



A FairTaxSM White Paper

The FairTax and the global economy

by Philip L. Hinson, CPA

While waiting to meet someone recently at Barnes & Noble, I picked up a book that caught my eye entitled *China, Inc.* It was written by Ted C. Fishman.¹ It has some eye-popping statistics in it. For example:

- China is home to 1.5 billion people, probably, which would make the official census count of 1.3 billion too low by roughly the population of Germany, France, and the United Kingdom combined. Put another way, China's uncounted multitude, were it a country on its own, would be the fifth largest in the world.
- The United States has nine cities with populations in excess of 1 million. Eastern and Western Europe combined have 36. China has between 100 and 160.
- There are 220 million "surplus workers" in China's central and western regions. The number of people working in the United States is about 140 million.
- 300 million rural Chinese will move to cities in the next 15 years. China must build urban infrastructures equivalent to that of Houston every month in order to absorb them. This is the largest human migration in world history by a wide margin.
- General Motors expects the Chinese automobile market to be bigger than the U.S. market by 2025. Some 74 million Chinese families can now afford cars.

There is more, but I think you get the gist. The author poses the question: What could happen when China can manufacture nearly everything – computers, cars, jumbo jets, and pharmaceuticals – that the United States and Europe can, at perhaps half the cost?

If all of that were not enough, in addition to China, India is another potentially enormous economic power on the move. In fact, for at least one recent quarter, India's economy grew at a rate of 10.4 percent, which was faster than China's 9.9 percent.² According to author Gurcharan Das in his book *India Unbound*, India's middle class constituted less than 10 percent of the population in 1984 - 1985.³ Since then it has been growing rapidly, but still constitutes less than 20 percent of the population. It will pass the 50-percent mark sometime between 2020 and 2040. Das indicates that India's individual purchasing power will climb from \$2,149 in 1999 to \$5,653

¹ Fishman, Ted C., *China, Inc.: How the Rise of the Next Superpower Challenges America and the World*, New York: Scribner, 2005.

² "India Asia's fastest-growing economy," The Finance Professional, www.indiainitiative.com/articles_indasia.htm.

³ Das, Gurcharan, *India Unbound: The Social and Economic Revolution from Independence to the Global Information Age*, New York: Anchor Books, 2000.



per person in 2020 – and to \$16,500 in 2040. India’s population crossed the 1 billion mark in the spring of 2000 and it sends six students to a university for every one that China sends.

In a recent column, columnist David Brooks of *The New York Times* offered the following data points:

1990	472 million
2001	271 million
2015	19 million ⁴

Those figures represent the number of people living in extreme poverty (less than \$1/day) in the East Asia and Pacific region countries. This is an astounding 96-percent reduction in that part of the world during a 25-year period in which world population is increasing by more than 33 percent. We are right in the middle of that period.

I saw Newt Gingrich on one of the evening news talk shows promoting his book, *Winning the Future*. He made the point that we are faced with something in the 21st century that we have never before been challenged by and that is economic competitors which will have economies on the scale of ours. He was speaking, of course, of India and China. He identified three areas where reform is critical in order to meet this new challenge, which is unlike any that we have ever seen before: Litigation, education, and taxation.

His idea of tax reform is, “...a dramatically simplified tax code that favors savings, entrepreneurship, investment, and constant modernization of equipment and technology.”⁵ Although Mr. Gingrich had not been a strong supporter of the FairTax previously, while he was doing a guest spot on Sean Hannity’s radio show I heard him say that he supported a sales tax which replaced the income tax along the lines of the proposal of John Linder and Neal Boortz.

It should be apparent that we are at a pivotal juncture in our national history. I do not think that it is any exaggeration to say that what is at stake is the standard of living we have become accustomed to as a people and the economic strength that has enabled us to become a beacon of freedom respected by the rest of the world. Since this country was founded, every generation has left a higher standard of living to their children than the one they inherited. It is not inevitable that this track record continue, however.

The FairTax is not the entire solution to this challenge and we should not represent it as such. However, it should be obvious to all that continuing into this new environment with a tax system which puts U.S. producers at such a decided disadvantage as our current one does is a luxury which we can no longer afford. Every institution that we have should be reexamined from a new perspective. This country has risen to every challenge that we have been faced with in our history up until now and I am confident that we can prevail against this new one also. However, for that to happen, the American people need to awaken from their slumber and realize the seriousness of the threat.

⁴ Brooks, David, “Good News About Poverty,” *The New York Times*, November 27, 2004.

⁵ Gingrich, Newt, *Winning The Future: A 21st Century Contract with America*, Washington, D. C.: Regnery Publishing, Inc., 2005.



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What is the FairTax Plan?

The FairTax Plan is a comprehensive proposal that replaces all federal income and payroll based taxes with an integrated approach including a progressive national retail sales tax, a prebate to ensure no American pays federal taxes on spending up to the poverty level, dollar-for-dollar federal revenue replacement, and, through companion legislation, the repeal of the 16th Amendment. This nonpartisan legislation (HR 25/S 1025) abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax – administered primarily by existing state sales tax authorities. The IRS is disbanded and defunded. The FairTax taxes us only on what we choose to spend on new goods or services, not on what we earn. The FairTax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system.

What is Americans For Fair Taxation (FairTax.org)?

FairTax.org is a nonprofit, nonpartisan, grassroots organization solely dedicated to replacing the current tax system. The organization has hundreds of thousands of members and volunteers nationwide. Its plan supports sound economic research, education of citizens and community leaders, and grassroots mobilization efforts. For more information visit the Web page: www.FairTax.org or call 1-800-FAIRTAX.

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