IRET Byline

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THE TAX BILL — "FAIRNESS" OR FOLLY?

The Democratic-controlled Congress has taken its best shot and sent the President a tax bill designed to make taxes fair for middle class families and restore growth to our economy.

Unfortunately, somewhere in the morass of political debate, Congress mixed up the concepts of tax fairness and economic growth. The tax bill the President vetoed will neither promote fairness nor increase economic growth. Indeed, to achieve tax fairness, we need to first achieve economic growth.

Higher incomes and new jobs go a lot farther in promoting tax fairness than does a small reduction of income taxes for a relatively few of our families.

In viewing the economy today, I am reminded of the situation confronting the nation during the inflation and stagnation of the late 1970s and early 1980s. That was a time of falling real incomes, rising unemployment, and diminished economic opportunities. While today's inflation rate is much lower, we are again faced with falling real incomes and rising unemployment, compounded by an inadequate rate of investment in new production capability.

It is clear that the politics of income redistribution and class warfare are not going to show us the way out of this mess. Congress needs to put these aside and do what we did in 1981 — work together to craft a bipartisan bill aimed squarely at promoting economic growth to benefit all Americans.

In the late 1970s, the economy was brought to its knees by sharply higher marginal tax rates on work effort, saving, and investment. Inflation was driving taxpayers into higher tax brackets, reducing the incentive to save, work overtime, or invest in a small business. Inflation also drove the cost of capital higher, causing productivity, real wages, and employment to slump.

Two great policy shifts overcame these difficulties. The Federal Reserve curbed inflation by restraining money supply growth, and the Tax Act of 1981 was passed. The tax act lowered individual marginal income tax rates across the board, which in turn reduced the tax on labor, saving, and investment. The act also contained provisions that lowered the cost of capital.

The twin reductions in inflation and tax rates ushered in the longest peacetime economic expansion in history and created 20 million new jobs. Wages and family incomes, which fell between 1979 and 1982, turned around at all income levels and rose across the board during the recovery.

We can learn some great lessons from the 1981 tax cuts. The cuts demonstrated that reducing tax rates on labor and capital does result in more growth and new jobs. The 1981 tax act also shows that increasing productivity and economic growth are the keys to raising incomes and living standards. Higher incomes and new jobs go a lot farther in promoting tax fairness than does a small reduction of income taxes for a relatively few of our families.

Some inequity does exist in our tax system today. The payroll tax is regressive and places an onerous burden on the American worker. In fact, many low to middle income workers pay more in payroll tax than

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in income tax. The biggest inequity of all, however, is to choke off growth and limit the economy's ability to create new jobs. This is exactly what the tax bill just vetoed would have done.

The economy would have fared no better under the new taxes of the vetoed bill than it has under the luxury taxes passed in 1990. These taxes were also designed to "soak the rich" and make the system more fair. The effects, however, have been disastrous, and I doubt if one could find more than a handful of members of Congress who would not vote to repeal at least one of these ill-conceived taxes. Time and again, efforts to redistribute income through the tax code have backfired. Taxes on the rich injure the poor and middle class by eliminating jobs.

Now that this bill is behind us, I hope Congress can put aside election year politics and pull together to craft a progrowth tax bill that will create jobs, increase living standards, and propel our economy into the competitive position it needs to be for the 1990s and beyond.

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Orrin G. Hatch is a Republican Senator from Utah and serves on the Senate Finance Committee.

Note: Nothing here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before the Congress.