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# Joint Economic Committee

## PRESS RELEASE



FOR IMMEDIATE RELEASE

MONDAY, AUGUST 16, 1982

**97th Congress**

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Chairman

Roger W. Jepsen, Iowa  
Vice Chairman

**House:**

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Gillis W. Long, La.  
Parren J. Mitchell, Md.  
Frederick W. Richmond, N.Y.  
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Margaret M. Heckler, Mass.  
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Chalmers P. Wylie, Ohio

**Senate:**

William V. Roth, Jr., Del.  
James Abdnor, S. Dak.  
Steven Symms, Idaho  
Paula Hawkins, Fla.  
Mack Mattingly, Ga.  
Lloyd Bentsen, Tex.  
William Proxmire, Wis.  
Edward M. Kennedy, Mass.  
Paul S. Sarbanes, Md.

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1982: 85

**FRIEDMAN TELLS JEPSEN:  
FLAT TAX OFFERS "GREATEST BENEFITS"**

Washington, D.C. -- Nobel Prize-winning economist Milton Friedman endorsed the flat-rate tax concept in a letter to Senator Roger W. Jepsen (R-Iowa) whose Joint Economic Committee subcommittee will hold hearings on the proposal Thursday, August 19.

"The substitution of a flat-rate tax for our present income tax," Friedman said in his letter to Jepsen, "would do more than any other tax reform I can conceive of to promote equity, the effective utilization of resources, and to broaden the opportunities available to people of every income level."

Friedman said: "Our present income tax is a monstrosity. It is inequitable, imposing very different tax burdens on persons in essentially similar circumstances. It encourages waste and inefficiency by leading millions of our fellow citizens to devote their energies to activities that will avoid taxes rather than to activities that will yield the greatest benefit to their fellowmen."

The following witnesses will testify at Thursday's Subcommittee on Monetary and Fiscal Policy hearing:

Paul Craig Roberts -- former Assistant Secretary of the Treasury who has been critical of the Reagan Administration in which he served.

Jerome Kurtz -- Commissioner of Internal Revenue during the Carter Administration who favors the progressive tax system.

David Bradford -- Director of Business Taxation and Finance Section of the National Bureau of Economic Research and a supporter of a "consumption-based" flat-rate tax.

Ernest Christian -- Deputy Assistant Secretary of the Treasury for Tax Policy in the Ford Administration who supports general principle of flat tax.

The hearing will be held at 10 a.m., Thursday, August 19 in Room 5110 of the Dirksen Senate Office Building.

Senator Jepsen will chair the hearing.

# HOOVER INSTITUTION

ON WAR, REVOLUTION AND PEACE

Stanford, California 94305



August 7, 1982

The Hon. Roger W. Jepsen  
Vice Chairman, Joint Economic Committee  
United States Congress  
H2-359 House Office Building  
Washington, D.C. 20515

Dear Senator Jepsen:

Unfortunately I cannot be present in person at your hearings on the flat-rate tax. I appreciate, however, the opportunity to express my views in the form of this letter and the enclosure.

A true flat-rate tax is a tax that is levied at a single rate on everyone on a tax base which equals total income with no deductions except for a personal exemption plus strictly defined expenses of earning the income.

I have long favored such a flat-rate tax. I discussed its merits in my book Capitalism and Freedom published in 1962 and I have repeatedly written in favor of it in Newsweek and elsewhere. I have, however, been skeptical that it would be politically feasible to adopt such a tax.

Your hearings give cause for optimism on that ground and your committee is to be congratulated for holding hearings on this enormously important topic.

The reasons why I favor a flat-rate tax and why I have considered it not feasible politically are contained in a column that I published in the Newsweek of August 2, 1982. I am enclosing a copy of that column. I should appreciate your incorporating it in the record.

Our present income tax is a monstrosity. It is inequitable, imposing very different tax burdens on persons in essentially similar circumstances. It encourages waste and inefficiency by leading millions of our fellow citizens to devote their energies to activities that will avoid taxes rather than to activities that will yield the greatest benefit to their fellowmen. And it is counter-productive, yielding less revenue than would a flat-rate tax at a moderate rate.

The substitution of a flat-rate tax for our present income tax would do more than any other tax reform I can conceive of to promote equity, the effective utilization of resources, and to broaden the opportunities available to people of every income level.

Sincerely yours,

A handwritten signature in dark ink, which appears to read "Milton Friedman".

Milton Friedman  
Senior Research Fellow

F:v  
Enclosure



## MILTON FRIEDMAN



A recent surge of interest in replacing the present income tax by a flat-rate tax has elicited two predictable reactions: first, the surfacing of the old myth that, in the words of Tom Wicker, "the result [of a flat-rate tax] would be a massive redistribution of income, with more of the tax burden shifted from the rich to the poor and middle class"; second, the use of the rhetoric of flat rates as a disguise.

**The Myth:** A true flat-rate tax has two components: first, a single tax rate applicable to everyone and to the whole of the tax base; second, a tax base equal to total income with no deductions except personal exemptions and strictly defined expenses of earning the income. If present personal exemptions were retained, a rate of not more than 15 or 16 percent would yield the same revenue as the present system with its rates of 12 to 50 percent. If present personal exemptions were raised substantially—as they should be in view of the extent to which their real value has been eroded by inflation—a somewhat higher rate, perhaps 17 percent, would be required to raise the same revenue.

Contrary to Wicker, the poor, middle class and rich would all gain from the substitution of a true flat-rate tax for the present income tax. The poor would pay less tax because of high personal exemptions. Many in the middle class would pay less tax because of a lower rate. Others in the middle class and the rich would pay more tax to the

## How Flat Is Flat?

government yet be better off. They would pay more because the lower rate would render present costly tax shelters unattractive. They would be better off because their gain from being free to use their assets in the most productive instead of the most tax-evasive way would be larger than the extra tax. Tom Wicker's mistake is his failure to recognize how large a wedge there is between the taxes paid and what it costs taxpayers to pay and avoid or evade taxes.

**Rhetoric:** The flat-rate tax is clearly a splendid idea. However, it also arouses intense opposition from powerful special interests created by the existing tax system: recipients of so-called charitable contributions, homeowners, the housing industry,

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*A constitutional amendment is the only way to get a true flat-rate income tax.*

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institutions financing housing construction, the myriad other producers of and beneficiaries from tax shelters, tax lawyers and accountants, and, last but not least, politicians who raise campaign funds from special interests seeking to retain existing tax loopholes or to create new ones.

A formidable lobby indeed, which is why I have for decades tempered my enthusiasm for a flat-rate tax with a realistic recognition that it does not have the chance of the proverbial snowball.

Bills labeled "flat rate" have been pouring into the legislative hopper. Some provide for a true flat rate. Most have only the

label. They retain major deductions and keep graduated rates. For example, Sen. Bill Bradley and Congressman Richard A. Gephardt have introduced a much-publicized bill for a "flat-rate tax" that would retain deductions for contributions, interest paid on owned homes, state and local taxes and income from social-security and veterans' benefits. It also would have rates running from 14 percent to 28 percent—or a top rate double the bottom rate. A far cry from a true flat rate.

**'Left' and 'Right':** Nonetheless, such proposals seem extremely attractive. They offer a compromise between the so-called left and right. The left might accept a lower top rate as the price of gaining a broader base. The right might accept a broader base as the price for gaining a lower top rate.

However, appearances are deceiving. Such a compromise is neither desirable nor feasible. Neither side would trust the other and both are right. If it were ever enacted, the left would go to work to raise the rates—and they would quickly be joined by persons on the right pleading fiscal necessity. The right would go to work to broaden the deductions—and they would quickly be joined by persons on the left pleading equity and social priorities. After all, that is how we got into our present fix. History would simply repeat itself.

There is, I believe, only one way to make a bargain stick: by amending the Constitution to require that any income tax must be levied at a flat rate with no deductions from the tax base other than personal exemptions and expenses of earning the income.

We seem to be well on our way to enacting a constitutional amendment to balance the budget and to limit taxes. Perhaps the time has come to take the next step and outlaw the outrageous kind of income tax from which we now suffer.

*I think this is an idea  
whose time has come, and I  
hope you will do whatever you  
can to help promote it.  
Dick and*

*file  
Flat rate  
tax*

FOR IMMEDIATE RELEASE  
June 18, 1982

CONTACT: Mark Huber  
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CONSERVATIVE LEADERS CALL FOR FLAT-RATE TAX REFORM

WASHINGTON, D.C. -- Calling the existing income tax system a "crazy quilt of confusing bureaucracy, contradictory regulations and camouflaged loopholes" that favors the rich at the expense of the middle-class majority, a coalition of national conservative leaders today called for enactment of a flat-rate tax for all Americans.

Among the signers were Senator Jesse Helms (R-N.C.), Professor Charles E. Rice of the Notre Dame Law School, Wealth and Poverty author George Gilder, National Taxpayers Union Chairman James D. Davidson, Committee for the Survival of a Free Congress Director Paul Weyrich, National Conservative Political Action Committee Chairman Terry Dolan, and Conservative Digest publisher Richard Viguerie.

"The present system has become little more than a bureaucratic nightmare of progressive tax rates that supposedly tax according to the ability to pay," the coalition said in a prepared statement released today.

MORE



"In fact, the system places an unfair tax burden on the vast majority of working, middle class Americans, while allowing people in the upper income brackets, who can afford to hire expensive lawyers and accountants, to take advantage of countless loopholes to avoid their fair share of the tax burden."

"The same thing happens with big business, which contains legions of highly-paid professionals whose only jobs are to minimize the taxes paid by their giant corporate bosses. Meanwhile, millions of small businessmen and women are steadily crushed by the present system which taxes unincorporated small businesses at the higher individual rates instead of corporate rates."

According to the conservative leaders, a "flat-rate tax is the best -- and possibly the only -- solution that can give every American a fair and equal share of the tax burden, while providing government sufficient revenues to fulfill its necessary functions."

While the specific details will have to be worked out, the signers felt it was important for conservatives to endorse the concept of the flat-rate tax.

The flat-rate tax concept has been endorsed by Nobel Prize-winning economist Milton Friedman, numerous citizens groups across

MORE

the country, and was recently suggested by Counselor to the President Ed Meese as a possible alternative open to President Reagan. Studies have shown that a rate of between 10% and 15% would maintain the necessary revenue levels.

A copy of the statement and a list of the signers, in alphabetical order, are attached.

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## STATEMENT OF CONSERVATIVE LEADERS CALLING FOR A FLAT-RATE TAX SYSTEM

### CONSERVATIVES CALL FOR FLAT-RATE TAX REFORM

America's income tax system is an expensive burden on our nation's citizens that should be replaced as soon as possible with a flat-rate tax providing an across-the-board tax rate of approximately 10% to 15%.

We believe the time is now to end the crazy quilt of confusing bureaucracy, contradictory regulations and camouflaged loopholes that has come to characterize the present income tax system and to enact this fundamental reform that will benefit every American citizen.

The present system has imposed a 249% tax increase on our hard working middle class citizens since 1971 that has reduced living standards, contributed to the current recession and allowed Washington politicians to go on the wildest spending spree in American history. While the tax system is certainly not the only reason these things have happened, it is our firm view that the current system taxes most Americans more than they can afford, encourages the development of a \$100 billion underground economy, allows the rich to avoid paying their fair share through thousands of loopholes available only to them, and imposes unneeded red tape and frustration on everybody.

The present system has become little more than a bureaucratic nightmare of progressive tax rates that supposedly tax according to the ability to pay. In fact, the system places an unfair tax burden on the vast majority of working, middle class Americans, while allowing people in the upper income brackets, who can afford to hire expensive lawyers and accountants, to take advantage of countless loopholes to avoid their fair share of the tax burden.

The same thing happens with big business, which maintains legions of highly-paid professionals whose only jobs are to minimize the taxes paid by their giant corporate bosses. Meanwhile, millions of small businessmen and women are steadily crushed by the present system which taxes unincorporated small businesses at the higher individual rates instead of corporate rates.

We feel that a flat-rate tax is the best -- and possibly the only -- solution that can give every American a fair and equal share of the tax burden, while providing government sufficient revenues to fulfill its necessary functions. The specific details of the flat rate tax formula finally enacted will be the result of considerable discussion and debate. But we think it is important here and now for conservatives to declare their strong support for the idea of this badly-needed flat rate tax reform.

(PLEASE SEE REVERSE SIDE)



**\*\* Titles for Identification Purposes Only**

1. Frank P. Adams (Past President, California Republican Assembly)
2. Steve M. Antosh (Executive Director, Center on National Labor Policy)
3. Neal Blair (President, Free the Eagle)
4. Paul Brown (Director, Life Amendment Political Action Committee)
5. Judie Brown (President, American Life Lobby)
6. Jim Davidson (Chairman, National Taxpayers Union)
7. Cullen Davis (Vice-President, Kendavis Industries International, Inc.)
8. Karen Davis (National Director, Christian Women's National Concerns)
9. David Denholm (President, Public Service Research Council)
10. Paul Dietrich (President, Citizens for Reagan)
11. Terry Dolan (Chairman, National Conservative Political Action Committee)
12. Tom Ellis (Attorney, Raleigh, North Carolina)
13. Fr. Charles C. Fiore, O.P. (Chairman, National Pro-Life Political Action Committee)
14. Peter B. Gemma, Jr. (Executive Director, National Pro-Life Political Action Committee)
15. Robert Heckman (Chairman, Fund for a Conservative Majority)
16. Senator Jesse Helms (Member, United States Senate)
17. Lottie Beth Hobbs (President, Pro-Family Forum)
18. June Larson (Legislative Chairman, Citizens for Constructive Education)
19. Vincent Larson (Chairman, Citizens for Constructive Education)
20. Connaught Marshner (Chairman, National Pro-Family Coalition)
21. Alton Ochsner, Jr., M.D.
22. Jay Parker (President, The Lincoln Institute)
23. Dan Popeo (General Counsel, The Washington Legal Foundation)
24. Prof. Charles E. Rice (Notre Dame Law School)
25. Martha Rountree (President, Leadership Foundation)
26. Rhonda Stahlman (Chairman, Conservatives Against Liberal Legislation)
27. Jane Saxon (Editorial Assistant, The Lincoln Institute)
28. Harlan Schlicher (New Jersey Conservative Political Action Committee)
29. Scott Stanley (Editor, Review of the News)
30. Don Todd (Executive Director, American Conservative Union)
31. Richard A. Viguerie (Publisher, Conservative Digest)
32. Paul Weyrich (Director, Committee for the Survival of a Free Congress)