



## National Center for Policy Analysis

### **POLICY BACKGROUNDER No. 117**

*For people with limited time  
and a need to know.*

For Immediate Release  
Thursday, April 16, 1992

#### **FEDERAL BUDGET ISSUE:**

### **Jerry Brown's Tax Plan**

*"Jerry Brown's tax plan is the  
most comprehensive reform  
proposed by a presidential  
candidate in modern times."*

Jerry Brown is advocating the most comprehensive tax reform plan that has been seriously proposed by a presidential candidate in modern times.<sup>1</sup> The plan would abolish the Social Security (FICA) payroll tax, the corporate income tax and about two-thirds of federal excise taxes, replacing these taxes with a 13 percent Value-Added Tax (VAT). The plan also would eliminate almost all deductions, exemptions and exclusions and would tax personal income at a flat rate of 13 percent.<sup>2</sup>

This proposal has generated considerable controversy and has led to some unusual alliances. It has been praised by both conservatives and liberals and sharply criticized by other conservatives and liberals.<sup>3</sup>

Although some media reports suggest that the Brown plan is little more than an off-the-cuff idea, it was in fact carefully developed and is well thought out. Those who favor a serious discussion of issues in presidential elections should welcome the proposal and the scrutiny it is receiving.

### **Economic Effects of Jerry Brown's Plan**

The National Center for Policy Analysis (NCPA) has analyzed this plan and its impact on the nation's economy and the federal budget. Our forecast of its economic effects was made using the dynamic model developed by Fiscal Associates.<sup>4</sup>

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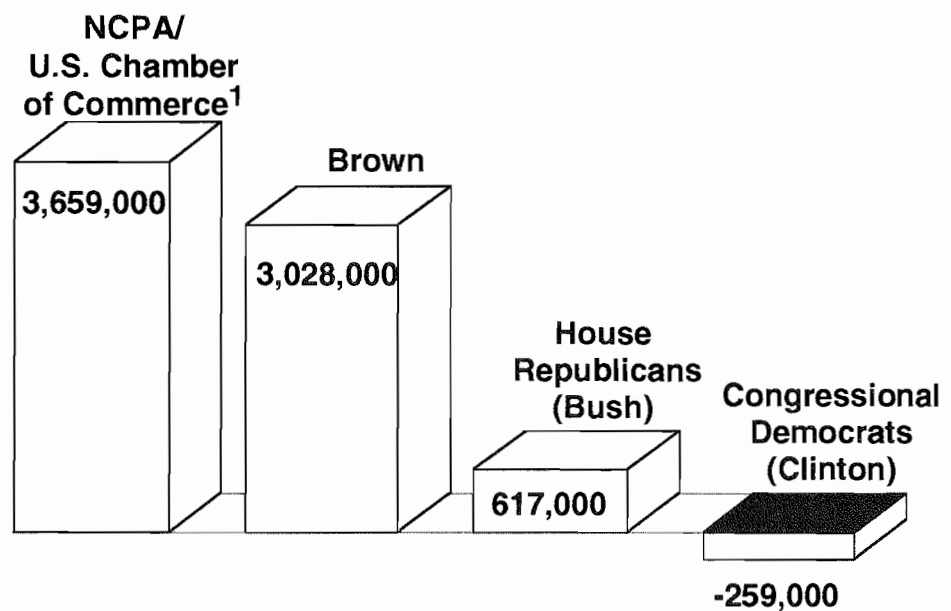
Initially, the Brown plan would collect the same tax revenue the federal government currently collects, but it would do so in a different way. By changing the way taxes are imposed, the plan would eliminate many inefficiencies and create new incentives for workers and investors. Because of these new incentives, the private sector would respond by creating more jobs, increasing output and achieving higher rates of economic growth. Specifically:

- The Brown plan would lead to the creation of more than 2 million jobs by 1996 and more than 3 million jobs by the end of the decade. [See Figure I.]
- By the year 2000, the Brown plan would increase the nation's output of goods and services by 10 percent and raise the economic growth rate by a full percentage point. [See Figure II.]
- Because of higher economic growth, the plan would produce excess tax revenue and would eliminate the federal deficit by the end of the decade.

FIGURE I

## Change in Number of Jobs

(1992 - 2000)

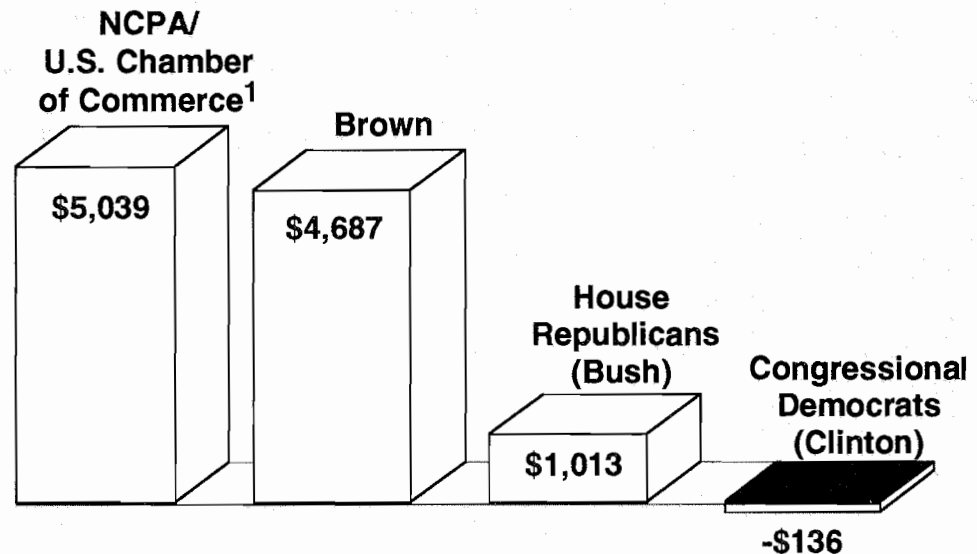


*"In terms of new jobs, the Brown plan is almost five times better than the Bush plan."*

<sup>1</sup>Similar to the DeLay-Wallop-Tallon and Kasten-Weber proposals.

**FIGURE II**  
**Change in Gross Domestic Product**  
**(1992 - 2000)**  
**Billions of Nominal Dollars**

*"The Brown plan would increase the economic growth rate by a full percentage point, while the Clinton plan would prolong the current recession."*



<sup>1</sup>Similar to the DeLay-Wallop-Tallon and Kasten-Weber proposals.

## Why the Brown Plan Is Pro-Growth

Every tax has a distorting effect on the private sector. How we collect taxes, however, makes a big difference.<sup>5</sup> The Brown plan would have a significant impact on the U.S. economy because it goes a long way toward eliminating two major distortions in the U.S. tax system: (1) higher than necessary marginal tax rates and (2) the unequal taxation of capital and labor.

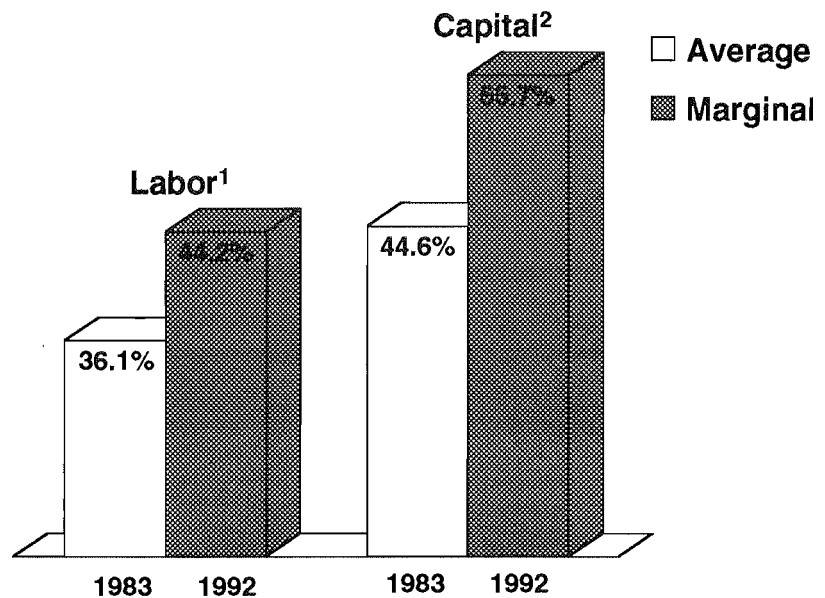
**Distortion Due to Marginal Tax Rates.** The difference between average and marginal tax rates received a great deal of attention in the 1980s. When all income is not treated equally in the tax code, marginal tax rates have to be higher, relative to the average tax burden. Yet marginal tax rates are the ones that determine people's decisions about whether to supply capital and labor. One way to appreciate the magnitude of the distortion in the current tax system is to consider that federal personal income tax rates now range from 15 percent to 31 percent, and even higher for some families. But if all personal income were taxed, the federal government would raise the same revenue with a flat tax as low as 10 percent.

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Of course, in addition to personal income taxes, income is taxed through the payroll tax, the corporate income tax, sales and property taxes and many other types of taxes. Considering all capital (including residential houses) and all taxes (including sales and property taxes), the tax system as a whole creates the following distortions [see Figure III]:

- Although the average tax rate on labor income is currently 36.1 percent, the marginal tax rate is 44.2 percent.
- Although the average tax rate on capital income is currently 44.6 percent, the marginal tax rate is 55.7 percent.
- Because of these large discrepancies between average and marginal tax rates, the output of goods and services this year will be \$411.1 billion lower than it could have been.<sup>6</sup>

**FIGURE III**  
**Tax Rates**



*"Despite the tax cuts of the Reagan era, marginal tax rates on capital and labor are higher today than they were in 1983."*

<sup>1</sup>The weighted average marginal tax rate includes federal, state and local income taxes, payroll taxes and indirect business taxes.

<sup>2</sup>Includes all capital (including residential houses) and all taxes (including sales and property taxes).

Source: Gary Robbins and Aldona Robbins, "Capital, Taxes and Growth," National Center for Policy Analysis, NCPA Policy Report No. 169, January 1992.

*"Distortions caused by the tax system cost the U.S. \$643 billion a year."*

**Distortion Due to the Mix of Capital and Labor Taxes.** During the 1986 tax reform debate, considerable attention was given to the desirability of removing investment distortions in the tax system by taxing income from all capital assets in the same way. Unfortunately, the Reagan administration and the Congress ignored an even more important distortion: the unequal treatment of capital and labor.

The private sector supplies capital and labor in production based on their aftertax prices. In an ideal tax system, the ratio of the aftertax prices of capital and labor would equal their before-tax ratio. To the degree that these ratios are not the same, firms are encouraged to combine capital and labor in inefficient ways — leading to less total output. Unfortunately, while attempting to eliminate one type of distortion, tax reform led to a worse one.

- Whereas in 1986 the average tax on capital income was 20.2 percent greater than the average tax on labor income, currently the distortion is 25.8 percent.
- The efficiency loss caused by these differential tax rates will cost the U.S. economy \$213.2 billion in reduced production this year.<sup>7</sup>

**Total Efficiency Loss.** The effects of the two different types of distortions are not additive, because they interact with each other. However, their combined effect is considerable:<sup>8</sup>

- Currently the total efficiency loss caused by the way we impose taxes is about 13.5 percent of the national output of goods and services.
- This distortion is costing Americans \$642.7 billion a year — about \$2,650 for every man, woman and child in the country.

**The Brown Plan.** The elimination of both types of distortions would increase the nation's output of goods and services by \$643 billion per year with no loss of revenue for government. The Brown plan does not completely achieve this goal (for example, it does not change state and local taxation), but it is a major step in that direction. The NCPA's analysis of these distortions and the benefits of eliminating them is contained in its publication, "Capital, Taxes and Growth."

## Mistaken Criticisms of the Brown Plan

The Brown plan has good points and bad points. Before evaluating it on its merits, however, we must dismiss some common, but mistaken, criticisms.

**Would the Federal Deficit Increase?** Citizens for Tax Justice has complained that the Brown plan is not revenue neutral and would increase the federal deficit.<sup>9</sup> This complaint is evidence of the inability of Citizens for Tax Justice to add, rather than a real defect in the plan. Even without economic growth, the Brown plan is fully self-financing. With economic growth, the plan would raise \$250 billion per year more revenue than the current tax system, eliminating the federal deficit by the end of the decade — without any reductions in federal spending.

**Would Prices Increase?** A frequent criticism of the Brown plan is that a 13 percent VAT tax would cause prices to increase by 13 percent.<sup>10</sup> That can't happen. Prices cannot increase by 13 percent because people do not have 13 percent more income to spend. Contrary to a widespread impression, VAT taxes are paid by producers, not consumers.

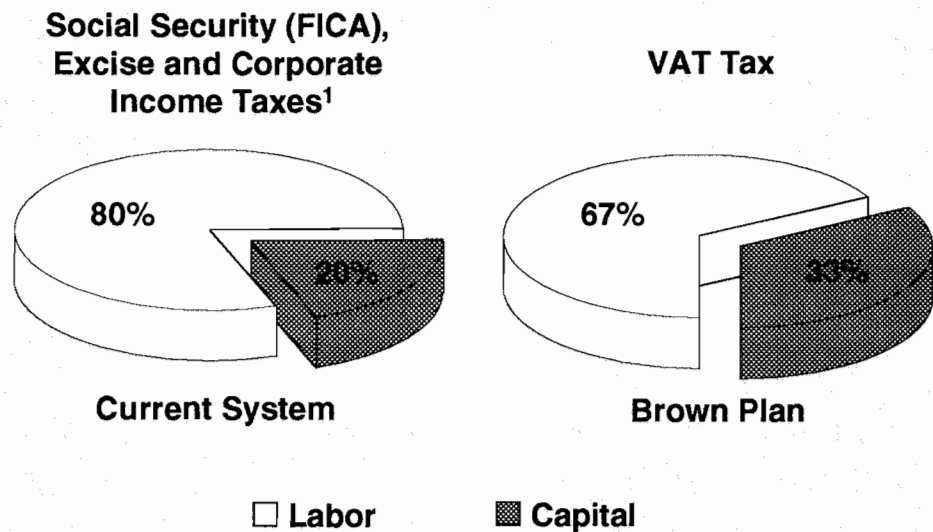
*“Contrary to a widespread belief, VAT taxes are paid by producers, not consumers.”*

Those who believe that VAT taxes would be passed on to consumers must also believe that Social Security taxes, corporate income taxes and excise taxes are *currently* being passed along to consumers — since these taxes are also costs of doing business. Since the VAT tax would simply substitute for those other taxes, there is no reason for prices to rise.

**Is a VAT Tax Regressive?** The notion that VAT taxes are regressive also is based on the mistaken idea that consumers pay the tax. In fact, the tax falls on the factors of production in proportion to their gross income. Roughly speaking, VAT taxes are proportional taxes.

The real question, though, is: How does a VAT tax compare with what we have now? There is no question that a VAT tax would be more progressive than the taxes it would replace. As Figure IV shows, the Brown plan would result in a shift of taxes from labor to capital. Since higher income taxpayers tend to receive more of their income from investment, the VAT tax would increase the taxes of higher income taxpayers and lower the taxes of low- and middle-income wage earners.

## FIGURE IV Distribution of the Tax Burden



<sup>1</sup>Includes the two-thirds of excise taxes that would be abolished under the Brown plan.

**Is the Plan Bad for Workers?** Some critics of the Brown plan have argued that it would shift taxes from capital to labor and make wage earners worse off.<sup>11</sup> In fact, the reverse is true. The plan would transfer about \$59 billion in taxes from labor to capital. [See Figure IV.] Surprisingly, the plan stimulates investment by lowering marginal tax rates on investment income. But as the *marginal* tax rate on capital is lowered, the *average* tax rate is increased — resulting in higher overall taxes paid by owners of capital. The plan achieves this objective by taxing old capital more heavily and lowering the tax rate on new capital.<sup>12</sup>

Wage earners are made better off under the Brown plan for two reasons: (1) the shift of taxes from labor to capital and (2) the growth of wages due to economic expansion. To see how wage earners gain, Table I shows the effects on individual taxpayers of a modified Brown plan — one under which personal exemptions and the standard deductions are retained.<sup>13</sup> As the table shows:

- Under the Brown plan, people who rely solely on wage income will pay less in taxes than they now pay at virtually every income level.<sup>14</sup>
- Low- or middle-income families would pay higher taxes only if they had substantial investment income.<sup>15</sup>

*"The Brown plan shifts taxes from labor to capital and increases investment at the same time."*

**TABLE I**  
**Effects on Individual Taxpayers of a Modified Brown Plan<sup>1</sup>**  
**(Average tax change per return)**

<u>Adjusted Gross Income</u>	<u>Change in Taxes on Labor Income</u>	<u>Change in Taxes on Capital Income</u>	<u>Change in Taxes on All Income</u>
Under \$5,000	- \$30	- \$95	- \$125
\$5,000 to \$10,000	- 121	+ 382	+ 261
\$10,000 to \$15,000	- 68	+ 639	+ 570
\$15,000 to \$20,000	- 157	+ 693	+ 535
\$20,000 to \$25,000	- 280	+ 773	+ 493
\$25,000 to \$30,000	- 499	+ 802	+ 303
\$30,000 to \$40,000	- 729	+ 851	+ 122
\$40,000 to \$50,000	- 1,157	+ 1,074	- 83
\$50,000 to \$75,000	- 1,750	+ 1,092	- 657
\$75,000 to \$100,000	- 2,517	+ 1,525	- 992
\$100,000 to \$200,000	- 3,563	+ 1,273	- 2,289
\$200,000 to \$500,000	- 3,431	- 2,663	- 6,094
\$500,000 to \$1,000,000	- 26	- 14,495	- 14,522
\$1,000,000 or more	+ 9,462	-107,528	- 98,065
All Returns	- 541	+ 541	0

<sup>1</sup>The table shows the first round, "static" effects before there is any economic growth. It assumes average standard deductions and exemptions.

Source: Based on 1988 data in Internal Revenue Service, *Statistics of Income - 1988, Individual Income Tax Returns*, Washington, DC, 1991.

**Would Low-Income Families Be Worse Off?** Because the Brown plan would eliminate exemptions and deductions, some lower income families could end up paying more taxes than they now pay. This is not an inherent defect, however, and could be easily remedied.

Table I shows what would happen to individual taxpayers under the Brown plan if the standard deduction and personal exemptions were restored for all taxpayers. As the table shows, families earning between \$5,000 and \$40,000 would face a slightly higher tax burden — amounting to about \$25 billion — only if they have investment income.

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But the Brown plan (even with the standard deduction and personal exemptions restored) would generate about \$250 billion in surplus government revenue every year. Using only one-tenth of this surplus revenue, the plan could be further modified to ensure that *virtually no one* earning less than \$40,000 faces a higher tax burden than under the current system.

There are also other ways in which the Brown plan could be modified to make it more progressive:

- Of the \$250 billion in extra revenues the Brown plan would generate, about \$80 billion could be “spent” doubling the standard deduction and personal exemption for all families with incomes less than \$50,000 — phasing out completely this extra tax relief at \$100,000.
- Another \$12 billion could be spent to restore the earned income tax credit.
- Of the remaining \$158 billion, \$140 billion could be used to lower the income tax rate 2 percentage points — providing even more tax relief.

Other possible changes to the Brown plan would create even more options. For example, if instead of an immediate expense for investment, a system of neutral cost recovery were adopted, there would be no change in investment incentives under the Brown plan. However, neutral cost recovery would generate an additional \$70 billion per year in revenues — enough, for example, to create tax credits for health insurance for all low-income families.

*Thus the Brown plan contains ample maneuvering room to ensure that no low-income family would be made worse off.*

## Comparing the Brown Plan With Other Plans

It is instructive to compare the economic effects of the Brown plan with those of other plans that have recently been proposed. The following is a brief summary.

**The Congressional Democrats’ (Clinton) Plan.** The congressional Democrats’ tax package, recently vetoed by President Bush, included: (1) a capital gains tax cut for low- and middle-income families; (2) temporary incentives to invest in equipment; (3) incentives to invest in real estate; (4) restoration of the right to make IRA deposits, including the option of aftertax deposits and tax-free withdrawals; (5) a two-year, 2 percentage point cut in the

*“The Brown plan can easily be modified to ensure that no low-income family is made worse off.”*

Social Security payroll tax, followed by a child tax credit for low- and middle-income families in 1994; (6) a 36 percent tax bracket beginning at \$115,000 for individuals and \$140,000 for couples; and (7) a 10 percent surtax on incomes in excess of \$1 million.

Bill Clinton's public statements are not specific enough to allow a formal forecast of his economic plan. However, because Clinton has said he would have signed the congressional Democrats' tax bill, we can treat it as Clinton's plan.

**The House Republicans' (Bush) Plan.** For purposes of comparison, the Bush plan is considered to be the House Republican "fast track" version of President Bush's proposals. The most important element of this plan is a reduction in the maximum capital gains tax rate to 15.4 percent. The plan also creates temporary incentives to invest in equipment and new incentives to invest in real estate.

**The NCPA/U.S. Chamber of Commerce Plan.** A pro-growth plan devised by the National Center for Policy Analysis and the U.S. Chamber of Commerce was proposed in 1990<sup>16</sup> and again in 1992.<sup>17</sup> The major elements of this plan were incorporated into a bill sponsored by Rep. Tom DeLay (R-TX), Sen. Malcolm Wallop (R-WY) and Rep. Robin Tallon (D-SC). A similar bill also was introduced by Sen. Robert Kasten (R-WI) and Rep. Vin Weber (R-MN). The key provisions are: (1) a cut in the capital gains tax rate; (2) the indexing of capital gains; (3) the indexing of depreciation for inflation and for the time value of money; (4) restoration of the pre-1986 right to make deposits to IRAs and 401(k) plans, and creation of the option to make aftertax deposits and tax-free withdrawals from IRA accounts; (5) abolition of the Social Security benefits tax; (6) abolition of the Social Security retirement earnings penalty; (7) a 2 percentage point cut in the Social Security (FICA) payroll tax; and (8) modest cuts in federal spending. To maintain revenue neutrality, the package would be phased in in two parts.

**Complete Forecast of the Economic Plans.** For reasons of conservatism, the following forecast of the Brown economic plan assumes a 14 percent tax rate and further assumes the restoration of the earned income tax credit and the standard deduction and personal exemptions for all taxpayers. This allows the plan to ensure that low-income families are not made worse off *and* to eliminate the federal deficit near the year 2005. If we had assumed instead a 13 percent rate and no changes, the job totals would be slightly higher than those indicated and deficit reduction would be about \$30 billion per year lower.

Our complete forecast of the economic effects of all three plans through the year 2000 is shown in Tables II, III and IV.<sup>18</sup>

TABLE II  
**Change in the Number of Jobs<sup>1</sup>**  
 (Thousands)

	<u>Brown</u>	Congressional Democrats (Clinton)	House Republicans (Bush)	NCPA/U.S. Chamber
1992	+ 186	- 83	+ 24	36
1993	+ 559	- 159	+ 84	190
1994	+ 1,058	- 164	+ 220	501
1995	+ 1,572	- 219	+ 353	836
1996	+ 2,050	- 251	+ 479	1,339
1997	+ 2,421	- 244	+ 593	1,994
1998	+ 2,696	- 255	+ 609	2,621
1999	+ 2,889	- 264	+ 612	3,174
2000	+ 3,028	- 259	+ 617	3,652

<sup>1</sup>The net increase or reduction in jobs as of the year indicated.

TABLE III  
**Change in Gross Domestic Product**  
 (Annual changes in billions of nominal dollars)

	<u>Brown</u>	Congressional Democrats (Clinton)	House Republicans (Bush)	NCPA/U.S. Chamber
1992	+ \$65.3	- \$5.1	+ \$12.9	+ \$45.1
1993	+ 183.8	- 11.8	+ 38.0	+ 129.1
1994	+ 316.8	- 14.5	+ 67.0	+ 231.7
1995	+ 440.6	- 17.9	+ 93.7	+ 331.9
1996	+ 562.4	- 20.1	+ 120.8	+ 492.0
1997	+ 654.8	- 18.7	+ 143.2	+ 673.2
1998	+ 741.8	- 17.4	+ 161.3	+ 863.9
1999	+ 822.5	- 16.4	+ 179.2	+ 1,045.7
2000	+ 899.1	- 13.9	+ 197.0	+ 1,225.6

*"The Brown plan would create three million new jobs by the end of the decade."*

*"The Brown plan would increase GDP by 10 percent by the end of the decade."*

TABLE IV  
**Change in the Federal Deficit**  
 (Cumulative; in billions of nominal dollars)

	<u>Brown</u>	<u>Congressional Democrats (Clinton)</u>	<u>House Republicans (Bush)</u>	<u>NCPA/U.S. Chamber</u>
1992	- \$12.0	+ \$1.5	+ \$6.6	- \$19.2
1993	- 48.4	+ 4.7	+ 9.6	- 91.1
1994	- 114.1	+ 8.2	+ 10.1	- 175.8
1995	- 208.5	+ 13.0	+ 8.4	- 277.8
1996	- 333.0	+ 18.7	+ 4.9	- 395.6
1997	- 482.2	+ 24.2	+ 0.7	- 537.4
1998	- 656.2	+ 30.0	- 1.7	- 707.5
1999	- 854.9	+ 36.1	- 2.7	- 909.9
2000	-1,078.9	+ 42.1	- 3.5	- 1,149.6

*"The Brown plan generates large revenue surpluses, which eventually would eliminate the federal deficit."*

**Brown vs. Clinton.** The plan proposed by the congressional Democrats and endorsed by Bill Clinton would prolong the current recession and slightly lower the rate of economic growth. Although the plan has some pro-growth elements, they are more than offset by the depressing effects of higher tax rates on investment income. Overall:

- Whereas the Brown plan would create more than 3 million jobs by the end of the decade, the Clinton plan would lead to a loss of 260,000 jobs.
- Whereas the Brown plan would increase the nation's output of goods and services by 10 percent by the year 2000, the Clinton plan would cause output to go down every year for the next eight years.

Proponents of the congressional Democrats' tax package argued that it would raise taxes on the rich (read: investors) and lower taxes on low- and middle-income families (read: wage earners). But, because the plan would raise marginal tax rates on investors, it would lead to \$111 billion reduction in investment — which would lead to *less output and lower wages*. In contrast to the Brown plan:

- The Clinton plan would lead to a \$140 billion lowering of take-home pay over the next five years.
- Far from transferring income from the rich to the poor, the plan would lower aftertax wages by \$7 for every \$1 reduction in the income of wealthy investors.

**Brown vs. Bush.** President Bush's "fast track" proposal is stimulative and pro-growth. But it is modest in comparison to the Brown plan. Specifically:

- Although the Bush plan would lead to 617,000 new jobs by the year 2000, the Brown plan would create almost five times as many.
- Although the Bush plan would increase gross domestic product by \$333 billion over the next five years, the Brown plan would increase it by almost five times that much.

**Brown vs. the NCPA/U.S. Chamber Plan.** The plan proposed by the NCPA and the U.S. Chamber of Commerce is more stimulative than the Brown plan. One reason is that, as surplus government revenue is generated, the NCPA plan "spends" these surpluses with further tax reductions. A similar mechanism could be incorporated into the Brown plan. The NCPA plan is interesting because it shows that there are ways of achieving the same economic impact as the Brown plan while retaining the progressivity of the personal income tax system.

*"One drawback: we could not use tax policy to achieve social objectives."*

## Are There Drawbacks to the Brown Plan?

Although most criticisms of the Brown plan have been flawed, there are some real drawbacks that deserve attention.

The most serious drawback is that the Brown plan would prevent the use of the tax law to achieve certain social objectives. For example, the tax law currently encourages employers to provide health insurance and pensions for employees. It also encourages people to save for their own retirement by making deposits to IRAs and 401(k) plans.

Under the Brown plan, these tax incentives would vanish. However, that may not be all bad. The current tax treatment of employee benefits is highly regressive — conferring the most generous "tax subsidies" on higher income workers. Moreover, there are other ways of achieving the same social

*"To his credit, Jerry Brown has forced a major intellectual debate over tax policy."*

objectives. For example, we could directly subsidize health insurance and pensions for low-income families through government spending. Alternatively, we could follow the practice of Singapore and simply require people to save for medical expenses and retirement pensions.<sup>19</sup>

## Conclusion

To his credit, Jerry Brown has offered a detailed plan and forced a genuine intellectual debate over a major public policy issue. This is rare enough in presidential elections. Even more rare in national politics is a presidential candidate willing to publicly identify every ox he intends to gore.

Best of all, the plan as proposed — with no changes — would give an enormous lift to the American economy, creating jobs and increasing take-home pay. With a few modifications, the plan would be even better.

**Gary Robbins**  
**Aldona Robbins**

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NOTE: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any bill before Congress.

## Footnotes

<sup>1</sup> A similar plan was proposed in the 1980s by Sen. Steve Symms (R-ID) and Sen. Dennis DeConcini (D-AZ).

<sup>2</sup> Deductions would be allowed only for mortgage interest, rent and charitable contributions.

<sup>3</sup> The plan has been praised by Milton Friedman but criticized by Robert Hall, the Stanford University economist on whose ideas it is based. It has been vigorously attacked by the Citizens for Tax Justice and columnist Michael Kinsley, but defended by Alexander Cockburn. See Steven Greenhouse, "Fairness and a Flat Tax," *New York Times*, March 26, 1992; Michael Kinsley, "Brain-Dead Tax Plan," *Washington Post*, March 26, 1992; and Alexander Cockburn and Robert Pollin, "Why the Left Should Support the Flat Tax," *Wall Street Journal*, April 2, 1992.

<sup>4</sup> The NCPA (in conjunction with Fiscal Associates) has an excellent record of forecasting the economic effects of policy changes. The NCPA was the first organization to predict that the 1990 budget summit agreement would lead to a five-year cumulative federal deficit in excess of \$1 trillion — at a time when the official government forecasting agencies were predicting deficit reduction. Nine months later, the Office of Management and Budget (OMB) admitted that the \$1 trillion estimate was correct. See Gary Robbins and Aldona Robbins, "If the Budget Summit Was a Success, Why Is the Five-Year Deficit Heading Toward \$1 Trillion?," National Center for Policy Analysis, NCPA Policy Backgrounder No. 109, March 11, 1991; and Warren Brookes, "Darman's Deficit Disaster," *Washington Times*, July 25, 1991. The NCPA also correctly forecast that the 40 percent increase in the capital gains tax rate in 1986 would not increase government revenues. By contrast, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) predicted large increases in capital gains tax revenues. Both agencies overestimated capital gains income by 50 percent in 1989 and 100 percent in 1990. See Rep. Richard K. Armey and Joint Economic Committee Republican Staff, "Distorting the Data Base: CBO and the Politics of Income Distribution," April 1991; Armey, Letter to Colleagues, February 7, 1992; and Chris Frenze, Memo to Republican Members of JEC, February 24, 1992.

<sup>5</sup> The calculations in this section are based on the average percentage change in the quantity of output from an indirect Cobb-Douglas production function implied by the shift in the supplies of labor and capital resulting from the assumed changes in taxes. The elasticity of labor supply is -0.3 and that of capital is infinite at a real aftertax rate of return of 3.3 percent in the long run. For further explanation of the method, see Appendix B of Gary Robbins and Aldona Robbins, "Capital, Taxes and Growth," National Center for Policy Analysis, NCPA Policy Report No. 169, January 1992.

<sup>6</sup> The efficiency loss is calculated by contrasting the current system with a system under which the marginal tax rates are each equal to average tax rates and raise the amount of revenue that is currently raised.

<sup>7</sup> The efficiency loss is calculated by contrasting the current system with a system under which the marginal tax rates on labor and capital are equal and raise the amount of revenue that is currently raised. The marginal rates, however, will be greater than the average.

<sup>8</sup> The efficiency loss is calculated by contrasting the current system with a system under which the marginal and average tax rates for capital and labor are all equal and raise the amount of revenue that is currently raised.

<sup>9</sup> See Greenhouse, "Fairness and a Flat Tax."

<sup>10</sup> See Alan Murray, "Brown's Flat Tax Plan Draws Support of Supply-Siders from Reagan Camp," *Wall Street Journal*, April 2, 1992.

<sup>11</sup> See Kinsley, "Brain-Dead Tax Plan."

<sup>12</sup> Businesses would be allowed an immediate write-off of investment expenses.

<sup>13</sup> Given Jerry Brown's public pronouncements, this is a likely modification.

<sup>14</sup> Assumes average standard deductions and personal exemptions under the current tax code.

<sup>15</sup> For the most part, they would not write larger checks to the IRS. The higher taxes are the effects of the VAT tax and would remain largely hidden. Individual investors would "pay" them through, for example, lower dividend checks and lower interest payments.

<sup>16</sup> See Gary Robbins and Aldona Robbins, "A Pro-Growth Budget Strategy: Vision for the 1990s," National Center for Policy Analysis and the U.S. Chamber of Commerce, NCPA Policy Report No. 154, October 1990.

<sup>17</sup> See Gary Robbins and Aldona Robbins, "Strategy for Growth," National Center for Policy Analysis and the U.S. Chamber of Commerce, NCPA Policy Report No. 170, January 1992.

<sup>18</sup> The baseline for the forecast is contained in the president's budget.

<sup>19</sup> See John C. Goodman and Gerald L. Musgrave, "Controlling Health Care Costs With Medical Savings Accounts," National Center for Policy Analysis, NCPA Policy Report No. 168, January 1992.