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Taxes and Inflation

Every year at about this time, we are reminded of the excessive amount of our earnings that go to finance the government. April 15th provokes thoughts of an unfair tax system, wasteful government spending, increasing bureaucratic encroachment in our private lives and, most of all, frustration. American sentiment, as expressed through Proposition 13-type measures, increasing use of fringe benefits, and elaborate tax evasion schemes, indicate taxpayers' growing disillusionment with our tax system.

Last year, Congress attempted to address this growing frustration and much talk was elicited on behalf of the burdened taxpayers. Rhetoric surrounding the tax cut bill, however, failed to provide what it promised --- tax cuts for the majority of Americans. In fact, with the social security tax increases which became effective in January, most citizens will experience an increased tax burden over their 1978 liability.

Those of us in Congress who supported more substantial cuts last year will try again to elicit support for tax reductions equaling approximately 30% over a three year period. In addition, we are addressing the criticisms lodged against last year's proposal by coupling these tax cuts with reductions in federal spending. Our measure would hold government expenditures to a percentage of the Gross National Product, thus curbing the inflationary impact of government expenditures and allowing spending in the private sector, through tax cuts, to stimulate the economy.

In addition to excess taxation generally, Alaskans are strapped with an extra burden by virtue of their residence. Our progressive tax system provides that the higher one's income, the higher the rate of taxation. While this progressivity is generally an acceptable part of the tax code, it employs a basic assumption that I believe is untenable. That assumption is that what constitutes a "high income" and thus what is taxed at a higher rate, is the same in different parts of the country. It assumes that what \$30,000 can buy in Washington, D.C., for instance, is the same as it can buy in Barrow.

The fact that Alaskans pay the highest per capita tax in the country is not a reflection of affluence, but rather a reflection of nominal incomes adjusted for the high cost of food, shelter, and clothing --- and we must pay higher taxes on these adjusted incomes. Alaskan citizens, especially those on fixed incomes, are faced with an unfair hardship which deters prospective residents and business concerns from settling in our state. I have proposed legislation that would remedy this situation by allowing an individual to deduct a percentage of income based on the percentage by which the cost of living exceeds the national average. This measure would put our taxpayers on an equal footing with those in lower cost areas in the lower 48.

While taxes and excess government spending understandably loom foremost in the minds of politicians and taxpayers alike, it must be remembered that these problems are a function of the general state of the economy and that cutting taxes or spending will not necessarily insure a healthy economy. We must focus more attention on the underlying causes of our economic woes, such as lagging capital formation, insufficient research and development expenditures, and an inadequate amount of individual saving and investment.