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Three Tax Issues: Comment and Controversy

Is the U.S. Tax System Equitable?

"More than any single thing, high rates of taxation destroy the incentive to earn, to save, to invest. They cripple productivity, lead to deficit financing and inflation and create unemployment. We can go a long way toward restoring the economic health of this country by establishing reasonable, fair levels of taxation."

President Ronald Reagan

"For years, tax reform has been like the weather: everybody talked about it, but nobody did anything about it..."

Congress must prove to the American people that government can act, and act responsibly.

The Senate, by passing the 1982 tax bill, has taken steps to inject a healthy dose of balance and equity into the tax code. Fully three-fourths of the new revenue generated by this bill will come from measures to close loopholes, broaden the tax base and collect money from the tax-avoiders of the underground economy. For the most part, the bill will hold down the deficit by making those who are unfairly or illegally avoiding taxes pay their fair share....

...It both improves the fairness of the tax system and simplifies it while at the same time preserving the savings and investment incentives that are necessary for economic growth."

William V. Roth, Jr./Senator(R), Delaware

"The [1982] tax-increase bill starts up too slowly to reduce the prospective deficit for the next fiscal year. The largest increases in tax receipts are supposed to come from closing "loopholes," with those who now benefit from the loopholes paying the full amount of taxes at the same level of activity. But it is much more likely that evaders will find new ways of hiding, so that receipts will not increase by anywhere near the amount expected....

Congress should never have undertaken this well-intentioned venture into fiscal responsibility. The timing alone, involving demand reductions during a recession, is so imperfect as to prevent success.

...With ill-timed and random results from bills that fine-tune the economy, Congress should trust in a flat tax and a balanced budget."

Paul W. MacAvoy/Yale University

"The dominant economic needs that call for attention today are employment, increased productivity growth and equalizing the distribution of income....

For many reasons, it would be desirable to do the following: end the many special tax treatments of certain kinds of investments (tax loopholes) that distort the allocation of investment; convert the current tendency to exempt certain kinds of savings into a systematic procedure for taxing consumption alone; flatten the tax rates at the high end while greatly increasing the present exemption levels; and introduce a negative income tax along the lines recommended by Milton Friedman."

Kenneth J. Arrow/Stanford University

Should a Flat Tax Be Imposed?

"A flat tax is an intriguing prospect. The longer one sits as the secretary of Treasury, and gets into disputes over closing loopholes and opening them, the more one hopes that someday there could be a flat type of tax.

It's very complicated, though. What do you mean by flat tax? Do you mean that the tax rate should be the same for someone who earns \$15,000 or who earns \$150,000? It's not a flat tax when you start thinking in terms of graduation or in exemptions."

Donald T. Regan/Secretary of the Treasury

“You’ve got to distinguish between the flatness of the tax and having a broad base. I think a flat tax is unfair. A broader base would be a great idea at the right time and it may be the only way to do it.

However, this country is just going through a major change in monetary policy, a major change in financial institutions, supply-side economics with a massive tax cut. We are now going through the throes of a balanced budget debate. The last thing the economy needs at the moment is the kind of shaping up and chaos that would come with a massive change in the tax system again.”

Charles L. Shultze/Chairman, President Carter’s Council of Economic Advisers

“America needs a fairer tax policy that encourages more productivity and more savings and investment. The tax code has become a vehicle for social engineering and political favoritism, and in the process has grown far too complex...”

Major improvements can be made and the government can still collect virtually the same amount of revenue that it does under existing law...

- *Drop the tax rate to a flat 14 percent for single taxpayers with incomes up to \$25,000 and for couples with incomes up to \$40,000 and apply a progressive surtax ranging from 6 to 14 percent for incomes above those levels...*
- *Eliminate most tax credits, exclusions and deductions except for the few long claimed by most taxpayers...*
- *Increase the personal exemption from \$1,000 to \$1,500 and the standard deduction from \$3,400 per couple to \$4,600.*

If this plan took effect in 1984, about 75 percent of all taxpayers would pay no more than a 14 percent rate. About 65 percent would get a cut greater than that provided by the 1981 tax act.”

Bill Bradley/Senator(D), New Jersey

“The central objective of tax reform should be to broaden the tax base. By eliminating special tax treatment—such as for charitable contributions, homeowning, saving, and medical care—tax rates can be lowered considerably on normal occupations and investments....

Once the base is broadened, the further gain in simplification or incentives from a flat tax is highly uncertain. There is no professional consensus on the boost our economy will receive from lower tax rates.... Today’s economic malaise has many roots, but progressive taxation is surely not the major contributor to the decline of the West.

...the decision to move from a graduated to a flat tax must rest on a value judgment—whether we find progressive taxation just, and whether the uncertain costs of high tax rates are too high a price to pay for the equality we receive.

In my view, the political benefits from perceived fairness and justice of a progressive tax system are far too important to be sacrificed for the small and conjectural increase in material well being proffered by the flat taxers.”

William Nordhaus/Yale University

Should a Balanced Budget Be Constitutionally Required?

“The problem is the inexorable tendency in modern industrial democracies for government spending to grow faster than the economy, and the companion tendency for both taxation and government deficits to rise along with it. This, in my view, is a central cause of the faltering of the economies in the United States and Western Europe—which means quite simply a deterioration of our well-being....

The nation and its legislature will not be shackled as the critics maintain, but we shall at least have to make an explicit decision if we want government to go on growing as it has been growing. At present, the growth is insidious, unplanned and almost automatic. A cure for the disease is essential if we are to prosper, and the constitutional amendment is the only cure that I believe is likely to be fully successful.”

David A. Stockman/Director, Office of Management and Budget

“There can be only two results if the amendment is adopted. The most likely is that it will mirror Prohibition—a sham. Congress will probably do what many state legislatures do with similar constitutional strictures. It will develop several budgets—

a capital budget, an operating budget, a trust fund budget, and off-budget expenditures.... But the net result will still be large federal borrowing which will raise inflationary risks and keep upward pressure on interest rates....

A second possible result is that it would be enforced, and thus fundamentally change the checks and balances of the three branches of the federal government....

...the people's branch of government—the Congress—would become significantly inferior to the executive and judicial branches.

Such a result is not conservative. It is radical. Perhaps this is why many respected conservatives oppose a constitutional amendment.”

James R. Jones/Congressman(D), Oklahoma

“The short-term risk that would come from trying to balance the budget this year is just too great, but we've got to understand that we can't go on like this. And that's one of the advantages also of the balanced budget amendment. It doesn't take effect until the second fiscal year after the ratification process....

...I say we've struck an appropriate balance. The people who are afraid of this are not afraid it will do nothing. They're afraid it will do too much....

...It would stabilize the economy. It would reduce the wide swings in the economy that result in fiscal excess.”

Barber B. Conable, Jr./Congressman(R), New York

“I can only urge that deliberations on a constitutional amendment to provide for a balanced budget not become a kind of substitute or surrogate for the action needed here and now to deal with the pressing current situation....

...I would agree the record of the federal budget for quite a few past years, and the critical federal deficit prospects for the future, suggest we should no longer dismiss out of hand a constitutional approach.... But I would continue to approach the question of a constitutional amendment with great caution.

I am not personally satisfied the proposal is fully workable.... Nor do I believe the matter of a constitutional amendment—given the years that must elapse before it became effective—is nearly as urgent as resolving constructively the current budgetary impasse.”

Paul A. Volcker/Chairman, Federal Reserve Board
