Capital Conscious Tax Revisions: Prospects and Recommendations

Remarks
by

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Earlier this year, many tax people in the business community had high hopes that the tax legislative effort this year would result in a major easing of the bias in existing law against private saving and capital formation. Widespread publicity and discussion of the prospective capital shortage, presumably, would refocus the Ways and Means Committee's attention from the usual, ~~primitive~~ punitive "loophole-closing" tax reform to the urgency of basic structural revision in the interests of reducing the tax burden on saving and capital formation. The July hearings of the Committee provided abundant opportunities to make the case. One business group after another came in with a variety of proposals to this end, culminating in the Testimony of the Security of the Treasury. Now, with the dust of the hearings settled and the Committee at work on producing a bill, it is evident that the business community accomplished very little indeed. The Committee's agenda calls for all of one day to be spent on capital formation, and another day on capital gains.

Let me take the liberty of giving you my observations about what went wrong.

1. For the most part, business witnesses, while making much of the capital shortage, failed to identify it in any meaningful way for the Committee. The huge numbers various witnesses provided as their estimates of the shortage, I think did have the

effect of making many Committee members anxious, but the numbers remained, for the most part, just that---numbers. Along with their anxiety, ~~then~~, the Committee members appeared to be suspicious.

2. For the most part, the business testimony concentrated on the specifics of proposals, rather than their justification. Most of the proposals are excellent, from the point of view of technical and analytical substance. But the most elegantly and carefully defined proposal can't be expected to gain acceptance on that basis alone; in contrast, even a hazily defined proposal may be enthusiastically received if the Committee understands and agrees with its objectives.

3. Almost without exception, business testimony presented proposals for tax relief for business entities and for special groups of individual taxpayers. Business witnesses failed to take account of the overwhelmingly populist orientation which has gripped the Congress. It is essential to depolarize the issue of consumption vs. saving-investing, by eliminating entirely any issue of business vs. labor or consumer, or fat-cat vs. the ordinary taxpayer. The concentration by business witnesses on business tax relief or by special group witnesses on relief for the taxpayers they represent implanted or confirmed the suspicion in the Committee that capital-conscious tax revision proposals are just a cover for the same old

game of promoting special interest tax breaks. The Committee was never asked to focus on the basic issue---how much of our current income do we consume and how much do we save and what, on the broadest possible basis can be done to get us all to save more? Several members of the Committee, on the other hand, picked up on this issue themselves. Congressman Karth, for example, observed that what the witnesses were saying is that the private sector needs to save more and asked why the panelists couldn't come up with some type of tax change that would apply to everyone---to get everyone to save more. The panelists let that pitch go by with the bat still on the shoulder.

4. Few business witnesses provided hard, quantitative analysis to support their arguments. In this day of econometric models in everyone's pocket, witnesses were presenting their arguments and proposals as if they couldn't be troubled by providing estimates of economic effects and revenue consequences, or when they did offer such estimates, to explain how they were made.

To sum up, the hearings did not succeed in informing the Committee about what the capital shortage is, what its effects are, who stands to lose the most---labor. Little was done to prevent the counter attack---any saving-capital shortfall will be of little consequence and can best be met by the Government's running surpluses generated by elir [illegible]ating tax "expenditures"---i.e., by closing loopholes. Virtually nothing was done to eliminate the business fat-cats vs. the little guy casting of the issue. On the contrary, the focus on business taxpayers in the proposals to relieve the shortfall of saving-investing reinforced the suspicion that the capital shortage argument was only a convenient disguise for seeking tax relief for business and affluent individuals.