

# EXTRA POINT

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## U.S. Tax Obstacles in a Global Marketplace

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This is a very, very interesting time we live in. Mankind has experienced four great crossovers: the spoken language, the written language, the printed language, and now the digital language. And this one is going to be a paradigm shift like none other. I mean, this one is going to affect everything, not that Thomas Edison's light bulb doesn't affect everything, or Henry Ford's horseless carriage. There have been other paradigm shifts. But the micro-electronic revolution that we're going through is indeed going to make the other ones look quite pale by comparison.

When you think about it, information is power, but it used to be just the kings and queens and presidents and generals who had all the information and therefore all the power. That day is over: CNN, C-SPAN, Internet, World Wide Web, fax machines, photocopies, 100 million telephone calls an hour spreading information/data to the far ends of the earth. The point is, with a decentralization of information comes a decentralization of power.

Micro-electronics is pulling decision-making downward and outward from central authorities of all kinds. Government and politics has been the organizing structure of every country of the world for the history of man. I'd like to suggest that we're about to embark on a new era in government and politics, when we will move from centralism to decentralism. The top-down, command-and-control, socialistic model is no longer applicable because it's too bureaucratic. It's too clumsy at a time when we're moving into a world where the digital age is making the

market more efficient every day. The digital age is literally driving transaction costs to zero. The information age is driving distribution costs down with every passing minute. Conclusion: Every function of government is really a candidate for privatization and a return to the market.

I'm from Scottsdale, Arizona. If a home ever catches on fire, watch out, because a privatized fire department will arrive on the scene. In 30 seconds they put the whole Pacific Ocean on the fire. You can't believe the water. You'll go over and say, "How did you do that? How did you do that?" And their answer would be, "Well, see that fire truck?"

"Yes."

"I own it. It's mine."

And you'll say, "So?"

And he'll say, "Listen, pal, when you own the fire truck, when you own the fire company, every moment that you're awake, you're thinking about one of two things, fire and water. See that hose?"

And you'll say, "Looks like a normal fire hose to me."

"That's not a normal fire hose. See, government uses a 2-inch hose. That's a 5-inch plastic hose. It's amazing how much more water you can put on a fire using a 5-inch hose."

My point is, every fire department, with the exception of volunteer fire departments, is going to be privatized. That's going to be true for prisons. That's going to be true for the whole nine yards. Watch the argument once again. With a decentralization of information comes a decentralization of power. Micro-electronics is pulling decision-making downward and outward from central authorities of all kinds. This central power model no longer works.

The point is, we're going from a political

model to an economic globalization model. Of course, nothing could make me happier. Politics — “poly” means many; “ticks,” a blood-sucking insect. It’s so interesting that government has been able to pull the wool over everybody’s eyes for thousands and thousands of years. Indeed, there’s no end to the good that do-gooders will do with other people’s money. When it comes to politicians, their palms are soft, their grip lacks clout, yet they win votes with each hand out. The fact of the matter is, every government job is constructed from the body parts of jobs slaughtered in the private sector. All they do is

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take from Peter to give to Paul. Take from Peter, give to Paul. Three main problems occur when you take from Peter to give to Paul. Problem number one, Peter becomes a Paul-bearer. Problem number two, Paul becomes an immovable object. (When you pay people not to work, they don’t work!) Problem number three, piggyback replaces baseball as the national pastime.

I think it was H.L. Mencken who said that an election is just an advanced auction on stolen goods. So it’s very exciting to see the government/political paradigm becoming more irrelevant with each passing day. This is not to say that it disappears tomorrow. This is not even to say that it disappears in the next decade. But I’d be willing to bet that as we look a decade into the future and further, this paradigm will truly move to the point of irrelevancy. Again, every function of government is a candidate for privatization and a return to the market. What’s so fabulous about the information age is this: The world has come to understand that the market is like gravity. You don’t have to design the market, plan the market, or manage the market. The market just happens. The enlightened self-

interest of human beings happens. And, the whole world is beginning to figure this out.

I’d like to suggest that not only is government in some disarray in the United States, but it’s the same kind of phenomena taking place around the world,

The digital age in micro-electronics is affecting business, too. But the thing about business is that they’re into letting it happen. Again, from centralism to decentralism, businesses understand the microchip never met a bureaucratic job it didn’t like. Can any of you have imagined General Electric Corporation 15 years ago? If someone would have told you 15 years ago that GE could triple in size with half the employment, you’d say, “You must be crazy.”

Micro-electronics pulling decision-making closer to customers. ODD — “O” for outsourcing, “D” for downsizing, “D” for decentralization. One pundit even said that the factory of the future will only have two employees, a man and a dog. The man will be there to feed the dog. The dog will be there to make sure the man doesn’t touch the machinery.

The business world is moving from massification to de-massification, moving out of a world of mass markets, mass product, mass supply, mass education, to a world of market segmentation, market partialization, and then watch this, market customization. A set of golf clubs designed just for you. A magazine designed just for you. In Phoenix we have 7,000 employees at a Motorola plant. They make a pager in that Motorola plant. How do they do it? They make them in lots of one. Customized, customized, customized. It’s the technology that has allowed all of that.

Alternatively, anything that has to do with government is opposed to customization. Think of public education — designed in the agricultural age for the factory age. But today, we’re in the information age. Children need to be educated differently. But government educators don’t see it that way. They want a few big mass models. It’s a colossal failure. It’s a top-down, command-and-control system. It’s monopolistic, non-innovative, and not long for this earth. Why? Choice.

Don’t you find it kind of interesting that parents can send their kids anywhere they want to school between the ages of 0 and 5, and after the age of 18, but between the ages of 5 and 18 the government says you’ve got to go to their choice of school. Parents are not going to put up with that nonsense forever. So another command-and-control, top-down, monopoly is toppling and crumbling and being washed out to sea. And by the way, the

information technological age is going to make that scenario happen faster and sooner than you can believe.

Health care. The Clintons would like us to think that managed care is the model of the future. But managed care is not the model of the future, managed care is the model of the past. Managed care is for letting bureaucrats and accountants tell doctors how to practice medicine. This is insanity. The model of the future is a competitive medical marketplace. The model of the future is medical savings accounts, allowing people to spend their own money.

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I get such a kick out of the Clintons. When we were really pushing medical savings accounts hard, Senator Phil Gramm and I flew to Hawaii to debate Paul Starr, who was one of the writers of the Clinton health care program along with Ira Magaziner. The Clintons come from the position, "The problem in health care is it's costly and inefficient and too much paperwork." And, so what do they come up with? A system that is costly, inefficient, and too much paperwork? Government.

Say it: "Government cost control." Just let it flow over your lips: "Government cost control." That's the ultimate oxymoron. It's like saying "jumbo shrimp." It's like saying "Rapid City, South Dakota." You could give the government the Sahara Desert and in five years there'd be a shortage of sand. Listen: The President put an attorney in charge of making doctors cheaper. What was he thinking?

I came home from that conference in Hawaii and I told my wife, "Without question, Senator Phil Gramm is going to be the next

President of the United States," because here's what I saw him do. The debate: Senator Gramm talked 20 minutes, I talked 20 minutes, Paul Starr and another person that was helpful in the Clinton health care plan each spoke for 20 minutes. And then we asked each other some questions. And then we threw it out to an audience of 3,000 people, and they asked some questions, and the debate just stagnated.

Senator Gramm kept getting cost questions, dollar questions, economic questions. And, finally, Paul Starr said, "Senator Gramm, health care is not about cost. Health care is not about dollars. Health care is about flesh and blood and caring for people." Senator Gramm slams his hand on the table and says, "Paul, Paul! Don't tell me that you care as much about my grandchildren's health care as I do." Paul Starr said, "Excuse me, Senator. But I do care about your grandchildren's health care." And Senator Gramm says, "Then what are their names?" It was the most fabulous moment in debating history.

But, anyway, medical savings accounts have now been signed into law by President Clinton. Is it a big deal yet? No. But is the camel's nose under the tent to make a competitive medical marketplace? In my opinion, indeed it is.

In fact, hold your horses, because demographics will soon be washing across 75 million post-World War II baby boomers becoming 50 and 60. Guess what you do in your 40s, 50s, and 60s? You save. We've been a low saving country. But mainly because we've had so many people who were in their teens and 20s. When you're in your teens and 20s and 30s, you're nothing but a parasitic little sucker. When you're in your teens, 20s, and 30s, "feed me, house me, clothe me, educate me, entertain me, educate me some more" — suck, suck, suck. Well, those little suckers are coming into the high saving time of life. But that's even going to be small compared to globalization.

The world in the next 25 years is going to produce more wealth than it's produced in the last 3,000 years. Gross world product now may be \$25 trillion, and 30 years from now it's going to be \$50 trillion if it's going to be a dime. We're going to have to triple world food production. The United States is going to be one of the major players in unbelievable global growth, and we're going to have the global growth because the whole world is coming to understand freedom.

Country A, Country B. Fifty years ago, both poverty-stricken. Fifty years ago, less than \$700 of annual per capita income. Fifty

years ago, you wouldn't give a nickel for either one of them. Country A, 50 years ago, decides to follow the Soviet socialist model. It raises tariffs and taxes and makes it more difficult for business people to get into business. Government will produce the steel and the electricity.

Country B says, "No, no, no. We're going to lower tariffs. We're going to go to free trade. We're going to lower taxes. We're going to make it easier for business people to get into business. And government is not going to be the main producer of steel and electricity and those kinds of things".

Fifty years have passed. It's now 1996.

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Country A, \$700 of annual per capita income. Country B, \$5,000 of annual per capita income. Country A is India; Country B is South Korea. What's going on? The world is coming to understand freedom. Freedom is the mainspring of economic progress, without question. For me the most poignant moment of the 1980s was to stand at Checkpoint Charlie, West Berlin. West Berlin, vibrant with economic activity. Come to Checkpoint Charlie, guns, dogs, moats. Now you're in East Berlin. It's gray. It's drab. There are no goods and services. Why? Why the marked contrast between West and East Berlin?

Harry Truman said, "If you could put a Sears & Roebuck catalog in every communist home on Friday, by Monday morning communism would be finished." That's what the information age has done! The Berlin Wall came down because of what? Information. The Soviet Union collapsed because of what? Information. Read it, look at it, see what's going on here. Micro-electronics is pulling decision-making down and outward. Decentralization of information leads to a decentralization of power. This model is becoming more inapplicable by the day, by the moment. The whole world is understanding

that freedom is the mainspring of economic progress.

There's only one little detail, then. If freedom is the mainspring of economic progress, what is the prerequisite for freedom? John Locke was asked over 300 years ago, "What's the prerequisite for freedom of religion." He said, "Private property." If you're going to have freedom of religion, then you have to buy the land, put up the church, worship as you please. Private property, the prerequisite for freedom of religion. Private property, the prerequisite for freedom of the press. What's the story there? You know it as well as I do. The whole world is becoming privatized.

Margaret Thatcher takes a unionized, socialized, cancerized economic system and privatizes two million housing units, brings one-third of the government work force to the private sector. Now Italy, France, and Spain are following suit. What are they seeking? Privatization. Eastern Europe, the former Soviet Union, Latin and South America are all ready to become the economic miracle of the beginning of the 21st century.

You only have to look at Chile, a basket case 20 years ago. When you went down to Santiago, the poverty was God-awful no matter where you looked. In 1975, General Pinochet says, "Well, geez, I'm a military dictator, what do I do now? I don't know anything about running this economy." And someone says, "General Pinochet, there are 10 economists here at Catholic University." All 10 were educated at the University of Chicago under Dr. Milton Friedman, eight of them Chileans, two of them Americans. They've got some ideas. They not only privatized Chile, but on November 4, 1980, the same day that President Reagan won election as President, they privatized Social Security. Now they've had over a dozen years of experience at this thing. The average Chilean will have over \$1 million in their retirement account when they retire. Whether you're in Santiago or in the environs of Chile, everybody knows their savings rate. They all carry green books. They know to the peso how much they've been saving. They can choose one of 22 pension funds. The pension funds are bubbling with money. The entrepreneurship? Downtown Santiago looks like downtown Honolulu of 10 years ago.

The Argentines are asking: "What are the Chileans doing?" The Brazilians are asking: "What are the Chileans doing?" Are you ready for this? The economies in Latin and South America are taking off like a rocket involving

375 million people. This will be one of the economic miracles of the world, all based on privatization. And, here's the linkage. Freedom is the mainspring of economic progress. Private property is the prerequisite to economic freedom. The whole world is privatizing.

Ask yourself, is Deng Xio Ping a communist? Indeed he is. Here's the question, though: Is Deng Xio Ping a socialist? Well, even he argues that it doesn't work very well. So what does he do 17 or 18 years ago? He gives 30- and 50-year leases on the land. Does a 30-year lease on land sound like private property to you? It does to me.

There's an old Chinese proverb. It says, "Give a 100-year lease on a desert, people will turn it into a garden, but give a 1-year lease on a garden, they'll turn it into a desert." China has been growing at a 10 percent average annual rate of growth for the last 15 or 20 years. China, as we speak, might be the second largest economic system in the world. United States, number one; China, number two; and number three: a unified Germany.

You have to be just slightly smarter than a brown bear to figure out that this world is embarking on globalization and economic growth like never before. And, interestingly, the United States will be one of the primary beneficiaries. Economic growth and trade is win/win. Ross Perot is wrong on almost everything, but on this one he's really wrong. He says that trade is about warfare. Would someone please tell him, "No, no, Ross, trade is not about warfare, trade is about mutual gains from voluntary exchange." Mutual gains from voluntary exchange.

The golden age is about to come to American agriculture. The fact of the matter is, the world must triple its food production in the next 30 years. The United States is capable of growing almost 20 percent of the tripling of world food production that will be needed. The crops will be fenceline to fenceline. One can criticize the 104th Congress all they want, but let's be honest: The 104th Congress began to move agriculture back towards the free market by getting government out. It's not going to be long before all farmers are going to want to get government out, because there are going to be so many fabulous opportunities as our exports go to \$60 billion, \$80 billion, \$240 billion a year. Win/win. When they do well, we do well.

South Korea and Taiwan were third-world countries with no economic growth. But then South Korea and Taiwan began to grow

economically. Who ranks now as our number four and number seven agriculture export countries? Taiwan and South Korea. Win/win. They do well, we do well. We do well, they do well. Mutual gains from voluntary exchange. Econ 101. Again, you don't have to be very smart to figure this out.

I was speaking to Coca-Cola not long ago, and what they said to me was, "What we've done in the United States is going to look like a blip on the computer screen compared to what's going to happen in Indonesia, India, and China." You don't have to make \$30,000 a year to drink a Coca-Cola. I think I believe them. I spoke to the Motorola Company not long ago. Chris Gelvin, the third-generation president of Motorola Company, said to this audience: "Do you know that four out of five Chinese have never used a telephone? That's about to change, folks."

This force called demographics, this force called globalization will change the way we do business. Now your competition comes from around the world, not just next door. You have two choices: Continuous improvement and/or re-engineering. General Motors looked at its operation. It went from 51 percent market share to 45 percent, to 40 percent, to 35 percent, to 31 percent. Folks, how smart do you have to be before you bring the Board together and say, "Hey, this isn't working; this continuous improvement is wrong. We've got to re-engineer this completely." And so they stopped producing cars off 17 platforms. They moved to start producing cars off 5 platforms. And they began to re-engineer.

Many companies have to re-engineer. Take a blank page, start over, how do you do this right from the beginning? A lot of what Jack Welch has done at General Electric was tremendous re-engineering. Business has no other choice but to go with continuous improvement — get better, day after day. What gets measured, gets managed. What gets measured, gets improved. Just-in-time inventory control, statistical process control, measurement, total quality management, continuous improvement, value added.

Business today realizes that it's all about service, service, service, service. Service is not a competitive edge. Service is the competitive edge. When it comes to service, there is no finish line. You can never stop thinking about it. Good enough never is.

Quality is part of service. Pricing is part of service. It's not just price, it's not just quality, it's not just service, it's a value revolution. It's all three. And you listen. And you customize. You listen and you customize.

There's the world that we're going into. Every product, almost customized to the customer. Business is going to have to learn you've got to make a customer for life, and the way you make a customer for life is you know everything about them and you meet their whims and their needs in just the way they want it. That's the way it's all going. And the information/technological/digital age is allowing us to do that very thing. It's all a value revolution.

I was in Pittsburgh. We often think, to make it in this kind of an economy, it's sure nice to read *The Wall Street Journal*, *Forbes*, *Fortune*, *Business Week*, and have a degree or two. Those are the kind of people that will make it. I'm here to tell you anybody can make it who adds value. I was having my shoes shined in Pittsburgh. This guy was stuffing \$5 bills in his pocket faster than any human being on the face of the earth. Every two to three minutes, \$5. Here's why: You jump up in his chair. He slaps this stuff on your shoes. He gets a match. He lights your shoes on fire. Woo! And then it goes out. Then he cracks his buff rag. Buff, buff, buff, buff, buff. He snaps it! You look: Mirrors. And you hand him your \$5. I said, "Sir, I'm an economist. I've never seen a guy stuff \$5 bills in his pocket faster. How much do you make shining shoes here in Pittsburgh?" And he said, "This year I'll make about \$50,000." Yes! Shoe-shining.

I got out of an airplane in Atlanta. The cab driver took me from the airport to a hotel. He told me everything about Atlanta I'd ever want to know. It was the most value-added cab drive I've ever had. He said, "Are you married?"

"Yes."

"What's your wife's name?"

"Mandy."

He sang "Mandy." I couldn't believe it.

"Do you have any children?"

"Yes, I do. Andy and Angela."

Gave a poem using Andy and Angela.

Listen, folks: We got out at the hotel, \$17 cab fare. I added \$10 to it. I handed him \$27. I said, "Sir, excuse me, excuse me. But I'm embarrassed. This is the greatest cab ride I've ever had in my whole life. I wish I could go back out to the airport with you and then we'll turn around and come back." I said, "Sir, if this cab ride was worth \$27, it was worth \$100." And he looks at me, buttons his coat, and says, "Excuse me, sir, but a lot of my customers do tip me \$100." Value-added.

Quality, service, improvement, demographics, globalization, the devolving of

government, the return to the market, the whole world understanding freedom. What a time! Just one caveat: Everybody has got to wake up. In a globalized world, Japan and Germany have capital gains taxes that are almost non-existent and we tax capital gains at 28 percent. What are we thinking? In a world where we're taxing income at the point of production, point of output, point of supply, point of employment — what are we thinking?

Our country, in a globalized world, can no longer afford \$300 billion worth of tax compliance costs, punishing capital, punishing savings, punishing economic growth. If you're an insular economy, it makes less difference, so tax all you want. But not in a globalized economy.

Medicare and Social Security have to be and will be addressed. I'll tell you what Western Europe is doing about Social Security. They're moving to privatization. Social Security is a ponzi scheme. It's an unfunded liability that cannot work, will not work, and so we have to do something.

There's encouragement around the world when it comes to Social Security. There's encouragement around the world when it comes to the welfare state. There's encouragement around the world when it comes to freedom and privatization.

But to compete, we've all got to be similar to the guy who walked into a trophy shop for the very first time. He'd never been in a trophy shop before. He looks around and says, "Gosh, this guy is good."

High expectations produce high results.

*The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has been monitoring tax and fiscal activities at all levels of government since 1937.*

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