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IDEAS ON LIBERTY

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Perspective

Why Cut Taxes?

Judging by the popping corks at the White House, taxes are cut to increase government revenues so the budget deficit can be shrunk without reducing government spending. Tax cuts are good, but this reason leaves me cold.

President Bush announced recently that "This economy is growing, federal taxes are rising, and we're cutting the federal deficit faster than we expected." The latest numbers bear him out. The *Washington Post* reports "a 13 percent rise in tax receipts for the nine months ended in June." Thus "the administration projects that the deficit will narrow to about $296 billion. That would be down from the $318.3 billion of 2005." Only $296 billion!

And the *Wall Street Journal* added, "Government revenues are expected to grow 11%, or $246 billion, from 2005 to 2006, OMB said. So far this year, receipts have totaled $2.4 trillion, $115 billion higher than expected. That boost accounted for 90% of the reduction in the deficit projection."

The exultant President said, "Some in Washington say we had to choose between cutting taxes and cutting the deficit. Today's numbers show that that was a false choice. The economic growth fueled by tax relief has helped send our tax revenues soaring."

But we shouldn't want tax revenues to soar. They don't understand this in Washington, but nothing is more likely to produce mischief, and impede wealth creation, than a politician with a dollar in his hand. Imagine 535 politicians, and a President who misplaced his veto pen, with 115 billion dollars more than they expected to have. As the Antifederalist Melancton Smith wrote, "[A]ll governments find a use for as much money as they can raise." And that was in 1787!

Federal spending last year ate up 20.1 percent of what Americans produced. That's more than when this President took office. And the administration's projections through 2011 don't have it falling by much. After that point the picture is far bleaker, when Social Security and Medicare hit their icebergs. This also leaves out the open-ended bill for war spending.

Mr. Bush concedes that economic growth alone won't end the deficit. According to the *Post*, "He called on Congress to help cut 'wasteful spending' and to tackle what he said was 'unsustainable growth in spending for entitlement programs.' "

But how credible is that from a president who has yet to veto an appropriations bill? Besides, reducing "waste" will get us nowhere. One congressman's waste is another's essential project.

The only way to shrink government is to approach it at the mission level. Every line in the budget should be subjected to the question "Should the government be doing this?"

On second thought, that's not likely to get us very far either. If no one thought the government should be doing something, it wouldn't be doing it. Gremlins don't take over the Office of Management and Budget each midnight and insert projects no one asked for.

So where does that leave us? Not in a good place.

The government is out of control; in principle there are few remaining limits on what it may do. Yet even a badly hampered market economy is capable of producing a huge amount of wealth, so the spenders can enjoy themselves for a long time. The key questions are: how much better off would we be (especially those with the least) if government didn't have all that cash to play with, and how far off is the day of reckoning?

We shouldn't take our eye off the explicit tax burden, but that's not the only burden to watch. Spending is a better (albeit incomplete) measure of how much the government hurts us. If tax-rate cuts leave the government with more revenue than before, that's an excellent reason to keep cutting.

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Are corporate CEOs paid too much? If this were a really free economy, the answer would be easy. But what about in a corporatist mixed economy? Robert Murphy leads the way through the labyrinth.

It's widely believed that the way for a less-developed country to become more developed is to find markets for its exports. As Christopher Lingle recalls, that idea was debunked some time back by a guy called Adam Smith.

How can dispassionate economists give economic advice? Israel Kirzner concludes his three-part series on this seeming paradox.

Proposals to mandate the use of renewable "green" energy find favor until people see the price tag. Michael Heberling explains.

France has had a rough time lately, with students demonstrating and even getting rowdy in opposition to a loosening of the labor laws. That was just the tip of the iceberg, Pierre Garello reports.

Twenty years after the nuclear-reactor explosion at Chernobyl, an authoritative study reports that the health consequences were much less severe than predicted. But some people don't want to hear about it. Jim Peron has the details.

Some people labor under the misconception that government can run a business, whether an electric company or a hospital. But as Murray Rothbard argued in this 1956 FEE Timely Classic, the nature of government and the nature of business are poles apart.

Our columnists' labors have yielded a varied crop: Richard Ebeling on principles and politics, Lawrence Reed on growing up, Thomas Szasz on college suicide-watch, Stephen Davies on incentives, and Russell Roberts on the need for a multimedia approach to teaching liberty. Gene Callahan, reading Paul Krugman's claim that inflation is nothing to worry about, protests, "It Just Ain't So!" Sad to say, after seven years this is Roberts's final *Freeman* column. We've enjoyed working with him, and we will miss him. We wish him well. His space will be ably filled by David Henderson, who is familiar to readers of these pages.

In the book department, our reviewers have scrutinized tomes on twenty-first-century liberalism, a top social democrat's legal philosophy, the abolition of slavery, and the gender wage gap.

—Sheldon Richman
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