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The Flat Tax: Revitalizing the American Dream

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THE FLAT TAX:
REVITALIZING
THE AMERICAN DREAM

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THE FLAT TAX: REVITALIZING THE AMERICAN DREAM

WALTER WILLIAMS: I'm going to talk about the morality of taxation and, of course, the flat tax. While we're talking about taxation, I am going to spend most of my time raising some moral issues involved with taxation in general. Whether we like to think of it as such, our fiscal problems, as well as many other problems in our country, are rooted in immoral government conduct.

Let me start by referring to the United States Constitution, what I prefer to call the "citizen's rule book." To say something meaningful about taxation, one must also say something about expenditures, and Article 1, Section 8 of our Constitution is very relevant to today's discussion. Article 1, Section 8 begins by granting Congress authority to lay and collect taxes. In the passages that follow, if you read carefully, Article 1, Section 8 enumerates a broad range of about 19 activities for which Congress can use its taxing authority. These 19 activities, for those of us who have not bothered to read the Constitution lately, include a common defense, the coining of money, and the establishment of post offices and courts, among other things.

I have not done the numbers on this, but I am guessing that the amount of money necessary for Congress to pay for these constitutionally authorized functions of the federal government would come to no more than \$400 billion or so at the most. Obviously, that amount differs significantly from today's expenditure level of \$1.6 trillion, and even that \$1.6 trillion does not capture the total spending because we have the underground federal government, the so-called off-budget expenditures, as well as government-mandated spending by citizens, such as Americans with Disabilities Act, Occupational Safety and Health Administration, and Environmental Protection Agency dictates.

I do not believe that we can restore government to its proper role in a free society by focusing our energies only on the taxation part of the equation. In saying this, I in no way wish to demean the yeoman-like efforts of all those who have worked to come up with a better method of taxation. But I see much of the debate between the flat tax and the national sales tax or our current tax code as boiling down to a question of which is the best way for government to subjugate its citizens (although this is not a meaningless question, because if we have to accept subjugation, I suppose some forms are better than others).

The debate over what form of taxation we should have somewhat legitimates the level of government spending; and I have always argued, as a number of colleagues have, that it is spending, not taxation, that is the true measure of the burden of government. You see this by recognizing that there is no necessary reason why government has to tax in the first place. At one extreme, Congress could raise all the resources it needed simply by printing currency, or could borrow and require its citizens and other entities to hold a portion of their holdings in government securities, as is done in some countries. Of course, there would be severe problems associated with either one of these methods of taxation, but the bottom-line point is that government spending, not taxation, is the proper measure of government activity, and that is the major problem that needs to be addressed.

Throughout most of our nation's history, up to the beginning of the 20th century, the federal government spent no more than 3 or 4 percent of GNP, except during wartime. It did not make much difference what form of taxation supported federal government activity. In fact, excise taxes carried the burden. But even during this interval, and even if we had had today's

income tax code, there would not have been much of a problem raising 3 or 4 percent of GNP. Almost any kind of tax system would not have much of a problem raising 3 or 4 percent of GNP. I am sure that if that were still the case, we would not be gathered here today to discuss substituting a flat tax for the current code.

Some people might ask, and some Congressmen might ask, what forms of congressional spending should be cut so that we would not have to worry about the form of taxation. A French philosopher, Frederic Bastiat, gave us the best guide in a little book called *The Law*, wherein he suggested a way of identifying legal plunder. Bastiat said—and you can think about our government while I am reading this quote—“See if the law takes from some persons what belongs to them and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what that citizen himself cannot do without committing a crime.”

Clearly, at least two-thirds of federal spending fits Bastiat’s description of legal plunder, what I prefer to call legalized theft. If we eliminated legal plunder from the scope of congressional activity, the form of taxation could easily be a non-issue; that is, getting us back to 3 or 4 percent of the GNP. Some may wish to quarrel with my description of Congress’s business as being that of legal plunder, but just ask yourself: How does Congress get the money for farm subsidy programs, the savings and loan bailout, food stamps, and the like? Clearly, it uses intimidation, threats, and coercion to take what rightfully belongs to one citizen and give it to another to whom it does not belong.

If you think I’m being too loose with terminology about intimidation, threats, and coercion, think about April 15. The mission of virtually every Cabinet department in this city is to distribute the loot that Congress collects. There is neither moral nor constitutional authority for Congress to commit plunder. That is the moral issue that we need to address.

Turning to the Arme y-Shelby flat tax proposal, notwithstanding what I have argued so far, there are some benefits to its enactment. First, it would reduce Congress’s ability to grant one group of Americans special tax privileges that are denied to another group of Americans. The House Ways and Means Committee and the Senate Finance Committee are two of the most powerful committees in Congress. Their members have the largest political war chest, and the reason is that they are the focus of Washington’s lobbying groups, who pay handsomely and work diligently to have favors bestowed upon them. The Arme y-Shelby flat tax plan would go a long way toward eliminating privilege-granting by the United States Congress, and that may explain some of the political resistance to having a flat tax.

Another benefit of the Arme y-Shelby flat tax is lower compliance costs. According to various estimates, the compliance costs of our current code include the 5.5 billion to 6 billion hours Americans spend on such activity as recordkeeping, filling out tax forms, going to court, and seeking ways to avoid taxes. The Arme y-Shelby flat tax would create a GNP windfall because if Americans were spending those tax compliance hours in productive activity, the country would be considerably richer. Current tax compliance costs are estimated to be equal to the entire annual output of the automobile and truck and aircraft industries combined.

As evidenced by my remarks, I am a purist—what the news media, and maybe even some of you, might call an extremist. But I am not such a purist that I cannot see that a flat tax is a major improvement over the status quo.

If a flat tax is enacted, however, there should be an additional paragraph in the law requiring a supermajority, say four-fifths, to raise it and a simple majority to decrease it. Like the Framers of our Constitution, I do not trust the Congress of the United States. With the current complex tax code, there are numerous legal ways to hide our money from the revenueurs.

With a simple flat tax, those hideaways would be eliminated. Then, if Congress raised taxes, we would be up that proverbial creek without a paddle.

J. KENNETH BLACKWELL: *The New York Times*, in a 1909 editorial opposing the very first income tax, predicted that when men get in the habit of helping themselves to the property of others, they cannot easily be cured of it. The history of our tax code, in economic terms, mirrors the course of most addictions: first, advancing dependence; second, diminished returns; and third, deteriorating health of the afflicted.

The 1.9 percent rate of economic growth experienced by the U.S. economy is not an accident. It is caused in large measure by a tax code that is impossibly complex, overly intrusive, manifestly unfair, and economically destructive. While some people oppose tax increases or favor tax reductions simply because they want to maintain or enhance their disposable income, I favor constraining government taxation because of the negative impact it has on economic growth.

Higher taxes mean lower rates of growth in income and jobs over time. This has been amply demonstrated in dozens of scholarly studies. Perhaps the most exhaustive recent study was performed by Dr. Richard Vedder of Ohio University for the Joint Economic Committee of Congress. Looking at the tax history and economic performance of 50 American states for the period 1960 to 1993, Professor Vedder concluded that relatively low-tax states grew nearly one-third faster than high-tax states.

Income taxes have a particularly adverse impact on income growth. Flat rate income taxes are significantly more favorable to economic growth than progressive taxes. Perhaps income in flat rate income tax states grew about 25 percent faster than did personal income in states with progressive tax structures. Professor Vedder lists over 50 other studies that similarly conclude that taxes adversely impact economic performance, whether measured by income growth, job creation, new business startups, or population change. These studies look at areas within the U.S. during a given period of time or, in many cases, at other countries.

For example, one study of 107 nations by researchers at the National Bureau of Economic Research concluded, "We find that a balanced budget increase in government spending and taxation is predicted to reduce output growth rates." Given that, it is desirable to provide a legal framework for fiscal policymaking in Washington that removes the bias that exists in the current system in favor of relatively large government and, thus, high taxation. Special-interest groups can and do use their concentrated financial and political power to overcome the general interest on a continuous basis, leading to spending in excess of desirable levels, as Walter has just demonstrated. By making it more difficult to tax the populace, we can reduce the fiscal drag on our long-term economic performance that high federal taxation imposes. This is a strong argument for a supermajority requirement for legislative approval of tax increases.

The current federal tax system provides perverse economic incentives to states and local governments. Because state and local income tax payments are deductible against federal adjusted income, state governments are encouraged to levy income rather than other forms of taxes or no taxes at all. Consider two otherwise identical families, both making \$75,000 in income, one living in New York and the other living in Texas or Florida. The New York family probably pays \$4,000 or more in state and local income taxes, while the Florida or Texas counterpart pays nothing. Because of federal tax deductibility, the New York family probably will pay close to \$1,000 less in federal income taxes.

This is terribly unfair. It violates the concept of horizontal equity, a concept that says that people of similar economic circumstances should pay similar taxes. Beyond that, however, the

federal government is subsidizing the citizens of states that engage in very high-tax policies, shown by Professor Vedder and many others to be so destructive of economic growth. The elimination or reduction of that federal deductibility, such as would occur with a pure flat tax, would increase pressures on high-tax states to reduce their income taxes, which would spur economic growth, something that most states in this union desperately need and desire. This, in addition to the economic stimulus that would come from lowering the federal marginal income tax rates, would be a tremendous boon to our nation's economy.

Moreover, the move to a lower, flat rate federal income tax fits with another theme that virtually everyone in both political parties is supporting, at least rhetorically: the devolution of power back to the states. The current tax code says, in effect, that Washington knows best. States that have high income taxes are considered good, progressive jurisdictions, so Washington rewards their citizens with lower taxes. States that raise revenues more by sales taxes, excise taxes, or user fees are punished relative to states that use high income or property levies. Rather than being neutral on state fiscal policy, Washington is trying to use financial incentives to dictate the nature of taxation.

What is particularly perverse about this is that the form of taxation Washington is trying to dictate has a particularly adverse impact on growth. Washington is telling the states to tax the production of goods, or the resources used to produce goods, rather than the consumption of income. That is economically wrong; it is inconsistent with empowering states and local governments to do what they feel is best for their citizens. We have an opportunity in this public policy-defining year to set the record straight: to junk the present tax code and replace it with a tax code that positions us for the 21st century.

When I was 14, I thought I was God's gift to amateur boxing. I won my first four bouts with relative ease. The fifth bout, I got hit so hard in the nose that I had to go home and tell my father that I was going to find a more scholarly career to pursue. I stayed away from the boxing arena until I was a freshman at Xavier University, where Father E. J. O'Connor, a 72-year-old Jesuit, would ask me and a friend of mine, Benji, if we would go to the amateur bouts with him at the old Cincinnati Gardens. We went out and watched 10 bouts. The 11th bout, a young boy from the western side of Cincinnati, also of Irish-Catholic heritage, came out and, before his fight, made the sign of the cross. Benji leaned over and said, "Father, what's the significance of that?" Father said, "Tiger, it ain't enough if you can't fight."

I would suggest to you that it is time for us, as the revolutionaries at the grass roots, to move beyond lip service and get into action, put some muscle behind our rhetoric, and make sure that the Congress of the United States creates a tax code and a tax structure that spur economic growth, create jobs, and promote hope and opportunity.

JOHN FUND: Two dates are very significant to Americans every spring. One, of course, is April 15, when Americans have to wade through all of their tax forms and fill them out. The other one is May 6, which is Tax Freedom Day. That is the day when the average American family will have earned enough to pay its federal, state, and local taxes and begin keeping money for food, clothing, shelter, and all of the things that keep body and soul together.

The two dates are linked because we have the tax system that we have, because it is overly complex, and because it raises far too much money. Right now, only 29 percent of Americans fill out the tax form that requires itemization; 52 percent of Americans actually have to go and pay someone, a professional, to fill out those forms for them. If you fill out the form 1040, 66 percent of Americans have to pay a professional. There is something wrong with a tax system which requires people to get somebody with an accountant's training to fill out a tax form for them.

If you go further and look at its intrusiveness, the IRS employs 111,000 people. That is more people than work for the FBI; that is more people than work for the Border Patrol; that is more people than work for the Drug Enforcement Administration, the CIA, and the National Security Agency all combined. It is an enormous apparatus. It is said that perhaps the least believable thing you can say in this country is "I'm from the government, and I'm here to help you." Well, perhaps the most believable thing someone can say in this country is "I'm from the IRS, and I'm here to hurt you."

Everyone across both political parties recognizes that this system is broken, cannot be fixed, and is irredeemable. House Minority Leader Dick Gephardt put it, I think, better than anyone: The tax system has become a test of legal brainpower and the ability of accountants to conduct a treasure hunt for hidden deductions and tax breaks. Our tax code has become a dense fog of incentives, inducements, and penalties that distort the most basic economic decisions, constrain the free market, and make it hard for Americans to run their own lives.

The IRS has become the very symbol of what is wrong with the American government. In order to clean it up, proposals are laid on the table like the flat tax. The flat tax is a way to shrink the IRS from the monolithic and intractable bureau it is today to a simple clearing-house of information.

The flat tax as a concept, of course, is enormously popular. The flat tax was attacked mercilessly by almost every candidate in the Republican Party because it was the proposal by Steve Forbes that was most identified with his candidacy. In order to attack Steve Forbes and slow his momentum, you had to attack the flat tax. But the exit polls which were taken as Republican primary voters left the polling booth found that in 18 out of 22 primary states, the flat tax was still supported by a majority or plurality of people voting in those primaries. It received the equivalent of a political mugging, but it is still standing and walking around.

There are a lot of people who say the flat tax is a far distant goal. Well, not if you look in contemporary political terms. The flat tax was introduced to the American people on the editorial page of *The Wall Street Journal* on March 25, 1981, just over 15 years ago, in a famous essay by Bob Hall and Alvin Rabushka called "The Attraction of a Flat Rate System." It has picked up adherents ever since. There are now two books on the bestseller list that discuss the flat tax, one by House Majority Leader Dick Armey. It is gathering momentum.

It is not surprising that it has taken us 15 years to get this far. I think Mr. Blackwell mentioned the first income tax. That was not really the first income tax; that was the first income tax that actually stuck. The first income tax was a peacetime income tax that came about in 1894. It was ruled unconstitutional by the Supreme Court, which said that you had to have a constitutional amendment to have such a tax. That effort took from 1894 to 1913, when we passed the Sixteenth Amendment—19 years; that is about how long it takes an idea that has irresistible political support behind it to come to realization in America. So I'm not surprised it has taken us 15 years to get this far. At the same time, I also would not be surprised if it takes us only four or five more years to achieve something like the flat tax, because this system is broken and is reaching a critical state of collapse.

There is another proposal on the table which I think is as significant as the flat tax, and which will be voted on in the House of Representatives on April 15. It has been referred to as the supermajority for raising taxes. This would mean that, as 10 or 11 states now do, you would require two-thirds of the House of Representatives and the U.S. Senate to pass a general tax increase. This is an insurance policy to make certain that, once again, the Constitution will have shape and form and will carry with it the force of law. As it is right now, the Constitution has been interpreted virtually into nothingness, as I think Walter Williams indicates.

We need something more dramatic than what the Founding Fathers envisioned. We need the supermajority, the two-thirds, to raise taxes. Couple that with a simple flat rate system and I think you will have a powerful engine for economic growth, a powerful engine for simplifying people's lives, and a powerful blow for civil liberties in this country. If we achieve either or both of these goals, the supermajority or the flat tax, I think there will come a day when the American people can say that April 15, more or less, is just like any other day—and wouldn't that be a blessed relief?

STEVE FORBES: It is good to be here today, to see the flat tax discussed in an environment where you are seeking after truth rather than sound bites. I hope it is a theme that others will be picking up in the fall.

Everything we proposed in this year's presidential campaign, particularly the flat tax, had as its purpose—it sounds like a cliché, but it's the truth—to help realize the American dream, which in its essence allows all of us the chance to discover and develop to the fullest our God-given talents. Anything that stands in the way of that, we resisted. Anything that promotes it, we supported. The flat tax is the first of many critical issues that came out of the campaign that will make it possible for America to realize its full potential—as a people and as a nation.

One of the things that pundits occasionally do, and historians will do forever, is discuss why Americans were in a sour mood in the 1990s. After all, the standard of living, by any objective measure, is a bit higher than it was in the 1970s or even parts of the 1980s; we did win the 40-year Cold War; we are living longer; the world is looking to the U.S. for leadership. So why are we in a sour mood?

The answer is simple: We are not fulfilling our potential as a people and as a nation. One of the dangers of this era is that it will be known as the era of missed opportunities. Never in history, and certainly in the 20th century for this country, has a nation had a chance to do more things of a positive nature at home and to be an example of good overseas. Even in 1914, before the first World War, we were simply one of a number of powers in the world. People did look to us, but they looked to other nations and empires as well.

When the 20th century began, people felt that in spite of all of the problems in the world, this would be an age of material abundance. The rule of law would advance. Even autocratic Russia was beginning to lumber—haltingly, fitfully, but in the right direction—toward a constitutional monarchy. Then came the First World War. The devastation of that seemingly senseless loss of life undermined, in the minds of many, the foundations of Western civilization. The rise of communism in Russia, fascism in Italy, and Nazism in Germany following the First World War helped plant the seeds of the Great Depression and, of course, the Second World War. Now, with the Cold War over, we once again have a chance, at least in spirit, to go back to the optimism that began this century.

In America today is this mindset that we can't grow economically more than 2 percent or 2.5 percent, which is absolutely preposterous. Overseas, countries are looking to us. They want to know: How do we make the transition to a free-market economy? How do we make it possible for liberty to sink real roots and not be uprooted as happened in the aftermath of World War I?

We should keep in mind, for example, that in the 1920s and early 1930s democracy was the prevalent form of government in much of the world. Yet, without external aggression, simply because of internal weakness and because the world did not create an environment to make it possible for democracy to sink real roots, democracy in Europe collapsed almost everywhere—Central Europe, Lithuania, Latvia, Estonia, Poland, Bulgaria, Romania, Hungary, Greece, Tur-

key, and Italy. Everywhere you looked, most ominously in Germany and then in Asia because of Japan, democracy quickly collapsed.

Today we have an opportunity, not for a New World Order where we have direction from above, but to liberate the imagination and energies of people around the world. They are looking for guidance on how to do it, and we have so far failed abysmally in being an example of good—not only at home but also overseas.

So the flat tax is a means to an end. This is something that I think our brethren on Capitol Hill have to get used to: that when they explain the issues, such as balancing the budget, they must never forget that the balanced budget is not simply a goal unto itself. It is a means to an end. Otherwise, we sound like accountants looking at numbers as numbers and not as representing real people dealing with real-life problems. That is why the Republicans lost the moral high ground last fall in the confrontation with the White House, and now we have to get that moral high ground back again.

The flat tax is the first means to revitalizing the American dream. It is no secret to most of you in this room that the tax code today is a monstrous deadweight on American life. It is the principal reason why two incomes in the family can't do the job that one income did in previous generations. As many of you know, a typical family today pays eight times as much in federal income tax on each dollar of income as a typical family did 40 years ago.

You see the effects of this deadweight in our slow-growth economy. It's not just because the Federal Reserve believes in the crazy Phillips curve that we can't grow more than 2.5 percent without triggering inflation. It is because taxes are not only a means of collecting revenue; taxes are also a price we pay: A tax on income, a tax on profit, a tax on capital gains is a price we pay for working; a price we pay for being innovative, imaginative, and successful. And as we know, when the price of those good things is too high, we are going to get less of them; when the price is lower, we get more of them.

Yet that seemingly simple insight is lost in policymaking circles in this town. When the Republicans took control of Congress a little over a year ago, they had a chance to get a dynamic model in place in the Congressional Budget Office, but instead they let the opportunity pass by. I remember before I got into the race, when I was with Empower America, I asked one of my opponents, "Why aren't you going for some form of dynamic model?" "Well, Steve," he said in a tone that only a professor could adopt with a wayward student, "if we keep this old model, that means in order to get tax cuts, we're gonna have to cut spending even more." He didn't realize that without a dynamic model, you'll get the tax cuts, but at the end of the day you won't get the spending changes as well.

What the Republicans must remember—if they ever knew it—is that if you are going to get long-term changes in Washington, if you're ever going to get serious cuts in spending, serious downsizing and reorganization of government, you must have an environment where fear is not prevalent, where people see that their lives are dramatically improving, that opportunities are there. Then voters will give you the political capital if you wish to use that capital to make those difficult long-term changes. That simple insight is seemingly lost in too many quarters of our party: You will not get economic growth unless you get rid of these high tax rates, and the most effective, dramatic way to get rid of them is with the flat tax.

But the tax code is also the principal source of power in Washington. For a couple of generations now the favorite activity has been trading loopholes, trading favors for political support and contributions. All you have to do is look at those graphs in Dan Mitchell's book to see what members of tax-writing committees get in contributions versus what their brethren on

other committees in Congress get.¹ The same thing is true of the state legislatures. The current tax code is the principal source of political pollution and corruption in Washington.

Today, as we all know, even the tax collector doesn't understand what's in the tax code. Half the time, if you call the IRS, even the IRS doesn't know what's in there; but if you take the IRS's advice and it's wrong, you're held responsible for it.

I liked to point out in my campaign that the Gettysburg Address is a little over 200 words; the American Declaration of Independence, 1,300 words; the Holy Bible, 773,000 words; the federal income tax code, 7 million words and rising. That puts the tax code in perspective. There's no way to "ER" this thing. You can't reform it. You really can't cut around the edges. The only thing you can do with this monstrosity is to scrap it, drive a stake through it, bury it, and hope it never rises again to terrorize the American taxpayer. There is no other way.

Let me briefly outline what my flat tax plan is. One of the most astonishing things that came out of this campaign was what people thought my plan was or what it was reported to be—not what it actually was.

The great virtue of the flat tax, in addition to its simplicity, is that it has generous exemptions for adults and children. An adult, for example, would get a \$13,000 tax deduction; each child, \$5,000. Also, the flat tax is a tax cut; I'll state that up front. When you're on the campaign trail, reporters expect you to say this isn't revenue neutral. No, my plan is not revenue neutral. And they ask with horror, "Why isn't it revenue neutral?"

"Revenue neutral" gets to the heart of the problem: the attitude that the nation exists to feed the appetite of Washington. What I tried to make clear on the campaign trail was that there are occasions when Washington should have to adjust to the needs of the nation, and under my flat tax plan, it would do just that. With generous exemptions—\$13,000 for an adult, \$5,000 for each child—for the first time since withholding was invented in 1942, millions of Americans would be removed from the federal income tax rolls.

With those exemptions, for example, a couple would pay no tax on their first \$26,000 of income. For a family of four with two kids, it would be the first \$36,000. With three kids, it would be \$41,000. There are not many families of four in America, outside of a few major centers, that would have \$36,000 of tax deductions under the current system. So the flat tax would remove millions of people.

Any income above those exemptions would be taxed at a simple flat rate of 17 percent. There would be no tax on the personal level—on your pension, Social Security, personal savings, capital gains, or inheritance. For business, it would be equally simple. Obviously, the transition issues are much more complicated; it would take several years to phase in, especially on the business side. But once it was phased in, you would have a 17 percent rate on the net, and then investments would be written off, expensed in year one: no more ever-changing, complicated depreciation schedules. It makes no sense in this high-tech, information, micro-chip age for Congress, the IRS, the tax courts, or the government as a whole to dictate to entrepreneurs and executives the life of an asset—to put an arbitrary life on an asset. That should be a business decision, not the government's.

That is, in essence, the flat tax, or my version of it. The good points of it I thought were self-evident. With that 17 percent rate, we'd get a true boom in the economy—one that would

1 Daniel J. Mitchell, *The Flat Tax: Freedom, Fairness, Jobs, and Growth* (Washington, D.C.: Regnery Publishing, Inc., 1996).

dwarf even that of the early 1960s when we had growth rates that people today would say are impossible to achieve. In the early 1960s through the mid-1960s up to the Vietnam War, the economy grew almost 5 percent in real terms. That is the kind of growth rate, given the fundamentals of America today, that I think we can achieve again, not forever, but for several years as we begin to bring our new technologies on-line.

The flat tax is also a fair system because if you make more, you pay more. It is also postcard simple, which was, I thought, a very attractive feature. It is also honest; it rips away the principal source of political pollution and corruption in the nation's capital; and if we can do that in D.C., I guarantee you, you'll quickly do it in most of the 50 states.

What, then, were the arguments against something that would do so much good for America? I hate to repeat them here, because many of you know that they are not really valid, but we will be hit with these arguments as this debate heats up.

First, critics said the flat tax would hurt or clobber housing. Only in Washington would people believe that a pro-growth overhaul of the tax code would somehow be a disaster for housing. After all, you get to keep more of what you earn, you don't have your personal savings taxed, so it's easier to put together a downpayment for a house. Even the Clinton Treasury Department acknowledges that the flat tax would mean lower interest rates, which would translate into lower mortgage rates. And realtors know that the principal determinant of a person's or couple's buying a house is the monthly payment. That is the key factor, and with lower interest rates you would have even lower monthly payments.

Put these three factors together—more money in the pocket (not to mention the opportunity for better-paying jobs in the future), an easier-to-put-together downpayment, and lower monthly mortgage payments. How is that a disaster for housing? No one ever explained it to me, certainly not the realtors. The bogus study they drew on came from one of *Forbes* magazine's competitors. I will admit I have a vested interest in downgrading DRI/McGraw-Hill, but, in the study they assumed a flat tax rate of 22 percent to 25 percent, not the 17 percent I was talking about.

Critics said it would be bad for charities. The blunt fact of the matter is that in America, when people have more, they give more. With a flat tax, we'd have more and would be persuaded to give more. The United States is known as a charitable, generous nation; Alexis de Tocqueville talked about it 160 years ago, long before we had a federal income tax.

Nay-sayers said it would be bad for municipal bond holders because other forms of debt would not be taxed directly to individuals and this would be bad for municipal bonds. No, it would not hurt the price of municipal bonds. When the general level of interest rates goes down, it does not hurt the principle value of municipal bonds.

What it would mean—and this is what the issuers of municipal bonds hated—is more accountability. You know and I know that when you buy a munibond, the only thing you want to know about is does it have a good rating, does it have insurance. Then you buy it. You don't look very hard at what's behind that bond. Well, the issuers of munibonds would not have that advantage anymore, and those products would get the same kind of examination that other forms of debt get—not a bad thing in terms of political accountability. But in terms of hurting the principle value of the bonds, it wouldn't. If anything, once the flat tax was in place, the price of municipal bonds would probably go up a little bit. What's wrong with that?

Then the carpers said it would hurt the middle class. Somebody just showed me an item from Sunday's *Washington Times*. Dick Gephardt is flogging that crazy notion again. He says Dick Arney's plan, which is not much different from mine, will hurt the middle class, raise its

taxes several thousand dollars. You know how they can make that statement? They assume that it will be a flat 17 percent rate on all your income. No exemptions; they leave out the \$36,000 of exemptions (in Arme y's case, the first \$31,000 or \$33,000 of exemptions). They leave that out. So a family of four making \$45,000 a year, according to Dick Gephardt, would owe a tax of \$7,000. You know what the real tax would be under my variation of the flat tax? About \$1,600. Under Dick Arme y's, \$2,000. Millions of people would be removed from the tax rolls, but that fact also got lost in the shuffle during the campaign.

Critics said the flat tax would give advantages to rich people, because investment income would not be taxed. As you know, investment income would be taxed, only it would be taxed at the source, at the corporate level. Now, why it was considered populist to say that businesses should not write the checks to the government, that individuals should write the checks to the government, I have not been able to figure out. To give business the tax break, but not the individual, somehow was seen as liberal. Even Pat Buchanan was talking about lounge lizards in Miami getting these breaks.

For those of you not familiar with the arguments, let me reassure you: Investment income is taxed, only it's taxed at the business level. Businesses write the checks to the IRS, which means the IRS gets the money sooner. Because it's taxed at the source, it also means you get it more efficiently and faster.

It's like withholding on your paycheck. When you get a paycheck, your employer takes out, or withholds, all of your taxes, all your payroll taxes, and you get the remainder. The rest is siphoned off, sent to the IRS. The same thing is true for investment income, only in this case the business withholds the 17 percent and writes the check to the IRS. Whatever the company decides to give its shareholders, the taxes on that amount already have been paid. It's taxed at the source, taxed once, taxed more efficiently.

During the campaign, this was made to sound as if it were going to be a giveaway to the rich, a disaster that would destroy the middle class. Actually, it would revive the so-called middle class, which, thankfully, in America is not static; its members are changing all the time.

The final argument has great resonance within my party, the Republican Party: that a flat tax would hurt the deficit. Again, you have to remember that the flat tax is a means to an end, just as deficit reduction is a means to an end. My own view is that the flat tax is the only way we're ever going to get Washington's finances reformed, because only if you have a vibrant, growing economy, as I said earlier, will you have the political capital to make those difficult changes.

The deficit would be eliminated, even by the way Washington keeps its books — which is a disaster — because you would have great growth. I think we could get 5 percent growth for several years. You would have more compliance. Even with the convoluted tax code today, whenever tax rates are reduced, compliance goes up.

There would be the efficiency factor: We spend, depending on whose numbers you use, \$100 billion to \$103 billion a year just complying with the tax code. We spend up to 6 billion hours a year just filling out tax forms. Already, at least in quality of life, our lives would improve. We would have a couple of extra billion hours a year for doing other things. You would have that efficiency factor in the economy as well, with people able to do more productive things—at least more satisfying things—than coping with tax forms.

And finally, with lower interest rates, you would pay less on the national debt. Not only would people have lower mortgage payments, but also there would be less owed on the national debt, which would also take some pressure off the federal deficit.

So whatever the arguments are—whether it’s housing, charities, munibonds, the middle class, deficits, or something else—there are good answers to them. It was remarkable during the campaign that, despite the drumbeat of criticism, exit polls showed that in the primaries a plurality or majority of the voters were still in favor of the flat tax. That shows that information can get through some very distorted or polluted filters.

Let me close by quickly touching on how we got this tax monstrosity and what a unique opportunity we have to fundamentally overhaul the tax code. The background is very simple. Today’s government is primarily a result of the wars that we had to fight in this century. Warfare is a centralizing force. In order to face the external threat, a country has to mobilize the resources of its society. And, with very few exceptions, for the last 80 years, America has faced a major external threat of one sort or another.

When the income tax was introduced in 1913, what was the top rate? Six percent? When did you hit the first 1 percent bracket? I think you had to earn the equivalent of today’s six-figure income before you became even eligible for the income tax. Yet five to six years later, because of World War I, what was the top rate? Over 70 percent. After World War I lawmakers said, “We can’t reduce these rates because it would hurt the budget deficit.”

Fortunately, in the 1920s we got Republican Presidents, Harding and Coolidge and a Treasury Secretary, all vilified by the history books, who reduced tax rates to a top rate of 25 percent. But we got a piece of economic warfare: The Smoot-Hawley tariff. It and other policies waged trade and currency war against the rest of the world, and that led to the massive tax increases of 1932.

No sooner did the New Deal wind down than we had the Second World War, which, of course, was a great centralizing event in this nation’s history. And along came tax withholding. And no sooner was World War II over than we found ourselves in a 40-year Cold War.

By the early 1960s, even though John Kennedy was reducing tax rates, it was accepted economic thinking that you needed high tax rates because if you didn’t have them, the government could not spend money, and people might save too much. They really thought saving was a problem in the 1930s, and even in the 1950s: If we saved too much, the economy would stagnate. Without high tax rates, people would keep their money and might not invest it, might not spend it. And the economy would stagnate. In other words, if people won’t use their money, the government will take it away and spend it for them.

That part of things was true: The government has spent it, and then some. By the early 1960s—and this is important to understand—a lot of people in America believed that if a government could win two World Wars, alleviate the distress of the Great Depression, put a man on the Moon, and be in the forefront of the civil rights movement, it could be used as an instrument to solve all of the nation’s other problems, at home and overseas.

We have learned some very painful lessons in the last 30 years. We have learned the limitations of government in real-life experiences. Now, with the end of the Cold War, we don’t have a centralizing trend. We have learned that at home, government is no more successful than it has ever been in creating utopias here on Earth. We do have a situation overseas, at least for a while, of relative peace. I say relative peace: This administration seems to be doing its best to revive bad forces in the world. We still have a window of opportunity, though.

We are in the midst of a technology age that is pro-individual, machines recentralizing events in and of themselves, big cities, big corporations, big unions, big government. Personal computers are almost Jeffersonian in their characteristics—anti-hierarchy, anti-authoritarian; they let anyone roam around the world at will. You have the new age of the economy; you

have the end of the Cold War. This is a good time to make fundamental reforms and get away from the debris that grew from the travesties, the errors, and the tragedies of the 20th century.

Why, then, is there so much opposition? Why did it take this campaign for people to begin discussing making changes in Social Security, to push medical savings accounts? And why is it that something so basic as the flat tax—whether it's my version, Dick Arme's version, or somebody else's version, the concept is the same—why is there so much opposition to it?

I think the reason is a basic one: A flat tax strikes at the heart of the power and culture of Washington, even as much as term limits does. That's why it will be furiously resisted. But public opinion—if you nurture it, if you get out there and explain the flat tax, come out with books like Dan's or Dick Arme's books, go on the talk shows, do some little agitprops, as they used to say—it can triumph.

And if that kind of tax reform triumphs, then all of our other reforms will be able to triumph as well. We're not talking about devolving power from Washington to the state municipalities; we're taking a more direct route, directly back to "We the people." Whether it's parental control of education, term limits, a new Social Security system for younger people, medical savings accounts, and especially the flat tax, it's giving power back to us. If you allow people to keep more of the resources they create, they create more resources. It's that simple, as another would-be businessman-politician likes to say. It is that simple.

So the flat tax is more than an economic argument. It's more than a pressure-on-two-income-families argument. It gets to the essence of the wonderful potential and opportunities we have in America today. And if we take positive advantage of these opportunities, then the basic thrust of American civilization—which is inclusive, glued together by a shared set of ideas and ideals; not by race, religion, or common ancestry, but by people sharing a set of ideas and ideals—can triumph and revive, not only here but overseas as well.

Will this be an age of realized opportunities? From my experience on the campaign trail—even though I didn't go as far as I would have liked—the answer is a resounding "yes." You here today are proof of it, and as more people understand the possibilities, it is going to happen.

The history of ideas is never a smooth one, as some of the textbooks would suggest, and it is never one of inevitability. We have to make ideas happen; but in this new age, with the new tools available, and with people ripe for this kind of reform, we can make ideas become reality.

I hope that we can work together and can get others to work with us to make these reforms happen. When we do, this generation will be seen as doing what previous generations of Americans have done: as having faced opportunities, faced challenges, and risen to the occasion so that future generations can build on what we bequeath them.

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