News from Senator

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DOLE URGES ADMINISTRATION NOT TO DROP TAX INDEXING

WASHINGTON -- During Senate Finance Committee hearings today with Budget Director, David Stockman on the Administration's Fiscal Year 1983 budget, Chairman Robert Dole called on the President and Treasury Secretary Donald Regan not to abandon their commitment to the Tax Indexing Provision of the 1981 Tax Act.

Senator Dole (R.-Kan.) calling indexing "the most significant tax change for working people in decades," had the following statement placed in today's Finance Committee hearing record:

"As we continue our review of the Administration's budget proposals for Fiscal Year 1983, we are pleased to welcome this morning Budget Director David Stockman. I hope the members will take this opportunity to further explore the options contained in the President's budget and suggest alternatives for cutting spending. The time is getting closer when we are going to have to make decisions, and none of them will be easy.

Before we begin I would like to take a moment to comment on a matter that is of some concern to me. Over the past few weeks we have been inundated with budget alternatives, and hopefully we are beginning to learn to sort the wheat from the chaff. Our job is to work with the President to enact a responsible and realistic budget package to carry over the next few years.

At the same time, we have to limit our options, or we will never reach agreement. Some alternatives have to be rejected, and some lines drawn. The President has not hesitated to do that.

This past weekend I was disturbed by reports that Secretary Regan had suggested that the Administration might be willing to trade away the tax indexing provision of the 1981 Tax Act. Some of us believe that is the most significant tax change for working people in decades, and that its retention will aid, not hinder, deficit reduction efforts.

The President has recited the virtues of tax indexing many times. Last July 27, in urging the American people to press Congress for passage of his tax bill, President Reagan stressed the dramatic difference indexing made for the American taxpayer. I cannot say it better than the President:"

> 'But then to ensure the tax cut is permanent, we call for indexing the tax rates in 1985, which means adjusting them for inflation. As it is now, if you get a cost-of-living raise that's intended to keep you even with inflation, you find that the increase in the number of dollars you get may very likely move you into a higher tax bracket and you wind up poorer than you would. This is called bracket creep.
>
> Bracket creep is an insidious tax. Let me give you an example. If you earned $10,000 a year in 1972, by 1980 you had to earn $19,700 just to stay even with inflation. But that's before taxes. Come April 15th, you'll find your tax rates have increased 30 percent.

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Now, if you've been wondering why you don't seem as well-off as you were a few years back, it's because government makes a profit on inflation. It gets an automatic tax increase without having to vote on it. We intend to stop that.'

The President went on to point out that a 25 percent tax reduction was needed in part because bracket creep, combined with scheduled payroll tax increases scheduled over the next few years, would raise taxes by 22 percent between 1981 and 1984. Most dramatically of all, President Reagan produced a chart showing the difference indexing made for the Administration bill. As he said, 'The green column is our bipartisan bill which wipes out the tax increase and gives you an on-going cut.'

PRESIDENT STANDS FIRM

I believe President Reagan has not retreated one inch from his commitment to preventing future bracket creep. In his State of the Union Address on January 26, the President stressed the fact that "Because we indexed future taxes to the rate of inflation, we took away Government's built-in profit on inflation and its hidden incentive to grow larger at the expense of American workers.

The President's position is clear. But I understand, as we all do, that the President may have to compromise on some tax measures at some point if we want to put together a deficit-reduction package that will help us fulfill our shared economic goals. I was disturbed by Secretary Regan's comments this weekend, however, because I fear that tampering with indexing is precisely the wrong way to go. Bargaining away tax indexing would send the wrong signal to the financial community and to the American people.

OUR BEST JUDGMENT

I know that Secretary Regan is trying, as we all are, to find the best set of alternatives we can agree on. For more than a year now I have had the pleasure of working with the Secretary, and I have the greatest regard for him. But all of us are obliged to exercise our best judgment as to how we ought to proceed, and I do differ with the Secretary on this matter.

The key to this issue is contained in the remarks President Reagan made last July. The President said that tax indexing denies the government a profit from inflation, and prevents automatic tax increases not voted by Congress. That is why it is so crucial at this time to maintain our commitment to honesty in taxation. To do otherwise would send-a signal that we are willing to inflate the economy to boost revenues in order to ease our budget crisis. We foreswore that route last year, and it was the most far-reaching change we made.

We can raise revenues without resorting to bracket creep--we can muster the courage to vote for higher taxes <u>when</u> those are clearly needed for the economy as a whole. That is our obligation, as the President has acknowledged by proposing over $30 billion in revenue increases over the next two years. But if we backtrack on the issue of the inflation tax increase, we risk unravelling the progress toward a lower-tax, lower-spending economy that the President has worked so hard to achieve.

BARGAINING ROOM

I know that Secretary Regan offered his comments on tax indexing as part of a wide-ranging interview on tax, budget, and economic matters. It is clear from the thrust of his remarks that the Secretary was primarily aiming at the notion that any revenues must be raised <u>only</u> for purposes of reducing the deficit. As Secretary Regan said, "we're awfully afraid that when you get into tax increases, including dropping indexing, it would only be an excuse to say, well, we don't have to cut anymore. We've got enough revenues to cover our added spending.'

I agree with that; I believe the President does too. Some revenues have to be raised to deal with the deficit, but the emphasis must be on spending restraint. We cannot accept revenue increases that are not linked to substantial spending cuts. My point is just this: Indexing taxes is a political reform as well as the most significant protection against higher taxes for all working Americans. In the long run it will mean even more for taxpayers than the series of rate cuts we have put in place. Protection against bracket creep is crucial for all taxpayers, regardless of their income--but it is particularly important for taxpayers at low and moderate incomes, who have less discretionary income and are at greater risk of being shunted into a higher brackets.

Our goal is to end inflation and get the economy moving. We have had considerable success on inflation, which is why I have suggested the possibility of indexing earlier in lieu of the 1983 rate cut. Not because we do not need rate cuts--but because lower inflation, reducing bracket creep, does part of the job of rate stabilization that was intended in the 1981 tax bill. Obviously I would prefer, as does the President, leaving the individual tax cuts intact and looking elsewhere for revenues. Some of us have suggested other options, including minimum taxes and narrowing the compliance gap. But if we do have to compromise, indexing should be the last place we look. Having got the genie in the bottle, we ought not to tamper with the notion of unleashing bracket creep again."

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