

## We need to ban the evil Santas

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'Tis the season to tell stories of Santa Claus. Not jolly old Saint Nick, who delights children, but the two Santa Clauses who borrow from children to give gifts to their parents.

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The two Santas came to Washington in 2000 and threaten to never leave. If we don't send them packing, Christmas Future could be very bleak indeed.

Supply-side icon Jude Wanniski came up with the idea of the two Santas as a way to revive the Republican Party in the 1970s. He argued that the Democratic Party won elections because it always played Santa -- promising more and more new government programs without worrying about who would pay for them.

Republicans back then were the party of fiscal responsibility, playing Scrooge to the Democrats' Santa. Mr. Wanniski forgot that Republican Richard M. Nixon expanded both the social safety net and the military, and that Republican Dwight D. Eisenhower created the national highway system. But his simple explanation for why the Democrats had controlled Congress for so long resonated with his audience.

Mr. Wanniski told the Republicans that if the Democrats were going to play Santa, the Republicans had to be Santa, too. When the Democrats promised more spending, the Republicans should promise lower taxes. And, for heaven's sake, don't worry about the deficit.

Mr. Wanniski believed in many magical things -- not just two Santa Clauses, but also supply-side economics. He thought that if the Republicans cut taxes, tax revenue would rise. Tax cuts would pay for themselves, the budget would be balanced, and Republicans would win.

Republicans never really tried Mr. Wanniski's prescription until George W. Bush took the White House in 2001. Ronald Reagan ran on a platform of tax cuts, but backed off when the deficit exploded and interest rates spiked. In 1990, the first George Bush famously raised taxes in an attempt to tame the deficit -- and paid the ultimate political price in the 1992 election.

President Clinton (who had Santa's twinkling eyes, rosy cheeks, and jelly belly) might have wanted to spend more; and the congressional Republicans, led by Newt Gingrich (not a Dr. Seuss character), desperately wanted to cut taxes. Instead of compromising on a giant underfunded government, those two Santas fought to a stalemate and created the first budget surpluses in a generation.

But both parties embraced the "two Santa theory" in the 2000 presidential election. Al Gore promised lots of new spending and big tax cuts. Mr. Bush promised an expanded role for government in education and much bigger tax cuts than Mr. Gore.

The era of surpluses died because the younger Mr. Bush was not about to repeat his dad's mistake. His vice president (a dead ringer for the Grinch) growled that "deficits don't matter." Mr. Bush cut taxes by trillions of dollars while creating a huge prescription drug entitlement program, waging two wars, and increasing nondefense discretionary spending even faster than Mr. Clinton.

Mr. Bush left office with a burgeoning deficit and record-low approval ratings, but both sides continued to embrace the two Santa theory.

Candidate Barack Obama criticized Mr. Bush's fiscal profligacy, but proposed new spending programs and tax cuts that would have increased the deficit almost as much as Mr. Bush's policies. Candidate John McCain was more restrained on spending, but his humongous income tax cuts would have led to even larger deficits.

As an economist, I have no problem with big deficits during a recession -- especially one that threatens to repeat the Great Depression. Those deficits are a necessary evil.

But it's past time to run the evil Santas out of Washington. Tax cuts don't pay for themselves. And cutting federal revenues does not restrain the growth of spending (another baseless theory used to justify tax cuts). Instead, tax cuts create the illusion that government services can be purchased at a discount. As Cato Institute President Bill Niskanen has pointed out, that has led to more government, not less.

Democrats have figured this out. It's a lot easier to expand government if nobody seems to have to pay the price. To his credit, Mr. Obama has insisted that his major domestic initiative -- health reform -- be offset by

spending cuts and tax increases, but he did not impose the same standard on his new tax cuts. And Democratic activists deride those who lobby for fiscal sanity as "budget scolds" (or worse) because they fear that honest arithmetic will undermine their agenda.

There might even be a third Santa this time around -- China. It contributes to the illusion that deficits cost nothing by lending our government as much as it needs at interest rates near zero. But, like the tax-cut and spending Santas, the lending Santa is no benevolent elf. Chinese and other foreign lending fuels our purchases of imports, propping up their economies. They don't care that we are mortgaging our childrens' future.

But we should care. Give our children a real Christmas gift and banish the evil Santas.

Happy holidays.

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