FROM: Phyllis Schlafly

68 FAIRMOUNT, ALTON, ILLINOIS 62002 / (618) 462-5415

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A LOOK AT REAGAN'S TAX POLICIES

Most people are acutely aware of the high taxes they are paying, but few people are aware of the social policies hidden behind those taxes. Nevertheless, those social policies are powerful incentives to guide and induce personal and business decisions.

One of the last Senate speeches made by Paul Tsongas, the recently-retired Senator from Massachusetts, is instructive. On May 1, 1984, he told how he had voted against the reduction of the capital gains tax in 1978 because, as a Democrat, he perceived it as "pro-business."

Then he made a startling confession. "That bill which I did not support," Tsongas said, "did more for the economy of my state than anything I did as a Congressman."

These remarks by a retiring Senator show that some Democrats are finally beginning to realize how their high-tax policies stifle business. The principal reason for Ronald Reagan's victories in 1980 and 1984 was that the American people have reached a consensus to get the Federal Government off the back of our economy.

The Reagan Administration came to power with an economic objective summarized in the President's words as, "Give the economy back to the American people." He wants to reduce Federal intervention and allow the free market system to function, based on his belief that this is the road to a rising living standard, expanding opportunities for employment, and a stable level of prices.

A private group of four think tanks, working together under the ad hoc name Committee on the Next Agenda, has released a 72-page package of recommendations to promote these objectives in Reagan's second term. The group includes the Heritage Foundation, the Brookings Institution, and the American Enterprise Institute.

The economic policies of the Carter Administration had resulted in high inflation, high interest rates, lower employment, and lower economic growth. The Reagan Economic Recovery Tax Act of 1981 shifted the direction of our economy by starting to reduce the bias in our tax system against work, against saving, and against capital formation.

That's why we experienced economic recovery in 1984.

The Committee on the Next Agenda urges that 1985 tax reform try to eliminate the strong bias that has existed in the tax code for many years against saving (i.e., capital formation) in favor of current consumption, against productive personal effort in the market system, and in favor of a whole range of activities which can be called "leisure." It is wrong for our tax code to encourage taxpayers to be unproductive.

The Next Agenda Committee recognizes the political reality that it may not be possible to eliminate this bias completely. But it urges us to start in this direction by (1) removing savings from the tax base, and (2) moving to the flattest possible marginal rate structure.

The Committee hopes that the modest progress achieved by the capital gains rate reduction in 1978 and the Economic Recovery Tax Act of 1981, can be enhanced by moving our country, over a period of years, to a new income tax system. Its fundamental attributes would be: (1) taxes only on individuals, recognizing that corporations do not really pay taxes anyway but are only a conduit for collecting taxes from the people they service; (2) the lowest and flattest possible tax rates; (3) the broadest possible income base, with the broadest deductions for current saving; and (4) some taxes on the largest number of people so that people will realize the cost of government.

The Next Agenda Committee urges deficit reduction through reforming and controlling government spending. It also urges particular efforts to find private sector alternatives, so that privatization of some major Federal programs, with standards and safeguards, can take place over an extended period of time.

Of course, the Committee urges that the President be given line-item veto power in appropriations and that a Balanced Budget amendment to the Constitution be passed.

In its first term, the Reagan Administration made substantial and important reforms in the regulation of financial, communications and transportation institutions. The Committee urges further diversification and competition among depository institutions.

The politics involved in the Federal spending apparatus are intimidating and frustrating to those who are trying to reverse the big-government escalation of the last 20 years. The Committee is to be commended for its constructive suggestions.