

## The Economy in Perspective

*Taxing matters* ... I was far too busy to travel, so I had to settle for a video conference with my old friend André. He and I met years ago, when the future—and its possibilities—seemed endless. Politics meant nothing to either of us then, but it has now become another strand in the rope that binds us together. André is Minister of Finance in Nedlaw, a country of mythical wealth and enchantment on the other side of the globe. I have never been there, but his descriptions over the years have been so vivid that I feel I could traverse that fabulous nation blindfolded.

No time for reminiscing today, however. I have just signed on as campaign manager for Webster Paige, a presidential aspirant in my own land, who will announce his candidacy in a few weeks. André's insights would be invaluable, especially in fashioning Paige's economic policy positions. According to my previous conversations with André, Nedlaw's economic policies enjoy widespread popular support. I explained my predicament to André, who quickly swallowed the last vestiges of his lunch, shoved the plates aside, and cleared his throat.

"Listen up," he said. "The first thing you have to square away is your tax policy. People want to know what you are going to do for them."

"We're way ahead of you, André," I chuckled. "Although it appears to tax upper-income earners at progressively higher rates, our system is nearly proportional because of all the deductions taxpayers claim. By instituting a flat tax, we can eliminate the distortions caused by the current system; we just don't know what tax rate to set. Another candidate claims that a 15% flat rate tax, with no deductions, could yield as much revenue as our current system. He says people will generate enough extra income to make up for the lower rate. What do you think?"

André reclined patiently in the high-backed chair behind his desk. "In Nedlaw," he said, "We have a 10% flat tax rate, provide a seven-year depreciation for new home purchases, and give tax credits for each pet owned."

I was speechless. Surely there was some logic to this tax system, but it was not obvious.

Seeing my bewilderment, André seemed quite pleased with himself. Then he hunched forward and became serious. "You have two choices," he said. "You can begin with the facts and go where they take you, or you can begin with the voters and go where they want to be taken. Nedlawians want a government that understands them. Don't forget the old proverb: 'He who takes high road falls off bridge.'"

"Nedlaw," he continued, "was founded in the year 1010, so Nedlawians regard the number 10 as having mystical properties. The 10% tax rate has been wildly popular. Home ownership is everyone's dream, and since the average Nedlawian stays in a home for seven years, we have

a depreciation schedule to match the citizens' preferences. This aspect of our tax code is an obvious success. Houses have become so desirable that their prices just keep escalating. What a terrific investment! Encouraging people to keep pets promotes the kind of values that we favor, since pet owners are a peaceful, nurturing lot. Taking care of their animals keeps people off the streets at night, if you know what I mean." He gave me a wink.

"But André," I protested, "in my country that sort of housing allowance would cause people to build houses like crazy, diverting funds from sorely needed new equipment and businesses. Our productivity growth trend has been slowing as it is!"

"Our neighboring countries provide all the businesses and jobs Nedlawians need; why should we put up with the pollution and congestion?" André smugly folded his arms across his chest. "Besides," he intoned, "the pet credit has engendered a horse-breeding industry. Nedlawians can quite cheaply gallop off to work!"

"Incredible," I exclaimed, striking my forehead with an open palm. I was finally beginning to see the inner workings of Nedlaw's wealth machine. No wonder André was regarded as a genius. Yet somehow I could not make all the pieces fit.

"André," I ventured, "Can you balance your budget with this taxation system?"

"Darn close," he crowed. "Privatization, that's the answer!"

"Of course," I shouted. This time I slapped my forehead with both palms. "You just unload all those pork barrel programs. If people want services, let them pay for them directly!"

"Well, there is some of that," André mused. "But we don't want Nedlawians to go without certain necessities. We simply passed laws requiring that people and companies purchase these socially justified goods and services in specified quantities from the private sector. Once we did that, we could reduce government spending. Take Nedlaw's retirement program, for example. For their own good, our citizens have to contribute to a privately operated retirement plan. All we do is make sure the plan is being operated safely, which we accomplish by requiring it to invest exclusively in official obligations of our government. People now recognize that it makes sense to have some Nedlaw debt generated every year."

If I closed my eyes, I could see Webster Paige making those "V" signs with his upstretched arms on election night. My hands furiously scribbled notes, but my mind drifted to Nedlaw's motto, emblazoned on the banner hanging behind André's desk: "Nedlaw — Where the sun never sets on a good idea!"