

“The Great American Tax Debate: A Symposium”

by Milton Friedman

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*In February 1991 Policy Review asked a number of conservative economists and family specialists to discuss the when, where, why, how much, and whether of cutting federal taxes. Participants were asked to respond to two questions:*

1. *Do you favor cutting any federal taxes (or expanding any credits and deductions) in FY 1991 or FY 1992? If so, please explain the changes you would recommend and why, and estimate how much your proposal would cost (or benefit) the Treasury. Similarly, explain your reasons if you do not recommend tax cuts at this time.*
2. *How would you justify the tax cuts you propose in the face of \$300-billion-plus deficits? Or, alternatively, are there any offsetting revenue increases or (mechanisms for) spending restraints you would recommend to finance your proposed tax cuts?*

I have long favored cutting federal taxes at any time in any way and in any manner whenever the opportunity strikes. This applies to fiscal year 1991, fiscal year 1992, and fiscal year X. The reason is that the real problem for the nation is not the deficit but excessive governmental spending. Government spends whatever the tax system will raise plus the largest level of deficits that the nation will tolerate. Cutting federal taxes is the only effective way of cutting government spending.

With respect to the tax cuts that are in the realm of current political feasibility, I would 1) reduce the Social Security payroll tax; 2) index the base for capital gains; and 3) index interest income so that taxes are paid only on that portion of interest that exceeds the inflation rate. (Similarly, payers of interest should be able to deduct only the real interest rate from their taxable income.)

These proposals are band-aids to correct the most obvious defects in our present tax system. Proposals for fundamental reform would be much more far-reaching.

I am not in a position to estimate the effect of these changes on revenues or receipts. The more important question is how much would the taxpaying public and our society as a whole benefit. The changes I suggest would benefit our society as a whole by increasing the equity of the tax system and by bringing pressure on Congress to reduce unproductive and counterproductive expenditures.

Governmental spending at federal, state, and local levels now amounts to 43 percent of the national income. In addition, government mandates a host of expenditures on private individuals that do not appear on the budget. Government today is controlling well over 50 percent of our national income. I do not believe that we are getting our money's worth. Much of that spending is similar to digging holes and filling them; one hand doing one thing, the other hand the opposite. We subsidize the growing of tobacco; we spend money persuading people not to smoke. We spend money to keep fluid milk prices high; we spend money to subsidize school lunches in order to enable schools to buy fluid milk at that exorbitant price.

As to spending restraints, I have long been in favor of a tax-limitation and balanced budget amendment to the Constitution.

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