

## **FAIRtax (FT) Increases Prices by Nearly 30% - to Start!**

For an overview, understanding that AFFT's original promise that we all get a raise while prices stay the same could not possibly be true. It is impossible for all of us to be such big winners when the FairTax® is supposed to have us paying the same total dollars in federal tax, with only very small dollar savings in compliance costs. If we all get a raise, prices must go up by virtually the same total number of dollars.

Originally, AFFT claimed that prices would remain the same under FairTax®. That is, they claimed that prices would first drop by 22% for today's taxes that are "embedded" in the cost of goods we buy (i.e., from \$100 down to \$78) and then rise by \$23 ( $\$78 \times 30\%$  tax), and would thus remain relatively unchanged.

This original AFFT claim was purportedly based upon a report issued by Harvard economist Dale Jorgenson for AFFT, but may have misstated Dr. Jorgenson's conclusions. Among other things, Dr. Jorgenson stated that his 22% price decline would occur over a rather extended period of years, not immediately.

In any event, Dr. Jorgenson later "clarified" that 2/3 of his original 22% price decline consisted of the savings in the employees' taxes and "assumed" that employees would surrender their "raises" to their employers – i.e. that their old net pay would become their new gross pay. He later clarified that he believed that would not occur – i.e., he believed that employers would be required to pay employees their full gross pay without reduction, for now, non-existent employee income and payroll taxes under FT.

Thus, Dr. Jorgenson predicted a 7+% (i.e.,  $1/3 \times 22\%$ ) price decline, resulting in a 21% net price increase (i.e.,  $\$100 - \$7 = \$93 \times 130\% = \$121$ ).

Next, AFFT Chief Economist Karen Walby demoted Dr. Jorgenson's status to merely "one of many economists AFFT consulted". She proceeded to claim, instead of Dr. Jorgenson's 7% decline, that she believed there would be a 12.5% decline, which translates to a 14% price increase ( $\$100 - \$12.5 = \$87.5 \times 130\% = \$114$ ).

However, one of her items of reduction was a 7.9% factor for business income taxes – there were also separate factors for employers' share of payroll taxes and for compliance savings. Based upon available data (which is not fully precise), it appears that business income taxes are no more than 2+%, rather than her 7.9%. I challenged her calculation and tried to "audit" her numbers. In fact, her 7.9% results from her numerator which does *NOT* trace to the source she cited (and appears to include both *State* and federal business taxes - it is highly speculative that States would eliminate their business taxes). Also, her denominator, i.e., Business GDP of \$7T *in 1999*, is today double that figure. When one corrects her 7.9% figure to the 2+%, her figures are in agreement with Dr. Jorgenson's (but see the next paragraph).

Next, note that the Dale S. Jorgenson and (as corrected) Karen Walby 21% price increase, "assumes" that fully 100% of their maximum potential 7+% initial decline would be passed on to customers in the form of lower prices. In my opinion, that is entirely unrealistic. That 7+% consists of about 4% in the employers' share of payroll taxes. Many economists believe that employers view that as a cost of labor and thus such savings would likely be dedicated to the business' labor costs (i.e., new employees, employee raises, etc.), and thus would *not* be available to reduce prices. Of the remaining 3+%, it is more realistic to assume that some of that would be reinvested in the business or retained by owners and thus would not be available to reduce prices. Assuming more realistically that only one-half of that 3+% *might possibly* reduce prices, that would result in a net price increase of 28-30%.

Although one senior AFFT Board member now admits that AFFT's original "prices-stay-the-same" claim was a "mistake", some senior FairTax® propagandists (e.g., Glen Terrell & Dan Borowicz) continue to issue propaganda pieces that perpetuate the original AFFT "mistake" and others (e.g., Steve Curtis, AFFT V. P. & Board member, OH FT Director) claim price lower increases than even AFFT Chief Economist Karen Walby currently admits to.

Of course, the starting rate will need to rise dramatically to compensate for FAIRtax revenue that would be lost to massive illegal evasion and legal avoidance.

