

For the Flat Tax

By Professor James Hite

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Adam Smith said two hundred years ago that if there is any such thing as a "good" tax, it is a tax that is certain, convenient, cheap to collect, and equitable in distributing the burden of support for government in rough proportion to the benefits taxpayers receive from government. On each of these points, I suspect Smith would favor a flat income tax over our current income tax system in the United States.

The idea behind the flat tax is that everyone pays the same percentage of the income they carry home with them. What could be simpler and more certain? It might not be convenient to pay the tax, but because it is a simple tax and we could file our taxes on a postcard, it would be much more convenient than slogging through the present mountain of IRS forms. All of the paperwork required to collect the tax would be simplified, and that would make the flat tax cheaper to collect.

Some of the opponents of the flat tax will concede all of the above. But, they say, the flat tax is suspect on Smith's fourth criteria, distributional equity. The marginal dollar in taxes that a family with ten thousand dollars a year in income must pay is a greater sacrifice than the marginal dollar the millionaire pays. Moreover, some add, because the millionaire owns more property, he or she receives more protection from the government and should shoulder a greater proportion of the tax burden than families living from paycheck to paycheck.

I am not inclined to argue over such things. Even if sincere and thoughtful critics of the flat tax are right, the perception that our present tax system is not fair, that it does not equitably distribute the burden because of loopholes enjoyed by influential fat cats, is so overweening that it causes such an argument to seem almost irrelevant.

There is no objective scientific measure for equity. Equity depends upon values that transcend objective analysis. What is fair is what people perceive to be fair, given their knowledge and value systems. And the current federal income tax system is not perceived to be fair, and often perceived to be brutal and tyrannical. The simplicity of one single tax rate paid by all regardless of the level or source of their incomes appeals to the simple sense of fairness of ordinary citizens. At least, it seems fairer to many of us than what we have now.

There are a couple of other strong reasons to support a flat tax. It would be neutral; it would treat every dollar of net income the same whether it was wage income, capital gains, dividends, interest or rental income. And it would help focus political disputes over the size of the federal budget upon the critical issue - what percentage of our take-home pay we, as a people, think advisable to budget for the services the federal government provides us.

The flat tax would not be a perfect tax. Any student of public finance will tell you there are no perfect taxes. There are several technical objections to the flat tax that deserve a hearing. But we do not live in a perfect world. A flat federal income tax would certainly be preferable to what we have now in the United States. As the 1996 election year noise fills our ears, we ought not to be deaf to those candidates suggesting we take a good look at the flat tax.

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