

have 5 legislative days within which to revise and extend their remarks and include extraneous material on the subject of my special order.

The SPEAKER pro tempore (Mr. MCCOTTER). Is there objection to the request of the gentlewoman from California?

There was no objection.

THE FAIR TAX

The SPEAKER pro tempore. Under the Speaker's announced policy of January 7, 2003, the gentleman from Georgia (Mr. LINDER) is recognized for 60 minutes as the designee of the majority leader.

Mr. LINDER. Mr. Speaker, in the last 5 or 6 weeks, a bill that I introduced, H.R. 25, the FAIR Tax, has been getting a great deal of interest in the national press, part of it because the Speaker mentioned it in the book he recently published, and part because the President took a look at it just prior to the Republican convention.

A lot of it is because the last 2 days the Democrats have taken a keen interest in it and have found unusual forums in which to trash it, including a 27-page critique that the House Minority leader put out today. I will say some of those criticisms are interesting, and some are even true.

But, in any case, what they failed to do in the 27 pages was to discuss the problems we are facing precisely because of our current system. They can spend all the rest of the next year or two defending the current IRS system, saying it is a good system, and ignoring the problems, but we cannot ignore them much longer.

Americans spend between 6 and 7 billion man-hours each year just filling out IRS forms. We spend that much time calculating the tax implications of a business decision. We lose 18 percent of our economy to making tax decisions instead of economic decisions.

The current director of the Congressional Budget Office informally in a conversation told me he believes we spend upwards of \$400 to \$500 billion a year to comply with the Code and remit \$2 trillion. This is hardly an efficient way to raise taxes.

Studies show that it costs the average small business \$724 to collect, comply with the Code and remit \$100 to the Federal Government. And who pays all those compliance costs? Who pays all those payroll taxes that get embedded into the costs of goods at retail? Who pays the income taxes?

It is not the business. There simply is not a mechanism for a business to pay a bill other than through price, and our customers pay them all. In fact, the only taxpayer in the world is a consumer, who finally consumes the product and all the embedded costs, we have it.

The study we had commissioned out of at Harvard 5 or 6 years ago argues that 22 percent of what we spend at retail represents the imbedded cost to

the IRS. Anybody who is working and spending 100 percent of the income to live is losing 22 percent of their purchasing power to the current system.

But it also causes us to ship goods and services into a global economy with a 22 percent tax component in the price system, making us less and less competitive in a world economy and causing jobs to move overseas, where the embedded tax component in the price system is considerably less, particularly in those nations that have a value-added tax that is rebated at the borders.

We also drive offshore, because of our Tax Code, capital. There is today 5 to \$6 trillion in overseas accounts because it is cheaper to borrow at 6 percent interest than to repatriate dollars at 35 percent tax. So they are protected overseas, and in some cases, able to be spent over there. Not to mention wealthy individuals who keep money offshore to protect it from a confiscatory tax system.

We drive underground illicit activity because of our Tax Code. It is estimated that pornography, illicit drugs and illegal labor constitute a \$1 trillion economy that is untaxed. Under a consumption economy, if they wanted to buy something, they would at least pay their fair share to the government.

The Alternative Minimum Tax was passed in 1969 to ensure that wealthy people who have no tax liability due to their legal use of deductions and credits would still have to pay some taxes. In 6 years, 35 million Americans will be subject to the Alternative Minimum Tax.

We spend over \$30 billion a year on Earned Income Tax Credit designed to rebate to low-income workers the cost of the payroll tax burden, the tax that pays for Social Security and Medicare. It is estimated that 25 to 30 percent of that is fraud.

Then the big issue, the big issue is Social Security and Medicare. The current dollar 75-year unfunded liability in Social Security and Medicare is \$51 trillion. Trillion. To put that in perspective, if you started a business on the day Jesus Christ was born and lost \$1 million a day through yesterday, it would take you another 720 years to lose \$1 trillion. We are looking at 75 years of costing us \$51 trillion.

How do we solve this? We abolish the income tax and repeal all taxes on income and get rid of the IRS; get rid of personal and corporate income taxes, self-employment taxes, capital gains taxes, the gift tax, the death tax. All would be replaced by a single tax on personal consumption.

Yes, we would get rid of the payroll tax. It was said on the floor yesterday that our bill did not deal with the payroll tax. I would be willing to have these debates, but I want to have them with people who have read the bill, because the bill is the only one that has ever been introduced that totally abolishes the payroll tax, and the payroll tax is the highest tax that 75 percent of America pays.

If you would get rid of the IRS and get rid of all tax on income and let competition drive the tax component out of the tax system and replace it with a one-time, single consumption tax, out of every dollar you spend on personal use, 23 cents goes to the government, the rest stays with the merchant, we would fund the government at the current level, but everybody would keep, get to keep their whole check and become a voluntary taxpayer.

Now, that number has been criticized as being rather high. I will repeat you are currently paying 22 cents, but just do not know it. But today, if you earn \$1, 36 cents goes to the government and 64 cents is left to spend. Would you not rather pay 23 cents out of every dollar you spend, rather than 36 cents out of every dollar you earn?

But, more importantly, the FAIR Tax is fair because it contains a rebate for every household in America which would totally rebate the tax consequences of spending up to the poverty line.

Currently people who spend all of their income lose 22 percent of the purchasing power to the embedded cost. Under our system, that rebate would totally untax them up to the poverty line. Poverty level spending, by definition, is that necessary for a given size household to buy their essentials. For my mother, it is \$9,500 year. For a family of four, it is about \$25,000. For a family of six, it is \$30,000. Their spending in a year up to that amount would be totally untaxed, plus they would not pay the embedded costs. It would be gone.

The FAIR Tax is a volunteer system. Every citizen becomes a voluntary taxpayer, paying as much as they choose, when they choose, on how they choose to spend. And I mentioned before that it would drive that 22 cents out of the system.

The FAIR Tax is border neutral. Under the FAIR Tax, imports to our shores when bought at retail for personal use would be taxed at exactly the same level as our domestic competition, something that has never happened before.

Lastly, it would solve our Social Security and Medicare problem. In the Democrat's report, 27 pages today, they have a study that said Medicare would run out of money in 8 or 9 years instead of 10 or 15 years under my system. I do not know how they could come up with that, because today Medicare is funded by the workers, 138.5 million people working to pay for Medicare for all the retirees.

We are going to increase the number of retirees in the next 30 years by 100 percent. We are going to increase the number of workers by 15 percent. I do not know how you can sustain that system.

Our system, the tax on consumption, would increase the number of payers from 138.5 million workers to about 300 million citizens every time something

was purchased and 40 million visitors to our shores. We would nearly triple the number of people paying in, and, indeed, we would double the revenues to Social Security and Medicare in just 15 years by doubling the size of the economy. That is an estimate of many economists who have looked at this. And the FAIR Tax would raise somewhere around \$200 billion a year from the underground economy.

Beyond these arguments, what will this new paradigm do for our economy? First of all, we have \$400 or \$500 billion dollars saved every year from compliance costs. That would be less moneys we would have to pay at consumption.

The money saved on compliance costs would be put to an efficient and profitable use and create jobs. Our gross domestic product would increase by \$180 billion per year because we no longer would have to make tax decisions.

Eliminating the income tax would bring down long-term tax rates by 30 percent, and with no tax on capital or labor, and this is key, with no tax on capital or labor, nobody could compete with us in a world economy. We would be selling goods and services in a global economy with a zero tax component in our price system, and to compete with us, every foreign-owned corporation would have to build its next plant in America.

An informal study quoted several times by the former chairman of the Ways and Means, Bill Archer, said that a study done of about 400 or 500 European and Japanese firms, they were asked what would you do in terms of your long-term planning if the United States abolished all taxes on capital and labor and taxed only personal consumption? Eighty percent said they would build their next plant in the United States. In fact, we do know that Daimler-Chrysler wanted to be Chrysler-Daimler and wanted to be in New York City.

□ 2145

They are in Stuttgart, because of the tax system. Deficits spooked the markets; our markets are down because of deficits. Instead of a 20 percent decline in revenues over the last 3 years or last 4 years, had we been on our system, we would have increased revenues in 14 of the last 15 quarters. Add this to a huge increase in capital investment, making workers more productive and giving them larger take-home pay.

We are going to hear a lot on this bill over the next several years, and I believe it will pass because of the economic forces that are coming to bear. I urge my colleagues to read the bill. It is 132 pages, replacing 55,000 pages of statute and regulation. It is not all that complicated. Sooner or later, those who are criticizing might even pick it up and take a look at it. I will enjoy the debate.

Mr. Speaker, I yield to the gentleman from Minnesota (Mr. GUTKNECHT).

Mr. GUTKNECHT. Mr. Speaker, I want to thank the gentleman from

Georgia for having this Special Order, and I want to thank him for his leadership on this issue.

I wonder if he would step back to podium, because I am not sure if my colleagues who have been listening in their offices really understand what we are talking about tonight. The gentleman is talking about getting rid of the income tax system as we have it in America today.

Mr. LINDER. Mr. Speaker, I want a system where nobody in the government knows how much you make or how you make it or how you spend it. I want a system that funds us at the current level, consistently, but does not keep track of us and will give you the privilege of anonymity in a free society.

Mr. GUTKNECHT. So the gentleman thinks that the Federal Government should not know at least as much as my spouse how much I give to charity. That is none of the government's business.

Mr. LINDER. That is correct.

Mr. GUTKNECHT. And the gentleman thinks that what I do for a living and how I make my money is none of the government's business.

Mr. LINDER. That is correct.

Mr. GUTKNECHT. The gentleman thinks that I ought to be taxed based on how I spend my money rather than whether I want to save it, invest it or spend it on different things.

Mr. LINDER. Whatever you choose to do, it is your money. You made it, and you spend it, and you can spend it anonymously without having to go to the government.

Mr. GUTKNECHT. This is really remarkable. In fact, I think that if the Founders knew that we had this tax system here in America today, Mr. Speaker, I think the Founders would be rolling in their graves. The idea that we have a Federal agency who keeps track of how we spend our money, who wants to know more; every year, they want to know more about how we spend our money, where the money comes from, where it goes. In some respects, it is almost un-American, the system we have today.

I want to talk just a few minutes tonight about all of the regulations, about all of the rules. I understand there are 90,000 pages of the IRS regulations that every American one way or another has to comply with. That is just outrageous. And, more importantly, I think the other issue we want to talk about tonight is how every American knows somehow, down in their bones, that there is something almost immoral about a system where we have this enormous amount of regulation, this enormous amount of bureaucracy, all of these rules and regulations just to pay our taxes. And I wonder if the gentleman would talk a little bit about how long it takes the average American just to fill out their tax forms and then, more importantly, what it means to business in terms of all of the regulations, the accountants,

the lawyers, the rules and all that goes with it, just so that the average small businessperson can just simply pay their Federal taxes.

Those are issues that we need to talk about, and ultimately, those are issues that affect how we live in America and ultimately whether or not we can compete in a world marketplace.

I wonder if the gentleman would just talk a little bit about all of those pages of rules and regulations in the IRS codes.

Mr. LINDER. Mr. Speaker, there have been a variety of numbers, I know it is huge. I got all of the regulations at one time in my office and stacked them on the floor up to here, and it was huge. However, it is so complicated that no one understands it. It is correct that, under the law, you have to abide by it, but it is also correct that nobody knows what it is.

Money Magazine sent 49 different professional tax preparers the same economic data from a family and asked them to do the tax return and got back 49 different tax returns, none of which was correct. If you call the IRS help line today and ask for help in filling out your own tax return, over half the answers you get will be incorrect.

Now, the gentleman mentioned our Founding Fathers rolling over. Just imagine a system where, in 1912 or 1911, they are discussing the income tax, and somebody says, I have an idea, let us punish people for working and saving. Let us tax everybody. Let us make sure that nobody escapes. Let us make sure it is about 36 percent of what they earn. They would never have made it this far. They would never have gotten this far and they would have been laughed out of town.

Mr. GUTKNECHT. Mr. Speaker, if I could just say, the Senate has just informed the House that we have reformed the IRS code. Now, is that not wonderful? Now, we have reformed or amended the IRS code 6,000 times.

Mr. LINDER. Since 1986.

Mr. GUTKNECHT. Since 1986, and now we are going to do it again. And every time we talk about reforming the Tax Code, what, in effect, we do is we make it more complicated.

Now, in some respects, I do have a vested interest, because my daughter and my son-in-law are both CPAs. So, in some respects, if I want full employment for my daughter and son-in-law, we want to make this Tax Code even more complicated. But the interesting thing is when I talk to them, they say, make the Tax Code simpler. And the truth of the matter is, the best thing we could do is eliminate the income tax system all together and make it a consumption tax.

Mr. Speaker, there is an old adage that if you want more of something, you should subsidize it. If you want less of something, you should tax it. And what do we do in America? We tax income. We tax investment. We tax savings. We tax productivity. We tax all the things we want more of, and yet

we subsidize consumption, indirectly. What we are really talking about is something very revolutionary. It is about a whole new concept. It is about changing the whole paradigm in the way the Federal Government raises revenue, and saying, wait a second, why do we want to tax the things we want more of? We ought to tax the things that may, in fact, drag down our economy.

So this is so important. I want to compliment the gentleman on one very important thing he said earlier. When the gentleman talks about manufacturing, and we have all heard, we have heard from our friends on the left, and we have heard from the media, and we have heard from all kinds of people that America is not doing as well as it should do relative to creating more manufacturing jobs here in the United States. Well, one of the things we have to do is change the Tax Code.

I think the gentleman made the point, and we need to talk about that a lot, in terms of changing the Tax Code to make it more productive or more profitable for people to create manufacturing jobs in the United States. The gentleman talked about, one of the things he mentioned, and I think a lot of people may have missed this point, and that is that in every product that we produce here in the United States there is embedded in that product anywhere from 22 to 30 percent taxes. And one of the things the gentleman wants to change is to say, that ought to be taken out. And all of a sudden, everything we produce here in the United States would be anywhere from 22 to 30 percent less expensive on the world market. If we did that, it seems to me, if everything we made in the United States was 22 to 30 percent less expensive on the world market, it would seem to me we would be very competitive and all of a sudden, a lot of companies would want to produce those products right here in the United States.

I wonder if the gentleman could talk about that just for a minute.

Mr. LINDER. Companies are leaving our shores not because they hate America, not because they are mean-spirited; they are leaving our shores because they are being driven off. They are being driven off by the tax system that embeds so much into the price that they cannot compete in the world market.

So some years ago we had a big debate here about people leaving, wanting to leave their citizenship here and move to another nation that had lower tax on the death tax, and half this House thought, well, it is shameful if they do that, let us get their money before they leave, and the people said, fix the Tax Code and they will be here. If we eliminate tax on capital and labor, we will be the world's most attractive tax haven, and the \$6 trillion would quickly rush to our shores to be invested in our stocks, our bonds, lower interest rates, create jobs that cost about \$100,000 to create one job in this country.

But in addition to the \$6 trillion in the dollar market that would come, how many tens of trillions would come from foreign countries in our markets because we have the best markets in the world. We have the most productive workers in the world. They would rather build in Michigan to service the car industry in Michigan than to build offshore and have to ship it in. If you get the tax component out of that system, they would be there in a second, and they have said that.

Mr. GUTKNECHT. Mr. Speaker, let me just come back to that number. The gentleman said \$6 trillion. Now, around this place, we throw around big numbers, but \$6 trillion is a huge number.

Can the gentleman put that in some kind of perspective?

Mr. LINDER. Well, I do not know where the numbers come from. The IRS admits it is \$5 trillion. The people who are in the offshore financial centers say it is \$6 trillion. But we just did some minor research. We know that the high-tech industry itself in California has about \$150 billion offshore. It is too expensive to repatriate. We know that Pfizer has \$59 billion offshore. They sell in the French market for francs and in the Japanese market for yen and the German market for marks, and then they convert that into euro dollars and they hold it offshore. All of that money would be back in our markets creating jobs and bidding companies. We do not know how much Japanese money is floating around that would come here, but just imagine what would happen to our stock markets if all the world's investors could invest in our stocks with no tax consequences. We have had two money managers, whose names would be familiar to you, who would say, I do not know what the market would be at as days pass, but in 2 years, it will have doubled.

There is no question that we will be the attraction, we will be the attractors of capital, and when you bring capital in, you create jobs. And this country needs job creation.

Mr. GUTKNECHT. Mr. Speaker, if I could just say, we have talked about capital, and we have talked about big business, and we have talked about investors and manufacturing, but I am told that when we talk about small business, it is where we really see the benefits. Because I am told that a small business can pay over \$700, if we look at all of their costs of complying with the current Tax Code, to pay \$100 in taxes.

Mr. LINDER. That is right. So the consumer of that small business not only pays the \$100 plus the payroll tax, it also pays the \$724.

Mr. GUTKNECHT. So that cost is over \$800 for the Federal Government to raise \$100.

Mr. LINDER. That is correct. This is hardly an efficient way to raise taxes.

Mr. GUTKNECHT. It is almost unbelievable. If we could get Americans to just think about this, because we all

pay the taxes. I mean Paul Harvey often says that businesses do not pay taxes; people do. If you could get people to just think about this, that the system we have today is so incredibly inefficient that we all pay a lot more just to collect the revenues that the Federal Government needs.

Now, we all agree that the Federal Government, whether it is for national security or domestic security or for roads or for prisons and all of the other things we need, we need some revenue, right?

Mr. LINDER. That is correct.

Mr. GUTKNECHT. And we are not talking about cutting the amount of revenue to the Federal Government; we are talking about creating that revenue in a new and more efficient way.

Mr. LINDER. Mr. Speaker, we precisely made the decision in the drafting of this bill not to fight the battle over increasing or decreasing revenues; we would lose votes on that issue alone, not to eliminate all the excise taxes, we would lose 150 votes in this House just on tobacco; not to reform any programs; we wanted to just change one paradigm, collecting revenues on income, to another, collecting revenues on consumption, so that it would be neutral. Let us just admit that the United States consumers would save tons of money if they just were voluntary taxpayers and paid taxes when they chose to pay taxes, and then, later, we will worry about the size of the government.

But I want to tell my colleague one thing about the size of government if we pass this. Nobody knows how much we spend here. But if my mother saw every time she bought a loaf of bread how much went to Federal taxes, she would start showing the interest. We right now have a huge bias in favor of more government and more taxes because most of us do not pay the income taxes, but we pay the consumption tax currently embedded in the goods and services that we buy, and that is what we have to convince America of. You are already paying this tax. It is the same tax.

□ 2200

But how would you like to pay the same taxes and have the same standard of living, but if you are making \$60,000 a year, instead of taking home \$3,800 for your house payment and your groceries, you are taking home \$5,000? You get everything you earned, nothing taken out. Your net pay and your gross pay are the same.

Mr. GUTKNECHT. This is an idea we think we know about, but we do not really understand. That is, every time we buy a product, embedded in the cost of that product are the cost of taxes. We do not think about that, but it is there nonetheless. If we buy a refrigerator, there is a certain amount of tax that is included in that. And there have been some people who have attempted to quantify how much that tax is. And so if I buy a refrigerator for

\$500, embedded in the cost of that refrigerator may be 22 percent or more in taxes. More important than that, it is not just the taxes. It is how much that that company had to pay the auditors, the accountants, the lawyers and so forth to keep all of those records. So the cost may well be 30 percent of just taxes.

Now, if you take that many out and you put a 22 percent sales tax on that item, the net cost of that refrigerator, instead of being \$500 might be \$490 or something like that number. Will the gentleman talk a little bit about what the real net cost would be to the average consumer.

Mr. LINDER. I want to make it clear that the consumption tax about which we are speaking is not to be treated the same as the State sales tax which is an exclusive tax on top of what you spend. This is included in what you spend.

The reason we did it that way, an inclusive tax, is because the tax we are seeking to replace is inclusive of what you earn. If you were going to treat this as a State sales tax on top of what you spent it would be 30 percent. But to compare that with the income tax on top of what you have left to spend, the current income tax is effectively a 56 percent tax rate. Either one, the sales tax is better.

If you go to the store and buy that \$500 refrigerator, that may include the tax within it, but the price of the refrigerator will have fallen because the embedded cost would no longer be there.

It is easier for me to do this on something I looked a lot at because the real estate people talk a lot about this. The real estate people say, how can I sell homes if I do not get to deduct the mortgage interest deduction on a home. I say, if you really think that sells your home, double your interest rate and you will sell twice as many homes.

The current embedded cost in the home of the current system is 28 percent. Under our system, it would be 23 percent. The home will be less expensive, the same house. If a person is making \$60,000 a year, he is currently bringing home \$3,800 a month to make that house payment. He will bring home \$5,000 a month under this system. But more importantly because of all the tax complications that come out of the interest rate system, interest rates will decline by 30 percent. So the house is less. The take-home pay is more. The payment is less. We think we will sell lots more houses.

Mr. GUTKNECHT. So on April 15, the average American would say what?

Mr. LINDER. Another nice spring day.

Mr. GUTKNECHT. Another nice spring day in Minnesota or Georgia or Iowa. That is an amazing thing because many Americans dread the idea of April 15 coming around. They dread it for a lot of reasons. Not only the amount of money they have to spend, but they worry they might make a

mistake in filling out all these forms and they may have not added correctly and they did not do this right or whatever and they did not go back three spaces and they ignored line 1-A or 15-A or 15-B. All of this would go away. The average American would not have to worry about April 15.

Mr. LINDER. They would not have to keep a receipt.

Mr. GUTKNECHT. Would not have to keep a receipt, would not have to worry how much they paid the dentist, how much they paid the doctor, how much they gave to their church. All of those things would simply go away. I know a lot of people, and the gentleman mentioned the Realtors and they are worried about this because at the end of the day this would affect whether or not Americans would buy homes and particularly new homes. But the bottom line is, that new home would, probably on a net-net basis be less expensive than it is today.

Mr. LINDER. That is correct.

Mr. GUTKNECHT. And we have got to get people to think beyond the first thing that they see and they say, oh, my gosh, you mean I would have to pay a 23 percent sales tax on everything I buy?

Well, stop and think about it. What would happen is at every payday you would get to keep everything you earn.

Mr. LINDER. I can tell the gentleman how much that would be.

Mr. GUTKNECHT. And it would be a real number.

Mr. LINDER. The average income earner pays a 28 percent withholding tax and 7.65 percent, their share of the payroll tax. Their increase in take-home pay would be about 55 percent the next day.

Mr. GUTKNECHT. So that average family when they go out to buy a home would be able to buy more home. And when you take away the cost of all the accountants and everything that goes with the IRS system today, that home would actually be less expensive.

Mr. LINDER. That is correct.

Mr. GUTKNECHT. Now, the other argument that we hear sometimes is from people who buy expensive machinery and, frankly, we have a lot of those people in my district. They are called farmers. Every so often they go out and buy a new tractor, and that new tractor today may be \$150,000. They say, oh, my gosh. You mean I am going to have to pay a 22 or 23 percent sales tax on a \$150,000 tractor? I cannot afford that.

Mr. LINDER. Let us remind them that no business inputs are taxed. No tractor will be taxed. No barn will be taxed. Anything used in the business is tax free. No seeds will be taxed.

I tell the farmers if you buy a tractor to work your land, there is no tax on it. If you buy a hat to wear on your head, there is. Personal consumption. No business inputs are taxed whatsoever, so farmers are universally in favor of this because it also gets rid of the death tax for them which is a huge issue.

We said on the floor yesterday that agriculture would go to bills. The important thing is for us to continue to repeat to farmers and other people who buy equipment that, number one, there is no tax on it, but, number two, the cost of the equipment will go down 20 to 25 percent. So you will buy the same tractor for far less money, and there will be no tax on it whatsoever.

Now, one farmer did raise an interesting question for me. If the value of my equipment declines, how can I borrow as much on it? I said, well, things change all the time in the farm business, but you can buy the new one a whole lot less expensive.

Mr. GUTKNECHT. So in other words, a farmer that goes down to buy another tractor that today is \$150,000, embedded in the cost of the tractor is maybe 22 percent tax or 25 percent tax. So in other words, if you take that out of the price of that tractor, they are actually going to buy that tractor for \$110,000 and they will pay no tax on it.

Mr. LINDER. That is correct.

Mr. GUTKNECHT. I agree with you. If we can get people to just think in those terms, all of sudden they are going to be say, well, let us have this right now. Why have we waited. Why do we have this unbelievable system that I have to go down to my accountant and I have to worry about this and I have to worry about that.

All of the sudden we have a very simple system that is only about how much I really consume. Not how much I spend to produce a product, how much I spend to produce a crop, how much I invest to produce a new job or a new business or a new product or whatever. This is consumption. And if we can get people to talk about consumption taxes, all of the sudden this whole debate becomes very, very simple. And people say, well, this makes perfect sense.

We have been joined by my friend from the State of Iowa, and I hope that the gentleman will jump into this debate and talk a little bit about what it means to him and more importantly how it affected his last election and how he became a proponent of this thing.

Mr. KING of Iowa. I appreciate the gentleman yielding to me.

A couple of subject matters do pop to mind on that. One of them is the politics of this and people say, what are the prospects of getting this passed? Far greater than they were even 2 or 3 months ago. But the politics of it back in a district where you have to raise the subject matter, you have to educate the public, you have to be willing to stand up for what you believe in and face down the criticism. Some of them not solid criticism; some of it simply politically motivated.

I ran against a certified public accountant two years ago who should have had a maximum amount of credibility on finances and economics, and he came out in favor of the IRS. I came out in favor of eliminating the IRS. I

am here. He is not. Sixty-three percent was the margin, and we did not spend a lot of money to get that done.

The public understood quickly, they learned quickly if you can get the money you earned in your paycheck every Friday, when you punch that time clock Monday morning at 8 a.m. or whatever the time is and if the government no longer is standing there with their hand out, the first lien on everybody's labor in America, the freedom that comes back from getting the IRS off their back and the burden, that was I think the most influential piece of this entire race that went on.

If I could, I would like to address another subject matter, and I do not know if it has been raised here, as I missed the first 10 minutes or so of the conversation. It was very interesting to me, I did not even get up for that reason because I am fascinated to watch both of you add to this knowledge base that we have on this subject, but my memory goes back to 1992 when Bill Clinton took office as President of the United States.

He came to this Congress and he was elected on a failed economy, a recession, so to speak; and he came to this Congress and he requested a \$30 billion economic incentive plan. Now that \$30 billion was to be borrowed because we were in deficit; and it was going to be spent on make-work projects, projects where you would hire people to go out into the streets and do things, pay them a wage, and they would spend that money. And that would stimulate the economy, \$30 billion worth of borrowed money.

About that same time, 1992, Daniel Pilla published his book, "Fire The IRS." And in that book I believe the economist he quotes is a Harvard economist, Dale Jorgenson.

Mr. LINDER. Who, by the way, did a lot of the studies for our bill.

Mr. KING of Iowa. On the same analysis. When those numbers were added up at the cost of the IRS, the cost of funding the IRS, the cost of enforcing IRS tax law, the cost of paying the people to prepare the taxes, paying the people to collect the data that you hand to your tax person, paying yourself \$10 an hour to sit up all night on April 14, which hopefully we will not have very many of those nights again, but added to that disincentive when people decide that I am not going to punch that time clock for any more overtime or pick up that phone for that extra sales call or extend that production line in my plant or my factory because the tax burden is too high, it is not worth the risk, it is not worth the work.

You add all those up and that number in Daniel Pilla's book was \$700 billion a year, with a B.

Now, \$30 billion in Bill Clinton's economic incentive plan of borrowed money, \$700 billion, same year published, Daniel Pilla's book, when you add in of those disincentives. That does not include what happens to our econ-

omy when we take these several hundreds thousand people that are working in the regulatory sector of this economy for the IRS, enforcing the IRS, filling out paperwork and tax forms for the IRS, those are all bright people that are very productive people but they are working in the nonproductive sector of the economy. We take them out, put them into the productive sector of the economy, we add that to that \$700 billion and then we adjust it to for inflation for the last 12 years, you are over a trillion dollars a year is the size of the anchor that the IRS, which is the anchor, and our economy is dragging that trillion dollar anchor across the bottom, and think how it sails free if we just cut the chain on that anchor, get rid of that almost 10 percent of our \$11.4 trillion gross domestic product.

But it is not just an anchor. We are dragging it but when we cut the chain, we get to put that trillion dollars in the productive sector of economy. And it adds to this economy and no one can calculate what that does.

We all believe this economy doubles in 10 to 15 years, but I do not think we have calculated when those nonproductive people go to work in the productive sector of the economy. So that is the piece that really moves me, when we have that kind of waste in government, to be able to release that waste. Get rid of it. Cut the chain on the anchor and put that trillion dollars' worth of capital in the productive sector of the economy, and those people that are not producing today, that are regulators into the productive sector of the economy.

And then on top of that, there are those folks out there that are not participating in helping to fund this government. And I am talking about the drug dealers, the prostitutes, the pornographers, the tourists.

Mr. LINDER. The illegal labor.

Mr. KING of Iowa. Black market labor. Add those things up; I do not know the numbers on some of those.

Mr. LINDER. I do.

Mr. KING of Iowa. I would be glad to know that.

Mr. LINDER. It is over a trillion dollars right there in the underground economy. Just three portions of it in a recent book published by an economy, pornography, illicit drugs and illegal labor constitute a trillion dollar economy.

When I speak to groups, I always ask if there is a banker in the room. If a banker raises his or her hand, I say everybody follow her to her bank on Friday afternoon at 4 o'clock in the afternoon you will see it. And they always just smile and grin because the contractor is coming out paying off subs in cash. It happens outside of every bank in America that does retail banking. It is huge.

We do not want to find new places to tax. We think everybody ought to be paying fairly.

□ 2215

Government's principal role ought to be neutral, not pick winners and losers.

That is why we tax services, as well as goods. We tax Internet sales, as well as catalog sales, as well as local sales. We do not believe that the guy down the street who builds a building, hires their kids, goes to a church, votes at our elections should be put at a 7 percent disadvantage same as a dot-com. So we say this bill is drafted with the first principle, that government's role is neutral, not picking winners and losers.

Mr. GUTKNECHT. Mr. Speaker, if the gentleman would yield, I want to thank both of my colleagues, and particularly the gentleman from Iowa (Mr. KING) because he has really been an educator for me.

I want to come back to an issue that we have not talked about yet because I think it deserves to be talked about, and we hear about it from our friends on the left. That is called the alternative minimum tax, and frankly, it is interesting because it was created back in 1969 to make certain that everybody paid some taxes, right, and we created all these loopholes for the "wealthy." All of the sudden they discovered that some of these people were actually taking advantage of these programs so that they paid very little or no taxes.

They created this whole second tax system, the alternative minimum tax, that says even if you qualify under all the rules, you play by the rules as some people say, you wind up paying no tax, but you have to recalculate your taxes. Now, all of the sudden, we are talking about millions of Americans who are finding out, well, listen, I did the right thing, I followed the forms, I played by the rules, I did everything right, but now the IRS says, oh, oh, oh, wait a minute, you have to recalculate your taxes; and under the AMT, you owe another \$3,000 or \$5,000 or \$10,000 or in some cases literally hundreds of thousands of dollars in taxes.

Let me give you an example. One of my constituents is a wonderful person, and he had made some incredibly lucky or smart investments, depending on your perspective and had become relatively, well, some people would say a very wealthy, man. He wanted to give his alma mater \$1 million. He could afford to do that. So what he did is he sold some stock, and he gave his college a \$1 million donation. That is a wonderful thing to do, right? Well, the IRS came back the next year and said you have got to recalculate your taxes; and for being a generous benefactor of his college, under AMT, the IRS said you owe us another \$340,000 in taxes.

Now that was bad tax planning, and he did not spend enough time with his auditors and his CPAs and lawyers and so forth, but that is one example, but it happens every day.

Mr. LINDER. My daughter at 35, she is now 37, called me and she said what in the world is AMT. She has got four little boys and the deductions and a fairly decent income gets them into the AMT. When it was set in 1969, it

captured 90,000 taxpayers. In 6 years, it will capture 35 million.

Mr. GUTKNECHT. Mr. Speaker, 35 million Americans, and this is the point I want to make. Anybody who has ever been bit by the AMT will never forget this.

One of the most beautiful things about what you are talking about, and I want to thank both of you, is that under your plan they never have to worry again about having to recalculate their taxes after they have already paid what they think is their fair share.

Mr. KING of Iowa. Mr. Speaker, if the gentleman will yield, I will just say that this tax policy, H.R. 25, the fair tax is about freedom. There is so much freedom that we do not realize we have lost over the last 91 or 92 years that we have had this Tax Code because we get used to the IRS coming into our homes and into our offices, auditing us. I was shut down once for 4 days while the IRS was going through all my paperwork, and the frustration of having them dig through my paperwork, pass Monday morning quarterback decisions upon the ethical decisions that I made day by day by day, and to know that my business decisions were contingent upon the tax implications, I had kind of gotten immune to that a little bit. You get conditioned to it, and you forget that your mind can be freed of that, and it can be focused on productivity, how do you build a product or provide a service for the most competitive price and the highest quality to turn the best profit that you can. That is why you go to work every day. It has turned us into a Nation of tax preparers and tax avoiders.

So about a year and a half ago, my 28 years in the construction business, I got myself in a position here in this Congress where it behooved me to sell that business, and the most likely person was my oldest son. We did get that transaction done, but it took a long time and it was very complicated. The tax implications were so great that I almost lined everything up and just sold it, paid the taxes, washed my hands because it was too hard to avoid all of the liabilities that accrued with capital gains and the other taxes that came along.

To think, to eliminate inheritance tax, interest income, pension income, capital gains, of course income personal and corporate, add all of that up. Think about what happens when you have a whole different structure here and you cease to punish productivity and you let people amass all the capital they choose to amass. And on the good side of this, this capital that you talked about, the cheaper industry, the more available capital, the \$6 trillion coming back from overseas, the new capital that will be attracted ends up here in the best place it can in our economy because that capital will go for research and development, higher education, technological investments, capital investments. All of these things

improve the productivity of the most productive workers of the world.

While we are doing that, we are able to take out an average 22 percent or maybe more out of the cost of everything we sell in this country and abroad, and so our balance of trade today, which is about a minus \$503 billion with a B, goes to a plus number. That plus number helps us a lot because every year foreign investors are owning another half a trillion dollars' worth of U.S. assets at the rate we are going with this negative balance of trade. It fixes the balance of trade.

As soon as somebody south of the border or in China or Africa or wherever can get the capital together to buy a punch press or a lathe or a brake, then they train their workers to run that; and we will never get that job back again. But if we can discount the product we are selling an average of 22 percent, that is the same as the neon sign that says gas \$1.80 out here on the street here today. We get to sell ours for \$1.40. We are going to come here to our shores till we cannot produce at that price anymore. That means we hang on to the low-skilled jobs here in this country. Some of them come back to this country, but certainly we keep many of them far longer because we are more competitive; and while we are doing that, we are enhancing the high-tech jobs, the higher paid jobs where the future of America is.

We always have to be the fastest people on the economic treadmill, the ones at the head of the curve. This tax plan puts the capital in place, the incentives in place so that we can do that for a long, long time to come.

Mr. LINDER. Mr. Speaker, the folks on the other side of the aisle will worry about people getting too rich and who is going to benefit from this and how you are going to hurt the poor. Let us just deal with that for a second.

We are going to totally untax the poor. Today, people who are living at or below the poverty level are losing 22 percent of the purchasing power for the current system, and we are going to tax accumulated wealth. For that couple that paid taxes all the money they earned over the years, paid capital gains and then sold the business, paying taxes on the interest they are earning today, we are going to tax them one more time and they spend it. To those people I say, you are already paying this, but what do you think about the freedom that the gentleman from Iowa just talked about, to do what you want with that money and not have to deal with that?

We are going to make people pay taxes when they choose to pay it by how they choose to live, and everybody's free to do that.

The gentleman had another point on trade that I would like him to expand what the rest of the world would do, because we talked about this a couple of years ago.

Mr. KING of Iowa. Yes. By the way, I remember the first time we met and

that I approached and introduced myself. I asked a question of the gentleman and that was, what does it do to psychology, to the politics of America if every time Johnny or Sally, when they go to buy their baseball cards or their Barbie doll clothes, they would have to reach in their pocket, pull out a couple of dimes for Uncle Sam and put them up on the counter? After that happens millions and millions and millions of times across this country, for a generation or so, my belief is that this that new generation of Americans steps up and accepts personal responsibility, makes fewer demands on government, which means then it slows the growth of government and makes us all more responsible but also more free.

Now, a more free Nation of the United States of America, one with this capital that is amassed that is being invested in higher ed and in technology and in research and development makes this robust economy here in the United States so strong, so robust that, for example, the European Union is a good example. Their tax rates run up to 70 percent in some of those countries. Ireland leveled it down, and there are 560 companies right now domiciled in Ireland because they lowered their corporate taxes. But the continent of Europe would have to adopt some form of our tax policy to even hope to compete with us in the world market, or their capital will escape that continent and come here where the jobs will come and the productivity will come and our industrial base will come back again, as well as our technological base.

So when that happens, if the tax policy in this country promotes a more personal responsibility, less demands on government, moves us away from this socialist trend that we are moving towards, that will happen in this country. It will also happen wherever our tax policy is put into place, implemented; and that means when Europe begins to some place down the road adopt a fair tax in the same way, they will also see more freedom, more personal responsibility, less demand on government. That means the entire planet eventually becomes more free because we take the lead here in this country.

Mr. GUTKNECHT. There is a connecting point there that I want to expand upon, and that is, once we do this, they will have no choice because all of the sudden the rest of the world will turn to America and say, look, if we can invest there and not be taxed, we are going to invest even more of our resources in the United States. All of the sudden, Europe, the former Soviet Union, Iraq, anywhere else in the world, they are going to have to adopt tax policies similar to ours, where we say to people, you can earn as much as you want, you can invest as much as you want, you can risk as much as you want. We are only going to tax you on your consumption.

Now I want to come back, though, to a question that sometimes our liberal friends say, and the gentleman from Georgia (Mr. LINDER) sort of touched on this a few minutes ago, and that is, wait a second, poor people spend more of their disposable income on things that they need, and therefore, they will have to pay a lot more taxes than somebody who makes \$1 million a year and only has to spend 100,000 of it on the things that they want or need just to live and so forth. How do you respond to that?

Mr. LINDER. I respond to it that people do not put money under the mattress anymore. Wealthy people spend more than poor people. They will pay a higher share of the total cost of government; but to the extent that they do not spend that money, they are going to put into banks or into businesses and create jobs.

If they accumulate a great deal of wealth, I can tell you what they are going to do with that, too. They are going to do what every great wealthy family has done in the history of this country. They are going to give it away. Another question raises charitable contributions. People do not give money away because they can deduct it. They give money away when they have more to give away. The more they have to give away, the more they give away. The great fortunes that have been given away in the history of this country were given away before the Tax Code was ever in place. So they accumulate fortunes. They will invest it. They will create jobs, grow companies, and then give it away.

Mr. GUTKNECHT. So there are only four things that people can do with their money if you think about it. They can either spend it, they can save it, they can pay taxes, or they can give it away. Those are the only four things they can do.

Mr. LINDER. I would say they can create jobs with it because people borrow it.

Mr. GUTKNECHT. Exactly, and when they save it and invest it, it creates more jobs, more economic opportunity for the people at the lower end of the spectrum. Right?

Mr. LINDER. Which creates more revenues to the Federal Government.

Mr. GUTKNECHT. Bingo.

Mr. LINDER. It has always been the case.

Mr. GUTKNECHT. But some of our friends think that we have to have these people pay lots of taxes because that is a good thing. What we are sort of saying is, well, we have to pay a certain amount of taxes, but at the end of the day if they pay more in taxes, it means they have less to invest or give away.

Mr. LINDER. And grow the economy with that investment.

Mr. GUTKNECHT. Bingo.

Mr. LINDER. It is really simple.

Mr. GUTKNECHT. Mr. Speaker, of all the things that people can do with their money, the least efficient thing

in terms of growing the economy is to give it to the Federal Government because we know that the Federal Government will spend it less efficiently than they will, and that is a philosophical debate; and I understand that.

At the end of the day, we can create a system that is just as fair or fairer than the system we have today because when people think about it, you think about the average poor person. Everything that they buy has embedded in it anywhere from 22 to 30 percent taxes.

□ 2230

So they are paying the taxes. Businesses do not pay them. And in some respects even wealthy people do not pay the taxes. It is the poor people who pay them.

Mr. LINDER. Wealthy people pay taxes on personal consumption, and wealth has no meaning unless it is spent on personal consumption.

If I had \$100 million and lived in a \$20,000 home and drove a used car, that \$100 million would mean nothing to me. So somebody would be borrowing it, building their business with it, and creating jobs with it. Wealth has value only when spent personally, and that is when it will be taxed.

Mr. GUTKNECHT. So if I buy a \$100,000 automobile, I pay a lot more taxes than if I buy a \$20,000 automobile. That is the way the whole system works.

Mr. Speaker, we have to do a better job of explaining this to everybody. Because I think, in the end, and I want to thank both my colleagues, particularly the gentleman from Iowa (Mr. KING), because he has been helpful to me in beginning to understand.

Let me close for my part of this with two very important points made by one of my favorite people from the United Kingdom, Winston Churchill observed this about the American people: First of all, he said Americans always do the right thing, once we have exhausted every other possibility.

And I think we have really reached a point, when you look at the Tax Code, that we have exhausted every other possibility. And it really is time for us to do the right thing.

The other thing that he said is that the difference between someone who is convinced of something—no, I am going to forget the story. Have you got the story?

Mr. LINDER. You told it to me once. It is the difference between someone who is a big believer and a fanatic.

Mr. GUTKNECHT. A fan. Yes, that is it.

The difference between a fan and a fanatic is that a fanatic cannot change their mind and will not change the subject.

I have almost become a fanatic on this issue because this is something that, if you think it through, begins to change the entire paradigm. As the gentleman from Iowa said, it not only changes the way we see government but it changes the way we react to gov-

ernment. In the end, it says to Suzie and Johnny when they go in to buy something at the store, wait a second, every time I buy something, it is 22 cents or 23 cents, or whatever the number is. And all of a sudden they begin to see government as a real cost to them.

Mr. LINDER. That is correct.

Mr. GUTKNECHT. And they demand less of the government. So this is an issue whose time has come.

It seems to me that we have a responsibility as Members of Congress to go out and tell this story. And if we do our job of telling the story, as Jefferson said, give the people the truth and the republic will be saved. If we give the people the truth on this subject, then it seems to me that ultimately they will demand that Congress do something like this.

Mr. LINDER. Mr. Speaker, I will yield to the gentleman from Iowa for any closing remarks he might have.

Mr. KING of Iowa. I thank the gentleman, Mr. Speaker, for yielding to me once again, because there are a couple of things I would like to say too at the end of this discussion.

When we talk about how many people are not paying taxes today, everybody is paying taxes in the embedded cost of everything they buy, and they do not realize that. But about 44 percent of the public does not pay income tax in an income tax form. Forty-four percent. When they get to the point where they are at 51 percent, they can simply come to the government and make demands on the government to extract the rest of the sweat from the brow of the people who are making a living and earning.

So we are very close to that tipping point where we could lose the center of this country. If it ever tipped over from 44 percent to 51, then I think you would see the real slide towards the socialistic state. We have been stalling it off here, but it has been incrementally going in that direction. So I think it is important that everybody buy in. And going to the fair tax does that. Everybody consumes. Everybody buys into that policy.

For me, I started working on this in 1980. I was audited for 1979 and it was in 1980 that they did so, and it was the second time. Too close together. And with the frustration of that, I started with the principle of let us eliminate the IRS. Now, what do we do to replace the revenue?

I would sit at work every day and think my way through this. And it did not take long for me to reject the other proposals on how we might be able to replace the revenue. This is the only way to eliminate the IRS and replace the revenue, and it is revenue neutral.

I kept turning this Rubik's cube around over and over again. What are the unintended consequences? What happens to black market? What happens if people reduce their consumption? And every time I turned that cube around and looked at it another

way, there was an answer to it. The answer is actually better than you anticipate in the beginning, and the picture got better and better and better.

I do not think it is an overstatement to say that if you have a tax policy that can solve problems, this tax policy solves virtually every one that a tax policy can solve.

Mr. LINDER. Mr. Speaker, I thank both my colleagues for their help. This has been an illuminating discussion and we need to do it again.
