

[Perry's "Cut, Balance, and Grow" Flat Tax Plan](#)[Print](#)

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Sunday, 30 October 2011 19:00

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Texas Governor and Republican presidential candidate Rick Perry [spelled out the details](#) of his "Cut, Balance, and Grow" flat tax plan on October 25, saying that "the U.S. government spends too much. Taxes are too high, too complex, and too riddled with special-interest loopholes. And our expensive entitlement system is unsustainable in the long run." Perry's plan would offer taxpayers a choice between a new flat rate of 20 percent on incomes over \$50,000, or their current income tax rate. The plan would allow them to file their taxes on a postcard, eliminating the enormous current compliance costs in filing their Form 1040s. Various deductions and exemptions would be eliminated, he says, thus improving incentives for entrepreneurs to invest, create, and hire.

In addition, Perry would cap government spending at 18 percent of the country's Gross Domestic Product (GDP), and put a freeze on all federal hiring and salaries until the budget is balanced. He would push for the repeal of ObamaCare and the Dodd-Frank financial reform laws.

Finally, he would allow participants in Social Security to set up their own personal retirement accounts outside of the current system which would protect their contributions from being raided by Congress to be spent for other purposes.

He concludes that his

Cut, Balance and Grow strikes a major blow against the Washington-knows-best mindset. It takes money from spendthrift bureaucrats and returns it to families. It puts fewer job-killing regulations on employers and more restrictions on politicians. It gives more freedom to Americans to control their own destiny. And just as importantly, [my] Cut, Balance and Grow plan paves the way for the job creation, balanced budgets and fiscal responsibility we need to get America working again.

Daniel Mitchell of the Cato Institute [gave Perry's plan a B+](#) with some misgivings and questions. Applying what he calls "principles of good tax policy," Mitchell says Perry's plan would minimize penalties on productive behavior: "The income tax will only be a modest burden for households ... [and] will be much more conducive to entrepreneurship and hard work, giving people more incentive to create jobs and wealth."

Perry's plan also gets rid of the estate "death" tax, the capital gains tax, and double taxation on dividends. All of this would greatly reduce the current disincentives to saving and investing and allow for significant capital formation, [the foundation of the capitalist system](#).

Mitchell downgraded Perry's plan because it retains deductions for charitable contributions, home mortgage interest, and state and local taxes. A true flat tax, says Mitchell, would not include any of these, leaving "people alone so they make decisions based on what makes economic sense rather than what reduces their tax liability."

Despite his criticisms, Mitchell thinks that Perry's "Cut, Balance and Grow" plan "would dramatically boost economic performance and improve competitiveness."

If Perry's plan was designed to change the political conversation, or to blunt the perceived attractiveness of Herman Cain's "9-9-9" plan, or to improve his presidential aspirations, it has so far failed. According to [Rasmussen Reports](#), his numbers against President Obama in a hypothetical Election 2012 remain essentially unchanged: Obama 45, Perry 38.

And there are other concerns not mentioned by Mitchell: The Internal Revenue Service would remain in place and as robust as ever. No changes in any of the out-of-control entitlement programs (except for Social Security which merely offers an option on how people are forced to provide for their own retirements) are offered, and no mention is made of any attempt to reduce or eliminate any of the

various unconstitutional agencies not provided for under the Constitution, such as the EPA, the DEA, the NEA, the NLRB, OSHA, and others. In fact, stepping back from the minutiae of Perry's plan one can see what is really being offered here is a diverting of the conversation away from any cutting of government spending at all and focusing it instead on how to pay for the present runaway government.

Author [Laurence Vance](#) noted that [the best way to reduce taxes](#) is by "limiting government to its proper role [which] will automatically cause the spending problem to disappear. The income tax code doesn't need to be simplified, shortened, fairer, or less intrusive. And neither do the tax rates need to be made lower, flatter, equal, or less progressive."

Perry's "Cut, Balance, and Grow" plan avoids the real issue: government spending. On that basis alone, Mitchell could have rated it an F.

*Photo: Gov. Rick Perry*