

*K.C. Rotary Club  
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K.C., Mo.*

INFLATION HAS BECOME OUR MOST SINGLE SERIOUS SOCIAL AND ECONOMIC PROBLEM. IT ERODES THE CONFIDENCE OF AMERICANS IN THEIR FREE ENTERPRISE SYSTEM. IT DESTROYS THE DETERMINATION OF THOSE LEAST ABLE TO DEFEND THEIR OWN ECONOMIC INTERESTS -- THE POOR , THE ELDERLY, AND THE WAGE EARNER. IT BREEDS UNEMPLOYMENT AS HIGHER PRICES MEAN LESS SALES, LESS PRODUCTION, AND LESS JOBS. INFLATION UNLESS CONTROLLED, IS THREATENING THE FIBER OF OUR STANDARD OF LIVING.

PRICES CONTINUE TO RISE

IT'S NO SECRET THAT PRICES CONTINUE TO RISE. THE POLICIES OF THE CARTER ADMINISTRATION GENERATED AN INCREASE IN THE PRICE LEVEL OF 6.8% LAST YEAR, COMPARED TO 4.8% FOR THE LAST YEAR OF THE FORD ADMINISTRATION. THE PROSPECTS FOR A REDUCTION IN THE INFLATION

-2-

RATE ARE DISMAL. THE JANUARY CONSUMER PRICE LEVEL ROSE AT A ANNUAL RATE OF NEARLY 10% AND THE FEBRUARY WHOLESAL PRICE INDEX -- INDICATING FUTURE INFLATION - ROSE AT AN ANNUAL RATE OF ALMOST 14%.

INFLATION WILL NOT BE CONTROLLED BY RHETORIC. IT WILL TAKE STRONG DETERMINED ACTION.

THE CARTER ADMINISTRATION HAS BEEN UNABLE TO COME TO GRIPS WITH RISING PRICES. THIS INABILITY - MORE THAN ANYTHING ELSE HAS BEEN RESPONSIBLE FOR THE DECLINE OF THE U.S. DOLLAR ABROAD.

INFLATION HAS SOARED BECAUSE OF THE POLICIES INITIATED IN THE LAST 15 MONTHS BY THE ADMINISTRATION. DOLLAR DEPRECIATION RAISES THE COST OF IMPORTED GOODS. INFLATION HAS BEEN ACCELERATED BECAUSE OF RESTRICTIVE TRADE QUOTAS, MINIMUM PRICES FOR STEEL, NEW MINIMUM WAGES, THE CARGO PREFERENCE SYSTEM, AND LAST BUT NOT LEAST, SHARPLY HIGHER SOCIAL SECURITY TAXES --- ALL ACTION INITIATED OR SUPPORTED BY PRESIDENT CARTER.

-3-

ONE OF THE POSITIVE STEPS WE CAN TAKE TO REDUCE INFLATION IS TO REDUCE GOVERNMENT REGULATION. FEDERAL REGULATION IN 1976 COST AMERICAN BUSINESS AND CONSUMERS \$65 BILLION -- OR \$1,300 FOR EVERY MAN, WOMAN, AND CHILD IN THE UNITED STATES.

### TAXES

THE CONGRESS IS NOW CONSIDERING TAX LEGISLATION. THE PROPOSAL SENT BY THE ADMINISTRATION IS A MIXED BAG OF TAX CUTS AND TAX "REFORMS". I DOUBT IF MANY OF THE REFORMS WILL BE ENACTED. IT IS TIME, HOWEVER, FOR SOME COMMON SENSE ON RESTRAINING SPENDING AND FOR PROVIDING A MEANINGFUL TAX CUT FOR ALL AMERICANS.

THE PRESIDENT STATES THAT HE WILL CUT TAXES. HOWEVER, CLOSE ANALYSIS REVEALS THAT WHEN THE INCREASED SOCIAL SECURITY TAXES AND INFLATION ARE TAKEN INTO CONSIDERATION, THE MIDDLE-INCOME FAMILY WILL



-4-

BE PAYING MORE IN TAXES. MR. CARTER'S PROPOSALS TO ELIMINATE DEDUCTIONS FOR STATE AND LOCAL TAXES, GASOLINE AND PERSONAL PROPERTY TAXES WILL HIT THE MIDDLE INCOME THE HARDEST.

IN FACT, WITHIN LESS THAN TWO YEARS EVEN IF THE PROPOSED ADMINISTRATION TAX CUTS ARE APPROVED, MOST AMERICANS WILL BE PAYING MORE TAXES THAN THEY ARE NOW AND FEW PEOPLE REALIZE THAT INFLATION IS THE REASON FOR YOUR SKYROCKETING TAX BILL.

#### TAX INFLATION

AS PRICES AND WAGES INFLATE, TAXPAYERS WILL PAY A GREATER PERCENTAGE OF THEIR INCOME IN FEDERAL TAXES. THE PRINCIPAL REASON FOR THIS PARADOX IS THAT THE FIXED DOLLAR AMOUNTS - SUCH AS THE TAX RATE BOUNDARIES AND THE \$750 PERSONAL EXEMPTION - DO NOT INCREASE WITH INFLATION.

-5-

A FAMILY WHO EARNS MORE MONEY IS PUSHED INTO A HIGHER TAX BRACKET AND SINCE THESE FIXED DOLLAR AMOUNTS FAIL TO COMPENSATE FOR THIS RISE - THE RESULT IS A TAX LIABILITY THAT IS INCREASING FASTER THAN INFLATION.

LET ME GIVE YOU AN EXAMPLE HOW "TAX INFLATION" WORKS. SUPPOSE A FAMILY EARNS \$15,000. THE FEDERAL INCOME TAX ON THAT LEVEL OF INCOME WILL BE ABOUT \$1,400 OR A 9% TAX RATE. HOWEVER, A 7% RISE IN PRICES AND WAGES WILL PUSH THE TAXPAYER INTO THE NEXT HIGHER TAX RATE BRACKET. HENCE, THE FAMILY, ALTHOUGH EARNING MORE INCOME, WILL BE PAYING \$200 MORE IN TAXES OR AT A TAX RATE OF 11%. IN EFFECT, TAX INFLATION HAS CAUSED A DECLINE IN THE FAMILY'S REAL STANDARD OF LIVING.

ACCORDING TO THE CONGRESSIONAL BUDGET OFFICE, TAX INFLATION WILL GENERATE \$45 BILLION IN NEW TAXES IN 1983. I DON'T THINK THAT'S FAIR. GOVERNMENT -- WHICH BRINGS ON THE INFLATION -- SHOULD BE FORCED TO SUFFER FROM INFLATION EVERY BIT AS MUCH AS WE DO. THAT'S WHY I

-6-

HAVE INTRODUCED LEGISLATION WHICH WOULD AUTOMATICALLY ADJUST THE TAX LAWS TO COMPENSATE FOR TAX INFLATION.

TAX INDEXATION

THIS CONCEPT IS CALLED INDEXATION. UNDER THE LEGISLATION I HAVE INTRODUCED, UPWARD ADJUSTMENT WOULD BE MADE TO THE TAX RATES, YOUR PERSONAL EXEMPTION, AND MANY TAX CREDITS. HENCE, TAXPAYERS WOULD NOT BE SUBJECTED TO THE TAX INCREASES GENERATED BY INFLATION. THE PROPOSAL IS SIMPLE AND SENSIBLE. INDEXATION WOULD INSURE THAT ANY INCREASES IN TAXES WOULD HAVE TO BE ENACTED BY CONGRESS. NO LONGER COULD GOVERNMENT AUTOMATICALLY EXTRACT HIGHER TAXES FROM THE AMERICAN PEOPLE BECAUSE OF THEIR FISCALLY IRRESPONSIBLE POLICIES. I AM PLEASED THAT THE SENATE FINANCE COMMITTEE WILL HOLD HEARINGS ON MY BILL NEXT MONTH.



-7-

MORE MONEY WOULD BE KEPT IN THE HANDS OF THE PEOPLE WHO EARN IT, LESS IN THE HANDS OF GOVERNMENT. CONSUMER SPENDING WOULD INCREASE. JOBS WOULD BE CREATED. AND THE TAXPAYER WOULD BE OFF THE TAX INFLATION TREADMILL.

LAST YEAR CONGRESS VOTED \$227 BILLION OF NEW SOCIAL SECURITY TAXES IN THE NEXT TEN YEARS. NOW THOSE IN CONGRESS WHO VOTED FOR THE TAXES ARE NOW SCREAMING THE LOUDEST FOR A SOCIAL SECURITY TAX ROLLBACK. THIS ACTION WOULD REQUIRE THE USE OF "GENERAL REVENUES" TO FINANCE THE SOCIAL SECURITY SYSTEM. HOWEVER, I'M NOT SURE THAT A GOVERNMENT RUNNING A \$60 BILLION DEFICIT HAS ANY GENERAL REVENUES.

DIPPING INTO THE GENERAL REVENUES WOULD DESTROY THE ACTUARIAL SOUNDNESS OF SOCIAL SECURITY SYSTEM. I HAVE PROPOSED LEGISLATION THAT WOULD REDUCE TAXES BY GRANTING A 20% TAX CREDIT BASED ON YOUR SOCIAL SECURITY TAX CONTRIBUTION. THUS IF YOU ARE NOW PAYING \$1,000 IN SOCIAL SECURITY

-8-

TAXES, YOU COULD REDUCE YOUR FEDERAL TAX LIABILITY BY \$200.  
THE BENEFITS OF THE CREDIT INCREASE AS YOUR SOCIAL SECURITY TAX  
RISES. I BELIEVE THIS APPROACH DEALS EFFECTIVELY WITH THE  
PROBLEM AND CAN BE INCORPORATED INTO THE TAX CUTS NOW BEING  
CONSIDERED.