

How We Beat the '70s

By Mark Bloomfield

With rising oil prices, rising unemployment, and inflation eating away at the economy, a powerful politician pushes for a populist tax hike in Washington.

It sounds a little like the current state of play. But the year was 1978, the push for a tax hike came from President Jimmy Carter, and the tax in question was on capital gains. Mr. Carter wanted to tax capital gains at the same rate as ordinary income—effectively doubling the rate for many taxpayers.

He didn't get his tax hike, but he did spark a pro-growth insurgency that reframed the tax debate.

The chief insurgent was Republican Rep. Bill Steiger of Wisconsin, who called for cutting the top capital gains tax rate almost in half. From its inception, the 1978 "Steiger amendment" won bipartisan support. In the Senate, Democrat Russell Long (then chairman of the tax-writing committee), Alan Cranston (the second-ranking Democrat) and Republican Clifford Hansen signed up 59 Democrats and Republicans to co-sponsor legislation to cut capital gains taxes.

Within weeks, political and popular support turned in favor of the tax cuts as more people acknowledged that lowering the rates would reward the middle class for saving and investing, not just "fill the pockets of fat cats." Soon the Carter tax increase morphed into a tax cut, bringing the top rate down to 28% from 50%.

What prompted this unexpectedly strong support for lower taxes on capital gains? The tax on capital gains may have been seen as a tax on the rich by some in Washington, but most Americans saw it differently. People believe in the American Dream, the old-fash-

ioned Horatio Alger rags-to-riches story. A tax on capital gains is a tax on the hard work and risk-taking people undertake to build their own wealth.

A cap-gains cut was part of the answer.

Mainstream economists know that lower capital gains taxes result in lower capital costs, more saving and investment, and a stronger economy. And ordinary citizens understand that low taxes on capital gains can make it possible for them to buy a new lathe or the newest software, which will give them the chance to compete effectively in today's global economy. Retirement security is also at stake. Low taxes on capital gains allow Americans to build up larger nest eggs.

The 1978 capital gains tax cut was an economic success, as we saw in the 1980s. What followed was a period of fluctuating capital gains tax rates. But a second round of substantial rate cuts came in 1997. Again the result was a clear benefit to the economy. The tax cut was pushed through by Sens. Joe Lieberman (then a Democrat) and Orrin Hatch (a Republican), and it took the top capital gains tax rate to 20% from 28%. President Bill Clinton signed the bill into law. According to a 1999 study by David Wyss of Standard & Poor's DRI, an economic consulting firm, the 1997 tax cut increased GDP, investment and jobs, and raised federal tax receipts.

Today, as in 1978, we are facing pressure to put in place a populist tax increase—in this case to eliminate "tax breaks for the rich"—at a time of

rising oil prices and signs of rising inflation. This pressure is coming from two presidential candidates as well as Rep. Charles Rangel, chairman of the House tax-writing committee, who is proposing comprehensive tax reform, which in his view includes increasing the tax on capital gains.

But Mr. Rangel, a highly regarded and respected policymaker, is also calling for a full-scale and honest debate on tax policy. This is a debate we should welcome. Let's put the best economists to work and the best research on the table. Let's look at the fact that, as a recent study by the Organization for Economic Co-operation and Development pointed out, nearly half of the 30 countries surveyed do not subject individuals to any tax on capital gains. And let's consider that not keeping our capital gains tax at its current rate (15%) will put us at a disadvantage when competing for global capital.

On Jan. 20, a new president and a new Congress will begin work on a new economic policy. The lessons from cutting capital gains taxes over the past 30 years shouldn't be ignored.

President John F. Kennedy may have said it best in 1963 in a message to Congress: "The tax on capital gains directly affects investment decisions, the mobility and flow of risk capital from static to more dynamic situations, the ease or difficulty experienced in new ventures in obtaining capital, and thereby the strength and potential for growth of the economy."

I couldn't agree more.

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