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**A Plan
For Economic
Growth and
Family Tax
Freedom**

By Senator Robert W. Kasten, Jr.



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A Plan For Economic Growth and Family Tax Freedom

by Senator Robert W. Kasten, Jr.

Last year will be remembered as the year of the collapse of communism—as an idea, and as an institution. This year will set the tone for America's adaptation to this new world situation. Our economy will no longer face the challenge of sustaining a global Cold War—instead, we will face the challenge of domestic economic growth.

The economy will be the key political issue of 1992, not just because of the current recession, but because of the sense people have that we ought to be enjoying a "peace dividend."

Their idea is well founded. After all, it was the willingness of U.S. taxpayers to underwrite a historically large defense budget that caused the ultimate victory of the West in the Cold War.

The calls we are hearing for an "America First" policy are only a delayed reaction to this long American investment in the struggle overseas. I do not think they represent a serious tilt toward isolationism—because almost all Americans recognize that our future prosperity will depend on the opening of foreign markets and not the closing of American markets.

But the rise of the America First idea does show that Americans realize we have serious domestic economic problems to confront. In 1988, George Bush's victory was due in large part to the economic boom of the 1980s. That boom no longer exists, and the politics of 1992 will be shaped by the efforts of the two political parties to build a convincing case that they have the solution.

The 1988 election was not a choice based on economic ideology—it was a purely practical choice based on a track record. Voters saw an economic approach that was working and they decided to stick with it. In the three years since, as we all know, the economy has gotten on the wrong track. This November, I think voters will be less interested in assigning blame for the recent economic past than in testing the credibility of promises about the economic future.

Growth Impeded. In my opinion, the key event that derailed our economy was the tax increase package of 1990. We allowed Congress to saddle taxpayers with the largest single tax increase in the history of America. Congress asked taxpayers to come up with \$165 billion in new taxes—and expected that this would not affect the performance of the economy. Of course, that's not the way it works. Tax increases seriously impede economic growth. That's one of the major reasons I voted against the 1990 budget deal.

There were a lot of people in Washington, D.C., who relished the budget deal as an opportunity to increase—not decrease—federal spending. And that's exactly what happened. Instead of closing the deficit gap, federal spending increased across the board. As a result, the federal government is even deeper in the hole than it was in 1990. So the 1990 tax increase was a huge bungle. It suffocated the economy—and raised the tax burden—at the very time consumers were looking for a peace dividend.

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Economic Rescue Bill. Both parties recognize this. That's why key figures in both parties are pushing for tax relief for middle-income working Americans. As a member of the Republican leadership in the Senate, I have been working with President Bush and key Administration officials to promote this idea. Congressman Vin Weber of Minnesota shares my point of view on this. Together, we are pushing President Bush to support an economic rescue bill called the Economic Growth and Family Tax Freedom Act of 1991.

This bill would help spark the economy by targeting tax relief to the middle-class families who need it most. It would create new tax credits for dependent children—a \$300 tax credit for each child aged six to eighteen, and a \$1,000 credit for each child under age six.

If you want to understand why the voters are so anti-incumbent this year—and why they are so anti-Washington—this is the chief reason: They know that they are being overtaxed. The skyrocketing tax burden on families of the past four decades is the root cause of many of our economic and social ills. In 1948, the median-income family of four paid virtually no income tax and only \$60 in payroll taxes. Today, the equivalent family pays nearly 24 percent of its income in payroll and income taxes.

This rising tax burden has struck at the heart of the American family. It is well known that the most important habits formed by our children take root not in school or on the street, but at home with their parents. But conservative activist Gary Bauer has noted that “overtaxed parents are forced increasingly to divert time with family to time in the paid labor force.” This “family recession” threatens our economic future.

Moreover, as the tax burden has gone up, the costs of child-raising—child care costs, health care, housing, college education—have increased dramatically. Congress has responded by creating more government programs. These programs eventually require more money—so the tax burden on families rises yet again. Since World War II, for every dollar Congress has raised in taxes, it has spent an extra \$1.59. While most Americans don't know that exact figure, they are all aware of the trend, and they think it's about time that trend got changed.

The Kasten-Weber bill addresses this key concern. I predict that President Bush will announce his support of this tax cut, or a very similar tax cut, when he makes his State of the Union address on January 28.

Credibility Factor. The following question now arises: If Democrats are pushing a similar tax cut, what will govern the voter's choice? I think the key issue will be the credibility factor. While offering some of the same short-term tax relief that the GOP has been proposing, leading Democrats also have a titanic laundry list of new domestic spending programs they want to enact. Where is the money for those programs going to come from? Some say it will come out of the peace dividend. But we've already established that the taxpayers believe they are entitled to that peace dividend through significant tax relief.

I think that by October it will be very clear to voters that the Republicans are offering a long-term trend toward lower taxes, while the Democrats are offering what amounts to a short-term bribe, a promise that won't survive very long. It will be a choice between a forward-looking pro-growth policy of entrepreneurship, and a backward-looking, no-growth policy of redistribution.

I think this will be a key defining issue of 1992: A short-term Democratic tax cut versus a long-term GOP strategy to restimulate the economy. I am pushing for tax relief because I think taxpayers deserve it, but I recognize that in itself it will not be enough to create the kind of long-term boom that we were creating in the 1980s.

For that, we need to do all we can to reignite the incentives that are the source of job creation. The Kasten-Weber bill contains a full menu of these incentive-based policies. It would expand

tax-free Individual Retirement Accounts, increase tax incentives for businesses that invest and modernize, establish enterprise zones, and cut the capital gains tax to 15 percent and index it for inflation. All of these ideas target the incentives where they will make the most difference—entrepreneurs and small business people.

In the post-Cold War landscape, the power of entrepreneurship will become clearer than ever before. Remember: In the eight-year economic boom of the 1980s, 19 million new jobs were created. Over 90 percent of these new jobs were created by entrepreneurial small businesses.

Keeping Economic Lights On. So promoting small-business start-ups is like turning on the light switch for the whole economy. And recent history proves that a low capital gains tax is essential to keeping the economic lights on. In 1986, Congress increased the capital gains tax by a stunning 65 percent, and as a result, the rate of new small business start-ups decreased 12 percent since the 1986-88 period.

When we are competing with a revitalized East Europe, a revitalized Russia, and a revitalized Latin America, the United States will not have the breathing room to make economic mistakes of great magnitude. During the Cold War, irrational economic policy was harmful, but after the Cold War, it could be fatal. I think President Bush realizes this, and will make some of these incentive-based policies part of his economic platform for 1992.

In order to be successful, I believe that the President must propose a bold and sweeping economic plan. He has to free himself from the tyranny of the green-eyeshade revenue estimators at OMB and Treasury—and propose a 15 percent capital gains tax instead of a 19.6 percent tax, a permanent increase in depreciation allowances instead of a temporary one. The green-eyeshades ignore the fact that people respond to incentives. If we increase incentives to invest in plant and equipment, the resulting increase in economic growth will expand the tax base.

Compelling Case. The case for cutting the capital gains tax as a means to reduce the deficit is particularly compelling. History shows that the lower the tax rate, the more the Treasury collects in tax revenues. In 1978, the top capital gains tax rate was slashed from 48 to 28 percent, and capital gains tax receipts rose from \$9.1 billion in 1978 to \$12.5 billion in 1980.

In 1982, the tax was reduced further to 20 percent, and revenues nearly quadrupled to \$49.7 billion in 1986. But when the capital gains tax was raised in 1986, tax receipts fell to \$36 billion in 1989. Stronger tax incentives will result in greater tax revenue.

The President has to promote a serious family tax relief effort. The proposed \$500 increase in the personal exemption adds up to only \$75 a year for middle-income families in the 15 percent tax bracket. Why would the public support this plan if Democrats like Bentsen and Bradley are promising anywhere from \$300 to \$500 in tax cuts for families?

But I don't mean to exaggerate the Democrats' advantage on this issue. I love to see Tom Harkin holding up a dollar bill and saying that's all the American people will get from these tax relief proposals. It serves to remind us that that's one dollar more than the American taxpayer would ever get from Democrats like Harkin.

The economic debate of 1992—a renewed emphasis on the government sector versus support for entrepreneurship—will set the tone for post-Cold War America. The 1992 election could assume the importance of the truly historic elections of our century—the elections of 1932 and 1980.

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