

# 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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## Welfare Reform

Many members of Congress have been pushing to reform the welfare system and break the cycles of illegitimacy and dependency. But changing the existing welfare system will not be easy. In its more than 50 years of existence, the system has indeed developed into a mass of bureaucratic idiosyncracies, and these experts say the numerous institutionalized workers are likely to resist attempts to reform them or their routines.

Most taxpayers are skeptical that real change will take place, and they have every right to be skeptical. Since 1960, Congress has passed at least six major welfare revisions so welfare recipients can find work. But the rolls increased by 460% in the same period. Nevertheless, welfare must be reformed. Since 1965, American taxpayers have been forced to

pay \$5 trillion into a welfare system created to end poverty. The result? No measurable reduction in poverty. After three decades of Great Society programs to fight the war on poverty, poverty and families are doing worse.

The most visible and most cost-inefficient segment of the U.S. welfare system today is Aid for Dependent Children or AFDC. AFDC began in 1935 as a little-noticed part of the Social Security Act. Its principal purpose was to aid widows and their children until the Social Security survivors' fund could pay out claims. Currently there are more than 14 million individuals on AFDC, and 1 in 7 children is on welfare.

AFDC is not the only program of concern. In the early 1960s, the Kennedy administration proposed several other welfare programs. Their stated purposes were the admirable goals of eliminating dependency, delinquency, illegitimacy, and disability. And the modern welfare state was born during the flood of Lyndon Johnson's Great Society programs aimed at the war on poverty.

But the road to utopia ran into some devastating chuckholes. Most social statistics indicate that the war on poverty had many casualties. The unintended consequences of these welfare programs was a system which breaks down families, traps the poor in idle frustration, and perpetuates a cycle of government dependency. One aspect of this dependency is family breakdown. Approximately half of today's AFDC recipients are mothers who have never been married to the father or fathers of their children. Another 40 percent are mothers whose husbands have left home.

Another aspect of this dependency is poverty. Half of the poor live in female-headed households. And welfare has not improved their lot. The poverty level has remained relatively unchanged since that time, while illegitimate births have increased more than 400 percent. In the 1960s we declared war on poverty, and poverty won.

Obviously, reform must take place. In fiscal year 1992, the U.S. spent \$305 billion for AFDC. This is more than the current defense budget.

## **Good Intentions Gone Awry**

The dramatic increases in the number of welfare recipients and the length of their dependency on welfare have alarmed both liberals and conservatives. But liberals and conservatives differ in their prescriptions. Liberals argue for more effective programs and for additional job training. Conservatives, on the other hand, argue that the intractable pathologies of the welfare system (the destruction of the family unit and the fostering of dependency) are due to large-scale governmental intervention. Their argument has been strengthened by the earlier research of Charles Murray in his book *Losing Ground*.

His thesis is that our government not only failed to win its war on poverty, but ended up taking more captives. Under the guise of making life better, it ended up making life worse for the poor. Murray said, "We tried to provide more for the poor and produced more poor instead. We tried to remove the barriers to escape from poverty and inadvertently built a trap." Murray proposes radical changes in the current welfare system, and a number of conservative proposals before Congress include various aspects of Murray's proposals.

But long before Murray's book provided a thorough statistical evaluation, social theorists and even casual observers could see that our current welfare system promotes dependency and destroys the family unit.

Welfare payments provide economic incentives for the creation of single-parent families since they provide a continuous source of income to young mothers. The welfare system was designed to assist when there was no father. But the system effectively eliminated the father entirely by tying payments

to his absence.

An irresponsible man can father a child without worrying about how to provide for the child. And a dedicated father with a low-paying job may feel forced to leave home so his children can qualify for more benefits. Eventually the welfare system eliminated the need for families to take any economic initiative by rewarding single parents and penalizing married couples. The result has been an illegitimate birth rate for black women of 88 percent.

A second reason for the breakdown of the family is the "adultification" of children. Various judicial rulings have undercut the role parents can have in helping their children with difficult decisions. Courts have ruled that parental notification for dispensing birth control drugs and devices violates the minors' rights. Courts have ruled that children need not obtain their parents' permission before they obtain an abortion. The natural progression of this continued trend toward children's rights is the breakdown of the family.

The most rapid rise in poverty rates have been among the children the system was designed to help. This astonishing increase of illegitimate births by over 400 percent is a principal reason for poverty and the perpetuation of a poverty cycle of "children raising children."

Third, the current welfare system rewards dependency and punishes initiative. Welfare does not require recipients to do anything in exchange for their benefits. Many rules actually discourage work, and provide benefits that reduce the incentive to find work. In Maryland, for example, 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. Is it any wonder that so many welfare mothers therefore conclude that staying on welfare is better than getting off.

## Can Welfare Be Changed?

Now I would like to focus on the various congressional proposals that seek to end welfare as we know it. Although there has been much talk of welfare reform, there have been very few substantive changes in the welfare system in the last three decades. Since 1960, Congress has passed at least six major welfare revisions so welfare recipients can find work. But the rolls increased by 460 percent in the same period.

A report issued by the Department of Health and Human Services revealed the cost of administering welfare programs grows twice as fast as the number of recipients. According to the Congressional Budget Office, welfare as a percent of the Gross Domestic Product has increased by 230 percent, and its cost will exceed \$500 billion by the end of this decade.

Various congressional proposals attempt to either substantially modify or else eliminate the current system. First let's focus on those proposals that want to modify welfare in the following five areas.

The first change would be in child support. 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 welfare 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.

The second change is in the so-called marriage penalty. If a pregnant teen gets 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 for married couples to get welfare.

Creating a family cap is another significant change. Welfare mothers can increase the size of their welfare check 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.

Another change is to emphasize 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. If an able-bodied welfare recipient does not find a private-sector job then she would be assigned a minimum-wage government job.

A final change would be to keep teenage mothers in school. In the current system a teenager can receive a welfare check, get her own apartment, and drop out of school. Congressional proposals would require a teen mother to live at home until age 18. She has to stay in school or she will lose her benefits. If the family's income is high enough, she does not receive any check at all.

These then are a few of the elements of the congressional proposals to end welfare as we know it. They take some solid steps toward ending illegitimacy and dependency. But there are even more radical proposals, and we will consider them next.

## **Congressional Proposals**

Now we will turn our focus to some of the bills that attempt to do more than just modify the system and actually propose elimination of certain aspects of welfare.

One bill by Congressman James Talent would no longer provide welfare checks, food stamps, and public housing to women under 21 with children born out of wedlock. The justification for such actions stems from the original work by Charles Murray who believes that only this radical solution will cause teenage mothers to change their behavior.

Illegitimacy is the underlying cause of poverty, crime, and social meltdown in the inner cities. Proponents of these more radical proposals believe it is better to stem the tide of illegitimacy than trying to build a dam of social programs to try to contain the flood of problems later on.

Illegitimacy leads to poverty and to crime. Nearly a third of American children are born out of wedlock, and those children are four times more likely to be poor. And the connection between illegitimacy and crime is also disturbing. More than half the juvenile offenders serving prison time were raised by only one parent. If birth rates continue, the number of young people trapped in poverty and tempted by the values of the street will increase. Illegitimacy is essentially a ticking crime bomb.

Welfare is supposed to be a second chance, not a way of life, but tell that to some children who represent the fourth generation on welfare. Proponents of these radical reforms believe we must scrap the current system.

Another concern is the entangled bureaucracy of welfare. 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. Each state would then be free to design its own



system.

These proposals also emphasize work by providing a transition for able-bodied welfare recipients into the workplace. The federal government would double welfare payments during the transition period, but would send the check to the employer rather than directly to the welfare recipient. This would no doubt provide greater incentive to work hard and stay on the job.

Many in Congress are skeptical of proposals to provide jobs through job training programs. In the past job training has been relatively ineffective. One 1990 study of New York welfare recipients found that 63 percent of black recipients and 54 percent of whites have received training while on welfare, but few left the rolls for employment. Even with the training, less than 8 percent of blacks and 5 percent of white recipients were working.

Finally, these proposals would also encourage marriage. Currently the welfare system encourages fathers to leave. These proposals would not only provide social incentives but economic incentives by providing two-parent families with a \$1000 tax credit.

These then are a few of the elements of the congressional proposals to end welfare as we know it. They do take some solid steps toward ending illegitimacy and dependency.

## **Biblical Principles**

I want to conclude this discussion of welfare and welfare reform with some biblical principles that we should use to understand and act on this vital social issue.

The Bible clearly states that we are to help those in need. Christians may disagree about how much is necessary and who should receive help, but there should be no disagreement among Christians about our duty to help the poor since we are

directly commanded to do so. Let's then, look at two important questions.

First, who should help the poor? The Bible clearly states that the primary agent of compassionate distribution of food and resources should be the church. Unfortunately, the majority of poverty programs in existence today are government programs or governmentally sponsored programs. While we can applaud the excellent programs established by various churches and Christian organizations, we must lament that most poverty programs are instituted by the state.

Poverty is much more than an economic problem. It results from psychological, social, and spiritual problems. Government agencies, by their very nature, cannot meet these needs. The church must take a much greater role in helping the poor and not be content to allow the government to be the primary agency for welfare.

A second important question is who should we help? Government programs help nearly everyone who falls below the poverty line, but the Bible establishes more specific qualifications. A biblical system of welfare must apply some sort of means test to those who are potential recipients of welfare. Here are three biblical qualifications for those who should receive welfare.

First, they must be poor. They should not be able to meet basic human needs. We should help those who have suffered misfortune or persecution, but the Bible does not instruct us to give to just anyone who asks for help or to those who are merely trying to improve their comfort or lifestyle.

Second, they must be diligent. Some people are poor because of laziness, neglect, or gluttony. Christians are instructed to admonish laziness and poor habits like drinking, drugs, or even laziness that lead to poverty. Proverbs says, "Go to the ant, you sluggard, and observe her ways and be wise." The

Apostle Paul more pointedly says, "If a man will not work, neither let him eat." Lazy people should not be rewarded by welfare, but rather encouraged to change their ways. Third, the church must provide for those thrown into poverty because of the death of the family provider. The Bible commands us to provide for widows and orphans who are in need. Paul wrote to Timothy that a widow who was 60 years or older whose only husband has died was qualified to be supported by the church.

I believe the needs of the poor can and should be met by the church. Churches and individual Christians need to do their part in fighting poverty in their area. Homemakers can provide meals. Educators can provide tutoring and counseling. Businessmen can provide employment training. The church as a whole can provide everything from a full-time ministry to the poor to an occasional collection for the benevolence fund to be distributed to those facing temporary needs brought about by illness or unemployment. The key is for the church to obey God's command to feed the hungry and clothe the naked. Helping the poor is not an option. We have a biblical responsibility which we cannot simply pass off to the government.

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