

SYMPOSIUM

A KEYNOTE ADDRESS BY J. KENNETH BLACKWELL* TREASURER OF THE STATE OF OHIO — SETON HALL LEGISLATIVE BUREAU FLAT TAX SYMPOSIUM — APRIL 26, 1996**

Good morning. And thank you for that kind introduction. It's an honor for me to be here today, at a distinguished university among distinguished guests. We are here today to debate the viability of the flat tax. Dick Arney's tireless efforts and Steve Forbes' recent campaign, among other things, brought the flat tax into sharp relief against the general background of tax reform.

As an investor of tax dollars, I study tax reform seriously. Since I served on Jack Kemp's National Commission on Economic Growth and Tax Reform, and since the Commission came out with its report in January, I have even been labeled an expert on the subject. Mostly by my press secretary, but occasionally by others. I don't argue, because it gets me in the door to valuable events like this. For example, a couple weeks ago, I spoke at a conference of academicians and international bankers at the Jerome Levy Economics Institute of Bard College. This was a group of pretty deep thinkers. You'd think everyone was related, because all their names ended in Ph.D. . That sort of group. Experts. Now, Mrs. Blackwell didn't raise any fools. But I must admit, I listened to three speakers for three hours, and I probably understood about eighteen minutes' worth of what they said. And part of that was,

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** Ohio Treasurer of State, J. Kenneth Blackwell made this comments as the Keynote Speaker at the Seton Hall Legislative Bureau's spring symposium entitled, "The Viability of the Flat Tax." This address was reprinted with permission from Treasurer J. Kenneth Blackwell, and does not represent the views of the Seton Hall University School of Law or the Seton Hall Legislative Bureau. Emphases in original.

“Can you hear me in the back?” You can imagine, I was pretty worried.

How would my simple speech compare to those of these experts? Until I realized that everyone else in the room was having just as much trouble following them as I was. Then it hit me. Their remarks were written for experts. They were SUPPOSED to be complicated, and difficult to understand. That’s how expert talk to one another. they compete. the one who complicates things the most, until everyone else is totally confused, wins.

So I can stand here today and tell you, in all honesty, that I believe our current tax code was written by experts. Not only by them, but for them, too. The result? Even Albert Einstein reportedly needed help filling out his 1040. Today, we’re not writing for experts. We’re writing for taxpayers. For people. Not fools, and not physicists. Just people. People like Melvin Barlow of Las Cruces, New Mexico, who wrote in to the Commission, “It is not right that the harder a man works, the more he is taxed.” That’s simple. Easy to understand. True, even. Yet it is a concept tax experts have omitted in 17,000 pages of tax law.

What is to be found — is COMPLEXITY. UNFAIRNESS, favoring one taxpayer over another. BIAS, favoring consumption over savings. HIDDEN COSTS. Alarming INSTABILITY. RESTRICTIONS TO ECONOMIC GROWTH. That is not what the average taxpayer wants, needs, or deserves. But it is what he gets. And he, or she, knows it. Don’t underestimate the perception of the American public. Don’t dismiss the common man’s common sense. It may be conspicuously absent in the halls of government, but it is alive and well everywhere else in America.

Americans know what’s wrong with the system. They told us. We went to Harlem, Omaha, Nebraska, The Silicon Valley, Charlotte, North Carolina and Cleveland. We heard testimony from more than 100 witnesses, and received letters and phone calls from thousands more. We met framers, small businessmen, tax executives from some of American’s largest companies, citizens’ groups and economists. “Economically destructive - impossibly complex - and over intrusive.” That is what thousands of Americans told the Commission was wrong with our current system.

Robert Bendzlowicz, of Southhampton, Pennsylvania, wrote, “Any tax system that requires average citizens to seek third party

assistance to complete the tax forms and explain the incomprehensible tax laws undermines the morale of the citizenry and created an environment for gross non-compliance.”

According to 1995 IRS estimates, businesses will spend about 3.4 billion hours and individuals will spend about 1.7 billion hours embroiled in tax-related paperwork. And, according to the Tax Foundation, we will spend more than \$250 billion in compliance costs. An entrepreneur in Denver, Colorado, Tim Sabus, told the Commission, “Our business has suffered due to the amount of time necessary for tax calculations. We have paid an accountant far more to figure the amount of taxes owed than the actual amount paid. We have abandoned several viable, job creating business concepts due to the tax complexities that would arise.”

America supports two armies. One has always fought to protect our country and our democratic liberties. The other has the right to search the property and financial documents of American citizens without a warrant. Without a trial, it can seize property from American citizens. The soldiers of the Tax Army are 1.2 million tax attorneys, tax preparers, accountants and IRS employees. These men and women mean well and work hard. But their efforts are tainted because they are in the service of what has become a bureaucratic monster. The IRS alone is twice as big as the CIA, five times as big as the FBI, and controls more information about individual Americans than any other agency. The U.S. Army shrank from one million soldiers in the 1960's, to 550 thousand today. The result? It is the most well-trained and efficient force of its kind in the world. It's time to downsize and reorganize the Tax Army and convert it to a true taxpayer protection agency.

J.D. Vogel of South St. Paul, Minnesota, summed it up. “I want to pay my fair share in a timely, fair, and *simple* way.” The IRS proudly notes that it should take taxpayers “only” two hours and forty-two minutes to complete the 1040EZ. Why so long to fill out a form just barely bigger than a postcard? The instructions for the 1040EZ are 36 pages long! And the instructions for the Form 1040A are 79 pages.

And the complexity problems are far more serious for businesses. Each business must deal not only with the burdens of determining its tax liability, but also function as a record keeper and private tax collector for the IRS.

Complexity. Unfairness. Bias. Hidden costs. Instability. Restrictions to growth. Jack Kemp and thirteen experts had the "earth-shattering" idea of talking to the American people, so we could tell them what was wrong with the tax system. And guess what? They already knew. THEY told us. The good news is, they also told us how to fix it. They kept it simple, so we would understand. They told us what we had. And then they told us what we want, need, and deserve. "Give us something simple," they said. "Fair. Neutral. Something without hidden costs, or restrictions to growth. Something stable." So that was it. Six requirements for any tax reform proposal. If the proposal falls short of any of the six, it is unacceptable.

SIMPLICITY. FAIRNESS. NEUTRALITY. VISIBILITY. STABILITY. FREEDOM FOR GROWTH. Consider each point.

SIMPLICITY. In terms of debate, we've already talked about its merit, and its scarcity. But I'll test your patience with another illustration. Each year, Money Magazine would send a hypothetical tax return to 50 professional tax preparers. Every year, it got back a wide range of responses, usually on the order of the 50 different answers. If people who make their living with the tax code have a difficulty understanding it, the odds are stacked against the rest of us.

FAIRNESS. Every witness to the Commission advocated a tax system that is fair. That means a system where everyone is held to the same standard, and everyone contributes to the country.

NEUTRALITY. Two neighbors have similar income. One saves and invests his money, the other spends it on a car. Current tax law increases the saver's tax burden, but not the spender's. Why should we promote spending and punish savings? The answer is — with the tax code — we should do neither. A neutral tax code avoids the pitfalls of trying, and failing, to account for all the variables in life's decisions. That should be left to individuals.

VISIBILITY. Spencer Riedel of Flagstaff, Arizona wrote, "I have a huge heartache, and that is the new increase in payroll tax to begin January 1, 1996. Is there no way to stop this "hidden" tax? . . . If we could eliminate this unfair mandated tax, our business would hire two more people. With the new tax, one person will be let go." Knowledge of government's cost is essential for the free market to operate effectively. Dr. Walter Williams, Chairman of

the Economics Department at George Mason University, recently estimated the total cost of government would come to no more than \$400 billion — if spending was limited to those activities listed in Article I, Section 8 of the Constitution. However, the actual bill is \$1.6 trillion. Somewhere in that mass of spending, Americans are picking up the tab for things our founding fathers didn't even put on the menu.

STABILITY. Taxpayers' lifetime savings are subject to a system that is itself subject to change every election cycle. The American public can't save for the long-term if their representatives don't start thinking past the next term. Just since the last major overhaul in 1986, there have been four thousand changes in the tax code. In the past forty years, Congress has on average changed the tax code every one point three years. That record belies all of Washington's anti-tax rhetoric. And all the tinkering doesn't add to efficiency. It just adds to the picture of an arbitrary tax law. Polls show that the American public favors — by an overwhelming supermajority — a federal supermajority requirement to raise taxes. Yet, on April 15, Congress failed to carry out the will of the people. When lawmakers can seize private property — income — on a political whim, we have reached a crisis point of civil rights. The success of any new system will depend on Americans' confidence in its longevity, stability, and Constitutionality.

FREEDOM FOR GROWTH. This nation is founded and built on free enterprise. In the free market, effort is rewarded. Yet the tax code separates effort and reward with its high marginal tax rates. Every extra dollar earned, increases taxes, rather than opportunities. The capital needed for economic growth is taxed at every turn; as wages, as savings, and as investment. An "alternative minimum tax" imposes immense compliance costs on business. Successful corporations are punished through double-taxation. And although nothing is certain but death and taxes, one doesn't put an end to the other. Estate taxes reduce a family legacy to a financial burden.

The experts have failed us. It is time to listen to real people. Apply these principles to any tax reform proposal - whether it's a flat tax, value-added tax, unlimited savings allowance or national sales tax. But I think you will find — as the Commission did — that these six principles are met in several of the recent flat tax proposals. A SINGLE-RATE SYSTEM WITH A GENEROUS PERSONAL DE-

DUCTION, THAT TAXES INCOME ONLY ONCE, HELD IN PLACE BY A SUPERMAJORITY, CONSTITUTIONAL REQUIREMENT, IS OUR BEST HOPE TO ACHIEVE ECONOMIC GROWTH. That is my opinion, not just as an expert, but as a taxpayer.

During today's conference, don't just be experts. Be taxpayers. Remember what we want, need, and deserve. SIMPLICITY. FAIRNESS. NEUTRALITY. VISIBILITY. STABILITY. FREEDOM — for growth.

Thank you.