

Following Iraq's tax policy By Daniel Mitchell, Other Voices Tuesday, November 18, 2003

Few Americans would want to trade places with the people of Iraq. But come tax time next April, they may begin to wonder who's better off.

That's because the Iraqis soon will enjoy something we don't - a simple and fair tax system. Beginning in January, all Iraqis will pay a "flat tax" of 15 percent. President Bush's administrator in Baghdad, L. Paul Bremer, recently approved this pro-growth tax system, which replaces Saddam Hussein's soak-the-rich system that had tax rates as high as 45 percent.

An Iraqi flat tax is good news for the United States on several counts. Perhaps most importantly, it will advance our national security interests by boosting the Iraqi economy. A prosperous and growing Iraq will be less susceptible to radical politics - and less fertile territory for terrorist groups seeking new recruits. And the sooner Iraq is stable and free, the sooner our troops can come home.

But there are other benefits to Iraqi tax reform. It will:

Help restore the Iraqi economy. Decades of heavy-handed government control crippled Iraq's private sector. Saddam and his henchmen treated the country as a personal piggy bank, and the Iraqi people quickly learned to use the underground economy to survive. The flat tax will "legalize" productive behavior and help unleash entrepreneurship and innovation. Businesses will be formed and jobs will be created. To be sure, the flat tax is just part of the solution, but it's an important step on the road to economic recovery.

Reduce U.S. foreign aid. An Iraqi flat tax also will save American taxpayers money. Nations that experience strong economic growth generally don't feel the need to come to Washington begging for handouts. This is a critical issue since, for better or for worse, we now bear considerable responsibility for Iraq's future. If its economy is weak, we'll be sending billions of dollars to Baghdad every year for the indefinite future. But the flat tax can help wean Iraq from American aid.

Boost economic reform in the Middle East. Creating a democracy in Iraq should stimulate political reform in other Middle East nations. The same principle applies to economic reform. The Iraqi flat tax will provide an example to other nations in the region that want to modernize their economies. It would be especially helpful if Israel and Egypt learned from Iraq, since both nations consume a lot of U.S. foreign aid - money they wouldn't need if they replaced their punitive tax regimes with a flat tax.

Educate U.S. politicians. If American officials recognize that a flat tax is good for Iraq, this raises an obvious question: Why isn't it also good for the United States? One of the indirect benefits of the Iraqi flat tax is that it will create another case study showing the benefits of a fair, simple, pro-growth tax system. **Not that politicians should need more evidence: Hong Kong's flat tax, after all, is a long-time success story, and the flat taxes in Russia, Lithuania, Estonia and Latvia are helping their economies grow as well.**

In spite of this success, however, the Iraqi flat tax likely will prove unpopular with France and

Germany. They opposed the war in Iraq, and they also happen to be leading the effort for global "tax harmonization" (meaning that all nations would have bad tax policy so that oppressed European taxpayers will have less incentive to move their money out of places like France and Germany). It would be deliciously ironic if the Iraqi flat tax begins to attract business away from Europe's welfare states and helps pressure these socialist nations to lower their tax rates. This might be a fringe benefit of Iraqi tax reform.

The Bush administration deserves considerable praise for the Iraqi flat tax. Officials could have left Saddam's bad tax system in place or turned the Iraqi economy over to the United Nations, which probably would have increased tax rates even higher. But the president and his team know that peace and stability in the Middle East are impossible without prosperity.

The next step: Find some country to liberate us and replace our terrible tax code with a 15 percent flat tax. Any takers?

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