The Free Market

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Flat Tax...or Flat Taxpayer?

by Murray N. Rothbard

Hosannas have poured in from all parts of the academic spectrum -- left, right, and center -- hailing the Treasury's draft plan as an approach to the ideal of the "flat tax." (Since the plan calls for three classes of income tax rates, it has been called a "flat tax with bumps.") This near-unanimity should not be surprising, because a flat tax appeals to the sort of academic who, regardless of ideology, likes to push people around like pawns on a chessboard. The great 19th-century Swiss historian Jacob Burckhardt called such intellectual social engineers "terrible simplifiers." The label applies beautifully to the legion of flat-taxers because one of their prime arguments is that they would replace our bewildering mosaic of tax laws by one of limpid simplicity, one that "you could make out on a postcard."

Unfortunately, this proposed simplicity is more child-like and naive than a great burst of clarifying intelligence. For our Terrible Simplifiers fail to stop and ask themselves *why* the tax laws are so complicated. No one likes complexity for its own sake. There is a good reason for the current complexity: it is the result of a myriad of individuals, groups, and businesses trying their darndest to get out from under the crippling income tax. And, in contrast to the flat-tax academic who sneers at all *other* groups than his own as slaves of sinister special interests, there is *nothing wrong* with this often messy process. For these are people who, quite simply and even admirably, are trying to keep some of their hard-earned money from being snatched up in the maw of the tax-collector. And these people have already found out what our flat-tax academics seem not to have cottoned to: there are things in this life worse than complexity, and one of them is paying more taxes. Complexity is good if it allows you to keep more of your own money.

In the name of sacred simplicity, in fact, our flat-taxers are cheerfully willing to impose enormous losses on a very large number of individuals and businesses, in the following ways:

RAISE the tax on capital gains to treat it like income, thereby crippling savings and investments, particularly in new and growing firms. One of the things that has kept the English economy from going totally down the tubes is that England, despite its cripplingly high income taxation, has no tax at all on capital gain.

ELIMINATE accelerated depreciation, thereby destroying an excellent 1981 tax reform that allowed businesses to depreciate rapidly and re-invest. This change will particularly hurt heavily capitalized "smokestack" industries, already in economic trouble.

ELIMINATE OR RESTRICT income-tax deductions for mortgage payments, *plus* treat homeowners as having a taxable income from "imputed" rent, i.e. from the rent they would otherwise have paid if they had been tenants instead of homeowners. This double blow to homeowners is so politically explosive that it will probably not go through -- but such is the full intention of the flat-taxers. Unfortunately, those who are taxed on "imputed" income will not be able to pay their taxes in "imputed" form. *They* will have to pay Uncle Sam in money.

ELIMINATE oil depreciation allowances, a neat way to send the oil industry into a depression. Flat-tax academics

(Continued on page 3)

Mr. Louis E. Carabini (right), president of Monex International, Ltd., is named an Honorary Distinguished Institute Fellow for his long support of free-market ideals. Institute president Lew Rockwell (left) presents the certificate at Monex headquarters in Newport Beach, California.

From the President

Green Stripes and Greenmail

by Llewellyn H. Rockwell, Jr.

Two essential ingredients of a free market are free entry and the free exchange of private property. That is, business people and potential business people must have no artificial barriers to their participation in the market, and everyone must be free to own, sell, and buy legitimately acquired property.

Artificial (i.e. government) barriers mean increased costs and decreased service for consumers, and less of a chance for potential entrepreneurs.

The other day, Mayor Koch of New York proposed auctioning a few additional taxi licenses. The present number -- about one for every 660 New Yorkers -- has been frozen since the 1930s. Thanks to this restriction, they now sell for approximately $80,000.

The artificially small number of cabs has meant that virtually all of them congregate in the central business district of Manhattan or at the airports. People in outlying areas who may need cabs the most, thanks to crime on the government's subways and streets, usually find them unavailable.

The modest increase in taxi licenses, which is not likely to go into effect, was proposed after the politically well-conducted taxi industry ran over an idea for green-stripe cabs (as versus the present yellow ones) which could have dropped off passengers in central Manhattan, but not picked them up. This would be terrible, said an industry spokesman: No one could tell if a cab were in "midtown for a legitimate reason or was cruising for work."

Of course, it is the denial to consumers of a needed service, and to potential cab owners without $80,000, of the opportunity to go into business that is illegitimate.

In Washington, D.C., on the other hand, there is virtually no restriction on entry. Taxi licenses cost $60 and there is one cab for every 59 people -- 890% more cabs proportionally than New York City. As a result, it is easy to get a cab in virtually every area of Washington.

The situation is far from perfect -- there is inflexible price regulation designed to benefit Congressmen and lobbyists, for example -- but Washington is still the freest big city in America for cab riders and would-be cab owners.

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Nationally, we're being told that we need more restrictions on other property owners because of corporate "raiders": people like T. Boone Pickens who engage in "unfriendly" takeovers of companies.

Called "pirates" by their opponents, these business people now face calls for new federal legislation to outlaw their activities. And companies are adopting by-laws to make raids much more difficult. Some have paid "greenmail": higher than market prices for raiders' stock in return for an agreement not to buy a controlling interest.

Say you owned a small apartment building in a distant city, and you hired a professional manager to run it for you. This person likes the job, and when someone -- an apartment "raider" -- sought to offer you a good price for the building, the manager does everything possible to prevent you from being able to consider the offer. And he calls the local mayor for a city ordinance to keep the apartment "independent." When all else fails, the manager takes some of your own money and pays the potential buyer greenmail to look elsewhere.

This is exactly what's going on in the unfriendly takeovers we hear about. A takeover attempt is only unfriendly to present management, who risk losing cushy jobs. No offer can be unfriendly to the owners of the firm, the stockholders, who are free to accept or reject the price offered.

Only the complex (and illegitimate) regulations of the Securities and Exchange Commission allow the government to be involved at all. Rather than being made more onerous, these regulations ought -- like taxi restrictions -- to be abolished.

Justice and efficiency require a free market with no artificial restrictions on entry or property transfers. Next time you hear a call for more government in *any* area, ask: Who benefits? It won't be consumers, stockholders, or new entrepreneurs. ■

Dean Thomas Taylor (right) of Wake Forest's School of Business and Accountancy is introduced to Mises Fellow Sven Thommesen (left) by Judith Thommesen (center). Dr. Taylor recently addressed the Austrian Economics Colloquium on "Accounting Under Inflation: A Misesian Perspective."

Flat Tax....*continued from page 1.*

persist in regarding depreciation payments and depletion allowances as "subsidies" to capitalists and oil or mining companies. They are not subsidies, however, they are ways of permitting these firms to keep more of their own money, something which at least pro-free enterprise academics are *supposed* to believe in. Furthermore, only income is supposed to be taxed, and not accumulated wealth; taxing "income" which is merely the loss of capital value (either by depreciation or depletion) is really a tax on capital or wealth.

ELIMINATE tax deductions for uninsured medical payments or losses due to accident or fire. Does one get a glimmer of why economists are sometimes called "heartless"?

We are left with the final Argument From Simplicity: that the flat tax will enable all of us to dispense with tax lawyers and accountants. A powerful lure, perhaps, but fallacious and untrue on many levels. In the first place, those taxpayers who want simplicity can achieve it now: they can fill out the simplified tax forms. Two-thirds of American taxpayers do so now. The rest of us who struggle with complex forms are doing so for a good reason: to pay less taxes. Secondly, those of us who have our own businesses, including the business of writing and lecturing, will enjoy no reduction in the complexity of our tasks; we will still be struggling at great length to see what our net business gain (or loss) might be. None of this will change under the reign of the Simplifiers. And finally, there is, once again, a good reason for paying money to tax lawyers and accountants. Spending money on them is no more a social waste than our purchase of locks, safes, or fences. *If there were no crime,* expenditure on such safety measures would be a waste, but there is crime. Similarly, we pay money to the lawyers and accountants because, like fences or locks, they are our defense, our shield and buckler, against the tax man.

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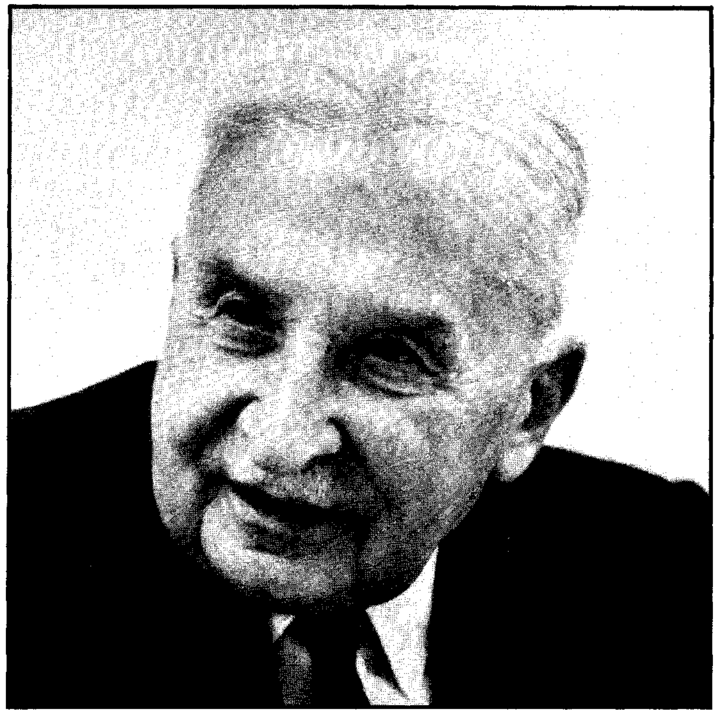
The Meaning of the Mises Institute

I would like to take a moment from analyzing the busy world of affairs to examine a truly remarkable organization: the Mises Institute itself. For the Mises Institute is noteworthy and unique on many levels.

In the brief span of its existence -- only 28 months -- the Institute has become solidly established on two separate but allied fronts: the scholarly and the policy-activist.

In the scholarly arena, the Mises Institute is part of Auburn University, and there it holds a regular colloquium on Austrian economics, provides fellowships, sponsors visit-



Ludwig von Mises, 1881-1973

ing scholars, supports faculty research and teaching, and publishes two periodicals: the quarterly *Austrian Economics Newsletter* and the annual *Journal of Austrian Economics.* In addition, the Auburn institute publishes and reprints books and occasional papers, and distributes an outstanding library of other works. Clearly, the scholarly arm of the Institute has accomplished an enormous amount in a brief period of time, and promises to achieve a great deal more in the future.

In the meantime, the Mises Institute has established a Washington, D.C., office, to hold conferences and publish work on applied economic policy. It has already sponsored conferences and meetings about the Federal Reserve, and Ludwig von Mises and Austrian economics. And the proceedings of its conference on the gold standard will soon be published in book form. The Mises Institute's lively monthly, *The Free Market,* spans news and views of both its scholarly and policy-oriented arms.

There are now in existence a myriad of free-market-oriented policy "think tanks"; and there are economics departments which include programs related to Austrian scholarship. The Mises Institute is unique in combining both functions.

But the very fact of doing both things is merely a reflection of a deeper point: For one of the Mises Institute's unique qualities is that it is not afraid to perform both scholarly

(Continued on page 4)

The Mises Institute....*(Continued from page 3)*
and policy tasks. It understands that keeping these tasks separate and hermetically sealed means perpetuating and intensifying the artifical and manufactured split between scholarship and policy application.

The Mises Institute believes that policy analysis without principle is mere flim-flam and *ad-hoc*ery -- murky political conclusions resting on foundations of sand. It also believes that policy analysis that does not rest on scholarly principles is scarcely worth the paper it is written on -- or the time and money devoted to it.

On the other hand, the Mises Institute challenges the all-too-prevalent view that to be scholarly means never, ever to take an applied-policy position. On the contrary, to the Mises Institute, the very devotion to truth on which scholarship rests *necessarily* implies that truth must be pursued and applied wherever it may lead -- including the realm of public policy.

And so we see the real point underlying the uniqueness of the Mises Institute's twin programs of scholarship and public policy: the artificial split between the two realms is healed at last.

Scholarly principles are carried forward into public policy analysis, just as public policy analysis now rests on sound scholarly research. From first axioms to applications, both scholarship and policy analysis are an integrated whole, at long last.

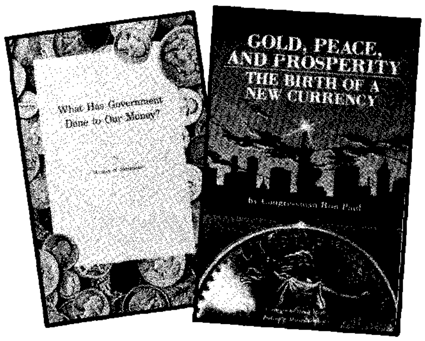
And now, too, we see the real point behind the title of the Mises Institute. It is no accident that the Institute is the only organization in the United States that honors Ludwig von Mises in its title. For Ludwig von Mises, in his life and in his work, exemplified as no other man the fusion, the integration, of scholarly principle and policy application.

Mises, one of the greatest intellects and scholars of the 20th century, scorned any notion that scholarship should remain content with abstract theorizing and never, never apply principles to public policy. On the contrary, Mises always combined scholarship with policy conclusions.

A man of high courage, a scholar with unusual integrity, Ludwig von Mises never knew any other way than pursuing truth to its ultimate conclusions, however unpopular or unpalatable. And, as a result, Ludwig von Mises was the greatest and most uncompromising champion of human freedom in the 20th century.

It is no wonder, then, that the timorous habitually shy away from the very name of Ludwig von Mises. For Mises scorned all obstacles and temptations in the pursuit of truth and freedom. In raising the proud banner of Ludwig von Mises, the Mises Institute has indeed set up a standard to which the wise and honest can repair. ■

Professor Rothbard, a member of the Institute's board, is editor of the Journal of Austrian Economics.



Publications of the Month

The institution of money, how it originated in the market and has been debauched by government, is an endlessly fascinating subject.

The two best short works on the subject are *What Has Government Done to Our Money?* by Professor Murray N. Rothbard and *Gold, Peace, and Prosperity* by former Congressman Ron Paul, both members of the Institute's board.

These works of economic history and theory are written for the non-economist, and their clear style makes them easy to read. Yet they draw effectively on the most advanced writings of Ludwig von Mises on inflation, gold, central banking, money, and credit.

These two publications cost non-Members $10.25 (including postage and handling). To Members they are available for $8.00.

If you would like copies of these important works, write the word "Money" in the upper right-hand corner of the return form, and enclose your check for $8.00 (plus any tax-deductible contribution) in the business-reply envelope.

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