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"The Most Exciting Tax Plan Since Reagan's": Right-Wing Media Tout Perry's Flat Tax

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Following the release of Republican presidential candidate Rick Perry's (TX) tax plan, conservative media have hyped the plan, claiming it is "exciting" and a "radical improvement" over the current system. However, economists from across the spectrum have criticized Perry's plan, noting that it will lead to "substantial" revenue loss and "draconian cuts" while "undermin[ing]" the need to make the tax code simpler.

Conservative Media Hype Rick Perry's Tax Plan As "A Radical Improvement"

***Weekly Standard*'s Steve Hayes: Perry's Plan Is "Very Strong" And "Has A Lot Of Very Appealing Pro-Growth Aspects To It."** From the October 25 edition of Fox News' *Special Report with Bret Baier*:

BAIER: OK, Steve, thoughts on this plan and the rollout?

HAYES: Very strong. I like the plan a lot. I think it has a lot of very appealing pro-growth aspects to it. I particularly like the 20 percent tax. There have been already complaints that this is too complicated, that the phase-in or the opt-in and opt-out will make things too complicated. I think that's nonsense. You have basically the option for people to choose whether they want to pay higher taxes. Who's going to choose whether to pay higher taxes? [Fox News, *Special Report*, 10/25/11]

Steve Forbes: Perry's Tax Reform Proposal Is "The Most Exciting Tax Plan Since Reagan's." An October 20 Yahoo News article reported that Steve Forbes stated that he "helped devise Perry's plan" and heaped lavish praise on that plan. From the article:

Steve Forbes, whose flat tax plan helped make him an unlikely contender for the Republican presidential nomination 15 years ago, is praising a new version of the idea from Rick Perry. And Forbes, who says he helped devise Perry's plan, left little doubt that he'll formally back the Texas governor before long.

In an interview with Yahoo News, Forbes called Perry's proposal, announced in a speech Wednesday, "the most exciting tax plan since Reagan's," in 1980.

Asked whether that included his own 1996 plan, Forbes said it did, because unlike him in 1996, when he fell short of upsetting front-runner Bob Dole, Perry "is going to win."

Forbes, the chief executive of his family's eponymous publishing empire, said the Perry camp reached out to him for help in crafting their plan. "We got into discussions of basic principles--how the thing might be shaped," he said. "The candidate concluded it ought be a simple rate. Make it as simple and bold as possible."

[...]

Asked whether the Perry plan would immediately raise as much tax revenue as the current system, Forbes did not answer directly. But he said that in the long-run, it would increase revenue, by spurring economic growth.

Many on the left argue that a flat tax would increase the tax burden on the poor, while easing the load on wealthier Americans. Forbes dismissed those concerns.

"It's gonna be good for all taxpayers," he said. [Yahoo News, 10/20/11]

- **Forbes Reiterated His Support On Fox: The Flat Tax Is "A Tax Cut For Most People, Not A Tax Increase."** [Fox News, *America Live*, 10/25/11, via *Media Matters*]

Big Government's Dan Mitchell: Perry's Plan Has "Some Missing Homework, But [Is] A Solid B+" And "A Radical Improvement Compared To The Current Tax System." In an October 25 post on Andrew Breitbart's BigGovernment.com headlined "Grading Perry's Flat Tax: Some Missing Homework, But A Solid B+," contributor and Cato Institute economist Dan Mitchell wrote:

As a long-time advocate of a pure flat tax, I'm not happy that Perry has deviated from the ideal approach. But the perfect should not be the enemy of the very good. If implemented, his plan would dramatically boost economic performance and improve competitiveness.

[...]

Depending on the answers to these questions, the grade for Perry's flat tax could be as high as A- or as low as B. Regardless, it will be a radical improvement compared to the current tax system, which gets a D- (and that's a very kind grade). [Big Government, 10/25/11]

Hoft Hypes Perry's Tax Plan. From an October 24 post on Jim Hoft's Gateway Pundit blog:

Governor Rick Perry unveiled his 20% flat tax and spending plan tonight. The plan will give individuals the option of paying a 20% flat-rate income tax. It will also cap federal spending at 18% of GDP. Another selling point - the simple 20% flat tax will allow Americans to file their taxes on a postcard, saving up to $483 billion in compliance costs.

Sounds good.

Steve Forbes was impressed. He endorsed the plan on Monday. [Gateway Pundit, 10/24/11, emphasis original]

However, Experts Describe The Plan As "Delusional" And Claim It Will Lead To "Draconian Cuts" And "Substantial" Revenue Loss

Syracuse University Economics Professor: Perry's Plan Is "Delusional Policy" And "The Race To The Bottom On Tax Policy Is Getting Scary." In an October 25 post on *Forbes* magazine's website titled "Perry Optional Alternative Flat Tax -- Good Politics, Delusional Policy," Len Burman, Professor of Practice, Public Administration and Economics at Syracuse University, wrote:

Here's a quick note on Perry's actual plan, as outlined in his Wall Street Journal op ed today. Yesterday, I noted that a flat tax would be regressive and potentially raise taxes on low- and middle-income people. I was assuming, erroneously as it turns out, that Perry's plan would be designed to raise at least as much revenue as current law. But it would actually amount to a giant tax cut.

Here's what he said in the WSJ:

The plan starts with giving Americans a choice between a new, flat tax rate of 20% or their current income tax rate. The new flat tax preserves mortgage interest, charitable and state and local tax exemptions for families earning less than $500,000 annually, and it increases the standard deduction to $12,500 for individuals and dependents.

The plan is optional, meaning that low- and middle-income families that benefit from refundable credits will stay in the current system. High-income taxpayers will jump at the chance to avoid paying tax on interest, dividends, capital gains, rents, royalties, and other capital income. That is a large share of their income, and it would be exempt under Perry's plan. And the 20% rate is much lower than the current top rate of 35%. And, moderately well off people get to keep the most popular deductions.

The idea of an optional alternative tax system is not new. John McCain proposed one in 2008 and it would have added $7 trillion to the debt over a decade. It's virtually always true that if you offer taxpayers a choice, it will cost the Treasury money.

I have no idea how big a tax cut Perry's plan is, but there's no way this plan will come close to raising 18% of GDP (Perry's spending target) unless there are hidden revenue raisers that I missed. The idea of adding to our enormous deficits to provide giant tax cuts for millionaires and billionaires just blows my mind.

And, by the way, an optional alternative tax system is not simple. Millions of middle-income taxpayers will have to figure their taxes two ways to figure out which plan is better for them. Will it be called the Alternative Maximum Tax?

The race to the bottom on tax policy is getting scary. [Forbes.com, 10/25/11]

CBPP: Perry's Plan Would Require "A Dismantling Of Federal Programs" And "Draconian Cuts In Virtually Every Kind Of Spending." From a *New York Times* article headlined "Perry Calls His Flat Tax Proposal 'Bold Reform' ":

Gov. Rick Perry of Texas unveiled a plan on Tuesday to scrap the graduated income tax and replace it with a 20 percent flat rate. By throwing out rates as high as 35 percent and eliminating estate and investment taxes, the plan would grant a major tax cut for the wealthy.

[...]

The plan also proposes reducing the scope of the federal government by requiring drastically austere federal budgets -- compared with what exists now -- that spend no more than 18 percent of the nation's gross domestic product, which analysts said would most likely force big cuts in government spending at almost every level. That would equate to a cut of one-quarter of the budget from 2011 expected levels, and it would mark the lowest level of spending relative to G.D.P. since the mid-1960s, though rising tax receipts during the roaring economy of a dozen years ago temporarily brought the level close to 18 percent.

To address the projected long-term financial shortfall within Social Security, Mr. Perry suggested raising the retirement age and potentially changing the age eligibility for Medicare and using a sliding scale to limit benefits based on income -- two proposals that could face significant opposition in Congress. Mr. Perry, who said his plan would balance the budget by 2020, also proposed letting younger workers divert some of their Social Security taxes into private investment accounts, a longtime goal of economic conservatives.

Analysts said it would take time to examine the effects of the Perry plan. But Roberton Williams, a senior fellow at the nonpartisan Urban-Brookings Tax Policy Center, said: "There are two things we can say with certainty: It will lower revenue and be a great benefit to the wealthy."

He said the poor who have children would most likely do better under the current system, because refundable tax credits provide some with net payments from the government. But Mr. Williams said it was unclear how many among the middle class would benefit -- though families with more children or bigger mortgages would be more likely to opt for his proposal.

Mr. Perry pledged to not cut any benefits of current Social Security retirees or those about to tap into the system. But to do that, and cut the budget to 18 percent of G.D.P., would require cutting at least one-third of the remaining federal budget, said James R. Horney, the vice president for federal fiscal policy at the Center on Budget and Policy Priorities, a liberal research group in Washington. It would require "a dismantling of federal programs," Mr. Horney said, and "draconian cuts in virtually every kind of spending." [*The New York Times*, 10/25/11]

Brookings Senior Fellow: Perry's Plan "Undermines" The Idea That The Tax Code Should Be Made Simpler While Leading To A " 'Substantial' Decrease In Revenues." From a CBSNews.com article:

Perry is offering taxpayers two choices -- either stick with the current tax system or opt into a new system in which they pay a 20 percent flat income tax. That incentivizes those who would pay less under the current system to stick with it, and those who would pay less under the flat tax plan -- largely Americans on the upper end of the income scale - to opt for the new plan.

That would add up to a "substantial" decrease in revenues, says Ted Gayer, the co-director of the Economic Studies program and a Senior Fellow at the Brookings Institution.

Perry has yet to lay out all the specifics of the plan, which makes it difficult to estimate its full impact. But "it's clearly going to be a reduction in revenues, I think fairly substantial," said Gayer. Many conservative Republicans want to reduce the role of government in society in part by starving it of funds.

[...]

What Perry's plan boils down to is a tax cut for the highest-income Americans, who currently pay a top marginal income tax rate of 35 percent, and no tax change for those who don't opt for the new system.

Perry argues that his plan simplifies the tax code, saying Tuesday that taxpayers will simply need to fill out a postcard to file their taxes. But since they will need to decide between the old system and the new one, it won't be quite so simple for many Americans.

"It kind of undermines the whole we're making your taxes simpler argument, because you still have to go through both systems to see which one is best for you," said Gayer.

Perry vowed to balance the budget by 2020 and cap on federal spending at no more than 18 percent of Gross Domestic Product. Under current policy forecasts, the United States will be spending 26 percent of GDP in 2020 and 34 percent of GDP by 2035. Perry would need to dramatically slash federal spending to meet his 18 percent goal. [CBSNews.com, 10/25/11]

Even Conservative Economists Have Called Perry's Plan "Fiscally Irresponsible" And "A Disaster"

Economist Peter Morici: "Rick Perry's Tax Plan Would Be A Disaster For America." In a post on FoxNews.com, Peter Morici, Professor of Logistics, Business and Public Policy at the University of Maryland, wrote:

Seeking to jump start his flagging presidential campaign and establish his pro-growth and fiscal responsibility credentials, Governor Rick Perry is unveiling a tax plan that will not jump start the economy and is fiscally irresponsible.

In a nutshell, Mr. Perry would give taxpayers a choice between filing under the current income tax system -- with all its flaws -- and an alternative flat tax 20 percent system. Under the latter, families could maintain their mortgage deductions if they earn less than $500,000, which is about 99 percent of taxpayers, and could declare exemptions of $12,500 for each family member.

It seems appealing -- a simplified tax system, fewer IRS agents, and so forth. But the plan falls short in two important respects -- it won't encourage many better investment decisions and foster growth, and it will spin the federal deficit permanently into the stratosphere.

The whole purpose of a flat tax is to encourage individuals and corporations to invest more in sound business opportunities, instead of prospecting for tax breaks by buying homes bigger than they need or spending on government hobby horse projects like solar panels. By giving tax payers the option of filing under the old system, however, the Perry plan will encourage the wealthy and near-wealthy to continue prospecting for loopholes and credit. Most of those folks don't pay 20 percent now, so don't count on them to volunteer for Mr. Perry's plan.

[...]

With less revenue in hand, Gov. Perry proposes slashing government spending to 18 percent of GDP--that would require $900 billion in annual spending cuts, when the Congress is having trouble agreeing on an additional $100 billion.

Such cuts are possible by increasing the retirement age to 70 and slashing Medicare and Medicare spending and gutting the defense budget.

If Gov. Perry wants to slash taxes that's fine but let's go to a real flat tax. Let Gov. Perry tell Americans how he is going to tame the monster that ate Washington--created through escalating health care spending--and rationalize social security and defense spending. [FoxNews.com, 10/25/11]

Former Chief Economist For House Committee: "Perry's Plan Would Preserve Crony Capitalist Tax Code." In an October 25 blog post titled "Perry's plan would preserve crony capitalist tax code," Alex Brill, a research fellow at the American Enterprise Institute and former chief economist for the House Ways and Means Committee, wrote:

Governor Perry's new proposal for an optional pro-growth tax code will do little for our economy while increasing the complexity of the tax code. A flat rate income tax would lead to positive economic growth, but making it optional as Governor Perry has proposed preserves the opportunities for "crony capitalism" and other existing distortions in the code.

This is because an optional flat tax is only appealing to those taxpayers who see it as a tax cut. Taxpayers who can reduce their tax liability by exploiting an existing tax break will do just that. In other words, an optional flat tax is appealing only to those who can't get a good break elsewhere in the code.

In one sense, an optional flat tax is the polar opposite of the AMT: a mandatory, parallel tax system that hits those taxpayers who are "too effective" at lowering their tax burden. But in another sense, it's quite similar: yet another tax code. [American Enterprise Institute, The Enterprise Blog, 10/25/11]

AEI "Resident Scholar": Perry's "Optional Tax Code Worse Than A Gimmick." In an October 25 blog post titled "Optional tax code worse than a gimmick," Andrew Biggs, a resident scholar at the American Enterprise Institute, wrote:

Jim Pethokoukis points out what he calls a "gimmick" in Governor Rick Perry's proposed flat tax plan: taxpayers would get the choice to file under the current tax code or under the new flat tax plan. While I agree that this is a bit silly from a policy point of view, the problems go deeper than that. Why? Well, the flat tax is supposed to do three things: raise sufficient revenue, reduce compliance costs, and reduce economic distortions.

But if you can choose which tax code to file under then, to a first approximation, people will choose whichever costs them the least. In theory at least, to raise the same revenue in a static analysis the flat tax would have to be set such that no one could pay lower taxes than under current law, since if they could pay lower taxes they will pay lower taxes. It's easy to respond that people would choose the flat tax for its simplicity even if it costs them more, but they can already have a simple tax code under current law: just don't bother hunting down all your deductions.

The same goes for compliance costs: to know which tax code to file under you need to do your taxes under both, undermining the simplicity of the flat tax. One of the reasons compliance costs are so high today is that there can be such a reward for figuring out strategies to minimize your taxes; it's not clear that Perry's flat tax fixes this problem. And finally, if people have the option of filing under the current tax code then all the economic distortions embedded in it will remain, at least for that significant portion of the population who would do better under current law than the flat tax. A person may say to himself, "I can pay lower taxes than under the flat tax plan so long as I [insert governmentally imposed distortion here]." Marginal tax rates for high earners would be lower, reducing economic distortions, but it's unclear where you'll make up the revenue if low and middle earners get to file under current law where they pay next to nothing. [American Enterprise Institute, The Enterprise Blog, 10/25/11]

AEI's Director Of Economic Policy Studies: Under Perry's Plan Government Would Have To Drastically Slash Spending. From the Associated Press:

By design, Perry's plan "must lose revenue" for the government, said Kevin Hassett, director of economic policy studies at the right-of-center American Enterprise Institute. To avoid higher deficits, Hassett said, the government would have to slash spending in ways not seen since the steep military drawdown after World War II. [Associated Press, 10/25/11, via ABCNews.com]

— M.F.B. & H.K.D.