

# All the current tax proposals will make the poor pay more

By John B. Judis

WASHINGTON

**B**Y CHALLENGING PRESIDENT Ronald Reagan to reveal how he would raise taxes in 1985, former Vice President Walter Mondale has made taxation a central issue of his presidential campaign. His challenge brings the debate over tax reform that has been preoccupying Washington for the last two years to center stage. Spurred by Sen. Bill Bradley and Rep. Richard Gephardt's (D-MO) plan to simplify the tax code, proponents of progressive and regressive consumption taxes, flat taxes and national sales taxes have championed their plans.

But Mondale has also moved the debate onto a terrain where liberals, labor and the left have fared poorly during the last six years and has implicitly committed the Democrats to backing a tax increase in 1985, regardless of who wins in November.

## Conflicting priorities.

In providing revenue for government operations, taxes have also been used to accomplish two other, sometimes conflicting aims—stimulating business and redistributing wealth. Since the early 19th century, when regressive tariffs and excise taxes were the principal means of raising revenue, to the 20th century, when they were eclipsed by the individual and corporate income tax, the debate over taxes has swung between these two aims.

Under pressure from the civil rights and new left movements in 1969, Congress passed a redistributive tax reform eliminating loopholes that businesses and the wealthy had used to avoid paying taxes. But with the decline of the '60s left, the Republican right and business lobbies have won new incentives for busi-

ness and lower rates for the wealthy since 1978.

The current counter-reform in taxes has been led nationally by Rep. Jack Kemp (R-NY), the principal advocate in Congress of supply-side economics, and former Treasury official Charls Walker, the heavy-jowled chairman of the American Council for Capital Formation. Walker, a Texan and close associate of John Connally, was recently described by one former Johnson administration official as "the second most powerful man in Washington."

Kemp and Walker co-opted the popular and largely local tax revolt of the late '70s. While railing against high taxes, they insisted that taxes had to be reduced in such a way as to stimulate investment.

Democratic Keynesians had argued that the progressive income tax fostered economic growth by ensuring that income was spent (the higher the income the greater the chance that income would be saved rather than spent).

But Kemp and Walker argued that what fueled growth was not demand but supply—in the form of the savings of the wealthy and the corporations. They blamed the stagnation of the '70s on high tax rates and argued that if they were lowered for the wealthy, all taxpayers would eventually benefit through increased economic growth. Kemp even argued that lowering tax rates on the wealthy would generate greater revenues.

In 1978, Walker's lobbying almost singlehandedly transformed President Jimmy Carter's tax reform proposal, which called for reducing deductions on capital gains, into a bill increasing capital gains deductions. It was adopted by Congress in October of that year.

In 1981, under Kemp's leadership, Congress passed Reagan's tax bill, which reduced tax rates across the board and provided new tax credits and deductions

for business. The effect of the two bills has been to grant the rich huge tax savings, virtually eliminating the corporate income tax and generating huge budget deficits (see Chart 1). Even after two subsequent tax increases, the Reagan bill was still expected to cost the Treasury \$644 billion in revenues from 1983 to 1987.

Rising deficits and an increasingly Byzantine tax code have prompted calls for tax increases and tax reform or simplification. But the proposals that have emerged since 1982, including the chief

crease the tax payments of middle income groups. Because Bradley-Gephardt eliminates the deduction for two earners, counts employer-paid health and life insurance as income, lowers the deduction for mortgage interest, eliminates the child care credit and repeals indexation, a typical two-earner family of four making \$30,000 and owning their own home would pay \$221 a year more under Bradley-Gephardt (see Chart 2).

Bradley and Gephardt describe their bill as "populist." The leaflet put out by their Citizens for a Fair Tax features a tearful taxpayer being crushed by Form 1040 and is headlined "Feel Crushed by Your Tax Burden?" At best, however, Bradley-Gephardt would save taxpayers time compiling returns and bring the government, in the long run, more revenue from the very rich. At worst, it simply rationalizes the inequities of the Reagan tax

CHART 1

Average Percent Tax Changes from the Reagan/Kemp-Roth Rate Cuts by Income Class, 1982-84, After Offsetting Tax Increases from Inflation and Higher Social Security Taxes.

(1981 Income Levels)

Income	% of all Taxpayers	Percent Change in Taxes
<b>BIG LOSERS</b>		
Under \$10	34.2%	48.9%
\$10-15	14.7%	
<b>LITTLE CHANGE</b>		
\$15-20	12.1%	46.2%
\$20-30	18.9%	
\$30-50	15.2%	
<b>BIG WINNERS</b>		
\$50-100	4.0%	4.9%
\$100-299	0.7%	
Over \$200	0.2%	

Source: Robert S. McIntyre and Dean C. Tipps, *Inequity and Decline*, 1983, pp. 23-25.

Democratic ones, have incorporated the assumptions of the supply-side Republican and business lobbyists.

## Democratic plans.

Most Democrats have bought Walker and Kemp's argument about the need to increase savings. In both 1978 and 1981, a majority of Democratic senators backed the Republican bills. And leading Democratic economists Robert Reich and Lester Thurow have echoed the supply-side line on taxes.

The Bradley-Gephardt tax bill, introduced in the summer of 1983 to applause from the *Wall Street Journal* and the *Washington Post*, does not alter the Reagan bill's after-tax distribution of income, but simplifies the way in which it is collected. It is based on the correct assumption that the rich (supposedly taxed at 50 percent) and the large corporation (supposedly taxed at 46 percent) use the numerous loopholes in the tax code to pay effective tax rates considerably lower. In 1982, for instance, the average effective tax rate on corporations was 16.1 percent. Bradley-Gephardt would simplify the code by eliminating most deductions and credits, while lowering tax rates for the rich and for corporations.

Under Bradley-Gephardt, families making less than \$40,000 would pay at a 14 percent rate, families making between \$40,000 and \$65,000 would pay at 26 percent and families making more than \$65,000 would pay 30 percent. The corporate tax rate would be cut to 30 percent.

While Bradley-Gephardt does not radically redistribute income, it still benefits some groups and harms others. Because of a larger personal exemption and an increase in the standard deduction, a family of four making \$11,200 would pay no taxes under Bradley-Gephardt. And a family of four making \$60,000 in salary and \$60,000 in interest and dividends would pay slightly less than before because of the plan's lower tax rates.

But befitting the effort of two silk-stocking Democrats, the plan will in-

cut, while demonstrating once again the Democrats' disdain for middle income earners.

The other Democratic alternatives are even worse. Economists at the Brookings Institution, the principal think tank for Democratic administrations, as well as neoliberal politicians and economists have been pushing a progressive consumption tax. The purpose of such a plan, economist Robert Reich writes, is to "encourage savings [so that there is more money to invest] without giving a windfall to the rich or placing a disproportionate burden on the poor."

With a consumption tax, families would be taxed each year for what they

## The Democratic alternatives to Reagan's tax ideas accept the need to increase savings.

# CAMPAIGN

spend, not for what they save or invest. A family that borrowed money to buy a car would be taxed for the money spent, even though it was not earned, while one that used its income to invest in a car company would not be taxed on that income.

Under the Democratic plans, the tax rates for the different levels of consumption would be progressive so as to preserve the existing level of average tax payments. But while such a plan might not disturb the vertical distribution of wealth, it would create new "horizontal inequities" among families and individuals making roughly the same income.

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CHART 2

Income Tax of a Typical Middle-Class Family under the Bradley-Gephardt Tax Bill

	1984 Law	Bradley-Gephardt Proposal
Income: Salary	*30,000	*30,000
Less: Two earner deduction	1,000	---
Plus: Employer paid health insurance	---	1,200
Employer paid life insurance	---	300
Equals: <b>Adjusted Gross Income</b>	<b>29,000</b>	<b>31,500</b>
Itemized deductions:		
Mortgage interest	5,000	5,000
Property taxes	1,500	1,500
Sales taxes	400	---
Income taxes	1,000	1,000
Charitable contributions	500	500
TOTAL	8,400	8,000
Less: Zero bracket amount	3,400	6,000
Equals: Excess Itemized Deductions	5,000	2,000
AGI	29,000	30,700
Less: Exemptions	4,000	5,000
Excess itemized deductions	5,000	2,000
Child care deductions	---	2,000
Equals: <b>Taxable Income</b>	<b>20,000</b>	<b>21,700</b>
TAX BEFORE CREDIT	**2,461	***2,282
Less: Child care credit	400	---
Equals: <b>TAX AFTER CREDIT</b>	<b>2,061</b>	<b>2,282</b>
Marginal tax rate	18%	14%

\*Assumed \$20,000 earned by one spouse, \$10,000 by the other

\*\*From 1984 law rate tables

\*\*\*Taxable income less \$6,000 zero bracket amount times 14% tax rate

Source: *The Fair Tax*, by Sen. Bill Bradley, New York, 1984

# IN SHORT

## Lawyers who need lawyers

The Reagan administration—in still another effort to paint Cuba as a danger for North Americans—has now taken on a small New York travel agency and lawyers from the Center for Constitutional Rights (CCR) and the National Lawyers Guild (NLG). Late last month the Treasury Department's Foreign Assets Control Office subpoenaed Marazul Tours, forcing it to turn over names of 13,000 Americans who've visited Cuba since the 1982 travel restrictions. Most of these were Cuban-Americans visiting relatives, but about 2,000 visited the island for research and professional reasons—and it's these records that the Treasury Department will scrutinize more closely. A second subpoena zeroed in on a legal conference scheduled for September 16-23 in Havana, hosted by the Cuban Ministry of Justice and the National Union of Cuban Jurists and planned by CCR lawyers. The Treasury Department asked Marazul to furnish it with the names of the 2,000 lawyers on the mailing list for the conference. This caused an uproar at the NLG and the CCR that caused the government to rethink its tactics—now it seeks only the names of lawyers who attend the conference, not the entire mailing list.

As *In These Times* went to press, the trip is still on (with eight or so lawyers braving the possible harassment), and Marazul successfully avoided having to turn over the CCR's original mailing list. But the subpoenas represent a new form of government intimidation. A new form with an old purpose, however, says David Lerner of the CCR: "Our entire Central American policy right now rests on the attempt of the administration to make Cuba a bugaboo. This is one more effort in that direction."

## Strangers on the right?

A group of Catholics mostly aligned with conservative interests, fearing that the upcoming bishops' pastoral on the economy will go too far in its criticism of American capitalism, will release their own report on November 11, one day before the bishops' is due. Gregory Bergman reports that the lineup for the 32-member American Catholic committee reads for the most part like a who's who in right-wing Catholic circles: former Secretary of State Alexander Haig, Michael Novak of the American Enterprise Institute, corporate head J. Peter Grace who was recently associated with anti-Sandinista efforts (see *In These Times*, August 8), along with 16 CEOs from major U.S. corporations. The few exceptions to this corporate and ideological battalion are notable, however. Edward Cleary of the New York AFL-CIO joined the committee because he thought it was important for the bishops to hear from business and labor. He dropped out a few weeks ago, however, because "the more I found out about the committee the more I realized it was Michael Novak trying to slam the bishops' statement before it even appeared. I wonder where he got this crystal ball." The other labor leader, John Henning of the California Labor Federation, has in the past been a spokesperson for left causes in the labor movement. Though *In These Times* was anxious to ask Henning what it was like listening to the "Economy According to Haig, Novak, et al.," he was unavailable for comment.

## Philaposh proposes

What was once a Heritage Foundation proposal on cutbacks in the Occupational Safety and Health Administration (OSHA) has now become OSHA reality, thanks to Thorne Auchter's almost-perfect implementation of their 1979 blueprint. Now Philaposh, the Philadelphia Area Project on Occupational Safety and Health, counters the right-wing's corporate suggestions with proposals of its own. "Revitalizing OSHA After Reagan" focuses on the administrative and regulatory changes that have made OSHA unresponsive to workers since President Reagan's takeover and makes suggestions for a "post-Reagan, worker-oriented OSHA." The report cites changes that led to OSHA's declining quality of inspections, including docking OSHA administrators merit pay when they go over the "allowable number" of citations to businesses and encouraging OSHA administrators to routinely reduce penalties to businesses by 50 percent to avoid a courtroom battle.

Philaposh, a union coalition once funded through OSHA but now primarily a labor-supported group, has been working on the proposals for more than a year. Their purpose is to "wake up the American public—the price they pay for one nuclear attack submarine could be used to increase OSHA's budget by 250 percent," said Charles Morris of Philaposh. "Philaposh is here to pick up where OSHA leaves off—unfortunately, in recent years that's been an impossible burden on our budget of \$135,000." For a copy of their 10-page proposal send \$5 to Philaposh, 5th floor, 3001 Walnut St., Philadelphia, PA 19104.

## What's up, Doc?

Apparently the average American male has a high regard for science. When Stanford researcher Dr. Julian Davidson put out the call for 40 volunteers to test a new drug, more than 300 men eagerly responded. The drug, yohimbine hydrochloride, has been rumored since the '20s to be an aphrodisiac and now doses of it have excited Stanford rats. But Dr. Davidson put a damper on a rat-to-human analogy: "The drug's effects in people may be different from those seen in rats. Human sexual behavior is complicated by emotions and other such things."

—Beth Maschinot



The Civil Rights Act of 1984 would protect women's gains in sports.

## Senate stalls sex bias bill

WASHINGTON, D.C.—Americans excited by the nomination of Geraldine Ferraro won't have to wait until the November elections to see if the women's vote has become a powerful force in American politics. The major civil rights bill of this Congress, the Civil Rights Act of 1984, still languishes in the Republican-controlled Senate. Backers hope to use two powerful symbols—women and the Olympics—to force passage. But they may have to overcome threatened amendments and a possible filibuster by right-wing opponents, and then may still face defeat by a possible presidential veto.

The legislation was introduced

into Congress last April by a bipartisan group after the Supreme Court's *Grove City College vs. Bell* ruling that severely limited the scope of Title IX of the Education Amendments of 1972. Title IX is the only federal law prohibiting sex discrimination in federally assisted programs and is credited for expanding women's and girl's educational and athletic opportunities.

The Court, siding with the Reagan administration, said only the programs that received direct federal money had to comply to Title IX. In all previous administrations every program in a school being helped by government money had to comply to Title IX. Since the ruling the Department of Education has closed almost two dozen cases, including some affecting athletic departments, saying the programs did not receive direct funds.

And because of the Court's

ruling, three other significant civil rights laws protecting racial and ethnic minorities, the disabled and older Americans could also be similarly restricted and less effective in combatting discrimination.

The bill passed the House with minor amendments in June by a 375-to-32 margin, but things have not gone according to the fast-track strategy hoped for by the Senate supporters. The administration and right-wing Republican Senators Orin Hatch (R-UT), Jesse Helms (R-NC) and John East (R-NC) have managed to delay consideration of the bill in Hatch's Labor and Human Resources Committee and on the Senate floor.

Supporters recently held a Washington press conference to try to break the legislative deadlock. Using the interest in women's athletics generated by the Olympics, Ralph Neas, executive director of the Leadership Conference on Civil Rights, warned that "many Americans do not realize that our civil rights laws and our future Olympic efforts are in serious jeopardy. Indeed, your [Reagan's] opposition to the Civil Rights Act of 1984 poses more of a threat to America's future Olympic efforts than any other possible factor, including political boycotts."

Judy Goldsmith, president of the National Organization for Women (NOW), said that by opposing the legislation, "President Reagan and the Republican Senate leadership would deny the next generation of American women the chance to compete in the Olympics."

Senate majority leader Howard Baker (R-TN), an original co-sponsor and expected 1988 presidential contender, has promised to bring the bill directly to the Senate floor in mid-September, bypassing Hatch's committee. Plans are now underway to bring Olympic athletes to the Capitol to lobby for the bill.

If the bill passes, one Republican House aide said that presidential approval will depend on the polls. "If he's ahead, then they'll pressure him to sign it." If the bill fails, then Democrats hope to use Reagan's opposition of it to demonstrate that the showcasing of women at the Republican convention in Dallas lacked depth. In short, they hope to show that the Republicans refuse to fulfill their promise of equal rights without a Constitutional amendment.

While many people bemoaned the commercialization of the Los Angeles Olympics, civil rights strategists now hope that if Olympic gold can be used to sell soft drinks and Xerox paper, it can also sell legislation.

—Jeffrey Menzer

## SYLVIA

by Nicole Hollander

