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Discussion after the Speeches of Robert D. Brown and George G. Goodrich

Discussion

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Discussion After the Speeches of Robert D. Brown and George G. Goodrich

QUESTION, Professor King: Both of these presentations gave us a pretty grim picture of the fact that North Americans do not take a long-term view of these tax problems.

My comment is that we are penalized here in the Rust Belt by the removal of the investment tax credit. What I am concerned about is, who is doing something about it? Is there anybody who is mobilizing public opinion? Do you see any possibility of mobilization of public opinion to get a long-term point of view, or a targeting of some of these essentials? Is there some demonstration that we need to make? I am concerned that our policy, as George has indicated, is short-term, and the Japanese is long-term. Is it a Catch-22 situation or are there possibilities of doing something? Should we focus on certain areas such as city investment tax credits or the depreciation situation? It has been done in other countries, and I would like to get any comments either Bob or George would have upon this subject.

ANSWER, Mr. Goodrich: We are faced with a dilemma. After the 1986 legislation, we talked about rate reductions and we felt that the United States was placed in a noncompetitive position because everybody else had all these tax advantages. What we are finding out now is that Britain and other countries are looking to start eliminating all the incentives and go over rate reductions with broad base taxation. I do not know if we will be noncompetitive with the rest of the world, but we are right now.

What should we do about it? We should do the same thing as we did in 1962 and 1978, which is to encourage the heavy industry groups that are those most dramatically affected to start a strong lobbying effort.

One of the things that is going to be studied over the coming year is the passive activity laws. We know what it did to the real estate industry and we are already seeing that gear up. However, you do not want to come out with a strong lobbying effort when in fact you may have to take another direction by the time we really get into the serious tax reform.

Groups out there ought to be geared up for it, but not too soon. If you go out with your heavy equipment too soon you give the government too much time to react to it. But, it is needed. There are a lot of industries in this area that are suffering and something has got to be done other than the rate reduction.

COMMENT, Mr. Edwards: I have felt over the years that we have used the tax code as our vehicle for a range of economic policy matters

that are not necessarily related to revenue. It seems to me, at least, part of the theory of the 1986 effort was to reduce rates, broaden out the tax base, and to some extent, try to dampen down the use of the tax code for these various other purposes. It seems to me that you are suggesting the reintroduction to the tax code of the very things that we are supposed to be taking out. It seems that the real problem is the fear of business that these lower rates are not going to hold. What will we do when the rates go up? Well, we better have some other things in so we will be able to manage it. I wonder if the better strategy would be to work to keep the rates down or even lower them more, rather than to play around with narrowing the base.

COMMENT, Mr. Goodrich: I agree with you. If you want to keep the rates low, then find another way to cut government spending and reduce the impact of the deficit. Let me give you a scenerio that I think is more appropriate to the individual, but I see it coming to the corporate sector as well. In 1984 and 1986 we started cutting back on the tax shelters. We got the tax shelter deductions down to where they are no longer abused and to compensate for that we gave a rate reduction from fifty percent to twenty-eight percent. Now we are possibly going to turn around in 1988 or 1989 and raise the individual rates back up. What they could have done in the first place is just disallow the tax shelters because that is where it is going to end up. I see the same thing in the corporate area. We took away a lot of incentives and gave them rate reduction. Now we are going to jack the rates back up, and what is the net effect? We eliminated the incentives and we are going to tax the same way.

The one point I should make is, if the other countries adopted the lower rates and broad based measures, then maybe there would not be as much incentive in the international environment to raise the rates back up. I think the U.S. system is looking totally at its domestic problems and see rate increases as the only way to solve the problem.

QUESTION, Professor King: I want to ask Robert Brown if there is any possibility of some international cooperation in terms of the role of these incentives so that we are not always put in a disadvantageous position. Is there any possibility of cooperation among countries at all in terms of equalizing these incentives?

ANSWER, Mr. Brown: The answer is yes, but slowly. The European Community, which has managed to reconcile trade policies, antitrust policies, border tariffs and so on, has not succeeded in harmonizing the income tax systems of the different countries. Income tax systems are very closely connected with politics and politics varies from country to country and from time to time and reconciling them is difficult. I think you will see some very, very slow trends toward international corporation.

Just one other point to pick up on the theme that was developed earlier. The critical issue is not in getting next year's tax changes right.

Tax changes are always screwed up. That is part of the game. The real issue is whether or not we can think ahead, making long-term, stable tax policies. The instability of the tax systems of the United States and Canada is costing us dearly. It is not just what we are changing, it is the fact that we do change them all the time that is costing us wealth and resources.

QUESTION, Mr. Kirby: Both of you gentleman put on the table the issue of incentives and disincentives, pointing to the shockingly low savings function in the United States and the shockingly high consumption which put our whole system on the wagon. Looking ahead, what do you think could be done about getting our savings function into some ascending curve?

ANSWER, Mr. Brown: The classical economic answer to that would be to shift from income taxation to consumption taxation: tax people on what they spend, not what they earn. Then everybody has an automatic tax shelter to the extent that if they save money they do not have to pay tax on it. There are other approaches which would primarily come from improving the rate of return from savings, bonusing people on what they could put aside. For example, any tax system that taxes 100% of capital gains but provides no relief for inflation is insane. That is an expropriation of capital.

COMMENT, Professor King: We have had an excellent session. I want to thank both Bob and George for enlightening us on the problems in our tax systems, and also suggesting some possible solutions.

