Congressional Reforms

The Flat Tax

“Our government is too big, and it spends, taxes and regulates too much. Of all the supposed crises we’re facing today, this is the one that really matters.” So said Representative Dick Armey when he introduced his proposal for a flat tax.

The American public sector is now larger than the entire economy of any other country except Japan. Government employment surpasses jobs in the manufacturing sector. “Today, the average family now pays more in taxes than it spends on food, clothing, and shelter combined. All told, nearly 40% of the nation’s income is now spent not by the workers who earned it, but by the political class that taxed it from them.”

Congressman Armey believes we need a change. He wants to freeze federal spending, erase stupid governmental regulations, and retire the current Rube Goldberg tax code with a simple, flat tax and a form that could fit on a postcard.

The proposal has tremendous merit, which is why its chances of passing in this session of Congress are slim and none. But Armey is not a Congressional Don Quixote tilting at bureaucratic windmills. He knows that taxpayers are fed up with waste, fraud, and tax confusion. They are eager to change the system and willing to change congressmen if they won’t take action.

In this essay we will be looking at the merits of this proposal. The center piece of the proposal is the flat tax. Seven decades of corporate lobbying and congressional tinkering have left the tax code in a mess. Rates are high, loopholes abound, and families must bear an unfair burden of the tax code. Armey’s bill would scrap the entire code and

replace it with a simple 17% flat tax for all.

All personal income would be taxed once at the single, low rate of 17%. There would be no special tax breaks of any kind except the following: (1) a child deduction of $5300 (twice what it is today), and (2) a personal allowance – $13,100 for an individual, $17,200 for a single head of a household, and $26,200 for married couples.

Businesses would pay the same 17% as individuals. A corporation would subtract expenses from revenues and pay the same, flat tax. The benefits should be obvious. Americans spend approximately 6 billion person-hours figuring their taxes each year. This lost time costs the economy $600 billion annually, and people spend another $200 billion in time and energy looking for legal ways to avoid taxation. Lawyers, accountants, and all taxpayers will be freed up to focus their time and energy on more productive aspects of the economy.

Economic growth will be another benefit of the plan. Armey's bill not only lowers tax rates but eliminates double taxation of savings, thus creating a new incentive for investment. No more capital-gains tax, no estate tax, no tax on dividends. This bill will substantially stimulate the economy and create new jobs.

Perhaps the greatest benefit will be tax fairness. We say that in our society everybody should be treated the same, but we have a tax code that does anything but do that. Under the current code, politicians and lobbyists determine which groups should pay more and which groups should pay less. Under the Armey bill everyone pays the same.

The bill does more than simplify the tax code. It has two other major features. First, it would address the issues of spending cuts and program sunsets. Armey's bill uses a variation of the old Gramm-Rudman law to freeze total federal spending for one year and then allow it to grow only at the

rate of inflation after that.

This proposal will eliminate $475 billion in currently projected spending increases. It will guarantee the government will become no larger in real terms than it is today.

Armey would cut budgets the old-fashioned way: he makes bureaucrats earn them. If a department or agency doesn't perform, it won't continue to exist unless it can justify its existence. Can you imagine the hearings for various agricultural subsidies, pork barrel projects, or for the Strategic Helium Reserve?

Under this proposal new programs will be especially unwelcome. Currently Congress writes new spending bills authorizing "such sums as may be necessary." Armey's bill would require that "such sums" come from existing programs. Congress will no longer be allowed to write a blank check.

A second feature of Armey's bill is to end indiscriminate regulations. The enormous number of government regulations are effectively a hidden tax on business and individual taxpayers. Armey estimates these regulations cost Americans $580 billion a year. Thus, these regulations are an even greater burden than the income tax itself.

Armey's bill would force the President to produce a regulatory budget. This would expose, for the first time, the hidden cost of regulations. Congress would then be required to do a cost-benefit analysis and risk assessment on any bill with new regulatory authority.

The bill would also address the erosion of property rights. Any time government regulators write a rule that reduces the value of a person's property, the government must compensate that person just as if the government confiscated the land to build a park or highway. No longer would environmental extremists be able to take a person's land by regulatory fiat.

Finally, the bill ends the deceptive device that has made Big Government possible: income-tax withholding. If taxpayers paid their taxes the same way they pay for their houses or cars, government would not have grown so big. Withholding taxes before the taxpayers see it allows government to grow ever larger. This bill ends withholding and thereby puts one more check on the political class.

The flat tax has merit and is illustrative of the many Congressional reforms being put forward in this session of Congress.

Congressional Privilege

Thomas Jefferson wrote that "the framers of our Constitution… took care to provide that the laws should bind equally on all and especially that those who make them shall not exempt themselves from their operation."

James Madison wrote in the *Federalist Papers* that Congress "can make no law which will not have its full operation on themselves and their friends, as well as on the great mass of the society. This has always been deemed one of the strongest bonds by which human policy can connect rulers and the people together."

Unfortunately, Congress has exempted itself from many of the laws you and I must obey. Recent votes in the House and the Senate have been an attempt to put Congress under some of these laws. Look at this short list of major pieces of legislation Congress has been able to exempt itself from in the past.

The Civil Rights Act of 1964 – Protects against discrimination based on race, color, sex, national origin, religious affiliation.

Americans with Disabilities Act – Protects against discrimination based on disability. Has subjected employers to

burdensome architectural renovations and hiring.

Age Discrimination in Employment Act – Protects against age discrimination. Does not apply to House. Applies to Senate through internal rules.

Occupation Safety and Health Act – Sets minimum health and safety standards in the workplace.

Fair Labor Standards Act – Requires employers to pay minimum wage, time and a half, and overtime. Amendments in 1989 covered House employees. Senate is exempt.

Rehabilitation Act of 1973 – Requires federal agencies to submit affirmative action plans for the disabled to the Equal Employment Opportunity Commission.

National Labor Relations Act – Proscribes unfair labor practices, gives workers right to form unions, requires employers to bargain. Congress is exempt.

Freedom of Information Act – Provides public access to government documents. Congress is exempt, although it does publish floor and committee proceedings.

Privacy Act – Protects individual employees at agencies subject to the act. Congress is exempt.

You might wonder how Congress can justify exempting itself from the laws the rest of us must obey. You might think there would be some Constitutional justification due to the separation of powers. Well, not exactly. Though the argument does have some merit, listen to the justification given the last session of Congress.

Senator Wendell Ford (D-KY) spoke against extending a smoking ban to Senate rooms lacking separate ventilation. He said, “This is going to affect each and every member of this chamber, and the administrative confusion that this will cause for members will be enormous. One day we will have an EPA

administrator in our office …telling us our separate ventilation system for tobacco is insufficient. Then the next day the OSHA inspector is going to arrive and tell us we do not have sufficient ventilation for fumes coming from the new carpeting, or the paint or the varnish. Next thing you know, we will have HHS coming in and telling us we cannot eat at our desks."

All I can say to Senator Ford is, "Yes, you will." You will be subjected to the same regulatory insanity most of us have had to live with for years! Perhaps the members of Congress will be more careful about the bills they pass in the future, when they have to live under the same laws we must obey. No one should be above the law, not even members of Congress.

Capital

Last November, the Republicans won a battle for Capitol Hill. Now they are waging another battle for America's financial capital. Nearly every day, Capitol Hill is abuzz with discussion of cuts in the capital gains tax, a middle class tax cut, and even a whole new tax code. We are going to look at a number of these proposals.

The first proposal is a cut in the capital gains tax. Proponents say that the economy will be strengthened by cutting the capital gain tax and indexing capital gains to inflation. Instead of the current tax rates ranging from 15% to 28%, the rates would be cut to rates ranging from 7.5% to 19.8%.

Opponents of a capital gains tax cut say it would merely be a "tax break for the rich." But statistics show that the middle class would be the primary beneficiary.

President Clinton recently defined the middle class as those making less than $75,000 (his middle class tax cut is intended for those making less than $75,000). Even using this $75,000

cutoff point, we find that 74% of the people who earn capital gains come from the middle class or below. Since 26% of people making capital gains have incomes above that cutoff point, reducing the capital gains tax is *not* “giving a tax break to the rich.”

The benefit to the economy would be substantial. By lowering tax rates on capital, capital becomes more plentiful. Making capital more plentiful will make labor more scarce relative to capital and bid up the price of labor, resulting in more jobs and higher wages.

Another way to look at this is to recognize that more capital per worker makes workers more productive (better and more efficient equipment) making businesses willing to pay more for labor.

Another way to strengthen the economy is to replace the current tax system with a flat tax as we discussed earlier. The income tax would be 20% in the first two years and 17% thereafter.

Individuals would deduct $13,100, and married couples would deduct $26,200. Each dependent would add $5300 to the tax-exempt portion of the family. In other words, a family of four would not pay any taxes on the first $36,800 of family income!

If a flat tax is passed, there would be no tax on income from capital gains, interest, dividends, or estates. The current tax code actually discourages capital formation by taxing future financial gains. This plan would promote capital formation by eliminating tax on such investments.

Essentially people can spend their money as they earn it or defer gratification until the future. Currently, if they spend their money immediately, they do not increase their income-tax bills. But, if they invest their money and plan to consume it in the future, they risk paying income taxes on their interest, dividends, or capital gains.

This tax plan would allow businesses to pay the same flat rate on the difference between their gross revenues and their business deductions. It would also change the method of depreciation. Currently businesses must now depreciate their capital expenditures over the life of the equipment they buy. Armey's plan would allow them to fully expense those costs the year they incur.

In essence, the proposals are simple: if you want more of something, reduce the tax on it. If you want more capital, then reduce (or eliminate) the current taxes on capital. In the end, people and the economy will benefit.

Welfare Reform

Senator Daniel Patrick Moynihan (D-NY) has boldly stated, "We have no health care crisis in this country. We do have a *welfare* crisis." The social statistics bear out his conclusion. Since 1960 the welfare rolls have increased by 460 percent. Since 1965 Americans have spent more than $5 trillion on welfare. Currently more than 14 million individuals (including 1 in 7 children) are on welfare.

The current welfare system rewards dependency and punishes initiative. In Maryland, a single parent with two children would need to earn a minimum of $7.50 an hour to earn the same amount as provided by welfare grants and benefits. No wonder so many welfare mothers therefore conclude that staying on welfare is better than getting off.

Various welfare proposals submitted to Congress attempt to modify the welfare system by addressing the following issues:

The first is child support. Many fathers are not providing child support, and these bills would tighten the loopholes and make these dads pay up. Currently unwed fathers are not named on birth certificates. The omission frequently foils attempts to collect child support. But if dad pays, then mom's check

does not have to be so large. The proposed bills would require the mother to identify the father in order to receive a welfare check. States can threaten deadbeat dads with garnishing wages and suspending professional and driver's licenses.

Second is the marriage penalty. If a pregnant teen get married or lives with the father of her child, she is frequently ineligible for welfare. Congressional proposals would encourage states to abolish the "marriage penalty" and make it easier to married couples to get welfare.

A third proposal is a family cap. Welfare mothers in some states can increase the size of their welfare checks by having more children. Congressional bills being considered would allow states to cap payments. If a welfare mother has another child, her check remains the same.

Already in New Jersey, Arkansas, and Georgia, families receive no increase for children born while on the dole. Congressional proposals would extend and encourage this opportunity to other states. The evidence so far is that this family cap may have some deterrence.

A fourth issue is work. Often if a welfare mother gets a job, her check is reduced, and she is likely to lose such benefits like Medicare and free child care. The new proposals before Congress would drop benefits after two years, but allow welfare mothers to work during that period.

Finally, these proposals address the government bureaucracy. Currently governors have to ask the Federal government if they can revamp their state welfare system. And the federal bureaucracy costs money. If you took the money spent for welfare and gave it to poor families it would amount to $25,000 a year for every family of four.

These bills would also freeze or change welfare payments. They would replace Food Stamps and AFDC with block grants to the

states. This money would come from savings from cutting cash payments to women having children out of wedlock. As states receive these block grants, they would be free to design their own system.

The Bible clearly admonishes us to help those less fortunate, but it instructs us to do it intelligently. In 2 Thessalonians 3:10 we read that if “a man will not work, he shall not eat.” We need to revamp the current welfare system to meet real needs and stop subsidizing those who will not work. Congressional proposals are designed to help the helpless but stop rewarding the lazy.

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