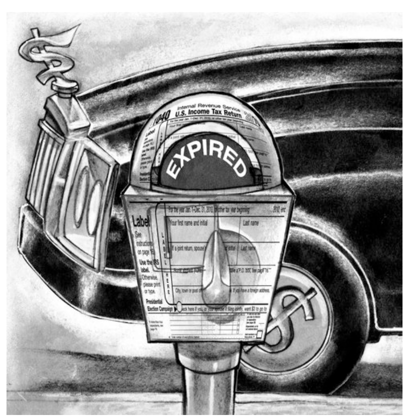
The New York Times
nytimes.com

August 9, 2010

A Gift the Wealthy Don't Need

By ROBERT H. FRANK

A CENTRAL lesson of the Great Depression was that economies mired in deep downturns seldom recover quickly on their own. Consumers won't spend because they're worried about losing their jobs — if they haven't lost them already — and are busy paying down debt. Companies won't invest because they already have more than enough capacity to satisfy existing demand. That leaves government. It's the only remaining actor with both the means and the motive to bolster total spending substantially.



Yet in 2009, when economic stimulus legislation was proposed in Congress, many people insisted that the extra government spending would do no good. They argued that the prospect of big fiscal deficits would cause consumers to save more to meet higher future tax bills, thus offsetting any stimulus effect.

That might have been true of some consumers, but most hadn't been saving nearly enough to begin with. By spending wildly before the downturn, many were content to ignore the prospect of having to eat pet food during retirement. Why would a vague threat of higher tax liabilities at some unspecified future date impel them to save more?

The stimulus that was actually approved was much smaller than the demand shortfall it was meant to address. And now, with the spending beginning to run out, there are troubling signs that the recovery is faltering.

But stimulus opponents — a group that includes most Republicans in Congress and sometimes a handful of Democrats — have gone on to advocate cutting existing programs, like food stamps and Medicare. They have repeatedly blocked extensions of long-term unemployment benefits. Most recently, they have joined European deficit hawks in calling for further spending cuts to prevent national insolvency — a threat that financial markets have discounted.

Now stimulus opponents want to extend the tax cuts of

President George W. Bush — cuts that are scheduled to expire at year-end. Almost all professional economists believe that those cuts have already increased the national debt by hundreds of billions of dollars. Even Alan Greenspan, who supported the tax cuts as chairman of the Federal Reserve, has publicly opposed their extension. The Obama administration wants to eliminate the tax cuts for families earning at least $250,000 a year, and for individuals earning at least $200,000.

Why, then, do stimulus opponents want to keep them? Brace yourself: it's because the economy needs additional stimulus, they say. As the Senate minority leader, Mitch McConnell of Kentucky, said in a recent interview on CNN, "Raising taxes in the middle of a recession is not a good idea."

What might stimulus opponents really want? The common element in their contradictory policy recommendations is that each curbs the scope of government. Neutral observers could reasonably conclude that they are just the latest salvos in a longstanding "starve the beast" strategy. As Grover Norquist, president of an antitax advocacy group, Americans for Tax Reform, colorfully described that strategy on NPR in 2001: "I don't want to abolish government, I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub."

Starve-the-beast proponents have a point. There is waste in government, and by following their wishes, we eliminate some of it. But most government programs exist because voters want them. The ones most likely to be cut are those with the least influential supporters, which are not always the most worthy targets.

Anti-government rhetoric, meanwhile, takes a toll. American prosperity reflects a historical tradition of good government, an advantage we should be loath to squander. But good government doesn't just happen. It must be nurtured. Capable civil servants who take pride in their work are a prerequisite for it, and anti-government talk surely doesn't make it any easier to recruit such people.

EVEN a broken clock is right twice a day, so the notion that starving the beast is a bad strategy doesn't imply that its proponents are wrong about everything. With the economic recovery clearly sputtering, could they be correct to insist that the Bush tax cuts on the wealthy be extended?

Alas, no. All the Bush tax cuts are set to expire on Dec. 31. Because most poor and middle-income families consume their entire income, higher tax rates for those families would indeed deprive the economy of much-needed short-run stimulus. But extending the Bush tax cuts for the wealthiest families would be one of the worst possible ways to stimulate spending. These families typically consume much less than their income. Instead of trying to use up all their savings before they die, most prefer to leave substantial bequests. Letting their tax cuts expire might reduce those bequests, but it will not reduce their current consumption significantly.

It will, however, generate revenue that could be used to bolster spending in a host of ways that would be useful even apart from the stimulus effects. Because state and local government budgets are in shambles, hundreds of teachers, police officers and firefighters are being laid off every week. Federal grants could keep them on the job.

States around the country have also been allowing thousands of miles of asphalt roads to deteriorate back to gravel, even as skilled workers and heavy equipment stand idly by. The eventual bill for repaving those roads will add much more to deficits than if we had maintained them properly in the first place.

To bolster current spending without adding more to deficits than necessary, we have no better option than to let the Bush tax cuts on the wealthy expire as scheduled.

Robert H. Frank is an economics professor at the Johnson Graduate School of Management at Cornell University.