Reagan's Tax-Reform: A Potential Catastrophe with Some Good Points Included

by Lyndon H. LaRouche, Jr.

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The televised appearance of Rep. Dan Rostenkowski (D-Ill.) right after President Reagan's announcement of his proposed tax-reform, makes one thing very clear. The most important thing about the proposed reform, is a sudden change in the President's relationship to the traditionalist faction among Democrats.

Over the past few weeks, Sen. Bob Dole and the Liberal Republicans have stabbed Ronald Reagan in the back more times than Brutus struck Julius Caesar. If the President is to save his administration, he might very well see himself forced to extend his hand across the congressional aisle. Representative Rostenkowski said very clearly, to a nationwide TV audience, that that is exactly what has occurred.

That new relationship to traditionalist Democrats is potentially the good side of the proposed tax-reform. Being a good Democrat myself, I find that side of the matter very appealing. While there are some goods points included in the tax-reform itself, as it stands, if passed, that reform would be a national catastrophe.

I don't wish to be misinterpreted; I am not proposing that good Democrats split the Democratic Party, and fuse with the good Republicans on the other side of the aisle. Although I'm a republican by philosophy, I need a political party based on farmers, industrial operatives, and minorities, as well as industrialists and professionals. The people the Democratic Party is supposed to represent, makes me a good Democrat, not like the soft-on-drugs-and-Khomeini variety that romped around the White House under Jimmy Carter.

We don't have to split the parties, even though the Liberals on both sides of the aisle are pretty much a national-security disaster. What our government needs, is bi-partisanship on vital issues, especially national-security issues, between good Republicans and good Democrats. It was many Democrats turning away from Senator Dole's current policies, when

Mondale was pushing them in the election-campaign, which reelected the President. Bi-partisanship makes excellent political sense.

I may not agree with Representative Rostenkowski on the tax-reform itself, but I do agree with his idea of a Republican President's cooperation with good, normal, non-Carter-Mondale Democrats. That sort of cooperation might help to turn the United States around, away from the early disasters toward which we are heading.

In the short term, it is Rostenkowski's reaction, not the tax-reform itself, which will be important. As for the tax-reform itself, despite a few good points included, it would be a national catastrophe if it were ever passed in its present form.

The good part, is the proposal to lighten the tax-burden on lower-income-bracket households. I couldn't complain, since I have been pushing that reform since my 1980 Democratic presidential campaign; it happens to be right, whether I had been pushing it, or not. It is right, because anyone attempting to raise a family of four on $25,000 a year, is either a hero or a magician. It's also right, because reducing tax-rates in these brackets will be of great benefit to the economy as a whole.

The President spoils it, by proposing to eliminate deductions on state and local income-taxes and home-owners' real-estate taxes. These state and local taxes hit hardest in the states which have suffered the most from the presently deepening economic depression. In those states, the President's tax-reform means arise in total tax-payments for some of the very households the President quite sincerely wishes to help.

The worst part of the proposed tax-reform, is the President's proposal to decrease capital-gains tax-rates, while raising tax-rates on farms and industries. If such a change were ever passed, the tax-reform would virtually wipe out most of what is left of our national economy. The President has it backwards: What he ought to propose, is a major increase in investment tax-credits, and an increase in the rate of capital-gains taxation. To turn this economy around, to produce the expansion of industrial employment that will balance the federal budget, we must shift the flow of investment and lending, away from capital-gains in financial paper, and into plant, equipment, machinery, and public utilities. If his present tax-reforms were passed, the United States would become a nation of gambling casinos and fast-food stands, with most of the food and industrial goods imported from foreign countries, and with a U.S. trade deficit big enough to reach to the Moon.

The problem is, that the President doesn't yet understand economics. The lies which Donald Regan has been telling the President for the past two years, haven't improved the President's education in economics.

I have the plain facts and figures on the desk before me. There never was a "Reagan economic recovery" in 1983–84; the economy continued to collapse. The President has been lied to by advisers such as Donald Regan, to the point that he actually believes that a recovery is in progress, and therefore he believes that the same policies now wrecking what remains of our economy will help to make things much better.

Of course, it wasn't President Reagan's changes in policy which caused the 1981–85 collapse of agriculture, industry, and basic economic infrastructure. It was not the President's changes in policy which caused the 1981–85 Federal budget deficit, or our zooming foreign-trade deficit. Whether the President realizes it or not, all he has done in economic policy, except for his tax-reduction, is to continue the policies he inherited from Jimmy Carter, and from Henry Kissinger and George Shultz before Jimmy Carter.

The Facts About the Economy

The facts are documented in the 109-page, April 15, 1985 ***Quarterly Report*** of the ***Executive Intelligence Review***, and in articles appearing in the weekly ***Executive Intelligence Review*** and ***New Solidarity*** newspaper. I will merely sum up those facts here.

The U.S. economy reached its postwar high-point during the middle of the 1960s, chiefly as a result of the combined effects of the postwar buildup of basic economic infrastructure, the aerospace research-and-development boom in technology, and the Kennedy investment tax-credit reform. From 1967 to 1970, the rate of growth in productivity levelled off. Beginning 1971–1972, productivity began to sag. The sag accelerated as a result which Shultz and Kissinger pushed through at the 1972 Azores and 1975 Rambouillet summit-conferences. The rate of collapse was accelerated by the artificially induced "energy crisis" of 1974–75, and by the anti-technology policies of the Carter administration.

The worst blow to the U.S. economy started in October 1979. Then-newly-appointed Federal Reserve Chairman Paul A. Volcker, with Jimmy Carter's full backing, introduced a policy which Volcker himself had described publicly as "controlled disintegration of the economy." The U.S. economy has been in an accelerating down-slide ever since.

There is one complication. When an economy collapses, it does not collapse in a continuously even downslide. It comes down like a roller-coaster. Down for a while, then up a bit, then down again, and so forth and so on. The up-ticks never reach the level of the previous highs: just like a rollercoaster ride down to the bottom.

The U.S. economy went down beginning February 1980, into the late summer of that year. It levelled off a bit, and then started sliding down again in the spring of 1981. It reached a 1981–82 low about October 1982, and then levelled off again, collapsing at a slower rate than 1981–82 through most of 1984. In the last quarter of 1984, a new downswing began, erupting into a sagging of the dollar and waves of banking collapses beginning March of this year.

Today, if we deduct foreign imports from total U. S. sales, the U.S. economy is producing less than it was during 1982, and we are now plunging into the steepest collapse of the postwar period. This is what the LaRouche-Riemann forecasts warned the Volcker measures would cause, as early as my first warning of this in October 1979. ***EIR*** has called the shots in advance on every up and down of the rollercoaster ride, since October-November 1979!

This is what Donald Regan has told the President is a miraculous economic recovery!

True, some categories of "business income" have increased: Interest paid has zoomed to the point federal interest payments are nearly equal to the annual federal budgetary deficit. Most of the rise of the federal debt, from $800 billion in 1980, to over $1.8 trillion today, is caused by the Volcker measures' increase of costs of financing the federal debt. The fast-food business has zoomed, all sorts of unskilled labor-intensive services have expanded. However, agriculture has collapsed, and basic industry and basic economic infrastructure have collapsed at an accelerating rate over the entire period; they continued to collapse during the 1983–84 period.

True, during 1983–84 consumer spending increased. Most of this increase in purchasing-power did not come from increases in income. It came from zooming increases in borrowing, increases in personal indebtedness. The increase in spending did cause some increased employment in automobile assembly plants, but the amount of automobile produced, for each automobile produced and sold, was less, so that by 1979 standards, the U.S. auto industry actually produced and sold the equivalent of about 4 million units last year; the rest was imported cars and parts. Steel has collapsed to a new steel production of about 40 millions tons, one-third of 1970s levels, while the rest of the 90-odd million tons of steel purchased came about half from imports, and another half from remelting scrap. As steel goes, so goes everything made of steel.

The President is told, and he repeats this, that "inflation has been turned back." It never happened. What did happen, is that the Department of Labor faked the figures on inflation, cutting the reported rate of inflation to about half the actual rate. Back during the Carter years, the price of the U.S. dollar dropped to about two West German Deutschemarks, where the dollar was priced slightly below its true purchasing power. Today, the dollar is about three Deutschemarks, and one Deutschemark will buy as much in a German market, as one dollar buys in a U.S. market: The dollar is priced at about three times its competitive purchasing power. In other words, there has been a three-fold inflation of the dollar in slightly more than four years, with much of this inflation occurring since 1982.

Compare the size and weight of a 1979 Detroit automobile with a 1985 automobile. Next, look under the hood at the engine, and check the spare tire in the trunk of that compact. You are buying about half the automobile you bought in 1979. Now compare the prices. The Department of Labor says you are getting much more automobile in 1984 than in 1979, and therefore lops off as much as 40% of the increase of price, which it says is not inflation, but the added cost of a better automobile. In other products in the market basket, the Department of Labor has faked the inflation-rate in the same way. That's how they cooked up the faked figures to tell the President, that "we have turned the corner on inflation"!

You ask, "How can the President overlook the fact, that agriculture and basic industry are collapsing?" Very simple. The fellows in the administration who fake the figures say, that the successful economy of the future is a "post-industrial society," a junk-pile with a new desk-top computer counting the scrap. They insist that by reemploying unemployed steel workers in fast-food stands, at near minimum wages, we are moving into the "economy of the future."

Some of these idiots around Washington go further than that. The Soviet Union is deploying hundreds of new nuclear missiles each year now, while the United States has not yet deployed even 40 MX missiles, the only U.S. missiles which are technologically equal to any of the hundreds of new missiles being deployed by Moscow. In tanks, naval warships, in aircraft, and so forth, the Soviet Union is vastly outproducing the United States, and already has a vast margin of absolute superiority over us. What do the wise guys around Washington say about this? They say, "That proves that the Soviet economy is collapsing. While we are becoming a superior post-industrial society, they are stuck in being an industrial society. See, we're really way ahead of them!"

There, you have our "miraculous economic recovery"!

The President's tax-reform is designed to accelerate that kind of "miraculous economic recovery." More fast-food stands, more unskilled services, and wipe out what remains of industrial and agricultural investment. In other words, more rapid rises in foreign-trade deficits, bigger and bigger federal budgetary deficits, and higher and higher rates of inflation —at least, until the financial bubble bursts, and all, fast-food stands, and everything else, come all tumbling down together.

We are not far from the point that the bubble bursts.

The Problem with the President's Tax Reform

To understand the catastrophic elements in the President's proposed tax-reform, you need look at only a few passages in the President's televised address on May 28:

> "... falling inflation, falling interest-rates, and the strongest economic expansion in 30 years."
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> "That old tired economy, wheezing from the neglect of the 1970s, has been swept aside by a young powerful locomotive of progress carrying a trainload of new jobs, Americans of average means."
>
> "The pessimists will give a hundred reasons why this historic proposal won't pass and can't work. Well, they've been opposing progress and predicting disaster for four years. Yet, here we are tonight, a stronger, more united, more confident nation than at any time in recent memory."

Perhaps the President really believes those parts of his address. After all, already subject to one assassination attempt, and locked away behind urgently needed security precautions, his busy schedule makes him dependent upon what his advisers tell him. He does not know the real world; he knows what his advisers tell him is occurring in the real world. Since the President's weakest side is economics, it is on the subject of economics that unscrupulous advisers in his White House "palace guard" can most easily deceive him with faked figures and wildly false reports.

No doubt, the President honestly believes a recovery is in progress; therefore, he supports policies which will give us more of the same. For four years, we have had not progress, but deepening economic erosion. It is inevitable that more of the same, means much worse.

We must lighten the tax-burdens on households, yes. We must also multiply the investment tax-credit allowances in investment in new technologies for agriculture, industry, and public utilities, while we increase the tax-rates on capital gains from speculation in financial paper. We must get out of the "post-industrial decay" which is ruining us, and back into a nation dedicated to high rates of investment in improved productive technologies. We must turn back the flood of money into wasteful and low-productivity investments, and turn that flood of savings and credit back into expansion of production of physical goods. Until we make that change in policy, every reform will only make things worse.