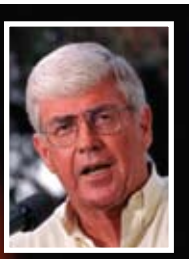
The Ripon Forum

How tax cuts fueled the Reagan Revolution: A Q&A with Jack Kemp



February/March 2008
Volume 42, No. 1

Fired Up! Ready to Go!

With voters calling for change, Mark Sanford and Paul Ryan fan the flames for one of the biggest changes of all — Tax Reform

Plus –
A capital idea: a budget that plans for the future

And –
The boldness of Theodore Roosevelt and the politics of today

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The Ripon Forum

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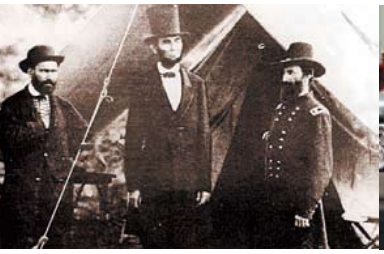


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A Note from the Chairman Emeritus

"Fired up! Ready to go!"

For some Americans, those five words, a familiar refrain at Barack Obama rallies, have become synonymous with change this election season.

Other Americans want more meat on their rhetorical bone. They're looking for people who are not just talking about change. They want people who are actually working to get it done.

The Ripon Forum spotlights two individuals who are doing just that. One is the Governor from South Carolina; the other the Congressman from Wisconsin's 1st District. What Mark Sanford and Paul Ryan have in common is a belief that the tax system is broken, and that the tax laws as written are weighing down families and businesses struggling to stay afloat.

Both are pushing plans that would dramatically change the status quo. We focus on their plans in this edition. We also look at the broader issue of tax reform with some of the best known authorities on the subject. Scott Hodge offers advice on how to avoid some of the landmines that stand in the way of reforming the tax code, while Ernie Christian and Gary Robbins discuss why the goal of any reform effort should be to minimize the impact of government itself. And Bill Beach provides us with a reminder as to why keeping taxes low still matters.

We kick things off, though, with an individual who perhaps did more to change the tax debate in the United States than anyone else. More than 25 years ago, Jack Kemp convinced Ronald Reagan to make tax cuts the centerpiece of his economic platform for President. In the process, he also convinced a generation of Americans that reducing taxes was good policy and good politics. We talk to Secretary Kemp about the revolution he helped create and how its impact is still being felt today.

This edition of the Forum also features articles on health care and the budget, and a splendid essay on one of the statesmen of our Nation and the Republican Party – Theodore Roosevelt.

We hope you enjoy this edition and encourage you to write us at editor@riponsociety.org with any comments or questions you may have.

Bill Frenzel
Chairman Emeritus
Ripon Society

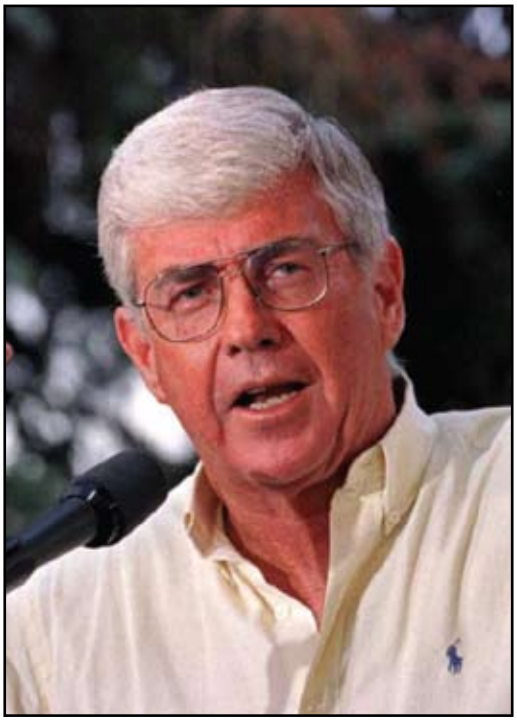
Present at the Creation:

How Taxes Fueled the Reagan Revolution

A Q&A with Jack Kemp

Jack Kemp has spent most of his adult life in the public spotlight, first in the sporting arena as an All-Pro quarterback in the AFL and NFL, then in the political arena as a Congressman, Cabinet Secretary, and candidate for Vice President of the United States.

Kemp's career is filled with many achievements. One of the most significant occurred when he persuaded Ronald Reagan to make tax cuts the centerpiece of his economic plan for President in 1980. The success of that plan changed the face of the tax debate, convincing a generation of lawmakers that keeping taxes low was not just smart politics, but smart policy that fueled economic growth.



The Forum spoke recently with Secretary Kemp about the state of the tax debate in the U.S. today, the role tax cuts played in making the Reagan Presidency a success, and whether the issue of taxes is still relevant as America prepares to elect a new President later this year.

RF: To put things into historical perspective, could you talk about the political and economic climate in the late 1970s when the issue of tax cuts first became part of the national debate. What was the mood of the country at the time?

JK: I was in the Congress from Buffalo, New York since 1971, and we had suffered through the wage and price controls and the inflation and recession of the Nixon years. We never really got out of it under Gerald Ford, a dear friend of mine. We go into the mid-'70s, and I had been toying with tax policy as a way of encouraging job creation in the country and obviously in my district of Buffalo, which was a heavy industry district, heavily unionized.

Nixon had taken us off the gold standard in 1972. We went out of the Bretton Woods Agreement, which de-linked the dollar to an ounce of gold. Taxes were quite high particularly in New York State. So we had the combination of both inflation and unemployment, of slow growth with a weakening dollar. The political climate was mixed because there were rumblings of Ronald Reagan [running] to Ford's right. I had been, as I said, flirting/toying with a job creation piece of legislation. I happened to be reading a speech by John F. Kennedy at the New York Economic Club in November of '62, I believe, and I came across a paragraph in which he said it's paradoxically true that high tax rates cause low tax revenues. The best way to get more revenue is to bring down the rates and expand the economy.

Well, that appealed to me, because I had been frustrated by the Ford White House and the Congressional Budget Office, who always scored any reduction of tax rates in a static analysis. All it did was hurt revenue. And I read this statement, and I noticed going back into the history books, that the budget of the United States came into balance in 1964-65, before the Vietnam War got out of control for Johnson. So I told my staff, "Please go get me an exact duplicate of the Kennedy tax cut." And it came out to be the Kemp-Roth 30% over three years tax rate reduction that was criticized

heavily by both Republicans and Democrats. But I poured my political efforts into and sold it to Reagan in '79. He was the only national Republican leader to support it.

I was called "the witch doctor" by Baker, "a snake oil salesman" by another Republican, and George Bush called it "voodoo economics." But it was the beginning of the first attempt by the Republican Party since Coolidge to bring down the high tax rates that at that time were 70% on ordinary income and 49% percent on capital gains, which Bill Steiger reduced to 28%, literally all by himself, with my help. But he advanced that idea in '79 or early '80, so that was the beginning of what we called supply side economics.

RF: These days, the virtue of lower taxes is an accepted political reality. Back then, that wasn't the case. How much of what you had to do involved simple education — making sure people understood that the status quo was unacceptable, and that higher tax rates were holding the economy and American workers back?

JK: It was tough. It was as tough in my own party as it was in the other party. Because it was not Republican orthodoxy. The Republican Party en masse voted against the Kennedy tax cuts of '61 and '62. Barry Goldwater, the champion of conservatism, voted against the Kennedy tax cuts. Howard Baker's father voted against them. The Republican orthodoxy was balance the budget first and then cut tax rates. Well, we never balanced the budget because we never could get the economy growing enough, so convincing the Republican Party was difficult at the national level.

It was easier for me in the House where I had built up a lot of friends and allies by pushing pro-growth economic issues for almost five straight years and building kind of a, for lack of a better word, a progressive conservatism — conservative values but progressive ideas on tax policy and inner city economic development that I called enterprise zones.

RF: You mentioned Ronald Reagan earlier. You are credited with convincing him to make tax cuts the central part of his economic platform for President in 1980. Could you talk a little bit about how that came about?

JK: I worked for him in the off-season. I gave a speech to the AFL-CIO convention of longshoremen, I think in '79, in Bal Harbor, Florida; and got a huge ovation from Puerto Rican and African American and Latino longshoremen.

Teddy Gleason, the longshoremen's president from New York, was a good friend of mine. He was a Catholic Democrat who liked me because I played professional football. And I was talking about jobs and lower tax rates on labor and capital. I've never talked about capital formation that I didn't talk about labor. And just as a parenthetical point, if you look at the New York state income tax in the 1970's, it went up to 14% and the federal income tax was 70%. Very few people paid it obviously, but it was 70%. And we'd had all that inflation in the mid-'70s, so working men and women, longshoremen who made good wages — $40,000, $50,000, $55,000 — they had been inflated into high brackets, where half of their income almost, after taxes, was removed from their purchasing power.

Then-Congressman Kemp watching President Reagan sign the tax reform bill of 1986.

[Reagan] understood the steep progressivity of our code and how anti-work it was, how anti-investment it was...

They were a ready constituency, and I went down to Bal Harbor and sold them on this idea, quoted Kennedy obviously. Reagan read about it in Human Events, and he called me out to California to brief him. He supported it, and he said, "Jack, I remember when the top income tax rate was 91%." He understood the steep progressivity of our code and how anti-work it was, how anti-investment it was, and, when it intersected with inflation, how it pushed normal wages up into tax brackets that were always reserved for the Mellons

and the Rockefellers but never the blue collar working folks of New York or California or wherever. Reagan understood it, then adopted and ran on it. The rest is history.

RF: Let's flash forward to this year's election: some people believe that the tax cut issue has lost its effectiveness, and that the message of letting people keep more of what they earn just doesn't resonate with voters like it used to. Do you agree with that?

JK: No, I really don't. I read David Frum, I read David Brooks in the New York Times. They both use that argument. But the issue was never leaving money in people's pockets. The money — the issue of leaving money in people's pockets — was never used by Reagan or by me.

What we were doing was shifting the incentives by lowering the marginal tax rates and increasing the after-tax income for work, savings, and investment. All of this was done at the margin where people make their decisions. Yes, you got to keep more after-tax income. But it also shifted working and investing decisions by creating a greater incentive at the margin to put your money at risk or into extra work. So it was sold by Kennedy almost as a Keynesian demand-side solution to the stagnation of the early '60s. Reagan used it as an incentive to increase the reward for work, savings, investment, and entrepreneurship.

In the current dilemma of what to do, I believe tax reform is back at the top of the Republican agenda, with simplification. But in the meantime, during this slowdown, we have the highest corporate income tax rate in the world other than Japan; it's 35% and it should come down to, I don't know, 20-25%. I think the income tax rate is too high at the top. We've indexed income tax rates; we've never indexed capital gains rates.

So I think it's very much alive, particularly in the tax reform movement, and something that should be at the forefront of any Republican presidential campaign.

RF: Following on to those comments, what do you see as the greatest challenge our nation faces today with regard to its tax policy?

JK: First of all, our rates are too high both on personal and corporate income. The double taxation on dividends is counterproductive. The bigger challenge is reforming the tax code in such a way that you answer the static analyses that are done by the opponents — by the Joint Committee on Taxation, the Joint Budget Committee.

Those are real hurdles, and whoever is the candidate — I'm supporting McCain — is going to really have to understand the issue and sell it to the American people

based upon a dynamic analysis of what it could achieve for the American economy.

RF: Finally, let me ask you a question that goes beyond tax policy. Throughout your career, you have always been very attuned to Reagan Democrats – those hardworking, blue collar Americans who grew up admiring Franklin Roosevelt but voted for Ronald Reagan because they believed he understood their concerns and would make a difference in their lives. Have Republicans lost Reagan Democrats and, if so, how do they go about winning them back?

JK: I don't agree with those who say that the Reagan Coalition is over. It's certainly undergoing some changes. I don't think you can appeal to them simply the same way Ronnie Reagan did on defense and taxes. I think we've got to be more, uh, compassionate if you will. You've got to approach people from the standpoint that they want the same things for their family that we want for our families: good education, a chance at the American Dream, upward mobility.

I don't agree with those who say that the Reagan Coalition is over. It's certainly undergoing some changes.

One way I've done it or tried to do it is to appeal to their desire to own a home. I think we have to appeal to their desire to take part in what Bush called the ownership society. I don't think he really sold it very well, unfortunately. I think it's a great idea. I was debating John Edwards on poverty and he kept saying he liked Jack Kemp, and the trouble with Kemp and the Republican Party is they represent investors and Democrats represent workers. And I said, "Wait a minute John. Workers and investors are not two separate people. They're the same people at different stages of their life. A worker in the office is an investor. A worker who has a 401k or a Roth IRA is an investor. A worker who's got a pension is an investor." The "investor class," as Larry Kudlow likes to talk about, is up to over 60% of the American people. So we should appeal to their desire to democratize capitalism.

Capitalism works great at the top of the ladder; it's not working well enough down the rungs of the ladder because we haven't made more opportunities for workers to participate in this great investor/ownership democracy of ours. **RF**

Fanning the Flames of Change

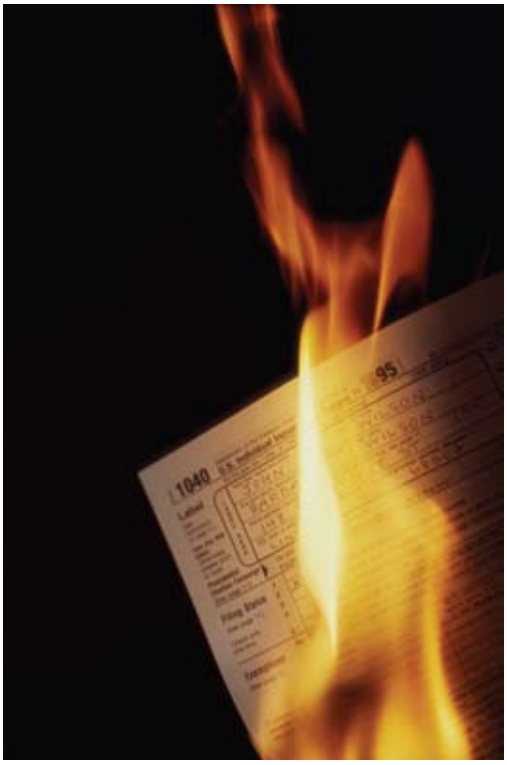
In South Carolina, tax reform begins with giving taxpayers a choice

MARK SANFORD

The writer Thomas Friedman makes the argument that the most important competition today is between "you and your imagination."

As much as football fans may have been led to believe it was between the Patriots and the Giants at the Super Bowl – or as much as people might believe in economic terms it is between America, China and India – Friedman argues otherwise.

He believes energetic, innovative and connected individuals can now act on their imaginations farther, faster, deeper and cheaper than ever before. He also contends those countries and companies that empower their individuals to imagine and act quickly on their imagination are going to thrive.



In short, ideas matter, and about the time you come up with a good one someone else on the other side of the world is sure to do the same. Therefore, whoever acts first wins.

Are you really free to act, much less imagine ideas on which to act, as you are rooting around shoeboxes of receipts at tax time? I'd say no, and most would admit that acting as a clerk for the government during portions of the year does not represent one's most creative time. Sadly, whatever creative energies are mustered generally go to tax avoidance rather than building things.

Liberating human creativity and therefore providing for long-term economic prosperity has led a number of policymakers in recent years to look closer at tax policy – in particular the ways in which lowering the income tax presents lasting economic benefits. A recent report by the Atlanta Federal Reserve Board stated that, "Relative marginal tax rates have a statistically significant negative relationship with relative state growth." To translate that into everyday English: High income tax rates slow the growth of people's paychecks and low rates raise them.

A quick look at the U.S. as a whole bears this out. A recent study by Richard Vedder, Professor of Economics at Ohio University, distinguished between nine "low-tax states" and a score of other "high-tax states." Vedder found that 41 million Americans "voted with their feet" by moving out of high-tax states and into low-tax states over the last 15 years. They wanted more time out of the shoebox filled with receipts and more time in imagining, creating and implementing ideas -- all foundational to wealth creation.

So I think we could rationally argue there are benefits tied to lowering marginal rates. The problem in the world of policy is not whether an idea is good or not, for there are scores of good ideas that go nowhere.

The question is how might you get it done?

From Pickett to Sun Tzu

For the last four years we have tried the "Pickett's Charge" approach and advocated an abolition of the income tax.

Being straightforward fits my personality and our administration. And, as a result of this approach, we were able to get the first cut to the marginal rate in our state's history – a cut from 7% to 5% for limited liability companies, partnerships and sole proprietorships.

Unfortunately the head of the Senate Finance Committee in our state dug in his heels in going any further than this, and is dead set against what he calls "cutting rates for rich folks and losing money to help people."

So we have been forced to take the sixth-century B.C. Chinese military strategist Sun Tzu's counsel to pursue one's aims with subtlety. For that reason, we recently proposed an optional "flat tax."

It harnesses three thoughts. The first is the need to expand individual freedom, time and initiative in Friedman's flat world. The second is the simplicity of a flat tax. And the third is an incredible push by a range of interest groups in our state to raise the cigarette tax.

Our proposal would simply allow an individual the choice to either pay taxes at the current 7% or forgo exemptions and pay 3.4%. The choice would be the taxpayers, and it allows you to avoid the endless debates that stall tax reform. In general most people like the idea of moving to a flat tax. But the general public does not drive the inner workings of the tax writing process. Those debates are driven by a long list of constituencies and businesses that lose or make money with each exemption in the code. I don't begrudge the realtors, for example, for arguing in favor of home interest deductibility. But each one of these voices collectively heard make changes that would make our overall code more competitive impossible.

... 41 million Americans "voted with their feet" by moving out of high-tax states and into low-tax states over the last 15 years.

So our reform is premised on what all of America seems to want these days – a choice. From restaurants to magazines and media to the car you drive, we insist on an endless array of choices. Why should it be different in the tax code given our different stations and seasons in life, if it can be done in a way so that the haul to the government is all the same?

This is where the cigarette tax comes in, because rather than taking that money to grow government, we apply it to lowering the marginal rate. And since all taxes are not created equally, raising our lowest in the nation cigarette tax of 7 cents a pack by a relatively modest 30 cents to us seems good policy. This is particularly true in our instance since anything not revenue neutral is dead on arrival with the head of Senate Finance -- and because of the way it prevents others from taking the cigarette money and growing government.

The Benefits of Reform

We believe the benefits of taking this course would be incredible. A 3.4% flat tax would mean that people in the top income bracket – in our case those making more than $12,850 per year, or almost everybody with a full-time job – could see their income tax rate cut by half. That kind of tax change could also lure entrepreneurs in search of better-tax environments to start businesses here. Seven other states have come to the same conclusion: Colorado, Illinois, Indiana, Massachusetts, Michigan, Pennsylvania, and Utah have each implemented a flat tax.

The case for a low flat tax is now being made literally all over the world. Since enacting a flat tax, Slovakia has seen foreign investment grow by 500%. Russia did the same and saw its revenue double. So did Estonia, which is now averaging 5% yearly growth.

In short, a lowered and flattened tax represents a significant step towards making our economy more attractive, and in this debate it would be hard to improve on the words of Rhode Island House Speaker William Murphy – a Democrat. The goal of the flat tax, he said, "is to put more money directly in people's pockets both by giving relief to those who need it and by making Rhode Island a more attractive place for business."

Given the importance of human imagination, and the freedom necessary to see it flourish -- not to mention the fact that we're now competing against economies literally all over the world -- the time to re-think our tax structure is now.

A closer look at the flat tax seems to me a great place to start because, in short, I believe the system that most effectively maximizes human freedom wins. **RF**

Mark Sanford is the Governor of South Carolina.

In the Hands of the People

With Washington resistant to tax reform, a plan is put forth to let taxpayers choose what kind of system they want

PAUL RYAN

Millions of taxpayers dodged a bullet when Congress in December finally passed a clean, one-year "patch" on the exemption level for the Alternative Minimum Tax (AMT), though many of them may not know it. This eleventh-hour legislation was needed to protect middle-income taxpayers from the ever-expanding reach of the AMT – an illegitimate tax that, if left unaddressed, would impose a stealth tax hike on numerous Americans.

Adjusting the poorly crafted AMT has become something of an annual tradition in Congress, and our perennial need to fix this element of our tax code suggests an even greater need: overall reform and simplification of the individual income tax system.

To get a sense of how our tax code has evolved into the behemoth it is today, consider how the AMT has changed over the years from a well-intentioned policy to close loopholes into a growing burden on law-abiding taxpayers.

Good Intentions Gone Astray

When the Alternative Minimum Tax was initiated in 1969 as an add-on to the existing tax code, its purpose was to prevent fewer than 200 wealthy taxpayers from using loopholes to avoid paying their legitimate tax obligations.

In contrast, the number of taxpayers subject to the AMT stood at approximately 3.5 million in 2006. Moreover, largely because the tax was never indexed for inflation, the AMT threatened to ensnare approximately 23 million taxpayers this income tax season if Congress had not passed corrective legislation.

Unfortunately, in last year's politically charged environment, with the majority in the House of Representatives committed to a flawed version of pay-as-you-go policy, even enacting a temporary AMT "fix" proved contentious. To his credit, the Chairman of the House Ways and Means Committee, Charlie Rangel, acknowledged the need for a permanent repeal of the AMT as well as a reduction in America's corporate tax rate. Too bad his proposal – dubbed the "mother of all tax reform" – would raise other taxes by $3.5 trillion over 10 years, amounting to the largest individual income tax increase in U.S. history.

If this were allowed to occur, the federal government would end up consuming an ever-growing share of the American economy. Instead of keeping tax revenue around its historical level of about 18.3% of the economy, federal taxes would consume roughly one-fourth of U.S. economic resources by mid-century.

At the same time, this tax hike masquerading as tax "reform" does not tackle the problem of our tax system's excessive complexity. As former House Majority Leader Dick Armey noted in a Wall Street Journal opinion article last fall, "Compliance with the 60,000-page tax code costs Americans seven billion man-hours and over $140 billion in fees to accountants and consultants, all before a single check is cut to the government. While the AMT may be repealed by [Rangel's] bill, the inefficiencies and burdens that keep Washington lobbyists employed full time remain."

Although Congress did not vote on the "mother of all tax reform" bills, the House did pass a narrower

measure in early November that borrowed elements from it. This legislation, which did not become law, resorted to permanent tax increases on businesses and individuals in order to delay for one year the full imposition of the AMT. This approach, like Chairman Rangel's more sweeping proposal, is grounded in the faulty premise that the government is entitled to the growing tax revenues that are forecast to pour into the Treasury's coffers as a result of the flawed way in which the AMT was written.

Raising taxes to stop an AMT tax increase merely creates problems in other areas, and this circular logic does nothing to strengthen America's economy. Our taxpayers need a simpler tax code imbued with greater certainty that encourages investment and job creation, discourages constant congressional meddling, and keeps federal tax revenue as a share of the overall economy from expanding well past its historical level.

Letting Taxpayers Decide

Together with Congressman Jeb Hensarling (R-TX), John Campbell (R-CA), and Michele Bachmann (R-MN), I introduced legislation last fall to help us reach these goals and start us on the path toward a more user-friendly tax system that's easy to comply with and doesn't contain stealth tax hikes. This bill – H.R. 3818, the Taxpayer Choice Act – repeals the alternative minimum tax altogether and offers taxpayers the choice of a highly simplified alternative to the current individual income tax.

Given the option of a fair, simple, and transparent alternative to the current tax code, I believe that over time the majority of taxpayers would opt for the simpler system.

First, our proposal prohibits the imposition of the AMT on individual taxpayers in any taxable year after 2006 – heading off an $841 billion tax increase over the next 10 years that would otherwise spring from the automatic expansion of the AMT. Then our plan provides comprehensive reform, giving taxpayers the chance to select between two income tax systems: the current tax code with its various deductions and credits, or a new "simplified tax" that has just two income tax rates (10 percent and 25 percent).

Specifically, taxpayers who choose the simplified tax would pay 10 percent on taxable income up to $100,000 for joint filers ($50,000 for single filers) and 25 percent on taxable income above these amounts. A cost-of-living adjustment to these tax brackets is factored in each year. Under this simplified system, taxpayers would have no special tax preferences but would benefit from a generous standard deduction and personal exemption. The standard deduction is $25,000 for joint tax filers and $12,500 for single filers. The personal exemption is $3,500. For example, a family of four (in which the parents file taxes jointly) would have a standard deduction and personal exemptions that add up to $39,000 altogether.

On the other hand, if a taxpayer believes he will fare better under the current complicated tax code, then he or she can continue paying taxes through the existing system.

Under our legislation, taxpayers would need to make a choice within 10 years from the time that the simplified tax is established as to which tax structure they will use. To prevent people from gaming the system, year-by-year tax code switches are not permitted. After their initial selection, taxpayers would be allowed one changeover between the two tax systems over their lifespan. Beyond that, people could generally only switch tax systems if a major life event such as a marriage, divorce or death altered their filing status.

Given the option of a fair, simple, and transparent alternative to the current tax code, I believe that over time the majority of taxpayers would opt for the simpler system.

The Taxpayer Choice Act is only one piece of what needs to be a larger solution to strengthening America's economy and boosting our ability to compete globally. It applies solely to federal individual income taxes and, by itself, does not address needed reforms in the corporate tax, payroll tax and excise tax arenas. Nevertheless, it is a solid starting point for an overdue national debate on tax reform.

Without lasting reform, we face the prospect of continuing congressional squabbling over temporary, stop-gap measures to shield middle-income taxpayers from the looming AMT tax burden – injecting more uncertainty into an economy already shaken by other variables such as energy prices and the sub-prime mortgage crisis.

On the other hand, with the proposed reforms, we have the opportunity to repeal the AMT once and for all; give taxpayers the choice of a simpler, more efficient tax system; and enable us to keep federal tax revenue as a share of gross domestic product close to its historical level instead of watching it rise steadily to nearly 24 percent of GDP by mid-century under the present path of tax law. **RF**

Paul Ryan represents the 1st District of Wisconsin in the U.S. House of Representatives. He is the Ranking Republican on the Budget Committee, and is a member of the Ways and Means Committee.

Reforming the Tax Code:
A Step-by-Step Guide to Getting it Done

SCOTT HODGE

For the first time since 1986, the stars may be aligning for a grand bipartisan compromise on fundamental tax reform. Regardless of who wins in November, the next president and Congress will have to deal with the collision of two cataclysmic tax events: the 2011 expiration of the Bush tax cuts and the growing irritation of the Alternative Minimum Tax (AMT).

The seeds for compromise lay in the fact that both sides have something to gain by addressing these problems at once. Naturally, Republicans want to avert the largest tax hike in history by maintaining the lower tax rates on income, capital gains, dividends, and married families with children. Meanwhile, Democrats will be brought to the table by the fact that the AMT is largely a Blue State problem, mostly affecting those living in high-tax and high-income states such as New York, New Jersey, Massachusetts, and California.

But the path between here and a simpler tax system has as many landmines as an IRS audit.

The first landmine is the distribution of the tax burden itself. Despite the rhetoric from the left about the "Bush tax cuts for the rich," the reality is that the 2001 and 2003 tax cuts knocked millions of lower-income people from the tax rolls. When Bill Clinton left office, some 29 million tax filers had no income tax liability after they took advantage of their credits and deductions. Today, the number of "non-payers" has grown to more than 43 million, or one out of every three Americans who files a tax return.

And since so many lawmakers see the IRS as a giant ATM dispensing "refundable" credits, such as the Earned Income Tax Credit, it will be very difficult to convince them to support fundamental tax reform.

With the nation's tax burden now so concentrated at the top – the top 20% of taxpayers pay about 86% of all the income taxes – any tax reform plan is caught in a rhetorical catch-22; tax reform equals "tax cuts for the rich."

Enter landmine number two: AMT and the interests of Democrats. Although the vast majority of households affected by the AMT earn between $100,000 and $500,000, Democrats have masterfully positioned it as a middle-class issue. Of course, who is "middle-class" among New York Times readers is far different than who is middle-class at a NASCAR race. Be that as it may, wrapping fundamental tax reform around AMT reform could inoculate the debate from the predictable class warfare diversions.

Considering all of these landmines, how do we craft a politically realistic tax reform plan?

Step 1: Eliminate Exemptions and Deductions

As the table on the top of the next page shows, more than 80% of the benefits of these tax deductions flow to households earning more than $80,000 and more than half of the benefits flow to those making over $118,000, the "New York Times middle-class." Eliminating these deductions would solve several problems. It would free up dollars for marginal rate cuts to keep effective rates down, and it would add greater simplicity and equity to the tax code.

While affluent taxpayers may be the initial beneficiaries

of these tax preferences, the real economic subsidies flow to well-heeled interest groups such as the housing industry, state and local governments, and public employee unions. In particular, the state and local tax deduction allows local politicians and school districts to shift as much as one-third of the cost of any tax hike along to Uncle Sam – and thus other taxpayers.

Step 2: Make it a Tax Cut and Tax Simplification

Next, one must recognize that tax cuts will always generate more support than a revenue neutral tax shift. A 2007 Tax Foundation/Harris Interactive Poll found that about half of all American adults said that they would give up their credits and deductions for an across-the-board cut in their income tax rates. The repeal of deductions, as outlined above, would fund significant marginal rate cuts.

However, the task of mobilizing the other half of Americans who said they were not sure or who rejected the idea will require the sweetener of a lower tax bill as well as the promise of a simpler 1040 form.

Share of Tax Savings from Popular Tax Preferences

Taxpayer Group by Income (a)	Municipal Bond Exemption	Interest Paid Deduction	State-Local Tax Deduction
$0 to $80,000	18.00%	23.10%	25.60%
Ninth Decile, $80,000 to $118,000	11.50%	24.50%	20.00%
Top 10%, $118,00 +	70.50%	52.40%	54.40%

(a) Adjusted gross income

Note: All numbers for Tax Year 2007. Baseline is current law.

Source: Tax Foundation Microsimulation model and IRS Public Use File

Step 3: Continue to Shield Low-Income Earners

We must accept that politicians are not likely to put the non-payers back on the tax rolls by shrinking the value of the personal exemption, standard deduction, or the child credit. With the political consensus that some low-income people should be protected from income taxes, then the practical solution is to collapse the various credits and deductions into a super-deduction that accomplishes what current policies already do inefficiently:

eliminate the income tax bill for a family of four earning up to about $42,000. Continuing to protect low-income taxpayers in this way will help to earn goodwill from the left without actually creating any new programs.

Step 4: Make Everyone a Stakeholder

An ideal plan would take this process a step further (as did the 1986 act) by slashing all tax rates equally, giving every taxpayer a stake in the reform. Better yet, the plan could condense the number of brackets to no more than two, as existed in 1988.

Such a tax code would be simpler, fairer, and closer to the kind of efficiency economists have long called for. It would reduce the compliance costs for families and small businesses alike. It would almost certainly strengthen the American economy and help move the tax code back to its proper purpose of revenue raising and away from its current distorted position of social policymaking.

Step 5: Fend Off the Special Interests

None of this is to say that fundamental tax reform would come easily or cheaply. With absolute certainty, every interest group and lobby will line the halls of Congress demanding that their interest have protections carved into the new legislation. Advocacy groups of every stripe will take to the airwaves bemoaning the plight of their specific interest. They will scream that this new tax bill will evict people from their homes, leave children hungry on the street, and force seniors into destitution.

Of course, like most cries from special interests, none of this would be true. What would be true is that the United States would enjoy one of the best and most effective tax systems the world over. The new tax code would still show compassion for the poor and still take a hefty chunk from the rich, while becoming considerably more fair and equitable.

Time is on Our Side

With the Bush tax cuts and AMT time bombs continuing to tick, time is truly on the side of real and significant tax reform.

The only question that remains is whether the politicians will find the motivation and will to get the job done right, or simply punt the ball down the field yet again, hoping someone else will pick up the pieces when things once-and-for-all explode. **RF**

Scott Hodge is President of the Tax Foundation.

Beyond Simplification

Reducing tax paperwork is important, but minimizing government's impact on the economy is key

ERNEST S. CHRISTIAN AND
GARY A. ROBBINS

Talk of taxes and tax reform abounds, and it has ever been thus -- especially when election time rolls around. The story of the tax code -- insofar as yet written -- is also the story of government and politics. In the beginning, taxes begat government; government begat spending; and spending begat more taxes, more government and more spending.

Tax reform is about good economics. Politics, on the other hand, has been about bad economics since the 1930s, when FDR created the modern-day version of the Jacksonian spoils system. In 1938, Harry Hopkins said: "We will spend and spend, tax and tax, and elect and elect."

Nevertheless, as the damage done by taxes that are too high and badly structured becomes ever greater and more obvious -- even to Washington -- there are glimmers of hope. Circumstances may be combining to make good economics good politics -- in which case tax reform in its broadest and truest sense may be upon us.

Consider the following apocryphal news report from sometime in the future -- perhaps next year or possibly never.

"Flash! The minimalist school of tax policy has prevailed. Gone is the extravagantly baroque tax structure of the past. In its place there is a new one of stark, utilitarian efficiency.

"The large and once powerful "tax industry" is recoiling in shock. Thousands of lawyers and accountants are having to make the painful transition to productive employment. Lobbyists are seeking disaster relief for themselves.

"There is real human suffering all across America. Severe environmental degradation is occurring. Smoke fills the air as mountains of discarded tax forms burn out of control. Noise levels are becoming unbearable, as the clatter of commerce replaces the soothing sibilance of shuffled paper.

"The toll of disaster victims is mounting. Unable to endure, some have broken under the weight of despair. Bands of stricken bureaucrats wander the streets of the nation's capital, befuddled and bereft. How could this happen? Where will it all end? Then, the unthinkable happened:

"Minimalism began to spread."

Emotionally (*note -- emotion is a force not to be discounted in any political upheaval), tax reform is about the "mountains of discarded tax forms". Some of the most enthusiastic warriors see the battle solely as one against paperwork and a prying IRS. In reality, however, like most things governmental, taxes are about money -- and the first purpose of reforming taxes is to enable the noisy "clatter of commerce" to provide more jobs and higher incomes for everyone.

Because of the dynamic relationship between taxes and spending, and their destructive effects when applied in excess, tax reform writ large is also about reforming government itself, the way it decides to tax and spend, why and how much -- and ultimately, it is an attempt to change the practices of politics in America.

The Cost of an Unreformed Tax

A few definitions may be helpful, starting with the meaning of tax reform.

Taxes have large and powerful effects on behavior and, therefore, on economic performance. An unreformed tax is one that has the most adverse effect on economic performance and, therefore, costs the most, per dollar of revenue yield to the government. A reformed tax is just the opposite. It has the least adverse effect per dollar of revenue yield. A large amount of any tax -- even a reformed tax -- is bad for the economy, and a large amount of an unreformed tax is disastrous.

The current federal income tax, individual and corporate, is quite clearly on the bad side of the line, unredeemed by the fact that in the past it has been even worse. Had not the extraordinarily high marginal tax rates that prevailed in the 1950s and 1960s been reduced to the more tolerable but still too high levels of today, and had not the nearly prohibitory double and triple taxes on saving and investment been ameliorated somewhat, it is probable that the U.S. economy would today be no more than 60 percent or so of its present size.

Because of the dynamic relationship between taxes and spending, and their destructive effects when applied in excess, tax reform writ large is also about reforming government itself...

Even with current rates and less destructive multiple levies on capital, taxes cost the private economy two to three times more than the revenue yield to the government. On average, $1 of revenue ends up costing $2 -- and at the margin, a $1 increase in revenue from additional taxes on capital costs the private economy $3 to $4. (See Martin Feldstein, "The Effect of Taxes on Efficiency and Growth" (Cambridge, Mass.: National Bureau of Economic Research, 2006) and N. Gregory Mankiw and Matthew Weinzierl, "Dynamic Scoring: A Back of-the-Envelope Guide" (Cambridge, Mass.: National Bureau of Economic Research, 2006)).

There are two components of "cost". First, there is the $1 of tax. People no longer have this money; the government does. Second, there is the lost income -- perhaps as much as $3 -- that the economy would have produced had not the government intervened. People do not have it to save or spend, but neither does the government. It's gone, never produced and irretrievable.

Economists may argue around the edge about the exact size of the "deadweight" loss, but it is an iron law that taxes do cost the economy more than the revenue yield to the government. This powerful fact alone -- although conveniently ignored by politicians -- is the central reality of governance in our free market economy today. It means that unless government is continually to make people worse off, each dollar of spending must by some measure be said to produce a benefit to society that is greater than a dollar.

Some dollars do, but most do not. And the more government grows, searching for more things to do and spending ever more dollars on more projects, the more likely it is that an ever-larger portion of government spending will be worth less than its cost. Many of government's hot new spending programs may be highly worthwhile -- times change and everything government does is not bad. But instead of paying for the new expenditures by cutting back funding for one of yesterday's supposedly hot new programs (that didn't work and is now nearly useless), the government almost invariably keeps that old program and imposes more high-cost taxes to pay for the new one. The absurdity of this practice is obvious.

If every time the Congress sought to raise taxes, the 100 most inefficient pre-existing government spending programs were put at the margin and -- out in public -- matched up with the high cost of a tax increase, it would be clear that the combination of government taxing and spending is making Americans worse off. A recent study by the Office of Management and Budget shows that over 400 federal spending programs with a total annual budget of $650 billion received grades of "D" or "F" for lack of performance.

Strictly mathematical measures that weigh the amount spent against discernible results produced obviously do not capture all the benefits of all government programs. In some cases they do and in some they don't. Who can fully measure the value of educating a child or of national defense? But it is also the case that the true cost of taxes exceeds the $2 to $4 per $1 of revenue that most economists compute. Who can measure the real cost of jobs lost, raises not received, mortgages not paid, education foregone and healthcare not obtained because of the economic damage done by taxes?

When one looks at the dynamic interactive relationship between taxes, spending and economic growth, the second critical reality of governance in a free market economy is as arresting as the first: many of the problems that modern liberal governments in the United States and elsewhere seek to cure by increasing public spending are the result of taxes imposed by government to pay for existing levels of spending. The lesson to be learned from this self-perpetuating (and self-magnifying) circularity is not that government should stop taxing and spending; but it is, rather, that the government should

stop falsifying its books of account in an ongoing process of misleading both itself and the voters.

Keeping Spending to a Minimum

Presently, the federal budget first assumes that a dollar of taxes costs only a dollar, and then most politicians pretend that each dollar of spending produces more than a dollar of benefit. (If it did not, what excuse could there possibly be for them having spent it?) The better politicians -- of which there are many -- know about the high cost of taxes and the measurably low value of most government spending, but they are swept along by the force of tradition and the inability of any one member of Congress (or in most cases, even a President) to alter the onward and upward sweep of a federal government now more powerful than they.

Tax reform in the broad sense is unlikely to occur until the government fundamentally changes its financial accounting by adopting a Cost-Benefit Budget that, out in the open and with full public participation, systematically weighs the benefits of all government spending programs -- both existing and proposed -- against the true cost of taxes necessary to pay for them. Cost-benefit budgeting would not mean that the public would receive less services from government that are truly important. Indeed, cost-benefit budgeting would enable the government to do more of the things for which it is uniquely suitable -- and a growing economy would greatly reduce the number of people in need of assistance from government.

The case for a growing economy, a minimalist government concentrated on achieving the best with the least, and presided over by a President and Congress content to do their limited constitutional duties quietly and efficiently, is impeccable. It has been made elsewhere far more expertly than here. But the ruling combine in Washington, made up mostly of entrenched incumbents, lawyers, lobbyists, and others to whom the government is a vital source of profit, has for many decades been moving in the opposite direction. It will not and probably cannot voluntarily give up its power or change its character.

Change will occur when the voters rise up in righteous anger, smite the offenders and replace them with public servants who have but one standard by which to measure everything: "Is it good for America?" **RF**

Mr. Christian, an attorney, was a deputy assistant secretary of the treasury in the Ford administration. Mr. Robbins, an economist, served at the Treasury Department in the Reagan administration. Both are adjunct fellows at the Heritage Foundation.

Why Tax Cuts *Still* Matter

WILLIAM BEACH

Once again, presidential politics has turned to tax policy.

The candidates are debating not only whether the sluggish economy justifies another round of tax cuts, but whether the tax cuts enacted by President Bush in 2001 and 2003 should be allowed to expire or made permanent once and for all.

Our country's economic future may well turn on how voters resolve these questions. Right now, a lot of voters may be somewhat confused. After all, much of what is being said about the state of tax policy in the United States seems to make a lot of sense. Take the issue of extending the Bush tax cuts.

Most Democrats argue that these cuts have primarily benefited upper income taxpayers, who now enjoy a smaller tax burden than before the reductions were put into place. They also argue that the Bush tax cuts have starved the federal government of needed revenue. Letting the cuts expire, they claim, would help fund other national priorities, such as building new schools and repairing roads and bridges.

These are all compelling claims. But as with everything else in politics, the question must be asked -- are these claims true?

The Truth about Tax Cuts

Let's look at the first claim. Central to the argument for letting the Bush tax cuts expire is the claim that high-income taxpayers do not pay as great a share of all income taxes today as they did prior to 2001. If that is true, then proponents of tax equity have a powerful tool to use in defeating supporters of President Bush's tax policies. However, this claim is plainly false.

The Internal Revenue Service provides data on their web site (www.irs.gov) on the percentage of income taxes paid by high-income taxpayers out of all income taxes. Anyone can obtain this information. Many who do will be surprised to learn that the top 1% of income earners paid 39.4% of all income taxes in 2005, the latest year for which such data is available. That is the highest percentage of all income taxes that this group has paid since 1986, when their share stood at 25.7%.

The top five percent of income earners paid 59.7% of all income taxes in 2005, which was the highest percentage in the past 20 years. Tax share records were also set by the top 10, top 25 and top 50% of income earners. In other words, every category of high-income taxpayer as defined by the IRS paid a higher share of taxes in 2005 than they have since 1986, the earliest date for which the IRS provides data.

Of course, a taxpayer's share of all income taxes could go up, but the percentage of their own income paid in taxes could go down. Has that happened? If the Bush tax cuts did for all taxpayers what they were intended to do, then the answer would be yes, and it is. The Congressional Budget Office (CBO) analyzed the effects of the Bush tax cuts by estimating the percentage of household income that typical households all across the income distribution paid in all federal taxes, including income taxes. By this measure, the percentage paid in income taxes (the so-called effective tax rate) was lower in 2005 for every group than it was in 2000. For example, the middle fifth of the population had an effective tax rate in 2000 of 5% and a rate in 2005 of 3 %. The top 20% had an effective rate of 17.5% and 14.1% in 2005.

That's a lot of numbers. Suffice it to say that most taxpayers paid lower taxes in 2005 than in 2000. So, high income taxpayers are shouldering a greater share of income taxes paid, but they -- like all other taxpayers -- are paying at a lower rate on their own income.

If that's the case, then don't the advocates of letting the Bush tax cuts expire prevail on their second claim – mainly, that the tax cuts starve the government for revenue and more tax cuts would just make the revenue picture worse?

Actually, that claim also is false.

The CBO provides data on revenues as a percentage of GDP from 1962 through 2007 and forecasts of the revenue percentage for 2008 (see www.cbo.gov). Since 1962, the long-term percentage has been at or near 18% of GDP. In 2000, this percentage stood at a whopping 21.4%, its record since 1962.

Then the recession set in and revenues dropped steadily through 2002. By 2003 the slow economy and the tax cuts of 2001 had reduced the percentage to 16.1%. Congress cut taxes again that year. Interestingly, revenues began to respond to the stronger economy that the 2003 tax changes encouraged.

By 2005, the percentage had climbed to 17.4%. By 2007, they had risen again -- to 18.6%. For 2008, the CBO expects the revenues as a percent of GDP to stand at 19%, significantly above the long-term trend of about 18% of GDP.

If the Bush tax cuts starved Washington of revenues, why did revenues start growing again after the second large tax cut in 2003? The reason is clear: the tax cuts had their intended effect of lowering the burden of Washington on working families and entrepreneurs. These folks responded by working harder and making more investments, all of which lifted the economy out of its doldrums following the collapse of the dot com bubble. If there was anything that starved Washington of revenues, it was a sluggish economy, not the tax cuts.

What of the claim that more tax cuts are not needed now to boost the economy out of its doldrums?

What strikes economists who study U.S. economic growth is the trend of this economy, not the occasional slowdown. This is an economy that appears always able to absorb increases in labor and capital by growing steadily and more strongly. Indeed, tax policy makers should always set their sites on encouraging more work, entrepreneurship, and investment, since ours is an economy that seems to have an insatiable appetite for all three.

What this means is that tax cuts on labor, capital, and enterprise still matter, and probably will always matter. That is a particularly telling truth when the overall revenue take of Washington rises significantly above its long-term trend of 18%.

Given that the claims against the Bush tax cuts are false, that revenue growth is strong at the lower levels of tax rates instituted in 2001 and 2003, and that federal revenues have risen significantly above their long-term trend; now is the time to consider more tax reductions, not tax increases. **RF**

William Beach is the Director of the Center for Data Analysis at the Heritage Foundation.

Incentive and Inventive:
Smart Tax Policy Needed to Promote U.S. Manufacturing

JOHN ENGLER

It's a comment many of us heard in our early years on the job, delivered by a demanding boss or exasperated co-worker: "Work smarter, not harder!"

Manufacturers in the United States take those words to heart. They have to.

Although no strangers to hard work, America's manufacturers know that their competitive advantage in the hard-fought global marketplace lies in the ability to work smarter. Other countries will boast lower costs of labor or raw materials, so it's skilled and creative people who ensure America's competitive edge – the edge that builds on research, development, investment and innovation.

For many years, a bipartisan consensus in Congress has helped maintain that American edge. Republicans and Democrats both have supported smart policies that encouraged the R&D and innovation that lead to new products, technologies and manufacturing processes. Yet year after year, Congress still does a dumb thing: It allows the federal research and development tax credit to expire, throwing U.S.-based business into a world of uncertainty and frustration.

"The U.S. is in real danger of losing our lead in research to other countries," Senator Orrin Hatch (R-UT) warned at a December 2007 news conference on Capitol Hill. "Many of these nations offer more generous tax incentives than we do. We simply cannot afford to lose the edge in research and development."

Despite the Senator's admonition, the R&D tax credit lapsed on December 31, 2007 – the 13th time that Congress has permitted the credit to expire since its creation in 1981.

This kind of on-again, off-again inconsistency is the enemy of investment, especially in the case of R&D conducted by manufacturers, projects which typically span five to 10 years.

But the credit's expiration also amounted to an immediate $9 billion tax hike for the nearly 11,000 companies of all sizes that use the credit – at the very same time that Congress and the President were embracing tax relief to stimulate the economy.

Allowing the credit to expire also creates a huge competitive disadvantage. Once providing the most attractive incentive in the industrialized world, the United States now ranks last among the 20 OECD countries that stimulate R&D through their tax codes. With decisions about jobs, facilities and investments increasingly made on a global scale, the United States simply cannot afford to come in last in any competitive area.

This incentive is especially critical to manufacturers, the primary innovators of the U.S. economy who claim nearly 70 percent of all R&D tax credits. Manufacturers have proved that R&D is a powerful force driving new product development and increased productivity – again, competitive advantages we must not let slip away.

Between 1994 and 2004, manufacturing productivity increased by 60 percent, primarily due to innovation and technological advances. These advances spurred the nation's economic growth, resulting in spillover benefits to American workers in terms of higher wages and an improved standard of living.

Other countries have learned from our example, improving their credits and other incentives to attract R&D jobs, projects and facilities. Canada, China, India, France and Ireland are just some of the countries that court U.S. companies by advertising more advantageous R&D tax incentives. Not surprisingly, one survey by Deloitte Consulting found that R&D investments by U.S. majority-owned companies increased more than twice as fast in foreign countries as they did here at home between 1998 and 2003.

Congress is certainly aware of these competitive challenges. In passing an extension of the credit in 2006, lawmakers created a new, simplified version of the incentive – one especially beneficial to small- and medium-sized manufacturers.

"To keep our nation leading the world in technology and innovation, we're extending and modernizing the research and development tax credit," President Bush said upon signing the bill into law. "By allowing businesses to deduct part of their R&D investments from their taxes, this bill will continue to encourage American companies to pursue innovative products, medicines, and technologies."

Last spring U.S. Representatives Sandy Levin (D-MI) and Dave Camp (R-MI) introduced legislation to further strengthen the credit, and make the R&D tax credit permanent. In 2007, there were a record-breaking number of original cosponsors on the bill, all of whom are members of the House tax-writing committee in Congress, reinforcing the broad bipartisan support for innovation in Congress.

Given that support and the R&D tax credit's proven effectiveness, how is it that Congress allows it to expire – now for the unlucky 13th time? It's not as if the legislators do not hear from their business constituents and trade associations, including the Information Technology Association of America, the Business Software Alliance and, of course, the National Association of Manufacturers.

...the United States now ranks last among the 20 OECD countries that stimulate R&D through their tax codes.

Unfortunately, the research and development tax credit is so popular, so effective, that it has become a favored bit of legislative sweetener. It gets added to this measure or that, often in the waning days of a Congressional session, to attract a few more votes. When the credit lapses, the business community hears assurances like, "We'll get it done…eventually. Don't worry."

But manufacturers and businesses in the United States do worry. They worry when they open the paper to a full-page advertisement meant to lure companies abroad; when they start to plan a product's development, not knowing whether a credit will be in place; when they learn of a foreign competitor's breakthrough and great new product, developed through government-encouraged R&D.

In today's global economy, competition is a given and complacency the enemy. The time has come to recognize the R&D tax credit as a critical element of American competitiveness, one that should be a permanent feature of the U.S. tax code. It's the smart thing to do. **RF**

John Engler, a former three-term Republican governor of Michigan, is president and CEO of the National Association of Manufacturers.

A Sacred Trust

Health care reform begins with keeping the doctor-patient relationship strong

TOM PRICE, M.D.

"The doctor will be with you shortly. He's consulting with your insurance company for a diagnosis that's allowed."

While you may never hear those words in your physician's office, it is sadly not a far-fetched scenario in today's broken health care system. America is facing a mounting health care crisis, and federal restrictions are increasingly putting third parties between patients and their doctors.

As a physician, I have seen first-hand how our anti-trust laws and increasing government intervention are squeezing already tight access to health care. Federal anti-trust laws exist to ensure that a few powerful businesses are not able to use the muscle of a monopoly to restrain supply and artificially raise prices in the marketplace. These very laws, however, are exacerbating our health care crisis by denying physicians the ability to negotiate with insurance companies on behalf of patients' medical needs.

In recent years, the rapid growth of consolidation in the insurance industry has put patients at risk by denying doctors the ability to treat patients with the highest quality care. The current system unevenly leverages what insurance companies are – and are not – willing to pay for against what the patient needs.

The Quality Health Care Coalition Act, reintroduced this Congress, allows physicians to negotiate together for health plan contracts. A critical part of fundamental health care reform, this legislation will allow increased choice for patients and doctors, greater access to care, and much needed relief from spiraling medical costs. A bipartisan effort behind this and broader, comprehensive health care reform is essential if we are going to restore a patient-centered health care system.

Dr. Tom Price discusses health care at a Medicare seminar he hosted in his Georgia district.

We have seen substantial consolidation in the health insurance industry. In the past dozen years, the U.S. health insurance and managed care industry has seen more than 400 acquisitions. With this increased concentration of power, individual physicians are left facing large firms with little, if any, leverage in contract negotiations. Private health care insurers are important, and increased coverage in the private market is desirable. By sheer market size, however, doctors are on an uneven playing field. Too often patient needs are on the back burner as doctors face "take-it-or-leave-it" contracts.

In developing health plan contracts with insurance industry companies, guidelines for virtually every aspect of patient care are established. The inflexible terms of these contracts often include limits on procedures which doctors may offer – or even discuss – because insurers deem them unnecessary. This system allows insurance administrators to overrule the best judgment of highly trained medical professionals and suppress patient choice in care. I can attest from my years as an orthopaedic surgeon that allowing

government or an outside party to dictate medical decisions is not in the best interest of patients.

The Quality Health Care Coalition Act would provide a positive solution to these impediments to high quality health care. Allowing physicians to increase their bargaining power will ensure that business interests do not supersede the best interests of patients. Patients should have the ability to make independent, personal health care decisions with their doctors, rather than have a third party make these decisions for them. Negotiating on a level playing field will also ensure that doctors receive just compensation for their service and encourage a strong supply of medical professionals to meet tomorrow's health care challenges and our nation's changing demographics.

Providing anti-trust relief for physicians is not a partisan issue, nor a new one. Support for this common sense plan spans the ideological spectrum in Congress and has been discussed for years. In fact, the original version of the Quality Health Care Coalition Act passed the House of Representatives in 2000. Sponsored by retired Rep. Tom Campbell (R-CA), this legislation harnessed broad support by the current Chairmen of the Judiciary Committee, John Conyers (D-MI), and Ways and Means Committee, Charles Rangel (D-NY).

I can attest from my years as an orthopaedic surgeon that allowing government or an outside party to dictate medical decisions is not in the best interest of patients.

Enactment of this legislation would be an important first step in restoring a patient-centered health care system. Yet we can no longer afford to fix our system one piece at a time. Years of incremental changes to federal health policy have caused the muddled system we see now. Instead, a complete overhaul of American health care is needed to create a structure that is free from third party interference.

Many believe with validity that government and employers play as large a role as insurers in how doctors deliver care and how patients receive that care. Most believe this structure impedes access to quality physicians and care.

Since coming to Congress, I have used my experience as

a physician to craft legislation that would make fundamental changes to our nation's health care system. The Comprehensive HealthCARE (Coverage and Reform Enhancement) Act is extensive legislation, including anti-trust relief, which would transition our health care system to one that is patient-centered through the formation of a defined contribution system. Under this structure, patients would truly own their coverage and choose a plan that fits their individual and family needs. Americans are currently beholden to employers or the government, if not insurers, to make health care decisions for them. This third party structure is fundamentally flawed. We need principled and far-reaching reform to correct this broken system.

A defined contribution health care structure grants the power of choice to those most intimately affected by health care decisions. When patients have the power to create individual health plans, the market is forced to be responsive to their specific needs, eliminating unwanted benefits and reducing costs. This legislation reforms our basic structure and makes positive changes in the lives of the uninsured, underinsured, and those drowning in growing medical costs.

...a complete overhaul of American health care is needed to create a structure that is free from third party interference.

The Quality Health Care Coalition Act and the Comprehensive HealthCARE Act are just two of the many patient centered legislative options that could bring our health care delivery system in to the 21st century.

Truly placing medical decisions in the hands of doctors and patients is the only way to restore a system that is innovative, responsive, affordable, accessible, accountable, and of the highest quality. **RF**

Tom Price, M.D. represents the 6th District of Georgia in the U.S. House of Representatives. Prior to coming to Congress, he was an orthopaedic surgeon for more than 20 years.

The Handwriting is on the Wall

The increasing importance of e-prescribing in health care

JON PORTER

The American health care system needs to embrace 21st century technology. This can begin now by dramatically increasing the number of prescriptions transmitted electronically.

Every year, over 3 billion prescriptions are filled in the United States, the majority of which are scribbled on a 3" by 5" note pad and handed to the patient to be brought to their local pharmacy. This is an antiquated model that has proven to be fatal on many occasions. Our health care system must utilize new technologies that will dramatically reduce costly and fatal errors and prove to be more convenient for both patients and physicians.

Our health care system must utilize new technologies that will dramatically reduce costly and fatal errors and prove to be more convenient for both patients and physicians.

The stories of harmful drug interactions and medical errors impact over one million Americans annually, of which, over 7,000 prove fatal. The technology to significantly reduce these errors is available, but there has not been widespread application. The federal government can play a role in expediting a national transformation.

The benefits of electronic prescribing are easy to understand for patients. In addition to the reduction in hazardous drug interactions, there are multiple health care and efficiency benefits to e-prescribing for all prescriptions. The obvious advantage is that electronically submitted prescriptions reduce the chances of filling errors resulting from difficult to read handwritten prescriptions, and transcription errors made when taking a prescriber's oral prescription order via telephone.

Before a prescription is even submitted to a pharmacy of the patients choosing, the prescriber is able to perform an initial drug interaction review. This would allow the prescriber to be absolutely certain that the new drug being prescribed is not in conflict with a drug that the patient is already taking.

Furthermore, the utilization of electronic prescribing technology not only saves time for the physicians, but also the patients. Using this system, prescribers can transmit prescriptions so that they are already completed by the time the patient arrives at the pharmacy.

Many health care practitioners believe that the implementation of electronic prescribing technologies is vital to the future of our health-care system. A 2006 study conducted by the Institute of Medicine, a Washington based research group, found that 85% of physicians think that e-prescribing is a good idea, with 81% and 65%, respectively, stating that it would reduce errors and save time. Despite the overwhelming support expressed for the adoption of electronic prescribing technologies, only 7% of those physicians who participated in this study utilized

such technologies. The adoption of these new prescription processing protocols would allow physicians more time to do what they do best, provide care to their patients. The 2006 Institute of Medicine study further recommended that there be a nation-wide switch from handwritten prescriptions to electronic prescriptions by 2010.

The support is not only coming from the medical community but it has already become a popular policy goal with the consumer. In a survey completed in January 2008, nearly 70% of consumers approved requiring doctors to move towards electronic prescribing technology. It is clear that both doctors and patients understand that reducing paper and handwriting is an effective way to save lives and money.

I, and many of my Congressional colleagues, understand the immediate need to implement these new technologies. That is why, to try to save lives and eliminate adverse medical reactions due to preventable prescription errors, I introduced this past December the E-MEDS Act of 2007, which would create a gradual mandate with financial incentives for doctors to throw away the note pads. The legislation has broad, bipartisan support in the House. Senators Kerry and Ensign have introduced companion legislation in the Senate.

E-prescribing is a necessary and constructive step to move our health care system into the 21st century.

E-prescribing is a necessary and constructive step to move our health care system into the 21st century. While I am encouraged that Congress has already recognized the multiple health care and efficiency benefits of e-prescribing, we must continue to work tirelessly to see that this technology is implemented nationally. **RF**

Jon Porter represents the 3rd District of Nevada in the U.S. House of Representatives.

A Capital Idea:
A Budget that Plans for the Future

ANDREW A. SAMWICK

As signs of economic weakness appeared in January 2008, the White House and House Leaders agreed to a $150 billion stimulus package based on rebates to taxpayers and tax incentives for businesses.

While the Senate has yet to sign-off on this package, one thing is certain – using fiscal policy in the manner being proposed is both imprudent and counterproductive. It adds to the current deficit without putting in place any plan for repayment, and it places too much emphasis on private consumption and investment to boost economic activity.

No doubt some sort of stimulus plan is going to be approved. There is also little doubt that, at some point in the future, there will be another economic slowdown, and the White House and Congress will likely consider again some sort of package to spur things along. Some important changes to our budget policy should be made before then – changes that will help produce a better stimulus package the next time one is needed.

These changes must begin with an honest assessment. Indeed, in order to use fiscal policy constructively to smooth out business cycle fluctuations, we need to honestly assess our current economic and policy challenges and tailor our fiscal policy interventions to meet them. The agreement reached by the House and White House in January addressed two problems that the United States does not have.

First, the nation does not have an underconsumption problem. The personal saving rate hovers around zero. The government's budget has been in surplus in only four of the last 35 years. The nation has run current account deficits with the rest of the world for the last 15 years. If we are looking for additional economic activity, consumption is a poor choice.

Where our country does have an underinvestment problem is in our public infrastructure.

Second, we do not have an underinvestment problem in the private sector. Interest rates have been very low by historical standards, and the Federal Reserve intervened immediately to lower them even further. With or without additional tax-based incentives, corporations have plenty of access to cheap credit to expand their capital stocks.

Where our country does have an underinvestment problem is in our public infrastructure. The failed levees of New Orleans. The collapsed bridge in Minneapolis. Those are but two recent examples of an area where the federal government is falling down on the job. Regrettably, they are not the only examples. In 2005, the American Society of Civil Engineers released a report card in which it estimated that $1.6 trillion would be required over a five-year period to restore the nation's physical infrastructure to good condition.

Because infrastructure projects are in many cases public goods or natural monopolies that can be provided more efficiently with government regulation or implementation, the government should bear responsibility for them. Looking ahead, the country faces potential bottlenecks in network infrastructures in broadband and alternative energy that could be added to the ASCE report's recommendations.

To be sure, there was some discussion of issuing debt to finance more public works projects during January. But under the urgency to generate a stimulus package that was "timely, temporary, and targeted," capital projects were discouraged. Despite the availability of the ASCE report card and the high profile failures in New Orleans and Minneapolis, the federal government has not recognized its need to include capital projects in its budget.

The idea of a formal capital budget is a recurring theme in Washington, and was the focus of a Presidential Commission in 1997. A detailed capital budget is an interesting academic exercise, but it is not necessary here. All that is required is to recognize the backlog of critical public infrastructure needs, to convene a group of experts and policy makers to prioritize them, and to schedule them for implementation over a multi-year horizon. When economic growth falters, the federal government would be in a position to move some of the projects from later years into the present year and avoid the downturn.

All additions to this year's deficit are "paid for" in some way. The consumption and private investment spurred by the debt issued as part of the January 2008 stimulus package will be repaid at some point in the future or serviced through higher interest payments in all years in the future. Current taxpayers get all the benefits, while future taxpayers bear all of the costs. Since only current taxpayers vote, it is easy to understand the bias toward deficits in our democracy.

We could increase the fairness of our budget policy by adopting a target of balancing the budget over a complete business cycle. This commitment would not preclude the January 2008 agreement, but it would require that the debt be repaid fairly quickly, when the economy has recovered, thereby aligning the costs and benefits of the policy across cohorts of taxpayers.

As long as the costs of infrastructure projects are included in the multi-year projections of the federal budget, using capital expenditures to stimulate the economy abides by this target. Projects moved forward by a year would increase the deficit in 2008 but reduce it in 2009, when an economy that was thought to need temporary stimulus will have regained its footing. Overall expenditures should also fall through this counter-cyclical policy, since prices are lower in periods of economic slack.

With these minor modifications — a prioritized and budgeted agenda of public infrastructure projects and a budget target that achieves balance over a complete business cycle — we can use fiscal policy effectively to both combat short-term economic fluctuations and rebuild critical infrastructure that has itself become a drag on our long-term economic well-being. **RF**

Andrew A. Samwick is the Director of the Nelson A. Rockefeller Center at Dartmouth College. He previously served as the chief economist on the staff of the President's Council of Economic Advisers.

The Boldness of THEODORE ROOSEVELT *and the Politics of Today*

WILLIAM N. TILCHIN

Theodore Roosevelt was one of America's most courageous, most creative, most effective presidents.

He was a progressive Republican who conceived of the president as the "steward" of the American people, future generations included. Roosevelt instituted a far-reaching conservation program, a "Square Deal" for common citizens, and a dramatic reorientation of U.S. foreign policy.

On conservation, he employed two distinct ideas — controlled utilization and preservation — as he expanded the nation's forest reserves by about 350% to 194 million acres, established a federal irrigation network in the western United States, and created the first 51 federal bird reservations, the first four national game preserves, the first 18 national monuments, and five new national parks.

Roosevelt's Square Deal emphasized justice for workers and consumers and was manifested in his even-handed mediation of the anthracite coal strike of 1902, his successful attacks on trusts he considered to be harmful to the public interest, and the enactment of such landmark laws as the Pure Food and Drug Act, the Meat Inspection Act, and the Hepburn Bill of 1906, which won for the Interstate Commerce Commission meaningful regulatory authority over the nation's railroads.

And in foreign policy, Roosevelt built up the U.S. Navy, secured U.S. control of the Panama Canal Zone and started building the canal, forged a potent informal alliance between the United States and Great Britain, functioned as a mediator par excellence during the two gravest international crises of his presidency, and, in general, gained recognition of and respect for the United States as a confident and influential great power.

These extraordinary accomplishments resulted from a deftly executed approach combining persuasion and executive action. Roosevelt was a broad constructionist who often would act unilaterally on behalf of the citizenry when the U.S. Constitution did not expressly forbid him to do so. He also utilized the "bully pulpit" of the presidency to educate and persuade the people and, where legislative action was necessary, members of Congress.

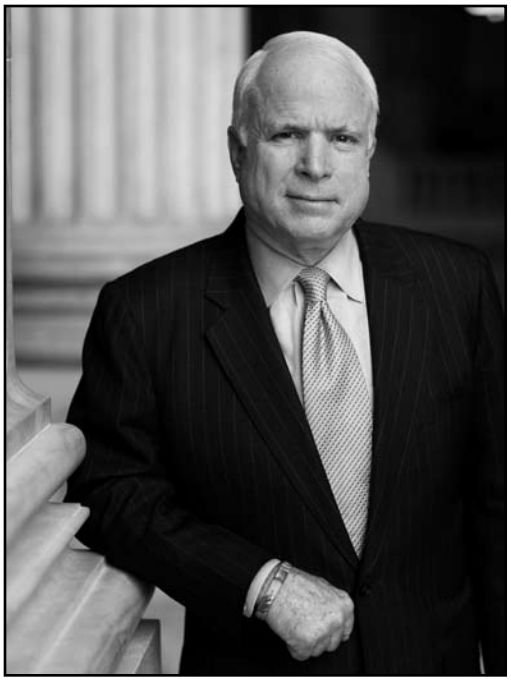
So, for example, TR employed what he viewed as his constitutional prerogatives as chief executive to create bird sanctuaries and game preserves, to resolve the coal strike, and to mediate the negotiations that ended the Russo-Japanese War. He drew on executive power previously granted by Congress to designate forest reserves and national parks and to take down trusts (most notably J. P. Morgan's Northern Securities Company), and he sought and gained from Congress presidential authority to create national monuments (the Antiquities Act of 1906) and the funding needed to carry out his naval building program (secured in part by the brilliant public relations spectacle of sending the U.S. battleship fleet on a 14 month world cruise beginning in December 1907). Roosevelt's skills in obtaining major congressional legislation were repeatedly displayed — most impressively, perhaps, when he maneuvered to gain passage of the Hepburn Bill, winning enough Democratic support to offset some determined Republican opposition.

Forty years after TR's presidency, it appeared, somewhat ironically, that the Democratic Party had become his

true heir. More than any other president from 1909 to the present, Harry Truman personified a mixture of domestic progressivism and an ambitious, coherent, firm, effective foreign policy reminiscent of Theodore Roosevelt. But since the mid-1960s there has been a split: The Republican Party has taken more consistently than the Democrats a Rooseveltian approach to U.S. foreign relations, while the Democratic Party has continued (in the tradition of both Presidents Roosevelt) to put forward policies designed to advance social justice and environmental protection. So where does that leave a Rooseveltian voter in 2008?

It is difficult to project how a present-day Theodore Roosevelt would come down on such issues as abortion rights and gun control (although, as a one-time police commissioner, Roosevelt would probably side with the police in favor of sensible restrictions on access to assault weapons and handguns). But it can be asserted with reasonable assurance that an early 21st century Rooseveltian agenda would encompass the following elements: (1) a forward defense strategy featuring continuing U.S. military predominance and, in particular, a vigorous sustained war against Islamic extremists; (2) a bold environmental program highlighted by serious efforts to address the challenge of global warming and to move toward U.S. energy independence; and (3) a budgetary policy aiming to bring about a just and efficient universal health care system, to fund vital infrastructure projects, to restore substantially higher income and inheritance tax rates on people of great wealth (TR was an outspoken early proponent of such taxes, which he advocated on moral as well as economic grounds), and in the process to reduce sharply the annual federal deficit, which is undermining U.S. security and is inexcusably imposing huge burdens on younger and future generations.

Would Hillary Clinton or Barack Obama be likely to pursue such an agenda? It is conceivable that either of them could, but serious doubts do arise readily in the transcendently important area of national security. In addition, either might have difficulty winning the 60 votes needed in the Senate for transformative domestic legislation. Most in the Republican field of candidates inspire even less optimism. While there would be a greater awareness of the country's national security requirements, questions of competence and of sufficient monetary resources for optimum military readiness and performance would loom. And the domestic portion of the Rooseveltian agenda delineated above would face dim prospects.



There is one potential Rooseveltian candidate in the 2008 presidential race, and that candidate is a Republican.

There is one potential Rooseveltian candidate in the 2008 presidential race, and that candidate is a Republican. Senator John McCain has on many occasions enthusiastically proclaimed Theodore Roosevelt as one of his heroes and models. McCain possesses the international sophistication and lucidity, the courage of his convictions, and the maturity and toughness to confront effectively the existential challenge posed to the United States and the entire civilized world by radical Islamic countries and organizations. He grasps the danger to the planet of failing to stem global warming and the danger to America of failing to reduce U.S. dependence on foreign oil. He believes in an ethical society, common sacrifice, corporate accountability, and fiscal responsibility. It is even arguable that McCain would be in a stronger position than Clinton or Obama to achieve major domestic policy breakthroughs, because McCain would be better situated than they to pick up enough Republican support in the Senate to win passage of pathbreaking reform legislation. Most important, whatever may turn out to be the specific elements of his presidential policies, McCain embodies the Rooseveltian notion of stewardship and would treat the presidency as a sacred trust to safeguard and serve the American people, coming generations pointedly included.

The hope, to this author, at least, is that, beginning in January 2009, the citizens of the United States will have given themselves the opportunity to be led by this extremely decent, public-spirited, bold, resolute, capable, and admirable individual. One can speculate with some confidence that Theodore Roosevelt would wholeheartedly approve. **RF**

William N. Tilchin is a history professor at Boston University, the author of Theodore Roosevelt and the British Empire: A Study in Presidential Statecraft (St. Martin's Press, 1997) and numerous other writings, and the editor of the quarterly Theodore Roosevelt Association Journal. The views expressed here are his own.

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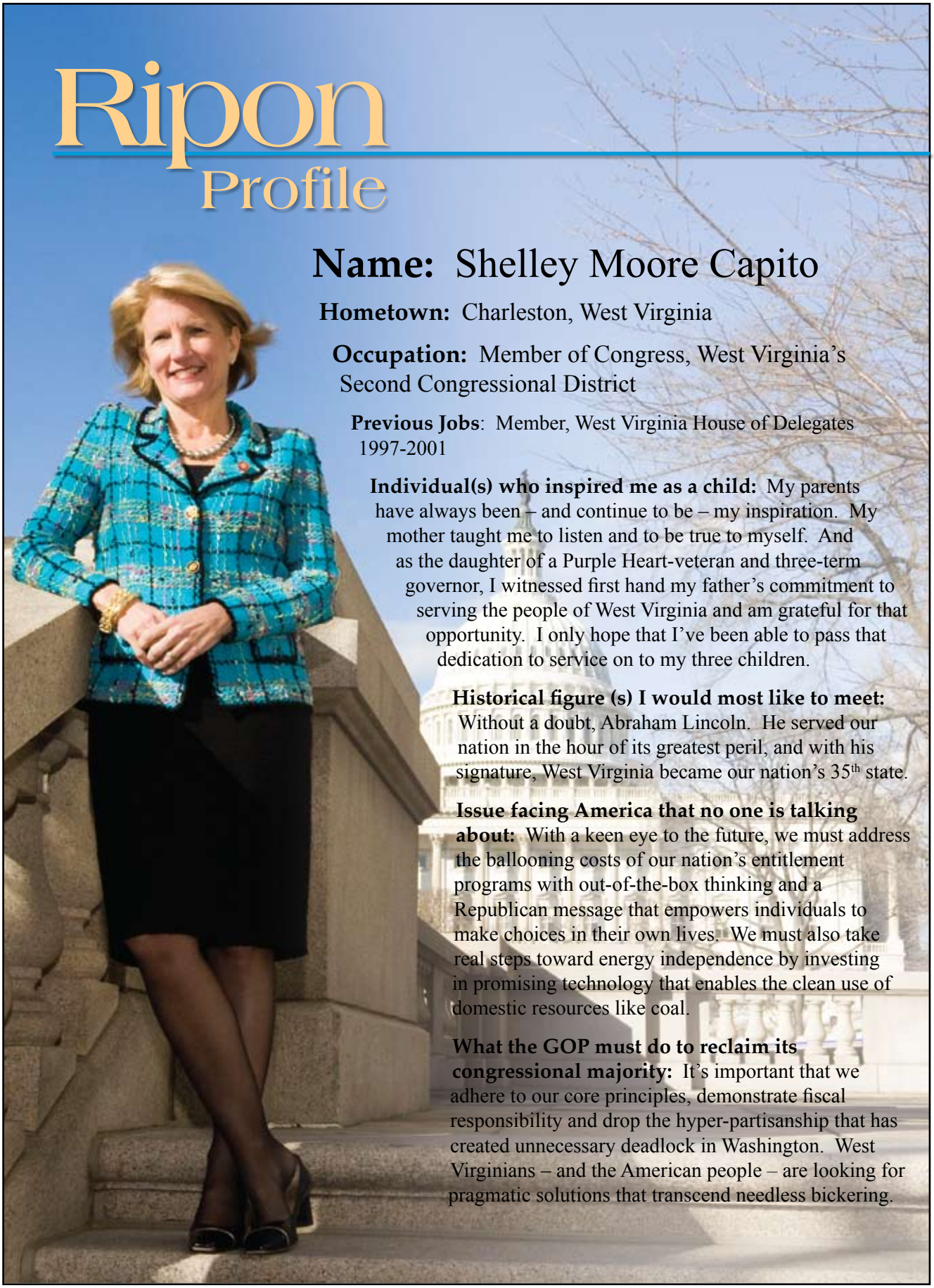

Name: Shelley Moore Capito

Hometown: Charleston, West Virginia

Occupation: Member of Congress, West Virginia's Second Congressional District

Previous Jobs: Member, West Virginia House of Delegates 1997-2001

Individual(s) who inspired me as a child: My parents have always been – and continue to be – my inspiration. My mother taught me to listen and to be true to myself. And as the daughter of a Purple Heart-veteran and three-term governor, I witnessed first hand my father's commitment to serving the people of West Virginia and am grateful for that opportunity. I only hope that I've been able to pass that dedication to service on to my three children.

Historical figure (s) I would most like to meet: Without a doubt, Abraham Lincoln. He served our nation in the hour of its greatest peril, and with his signature, West Virginia became our nation's 35th state.

Issue facing America that no one is talking about: With a keen eye to the future, we must address the ballooning costs of our nation's entitlement programs with out-of-the-box thinking and a Republican message that empowers individuals to make choices in their own lives. We must also take real steps toward energy independence by investing in promising technology that enables the clean use of domestic resources like coal.

What the GOP must do to reclaim its congressional majority: It's important that we adhere to our core principles, demonstrate fiscal responsibility and drop the hyper-partisanship that has created unnecessary deadlock in Washington. West Virginians – and the American people – are looking for pragmatic solutions that transcend needless bickering.

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