

THE TAX BITE

theory of taxation prevails, and the philosophy behind the income tax—mainstay of most national revenues—is that the more you have the more you pay. This philosophy reverses the wisdom of Solomon and says instead: “Better is a little without right than great revenues with righteousness,” for the income tax seldom asks if you worked hard to reap a large revenue or stole a small revenue—the quantity is what counts. This is called “progressive taxation”.

Even within its own frame of reference, the income tax in the U.S. has failed in its stated goal of equalizing wealth distribution. After more than half a century, the income tax bears most heavily on low and middle incomes while high incomes get off relatively lightly. The government has found that not as much revenue can be obtained from a few high incomes as from many low incomes. Furthermore, the people and corporations in the upper brackets have the wherewithal to explore and exploit every tax loophole. It is reported that in 1967 twenty-one persons with annual incomes of more than a million dollars paid no federal taxes at all, and 155 with incomes of 200,000 dollars or more also paid nothing. One extremely sore point is the oil depletion allowance in the income tax law whereby 27½ per cent is deducted from income from oil because of the supposed “depletion” of this asset. Many oil companies

and oil millionaires go on for years paying no income tax.

The income tax has been “reformed” again and again, and it always winds up the same way—a hopelessly complicated patchwork that nobody understands, leaning heavily on the “little guy” while the big boys stand off, keeping their share of the tax burden very light.

One more such income tax reform has been undertaken as a result of the various bubbings and groanings. Some people who seem to know something have sought as targets the oil depletion allowance, also the capital gains deductions, especially on real estate increments, and corrective legislation was introduced. However, the special-interest lobbies in Washington kept quietly and steadily at work, whereas the average citizen contents himself with a sporadic outburst.

A greatly watered down tax reform package is being offered by Congress. Some concessions are made here and there. Some provisions, under the guise of reform, actually provide tax shelters for unearned incomes; for instance, various minerals have had their depletion allowance increased. Some old loopholes have been plugged, and some new ones opened up.

What started out as a basic and drastic reform is beginning to look more and more like income tax reforms in the past. When the squawking has died down and new feathers grown, the same business will go on. Taxes will go up, the little fellow will be squeezed, the vested interests will continue their Olympian course.

Having started with the wrong philosophy, the income tax cannot be “reformed” satisfactorily. The best reform is to get rid of it and start again from a different premise: that earned incomes rightfully belong to the individual, untaxed, and that unearned incomes and socially produced incomes are the proper source of public revenue.

Too Many Economists

From Lord Beeching's inaugural Presidential Address to members of the Economic Research Council, Oct. 1969

I HAVE NO unbridled regard for economists in general. I think it possible that they have, as a body, done more harm than good during this century. Here I hasten to say that my scepticism does not relate to soundly established economic principles, but to the effects of too many economists building too much that is questionable upon too little that is certain.

The truths which form the basis of the economists' specialised role are few in number, and, in their

more simple forms, are readily understood and accepted by most people. Economists' expertise lies in tracing the influence of these truths in ever more complex and confusing situations.

This inevitably leads them into the study of problems in which their own special knowledge and skill becomes a diminishing part of the whole. Unfortunately, however, their humility does not always increase in inverse proportion, and they become assertive among those

who are made diffident by a greater awareness of ignorance of many factors encompassed by the whole problem.

Over the vast, diffuse, peripheral area of their influence, economists are wrong more often than they are right, in the conclusions which they reach about practical situations. Most of the papers written by economists involve, among their purposes, the proof that some other economist has been wrong. Indeed, it has become a joke that you can

expect as many different opinions as there are economists present. But, it is a pretty wry joke, when you realize that serious practical matters, important to us all, are being affected by factions among economists, and that, moreover, the opinions of these economists are largely compounded from their own prejudices, in respect of matters of which they have no more knowledge than anybody else, bolstered by tenuous extrapolations of their own expertise. As a result, it often appears that, so far from extending understanding of the pervasive effects of these basic principles, the babble of economic arguments is in danger of destroying our rudimentary acceptance of the principles themselves.

Never before has there been such an appearance of alliance between the politicians and economists as we see today. Never before, either have we seen governments so ready as they have become in recent years to interfere with the economy, both generally and in ever increasing detail. This appearance of alliance may be a source of gratification and pride to economists as such, but not, I suspect, to thoughtful economists as people. It is not truly an alliance at all, but, rather, the attraction by the government of such economists as will, by virtue of their own prejudices, guide and support Ministers in pursuit of their own pre-conceived objectives. Moreover, because of the diversity of attitudes and opinions among economists in relation to all complex practical matters there is always a plentiful supply of those who can, and will, give palatable advice without violating their own beliefs. In the end, however, they may do no more than give a facade of economic respectability to policies which the government intends to pursue in any case, even though those policies may be quite unsound for reasons which get no attention because they conflict with the prejudices common to ministers and their advisers.

Sometimes of course, under such circumstances, the economists appear to lead. This is not surpris-

ing, because they are selected for their desire to go in the same general direction, but when it does happen the resulting experiment on the poor body politic may be just that bit rasher and more damaging than if the economists had stayed behind in a supporting role.

It seems to me that we train too many economists, but teach too few people economics. It is a peculiar subject as compared with most others, in that it has only a small core of established truth and accepted theory, surrounded by a cloud of much more speculative application. What we need, surely, is that many people in all walks of life should have a greater knowledge of basic economics, so that they have regard to economic principles in all their thinking, rather than that we should train still more economists, who must subsequently learn many other things before they can

safely be regarded as founts of wisdom in fields of activity which lie well beyond the solid core of their special subject. The two approaches need not be seen as mutually exclusive alternatives, nor should they be, but I think the present balance is certainly wrong, and there is some danger that it will get worse. Whether that is so or not, it is obvious that the present state of affairs cannot be remedied quickly, and, in consequence, there rests upon economists as a body a special responsibility for making, as clear as they can, as much as they can about current affairs, to as many as are capable of using it. I think they owe a special debt of atonement to society for having obscured much that we might otherwise have continued to see quite clearly, by surrounding it with a nimbus of intellectual brilliance but questionable reliability.

California Land Tax Proposals

A TAX REFORM PLAN to eliminate property taxes on buildings and personal property is being sponsored and publicised by the White Hat Committee for Tax Reform, Sacramento, California. Behind this proposal is a group of Californian homeowners, businessmen and farmers, representing all classes of Californian property owners. On the board of directors is Dr. Irene Hickman, the Sacramento County Assessor.

The White Hat Committee for Tax Reform (the White Hat is supposed to symbolise roughly the "good guys") are aiming at a formal change in the California Constitution by means of an amendment which will effectively transfer taxes from buildings and personal property and put them on to the value of land. In a booklet* now being widely distributed the present system of property taxes is strongly attacked. Says the booklet:

"In November, 1970, you the voters and taxpayers of California will have an opportunity to vote for

*Tax Reform plan to Eliminate property taxes on Buildings and Personal Property, 710 Alhambra Boulevard, Sacramento, Calif.

this new tax reform plan—or continue to pay a tax penalty on buildings and personal property. But first we need the signatures of 520,000 registered California voters to put it on the ballot. When passed, this plan will then become an amendment to the California Constitution. You and millions of other Californians will enjoy lower property taxes."

Under the heading "How this tax reform plan will benefit everybody" the sponsors describe the effect of the reform on the home owner, the businessman, the farmer and rancher, the landlord and the renter, together with a simple example of the before and after effects of the change in taxation on a typical property.

Among the questions answered is: Will the land value yield enough revenue? Will other taxes go up? Will increased land tax rates increase the cost of land? Is the change-over a practical proposition? The questions are effectively and succinctly answered.

A fund has been opened to finance the campaign.