

# **Can The Beast Be Starved?**

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## **I. Attempts to Limit Federal Spending**

Many different plans have been tried and proposed for restraining the growth of government. Some of these methods may have slowed the growth of government compared to what it would have otherwise been, but none have thus far been able to hold government to a constant level, much less reduce it. The two main types of limitations that have been relied upon in the past are constitutional limitations and statutory limitations. Having failed to achieve reductions in the size and scope of government through direct limitations, some advocates of smaller government now pursue a more indirect strategy. They reason that if even if the federal government cannot be held in check by legal mechanisms, its actual power can be limited by restricting the amount it has available to spend. Proponents of this strategy—popularly-known as “starve the beast”—want to deliberately create a financial crisis which will necessitate actual reductions in the budget (as opposed to mere reductions in the rate of increase), and thus shrink the size of government.

### **A. Constitutional limitations**

Mindful of the importance of fiscal discipline, and highly suspicious of strong centralised government and taxes, the writers of the Constitution of 1789 placed several important limits on the fiscal powers of the federal government. Unfortunately, these limits have either proven ineffective or have been bypassed through constitutional amendment and judicial interpretation.

First, all bills for raising revenue (tax bills) are required to originate in the House of

Representatives.<sup>1</sup> It was believed that the House, being elected by the people and facing re-election every two years, would be more responsive to constituents and should have the power over tax bills.<sup>2</sup> However, this provision has proven of little value in providing fiscal restraint. The dramatic increase in the voter/representative ratio ( 60,000 voters per rep. in 1789 to 670,000 voters per rep. in 2004),<sup>3</sup> partisan gerrymandering, and the 98.5% incumbent re-election rate<sup>4</sup> has rendered voter control over representatives a nearly-meaningless proposition. Unless convicted of a crime or caught in a political scandal, most Congressmen (as Representatives prefer to call themselves) face little pressure to justify their voting record to their constituents.

Other safeguards against excessive taxation were also written into the constitution. Direct taxes were forbidden unless apportioned among the states, and indirect taxes (excises and tariffs) had to be uniform.<sup>5</sup> For 124 years, the federal government operated on revenue collected under these restrictions. Both its ability to collect taxes and ability to manipulate the currency were severely limited. However, those limitations changed dramatically in 1913.

### **The Revolution of 1913**

The year 1913 can be seen as one of the turning points in American history. It marks the point at which the U.S. government obtained the legal and practical power to appropriate 100% of its citizens earnings. At no previous point in history did the government have both the legal right and practical ability to take all that its people earned.

Two crucial events occurred in 1913: (1) the 16<sup>th</sup> Amendment gave the federal government the power to impose an income tax, and (2) the creation of the Federal Reserve system gave the United States a permanent central bank, with virtually complete control over banking and the money supply.<sup>6</sup> Control over the money supply means the government has the

power to inflate the currency, and through the hidden tax of inflation, confiscate its citizens earnings in a way that, according to the apostle of government economic intervention, John Maynard Keynes, “not one man in a million is able to diagnose.”<sup>7</sup>

It is important to realise that inflation is a form of hidden tax. Inflation is an increase in the supply of money. *Ceteris paribus*, an increase in the supply of money will cause a roughly proportional increase in the price level. The difference in the old and the new money supply is the amount that government has created and spent. A doubling of the money supply which results in a doubling of the price level is the equivalent of a 50% tax (with no deductions!). Whether your wallet is full of money that is now worth half as much as before, or the government simply takes half of what you earn through taxes, the result is the same. (In many ways, inflation is even more vicious and destructive than taxation--and hits fixed incomes especially hard--but that analysis is beyond the scope of this paper).<sup>8</sup>

### **The Ratchet Effect**

Historian Robert Higgs has referred to the effect of war on government spending as “the ratchet effect.” During times of crisis, government spending rises, and after the crisis has passed, spending falls. However, it never falls to pre-crisis levels, but always remains higher than before. Thus government grows, “ratcheted up” as a result of war or other crises.<sup>9</sup>

This relationship has held true throughout the history of the republic, but it should not be surprising to see that it becomes far more pronounced once limitations on the taxing and spending powers of the federal government were effectively removed in 1913. Previous crises had ratcheted up spending, but the 20<sup>th</sup> Century was to set new records in government growth.

### **Modern Efforts at Constitutional Limitations**

The watershed year of 1913 ushered in a century of relentless government growth in America. Two World Wars, the Great Depression, and the Cold War all led to permanent increases in spending. In addition to military spending, FDR's New Deal and LBJ's Great Society marked the beginning of a trend: the growth of domestic programs aimed at redistributing wealth and providing a social safety net. Over the years, these programs have consumed an ever-increasing portion of the federal budget.<sup>10</sup>

### **Failure of the Balanced Budget Amendment**

The primary modern effort to enact new constitutional fiscal limitations on the federal government has been the [so far unsuccessful] attempt to enact a Balanced Budget Amendment (BBA).<sup>11</sup> Large federal deficits have become a standard feature of the yearly budget, and advocates of the BBA contend that Congress lacks the will to balance the budget unless forced to do so by the Constitution (a claim which experience indicates is not unreasonable). Stephen Moore of the Cato Institute on the BBA:

Deficit spending is an unconscionable form of fiscal child abuse. There are hundreds of groups in Washington that pretend to speak for the interests of children. But who in Washington, among the thousands of powerful special-interest lobbyists and self-proclaimed do-gooders, speaks for the children who are going to have to pay off our irresponsible debts? The single most pro-child policy that any of us can pursue in Washington today is to reduce the crushing burden of debt our government is now preparing to place on the next generation's backs.

I sincerely wish that we did not need a constitutional amendment to cure Washington's addiction to red ink. Unfortunately, the destruction of our nation's once firmly held moral rule against deficit spending--what James Buchanan called "the collapse of the constitutional consensus"-- requires us to amend our Constitution and command Congress to do what it used to feel honor bound to do--balance the budget.<sup>12</sup>

Strictly speaking, none of the BBA's which have been proposed (there have been several attempts, all with similar language) have limited either taxation or spending *per se*. They

would simply mandate that spending not exceed revenues. In addition, most BBA proposals have included override provisions whereby Congress can suspend the limitations of the amendment and create deficits, either with a supermajority vote, or automatically in time of war.<sup>13</sup> To date, the strong political consensus needed to enact a constitutional amendment has not materialised in support of a Balanced Budget Amendment.

### **Summary on Constitutional Limits**

Constitutional restraints on the exercise of power by the federal government have not been effective in restraining the growth of government. The most important limitations on the taxing power of the federal government have been removed by amendment and court decisions. Though the text of the Constitution places still places many limits on the power of government, since that same government, through the institution of the federal courts, is the judge of its own powers, it seems unlikely that there will be a significant judicial rollback of federal power in the foreseeable future.

### **B. Statutory Limitations on Taxing and Spending**

Due to the difficulty of passing constitutional amendments, and general dislike in government circles for absolute circumscriptions of power, a number of proposals have been enacted statutorily with the goal of somehow placing limits on federal spending. Typically, these proposals have been advanced by fiscal conservatives, who hoped that by limiting spending, government deficits could be controlled, tax cuts advanced, and the growth of government limited. Two recent examples of such statutory efforts at controlling spending are the Gramm-Rudman-Hollings Act and the presidential line-item veto.

#### **1. The Gramm-Rudman-Hollings Act**

In 1985, Congress passed the Balanced Budget and Emergency Deficit Control Act (more commonly known as Gramm-Rudman-Hollings, or “GRH,” after its sponsors). Congress

was becoming increasingly concerned about the massive deficits showing up in projected budgets. GRH set maximum deficit amounts which if exceeded would trigger automatic budget reductions (this process, known as “sequestration,”<sup>14</sup> is similar to Alabama’s “proration” requirement for dealing with state budget shortfalls). GRH vested authority to make these reductions in the General Accounting Office, a federal agency under the control of Congress.<sup>15</sup> The Supreme Court soon declared that vesting this power in a legislative branch agency violated the separation of powers doctrine,<sup>16</sup> and Congress amended the act to place authority for making spending reductions in the Office of Management and Budget, an executive branch agency.<sup>17</sup> Despite the change, GRH proved ineffective in limiting spending. GRH allowed Congress to exempt some programs from the automatic cuts. Congress exempted Social Security, Medicare, and certain other “entitlement” programs, which made up a majority of the budget. This meant that in order to reduce large deficits, extremely large percentage cuts would have to be made to the remaining non-exempt portions of the budget, including defence, and these cuts proved politically unfeasible. The limits placed on spending by GRH were consistently overridden and GRH itself was eventually replaced by other legislation, which has not proven any more effective in limiting spending.

## **2. The Presidential Line Item Veto**

The U.S. Constitution gives the President the power to approve or veto bills passed by Congress, but not authority to strike particular provisions from a bill.<sup>18</sup> Many people feel that such authority would help control wasteful spending. (This belief was held by some Southerners, who gave the Confederate president such power in the Confederate Constitution of 1861.)<sup>19</sup>

In 1996, a Republican-controlled Congress enacted a statutory version of the line-item veto, giving the President power to strike out individual line items in appropriations bills. Congress gave itself 30 days to override each line-item veto.<sup>20</sup> This statutory line-item veto was

challenged and declared unconstitutional by the U.S. Supreme Court in 1998.<sup>21</sup>

However, given the estimate of Stephen Moore of the libertarian-leaning Cato Institute that even a president more fiscally-conservative than Bill Clinton could have used the line item veto to save only up to \$5 billion in 1997,<sup>22</sup> it is clearly not an answer to the problem of deficits of \$520 billion (projected 2004 deficit).<sup>23</sup> Nevertheless, the White House is currently pushing a proposal to re-enact the line-item veto in a form passing constitutional muster.<sup>24</sup> Such a proposal, while laudable, seems extremely unlikely to reduce real government spending or to control the deficit.

### **Conclusion on Statutory Limitations**

In short, statutory limitations on the spending power or taxing power of Congress seem unlikely to work, if only because they are too easy to circumvent. Even if loopholes are not built into the spending control (which all too often is the case), any Congress can simply insert language into any spending bill exempting it from the control of the spending statute. What Congress made, it can evade. Realising this, some political strategists began looking for other ways to check government spending.

## **II. A New Approach**

Political entitlement programs like Social Security, Medicare, and hundreds of smaller programs have established strong voting constituencies who fear their loss. Most politicians dare not even utter a word against these programs, though it is widely accepted that the increasing costs of these entitlement programs (largely due to the impending retirement of the “baby boomers”) cannot be borne without either massive tax increases or cutting the benefits.<sup>25</sup> Direct support for cutting these programs is lacking. Except for libertarians and a few hardcore fiscal conservatives, most politicians in Washington want to continue these programs. There are large political constituencies who support these entitlements, but the political opposition is dispersed

and unorganised. How are the opponents of such entitlement programs to achieve their goal of rolling back the Welfare State?

Obviously, given current political realities, a frontal assault on the legacies of the Great Society or the New Deal is unlikely to win much support from voters. Any member of Congress calling for the abolition of Social Security would draw the ire of the AARP and similar powerful interest groups.<sup>26</sup> In order to achieve the goal of eliminating such programs, cost-cutters needed a new strategy—one which some call “starve the beast.”<sup>27</sup>

The “starve the beast” theory (STB) has several underlying premises: (1) Entitlement programs are popular, but ultimately unsustainable and create harmful dependence on government; (2) politicians are generally aware of the problems, but cannot muster the political will to face them, preferring to defer consequences into the future (when they more than likely be retired); (3) major changes in New Deal and Great Society welfare/entitlement programs can only be made in the face of imminent crisis and collapse; and (4) deliberately advancing the time of the crisis is better than waiting for a fiscal “train wreck” to occur (the government gets bigger each year, so the longer we wait to reform it, the harder the process will be). Liberal economist Paul Krugman of the New York Times remarked about the STB strategy:

If Grover Norquist is right -- and he has been right about a lot -- the coming crisis will allow conservatives to move the nation a long way back toward the kind of limited government we had before Franklin Roosevelt. Lack of revenue, he says, will make it possible for conservative politicians -- in the name of fiscal necessity -- to dismantle immensely popular government programs that would otherwise have been untouchable.<sup>28</sup>

The STB strategy is to bring about a financial crisis (which STBers believe under current policies would occur later but be more severe) as a means of creating the political climate in which the changes essential to the well-being of the country can be made. STB assumes that the crisis is coming and that it is better to face and resolve it soon, before it is too late and the

problem is unsolvable.

### **Starve The Beast and the Supply-Siders**

Opponents of tax cuts often cite Reagan's first term and criticise his economic policy as a failed example of "trickle-down economics." This refers to the theory (and the highly dubious but closely-associated notion of the "Laffer Curve") that cutting taxes will spur economic growth, leading to greater overall prosperity and greater tax collections because of the increased economic activity.<sup>29</sup> While it is undoubted that cutting taxes is beneficial to the economy, it may not always be beneficial to a degree sufficient to make up the lost revenue from the lower rates, particularly if the economy is in a down cycle because of federal monetary policies. If spending is also not controlled, then deficits are sure to result.

### **Tax-Cut and Spend Republicans**

Fiscal conservatives have traditionally opposed deficits, excessive government debt, and reckless spending, as well as opposing high taxes. Nevertheless, some "supply-siders" in the Reagan administration advocated tax cuts in the belief that the ultimate result would be *greater* tax collections, though tax *rates* would be lowered. Thus, they were not opposed to high *spending*, but to high *tax rates*. Some of Reagan's appointees such as budget director David Stockman contemplated spending cuts, but few of these were achieved.<sup>30</sup>

Proponents of the starve-the-beast theory do not share the views of the supply-sider/Laffer curve group. They do not hope that cutting taxes will produce greater revenues, nor is that their goal. STB proponents are mostly fiscal conservatives and thus opposed to deficits and debt, yet they advocate a strategy that is intended to produce bigger deficits and more debt.<sup>31</sup> Of course, nearly all politicians like to be able to promise more spending without increasing taxes. In the short run, the rationale upon which STB is based would seem to allow for just such a situation. Politicians who supported federal tax cuts may have done so as part of the usual

Washington “spend now, worry later” attitude, rather than because they really believe in or desire to “starve the beast.” Nevertheless, STB provides a convenient justification for Republican lawmakers to justify their un-conservative spending habits to hardcore fiscal conservative interest groups. As Ed Kilgore of the liberal New Democrats Online website put it:

As the country's fiscal situation has deteriorated during the Bush administration, GOP members of Congress seem exhilarated by the realization that short-term fiscal irresponsibility can be justified as a long-term strategy for restraining the size and cost of government...<sup>32</sup>

When the time comes to actually make the cuts in government spending that the STB proponents call for, many of these self-styled “conservative” Republicans who supported tax-cuts and greater spending may find it easier to raise taxes rather cut spending programs their constituents, having become used to receiving federal largesse, now demand (federal spending truly is one area in which “supply creates its own demand”).

### **How Does It Work?**

The STB program basically consists of several related strategies:

#### **A. Tax Cuts for Big Taxpayers**

A prime feature of the STB approach is cutting taxes. However, unlike the supply-sider/Laffer curve adherents, STBer’s do not intend such cuts to produce increased revenue.<sup>33</sup> The intent is to decrease revenue, thus exacerbating the deficit (which, in the absence of any spending control, will increase). Since the vast majority of tax revenues is collected from the upper half of income earners,<sup>34</sup> this necessarily means that to reduce tax revenues significantly, tax cuts will have to be geared towards this group. Thus, STB has earned the ire of left-liberals<sup>35</sup> as a program of “tax cuts for the rich.”<sup>36</sup> While this may be true, it is only because it is “the rich” who pay most of the taxes. If it were the poor who paid most taxes, STB proponents would probably be advocating tax cuts for low-income earners.

## B. Tax ‘Em ‘Til They Quack: Tax “Lucky Duckies” to Incite Tax Outrage

Some opponents of STB philosophy have accused STB proponents of plotting to raise taxes.<sup>37</sup> This seems counterintuitive, but the argument on which it is based is interesting. The bottom 50% of taxpayers account for only 4% of tax revenue, but have 13.8% of average gross income, while every income segment of the top 50% of taxpayers pays a higher percentage in taxes than its percentage of average gross income (AGI).<sup>38</sup> If “the poor” pay little or no federal income tax, they will have little interest in seeing taxes reduced, goes the argument. In the words of a famous Wall Street Journal editorial:

Over the past decade or so, fewer and fewer Americans have been paying income taxes and still fewer have been paying a significant percentage of income in taxes. While we would opt for a perfect world in which everybody paid far less in taxes, our increasingly two-tiered tax system is undermining the political consensus for cutting taxes at all.<sup>39</sup>

The Journal dubbed these non-tax-payers “lucky duckies,” a name which immediately incited Democrat/left-liberal outrage. STB proponents were immediately accused of plotting to increase taxes on the poor in order to promote future tax cuts for the wealthy. Paul Krugman wrote in the New York Times:

Here's how the argument runs: to starve the beast, you must not only deny funds to the government; you must make voters hate the government. There's a danger that working-class families might see government as their friend: because their incomes are low, they don't pay much in taxes, while they benefit from public spending. So in starving the beast, you must take care not to cut taxes on these “lucky duckies.” (Yes, that's what The Wall Street Journal called them in a famous editorial.) In fact, if possible, you must raise taxes on working-class Americans in order, as The Journal said, to get their “blood boiling with tax rage.”<sup>40</sup>

The WSJ editorial made no such call for increasing taxes on the poor (the WSJ editorial clearly expressed a preference for lowering *all* taxes), and Krugman took the phrase “blood boiling with tax rage” out of context, but tax-cut opponents maintain that tax increases on

the poor are a part of the STB program. The reader must judge for himself whether or not this charge has any validity.

### **C. Crisis and Resolution, not *Revolution***

At this point, the STB program may sound somewhat sinister and Machiavellian, but in reality, STB proponents are trying, as they see it, to prevent hardship, rather than cause it. Their goal is to take advantage of a fiscal crisis borne of revenue shortfalls as a means of bringing about fundamental reforms that would otherwise be impossible. They believe that the alternative of doing nothing will lead to a much more severe and harmful crisis, as Social Security and Medicare obligations reach unsustainable levels, leading to either default or skyrocketing taxes.

Huge numbers of people are dependent on Social Security and other social welfare programs. If these programs suddenly are unable to make their promised payments, great hardship would result. Crushing taxes, or worse, massive inflation of the currency might be imposed by a desperate government in an attempt to continue supporting Welfare State programs. Social upheaval and serious economic disruptions might occur in either of such circumstances. STB proponents believe that these programs *cannot* be sustained in their current forms, so it is best to begin preparing people psychologically to become less dependent on the government. Cutbacks can then be made before the system reaches the point of collapse, and hopefully the strategy will bring about a “soft landing” rather than a “train wreck.”

### **IV. Size Matters**

Reducing the size of government (or holding its growth down) through the mechanism of limiting its taxing ability has been applied with some success in several states. However, for reasons which will be explained below, the differences between the powers of state and federal government make it unlikely that starving the beast at the federal level will be successful.

## **A. State Beasts Can Be Starved**

State beasts can be starved quite effectively. Several examples, each with a different pattern of events, can provide insight into the process. Due to economic downturns, virtually every state except those which have placed strict limits on *spending* is experiencing budgetary difficulties. Colorado, one of the few states with constitutional *spending* limits, is a rare exception (limits on *taxes* have not had the effect of holding down spending in most states, so fiscal crisis has been widespread during the latest recession).<sup>41</sup>

### **1. The Alabama Experience**

Because many tax provisions are written into its constitution, Alabama's citizens must vote to approve a constitutional amendment before many types of tax increases can take place.<sup>42</sup> Nevertheless, these tax controls have not translated into spending control. From a budget of \$12 billion in 1997, the Alabama state budget grew to over \$17 billion in 2003, an increase of 40% over 6 years.<sup>43</sup> Revenues increased during this period largely due to an economic boom, meaning that the revenues being received could not reliably be counted on to be available in future years after the boom was over. Of course, Alabama, like most states, ignored this fact and created permanent spending increases which were dependent on optimistic forecasts of future tax revenues. Therefore, when tax collections did not meet projections, a large budgetary shortfall existed. In 2003, Gov. Bob Riley asked voters to approve a record tax increase of \$1.6 billion (twice the amount of the shortfall) to fund current activities *and* new spending.<sup>44</sup> This proposal was roundly rejected in November 2003.<sup>45</sup> The state budget has since been pruned back to coincide with available revenues (which are still higher than the previous year).<sup>46</sup> It is vital to note the fact that while in Alabama voter sentiment and constitutional limitations place moderately effective limits on the amount of taxes the state can collect, in the absence of any control on spending the state continues to spend beyond its means. Nevertheless, restraints on taxes have

certainly kept Alabama's government smaller than it would be if it had access to more revenue. Without the ability to borrow as easily as the federal government, and lacking the power to print money, constraining state revenues can be an effective means of reducing government growth. However, as we will see, such a strategy works best when coupled with controls on spending.

## **2. Colorado and the Taxpayer Bill of Rights**

The state of Colorado took a different approach to limiting government. In 1992, Colorado voters approved an amendment to their state constitution called the Taxpayer Bill of Rights, or TABOR. TABOR did put some restrictions on taxation, by requiring a 2/3 majority in both houses of the legislature to raise taxes. Far and away its most important provision, however, was its limit on government spending. Regardless of how much the government collects in taxes, it is limited in the amount it can spend each year to the amount of the previous year's budget plus an increase for inflation and population growth. If inflation is 2% per year and population is growing at 1% per year, the budget can increase a maximum of 3% annually. TABOR also mandates that surplus revenue be returned to taxpayers via a refund. TABOR is not designed to make extreme cuts in government (the goal of STB), but rather to restrain excess growth of government.

TABOR has proven very successful in Colorado, with large surpluses being returned to taxpayers most years.<sup>47</sup> Opponents of TABOR who predicted economic disaster for the state have been proven wrong, as in fact Colorado's economic growth has improved post-TABOR,<sup>48</sup> and it has weathered the recent recession better than most other states.<sup>49</sup> The successful record of TABOR has led to similar proposals in a number of other states. Michael New of the Cato Institute contrasts the success of TABOR with California's Prop. 13, which limited taxation, but not spending:

Colorado's TABOR may well surpass California's Proposition 13 in terms of effectiveness. In 1978, Proposition 13 did an excellent job of providing

taxpayers and homeowners with some much needed short-term tax relief. However, since it failed to restrain expenditures, the California state legislature eventually increased other taxes to compensate for the loss in property-tax revenue. For instance, in the years following the passage of Proposition 13, California raised the income tax, the sales tax, and taxes on beer, wine, and cigarettes. During the early 1990s, former Governor Pete Wilson even proposed increasing taxes on snack foods. This vicious cycle of spending and taxing is the root cause of California's current fiscal mess.

Overall, Colorado's Taxpayer Bill of Rights has quietly become America's most effective limitation on government. It has kept spending in check, provided tax relief to Colorado residents, and deserves a great deal of credit for Colorado's strong fiscal position.<sup>50</sup>

## **B. Too Big To Starve**

STB advocates hope to reduce the size of the federal government by limiting its revenue, but they have neglected the spending side of the equation. As the example of California's Prop. 13 shows, limiting one tax without limiting spending simply leads to continued spending growth, and other taxes are raised to make up the shortfall. Bloated budgets beyond actual revenues are used as a justification for increasing taxes. Economist Alexander Tabarrok is skeptical of the idea that tax cuts without spending cuts will lead to smaller government:

If spending isn't cut then in the long run taxes can't be cut either. Since spending has gone up under Bush, all he has done, I argued, is to raise our future taxes (at precisely the wrong time too given the coming fiscal problems created by demography) . Conservatives complained that I missed the strategic beauty of the Bush plan. A tax cut, they said, will keep spending down, it will "starve the beast." Well Bush is now asking for another \$87 billion to fight the war in Iraq, employment is down everywhere but in the federal government, where it is higher than under Clinton, and Bush is already touting how his administration is responsible for the largest increase in Medicare in its 38 year history. Apparently, on the Bush diet you can eat all you want and still lose weight.<sup>51</sup>

Tabarrok is also skeptical of the crisis-leads-to-cuts idea which is at the centre of STB theory:

Will deficits in fact force future administrations to cut spending? It's possible but I am fearful. The combination of changing demographics and current tax cuts is

seeding our economy for a fiscal “perfect storm.” When the storm hits there will be a crisis, and as economist and historian Robert Higgs has ably demonstrated in *Crisis and Leviathan*, small government rarely does well in a crisis.<sup>52</sup>

One of the most powerful motivating forces in the human psyche is fear. Fearful people will do things out of fear that they would normally never consider. The demographic trends indicate that between 2010 and 2020 millions of baby-boomers will begin retiring and collecting Social Security. Longer lifespans mean that they will collect much longer than their parents did, and put greater demands on Medicare as well. Even proponents of these programs do not argue that they can meet all their promised obligations as currently structured. When this “retirement boom” hits, there will not be enough funds to pay all claims. The federal government will then be faced with three choices:

### **1. Raise Taxes and Cut Benefits**

Politicians generally don’t like proposing tax increases because voters don’t like them. However, given the choice between raising taxes on young workers or losing their Social Security checks, old people (who vote in large numbers) are sure to support the former option. Younger workers could find themselves shouldering a much greater tax burden even than at present, and this is likely to be a payroll tax that is not subject to deductions and credits.

Starve-the-beast envisions significant cuts to domestic welfare programs, but the scheme may bring about significant tax increases instead. Some combination of tax increases and benefit cuts might be sufficient to keep the system afloat, but unless the programs are fundamentally altered (see item 3, *infra*) the goals of STB are unlikely to be reached.

### **2. Let the system collapse**

Letting the system collapse would result in significant economic and social disruptions, and a very unpredictable political outcome. The end result might be a return to constitutional, laissez-faire limited government, or the rise of a police state, with a president exercising dictatorial

powers and the Constitution suspended during a government-declared “state of emergency.” It would be foolish to assume that terrorist attacks are the sole type of crisis government can use to increase its powers.

### **3. Significant, Structural Reform**

One final possibility is that the crisis could be solved by some significant structural reform of the Social Security and Medicare systems, abandoning the tax-funded pay-as-you-go system for some form of market-based savings vehicle or annuity, perhaps paid for by selling federal lands or other assets. This program would probably be compatible with the goals of STB, but does not require it as a precondition.

### **III. Conclusion: It Sounds Good in Theory, But . . .**

Starving the Beast sounds good in theory, but ultimately, it is likely to lead to higher taxes and bigger government, not to mention significant economic disruptions and fiscal crises in the meantime. Limitations on revenue alone, without limits on spending, have historically not been very effective at limiting the growth of government. This is especially true of a national government which has unparalleled power to borrow and inflate the currency. STB is premised on the idea that when the critical moment comes, those in charge of government will choose to relinquish power (over the lives of citizens) and return to them a greater degree of economic freedom, rather than expand the power of government and raise taxes. This is not a good bet to make. Given a choice, government always chooses to make itself bigger. Proponents of starve-the-beast are hoping, to paraphrase Jefferson, for “what never was, and never will be.”

## ENDNOTES

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17. <http://cwx.prenhall.com/bookbind/pubbooks/burns3/medialib/docs/gramm.htm>

18. U.S. Constitution, Art. 1, Section 7.
19. Constitution of the Confederate States of America, Art. 1, Section 7, Para. 2.
20. <http://www.house.gov/rules/96-973.htm>
21. Clinton v. City of New York, 118 S.Ct. 2091 (U.S. D.C.,1998).
22. "Save The Line Item Veto," by Stephen Moore. <http://www.cato.org/dailys/8-06-98.html>
23. "Greenspan Urges U.S. to Pare Deficit," International Herald-Tribune, AP/Reuters News Service, February 26, 2004. <http://www.ihf.com/articles/131297.html>
24. "Line-item Veto May Be Revived," by Klaus Marre. The Hill, Feb. 10, 2004. Online at <http://www.hillnews.com/news/021004/veto.aspx>
25. "No Second Best: The Unappetizing Alternatives to Social Security Privatization," by Michael Tanner. Online at <http://www.socialsecurity.org/pubs/ssps/ssp-24es.html>
26. "Ten Points Concerning Carve-Out Social Security Individual Accounts," online at [http://research.aarp.org/econ/dd80\\_carve.html](http://research.aarp.org/econ/dd80_carve.html) See rejoinder from Cato Institute, "AARP: Honest Broker or Honestly Broken," online at <http://www.socialsecurity.org/daily/01-21-03.html>
27. The phrase "starve the beast" is generally credited to Reagan budget director David Stockman, though it has been made famous (or infamous) by Americans for Tax Reform president Grover Norquist. Because of perceived negative connotations, few tax-cutters besides Norquist refer to their strategy as "starve the beast," that name being almost exclusively used by commentators on the anti-tax-cuts side of the debate.
28. "The Tax Cut Con," by Paul Krugman. The New York Times, September 14, 2003. Online at <http://www.pkarchive.org/economy/TaxCutCon.html>
29. "A Walk On The Supply Side," by Murray N. Rothbard. From Making Economic Sense, Ch 10. Online at <http://www.mises.org/econsense/ch10.asp>
30. "The Education of David Stockman," by William Greider. Online at <http://www.theatlantic.com/politics/budget/stockman.htm>

"I put together a list of twenty social programs that have to be zeroed out completely, like Job Corps, Head Start, women and children's feeding programs, on and on. And another twenty-five that have to be cut by 50 percent: general revenue sharing, CETA manpower training, et cetera, et cetera. And then huge bites that would have to be taken out of Social Security. I mean really fierce, blood-and-guts stuff -- widows' benefits and orphans' benefits, things like that. And still it didn't add up to \$40 billion. So that sort of created a new awareness of the

defence budget . . . the budget isn't something you reconstruct each year. The budget is a sort of rolling history of decisions. All kinds of decisions, made five, ten, fifteen years ago, are coming back to bite us unexpectedly. Therefore, in my judgment, it will take three or four or five years to subdue it. Whether anyone can maintain the political momentum to fight the beast for that long, I don't know."

Stockman's later statements reflected his ultimate disillusionment over the failure to reduce the deficit or the budget:

"The system has an enormous amount of inertia. . . . I don't believe too much in the momentum theory any more. . . . I have a new theory -- there are no real conservatives in Congress."

31. This has brought the STB theory in for heavy criticism. See "A Beast of an Idea," by Michael Kinsley. Online at <http://forums.nasIOC.com/forums/showthread/t-480068.html>

"But put reality aside (as the President and Congress seem to have done). Does starving the beast make sense even in theory? Supply-side economics comes with a lot of intellectual paraphernalia, such as that famous Laffer Curve, drawn on a cocktail napkin. It may be nonsense, but at least it's clever nonsense. . . . Starve the beast, by contrast, is not a theory or even an assertion. It is barely more than a wish.

"There's a reason that starve the beast has no curves, formulas or doctoral dissertations to clothe its nakedness. Cutting taxes with the expectation that spending cuts will follow is a huge and implausible leap not just in terms of human psychology but also in terms of simple mathematics."

32. "Starving the Beast," by Ed Kilgore. Online at [http://www.ndol.org/blueprint/2003\\_number\\_3/04\\_starving.html](http://www.ndol.org/blueprint/2003_number_3/04_starving.html)

33. "The Tax Cut Con," by Paul Krugman. The New York Times, September 14, 2003. Online at <http://www.pkarchive.org/economy/TaxCutCon.html>

"The other camp in the tax-cut crusade actually welcomes the revenue losses from tax cuts. Its most visible spokesman today is Grover Norquist, president of Americans for Tax Reform, who once told National Public Radio: 'I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub.' And the way to get it down to that size is to starve it of revenue. 'The goal is reducing the size and scope of government by draining its lifeblood,' Norquist told U.S. News & World Report."

34. According to IRS data cited by the Tax Foundation, the top 50% of taxpayers accounted for 96% of tax revenue. These were taxpayers earning more than \$28,528 per year, who accounted

for 86.2% of Adjusted Gross Income. The top 10% accounted for 64.9% of income tax revenue, but only 43.1% of AGI. This group is defined as taxpayers making more than \$92,754 per year. The top 1% of taxpayers paid 33.9% of federal income taxes, but only accounted for 17.5% of AGI. This group is defined as making more than \$292,913 per year. Online at <http://www.taxfoundation.org/prtopincometable.html> (Also see chart at [http://www.publicagenda.org/issues/factfiles\\_detail.cfm?issue\\_type=federal\\_budget&list=13](http://www.publicagenda.org/issues/factfiles_detail.cfm?issue_type=federal_budget&list=13) ).

35. I use the term “left-liberal” to distinguish the modern, American, democratic-socialist variety of liberal from the liberal parties in Europe and from the classical liberalism of the 19<sup>th</sup> Century. Economist Ludwig von Mises lamented the usurpation of the term “liberal” by those holding a philosophy directly counter to that of the original “liberals,” and advocated taking the word back to its original meaning, to describe advocates of liberty, freedom, and laissez-faire. See Liberalism in the Classical Tradition, by Ludwig von Mises, online at <http://www.mises.org/liberal.asp>

36. “The Tax Cut Con,” by Paul Krugman. The New York Times, September 14, 2003. Online at <http://www.pkarchive.org/economy/TaxCutCon.html>

37. Ibid.

38. “Lucky Duckies Again,” Wall Street Journal, Jan. 20, 2003. Online at <http://www.opinionjournal.com/editorial/feature.html?id=110002938> See also [http://www.publicagenda.org/issues/factfiles\\_detail.cfm?issue\\_type=federal\\_budget&list=15](http://www.publicagenda.org/issues/factfiles_detail.cfm?issue_type=federal_budget&list=15)

39. “The Non-Taxpaying Class,” Wall Street Journal, Nov. 20, 2002. Online at <http://www.opinionjournal.com/extra/?id=110002937>

40. “The Tax-Cut Con,” by Paul Krugman. The New York Times, September 14, 2003. Quoted online at <http://www.wordspy.com/words/starvethethebeast.asp>

41. “Economy Not to Blame for States' Budget Woes,” by Dennis Cauchon. USA Today, June 22, 2003. Online at [http://www.usatoday.com/news/nation/2003-06-22-state-spending-cover\\_x.htm](http://www.usatoday.com/news/nation/2003-06-22-state-spending-cover_x.htm)

42. The Alabama Legislature can raise most sales and excise taxes and miscellaneous fees without a vote of the people. The rates for income and property taxes are written into the Alabama Constitution and require a constitutional amendment and thus a vote of the people to change.

43. “The Truth About Government Spending In Alabama,” by D. V. Bowden. Online at <http://freealabama.com/archive/budget.htm>

44. “Alabama Tax Plan Causes Unholy Outrage,” by Neal Peirce. Online at <http://www.commondreams.org/views03/0825-06.htm>

45. "Readin', Writin', and 'Rithmetic: A Back to School Guide for the Alabama Governor"  
Online at [http://www.cfif.org/htdocs/legislative\\_issues/state\\_issues/bob\\_riley.htm](http://www.cfif.org/htdocs/legislative_issues/state_issues/bob_riley.htm)
46. The "shortfall" in the budget is not due to revenue decreases, but the fact that revenues have not increased at the same rate as during the boom. The Alabama state government budgeted for large spending increases, and when revenues, though larger than in the previous year, were insufficient to support the budget, a "revenue shortfall" existed.
47. "Fiscal Trail Blazer: Colorado's Taxpayer Bill of Rights is Leading the Way," by Michael New. Online at [http://www.nationalreview.com/nrof\\_comment/comment-new110402.asp](http://www.nationalreview.com/nrof_comment/comment-new110402.asp)
48. "A Decade of TABOR, Ten Years After: An Analysis of the Taxpayer Bill of Rights," by Fred Holden. Published by The Independent Institute. Online at <http://i2i.org/articles/tabor2003.PDF>
49. "Economy Not to Blame for States' Budget Woes," by Dennis Cauchon. USA Today, June 22, 2003. Online at [http://www.usatoday.com/news/nation/2003-06-22-state-spending-cover\\_x.htm](http://www.usatoday.com/news/nation/2003-06-22-state-spending-cover_x.htm)
50. "Fiscal Trail Blazer: Colorado's Taxpayer Bill of Rights is leading the way," by Michael New, November 6, 2002. Online at <http://www.cato.org/research/articles/new-021106.html>
51. "The Beast Isn't Starving," by Alexander Tabarrok. Online at [http://www.marginalrevolution.com/marginalrevolution/2003/09/the\\_beast\\_isnt\\_.html](http://www.marginalrevolution.com/marginalrevolution/2003/09/the_beast_isnt_.html)
52. "What Tax Cut?," by Alexander Tabarrok. Online at <http://www.independent.org/tii/news/030521Tabarrok.html>