P.S. tu **the NEWS**

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Indexing Income Taxes

Inflatior is picking the pockets of Americans at a galloping rate. Workers are earning rnore dollars but realizing less in real income. Inflation is forcing wives into the labor market and husbands to moonlight with a second job, just to make ends meet.

Most Americans are aware that inflation is caused by government deficits. When the federal government spends more than it receives in tax revenues, it rolls the prirting presses and thereby cheapens the value of the dollar. Congressmen like this because the additional tax can be imposed without facing the consequences of voting for a tax increase.

What isn't generally realized is that government makes a double profit out of inflation because it pushes the taxpayer into a higher tax bracket. You not only pay more taxes; you pay a higher rate of taxes.

EconomicJlly, the taxpayer suffers a loss when this happens, but the government realizes a windfall profit. Not only does the government get more spendable in ome, but it gets it in a way that avoids those unpleasant, politically damaging roll-call votes.

Let's take some examples to see how this works. Say your wage in year one is $5,000 on which your tax is $98, so that your real income is $4,902. Five years later, your wage is $7,013 and your taxes have jumped to $404. But inflation has eroded your purchasing power so that, although the dollars in your pocket after taxes have risen 35 percent, your real after-tax income has declined 4 percent.

Suppose your income is $13,000 in year one, on which you paid $1,380 in taxes. Five years later, your income has risen to $18,233 and your taxes have gone up to $2,566. But inflation has eroded your purchasing power so that, although your

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after-tax income appears to have put 35 percent more dollars in your pocket, your real income after taxes has dropped 4 percent.

If you think you are on a treadmill where you fall farther behind financially with each wage increase, you are. The progressive income tax pushes you into a higher bracket and your taxes increase at a faster rate than your real income. You are spending more and enjoying it less.

Dr. ilton Friedman, Nobel prize winning economist, concludes that, "If your incorre goes up by 10 percent, your taxes will, on the average, go up by about 15 percent." That is why, he explains, despite several supposed tax cuts in the last decade, Americans paid the same percentage of total personal income taxes in 1976 as in 1966.

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The tax cuts passed by Congress were wholly offset by the tax increases caused by inflation. Dr. Friedman uses the word "fraud" to describe the way politicians get credit for voting tax reductions while we pay higher and higher taxes.

Of coL1rse, the best solution for this problem is to cut federal spending. But efforts to do that have not been encouraging. An alternate solution is to adjust the tax rates to compensate for inflation increases, a procedure called "indexi ng."

This procedure would tie key provisions of the Income Tax Code to the Consumer Price Index. Although your tax would rise when your income rises, you would not pay a greater proportion of your real income to the federal government ur.less a specific tax increase is voted by Congress.

The concept of indexing is not new. It's the same principle used in fixing automatic pay increases that rise with inflation for all federal employees. Those who live on the taxpayers' money have protected themselves against inflation by indexing. It's time the rest of Americans were protected, too.

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