



Opening Mike To Citizen Soldiers Is A Step Forward On Tax Reform

Investor's Business Daily
June 6, 2005
By Ernest S. Christian

During weeks of public hearings, members of the President's Tax Reform Advisory Panel have exhibited uncommon valor in the face of an unrelenting barrage of testimony from battalions of tax-reform advocates.

Panelists have heard proposals for one version or another of just about every tax reform idea conjured up in the last 50 years - and some new ones to boot.

They've heard some genuinely good ideas about how to make the tax code simpler and more conducive to economic growth. They've heard academic theorizing about experimental ideas that might sound good on paper. Sometimes, they've had their intelligence insulted with thoroughly bad ideas. And on a few occasions, they've been given false information.

But the point is, they've listened. People from all corners and persuasions have been given the opportunity to vent about the tax code and to say how it should be fixed. The panel might produce a good tax reform result - but it's clear the members are pioneers in what may be a new way of bringing about major change in public policy and law.

From the outset, the panel has maintained an active and competitive electronic marketplace for tax reform ideas on its web site (taxreformpanel.gov). Now it has posted, in an easy-to-use format, all the reform proposals made by the witnesses at the recent hearings - and has asked for public comment.

While a long way from being an exercise in Athenian democracy, this process has collected and exposed to public view a uniquely valuable range of thinking about the economics and politics of taxation - unfiltered and undistorted by either the Treasury Department or the tax-writing committees of Congress.

Given the Treasury Department's institutional disinclination to think outside the bureaucratic box, and Congress' longstanding failure to straighten out the tax mess it created, an extracurricular group like the panel may be the only way to move tax reform forward.

Able, public-spirited men and women who are not themselves tax technicians with preconceived biases may be in the best position to cut through the often conflicting solutions offered by the experts.

And perhaps these citizen soldiers can make common-sense recommendations for tax reform that actually works.

If the panel succeeds in the case of the federal tax code, the same outsourcing technique might then be usefully applied to reform the array of highly flawed federal spending and regulatory programs that Congress and the bureaucracy seem unable to fix on their own.

While useful as a catalyst for change and potentially a source of fresh ideas, an open mike forum like the one hosted by the panel has limitations that must be made up for by the panelists' sound judgment.

For example, nearly all of the supposedly expert witnesses to testify in front of the Tax Reform Panel ignored the most important function that needs to be performed by any tax system - which is to put a clearly marked price tag on government.

When taxes are highly visible and are paid by just about everyone, citizens are best able to decide how much government they want and at what price.

But many of the tax reform proposals put in front of the panel seem specially designed to obscure the cost of government from taxpayers or to convince a majority of voters that government costs them nothing at all.

Amazingly, one of the offenders is the classic flat tax once featured on the cover of Time and backed by many low-tax, small government conservatives.

It exempts from income tax more than half of eligible voters - officially telling them that government costs them nothing. If they want more government services, all they need to do is increase taxes on the minority of voters who pay all the tax bills.

Other so-called reform proposals, from the left and right, attempt to confuse taxpayers with retail sales taxes and European-style VATs. Partly, these taxes are hidden in the price of goods, but for the most part they are also hidden taxes on wages, interest and dividends.

Other similar proposals from academia would add to the confusion by combining a sales tax with an income tax that would apply only to the "rich."

Even experts with advanced degrees in economics would not be able to agree on who is bearing the tax burden and in what proportions. And the voters would lose the ability to price government and decide how much of it they really want.

These and other radical proposals are often advanced in the name of simplification - but only the intellectually bankrupt would throw up their hands and say the only way to simplify the income tax is to take most voters off the tax rolls altogether.

To do so would risk tearing the social fabric that binds the nation together.

Paying some amount of tax, no matter how small, is a rite of citizenship that ought not be cast aside.

There are plenty of nonradical ways of simplifying the tax code, just as there are nonradical ways of eliminating the unnecessary constraints on economic growth that are imposed by the current federal income tax.

Plain-language, practical solutions may not be sufficiently exciting to satisfy the devotees of revolutionary reform.

And they may not produce the dramatic sound bites so beloved by those who are primarily interested in claiming credit for reforming America's tax system.

But they are far more likely to gain the acceptance of the American people, who are typically and justifiably leery of strange new nostrums emanating from Washington.

Ultimately, the choice is up to the President and Congress - but the panelists have the important first move in charting the course of tax reform.

They may, as have other reformers before them, wander off in the direction of some magic elixir that promises wondrous results. In that case, tax reform will almost certainly fail. Or they can eschew radical experimentation with the unknown and make common-sense choices that are in the best interest of the American people.

In that case, they will have set the course toward restoring to the tax system the integrity and public trust that is essential in a democratic society that relies primarily on voluntary compliance with the tax laws.

Christian is a former Treasury tax official who is director of the Center For Strategic Tax Reform in Washington, D.C.