



# The Phyllis Schlafly Report

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## The Family's Stake in Economic Policies

Reporters are forever making a distinction between "economic" issues and "social" issues in an attempt to drive a wedge between the several branches of the coalition that elected Ronald Reagan in '80 and '84. They write as though his attention to economic or social issues is mutually exclusive, as though he must necessarily alienate the social-issue groups if he turns his attention to economic issues.

This dichotomy is as phony as the "gender gap" hoax that consumed the attention of reporters for so much of 1984 (until it ballooned into the Ferraro phenomenon, and then burst like a bubble on November 6).

The fact is that the number-one social issue IS economics. The ability of a man to earn an after-tax wage sufficient to support his family, and to allow his wife to give mother-care to their children, is the most important social/family/moral issue of all.

When you travel around the rest of the world, you can better appreciate what Americans take for granted in the United States. The greatest achievements of the American private enterprise system are the single-family dwelling and the ability of the average working man to give his wife a better quality of life in the home, instead of laboring from dawn to dusk in field or factory. In many foreign countries, the women till the fields and carry the firewood and water like beasts of burden. They do most of the hard work that is done, while the men reserve their energies for hunting, fishing, and fighting.

Congressman Jack Kemp (R-NY), the leading advocate of low-tax policies in the 1980s, addresses economics as a family issue. He reminds his audience that, when "economics" first developed as a distinct discipline about the 4th century B.C., the name came from two Greek words, "oikos nomos," which means "the law or custom of the home." Aristotle wrote that, to have a happy life in this world, one must possess two things. First, he has to acquire moral characteristics or virtues, and second, he has to have some material possessions.

Our Declaration of Independence did not say that government exists to secure the natural right of "happiness" but rather "the pursuit of happiness." As Kemp says, government's role is "to establish conditions allowing people to develop their best qualities and maximize their potential to strive for happiness." Kemp reminds us that "resources come from people, not simply from the hand of nature." That sticky black stuff oozed out of the ground in Biblical days, but it wasn't a natural resource until mod-

ern man discovered how to use oil as energy.

The income tax system in the United States has become so oppressive and so complicated that many people divert as much as they can into the underground (unreported) economy, and the wealthy spend their energies seeking tax shelters. The former is unfair to those who do pay their taxes. The latter is unfruitful and hits hardest on those who would benefit by job creation and plant expansion.

The liberals are trying to adopt the word "family," but they talk as though Uncle Sam were your father and mother. There's a big difference between pro-family policies and paternalism. Americans want to live in freedom and enjoy the fruits of their labor; they don't want to live the life of a plantation slave.

### Kemp-Kasten Tax Reform

Four years ago, when Ronald Reagan moved into the White House, Jack Kemp's "supply-side" economics was controversial. Now, everyone must admit that it works; it is the centerpiece of our economic recovery which has produced seven million new private-sector jobs during the last two years.

Under the strong leadership of Jack Kemp and Senator Bob Kasten (R-WI), the 1984 Republican Platform adopted in Dallas last summer stated positively: "We oppose any attempts to increase taxes. . . . For families, we will restore the value of personal exemptions, raising to a minimum of \$2,000 and indexing to prevent further erosion." All current tax reform proposals bear the indicia of the Kemp-Kasten approach.

The President endorsed Kemp economics in his Second Inaugural Address. "The heart of our efforts," he said, "is one idea vindicated by 25 straight months of economic growth: freedom and incentives unleash the drive and entrepreneurial genius that are the core of human progress. We have begun to increase the rewards for work, savings and investment; reduce the increase in the cost and size of government and its interference in people's lives."

The 1985 Kemp-Kasten "Fair and Simple Tax" (FAST) plan calls for a modified flat tax by dramatically reducing the number of tax brackets, doubling the personal exemption to increase fairness for families, raising the income tax threshold above the poverty line to help break the poverty cycle, and greatly simplifying the tax code. It eliminates many deductions and loopholes that distort

economic activity, and it tries to make sure that all Americans pay their fair share.

The flat tax rate on taxable income is 24% but, since the plan contains an employment income exclusion of one-fifth of all employment income below \$41,700 a year, the effective marginal tax rate on those earning below \$40,000 will be 19%. The tax on capital gains is kept low enough to allow risk taking, entrepreneurship, venture capital formation, and new business starts, all of which are essential to creating new jobs.

### **Social Policy in the Income Tax**

The Federal income tax is much more than a device to raise revenues to pay the costs of government. Nestled within its intricate rate structure and complicated layers of credits, exemptions, deductions, and penalties, the income tax code contains many social policies.

There is nothing the matter with taxes expressing social policy. For example, there is general public acceptance of the policy that extra consumer taxes should be levied on alcohol and tobacco which would be unacceptable on bread and milk. There is general acceptance of the policy that the rates on capital gains may be different from the rates on ordinary income. Likewise, we have accepted the policy of tax advantages for homeowners through deductions for interest paid, on the theory that homeowners help to create a stable society.

Over the last 30 years, however, a new social policy has crept into the Federal income tax without any discussion or debate by Congressmen or the American people. It is a policy of disincentives to having children and of incentives to move the wife/mother out of the home and into the paid labor force.

The question here is not how many children a couple should have, or whether women should be career homemakers or make their careers in the labor force. The question is whether the Federal income tax should provide tax incentives or disincentives so that governmental policy can influence those choices.

In studying the incentives and disincentives built into the income tax structure, it is difficult to escape the conclusion that they express radical social policies which have never been approved by the American people. They surely have never been discussed by Congressmen with their constituents.

Over the last 30 years, the value of a child in the income tax code has been reduced by more than three-fourths. A child's tax exemption used to be 18 percent of the median American family income; today it is only four percent. Is not a child today just as valuable to the family and to society as 30 years ago? Certainly it costs much, much more to raise and educate a child than it did 30 years ago.

Did you ever hear a Congressman discuss his votes to devalue a child in the income tax law, thereby making it so costly for a couple to have children? If a child were to have the same relative value as 30 years ago, the child's exemption would be about \$5,600 instead of \$1,000.

The Individual Retirement Accounts (IRAs), which have become a \$60 billion a year business, were created by provisions of the income tax law which give enormous tax benefits to persons who save for retirement. Yet these benefits are highly discriminatory; they value

the homemaker wife at only one-eighth of the value of the man or woman in the paid labor force.

Will not the homemaker wife grow old and need savings in her senior years just as much as anyone else? If the income tax were to value the homemaker wife equally with the labor-force wife, they would each be able to put \$2,000 per year into IRAs.

The tax code gives a tax credit of up to \$1,440 to a mother who enters the labor force and hires someone else to look after her children. This child-care credit is denied to the mother who cares for her own children. Why does the income tax law give an advantage to the absentee mother over the resident mother?

The couple where both spouses are in the paid labor force is given an extra tax deduction of up to \$3,000. The tax code denies that deduction to the traditional couple where the wife is a full-time homemaker.

The American family is under heavy attack at the present time from a variety of causes. The economic assault is the most powerful attack of all; a double whammy is dealt by inflation plus these anti-family policies injected into the income tax law.

The American income tax system is a system whereby policies and rates are set by Congress; then the individual determines what he owes under the law. This system absolutely depends on a general public perception of fairness; the American people have proved that they will pay high taxes so long as the burden is equitable. Estimates of the amount of taxes due which are not reported or paid today run as high as \$100 billion per year. The first step to improve voluntary compliance is to restore public confidence in the fairness of the tax structure itself.

### **The Spirit of Enterprise**

Most people are acutely aware of the high taxes they are paying, but few people are aware of the social policies hidden behind those taxes. Nevertheless, those social policies are powerful incentives to guide and induce personal and business decisions.

One of the last Senate speeches made by Paul Tsongas, the recently-retired Senator from Massachusetts, is instructive. On May 1, 1984, he told how he had voted against the reduction of the capital gains tax in 1978 because, as a Democrat, he perceived it as "pro-business."

Then he made a startling confession. "That bill which I did not support," Tsongas said, "did more for the economy of my state than anything I did as a Congressman."

These remarks by a retiring Senator show that some Democrats are finally beginning to realize how their high-tax policies stifle business. The principal reason for Ronald Reagan's victories in 1980 and 1984 was that the American people have reached a consensus to get the Federal Government off the back of our economy.

The Reagan Administration came to power with an economic objective summarized in the President's words as, "Give the economy back to the American people." He wants to reduce Federal intervention and allow the free market system to function, based on his belief that this is the road to a rising living standard, expanding opportunities for employment, and a stable level of prices.

In his Second Inaugural Address, President Reagan

leads us toward faith in America and confidence in ourselves to build our own lives. He sounds the trumpet for "the spirit of enterprise" to build prosperity, while forbidding government to "abuse the trust of working men and women by spending their earnings on a futile chase after the spiraling demands of a bloated federal establishment."

George Gilder's book, *Wealth and Poverty*, provides a positive credo for capitalism, showing that the key to wealth is work, family and faith. In his newest book, *The Spirit of Enterprise* (Simon & Schuster, 1984), he shows how economic progress, real wealth, and rising living standards are the handiwork of the entrepreneur, a creature whose habitat is freedom, and who creates opportunities rather than just looking for them.

The innovations which most advance our prosperity are the unpredictable near-miracles which result from the energies of creative men with capital who have freedom to pursue their dreams. Our "excellence of national life" has been advanced further by the electric light bulb, the airplane, the transistor, petrochemicals, antibiotics, and the computer than by any act of government save only the adoption of our U.S. Constitution in 1789.

George Gilder's stories of modern American entrepreneurs are so exciting that he might have called his book "The Romance of Entrepreneurship." He tells them with drama and colorful prose, whether describing Henry Ford, who taught us that high profits come from low prices and high wages rather than from charging what the traffic will bear, or the computer entrepreneurs who are now improving our lives.

J.R. Simplot went west in a covered wagon, cleared the sagebrush, and built a great empire supplying Idaho potatoes for the French fries with McDonald's hamburgers. John Masters, independent explorer, discovered the largest natural gas basin in North America.

Gilder recounts the thrilling achievements of the Cuban immigrants. Castro expropriated all their material goods and life savings, but they fled to America with real capital, that is, their entrepreneurial spirit. They built a new prosperity not only for themselves but also for the natives of their new homeland, and today there are some 10,000 successful Cuban-owned businesses in what had previously been inner-city blight.

The economists won't like this book, nor will the professors of the ivy league colleges and prestigious schools that anoint their graduates with MBAs, because Gilder shows that those are not the gardens where entrepreneurs grow. 'Twas ever thus; when I was studying at Harvard in 1945, the prevailing theory of the economics department was that America had reached a "technological plateau," that future economic progress would be only marginal, that we were doomed to a static society with no increase in jobs.

Gilder tells how the economists and other intellectuals in the 1970s preached a "religion" of scarcity, austerity, and depression; they predicted we were running out of energy and that only "central planning" could avert catastrophe. But *mirabile dictu*, a simple change was made in our tax code in 1978: the capital gains tax was reduced.

All of a sudden, creative men were able to find capital to finance their hopes, their risks, their innova-

tions. America's entrepreneurs rode to our rescue, and their new ideas and new businesses launched a broad economic recovery. In the 1980s, new companies started at the rate of 600,000 a year.

Gilder describes how our tax system works to commit euthanasia on the entrepreneur. Once he has made a little money, taxes force him to lavish his energies and money on lawyers and accountants, and then to hide his capital in tax shelters.

All of us are dependent for our prosperity and progress on the creativity and courage of the few men who take the risks which generate our riches. America can continue to grow only if our tax system encourages the entrepreneurs — the real heroes of America.

## The Failure of Social Spending

Although nations often experience dramatic changes in socio-economic direction and culture, contemporaneous observers usually do not pinpoint the precise moment of change. When we look back with the benefit of hindsight, it is easier to identify the particular events that marked or caused the shift.

Americans have been aware for the last two decades that we are paying higher taxes, spending more on social programs, but not making any progress toward solutions of the problems. Now comes a social-policy researcher who evaluates all those graphs and statistics and tells us what has really happened.

*Losing Ground* by Charles Murray (Basic Books, 1984) takes a scholarly look at U.S. social policies of the last three decades and conclusively proves by impressive data that our undeclared war on poverty was nearly won by the mid-1960s. Then Lyndon Johnson initiated the "War on Poverty" and the poor have been "losing ground" ever since.

The enormous expenditures of the 1960s and 70's for welfare, food stamps, job training, crime control, education and affirmative action resulted in reversing the progress we were previously making in reducing poverty, crime, ignorance and discrimination. The problems were not that the spending was inadequate, or that it was wasted by cheats; the spending actually made the problems far worse than they would have been in the absence of the spending.

Murray shows that "poverty," as a talked-about national problem, appeared out of nowhere in the mid-1960s. All of a sudden, it became the trendy item to discuss in liberal journals, which promoted the new and different notion that poverty was the fault of the system and the individual was not responsible.

Murray is a social scientist, not a political scientist. He correctly identifies 1964 as a pivotal year when America radically changed its social policy by initiating expensive do-good programs that became do-harm programs for the poor and underprivileged. But Murray does not explain the policies of how the trendy liberal jargon became law so fast.

In November 1963, Lyndon Johnson suddenly and unexpectedly became President, facing an election less than 12 months away. Although a master politician, he had never been accepted socially by the Camelot crowd or intellectually by the liberals. Johnson decided to out-liberal the liberals and assure his own reelection by inaugurating a "Great Society" based on specific spending programs for every identifiable group. He got the funds for these projects out of our strategic defense

budget. This devious diversion of monies away from defense and into social spending programs was called "reordering priorities." LBJ's political feat was later described by *Newsweek* in an artful metaphor. The great defense budget of the Eisenhower and Kennedy Administrations was a "melon" which Johnson skillfully sliced up for domestic political purposes.

So, Lyndon Johnson initiated the spending programs that have been escalating ever since. For example, Johnson started the Food Stamp program with 424,000 participants in 1965. When he left office, the program served 2.2 million. By 1980, the number of participants had grown to 21.1 million.

The Food Stamp program was costly not only in money but in Americans' self-image. It made it respectable for the non-needy to receive welfare benefits. No longer is it a matter of personal pride to avoid accepting benefits you didn't work for.

Murray shows that the social spending programs started under LBJ were not only a colossal national blunder on pragmatic grounds, but they were just as wrong on moral grounds. It is wrong, he says, to take from the most industrious and most responsible poor in order to cater to the least industrious and least responsible poor. It is wrong to impose rules that make it rational for teenagers to behave in ways that destroy their future.

Murray concludes that real reforms in social policy will come not when stingy people force budget cuts, but when generous people stop kidding themselves about what is happening. "Billions for equal opportunity, but not one cent for equal outcome" is the powerful message of what could become the most influential book of the eighties.

### **The Conservative Opportunity Society**

Just as one person can look at a half glass of water and say it's half empty, and another can look at the same glass and say it's half full, so one observer can look at the world and see gloom and doom, and another can see hope. New York Governor Mario Cuomo looks at our nation and sees "despair" and people who are "unlucky and leftout," but Congressman Newt Gingrich looks at our nation and sees a "window of opportunity."

Cuomo's speeches play to every fraction of our society as though it were a string on his violin, and he reminds them how unfortunate they are. He doesn't say how he would better their lot in life, he merely commiserates with them.

Congressman Newt Gingrich (R-GA) speaks for a group of Congressmen who call themselves the "Conservative Opportunity Society." This "COS" group thinks that, if the aspirations and ambitions of the American people are geared to seeking solutions from government, they are doomed to dead-end jobs, fighting over handouts, and continuing power struggles over allocation of scarce resources. But, if we can factor in freedom and the innovation it produces, the exciting breakthroughs in computers, biology, and space will make possible new jobs and new adventures on a scale unimagined since Columbus discovered the New World.

This is what the COS group calls the "window of opportunity." The computer will open up changes in our lifestyle as great as the transformation which elec-

tricity brought about in our homes, our industries, our farms, and our communities.

Gingrich thinks that the exciting opportunities in biology will make it possible to banish hunger from the earth, that the exciting opportunities in space will open up new jobs as well as banish the threat of nuclear war from the world, and that the exciting opportunities in computers and information science will allow us to work and to learn at home, thereby helping all Americans to live a better quality of life.

Gingrich gives an example of how the government bureaucracy is so backward compared to the innovation that is bursting forth in the private sector. If you have an account with one of the big money market firms, you can call a toll-free number, punch in your access code, and a computer will tell you your money balance and the interest rate you paid in the previous week and month. But if you try to get information about the taxes you've paid into the Social Security system, you must write a letter. Months later you get a reply saying that the Social Security Administration is several years behind in processing such information.

As a historical example, Gingrich cites Senator Daniel Webster's speech to the U.S. Senate in 1850 against the annexation of California, denying that it was useful land, predicting that the agricultural products of California "will never be equal to the half part of those of the State of Illinois; no, nor yet a fourth, or perhaps a tenth part." Of course, California today is our premier agricultural state. Webster was a learned man and splendid statesman, but he was not a prophet. He could not have foreseen what electricity, farm machinery, and irrigation could do for farming. All the more reason why our future should not be limited to the vision of politicians.

Gingrich thinks that, when those who dream are ignorant of technology, they envision the future in which we are running out of everything, in a world of rising pain as people overpopulate resources. They proclaim a limit on growth and a need for massive bureaucracy to spread the misery equitably. But there is no limit on our horizons if we build a philosophy of faith in the future and freedom in which to innovate and invest.

Our society is now being changed in tremendous ways by an information revolution based on the interaction of computers, cable and telephone wiring, satellite distribution for long-distance transmission, television and radio broadcasting, and the miniaturization of components and systems. This surge in communications and computers will allow work to be decentralized so that the young, the old and the handicapped will find useful employment, and all of us can enjoy a better life than we ever dreamed possible.

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