BOB CLANCY: USA TAX REFORM

Not so simple!

THE RECENT reform of the Federal income tax passed by the U.S. Congress and signed by the President has been hailed as a sweeping measure that will bring simplicity and fairness to the tax structure. From a complex maze of rates and regulations, the new tax reform establishes just two rates on personal incomes, 15% and 27% (but in some cases a higher rate), and higher corporate taxes with a ceiling of 33%.

But it isn't quite that simple; there are still complications: Deductions, shelters and tax breaks are curtailed; income and property are classified: credit and instalment buying are covered by regulations: there are riders to the tax bill which is still as large as a telephone directory.

While the Congress and the Administration are congratulating themselves for this reform, many economists are less than enthusiastic, local governments are wondering how they will be affected, and the public in general have reacted rather coolly toward the entire enterprise with a "wait and see" attitude. Lawyers and accountants are still busy figuring out the implications.

Points should be given for some positive aspects. There has been an attempt to simplify and reduce taxes for the majority of taxpayers, and efforts have been made to go easier on earned than unearned incomes. But doubts have been raised by economists and others — for instance:

- With a sluggish economy, this could well be the wrong time to introduce a tax change that will have unknown results. A heavier tax on corporations will reduce incentives to invest in new enterprises with a resultant toll on employment and the economy. Corporate taxes, in any case, will be passed on to the consumer;
- Reduction of tax incentives on buildings will adversely affect low and middle income dwellings. Rents are anticipated to rise by as much as 10% to 20%. With tax deductions being curtailed, non-profit organizations — educational, charitable, medical, etc. — fear that the contributions on which they depend will drop sharply.

One of the biggest sources of criticism is the huge Federal deficit, the largest in history. A gesture was made with the Gramm-Rudman balanced budget bill. But it was without teeth, and was hit by the Supreme Court anyway. What to do about the gigantic deficit while taxes are being reduced? Don't worry, say the supply-siders (including President Reagan) — increased production will bring in increased revenue. Others are skeptical of these promises.

While the focus of attention is on the income tax, it should not be forgotten that, while this is the major source of Federal revenue, it isn't the only one. There is already talk of increasing taxes on imports and of establishing a Federal value-added tax. What the Congress giveth the Congress can take away by other methods. And the Congress, be it not forgotten, can write a new income tax law. After all, the tax has been "reformed" several times.

With all the hype about "fair and simple", can this be attained with the income tax, which is a flawed concept to begin with? In Roman times, the philosophy of taxation was, "If it moves, tax it." In the more polite days of Louis XIV, his finance minister Colbert formulated the tax philosophy as "plucking the most feathers from the goose with the least squawking.". In modern times, the "ability to pay" concept has prevailed.

Superficially it sounds fair, but is no more so than paying a different price for the same product depending on how much you have in your purse. In any case, even the ability to pay idea via the income tax went through a chequered career until those most able to pay paid least, complications proliferated, and taxation went full cycle to the old days: "If it moves, tax it."

Along the way, another philosophy has been bypassed: taxation according to benefits received — making a proportional payment for the benefits and services received from society and government. The tax that would most exactly express this concept is the tax on land values. (Another refreshing variation with a land tax: If it *doesn't* move, tax it.)

This is a concept that doesn't get much of a hearing these days in the halls of legislature. The income tax appears to be so solidly entrenched that any alternative, no matter how rational and practical, is not heeded. A couple of years ago, a committee of the U.S. Treasury Dept. held hearings around the country to get ideas on fundamental tax reform. Attracted to this opportunity, I took the occasion to testify on the possibility of Federal revenue from land values. It was evident that this was not what was sought, but rather reforms to the income tax.

But the Federal government already collects billions of dollars directly from land, with leases and royalties on public lands and their resources. This is a fraction of what could be obtained; the full economic value of these lands is not collected — and the possibilities of a general tax on land values must also be considered.

It is somewhat ironic that the present Administration speaks of "a return to Federalism," meaning greater autonomy to the states. The Federal income tax pretty much crippled the Federalism envisaged by the Constitution, as this tax bypasses all other levels of government and reaches directly into the pockets of the individual citizen. A real restoration of Federalism would be possible with a tax on land values, as the apportionment of the tax could then be determined with greater attention to the entitlements of state and local governments.

A right system of taxation would produce many right results all along the line. A wrong system of taxation, no matter how it is reformed, is still wrong.

tween the factors of production. This suggests that land rent is an unearned income.

- The Neo-classicals' law of diminishing marginal utility. Applied to incomes, this suggests that measures to equalise incomes tend to yield greater total welfare than those which make them more unequal.
- Pigou's distinction between private costs and social costs.
- Diseconomies of scale.

This moral stance is greatly to be welcomed. It is a pity that the issues are obstructed in the shop window by unnecessarily damaging advertisements, such as

- that the New Economics is against economic growth. In fact, it merely realises that "increased consumption in a context of sustainability can only be achieved by making better more efficient use of a sustainable quantity of resources, rather than by increasing overall throughput";
- that it despairs of the formal economy. In fact, it contains measures to overcome its weaknesses;
- that it is against free trade. In fact, it is against external creation of dependency.

For if the New Economics' proposals are to carry any political weight, which is their objective, they must take account of the haves as well as the have-nots.