

The Plan Needs to Be Recalibrated

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Abstract

In the New York Times' *Room for Debate*, Bill Gale discusses the ambiguous details of Herman Cain's 9-9-9 tax proposal.

Document date: October 13, 2011

Released online: October 18, 2011

Response to New York Times Debate: What's So Bad About a Flat Tax? The Plan Needs to Be Recalibrated

Although important details are ambiguous or missing, Mr. Cain's broad outline of the 9-9-9 plan suggests that it is extremely regressive relative to the current system — that is, it would severely raise taxes on low- and middle-income households and substantially cut taxes on high-income households — or it would raise far less revenue than the current system, especially compared with revenue as the economy recovers over time, or it would be both regressive and revenue-losing.

The 9-9-9 plan is actually only Phase 2 of a three-stage plan. The first stage is a large reduction in the top income tax rate (which obviously applies only to the highest-income households), the elimination of capital gains taxes (almost all of which are paid by high-income households), and a decrease in the corporate income tax rate. The final stage is a national sales tax that replaces virtually all existing federal taxes.

All three stages are problematic. The first stage would result in immediate losses of government revenue, while benefiting only upper-income taxpayers. As for the third stage, I and others have shown that a national retail sales tax would be difficult to enforce, requiring high rates in order to bring in the same amount of revenue as the current system. After accounting for tax evasion, tax avoidance and the inevitable legislative erosion of the tax base, the rate required would be almost 50 percent, not the 23 percent that has been proposed previously.

The strength of Mr. Cain's various plans is the elimination of virtually all tax subsidies. Yet it is neither necessary nor desirable to do so in a way that would decrease revenue and impose enormous burdens on low-income households while cutting taxes for the rich. The plans involves no sense of "shared sacrifice" and no sense that government should pay for the spending it does. This is not the path we want to take.

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