

Domestic Credit by Richard Freeman

The fight on Kemp-Roth

Rep. Jim Jones has a tax-cut plan with more emphasis on capital for productive investment.

It appears that the Kemp-Roth tax proposal, which would cut federal income taxes by 30 percent over the next three years, will not pass Congress in its present form.

Two forces are opposing Kemp-Roth. First, there is a group of sympathizers of the credit-shutoff policy of Federal Reserve Board chairman Paul Volcker who view tax cuts as an unwarranted stimulation of the economy. The most vocal public spokesman for this view is former Federal Reserve Board chairman and Lazard Frères investment banker Arthur Burns. The other force opposing Kemp-Roth is not pro-austerity per se. It is led by a group of conservative Democrats headed by Rep. Jim Jones, the chairman of the House Budget Committee, which may have the last word on combined budget/tax policy matters in the House. The Jones criticism is twofold: that Kemp-Roth is "inflationary" and "not sufficiently production investment-oriented."

The Jones view contains some valid criticism of Kemp-Roth, and if Jones's view prevails among House Democrats, the Kemp-Roth bill will not have sufficient votes to get through the House.

The fight around the tax bill has come to be viewed, correctly, as a fight entailing more than the specifics of Kemp-Roth. The bill specifies that a 10 percent cut per year for three years in individual taxes, plus the indexing of income taxes for

inflation, will result in a cut of federal tax receipts of \$18 billion in fiscal year 1981, \$48 billion in 1982, \$89 billion in 1983, \$130 billion in 1984, and \$170 billion in 1985. Accelerated depreciation to stimulate investment, the sponsors of Kemp-Roth said, will lead to cuts of \$4 billion in 1981, \$13 billion in 1982, \$18 billion in 1983, \$19 billion in 1984, and \$20 billion in 1985.

Thus, Kemp-Roth would result in \$22 billion total in individual and business tax cuts for fiscal year 1981. A later date of implementation than Jan 1, 1981 will mean smaller cuts.

The bill would throw \$15 to \$20 billion into the economy. The larger issue surrounding Kemp-Roth, as Burns realizes, is that such a volume of new credit pumped to consumers and business in the form of tax cuts, combined with other measures in the Reagan economic package to stop diversion of corporate funds on excess regulations, etc., will generate somewhere between \$50 and \$100 billion in total new credit availability to the economy, above current levels. This stream will crack Volcker's 16-month credit clampdown in the United States. This thought has caused the New York investment bank community, led by Arthur Burns, to "freak out."

Jim Jones instead stresses that the Kemp-Roth bill will benefit those at higher income levels, and not those at the lower end of the

income-range scale. By and large, this charge is true. Jones's office also charges that Kemp-Roth, with its heavy emphasis on personal tax cuts, does not funnel enough money into the productive investment needed to expand the industrial base of the economy.

To remedy this, Jones is proposing tax cuts for individuals earning incomes in the range of \$10,000 to \$50,000 per year. These cuts would index incomes against "bracket creep" (as would Kemp-Roth); offset the marriage penalty (that is, married persons now get smaller exemptions than they would by filing as individuals); and also attempt to offset higher social security taxes. For individuals earning more than \$50,000, Jones recommends a reduction in capital gains taxes from 28 to 20 percent. But this reduction will only be applied if the capital gains come from "productive investment," said Jones's aide, "not from stamp or art investment."

Jones wants most of the tax cuts to stimulate business investment, through the "10-5-3" bill that accelerates the depreciation schedule for plant (10 years), equipment (5 years), and vehicles (3 years).

The most noticeable drawback is that these cuts total only \$10 billion for all of fiscal 1981—as opposed to the \$15 to \$20 billion of the Kemp-Roth—and are strictly tied to immediate budget cutbacks.

Jones could considerably slow down or stall Kemp-Roth. But there is resolute support in both the House and Senate for tax reductions. Cuts on the order of \$15 billion in fiscal 1981 may result as a compromise between Kemp-Roth and the Jones proposals. If they do, economic growth will get a boost.

A note to our readers

The *Executive Intelligence Review* proudly and expectantly announces the publication of two important books by its editors. *The Ugly Truth About Milton Friedman* by founding editor Lyndon H. LaRouche, Jr. and Economics Editor David P. Goldman was issued at the end of January. *Hostage to Khomeini* by Middle East Editor Robert Dreyfuss, with Bonn Bureau Chief Thierry LeMarc, is scheduled for release on Feb. 6. Both books are published in paperback form by the New Benjamin Franklin House in New York.

In our July 22, 1980 issue, *EIR* readers were provided with advance excerpts from *The Ugly Truth*, featuring the economic results of Friedman's prescriptions for Chile, Israel, Great Britain, and the Nixon administration, along with a sketch of the book's overwhelming evidence that Friedman is not an American conservative, but an instrument of the remnants of the old Hapsburg aristocracy, which controls both the Keynesian and monetarist subspecies of economic liberalism. Now we look forward to reviewing the entire book, which ranges from the East India Company to Weimar Germany to America's postwar economic containment in its demonstration of what the authors call "the fraud of free enterprise."

EIR readers are also aware of the international respect (and fear) earned by Mr. Dreyfuss and his collaborators for their exposé of the Ayatollah Khomeini's installation in power by the international "so-called New Dark Ages faction for whom the Chinese model of large, beast-like peasant populations laboring under semi-feudal fiefdoms is the only 'stable' form of social organization," as the preface to the book puts it.

"Khomeini was installed, like a light bulb, by a carefully orchestrated British military intelligence operation. This book tells that story. It also chronicles the treasonous role of the Carter administration in collaborating with the British in putting Khomeini into power . . . [and providing] aid and comfort to the monstrous ayatollahs and their secret society, the Muslim Brotherhood—even after the taking of the American embassy in Teheran!"

These books may be ordered with a check payable to New Benjamin Franklin House Publishing Company, at 304 West 58th Street, New York, N.Y. 10019. *The Ugly Truth* is \$3.95; *Hostage to Khomeini* is \$4.25. For first-class postage add \$1.50 per book. For fourth-class, add \$.75.



The Ugly Truth About Milton Friedman

Lyndon H. LaRouche, Jr. David P. Goldman

