

TAXES, TAX CREDITS, AND TAX CUTS

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No issue touches all Americans so directly as taxes.

While we all joke about taxes and always hope that they will be lower, I feel that it is important to remember that the national efforts which have made this a great land have often been made through the revenues we provide to our national government. American greatness is rightly attributed to our people, our religious convictions and our spirit. We ought to add that many of our practical accomplishments have been a direct product of the taxes we impose on ourselves at the local, state and federal levels.

As long as government stays within its proper bounds,

and as long as we feel our money is being put to good use,

I don't think many of us mind doing our duty at tax time. I

think we ought to look at some of the good things we have

done for ourselves by this means.

First, I believe we have prevented world war by maintaining strong military forces. Three decades ago, it appeared very likely that a third world war could happen at any time, pitting the Western democracies against the communist dictatorships of the East. Of course, we have seen war, and our peace has often been uneasy. But I believe we can say with complete certainty that a massive, world-wide conflict has been avoided primarily because we were willing to pay for armed forces second to none.

Second, we have used our tax money to make public

improvements which underlie our prosperity. One of the best examples is the Interstate Highway System, which we bought out of special state and federal taxes. You only have to travel the state of North Carolina to see the new businesses and industries that have sprung up along these roads to see what a wise investment we have made.

The other week, I was visiting with the management of one of the biggest industries in the state. And there was a young executive there who kept complaining about the government, and how government is the "non-productive" segment of the economy. Well, of course government is not supposed to be a profit-making enterprise. But it does do much of the groundwork that makes productivity possible. We finally pointed out to the executive that his government provides

the roads and highways which permit him to get his textile goods to the marketplace. That Interstate Highway System cost us a lot of money. As with so many things we spend our taxes on, many people said it was too expensive when it was proposed. But it has made possible untold business expansion, and has very probably paid for itself by its contribution to our economy.

And let me make a third point. Through our taxes, we contribute to the quality of our life as a society. We tax ourselves to educate the nation's young people, whether we have children in school or not. We do this because we all profit from living in a literate, educated society. We are concerned about the financial condition of the Social Security System, but I think we can look on the program as

a whole as an achievement. I know there are flaws in it, and I know that some of us make contributions to the system far in excess of what we can expect to get out of it. But it is hard to imagine something which has contributed more to our overall economic stability, and the personal security of millions of the elderly, than Social Security.

We got into trouble with Social Security because the Congress increased the benefits for it several times without also raising the taxes to pay for it. Now, we are going to have to bear the brunt of the largest peace-time tax increase in history because we have to make up for past expenditures not supported by adequate revenues.

This brings me to the point I want to make about taxes, tax cuts, and tax credits. I do not mind voting to spend

the taxpayers' money in a good cause, and I do not think the people mind it. But I also don't mind taking the responsibility of asking the people for the taxes any good spending program will require. We got in trouble with Social Security because we spent money we did not have. And the same goes for the federal budget. I do not believe we can mortgage our childrens' futures to pay for our needs and our excesses. It is unjust to leave an inheritance of debt to our offspring, in order to pay for the services of government we ourselves enjoy. It isn't enough to say we are building for the future, and that generations yet to come will use what we build, for they will have their own needs and their own projects to tend to.

The scope of federal spending with borrowed money

is almost impossible to grasp. The national debt now stands at three quarters of a trillion dollars.

We are, this year, creating an additional deficit of 60 billion dollars, and will probably do the same thing next year. This year alone, interest on the national debt will be about 40 billion dollars. That means that out of every tax dollar you pay this year, you will be making an eight percent interest payment.

But let me try to put these astronomical figures in some kind of perspective.

If you had started on the day Christ was born, and had spent 50 thousand dollars on each and every day since then, you still would not have spent the amount we will have to pay in interest this year alone.

And if you had started when Christ was born, and had spent 80 thousand dollars every single day since, you still would not have spent 60 billion dollars -- the amount we are going to go in the hole this year and the next.

I remain committed to a balanced federal budget and I do not consider its attainment a dream. I continue to believe that the best way to do this is to balance tax cuts with spending cuts. A recent survey that I conducted among 20,000 North Carolinians asked whether they would support a balanced budget. The overwhelming response was "yes". The survey went on to ask whether the individual would support the balanced budget if it meant spending cuts which would affect his or her county, city or special interest area. Again, the response was a resounding "yes" and this gives

me great confidence that the people are behind efforts to balance our federal budget. I was proud also to be able to tell my colleagues in Washington, as I did this past December, that the people of North Carolina have seen fit to take the initiative and enact into our State Constitution an amendment to require that the budget of the State be kept in balance and that expenditures do not exceed receipts.

What North Carolina has written into its Constitution is a practice long forgotten in Washington. Deficit spending may soon become known as the deficit spiral, much the same as inflation.

Once again, we in the Congress are taking up the task of reviewing the revenue side of the federal budget. There has been much discussion of the \$500 billion budget, the

allocation of expenditures and the second year of \$60 billion deficits. What I want to address today is the income side-- the tax aspect of the budget, and the impact of deficits.

Many figures have been tossed around. Let me specify the numbers about which I'm concerned. Total budget receipts for the fiscal year 1979 are estimated to be \$440 billion, a ten percent increase over 1978 estimates. About 90 percent of the receipts will come from individual and corporate income taxes, and the recently enacted Social Security changes will significantly increase the tax burden. The Congress has before it at the same time proposals for tax cuts, for tax increases and for tax reform.

First, let me address the concept of the tax cut. The President's proposal for calls for reducing tax rates, and

for substituting a \$240 personal tax credit for the present \$35 credit and \$750 exemption. Several reforms, which I'll touch on later, are proposed to offset the loss in revenue.

In total terms, the President is speaking of a tax cut of \$24.5 billion which will help create a federal deficit of some \$60.6 billion and an increase in the national debt of \$88 billion. While I applaud the President's attempt at a budget which holds the line on spending, I cannot support a tax cut which will so significantly add to the deficit.

While I am aware of the arguments that an effective tax cut, which would effectively stimulate the economy, must be even larger, I simply cannot see the logic in mortgaging our children's future. The belt-tightening needed to correct some of the problems now would appear to me to be less

painful now, at a time when the national debt is \$720 billion than when it reaches a trillion dollars or even two trillion. We need all take heed of that in the 1979 budget.

Let me put this in more human terms. If you get a tax cut which amounts to two or three hundred dollars a year, as is the case for the average family, what's your first inclination? For many it's to put the money in savings, for others to pay existing bills or to buy food. Unless you expend that money on a consumer item you are not fitting the economist's model, and the tax cut will be for naught. I'd hate to have calculations which can put the government so far into debt made on the basis of whether I'm going to spend my money for consumer items or to pay bills. It's

too dangerous a guessing game.

I oppose the tax cut because the evidence brought forth to support it is simply unconvincing. In 1975, President Ford reduced taxes in order to give the economy a boost. The initial impact was to increase personal savings accounts, which had little or no expansive effect on the economy. In the long run, the deficit increased -- as did inflation and unemployment. The promised benefits of deficit spending, via tax cuts, are either short-lived, or not forthcoming at all, and I personally see no value in perpetuating the cycle. I might add that some House members feel that an even greater tax cut is in order, such as \$35 or \$40 billion, which would increase the annual deficit to \$75 billion. I don't find such arguments convincing anymore. The promises have never

been realized.

And in addition, it is interesting to note that economic forecasts accompanying the news of the budget proposals predict an economic growth insufficient to offset, in future tax revenues, the present tax cuts. I believe that the writing on the wall is clearer than ever.

As I said earlier we are faced not only with tax cuts but also with measures calling for new tax credits and tax reforms. Not all of these are part of the President's budget, but they may very well be part of the budget passed by the Congress.

In the area of tax credits, there is one proposal, not submitted by the White House, which is of concern to me. As you know, a tax credit is subtracted from the final

tax obligation, unlike the deduction which reduces gross income. A tax credit is a serious matter and impacts most severely on the revenues of the Treasury.

One such credit, currently under consideration, is the tuition tax credit proposed by Senator Packwood of Oregon and Senator Moynihan of New York. A similar proposal for giving a credit for funds paid in tuition to any educational institution, public or private, was removed from the Social Security Amendments of 1977. The tuition tax credit idea now under study proposes a credit for up to \$500 of the tuition paid to a public or private school whether elementary, secondary or college level. While this measure hasn't attracted a great deal of public attention, it is serious in its implications. I have to oppose the measure, and I can assure you that this

isn't easy. It sounds as if I'm opposed to education, or to giving a tax break to people having a hard time educating their children.

I have two little girls just about college age and I can tell you that the idea of a \$500 tuition credit sounds mighty appealing to me. When I look at the issue closer and see that the \$4 billion lost under this concept in 1980 will add to the deficit and the national debt, I feel that my better judgment and my concern for my daughters' futures lead me to opposition to this measure. The alternatives left open to me are savings, hard work and the various scholarship programs that are available. The latter course may not be so easy but in the long run it may be the best.

I'm opposed to the tuition tax credit for other reasons.

It would mean a loss in revenue to the Treasury of some \$4.7 billion in 1980 alone. This is too great a cost when other alternatives are available. Second, the federal government has a large program of direct subsidies to students in the form of student loans. Income eligibility for these loans has risen to \$30,000. Third, estimates of the benefits of this proposal are that they will go primarily to those with incomes over \$25,000 a year. Fourth, the credit is inflationary, as colleges will simply adjust their tuitions to accommdate the tax credit. Finally, the tuition tax credit for public or private schools at the elementary and secondary school levels raises many constitutional issues about separation of church and state, issues which I believe would casue the courts to rule such a credit unconstitutional. As you

can see, a tax proposal has many facets, and although it may be appealing on its surface; it may have many blemishes upon closer scrutiny.

I give the tuition tax credit idea only as an example. It is guaranteed that when we take up the question of taxes this year, a great many such proposals will be involved.

There will be demands to write new deductions and credits into the law, and to do away with others which are depicted as favoring the wealthy. Others, which have been proposed by the President, are simply revenue-raising devices to offset the proposed tax cut. Many are designated as tax reforms.

The President has called for several tax reform items.

Among them are:

--eliminating the deduction for state and local sales,

gasoline, and personal property taxes;

--increasing the base to which the minimum tax applies;

--making unemployment benefits taxable, if the recipient ends up with a certain level of income;

--reducing, by 50 percent, the deductions for business lunches, and disallowing deductions for tickets to entertainment events, club membership dues, and other corporate "perks."

In addition, we can expect several tax proposals relating to energy and transportation.

As of now, I must reserve judgement on all these items. Each demands study, and, above all, input from North Carolinians. I have given the example of the tuition tax credit as being one which looks good on the surface, but which becomes

very problematic upon examination. I intend to study each credit or deduction, and ask whether it can be justified in a time of deficits, whether it contributes to the economy, and whether it will meet a pressing need in a workable way.

One reform, which I do support and which will be reported soon from the Senate Finance Committee is a two-year delay in the implementation of the carryover basis provision of the 1976 Tax Reform Act. While the provision is obscured in legal technicalities, let me summarize it as follows: in an attempt to raise revenues, the 1976 Tax Reform Act revised the method by which property is valued after someone dies. The impact of this method, which has yet to be fully felt, would be to hinder ownership and transfer to heirs of small businesses and family-owned farms. Not only individuals have

complained but also the American Bankers Association, the trust departments of many banks, farm associations, and numerous lawyers and accountants. Here we have a provision enacted in the name of reform which created a bureaucratic and accounting jungle. I support the two-year delay in implementing this measure to allow more complete study, and I would support an alternative method of raising revenue which does not endanger small businesses and small farms.

Let me add a word on tax reform in general. Personally, I'd prefer to see tax reform taken up apart from tax bills aimed at raising revenue. Reform is serious business and merits separate attention. Additionally, I want to reassure you that I'll be keeping a close eye on any provision impacting on the citizens, business or commerce of North Carolina.

Where reform is needed, I will not stand in its way, but I will not take out after worthwhile deductions which really serve a purpose, in order to get headlines attacking the "fat cats." Neither will I support attractive popular proposals if they promise to backfire.

You will recall that everybody seemed to like the idea of giving a tax credit for those who insulate their houses. That sounded good; but the facts of the case were that there is already an unsupplyable demand for insulation, and a tax credit could only drive up the cost. Thus we will be increasing the deficit the homeowner must eventually pay off, without saving him any money on the insulation.

In conclusion, let me make my position on taxes, tax cuts, and tax credits quite clear. Everyone loves a tax

cut. Everyone loves his own pet deduction or credit. But I do not think I can automatically respond to such enthusiasm, when the result will be to drive the national debt inexorably toward a trillion dollars.

Restraint in spending is needed. But an equal restraint is in order. We must give up the idea that we can increase spending without telling the American people that we must also increase their taxes. And we have to stop pretending to the people that we can cut their government's revenues, without eventually demanding that they pay back their tax cuts with interest. After all, a tax cut financed with borrowed money is nothing more than a loan, and to the tune of 40 billion dollars a year, the interest payments are already coming due.