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With Tax Cuts, Cut Spending

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When the states ratified the 16th Amendment in 1913, the top marginal personal income tax rate was 7 percent and federal spending was less than 10 percent of GDP; today the top rate is close to 40 percent and spending is 21 percent of GDP.

The tax code has become more and more complex, tax preferences (loopholes) have politicized the system, and high rates are penalizing success.

President Trump's tax reform would simplify the individual income tax by closing loopholes and reducing the number of brackets from seven to three — with marginal rates of 10 percent, 25 percent and 35 percent.

Tax reform is necessary to make America great again, but so are effective limits on the size and scope of government.

There is a strong case for a simple, flat-tax system on grounds of both efficiency and freedom. But tax reform must be tied to downsizing government.

Limits on taxing and spending ultimately need to be embedded in constitutional limits — and those limits can only be enforced if there is a public ethos of liberty. When government is asked to do too much, the private sector suffers along with civil society.

"The sum of good government," said Thomas Jefferson in his 1801 Inaugural Address, is "a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned."

That vision of limited government — and the extension of that vision to all Americans — is what made America great.

Hong Kong, the freest economy in the world, has a simple flat tax of 15 percent. It has also lived within its means and limits government spending to about 18 percent of GDP. Its mantra is "small government, big market." It is not sufficient for prosperity and freedom to reduce tax rates without at the same time reducing the size and scope of government. Unless spending is constrained there is no guarantee that lower tax rates and fewer loopholes will survive political gamesmanship.

When tax rates were lowered in the 1980s the economy benefited, but the federal budget deficit went from $74 billion in 1980 to $221 billion in 1986.

The budget was in surplus from 1998 to 2001, but has been in deficit ever since. The accumulated deficits have increased federal debt to more than 100 percent of GDP, and that doesn't include the trillions of dollars of implicit debt — that is, the unfunded liabilities in Social Security, Medicare and Medicaid.

The true cost of government is spending, not taxes. Federal spending is expected to reach 22 percent of GDP in fiscal year 2018, a figure that would have astonished the Founding Fathers.

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