POLITICAL INFLATION

Senate, again, is millionaires' club

By Charles W. Hucker

WASHINGTON

POLITICAL SPENDING IN U.S. Senate campaigns this year has reached new heights, topped by North Carolina Republican Jesse Helms, who has been derisively nicknamed the "six-million-dollar man" by his Democratic opponent (*ITT*, Nov. 1).

No other contender in this year's 35 Senate contests comes close to matching Helms' expenditures, according to campaign-finance reports filed by candidates with the Federal Election Commission (FEC), for the period from Jan. 1, 1977, to Sept. 30, 1978.

Helms' re-election effort is the most costly since 1972, when comprehensive campaign finance disclosures first were required by federal law.

Not all of the $6 million raised by Helms has been available for traditional campaign tools, such as television, advertising, political staff and printed literature. About half the amount has gone for fund-raising expenses.

Carter Wrenn, staff director and treasurer of Helms' campaign committee, said about $3 million has been spent for nationwide direct mail solicitations. Most of that has gone to firms headed by Richard Viguerie, who is at the forefront of the new right political movement.

The direct-mail effort has yielded a considerable return for Helms. His campaign's FEC reports show that $4.7 million, or 79 percent of his total receipts, was from individuals who gave less than $100 apiece.

Even after deducting the $3 million for fund-raising, Helms has more money to spend on his campaign than all the other Senate candidates this year except one. The hefty Helms budget is sufficient to hire a paid staff of 100 full-time workers and 50 part-timers.

In addition to Helms, seven other Senate nominees already have surpassed the million-dollar barrier in spending this year. They are Sen. John G. Tower, R-Texas, ($3.2 million); Rep. Robert "Bob" Krueger, Tower's Democratic foe in Texas, ($1.7 million); Sen. Howard H. Baker Jr., R-Tenn., ($1.3 million) Sen. Strom Thurmond, R-S.C. ($1.3 million); Bill Bradley, the Democratic nominee in New Jersey, ($1.2 million); Rudy Boschwitz, the Republican opponent of Sen. Wendell R. Anderson of Minnesota, ($1.2 million), and Robert E. Short, the Democratic nominee in Minnesota for the unexpired term of the late Sen. Hubert H. Humphrey, ($1.1 million).

Along with those eight $1 million campaigns, at least another six Senate aspirants are likely to exceed the $1 million mark. That would make a greater number of million-dollar campaigns than at any time in the 1970s. There were ten candidates in 1976 who spent more than $1 million; seven in 1974 and four in 1972.

In the 21 months of the 1978 campaign beginning on Jan. 1, 1977, the combined spending of the Senate candidates already was at the same level of the combined expenditures of the 1976 Senate candidates for the full 24-month campaign period. During the 1978 campaign 69 candidates in 35 Senate contests have spent $40.6 million (an average of $588,386) in 21 months. In 1976, 64 contenders in 33 contests expended $38.1 million (an average of $595,386) in 24 months.

Herbert Alexander, director of the Citizens Research Foundation and a campaign finance expert, said the gradual rise in prices through the 1970s has affected political campaigns adversely, as well as families.

Tennessee's Baker is one of the Senate candidates who have felt the pinch of inflation. Six years ago Baker's campaign cost $1.3 million. Michael Adams, his campaign manager, said it would cost $2.2 million to run that same campaign today. Instead, the Baker re-election drive has tightened its belt and is budgeting $1,725,000 for this year.

> All told, fourteen senatorial campaigns are expected to cost at least $1 million in this most expensive campaign year.

To save money, the Baker campaign has a paid staff of about 20 persons compared with about 30 in 1970. Some of the operations of the Re-elect Sen. Baker Committee are more mechanized than the Baker campaign six years ago; campaign finance reports are prepared by computer and direct-mail funds solicitation is done by Baker campaign workers rather than by a paid outside firm.

Congress attempted in 1974 to limit the rise in campaign costs by placing ceilings on congressional election expenditures. However, the U.S. Supreme Court struck down those limits in January 1976.

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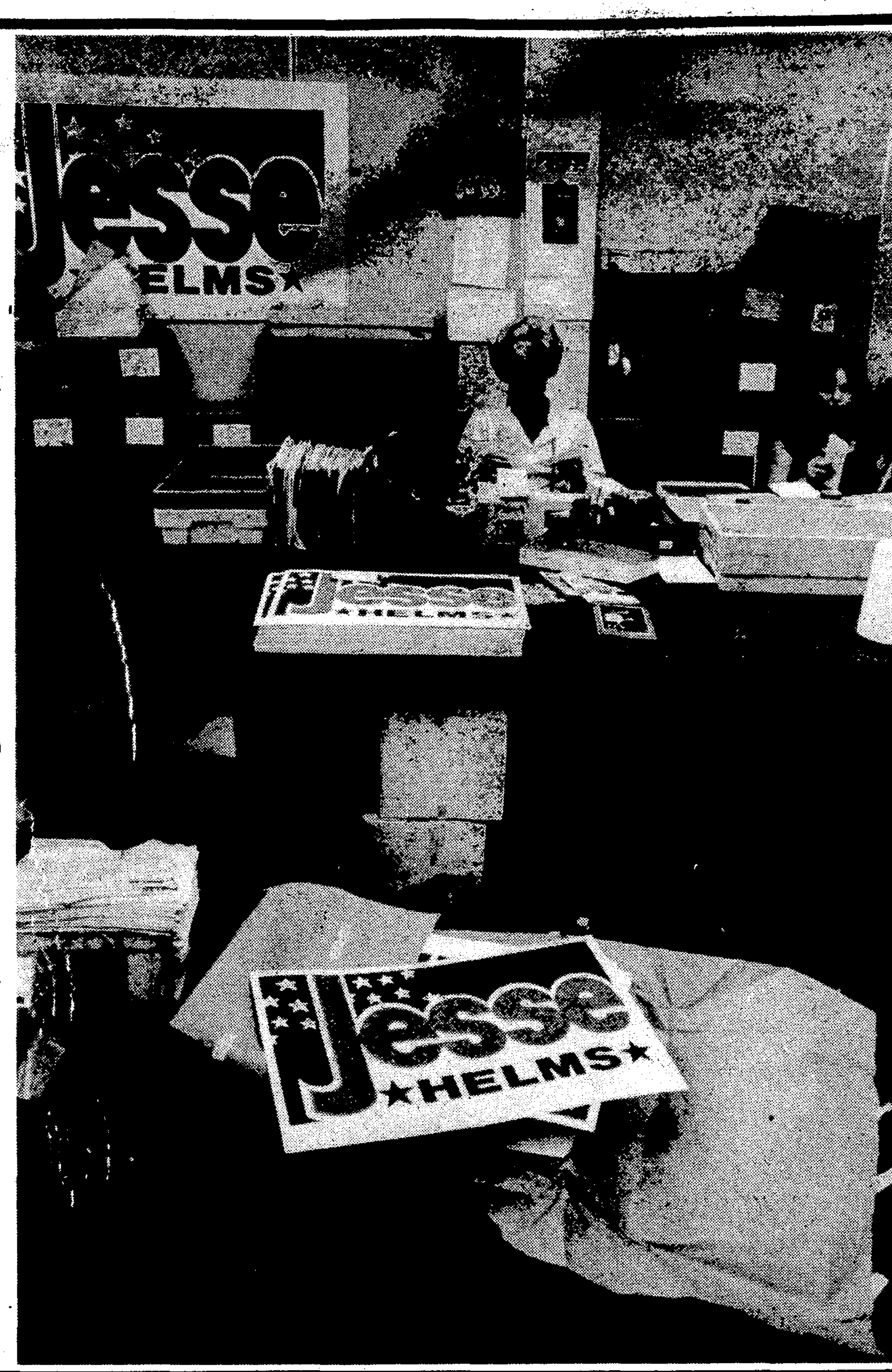

Raleigh News & Observer

ENERGY/INFLATION

Energy plan favors corporations

By David Moberg

THE CONGRESSIONAL ENERGY battle went down to the wire, but in the end the news for consumers was bad — much higher energy costs, but still no coherent beginning of a transition to safe, economical, renewable energy.

The prospects for next year's energy legislation are dismal, too, because the Carter administration appears determined to push up the price of oil despite the damage such action would cause to Carter's crusade against inflation.

The heart of the energy package was the natural gas phased deregulation bill (*ITT*, Sept. 27), even though it differed greatly from the gas regulation plan that Carter proposed in his April 1977 National Energy Plan.

Opponents of the gas bill in the House hoped to split it from the rest of the energy package. But House Democratic leaders realized that many Representatives who had doubts about gas deregulation would nevertheless vote for it rather than turn down all energy legislation. First, it took serious arm-twisting by the administration to break a Rules Committee deadlock on the question of dividing the energy package. Then the House agreed by the narrowest margin, 207 to 206, to consider all five parts of the energy legislation together. Only a Senate filibuster for a day by retiring Sen. James Abourezk delayed final approval after that.

Besides the phased deregulation of natural gas, which will cost gas users somewhere between $29 and $41 billion between now and 1985, the energy package included tax credits for insulation and solar energy devices, tax penalties on "gas guzzler" cars, instructions to state regulatory agencies about desirable utility reforms, limited financial aid for conservation, efficiency standards for new appliances, and a very loose requirement for utilities and large industries to switch to coal rather than oil or gas.

Although the Department of Energy projected that the legislation could save from 2.4 to 2.9 million barrels of oil per day by 1985 out of an expected 11.5 to 16 million barrels that would otherwise be imported, there are good reasons to believe that oil imports will hardly be affected. Nearly half of the savings is attributed to the gas bill, but the Energy Information Administration had earlier estimated the potential import savings from the gas bill at roughly one-fifth the optimistic Department of Energy projection. Any reduction of oil imports, consequently, is likely to be bought at a price far exceeding expected costs of an imported barrel of oil. Even worse, some analysts feel that many businesses will actually switch from gas to imported oil.

> The Carter administration is determined to push up the price of oil, despite anti-inflation talk.

The bill will also give a boost to electric power, a principal alternative to gas for residential and commercial space and water heating. That in turn may encourage the nuclear power industry. "By sharply raising gas prices," energy expert Barry Commoner told an October meeting of Critical Mass, the Nader-initiated anti-nuclear group, "the deregulation bill is a covert way to rescue the nuclear power industry from economic collapse."

The administration had argued vigorously that without higher natural gas prices, the country would soon run out of gas. Yet within a couple weeks after the deregulation bill was passed, industry and administration officials admitted that there was "a gas glut now that could run on for three or four years," in the words of a top Energy Department policymaker quoted by the *Washington Post.* Also, huge new gas reserves in Alberta, Canada—possibly double the size of those in the Alaska north slope—have been discovered. Canadian oil companies, actually dominated by Texaco, Exxon, Amoco and other U.S. companies, will be anxious to export to the U.S., where they now can get much higher prices than in Canada.

Although Carter was disappointed by the failure of Congress to pass his wellhead tax on oil to raise domestic oil prices to OPEC levels, it is virtually certain that the administration will return next year with some form of legislation to boost oil prices. Even without new legislation, Carter could simply let existing oil price controls expire by 1981 or abolish them next spring. The administration could decide effectively to abolish them gradually by redefining more and more "old oil" now priced at $5.90 a barrel as new oil, selling at more than double that price. The composite price for U.S. oil is now $10.58 a barrel, rising at a rate of 12 percent annually as the proportion of "new oil" increases. Imported oil costs refiners $14.50 a barrel.

Carter may propose a "windfall profits tax," exempting cash put back into productive facilities, instead of the crude oil tax from the national energy plan. Oil companies reportedly favor that alternative.

Despite the great hurrah about passing an energy plan, "the country still needs an energy plan," Commoner said, "a plan that will combat the main symptom of the energy crisis—the rapidly escalating price of energy and the resultant inflation—and that takes the only action that can *solve* the crisis—a transition toward a renewable, solar-based energy system." ■

CONGRESS

95th Congress taxes the imagination

By John Judis

WASHINGTON

IN ITS CLOSING WEEKS, THE 95TH Congress, with some help from Jimmy ("investigate corporate power") Carter, outdid itself. To fight big government, it sustained Carter's $2 billion water project veto

Meanwhile, it approved a $117.3 billion arms budget. If this budget rises 3 percent a year, as Carter has projected, the 1983 military budget will break the post-World War II peacetime record.

To fight inflation, Congress ripped the flesh off the Humphrey-Hawkins full employment bill, eliminating enforcement provisions, and making the bill's 1983 goal of 4 percent unemployment conditional upon the reduction of inflation to 3 percent.

At the same time, it passed a natural gas bill that *guaranteed* a 9 to 12 percent yearly jump in natural gas prices for the next five years. After that, the sky's the limit.

But the tax bill, which began as Carter's tax "reform" proposal and ended up as the Revenue Act of 1978, was the final indignity. Its passage prompted Ralph Nader to call the 95th the "corporate congress." But it was not merely a pro-business bill. Most legislation is pro-business. But this was flagrantly pro-rich. One would have to scour old *Congressional Records* to find a bill so oblivious of equalitarian ideals.

Yet it passed with little opposition: 72 to 3 in the Senate and 337 to 38 in the House. Only Sen. Ted Kennedy demanded that Carter veto it.

If there was ever any doubt about Carter signing it, it was put to rest last week when he told cheering Miami Democrats that he would.

Tax reform principles.

Tax policy is notoriously difficult to understand, which may be one reason why the present bill has elicited so little protest. Rather than plunging immediately into the abyss, it is advisable to lay out some general principles of tax policy.

1. *Tax expenditures vs. direct expenditures:* Lyndon Johnson's Assistant Secretary of the Treasury Stanley Surrey developed the concept of tax expenditures. The federal tax code contains a fairly progressive tax schedule that is dotted with "loopholes" or special tax breaks designed to please special interests or generally to stimulate business. Instead of seeing these as money that is not paid to the Treasury, one can see them as income that the Treasury receives and then gives back in the form of a "tax expenditure."

Surrey liked this way of describing loopholes because it brought home the difference between a tax expenditure and a direct expenditure. Direct expenditures, where Congress allocates a certain amount of money in welfare relief or in corporate subsidies, invariably come under greater congressional scrutiny; and they can involve *quid pro quo*'s that will ensure the expenditure is used in the manner intended.

Corporations prefer tax expenditures to direct expenditures because they involve less government supervision of their operations.

Labor's left-wing and the tax reform movement have always preferred direct expenditures. They argue that if Congress had to pass special grants for businesses to fly their executives first-class, they would be reluctant to do so. Or if instead of granting corporations several billions in tax relief by lowering the corporate income tax, it was proposed to allocate those billions directly, Congress might become less generous.

2. *Redistribution, economic growth, and special interests:* In every tax bill in the last 30 years, there have always been three compelling considerations: redistribution, economic growth, and special interests. Even the 1969 Nixon proposals closed some loopholes.

In his 1976 campaign, Carter promised a "total overhaul" of the tax system, to eliminate loopholes in favor of a uniform system that would redistribute income and stimulate business without the usual nods toward special interests. But Carter's trial balloons in summer 1977 were quickly shot down.

His January proposal was a pale shadow of these original professions. It did, however, bow toward tax reform: the cuts in the income tax were weighted toward lower incomes; deductions on such items as three-Martini lunches, first-class air travel and Super Bowl tickets were to be reduced or eliminated; and taxes on the overseas and export earnings of American multinationals would no longer be deferred or excused.

3. *Investment credit vs. capital gains.* To stimulate corporate investment, Carter was unwilling to use direct expenditures. He did nevertheless have various instruments at his disposal. At one extreme, making the 10 percent investment tax credit permanent (allowing businesses to deduct 10 percent of their investment expenses from their final tax bill) would directly confront business' unwillingness to invest. Lowering corporate income taxes would increase their revenue, but would not directly address the investment problem. And enlarging the loophole on capital gains, which removes half of the earnings from the sale of stock, land, and otehr property from taxation, would only affect business investment indirectly. It is of much more direct interest to the wealthy individual.

Carter therefore emphasized the investment tax credit in his proposal and secondarily the cut in corporate taxes. Far from advocating an enlargement of the capital gains loophole, he advocated that it be slightly shrunk. In this respect, Carter's original proposal reflected what might be called a class-conscious corporatism as opposed to a simple-minded pro-rich attitude.

Down with reform.

But when the House and Senate got through with Carter's proposals, little remained of the reforms. The income tax cuts were regressive—7 percent was deducted from each income bracket with the result that the 75 percent of taxpayers who earn under $20,000 get only 37 percent of the tax benefits, while the top 2 percent get 15 percent of the benefits.

Except for eliminating deductions on corporate hunting lodges, Congress gutted all the Carter reforms. It refused to eliminate loopholes on the earnings of multinationals. In order to produce a bill that would cost less than $20 billion, the House-Senate conferees cut tax breaks for the elderly, single parents, and the handicapped, while providing new loopholes for the slot machine, timber and magazine businesses.

It even postponed the enactment of one of the few reforms in Gerald Ford's 1976 tax bill: a proposal that would have subjected inherited property to a capital gains tax based on the difference between its original value and its value upon the death of its owner.

But nothing Congress did compared with its action on capital gains. Led by Richard W. Rahn and Charls Walker of the American Council for Capital Formation, a horde of lobbyists descended upon Congress to argue for making 70, not 50, percent of capital gains free from income taxation.

The proponents of this cut tried to show that it was not simply a give-away to the rich. This should have been difficult. The top 2 percent of taxpayers receive 75 percent of capital gains relief, and given that 85 percent of capital gains come from land or commodity speculation, and not from stock investments, a cut in capital gains would seem an unlikely candidate for stimulating productive investments.

But the lobbyists and their congressional allies trotted out a host of semi-specious arguments. Blaming the fall in stock prices since 1969 on the rise then in capital gains taxes (ignoring that stock prices rose again in the early '70s, only to plummet with the recession), they contended that the tax cut would encourage stocks sales and purchases and drive stock prices up. With stock prices up, corporations would be less likely to use their profits to buy up corporations and more likely to use them on new plant and equipment.

They also argued that, in any case, increased capital gains transactions would increase net federal revenue from a reduced tax.

Finally, they brought out the dreams of small-town America. In respor [illegible]g to Sen. Kennedy's attacks on the capital gains tax cut, Sen. Charles Percy (R-IL), the ex-chairman of Bell & Howell, spoke eloquently of the "couple that stopped me last weekend and said they had built a home 35 years ago for $15,000 and were going to sell it for $75,000. They were enraged at the thought that they would have confiscated, have the so-called profit, as they move into a rented apartment, taken away from them."

Of course, Percy didn't mention that the tax bill already contained a provision that would exempt the elderly on taxes from the sale of their homes.

Unfortunately, the American Council's strategy worked. Senators and House members got thousands of calls from small businessmen and homeowners urging them to enlarge the capital gains loophole.

And Congress finally settled on increasing the shelter from 50 percent to 60 percent. When these reductions are figured in with the income tax cuts, taxpayers with an income of $5000 or less get an average net cut of $38, while taxpayers with an income of $200,000 or more get an average net cut of $13,691.

Congress also satisfied the corporations' desires. The 10 percent investment

Continued on page 18.

TOTAL TAX DEDUCTIONS IN THE REVENUE ACT OF 1978

Income ($)[1]	Average. tax cut (−)[2]	Social Security increase (+)[3]	Net tax charge	Original Carter proposal[3]
0-5,000	$38	$14	−$24	(n.a.)
5-10,000	89	28	−61	(−$248)
10-15,000	80	42	−38	(−216)
15-20,000	136	261	+125	(−9)
20-30,000	239	439	+200	(+119)
30-50,000	458	439	−19	(+221)
50-100,000	1,153	439	−714	(+359)
100-200,000	2,235	439	−1,796	(+1,029)
200,000 and up	13,691	439	−13,262	(n.a.)

[1]Family of four.
[2]Includes not only income tax reductions, but also capital gains tax reductions.
[3]Figures apply to highest income within the bracket.

Source: Tax Reform Research Group, U.S. Treasury Dept.

Table: John Judis

Dr. Richard W. Rahn (left) is the executive director of the American Council for Capital Formation. Sitting in his Washington office, Rahn acknowledged that the campaign for further capital gains tax reductions was "directed at this office."

Carter's original tax proposals were merely pro-business. The tax bill that Congress passed is blatantly pro-rich.