

Economic Reality! **By Daniel J. Mitchell**

Should Taxpayers Fear the New Congress?

Taxpayers should fear every Congress. It is the natural instinct of politicians to tax, spend and regulate. As the experience of the GOP's Class of '94 shows, even well-meaning lawmakers get corrupted by the culture of Washington. The new Democratic majority won't need on-the-job training, however. They arrived in Washington already primed to expand the size and burden of the government. The only good news (relatively speaking) is that they will have a hard time increasing spending as fast as the republicans they replaced.

On the tax side of the ledger, it will be interesting to see whether the Democrats suppress their instinctive desire to raise taxes. They want to get reelected, which suggests that they will seek to avoid the tax-and-spend label. Moreover, they can get a lot more money to spend (at least on paper) if they are patient enough to wait until the Bush tax cuts expire at the end of 2010.

What is the First Thing Congress Should do for the Sake of Taxpayers and the Nation's Economic Prosperity?

Adjourn. But just in case that's not an adequate answer, let's modify the question by assuming Congress will be in session. In that case, I'm not sure that it's possible to identify any one policy that would be most helpful. Would it be more valuable to repeal the death tax or get rid of Sarbanes-Oxley? Would it be better to shut down the Department of Housing and Urban Development or create personal retirement accounts? Get the federal government out of the education business or reduce the third-party-payer crisis that is plaguing health care? Adopt a flat tax or de-fund the global warming gravy train? Sadly, this Congress is probably going to move in the wrong direction on all those fronts.

What can Supporters of Limited Government Learn from Tax Policies Abroad?

Americans have much to learn from other nations, in terms of both what to do and what not to do. Perhaps the most dramatic development is the global flat tax revolution. There are now more than 15 jurisdictions with flat tax regimes. Many of those flat tax systems are far from perfect, but even the "worst" examples provide valuable lessons on the benefits of lower tax rates. And the best systems, found in places such as Hong Kong, Estonia and Slovakia, illustrate how simple and fair tax regimes lead to robust economic growth. Ireland also is a good role model. It doesn't have a flat tax, but its 12.5 percent corporate income tax is a key reason why the Sick Man of Europe is not the Celtic Tiger. The world also tells us what not to do. The economic weakness of France and Germany provides a painful lesson about the dangers of excessive government.

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