

The New York Times

The Beauty of the Flat Tax

By Daniel J. Mitchell

October 13, 2011

The flat tax is desirable for a wide range of reasons, including simplicity, fairness and transparency. It also would end the widespread and corrupt process of inserting loopholes and preferences in the code in exchange for campaign cash and political support.

If Cain wants a low rate, no double taxation and no loopholes, the flat tax has all the upsides and none of the downsides of the 9-9-9 plan. But public finance economists generally like the flat tax for different reasons, most notably the pro-growth impact of lower marginal tax rates, the reduced tax bias against income that is saved and invested, and the elimination of inefficient loopholes.

For the same reasons, people should like Herman Cain's 9-9-9 tax plan. At least in theory.

It is based on the idea that the tax rate should not penalize people for being productive, and even an ardent supply-side sympathizer like me can't complain too much about a 9 percent rate.

Another key principle is the repeal of most forms of double taxation, which is why Cain's plan gets rid of punitive provisions like the death tax and capital gains tax. Stopping the Internal Revenue Service from getting more than one bite at the apple is good for growth since even socialists agree that capital formation is key for long-run wage growth and higher living standards.

And Cain also takes a chainsaw to the underbrush of credits, deductions, shelters, loopholes, exemptions, and other distortions in the tax code. This means people will make decisions on the basis of good economics rather than clever tax planning.

This doesn't mean Cain's tax plan is perfect. The biggest concern, at least from many on the right, is that he would allow the crowd in Washington to simultaneously impose a flat tax, a national sales tax and (apparently) a form of value-added tax.

This might not be a problem if there was some way of guaranteeing that none of the rates could ever climb above 9 percent.

Unfortunately, the European experience (especially with VATs) does not leave much room for optimism. Sooner or later, politicians who want bigger government can't resist pushing tax rates higher. And when the dust settles, you become Greece.

Which is why Cain should not have reinvented the wheel. If he wants a low rate, no double taxation and no loopholes, the flat tax has all the upsides and none of the downsides of the 9-9-9 plan.