registered voters would oppose paying more taxes just to reduce the budget deficit.

Conclusion

It appears that the starve-the-beast theory has undergone an evolution. In the beginning, it allowed fiscal conservatives traditionally wedded to a hard balanced budget requirement to rationalize their support for tax cuts unaccompanied by corresponding spending cuts. This proved extremely important to the modern evolution and success of conservatism in the political sphere. In the words of journalist Jonathan Rauch, "For modern conservatism and the country, the importance of Starve the Beast is impossible to overstate (Rauch 2006)."

Later, the starve-the-beast idea manifested itself in opposition to tax increases to close budget deficits. This would just make fiscal conservatives tax collectors for the welfare state, as Newt Gingrich, former Republican Speaker of the House, often put it. Another version of this form of the starve-the-beast theory is that tax increases are futile in terms of reducing the deficit because they only fuel additional increases in spending, potentially making the deficit even worse.

Although the starve-the-beast theory still has adherents, even among reputable economists, the growth of spending and deficits even in the face of large tax cuts has worn down at least a few of its former supporters. There is now a growing fear among such people that the ultimate result of relying on starving the beast to support tax cuts may be to make future tax increases inevitable. Whether, on balance, taxpayers are better off at the end of the day than they would have been without the tax cuts remains to be seen. But there is at least a reasonable chance that they will be worse off.

There is still the possibility that a future fiscal crisis will provide political cover for massive cuts in entitlement programs that would be politically impossible except under such circumstances. However, many analysts, including this writer, now think that the more likely result of such a crisis will be to implement massive tax increases that will move the tax/GDP ratio in the U.S. closer to that in Europe.

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