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A Balanced Budget Is Not Enough **by Sheldon Richman**

Conservatives must be easy to please. Case in point: The other day columnist Lawrence Kudlow excitedly let us in on the well-kept secret that the federal budget deficit is getting smaller. “Last week’s Treasury report on U.S. finances for December shows a year-to-date fiscal 2005 deficit *already \$11 billion less than last year’s*,” he wrote.

He went on to explain: “In the first three months of the fiscal year that began last October, federal cash outlays rose 6.1 percent and tax collections grew 10 percent. When more money comes in than goes out, the deficit shrinks.” A bit later in the piece he referred to the “explosion in tax revenues” and the “flood of new revenues.”

You get the point. Federal spending and revenues are moving toward balance, but only because revenues are increasing in a big way. This is something to cheer? Kudlow attributes the soaring revenues to the tax-rate cuts enacted in President Bush’s first term. This is a reasonable conclusion. Taxes burden the creation of wealth and income, and discourage the creation of jobs. So it stands to reason that if the burden is eased, the creation of wealth and income will be freed up and new jobs will be created. All of that leads to revenue-yielding activities.

But are we to celebrate the flood of new revenues? Of course not — even if they are the result of tax-rate cuts. If revenues are flooding in, it means that taxes haven’t been cut enough. (Could they ever be cut enough?)

Balancing the budget is a good thing, but it isn’t an absolute good. It is especially not good when the balance is accomplished at ever-higher levels of spending. That is what has been happening. As Kudlow wrote, “Domestic spending on nonentitlement programs (excluding homeland defense) is rising by 4.1 percent. That’s more than twice the pace of core inflation.” President Bush has yet to veto a spending bill. Kudlow sees signs that future Bush budgets will hold the line, but holding the line (don’t hold your breath) is hardly good enough. The biggest spender since Lyndon Johnson has left us a much larger government. A flat budget line in his second administration would be underwhelming.

You are asking for trouble if you look at just one aspect of government and ignore the rest. That's because government harms us in a variety of ways. It harms us when it extracts money from us through taxation. It harms us when it borrows scarce capital that would otherwise have been invested in ways that make our lives better. It harms us when it spends the money. Each of these anti-social weapons has its own distinctive way of inflicting pain. The pain of taxation is obvious. Taxpayers have less money with which to care for themselves and their families; less money to save for their future. (The government then kindly steps in and offers to take care of them.) Tax laws are also used to distort people's behavior, for example, by encouraging politically approved activities, such as buying homes or going to college.

Borrowing, as already noted, substitutes political consumption for economic investment. It also hides the true cost of government, since some of the expense doesn't have to be extracted through taxation. Rather, it is pushed on members of future generations, who don't vote today. The result is that we get more government than we might have had.

And through spending, government does all sorts of mischief, for example, encouraging through subsidies activities that people might not have otherwise engaged in. The law of unintended consequences is a constant factor: Government spending can encourage activities without anyone's having intended it. The welfare system's subsidy of out-of-wedlock births is a prime example.

The upshot of this analysis is that the attack on big government must be comprehensive and simultaneous. Plans for tax reform that demand "revenue neutrality," that is, holding spending constant, are self-defeating. Any tax system designed to extract \$2 trillion from the productive sector will be onerous.

Big government is a multifarious blight. A multifront assault is our only hope.

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