

THE TAXONOMIST

Loophole Consolidation Program

By Robert S. McIntyre

We live in scary times. War and terrorism certainly top the list, but President Bush's tax and budget policies are pretty frightening, too. Yet not everyone is as worried as I am. To illustrate, in early November the Republican majority on Congress's Joint Economic Committee called a hearing to lay the groundwork for making our tax system even worse.

Under the rubric of "fundamental tax reform," witnesses were invited to explain why corporations and rich people deserve even bigger tax cuts. Committee Democrats asked me to represent the other side. I was what one wag called the "token sacrificial lamb."

Tax reform used to mean closing loopholes and making those with the most money pay their fair share. But the Republican witnesses at the Joint Economic Committee's hearing professed quite a different goal. Essentially, they all pushed for a loophole-consolidation program that would make most of the income of the rich tax-exempt. Put another way, they called for replacing the income tax with a tax solely on consumer spending.

Sen. Arlen Specter (R-Pa.) led off the proceedings in praise of the "flat tax." Facing the rather large political problem that the flat tax would be a tax-increasing, budget-busting disaster for the vast majority of Americans, he chose to present a litany of falsehoods. Most preposterously, he insisted that despite abandoning graduated tax rates and totally exempting interest, dividends, capital gains and corporate profits, the flat tax would nevertheless increase taxes on the rich! Even the designers of the flat tax have admitted that's exactly the opposite of the truth.

Next came Rep. John Linder (R-Ga.), who wants to scrap both income and payroll taxes and impose a regressive national sales tax. He claimed that such a scheme could fully fund the government at a 23 percent tax rate. No matter that the Joint Committee on Taxation has calculated that a sales tax rate in the ballpark of 50 percent would actually be required. Linder wished away his plan's staggering revenue shortfall by fantasizing that it would increase capital investment by 76 percent in its first year and double the size of the economy within a decade or so. Such a pipe dream suggests a new meaning for "Joint Economic Committee."

The second panel brought in advocates from outside

the government. Michael Boskin, who served as the first President Bush's top economic adviser, said what you'd expect from an economist who works at a think tank founded by Herbert Hoover. He echoed Linder and Specter's call for replacing the income tax with a consumption tax, albeit less flamboyantly. Likewise, Ed McCaffery, a law professor at the University of Southern California, preached the consumption tax line—although he said he favored higher rates on better-off people's spending. The fact that the rates on such a narrow base couldn't possibly be high enough to avoid big tax cuts for the rich didn't faze him.

The consumption-tax chutzpah award went to Cliff Massa III, who works at the high-powered corporate lobbying firm, Patton Boggs LLP. According to Massa, Congress will never be able to stop lobbyists like himself from larding the tax code with loopholes for their wealthy clients. The only solution, he said, is to give up.

At the end of the hearing, I got to put in my two cents. My message was pretty simple: The federal government is broke, and most of the problem is due to the sharp decline in taxes paid by corporations and rich people.

According to recent figures from the Congressional Budget Office and the Institute on Taxation and Economic Policy, the effective federal tax rate on the best-off one percent of Americans has dropped by 30 percent over the past quarter century. To put that in perspective, if the wealthy paid the same share of their income in taxes today as they did in 1977, then annual revenues would jump by \$200 billion. Likewise, if corporate income taxes were restored to the share of the economy that they averaged from 1950 to 2000, companies would pay \$180 billion a year more.

So fairer taxes and a return to fiscal responsibility must go together, I argued. In fact, any fundamental reform that doesn't increase revenues enough to pay for our government should be dismissed out of hand.

Sadly, I don't think my old-fashioned views made much of an impression. One GOP member did politely ask me how I expected to achieve my goals. I suggested regime change. He and his fellow Republicans laughed.

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