Carter's tax cut balloon

The goal may be capital formation to reverse the administration's economic wreckage, but it won't work.

After months of tough talk on fiscal and monetary policy, the Carter administration is suddenly talking about reducing taxes in 1981—as if this display of political opportunism could miraculously return President Carter to a second term in office. There is a broader motive for the sudden policy shift than U.S. electoral politics, however. Leading U.S. policymaking circles such as the Trilateral Commission, which put Carter in office in 1976, are now going public with the semblance of a capital formation policy for the U.S., in the hope of reasserting America's battered prestige as a world industrial leader. The problem is, they're a bunch of incompetents.

The specific terms in which the 1981 tax cut are being talked about indicate the sort of game that these circles and the Carter administration are now up to. Cabinet-level officials told the *New York Times* last week that the tax cut "would be presented not as a nasty, pump-priming, antirecession action but as an element in a long-term strategy to revitalize the American economy and stimulate investment."

Carter's unveiling of a tax-cut package, probably on the eve of the August Democratic convention in New York, is expected to come in the context of a public endorsement of the concept of "industrial policy." This new catchphrase refers to the government taking a role in maintaining basic industry, presumably through a combination of tax breaks and military and related contracts. The specific type of tax cut that Carter will favor will include faster depreciation writeoffs for equipment and possibly buildings.

While improved depreciation schedules are indeed necessary, the fraud of the tax cut as an economy-reviving measure in itself is indicated by an analysis in the latest issue of *Business America*, the Commerce Department's monthly publication, by the department's chief economist, Courtney Slater. She writes that it would take an $18 billion tax cut just to offset the scheduled increase in Social Security taxes in 1981 and the tax increases that occur when inflation pushes wage earners into higher tax brackets. It would take a full $36 billion reduction in taxes to reduce the ratio of total personal taxes to personal income back to the 21 percent level that prevailed in 1978 from a projected 22.7 percent in 1981.

Even without a tax cut, the Carter administration's earlier campaign promise of a balanced budget by fiscal 1981 is now widely recognized to be an impossibility. The combination of recession-induced falling revenues and rising expenditures on welfare, unemployment compensation, and other transfer payments will sink the '81 budget deeply in the hole.

Just how deeply is suggested by the government's estimate that real GNP slumped at a 8.5 percent annual rate in the second quarter, not as a result of the liquidation of business inventories as in the 1974-75 recession but as a result of the collapse in final demand by consumers.

Personal income rose a mere 0.1 percent in May—a more than 10 percent cut in real terms. Unemployed Americans who are buying fewer consumer items now will be paying lower taxes to the government later in the year.

On the expenditure side, the White House is reportedly prepared to authorize a $2 billion program of local public works that will be activated when the unemployment rate hits 8 percent—probably early next fall. Various state governments in hard hit industrial states are reporting a sharp increase in their welfare and unemployment costs. Michigan reports that its projected welfare costs have risen by $100 million since January 1, as a result of the massive auto layoffs in the state.

In the face of this economic situation, the recent congressional repeal of the Credit Control Act of 1969 prompted nervous criticism from the *New York Times* in a lead editorial on June 16. "Some form of credit control is a weapon that any administration needs, if only for emergencies such as war, and periods of runaway inflation and speculative excess, such as occurred earlier this year." The *Times* seems bent on retaining the U.S. President's sweeping powers to allocate credit to carry out a defense buildup, or to use the new terminology, to implement "industrial policy."