From Galbraith to Goldwater

Remarks on the Proposed Expenditures Tax

by ROBERT V. ANDELSON

INCREASING dissatisfaction with the federal income tax has given rise to a spate of alternative proposals, usually laudable in intent but not always grounded in sound moral or economic theory. Typical is the advocacy of a system of taxation based on personal expenditures, set forth by Matthew J. Kust in the January 16th issue of The New Republic.

"This is how it would work. Each individual would be required to report his liquid assets at the beginning of the taxable year, add to it his net receipts in money or money's worth during the year and subtract from that sum his liquid assets at the end of the year. The difference would be his personal expenditures during the year on which he would be taxed at progressive rates."

It might seem as if such a tax, by encouraging savings and investment, would represent a radical reversal of the Keynesian "spend-yourself-rich" philosophy which has had such a ruinous influence in government circles over the last three decades. And it is true that Mr. Kust anticipates opposition from the Keynesians towards his plan. But he hastens to reassure them that within his system ways can be found to prevent "excessive" private savings, suggesting with obvious relish the imposition of a radically confiscatory estate tax.

Lest he be accused of promoting anything so old-fashioned as frugality, Mr. Kust is quick to point out that he would only curtail *private* spending. Echoing the much-publicized opinions of Professor John Kenneth Galbraith, he asserts: "It may be more important to reorient consumption and investment patterns through public expenditures while overcapacity in the private sector persists, before stimulating additional savings in the private corporate sector."

There is no question but that the federal income tax is long overdue for replacement. Mr. Kust is absolutely right in saying that "politics and equity together point to the need for fundamental reform." But a significant reform, especially in terms of equity, would have to be a great deal more fundamental than that which he proposes. It would have to substitute for the "ability to pay principle" the principle of payment for benefits received.

Something of this insight is to be found in Senator Barry Goldwater's forthright little book, *The Conscience of a Conservative,* which calls for the abolition of the graduated features of our tax laws. According to Senator Goldwater, "it is immoral to deny to the man whose labor has produced more abundant fruit than that of his neighbor the opportunity of enjoying the abundance he has created." Well said! But on the preceding page he defends the equity of excise and sales taxes, and would therefore presumably have no objection in principle to what Mr. Kust proposes.

The fact is that a man should be no more penalized for spending than for earning. As long as a relatively untapped publicly-created source of revenue exists, taxes upon income and spending alike, whether graduated or not, are an affront to justice. As long as private monopolists continue to appropriate with impunity the unearned, community-created increment of land, the government has no right to claim the barest fraction of any producer's wealth.

One cannot but be distressed to read such a statement as the following, taken from the Senator's column in the San Diego Union of January 26th: "If you tax only property, the cost of rent or ownership goes up. Tax what you like, every penny confiscated must be subtracted from the earnings of producers. . . ."

Somebody should tell Senator Goldwater that a tax on site-values does not touch the earnings of producers and cannot be passed on to renters or consumers. We would commend to his attention the words of one of his fellow-conservatives and erstwhile colleagues. Speaking in Burbank in 1958, with reference to the Irrigation District Act (which establishes site-value taxation as the revenue basis of California's irrigation districts), William F. Knowland declared: "The state law that sparked the California success story has been a powerful engine for the creation of wealth. It has been more important to the growth of California than the discovery of gold a century ago. This remarkable law works as a tool instead of a weapon. It taxes people *into* instead of *out of* business."

The Kingdom of Cotton

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harassed by the high cost of living; they can be taken care of by "welfare.")

But pray read on, for the wheel has not made its full turn. Necessarily realizing that cotton parity support places domestic textile manufacturers in an untenable position on the world market, the United States further "protects" them by providing an export subsidy sufficient to balance the differential. Thus, if the parity price is raised, the subsidy would be increased proportionately, the cost thereof to come from the pockets of the taxpayer. (As always, this beleaguered individual takes it on the chin from both sides.)

The mystery has been unfolded: how can such economically unsound machinations be a policy of government? As the proud but bewildered Siamese monarch sings in "The King and I," "Is a Puzzlement!" Moreover, the above regards only the cotton-grower, but other farmers are no less insistent on *their* right to protection. The New York Times quotes a Congressional source on the subject: "All these other folks are expecting increases too; after all, this administration promised a better farm income." So round and round it goes and where it will stop nobody knows.

No solution to the mystery will be given here, or even suggested, and in fact there is no actual "mystery." The sorry situation described is merely a continuation of the illogical effort of "planners" to buck the natural laws of political economy, which in time must bring dire effects. Furthermore, every reader knows or should know the solution to the problem; if not, let him read (or re-read) *Progress and Poverty.* The answer is there.