IN THESE TIMES

Reagan may take a new tack on taxes

By Ruth Simon

WASHINGTON

AT A MID-DECEMBER PRESS conference, President Reagan pledged that he had "no plans for increasing taxes in any way" to reduce budget deficits. The president's plan, however, did not consider a deficit that may top $200 billion in 1984, or a Congress that may not accept massive cuts in already decimated social programs. With top administration officials and leading congressional Republicans pushing for a tax hike, it is likely that the president will propose some type of revenue raiser in his Jan. 26 State of the Union address. But there is a steady stream of leaks from top administration officials about "revenue enhancements," which include a consumption tax on beer, cigarettes and liquor, and the elimination of some tax loopholes.

Members of Congress and their aides are drawing up their own laundry lists of tax proposals, which range from a new minimum tax on individuals and corporations to natural gas decontrol accompanied by a "temporary excise tax." Most of these proposals, like the consumption tax discussed by the president's advisors, would place the greatest burden on the working Americans who gained little from the tax cuts that are now bloating the deficit.

In September the administration promised a balanced budget by 1984 if Congress passed a package that included $3 billion in "revenue enhancements" and $13 billion in budget cuts for 1982. But as the economy slid deeper into recession, the administration's already optimistic numbers drifted even further from reality. In November, Reagan dropped his promise to balance the budget by 1984.

Officially the administration still clings to its September projections. But its recent estimates suggest that without any further tax increases or spending cuts, the deficit will climb to $109 billion this year, $152 billion in fiscal year 1983 and $162 billion in fiscal year 1984. The largest deficit before this was $66 billion in 1976. Estimates leaked from the Congressional Budget Office (CBO) suggested even larger deficits of $110 billion, $175 billion and $210 billion over the next three years.

Both the administration and the CBO believe that the economy will begin moving out of the recession in the second or third quarter of this year. Economic recovery normally means smaller deficits because tax revenues increase and social welfare payments decline. But the administration's massive tax cuts, coupled with a real increase in defense spending, have transformed traditional budget relationships. Unlike previous years, growth will not mean smaller deficits. And, says CBO head Alice Rivlin, "Escalating deficits in a period of economic recovery are likely to lead to higher interest rates and abort the recovery."

Close the gap.

While Rivlin and other economists tend to downplay the significance of the 1982 budget, they believe that Congress must act quickly to reduce the budget gap in future years. "We can't write off fiscal year 1983 (which begins in October)," Rivlin told the annual meeting of the American Economic Association in late December. Getting deficits down and the economy going, she added, would require "drastic action before the 1982 election."

Not surprisingly, legislators are wary of passing a tax increase in an election year. Many, however, find their constituents' reactions to $100 billion deficits even less appealing. "I don't want to raise taxes...but if the budget is going to be realistic and credible, we have to raise revenues," said Senate Finance Comittee Chairman Robert Dole (R-Kan.). "No one wins elections because they dreamed up a new tax," adds one Senate aide.

Dole and many others believe that an election year tax hike would require presidential initiative. President Reagan, on the other hand, remains committed to his "supply side" budget and tax cuts, and favors additional cuts in domestic spending and entitlement programs over future tax increases. And he continues to support increases in defense spending that will push the military budget from $182 billion this year to $325 billion in fiscal year 1986. But while the president pushed his tax and budget cuts through Congress last summer, he will have more difficulty convincing legislators to accept further destruction of social programs this year.

One warning signal came from 27 senators from industrial northeast and midwestern states, who balked at cutting more out of social programs in order to finance energy and defense spending that favors the South and West. The group, which included conservatives, wrote that "we cannot continue to support a budget that exacts such a heavy toll on the Northeast-Midwest region—an area of the country least fiscally capable of coping with reduced federal funds."

Leading Senate Republicans, including Majority Leader Howard Baker (R-Tenn.), Finance Committee Chairman Dole and Budget Committee Chairman Pete Domenici (R-N.M.), have all said that the budget process should now focus on tax increases and cuts in defense spending and entitlements. And congressional Republicans, who will soon face re-election on the president's economic program, were outraged by remarks by presidential advisor William Niskanen, who belittled the deficit, saying, "we should be prepared...to accept a deficit in the order of $60 billion." Administration spokesmen quickly disavowed Niskanen's comments.

Reagan's top advisors were initially divided over a tax hike. One group, led by Budget Director David Stockman advocated an increase as essential to prevent deficits of more than $100 billion. But Treasury Secretary Donald Regan and administration supply-siders argued that any increase would dilute the stimulative impact of the president's $750 billion tax cut. But in a TV appearance early this month Regan indicated that taxes would increase in 1983 and 1984, leaving Rep. Jack Kemp (R-N.Y.), co-author of the three-year Kemp-Roth tax cut, as the leading holdout.

Most observers agree that there will be no tax increase for 1982. Speculation centers instead on how revenues could be raised in 1983 and 1984. Congressional estimates show that doubling the so-called "sin tax" on alcohol, beer and cigarettes could produce $5.4 billion in 1984. These excise taxes would further the traditional Republican goal of shifting the tax burden from income to consumption—on to low- and middle-income consumers, who spend a greater portion of their income on these goods than do wealthier people. While not offering any alternative, Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) criticized the measure as "a most regressive consumer tax."

"My disappointment (with the excise tax proposal)," added House Budget Committee Chairman Jim Jones, "is once again the tax increase is aimed at middle- and lower-income people." As an alternative, Jones called for an "excise tax on luxury items," such as furs and jewelry. Congress repealed a tax on furs, jewelry, perfume and other luxuries in 1965. Instituting a similar tax could produce $500 million to $1 billion a year, according to congressional estimates.

Knocking out loopholes.

Administration officials are also weighing the elimination of some tax loopholes. The president's September proposals targeted tax-free industrial development bonds, which have financed the construction of K-Marts, McDonald's and other commercial enterprises, energy tax credits and special tax breaks for insurance companies. In addition, the proposals would modify certain business accounting rules and the level at which the government taxes unemployment benefits, speed up corporate tax payments, and make it easier for the Internal Revenue Service to collect taxes.

Decontol of natural gas, tied to what one Senate aide called a "temporary excise tax" could also raise significant new revenues, both on its own and by increasing corporate profits and hence tax payments. But during the height of last year's budget fight, Reagan promised Rep. Glenn English (D-Okla.) that he would veto "with pleasure" any bill calling for a windfall profits tax. And while the Treasury might get $180 to $200 billion in added revenues, decontrol would cost consumers $600 billion over the next three years. Experience with a windfall profits tax on oil suggests that such a measure could also be easily diluted by special exemptions.

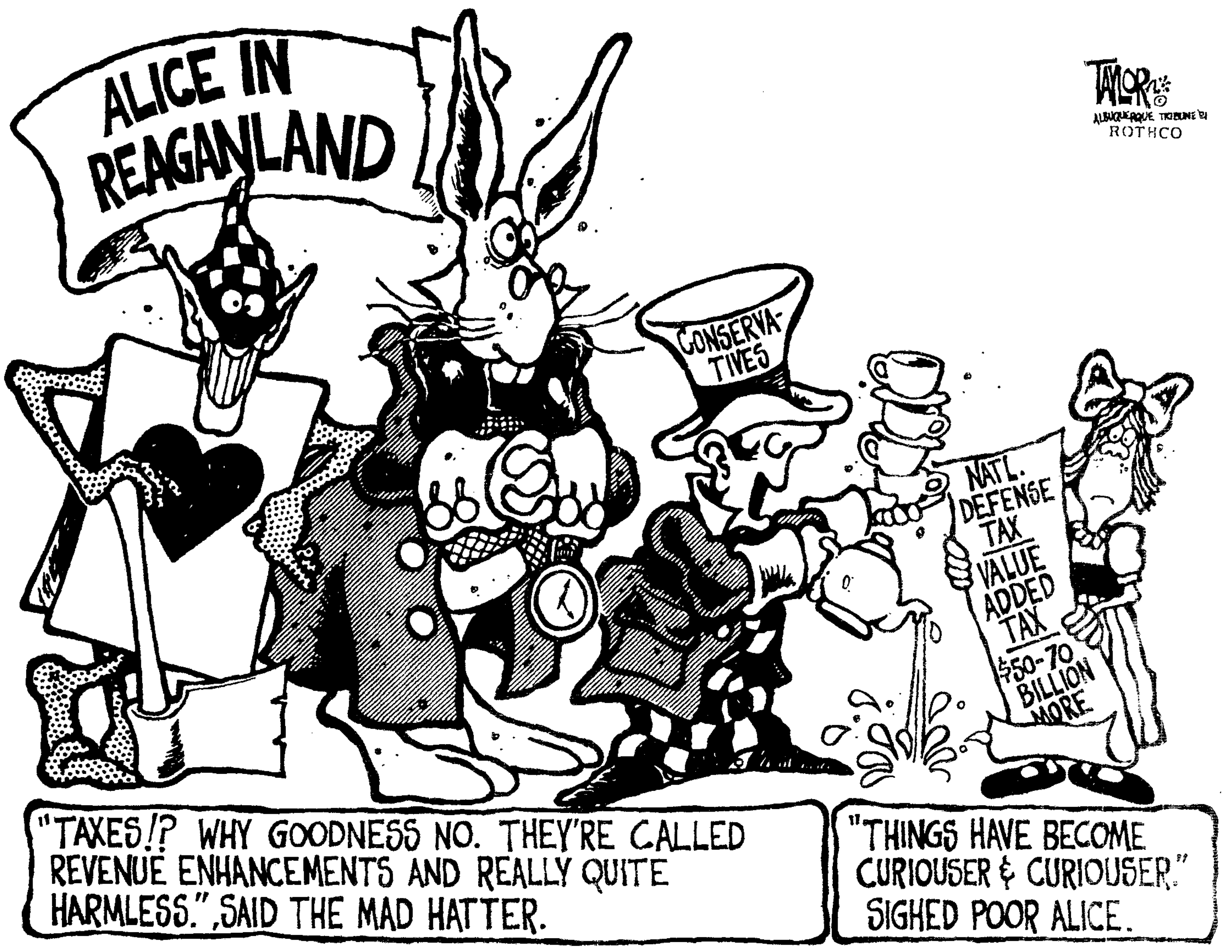
The tax changes being examined by Finance Committee Chairman Dole also include a new minimum tax on corporations and individuals who use tax credits and deductions to avoid taxes. The current minimum raises $1 to $2 billion a year, a stronger tax might add $10 billion.

Democrats have happily let Republicans bear the responsibility for the country's fiscal problems and the burden of developing a solution. "The question now is whether the president is wise enough—and tall enough—to concede that some of his policies were roughly conceived and in need of alteration. Or will he stubbornly cling to an economic theory that events are proving wrong?" said Ways and Means Committee Chairman Rostenkowski in a speech before the National Press Club.

Another question is will the Democrats, who failed to differentiate themselves during the budget and tax debate last summer, provide a compelling alternative to the administration's proposals this year. Thus far, many Democrats have focused on reducing the costs of last year's tax bill rather than developing their own ideas on taxes and tax reform.

"An enormous opportunity exists right now to restructure the federal tax system," Alice Rivlin told those gathered at the American Economics Association meeting. Reagan transformed the tax code once when he convinced Congress to accept a bill that shifts the tax burden from corporations to individuals and from the rich to low- and middle-income wage earners. Congress can respond to impending deficits by adopting consumption taxes that increase the burden on these taxpayers. Or it could eliminate tax expenditures and adopt a simple, progressive system that would enable it to lower everyone's tax burden and reduce the deficit. But nobody in a position of power in the House or Senate is advocating that alternative. ■

Ruth Simon is editor of People & Taxes.



IN SHORT

A spilt decision?

Briefs, exemptions, extensions, filings, appeals, a decision—and still no payment of one of the largest affirmative-action awards ever made. A year ago this month, Administrative Law Judge Rhea M. Burrow recommended that Harris Trust and Savings Bank, Chicago's third-largest bank, pay $12.2 million in back wages to 1,800 women and minority employees who were victims of discriminatory hiring, pay and promotion policies. The ruling also raised the possibility of withdrawing millions of dollars in U.S. Treasury Department deposits and the bank's right to sell U.S. savings bonds. As expected, Harris Bank appealed to the secretary of labor, on whose desk the assembled briefs have languished since last August. The employees are still waiting for their cash.

It was in 1974 that Women Employed, a national organization based in Chicago, first filed a complaint with Treasury. The group charged that Harris Bank violated Executive Order 11246, which requires affirmative action by firms doing business with the federal government. According to Women Employed, the case marks the first time the government has sought to withdraw deposits from a bank because of discrimination, and the first time the government has sought back wages for an "affected class" of bank employees through administrative sanctions. On Jan. 11, 44 civil-rights, women's and labor organizations filed an amicus brief in support of the back-pay award.

"The secretary of labor would be hard put not to uphold Judge Burrow's decision," Women Employed executive director Day Piercy told "In Short." For that very reason, she predicts further delays in Washington.

The unforeseeable present

On Jan. 9, reports Stella Ampuero, 65 Salvadoran soldiers showed up at Fort Bragg, N.C., for training in "hand-to-hand combat, use of light weapons and some artillery and basic infantry training." They will be followed, in February, by another 900 soldiers (600 junior officers will be trained at Fort Benning, Ga.). The Salvadorans' instruction, at a reported cost of $15 million, is financed under the Foreign Assistance Act of 1961, which authorizes the president to furnish military assistance to "any friendly country where an unforeseen emergency exists." During their 16 weeks under the tutelage of the Special Forces (a.k.a. Green Berets), the Salvadorans at Fort Bragg can reflect on the traditions of the place, including the ill-fated hostage rescue mission into Iran.

Upholding another tradition—Fort Bragg was the site of early-'70s protests against the war in Vietnam—about 250 demonstrators delivered a letter on Jan. 11 to the base's commander, Lt. Gen. Jack V. Nackmull. "The training of an entire battalion of a foreign army on U.S. soil," said the letter, "is without precedent and is clearly a marked escalation of U.S. intervention in the affairs of El Salvador."

Bleeding-heart justices

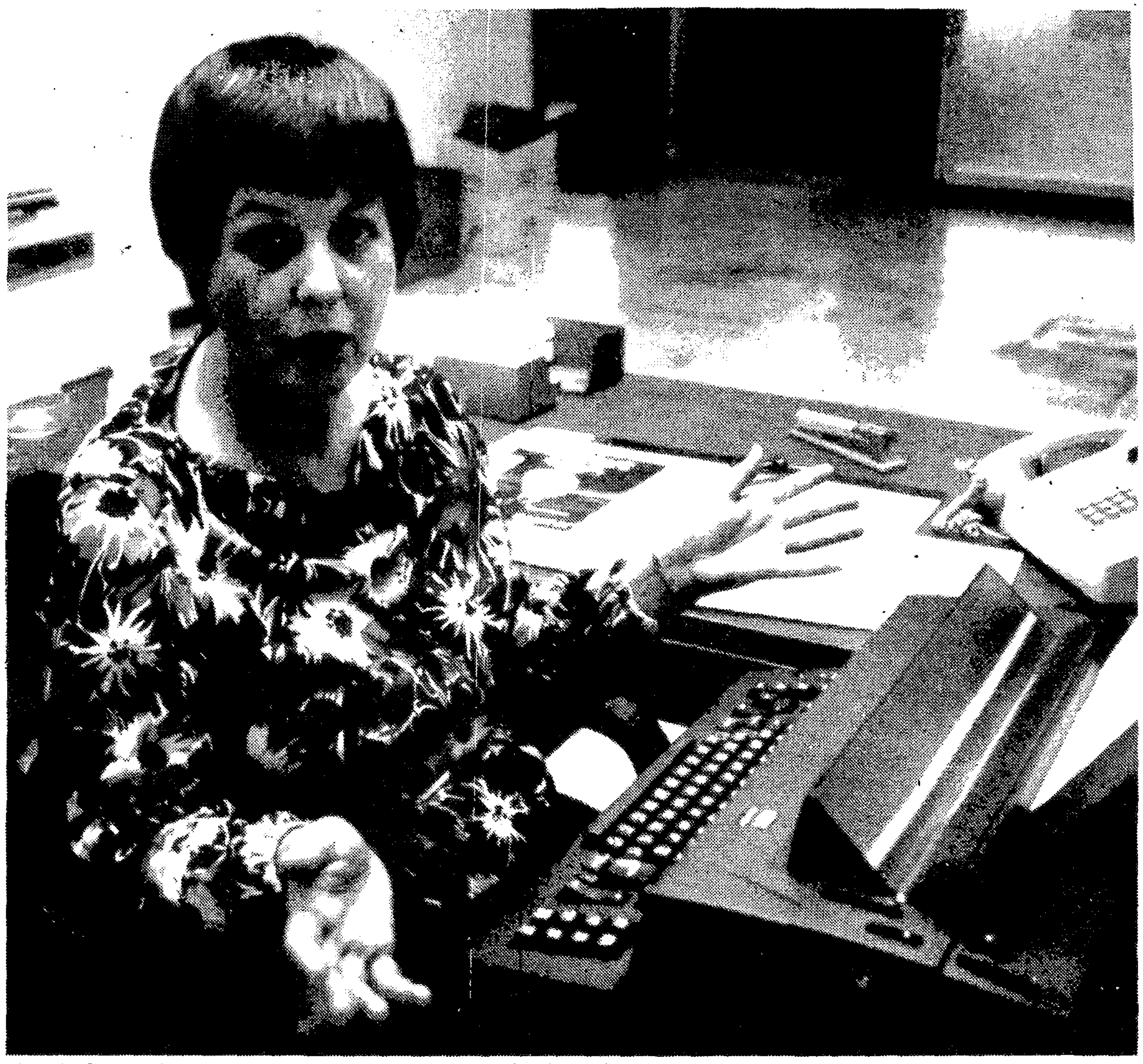
The Social Security Administration, reports the Seattle *Post-Intelligencer* (via PNS), has warned its hearing judges that they may be targeted for special scrutiny if they rule too often in favor of people seeking disability benefits. Associate commissioner Louis Hayes says that any judge who rules against the government more than 74 percent of the time will be required to submit the cases for review. Judges found to be in error consistently will be disciplined. Hayes claims the action isn't intended to influence the way individual cases are decided, but one Seattle lawyer calls it "the worst abuse of judicial discretion you can possibly imagine." John Costello, who has specialized in disability cases for 25 years, says a comparable solution would be the Supreme Court telling a local judge he isn't finding enough people guilty.

A farewell to arms

In case you were wondering, U.S. military aid to El Salvador for fiscal years 1981 and 1982 amounts to $60 million—four times the total for the last three decades. In fact, argues a report from the New York-based Council on Economic Priorities (CEP), the Reagan years may see an expansion of foreign-arms sales to unprecedented levels. "We have moved," says William Hartung, the study's author, "from a severely flawed policy of arms-sales restraint under the Carter administration to a policy of open and active arms-sales promotion of almost any U.S. weapon to almost any nation."

CEP reports that countries lacking the financial resources to buy American arms will benefit from a new program of low-interest, direct U.S. government loans proposed for FY 1982. Less visible are a bunch of procedural and legislative changes aimed at simplifying future arms transfers. U.S. embassy personnel, for example, may now actively promote the sale of weapons. The Reagan administration is encouraging development of new weapons systems destined only for sale abroad. It has also proposed that more small-weapons offers bypass congressional review and has asked for new funds to give the president more leeway in offering weapons for export.

—Josh Kornbluth



Community Media Productions

The Information Center lists resources like this slide show, WHY AREN'T YOU SMILING?

The messages find the media

Until a few months ago, finding the right media for your meeting or the right audience for your media was pretty much catch-as-catch-can—you had to be on the right mailing lists. Film has been better served than other media (with, for instance, the book *Reel Change: A Guide to Social Issue Films*), but information seems to go out of date as soon as it gets easy to find—especially if you're not in area code 212. Now two services link up producers and users of social-interest media.

The Information Center, part of the Media Network in New York, is "a clearinghouse for information on film, videotapes and slide shows that deal with a wide spectrum of social issues." Set into motion by Marc Weiss, the Center has spent years compiling a comprehensive catalog system. It does more than tell you how to find a particular product. Researchers there will give you suggestions for programming on a particular issue. And they will put you in touch with people who are also in search of the media you need.

They helped Lynn Goldfarb, assistant educational director of the Service Employees International Union, when she put together a brochure for locals on labor films. The result has made more work for everybody, and they're delighted. "Response has been impressive," Goldfard said. "We've one from no curiosity at all to calls almost every day. Locals also call me to find out if there's something new on a topic. One local, for instance, wanted media on ERA, and the Center knew about an almost-completed slide show in progress that we were able to schedule."

The Center also helped Goldfarb put together a film festival in conjunction with the Smithsonian Institution. "I slated films that were still in progress when I was planning the festival," she said.

There's a bonus for media makers in this, since requests for materials reveal what subjects and approaches are most needed. Black community organizer Angelica Smith, for instance, worked with the Center on voting-rights media. "We found out that information exists, but it's mostly from a long time ago," said Center coordinator Abigail Norman. "People need new material."

For its most ambitious recent project, on the topic of arms control and disarmament, the Center is collecting information both from written sources and from organizing groups. It will compile the resources and also publish a selected guide.

The service has been grant-fed by foundations, churches and the government. Even so, only your first question is free. After that, it's a $15-a-year membership for as many questions as you can dream up.

Another link-up service for media users is FILMNET, which sends out announcements of new video and film releases on any area of social concern. You just fill out a membership form indicating your interests.

The Information Center is at 208 W. 13th St., New York, NY 10011, (212)620-0878. For FILMNET, write CineInformation, 419 Park Av. S., NY, NY 10016, (212)686-9897.

—Pat Aufderheide

Eatery has to eat its words

SAN FRANCISCO—This city has changed since Harry Bridges and his Longshoremen successfully battled the combined forces of shipping magnates and Pinkertons. The port is dead today, replaced by bayfront condominiums, hotels and tourist haunts. San Francisco is a haven for corporate headquarters. The dockworkers have made way for clerical and service workers. And the International Longshoremen's and Warehousemen's Union is no longer the largest union in town. Today, that title belongs to the 17,000-strong Hotel, Restaurant Employees and Bartenders Union Local 2.

Last month, Local 2 won the biggest union election in San Francisco in more than eight years. By an overwhelming 183-to-26 margin, employees at Maxwell's Plum—a lavish $7 million restaurant in Ghiradelli Square, just a stone's throw from where Bridges led thousands of dockworkers on strike nearly five decades ago—voted to be represented in contract negotiations by Local 2.

Riding into San Francisco amid much fanfare last May, and on the successful coattails of its sister restaurant in New York City, Maxwell's refused to hold union-representation talks with Local 2. But the union was deluged with calls from workers who complained of broken promises and bad conditions: no holiday or sick pay, no overtime pay, favoritism, an inadequate medical plan and the lowest wages of any major restaurant in the city.

The 250 workers eligible to vote for or against unionization represented classifications ranging from cashier and dishwasher to captains, bartenders and cooks. According to Local 2 organizer Gary Guthman, more than 90 percent of the restaurant's Spanish-speaking and Filipino employees supported the union.

—Lavon Gieselman

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