GOP tax policy

# Reagan's advisors in debate on the issue

by Lyndon H. LaRouche, Jr., Contributing Editor

The *Wall Street Journal* on March 27 featured a front-page lead item, reporting the seething policy-debate among the leading economic-policy advisors of Republican front-running presidential candidate Ronald Reagan. The article, by-lined Albert R. Hunt, contrasts the expansionist economic thinking of Reaganite tax-cutter, Congressman Jack Kemp (R-N.Y.), with the pro-Milton Friedman group of Governor Reagan's advisors.

Rep. Kemp, coauthor of the tax-cutting "Kemp-Roth Bill," is associated with former *Wall Street Journal* figure Jude Wanniski, now an influential gad-fly as political consultant on economic-policy issues. Closely associated with Wanniski and Kemp is a rising, maverick celebrity among economic advisors preferred by conservatives, Arthur Laffer, reputedly the "theoretician" behind the bill.

Earlier, Reagan's campaign rode the popularity of the Kemp-Roth bill. More recently, the new crop of Reagan advisors added officially to the staff on Feb. 26 has been pushing the philosophy of Kemp-Roth toward the background, in favor of Friedmanite packages.

The time has clearly come when all serious discussion of the economic-policy issues facing the nation must include careful analysis of the policy-issues being reviewed within the Reagan camp. If Reagan were to become President, under the control of the same sort of Friedmanite thinking controlling Carter administration practices now, the only important question facing the American voters would be how and where to emigrate.

Comparatively speaking, Kemp, Wanniski, and Laffer have been searching in the right direction. Laffer's "curve" is unscientific, but far more sensible than Friedman's arguments.

Kemp's friends are right when they argue that stimulating the private sector will increase the tax-base. They are right in insisting that the way to bring the federal budget into balance is to increase the tax base by expansion of the private sector. They are also right in arguing that the social service component of the federal budget could be reduced significantly by lowering federal income-tax bites out of the basic incomes of households.

## What was said in the Wall Street Journal

*Following are excerpts from the* Wall Street Journal *of March 27 which reported on the economic debate in Gov. Reagan's camp.*

. . . two views reveal a basic dichotomy in the Reagan inner circle. . . .

The neopopulists (Jack Kemp), while favoring smaller government, want Mr. Reagan to stress tax cuts and economic growth. The more traditional conservatives, while supporting tax cuts to stimulate the private sector, believe the size of government—and of government spending—is the essential issue. . . .

The pressure to emphasize reduction in government is coming from a group of traditionalists; these include former Nixon/Ford administration officials William Simon, George Schultz, and Alan Greenspan, plus Martin Anderson, the campaign's chief domestic-issues expert, and some of Mr. Reagan's long-time political confidants. (The noted economist Milton Friedman, while and independent force, often sides with the traditionalists.)

Essentially, these advisers feel the Californian's 15-year preaching against the evils of big government enjoys unprecedented public support these days, and they see a rare opportunity to cut back the federal establishment. Further they worry that to stress tax cuts and economic growth, rather than shrinkage of government would be both economically dubious and politically perilous. . . .

So far Mr. Reagan has certainly embraced the tax-cutting gospel. He constantly campaigns for a three-year, 30 percent across the board cut in individual income taxes. He argues that this deep tax—ultimately around $90 billion a year—not only would provide enough economic stimulus to increase revenue, but also would curb both inflation and unemployment, obviating a painful choice between those evils.

Mr. Reagan also favors eliminating the $6 billion estate and gift tax, and he would end most taxes on savings interest. For corporations, he espouses more-liberal depreciation write-offs. . . .

A healthy economic policy-discussion could be built around a discussion of the question whether Kemp's proposals are the right means for reaching the sound objectives this group has adopted.

The first fault of the Kemp group's measures is that they address only the smaller part of the problem of inflation—the 2-4 percent inflationary trend of the past decade and a half. Although Kemp did consider supporting the European Monetary System proposals some time past, he and his group have since turned away from all consideration of the problem of double-digit inflation. Without a new, gold-based world monetary system, built around the European Monetary System, there is no practical solution to the problem of double-digit hyperinflation.

Within the setting of U.S. cooperation with France's Giscard and Germany's Schmidt, including remonetization of the U.S. gold reserves, double-digit inflation can be stopped short—leaving us with the problem of ending the single-digit component of overall inflation. It is that latter, second part of the overall problem which situates a competent review of the Kemp group's proposals.

The Kemp group is correct in arguing that tax-cuts—not budget cuts—are the point to be emphasized. A combination of tax-incentives promoting private, job-creating investment in agriculture, manufacturing, mining, construction and transportation is a major part of the proper package. Substantial cuts in the below-$25,000 income-level portion of household income is the remainder of the basic package required.

The problem with the Kemp package is that it does not shape the combination of increased and decreased tax-rates competently. We must raise the rates on the general progressive income-tax schedule, including taxation of ordinary capital gains—to penalize speculation and wasteful forms of investment and spending of incomes. We must, at the same time, sharply cut federal taxes on basic household incomes, while qualitatively increasing the amortization, depreciation and tax-credit stimulants to farmers, manufacturers, construction firms, mining, and transportation, and also provide credit for these tax-deductions to individual household incomes invested in or lent to capital-intensive, job-creating expansion of productive capital stocks and related forms of improvements.

Provided such a tax package is tied to the promotion of high-technology exports, in cooperation with Japan and the Europeans, the U.S. economy can be turned around rapidly. Under that combination of circumstances, bringing "hard commodity" lending back to the 4-6 percent prime rates, we can achieve rapid growth in the economy and the tax base—the Kemp objectives.

This is what the shape of the national economic-policy discussion ought to become. The *Wall Street Journal* has missed the vital points.

**The LaRouche alternative**

# The Emergency

**1.** *Whereas*, both the federal government and national economy of the United States stand in imminent fiscal and monetary jeopardy, be the following emergency measures of tax reform enacted as an integral part of the several measures required to remedy this state of affairs.

**2.** *The purpose of this act* is to channel savings of individuals and households, as well as retained earnings of partnerships, corporations, and other business enterprises into that sort of capital-intensive investment in production of useful, tangible commodities which will increase the income tax base of the nation, raise the level of productivity in our economy, and give substance to the presently imperiled currency of our nation.

**3.** *This purpose* is to be served by shifting the weight of taxation from basic income of households and from earnings of employers producing tangible commodities to those portions of income otherwise employed.

**4.** The category of tax-accounting heretofore known as "capital gains" is herewith discontinued, except as otherwise provided within the body of this act, shall now be treated as part of ordinary income.

**5.** *Reforms of the Federal Income Tax Schedules*

**A.** Excepting incomes of households earning a gross income of less than $20,000 in a tax year, there shall be a 50 percent increase in the taxation derived by the federal income tax from such households, partnerships and corporations, except as hereinafter specified.

**B.** The per capita exemption from taxation for the income of households for the current tax year shall be increased to $2,500 per person, to $3,750 per deductible person for the next tax year, and to $5,000 per deductible person for the next year following that. There shall be an additional $1,000 deduction for each dependent currently matriculating in study of the physical sciences, biology, medicine, engineering, agronomy, or teacher training at an institution of higher learning during the tax year.

**C.** The per capita exemption shall be doubled for each member of a household who is legally blind, disabled, or over 65 years of age. Persons suffering a partial disability shall qualify for a quarter, half, or three-quarter credit during the period of such disability.

**D.** There shall be a substantial increase in amortization and depreciation and depletion allowances for capital improvements in agriculture, manufacturing,