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On Power and the Use of Coercion

Progressives Are the Primary Impediment to Progress

by David Burton

Merriam-Webster defines progress as “the process of improving or developing something over a period of time” or the “gradual betterment; especially: the progressive development of humankind.”

By that definition, today’s progressives are the primary impediment to progress.

Progressive policies reduce incomes, reduce employment, reduce opportunity, reduce entrepreneurship, reduce innovation, reduce economic and social dynamism, reduce productivity improvements, and reduce the international competitiveness of U.S. businesses. They ship jobs overseas. They harm children and young people by standing in the way of school choice options, by creating inadequate youth employment opportunities, and by encouraging policies that saddle them with massive student debt, a massive national debt, and crushing unfunded entitlement obligations.

Progressive policies increase costs, increase deficits, increase the national debt, and increase the future unfunded obligations of government programs. Progressive policies increase the power of government, empower bureaucrats and lawyers, and reduce the freedom and prosperity of the American people.

If you want to get a look at what progressive policies mean for Americans, look across the Atlantic at Europe’s slow economic growth. Look at Europe’s high debt levels. Look at Europe’s high unemployment rate — especially youth unemployment — and the duration of unemployment. It is not a pretty picture.

President Bush gave us a number of counterproductive spending, education, and regulatory policies; President Obama has accelerated the growth of government at a rate that puts him in a class by himself.

The ways in which progressive policies impede progress are innumerable. But these destructive progressive policies deserve particular note.

•Progressives enacted Obamacare, which has cost millions of jobs and forced people into health plans they don’t want.

•The U.S. tax system is among the very worst in the industrialized world, and progressives want to make it

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Progressives Are the Primary Impediment to Progress by David Burton (continued from page 1)

even worse by raising business and other taxes that will harm economic growth, job creation, and reduce real incomes.

- Progressive education policies have harmed the education of countless children, making it less likely that they will have the skills to succeed.
- Progressives support "investor protection" measures that make it difficult for entrepreneurs to raise the capital that they need to launch start-ups and grow their businesses and that keep ordinary people from investing in the most promising companies.
- Progressives have dramatically increased regulations and want to increase regulatory costs a great deal more. These regulations harm economic growth, increase consumer costs, reduce employment, and harm the competitiveness of U.S. businesses.
- Progressives want to further increase already massive federal spending on entitlement programs, leading to future tax increases and crowding out other federal spending.
- Progressives want to make it illegal for teenagers and other low-skilled workers to reach the first rung on the economic ladder by raising the minimum wage.

To realize the promise of American life, for our families to flourish and to prosper, and for our society to actually progress rather than descend into stagnant despair and discord, progressivism needs to be recognized for what it is: the anti-progress philosophy. Progressive policies are the primary impediment to a better life for the American people.

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We Need a Real Flat Tax

by Richard Epstein

I was heartened recently to see Edward Kleinbard's op-ed in the *New York Times*, with its alluring title, "Don't Soak the Rich." But as I read the piece by Kleinbard, a law school professor at the University of Southern California, it became clear that his proposed solution was a classic bait-and-switch operation. Kleinbard's so-called flat tax soaks the rich by a different route. He proposes a tax hike on everyone evenly and then suggests that the government spend most of the extra revenues on the poor, either by direct grants or public expenditures from which they derive the lion's share of the benefit.

The flat tax deserves a better send-off. Historically, the tax was championed by such notables as Aristotle, Locke, and Hayek as a device to reduce the government's role in the lives of its citizens. Even a limited government must do many things — provide national defense, preserve internal order, and supply the infrastructure on which well-organized private sector markets run. Accomplishing these daunting tasks requires public revenues. The challenge for the defender of limited government is to find that set of taxes that minimizes the distortions of a market economy while generating revenue to accomplish government's necessary and proper goals.

In general, a two-pronged approach offers the greatest hope. First, whenever possible, the government should impose user fees to defray the costs of public services. These include, for example, highway tolls, which ideally should cover the costs of running the system, by apportioning expenses so that those who place the greatest burden on the roads pay the greatest amount. But user taxes are not feasible for standard public goods, i.e. those indivisible benefits that must be supplied to everyone if they are supplied to anyone.

The flat tax proportionate to either income or consumption offers the most attractive option, because it allows the government to set the overall levels of revenue as high or as low as seems necessary, without inviting various factions to game the system for partisan advantage. The flat tax also tends to reduce the overall tax burden, because people are on average more reluctant to raise taxes on others if they have to raise them on themselves. This added stability of the tax system produces major administrative savings by eliminating the need to police fancy income-splitting devices, such as family partnerships and trusts, that work to reduce taxes by depositing income earned by the rich into the bank accounts of their low-income relatives. The long-term stability of flat taxes thus makes it easier for private investors to make rational long-term decisions.

It should be noted, however, that the flat tax is no panacea, for it places, as Kleinbard rightly notes, no limits on the expenditure side of the ledger. When tax levels are confined to the provision of the standard, or nonexclusive, public goods that pass muster under a classical liberal theory, the prospects for redistribution are sufficiently constrained that factional politics are accordingly reduced. But once the level of transfer payments to specific individuals or groups increases, the politics of redistribution (in which rich and poor can participate) are redirected to new targets, with the similar overall negative welfare effects, not only on the rich but on the median earner as well.

It is on the squishy expenditure side that Kleinbard finds the opening wedge to convert the flat tax into a tool to combat what he perceives as the "growing income disparity" between the very rich and everyone else. In his view, we have exhausted the gains from higher marginal tax rates, now that the United States has the world's most progressive taxation system, even after taking into account regressive taxes on sales and property in widespread use at the state and local level.

His overall scheme,

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however, rests on the weakest of theoretical foundations. As an initial point, there is in the United States no growing trend of income inequality, whether we include or ignore various transfer payments. The generally accepted Gini coefficient, which offers a sensible measure of income inequality, has scarcely increased in the last 30 years. What matters more, and what that coefficient does not incorporate, is the overall rate of growth. As I argued in my critique of Thomas Piketty, the preoccupation with the Gini index blinds us to the simple proposition that many Pareto improvements — those that make someone better off without making anyone worse off — will increase both social welfare and income inequality simultaneously. The exuberant effort to increase efforts to redress inequality is one cause among many of the anemic growth levels in the United States.

Further increases to the overall taxation burden will have profound negative effects on growth, for increasing the amount of money in government hands can only diminish the returns to productive labor. A system of higher taxation for all and increased rebates for some will, as Kleinbard notes, increase, in disguise, the overall level of net progressivity system wide. But the effort to conceal the net transfers behind a flat tax will not fool anyone for long. And if the current system is too progressive, so too is Kleinbard's improbable alternative.

Ideally, taxes provide goods that cannot be generated by market forces to all people. A well-constructed flat tax returns to all people benefits in excess of their individual contributions, thereby increasing the incentive to work. But it is wrong to say that a flat tax is unresponsive to all questions of redistribution. As Kleinbard well understands, any flat tax calibrated to earnings from labor and capital will necessarily redistribute income to the less well off, because an individual's share from standard public services, such as access to public highways, does not increase proportionate to his income. Head taxes, regardless of income, are disasters because of the corrosive effect at the bottom of the income distribution. Indeed, it is also risky to introduce any regressive income tax, which could overtax the poor, and invite yet another fruitless struggle over finding its ideal rate.

Unfortunately, the sound political economy of a flat tax gets thrown off track as higher tax rates fuel greater levels of redistribution. One dangerous feature of Kleinbard's system is that it introduces a sharp political disconnect between the collection and distribution of income. Once money makes it into public coffers, no one person is wise enough and powerful enough to steer it into the hands of the most needy recipients.

Kleinbard's fine-tuning won't work. And so an overtaxed nation is caught on the horns of a powerful dilemma. If the redistribution works as well or better than intended, we are left with a higher administrative and political cost than from today's overly progressive fiscal system. Yet if that redistribution agenda fails, the poor suffer disproportionately because a large fraction of them won't get their promised benefits. In designing any tax system, it is necessary to worry, not just about inequality, but also about our flawed political process, and the overall growth effects of any tax regime. Kleinbard ignores these last two.

In dealing with these twin issues, it is instructive to compare our current federal taxation regime, which operates free of all constitutional constraints, with our current system of interstate taxation, which is heavily subject to them. Federalism produces a mixed bag of incentives. Its exit options for business and labor tend to cut down on excessive taxation at the state level. At the same time, a state's ability to tax goods and services from out-of-state could operate as a tax wall against interstate competition.

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Fortunately, an alert Supreme Court applies a far higher standard of constitutional scrutiny to interstate taxation than it does federal income taxation. On interstate taxation, the fundamental constitutional rule tracks the flat tax. No state may impose taxes on foreign goods and services that are higher than the taxes that it imposes on its own internal goods and services. The upshot is a strong commitment to interstate competition, which drives down overall rates of taxation, while increasing the cross-border flow of goods and services.

Needless to say, factional politics within states works overtime to circumvent the basic rule. One notable example is in the 1994 Supreme Court case of *West Lynn Creamery v. Healy*, in which Massachusetts adopted a two-part plan. First, it imposed "an assessment on all fluid milk sold by dealers to Massachusetts retailers." Second, it rebated that entire assessment, most of which was levied on out-of-state dairy farmers, only to in-state producers.

The Massachusetts scheme is a federalism variation of the Kleinbard proposal. Fortunately, the Supreme Court saw through the transparent scheme and struck down this two-step evasion under the so-called "dormant" commerce clause. Doctrinally, the Supreme Court has long inferred that the power of Congress to regulate commerce among the states implies that, in the absence of any such regulation, the dormant commerce clause, as *West Lynn Creamery* observes, "prohibits economic protectionism — that is regulatory measures designed to benefit in-state economic interests by burdening out-of-state competitors." That commitment applied in *West Lynn* even for goods sold pursuant to federal marketing orders under the Agricultural Adjustment Acts, which are notorious for fixing rates at cartel levels.

There is a sobering contrast between the public choice nightmare with federal taxes and the disciplined tax regime required under the dormant commerce clause. The second regime works vastly better than the first. Sadly, Kleinbard's proposal tries to adopt Massachusetts's *West Lynn* two-part tax program on a national scale. One countermeasure to that impending debacle is to insist constitutionally on the flat federal income tax. It won't solve all problems on the spending side, but it will be a good start to cleaning up our financial house.

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Election 2014: A Conservative Victory?

by John Hendrickson

The 2014 midterm elections proved to be very historic as voters across the nation responded against President Barack Obama's policies. The Republicans strengthened their majority in the United States House of Representatives and took control of the United States Senate. As an editorial in *Investor's Business Daily* noted:

> This generational GOP tide means that the party now controls both the House and Senate for the first time in eight years and its domination is at historic proportions. Not since Harry Truman was in the Oval Office have Republicans held such a large majority in the House, and they're now stronger in state governments than they have been at any time since the 1920s.[1]

Although most of the post-election focus is on the national results there were major changes in the states. "In state legislative races across the country, Republicans saw a litany of pick-ups, with nearly two-thirds of all state legislatures now under Republican control," noted Collin Levy in *The Wall Street Journal*.[2] "Seven state chambers flipped to the Republicans, including the state Houses in Minnesota, New Hampshire, West Virginia, New Mexico and Nevada," wrote Levy.[3] Several Republican incumbent Governors were also reelected, most notably Governors Sam Brownback (R-KS), Scott Walker (R-WI), and John Kasich (R-OH).

Stephen Moore, who serves as chief economist for The Heritage Foundation, wrote that the election "was a huge victory for the supply-side agenda."[4] As Moore argues:

> The tax issue was a major factor in many state races. All GOP tax-cutting Governors — Brownback, Scott [Rick Scott (R-FL)] — won. In many states with Democratic tax-raisers — Maryland, Massachusetts, Illinois — Republicans won. Liberals had said this election would be a referendum on taxes. It was.[5]

Voters in several states "decided 146 propositions in November, comprised of 100 legislative proposals, 35 initiatives, four referendums, five advisory measures, and two other measures."[6] Some of the more controversial measures included legalization of marijuana and minimum wage. The Initiative & Referendum Institute reports that "perhaps the biggest proposition story on election night was the approval of initiatives to legalize recreational use of marijuana in Alaska, Oregon, and Washington, D.C."[7] This is an unfortunate trend that seems to be sweeping the country as many voters take a more liberal and libertarian approach to drug legalization.

In regard to minimum wage, "voters in five states, Alaska, Arkansas, Illinois, Nebraska, and South Dakota, approved proposals to increase the minimum wage."[8] While voters seemed to approve increasing state minimum wage rates, other voters voted to limit taxes. As the Initiative & Referendum Institute reports:

> Tax issues are the most common subject of ballot propositions historically. This year there were 15 tax-related measures on the ballot. Voters across the nation showed an aversion to new taxes and a willingness to grant exemptions to narrowly targeted groups, such as spouses of veterans who die in the line of duty. Three states approved tax limitation amendments:

> Georgia voters approved 74-26 an amendment that prohibits any future increase in income tax rates; Tennessee voters approved 67-33 an amendment that bans state and local income or payroll taxes; North Dakota voters approved 76-24 an amendment to prohibit real estate transfer taxes; and Massachusetts voters approved 53-47 a proposal to stop indexing the gas tax. Nevada voters rejected 21-79 a proposal to impose a 2% tax on business profits, with the revenue dedicated to schools.[9]

"The tax-hiking agenda fared poorly on ballots all over the country," noted an editorial from *Investor's Business Daily*.[10] Tennessee's approval of a "constitutional amendment banning an income tax" is probably the most significant of all of the tax-related ballot measures.[11] Wisconsin voters approved a measure "mandating that all gas-tax money go for transportation projects."[12] "No more raiding the highway trust fund of $1.5 billion that's supposed to fill potholes and instead is used as a piggy bank to finance everything from day care centers to lavish pensions."[13] As *Investor's Business Daily* stated:

> All in all, the outcome of this year's initiatives reinforces the scream from voters who want less government in their lives, and politicians — whether in City Hall, state capitals, or Washington, D.C. — out of their wallets.[14]

Other important ballot measures that voters considered included the passage of Amendment Three in Georgia, which "declares a right to bear arms."[15] In Mississippi voters approved a measure that "declares the right to hunt and fish."[16] Arizona voters sent a warning signal to the federal government by passing a measure that "declares that the state may decline to administer federal programs."[17] Abortion was also a divisive issue as two "life" amendments failed in Colorado and in North Dakota, while voters in Tennessee approved Amendment 1, which "declares that the state Constitution does not provide a right to abortion or require abortions to be publicly funded."[18]

The 2014 midterm elections demonstrated that voters are tired and frustrated with the current polices being advanced by President Barack Obama and the Democrats, but even with the strong Republican victories the policy battle will continue. Certainly voters did reject big government by handing control of the U.S. Senate to the Republicans, and as Moore argues many pro-tax Governors won at the state level, but much more work needs to be done to advance limited-government and free-market policies.

The nation is still divided. "The American people are today a deeply divided people — on ideology, politics, faith, morality, race, culture," wrote Patrick J. Buchanan.[19]

Endnotes:

[1]Editorial, "Nine biggest losers of the GOP's epic 2014 midterm win," *Investor's Business Daily*, November 5, 2014, <http://news.investors.com/ibd-editorials/110514-725139-after-gop-wave-there-were-some-very-big-losers.htm> accessed on November 6, 2014.

[2]Colin Levy, "The GOP's state legislative wave," *The Wall Street Journal*, November 5, 2014, <http://online.wsj.com/articles/political-diary-the-gops-state-legislative-wave-1415220904> accessed on November 6, 2014.

[3]Ibid.

[4]Stephen Moore, "Winners, Losers, and Lessons Learned," *National Review Online*, November 6, 2014, <http://www.nationalreview.com/article/392169/winners-losers-and-lessons-learned-stephen-moore> accessed on November 6, 2014.

[5]Ibid.

[6]*BALLOTWATCH: Election Results 2014: Yes on Marijuana and Minimum Wage, No on Taxes*, Initiative & Referendum Institute, University of Southern California, <http://iandrinstitute.org/BW%202014-2%20

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Election%20results%20(v1)%20 2014-11-04.pdf> accessed on November 6, 2014.
[7]Ibid.
[8]Ibid.
[9]Ibid.
[10]Editorial, "A big loser Tuesday: Democrats' tax-hike agenda," *Investor's Business Daily*, November 6, 2014, <http://news.investors.com/ibd-editorials/110614-725338-tax-hikes-mostly-did-not-fare-well-in-tuesday-vote.htm> accessed on November 7, 2014.
[11]Ibid.
[12]Ibid.
[13]Ibid.
[14]Ibid.
[15]*BALLOTWATCH*.
[16]Ibid.
[17]Ibid.
[18]Ibid.
[19]Patrick J. Buchanan, "Against Obama, but for what?" *Creators Syndicate*, November 4, 2014, <http://www.creators.com/conservative/pat-buchanan/against-obama-but-for-what.html> accessed on November 6, 2014.

John Hendrickson is a Research Analyst with Public Interest Institute.

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