Does "Starve the Beast" Work?

Jerry H. Tempelman

Starve-the-beast proponents believe that in order to tame the beast, one needs to starve it, with the beast being an obvious reference to Thomas Hobbes's *Leviathan* depiction of an out-of-control state apparatus. The idea of tax reductions as a way to enforce discipline in government spending holds regardless of whether the nation is in the midst of an economic expansion or a recession.

Following the recurrence of federal budget deficits that coincided with the enactment of federal tax cuts during 2001–2003, the starve-the-beast approach to fiscal policy that once was one of the underpinnings of the Reagan Revolution has become increasingly controversial. It is no longer mainly the political left that criticizes the starve-the-beast approach. Even some Republicans who once participated in the move to a smaller government during the Reagan presidency now criticize starve-the-beast thinking. Recently, William Niskanen (2005) has used statistical evidence to demonstrate that a decrease in taxes in a given year is followed by an *increase* in spending the next. Bruce Bartlett (2005) has proposed *raising* taxes, namely by introducing a value-added tax, presumably to prevent having to increase less efficient income taxes later.

Criticism of the starve-the-best approach to taxation is intuitively persuasive. The 2001–2003 tax cuts did not result in any meaningful spending reductions and, if anything, were followed by spending *increases* instead, on items such as the Medicare prescription drug bill, the war in Iraq, and Hurricane Katrina relief efforts. After a brief period of budget surpluses at the end of the Clinton administration, budget deficits have returned, and with them concerns over fiscal sustainability.

The starve-the-beast approach to fiscal policy considers reductions

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Jerry H. Tempelman is an investor who specializes in corporate debt securities in New York City.

in tax revenues the most effective way to reduce, or at least hold down, government spending. Although tax reductions may initially lead to budget deficits, starve-the-beast proponents see public outcries over the accumulation of federal debt and budget deficits as the key mechanism by which elected officials are likely to self-impose spending restraint.

The most influential advocate of the starve-the-beast approach is Milton Friedman. Although his *Wall Street Journal* op-ed "What Every American Wants" (Friedman 2003) is his most complete and well-known exposition of the starve-the-beast approach, the starve-the-beast theme was a recurring topic in his columns that appeared in *Newsweek* between 1966 and 1984. The following passage is from a column Friedman wrote almost 40 years ago in 1967:

> Postwar experience has demonstrated . . . that Congress will spend whatever the tax system will raise—plus a little (and recently, a lot) more. . . . If taxes are raised in order to keep down the deficit, the result is likely to be a higher norm for government spending. Deficits will again mount and the process will be repeated [Friedman 1975: 90].

Friedman, in turn, has credited the British political scientist C. Northcote Parkinson as an influence on his starve-the-beast approach (see Friedman 1975: 100; 1978: 12; 1983b: 325–27). Parkinson is perhaps best known for Parkinson's Law, which holds that "work expands so as to fill the time available for its completion" (Parkinson [1957] 1993: 2). Parkinson's influence on starve-the-beast theory is his lesser known Second Law, which holds that "expenditure rises to meet income." Thus, if one is to eliminate government waste, it is essential "to reduce the total revenue. Officials are less inclined to squander what is not there" (Parkinson [1960] 1971: 5, ix).

Although the starve-the-beast approach is controversial, Friedman is by no means its sole proponent. Other prominent advocates include Gary Becker, Edward Lazear, and Kevin Murphy (2003), who have argued that "government spending responds to tax revenues, so that lower revenues imply lower government spending." Robert Barro (2001) has argued that "tax cuts remove revenues from Washington and thereby keep Congress from spending them." He has also noted that "one attraction of tax cuts and deficits is that they starve the government of revenue and thereby promote spending restraint" (Barro 2003).

Ronald Reagan and Starve the Beast

Attempts to limit taxes and government spending at the federal level began during the 1970s, and were first enacted during the Reagan administration in the early 1980s. President Reagan had previously been governor of California during its taxpayer revolt that began in the 1960s.

The tax cuts advocated by and implemented during the Reagan administration were founded on a combination of essentially two underlying rationales: supply-side economics and starve-the-beast theory (Wessel and Seib 2004). President Reagan modeled his tax cuts on the previously introduced Kemp-Roth legislation, which its congressional sponsors had intended to be an implementation of supply-side economics rather than of starve-the-beast theory. There is a famous account about President Reagan instinctively understanding the supply-side incentive benefits of lower marginal tax rates from his days as a film actor, when the top tax bracket was approximately 90 percent: "You could only make four pictures and then you were in the top bracket. So we all quit working after four pictures and went off to the country" (Stockman 1987: 10–11; Cannon 1991: 90–91).

But Reagan's rationale was also very much one of starve-the-beast theory, as evidenced by another often-quoted statement:

> There were always those who told us that taxes couldn't be cut until spending was reduced. Well, you know, we can lecture our children about extravagance until we run out of voice and breath. Or we can cure their extravagance by simply reducing their allowance [Reagan 1981].

In spite of its supply-side origins, many conservative economists and commentators supported Kemp-Roth on starve-the-beast grounds of lower tax revenues and lower government spending. Herbert Stein (1978) questioned supply-siders's revenue-raising claims and argued, "The real case for the Kemp-Roth bill [is] that a large part of the taxes that are being collected now and that would be collected in the future would not be used to serve imperative social needs."

George Will (1978) favored Kemp-Roth "as a political choice rather than as an indisputable economic calculation," and argued that "the principal effect of Kemp-Roth would be to restrain the predictable growth of government that is financed by windfall revenues generated by the perverse chemistry of progressive taxation and high inflation." He cites Alan Greenspan, then in between his chairmanships of the Council of Economic Advisers and the Federal Reserve Board, as having endorsed Kemp-Roth and stating that "the basic purpose of any tax-cut program in today's environment is to reduce the momentum of expenditure growth by restraining the amount of revenue available and trust that there's a political limit to deficit spending."

Irving Kristol (1978) called Kemp-Roth "exactly the right medicine for what ails us at this time," and argued that first balancing the budget by cutting expenditures and then cutting taxes is "prudent bookkeeping but betrays a naive ignorance of the dynamics of political economy." According to Kristol, "the lesson of [California's] Proposition 13 . . . is that tax cuts are a prerequisite for cuts in government spending." Moreover, he held that "if government's revenues should fail to increase sufficiently, and the budgetary imbalance is not ameliorated, then (and only then) can we anticipate that our political leaders will find it possible to make sharp cuts in spending. In politics, the necessary is sometimes a precondition for the possible."

Milton Friedman (1983b: 323–24) believed that the Kemp-Roth "free lunch . . . argument falters," but he supported the bill anyway because "the only effective way to restrain government spending is by limiting government's explicit tax revenue—just as a limited income is the only effective restraint on any individual's or family's spending."

None of these Republican economists and commentators believed in the revenue claims of supply-siders, but they supported Kemp-Roth anyway. They did so precisely because they thought that the tax rate reductions enacted under Kemp-Roth would reduce government revenues.

There is other evidence suggesting that President Reagan intended his tax cuts to have starve-the-beast effects. The *New York Times* reported on Reagan's "fundamental ideology of lowering tax revenues as a means of forcing Congress to chop Federal social programs" (Silk 1982). The federal budget for fiscal 1982 contains a table that scores the negative revenue impacts of the tax rate reductions for 1981–86, while supply-side as commonly portrayed would have suggested positive revenue impacts to begin to come about at some point (Office of the President 1981: 16; Niskanen and Moore 1996: Table 4; Cannon 1991: 235). According to Niskanen (1988: 109), "President Reagan occasionally expressed a similar [to Milton Friedman's] view that tax increases would not reduce the deficit, believing that Congress would increase spending by the same amount."

In a *Wall Street Journal* op-ed written upon Reagan's death in June 2004, Friedman (2004) very much characterizes the former president as a starve-the-beast proponent, describing Reagan's efforts in 1973 to promote California's Proposition 1, a constitutional amendment to limit annual state spending, and his efforts at holding down nondefense government spending while president. Clearly, Reagan wanted a smaller government, not a larger one funded by increased tax revenues generated by supply-side tax rate reductions. All in all, it would appear to be difficult to escape the conclusion that President Reagan very much shared a belief in the merits and efficacy of the starve-the-beast fiscal approach.

Starve-the-beast fiscal theory has been criticized from both the political left and the right. Criticism of starve-the-beast theory from the political left (e.g., Krugman 2003: 56–58; Rubin, Orszag, and Sinai 2004: 15–16; Gale and Orszag 2004) is intellectually relatively uninteresting. It is based on a disagreement not just over means (“Will government deficits lead to lower spending?”) but also over ends (“Is less government spending desirable?”). Criticism of starve-the-beast theory from the right is arguably more interesting in that those voicing the criticism share, in theory at least, the objective of a small government that is advocated by starve-the-beast proponents. The disagreement is not so much over ends (“less government spending is desirable”) but over means (“Will government deficits lead to lower spending?”). Critics from the right may be distinguished as falling in two camps: public choice theorists and fiscal pragmatists.[1]

Public Choice Theorists

Among the former, James Buchanan (2000: 391) has argued that if government officials have the borrowing option available, they will be inclined to spend more than they would if they were required to raise taxes to finance the increase in expenditures: “With public as with private finance, the very creation of debt suggests that borrowers desire to accelerate spending.” Thus, the incurrence of public debt is likely to lead to more rather than less government spending.

Friedman does not actually deny Buchanan’s logic or principle: “True fiscal responsibility requires making the legislators who vote for high spending also vote for the high taxes required to finance it,” he argues (Friedman 1975: 95). Buchanan’s ultimate solution is a constitutional balanced budget amendment. Friedman, too, favors such an amendment, albeit one that incorporates a tax limitation (Friedman 1983a,1983b: 333–35).

Friedman is adamant that what matters is not so much the size of the federal debt and deficit as it is the size of government spending. Far more important than whether the budget is balanced is at what level of government spending that would be the case. Thus, Friedman is not an advocate of a constitutional balanced budget amendment without a tax limitation (Friedman 1978: 10–11), and subsequent

[1]The label “fiscal pragmatists” is taken from Vedder, Gallaway, and Frenze (1991). Although they could include both Democrats and Republicans, in the present context the label refers to Republicans.

versions of a constitutional balanced budget amendment favored by Friedman have indeed included a tax limitation.

The main difference between Friedman and Buchanan is not of substance or philosophy, but of tactics, or emphasis. Buchanan argues that assuming a given amount of taxation, the way to constrain spending is to limit borrowing. Friedman argues that assuming a given amount of borrowing, the way to constrain spending is to limit taxation.

The main shortcoming in Buchanan's analysis is that it ignores the way in which the tax burden is distributed over present-day taxpayers. Buchanan is quite right in observing that the tendency in elective democracy is for government to borrow and spend rather than tax and spend, and to spend much rather than little, and that it is immoral when future generations end up facing a financial burden that is the result of spending and borrowing decisions in which they had no participation. But it does not follow that a constitutional balanced budget requirement will therefore rein in public spending.

To hold down government spending, starve-the-beast proponents count on public outrage over federal budget deficits. Public choice theorists count on outrage over the burden of taxation. But public outrage over the burden of taxation does not occur to the extent that is politically necessary to prevent the enactment of tax increases, due to the steep degree of progression built into the present income tax structure.

Federal individual income tax-return data compiled by the IRS and published periodically by the Joint Economic Committee (2005) show that in the United States in recent decades, progression of the federal individual income tax has increased to where now more than half of all taxpayers pay less than 5 percent of all federal income tax revenues, and half of all federal income tax revenues are paid by less than 5 percent of all taxpayers. In a majoritarian democracy with such a progressive distribution of overall tax revenues, the burden of bloated government spending is not felt by the majority of the electorate, thus undermining the very mechanism by which Buchanan envisions public spending to eventually come down, namely, citizen-taxpayers complaining to their elected representatives about the size of their individual tax burdens.

To be sure, with most of the income tax being paid by only a small percentage of taxpayers, it is likely that those taxpayers will exercise disproportionate political influence compared with their number. Furthermore, in an upwardly mobile economy such as that of the United States, many taxpayers in lower tax brackets today hope to qualify for higher tax brackets tomorrow. Still, the experience of 1990 and 1993 suggests that politicians have little qualms about enacting tax increases. Note further that President Clinton handily won reelection in 1996 in spite of the 1993 tax rate increases.

Of course, one partial solution would be to replace the existing tax structure with a less progressive one, such as a proportional tax system. Indeed, Friedman and Buchanan both favor proportional taxation. But absent enactment of a flat tax, Buchanan's criticism of the starve-the-beast approach is likely to remain moot.

Niskanen expands on Buchanan's argument against the incurrence of public debt (Niskanen 2002, Niskanen and Van Doren 2004, Niskanen 2005, Niskanen 2006). The more present taxpayers are charged for present spending, the less of it they are likely to want. So long as taxpayers can lay the cost of today's spending on future generations, the demand for spending in the present increases. Thus, the best way to curtail spending in the present would be an *increase* in taxes to finance the extra expenses.

Niskanen offers statistical evidence for 1981–2005 that suggests a *negative* relationship between federal receipts and spending: When revenues as a percentage of GDP during a year are low (high), spending as a percentage of GDP during the next year is high (low). For 1949–1980, Niskanen also finds a negative relationship between tax revenues and spending, although it is not statistically significant.

But Niskanen's statistical analysis suffers from a methodological shortcoming. It examines a correlation between taxes in year one and government spending in year two. But that is far too restrictive an assumption to accurately reflect reality. In real life, it may take a prolonged period for public concerns with budget deficits to materialize. The general public is simply not that involved in the minute details of federal government to demand year-over-year adjustments in spending to deficits.

In essence, Niskanen's data show that during the Reagan presidency there were tax cuts but no spending reductions, and that during the Clinton years there were tax increases and spending curtailments. To some extent, this is exactly what starve-the-beast theory predicts: Reagan's tax cuts led to deficits, and the deficits led to the curtailment of government spending. It simply took longer for the public outcry for fiscal discipline to reach critical mass than the one-year period that is assumed in the Niskanen model. The spending discipline of the Clinton years, which Niskanen (2003) attributes in part to a divided government, was in reality also very much caused by a popular uproar over the budget deficits incurred during the Reagan years. This can be seen in, for example, the popularity of 1992 third-party presidential candidate H. Ross Perot, whose main (some would argue sole) political platform issue was the federal deficit.

It would perhaps be more accurate to say that starve-the-beast logic did not work in that the Reagan deficits led to tax increases (e.g., in 1990 and 1993) instead of merely spending reductions. But this argument misses the point. Many of Reagan's tax cuts were indeed offset by a number of tax increases during 1983–93. But as a percentage of GNP, government spending decreased during the second half of the Reagan administration. Without the tax reductions of the 1980s, it is quite reasonable to think that federal spending would have been higher during the 1990s than it actually was. Indeed, during the Clinton presidency, starve-the-beast theory came to be labeled by its liberal opponents as "Reagan's revenge" (Brinkley 1994; Thomas 1994) or, alternatively, "Stockman's revenge" (Stephanopoulos 2000: 387),[2] precisely because tax reductions and budget deficits incurred during the Reagan administration were deemed by the Clinton administration to be the primary obstacle to increasing government spending.

The historical pattern identified by Parkinson ([1960] 1971: 7, 25, 39, 42, 46–47, 61) is that during wartime, taxes are raised to fund an increase in military spending. Then after the war, taxes are not lowered to prewar levels, but instead the extra tax revenues are spent on new forms of nonmilitary public programs. This historical pattern was broken under President Reagan. Niskanen and Moore (1996) have demonstrated that at the margin, the increase in federal borrowing during the Reagan administration almost entirely matched the increase in defense spending during that time. Then after the end of the Cold War, defense spending was decreased during the Clinton administration, and the accumulation of federal deficits prevented a substitution of nonmilitary for military spending.

President George W. Bush followed President Reagan in that the

[2]David Stockman, Director of the Office of Management and Budget during the Reagan administration and initially a supply-sider, is often credited with coining the phrase "starve the beast." But Stockman was not, in fact, a starve-the-beast proponent. Although Stockman, like many others, deemed government, particularly its spending on entitlement programs, to be too large, and as OMB director set out to cut the federal budget, it is not true that Stockman deliberately tried to create federal budget deficits to bring about a reduction in government spending. According to Peterson (2004: 142), in the mid-1980s Stockman spoke of deficits as a "battering ram" on federal spending, but claims the comment was "unusual" and "made in private." Stockman would in subsequent years come to advocate tax *increases* because of his concerns over the federal deficit, when he could not get the spending reductions he wanted. Supporting tax increases is about as far away from the starve-the-beast approach as one can get. Stockman's position may have evolved from supply-side theory to fiscal pragmatism, but not to starve-the-beast theory.

increase in defense spending following the attacks of 9/11 has been financed in part by an increase in federal borrowing instead of an increase in taxation. But the tax rate cuts enacted during the Bush presidency were never intended to follow a starve-the-beast rationale. Lawrence Lindsey (2004), former director of the National Economic Council, suggests that they were meant as an "insurance policy" to ensure continuation of the economic expansion. R. Glenn Hubbard, former chairman of the Council of Economic Advisers, "[does not] believe the President embraces [the starve-the-beast] philosophy" (personal e-mail, 4 March 2006). The "guns *and* butter" critique of the Bush fiscal policies may or may not be on target, but it is not an applicable critique of the starve-the-beast philosophy.

Fiscal Pragmatists

Republican fiscal pragmatists such as Peter Peterson (2004: 140–46, 167–68) and Bruce Bartlett (Bartlett 2005; Bartlett 2006: chaps. 9–10) have also criticized starve-the-beast theory. They argue that budget deficits form a drag on overall economic performance. But they overlook Friedman's point that it is government *spending* that constitutes this drag. To fund a given amount of federal spending, the same amount of financial resources are diverted from the private sector, regardless of whether this is in the form of taxation or borrowing.[3]

More important, fiscal pragmatists criticize starve-the-beast theory because of its apparent acceptance—if not outright encouragement—of open-ended government budget deficits. If government spending does not adjust to lower tax levels, federal budget deficits will be the result, and, if continued indefinitely, will lead to a financially unsustainable situation.

Starve-the-beast proponents counter that in the absence of a constitutional balanced budget amendment, political realities are such that the idea of a balanced federal budget is a fallacy. Barring surprises, there will be a federal budget deficit regardless of how much is taxed. The reason for the permanence of government debt is that the tendency in elective democracy is for politicians to finance government expenditures with borrowing rather than taxation. Indeed, public choice theorists such as Buchanan (2000: 471) agree with starve-the-beast proponents on this preference for debt finance: "The

[3]Although it is true that more resources are diverted in the case of borrowing, namely, those required to meet interest payments, in the short term the amount of the interest payments tends not to be high enough to alter the substance of the analysis here.

most elementary prediction from public choice theory is that in the absence of moral or constitutional constraints democracies will finance some share of current public consumption from debt issue rather than from taxation."

Modern history very much backs up the contention that there will be a deficit no matter how much government taxes. From 1931–2005, a 75-year period, there have been only 12 years with a unified budget surplus. Of these, only five have occurred since 1960: 1969 and 1998–2001.[4] The federal budget surpluses of the late 1990s were, at the time when they occurred, seen as very much a surprise that happened for very specific, nonrecurring reasons, such as the stock market bubble of the 1990s that shifted people into higher than anticipated income tax brackets. Furthermore, for two of those four years—1998 and 2001—the unified budget would not even have been in surplus if not for the surplus in the Social Security trust fund.

The experience of 1990 and 1993 suggests that raising taxes with the intent of closing a budget deficit will not end up closing the deficit, but will instead lead to additional spending. Likewise, reducing tax revenues may initially increase the deficit but will then lead to spending reductions, at least from previously set baseline levels. Criticism of starve-the-beast theory—that it will lead to budget deficits—misses the point. Empirical evidence over the past 75 years strongly suggests that the notion of fiscal pragmatism is clearly an illusion. As soon as the budget is balanced, politicians will increase spending. Reductions in government spending tend to come only from public outcries over the amount of the federal deficit. As soon as the budget is balanced with higher tax revenues, politicians will bring the deficit back up to the amount that is "politically tolerable" (Friedman 2003). But by taxing less, the amounts of taxing, spending, and the deficit will all simply occur at lower numerical levels.

Bartlett (2005) believes that "huge tax increases [will be] inevitable because no one has the guts to seriously cut health spending." He proposes introducing a value-added tax now, presumably not to have to increase marginal income tax rates later. Fiscal pragmatists, at least those who propose tax increases rather than spending reductions to combat government deficits, have thus become far removed from the conservative and libertarian philosophies that favor a small government. It is as if they have given up on a political battle that starve-the-beast proponents continue to fight.

[4]See *Budget of the United States Government, Fiscal Year 2005*, historical Table 1.1 (www.whitehouse.gov/omb/budget/fy2005/sheets/hist01z1.xls).

Starve-the-beast proponents do not advocate budget deficits as an end but, rather, as a means or negotiating device. They would concur with Buchanan's emphasis that "the issue here is one of tactics" (personal correspondence, 12 May 2005). The starve-the-beast approach is a political strategy aimed at counteracting the natural tendencies for government spending and taxation to continually increase. The starve-the-beast approach is by no means perfect, but in an imperfect world the choice is often between less than perfect alternatives. In the words of Friedman (1975: 91): "Those of us who believe that government has reached a size at which it threatens to become our master rather than our servant should therefore (1) oppose any tax increase; (2) press for expenditure cuts; (3) accept large deficits as the lesser of evils."

Starve-the-Beast Reconsidered

Unease with the starve-the-beast approach may be due to the fact that there is an apparent logical inconsistency to the underlying theory. The theory implicitly argues that government budget deficits are not malignant, and yet the public outcry over government debt and deficits on which it is counting is presumably based on a public opinion that budget deficits are, in fact, malignant. But if it is true that budget deficits are not malignant, why would informed public opinion say that they are? Taken to its logical conclusion, starve-the-beast theory may well be removing the very mechanism that it argues causes the curtailment of federal spending—namely, public outcries over budget deficits.

Still, this criticism can be resolved in one of several ways. A little bit of debt may not be malignant in the short term, but a lot of debt may indeed be malignant in the long run. Furthermore, government debt, within limits, may not be economically malignant but is so from a political and especially moral point of view. As noted, Buchanan has argued that public debt is immoral because future generations end up facing a financial burden that is the result of spending and borrowing decisions in which they had no participation. Lastly, government debt—again, within limits—may not be malignant, but the general public may not be sufficiently educated to understand this and so will demand lower budget deficits out of an economic ignorance. Friedman calls this an "invincible ignorance," and believes that although the rationale may not be "logically pretty . . . it is valid" nonetheless (personal correspondence, 1 July 2005).

Conclusion

This article has reviewed criticism of starve-the-beast fiscal theory made by public choice theorists and fiscal pragmatists. Public choice theorists envision public spending to come down when citizen-taxpayers complain to their elected representatives about the size of their individual tax burdens in the absence of federal borrowing. But their argument fails to take into account the degree of progression built into the existing tax system, which means that the burden of government spending is not sufficiently felt by much of the electorate. The fiscal pragmatism argument ignores the case made by public choice theorists that, absent a constitutional balanced budget requirement, the tendency in elective democracy is for government to borrow and spend rather than tax and spend, and to spend much rather than little.

In spite of its inherently controversial nature, starve-the-beast theory makes sense in a world where public-policy choices are often between imperfect alternatives.

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