TAX POLICY AND THE ECONOMY

a debate between

MICHAEL HARRINGTON

and

REPRESENTATIVE JACK KEMP

April 25, 1979

Institute for Democratic Socialism, Suite 801, 853 Broadway, New York, N.Y. 10003

INTRODUCTION

The debate between Representative Jack Kemp and Michael Harrington took place on April 25, 1979. It was sponsored by the New York Local of the Democratic Socialist Organizing Committee and the Institute for Democratic Socialism.

This is an edited transcript of the debate that includes all questions asked of the participants. They had an opportunity to review the transcript and make corrections. An edited videotape of the debate is available from the Institute for Democratic Socialism.

We are grateful to the participants for a stimulating and thought-provoking debate. We are particularly grateful to Leonard Silk for acting as moderator. Sidney Hertzberg and Maxine Phillips gave generously of their time and talent in preparing the manuscript for production.

Frank Llewellyn
Executive Director

MS. VAN BUREN: Good evening. My name is Barbara Van Buren, and on behalf of the New York local of the Democratic Socialist Organizing Committee, we'd like to welcome you to the fourth of our series of Norman Thomas public forums.

We are very fortunate to have a special moderator this evening, Leonard Silk, economic columnist for the New York Times. Prior to joining the Times, he was a senior fellow at the Brookings Institute. He has been with Business Week, serving as an editorial page editor and chairperson of the editorial board from 1967. He has taught at Duke University, the University of Maine, Simmons College, NYU, Columbia University, and was the Ford Foundation's distinguished visiting research professor at the Carnegie Institute of Technology.

Under the Johnson Administration, he served as a member of the President's Commission on Budget Concepts. He has written numerous books and received numerous honors. Among his more recent books are The Crisis of Confidence in American Business, and Economics in Plain English.

MR. SILK: Thank you very much. It's really a pleasure and honor to moderate the discussion by two such able spokesmen. Our topic tonight is "Tax Policy and the Economy."

I don't need to tell anyone in this audience that we've got lots of economic trouble these days. Inflation usually heads everyone's list, but inflation really is a kind of a general ailment that covers a multitude of sins, including some problems that used to be thought of as its opposite-slow growth, unemployment, lagging productivity. These are all related to the great masquerader, inflation.

There is a whole set of problems that come together that bear on our topic tonight. There is inflation, high taxation, and distrust of government. They combine in a witch's brew and people produce different solutions. One solution that a number of people have discovered, about half the population I suppose, is called cheating. It is people not paying taxes not accepting payment for their services or goods in checks, but insisting upon green currency, which they then conceal from this government.

I think that immorality or, if you like, the new morality, as some people call it, grows out of inflation and our existing tax system. I don't think we have a spokesman for the position that cheating is the best of all answers. We have plenty of practitioners, but few champions.

A second solution to the problem, however, is a conservative one. One of our speakers may call it a classical liberal solution. It consists to put it very briefly, and not to steal our speaker's thunder, of a reduction in the role of government, a reduction in taxes, an effort to let the private enterprise system work more effectively to produce better allocation of resources, a better growth rate, presumably even a more equitable distribution of income, certainly more incentive, and a solution to many of the problems, by letting a capitalist system work.

The champion of that point of view tonight is going to be Jack Kemp, who as I'm sure all of you know, is a brilliant young Republican Congressman from Buffalo. Once upon a time, he was a brilliant young quarterback on the Buffalo Bills. He is widely seen as a rising star today in the Republican Party. He is co-author of the Kemp-Roth tax cut bill. He has been mentioned frequently by many Republicans as a potential presidential candidate or vice-presidential candidate or candidate for the Senate in New York. Mr. Kemp will speak second.

A third type of solution to this set of problems assailing the American economy is a socialist solution, a democratic socialist solution.

There are other kinds of socialist solutions. The democratic socialist solution in some ways overlaps what I suppose one might call a modern liberal rather than a classical liberal solution. It does not say that the answer to the system is to get rid of government or to drastically scale back the role of government. It believes that government has a very important role to play in the solution of social problems, particularly the problems of the poor, the blacks, the miserable, the sick and other disadvantaged groups in the system. It believes very strongly in an ethic of social equality.

Both speakers are enjoined to relate their views, particularly to the issue of taxation, and these two views obviously have different implications for tax policy.

Our champion of the socialist point of view, who I'm sure you all know, too, is Michael Harrington. Michael Harrington is national chair of the Democratic Socialist Organizing Committee. He has been called America's leading socialist. His book, The Other America, is widely regarded as having ushered in the war on poverty in the Johnson Administration. He has been an inspiring leader to many people, including some who are not socialists. He's been a political activist and a socialist for all sorts of causes and, at the moment, he has become celebrated once again for taking the leadership in the opposition to President Carter's so-called skintight budget, at the Democratic Party Memphis Mid-Term Conference.

Our first speaker tonight is Michael Harrington.

MR. HARRINGTON: Thank you. The American economy is in a deep crisis. The Keynesian answers of the last generation will not work. It is clear that we are operating disastrously below potential and, in all likelihood, more disastrously in the near future. We should realize what the nation does not--that it is impossible to fight inflation by unemployment, and it is impossible to fight unemployment by inflation.

We are in a situation where if we do not get full employment, the poor, the most vulnerable people in the society, the black, the brown, the female, will suffer, and we're in a situation where it is no longer enough, again, in terms of that conventional Keynesianism, to simply stimulate demand. We have to be concerned about investment, we have to create jobs.

On all of the issues I have just defined--and you might find it strange--Congressman Kemp and I agree. Where we disagree is why we are in this situation and what one should do about it. So, let me make very clear at the outset this evening, that at no point in my critique am I criticizing Congressman Kemp's sincerity, intelligence, bona fides, et cetera. All I'm criticizing is his program, and I believe that his program, as subjectively well-intended as it is with good values, is a program in which private greed masquerades as the public interest; that it is a new and sophisticated version of the classic conservative ideology in the period of the welfare state, which is the ideology of trickle-downdom.

And I think that the importance of our discussion tonight goes beyond two persons, because I think that the Congressman is a very articulate spokesperson for what is really the central conservative ideology of our time. Therefore, I want to treat not simply his views, but also the economy in general, what conservatism tells us, and to relate that to ways out of our crisis. I want to do that first of all by talking about the Kemp-Roth Bill; secondly, by talking about a progressive alternative; and thirdly, by relating these tax policies to the economy as a whole.

First, what is the Kemp-Roth Bill? It is a bill that argues that we have high marginal rates of taxation in the United States that stifle the incentive to work and invest. Therefore, we should cut personal and corporate taxes by roughly $100 billion over three years. To give you an idea of what that means, in 1981, the Kemp-Roth Bill cut is about 3.6 percent of the GNP. The Kennedy-Johnson tax cut at its highest was about 2.2%. The theory is that this across-the-board cut--everybody, the rich and the poor get the cut--will stimulate work and investment and so enlarge the gross national product that we will recapture the revenues we lost by reducing taxes. That's the theory.

Now, I have many, many objections to the Kemp-Roth Bill. I will not go into most of them tonight. We do not have the time. I think, as Business Week said this week, that its mathematics is flaky. I think it is simplistic and mono-causal. But what I want to do this evening is focus on the fact that it's a modern version of trickle-down. To begin with, trickle-down does not work in terms of stimulating the economy because trickle-down is based on an Adam Smithian type of economy at a time when it no longer exists. Secondly, if trickle-down will not stimulate the economy, there is something it will do--maldistribute wealth in the United States.

It is said that this tax cut, this increase in after-tax income, will stimulate people to work harder. I have several objections to that. Let me state three, and then get to the central point on this aspect of the problem.

Do we really need more work? Isn't it true, as Henry Ford discovered a long time ago, that one way to get more productivity is having people work less, that people who have more leisure time are actually more productive? That was the old Henry Ford, who was certainly no kind of a radical.

Secondly, in American society today, isn't one of the ways that we might deal with a recession by a reduction of work, work-sharing, a reduction of the work week?

Thirdly, one of the things that all of the scholarly literature about income tax tells us is that we don't really know the impact of income taxes on work. That is to say, if you lower taxes and give people more income, there are two things they can do--work less or work more. They have more money to permit them to work less. They will make more money by working more. But we have no evidence of which option they will take.

But, finally, the real point I want to raise is that Mr. Kemp's proposal is based on an Adam Smithian image of the economy. Frankly, most workers have no control over how much they work. Can you imagine a UAW worker going up to the foreman and saying, "I'd like to work more this week?" UAW had to wage a bitter struggle against compulsory overtime which was only partially successful. The point is that we are not in a Adam Smithian economy in which individuals determine their income by working more hard or less hard or what-have-you. We are in an economy where most people are forced to work on the basis offered them by the corporation. That is the reality. Therefore, to talk about a work incentive for most Americans is to ignore the fundamental economic and social realities of the society.

More important, will Kemp-Roth, by increasing the wealth of the rich, thereby stimulate them to invest, create jobs, increase productivity and help the economy in general? That is the theory.

That, too, is based on an old-fashioned notion of investment in this economy. Investment in the American economy is not primarily a function of rich individuals. It has now become a highly social, collectivized and bureaucratic process.

Let me just give you a few of the figures. I take them from the Survey of Current Business and from the Federal Reserve Bulletin.

In 1977, personal savings were $66.9 billion, corporate savings were $120.9 billion. Personal savings went into mortgage and savings banks, not into productive and wealth-producing investment. Pension funds in 1977 had $62 billion of investment. We are not in the kind of an economy where you take rich individuals and give them an incentive. We are in an economy where the decision about whether to invest is made by huge institutional collectives, corporations, pension funds, insurance companies and the like. But let's suppose that that objection somehow gets answered. Even if the corporate rich did have this ability to invest in increased productivity, would they? Here is another one of the simplistic assumptions of Kemp-Roth: it is that if people had money, they would necessarily put it into productive investment. I have to remind you of a very profound capitalistic truth: they would do it only if they're going to make a lot of money out of it.

Let me give you an example of what I mean. September 18, 1978, a Business Week article pointed out that big corporations now hold a record $80 billion pile of cash, enough for a gigantic capital goods boom, but a lack of confidence in the national and international economic outlook keeps them from investing the cash. If you have an economy plagued by structural problems of inflation and unemployment, and you give rich persons money, they are not going to invest. They are going to do what the New York Times pointed out the rich are doing right now. They are hedging against inflation by buying rare stamps, rare violins, houses, by putting money into tax dodges. To assume that simply creating more after-tax income will motivate the rich to invest is wrong.

But one thing Kemp-Roth will do: it will further maldistribute wealth. An AFL-CIO analysis points out that under Kemp-Roth, less than three percent of the taxpayers at the top would get 23.5 percent of the dollar benefit. Less than three percent would get seven times their weight, and the 50 percent at the bottom would get 17.2 percent. It would not work to stimulate the economy. What it would certainly do is give less than three percent of the people more than 50 percent of the benefits. The fundamental problem with trickle-down is that it will not work. It uses individual incentive in an increasingly collectivist and corporate-dominated economy, and it will not work to increase either labor output or investment.

Second, does this trend mean that I'm for the present tax system as it exists? Of course not. It's terrible. It is, as Jimmy Carter rightly said, a disgrace to the human race. But the problem with it is not as Congressman Kemp usually says, that it's confiscatory; the problem is that it is not progressive; it's as Pechman and Okner pointed out, proportional. And the problem of the state and local tax system is that it is incredibly regressive.

Therefore my proposal is not to retain the status quo; my proposal is, one, to give a tax cut to the overwhelming majority of the American people, and to finance that by asking, demanding and legislating that the corporate rich pay their fair share. And, two, not simply to take the dividends we would get from a moderate adjustment in the tax system and distribute them in the form of tax cuts, because I believe we need social spending.

What good is it to have a tax cut so you can go spend your tax dollar on an inflated medical system that gives you less good care every year? How about spending some of the tax cuts on a decent health system? Two aspects to a good tax program are that we honor in practice what we proclaim in theory--that people pay according to their ability to pay; and that we use some of the funds thus captured by a much more equitable system to improve social services for the majority.

Finally, let me agree with Congressman Kemp--investment is critical. You can't just play around with demands for economies, I agree. But let me take an example--energy. Carter is now deregulating energy. He is deregulating energy to have the producers produce more. But there is a gimmick here; new oil and gas has been deregulated for a long time. Oil interests had a license to go out and make as much money as they could, all along. Therefore, deregulation is truly going to create windfall profits, but there is no hard evidence that it will lead to more American oil wells. And, secondly, will that price bonanza for corporations cut the consumption of the mass of people? No, it won't. Do you know why? Because in this society we have a systematically wasteful transportation system constructed according to corporate priorities. If you confront average Americans with higher gasoline prices at the pump, they're going to pay them and suffer. There is no alternative in this country because our social investments in transportation have been so unplanned and so irresponsible.

Now, the corporations come around with a Kemp-Roth type argument, saying "We will give you some of the windfall and we'll plough it back for you." They are always doing things for you. These corporations have, for example, at times ploughed back the oil profits, as in department stores. But let's assume they really do plough it back for energy. Do you want Exxon to design the solar energy system? I say no.

In conclusion, I'm delighted that Congressman Kemp is dragging the Republican Party into the 1960's, but I point out to you that this is the 1980's. We are not in an incentive Adam Smithian type of economy; we are in this gigantic, bureaucratic, corporate and collectivistic economy. What we need are redistributive policies to raise funds for both tax cuts and for investment--tax cuts not for the rich but for the majority of the people, including the working people and the poor, and investment that will fund the social needs we have to meet. There is no incentive in the world that is going to get a private corporation to go into the South Bronx and build decent solar energy of an appropriate scale. The only way we are going to do that is if we take social monies raised by a progressive tax system and do it for ourselves. Therefore, we indeed have to have supply-side economics, but the real name of supply-side economics is democratic planning and democratic planning for social needs.

Thank you.

MR. SILK: Thank you very much, Mr. Harrington.

Our second speaker tonight is Congressman Jack Kemp of Buffalo.

CONGRESSMAN KEMP: Well, I share the pleasure that Mr. Silk has expressed earlier, in being here this evening and in participating in this debate, particularly with Mr. Harrington, who is such an articulate spokesperson for the redistribution of income theory.

Let me say at the outset that I believe in one premise, basically, that's been expressed by Mr. Harrington: we need a more equal or a more just society. Our means to that end are somewhat different. Mr. Harrington is talking about equality of result, while I am going to talk about equality of opportunity. The redistribution of income that Mr. Harrington is talking about redistributes your income not to other people or theirs to you, but funnels it through the corporate state in Washington, D.C., which happens to be the biggest monolith in the world.

We do share a belief in full employment without inflation. Mr. Silk and I were talking a little bit earlier and agreed we have come almost full circle. As Mr. Harrington said in his opening remarks, the Keynesian theory doesn't work. Unemployment and slow growth are no answer to inflation, and certainly we've learned in the last ten years that inflation is no answer to slow growth or unemployment. So the Keynesian theory has really been shattered; their consensus has been shattered and another consensus is growing to replace it--about how to solve the problems facing the American people, encouraging the growth and prosperity they are demanding and certainly deserve. They want higher standards of living in terms of quality as well as quantity. The rest of the world is also looking to us for some type of economic and political model to replace the failed Keynesian model.

Mr. Silk said earlier that he's getting some strange advice these days. Some people are saying ease up on the money supply, while the Keynesians are talking about reducing the money supply and tightening up more so we can whip inflation.

It's not been too long since that was the Republican policy of Mr. Ford, whose budget raised taxes to cause austerity and slow growth through which we were supposed to fight inflation. I don't buy the premise or the label given to me by my distinguished adversary tonight, that of classical conservative. I don't know exactly what label you might want to put on me. It really doesn't matter. I just want to come up with an answer or share in reaching the answer to how we get off a road which is leading to disaster not only for the rich but for the poor, and for the middle-class, for everybody, because we are one nation, one family, one people. We must find solutions to our problems that bring everybody along. And I suspect it is far better than making the rich poorer, to make the poor wealthier.

Now, to that end I'd like to share some thoughts I have about the subject, and I look forward to answering questions and getting into a lively debate with Mr. Harrington.

People respond to rewards. Mr. Harrington says we are not in the age of Adam Smith. Of course not. The world is much different than in 1776 when the <u>Wealth of Nations</u> was published, but I happen to think it's a straw man to reason that therefore reducing the tax rates of the American people in order to encourage economic activity and economic growth is somehow just an old trickle-down theory propagated by conservatives; for one thing, they didn't have income taxes in Smith's day; and, frankly, it has been the conservatives who have resisted reducing tax rates.

A Business Week editorial says that any reduction in the tax rates automatically leads to a deficit and that deficits must be financed by the Federal Reserve, and that this leads to inflation. The basic conservative ideology in America, since Herbert Hoover, has been to balance the budget first, slow down the economy and whip inflation. Maybe some day in the hereafter we'll get around to putting some incentive into the economy and people back to work.

Now, Mr. Harrington asks you to believe that the American people and people in general do not respond to rewards and incentives, because this is not 1776. I accept the fact that it's 1979, but I do not accept his premise. Many things have changed, but human beings have not lost the desire to improve their lot.

Ellen Goodman, an outstanding journalist in the Washington Post, recently wrote a very interesting article. I thought so, as a parent of a son going to college, and I think people who have children in college can sympathize with her point when she says, "We all know families who saved for a decade to send their kids to college. A college diploma these days costs about the same amount as a Mercedes-Benz. Of course, the Mercedes lasts longer and has a higher trade-in value. But the most devoted parent can be infuriated to discover that a neighboring couple who spent its income instead of saving, is now eligible for college financial aid, while they are not."

She said, "To the profligate go the spoils."

But let me conclude the point she makes. She said, "The hard part is to create policies that are neither unkind nor insane. It is, after all, madness not to reward the kind of behavior we want to encourage. If we want the ranks of the savers to increase in this massive behavior-modification program called society, we have to give them the rewards, instead of the outrage."

Since 1971, world-wide inflation has combined for the first time in history with steeply progressive tax codes, all designed basically to redistribute income, yet it seems they have not achieved their purpose, as Mr. Harrington has very ably put it. These have done nothing but discourage workers and savers, investors and producers, men and women of ambition who create enterprises, who design new products, who leave the corporate world and start independent enterprises to compete with some of the giants. All of these people have been discouraged by a system in which you can produce your way only up into higher and higher tax brackets--and even if you don't produce your way into higher tax brackets, you can stand still and the U.S. Congress and the federal government will inflate you into higher tax brackets.

Let me give you an example. A person making $15,000 in New York State in 1967 would have been taxed at the federal level at 22 percent. The consumer index doubled in 11 years. So, in 1978, you would have needed $30,000 before taxes to match the purchasing power of $15,000. But your tax bracket would have gone from 22 percent to 32 percent. Now, at seven percent inflation, prices will double every ten years, and that's optimistic by President Carter's standards. Those are his wage and price guidelines.

With a hypothetical seven percent inflation rate in the next ten years, by 1988, it will require $60,000 to match a $15,000 1967 income. But even if your pre-tax income matches the pre-tax income of 1967, you will be in a 55 to 60 percent marginal tax bracket and this is only the federal tax. That is outrageous, to push people up into points of income tax progressivity at which the rewards for their human effort are steadily reduced. And I think it is not only an outrage in Ellen Goodman's terms, it's an outrage in terms of the hopes that we have for the type of an economy that could reach full employment without inflation.

I don't think it's classical conservative philosophy to suggest that you can have full employment without inflation. I've heard many of our own "conservative" presidential candidates, and also presidents in both parties, incidentally, say that the price we pay for the profligacy of past generations in America of spenders, is a little unemployment.

The distinguished former chairman of the Federal Reserve, Arthur Burns, has said recessions are good for the economy, that they help squeeze inflation out of the private sector and lower interest rates. Alfred Kahn has said the American working men and women cannot look forward to any increase in their standard of living as long as President Carter's wage and price guidelines are being complied with. Barry Bosworth says that in the next four or five years, the American working men and women must not look forward to any increase in their wages.

There are certain things upon which our economy, north and south, developed world or less developed world must operate, and it revolves around this word "incentive." Lowering aggregate taxes by $100 billion to shovel money out into the economy and hope thereby to stimulate demand or cause more consumption or trickle-up or trickle-down is not the goal of Mr. Roth of Delaware or Mr. Kemp of New York. It is not our purpose to increase money out in the economy.

The real reason we want to reduce the tax rates, those marginal tax brackets, for all the American people is to break down the barrier that exists between reward and effort. The purpose of reducing the tax rate is to increase the rewards for more productive effort after taxes, not for only one class of people--and I don't even talk about it in terms of class--because the hope of this country is that people have the mobility to continue to aspire and climb the ladder. I think that really is the genius of the system. Mr. McGovern found that out in the 1972 election when he offered a tax cut for everyone earning less than $16,000 a year. Of course, 65 percent of the American people in 1972 earned less than $16,000 a year, and you would have thought that would have been a very popular idea. He dropped drastically in the public opinion polls after he came out with the "demogrant" proposal. He was asked why after the election, and he said, "You know, I never realized that in America there were so many people earning less than $16,000 a year who some day hope to earn more than $16,000 a year." Today as you aspire to achieve more for yourself or your family, for a college education, a home, or to dispose of your earnings as I think you have a perfect right to, you find yourself discouraged by the fact that you are only moved into a tax bracket which was at one time reserved for only the wealthy.

I agree that the rich should pay more taxes. I submit to you they're not paying more taxes today because, frankly, you are not going to get anybody to earn more taxable income for the privilege of paying 70 percent to the federal government.

Sweden tried to tax Ingmar Bergman 100 percent on one of the movies he made in 1967, but he escaped taxes by moving out of the country. Not only did Sweden lose the product of his genius and intellect (and ultimately it is ideas that motivate men and women to advance themselves) it also lost the revenues that they would have gained had they taxed him at a more reasonable level.

The way to tax the rich, the way to lure people out of the cash economy, which Mr. Silk referred to, is to immediately reduce the steep tax progressivity of the economy. This idea cannot be simply dismissed as "conservative" or "liberal." President Kennedy advocated a reduction of the tax rate in 1963 by 30 percent. He also wanted to cut the capital gains rate and cut the corporate rate. President Kennedy is not thought of as an arch-conservative, but he did, I believe, help move this country towards full employment without inflation. I don't know whether his tax cut was 2.4 percent and whether Kemp-Roth was 2.2 percent of the GNP.

Frankly, I don't care about GNP. It's a macro-economic statistic that doesn't explain why people go out and save, why taxi drivers and men and women in factories in my home of Buffalo, New York, are finding that overtime in New York state or working on Saturdays is taxed close to 50 percent. Not only does that increase tension between labor and management, not only does it raise the cost of employment, not only does it reduce the amount of jobs that can be created, not only does it reduce the rewards for effort, whether it's in a factory or a small businessman or woman, but it deprives government of revenues that are necessary to do the socially desirable things that Mr. Harrington and I can sit here and debate for a long time.

If you want a more just, a more equitable, a more prosperous economy, then we should restore incentive, and only one way to do it is to reduce the tax rates on the American people.

MR. SILK: Thank you, Mr. Kemp.

We are going to have a few questions from me to each of the speakers. Then I want to invite any of you who wish to put questions to either of them to do so. Each speaker will respond to whatever questions are put to him for two minutes maximum, and then the other one will have a chance to respond for one minute's worth. After we've had some questions, we will give each speaker five minutes to sum up.

The first question I'm going to address to Michael Harrington. It has to do with the role of government. A great deal of discontent in our society, I think you will agree, has been directed at government for its solutions or non-solutions to the problems it has tackled, including health, education, welfare and almost everything else. Government is blamed for having failed to solve problems, yet you seem to believe that it can solve problems. What has the government done wrong, and how can its performance be improved.

MR. HARRINGTON: First of all, there are some things the government does very well. I think that the Social Security system, whatever imperfections it might have, is an extremely efficient, valuable system. It has made old age much better in the United States of America. I don't know any serious political person who wants to do away with it.

Similarly, although I think Medicare has flaws because of the absence of National Health, I think to be over 65 today is better than to have been over 65 in 1964.

Secondly, I think the government does a lot of things abominably. Very often government is asked to socialize the wreckage of the private sector--Conrail and Amtrak come to mind. After the Penn Central runs the railroad into the ground, you ask the government to take over a totally unprofitable and wrecked system, and are amazed when it becomes a drag on the economy and doesn't work very well.

Thirdly, and this is the most basic thing I would suggest, I think that the government, not because of a conspiracy, but because of the relationship of economic and political power in our society, almost always follows corporate priorities. I would say that what one has to do is not talk about the government but talk about how a government acts in a society where it is beholden to pick up the wreckage of the private sector? Is it possible for government to be much more democratic, is it possible for us to have co-ops and real participation of the people? I think so.

So what I'm saying is, there is the possibility of a grass roots democracy making economic decisions. It's not a sure thing but it's one of the things that I think can be done.

MR. SILK: Mr. Kemp, a one-minute response.

CONGRESSMAN KEMP: Well, I want to make clear that I don't believe that what Senator Roth and I are trying to do, as you suggested, is a backlash against government. I think government has a very important role to play in assuring survival for people who are indigent, handicapped, unfortunate people who are not able to compete, people who need protection from natural or economic catastrophes. I share that premise. But we have spent 30 or 40 years, given a few years off for the Kennedy experience, redistributing income instead of creating it. It seems clear to me that, in America, we need some years and decades spent loading the wagon instead of only unloading it. We need income growth and income opportunity, because there are people today still looking for housing, still looking for jobs, still looking for opportunities and for the Administration to frustrate this, and for some people in my own party to suggest further slowing down the economy, is a big mistake. In fact, Treasury Secretary Blumenthal and the White House said the other day that if we can slow down housing starts in 1979 to 1.6 million, somehow we can help reduce the rate of inflation. Well, how can reducing the supply of housing hold down the price of housing? Yet that is the premise of these diehard Keynesians. Luckily, some others in power do believe, I think, we should encourage the supply of housing, encourage the supply of energy, and this means removing government barriers to production. And government has a role, but it should not be a dominant role in our lives today.

MR. SILK: Thank you, sir.

The second question I direct to Mr. Kemp.

The first version of the Kemp-Roth Bill was, as Mr. Harrington pointed out, widely criticized, including by some conservative sources, for being too wishful in its statistical prognostication. It assumed that tax cuts of this size would stimulate enough growth to let all things be done, but given the rate at which the government, I mean the economy, was operating, there was a serious question about whether you can get the rise in productivity large enough to do that, or whether such a cut, such as $300 billion in a period of three years--

CONGRESSMAN KEMP: How much?

MR. SILK: No, $100 billion in three years, is that right?

CONGRESSMAN KEMP: That's--I guess close, I don't know.

MR. SILK: Yes, 33 percent.

CONGRESSMAN KEMP: It's 30 percent in the rates over three years intended to encourage taxable income growth, so it's hard to put a dollar number on it. But I will accept that number before revenue "reflows."

MR. SILK: Since tax collection amounts to around $500 billion, the current rate, it would certainly look as if it would come to 140 or 150 billion dollars, although with growth admittedly you have a totally larger one. We'll speak in nominal dollars rather than in real dollars, depending on what one does with the inflation rate.

Now, the question is--I gather that there's been a response on your part and Mr. Roth's, so that there is a Kemp-Roth II, and Kemp-Roth II said, "Okay, we've got to worry about government expenditures." If there is not a full enough response in real terms from the kind of cuts we are proposing, then we will have to restrain government expenditures so that cuts in government expenditures or restraints in government expenditures are not part of Kemp-Roth II.

My question, finally, is how would you cut the government budget? Where do you propose to take the cuts out of the budget that we now have and in, roughly, what kind of volume.

CONGRESSMAN KEMP: Well, I don't want to finance my tax cut with unrelated budget cuts, and this makes some of my conservative friends upset with me, but I don't want to cut the budget unnecessarily. I don't think the answer to America's problems is cutting worthwhile social programs. This is not a Proposition 13 approach. This isn't an attempt to take away from government and reduce it to some type of an 18th century laissez-faire economy. As I said before, I accept the view that there must be a level of welfare in our society. But on the other hand, with full employment and lower inflation, we won't have to spend as much on unemployment compensation, welfare, public jobs, cost-of-living increases, or forced early retirement costs. I want to make the point quite direct: reducing government spending is neither a necessary prerequisite nor called for in the Kemp-Roth Bill. But increasing the growth rate of the economy will reduce the necessary growth rate of federal spending. Government expenditures at the federal level have been growing at 12 percent a year in Republican and Democratic administrations, while our economic growth rate has been reduced to a remarkable degree. I mean it's almost impossible to reduce the growth rate of an advanced economy to the level that the United States had done. But we have accomplished a miracle in this country. We've slowed down the greatest private enterprise system in the history of the world to a level of less than one percent, in real terms over the last ten years.

With so many people trying to enter the workforce, and so few work opportunities created, it's no wonder that people demand a growth of government. The harder you run, the more you work, the greater you produce--you seem to be going backwards--and that's not only felt at the top, it's felt at the bottom. I don't want to reduce government expenditures. I want to hold down the growth rate of government expenditures. Instead of having a 12 percent growth rate in government expenditures at the federal level, let's have a seven percent rate of increase in government expenditures, which seems to me reasonable in a society that wants social improvement as well as to achieve economic growth.

Business Week has attacked the Kemp-Roth Bill the hardest, other than Walter Heller, who happens to be a friend of mine. Business Week says that what's good for business is good for America. Cut the corporate rate, or change the depreciation schedules (and I happen to think that would also be a wise thing in a highly inflationary economy), and that will trickle down to the worker. What we are saying is what's good for America is good for business. The worker is also compromised, both labor and capital are hurt today. The men and women of ambition and initiative are compromised by the income tax code. It is their high marginal rates that we are trying to reduce throughout the code. I would suggest to you that Business Week is opposed to it because they're afraid if Congress should reduce the income tax rates and give more of the tax rewards to both labor and capital, either they won't get the corporate investment tax credit that they want, or there will be more competition for General Motors and IBM and Exxon. I happen to think that would be very good.

MR. SILK: Is there a Business Week doctor in the house? If not, Mr. Harrington.

MR. HARRINGTON: Yes. Where would I cut?

Number one, I would love to cut the budget. I would like to cut the Pentagon; I think there are billions in there.

Let me say that there is an absolutely pro-Communist and un-American assumption on the part of those who want to raise the Pentagon budget, who are assuming that a Russian three percent increase in guns is equal in efficiency to an American three percent increase. I don't believe it.

Secondly, I would like to cut the tax expenditure budget which, as we all know, is over $100 billion a year. I would like to cut the handouts to the rich in the 1978 tax law.

Thirdly, I would like to cut back on federal subsidies to the private sector, subsidizing the cost of capital, for example. I agree with Robert Eisner of Northwestern, that you could make a very solid argument in the United States that the government has excessively cheapened the cost of capital through accelerated depreciation, and the like.

Finally, for once in my life, I would like to see a democratic government socialize something profitable. I note from the Tennessee Valley Authority that it can be done. So I would like to take the corporate rich off welfare, take the Pentagon off welfare, and give the subsidies to productive public enterprises in a number of areas of great social need.

MR. SILK: Thank you, Mr. Harrington

Now, we are ready for questions from the audience.

QUESTION: Congressman Kemp. It seems to me that Mr. Harrington leveled two serious charges at your bill. Your response is to raise a lot of troubles, to talk about the quality of life, and to talk about inflation. You deal directly with it, and then you say what we should do. Mr. Harrington says that if what we're after is getting things accomplished that can be done, your bill won't do that, that you are not offering a solution, and he also says that what it will do is a very evil thing. I know myself, having made $4,000 in business a few years ago, that it would have done no good to lower my tax rate. Maybe I paid ten percent in one year and no percent in one year.

CONGRESSMAN KEMP: I appreciate your question, it's a fair one. I would only answer it by saying this. I tried to point out that there was empirical evidence to support the contention that lower tax rates mean more savings, more investment, a higher level of productivity, and ultimately, more revenue, not less. That was the Kennedy experience. There is little difference between what Kennedy suggested in the early 60's and what we're suggesting today. It's really not all that great.

Secondly, every single time a government in this century or in earlier centuries has reduced the barrier between effort and reward--taxes are part of it, but regulations, paper work, frustration and the bureaucracy are also part of it--every single time those barriers have been reduced, those countries have achieved higher levels of growth, and usually lower inflation. Inflation is not only too many dollars, it's too few goods.

I suggest that with more savings and more investment there will be more and better tools coming into the economy with which to produce. A man or woman with better tools is more productive, has higher wages and a higher standard of living, and that is the history of western civilization.

MR. SILK: You have a response, Mr. Harrington?

MR. HARRINGTON: Yes, very briefly.

First of all, the Kennedy tax cuts did not take place under circumstances of high inflation, but under low inflation. That is, under completely different circumstances than today. My argument is that the American economy turned a corner around 1969-1970. There are many things involved: the international economy is one, the West German and the Japanese for example, their competitiveness. But another factor is that the major sectors of the American economy--fuel, food, housing and health--have inflation built into them; that corporations have more monopoly control over prices than ever before. Thus there are a whole series of problems that clearly distinguish the present situation from the Kennedy situation.

Secondly, I might tell you that I and many people of the labor movement and on the left were critical of John Kennedy for not having a more radical tax cut, oriented to social investment rather than private consumption.

My final point, and I reiterate because I think it's a very important empirical point, is that I see no evidence that giving the corporate rich as much money as Kemp-Roth will do is going to get them to invest, unless they figure they can make a lot of money. Business Week tells us that there are corporations sitting on top of $80 billion of cash and not investing it; and my question is, what value is there to give them $90 billion to not invest, that is, an extra $10 billion?

MR. SILK: I want to say a mild cautionary word--please, questioners, do not make speeches; ask questions, and let your questions be brief.

QUESTION: Mr. Harrington. I'm a libertarian and I advocate no taxes. Frankly, I see no reason why I should pay taxes to help subsidize nuclear energy, Pentagon dictatorial policy. Why don't socialists advocate a massive tax strike, so that finally we can have some social change in this country?

MR. HARRINGTON: If I thought a massive tax strike would work, I might very well have considered it as a tactic. The problem is not taxation, in my opinion. Rather, that when taxes are used for pernicious things, one fights them politically. But I believe we live not only in a national society but in a world society, and I believe, not only in terms of morality and justice but in terms of economics and money, that we ignore our brothers and sisters at our peril. If we do not live up to our responsibilities to the people of America and the people of the world, ultimately and quicker than we'd like to think, that's going to get us too.

Secondly, a modern economy requires a public infrastructure and transfer payments. There is no other way for it to work.

Finally, I completely agree with you that some of the purposes for which tax money is spent are terrible. But when that is done as in the case of the Vietnam War, my argument was organize politically and get a majority to overturn the war. The issue of the war in Vietnam was not an issue of tax policy; it was an issue of national justice or rather of international justice. So I would simply distinguish between taxes for good purposes and for bad purposes.

CONGRESSMAN KEMP. The gentleman, if I may answer his question, has raised a very important point that I tried to address for a very short period of time in my opening remarks: that the incidence of taxation is as importance as the burden. How you tax is as important as how much. You should be careful that you do not tax people's incentive to earn more income or to save or to take a risk. This is going to become an economy run by huge existing corporations if we don't do something to bring back the men and women who have better ideas and turn those ideas into new, small businesses. Seventy percent of all the new jobs created in America ten years ago were created by small business, not the Fortune 500. After the massive tax increases of that decade, the share is down to half. So when you talk about the existing income tax, it's a very bad tax; it's too high, it's too progressive. I am not advocating abolition, but it is illuminating to compare tax approaches in various countries. There is no income tax in Bermuda. There is a very steeply graduated tax in the poor Caribbean countries. Look at Ghana and the Ivory Coast. Impoverished Ghana has very extremely graduated taxes; the nearby Ivory Coast is the fastest growing country in Black Africa. It has much lower income tax rates. Maybe we can learn a lesson from them.

QUESTION: Representative Kemp. As a minister I'm concerned about the moral tone of things. The rich, it seems to me, in the quest to have the American experiment, have never distinguished themselves in general for the poor. What would lead you to conclude that this great moral transformation has now occurred. And the second part of my question is that you spoke about dropping taxes for all the American people. Have you dropped the idea of lowering taxes for corporations, because you really did not speak on that point.

CONGRESSMAN KEMP: I think I did speak on that point. I suggested that this new version of the last Congress's bill called by Mr. Silk the Kemp-Roth II or Roth-Kemp, depending on whether you're in Delaware or New York, did not address the corporate question because in the President's last tax reform message he wanted to cut the corporate rate further than we did. But I happen to think the most important step today is to provide incentive back into the personal income area, and that's what I have been talking about tonight. I'm not talking about reducing corporate tax rates further. I think the first step has to be to lift a lot of straw off the back of our economic camel.

Secondly, the noblest charity on the earth is to prevent people from needing charity. It seems to me a transcendant human idea in many religions: giving a man a fish feeds him for a day; teaching him how to fish will feed him for a lifetime. In that regard, I think we need an expanding economy where more people can find jobs that can meet their own human needs, can eat with regularity, instead of having to depend on someone else's production. Income growth and income opportunity in a growing economy also make it easier to meet the needs of the needy.

I'm not relying on charity as much as I'm relying on the belief we can meet many of those needs in the private sector of the economy.

MR. SILK: Thank you. Mr. Harrington?

MR. HARRINGTON: I want to clarify something. So everybody understands, I am for a tax cut and for increasing the personal income of the overwhelming majority of the American people. I'm for it.

We have a dispute as to whether that will have any motivating impact on the GNP, to motivate people to work. I don't think whether they work more is a decision within their own ability to make. I want to cut this tax, but I don't think it's going to increase the GNP, and you have to explain to me how an automobile worker or a steel worker or a secretary in a secretarial pool will work more by getting more income. I just think it is unrealistic.

Second. Our difference is, I do not want to cut the taxes of the rich; I want to increase them. I do not think Mr. Kemp's bill cutting the personal income taxes of the rich is going to have a gigantic investment effect on the American economy. And my argument there is that wealthy individuals are not the source of basic investment any more. I am not defending this miserable tax system but neither do I want to continue its maldistributive characteristics. And I doubt Congressman Roth's economic claims and what his tax cut will do.

MR. SILK: Thank you. Next question, please.

QUESTION: Mr. Harrington. Are federal personal and income, federal corporate tax rates very high and very progressive?

MR. HARRINGTON: No. The only rich people in the United States who pay a 70 percent tax are rich people so dumb they don't know how to call a lawyer or accountant. Look at the figures on an adjusted gross income. According to a former IRS chief, if you take adjusted income figures as a baseline, you make a small mistake because all these terrific deductions have been taken before you get to an adjusted gross income. I invite all of you to look at the tax return which the late Vice-President Rockefeller submitted to the Congress when he was being interviewed as to his qualifications to be Vice-President. Mr. Rockefeller, in terms of his real income, was paying less than the tax of an automobile worker.

The best book I know on the subject is by Joseph Pechman and Benjamin Okner. It presents a tremendous amount of evidence to show that the American tax system is in no way progressive; it's proportionate. Therefore I think when one talks about the incentive problems of the rich, they don't exist.

A last point. Martin Feldstein from Harvard, whom I disagree with about 90 percent of the time, did a very interesting study on inflation, in which he discovered that there was one income group whose income was not affected by inflation--those people with incomes of more than $100,000 a year. What I am saying is that those are the people who always figure out a way to index and to beat the game, and that you cannot talk about inflation problems or tax problems at the top; they are simply a figment of nominal tax rates which are not real tax rates.

CONGRESSMAN KEMP: I agree that anybody who pays a 70 percent tax is not very bright, and I'm trying to suggest to you, and I'll make the point for the third time tonight, I don't want to cut his or her total tax. I think they'll pay more tax at a lower rate than they will at 70 percent. At 70 percent they are encouraged to go into the cash economy, invest in tax-exempt bonds, invent tax loopholes instead of better products. They're encouraged to go into offshore investment, they are encouraged to leave countries. Capital can flow freely across borders despite what Lyndon Johnson did at one point, or even Richard Nixon did--trying to stop capital from going out of the country. Even if it worked, that wouldn't help the less developed world. I want to tax the rich by charging a rate that maximizes their incentive to put it back into productive investment where it will create jobs and provide more revenue for the government at all levels. New York is the best example that I can think of. We have punished both labor and capital in New York state to a point where we've reduced the ability of our tax base to deal with the social problems. And what happens when the tax base declines? Libraries, mental hospitals, our desire to help people shrinks. I suggest to you that you also look up in Mr. Pechman's book, and also in the Treasury Department, the statistics after President Kennedy lowered the 91 percent rate to 70 percent in 1963, or at least he advocated it--it was President Johnson who actually got it through the Congress. When the 91 percent rate was dropped to 70, the Treasury thought it would lose money. The amount of income tax paid by wealthy Americans doubled in two years. It doubled because they were encouraged to take this money out of the municipal tax-free market where most of their money was going and put it back into equities. That's the way to tax the rich, not to push them into loopholes or other countries as Sweden and other countries have done.

MR. SILK: Thank you, Mr. Kemp. Next question.

QUESTION: Congressman Kemp. Unemployment for blacks is double that of whites, and for young blacks it's at least 40 percent. Employers consider most of these young blacks unemployable because of lack of literacy and motivation. How would your tax program deal with that problem?

CONGRESSMAN KEMP: I'm sorry that the whole debate tonight has only been on one bill. There are many things that have to be done. I think we ought to take a hard look at a new differential in a minimum wage. I think the minimum wage law is a tax against blacks, Hispanics and white teenagers getting jobs. If they don't get a job, how can you put purchasing power in a black or white teenager who is a marginal producer, who ought to be entering the work force in an apprenticeship type of position, the same that you probably served in your lifetime, and all of us have served at one point or another. The minimum wage law is a hundred percent tax against youths getting jobs in the private sector and I believe it discourages them.

There are other things that need to be done. I would give incentives to small businesses to hire teenagers by reducing the payroll tax for those businesses that are willing to hire marginal workers and reducing the tax rates on the poor to alter the price that is paid between welfare and going to work. There is a small businessman in my district who sent me a letter saying that he got a notice from the State Unemployment Commissioner that a claimant has refused to go back to work at his business because he said he would be losing money by working. He makes more on unemployment. This is under the New York State Unemployment Insurance Law.

Well, when the reward for not working is as high as the reward for working, I would suggest that you're going to get more non-workers than workers in the world.

MR. SILK: Mr. Harrington?

MR. HARRINGTON: Just two points. One is that I'm very leery of government programs which offer the private sector various incentives to hire the hard-core unemployed. We had a tremendous experience with that under Lyndon Johnson. We had the JOBS program, job opportunities in the business sector and, unfortunately, what turned out to happen so often was that corporations hired hard-core unemployed with the government subsidies when they could make money off it and did not when they couldn't. They took the subsidies and they got a subsidized worker whom they would have hired anyway. I think fundamentally the problem gets back to the fact that this economy has turned a corner. We are no longer in the Kennedy era. We are in a stagnation era. I believe there is a sense in which, from 1945 roughly to 1970, there was, so to speak, an underlying boom. It's over now and, therefore, we must have radical new departures in American society to get full employment.

Finally, we all know the greatest gains made for minorities in this society were during World War II, when unemployment fell to one percent, and blacks, women and all minorities made the greatest progress ever made in the history of this country. I think our complex problem is not going to be solved by tax cuts, but by a full employment economy. Meanwhile, we must do absolutely all we can to ameliorate the suffering of the minorities and women who are being made to bear the real burden of our present situation.

QUESTION: Mr. Harrington. Mr. Silk referred earlier to the underground economy. The figures that I've seen show that it's about $180 billion a year, far more than in the last four or five years, than 20 years earlier when large marginal tax rates were less. First of all, we really don't have any figure about the underground economy for a very good reason. Secondly, it exists in dimensions that we cannot ascertain, of course. That it is a result in part of tax rates, no question about it. Who works in the underground economy?

MR. HARRINGTON. Working people and poor people and middle-class people who want lower taxes, and organized crime. Not, however, the corporate rich. The corporate rich really don't go around trading services with one another. Rich carpenters don't trade off with rich plumbers in this society. Yes, there is a problem here. Would it be dealt with by my radical restructure of the tax code, to make it much more equitable? Does this have anything to do with the corporate rich? No. Their tax evasion is not something as piddling as getting a house painted or a car fixed. Their tax evasion is in the billions of dollars, it's the five and a quarter billion that they just got out of the new capital gains deduction.

MR. SILK: Thank you. Mr. Kemp?

CONGRESSMAN KEMP: The term "corporate rich" has been used so many times and it's just a straw man, Mr. Harrington, because I'm not talking about entrepreneurs, I'm talking about individual investors in the stock market, I'm talking about small savers, I'm talking about men and women who would like to gain some wealth in this society. If we lowered tax rates, we could get rid of some of these tax loopholes. Professor Peter Gutmann at Baruch College estimates there is a $200 billion vast subterranean economy. Everybody responds to high rates, but in different ways: take the taxi driver two weeks ago who took me into town. I said, "How do you exist with the taxes in this city, with a family and children in college?"

He said, "Well, I'm not really paying taxes because I'm not working for money, I'm working for cash." That was his way of surviving. He was in the underground economy. Those in upper brackets don't pay 70 percent because they legally buy tax-free bonds.

When productive investment is discouraged, people take their money and put it into the speculative investment that Mr. Harrington is talking about. I think by lowering the rates you will increase the after-tax rewards for productive human effort and this nation will respond to real growth opportunities. There are entrepreneurs out there, men and women of ambition. There are people who want to save and send their children to college. One person's savings ends up as someone's mortgage, someone's mortgage ends up as some type of capital investment.

MR. SILK: Thank you. May we have the next question, please?

QUESTION: Congressman Kemp. A key part of your philosophy is that cutting taxes will increase the incentive for a lot of people. Most people go out and get a job that pays wages over which they have no control. What is the meaning of incentive under those circumstances?

CONGRESSMAN KEMP: I represent factoryworkers around Buffalo, New York. Probably 60 to 70 percent of my constituents are factory workers, auto workers or steel workers or workers in small businesses; if you take the federal tax rate on a salary of $13,000, payroll tax on employer and employee, add the State tax rate in New York, and I'll tell you right now that the next dollar of income over $13,000 of taxable income in New York state will be taxed somewhere between 50 and 51 percent.

At that point, overtime becomes less attractive. The subterranean economy becomes more attractive. Fringe benefits become much more important rather than bargaining for wages. It exacerbates tension, it lengthens strikes. The steel workers went out on strike in Buffalo for a 27 percent raise over three years. They deserved more than 27 percent, because a 27 percent increase over three years at those tax rates is a net loss of money for the working men and women of my district.

It's intolerable to labor, and I'm not suggesting everybody is an entrepreneur. But I believe everybody would like to have the opportunity to save more of their income, to spend it as they like, to invest it or, perhaps, as many workers are doing, investing in a company pension. What do you think that is invested in? The stock market. Individual workers are a tremendous source of capital in our economy.

MR. SILK: Thank you. Mr. Harrington.

MR. HARRINGTON: I will just restate my case. I do not think it has been at all responded to. That is to say, I'm for cutting steel workers' taxes. I will match dollar for dollar my passion for giving more income to working people in the United States with anybody in this room. That's not the question. The question is when you cut the taxes, will it have a tremendous impact on GNP by having that worker work harder and more? And my response is that most working people in the United States work the hours they are told to work. They are not entrepreneurs, they are not artisans, they are workers. And it's not simply in the factory. It's true for the typing pool, it's true for the entire society. And, I repeat, our dispute is not whether we should cut the taxes of working people, which I am for, but whether the rich will finally pay their fair share.

MR. SILK: Now, I'm tempted to intervene myself on this point, just to clarify the issue.

This really is an interesting dispute here. Congressman Kemp has said a few times that the main reason to cut taxes is to increase incentives and to increase production. And hence the whole pile out of which we all feed. Michael Harrington has questioned whether incentive will have that effect, but there's a way in which it might work, Michael, that doesn't mean to accept what Mr. Kemp is saying. But certainly it might be very interesting for the position--and I wonder if that is your position--that it would move people out of the underground into the above-ground economy. They then would pay taxes at a greater rate because they would report income honestly and that would make more income available to the government, to deal with problems in the society, so that whether the mechanism is different or not, the result, whichever of you is right, will still be constructive.

MR. HARRINGTON: Two things: my answer is simply yes, that is one of the reasons I am for more income to the people who are in the underground economy, who are not the rich, but average, Americans.

Secondly, I have to qualify that slightly. Most people have a main job that they have to go to whether they like it or not and work the hours that the boss tells them to work, and then they do a little moonlighting on their own off the books. I suspect that's going to be an extremely difficult thing to get to, but yes, I think it might have something of that effect. However, it is something that will not--again I come back to my point--have the economic effect that I think the Congressman claims for it.

CONGRESSMAN KEMP: May I respond?

MR. SILK: Certainly.

CONGRESSMAN KEMP: I'm not suggesting that people have to go out and work harder, or work longer hours. I think it would be far better for our society to have the same type of output with shorter hours of work. I think most of us want to have a more efficient and effective capital stock; that is plant, machinery, equipment, tools and jobs. So that's not the debate. The debate is how do you bring into our economy a more efficient use of the scarce resource--savings, capital. It's not a dirty word, it's someone's pension, it's someone's savings and loan deposit, it's someone's earnings; it's someone's paycheck. And people respond to reward. Boskin and Feldstein and many others have all pointed out that there is a correlation between economic reward and effort, the reward for saving, the reward for investment, the reward for entrepreneurial activities, and the reward for labor. There was a huge response to savings and invesment when President Kennedy lowered the marginal tax rates. People responded. But Mr. Harrington has suggested that people no longer respond to rewards.

The last point I wanted to make is that I am not talking about lowering tax rates only for some people, as Mr. Harrington wants to do, but for everyone. Why? Because it you just lower the tax rates for some, by definition you're raising taxes for others, you're increasing progressivity and that may be desirable for you if you never plan to earn more, but otherwise every ten percent increase in people's incomes raises tax revenues to the U.S. Government by 16 or 17 percent. And you're going to get a revolt the likes of which you've never known if you increase progressivity rather than decrease it.

MR. SILK: Thank you. Next question.

QUESTION: Mr. Harrington. The alleged correlation between productivity and the rate of progressivity of the tax structure seems fairly difficult to substantiate. For example, I believe Sweden, which has a far more progressive tax rate, as Congressman Kemp has pointed out, has had a consistently higher rate of productivity and growth than the United States. What really seems to determine growth and productivity is the rate of capital investment. If that's true, then wouldn't it be more logical to orient economic policy directly toward increased capital investment rather than to use the Kemp-Roth approach?

MR. HARRINGTON: Yes. Two words on that. One is that I have to caution everybody about the use of the word "productive." It is one of the most slippery terms now in use. For example, in doing productivity figures, the government does not count any environmental gain as a benefit, but it counts the cost of getting the environmental gain as a cost. If you look at the productivity figures in the U.S. in the Council of Economic Advisors' report in 1979, you discover that productivity went down in the coal mines in 1978 by 61 percent. Do you know why? Safety regulations. They don't count in as a benefit of productivity the lives saved, black lung not contracted, et cetera. So I'm just saying for an opener that one must be very careful with that concept. I'm just saying that it's one of the most dangerous and watery concepts around.

Secondly, I think the Swedes have a terrific proposal to get workers into capital production. It's called the Meidner plan. Every corporation in Sweden at the end of each year would be required to place a portion of its profits, in the form of shares in the company, in an employee-controlled mutual fund. In the United States, some workers simply get pension funds in stock certificates, passively held, that carry no impact whatsoever on the conduct of the company. Under the Swedish plan, workers would be motivated to form capital as a result of having control over the capital that they hold. And I happen to think that that is a direct way of getting to it.

And the last point, which is absolutely true, that Swedish productivity is very high. There's an interesting reason why productivity is highest in Sweden in the most advanced industries. The Swedish labor movement has something called a solidaristic wage policy, where the better-off workers utilize their bargaining power to raise the wages of the not so well-off workers. The result is that you actually have the most highly skilled workers being very highly competitive with the workers in the United States.

MR. SILK: Mr. Kemp?

CONGRESSMAN KEMP: I think I agree too. I don't know how Mr. Harrington can agree with a program designed to encourage capital investment and then turn around and suggest that in 1979 we should tax or double the tax on capital gains, which is one of the chief sources of investment. In the 1978 tax reform, a $2 billion loophole, which he considers a tax expenditure, was necessary to help stimulate a sagging equity market which provides the financial resources to start new enterprises. He finds this is somehow wrong.

Sweden has a very generous investment tax credit--a 40 percent investment tax credit during times of low growth. They have lower capital gains rates and they have a much faster rate of depreciation on plant and equipment. You can depreciate plant and equipment in the U.S. somewhere between 12 and 18 years. In Sweden, it's five, and they would like to go down to one, but what you're getting is investment dictated by existing corporations. And what I'm suggesting is that you can still get investment by lowering the personal rates, because you bring back the individual men and women who I think are the key and backbone to a growing and expanding economy.

MR. SILK: Thank you, Mr. Kemp. We are now ready for the final question from the floor before the summations.

QUESTION: Mr. Kemp and Mr. Harrington. I'm an employee of a corporation that is a Domestic International Sales Corporation or DISC, and that kind of company receives a tax break on the income it earns from exports, U.S. produced goods. Now, at our particular company, I just want to say that I think that tax break has given us such vigor and incentive to go ahead and promote those foreign sales than perhaps to devote work time to importing. In fact, I would say we've made such considerable money with the tax break that we can invest, for example, in a new company, and recently created some new jobs. I feel that at our company and perhaps at other DISCs, with the tax break we would have more incentive to create more jobs. What would the respondents feel about increasing tax cuts given to DISC in view of and in light of the Carter Administration's statistical feeling that the DISCs do not have all that great an incentive.

MR. SILK: Mr. Kemp, do you have a slipped disc?

CONGRESSMAN KEMP: Very quickly, I don't favor subsidizing exports or imports or Lockheed or Amtrak or Conrail or anybody, and I think that subsidies are wrong. The tax rates are so high on everybody that the rate should be reduced all across the board. And I'm suggesting that just stimulating exports by offering DISCs is a very, frankly, a very shallow way of doing it. I know it is probably better than nothing, but investment tax credits distort investment. They may expand the labor stock but not expand the capital stock for no good reason but the taxcode. And you need to encourage capital investment. That's not the most efficient way to get it.

MR. SILK: Yes, Michael?

MR. HARRINGTON: Yes. I'm for abolishing DISCs for a number of reasons. Number one, it liberates multi-national corporations from the control of the American financial system. It makes the dollar a floating entity. It's now totally at the whim of speculation which corporations engage in all the time. And, number two, because it allows one of the most pernicious aspects of corporate policy to be encouraged, that is to say, to run out on American workers without any thought of the social consequences in the areas you are running out on. I am not in favor of creating a protectionist America against the Third World, on the contrary. But I am for having a full employment policy that is geared not to the needs of multi-national corporations but for the needs of both American and Third World workers. And I think that this simply allows corporations to exploit and make the best deals for private gains, and I am against the idea of private gain.

MR. SILK: You now have the final question of the evening. Thank you.

QUESTION: Mr. Kemp, Mr. Harrington. One class of people you have not discussed is the senior citizen, the disabled. Just exactly what are your plans for these two groups?

MR. SILK: Mr. Harrington?

MR. HARRINGTON: I think that one of the reasons I have been fighting so hard for full employment policy is that we are in profound danger in this society, if we don't get full employment, of having the younger generation of the employed forced into a generational war against the retired. So therefore I would think that as for every group in this society--for blacks, for Hispanics, for women, for the environment, for the Third World--so also for the people over 65, the most basic gain is to get the kind of economy that can have the kind of a retirement which those people deserve, which is not half good enough yet. There are still 15 percent of the people over 65 who, according to the official statistics, are poor. To do away with that outrage, social security should be set so as to provide a decent life for everybody, no matter what they did during their working lives. And under the circumstances of stagnation, that's going to take a lot of doing.

MR. SILK: Mr. Kemp?

CONGRESSMAN KEMP: Strangely enough, we totally agree. I couldn't agree more with what was just said. Stagnation, slow growth, high unemployment and low job creation reduce the tax base and further exacerbate the actuarial problem of the social security trust funds.

Further, these people now out of jobs and on the unemployment rolls are further drains--the public sector drains the private sector of its resources. It seems to me that senior citizens of America have a tremendous stake not only in stopping inflation but encouraging the type of economic growth and job creation that will allow for revenues to come into government that will finance assistance, because the social security system today, the retirement benefit you once had or that my parents were on is totally dependent upon the ability of today's work force to expand and to provide the payroll taxes that finance the trust fund. So it is absolutely imperative that we have full employment.

MR. SILK: I want to compliment both speakers before we go into the final act of our drama. The final summation, lasting no more than four minutes and 59 seconds, goes to Mr. Harrington.

MR. HARRINGTON: Number one, I call the corporate rich the corporate rich because they're not entrepreneurs; they are like landlords who, David Ricardo said, grow rich in their sleep. I am for rewarding entrepreneurs, not corporate rich.

I would also say that our tax code is not at all progressive, and one of the things that I would like to do is to have very high confiscatory inheritance taxes on large amounts of money because that would make those extra-rich young people work.

Thirdly, let me get down to the issues that really emerge here. I am for cutting taxes for most people but not for the rich. I remind you of the figures I gave you. Under the Kemp scheme, less than three percent of the taxpayers would get 23.5 percent of the benefits, 50 percent would get 17.2. We would increase maldistribution and that is not justified in terms of the investment that would come of it. Because, I repeat, Congressman, this economy does not work on new stock issues any more, it doesn't work on personal savings any more. It's no longer a Horatio Alger economy, and if you give the rich money, they will use it for speculative purposes if they think they can get more money that way. And, I believe therefore that if you want to get at the fundamental problem of the society, which is to get a full employment economy, you have to go to planned social investment.

Final point. I think your heart is often in the right place, amazingly so for a Republican, and I say this without any malice whatsoever. But your economics are not good, that's the problem. You are right, Congressman, demand side economics, that old dream that if we'll just finagle the fiscal and monetary levers, it all will fall in place, doesn't work any more. But in criticizing that obsolete doctrine, you have now come up with another version of it--that all we do is finagle a little tax cut and America will be on the road to full employment. No way. You're right to say that in America today we have to be concerned with investment. But we cannot hire out the investment decisions to rich people, which is essentially what you're proposing to do and why I call it a conservative proposal. We cannot hire that out and hope that they will make the right decisions, because all of the evidence that I see is that they have not.

What we need is not tax cuts for the rich, which won't work; we do need tax cuts for the society that will work. What we need for the economy to get going again is a planned social economy, and that's the way I see it as a socialist.

CONGRESSMAN KEMP: I appreciate the fact that there are many dedicated people here who desire to achieve the goals that I share.

I am from a working family, and my father was a small entrepreneur who started a little company and put four boys through college. I in turn am putting my children through college. And some day I hope that they will be motivated to out and not give up on America. I hope we don't give up on the future of the type of men and women building this nation and can build it again. I think there is much evidence in the world that where the incentives are the greatest, where the money is the soundest, where the discouragement is the least, those are nations that are achieving a higher degree of employment, a higher degree of social and economic justice and lower rates of inflation than the United States.

Now, we can talk about theory, and we can talk about the future, and I want a better future, as I think my colleague does. But I don't want it under democratic socialism. I want it under democratic capitalism. And I think the way to expand democratic capitalism is to provide an opportunity for the independent, hard-working men and women of this country to get ahead and you can't get ahead when the harder you work, the more you produce, the greater your savings, you simply end up in an extremely graduated tax bracket. I want to cut the tax rates for everybody, and I want equal treatment for everybody. Do I want to cut taxes for the rich? No, for the 14th time, I don't want to cut the tax revenues, I want to expand revenues by cutting the tax rates. And I can show you, and I'm sure my colleague--do I have a minute to go?

MR. SILK: One minute.

CONGRESSMAN KEMP: Okay. As I pointed out, the only real experiences we had in the 20th century with sharply and dramatically reduced tax rates were under President Kennedy and Secretary Mellon in the 1920s. Both time more revenue came into the government. The deficits contracted, they didn't expand, the inflation went down, unemployment went down, and more revenue came into the U.S. Treasury. More people were working to earn higher incomes instead of being pushed into brackets where they all spent their time hiring accountants and lawyers and looking for offshore investments and tax-free municipal bonds. You can suggest what you want, but I really believe the way to tax the rich is to get the rate down for them, too, to a point where they are encouraged to invest, and I think the people want to invest today and save, and have a dynamic view of their future that transcends the vision of society advocated by my distinguished friend and colleague, Mr. Harrington.

Thank you very much. I'm delighted to be here.

MR. SILK: Thank you once again to both of our speakers, and my thanks to this audience for being very cooperative and very smart.

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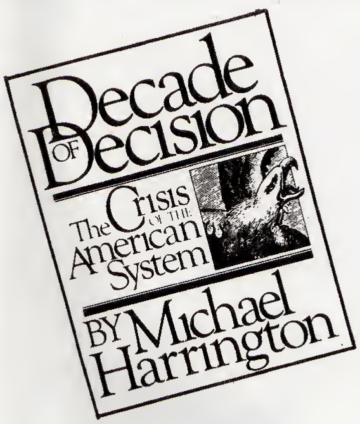

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