A healthy economic policy-discussion could be built around a discussion of the question whether Kemp's proposals are the right means for reaching the sound objectives this group has adopted.

The first fault of the Kemp group's measures is that they address only the smaller part of the problem of inflation—the 2-4 percent inflationary trend of the past decade and a half. Although Kemp did consider supporting the European Monetary System proposals some time past, he and his group have since turned away from all consideration of the problem of double-digit inflation. Without a new, gold-based world monetary system, built around the European Monetary System, there is no practical solution to the problem of double-digit hyperinflation.

Within the setting of U.S. cooperation with France's Giscard and Germany's Schmidt, including remonetization of the U.S. gold reserves, double-digit inflation can be stopped short—leaving us with the problem of ending the single-digit component of overall inflation. It is that latter, second part of the overall problem which situates a competent review of the Kemp group's proposals.

The Kemp group is correct in arguing that tax-cuts—not budget cuts—are the point to be emphasized. A combination of tax-incentives promoting private, job-creating investment in agriculture, manufacturing, mining, construction and transportation is a major part of the proper package. Substantial cuts in the below-$25,000 income-level portion of household income is the remainder of the basic package required.

The problem with the Kemp package is that it does not shape the combination of increased and decreased tax-rates competently. We must raise the rates on the general progressive income-tax schedule, including taxation of ordinary capital gains—to penalize speculation and wasteful forms of investment and spending of incomes. We must, at the same time, sharply cut federal taxes on basic household incomes, while qualitatively increasing the amortization, depreciation and tax-credit stimulants to farmers, manufacturers, construction firms, mining, and transportation, and also provide credit for these tax-deductions to individual household incomes invested in or lent to capital-intensive, job-creating expansion of productive capital stocks and related forms of improvements.

Provided such a tax package is tied to the promotion of high-technology exports, in cooperation with Japan and the Europeans, the U.S. economy can be turned around rapidly. Under that combination of circumstances, bringing "hard commodity" lending back to the 4-6 percent prime rates, we can achieve rapid growth in the economy and the tax base—the Kemp objectives.

This is what the shape of the national economic-policy discussion ought to become. The *Wall Street Journal* has missed the vital points.

The LaRouche alternative

The Emergency

1. *Whereas*, both the federal government and national economy of the United States stand in imminent fiscal and monetary jeopardy, be the following emergency measures of tax reform enacted as an integral part of the several measures required to remedy this state of affairs.

2. *The purpose of this act* is to channel savings of individuals and households, as well as retained earnings of partnerships, corporations, and other business enterprises into that sort of capital-intensive investment in production of useful, tangible commodities which will increase the income tax base of the nation, raise the level of productivity in our economy, and give substance to the presently imperiled currency of our nation.

3. *This purpose* is to be served by shifting the weight of taxation from basic income of households and from earnings of employers producing tangible commodities to those portions of income otherwise employed.

4. The category of tax-accounting heretofore known as "capital gains" is herewith discontinued, except as otherwise provided within the body of this act, shall now be treated as part of ordinary income.

5. *Reforms of the Federal Income Tax Schedules*

A. Excepting incomes of households earning a gross income of less than $20,000 in a tax year, there shall be a 50 percent increase in the taxation derived by the federal income tax from such households, partnerships and corporations, except as hereinafter specified.

B. The per capita exemption from taxation for the income of households for the current tax year shall be increased to $2,500 per person, to $3,750 per deductible person for the next tax year, and to $5,000 per deductible person for the next year following that. There shall be an additional $1,000 deduction for each dependent currently matriculating in study of the physical sciences, biology, medicine, engineering, agronomy, or teacher training at an institution of higher learning during the tax year.

C. The per capita exemption shall be doubled for each member of a household who is legally blind, disabled, or over 65 years of age. Persons suffering a partial disability shall qualify for a quarter, half, or three-quarter credit during the period of such disability.

D. There shall be a substantial increase in amortization and depreciation and depletion allowances for capital improvements in agriculture, manufacturing, construction, mining, forestry, and public transport of passengers and freight.

E. Allowed depreciation, amortization, and depletion shall be predicated upon adjustments for current replacement costs, such that the total amount allowed over the full term of such deductions shall be equal to the replacement cost at the point of asset liquidation.

F. The tax deduction credits earned by individually owned, partnership-owned, and corporate farms and businesses shall be extended to individuals and households investing in the equity earning such depreciation, amortization, and depletion, and shall be extended as a proportional share of the tax-credit earned by the business entity making the relevant investment.

Explanation: If a household uses part of its income gained during a tax year as a primary investment in a business, transferring such sums as investment during the same tax year that portion of income was earned, or transfers an equivalent portion of past-accumulated savings, that household shall share a proportionate part of the whole investment's depreciation, amortization, and depletion earned as a deduction for that year and over the subsequent life of such a primary investment. There is no benefit accrued from purchase of equities in secondary markets.

G. Subject to rules and restrictions hereinafter stipulated in this *Act,* the Executive Branch of the federal government shall establish annually for this current year and each year thereafter a list of categories of research and development for which individuals, partnerships, and corporations shall be entitled to a direct credit against federal income taxes due.

The rules governing such deductions are as follows:

G.1. To qualify for such credits, the beneficiary of the credit must be an established farm or business firm using gross profits from sale of commodities other than the product of such research and development as a source of funds applied to the item of research and development being considered. Only that portion of the gross profit of the business or farm shall be qualified for investment tax credit.

G.2. The governing philosophy for establishing categories of such investment tax credits is a determination that private farming and business interests are engaged in a currently not-net-profitable form of research and development which is in the national interest and which some federal agency would be obliged to undertake if private initiative did not.

G.3. Tax credits for this shall be apportioned to investors in the same manner as for depreciation, amortization, and depletion.

H. The Department of Commerce shall specify for the current fiscal year and for each subsequent fiscal year in a like manner a list of high-technology exports of tangible capital goods, agricultural commodities, and engineering services for which the producer of those goods or services shall receive a tax credit.

H.1. This shall include high energy-flux-density energy systems, including high-head hydroelectric and water-control projects, high-technology agricultural improvements, high-technology industrial capital goods and related engineering services.

I. Foundations and related tax-exempt institutions shall be taxed for all income earned in excess of $10,000,000 in any tax year, except as herein specified. Exceptions shall include income directly used for religious and educational uses or wholly used for research in the physical, biological, and medical sciences, or directly employed for the development and delivery of medical and dental services, or used for payments of contracted pensions either as payments to pensioners according to contracted or adjusted schedules, or paid into sinking funds to aggregate amounts not exceeding those warranted by implicit pension obligations.

Except that gifts shall be treated as under standards and practices established immediately prior to the passage of this *Act.*

6. *"Productive" Defined*

For the purposes of this *Act,* the term "productive" is defined in a manner consistent with the 1791 *Report to Congress on the Subject of Manufactures* by Treasury Secretary Alexander Hamilton.

"Productive" means the promotion of scientific and technological progress, and the mediation of the implicit benefits of such progress into rises in the realized productive output of labor through capital-intensive investments in the production of tangible wealth.

However, there are two mediating steps in the process leading to improvements in output of tangible, useful goods which are not productive in and of themselves, but which are indispensable for providing the potential for rises in national productivity. These are the promotion of scientific and technological progress as such, and those processes of public and higher education through which the potential productivity of the labor force is enhanced. Essential services, such as medical services, which enhance the health and longevity of a skilled labor force are also forms of nonproductive services which are indispensable to the quality of the households from which the labor force is recruited.

7. *National Goals*

At the close of World War II, over 60 percent of the national labor force was employed as productive operatives either in agriculture, or manufacturing, or construction, or mining, or transportation. During 1979, the percentile of the labor force so employed was in the order of 38 percent or worse.

Although public and private administration and services are intrinsically necessary to firms and government, they represent at best nonproductive "overhead" burden, paid for from the gross profits earned by the national economy and individual firms through production and sale of tangible useful product. Although increases in the ratio of capital to labor in direct production requires an increase in services and administration, especially the ratio of scientists and engineers combined per 10,000 productive operatives employed, the postwar growth of administration and services far exceeds the growth of aggregate gross profit earned by the national economy through production and sale of useful tangible product. It should be our national goal to increase the ratio of the total productive labor force employed in high-technology positions as productive operatives to about 50 percent over the immediate years ahead. The loss of national productivity caused by excessive growth in the ratio of administration and services is aggravated by combined under-investment and obsolescence in high-technology forms of agriculture, manufacturing, construction, mining, and transportation. Productivity is best measured as an increase in the ratio of energy employed per productive operative over and above muscle-power. This connection is mediated through the capital equipment provided for the productive employment of operatives, and correlates with a required increase in the energy-flux-density of energy production for household, agricultural, industrial, and other basic usages.

Therefore, it is the intent of the Congress, as attested by this *Act,* that the implementation of this *Act* and other statutes by the Executive Branch of the federal government shall be directed to effect the following trends in the evolution of our national economy.

A. The use of the power of taxation of the federal government to foster the flow of household and business savings into capital-intensive productive capital investment in agriculture, manufacturing, construction, mining, and transportation, aiding this by a combination of tax incentives for such purposes, and by increasing the penalties for income exceeding basic household-consumption requirements disbursed in some other fashion.

B. To shift the ratio of the total labor force employed as productive operatives toward 50 percent.

C. To increase the rate of scientific and technological progress through emphasis on G.1. Basic research and development in the physical sciences, the biological sciences, in medicine, and in the emphasis on related knowledge and skills in public and higher education.

D. To foster capital-intensity in investment in employment of productive operatives.

E. To promote those forms of energy production which represent energy-flux densities equal to or in excess of those presently used for production of electrical energy by public utilities, with emphasis on the development of magnetohydrodynamic production of electrical energy from energy sources and the promotion of advancements and applications of nuclear energy technologies.

F. To promote the United States' development as an exporter of high-technology capital goods and related engineering services for the present and the future.

8. *Medium-term Balancing of the Federal Budget*

Provided that the United States enters into agreements with its allies of the European Monetary System, and others, to establish a new, gold-based monetary system which reorganizes the dollar-obligations, sometimes termed "Eurodollars," held outside the territorial United States, and that the United States values its gold reserves, the largest of any nation in the world, at prices for monetary gold agreed upon in concert with those allies, the United States can sustain the temporary imbalances in the Federal Budget that this *Act* will probably incur without perpetuating the double-digit inflation the dollar has suffered during the recent period.

Over approximately a two-year period, the combined effect of the measures stipulated by this *Act* and our nation's participation in creating an efficient form of new, gold-based world monetary system will be to expand the taxable income of the United States and to render certain present categories of federal direct and indirect social expenditures of welfare obsolete and unnecessary. The "tax dividends" generated in that way will serve to bring our Federal Budget into balance over such a period, aided by the role of the new monetary system and federal Executive action to bring prime rates back into the 4 percent to 6 percent range indispensable for sustained economic growth and prosperity.