

The Rats are in the Cheese

One hedgehog's battle for tax reform

Jon Zagrodzky

One of the most chronic domestic problems we face in the United States is our dysfunctional tax code. As taxes have become more consequential, the rules that govern who pays these taxes have become a playground for well-connected and powerful special interests. The result is a growing cesspool of manipulation and corruption, with the average citizen caught in the quagmire. Our tax code today is unfair to most taxpayers, and, coupled with government spending that neither political party seems able to control, threatens the economic well-being of our country.

There is no shortage of books on the subject of tax reform. But many of these books are academically-oriented, making them too complex for the average reader. Others are more accessible but often appeal only to narrow, highly partisan audiences. Neither type of book does anything to advance a national consensus for tax reform.

The Rats are in the Cheese seeks to offer a compelling framework for tax reform and to communicate this framework in a unique way that everyone can absorb and appreciate.

The book picks up where Orwell's Animal Farm leaves off. A group of small animals has split away from the farm, moving to an island where they set up their own society. Highly motivated to avoid the mistakes that led to tyranny on Animal Farm, they author a constitution that establishes a democracy and enumerates basic rights.

The main character, a hedgehog living many years later, discovers that the society envisioned in the constitution is breaking down. Through a series of events in the first few chapters, Hedge witnesses first-hand how special interests have compromised the tax system, corrupted politicians, and weakened the ideals of equal treatment for all. In short, he sees that tyranny in a new form has infected his society, and he vows to do something about it.

The second part of the book follows Hedge as he endeavors to develop possible solutions. With other characters helping him, he ends up focusing on three specific recommendations, each of which requires amendments to the island constitution:

- ¶ A single-rate income tax that applies to the top 85% of income earners
- ¶ An asset tax applied to the top 10% of asset holders
- ¶ A requirement that spending be balanced with taxation

These ideas for reform are simple, straightforward and not particularly new, but in combination represent a subtle triangulation of political and economic forces, yielding a number of important benefits. If implemented, these ideas will:

- ¶ **Automatically translate spending increases into increases in the single tax rate.** Politicians will have to vote either to cut spending or raise the tax rate, which will provide single-point accountability that voters can understand and measure. Multiple increases in the tax rate to cover higher expenditures should create a broad and powerful constituency for spending reform
- ¶ **Restore true progressivity in the tax system.** Low-income earners will pay no income tax at all, while high-income earners will lose their ability to manipulate the system to avoid paying taxes. In addition, asset-rich individuals and entities will begin contributing to the tax burden in a meaningful way
- ¶ **Replace nearly all existing taxes and eliminate current exemptions, credits and preferences.** This will broaden the base of taxpayers, which will help lower the tax rate overall and ensure that the constituency affected by increases in the tax rate is as large as possible

Unlike many current tax reform ideas, these proposals should attract support from both ends of the political spectrum. Conservative voters will appreciate the single rate tax and prospect for spending reform. Liberal voters will appreciate that rich individuals and entities will no longer be able to escape paying their fair share, and that they will likely pay significantly more. Nearly all voters will appreciate the likelihood that they will pay less in taxes than they do now.

Near the end of the book, Hedge presents his ideas to a large audience, during which those adversely affected by his proposals, the “rats in the cheese,” react angrily and violently. Hedge prevails and in the end is cheered by those who appreciate what he hopes to accomplish. The stage is set for a struggle to actually enact the proposed reforms.

* * *

Taxation and spending are complex and emotional subjects, so it is not surprising that they have eluded reform. But it is important to note that these problems are not the fault of, nor can they be solved by, any one political party or philosophy. Instead, as this book emphasizes, these problems have their root in our collective human nature, and only by working together can we solve them.

Are the ideas in this book Liberal? Conservative? Populist? Libertarian? They are all and none of them. But if enacted, they might render these labels obsolete. They will shred existing voting blocks. They will split Socialist Liberals from Populists. They will divide old rich and new rich Conservatives. They will require old institutions to pay taxes and the rich to pay a lot more taxes. They will reduce taxes for everyone else, particularly the working poor.

Anyone with wage income who can't take full advantage of the current tax code's many loopholes and exemptions should love these ideas. And that's a clear majority of voters, regardless of political affiliation.