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*By Norman B. Ture*

# Do Conservatives Have A Conservative Tax Agenda?

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**I**t is a pity that my question is relevant and timely. In a good society, the scope and size of the public sector would be so confined that questions about how government activities should be financed, while interesting, would not be terribly urgent. In fact, however, despite Ronald Reagan's efforts to get it off the backs of the American people, government is more and more with us. Federal spending programs preempt the nation's production resources and reallocate the income flows generated by production activity throughout the economy; federal outlays now equal more than a fifth of GNP and this fraction will certainly increase unless major changes in budget policy are made. Federal taxes are a slightly smaller fraction of GNP, but they, too, delineate a rising trend line. If for no other reason than the magnitude of the public sector, conservatives must be concerned with the federal fisc.

To deal constructively with that concern, conservatives must bring some programmatic sense into the policy arena. And while the immediate foci of their program may vary widely—indeed, considering the enormous number and types of federal activities, the inventory of concerns is and should be huge, there should be some unifying themes that provide a glue to bind together the various groups in the conservative policy community. To be effective public policy activists, conservatives need an agenda.

That agenda should be solidly founded on basic conservative principles. It should consist, therefore, of policies that seek to enhance individuals' freedom and responsibility for determining their economic condition. Policies that help to identify and ensure individuals' rights to own and to use property in pursuit of their own objectives are paramount. Serving this concern requires that each individual has equal standing before the law, not qualified by his or her wealth or income or the sources thereof.

In applied terms, the conservative economic policy agenda must seek to enhance the efficiency with which the private market system performs the basic functions of social organization of economic activity; in turn, this requires assuring the maximum freedom of the market from intrusion by government, which by its very nature must distort market signals and outcomes, hence impair market efficiency. Recognizing that the growth of government inevitably is in conflict with market freedom, with individuals' liberty, responsibility, and rights to property, the agenda must emphasize effective constraints on public policy makers' spending and program decisions.

Any such agenda needs to be based on a working understanding of at least the major elements of the fiscal system, of the nature of the effects of these elements on the economy, and whether prescriptions for changes in these fiscal elements are consonant with fundamental conservative principles. It seems to me to be an unhappy fact that over much of the past decade and so far in this one conservatives do not appear to have this understanding. For that reason, they do not appear to have an operational economic, or more narrowly, tax policy agenda.

Even a cursory review of the past decade speaks to this lack.

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Norman B. Ture is the President of the Institute for Research on the Economics of Taxation.

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**The Reagan Economic Policy Agenda.** The decade began on a highly encouraging note for the conservative cause with the Reagan Administration's clear delineation of a coherent conservative public economic policy agenda. In the simplest of terms, Reagan articulated an economic policy program that embodied the essence of conservatism. The theme of that agenda was "Give the economy back to the people."

The fiscal component of the agenda called for significantly limiting the expansion of federal spending, Kemp-Roth individual income tax rate cuts, and a new capital cost recovery system that would closely conform with the requirements for neutral tax treatment of business capital outlays. By reducing the federal government's tax draw from the economy's total income and constraining the expanding scope of federal activity, this change in the federal government's fiscal posture provided states and localities both greater opportunity and enhanced fiscal capacity for determining the kinds and amounts of activities they deemed to be required by their citizens. This new federalism of the Reagan program was in the best tradition of American conservatism.

With these tax and spending policy initiatives, Reagan coupled proposals for a pro-market revision in regulatory policy and strong recommendations for a disciplined monetary policy that would eschew efforts to fine tune the economy, focusing instead on monetary stability for the long run. In all, the agenda called for a continuing curtailment of the federal government's presence in the nation's economic life and a freeing up of the market in signaling to both the household and business sectors how best to use the resources at their disposal.

**Conservative Disarray.** Unfortunately, neither the reasons for the agenda nor the principles on which it was based appeared to have been grasped by conservatives, at least not by most of those serving in key positions in the Administration or in the Congress. As a result, little of the Reagan program actually came into fruition, and the little that did was flimsy and evanescent.

For example, at no time did conservative policy makers appear to grasp the concept that regulatory policy should focus on identifying the sources of a market's failure and finding ways to make that market work better, rather than on overriding and displacing the market's operations. To be sure, for a relatively brief period, the pace of regulatory activity diminished quite sharply, but by failing to implement a market-oriented approach to regulatory policy, the door was left open for a renewed surge of anti-market regulatory policy initiatives.

Similarly, curbing the growth of federal spending and improving the content of federal programs called for establishing a close operational nexus between policy makers' budget decisions and the willingness of the body politic to pay for government activities. Instead of undertaking efforts to reform the budget process to establish that nexus, conservatives relied on statutory artifices to limit the size of the federal deficit. Unfortunately, Gramm-Rudman-Hollings included no constraint on tax increases or means for limiting spending growth to revenue growth. By playing up the alleged naughtiness of deficits, G-R-H did contribute briefly to limiting spending growth; when the Congressional leadership decided that tax fairness and new spending initiatives were sexier issues than the deficit, however, G-R-H was blown away by the Omnibus Budget Reconciliation Act of 1990 (OBRA90).

Tax policy, almost immediately after the President signed the Economic Recovery Tax Act of 1981, turned into a scramble for more tax revenues. The ad hoc tax increases enacted every year after 1981 were utterly lacking in any rationale other than to raise more revenue. The crowning blow was the 1986 Tax Reform Act (TRA86), still hailed, mistakenly, by many conservatives as the ultimate tax policy achievement of the Reagan Revolution.

TRA86 provided steep rate reductions for many taxpayers, a policy breakthrough well founded on conservative principles and justly hailed as such. Unfortunately, TRA86 combined these rate cuts with so-called "base broadeners," virtually none of which could be justified on any grounds other than that they raised the additional revenues deemed to be necessary to offset revenue losses from reductions in tax rates and increases in the personal exemption and standard deduction. The latter increases served to remove some 6 million or more taxpayers from the income tax rolls, hardly consonant with a fundamental conservative premise that no one should be excused from paying for government, lest they come to believe that government is costless to them with the certain consequence that they will demand more government "services." And in every year since, additional taxes have been imposed in the same fashion.

In all of this, it is difficult to find a solid front of conservatives forcefully delineating the reasons why taxes should not be raised. Indeed, the disarray of conservatives with respect to tax policy is exemplified by their apparent acquiescence to the notorious tax increases in OBRA90. To be sure, many conservatives outside of government were dismayed by OBRA90, but many of these same conservatives continue to laud the tax policy developments of the Reagan years, notwithstanding the fact that most of these developments ran counter to everything conservatives presumably should and do stand for.

**Conservative Failures.** I do not mean to suggest that conservatives, in and out of the federal government, have been idle in the tax field. With rare exceptions, however, their tax policy proposals have been ad hoc, parochial in nature, addressed to quite specific issues the significance of which is greatly inflated to lend the proposals an urgency they do not really warrant. These proposals afford no sense that they are elements in a substantively grand scheme for producing a better fiscal system, one better suited to the conditions and requirements of a free society. Lacking this dimension, they come to the public as special interest pleading, generally without even a covering luster like "compassion" and "fairness."

A case in point is President Bush's capital gains tax reduction proposal in 1989. The proposal was virtually the only tax initiative of any substance that the President advanced that year. It is difficult to justify the proposal, even had it been better fashioned, as the be-all and end-all of a pro-growth tax policy. Indeed, the initial argument for the proposal more strongly urged it as a revenue raiser than as a major improvement in an important area of tax policy. Standing alone, without any other broadly-ranging proposals accompanying it to signify an all-out effort to reduce the anti-growth bias of the income tax, the capital gains tax cut proposal was fair game for the liberals' attacking it as a massive tax favor for the rich. The current version of the proposal is poorly conceived, embodies an errant notion that it is good for people to hold financial claims for longer rather than shorter periods of time, and is still advanced as a revenue raiser with magical properties to overcome the nation's economic ills. And it is still fair game in Democrats' hunt for "fairness" issues.

The experience should have demonstrated to conservatives the need to construct an agenda of tax proposals, carefully reasoned and solidly entrenched in a well-articulated statement of conservative philosophy and objectives. In recent months, several agendas have appeared, but sadly, they all lack persuasive statements of the vision that should—perhaps did—inspire them. Instead, they are advanced to the public as devices for overcoming the recession or providing a break for the family, not as addressing fundamental deficiencies in our tax laws that create a hostile tax environment in which a free market system must struggle to operate efficiently.

Because they lack a positive agenda of well-conceived economic and tax policies to pursue goals that are consonant with fundamental conservative ideology, conservatives are victimized by Republican pragmatists and end up contesting the trivial details of liberal Democrats' tax initia-

tives. In the Congress, conservatives seem to have resigned themselves to a passive or at best reactive role. Their standard response to liberal initiatives is not to dig in their heels and oppose them in principle but rather to bleat "me too, but, please, not so much." Last year's budget battle denouement affords a telling example. Had it not been so shameful, it would have been laughable to watch the Republican leadership and many of their followers in both chambers fighting with Democrats about the best way to increase taxes on the rich.

The consequence of this conservative aping is a loss of philosophic identity, reflected in the continuing failure of conservatives to take control of either chamber or even to achieve any substantial gain in seats.

The lack of a distinctive, consistent, truly conservative agenda is apparent across the entire spectrum of public economic policies, not merely tax policies. Thus, in response to the Democrats' initiative a couple of years ago to raise the minimum wage, Congressional conservatives did not point out the adverse consequences of the proposed increase, particularly for those it was ostensibly intended to benefit. No argument was raised that minimum wages always have been an unwarranted intrusion by government in the labor market, resulting in serious distortions of that market's performance. Instead, conservatives argued that the proposed increase was too great and offered to settle for a somewhat smaller increase. When pressed for an explanation of this position, these conservatives came up with the standard, dreary answer that it was politically necessary to endorse the increase. Question: for which of these representatives was support of a higher minimum wage essential for reelection? Practical political considerations, these conservatives insist, have to override principle if they are to be in on the action and exert a beneficent influence. But why does the conservative movement need "me too" conservatives in the policy forum? How is the conservative cause served by endorsement, at least in principle, of anti-conservative policy initiatives? What's the evidence that conservative acquiescence to liberal initiatives is the key to conservative success?

Some of the most insightful conservatives in the Congress argue that the American body politic is essentially conservatively disposed. We elect Republicans to the White House, not merely because we find their Democratic opponents to be politically unacceptable, but more likely because as candidates, Republican presidential nominees "talk conservative" to the electorate. Why, then, do we not elect Republican majorities for both the House and the Senate? There are lots of explanations for this persistent divergence in the electorate's preference between Congressional and presidential candidates. Could not part of the explanation be that Republicans seeking Congressional seats fail to present themselves to the electorate with a comprehensive and comprehensible conservative agenda?

The need for a conservative agenda is not restricted to economic issues, of course, but because economic policy appears to many public policy makers to require little besides passionately held opinions, the need for a rigorously conceived agenda in this field is particularly urgent. Neither time nor my own competence permits me to cover all of the many areas of public economic policy in which conservatives need to contest liberals' collectivist bent. Let me confine my recommendations, instead, to the fundamental goals, attributes, and criteria of a federal tax policy that would rest solidly on what I believe to be conservative principles.

**Principles of a Conservative Tax Policy.** In framing that agenda, the first question is "what is the fundamental goal of appropriate policy?" The answer is not such things as to promote economic growth or to redress alleged biases against the family or to make the tax system "fairer." However consequential and desirable any one of these objectives may be, they are ad hoc concerns that do not pertain to the core function of taxation. One would hope, certainly, that the conservative tax agenda would not be at odds with any appropriate objective of that sort, but that

agenda needs to be fashioned on the basis of more fundamental goals rather than as a list of tax changes that are pro this or that.

The core function—the essential *raison d'être*—of taxes in a free society is to cost out its government activities. Taxes should inform the public and its representatives about what must be paid for what they ask government to do. Taxes should function as the prices people pay for government.

If people are to make efficient decisions about what they want government to do, they must know the cost of government activities. If government outlays and activities are fully financed by taxes, the body politic can obtain at least a rough approximation of these costs. Financing government by borrowing hides the cost of government from the public, at least until some later time when—and if—additional taxes are imposed to service the debt.

To perform this core function efficiently, a tax system requires two attributes. One, taxes must be imposed only on individuals. Taxes on corporations tend to escape perception by the individuals who ultimately pay corporate taxes and bear their burden. Two, taxes should be imposed on the largest possible number of people and in such a way as to make each as acutely aware as possible of his tax liability. If large numbers of people are excused from paying taxes or if they are unaware of the taxes they bear, they will underestimate the cost of the things they want from government, and they'll want more than they are willing to pay for.

**Tax Fairness.** Taxes should also meet certain fundamental criteria—the long-standing canons of taxation. The most demanding of these criteria and the one to which by far the most attention is given in the policy forum is equity or fairness. Unfortunately, it is also the most elusive criterion, because its application confronts enormous ambiguities of concept and measurement. The customary articulation of the equity criterion is that people in the same circumstances should pay the same amount of taxes, while people in differing circumstances should pay differing amounts that reflect their differing “ability to pay.” How to define the circumstances that are relevant for this purpose itself poses a mind-boggling challenge, for which the standard answer—*income*—is patently unsatisfactory, as the enormous number and complexity of the provisions in the Internal Revenue Code that seek to delineate taxable income clearly show.

Notably absent from the customary discussions of tax equity is what should be in a free, democratic society the most obvious dictum—that the tax system should explicitly treat all individuals as having equal standing in the law. Taxes should be designed so as to preclude deliberate differentiation of liabilities on the basis of the source or use of income or any other taxpayer attribute that does not pertain directly to the costs of producing that income.

This strongly urges shifting from the conventional focus of equity in terms of the specifics of taxpayers' circumstances to what I call, for lack of a more appealing term, *uniformity*. Uniformity calls for providing similar tax treatment for similar economic actions and transactions, rather than with respect to attributes of the taxpayer. An obvious implication of the uniformity approach is that a single tax rate would apply to whatever is appropriately delineated as the tax base. Another implication is that delineation would not depend on how much or how little of the thing that is to be taxed the taxpayer has.

**Tax Simplicity.** Simplicity is another criterion of taxation to be served by a conservative tax policy agenda. I take simplicity to mean that the tax statutes and regulations are readily understood by most taxpayers, rather than by a relative handful of trained professionals. Simplicity does not mean, as the Treasury's 1984 tax reform study seemed to urge, that individuals don't have to commit any time or resources to determining their tax liabilities or to filing tax returns. That construction of the term clearly is completely at odds with the requirements imposed by the basic tax function.

It may well be that the only way to simplify the tax system without doing violence to its effectiveness in performing its core function is to shift the focus from the particulars of each taxpayer's situation and toward broad and general rules that would cover most broadly classified economic behavior and transactions. This route to simplification clearly would accord closely with the proposed shift toward uniformity in lieu of the will o' the wisp equity criterion.

**Revenue Adequacy.** Another of the basic canons of taxation that, properly construed, should dictate the shaping of the conservative tax policy agenda is revenue adequacy. Conventionally defined, revenue adequacy is held to mean that the tax system should be able to raise the amount of revenue needed to defray the costs of government. Clearly implied in this definition, however, is that the amount and composition of government functions can and should be determined without reference to their costs, presumably on the basis of policy makers' judgments about "needs." In lieu of this notion about the meaning of revenue adequacy, I urge that taxes are "adequate" if they efficiently inform the body politic about what they must pay for differing amounts of various government activities, so that policy makers' decisions about how much government should spend and on what are constrained by the informed willingness of taxpayers to foot the bill. Revenue adequacy isn't a matter of raising revenues equal to the predetermined amount of government outlays, but of assuring that taxes are an effective input in decisions about government activities.

**Tax Neutrality.** A final criterion, little understood but enormously important, is neutrality. Tax neutrality means that taxes do not alter any of the cost or price relationships that would prevail in an efficiently functioning private market, free of influence by government. No tax ever devised has been perfectly neutral; every tax raises the cost of something relative to the costs of other things. Every tax, in other words, has an excise effect. In an operational sense, therefore, neutrality calls for minimizing these excise effects of taxes. For conservatives who recognize that an efficiently functioning private market system is the essential economic underpinning for a free society, tax neutrality is a critically important criterion against which to assess any feature of the present tax system and any proposal for changes therein.

To put the matter positively, the conservative tax agenda should move the tax structure in the direction of greater accountability and revenue adequacy, real neutrality, uniformity, and simplicity. This effort should shun any constraint of "revenue neutrality" that requires any revenue losing tax change to be offset by revenue gaining provisions.

Constructing that agenda will require greatly enhancing the understanding by policy makers of the fundamental goals, attributes, and criteria of a good tax system. Conservative policy makers need a working understanding of the major elements of the tax system, of the nature of the effects of these elements on economic activity, and whether prescriptions for changes are consonant with fundamental conservative principles. Helping to provide that understanding is the mission of the Institute for Research on the Economics of Taxation.

