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TAX CUTS NOW ARE ESSENTIAL

Will Ronald Reagan become another Margaret Thatcher? Prime Minister Thatcher won a splendid conservative victory two years ago. But after her election, she became timid and failed to cut taxes as she promised. (A small tax cut was offset by another tax increase.) The British economy has gone from bad to worse. In the political arena, conservative strength has declined instead of increased.

Almost every American President has suffered a loss of his own party's strength in Congress in the mid-term elections. The exception was Franklin D. Roosevelt elected in 1932; the Democrats increased their majorities in the Congressional elections of 1934. F.D.R. was able to keep his 1932 political momentum going.

The question today is, can Ronald Reagan do likewise? Will conservative strength gain or fade in the 1982 elections, only 20 months from now? That question will be answered by the economy in general and by tax cuts in particular.

Ronald Reagan was elected with a mandate to cut taxes 10 percent a year for each of three years in order to stimulate the private enterprise economy and dramatically cut the size of the federal government. Unfortunately, his advisers persuaded him to be less than bold about tax cuts.

Reagan's campaign promise was to enact Kemp-Roth tax cuts based on what is called "supply-side" economics. Simply put, that means: let incentives stimulate the economy, resulting in investment, capital formation, and creation of private-sector jobs.

The most important tax cut we need is a cut in the maximum tax rates to 50 percent. This cut would reduce government revenues very little (only $2-1/2 billion over three years), but it would give a tremendous boost to private investment.

Unfortunately, Reagan acquiesced in advice to let tax rates remain as high as 70 percent on what is falsely called "unearned" income. The pitiful 5-1/2 percent interest on your hard-earned money in your bank savings account is labelled "unearned" income!

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Second in importance is the 10 percent per year across-the-board tax cut for three consecutive years. President Reagan asked for the 10 percent, but unfortunately delayed the effective date to July 1, while asking for a business tax cut starting Jan. 1, 1981.

Does a 10 percent tax cut sound like a lot? It isn't, really. The legacy of Jimmy Carter is that, even if Congress takes no action at all, taxes will rise at about $100 billion a year (from inflation bracket creep, windfall profits, and Social Security taxes).

The Democratic-controlled House is proceeding with skillful plans to cut up Reagan's tax bill in little pieces and stall even more on the effective date until it's too late to take effect in 1981 at all. It isn't any accident that the Democrats forced an unfair 2-to-1 Dem-Rep ratio on the Ways & Means and Rules Committees.

Unfortunately, in his speech, Reagan discussed taxes in second place, almost as an afterthought behind budget cuts. His message was "austerity," whereas his message should have been "prosperity." The impression left by the speech was "here are all the ways my program is going to hurt people." The impression should have been "here are all the ways my program will help you" (i.e., by cutting taxes, letting you spend more of your own money, and letting the economy grow and prosper).

All the talk in the corridors of the Capitol indicates that the sentiment is much stronger for Reagan's budget cuts than his tax cuts. That's just clever strategy by those whose objective is to defeat Reagan's entire economic package, to give the special-interest pressure groups the chance to fight the budget and tax cuts item by item, and then to defeat all conservatives in the next election.

Even if Congress, by some miracle, votes all of Reagan's budget cuts, the cuts are not enough to stimulate economic recovery within the next year or two. It should be remembered that Reagan's tax reduction is actually only a reduction in the tax increase Carter built into the system.

When the budget cuts fail to show tangible results the voters can see, Reagan and the conservatives will be blamed and will pay the political price in 1982 and '84. The only chance for the success of our first conservative government in decades is to achieve the promised tax cuts retroactively to Jan. 1, 1981, with the commitment to cut again every year thereafter.

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