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Tax-Cut Illusions

by Sheldon Richman

The problem with big government is that politicians and bureaucrats keep devouring more and more scarce resources instead of leaving them with those who created them. So instead of entrepreneurs' using those resources to serve consumers, government operatives get to subsidize their supporters in order to keep their jobs.

Keep that in mind when you contemplate your modest tax cut, which President Bush proclaims is the salvation of the sluggish economy. Also keep in mind that, while explicit taxes have been cut a little, Congress and the president are spending your money like crazy. The proof is that they just raised the national debt limit by nearly a trillion dollars (that's no misprint), the second increase in six months. As Rep. Ron Paul of Texas points out, that's about what the federal budget was only 18 years ago. Record budget deficits loom.

The limit had to be raised because spending is out of control. Chris Edwards, the Cato Institute's budget expert, writes, "Based on his first three budgets, President Bush is the biggest spending president in decades." This is not all post-9/11 military spending. Edwards adds, "With Bush's budget plan for FY2004, real nondefense discretionary outlays will rise 18.0 percent in his first three years in office. That growth far exceeds the first three years of any recent presidential term."

If taxes don't cover spending, the money has to be procured another way. So the explicit tax bill doesn't reveal the full cost of government, and a cut in taxes could actually hide an increasing burden. Thus a better, though still incomplete, measure of the cost is the total amount that government spends. (For a fuller accounting we'd have to add the cost of complying with regulations and the impossible tax code.)

The federal government covers its deficits by borrowing. That can have two consequences. First, any money the government borrows is unavailable for private investment that would increase living standards. Government borrowing will be relatively small in an economy as large as ours, but entrepreneurs and consumers are deprived of that money just the same. Some goods

and services will never materialize, because politicians have commandeered the resources for their own purposes.

Second, the government likes to monetize its debt. The central bank will create money out of thin air so the debt can be serviced with watered-down dollars. That's inflation — our money will buy fewer goods and services. In the last two years the dollar has lost 4 percent of its value. If your nominal income has risen by 4 percent in that time, you are no richer than you were before.

The president's defenders reply that the tax cut will stimulate the economy, increasing revenues and eventually closing the deficit. We'll grow out of the debt. That is true to some extent. But without the massive spending increases and borrowing, the fruits of economic growth would all remain in the private sector, making our lives better, rather than passing through the voracious government's digestive system.

If you're thinking that the government is engaged in a massive deception of the American people, you're correct. It throws us a few crumbs with an income-tax rate cut, while raising the real burden, which we will have to bear in less-visible ways, allowing the government to escape blame. It's an old game, and the politicians get away with it time after time because most people are too busy with their everyday lives to figure it out.

What needs to be done? Spending must be slashed. Programs, agencies, and departments must be eliminated. Major chunks of the federal budget must be excised. Most of what government does these days is take money from those who earned it and give it to those who didn't (including subsidized corporations). We live in a transfer state, which Frédéric Bastiat, the great 19th-century champion of freedom, called "legal plunder." There is no other word for it.

Until it ends, any tax cutting will be mere illusion.

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