EXTENSIONS OF REMARKS

''UNLEASHING AMERICA'S POTENTIAL''

HON. NEWT GINGRICH
OF GEORGIA
IN THE HOUSE OF REPRESENTATIVES

Monday, January 22, 1996

Mr. GINGRICH. Mr. Speaker, on behalf of Senate Majority Leader BOB DOLE and myself, I would like to bring to my colleagues' attention the following report by the National Commission on Economic Growth and Tax Reform entitled ''Unleashing America's Potential.''

LETTER TO THE COMMISSION

FOREWORD

To the Members of the National Commission on Economic Growth and Tax Reform

''Taxation without representation is tyranny.'' Those are the words that helped to ignite the American revolution over two centuries ago.

As we approach the 21st century, the crescendo for tax reform continues to build, year after year, election after election. Americans have looked at a tax system constantly increasing in both rates and complexity, and concluded that taxation with representation wasn't so good either.

The current system is indefensible. It is overly complex, burdensome, and severely limits economic opportunity for all Americans.

We made clear on the very first day of the 104th Congress that our top priority would be to change the status quo and to bring fundamental change to America. And we agreed that there is no status quo that needs more fundamental changing than our tax system.

We envision:

A tax system that is fairer, flatter, and simpler.

A tax system that promotes, rather than punishes, job creation.

A tax system that eliminates unnecessary paperwork burdens on America's businesses.

A tax system that recognizes the fact that our families are performing the most important work of our society.

A tax system that provides incentives for Americans who save for the future in order to build a better life for themselves and their families.

A tax system that allows Americans, especially the middle-class, to keep more of what they earn, but that raises enough money to fund a leaner, more efficient federal government.

A tax system that allows Americans to compute their taxes easily, without the need for a lawyer, an accountant—or both.

To help make this vision a reality, we named Jack Kemp, one of America's most innovative thinkers on economic policy, to head the National Commission on Economic Growth and Tax Reform—a commission that included thirteen more outstanding Americans.

The entire commission worked diligently for the past several months, holding public hearings in eight cities, while constantly thinking about how to create a better tax system.

Their final report is guaranteed to stimulate this important national dialogue. It will surely serve as a catalyst for congressional hearings and debate. We hope that it will also trigger conversations around kitchen tables, water coolers, and in town hall meetings across the country.

We invite all those who read this report to write us with your thoughts on its recommendations and conclusions, and to share with us other suggestions on how we can create a tax system that promotes economic growth and opportunity for all Americans.

BOB DOLE,
Senate Leader.
NEWT GINGRICH,
House Speaker.

A NEW LEVEL OF THINKING

PREFACE

''They act like all that money is *born* in Washington, D.C.'' Perhaps no comment has better summarized the problem with our nation's capital than this observation by Ed Zorinsky, the late Democratic Senator from Nebraska. And nowhere is this governmental conceit expressed more destructively than in the workings and effects of our Internal Revenue Code.

Many previous attempts at tax reform have been marred by the inside-the-beltway assumption that the wealth of the nation belongs to its government. This position has perpetuated what could be called the ''tin-cup syndrome''—an environment in which the political competition over scarce resources replaces the economic competition that produces growth, creates jobs, spurs innovation and productivity. As a consequence, the tax code has over the years become increasingly politicized, and is seen less as a simple tool for raising revenue than as an instrument for social and economic engineering. In turn, this has spawned a virtual industry of tax specialists and special interest lobbyists, while exponentially increasing the complexity of the code.

The National Commission on Economic Growth and Tax Reform set out with a different set of assumptions, beginning with the belief that the purpose of the tax code is to raise money while leaving citizens as free as possible to pursue the American dream. Our charge from Senate Leader Dole and Speaker Gingrich was clear: Listen first and learn from the American people. We listened to ordinary taxpayers in hearings around the country. What we heard was a great deal of frustration, concern, and yes, anger with the current system. Our hope has been to channel those frustrations into a set of concrete principles and recommendations that any new tax reform legislation must follow if it is to meet the needs and expectations of the American people.

From June until September 1995, we heard from a cross-section of American taxpayers in Boston, Omaha, Charlotte, Palo Alto, south-central Los Angeles, Harlem, Cleveland, and Washington, D.C. We listened to and learned from family farmers and high-tech entrepreneurs, small businessmen and women, medium-sized and large manufacturers, governors and mayors, congressmen and senators, leading economists and local activists.

Unlike previous ''reform'' commissions, our activities were financed without a dime from the American taxpayer. Expenses were met through private contributions from more than 1,500 donors. The fourteen commissioners received no compensation for the long hours and hard work, save the tremendous reward of knowing their sacrifices would help shape American history. This is an extraordinary group of American citizens who have demonstrated through untold hours of hearings, deliberations, and study their dedication to chart a course that will lead to a better America for their children and grandchildren. We believe we have set that course.

In 1941, in a famous essay for Life magazine, Henry Luce anticipated that the 20th century would be remembered as the American Century. The decades and events that followed—the defeat of Nazi Germany, the collapse of Communism, the expansion of American influence abroad—bore this prediction out. Today, many Americans fear they see that era of American preeminence slipping away. The optimism and boundlessness that have always defined America are seen by some as fond but faded relics to be quietly folded away.

This report reflects the firm conviction that America can do better. None of the members of this commission would have accepted this challenge if we did not believe in the possibility of real progress and real reform.

Albert Einstein observed that ''the problems of today cannot be solved at the same level of thinking on which they were created.'' We have concluded that the complex tax code of the 20th century is poorly suited for dealing with the complex world of the 21st. The vision outlined in the following pages cannot be realized by simply rearranging the deck chairs on the Titanic we call our current tax code. A brand new tax code, modeled on the principles and recommendations proposed in this report, can chart the economic waters ahead and launch our country on its voyage toward the next American century.

EDWIN J. FEULNER,
Vice Chairman,
National Commission on Economic Growth and Tax Reform.

SETTING THE EAGLE FREE

INTRODUCTION

''In short, it is a paradoxical truth that tax rates are too high today and tax revenues are too low, and the soundest way to raise the revenues in the long run is to cut the rates now . . . The purpose of cutting taxes now is not to incur a budget deficit, but to achieve the more prosperous, expanding economy which can bring a budget surplus.''

JOHN F. KENNEDY,
Economic Club of New York,
December 14, 1962.

These words of President Kennedy were a great inspiration to me as the tax reform movement was launched in the early 1980s with the Kemp/Roth tax cut. Kennedy's vision and courage can serve as examples for all Americans as we struggle to make this nation better for our children and grandchildren. His remarks from the Economic Club of New York ring as true today as they did in 1962.

At the first meeting of our commission back in June, I held up a blank sheet of paper and said, ''This is what we start with.'' That was our charge: Senate Majority Leader Bob Dole and House Speaker Newt Gingrich appointed the National Commission on Economic Growth and Tax Reform to study the current tax code, listen to the suggestions and ideas of people from around the country, and submit to Congress our recommendations for comprehensive reform. A very diverse and dedicated group of 14 people, with the help of an invaluable, overworked, and underpaid staff, set out to design an entirely new tax system for America's 21st century; one which would promise a booming economy, promote job creation, and ensure the greatest possible opportunity for all Americans to work, save, invest, and reach their potential. We operated under the premise that an economic growth rate of 2.5% is unacceptable to the American people.

This commission was empowered not merely to offer superficial reforms, to trim a rate here and close a loophole there, but to begin with a tabula rasa and map out a totally new tax structure for America's next century. We also wanted to help inform the whole world, particularly the emerging democracies, that the goal of tax policy is raising revenue, not redistribution of wealth.

Our nation has arrived at a unique moment in history. With the passing of the Cold War, we are standing at the edge of a new millennium with extraordinary possibilities. Our country is poised to help lead the world into a new era of economic growth fueled by an information-age technological revolution that can yield unparalleled expansion in jobs, productivity, innovation, and prosperity. We must embrace this opportunity and challenge. However, such an embrace will prove difficult, perhaps impossible, if we remain saddled with our current tax code. The current system is indefensible: it is riddled with special interest tax breaks, and it overtaxes both labor and capital. We must construct a tax system that reflects our highest values and unleashes our greatest potential.

The comments and concerns we heard from the American people over the last several months, coupled with a systematic review of the current tax code, helped us establish certain principles to guide us to our conclusions. Surely, a tax code which is simple and fair must generate sufficient revenue so that the federal government may carry out its legitimate tasks. Second, it must not place a tax burden on those members of society least able to bear one. And, perhaps most important of all, it must not restrict the innovative and entrepreneurial capacities of Americans upon which rising living standards and our general prosperity so greatly depend. Our proposals are in keeping with these principles.

Wildly excessive and unjust taxes have locked away access to capital and credit necessary for lower-income Americans to launch the next generation of entrepreneurship. Today, sadly, we see the American people's sense of dynamism and hope, their ability to strive and compete diminished by a tax code which penalizes success, retards investment, and sends capital fleeing overseas. The commission is united in the belief that only a pro-growth tax code can restore America's confidence at home and her greatness abroad. We want a tax code and an overall economy that will liberate the American dream and remove the barriers to upward social and economic mobility. The American ethos of entrepreneurship and optimism made America great once before. We believe these proposals will bolster that ethos again and help restore integrity and honesty to our system.

The author John Gardner has observed that there are many contributing factors to the rise of civilization—accidents of resources, geography, and military power. But whatever other ingredients comprise the greatness of nations, he writes, ''There occurs at breathtaking moments in history an exhilarating burst of energy and motivation, of hope and zest and imagination, and a severing of the bonds that normally hold in check the full release of human possibilities. A door is opened, and the caged eagle soars.'' That eagle, the symbol of our nation, represents the creative spirit, talents, and aspirations of the American people. The charge of this commission and the intent of our recommendations is to open the door and help set that eagle in all of us free.

JACK KEMP,
Chairman,
National Commission on Economic Growth and Tax Reform.

IMAGINE AN AMERICA

WITH A PRO-GROWTH, PRO-FAMILY TAX CODE

The National Commission on Economic Growth and Tax Reform recommends to the Congress and to the President of the United States that the current Internal Revenue Code be repealed in its entirety.

The present system is beyond repair—it is impossibly complex, outrageously expensive, overly intrusive, economically destructive, and manifestly unfair.

It is time to replace this failed system with a new simplified tax system for the 21st century: a single low rate, taxing income only once with a generous personal exemption and full deductibility of the payroll tax for America's working men and women.

This system will reduce the tax burden on middle-income people and will help remove the barriers that keep low-income Americans from reaching their fullest potential.

These changes, once in place, should be sealed with a guarantee of long-term stability, requiring a two-thirds vote of the U.S. Congress to raise the rate.

This new system is predicted on a commitment to expanding growth and opportunity. We believe the changes we propose will help double the rate of economic growth.

A stronger economy will create more jobs, raise family incomes, expand ownership and entrepreneurship, and ensure greater opportunity for our children and grandchildren. It will also produce additional revenues for balancing the budget and reducing the burden of national debt.

The principles and recommendations contained in this report comprise the ''Tax Test''—the standard to which any new tax system must be held. We ask that Congress not pass nor the President sign any tax legislation that fails to pass this test. And we encourage the public to use the goals and guidelines we offer as a road map through the coming national debate on tax reform.

Our aim: to introduce a new system of taxation that brings out the best in the American character, that plays to our strengths and not our weaknesses, that speaks to our hopes and not our fears. Our recommendations are based on a vision of America that places the individual—not the government—at the center of society:

We believe that government does not create opportunity; citizens do, if government will get out of their way.

We believe that government is not the entire of economic growth; it is, more frequently, the monkey wrench in the machine.

We believe that taxpayers' earnings and savings—their property—are not assets on loan from the government. The government is power on loan from the people.

One of the most serious shortcomings of previous attempts at tax reform has been the inability of average Americans to make their voices heard above the chorus of special interests. We have tried a radically different approach: Listening to the people first.

In his first debate with Stephen Douglas, Abraham Lincoln remarked that ''with public sentiment, nothing can fail; without it nothing can succeed.'' We believe that any major legislative attempts to replace the current tax code will falter unless it is first preceded by a national debate on what the new system should look like.

Many previous attempts to reform public policy have failed to achieve their aims because they substituted closed meetings for democratic dialogue, focusing too much on expert analysis and too little on citizens' concerns. By including the public in the deliberations over tax reform, this commission seeks to build broad-based consensus behind a new tax system for America's next millennium.

It was with this spirit that the commission held cross-country public hearings—from the historic home of the Boston tea-party to the heart of south-central L.A. At every hearing in every city, we asked people to tell us what they saw as the problems with the current system and the goals any reform plan should achieve.

In Omaha, farmers pleaded for simpler filing and the freedom to pass family farms on to their children without fear of federal confiscation.

In the Silicon Valley, high-tech entrepreneurs told of the countless ideas conceived but never born because of a scarcity of investment capital.

In south-central Los Angeles, small business-owners voiced frustrations at not being able to expand or hire new workers because of a tax bit that eats away their profits.

And in Harlem, inner-city entrepreneurs expressed both bitterness and bewilderment at a tax code which sucked revenues out of their neighborhoods while preventing investment from flowing in.

In our nation's capital, we heard from elected officials in both the House and the Senate who have for many years been leaders in tax reform. Because of their tireless public service, tax reform is a priority issue on the nation's agenda.

We also heard from many of the finest economists in the country who shared their knowledge and research with us at every hearing.

After our hearings, we held a series of working sessions to analyze what we had heard and to begin discussing our recommendations for change. During one of our working sessions, the commissioners put aside the charts an graphs for a moment, stepped back, and tried to imagine what kind of world they would like America's next generation to grow up in. We were asked to think about how replacing the tax code might help bring that world about:

Imagine an America enjoying a decade of economic growth at nearly twice the present rate—creating jobs, expanding opportunities, and lifting living standards for all.

Imagine an America in which more dreams are in basements and garages grow into multi-million dollar businesses because abundant capital seeks out good ideas, and entrepreneurs and investors are confident that their risk-taking will be rewarded not punished.

Imagine an America where it is easier to get a job than to get on welfare, and where our inner cities share in America's growth and prosperity. Imagine these neighborhoods ringing out, not with sirens in the night, but with the sounds of new storefronts being opened and new businesses being built.

Imagine an America where home ownership and higher education are within the reach of every American so that each citizen owns a stake in the system and shares a common interest and responsibility for its future.

Imagine an America where young couples aren't asked to take a tax hit in order to exchange their marriage vows, and where young families can save for their future without being punished for their thrift.

Imagine an America where Americans have enough to give, not just to and through their government, but to their churches, synagogues, mosques, their charities, and neighbors in need.

Imagine an America where the I.R.S. becomes the ''TPA''—a Taxpayer Protection Agency—to ensure that no one pays more than is owed. Imagine a customer-friendly approach to raising revenue, based on a belief in the basic honesty of the American people, that treats them with dignity and respect.

We believe that replacing our tax system with one that is simpler and fairer can help to make these American dreams come true.

America was not founded on envy or resentment. The American idea was never to keep everyone at the mean level, but to give everyone the chance to rise as high as his or her effort, initiative and God-given talent would allow. It was a promise of equal opportunity, not of end results: the confidence that whatever you aspired to become—be it artist, inventor, or entrepreneur—you could make it happen here.

As the country pursues this change, how we transition from the existing bankrupt system to the new system will be important. Complicated issues will arise. Nonetheless, we are confident that the Congress and the President will solve these transitions in order to bring about this new tax system. Dramatic change never is easy, and complicated issues will arise in the transition. But change we must, confident that, with the leadership of the Congress and the president, the American can-do spirit will prevail.

A new tax system, as envisioned in the following pages of this report, can take a first step toward renewing that sense of hope and possibility by unleashing a cascade of benefits, beginning with greater economic growth, lower interest rates, and expanded job opportunities for working Americans.

In this spirit, we invite the American people and their elected leaders from, both political parties to use the Tax Test as a checklist as they move forward in replacing the current tax code. We urge the Congress and the President to base any new legislation on the principles and recommendations submitted in this report. Furthermore, we urge President Clinton to appoint a presidential task force or commission to bring the recommendations offered by this congressionally appointed commission to the next level of public debate.

AT THE BOILING POINT

''My grandmother used to tell me the folk tale of the frog,'' recounted Commissioner Herman Cain of his childhood in Atlanta, Georgia. ''If you put a frog in a pot of hot water, he would jump right out. But if you put him in a pot of cool water and gradually turned up the heat, he wouldn't notice the rising temperature and would eventually boil to death.''

The American taxpayer is in hot water. Escalating marginal tax rates, increasing complexity, and advancing intrusiveness have created a system that has reached the boiling point. Over the years, Americans have surrendered more and more of their freedom to higher taxes. The result has not been to enhance economic security or to close the gulf between rich and poor. Instead, it has led to fewer jobs, slow economic growth, diminished hope and opportunity, an erosion of trust and confidence in government, and an ebbing of the American spirit of enterprise. It is a history that echoes James Madison's warning that ''there are more instances of the abridgment of the freedom of the people by gradual and silent encroachments . . . than by violent and sudden usurpation.''

The time has passed for incremental reform. The problems with the current system have grown too deeply entrenched to be solved with quick fixes and cosmetic repairs.

We believe the current tax code cannot be revised, should not be reinvented, and must not be retained. Therefore, the commission is unanimous: It is time to throw out the seven-million-word mess of tax laws and regulations and begin anew.

Marc Negri of Santa Rosa, California, wrote to tell us that, ''The current system is so wrong and such a disincentive to the everyday worker that it cannot be saved.'' Lawrence Madsen of Mills, Wyoming, prepares peoples' taxes for a living, and yet wrote: ''I am so disgusted with the [system] that I must urge you to completely abolish the Internal Revenue Code and start over.'' A couple from Astor, Florida, was even more blunt: ''The current tax structure is way out of date with the real world, too complicated with too many loopholes. We say dump it!''

Americans' eagerness for real change reflects in part their frustration with a system that in the past forty years has seen 31 ''significant'' reforms and an astounding 400 additional ''revisions'' through public laws. And yet the tax code is more complex, more costly, and more economically destructive than ever. This is the story of how we got here.

THE ROAD TO TAX OPPRESSION

The New York Times, in a 1909 editorial opposing the very first income tax, predicted: ''When men get in the habit of helping themselves to the property of others, they cannot easily be cured of it.'' The history of our tax code, in economic terms, mirrors the course of most addictions: advancing dependence, diminished returns, and deteriorating health of the afflicted.

Supporters of the Sixteenth Amendment touted the income tax as the rich man's burden—forcing ''the Carnegies, the Vanderbilts, the Morgans, and the Rockefellers'' to pay while sparing the middle class from pain. Indeed, after the income tax was enacted in 1913, fewer than two percent of American families were required to file a tax return. Rates ranged from 1 to 7 percent—with the highest rate applying only to Americans who had the equivalent of $7.7 million in income in today's terms.

The rates did not stay that low for long. In 1916 the top rate doubled. A year later, on the eve of America's entry into World War I, it soared to 67 percent. With the Second World War, the rate was raised to 94 percent. In the 1950s the top rate remained at the sky high level of more than 90 percent. President Kennedy initiated legislation that cut the top rate to 70 percent, but it was not until the Reagan growth years that the top rate was lowered dramatically to 28 percent. Under the current administration, the rate has resumed its ascent, with combined federal taxes pushing the top rate above 40 percent, including Medicare taxes and phase-outs.

With every attempt by politicians to ''soak the rich,'' the water mark has risen on the middle class. Author Frank Chodorov has summed up the incremental march of encroaching taxation: ''At first it was the incomes of corporations, then of rich citizens, then of well-provided widows and opulent workers, and finally the wealth of housemaids and the tips of waitresses.'' Congress expanded the income tax into the ranks of the middle class for the same reason Willie Sutton robbed banks: that's where the money is.

This shift was mainly achieved by gradually multiplying the number of taxpayers required to file income tax returns and by raising average tax rates on ordinary citizens. Until World War II, the average tax rate (that is, the total tax paid divided by income) on a family with a 1991 income of $50,000 never rose above 4 percent. Since World War II, it has never fallen below 14 percent.

Marginal rates on the middle class have risen even more dramatically. Marginal rates are the ''tax bracket'' rates that apply to any extra dollar of income—such as raises, overtime, bonuses, or a second family income. The marginal middle class tax rate never rose above 8 percent prior to World War II. Since then, it has never fallen below 22 percent, rising as high as 33 percent during the high-inflation, bracket creep years of the 1970s.

Today, there are three principal defects of our income tax system that must be fixed immediately.

Economically Destructive: Steeply graduated tax rates on both labor and capital destroy jobs, penalize saving and investment, and punish personal efforts to get ahead through hard work.

Impossibly Complex: The mind-boggling complexity of the current tax code imposes an unacceptable burden on taxpayers and a huge cost on the economy.

Overly Intrusive: The vast enforcement powers conferred on the I.R.S. are increasingly seen as infringements of privacy and personal freedom.

ECONOMICALLY DESTRUCTIVE

In the famous Supreme Court case, *McCulloch* v. *Maryland*, Chief Justice Marshall wrote: ''The power to tax involves the power to destroy.'' Some of the ways in which the current tax code destroys our economic vitality include:

High marginal tax rates that weaken the link between effort and reward, depress productivity, and kill jobs.

Multiple layers of taxation on work, saving, and investment that dry up new capital for investment.

Capital gains taxes that act as a barrier to capital formation—preventing the flow of investment to new enterprises and would-be entrepreneurs.

An ''alternative minimum tax'' that imposes immense compliance costs on businesses, sapping resources that could otherwise be put to constructive use.

Double-taxation of corporate income which shrinks business investment and encourages companies to take on extra debt.

Estate and gift taxes that force families to sell their businesses or family farms.

A fundamental principle of economics is that the more you tax something, the less you get of it. And if you tax success, you get less success. The current confiscatory system begs the questions: Why work harder if each extra dollar earns you less? Why save for tomorrow when spending today is cheaper? Why dream bigger, when little dreams are less expensive? The disillusioned answer of many Americans is simply: Why bother?

But the current system does not simply sap the initiative and aspirations of individual taxpayers, it undermines the economic strength of our nation as a whole. As President Kennedy once observed: ''An economy hampered with high tax rates will never produce enough revenue to balance the budget, just as it will never produce enough output and enough jobs.''

High marginal tax rates combined with multiple taxation of work, saving, and investment act as a ''double-barreled shotgun aimed at the American economy,'' accountant Ted Krauss told the commission during a hearing in Washington. The price tag was estimated by Professor Dale Jorgenson of Harvard University who told the commission that the income level in the United States could be 15 percent to 20 percent higher than today if these biases did not exist.

This translates to losses of as much as $4,000 to $6,000 per year for typical middle-income families. The tremendous economic drain caused by an anti-work, anti-saving, and anti-growth tax system does not even take into account the enormous waste of resources—the time, money, and brainpower—lost in trying to comply with the current code.

IMPOSSIBLY COMPLEX

Today's tax code is so complex that many Americans despair that only someone with an advanced degree in rocket science could figure it out. They are wrong. Even a certified genius such as Albert Einstein needed help in figuring out his Form 1040.

Consider this example from the Internal Revenue Code's rules on the Earned Income Tax Credit. Here's how they describe the little human creature we call a child:

(A) IN GENERAL.—The term ''qualifying child'' means with respect to any taxpayer for any taxable year, an individual—

(i) who bears a relationship to the taxpayer described in subparagraph (B),

(ii) except as provided in subparagraph (B)((iii), who has the same principal place of abode as the taxpayer for more than one-half of such taxable year,

(iii) who meets the age requirements of subparagraph (C), and

(iv) with respect to whom the taxpayer meets the identification requirements of subparagraph (D).

This may look like English to the experts, but it is total gibberish to most other Americans. If nothing is done to simplify the impossible language of the current tax code, every American will need a laptop just to figure it out.

Professor James Eustice of NYU Law School once defined an ''expert'' as ''a person who avoids small errors as he sweeps on to the grand fallacy.'' The problem with the tax code, he says, ''is that it has been written and interpreted by so many 'experts' that it has lost sight of the fact that [real people] have to function under this system.'' The result is a tax code so complex that even the 'experts' themselves can't figure it out. This was illustrated by an annual survey of tax experts conducted by *Money Magazine.* Each year, the magazine would send a hypothetical tax return to 50 professional tax preparers, and every year it got back a startling range of responses, often encompassing 50 different answers. Needless to say, if the ''experts'' have trouble understanding the tax system, the odds are stacked against the rest of us.

Convoluted rules and regulations force small businesses to hire expensive accountants, forgo expansion or new opportunities, or in some cases avoid the entire mess by going underground. Tim Sabus of Denver, Colorado, wrote to the commission: ''As an entrepreneur, I experience first hand the horrors of our tax system. It has grown into a monstrous predator that kills incentives, swallows time, and chokes the hopes and dreams of many. We have abandoned several job-creating business concepts due to the tax complexities that would arise.''

Another exasperated business owner, Frank Goodnight, told the commission at our Charlotte hearing that ''during the recession of 1992, our company paid our accounting firm more money than we paid in taxes.'' He is not alone: in 1991, the Tax Foundation reported that small corporations spent a *minimum* of $382 in compliance costs for every $100 they paid in income taxes.

According to 1995 I.R.S. estimates, businesses will spend about 3.4 billion hours and individuals will spend about 1.7 billion hours embroiled in tax-related paperwork. That means nearly three million people—more people than serve in the U.S. armed forces—work full time all year just to comply with tax laws, at a cost of about $200 billion a year, according to the Tax Foundation. In economic costs, this is like taking every new car, van, and truck that General Motors builds in a year and driving them off of a cliff.

In a recent hearing before the House Ways and Means Committee, William Dakin, senior tax counsel of Mobil, brought with him a six foot high stack of bound papers, weighing 150 pounds. These were Mobil's corporate tax forms for 1993. It cost Mobil an estimated $10 million, and the equivalent of 57 people working full time for a year, just to figure how much tax the company owed. This is the essence of a brutally complicated tax system.

Jeff Renner, a real-estate developer from Bellevue, Nebraska, voiced the concern of many witnesses about the costly burden of compliance: ''That time and effort and money did not educate a single child, it didn't feed a single family, and it didn't produce a single tangible object to improve the life of anyone.'' And Roger McCarthy who runs an engineering firm in Menlo Park, California, complained of how the tax industry absorbs the high-tech talent that could be working in productive fields: ''It is disturbing that we are not competing with companies like Intel and Hewlett-Packard for these top stars, but rather with Big Six accounting firms.''

OVERLY INTRUSIVE

There is no simple way of administering a monstrously complex tax code, just as there is no fair way of enforcing an unfair system. Former Treasury official Ernest S. Christian told the commission: ''The present federal income tax code is a national disgrace that * * * has characteristics that would be condemned in any human personality. It is inexcusably class conscious, it is hypo-critical, it is meddlesome, it is overbearing, it is mean and hurtful, it is covetous, and above all, it is downright foolish.'' It is no wonder that the agency charged with enforcing such a system has become the object of increasing public ire.

Perhaps the most troublesome consequence of our modern-day income tax system is the enormous power that Congress has conferred on the Internal Revenue Service to force taxpayers to comply with the tax code. Twice as big as the C.I.A. and five times the size of the F.B.I., the I.R.S. controls more information about individual Americans than any other agency. Without a search warrant, the I.R.S. has the right to search the property and financial documents of American citizens. Without a trial, the I.R.S. has the right to seize property from Americans. What the I.R.S. calls its own ''presumption of correctness'' leaves many taxpayers feeling that they are ''guilty until proven innocent''—a standard which turns norms of justice upside down.

Even those within the I.R.S. hierarchy concede the inquisitorial nature of the powers granted the agency. Fred Goldberg, former Commissioner of Internal Revenue, laments that ''while it is unfair to the many fine people who work there, the I.R.S. has become a symbol of the most intrusive, oppressive, and nondemocratic institution in our democratic society.''

The code is so complicated that the I.R.S. itself has trouble understanding it. ''As a retired revenue agent, I feel qualified to attest to the monstrosity that the Internal Revenue Code has become,'' a citizen from Michigan wrote to the commission. ''When people who are employed to enforce the tax laws have difficulty understanding its complicated and sometimes incomprehensible provisions, it's time for a change.'' Of the liens the I.R.S. filed in 1990, a General Accounting Office study found 16,000 errors. The error rate for penalty notices to employers on tax deposits has stood as high as 44 percent.

Even when the I.R.S. is not in error, many of its practices make little sense. For example, tax documents are not treated as ''timely filed'' if sent by Federal Express rather than the U.S. Postal Service. The I.R.S. charges taxpayers interest even when the taxpayer is due a refund. In another example, one particularly exasperated citizen wrote to the commission and enclosed a notice just received from the I.R.S. assessing a penalty against his company. For an underpayment of one cent on his tax returns, the company received a letter from the I.R.S. imposing a penalty of more than $150. Others should be so lucky. Many who testified before the commission told tales not just of tax penalties, but of thousands of dollars in legal fees and countless hours with lawyers in efforts to rectify minor and unwitting infractions, or clear their records of unjust charges.

In Charlotte, businessowner Jean Hodges recounted a tale of horror in which she was forced to pay tens of thousands of dollars and spend untold hours trying to correct an error made by her company's bookkeeper. ''I would like to see Congress pass legislation affording small businesses relief from onerous and intimidating I.R.S. regulations,'' she said.

The preceding pages illustrate what is wrong with the current tax system. But the case for a 21st century tax system must be made by more than a mere indictment of the status quo. To paraphrase Peter Drucker: You have to decide what's right before you decide what's possible. The following chapter outlines principles upon which a better future can be built.

WORKING PRINCIPLES

FOR THE WAY AMERICA WORKS

When a group of architects sits down to design a new building, they don't start by picking out the draperies and choosing the color of the carpet. They begin by creating the basic outlines for the structure to come. Similarly, the charge and purpose of this commission is not to dictate the finishing touches of finalized legislation. Instead, it is to establish the foundation upon which a new system can be raised.

The commission's six working principles for a 21st century tax system are not isolated ideas, randomly grouped, but rather principles that link together to form a sequence—a chain of economic DNA—that can renew the health of our economy and release the potential of the American people.

Economic growth, the engine of opportunity and prosperity, can only be unleashed by a tax code that encourages initiative, hard work, and saving. Such a system must be based on fairness, treating all citizens equally. The system should achieve simplicity so that anyone can figure it out. A fair tax system also requires neutrality, because the tax code should not pick winners or losers, or tax saving more heavily than consumption. The new tax system also needs visibility, so that everyone gets an honest accounting of government's cost. A visible tax system will have stability so that people can plan for their futures.

ECONOMIC GROWTH

Because expanding opportunity, prosperity, and social mobility form the foundation of a free and healthy society.

None of the myriad challenges confronting our nation—be they poverty, crime, racial tension, welfare dependence, or the budget deficit—can be solved without strong economic growth. Therefore, any new tax system must be predicated, first and foremost, on a commitment to revitalizing the American economy and lifting barriers to opportunity.

No nation has ever taxes its way to prosperity. Indeed, one of the world's fastest growing economies over the past 20 years, Hong Kong, has one of the lowest marginal tax rate systems—15 percent or less—on labor and capital. Throughout the ages, higher taxes have been inversely related to higher productivity and higher growth. Our own history provides evidence of this axiom.

America has experienced three periods of very strong economic growth in this century: the 1920s, the 1960s, and the 1980s. Each of these growth spurts coincided with a period of reductions in marginal tax rates. In the eight years following the Harding-Coolidge tax cuts, the American economy grew by more than five percent per year. Following the Kennedy tax cuts in the early 1960s, the economy grew by nearly five percent per year and real tax revenues rose by 29% from 1962 to 1968 (after having remained flat for a decade). In the seven years following the 1981 Reagan tax cuts, the economy grew by nearly four percent per year while real federal revenues rose by 26 percent.

Over the years, we have seen economic output rise as tax rates *fell* (and fall as tax rates rose). But federal revenue raised as a percentage of national output has remained *flat*. As the accompanying chart indicates, the federal government historically collects about 19 percent of gross domestic product—regardless of how high the tax rate has been pushed.

High rates simply mean a smaller economy—and less income to tax. Clearly, 19 percent of a small economy brings in less revenue than 19 percent of a big economy. One more reason why economic growth should be the goal of any new tax system.

FAIRNESS

* * * Because democracy is based on the principle of equality before the law.

One of the main themes the commission heard in hearings around the country is that taxpayers are willing to shoulder their share of the burden, as long as others pull their own weight as well. The current tax code—with its confusion of proliferating rates, deductions, exemptions, and transfers of wealth from one constituency to another—contributes to the overwhelming conviction of many Americans that the present system is unfair.

The definition of fairness that emerged from hours of testimony before the commission was clear and unambiguous: Any new system must satisfy three simple goals:

Tax equally: Does it treat taxpayers equally?

True progressivity: Is it compassionate to those least able to pay?

Lower tax rates: Does it keep the tax rate low?

TAX EQUALLY

To most Americans, fairness means that the rules apply to everybody and everybody plays by the rules. Christine Perkowski of Richboro, Pennsylvania, wrote to the commission: ''I do not mind paying my fair share as long as everyone else does, but I feel that many, many people and companies are not paying their fair share because they have the money to hire smart accountants and lawyers.''

Under a simpler, fairer system, no one will get out of paying their share—no matter how many ''smart accountants and lawyers'' they can afford to hire. By streamlining the current Rube Goldberg contraption of multiple rates and rules, we can reduce the number of moveable parts that are manipulated by those who seek to take advantage of the system. Clearly, under the current multiple-rate system, any tax ''loopholes''—deductions, exemptions, and credits—are more valuable to the wealthy than to those in lower brackets, reinforcing the perception that the rich do not pay their fair share. A single-rate system would level the playing field by eliminating the current distortion in which tax breaks are worth more when a person's income is higher.

Melvin Barlow of Las Cruces, New Mexico, argued this definition of fairness in a letter to the commission: ''It is not right that the harder a man works, the more he is taxed'' because the government imposes a higher rate on each additional dollar he earns. A single-rate system keeps pace with the taxpayer as he climbs the hill of economic opportunity and does not weigh him down more heavily with higher rates at every step he tries to take.

For taxable income above the personal exemption, if one taxpayer earns ten times as much as his neighbor, he should pay ten times as much in taxes. Not twenty times as much—as he would with multiple and confiscatory tax rates. Not five times as much—as he might with special loopholes. Ten times as much income, ten times as much taxes. That's the deal.

TRUE TAX PROGRESSIVITY

Americans must first be able to feed, clothe, and house their families before they are asked to feed the federal spending machine. A generous personal exemption will allow those citizens at the bottom of the economic ladder to gain a foothold and begin their climb before taxes take effect.

Today, those who try to move from welfare to work face the highest margin tax rates in America when lost benefits are included—facing effective tax rates that can actually exceed 100 percent. For example, if a single mother on welfare takes a job, she stands to lose more than a dollar for every dollar she earns. Her first paycheck may be more than canceled-out by the economic hits she takes when she loses Aid to Families with Dependent Children, Medicaid, Food Stamps, and public housing allowances. In addition to losing benefits, she now also must pay Social Security and Medicare taxes, federal and probably state income tax, while facing a host of work related costs, including transportation and child care.

We need a tax system that expands opportunity and furthers economic independence by strengthening the link between effort and reward, not by slapping poverty-inducing tax rates on people as soon as they get their heads above water. True progressivity can be achieved by a single tax rate with a generous personal exemption. With an exemption, a ''single rate'' does not mean that everyone pays the same percentage of income in taxes. A generous personal exemption would remove the burden on those least able to pay; as incomes rise, the average tax rate would gradually rise up to the single rate.

LOWER TAX RATES

The consensus of the majority of witnesses who wrote to the commission can be summed up in two words: lower taxes.

Historians may point to America's beginnings and a revolution deeply rooted in reaction to taxation of the original thirteen British colonies. Others reference religious traditions, including Moses' warning to Pharaoh that he may tax up to one fifth and no more—before demanding that he ''let my people go.'' Indeed, Commissioner Dean Kleckner of Iowa touched a chord with many when he observed, half-jokingly, that ''the Bible says we ought to tithe and give 10% to the Lord. I have a hard time with the concept of giving more to government than we're asked to give to God.''

We suspect that more taxpayers have reached their conviction that taxes are too high not by consulting their history books or the Scriptures, but simply by comparing their weekly paychecks to their family budgets and counting all the sacrifices they must make simply to pay the government. While any new tax code must raise sufficient revenue to run the government, it must also be mindful of the burdens these taxes place on America's working families. One way to reduce this burden would be to restrain government spending. By restoring the balance of power between the federal government and the citizens who pay its bills, we can restore basic faith in the system and keep the tax rate low.

SIMPLICITY

. . . Because Life is too short and peace of mind too precious to waste your time and lose your temper trying to figure out your taxes.

Filing tax returns will never be anyone's favorite pastime, but neither should it be what it has become: one of life's most nerve-wracking, gut-wrenching, and mind-numbing chores. With a simpler system, taxpayers will be able to file their returns on a single piece of paper in less time it takes to finish your morning crossword puzzle.

As detailed earlier, the current tax code is exceedingly expensive to comply with, increasingly difficult to enforce, and nearly impossible to understand. Ambiguities and inconsistencies in the current tax code increase the likelihood that taxpayers will make mistakes and fall victim to enforcement techniques considered by many to be infringements of personal liberties.

Long ago the authors of the *Federalist Papers* warned, ''It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood.'' A simplified, fairer tax system will let Americans get a handle on their taxes, a grip on their government, and a hold of their future.

NEUTRALITY

. . . Because the tax code should not pick winners or play favorites, but allow people freely to make decisions based on their own needs and dreams.

The tax code should be used to raise revenue to run the government while doing the least possible damage to the economy. This means leaving individuals free to make decisions and to set priorities based on economic reality—not on the bureaucratic whims of Washington, D.C.

Taxes cannot help but raise the cost of everything they fall on. But at least they should fall on things neutrally without penalizing one form of economic behavior and promoting another. As Senator Robert Bennett of Utah recently pointed out, ''Neutrality means that the tax code should not be used to punish the bad guys and reward the good guys. We have other laws for that.'' Unfortunately, the current code strives to act as economic traffic cop—giving green lights to certain economic activities and red lights to others.

The result of the biases and distortions in the current system is to make the market less free, the system less fair, and families less financially secure. As Frank Hayes, a public accountant who testified before the commission in Omaha, remarked: ''If there's a way to make things simpler and take the tax aspect out of making day-to-day decisions, I think everybody would become productive.''

Perhaps the single most irrational and economically damaging aspect of today's code is the layer upon layer of taxes on saving and investment. By hitting income saved and invested harder and more frequently than income consumed, the current system prompts taxpayers to spend today what they might otherwise save for tomorrow. This is particularly alarming considering the problems facing public retirement programs and the need to strengthen private retirement saving. The Bipartisan Commission on Entitlement and Tax Reform offered analyses and proposals on this subject.

VISIBILITY

. . . Because those who pay the price of government have a right to see the bill.

The history of hidden taxes, rapidly rising rates, and perpetual budget deficits proves that what you don't know can hurt you. The current system hides the cost of government behind a chronic deficit and a maddening multiplicity of taxes—many of which are virtually invisible to the taxpayer who pays them. How much did we pay in payroll taxes last year? What excise taxes were hidden in the prices of the products we bought? What are the tax cost of exclusions, deductions, and corporate income taxes? Few of us know the answers.

When it comes to these hidden levies, ignorance is expensive bliss indeed.

One of the biggest political fictions in American history is the progressive taxation of ''Mr. Nobody''—the illusion that ''painless'' taxes can be levied on businesses and on the goods and services they sell. But goods and services do not pay taxes. People do. While businesses collect taxes, the burden of paying the ''business'' taxes ultimately falls on each of one of us as investors, workers, or consumers.

Moreover, the invisibility of many taxes perpetuates the fantasy that government is free—even as its real costs shrink our paychecks, sap our savings, drain our economy, and inflate the budget deficit to ominous proportions. Bob Genetski, an economist and author who testified at hearings in Omaha, told the commission: ''The cost of government is not obvious to people. If you hide the cost of government, people are going to demand more government than they otherwise would.'' By severing the connection between government's cost and its consumption, the current system deprives citizens of the information they need in order to make rational choices about what they want to buy from Washington and how much they are willing to spend.

A visible system gives taxpayers an honest accounting of government's expense and will make it far more difficult for politicians to tinker with the tax code without the democratic consent of those taxed.

The incurable cynic H. L. Mencken once said, ''Conscience is the inner voice which warns us somebody may be looking.'' By making taxes visible, we can ensure that someone always will be.

STABILITY

. . . Because taxpayers should be able to plan for their future without the rules being changed in the middle of the game.

Everyone has heard the old saw that there are only two things in life that are certain: death and taxes. Given the constant changes to the tax code over the past few decades, the certainty of taxes has taken a perverse twist. Like walking blindfolded down a ship's gangplank, you know the end it out there—you just don't know when it'll arrive, how far you'll fall, or how long you'll be able to keep your head above water.

This uncertainty has a debilitating effect on the economy, making it very difficult for families and businesses, particularly small businesses, to plan for their future with confidence. This exacts a tremendous cost from those taxpayers and business owners who must struggle to keep up with ever-shifting rules and regulations. The retroactive tax increases passed in 1993 packed a double-whammy—changing the rules when the game was half over. A stable tax code must allow individuals to start a business, buy a house, take out a loan, put money into savings, or plan for their children's education without fear of what might lurk behind the next election cycle.

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We know what works . . . Freedom works. And only principles for tax reform that maximize freedom can yield the opportunities, economic growth, and untold possibilities for human advancement that are its fruits. In his last public address, Abraham Lincoln declared that, ''Important principles may and must be inflexible.'' By laying down these important principles, this commission hopes to help build a future of growing prosperity for many generations to come.

A NEW TAX SYSTEM FOR THE 21ST CENTURY

RECOMMENDATIONS

Among the hundreds of testimonies and citizen letters reviewed by this commission, one of the most compelling was that of Van Woods, owner of Sylvia's Restaurant. Mr. Woods and his family run a successful soul food establishment in the heart of Harlem, a community with painfully high unemployment. In concluding his testimony to the commission, he said, ''Opportunity is the ability to look in the face of my son and say: 'I don't know if you will succeed, but you can.' ''

The objective of this commission, the aim of its members, is to help make that promise a reality—not just for Mr. Woods' children, but for every child in every neighborhood in America's 21st century.

In submitting these recommendations, the commission does not seek to toss yet another piece of legislation on the table. Nor was its goal to pick and choose among existing plans, or worse, create a hodgepodge compromise from elements of existing alternatives. What we are offering to the American people and their elected officials is a set of standards—a quality control—that any new plan must meet if it is to meet the bold objective of replacing the current tax code with a fair and simple system. The preceding chapter provides one half of the check-list: the principles that any new system should embody. This chapter provides the other half: key recommendations that any new system should follow.

The core recommendations of the National Commission on Economic Growth and Tax Reform are:

Adopt a single, low tax rate with a generous personal exemption

Lower the tax burden on America's working families and remove it on those least able to pay

End biases against work, saving, and investment

Allow full deductibility of the payroll tax for working men and women

Require a two-thirds super-majority vote in Congress to increase tax rates

We believe that, with a pro-growth, pro-family tax system, we can achieve these goals within the context of budget equilibrium. The commission believes that this new tax system can satisfy our six working principles:

Economic growth through incentives to work, save, and invest;

Fairness for all taxpayers;

Simplicity so that anyone can figure it out;

Neutrality so that people and not government can make choices;

Visibility so that people know the cost of government; and

Stability so that people can plan for their future.

The following pages explain the core recommendations in light of these principles, and explore some of the trade-offs involved in reaching a system that meets these goals. This chapter also touches on a few of the corollary points that flow from these main recommendations. Staff discussion papers are provided for those who seek more detail on the concepts involved.

RECOMMENDATIONS

Single Tax Rate.—A single rate is a fair rate. One tax rate, coupled with a generous personal exemption, together produce a progressive average tax rate. Low income taxpayers would owe little or no tax. But everyone who earns enough to cross the threshold of the exemption would face exactly the same tax rate on any additional income.

A single-rate system is not only fair, it also can satisfy the principles of simplicity, visibility, and stability. A single rate is clearly simple, and it is highly visible: one rate—as opposed to the current, confusing mess—will stand out and be remembered by all. A simple, visible system also can be stable; by keeping our eyes on the single rate, we can keep politicians' hands off it.

Nobel Prize-winning economist F.A. Hayek described economic redistribution through multiple tax rates as ''the chief source of irresponsibility'' in politics and ''the crucial issue on which the whole character of future society will depend.'' A system of graduated marginal rates violates the principle of fairness—that if a law applies to citizen A, it must equally apply to citizen B.

Take for example, two wheat producers, each farming the same-sized plot of land. One of them produces 1,000 bushels of wheat; the other through harder work and more careful land management, produces 1,200 bushels. To tax the income represented by the additional 200 bushels of wheat more heavily than the income represented by the first 1,000 would be demonstrably unfair to the more productive farmer. And yet, that is the nature of a multi-rate tax system: it takes more from people for their hard work, creativity, and success.

The added output—and the resulting added income—of one taxpayer doe not diminish his neighbor, and is not earned at his neighbor's expense. Indeed, it expands economic opportunity, increases the availability of goods and services, and helps others be more productive as well.

True progressivity requires a low tax rate couple with a generous personal exemption. This would grant low-income Americans an ''economic head-start''—allowing them to begin their climb toward economic independence before they are asked to shoulder their share of government's costs. The larger goal is to move beyond merely maintaining low income Americans at subsistence level livelihoods toward giving them an opportunity to permanently escape poverty.

Here, as elsewhere, there are trade-offs involved. The goal of protecting those least able to bear the burden of taxation conflicts with the principle of visibility: those exempt from taxes don't see the price of the government services we all pay for.

The commission believes that the costs—both economic and moral—of burdening low-income people with taxes that can bar them from reaching their fullest potential outweigh competing concerns. By offering low-income Americans a window of economic opportunity, the personal exemption can help liberate those whom the public sector has failed to help and the private sector has failed to reach.

Lower Tax Rates.—The commission recommends that the single rate be as low as possible. We encourage the adoption of such a low rate within the framework of budget equilibrium. Furthermore, we strongly urge that the rate be lowered over time as a growing economy yields rising revenues. We recommend that added revenues be considered, not as more Monopoly money for Washington, but as a ''growth dividend'' to be paid out to the American people.

Eliminate biases against work, saving, and investment.—The principles of fairness and neutrality require that all income be taxed the same, whether it is used for consumption or saving, whether it is produced in small businesses or large corporations, and whether it is earned by employees or the self employed.

Under the current system, income that is used for consumption is taxed once, while income that is saved is taxed again and again. For businesses, complex depreciation rules mean that income from investment in buildings and equipment is overstated. This forces people to pay taxes before they have recovered the cost of their investment.

The box at left provides an example of the problem created by the current tax code.

The biases result in less work, saving, and investment, lower productivity and wages, fewer jobs, less income to spend on housing and education, and fewer assets to furnish income in retirement than would otherwise be the case. As the example at left demonstrates, these biases affect every family that is trying to save for the future.

In order to end these biases, the tax system must either let savers deduct their saving or exclude the returns on the saving from their taxable income. It must end double-taxation of businesses and their owners and permit expensing of investment outlays. It must also address the following issues:

Capital Gains Taxes.—If a new tax system is to eliminate biases against saving and investment, it also must abolish separate taxation of capital gains. As commissioner Ted Forstmann said, ''The biggest depressant on the rate of capital formation is now the risk of confiscation by the government.'' The United States now imposes some of the highest tax rates on capital of any developed nation—a 28 percent tax on long-term capital gains unindexed for inflation. Compare that with a 16 percent rate in France; a 1 percent rate in Japan; and a zero tax on capital gains in Hong Kong, Germany, South Korea, Singapore, and Malaysia.

The result is to punish risk-taking, shrink the pool of capital needed for investment, and deprive would-be entrepreneurs of a chance to climb the ladder of economic opportunity. ''The tax on capital gains,'' argued President Kennedy in 1963, ''directly affects investment decisions, the mobility and the flow of risk capital . . . the ease or difficulty experienced by new ventures in obtaining capital, and thereby the strength and potential for growth in the economy.''

By shrinking the supply of available seed corn, the capital gains tax acts as a future tax on wealth to be realized, business to be built, and jobs to be created. Those hardest hit are not the wealthy—who by definition have their capital gains, their wealth, behind them—but rather all those who have yet to realize their capital gains; the poor, the young, and minorities.

''Death'' Taxes. It makes little sense and is patently unfair to impose extra taxes on people who choose to pass their assets on to their children and grandchildren instead of spending them lavishly on themselves. Families faced with these confiscatory taxes often find themselves forced to sell off farms or businesses, destroying jobs in the process. ''We must help to save the family farm, ranch, and business,'' said Commissioner Jack Faris.

Unfortunately, family businesses often get hit hardest because they can't afford to hire expensive lawyers and accountants. As Douglas Darch of Wake Forest, North Carolina testified to the commission: ''There is something wrong with a tax system that results in the systematic dismantling of small businesses to meet estate tax obligations.''

The tragedy is that while these taxes cause much suffering for taxpaying families, they generate a relatively small amount of revenue. Estate and gift taxes appear to count for less than 1% of federal revenues—but even that low figure is exaggerated and misleading. Professor Douglas Bernheim of Stanford University testified before the commission that the estate tax may not really raise any revenue at all, because more income tax is lost from ''estate planning'' than is ultimately collected at death.

Full Deductibility of Payroll Taxes for all Working Americans.

The Commission recommends that federal payroll taxes be fully deductible—both for employers and employees. Many employers and employees pay more in payroll taxes than they do in federal income taxes. Making these taxes deductible for both employers and employees will reduce obstacles to hiring more workers and will fuel America's job growth into the 21st century.

Under the current tax system, workers pay income tax on their Social Security tax—a tax on a tax. Employers can deduct their half of the payroll tax, but employees cannot. The combined burden of both income and Social Security tax is particularly hard on workers with incomes too high to be eligible for the Earned Income Tax Credit (roughly $25,000), but too low to be below the threshold where the Social Security tax stops being taken out of paychecks (about $63,000).

When employer and employee payroll taxes of 15.3% are taken into account, workers in the 28% tax bracket actually face a brutal marginal tax rate of more than 43% on any additional income they earn. A single low tax rate would help relieve this demoralizing tax penalty on work and saving. But it still leaves a tax on a tax.

Making the Social Security tax deductible would help reduce the combined marginal tax rates on middle-income taxpayers who get hit by both taxes. A one-earner couple with a $40,000 income currently pays tax as though the couple really received the entire $40,000—even though they have already paid over $3,000 as their share of the payroll tax, leaving less than $37,000 on which they could possibly pay income taxes. By making the payroll tax deductible, income taxes would be calculated on the basis of working families' real net incomes.

This need for change was highlighted in a citizen letter to the commission from Spencer Riedel of Flagstaff, Arizona, who described the Social Security payroll tax as ''a huge heartache...Is there no way to stop this 'hidden' tax?...If we could eliminate this unfair mandated tax, our business would hire two more people.''

A Two-Thirds Majority Vote in Congress to Raise The Tax Rate. The Commission recommends that the new system be guaranteed both stability and longevity by requiring a supermajority vote of both houses of Congress to raise the rate.

In hearings across the country, one depressing but all-too-familiar response from taxpayers could be bluntly paraphrased as: ''Change, schmange. That's what you guys said the last time you talked about tax reform.'' The roller-coaster ride of tax policy in the past few decades has fed citizens' cynicism about the possibility of real, long-term reform, while fueling frustration with Washington. The initial optimism inspired by the low rates of the 1986 Tax Reform Act soured into disillusionment and anger when taxes subsequently were hiked two times in less than seven years. The commission believes that a two-thirds super-majority vote of Congress will earn Americans' confidence in the longevity, predictability, and stability of any new tax system.

The goal: A single low rate on income with a generous personal exemption, a lower burden on working families, an end to biases in the tax code—all set in the stone of a congressional super-majority. The recommendations in this chapter form the core framework for a new 21st century tax system.

OTHER ISSUES

Deductions and Exclusions

Concerns about special provisions in the existing tax code have the potential to derail debate over the merits of a new tax system and the tremendous benefits it could bring to the American economy. There are important social and economic consequences of certain deductions and exclusions. The commission believes they should be considered with an eye to their impact on the tax rate, the costs to the Treasury, and the consequences of change—and within the context of the values of the American people. For example, the home mortgage interest deduction has spurred home ownership in America; an important goal of our commission is to spread ownership to give more people a stake in the system. And, at a time when America needs a renaissance of private giving and commitment to overcome those social problems which government programs have either failed to improve or made worse—we need a system which encourages people to take more responsibility for communities and neighbors in need. We welcome debate over the best way to protect these institutions and preserve the values they represent within the context of the dynamic new tax system we envision.

Simplify International Taxation: Congress should consider a territorial tax system. The current system of taxing international business operations is one of the most complicated parts of the Internal Revenue Code. It leads to enormous costs of compliance and enforcement, raises little revenue, and damages the competitiveness of U.S. businesses operating abroad. Further, it encourages them to keep reinvesting profits abroad rather than bringing the money back home where it could be reinvested in America.

Whatever new tax system is chosen, there must be a clearer, simpler, and more certain determination, relative to current practice, of what income is foreign or domestic or what international transaction is taxable. In addition, attention must be given to the proper tax treatment of foreign source license fees, royalties, and other intangibles so as not to discourage research and development in the United States.

Strengthen Private Retirement Saving: The commission is particularly concerned that Americans are not saving enough for their own retirement. A tax system that eliminates the bias against saving is essential to encourage people to accumulate more assets throughout their lives. There is, however, no guarantee that all individuals or families will save enough to be secure and financially independent in their retirement, even under a new tax system.

With the problems facing public retirement programs, it is essential that private retirement saving be strengthened. Without sufficient retirement saving, many people will become dependent upon the government in their old age, necessitating either sharp increases in taxes on future generations or a significantly diminished standard of living. Providing strong encouragement for individuals and families to take responsibility for their own retirement will go a long way toward preventing uncontrolled growth of government while ensuring a more comfortable, more secure, and more independent retirement.

Therefore, any tax system should encourage people to save for their own retirement. Further, the commission recommends that Congress begin the process of policy changes that will result in people taking more responsibility for their own retirement saving. Other changes within the overall income and payroll tax systems also should be considered.

MEASURING RESULTS

One of the chief objectives of adopting a new tax system is to promote economic growth. If we are successful, the added growth will provide the tax revenues to pay for a portion of the change in the tax law. Failure to count these added revenues will make it appear more difficult to make the necessary tax changes.

One couldn't catch the blossoming of a role in a split-second single-frame exposure, or capture a speeding bullet with time-lapse photography. Similarly, the tools with which we anticipate and examine changes in government policies, including tax policy, must mirror the way the economy actually changes as a result of these actions.

When a bill is being debated before Congress, members are required to produce estimates of the costs of the legislation. For years, Congress has used what are called ''static revenue estimates'' to produce these figures. Static revenue estimates attempt to predict future government revenues by applying the new law to today's economy as though it would not be affected by the new law. History has shown that these estimates are limited in their ability to predict revenues.

We recommend that Congress instead use estimates that measure the impact policy changes will have on people's behavior and on future economic activity, and that therefore more accurately predict implications for future revenue collections. Use of this ''dynamic'' scoring, of course, must be based upon realistic assumptions regarding tax rates, tax revenues, and economic activity. It is essential to avoid overly optimistic as well as overly pessimistic projections. (Further details are provided in the staff discussion papers.)

TRANSITION ISSUES

The defenders of the status quo will say that our recommendations for a new tax system will mean a tax increase on the middle class or cause a flood of red ink.

We strongly disagree. The thinking behind our current tax system is a model that does not fit tomorrow's world. Complainers fail to understand the new world that this new system will create. The tax reform we envision will create a different climate for economic growth. It will lift incomes. It will reduce interest rates. It will put people to work. It will reduce the use of tax shelters. It will reduce the need for social safety-net spending. It will foster millions of new businesses and jobs. In the process, the transition will help to pay for itself.

That doesn't mean there will not be difficult issues to address during the transition. In particular, policy makers must take care to protect existing savings, investments, and other assets. Whatever the challenges this change presents, we believe that none of the issues is insurmountable.

Whatever equivocations there may be toward the future, we must not let them rob us of the unparalleled economic growth, the unimagined opportunities for human fulfillment and advancement that now lay trapped within the cage of the current system, waiting for us to open the door.

CONCLUSION

The recommendations outlined here can lay the groundwork for a pro-growth, pro-family tax code for America's 21st century. As construction of the new system moves forward, there will be many decisions to be met and made along the way. While we have tried to raise a number of those issues here, and clarify others in the discussion papers, it is impossible to anticipate every question that will arise as we move toward a new system.

We urge that the American people participate in this debate at every step of the way. This is all the more crucial given the critical nature of the transition issues involved as replacement of the current system gets underway. Half a century ago, the economist Joseph Schumpeter described capitalism as inseparable from ''the perennial gale of creative destruction.'' In the transition to a fairer system and a freer market, the winds of change are bound to increase. Those who have a stake in the status quo will not welcome change; others may prefer the cramped confines of the familiar present to the uncertainty of a yet realized future.

If the taxpayer testimonies we listened to and letters we received bear any evidence of the broader mood of the country, we believe that Americans are overwhelmingly eager to make that change, ready for its challenges, and look forward to its opportunities.

It has been a privilege for us to serve on this commission, and each of us has taken the responsibility very seriously. We have been educated and inspired by the many, many Americans we have talked with. While the tax system is in serious disrepair, the American spirit and will for change are stronger than ever. We thank Senate Majority Leader Dole and Speaker Gingrich for giving us this opportunity by delegating us to do this important work.

We quote in this report many of the citizen witnesses who wrote to us and who testified at our hearing. We thank them and the many expert witnesses who prepared testimony and answered our many questions about the intricacies of tax reform.

We are very much indebted to the lawmakers who have spent years of their careers studying tax reform, inspiring serious debate on the flaws of the current system, and developing proposals for major tax reform. Among them: House Majority Leader Dick Armey, Ways and Means Chairman Bill Archer, Senate Budget Chairman Pete Domenici, Senator Sam Nunn, Joint Economic Committee Chairman Connie Mack, Senator Bob Bennett, and Congressman Dick Gephardt. Others whose work has been invaluable to the process include Senator Richard Shelby, Senator Richard Lugar, Senator Arlen Specter, ranking Ways and Means Committee member Sam Gibbons, and many others.

It has been said that every breakthrough in human understanding has come in the form of a simplification. The complex, bureaucratic tax code of the 20th century will not enable us to keep pace with the complex and rapidly changing world of the 21st century. A simplified tax code would have an instant impact on peoples' lives—freeing up time, energy and resources currently wasted in costly compliance for productive endeavors.

The impact on the economy would be immediate and profound, putting the goal of a doubled economic growth rate within our reach. The moment the dead weight and distortions of the current tax system are lifted from our economy, the explosion of new investment, new businesses, and new jobs would transform the economic and social landscape of our country. A newly galvanized economy would create work for all those who wanted it, unleash unimagined innovations, act as a magnet for capital from all over the world, and boost wages and living standards for America's working families.

We also believe that a new tax code can help replenish the well-springs of public trust—in our government, in each other, and in ourselves. By treating citizens equally and with respect, a new tax code can restore faith in the basic fairness of the system. A simplified system will eliminate the fear that special advantages hide in complexity, while restoring citizens' confidence in their own ability to comply with the code.

This vision of the future is rooted in both a realism about human nature and an idealism about human potential. We recognize that a new tax code, no matter how radical, cannot solve all problems. It cannot make fathers love mothers or guarantee children happy homes. Government reform, however vast or vaunted, cannot change hearts.

But it can lift hopes. At its best, it does this by seeking, as Lincoln did, ''to elevate the condition of men—to lift artificial weights from all shoulders—to clear the paths of laudable pursuit for all.''

By freeing citizens from the costly encumbrances of the current tax code, by restoring the link between effort and reward, by allowing individuals to save and invest in their future, and by unleashing the pent up power of our economy, this new system can lead to Lincoln's ''new birth of freedom,'' and launch us into the next American century.

BIAS AGAINST SAVING AND INVESTMENT

Multiple taxation creates a huge bias against saving and investment that must be eliminated in a new system. Consider, for example, the effect of the current system on a family in the 28 percent tax bracket that earns an extra $1,000.

Of that $1,000, they will pay $280 in federal income tax and keep $720. If they spend that $720, say, taking the family to Disneyland, they incur no further federal tax, no matter how many times they ride the Space Mountain.

But suppose, instead, they decide to invest the income in stocks to create financial security for their future. Bad move, says the current tax code.

First, they already had to pay income taxes to have the $720 to invest. Second, the company in which they invest will generally pay tax at a 35 percent rate on the returns on the amount invested. Third, if the company pays dividends, the family will pay a 28 percent tax on the dividends they receive. Alternatively, if the company retains the after tax income for reinvestment or finds other ways to boost future earnings, the stock price will rise. The future earnings will be taxed, and if the family sells the stock, it will pay a capital gains tax at a 28 percent rate (see below). Fourth, if they hold the proceeds of the sale until death, they will be subject to an estate tax that can go as high as 55 percent.

Both the investment in the stock market and the investment in the family trip produce returns—one yields warm memories of the past, the other provides real hope for the future. The returns on the investment in the trip are not subject to tax; the returns on the investment in the stock market are. (Staff discussion papers contain further information on the tax code's bias against saving and investment.)

BIOGRAPHIES

Chairman Jack Kemp is founder and current co-director of Empower America, a public policy and advocacy organization. Kemp served as Secretary of the U.S. Department of Housing and Urban Development in the Bush Administration, and represented the Buffalo, N.Y., area for 18 years in the U.S. House of Representatives. He played professional football for 13 years as quarterback for the San Diego Chargers and Buffalo Bills. His father was a small-businessman who helped start a small trucking company in and around Los Angeles, CA.

''If you tax something you get less of it. If you subsidize something, you get more of it. The problem in America today is that we are taxing work, savings, investment, and productivity; and we're subsidizing debt, welfare, consumption, leisure, and mediocrity.''

Vice Chairman Edwin J. Feulner, Jr. is president of the Heritage Foundation, a leading public policy group in Washington, D.C. He also serves as chairman of the Institute for European Defense and Strategic Studies in London. Feulner, who has a Ph.D. from the University of Edinburgh, served as consultant for Domestic Policy to President Reagan, and was the Chairman of the U.S. Advisory Commission on Public Diplomacy.

''Our tax code has become a complex web of penalties, disincentives, loopholes, and preferences. No amount of tinkering at the edges will save the system. The only answer is to replace it with a new system that rewards work, saving and risk-taking.''

Loretta H. Adams, started her professional career as a management trainee at the Panama City, Panama, Sears store on a $25-a-week salary. Ms. Adams later immigrated to the United States and went on to become founder of the San Diego-based Market Development, Inc., a consumer, marketing, and opinion research firm with nearly 100 employees. Since 1978, her company has serviced Latin-American consumers in the United States and Latin America and has become one of the top 100 research firms in the country.

''The conditions that produced the current tax system no longer contribute positively to a 21st century global economy. We now have the opportunity to create a tax system that is more responsive to our times, situation, and needs and, hopefully, we will grasp it fully.''

J. Kenneth Blackwell lived in public housing for the first seven years of his life only to later pioneer housing reforms as the Deputy Undersecretary of the U.S. Department of Housing and Urban Development. Today, he serves as Treasurer of the State of Ohio, having previously held public office on the Cincinnati City Council before becoming mayor of Cincinnati. He is a member of the Council on Foreign Relations in New York, and previously served as U.S. Ambassador to the United Nations Human Rights Commission and as vice president of Xavier University in Cincinnati.

''There is something fundamentally wrong with a tax system that costs Americans $250 billion to comply. A simpler tax system would help break the chains that currently bind entrepreneurial spirit.''

Herman Cain learned the value of hard work from his father who concurrently worked three jobs—one of which was as a janitor at The Pillsbury Company in Atlanta. At age 12, Herman went to work with his father at Pillsbury, helping him as ''assistant janitor.'' Twenty-two years later Cain would become a Pillsbury vice president (computer systems) and later be selected as president of the firm's then-subsidiary company, Godfather's Pizza, Inc. In 1988, he successfully led a group of Godfather's Pizza, Inc. senior management in purchasing the chain from Pillsbury. He currently serves as chairman and CEO of Godfather's Pizza, Inc. Prior to his tenure at Godfather's, Cain worked for the U.S. Navy as a mathematician, the Coca-Cola Company as a business analyst, and was an executive with Burger King Corporation.

''One of America's greatest strengths is its ability to change . . . our 82 year old tax 'mess' is long overdue for dramatic, sensible change.''

Carroll Campbell served two, four-year terms as one of the most popular and innovative governors in South Carolina's history. His legacy as governor includes government reform, record job expansion, net tax cuts, economic growth, and investment in his state. Campbell launched his political career in 1970, first serving in the state House and Senate and later in the U.S. Congress, where he served on the Banking, Appropriations, and Ways and Means committees. He also served as chairman of the National Governors' Association, the Republican Governors' Association, and the Southern Governors' Association, as well as Chairman of the Southern Growth Policies Board. Today he is president and CEO of the American Council of Life Insurance.

''The tax system should encourage investment and job creation, foster long-term savings, and increase the focus on individual and family economic responsibility. In short, tax policy should encourage long-term savings for retirement.''

Pete du Pont, during his tenure as governor of Delaware from 1977–1985, implemented a highly successful pro-growth tax policy by dramatically lowering marginal tax rates, causing the state's economy to boom and overall tax collections to jump, and enacting a constitutional amendment that limited both tax and state spending increases. He also served as a state legislator and Congressman and ran as a Republican candidate for President of the United States. He currently serves as policy chairman of the National Center for Policy Analysis, and writes a weekly column on public policy that is distributed to more than four hundred newspapers across the nation.

''The men and women who spoke to us reflected an American consensus: Our tax system is destroying our opportunities. It's time to replace it.''

Jack Faris started working at age 13 earning 50 cents an hour at his parent's service station. Faris learned early in life the challenges of running a small family business and the importance of hard work. After running his own business in Nashville, Tennessee, he became president and CEO of the National Federation of Independent Business (NFIB), the nation's largest small business advocacy organization with more than 600,000 members.

''Regulation and taxes are strangling small business on main street. Give us relief and we will create the jobs and build America's future for our children and grandchildren.''

Matt Fong serves as Treasurer of the State of California. Prior to his election, Fong served as Vice Chairman of the State Board of Equalization, California's tax agency. Fong streamlined the agency, cutting millions of dollars of waste, reformed the state's tax code sponsoring changes to the unitary tax, and made the agency more ''taxpayer friendly.'' A graduate of the U.S. Air Force Academy currently holding the rank of Lt. Col. USAFR, he earned an MBA and law degree, started a small business, and worked for Sheppard, Mullin, Richtor and Hampton as a transactional corporate attorney.

''Too many Americans are sitting on the economic sidelines. A progressive single rate flat tax will radically jump start job creation, moving the unemployed off the sidelines to jobs.''

Theodore J. Forstmann is one of the most admired entrepreneurs in America with an unrivaled record of successful investments. Forstmann splits his time between running his firm, speaking out on behalf of economic opportunity and growth, and helping children worldwide. He has poured his energies and resources into leading relief efforts in Bosnia, sponsoring charities in South Africa, and funding scholarships and teaching students in America's inner cities. He is the senior partner of Forstmann Little & Co.

''The current tax system is ridiculously complicated, economically destructive, and morally corrosive. We desperately need a new tax code that puts the individual—not government—at the center of the equation.''

Dean Kleckner took over the rented family farm in Iowa at the age of 18 when his father died. Kleckner served in the Army and later returned to Iowa where he started on his own with a dozen sows, a dozen cows and 300 chickens. Today he owns a 350-acre corn, soybean, and hog farm, and serves as President of the American Farm Bureau Federation, a post he has held since 1986. He also serves on the U.S. Advisory Committee on Trade Policy, a post to which he was first appointed by President Reagan, and reappointed by Presidents Bush and Clinton.

''Our tax system must be simple and equitable for all taxpayers, with no loopholes. It has to let hard-working taxpayers keep more of the money they have earned.''

Shirley Peterson is president of Hood College in Frederick, Maryland. Prior to assuming the college presidency, she practiced tax law and also served as Commissioner of Internal Revenue under President Bush and Assistant Attorney General (Tax Division) at the U.S. Justice Department under President Bush. She was raised on a farm in Colorado.

''Citizens from around the country told us that the current law is too complex: This complexity breeds disrespect for the law and for our government. It is time to repeal the Internal Revenue Code and start over.''

John Snow worked his way through college as a sports coach. Today he serves as chairman, president, and CEO of CSX Corporation in Richmond, Virginia, and has been with the company since 1977. Snow, who has a Ph.D. in economics from the University of Virginia and a law degree from George Washington University, also served as Deputy Undersecretary of the U.S. Department of Transportation, as a private attorney and a college professor.

''The current tax system dims our prospects for the future and must be replaced by a new system for the 21st century which helps Americans to capitalize on opportunities—not stifle economic growth and entrepreneurial activity.''

John Wieland always worked part-time growing up, from working at a gas station to delivering newspapers to stocking vending machines. Today, he is a president of John Wieland Homes, Inc., of Atlanta, employing more than 700 full-time employees and thousands of subcontractors. For Wieland, success has meant the ability to give back to his community by providing housing for the working poor and working with Habitat for Humanity, formerly serving as a member of the International Board of Habitat.

''The consensus of the American people demands a completely new, simple, and fair tax code. Increased prosperity for ALL will be the outcome. The time is now.''

THE TAX TEST

SIX POINTS OF PRINCIPLE

(1) Economic growth through incentives to work, save, and invest

(2) Fairness for all taxpayers

(3) Simplicity so that anyone can figure it out

(4) Neutrality that lets people and not government make choices

(5) Visibility to let people know the cost of government

(6) Stability so people can plan for the future

SIX POINTS OF POLICY

(1) A single tax rate
(2) A generous personal exemption to remove the burden on those least able to pay
(3) Lower tax rates for America's families
(4) Payroll tax deductibility for workers
(5) Ending biases against work, saving, and investment
(6) Making the new tax system hard to change

TIME FOR ENVIRONMENTAL TAXES

HON. FORTNEY PETE STARK

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Monday, January 22, 1996

Mr. STARK. Mr. Speaker, the Republicans are busy talking about flat taxes and sales taxes and reducing the tax on interest and dividends. What we should all be talking about is lowering the tax on labor and job skills and increasing it on pollutants.

Global warming is happening. Those who lived through the snow storms of early January may want to laugh. Do not. The following article from the January 10, 1996, New York Times by two environmental experts points out that the recent blizzards are what we should come to expect as the environment changes.

I have introduced legislation to remove tax subsidies on the extraction of polluting fuels and minerals. I am preparing legislation to move to the next step and gradually increase taxes on pollutants that contribute to global warming and the degradation of the environment. The money raised from these taxes can be used to fund lower taxes on wages and incomes, so that the average citizen is not hurt by these environmental taxes and so that our whole economy can begin to work for the long-term health of the world environment.

[From the New York Times, Jan. 10, 1996]

BAD WEATHER? JUST WAIT

(By John Harte and Daniel Lashof)

As the Northeast bowed before an extraordinary blizzard, southern Californians basked in record-breaking heat. Some speculated that this freakish weather was further evidence of long-term global climate change. But focusing on individual events would be a mistake. Unusual weather conditions have always been normal.

This does not mean that global climate change is not occurring. A United Nations scientific panel recently concluded for the first time that global warming had begun and would intensify because of rising levels of heat-trapping gases emitted by burning coal, oil and natural gas. The magnitude of the change is uncertain, but over the next 100 years, the panel estimated, the planet's average surface temperature is expected to rise by 1.4 to 6.3 degrees Fahrenheit.

The important news about this projected rise is not going to break the way it does for dramatic weather. Continued warming is likely to result in a gradual parching of soil in many regions of the world, possibly leading to declining crop yields even as the global population rises. When does this trend become ''news''?

Sea levels will also rise, slowly inundating Asian farmland, entire islands in the South Pacific and coastal cities and harbors throughout the world. Coral reefs will die in the warmer oceans, and grasslands will give way to desert shrubs that can survive on less water, reducing food for grazing animals.

Producers of coal and oil, as well as some economists, say that we should learn to live with these changes because doing so will be far cheaper than reducing carbon dioxide emissions enough to halt global warming.

Leaving aside the fact that such conclusions ignore potential social and ecological disruption that is difficult to put in monetary terms, a growing body of research and experience indicates that reducing emissions sufficiently is not only possible but makes economic sense. Although the challenge is greater in rapidly developing countries where energy demands are rising most, industrialized nations can lead the way in reducing dependence on fossil fuels.

The cost of solving environmental problems has routinely been overestimated. Take the ozone-destroying chlorofluorocarbons. Ten years ago, the chemical industry and other ''experts'' said that finding an economic alternative to these substances would be impossible. Yet once the industry was forced to find substitutes for them, under international agreements beginning in 1987, it managed to phase them out completely in two-thirds the time allowed for just a 50 percent cut, in many cases at a profit.

Or consider the shift in fuel economy standards. Before minimum standards were established in 1975, the automobile industry claimed that doubling fuel efficiency, as required, would force everyone to drive compact cars. Ten years later, the standard had been achieved, while the average size of a car had hardly changed.

Why were these estimates so far off? In part, opponents of the new regulations wanted to stimulate political opposition. But independent economists often made similar projections, apparently forgetting that political pressure spurs technological innovation. For this reason, some economists believe that the costs of stemming global warming will continue to fall—but only if the pressure to change exists.

So far, the United States, with all its wealth and technology, has not made a serious commitment to reduce emissions. Only if we unleash our ingenuity to find solutions can we expect poorer countries to follow suit.

CARL SHAFFER HONORED

HON. PAUL E. KANJORSKI

OF PENNSYLVANIA

IN THE HOUSE OF REPRESENTATIVES

Monday, January 22, 1996

Mr. KANJORSKI. Mr. Speaker, I rise today to bring to the attention of my colleagues an honor that is being bestowed upon my close personal friend Mr. Carl T. Shaffer. Carl is a farmer who resides in my congressional district who has been selected as ''Master Farmer of the Year'' by Penn State University and Pennsylvania Farmer Magazine.

Carl Shaffer is the owner and operator of a 1,000 acre vegetable farm in Columbia County, PA. The farm's average annual crop production totals include 600 acres of corn, 20 acres of oats, 60 acres of wheat, 30 acres of carrots, and 300 acres of snap beans. I have visited his farm on numerous occasions and have been greatly impressed by its yields, which have been produced under approved conservation plans.

I am proud to tell my colleagues that Carl's leadership is not confined to the boundaries of his farm, but extends to many agricultural advisory boards and organizations. Carl currently serves as the state committee chair for the consolidated farm services agency, and as a board member of the agricultural advisory board for the Pennsylvania Department of Environmental Protection. In addition, Carl is president of the board of directors of the Agricultural Awareness Foundation of Pennsylvania, and a member of the Pennsylvania Farm Bureau's Board of Directors. He has also served on the boards of the Pennsylvania Vegetable Marketing and Research Program, the Pennsylvania Farm Bureau, and the Pennsylvania Master Corn Growers Association. Locally, Carl was the president of the Columbia County Farmer's Bureau and the Columbia County Crop Improvement Association.

Mr. Speaker, Carl Shaffer is not only an extremely involved activist on agricultural issues, he is an outstanding member of his community. He is an active member of the Mifflinville Methodist Church and the 4H Horse and Pony Club. An ardent Democrat, Carl served on the Columbia County Democratic Committee Executive Board and as a member of the Penn-Ag Democrats.

Every year, Penn State University and Pennsylvania Farmer Magazine join together to honor outstanding farmers and confer upon them the degree of ''Master Farmer.'' The outstanding men and women who have been honored with this recognition have not only made significant contribution to the agricultural industry, but have also worked for the betterment of the society in which they live. Knowing of the special qualities that one must possess to be honored with this award, I believe that Carl Shaffer is a perfect candidate for Master Farmer of the Year.

I have known Carl for many years and I have had the pleasure to work with him on many occasions. His good stewardship extends far beyond his farm. He has given of himself to his community and continues to work for the welfare of his neighbors. Not only is Carl a competent and aggressive problem-solver, he is a warm and caring individual. When I need well-thought-out advice on agricultural issues, I call upon Carl for his astute understanding of complex policy matters.

Mr. Speaker, it is truly an honor for me to pay tribute to a man who has worked to provide so much to so many people. Carl Shaffer truly deserves this honor. I am confident that Carl will continue working on behalf of his fellow farmers and I warmly congratulate him on being named ''Master Farmer of the Year.''

HEADWATERS FOREST

HON. FORTNEY PETE STARK

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Monday, January 22, 1996

Mr. STARK. Mr. Speaker, the Headwaters Forest in Humbolt County, CA, is one of the world's largest stands of privately owned ancient redwoods; however, this beautiful forest is in imminent danger of destruction. The Pacific Lumber Co., directed by Charles Hurwitz, has already logged thousands of acres and has indicated a desire to log some of the forest's last remaining 2,000-year-old giant redwoods.

Presently, Mr. Hurwitz, is the subject of two Federal lawsuits totaling approximately $650