

FairTax and Consumption

At a recent meeting, the question was asked, "If the current tax system discourages success by taxing income and savings, will the FairTax discourage consumption by implementing a retail sales tax?"

A very good question. We know the current tax system penalizes success by taxing income and savings, but would the FairTax reduce consumption and weaken the economy by taxing retail purchases?

The simple answer is No. The FairTax will not result in reduced consumption, or in a depressed or weakened economy.

Leaving complicated economic theories aside, this can be explained several ways.

First, by providing trillions of dollars to American businesses for expansion, modernization, and productivity improvements, as well as removing taxes from exported goods, the FairTax will significantly expand American exports and grow the economy.

Second, by removing the tax burden on businesses located in the United States, jobs and companies that have moved overseas to escape the current income tax system will return. In addition, studies show that many foreign companies will relocate manufacturing and headquarters facilities to the US if the FairTax is implemented. This also grows the economy, and provides more American workers with stable, high-paying, manufacturing jobs.

Third, one of the main drivers of personal consumption is the amount of disposable income individuals have after their basic needs are satisfied. Under the FairTax, workers get their whole paycheck, plus the prebate, each month. Since the FairTax replaces the embedded taxes, the prices remain about the same, so, after covering basic expenses, individuals have more disposable income. How much more disposable income they have depends on how much they earn and spend on basics, but, for some, it could be as much as 30%. And this can be used for additional consumption.

Taken together, under the FairTax, the economy would grow, and citizens would have good paying jobs, their whole paycheck, and the prebate, to sustain reasonable levels of consumption.