

INSIGHTS

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"A system of land tenure which despoils the people of a nation of a vast amount of their earnings, which transfers a valuable property they have created to a class which does not labor at all, can be fairly characterized as a system of national spoilation." The Most Rev. Dr. Thomas Nulty, Bishop of Meath, Ireland. (1881)

THE FLAT TAX NOSTRUM NOT YET WHOLLY FLATTENED

We had hoped that the flat tax fad had completely faded out. Unfortunately, despite the political demise of Malcolm Forbes, the malady lingers on.

President Clinton has not yet given any definitive expression of his views, which no doubt will be determined by political necessities, rather than on the merits, and may change from day to day.

Senator Dole described Forbes' flat tax idea as "snake oil" when the publisher first trotted it out. Unfortunately, one of Dole's most generous contributors, and vice-chairman of the Dole campaign, is billionaire oil tycoon David Koch, a strong supporter of the snake oil cure-all. He most recently hosted a party for Dole that raised \$150,000, and he personally gave hundreds of thousands of dollars to Dole in the last decade.

INFLUENCE OF FLAT TAX SUPPORTERS

Koch is one of the founders and donors of tax-free funds to the Cato Institute, described by the Boston Globe as "Washington's hottest think tank." Cato sponsors a flood of publications, published books, TV and radio appearances, speakers, news conferences, etc. Originally, the Cato Institute put its resources behind a national added value tax. But, when they ran this soiled banner up the flagpole, nobody saluted. So Koch and Cato are now promoting the flat tax as their chosen alternative. Koch's political pull was exposed in 1989, when a congressional committee investigated charges that Koch regularly removed more oil from storage tanks on Indian tribal lands in Oklahoma and other states than it had paid for. The committee's report stated that Koch Oil, the largest purchaser of Indian oil in the country, "is the most dramatic example of an oil company stealing by deliberate mismeasurement and fraudulent reporting." •••••

Dole tried to persuade the Senate committee to soft-pedal the probe, and when, in April, 1995, the Justice Dept. sued Koch for \$55 million for causing over 300 oil spills over a five year period, Dole and other Senators introduced a bill in Congress which would help Koch defend itself against these charges (See Bus. Wk., Apr. 1, '96).

HISTORY OF THE FLAT TAX SOLUTION

The flat tax is not new to America. The original tax enacted in 1862, but abandoned 10 years later, was a flat tax. In 1894, an income tax at a flat rate of 2% was enacted, but held unconstitutional by the U.S. Supreme Court in 1895, because it encompassed a direct tax on earnings on land which was not in proportion to value. After the 16th amendment to the U.S. Constitution went into effect, a tax on incomes was incorporated in the Tariff Act of Oct. 3, 1913. It called for a flat tax on corporate income at 1%. But the tax on individuals was set at 1% for single persons with incomes over \$3,000, and married persons with incomes over \$4,000. However, it provided for a surtax, ranging from 1 to 6% on incomes over \$20,000.

Revival of interest in the flat income tax has been attributed to the venal former California governor Jerry ("Moonbeam") Brown, best known for his lucrative sale of judgeships. Jerry made a flat income tax and an added-value tax the basis for his disastrous campaign for president. Ronald Reagan also became temporarily enthusiastic about this supposed short cut to financial Utopia in 1983, at a time when his administration was desperately seeking a way to reduce the deficit. Reagan's Budget Director, David Stockman, described how Reagan was at one time convinced of the virtues of a flat tax by Secretary of State George Shultz, during a golf game. •••

In his book, *The Triumph of Politics*, Stockman wrote: "I do not know at exactly which point in their game Shultz mentioned the notion of a flat tax to the President, but the sand trap suggests itself as the perfect setting."

Stockman then referred to the sudden enthusiasm in the cabinet over the idea that a flat tax would miraculously multiply economic growth, leading to greatly increased revenues and a balancing of the budget. Stockman mentioned how Murray Weidenbaum, Chairman of the Council of Economic Advisors, looked a little shocked after the cabinet meeting at which this idea was approved. "They don't actually believe this mumbo-jumbo, do they?" he asked, hoping I might assure him that he had not signed on for duty in a lunatic ward."

Stockman noted that Reagan's top strategists, James Baker and Richard Darman, became worried that the flat tax had a dangerous political implication. Stockman concluded: "They were right. It did. It meant that we were fixing to cancel the mortgage deduction and tax the welfare checks of blind people. Shultz' original flat tax idea was packed off to Siberia, in this case a 'deep study mode' at Treasury with a view to 'broadening, simplifying and reforming the income tax.'"

We suspect that if Dole is elected, he may also send the flat tax proposal over to Treasury's Siberia, in "a deep study mode," from which it will never emerge.

The income tax is hard to defend. But even harder to defend are tariffs, sales taxes, motor vehicle taxes, gasoline taxes, state sponsored lotteries, dozens of taxes on buildings and personal property, and a multitude of other arbitrary and capricious sources of revenue. *Continued on page 2* •••

THE FLAT TAX NOSTRUM NOT YET WHOLLY FLATTENED

☞ We would much prefer to have had Congress impose a Federal tax on land to be levied by the states in proportion to their populations. Such a tax was used to finance the American Revolution, and was proposed by six Georgist Congressmen a hundred and two years ago, as an alternative to the 1894 income tax bill.

But until we have power and sense enough to enact that alternative, we are left with the income tax as the best of a very bad lot of destructive alternatives. There are a substantial number of countries, such as England, where there are no taxes on capital gains, and taxes on income from investments are deducted from dividends and interest before payment to investors. We suspect that such a plan would satisfy top fiat tax proponent Congressman Dick Arme and his army of wealthy speculators and investors.

Flat tax supporters claim that the huge expense in preparing returns would be eliminated under their scheme. Low and middle income taxpayers, whose earnings are only from wages, will be saved the expense of adding up their medical, mortgage, local property and state income tax and similar deductions. In return for this trifling time savings, most of them would pay higher taxes under the flat tax. High-income tax payers would save time spent in determining land and stock speculation profits and interest and dividends. But, aided by accountants, they still would have to figure business profits and expenses.

117 years ago, when we had no income tax, Henry George criticized the idea of a graduated income tax in *Progress and Poverty*, prophesying:

"Whatever savors of regulation and restriction is in itself bad, and should not be resorted to if any other mode of accomplishing the end presents itself. For instance, to make one of the simplest and mildest of the class of measures I refer to—a graduated tax on incomes. The object at which it aims, the reduction or prevention of immense concentrations of wealth, is good; but this means involves the employment of a large number of officials clothed with inquisitorial powers; temptations to bribery, and perjury, and all other means of evasion, which beget a demoralization of opinion and put a premium upon unscrupulousness and a tax upon conscience; and finally just in proportion as the tax accomplishes its effect, a lessening in the incentive to the accumulation of wealth which is one of the strong forces of industrial progress." ☞

☞ Assuming that the only alternatives were a graduated income tax, as we now have, or a flat tax which bears most heavily on low and middle income taxpayers, and which exempts income from interest and dividends and from land and stock speculation, we suggest that Henry George would have forcibly supported the present system, bad as it is, as the least evil of two execrable alternatives.

OTHER TAX-FREE FOUNDATIONS SUPPORT REGRESSIVE TAXATION

The tax-free San Francisco-based Koret Foundation is now spending hundreds of thousands of dollars to espouse the flat tax plan in Israel. It is providing members of the Israel Knesset with ten legislative assistants to rewrite Israeli tax law. One of these young interns is stated to be the sole economic aide of the Israeli Minister of Energy, according to an article in the Jewish Bulletin of Northern California.

San Francisco Georgist, Ysrael Pensack, says that Tad Taube, president of the Koret Foundation, is a big-time land speculator. Taube pontificates that the Foundation's goal is "preparing these young researchers to become tomorrow's economic leaders," and "helping Israel create a freer and more vibrant global economy." This internship program is the brainchild of Professor Alvin Rabushka, a senior fellow at Stanford's tax-free Hoover Institute, and co-developer of the flat-tax concept. The young interns' training included briefing with top congressional leaders, including Arme and his "tax reform" aides.

It is unfortunate that Henry George organizations, outside of the Lincoln Foundation (which is ignoring the requirement of its Articles to "teach and expound the ideas of Henry George as set forth in his book, *Progress and Poverty*"), cannot assemble the funds to counter the Koret intern program, which includes "top-ranked graduates of Israel's universities," particularly since the Israeli Constitution states that the land of the nation belongs to all of the people. Most of the land in Israel is owned by the Jewish National Fund, which extends 50 year leases on this land. Some years ago, Mendel Fischer, then West Coast director of the Jewish National Fund, wrote: "The Jewish National Fund was based on the ideas of Henry George." Unfortunately, the intent to avoid land speculation, like the best laid plans of mice and men, went astray with the tremendous increase in the value of the leaseholds. ☞

☞ There are other tax-free foundations which improperly and illegally engage in political propaganda. The Rockefeller Foundation is a prime example. Its president publicly supported enactment of a national sales tax. Another example is the Lincoln Foundation, whose political work, with the aid of A.I.D. (a division of the World Bank) convinced the City Council of Novgorod, Russia, to abandon land value taxation and to tax buildings and much else.

Too bad no one has suggested that we help balance the budget by removing tax exemptions of multi-billionaire foundations, established by men of a libertarian bent, but administered after their deaths by Keynesians, monetarists and other practitioners of the dark magic of modern economics.

NO SETTLED POSITION ON TAXES IN EITHER PARTY

It should be clear that neither political party has any definite position on taxes. In the debates on imposing an income tax in the early part of this century, Republicans supported the existing plan of reliance on tariffs and excise taxes, while Democrats pushed for an income tax. Then came a bipartisan push for consumer taxes at a state and local level to replace property taxes and for increased income taxes at the national level. In many states (including Calif.), this movement found backing from an unholy alliance of landed gentry and school teachers, who recognized that the easiest way to obtain money for schools and higher teachers' salaries was from increased sales taxes.

California's purportedly liberal Democratic Senator, Diane Feinstein, has supported every consumer tax ever proposed. However, she was no worse than Huffington, her Republican opponent at the 1st election, who put up \$18 million of his own money in a losing campaign, and who supported a national added-value tax.

Today, Republican political leaders, have been working hard for a national added value tax. But, when the Republicans pushed for a repeal of the super-regressive 4.3% gasoline tax increase, Clinton only agreed to sign such a bill if Republicans would agree to a minimum wage increase—an obviously irrelevant joinder. And although Ronald Reagan, when governor, had pushed hard and successfully for increased sales taxes, the Republicans in the California legislature are now proposing a repeal of the state sales tax of 6.75% a gallon on gasoline. In short, neither party has any settled program except to find out which way the bandwagon is traveling and then jump on board. ● ● ●