Tax bill: a stampede of Senate rabbits

by Nicholas F. Benton

The Senate's tax reform bill, heralded by Sen. Robert Packwood (R-Oreg.) as "the most radical change for the average American in 50 years," was assured passage by June 24 and on its way to a House-Senate conference committee. Led by the relentless efforts of Packwood and Bill Bradley (D-N.J.), the Senate knocked down virtually every amendment offered by colleagues who had well-founded reservations about the impact of the bill on industry.

Three old-line liberals were the only opposition to the stampede, making the 97-3 passage one of the most remarkable events in recent political history. Supposedly, it is a triumph for the President. It is no such thing; it is the act of men in blind, uncontrolled panic, and will have incalculable effects on the United States economy.

The secret of a successful rabbit hunter is the driver who scares the rabbits toward the shotgun. The secret of tax reform is Gramm-Rudman. After the cliffhanger last November over the passage of a new debt ceiling, and the subsequent passage of the Gramm-Rudman bill to limit the deficit, the U.S. government's position has been indistinguishable from that of a company acting under the guidance of a bankruptcy trustee. The breakdown of revenues left Washington at the mercy of the financier group represented by Donald Regan and George Shultz.

Gramm-Rudman drove the rabbits of the Senate right into the guns. The relevant portion of the tax bill is not what it promotes, but what it destroys. The low marginal tax rate offered is illusory; Dole, Domenici, and others are waiting until passage to force through emergency supplemental legislation (perhaps a national sales tax), to deal with the collapse of government revenues.

Indeed, a day after the Senate disgraced itself in this fashion, the Treasury announced that the May deficit exceeded $39 billion, the second-worst month on record, and that revenues had fallen to the lowest level in a year! The administration faces not a $30 billion reduction from last year's $210 billion fiscal deficit, but a $12 to $15 billion increase. As employment and production continue to crumble, the decline of tax revenues could force the deficit up to $250 billion and beyond—against a $144 billion deficit ceiling mandated by Gramm-Rudman!

However, the bill also destroys every important area of tax protection, especially the investment tax credit, and accelerated-depreciation advantages for utilities, oil exploration, and other essential industries. By laying waste to longstanding areas of tax advantage, the bill clears the ground for the kind of emergency tax increases which the International Monetary Fund has imposed upon its victims in the developing world.

Poor President Reagan, trapped by his continued, obsessive belief that the economy is in recovery, sealed his own doom. Not only did he give his personal endorsement to an expedient passage of the bill, but Treasury Secretary James Baker III went to the Hill on June 19 to help douse any amendments that would "begin to unravel [the] basic fabric of the new conception."

The elimination of the so-called tax shelters will immediately affect two things in a radical way: 1) It will cause an instantaneous collapse in the values of overbuilt commercial real estate and land values in general. Thousands of thrift institutions already hanging on the ropes will be wiped out overnight. 2) It will wipe out key areas of the productive economy, including agriculture, mining, timber, and energy exploration and production, which require outside funds.

Senator John Melcher (D-Mont.) was the most vocal in denouncing this approach. "We have here unfolding . . . the effort to just shove this bill right through the Senate, and hopefully get it enacted into law. But those hopes should be moderated somewhat, about the speed of just ramroding or steamrolling a huge, monstrous tax bill through the Senate without proper and adequate examination to see what amendments are essential for it."

He cited the fact that the loss of the ability to average out income and the loss of capital gains will devastate agriculture. He said that the net effect of the new law will be to increase, not decrease, taxes for agriculture, mining, and timber.

Earlier, Sen. David Boren (D-Okla.) warned that removing the ability of investors to write off losses from oil exploration ventures will wipe out the independents in the United States, and leave the entire national economy at the mercy of foreign producers "and a handful of corporate giants." The future shape of the entire U.S. economy, whether or not it would be conducive to independent enterprise, was being threatened by this bill.

The bill also raises the threshold for medical deductions, meaning higher taxes for 16 million Americans with high medical bills. A consortium of 36 organizations representing "citizens with developmental difficulties" drafted a letter to Congress to protest this, to no avail.

The bill forces double taxation of federal employees who have contributed after-tax income to their pensions, forcing them to pay taxes again on their pension when they claim it. In this, as in other components of the bill, the "retroactive" nature of the law penalizes those who "have been playing by the rules to this point," who suddenly find the rules changed in mid-stream, after they have been encouraged by existing laws to invest.

It is this "retroactive" impact of the bill which makes it so explosive as a trigger for a national economic blowout, as soon as it is implemented.