

Reply to Time for Truth: Taxes Must Rise

A Published Letter to the *Los Angeles Times*

August 14, 1985

In his article (Opinion, Aug. 4), *Time for Truth: Taxes Must Rise*, Kevin Philips supports the notion that a tax increase is necessary to cut the massive federal budget deficit that threatens the economy. That is generally agreed upon to be true. However, then he goes on to agree with the suggestion of Federal Reserve Chairman Paul Volcker that some sort of national consumption tax (a "value-added" tax or other federal sales or corporate tax passed on to consumers) would be the proper tax to introduce. I disagree.

It would be best not only to plug tax loopholes benefiting some who are already well-off, as a *Times* editorial calls for, but also it would be fairest and wisest to reinstate some of the "supply side" cuts made in the income taxes of some of the richest individuals.

A sales tax is by definition a "regressive" tax. It takes a larger share of the income from lower- and middle-income citizens, who must spend—rather than can save—a larger share of their income. This is the opposite of a "progressive" income tax, in which the higher one's income, the higher percentage of one's income is paid in tax.

A consumption tax, by adding to the cost of goods to consumers, causes inflation and puts the government in competition with businesses

for the dollars of consumers. And as any kid with a lemonade stand can tell us, if sales decrease then so do profits; and as the 1983–1984 economic recovery demonstrated, if sales increase then so do profits—business is naturally demand-sided.

Although a progressive income tax will cut into the amount of savings of upper-income individuals, any capital thus made unavailable for borrowing by business for investment will be more than made up for by the better sales that exist in the absence of federal consumption taxes. Every dollar a business gets from a sale is one less dollar it needs to borrow from and repay with interest to a bank.

We cannot afford to not cut the national debt; but let's do so by restoring progressivity to the personal income tax and not by substituting for the cuts and loopholes that have most benefited upper-income citizens a value-added, corporate, or other consumption tax passed on to consumers.

Let's not make the rich in the short run richer and the poor, the middle class, and the entire economy in the long run poorer. Horribly, the terror of the French Revolution grew out of exactly the same conditions—let's learn from history and not be doomed to repeat it.