

# Forward Observer

James Glassman

## What Really Matters: Spending, Not Deficits

Here's a mystery: Why don't more Americans want a tax cut?

Congress did finally pass President Bush's tax-relief plan, but it was an intense struggle, and, in the end, the total reductions were cut in half. The plan offered something for almost everyone. For the poor (individuals making less than \$14,000), it ended income taxes entirely. For families, it eliminated the marriage penalty, boosted child credits and cut rates. For investors and business-people, it lowered taxes on dividends and capital gains and vastly increased the capital-investment deduction. What's not to like?

One would expect that people prefer to hand over less money to the government—especially at a time of sluggish growth and rising unemployment. Yet, a recent *Washington Post*/ABC News poll found that two out of three respondents approved of cutting the original Bush plan in half, and nearly a third wanted it killed altogether. Why are serious tax cuts so hard to pass? Two reasons stand out:

First, tax collections are now so wildly skewed toward high earners that many Americans pay little or nothing. The Tax Foundation reports that this year 36 million returns, representing 70 million people, will have a liability of zero for federal income taxes. The entire bottom half of earners pay only 4 percent of income taxes, and the average rate they pay is less than 5 percent of their income. So a quarter of all Americans are not affected in the slightest by taxes, and another fourth pay only tiny amounts.

Second, political hysteria over federal

deficits has hoisted Republicans on their own petard. In their efforts to reduce the size of government over the last generation, the GOP disingenuously promoted the idea that deficit spending was downright immoral, because it would increase interest rates and saddle our children with their parents' debts. Tactically, this approach worked. Even Democrats now use deficit talk—to oppose tax cuts, not cuts in spending.

Is there a way to frame the issue of tax cuts to avoid these two problems? I think so.

First, stop cutting people off the income tax rolls altogether! Such actions only aid the pro-tax coalition. President Bush's current plan will knock another 12 million Americans off the tax rolls. Why? Republicans will never get credit for slashing taxes at the bottom, and, besides, low earners benefit at least as much as high earners from government services and should pay *something*. If we want to cut their taxes, it would make more sense to cut payroll taxes for Social Security and Medicare (which are higher than income taxes for most lower-income people anyway).

Second, and more important, we need to start asking fundamental questions about what government does. When considering a potential federal activity we should ask if its costs exceed the benefits, if the private sector or states can do it more efficiently, and if it constrains freedom. After elected officials have decided the appropriate activities of government and what they cost, they



can move on to the next question: How do we pay for those things?

Like a business, government can sensibly use a combination of taxes (the equivalent of direct payments out of a company's own revenues) and debt. Under normal circumstances, the source doesn't matter much. Either way, money goes from private hands to the government.

Milton Friedman puts the issue well: "Many discussions of the economic effect of tax cuts and deficits implicitly assume that government spending is predetermined, and independent of whether there is a tax cut or a deficit. In that world, deficits are produced entirely by a shortage of tax receipts.... As I see the world... what is predetermined is not spending but the politically tolerable deficit. Raise taxes by enough to eliminate the existing deficit and spending will go up to restore the tolerable deficit."

The project for believers in a robust free-market system is a simple one: Focus on spending, not deficits. That may take time, because the anti-deficit campaign was such a raging success.



## Choosing Sides

The Sunday morning television shows love to pronounce winners at the end of each week's news cycle. But they ignore the important question of who will win over the next ten or 20 years. Are American politics moving rightward? Or leftward?

There are several possible ways to predict the political future. One can extrapolate from the most recent election. But elections give only a snapshot. After the 1992 elections, hopeful liberals predicted a generation of Democratic control at the federal level; 1994 turned out pretty different.

In between elections, one can look at polling data to see how party affiliations or attitudinal positions on various issues are shifting. Following that course after the 1991 Gulf War, nearly all pollsters expected a second term for President George H. W. Bush. Obviously, answers to pollsters' questions don't fully reflect future voting commitments.

A better measure of what is likely to happen in the political future is to look at decisions people are making in their own lives. For the last seven years, new Republican voter registrants have outnumbered new Democratic registrants for the first time since the 1920s. That is a bedrock shift.

Significant transitions are also taking place among political professionals. When an elected Democrat switches to the GOP, he is wagering that he will be happier and more likely to win elections on the Republican side for the duration of his professional life. He is making a momentous decision that will determine his employability, his ability to earn a liv-

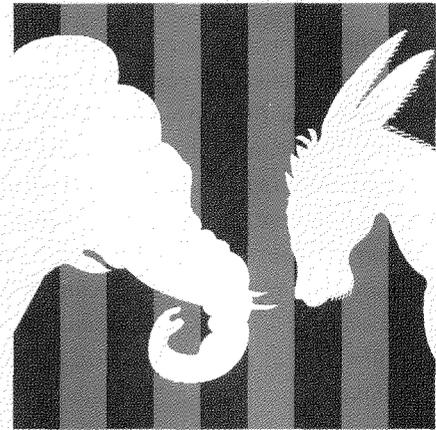
ing, and the shape of his social calendar.

Since Bill Clinton won in 1992, over 400 elected Democrats have become Republicans. This includes two senators, Richard Shelby of Alabama and Ben Nighthorse Campbell of Colorado, and five members of the House of Representatives: 433 Democrats in all. The number of party switchers spiked at 82 in 1995, but 39 switched in 2001, 31 in 2002, and 15 in the first third of 2003.

It is harder to count elected Republicans who switch to the Democratic Party, because Democrats say they don't keep track (the team that tells you it isn't keeping score is generally losing). In my own personal count, however, I find fewer than 20 switchers in recent years. Among them: former congressman Michael Forbes, former New York lieutenant governor Betsy McCaughey, and four state representatives. Vermont senator Jim Jeffords only made a quarter-turn from liberal Republican to independent back in June 2001.

Writers and intellectuals also switch teams. David Brock, a former investigative journalist for conservative periodicals, moved from right to left in the mid 1990s. Kevin Phillips wrote *The Emerging Republican Majority* in 1969, but by 1980 was denouncing Reaganism and the modern conservative movement and leading the charge for class warfare.

The ranks of intellectuals making a left to right shift are much larger, however. Irving Kristol, Gertrude Himmelfarb, Norman Podhoretz, Midge Decter, David Horowitz, and Peter Collier arrived officially on the right during the 1980s.



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Michael Barone, who worked on Edward Kennedy's 1980 campaign, is now a strong conservative voice in his news columns. *TAE's* James Glassman, once a leftish president of the *Harvard Crimson* and publisher of the *New Republic*, is now the voice of the emerging investor class and a foe of leftwing environmental extremism. Authors like Ron Radosh, Stephen Schwartz, and P. J. O'Rourke have moved right.

It is possible that millions of voter registrants, hundreds of politicians, and scores of intellectuals are wrong, and that our country will move left over the next generation. But few people seem to be betting their careers on that.

