

Cutting Spending vs. Raising Taxes

TESTIMONY

by

Russ Roberts
Research Fellow
Hoover Institution
Stanford University

Senate Budget Committee Hearing entitled
“Reducing the Deficit by Eliminating
Wasteful Spending in the Tax Code”
Tuesday, March 5, 2013 10:30 am
SD-608 Dirksen Senate Office Building

Russ Roberts is a research fellow at Stanford University’s Hoover Institution. He is the author of three books on market processes and hosts the award-winning weekly podcast EconTalk. His Ph. D. is from the University of Chicago.

Chairman Murray, Ranking Member Sessions, and distinguished members of the Committee:

I am wildly enthusiastic about eliminating wasteful spending in the tax code.

Our tax system should be more transparent, simpler, and fair. We should get rid of special exemptions for the rich, for people with children, for farmers, home owners, and all the other ways that the tax code panders to special interests.

But how we finance government--the structure of the tax system and the mix between taxes and borrowing--is rarely as important as whether government spends money wisely.

It's not just that we spend more than we take in. We spend too much and much of it we spend poorly. Raising taxes doesn't solve that problem--it turns it into the status quo.

In recent years we've ignored the size of government spending because it's tempting to believe that all spending stimulates the economy during times of recession. We're like the alcoholic who thinks that if one glass of red wine a day is good for your heart, then a bottle is even better.

But there's no irrefutable evidence that stimulus spending works. First-rate economists on different sides of the issue cannot convince the other side. Even the Congressional Budget Office has confessed that it's unable to separate out the impact of government spending independently of the changes that occur at the same time.

And it's tempting to see expanding government as an inevitable force for good--more help for children, the disadvantaged, the poor, and the elderly. Who's against helping children, disadvantaged, the poor, and the elderly?

No one. The problem is that a lot of spending goes to people who are merely politically important--rich financial executives, rich

farmers, rich old people who don't need a government retirement program. And much spending is ineffective because it's spent poorly. Spending on education, for example, is not the same as more education. Don't we actually want to help children rather than giving the appearance of helping them?

Sometimes less is more. What would happen if government actually got smaller? Not just a reduction in the rate of growth, but real cuts?

If government spending were to fall, there would be more private spending. But private spending on what? It's natural to think that smaller government means we'll then have more money to spend on ourselves. But we don't just spend our own money on ourselves, as consumers, buying more stuff.

We are also givers. We give our time and money to the causes and communities we cherish.

Consider the Harlem's Children Zone--a \$75 million charitable organization that has transformed the lives of 10,000 children. Roughly 2/3 of their money comes from private donations. Those donations have been made because the public programs we are forced to pay for through taxation have failed those 10,000 children.

We need more Harlem Children Zones. But they're not easy to reproduce. They cannot be replicated simply by spending money, even if that money goes to the exact same activities done by the Harlem's Children Zone. That's like drawing an eagle and expecting your drawing to fly. Wings alone are not enough. Something vital is missing.

Great organizations can't be replicated from the top down. They have to be **grown**. The incentives are the soil that allows an enterprise like the Harlem Children's Zone to thrive. The freedom people have to donate to organizations that work and to stop donating to organizations that don't work.

The founder and head of the Harlem's Children Zone is Geoffrey Canada. To keep his organization alive, he has to make the case that he's doing a good job with his donors' money. He earns the money people give him.

When government gets smaller, you create more room for private organizations to thrive--schools that actually help the poor, programs for the elderly that give meaning to their lives, training programs that work, soup kitchens that don't just feed the homeless but find them jobs. If government spent less, great organizations would find it easier to raise the money to do more.

The alternative to government isn't selfishness. The alternative to government is voluntary cooperation instead of forced cooperation through the tax system.

Make government smaller and you get more private enterprise and more entrepreneurs. But the enterprises that will spring up aren't just commercial enterprises. There will be organizations that help others.

As the Hayek character says in Fight of the Century, my rap video on the stimulus debate written with John Papola:

Give us a chance so we can discover, the most valuable ways to serve one another.

That's what we try to do when we're given the chance. If you're Jeffrey Bezos, you serve others by creating the Kindle. If you're Geoffrey Canada you serve others by creating the Harlem Children's Zone. Both Bezos and Canada are entrepreneurs who get others to cooperate and produce something so much greater than themselves.

The Talmud says in a place where there are no men, strive to be a man. To put it in modern language, in a place where people have no principles, remember yours. In a place where everyone is a coward, be brave. Principles and courage are scarce here in the nation's

capital. We have charted an unsustainable fiscal course--our promises cannot be kept.

Brave men and women of principle of both political parties need to stand up and chart a different course. We can't have everything we want. We can't keep living beyond our means. We have to learn to say no. We need to focus government spending on those activities government does better than the private sector, not just those activities that are politically expedient.

So please stop spending our money on banks and rich farmers, and rich retirees. But the world might be a better place if you spent less on even the best of causes.

Give is a chance so we can discover the most valuable ways to serve one another.