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OP-ED CONTRIBUTOR

## How Tax Cuts Feed the Beast

By DANIEL SHAVIRO

**O**n the campaign trail, President Bush is busy telling voters that he wants to keep making government "smaller and more efficient" and that his opponent, John Kerry, wants a return to the days of big government. Forget the profligate spending of the past four years, he seems to suggest; instead, think of the many tax cuts that have been pushed through and how in time, as the saying goes, they will "starve the beast."

But in fact the Bush tax cuts will do nothing of the kind. Counterintuitive though it may seem, they will inevitably end up increasing the size of government.

When we talk about "big government," we shouldn't be talking simply about how many agencies are in Washington or how many employees they have. Rather, we should consider government's effects on society as a whole. If the government were to hire a lot of employees to redistribute wealth, everyone would agree that government had grown. But if the government instead used regulation for the same purpose, it might have fewer bureaucrats but it would not be smaller - it would simply have outsourced its "big government" activity by making private workers subject to new government authority.

In the same way, tax cuts can be used in lieu of spending to redistribute wealth and shape the economy. And, intentionally or not, that is exactly what the Mr. Bush is doing.

Two important points about the country's fiscal system help to make this clear. The first is that Washington has historically engaged in immense wealth redistribution from younger to older generations, mainly through Social Security and Medicare. Those programs' benefits were essentially provided free to the first groups of eligible retirees (in the 1930's for Social Security and the 1960's for Medicare), and then expanded over the years without the government's demanding matching contributions from recipients. The younger generations keep having to pick up the tab for the older generations' expanding benefits.

The second major point is that, as even the president's 2005 budget admits, our current tax and spending policies are unsustainable. We face a long-term fiscal gap that is almost unimaginable: the total difference between the cost of all promised benefits and the revenues to pay for them is about \$70 trillion.

The root causes of this gap are that Americans are living longer and that health care costs are growing far faster than inflation, making Social Security and Medicare more expensive. But the Bush administration has added immensely to the gap: the Medicare prescription drug benefit enacted last year amounts to a \$16.6 trillion increase over the very long term, according to the Medicare trustees. That is a straight tax increase on future generations.

Against this background, how should we think about the huge Bush tax cuts? They greatly increase the already huge redistribution of wealth from younger to older generations, because the younger generations will have to pay off the bonds that are being floated to finance the current federal spending, as well as the Social Security and Medicare expenses of older generations. On top of this, the Bush tax cuts are likely over time to increase, not reduce, government's effect on the economy.

The growing federal debt is virtually certain to lead to offsetting tax increases down the road. Does anyone really believe that in 10 years, when Social Security and Medicare benefits are imminently threatened, Congress will not try to increase revenues to keep the benefits flowing a bit longer?

The increased fiscal gap also makes future government policy far less predictable. Having a looming debt of that size will stir every interest group in Washington to try to influence future policy. It won't be possible to take any government commitment for granted for more than a few years. With even Social Security and Medicare likely to be on the chopping block eventually, no group or lobby will be able to rely on political inertia to protect what it now has. That is an enviable state for members of Congress set on gaining campaign funds, but a worrisome situation for the rest of us.

The Bush tax cuts add up to greater wealth redistribution, a greater likelihood of future tax increases, and greater uncertainty about what Washington will do to keep its programs going. Sounds like big government to me.

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