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PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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President's Advisory Panel on Federal Tax Reform
1440 New York Ave. NW, Suite 2100
Washington, DC 20220

Dear Sirs:

President Bush has repeatedly said that where Tax and Social Security reform are concerned, "everything is on the table." So I'll take the President at his word and offer an unique plan to solve our fiscal problems. (I might add that I have been a Republican for some 57 years, so you're not hearing from the enemy.)

I have problems with the VAT, Flat Tax, and other consumer based taxes which are being proposed by some Republicans because (a) they hit an already overstressed tax population, (b) they directly and visibly add to the cost of the product and thus inhibit consumption, which inhibits production, which inhibits employment, which inhibits consumption, which isn't good for anyone, (c) they are complex and thus not readily understood by the public, and (d) they propose to replace the Income Tax but are difficult to put into place at the same time the Income Tax is producing revenue.

As for Social Security reform, forget about this individual accounts idea. It's too loaded with political ideology, and without the employers' contributions the amounts yielded on 6.2% deductions will be far too small to be of any value to the recipients. Also, as the President's own supporters admit, the cost of setting up and handling the individual accounts just about equals the deficit he forecasts. Besides the people know the market's too iffy and that averaging over decades doesn't mean diddly when you must eat every day and the rest of the bills come in every month. He'll never sell it.

Because I don't believe in knocking the other guy's ideas unless I have what I think are better ones, I submit the following proposal to meet our fiscal problems, not in the distant future, but right now, just as fast as Congress and the President can put the pen to the paper regarding Social Security and Tax reform. I'm talking now money, not pie in the sky.

This proposal is simple, readily understood by the public, and can quickly be put in place without any disruption of the present income stream. And it's a three-fer. That is, it solves the Social Security problem, opens the door for a major tax reform that will eliminate the need for the hated Income Tax, rid us of the IRS and the Tax Code as we know them today, together with those burdensome returns and accounting and legal expenses—not to speak of the favoritisms resulting from manipulations of the Tax Code—and commence the task of reducing the National Debt and establishing fiscal responsibility. Three major solutions for the price of one.

(President's Advisory Panel, 03/18/05, p. 2.)

We propose to start this program off with a modest one half of one percent tax on all stock market trades, a Securities Transaction Tax (STT) as it is referred to in the literature. This is a mere 1/10th or less of the fees brokers collect from each side of a stock trade. Based on an average of the last four years of US stock exchanges trades as reported by the Statistical Abstract of the United States for 2003--such a tax for the same period would have produced annual revenue of \$1,259.375 billion, or \$129.895 billion more than was produced by the Income tax during the same period.

\$1.3 trillion in new money! Why that sum alone is enough to make the Social Security Fund fully solvent in just one year. Then apply that revenue to retiring the National Debt, which now rests at some \$7 trillion. And as that debt gets paid down, so does the cost of "servicing" it, a staggering expense that is the third largest item in the annual Federal budget, right after social programs and defense spending.

And at no real cost or pain to anyone. Because it is incredible to suppose that a tiny tax of a mere one half of one percent on a stock trade of any significant financial value would discourage anyone from buying or selling a stock. Now arbitraging, yes. But who dares speak for those ruthless gamblers who don't shrink from destroying the economies of lesser nations with their predations? Surely not you gentlemen or the President.

Best of all, the mechanism for the collection of this tax is already in place. It's how the SEC collects the funds by which it pays for the cost of its stock market regulatory activities. Just change a decimal point here and a number there in the SEC's computer program and watch the money roll in, right now. Now money. New money. Money we need so desperately. Much better than going to the Borrowing Well. Much better than selling Tax Free government bonds which only add to the burden on future generations of taxpayers.

Then, the immediate problems solved, extend the Securities Transaction Tax to all financial transactions, in which form it becomes known as a Currency (or Money) Tax or a Financial Transaction Tax (FTT), and a stream of revenue will painlessly result that is enough to meet the needs of all levels of government, Federal, State, and local. No more Income Tax. No more troublesome returns. No more incomprehensible tax codes. No more special favors. No more IRS.

Don't tax people or corporations, just tap into the flow of money as it courses through the economy. Like giving blood to the blood bank, or milking Old Bossie. But keep the percentiles low or you'll end up killing the cow. An added benefit is that the economy becomes totally transparent, which makes the solution to any number of problems become easier.

Something to think about? And devoutly to be desired.

Sincerely yours,

Lew Warden