

The Case Against the Flat Tax By Murray N. Rothbard



“Special Interests”: Good or Bad?

The flat tax draws virtually unanimous support from the right-thinking intellectuals in our society, including academics, writers, and media pundits. By “right-thinking” I mean all people who have managed successfully to identify their own views, whatever they may be, with the general welfare. By this time, however, the cautious should be on the alert: any policy that draws unanimous support from these people can’t be all good. There must be a catch somewhere.

The flat tax has been cleverly labeled a tax “reform,” the very word “reform” being heavy with the implication that no man or woman of good will, be they liberal or conservative, Democrat or Republican, can possibly stand opposed to such a plan. My favorite writer, H. L. Mencken, once wrote that he had learned at his father’s knee in Baltimore what “reform” in politics really meant: “mainly a conspiracy of prehensile charlatans to mulct the taxpayer.”

So convinced are the flat-taxers that only they have a pipeline to interpret the general welfare, that they invariably charge that any and all critics of their scheme are simply spokesmen for a sinister and shadowy group they commonly refer to as “the special interests.” “Special interests” seems to be an effective way to write off substantial opposition to the flat-tax, especially since the convenient tendency of intellectuals is to dismiss all other interests but their own as “special” and hence somehow narrow and sinister.

But are special interests all bad? Some undoubtedly are. Take, for

example, the sugar program to which all of us have been subjected for a half-century. In order to maintain and expand the inefficient U.S. sugar industry, the sugar interests have for decades propped up sugar prices by use of government, and lobbied for severe quotas on the import of sugar. As a result, American consumers (to say nothing of foreign sugar producers) have been hurt severely, the supply of sugar sharply restricted, and the price artificially raised—so that the support price of sugar in the U.S. is now no less than seven times higher than the world market price. Here is a clear-cut example of aggression by special interests.

But there are also cases of special interests acting defensively, rather than aggressively. Several years ago, for example, the movie theaters circulated petitions urging that a new tax on movie admissions be repealed. I was happy to sign that petition both because I believed that the cause of the theaters was just and also that my own and other movie consumers' rights and interests were being invaded by the government.

But wasn't this special pleading on the part of the movie theaters? Yes, and so what? There is no reason to expect that movie theaters will be in the forefront of actions to protect the rights and incomes of, say, restaurants. In all cases where special interests are acting defensively, the front fighters for the rights of consumers will naturally be the particular firms or industries that happen to be under attack. Who else would we expect to sound the alarm?

To return now to the flat tax: the seductive rhetoric invoking the "special interests" has lead most people to believe that everyone will benefit from the flat tax except a few wicked corporations or multi-millionaires. Nothing could be further from the truth. If the flat tax is enacted, millions of us will find out, too late and to our chagrin, that, to paraphrase Pogo: "We have met the special interests and they are us." Or as Senator Robert Dole (R-KS) put it recently on the issue of the flat tax as an allegedly fair tax: "Everybody believes in fairness unless they're involved."

Before we go down the list of "special interests" who would be hurt by the enactment of a flat tax, I want to stress that I'm talking about the pure flat tax concept, rather than the current approach to it submitted last fall by then-Secretary of the Treasury Donald Regan or this spring by Treasury Secretary James Baker. These present as much of the flat tax as the Treasury thought it could get away with politically. But the argument for these plans are that

they approach the ideal of the flat tax, and so it is that ideal that should be examined.

The flat tax, quite simply, proposes that every individual and every organization be subjected to the same, uniform proportional income tax. To achieve that uniformity, the flattaxers propose the ruthless suppression of all credits, deductions, exemptions, and shelters, all of which are sneered at as “loopholes” in the tax system. In the flat-taxers’ pure theory, the proportional income tax would apply to everyone regardless of income. But early in the development of the flattax movement they decided that, politically, the poor would have to be exempt from the tax. As a result, all flat tax schemes are now “degressive”: proportional above an arbitrary minimum income floor, below which line income receivers pay no taxes. The “degressivity” leaves an important element of progressivity in what has been touted as a strictly proportional plan.

What Is a “Loophole”?

It is instructive to pause for a moment to examine the pejorative term “loophole.” What is a “loophole,” anyway? It is never defined, but the flat-taxers seem to make the implicit assumption that the government really owns, or should be owning, all of what everyone makes, at least up to some arbitrary percentage decided by the government. Hence, any failure of government to confiscate everyone’s property up to that amount is somehow a moral blot that needs to be rectified. But to me it is far from self-evident that the government, rather than we ourselves, should have the primary right to our own earnings.

The “closing of loopholes” under a flat tax will mean a merciless and continuing search-and-destroy mission by which the government will root out and obliterate every little hideyhole in which many of us have been able to squirrel away a bit of our own earnings and our own property, and keep them safe from the ever-expanding maw of the federal government.

Wrapped up in the confusion over the role of “special interests” is a muddle over the concept of “subsidy.” Flat-taxers call these exemptions, deductions, and loopholes “subsidies,” and being staunchly opposed to subsidies, flat-taxers propose to eliminate them. But is it really a “subsidy” to be allowed to keep more of your own money? Only if we agree with the curious implicit assumption of the flat-taxers that the government, not us,

really owns our earnings and our property, and that therefore being allowed keep some of them is an arbitrary indulgence on its part.

I submit, to the contrary, that there is a big and crucial difference between the government's taxing Peter to pay Paul, which is a "subsidy" to Paul, and the government's allowing Paul to keep more of his own funds. That can only be called a "subsidy" on the grotesque assumption that the government really owns all of our property to begin with.

Before examining the "special interests" who will lose, and often lose heavily, from the imposition of a flat tax, let me say that, strictly for the sake of argument, I will begin by granting, for the time being, the flat-taxers their insistent point that the shift to their tax will be strictly "revenue-neutral," that is, that total tax revenue will remain exactly the same from the shift, and will not increase.

Let us now go down the list of heavy losers from the imposition of the flat tax:

Receivers of "Imputed" Income

The flat taxers are nothing if not sophisticated economic theorists, and they realize that we receive our incomes, not only in money but also in other ways, by goods or services "in kind," or in various psychic ways. They also realize that much of the flowering of non-money incomes, to which they "impute" monetary value, has come about precisely in order to avoid some of the confiscations of the taxing system. Since income taxes are levied on money income, people tend to shift as much income as possible from monetary to non-monetary forms.

And so, people pay and receive income in non-monetary ways: if a carpenter goes to a physician for treatment, he may meet his bill by fixing the doctor's house rather than by money payment. Employees receive much of their income in non-monetary "fringe benefits," which may accrue in money only in the future. Salesmen and executives take some of their salary, not in money income, but in blissfully tax-free "perks" such as expense accounts, and the much-cherished business lunch.

But the flat-taxers, in their puritanical frenzy at seeing anyone escape their allotted payment of taxes, are out to get rid of all that. It is good-bye to the

tax-free fringe benefit, the expense account, the business lunch. And what will happen to the restaurant business, the hotel business? The flat-taxers, like all puritans, like all fanatics, care not; they are ready to wreak unlimited havoc in the name of attaining their ideal.

For one thing, there is the American homeowner. Every homeowner is going to get it, but good, under the flat-tax regime. The flat-taxers, for example, have figured out that homeowners benefit, in a real though non-monetary way, by not having to pay rent. And so the flat-taxers propose to tax every homeowner on the “imputed rent” they are earning by not having to pay rent to a landlord. If, for example, you own your own home, and some officials figure out that you would have been paying \$1,200 a month if you had been renting the home, then you will have to pay a proportional tax on this imputed total.

Unfortunately, no one has yet figured out a way to pay “imputed” taxes. The IRS insists on cold hard cash. And so it is going to be very painful for many people to have to pay taxes in money on income which is only psychic. As we will see shortly, the flat-taxers are out to tax capital gains fully as much as if they were earned income, as indeed they are. But if they had their druthers, they would tax these gains, not when we realize them in money form, but every year, as they accrue.

It is going to be very difficult for many people to pay through the nose on capital gains from increases in the value of their stocks or their homes, gains which they can only reap when they come to sell their asset. In the regime of the flattaxers, there will be a great deal of painful forced-selling of homes and other assets. And to think, all this in the sacred name of the twin watchwords of the flat-taxers: “Simplicity” and “Fairness!”

It’s a good thing that the flat-taxers haven’t yet figured out how to tax us on our leisure, although as good puritans I’m sure they’re working on it.

Payers of Interest

Interest payments are expenses that the government allows us to deduct from taxable income. They will be brought under the heel by the flat-taxers. But if interest payments are no longer deductible, this means that one of the great economic advantages of owning a home, being able to deduct mortgage interest payments from taxes, will disappear. Notice that all of

America's homeowners will be clobbered four ways by the ruthless ideologues of the flat-tax movement. One, as we have seen, homeowners will lose by being forced to pay taxes on their "imputed rent"; two, they will no longer be able to deduct interest payments on mortgages; and three and four, the value of their homes, on which they count when they wish to move, will be forced down because the after-tax return on the house will decline from the two increased tax levies.

I fail to follow the logic on this one: I can see why those who earn interest have to pay taxes on this income; but I fail to see why those who pay interest have to shell out more as well. In fact, this looks to me like double taxation on the same income, and if the flat-taxers were not self-proclaimed experts on "fairness," I would even go so far as to say that double taxes on the same income are unfair.

Receivers of Capital Gains

The flat-taxers are also astute enough to realize that capital gains constitute income. But on the other hand, profits add to capital gains, and since they propose to tax profits too, they are, once again, double-taxing the same income. At the very least then, profits should no longer be taxed if capital gains are as well. Relentless in pursuing any bit of untaxed income, the flat-taxers note that capital gains have been taxed much less in recent years than other income, and so they propose to pile on higher taxes so as to bring about the desired uniformity.

But higher capital gains taxation will strike hardest and foremost at the new, young, venture capitalists going into high-risk, progressive industries. Heavy capital gains taxation will strike a deadly blow precisely at new, high-risk venture capital. Do we really want to cripple these firms and ventures?

We have already pointed to the extra difficulties if flat-taxers pursue their prey to the last ounce and insist on taxation of accrued, and not just realized, capital gains.

It is common knowledge that Great Britain's economy since World War II has suffered grievously from very high levels of income tax. One of the reasons that Britain has not gone completely down the drain is that, fortunately, its government has levied no tax on capital gains, thus allowing many capital ventures to flourish. Our implacable flat-tax Jacobins would make sure to close that loophole.

Accelerated Depreciators and Investors

But let it not be thought that our flat-taxers are only out to make life difficult for new venture capitalists. The old-line smokestack industries, already in decline, will get theirs too. One of the great problems of the older, heavily capitalized industries is that their profits have not been high enough to permit them to maintain and modernize their capital to allow them to compete with newer firms at home and abroad.

Two highly beneficial tax reforms of the first year of the Reagan Administration were (1) allowing investment credit on corporate and personal income tax for investing in capital; and (2) permitting business firms to accelerate the depreciation of their capital at virtually any speed. The investment credit has allowed heavily capitalized firms to keep more of their profits, and invest them in maintaining and expanding their capital.

Now, under the thrall of the flat-tax ideologues, the Administration proposes to get rid of its own salutary reforms. Both of them are now derided as “subsidies.” But, once again, the investment credit allows people to keep more of their money if used for investment. Neither can one call accelerated depreciation a subsidy. There is no reason why a business should not be able to depreciate its capital at any pace it wants. Its total, long-run tax bill does not even decline; what a business is permitted to do is, instead of extending a depreciation allowance over, say, the ten-year life of a machine, to choose instead to take the entire allowance off now, so as to be able to buy a new machine and pay the same total tax bill out of the returns of the new machine over the next nine years. Accelerated depreciation simply allows firms to arrange the time-schedule of their payments in the most convenient and efficient ways.

Owners of Natural Resources

Let it not be thought that owners of natural resources, such as oil, natural gas, and metallic mines, will get off scot free. On the contrary, they will be among the worst losers from the tyranny of the flat-taxers. Economists in general, let alone flat-taxers, have long denounced depletion allowances of natural resource owners as an outrageous subsidy. Since oil and natural gas companies, in the public’s folk mythology, are considered especially wicked, this part of the flat-tax creed enjoys wide popularity. Yet, in

actuality, apart from the fact that the right to keep one's own money can hardly be called a subsidy, there is another important fallacy in calling depletion allowances a subsidy.

An income tax, by its very name, is designed as a tax on annual income, not on accumulated wealth. A tax on wealth directly confiscates property and brings about a decline in the structure of capital and hence of everyone's standard of living. But then we must realize that if we make the grave mistake of treating a using-up of capital as a firm's income, and tax it accordingly, we will precipitate a decline in its capital structure and impose severe losses upon the firm.

Suppose, for example, that a crude oil company produces and sells oil, and makes a net income from the sale of \$100 million. But the oil in its reserves has now been diminished; if we can determine, say, that the value of its underground oil has gone down by \$70 million, then the net income of the company has only been \$30 million. To tax it as if its income has been \$100 million will unwittingly impose crippling losses upon the company. And yet, our flat-taxers, true to form, propose to do precisely that. And the value of stock investments in oil and mineral resource companies will, of course, decline as well.

Corporations

Lest we think that only the new venture firms and the older smokestack industries will get the axe from our flat-taxers, we should know that all corporations will suffer, for the corporate income tax* will increase substantially, to make the tax on a par and uniform with the tax on the income of individuals. Everything, again, looks neat and "fair," with all individuals and organizations paying a uniform rate.

But if, in the famous Milton Friedman formula, TANSTAAFL (there ain't no such thing as a free lunch), then we can also add the term TANSTAAC (there ain't no such thing as a "corporation"). There is no existing entity called a "corporation" that feels, works, thinks, earns income, and then enjoys that income. A "corporation" is only a label for individuals who organize themselves, and hope to earn income, in certain ways. There is no income-earning thing called a "corporation" that exists and earns income above and beyond the people, that is, the stockholder-owners, who constitute that corporation. Therefore, a tax on corporate income is an unjust and

“unfair” (if I may use that term) double tax on the same income, as well as a tax hitting at savings and investment. Instead of raising income tax rates on corporations, as the Treasury plan and the flat-taxers would do, we should move in the other direction, end double taxation, and cut the corporate tax to zero. Stockholders should be taxed just once, on the income they individually earn from the corporate form. Even President Reagan himself had been known to voice such sentiments.

State and Local Taxpayers

And now we come to a category of losers from the flat tax that I find particularly outrageous, since I live in New York City, where I and millions of other hapless citizens are mulcted into paying the highest state income tax in the nation, the highest city income tax in the country, and the highest sales tax.

After having been chastised for so many years with whips, the flat-taxers now arrive on the scene to chastise us with scorpions. It seems that being able to deduct our massive state and local taxes from our federal taxable income has only been a wicked “subsidy,” and so now even that small consolation will be snatched from us.

It goes without saying that flat-taxers are zealots in favor of taxing the interest from municipal bonds—a long-standing goal of liberals in order to aggrandize the power of the federal government as against the states. If municipal bonds are taxed, their value will of course plummet, as will the credit and the power of state and local government to float bonds. More and more spending will then be centralized in the hands of a super-powerful federal government.

Is that all we really want? I suppose there is no reason to raise the point that federal taxing of municipal bonds is clearly unconstitutional, as would be state taxation of Treasury bonds, for since when has anyone worried about the provisions of the Constitution of the United States?

The Charitable and the Non-Profitable

One important tax deduction to be swept away would be gifts to charities or other non-profit organizations. Since much charity is now done under the gun of the IRS, the result of the flat-tax would be a drastic crippling of

private charitable and educational organizations. Why should giving to charities, the arts, and educational institutions be hobbled and penalized, in the name of “simplicity” and “fairness?” The severe losses of many of these organizations, would lead them to turn to the federal government to bail them out, in effect nationalizing private charity and expanding and aggrandizing the federal welfare state. All universities and nonprofit institutions that depend on voluntary giving would be victims of the zeal of our single-minded flat-taxers.

Victims of Fire, Sickness, and Accident

There are even more helpless victims who will fall under the heel of the flat-taxers. Every man or woman who falls sick and whose medical payments are not insured, will, in flattaxland, be unable to deduct these payments from his taxable income. No victim of fire, uncovered by insurance, will any longer be able to deduct his losses. And so life’s unfortunates, run over by accident or disease, will be run over a second time, this time in the name of “equality” and “fairness.”

Entrepreneurial Losers

Some entrepreneurs make profits; others suffer losses. That is the essence of entrepreneurship. While I don’t believe that losers should be bailed out or subsidized by the government, it seems like excessive punishment for government to kick them while they’re down. But this is precisely what our flat-taxers are planning to do. For while it is difficult to claim that losses, like profits, somehow constitute net income, this is precisely how flat-taxers regard them: as hidden income to be ferreted out and taxed. We have heard for years about those evil “tax shelters” which “they,” the wicked rich, like to indulge in. But mainly these “shelters” are losing propositions, the losses of which partially offset net income in other areas. How can we call such shelters “income”?

I, for example, in addition to being a salaried professor, am a self-employed author and lecturer. Some years, I make a net income from this business, other years I suffer losses. Who are the flat-taxers to come swooping down, and they or the IRS to try to pry into my soul, and announce either that I am a genuine but sometimes losing entrepreneur, or that in my secret heart of hearts I rejoice in my losses because it lowers my taxable income? Are the flat-taxers or the IRS truly qualified to examine

everyone's heart and soul and decide on everyone's inner motives? And, in the last analysis, how dare they anyhow?

Let everyone, then, realize that the "they," the "special interests" who will be hurt, and perhaps hurt badly, from the flat tax, are not just a few shadowy and malevolent millionaires.

While it is not really possible to average out pain or loss among individuals and make it disappear, there is every reason to believe that, on the average, upper-income groups will probably benefit on net from the fall in tax rates under the flat tax, whereas the middle class, as usual, will be hit and hit hard. So what else is new?

The Argument From Fairness

The major argument for the flat tax is not economic but moral, namely that this is the only fair way to distribute taxation. The assumption is that, given an arbitrarily determined total revenue to the government, that revenue should be distributed in a uniform, flat-tax manner.

But the flat-taxers do not really argue their point; they simply assume it as self-evident to all people of good will. Well, sorry, but I don't see it. I don't see why it is particularly "fair" to clobber the sick, the sufferers from accidents, or the homeowners, or why it is fair to impose monetary taxes on earners of non-monetary income.

More specifically, I don't see why proportional taxation is any "fairer" than many other possible patterns of distribution. Take, for example, Mr. A and Mr. B, each of whom earns a net income of, say, \$50,000 a year. But Mr. A is a young man, just starting in life, with virtually zero assets. He depends on personal savings to finance a future business.

Mr. B, on the other hand, is an older man who has already built up or inherited millions of dollars in assets. Why is it manifestly fair for him to pay the same tax as Mr. A? Neither is it obvious to me that a sick person with heavy medical bills should pay the same tax as a healthy man with the same income. Note that I am not saying the opposite: I am not advocating a tax on health or on wealth. I'm simply saying that there seems to be no convincing argument for the fairness of one pattern of taxation over another.

In fact, I will go even further, and say that fairness has little or nothing to

do with the matter, that, in fact, TANSTAAFT (“there ain’t no such thing as a fair tax”). Conservative flat-taxers like to analogize to the free market, and maintain that they are trying to achieve neutrality to the market. But consider: what in the world is a “fair” price on the market?

Many medieval economists came to grief on this issue. What is the “fair price,” for example, of Wonder Bread? Who knows? For my part, as a Wonder Bread consumer, I’d love to see the price down to about a penny a loaf, and the Wonder Bread Company would undoubtedly love to be able to charge \$100 a loaf. As it is, after the higgling and haggling of the market, we all settle for about one dollar a loaf. There seems to be no sense to the concept of fairness in price except what is arrived at, from day to day, as the result of voluntary transactions on the market.

But what of taxation? Unfortunately, we can’t even apply the voluntary transaction criterion here, because by its very nature, taxation is coercive, and is not arrived at by the voluntary bargaining of individuals on the market. So what then is a “fair” tax? I submit that the concept simply doesn’t apply.

All I know is that, as a taxpayer, I would like my taxes to be as low as possible. I suggest, then, that we cease the impossible quest for fairness in taxation, and try to arrive at taxes as low as possible. For whom? For everyone.

One of my favorite economists, the 19th-century Frenchman, J. B. Say, after pointing out that taxation is a coercive transfer from individuals and groups to the government, crippling their ability to produce and consume, concluded:

“The best scheme of finance is to spend as little as possible; and the best tax is always the lightest.” In short, to paraphrase Jefferson, “That government is best which spends and taxes least.”

Instead of worrying about distributing taxes “fairly,” or what is supposed to amount to the same thing, allocating tax suffering equally, we should set about trying to minimize tax suffering as much as we can down the line. And if we approach the problem that way, we should find it easier to gain broad agreement. Rather than trying to figure out whether a proportional, degressive, regressive, or progressive income tax structure is “fairest,” we

may find we can agree on reducing the tax burden of everyone.

Thus, let us compare two hypothetical tax systems. In system A, there is a progressive income tax, ranging from one to ten percent. In system B, everyone pays a flat, strictly proportional income tax, of 20%. I have a hunch that, in choosing between these systems, even the upper-income groups would opt for the far more progressive, but much lower tax burden. The central point is the lowness of each tax, rather than the distribution of the burden.

People are, or should be, interested in lowering their own tax burden rather than enviously trying to aggravate the burdens of other people. And here is a genuine basis for solidarity among taxpayers of all groups and sizes. The point, then, is not that “they”—whoever “they” are—are paying too little taxes and should be brought to heel, The point is that all of us are paying too much. The flat-tax movement is part of a process by which the government and its allies have been able to split and deflect the tax protest movement from trying to lower the taxes of everyone, into trying to force everyone into paying some arbitrarily defined “fair share.”

The Argument From Neutrality to the Market

An important argument of the flat-taxers, especially those who claim devotion to the free market, is that their plan is needed to restore the allocation of resources to what would have been the pattern on the market: in short, that the flat tax is uniquely neutral to the market.

The argument runs as follows: credits, deductions, loopholes distort resources relative to the free market because more resources go into the loopholes than would otherwise. Thus, an investment tax credit means that more resources will go into investment than would a free market.

Suppose that there are only two industries in the economy, machine tools and wheat. If machine tools receive an investment tax credit, more resources will be poured into machine tools relative to wheat than on the purely free market. Therefore, the tax credit distorts resources, and a flat tax, by eliminating that credit, will correct the distortion and restore genuine market conditions.

But this argument overlooks a crucial point: namely, that even in our simple model, much less in the real world, there is still another channel for

the allocation of resources, namely government. In our example, if resources did not go into machine tools because of the special credit, they would have gone not into wheat but into government, and government is far less neutral to the market than any other allocation.

In other words, from the point of view of the free market, any allocation of economic resources in the private sector, whether machine tools, wheat, or whatever, is better, that is, closer to the free market, than those resources going into the maw of government. If neutrality to the free market is really the consideration, then free-marketeers would rejoice with the creation of one more loophole, one more nook and cranny safe from the tax-man. The key point to focus on is private resources vis-à-vis government.

It has been completely overlooked that the Reagan Administration, while submitting the Treasury flat-tax plan, has at the same time called for further tax credits: for private school tuition and for enterprise zones. Both are laudable, but both are completely opposed to the flat-tax concept.

There is another important point about neutrality to the market, one which also speaks to the fairness issue. The flat-taxers have strongly implied that, in contrast to the progressive tax, the uniform proportionate tax is neutral to the market—for the market would pay in this way for the services of government. But would it really? Where on the market is the price of anything proportionate to the income of the customer? I pay approximately one dollar a loaf for Wonder Bread; if and when David Rockefeller goes to the market to buy a loaf of Wonder Bread, is he forced to pay one million dollars a loaf—or whatever the proportion would be for our respective annual incomes? One of the great things about the market is that every good or service tends to be at one price: regardless of the race, creed, personality, or income of the customer.

The Argument From Simplicity

Perhaps the most seductive argument of the flat-taxers is the argument from simplicity: that, in contrast to the maddening complexity of today's tax code, a code that even the IRS itself cannot fully understand, the flat tax would be simplicity itself. Everyone, they promise, would be able to make out their income tax "on a postcard."

But in the first place, it wouldn't be that simple. We would still need a

complex process to determine what our net, taxable income might be. Those of us who are self-employed would still have to figure out our expenses and net incomes. But let us set that aside. What the flat-taxers don't seem to realize is that there are worse things in the world than complexity. And one of them is paying higher taxes. In short, they don't seem to understand some of the reasons for all the tax complexity.

The reason is that many people are willing to wade through a great deal of complexity in order to lower their tax burden. So that, in a sense, given the tax system, much of the complexity that everyone denounces is voluntary. In fact, if we desire simplicity, we can achieve it right now, and without the flat tax. Two-thirds of Americans do so now by filling out the simple short form for their taxes. The one-third of us who choose the wearying long-form route do it for one reason alone: to lower our tax bills. Why in the name of simplicity, are the flat-taxers trying to take this choice away from us? Let them keep their gift of simplicity to themselves, thank you.

One variant of the simplicity argument proved so alluring to a friend of mine that he was almost persuaded by the flat-taxers: the promise that the flat tax would get rid of what are apparently one of the most disliked groups in our society: tax lawyers and accountants.

Apart from the fact that the flat tax would still require a lot of cogitating over net income, let me be one of the few Americans to put in a good word for this much vilified and beleaguered group. Denouncing tax lawyers and accountants is like blaming doctors for the existence of disease, or attacking expenditures on guards, locks, and fences for protecting oneself against crime. Our complaint should not be with tax lawyers and accountants, but with the system that makes them necessary. So long as that system exists, we must realize that they are our shield and our buckler, our defense against the depredations of the tax system.

Revenue-Neutral?

It is now time for us to relax the original assumption that I granted the flat-taxers: that their plan would be and remain revenue-neutral. Even if the flat tax would not raise total revenue immediately, who here is naive enough to believe that the government will sit still for long for revenue-neutrality?

The government may be willing to lull us into a false sense of security by promising no increase in total revenue. It doesn't mind cutting tax rates a bit

temporarily, for the sake of bringing more revenue sources into its clutches. It is worth a lot to bring previously sheltered hiding places into the grasp of the federal government. I can make that point most dramatically by pointing to the fact that eminent left-liberal economists like Walter Heller champion the flat-tax plan. We might almost point to a picture of Professor Heller, and ask:

why is this man smiling? He is smiling because, as he has frankly written, the cut in present tax rates is worth the broadening of the tax base, that is, the bringing of previously exempt income under the grip of federal taxing power.

The Terrible Simplifiers and the “General Interest”

If the flat tax is neither evidently fair nor genuinely simple nor neutral to the market, if it is merely a snare and a delusion for more confiscatory taxation, it is easy to understand why politicians and bureaucrats may love the idea. But why the enthusiasm of the intellectuals—the alleged spokesmen for the “public” interest? The answer is that the intellectuals may well have a “special interest” of their own.

Jacob Burckhardt, the great 19th-century Swiss historian, referred to many of the intellectuals of his day as “terrible simplifiers.” What he meant is that many intellectuals, right, left, or center, are opposed to the messy individuality, the untidy diversity of real life. It is an occupational disease of intellectuals to simplify the reality of people, of other people that is, in order to try to understand them. And so intellectuals like to pigeonhole their subjects—other people—into neat, orderly, and simple categories, and to classify and then deal with them in neat and orderly ways. From that way of thinking is an easy step to classify and then treat people as mere pawns to be pushed around.

To do so, the intellectual turns to the secular arm—that is the enforcement power of government—to do the pushing. Intellectuals, in short, are all too often terrible simplifiers, willing and eager to impose massive and painful losses upon other people for the sake of symmetry, uniformity, flatness, or some other simple and abstract ideal. The nature of the creed, the specific content of the ideal, is not nearly as important as the eagerness to override and bulldoze out of existence the diverse and ruffled reality of individual life. We have, alas, come to know in the twentieth century that totali-

tarianism can have many faces.

When the Regan plan toward a flat tax was announced last fall, an anonymous White House aide attacked the proposal as one “that looks like a tax system designed by a lot of academics.” And a leading New York broker charged that “those guys at Treasury are tax lawyers, assistant professors, or statisticians. They have no understanding of what makes an entrepreneur tick.”

Indeed, the main designer of the Regan plan, a former academic, proudly proclaimed his lack of realism. Admitting that the plan was written “in an ivory tower,” he declared that “one nice thing you get from the ivory tower, is that you get opinions that tend to be unbiased, that are not affected by special interests, that have the public interest in mind.” I hope that we will now begin to treat such arrogant claims with the skepticism they so richly deserve.