

their consumers. At the same time, they have acted to protect domestic meat producers from the unfair competition of unlabeled foreign meat.

On January 16 of this year, however, the Supreme Court of the United States, in effect, held these attempts at State legislation in this area unconstitutional as an undue burden upon interstate commerce.

In the case of *Short against Ness Produce Co.*, the U.S. Supreme Court affirmed a lower three-judge Federal court's ruling that Oregon's meat labeling statute violated the U.S. Constitution's prohibition against the States regulating areas of commerce of national impact. Consequently, it would appear that the legislation of all 17 of the above mentioned States in the area of foreign meat regulation are also invalid.

Clearly, then, the Federal Government must step in to fill this gap. H.R. 432 would provide the needed answer to this problem of growing importance.

(Mrs. DWYER (at the request of Mr. ERLBORN) was granted permission to extend her remarks at this point in the RECORD and to include extraneous matter.)

[Mrs. DWYER'S remarks will appear hereafter in the Appendix.]

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(Mr. HANSEN of Idaho (at the request of Mr. ERLBORN) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

[Mr. HANSEN of Idaho's remarks will appear hereafter in the Appendix.]

### SALUTE TO UKRAINIAN INDEPENDENCE

(Mr. SCHWEIKER (at the request of Mr. ERLBORN) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. SCHWEIKER. Mr. Speaker, the quest for independence by our sister nations of the world is a cause we must never fail to support. It is therefore in the spirit of our own Independence Day, the Fourth of July, that I join my colleagues in marking another Independence Day, the birthday of the Ukrainian Republic on January 22, 1918.

The 1½ million Americans of Ukrainian descent, many thousands of whom reside in my district and in the Greater Philadelphia area, can have only bitter memories of that independence day. For Ukrainian independence, won in 1918 at the cost of a great people's struggle and will to be free, lasted only 2 years before the new Soviet regime crushed the fledgling Republic and subjugated its people again.

The spirit of Ukrainian nationalism runs high, both behind the Iron Curtain and in communities of Ukrainian people in the free world. Although the Ukraine was the first nation forcibly yoked to the Soviet Union, it has not lost its sense of separateness and its hope of eventual freedom. In World War II, we saw an example of Ukrainian courage and spirit when an insurgent army dared to resist not only the advancing Nazis but the returning Red army as well. Today, as any traveler to the Ukraine can recount, the people one meets on the street proudly call themselves Ukrainians and dislike being identified with the Russia that has held sway over their rich, productive land, in czarist and Soviet times alike.

Mr. Speaker, in Philadelphia, the birthplace of our own freedom, the Ukrainian Congress Committee of American, Inc. sponsored an independence day celebration last evening. We in the House of Representatives must take note of this celebration and of similar gatherings held throughout the country on the same date. We must extend to Ukrainians everywhere our expression of admiration for their nation's courage in the face of Communist domination and our wholehearted support of eventual liberty for their brave homeland.

### THE PROPERTY TAX AND THE PROPER ROLE OF GOVERNMENT IN EDUCATION

(Mr. CURTIS (at the request of Mr. ERLBORN) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. CURTIS. Mr. Speaker, because of the renewed interest being expressed in the potential of the property tax, I am inserting in the RECORD, again, the text of a paper which I prepared and delivered to the Citizens for Educational Freedom at their sixth annual convention in Minneapolis, Minn., in July of 1965:

REMARKS OF HON. THOMAS B. CURTIS AT THE NATIONAL CONVENTION, MINNESOTA FEDERATION, CITIZENS FOR EDUCATIONAL FREEDOM, JULY 30, 1965

During the 1960 presidential election campaign Senator John Kennedy on several occasions said "In the next decade we must double the amount we are spending on education." The reaction of most Americans was to accept this as a challenging statement and say "Amen." The fact of the matter is that the statement was not a challenge. It was an example of clever rhetoric. My reply in 1960 was, "Why is Senator Kennedy asking us to slow down? We almost tripled the amount we spent on education from 1950 to 1960."

In 1950 government, Federal, State, and local, spent \$6,507.9 billion (\$5,745.7 billion,

elementary and secondary, \$762.2 higher education) (Federal, \$106.9, State and local, \$6,401.0). In 1960 government, Federal, State, and local spent \$17,788.3 billion (\$15,587.9 elementary and secondary, \$2,200.4 higher education) (Federal, \$622.3, State and local, \$17,166.0). In 1940 the corresponding amounts were: Total \$2,316.2 billion, of which the Federal accounted for \$0.047 and State and local \$2,269.2 (pp. 434-345. "The Economic Almanac," 1962). To obtain the full amount we spend in our society on education we would have to add to these figures the expenditure for private schools which seems to average with some constancy about another 20 to 25 percent of what is spent by the governmental sectors.

There is some indication that the rate of increase of expenditures for education in our society has slowed down since 1960. Total new educational construction, public and private, put in place increased from \$1,427 billion in 1950 to \$3,384 billion in 1960, while it has only increased an additional \$0.5 billion to about \$3.9 billion, in 1964. In other words, the ten year growth rate from 1950 to 1960 is 137 percent while the comparable 10-year growth rate for the 4 years from 1960 to 1964 is about 37 percent or less than one-third the rate we had been experiencing before the New Frontier took over.

It is noteworthy that the great increase in total expenditure for education is in the private sector and in the State and local governmental sectors. The Federal Government's efforts, although great in percentage increase in the past two decades amount to very little, less than 4 percent, in respect to the total governmental effort in our society in education expenditures and less than 3 percent of our total effort, government as well as private.

I think it is also important to point out that in addition to what we term educational expenditures the parents of school-age children bear many additional expenses which, if proper accounting methods were developed would be added to the amounts we compute as the expenditure made in our society for education.

I am not at all certain that the entrance of the Federal Government into the area of direct expenditures for education has been advantageous in increasing the total amount that our society spends upon education. From my studies in the field of international economics, I have advanced a corollary to Gresham's law, i.e., bad money drives out good money. This corollary states that government money drives out private money. I am now finding out that the Curtis corollary extends beyond the area of international economics to domestic economics as well. I wonder whether it does not operate in the field of education as well and whether there is not a further refinement to the Curtis corollary which states that Federal money drives out State and local governmental money, as well as private money.

I fully appreciate the pump-priming theory upon which Government money was spent to produce an economic upturn in the depression of the 1930's. And to the extent that our Federal governmental grants in aid programs in their inception were on a matching fund basis there seemed to be some sound basis for accepting the pump priming theory and arguing that it would prevent the Curtis corollary from operating, and total spending would be increased. However, with the Federal matching formulas increasingly becoming more regressive with the Federal Government taking over the large proportions and the State and local governments taking over the small proportions, I suspect that the Curtis corollary may be in full swing. Certainly, matching formulas like 90 percent Federal and 10 percent local, as we see in the Federal highway programs,

produce little pump priming effect. The primer is bigger than the well.

However, in spite of the increasing part the Federal Government is playing in the field of education, fortunately it still is mostly talk. The bulk of expenditures, as I have pointed out, has remained at the State and local levels, primarily at the local levels.

One cry for increased Federal Government participation is that the State and local governments are so hard pressed financially that they cannot assume the increased costs of education and the increased expenditures our society must continue to make in this area. Well, this is a peculiar theory in that there is only one source of taxation, I can assure you as one who writes tax legislation, and that is the individual human being. Governments, whether State, local, or Federal, are only tax collectors (and I could add, churches are the same) and then can collect taxes only from one source, people. The corporate income tax, as in any business tax, is a tax upon people—not upon some unidentifiable fictitious person—it is primarily a sales tax because every business, if it is to stay in business, has to pass the tax it pays on to the consumer in the price it charges for the goods and services it is selling. Maybe the investor pays a bit of the corporate income tax, but very little, and even if the investor pays some, we must remember that investors are people, too; and increasingly in the United States the investor is becoming everyone of us.

So when it comes to easing any tax burden, I am not so inclined to worry about the tax collector—the State or local government—or the Federal Government, as I am about the taxpayer. I think of tax collection from the efficiency of the collection system—the efficiency from the standpoint of the taxpayer so that the minimum amount of cost goes into the collection of the tax and the maximum amount can go into the expenditure of the funds for the purposes intended by the governmental agency, in the instance under discussion, education of our children. I also want the tax collection for efficiency's sake to be pretty close to the agency of government that is going to spend the money so that there is a minimum of cost in transferring the money from the agency that collects it to the agency that spends it. Also so that those who spend have a better understanding of the cost of spending which they do if they are close to those who have to raise the revenues.

By these criteria the Federal Government is not a very efficient tax collector for educational expenditures. It is not even an efficient tax collector per se in minimizing the economic cost of the mere collection aspects. The Federal Government is merely efficient in hiding the economic cost of collecting the Federal income tax because it passes the main cost burden of bookkeeping, accounting, and collecting over to the private sector—to the individual person and businesses making out the complicated tax returns. But passing the cost of tax collection over to the private sector does not save the cost economically to our society, it merely avoids some of the blame for the cost being placed where it belongs on the type tax itself and on the governmental body using it. The most efficient tax economically to collect is the real estate property tax, by far. All it requires is an assessment every 10 years or so and a yearly billing—no accounting, no time on the part of the taxpayer, and little time on the part of the tax collector. It is almost all done by mail.

Furthermore, I would observe that it is the Federal income tax that has come in for the greatest criticism from economists and tax theorists in recent years, as well it should. It is the high rates of the Federal income tax which has created the economic damage to our society which we are now trying to remedy by timely tax reduction, not the real

property tax or the State sales and use taxes. Yet there are people who would put a further burden on the Federal income tax to raise the money to be spent for education and for other services which have traditionally been provided by the private sector and by local government.

Furthermore, the Federal Government not being the sector of government which is charged with spending the education dollar has the difficult and costly job of transferring the tax dollars collected to the local governmental agencies which are charged with the spending of them. As has often been observed, send a tax dollar to Washington, D.C., to be returned to be spent in the community and it comes back badly clipped. We certainly can cut down on the amount the dollar gets clipped when it is sent on its long journey to Washington and thence back to the community, but we must recognize that there will always be considerable cost in undertaking the round trip journey in the first place. And we may well ask, is this trip necessary?

The answer is made that the trip and the clip are necessary because we need the Federal governmental mechanism to equalize between the rich and the poor States. It is said that many of the children who need to be educated are in the poor States which cannot afford to bear the costs of education while the ability to pay taxes lies in the richer States. Well, I have often sought to answer this syllogism. I ask, where are these so-called poor States? The answer to that question is quite ready, in the South, Arkansas, Alabama, Mississippi, etc. I then ask, but on what basis do you say these are poor States? The answer to this is also quite ready. "Take a look at the per capita income of these States." Indeed, the per capita income in these States is relatively low. But then, I ask the next question, and the answer to this is not quite so ready. But these States do not pay for education out of taxes on income, do they? Don't they pay for education costs and community facilities of all sorts essentially by use of the property tax? If this is so, and it is so, let's take a look at the assessed valuation in these States which allegedly are so poor. Here we have the true answer. There are not really any poor States in the United States. The States so often cited are States where there are poorly developed and enforced property taxes, where there is a considerable amount of absentee ownership, among other things. Where the assessment on real estate hardly match the true value of the land and structure. These are the very States, by the way, which are digging themselves further in the hole by waiving property taxes for a period of years to entice businesses to locate in their area—on the assumption, I suppose, that having the payrolls will assist them to have a better tax base than one based upon property wealth. This is surely regressive thinking for the 20th century. This theory can be found entrenched in most of our Latin American neighbors and throughout the world and until the theory is abandoned I could argue, these societies will not move ahead.

No, there is no need for the Federal Government to get into the business of Federal equalization laws, although there is still plenty of reason for all the States to continually update their State equalization laws for education. And there is much room for counties to pass education equalization laws so that tax revenues can be spread from wealthy areas, measured in terms of property wealth to areas of less property wealth. Above all, there is ample room for modernizing our property tax laws and keeping them to date—which means, among many things, modernizing our zoning laws and keeping them up to date. No community can support schools or community facilities—except the very few unusually wealthy communities—with a property tax based heavily on home assessments.

I like to point to Crestwood, Mo., as an example of up-to-date zoning and assessment. Here is a new community—nonexistent in 1945, about 12,000 population. To a casual observer it looks like a typical middle-income, suburban bedroom community. Yet look at its tax assessment books. Look at its zoning laws and you have the real story. Seventy-five percent of its assessed valuation comes from industry, commerce, and the utilities, only 25 percent from the private homes of its citizens. It has fine schools, fine community facilities, ample revenues, and little debt.

Henry George extolled the values of the property tax further than I would go to the single tax idea and these values should be considered today. In America the real estate tax provides the money which is spent largely in increasing the valuation of the very real estate taxed. Build roads, schools, sewers, provide fire departments and police protection, and the value of the real estate and the buildings increase. The expenditures from the real estate tax go to and relate to increasing and preserving wealth. This makes a neat package and is the basis of the grass-root community growth in America. Furthermore, a well-designed real estate tax is a discouragement to the greatest of all economic sins—to hoard rather than to utilize wealth. A well-designed real estate tax system places an incentive on utilizing real estate to its greatest economic potential—and if a good tax system is established in context with up-to-date zoning laws and building codes, increased wealth flows to the community like from the mythological cornucopia.

Before I leave this extolling of the property tax, let me remind you of two things. It is the property tax which has responded nobly since the end of World War II—not the Federal income tax. It is the property tax which has financed the increased expenditures for education from a \$2.3 billion figure in 1940 to a figure now well over \$18 billion in 1965—not the Federal income tax.

Nor is it true that this cornucopia of our communities is running low or needs priming. The expenditures on education have produced what we anticipated they would produce in new and greater wealth which in turn increases the potential for the future flow. In spite of all the false propaganda to the contrary by those who denigrate progress in America to justify their desires to further federalize our society, educational bond issues are continuing to be passed by the local citizenry. The HEW statistics reveal that beginning in 1957 when they first collated the percentage of public school bond issues passed per bond issues submitted to the voters, only once has the figure fallen below 70 percent: 1957, 74 percent; 1958, 78 percent; 1959, 62 percent; 1960, 83 percent; 1961, 71 percent; 1962, 70 percent; 1963, 70 percent.

And I hazard a guess that of the bond issues failing many should have failed but undoubtedly most of these bond issues were resubmitted in an improved and corrected form and then passed—a healthy situation in itself not duplicated by the process of local school districts submitting their needs to a political bureaucracy in Washington, D.C.

The second observation I wish to make is that the property tax responded in this noble fashion in spite of the serious difficulties it experienced as the result of the failure of the Federal Government to perform one of its primary functions, namely maintain the dollar as an accurate economic weight and measure by following sound Federal governmental fiscal policies.

The drastic inflation which occurred from 1946 until 1951 placed the property tax systems all over the United States in very serious jeopardy. The property tax systems are based, as I have pointed out, on assessed valuations. Most systems make the specific

and multitudinous assessed valuations when the improvements are made to the land inasmuch as improvements amount to the major part of most valuations. Accordingly, most assessments reflect the dollar cost of making the improvement in the year in which it was made. So, in 1946, the assessments books reflected valuations in terms of the many years of the preinflated dollar. All new improvements, new homes built after 1951 went on the books in terms of the post-World War II inflated dollar. This process by itself created an inequity in the tax system to the owners of new homes and new improvements vis-a-vis the owners of older structures. However, the cost of services and goods—teachers' salaries and blackboards—went up with the inflated dollar. Therefore, the revenues, the tax collections, had to be increased, just to stand still, let alone to progress. However, increasing the rate of the property tax aggravated the inequity already existing in the base because of the measuring of new improvements in terms of the inflated dollar. Every community in the United States was faced with a very difficult process, difficult mechanically as well as politically, the process of reassessing all the property on the assessment book in terms of the same dollar. Over 80 percent of our communities have now done this and I would observe they are now in relatively good shape. A small percentage have not assumed their responsibility. Many of these are the communities, and some of them are sizable, which are creating a great deal of the pressure on the Federal Government, through its overburdened income tax system to bail them out. Yet these communities have it within their power to do exactly what the others have done, painful as it was.

I have taken a long time to get around to what I want to really talk about, tax credits in Federal income taxes for parents and others who pay the costs of education.

Let me state the case for this most needed reform in Federal tax law in my own semantics because it is usually presented, even by some of its advocates in the semantics of those who oppose it. This reform is in accordance with American classic tax theory; namely, that we do not tax money which is being spent for a social purpose which if it were not so spent we would call upon the Government to spend. Putting it another way, we know that when we extract money from the private sector to pay for the expenditures of governmental services we are going to keep that impact at a minimum. We seek to keep that impact at a minimum. We prefer not to tax industries on the wane, we prefer to tax industries on the rise. We prefer not to tax low incomes, we prefer to tax high incomes. We prefer to tax wealth not the process of creating the wealth. We do not tax money spent for desirable social purposes.

This is the tax theory of the tax neutralists. This is the classical tax theory in America. There is a new school of tax writers who are not neutralists. Because the power of taxation to effect economic results and to render economic decisions is so great and I might add so subtle these theorists advocating an old system as if it were new, seek to write tax laws to deliberately produce economic decisions—their decisions—to channel expenditures into certain areas supplanting the private decisionmaking process with the political process.

Now the difference between these two schools of tax theory may on the surface seem to rest in semantics because at times both place a stamp of approval on the same kind of social spending. However, I submit there is the world of difference between the two theories.

The first theory, the American classical theory, is based upon the assumption that the people own everything and that govern-

ment, the servant of the people, not the people's copartner, the people's servant only takes that which it needs to provide the services the people have decided they wish to use the mechanism of government to provide for themselves. The second theory is based on the assumption that the government or the society owns everything and what the government chooses not to take in taxation is a subsidy to the people.

In our Federal income tax laws we have always given a deduction for donations to charitable and educational institutions. These new tax theorists say thereby the Government subsidizes these institutions. I say we give the deductions not to subsidize but rather on the theory that we did not wish to tax this area of endeavor. We as a matter of policy prefer to obtain the money to run the Government from other areas of endeavor. This is money being spent for social purposes which if it were not so spent probably would require the Government to spend it directly.

So the tax credit to those who spend money on education, which I advocate, is entirely consistent with American classical tax theory. If the private individuals do not spend the money for education then the people through their government would probably do so as a last resort—although I submit much more inefficiently.

Note also how this classical tax theory disposes of some of the difficult problems we run into when we use the Government mechanisms to raising the money through taxes and then spending the money directly through the bureaucratic process. Under the classical tax theory there is no problem of church versus state. The money is spent privately, not by governmental officials. A private person can decide to send his son or daughter to a public school, a parochial school or a nondenominational private school. If he has spent the money on education, that is the sole concern of the society which wishes to assure itself that the children are being educated.

The Federal administration has opposed the tax credit theory on many grounds, not one of which stands the test of examination. One current argument still being advanced is that Federal income tax credits will only help the wealthier families and will do nothing for the lowest income groups. I have given the answer to this many times. Here it is. Who are the lowest income groups? The poverty class, families with incomes of \$3,000 or less? Well, families of over \$2,000 pay Federal income taxes, so even some of the so-called poverty families will benefit. With a tax credit all taxpayers, high income or low income, get exactly the same dollar amount—which, of course, means percentage-wise a great deal more to the lower income group. Furthermore, these families not paying Federal income tax are only 15 percent of all families, so 85 percent of all our families do benefit. However, if we go further into the pertinent statistics we find that the families with incomes of \$3,000 or less are predominantly where the head of the family is in the age brackets of 20 to 30. There are few children of school age in these families and practically none as high as secondary school. Of course, we find the lower income families in the age brackets of 20 to 30. These are the young people first starting out. We also find the lower income families predominantly in the over 65 age bracket. In these families there are practically no children at all to educate. Of course, this is so. These are the grandparents, the people on retirement. When we zero in on the problem we find less than 5 percent of the families headed by persons in the age brackets of 30 to 65 among the low-income groups where the school population exists. In other words, 95 percent of the families with children to educate are Federal income taxpayers and the income tax

credit approach will assist them materially and will assist the local communities to collect property taxes without further burdening these very same people who as taxpayers are paying education taxes and as parents are paying the cost of raising the children who are being educated.

Since when is a program which benefits 95 percent of our people undesirable on the basis that it will not help the 5 percent? I would observe that the 5 percent are not neglected, but they come under a different program. Helping the 5 percent is legitimately and traditionally the area for direct Government expenditures, whether for education or just plain housing, health care, clothes, and proper diet, the necessities of life. The answer is that, of course, the Government at all levels—local, State, and Federal—is engaged in assisting these people on all their living costs, including education; and so are our private institutions, our churches, and community chest agencies. We tend to forget this.

I conclude from the series of shifting and unconvincing arguments advanced by the opponents of the education tax credit, which is in the nature of further Federal income tax reform and Federal tax reduction to lower the tax on money spent on education, that their real purpose is not, as they say, to get our society to spend more on education, but rather to try to redirect that which is already being spent.

I, too want to raise the standards of education in our society. If that is the real aim in the minds of these honorable opponents and that is what the redirection of spending is designed to achieve, then let's move the dialog into this area. I will debate them on this issue as well as the issues I have been discussing. However, it is a different line of argument than that which they have been advancing. The question here lies in whether we raise our educational standards best by the utilization of our local school boards and school trustees to make the decisions or through the process of political bureaucratic judgment at the Federal level, then to be disseminated through the society, I personally believe there are places where the Federal political decisionmaking can be beneficial in the field of education but they are few in number. I would argue it is really only after the local groups have expressed a desire for assistance in somewhat of a consensus that the machinery of the Federal Government should be employed, not until then. Government is the servant of the people, not their copartner, certainly not their master.

#### SOME OBSERVATIONS ON CERTAIN ECONOMIC ASPECTS OF TAXATION

(Mr. CURTIS (at the request of Mr. ERLBORN) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. CURTIS. Mr. Speaker, last November I addressed the Tax Institute of America during its 3-day symposium on the real property tax held in Chicago, Ill. I was most pleased to have this symposium set up. It is part of the beginning of the long-overdue comprehensive study of the role and potential of the property tax relative to other forms of taxation.

The property tax has long been neglected by students in favor of other forms of taxation imposed upon our society. It is my firm belief that proper study will reveal that the property tax—updated and tied in as it is with ex-

penditure policies which increase property values—can continue to be one of the most socially useful and economically beneficial taxes we have.

For the interest of Members and others, I am inserting my remarks before the Tax Institute of America in the RECORD:

SOME OBSERVATIONS ON CERTAIN ECONOMIC ASPECTS OF TAXATION

(By Congressman THOMAS B. CURTIS, Republican, Missouri Second District, at the Tax Institute of America Symposium, Sheraton-Blackstone Hotel, Chicago, Ill., Nov. 3, 1966)

I am very pleased that the Tax Institute of America has sponsored this three-day symposium on the Property Tax. For years I have been trying to point out that here is the Cinderella of taxes dressed in shabby clothes, with smutty face, keeping the household going while her much less beautiful and less productive sisters, in glamour clothes, go to the Ball. If only we would recognize the beauty of Cinderella, wash the smut off her face and hands, and dress her in just modest, but up-to-date clothes.

In July, 1966, the Brookings Institute published "Economics of the Property Tax" by Dick Netzer. In the Brookings Publications list description, it was stated, "This much-needed study is the first comprehensive analysis of property taxation to appear for over thirty years." This study is merely a good, but belated beginning of some much-needed homework. This symposium should help to move the dialogue forward.

Because of the neglect on the part of the scholars and of pragmatic economists (my euphemism for businessmen) of the property tax—the tax on wealth, and an accentuation of attention directed to the income, transactions and payroll taxes—there is a great deal of built-up prejudice and misinformation about it which must be cleared away in order to develop an objective dialogue.

The students' neglect of the tax on wealth and the accentuation instead of the taxes on various phases of economic activity, be they in the form of tariffs, general excises, profits, user fees, sales, "added value," or the latest and most regressive, the payroll tax, is the counterpart of a neglect by present day economists and political scientists in studying wealth itself and the accentuation instead of studying economic activity.

To drive the point home, I call attention to the fact that GNP measures economic activity, not wealth. This economic activity even if increased may be eroding, as occurs in periods of war rather than increasing nation's wealth. Increased economic activity can constitute a serious misallocation of economic resources which can result in a poorer nation. We must take more comprehensive and constant readings which includes statistics on both wealth and economic activity and their interaction on each other.

This Spring the Subcommittee of the JEC held hearings on a study by a group of six Doctors at the American University on the Nation's wealth. The introduction to this study of the Nation's wealth was comparable to the introduction of the Brookings study on the property tax I cited. It is the first comprehensive study of wealth in decades.

Early in the Hearings on this study I sought to drive home the point that it was quite limited, not comprehensive. It had to do with only the physical wealth of a Nation—a most important aspect of wealth to be sure—but not the greater part of a nation's wealth. The skill and knowledge of the human beings who compose the society is the greater part of a nation's true wealth. Skill and knowledge must be recognized as a capital asset and so treated. The difficulty of measuring the skill and knowledge within the society should never confuse us about this basic point, nor deter us from seeking methods of measuring it.

Let me illustrate some of the ignorance and prejudice existing today about tax on wealth—essentially the real estate tax—by referring to the general enthusiasm with which the "Heller plan" was greeted by politicians and some economists. This plan was to distribute (I am paraphrasing and I hope fairly) some of the "extra dividends" of the federal tax system (presently constituted primarily as a tax on profits) to the States and local communities in order that they could meet the mounting costs of local and state government which the "overburdened" property tax prevents them from doing.

The Heller plan is based upon two myths—I regard a myth as a fallacious argument that has been permitted to be unchallenged so long that its perpetrators use it as an axiom upon which to base their further syllogisms. The first myth is that the federal tax system—(essentially income taxes, personal and corporate) has proven to be so efficacious that there is a "dividend" which may be declared. The converse is true. The federal income tax rates, I would argue, even with the 1964 cuts, are still beyond the point of diminishing returns and are still causing judgments to be reached for tax reasons rather than economic reasons.

In other words, the high rates still impede the full development of the present federal tax base (economic activity) and also stunt the growth of the ultimate base upon which this base of economic activity itself relies, namely wealth. The tax take is, therefore, less than it would be if the rates were lower and applied to a larger base. Even with the high rates and the increased base (in spite of the federal tax impediment), the federal revenues have not kept pace with federal governmental expenditures in recent years. The revenues do not even equal the expenditures when the model of full employment developed by the "new economists" has been attained. The result has been that additional government bonds (deferred taxation) have had to be marketed, creating insurmountable problems for the monetary authorities in keeping the increases of money and credit in the economy commensurate with the economic growth the society has experienced and is experiencing. The amount of cumulative debt of the Federal Government is so large that managing its turnover and its added increments creates serious problems of its own. The Federal Reserve System, leaning against the ever fluctuating economic winds, has been unable to keep either the interest rates at sufficiently low levels through expanding money and credit to meet the market demands for money or to keep the implicit price deflator from rising by keeping the amount of new money and credit in conformity with actual economic activity or increases in real wealth.

No, there is no dividend we can declare from the Federal Government's tax system. We are in a serious deficit. I would further observe that the vaunted efficiencies of the systems of Federal income taxes disappear upon close analysis. The efficiencies are largely political, not economic, efficiencies. If we were to compute the economic cost to businesses and individuals in their being the collectors of the Federal income tax for the government, which they largely are, and add these to the costs of the IRS and of our system of Federal tax courts, we would find that the cost of collection per dollar collected is greater than for almost all other forms of taxation, certainly greater than the costs of collecting dollars from the real estate property tax.

The second fallacy is that the real estate property tax is overburdened. To establish this point, of course, I now must move against innate prejudice while, in discussing the first point, I had it going with me. No taxpayer thinks any tax or tax system is not an overburden. However, the property tax has certainly responded in a remarkable fashion since World War Two in providing the revenues for building and maintaining

schools, streets, sewer lines and disposal plants, etc. and rendering expanded services to the community in policing, fire prevention, education, etc. But because it has expanded greatly and rapidly does not warrant the conclusion *per se* that it is over-extended. It might warrant the opposite conclusion. One test to reach a proper determination is: Has the wealth which is its base expanded more rapidly than the tax? Have the benefit: cost ratios proven to be economically sound? Wealth, particularly related to these expenditures, actually has increased more during this post-war period than GNP income activity. Another test is found in the fact that the community bond issues for schools, sewers, streets, parks and other community facilities are consistently voted affirmatively in over 70% of the submissions and many of the 20-odd percent bond issues which are rejected are then re-structured and resubmitted, at which time they then receive an affirmative vote. The ratio of debt to wealth of the States and local communities has decreased markedly since World War Two in a commendable fashion, albeit debt itself was rising rapidly. It is to be noted that on the contrary the ratio of federal debt to federal wealth has had a very disturbing incline and today is a negative ratio and at a very dangerous level.<sup>1</sup> Yet, local and State debt in aggregate, not ratio, have increased more rapidly since World War Two than has federal debt. Nor is it any consolidation that federal debt as a ratio of state and local debt, or of private debt, is less today than it was in 1946, and 1946 is a poor year to pick as a bench mark. We are merely seeing an adjustment back from World War II federal expansion to what is peacetime and growth normalcy.

The following should not have to be said of United States Tax policy, but I find the myths to be so strong that it must be said. In evaluating the political and economic structure of any society, it is necessary to consider the total taxes of the society, not just the tax policy of the central government. For many societies around the world today, a study of the central government tax system constitutes a complete study because there is no system of local and state government taxation. It is all central government. This is true, not just of the communists and other totalitarian states; it is true certainly of the many smaller countries where there is not the need to have three tiers of government, and it is true of some of the larger states which, through history or rationality, have concentrated the power to tax in the central government.

It certainly is not true of the United States. Throughout most of our history the local government units have raised considerably more tax revenues than the Federal government or the state governments. It has only been in recent years—really beginning with the financing of World War Two—that the Federal government has equalled the state and local governments in the amount of revenue it raised.

Much is made by the rhetoricians of today of the fact that since World War Two the

<sup>1</sup>Total (physical) wealth of the U.S. in constant 1947-49 dollars (billions) increased from \$315 in 1900 to \$1,481 (\$2,223 current) in 1964. The total share of this wealth held by government increased from 7% in 1900 to 13% in 1958, but the total per cent owned by government decreased from +3% in 1900 to a -2% in 1958. The entire decrease was in the federal governmental sector which went from 0% in 1900 to a -8% in 1958, while state and local ownership went from +3% to +6%. Source: "Wealth Estimates," R. W. Goldsmith; "The National Wealth of the U.S. in the Post War Period," R. W. Goldsmith & R. E. Lipsey; "Studies in the National Balance Sheet of U.S. Tables" was written by Dr. John W. Kendrick for Morgan Guaranty Survey, August, 1966.

ratio of state and local debt—as well as private debt—has gone up more rapidly than federal debt. The same point is made in respect to expenditures of local and state governments. The flaw in this rhetoric, of course, lies in the unstated, but very basic, assumption that the year 1946 is one of proper reference, a year to be used as a guidepost, not a bench mark, to show us how far out of balance the costs of World War Two put us.

There should be a debate over what the optimum ratio should be. I would argue that the ratio which prevailed to large degree during the hundred years, 1860 to 1960, when this country grew economically very fast and very soundly, albeit with plenty of growth pains, is the better ratio. If this is a better ratio, then the trend since World War Two is merely one of the States and local communities moving back toward the more desirable ratio, however at probably a too slow, rather than a too rapid, pace, if we consider that World War Two ended over twenty years ago.

It, of course, is always a fair question to ask whether a particular tax or type of tax is productive, can be made more productive, is overburdened, is beyond the point of diminishing returns, or whatever. So it is perfectly fair, indeed important, to ask whether the property tax, in spite of its great record throughout the years and particularly since World War Two, has reached the point where it cannot be relied upon more heavily. This is where my reference to Cinderella comes into sight again. If the property tax has responded in spite of neglect, what might it not do if properly updated and properly administered? On the other hand, maybe it has responded well because scholars and students weren't picking at it and analyzing it and it rested in the hands of the practicing political scientists, namely the politicians. I do seriously worry about theoreticians, being a politician myself. However, I believe we both need the theorists and the pragmatists to move our society forward, and I think the property tax can benefit greatly from a systematic study and, based upon this attention, can continue to respond to the demands presently placed upon it and the demands which should be further placed upon it in both the immediate and the foreseeable future.

There is only one ultimate source of taxes, the individual human being. Federal, state or local tax systems are only different methods of extracting tax money from the individual person. He can be taxed on the basis of his wealth, on the basis of his economic activities, as a consumer, as a transactor, as an investor and, as has been recently developed, as a wage earner. I interpose, for emphasis, that a corporation is not an individual person. It is an artificial creature and, therefore, is not really a taxpayer. A corporation, just like a political government, is simply a mechanism for collecting taxes from the individual person. It must include in the price it gets for its goods and services from the consumers all taxes it pays, if it is to remain in existence. Only in the death throes of a corporation do the investors pay part of the corporate taxes.

I do not believe taxation can be studied with intelligence apart from its twin in governmental fiscal matters, namely governmental expenditures.

There are a number of hypotheses about taxation which need to be expressed, studied, debated and either rejected or accepted as the basis for further syllogisms. I have just stated one such hypothesis. Tax policy must be considered in relation to governmental expenditure policy.

I have argued for the hypothesis of tax neutrality in tax policy, namely that the power of taxation should only be used to gain the revenues necessary to implement governmental expenditure programs. That axio-

matically any system of taxation is bound to have some economic consequence, but the neutrality hypothesis says tax policy should strive to keep that impact as minimal as possible. Axiomatically, also, tax policy should be in accord, not in discord, with governmental expenditure policies.

For the governmental activists I hasten to state that the affirmative, as opposed to the neutral, side of government fiscal policy lies in expenditure policy. Almost by definition, governmental expenditure policy must be affirmative, not neutral. Governmental expenditures are designed to have an economic as well as social impact. There is plenty of room for honest and heated argument over expenditure policy; indeed, there is great need for this kind of above-the-board debate, particularly over the question of what mechanism in our society spends money more wisely for which types of objectives, government, federal, state or local, private, non-profit, private for profit, mechanisms or individuals.

One reason for arguing that tax policy should be neutral is the arcane way in which tax policy can be used to affect both economic and social results without above-the-board public debate.

Let me illustrate what I mean when I say that the neutrality theory of taxation requires that it be in accord, not in discord, with governmental expenditure policies. When government decides *through* expenditure policy or *would* decide law through resolution or public statements through expenditure policy that a certain endeavor in the society begin or be increased, then tax policy should be conformed to that expenditure policy. If, for example, the decision is made at governmental level that more money in the society must be spent on education and that government itself is going to spend more money and that amount will be increased if the other sectors in the society do not respond according to the need as officially determined and stated, then indeed tax policy should be conformed not to deter that private endeavor through taxation. In other words, money spent for education should not be taxed or, at the most, taxed lightly. If government money is to be spent in training and retraining the labor force and in other ways increasing the mobility of labor, then tax policy should—to remain neutral—not impede private training and retraining and private expenditures that improve the mobility of labor.

Good tax policy should always be directed toward areas where money can be extracted from the economy with the minimum of effort and the maximum of efficiency. Any tax legislator being a pragmatist knows that, if you can, you tax an industry when it is flourishing and you tend to lay off when it is on a decline. So it is foolhardy to tax an endeavor too early. One should wait until it is productive. It is equally foolhardy to tax an endeavor which, if not flourishing, the government will spend money (subsidize it) to make it flourish.

I take the trouble to expound this point because there is a proclivity on the part of the political scientists who want "affirmative" tax policy to regard that which is not taxed as being a subsidy to that endeavor. I submit that the difference between this viewpoint and mine is a basic difference. It is not merely one of semantics. It relates to the basic concept of government. Is taxation to provide the revenues necessary to finance the affirmative expenditure policies of the government . . . or is taxation to be used deliberately to effect other economic or social results, either directly or through its impact on monetary and other economic forces? If taxation is for revenue alone, then government ceases to tax when it has enough to meet its expenditures and that which it taxes is that which is the easiest and most efficient to milk.

This theory is based upon the assumption that government is a tool for society to use; it is a servant of the people. The basis of social and economic endeavor is private and society advances as its components, the individual human beings, advance. Government only takes that which it needs to provide the goods and services the people have directed it to provide for them.

The other theory is based upon the assumption that government is society. That the two terms, government and society, are interchangeable. Those who promote this theory talk as if "society" owes something to the individual, which I regard as preposterous because the term society should not imply anything anthropomorphic. Society has no heart, no head, no soul. Society is merely a convenient term to describe the people and the bundle of institutions, mores and customs the particular generations then on earth maintain. Government is merely one of these institutions. To say that government owes something or, putting it the other way around, that people have "rights" to certain things from government and/or society, is to present a dream world which actually will thwart a society from improving government and its other institutions, as well as its mores and customs.

To assume that all the endeavors of the people in a society belong to the governmental institutions maintained in the society and that, therefore, anything government does not take in the way of taxes is a "subsidy" is as unsound as the Pope Alexander VI edict dividing the "new" world (new to the Pope and Western Europeans) between Spain and Portugal.

I think, more by accident rather than design, our American society developed a sound system of fiscal policy for the three tiers of government which proved to be admirably successful and, I think, provided a structure which is sufficiently flexible to produce more and greater advancements.

Essentially the Federal Government took over two major areas of social endeavor which required sizable expenditures of funds, defense and interstate mobility (transportation and communication). A third area of endeavor developed during the Nineteenth Century and grew increasingly in the Twentieth Century, namely that of maintaining the free market place, an extension as it were of the power and duty to maintain honest weights and measures, but extending to such things as anti-trust legislation, regulation of natural monopolies, patent and copyright laws and, of course, maintaining the value of money.

To finance these expenditures, the Federal Government originally used only transaction taxes, initially and mainly foreign transactions, import tariffs. This method of financing fit well with expenditure policies of the day and raised the necessary revenues with considerable ease. The essential feature needed for sound fiscal policy was present, namely that those who had the pleasure of spending the money had the clear responsibility for raising it.

As the Twentieth Century unfolded, the responsibilities of the Federal Government and, concomitantly, the cost of providing for the defense of the country increased rapidly. The costs of maintaining the free market place also increased considerably. To meet these two cost items, the Federal Government developed two new sources of revenue, the corporate income tax (originally a federal excise tax measured in terms of corporate profits) and the individual income tax. However, the relationship between spending and raising the revenues remained, thus preserving the needed discipline in expenditure policy.

The function of providing for the defense of the society seems to be quite in tune with the method of raising the revenues to finance it, namely a tax based upon profit from eco-

conomic endeavors. The defense of the country contributes to preserving the economic activity which is, in essence, the tax base.

The basic function of the State governments when the Federal Government took over national defense and interstate mobility in 1787 lay primarily in providing the structure and climate for county and municipal governments to be born, develop and flourish. The State governments allowed the taxation of wealth to become the almost exclusive domain of county and municipal governments. This is an interesting historical development. At the same time the basic governmental expenditures for community facilities, health, education, welfare, streets, farm to market roads, sewers, police, fire protection remained with the local county and municipal governments.

State endeavors were directed primarily to the problems of intra-state mobility—highways, railroads, utilities. State revenues were largely raised through transaction taxes, sales and use taxes. States moved somewhat later into the field of expenditure equalization within the State, recognizing that some areas of the State were developed and wealthy, while other area were underdeveloped or just poor. There had to be an apportionment of expenditures, not based exclusively upon the ability to raise the taxes from physical wealth. In the latter part of the Nineteenth Century and the early part of the Twentieth Century this meant that taxes had to be raised, in some states, from the urban areas where more of the economic transactions occurred to be spent in rural areas, for educators, in particular, recognized even then that education was truly a capital expenditure.

Local school districts in areas of limited wealth, frequently rural, had sizeable school age populations. Education equalization laws allocating state funds to the school districts with limited tax bases were developed. Thus the states provided the mechanisms for relating urban and rural populations. The transaction tax became the main source of revenue.

The largest governmental expenditures in the society have been traditionally at the local level covering, as they did, the vast fields of health, education, welfare, police and fire protection, recreation, streets, docks, wharfs, etc. The bulk of the revenues raised to pay for these governmental expenditures were based, as I have pointed out, on taxes on wealth. The real estate property tax—although in earlier days the personal property tax was also used. In the rural counties the personal property tax on farm animals and farm equipment and, in urban areas, an equivalent personal property tax on industrial equipment does not have all the archaic and unrealistic features that the householders rightly see in this form of tax. Having said this, I wish to make it clear that I have little good to say about this particular tax on wealth.

Not only did the real estate tax conform to basic sound fiscal policy, namely that those spending the money were responsible for raising it, but it had an added value, probably the most important value of them all, that the expenditure of funds almost invariably increased the tax base from which the funds were extracted. In other words, the tax money was spent to build streets, roads, sewers, which enhanced the value of the property taxed considerably beyond the amount of the expenditure. The benefit: cost ratios were high. The same may be said about expenditures to maintain police and fire departments—the land values increase and the cost of maintaining property decreases. Certainly money spent for building and operating schools maintains and enhances property values.

This peculiarity of the local tax on wealth—mainly real estate and its appurtenances—does not apply to any other form

of tax. The taxes on transaction tend to stunt the tax base, not increase it. Transactions will still grow, provided the tax take is not too great, but they do not grow as the result of the expenditures derived from the tax. However, at the State level we can expect more sophistication on the part of those in whose hands the responsibilities of State government have been placed. Fortunately there are a few state functions and expenditures which do increase the tax base from which the revenues are extracted, e.g. state universities, farm to market roads, parks and state highways. However, many state taxes although transaction taxes, tend to be user taxes, namely taxes imposed upon the transaction involving the use of a commodity or service provided by the government, e.g. a gasoline tax for building highways. I think the basic state fiscal picture, therefore, is quite sound. Transaction taxes serve quite well to get the revenues needed to equalize expenditures between rural and urban areas and between areas of little wealth to areas of greater wealth.

The income tax, as I have pointed out, provides revenue to protect and maintain the tax base from which it derives its revenues, namely economic activity, but it does not primarily increase wealth or increase *per se* sustainable economic activity. Indeed, it is a mild deterrent to sustainable economic activity almost by definition. However the expenditure policies of the Federal Government, if confined to their proper area, are well understood and appreciated by the whole society which pays the tax. Provided the tax rates are not maintained at such a high level that they impede economic activity—the tax base—they are bearable.

The payroll tax, which finances social security programs primarily at the federal level—the tax based upon earnings from wages and salaries—has recently loomed large in the bundle of taxes imposed in our society. It is the most regressive tax of all the major taxes mentioned, but its expenditure, being cash payments directly to the individual persons, lessens this regressiveness markedly. However, it certainly impedes the growth of its base—namely; employment, from which it derive its income. The payroll tax is a cost factor which encourages, to some degree, substituting machines for manpower. In the long run the substitutions of machines for manpower increases the net number of jobs available, but in the short run it destroys jobs in being with men and women attached to them, while the new jobs it creates, on the whole, require men and women to be trained to fill them—and it requires the efforts to overcome other social structures to get men and women into these new jobs.

As I said in my introduction, I am pleased that the property tax is coming in for comprehensive study and consideration. I think this study will reveal that as employed in our society—tied in with expenditure policies which increase property values, its base—that is a real beauty. It needs more understanding and certainly a lot of updating. It is dependent upon sound assessment policies which, in turn, depend upon sound building codes and zoning laws equitably enforced. It requires an understanding that idle land—raw land—should be taxed at a somewhat higher rate than improvements on the land, so that there will be an encouragement to put land to its most productive use. It is the one tax that is anti-hoarding and hoarding, I submit, is the basic sin to a productive economy.

Let me conclude by observing that we hear a great deal about the need for land reform in underdeveloped countries abroad—and I could not agree more—but how many people associate sound government fiscal policy based upon sound real estate taxation as being the foundation upon which any meaningful land reform must be based? That

indeed developing a sound real estate tax is land reform itself and the most important and basic of any land reform?

The pundits we have been sending abroad all too often to advise the peoples of these underdeveloped societies have had little or no experience with local taxation in the United States—real estate taxation. When they discuss taxation in the United States, they relate it to the federal taxation. This advice is not only largely useless, but may be damaging to the development of these societies. We need to send abroad some people experienced in real estate, tax assessment and tax collections. In America, government is looked upon with reasonable friendliness by its taxpayers because the tax money is spent for their benefit. This, unfortunately, is not true around the world today, or in the history of nations. All too often the Federal Government is looked upon as the exploiter, not the benefactor. I hope we can keep this friendly relationship here and encourage it abroad. To do so, it must not be taken for granted because, indeed, it is up to date somewhat unique in history.

(Mr. CURTIS (at the request of Mr. ERLBORN) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

[Mr. CURTIS' remarks will appear hereafter in the Appendix.]

#### A PROPOSAL TO LOWER THE COST OF FINANCING THE WAR IN VIETNAM

The SPEAKER pro tempore (Mr. PATTEN). Under previous order of the House, the gentleman from Texas [Mr. PATMAN] is recognized for 60 minutes.

(Mr. PATMAN asked and was given permission to revise and extend his remarks, and include extraneous matter.)

Mr. PATMAN. Mr. Speaker, I rise to propose a means of lowering the cost of financing the war in Vietnam.

I plan to outline this plan in detail later in my remarks. For the sake of clarity, I summarize some of the highlights at this point:

First. Interest charges are one of the biggest items in our defense expenditures and, in the current fiscal year, will take a whopping \$14 billion out of the total Federal budget.

Second. To reduce these charges, and thereby the cost of the war in Vietnam, I propose that the Federal Reserve System purchase bonds directly from the U.S. Treasury on a non-interest-bearing basis.

Third. These non-interest-bearing bonds would be limited to unusual expenditures associated directly with the Vietnam war. This would be an estimated \$22 billion in the next fiscal year.

Fourth. I further propose that 2½ percent of these bonds be paid back each year without interest, thus spreading the cost of the war over future years.

Fifth. The proposal will save more than \$1 billion annually and will free money for needed domestic programs.

Mr. Speaker, tomorrow the President will present the Congress with the largest budget in its history. It has been indicated that total Federal expenditures for the fiscal year beginning on July 1, 1967, will exceed \$135 billion.