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# “Starve the Beast”

## *Origins and Development of a Budgetary Metaphor*

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In recent years, one of the most common metaphors for using tax cuts to discipline government spending has been “starve the beast.” The idea is that if revenues are unilaterally reduced, this reduction 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. In this article, I trace the origins and development of the idea and the reasons why it rose to prominence not just among policymakers, but among professional economists as well.

### Earliest References

The earliest reference I have seen to the phrase *starve the beast* appeared in a *Washington Post* article one hundred years ago. The author, Charles Edward Barnes (1907), used it literally to refer to intentionally starving an animal. In Barnes’s ac-

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count, an Indian 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, so the Indian simply starved it until it entered the cage to get some food that had been placed there. Here, “starve the beast” is a variation of the old carrot-and-stick idea.

The oldest expression I have found of the notion that tax cuts will hold down government spending comes from economist John Kenneth Galbraith. In the early 1960s, on leave from Harvard, he was serving President John F. Kennedy, whom he had tutored there, as ambassador to India. Despite being far from Washington, Galbraith remained keenly interested in economic policy debates in the United States, especially the debate over cutting taxes to give the economy a Keynesian boost. On a trip to the United 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 wrote that his main concern was that “lower tax revenues will become a ceiling on spending” (1969, 381). As an administration appointee, Galbraith had to keep his reservations about the tax cut private. In 1965, however, he was back at Harvard and free to speak his mind publicly. On February 24, testifying before the Joint Economic Committee of Congress, he said: “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 adamantly favored a balanced budget in any circumstances. In Congress, Republicans for the most part opposed the Kennedy tax cut for this reason.<sup>1</sup> However, as Galbraith anticipated, they would eventually come to change their view of this matter.

The earliest recent use I have seen of 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.”<sup>2</sup>

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1. See the views of the Republican members in House Ways and Means Committee 1963, c5–c28. In the House of Representatives, 126 of 155 Republicans voted against the Kennedy tax cut on September 25, 1963.

2. Lawrence Kudlow, an OMB official during that period, later wrote, “Tax cuts will starve the beast” (1996). Kudlow tells me that he remembers first hearing the phrase *starve the beast* from Senator Pat Moynihan at a hearing in early 1981. This dating makes sense if the phrase is indeed of Indian origin because Moynihan served as U.S. ambassador to India from 1973 to 1975 and may have picked it up there. However, I cannot find evidence on the record of his using the term at any hearing in 1981. It appears in Moynihan 1993, 49.

## Balanced Budget Orthodoxy

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

Nevertheless, when the next Republican president, Dwight D. Eisenhower, took office in 1953, he strenuously resisted efforts by Republicans in Congress to cut taxes. He insisted that balancing the budget had to take precedence, even though tax rates were extraordinarily high owing to the Korean War.<sup>3</sup> 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, Eisenhower’s vice president, continued this policy of resisting tax cuts and supporting tax increases after his election as president 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 (Matusow 1998, 39–40).<sup>4</sup> Gerald Ford, after succeeding 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-cutting Santa Claus. By refusing to play its proper role and instead being the party of the balanced budget, Republicans had hurt not only themselves, but the nation as a whole. Declared Wanniski: “The political tension in the marketplace of ideas must be between tax

3. For 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, a provision in the legislation capped the effective tax rate at 88 percent, and another provision 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).

4. 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.

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.”

After Ford’s defeat, Republicans in Congress and in the states began to experiment with tax cuts as a way of reviving both the economy and their political fortunes. In 1977, Congressman Jack Kemp (R-N.Y.) and Senator Bill Roth (R-Del.) introduced the Kemp-Roth tax bill, which would have cut statutory tax rates by approximately 30 percent across the board without corresponding spending cuts. 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 considered the deficits that might arise from a reduction in taxes without a concomitant cut in spending. He argued that the deficit is essentially meaningless; what matters is government spending.<sup>5</sup> 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

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5. Supporting this idea was the development of “Ricardian equivalence.” In an extraordinarily influential article, Robert Barro (1974) argued that deficits are essentially capitalized into expected future taxes. Therefore, the deficit per se is economically irrelevant. All that matters is total spending. Despite the counterintuitive nature of this conclusion, it continues to hold up to empirical analysis. See Seater 1993; de Mello, Kongsrud, and Price 2004.

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. (1978b, 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” (1978a).

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, he 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” (1978).

At this point, the circle had been 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 increasing taxes and 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 to elect more members of Congress with a desire to shrink government. Republicans believed that the Democratic coalition, which had controlled Congress continuously since 1955, was vitally dependent on ever-increasing spending to buy the votes needed to keep it together. If spending could be cut or simply kept from rising, Republicans thought, the Democratic coalition would break apart. Many Democrats agreed. As Congressman Tom Foley (D-Wash.), 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” (qtd. in 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 in the public-choice school of economics. Public choice integrates economics and political science and examines especially how 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, was the leading academic supporter of a balanced-budget amendment to the Constitution.<sup>6</sup> He thought that if politicians were forced to consider the cost of new government-spending programs in terms of taxes, instead of in terms of implicitly costless deficits, they would give much less support to 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 and Richard Wagner published the influential book *Democracy in Deficit*, blaming economist John Maynard Keynes for destruction of an implicit balanced-budget requirement imposed by the Founding Fathers. Until the 1930s, they argued, deficits were universally viewed as evil—sometimes necessary, but nevertheless evil.<sup>7</sup> Keynes's great error was to view them as sometimes good. This view destroyed the stigma long attached to deficits and opened the floodgates to ever higher spending.

Passage of California's Proposition 13 seems to have influenced Buchanan's thinking about other ways of constraining the growth of government besides a balanced-budget requirement. In a series of papers culminating in his 1980 book with Jeffrey Brennan, *The Power to Tax*, Buchanan endorsed Proposition 13-style tax cuts unaccompanied by spending cuts as an appropriate way to restrain the growth of government (Buchanan 1976; Brennan and Buchanan 1977, 1979).<sup>8</sup> Subsequent research is mixed on whether tax-limitation initiatives such as Proposition 13 succeeded in the long run in holding down government spending (Abrams and Dougan 1986; Sherwood-Call 1987; Matsusaka 1995). However, it is important that at a critical time in the late 1970s, an economist well known for his commitment to a balanced-budget rule also endorsed Proposition 13-style tax cuts as a way of forcing action to restrain the growth of government. Buchanan's endorsement was an important step in making the starve-the-beast theory an idea to be taken seriously, not simply a populist slogan.

In the 1980s, public-choice theory developed the idea that a conservative gov-

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6. See, for example, his testimony in Senate Judiciary Committee 1975, 59–64.

7. See also Burkhead 1954; Kimmel 1959; Savage 1988.

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

ernment might intentionally increase the national debt through tax cuts in order to bind the hands of a subsequent liberal government (Persson and Svensson 1989; Alesina and Tabellini 1990; Pettersson-Lidbom 2001). More of the budget would have to be used for interest payments, thereby precluding a liberal government from spending as much as it would like on consumption. It has also been argued that a conservative government prefers inefficient tax systems in order to restrain a future liberal government’s ability to raise revenue to finance new spending (Becker and Mulligan 2003).<sup>9</sup>

## Ronald Reagan

During the 1980 campaign, Ronald Reagan endorsed the Kemp-Roth tax cut, but he 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 why tax cuts should precede spending cuts, he said that the former would pave the way for the latter, as the starve-the-beast theory posited. In a national television address on February 5, 1981, Reagan explained: “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 cut only to deal with the economic slowdown. A one-year tax cut could too easily be offset with one-shot spending cuts, Friedman said. One of the virtues of a permanent tax cut was precisely that it would force permanent cuts in spending (Friedman 1981).<sup>10</sup>

Although Reagan succeeded in getting his tax cut through Congress in 1981, he was much less successful in getting the kinds of permanent spending cuts for which he had hoped. With an economic recession beginning in July of that year, projections of budget deficits began to grow, leading to calls in Congress and the media for tax

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9. See also Fischer and Summers 1989 as well as Holcombe and Mills 1994 for evidence that more efficient taxation leads to higher spending. Therefore, many conservatives oppose a value-added tax (VAT) 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 Stockfish 1985; Ebrill et al. 2001, 25–39.

10. 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).

increases. Reagan considered 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 promised not to ask for a tax increase in 1982, but this promise proved to be one he could not keep. Later that year he signed into law the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), the largest peacetime tax increase in U.S. history (Tempalski 2003).<sup>11</sup> It proved to be the first of many tax increases to which Reagan would ultimately acquiesce, as shown in table 1.

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 a culmination of the starve-the-beast philosophy. Senator Daniel Patrick Moynihan (D-N.Y.) (1983, 1985) regularly blamed Office of Management and Budget (OMB) director David Stockman, his former student, 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.<sup>12</sup>

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 (1986, 267–68).

Liberals also charged that Reagan intentionally increased the deficit by cutting

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11. The 1968 surtax was slightly larger as a share of gross domestic product (GDP), but it was in effect only temporarily, whereas TEFRA was a permanent tax increase. Over a four-year period, TEFRA 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.

12. It has often been argued that the Reagan administration tricked Congress into enacting the 1981 tax cut by promising that the cut would so expand the economy that there would be no net revenue loss. In fact, all the administration's official documents clearly indicated that, according to estimates based on standard revenue-estimating methods, large revenues would be lost (Anderson 1988, 140–63; Niskanen 1988, 19). The Congressional Budget Office showed revenue-loss estimates from the 1981 tax cut almost identical to those of the Reagan administration (1981, 47). Of course, Congress has its own budgetary and tax-estimating organizations, the Congressional Budget Office and Joint Committee on Taxation, and was not solely reliant on administration estimates in any event, even if they were bogus, not to mention that it also had access to the estimates generated by the private sector.



**Table 1**  
**Cumulative Legislated Tax Changes during**  
**Ronald Reagan’s Presidency**

<b>Tax Cuts</b>	<b>Billions of Dollars</b>
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
<b>Tax Increases</b>	<b>Billions of Dollars</b>
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.

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” (qtd. in Birnbaum and Murray 1987, 35).<sup>13</sup>

### **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. A number of economists argued that they led to higher spending—feeding the beast

13. On the same page, Birnbaum and Murray report that a few minutes later Mondale turned to House Ways and Means Committee chairman Dan Rostenkowski (D-Ill.), pointed to the crowd, and said, “Look at ’em. We’re going to tax their ass off.”

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 feed spending was a top Reagan administration economist, Beryl Sprinkel, Treasury undersecretary for monetary affairs, who would later go on to become chairman of the CEA under Reagan. Writing in the *Wall Street Journal* in November 1983, he rejected the charge that the deficit resulted from inadequate revenues. Therefore, he claimed, tax increases were an inappropriate response. The problem was too much spending, and it would be cured only by spending cuts. “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.”

Academic economists quickly took up the challenge of determining whether tax increases feed the beast—leading ultimately to higher spending with no meaningful impact on the deficit—or reduce deficits. The first academic article on this question was by economists George M. von Furstenberg, Jeffrey Green, and Jin-Ho Jeong (1985). They concluded that the direction of causality is from spending to taxes. Higher taxes are, in effect, a late charge for excessive spending (see also Furstenberg, Green, and Jeong 1986; Furstenberg 1991). Therefore, the only way to control spending is 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 and that tax increases do nothing whatsoever to reduce deficits in the long run. As Neela Manage and he declared in the first study,

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. (1986, 625).<sup>14</sup>

Several articles were subsequently published supporting the view that higher taxes had no effect in stimulating spending, but that they inevitably resulted from too much spending—the late-charge argument (Baack and Ray 1985; Anderson, Wallace, and Warner 1986; Congressional Budget Office 1987). Others concluded that higher

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14. See also Marlow and Manage 1987; Marlow and Orzechowski 1988.

taxes stimulated additional spending, leaving the deficit largely unaffected (Blackley 1986; Ram 1988; Ahiakpor and Amirkhalkhali 1989; Joulfaian and Mookerjee 1990; Calomiris and Hassett 2002). Finally, some studies found the causality running in one direction in some periods and circumstances, but not in others (Bohn 1991; Hoover and Sheffrin 1992; Lee and Vedder 1992).

One explanation for these contradictory findings is the existence of a binding balanced-budget requirement, either implicit or explicit. If, as discussed earlier, a hard, implicit, balanced-budget requirement existed 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 effect would show up as well in causality studies based on state and local data because governments at those levels have always operated under a hard, explicit, balanced-budget constraint. Given that 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, influencing studies that utilized more recent data.

Even James A. Baker, Reagan’s chief of staff and Treasury secretary, who was widely viewed as the driving force behind the many budget deals of the 1980s that resulted 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 declared, “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. They concluded that higher taxes actually had 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 fifty-eight cents for each dollar of tax increase. This study was significant because Ronald Reagan cited a version of it in 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 declared in his May 14 remarks at the Intel Corporation in Portland, Oregon (text of speech in my possession).

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. After taking so much political heat, many members of Congress were apparently dismayed to see that so little progress was accomplished toward permanent resolution of the deficit problem. One of these legislators was Senator Bob Packwood (R-Ore.), who during floor debate on Bill Clinton's proposed tax increase in 1993 said: "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" (*Congressional Record*, May 18, 1993, p. S5987).

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.

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.

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 presidential 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. 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" (qtd. in Wolfe 2000). Bush's campaign budget adviser, economist John Cogan of Stanford's Hoover Institution, later observed: "It is wrong to allow surpluses because these surpluses invariably lead to higher spending" (qtd. in Rosenbaum 2003).

According to journalist Ron Suskind, influential Bush adviser Karl Rove invoked the starve-the-beast idea during tax debates in the White House (2004, 300). It also remained popular among Republicans in Congress. In 2003, Senator Rick Santorum (R-Pa.) declared: "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” (qtd. in Nichols 2003).

## George W. Bush

Once in office, George W. Bush justified his proposal for a big tax cut in 2001 partly on the grounds that budget surpluses led to bigger government (OMB 2001, 172). Therefore, the prudent, fiscally conservative thing to do was to get rid of the surplus by reducing taxes (Schick 2002, 48). As he said at an August 2001 press conference, the tax cut would put Congress into a “fiscal straitjacket.”<sup>15</sup>

Thus, the starve-the-beast theory continues to be operationally important in Republican political strategy. Conservatives routinely invoke it as if it is self-evident (for examples, see Firestone 2003; Jenkins 2003; Will 2003; Novak 2005). 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 wrote,

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. (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, leading many libertarians and conservatives to think that tax cuts are the *only* thing necessary to restrain the growth of government. With passage of large tax cuts during the George W. Bush administration, officials became “casual about the sustained political discipline necessary to control federal spending” (Niskanen 2004, 2). Niskanen concludes that it is a “fantasy” to think that tax cuts have any restraining influence on spending (2006, 557; see also Niskanen 2002).

To the extent that the “true” fiscal burden of government is measured by its spending rather than by its taxes, as Milton Friedman long argued, the recent lack of budgetary discipline resulting from overreliance on the starve-the-beast theory might 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 irresponsi-

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15. Remarks by the president and defense secretary Donald Rumsfeld in announcement of chairman and vice chairman of the Joint chiefs of Staff, Crawford, Texas, August 24, 2001.

bility on both sides of the budget” (Gale and Orszag 2004, 999; see also Shaviro 2004). This effect may explain why Niskanen (2006) now finds that tax cuts appear to cause spending to rise.

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 population’s aging and its impact on entitlement programs such as Medicare.<sup>16</sup> Even Gary Becker, who supported the 2001 tax cut on starve-the-beast grounds, conceded at the time that if lower taxes did not restrain spending, then tax increases would be justified: “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” (2001, 28).

Despite the lack of evidence during the George W. Bush administration that tax cuts restrain spending increases, let alone cause spending to be cut, a number of leading conservative economists continue to insist on the basic correctness of the starve-the-beast theory, including Edward Lazear, who became chairman of the CEA under President Bush in May 2006 (see Barro 2003; Becker, Lazear, and Murphy 2003; Friedman 2003).

One possibility is that the deficit has not begun to 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 writing in a *Wall Street Journal* article that projected spending is now so great that it will be impossible to eliminate future deficits on the tax side alone: “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” (2006).

This statement is factually wrong. Almost every country in Europe has a tax/GDP ratio high enough to cover all of the projected increase in spending in the United States through higher revenues alone. In 2004, the European members of the Organization for Economic Cooperation and Development (OECD) 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 United States for many decades to come.<sup>17</sup>

Nevertheless, many on the political left have long charged that the ultimate goal of starve-the-beast advocates has been to create a deficit so massive that entitlements

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16. See, for example, Bartlett 2005; Henderson 2005; Porter 2005; Hubbard 2006; Samuelson 2006.

17. On long-term budgetary trends, see Congressional Budget Office 2005 and OMB 2006, 184–94.

will 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” (2003, 6).

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. This argument would have much more plausibility, however, if George W. Bush and a Republican Congress had not 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.<sup>18</sup>

Despite the apparent failure of the starve-the-beast theory to restrain spending in recent years, a theoretical argument may be made for it. One option would be to channel the desire for specific tax cuts into a mechanism that will reduce spending in some general way (Baron and McCaffery 2006), possibly 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 fall into line (Sullivan 2005).

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

## Conclusion

The starve-the-beast theory has evolved. In the beginning, it allowed fiscal conservatives traditionally wedded to a hard, balanced-budget requirement to rationalize their

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18. According to Citizens Against Government Waste, a budgetary watchdog group, total pork-barrel spending in 2006 came to just \$29 billion (see information posted at <http://www.cagw.org>). The total U.S. government budget is \$2.7 trillion, which implies that elimination of all pork would reduce spending by just one percent.

support for tax cuts unaccompanied by corresponding spending cuts. This rationalization proved extremely important to the modern development 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” (2006, 27).

Later, the starve-the-beast idea manifested itself in opposition to tax increases to close budget deficits. Such tax increases would simply 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 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 some 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 ultimately better off 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.

Perhaps a future fiscal crisis will provide political cover for massive cuts in entitlement programs that would be politically impossible except in such dire circumstances. However, many analysts now think as I do that the more likely result of such a crisis will be massive tax increases that will move the tax/GDP ratio in the United States closer to that in Europe.

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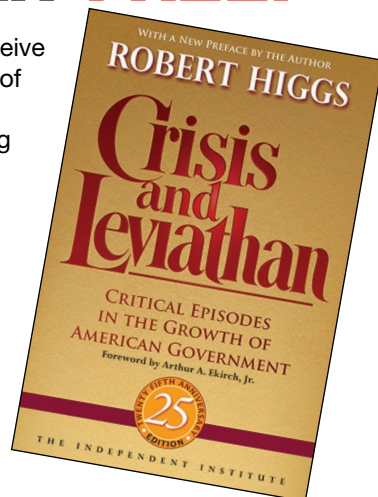
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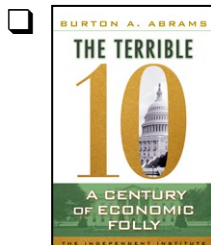
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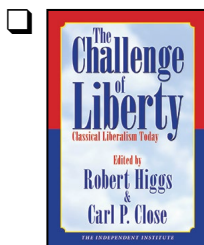
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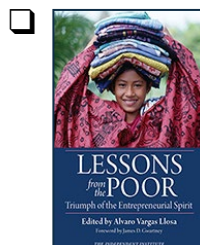
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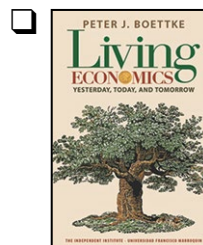
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