Editorial

The Tax Debate

Citizens should have a reduction of taxes if there is a surplus because, if they do not get a reduction of taxes, politicians will spend that money. They always do.

President Bush proposed a budget of $1.96 trillion, which is enormous. Unless my memory deceives me, President Johnson had a budget of $90 billion and that size astounded us. Since Reagan left office the federal budget has grown ten percent every year and our current president has suggested a four percent increase over current spending. According to Cal Thomas, conservative estimates of the budget surplus over the next ten years will be $5.6 trillion. In spite of the anticipated surplus and the proposed increase in spending, the Democrats, and some Republicans, claim President Bush is reducing spending because the increase in the rate of spending should be eight percent. Only a politician can think in these terms.

The first reaction in the Senate to the president's suggested tax refund was to defeat the measure, and great was the glee. Tom Daschle and his friends on television claimed the president's program was dead. They gloried in their triumph. Senator Kennedy said,

> The Bush administration has given us an excessive, unjustified tax cut. This is the wrong medicine for our economy, and we are going to do anything we possibly can to resist it.

Senator Hillary Clinton says it would squander our surplus. Journalist Al Hunt attacked the tax cuts as "geared to the rich" and Dan Rather said the Bush tax cuts would benefit only "the wealthiest 1.5 to 2 percent of the people in the country."

Senator Kennedy should study the recent history of his beloved Ireland. That country had been dead for hundreds of years, but by a reversal of policy it has become prosperous. Dublin's once gloomy streets now sport trendy, international restaurants, the latest luxury cars are common, construction sites are so short of labor they import skilled workers from Britain—an astonishing reversal of roles.

How did Ireland transform itself? According to a July 1999 article in the *Reader's Digest*:

> In the late 1980s, the government finally undertook radical reforms. Government spending was slashed, and some 40,000 jobs were chopped from the bloated public sector: entire hospitals were closed, and thousands of teachers and welfare workers laid off. Nationwide agreements between government, management, and labor also ended debilitating

> strife and reined in wage increases. The standard corporate tax rate was slashed from 40 percent to 32 percent, and interest rates were reduced.

Ireland did what Bush proposes. Ireland succeeded by doing everything the Democrats oppose. And they created employment by cutting the taxes of corporations! Senator Kennedy must find that hard to understand.

Because a tax cut is sensible if there is a surplus, some Democrats broke rank with their leadership. As well as a limited tax cut, the new suggestion was to send cash directly to people, particularly those with the lowest incomes. The theory was that with money to spend, productivity would increase. The fault with this suggestion is that the rebate would be temporary so that the benefit would be temporary. The last twenty-five years have demonstrated that a reduction of taxes for all classes, and particularly for business, increases investment and production—and production creates consumer spending.

Another effort to derail lower taxes is to pay off the national debt. According to figures that come to my desk, our debt is $5.7 trillion with $3.1 trillion in marketable Treasury bills and bonds, owned by individuals and corporations around the world. Those figures suggest the difference between the two figures is the accumulated debt of unbalanced budgets, which is held by the government itself, mainly in the social security fund.

According to the Department of the Treasury,

> The preferred solution for dealing with the Federal Budget deficit is to maintain a balanced Federal budget as much as possible. This requires that all U.S. Government spending be matched dollar-for-dollar by tax revenues whenever possible. This approach to budget management would reflect [not only] fiscal responsibility, but also provide a straightforward and honest way of informing taxpayers of their current and future tax liabilities.

The government could use surplus funds to reduce the national debt by retiring bonds as they come due, not issuing other bonds to replace them. This would place cash in the economy, but it would also deprive investors of a security of great value. Investment in the U.S. is regarded as one of the soundest in the world. We can be proud of our reputation. While no one has suggested paying off the national debt quickly, it could be done if the Treasury issued notes, or created money, equal to the debt; but this would cause inflation. Either alternative (using the surplus to reduce the national debt, or reducing taxes) has validity, but the preference must be given to reducing taxes. First, because of a troubled economy, the country needs the stimulus; second, because politicians cannot be trusted to be financially prudent. They will spend forever to buy votes.

President Bush wants to change Society Security by privatizing some of the present contributions. Countries which have privatized personal retirement are Argentina, Australia, Bolivia, Chile, Columbia, Croatia, Denmark, El Salvador, Hungary, Kazakhstan, Mexico, Netherlands, Peru, Poland, Sweden, Switzerland, United Kingdom, Uruguay. Venezuela has just passed a bill setting up such a system, and both China and Russia are looking at setting up some form of personal retirement accounts.

Why must we privatize Social Security when it as been around since the depression?

> (1) Because it will run out of money in about fifteen years. When the system began there were about forty workers for every beneficiary. The number of workers for each beneficiary is growing smaller. When the income is less than expenditures benefits, will have to come from general taxation. The so-called Trust Fund has no money—only promissory notes. These notes can only be met by taxation.
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> (2) Income from private investment will be much larger than the 1 to 2 percent presently returned from Social Security. From 1926 the average return from the stock market has been 7.56 percent. Even in depression years, income was 3.36 percent. If an individual wanted ultimate security, he could invest in government bonds which have a yield of 3 or 4 percent.
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> A thirty-five-year-old worker earning $33,200 a year can expect from Social Security a monthly income of $1,559. In a personal retirement account he could accumulate an estate of $411,052. With only a 3 percent return he could have a monthly payment of $2,671 and have something to give his children.
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> (3) Those with low income would benefit from privatization. After taxes and necessities, the poor cannot save and are condemned to poverty in their later years, in spite of massive government outlays. Reliance on Society Security will condemn them to continued poverty. An investment program would be an enormous blessing by increasing benefits in the later years and would give the possibility of leaving something to their children

The president's proposal of returning a surplus to the citizens and giving tax cuts to all who pay taxes cannot be denied as a financial benefit to the country. Each of the counter-suggestions of the Democrats are excuses to spend money, none of which are of proven worth. There is a suggestion that we spend some of the surplus on education, which President Bush wants to do, but even that is of doubtful value save for his voucher plan. Our failures in education are due to character defects in the country and the homogenized nature of our schools. Schools need to be broken into a thousand parts with vouchers a good start. Vouchers would allow a display of character as well the factual pursuit of excellence by those who desired it. *Ω*