

SELF STYLED AMERICANS FOR FAIR TAXATION PUSHING HARD FOR NATIONAL SALES TAX

A recent mailing from the self-styled *Americans for Fair Taxation*, which is promoting a 23% national retail sales tax, claimed over 400,000 members. It also reaches thousands of E-mail members per week and boasts of a grass roots movement in each of the 435 congressional districts. We contacted the office manager of AFT in Houston, Texas and asked, "Who supports your organization." She stated that the principal backers were Texas Congressmen, Archer, Army and Gramm, but "everybody who is anybody in Texas supports us." The founder of AFT and its current CEO, is Leo Linbach, a major developer in Houston. HR 2525, endorsed by AFT, was introduced in the 106th Congress by Rep. John Linder, (R-Ga). It did not get out of committee, but he has now reintroduced it in the 107th Congress. He claims that nearly \$20 million has been privately raised and spent on economic and market research into the Fair Tax. We wonder which special interests groups consider this bill to be worth an investment of \$20 million and how many billions they would stand to gain if the bill becomes law.

Both Bush and Clinton were proclaimed as tax "reformers," because they increased sales taxes while governors of their respective states, coupled with a reduction of property taxes. Treasury Secretary Paul O'Neill has supported a national sales tax, and the President has indicated his sympathy for such a measure. The Treasury Department may soon be making a study of the potential effects a sales tax.

In his autobiography, Donald Regan, Secretary of Treasury under Reagan, discussed his fear that President Reagan would yield to the Republican faction that was pressing for a tax increase to balance the budget. He then asserted:

"In case that happened, I told my staff to explore the possibilities of a value-added tax (VAT) and other forms of sales tax. This class of taxes is a great favorite of politicians and certain economists because it raises large amounts of money in relatively invisible ways. The arguments against it are well known: it is inequitable because the poor pay the same percentage of tax on what they purchase as the rich; and it tends to create a big, expensive bureaucracy to watch over it, a development that tends to perpetuate VAT, since it is almost always represented as a short-term solution to a shortfall in revenue. It is also inflationary.

The VAT can be made somewhat more equitable by exempting necessities such as food, clothing, and medicine and concentrating on items that are more likely to be purchased by the well to do, but its fundamental social clumsiness cannot be cured altogether. Oddly enough, it seems to be the tax of choice of socialist governments, and is a common expedient in Western Europe."

We regret that Regan did not inform the President that there was no point in even exploring the possibilities of a federal sales tax in view of its established major defects, noted above, even though sales taxes were a great favorite of politicians.

ALTERNATIVES TO SALES TAXES

Nadine Stoner, President of Common Ground, has suggested that, as alternatives to both the income tax and the sales tax, the government can charge equitable fees for:

- 1) grazing rights on federal lands,
- 2) extraction of the nation's minerals, oil and gas,
- 3) timber cutting and use of natural resources
- 4) water rights
- 5) assigned channels of the electromagnetic spectrum
- 6) patent protection privileges
- 7) national defense, charged back to states on a per-capita basis. States could retrieve this expense by levying a charge on the value of the land within the state so protected.

We could have added to these well reasoned proposals the substitute for the income tax introduced in Congress by James G. Maguire (Cal), January 31, 1894 as a constitutional amendment. He proposed a direct tax to be annually laid on land values, exclusive of improvements, in the United States and apportioned to the states, territories, and District of Columbia, these values to be assessed at the fair market rates. Congressman Maguire stated:

"The income tax, proposed by the gentleman from Tennessee, can nearly all be shifted from the immediate payers to the shoulders of the poor or comparatively poor who consume the products of the industries out of which the incomes arise or who borrow the money upon which incomes, in the form of interest, are paid." Maguire's amendment was defeated and the Income Tax measure was passed.

In the Pollack case, the income tax was held to be unconstitutional by the U.S. Supreme Court, on the grounds that taxes on the rent or income of real estate are direct taxes and the act in question was invalid because it attempted to impose such a direct tax without apportionment among the several states according to their population. On May 11, 1895, by a majority of one, the Supreme Court declared the Income Tax Law to be constitutional, but on a rehearing, the Court voted 5 to 4 to invalidate the measure. The income tax devotees then succeeded in having the income tax imposed by constitutional amendment.

Henry George supporters find both income and sales taxes to be inequitable, but feel that sales taxes are particularly unjust because of the heavy load they place on low and middle income taxpayers; their excessive cost of collection; their repressive effect on creativity and production, and their lack of relation to the value of services received from the community.