

f9 Public finance



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CAT. No. 50939

Leigh, 8 Apr.

Business taxes. - we don't believe in them.

Motor vehicles -

Payroll tax - soc. sec. act, [?]3% on empl., [?]3% on employee. Also a 3d tax to get states repay unempl. ins acts, which they did.

At 65, people receive benefits regardless of need. Also when unempl.

Incidence of payroll tax - consensus is it hits employee mostly. - elastic demand for labor. Great administrative difficulties, many exceptions.

Natural resources - In Ore. timber classification is ^{in effect} optional with owners. - ~~but~~? But you must use it for timber purposes. It reduces tax bill greatly.

With sulfur lvt, monop. could be maintained, perhaps, in small part, by mining & storing it, so it is untaxed. When does it become a product?

Non-tax revenues: - not in quiz

Leigh, 2 April

Incidence.

Excise taxes
It would be worthwhile for marg. firms to keep producing as long as price > vble cost, for then they would be making something, rather than nothing, on fixed inv.

Shifting a ratio of curve slopes.

(Forward 'or' backward' is from orientation of ~~entrepreneur~~ ^{the one taxed officially}.

Prop. tax - he's approaching it clumsily. Not distinguishing land & improvements, nor interest & amortization. Amortization ~~can~~ is exactly the same analysis as excise. Int. practically same.

Taxes reduce return on inv., $\therefore$ lower i.r. Taxes in one field send cap. to others.

He ~~em~~ emphasizes mobility of supply in this, while actually it is less mobile than for perishables.

If the tax is general, investor bears it; if not, consumer more. - odd, just opposite from principle that store taxed alone will have to take it. He waffles slightly, saying ~~he~~ This is just supply side.

F
Noted in Report of Water District of S. Cal. : Area which includes L.A., Long Beach, & many but not all surrounding cities, has property whose fair market value is c. \$6b. It has risen c. $\frac{1}{4}$ b in war. (?) Things to add to assessed figure include c. \$.7b tax free. Ass. is 50%. Everyone expected a postwar slump. It did not come. I say the expectation kept down e.p.s & prevented slump. When land values rise, then I'll expect a slump. When product values rise, it is profitable to produce. Why do product values rise instead of land? Because land has a certain bargaining power, which cannot be increased indefinitely. When products become scarce, producers' bargaining power rises relative to land's - tho productivity decreases, so total product is less, & m.p. of labor is less, reducing its ~~the~~ bargaining power. So?

Anyway, predict depressions by land values.

Leph. 4 Apr.

Quiz next Fri - including pre last quiz.

Backward shifting - to immobile factors.

Timberland: - 5 $\frac{1}{2}$ ¢/acre + severance, 12 $\frac{1}{2}$ % on all harvested. Ore.

Interstate competition keeps ser. tax down. Land would bear most of backward shifting burden.

Prop. tax: on investment.

The more general the tax, the harder to pass on. Prop tax is general, hard to pass on.

Income & inheritance taxes cannot be shifted. - much. "Least shiftable tax".

Subsidizing labor may raise wages! - but only nominally, for if it raised wages it would raise prices more.

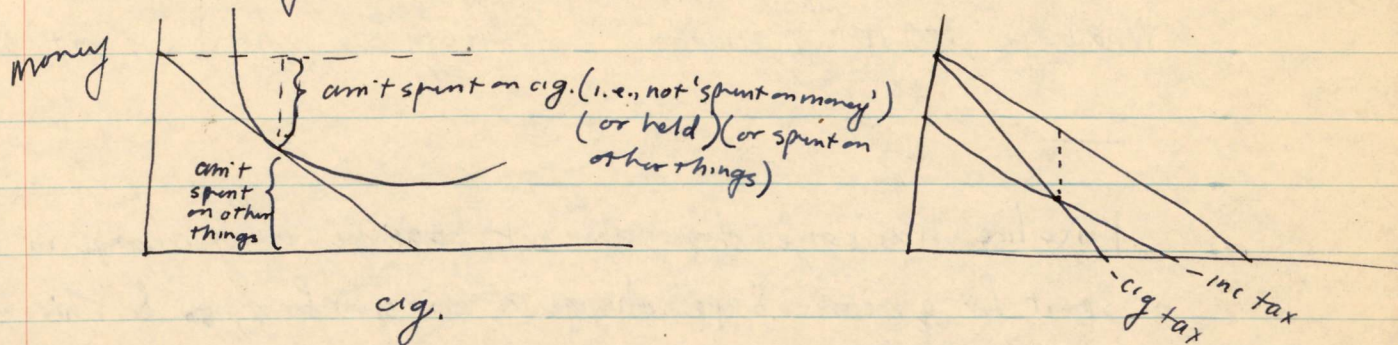
Thesis on state taxation? add Canada.
It's effect on production? & cities.
Info properly categorized very hard to get. - not a good lib. ref. job.
because comparable

Rolph, Monday Oct 4

→ Not worth reviewing for any test, Tho maybe source of ideas.

Tax Theorem

Idea that excise taxes have higher burden on public than income tax of same yield.

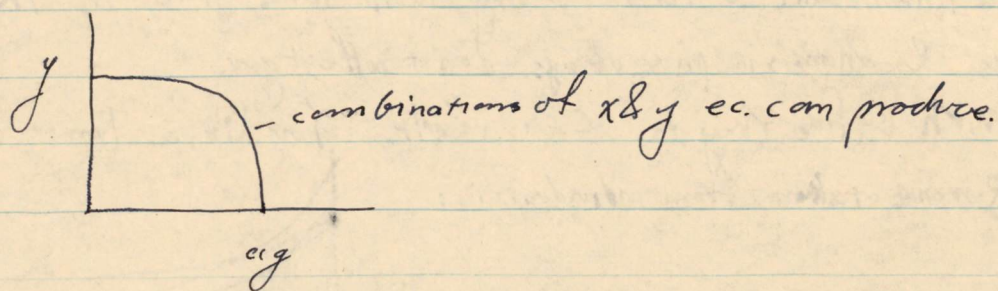


Tax levied on cigs, steeper price line, lower indiff curve.

2 effects: substitute other things, & have lower income.

Claims inc. tax hits higher indiff. curve. I doubt it. (Also excise tax doesn't raise price by full amt of tax, but then it hits someone else. - & inc. tax does it too)

(He thinks inc. taxes make poor abs. better off, by keeping prices down)



| Tax on cigs causes more y to be produced, as factors move. So those who don't use cigs are better off. Those who use both are in general worse off. (this is making lots of assumptions)

He objects to Stig's argument on taxes, for Stig assumes you get less y as well as less cig. Or at least do not get more y. Thinks you should treat taxes & govt exps separately!

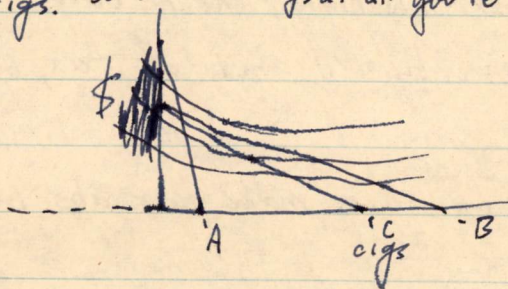
over

Rise in price of x makes line steeper; but rise in y makes it less steep again.

- Whomever buys taxed thing is worse off. Who doesn't is better.
- Who buys both is moot. Society as whole - can't say. Productivity?

Price line has same slope thru out because every change in amt of y spent for y means = & opp. change in amt spent for x , ~~and~~ & this will always be same ratio of length on graph.

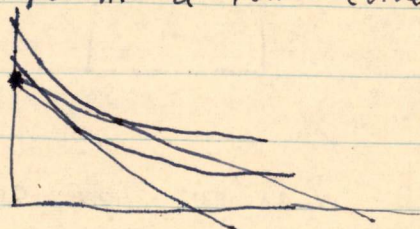
When you have money vs cigs, must draw indiff. curves to show little relative regard for cigs. So with no cigs at all you're still on a high curve.



Price line needn't be tangent to any indiff. curve, like A. Then one would buy no cigs. & changes in price of cigs don't affect you.

With B line they do. C is result. You hit a lower curve.

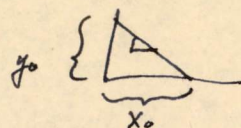
Revenue taken from individual is:



You cannot draw price line such that when cig price goes up, more is spent on other things? - yet that is normal! If you draw indiff. curves so, you can. But can't draw many such - but can have inf. # between any 2 pts anyway. But note That, as usually drawn, indiff. curves imply inelastic demand.

Ralph Oct 4 p. 2

(1 price line = P_x/P_y)



$$1 = \frac{y_0}{x_0} \neq \frac{\frac{M}{P_y}}{\frac{M}{P_x}} = \frac{P_x}{P_y}$$

? But you can change y_0 & x_0 just by changing units. So you can't say what 1 will be.

To derive demand schedule from indiff. map, quantity is right there, price is $\frac{M \text{ spent}}{x}$, $M \text{ spent}$ is distance from pt. tangency vertical to y-intercept of price line if y is \$. Or it is x intercept divided by M , which is y -intercept if y is M , otherwise is just given or not.

Can we draw indiff. curves for society as whole, as we can for individuals?

Or is it easier to xfer demand schedule concepts to all society?

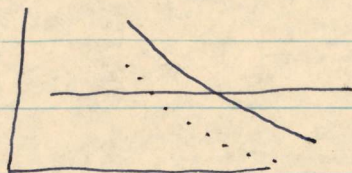
Society would be indiff. between any 2 combinations for which they'd pay same price. In practice one would have to be money. You'd get an indiff. map of one good vs. M , for society. & what would you have finally better than a demand schedule? A lot of complications. Of course there are good in that they don't let us forget that one is always choosing between alternatives, & M not spent for one thing is used some other way, & exchange is of products for products, etc. But hardly seems worth effort.

Why not measure marg utility? Individuals do, That is basis of their market behavior. What is more, marg ut. schedules could be drawn without assuming a measure between points, just as indiff. curves are drawn; & indiff. curves could be drawn with a measure. The difference is not in the technique, but attitudes historically associated with each. & I think you can measure, & should.

Revenue taken from individual: can't say. Measure revenue gotten. But you don't know tax rate! Stig. assumes price rises by amount of tax! - completely elastic supply. (something better shown by other technique) Amount of tax is difference between what you pay for amt of cigs you now take & what you

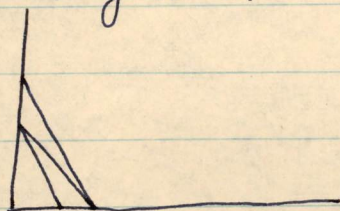
Rolph Oct 4, 3

world have had to pay for some amt at lower price. That's what govt. gets. But certainly not whole story - a main thing we should consider is effect on producers. Well, from their view, demand is less. Those who still

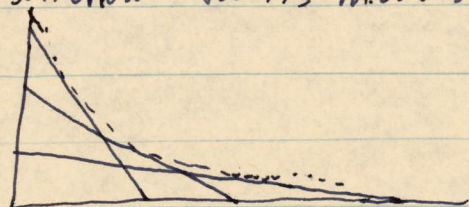
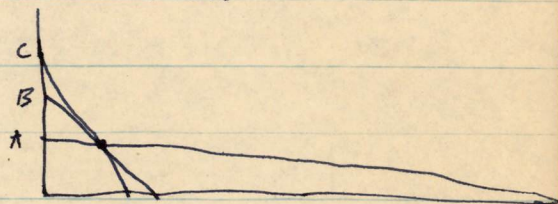


produce get same as ever. Others presumably less. Productive opportunities for society reduced. It's here, rather than in demand side, we find greatest loss? Well, in M you get less income & pay higher prices. In real terms you get less income period.

Now 'subst. effect' is what I doubt. According to it any relative price change leaves you worse off, ~~what is it cause~~ just because it changes existing ratios. Well, if price of one thing goes up a lot



it hurts you more than if all things go up a little - the sum equaling the rise in one somehow - for its m.u. rises as you have less.



At the pt, C crosses curve  B, & will

likely be tangent at upper left somewhere, to a higher curve.

Since none of these price lines but one can be tangent to one indiff. curve at the pt, it follows that they cannot represent same

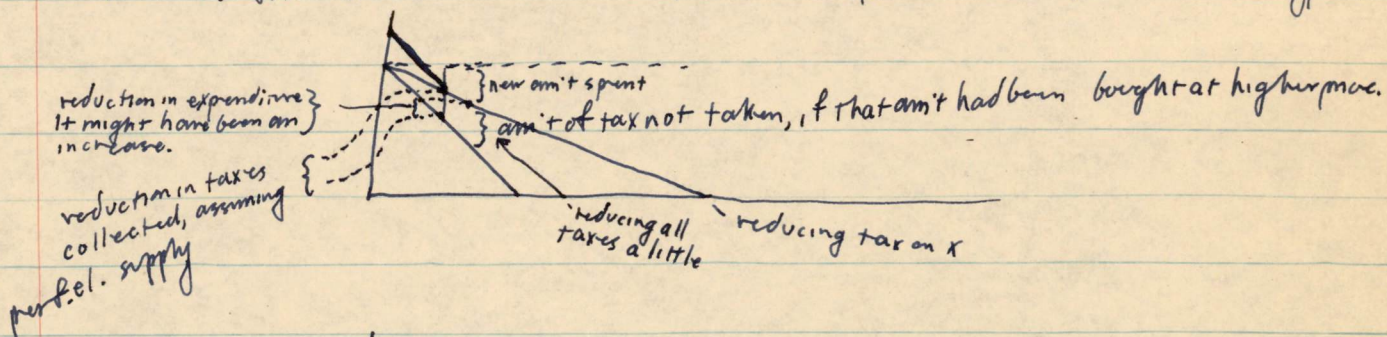
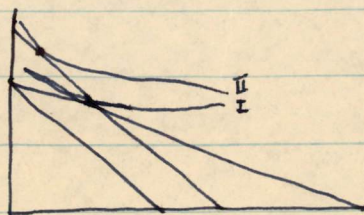
level of satisfaction. So there is then you take none of one item, still get to higher only one price ratio, at these amounts, curve. that lets us hit this curve. ~~on both~~

Rolph, Oct 4, 4

How would I figure this out without ind. eff. comes? Ask 'is consumer injured when price ratios change?'. Answer is simple: depends on his personal interest in items. How would I isolate this subst. effect? & abstract from personal position? Take 2 items he uses equally, ~~and~~ & has identical (& constant elasticity?) demand schedules for. - but make them typical, they get more elastic to left. Make one cheaper, other dearer, same Δ . At first no change. But toward extremes a small reduction in cheaper will be a larger

(Incidentally, how about changing def. of elast. to mean just Δq ?)
% ~~reduction~~ ^{change} than same Δp in other

They're saying if a given amount is taken from you by Δp one thing you are necessarily worse off than if same amount is taken by small Δp s of everything. This cannot be true, for if it were then next time the subject came up you would have to say it is better to keep things as they are, even if proposal were to reduce this tax. ~~Wait~~ They'd say it's better to reduce taxes on everything a little than on one thing a lot. as follows: (I should change this for ~~inelastic~~ ^{demand} case, which is more typical)

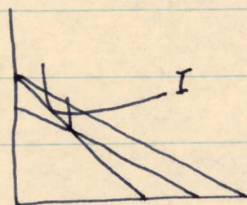


In this case we hit a higher ind. eff. curve by reducing all taxes a little than by reducing one a lot.

So argument can be turned around, & is no good. But why? Is it not because it all depends on how the ind. eff. curves are drawn

Rolph Oct 4, 5

at first? Can't conclusion be reversed from start?



In this case, the excise on one thing brings us to a higher curve than that on all things. But this is

irrelevant, since that would then be amit taken, we would then draw a line + know that pt, & it would necessarily hit higher curve near pt of tangency. But if we take inc. tax first: then mono tax hits higher indiff. curve. So it all depends on which line you get to draw tang. to an indiff. curve at 'the point'.

~~Money spent~~
~~# units of money~~
 # units of money "taken", i.e. spent for other things (or hoarded, but forget that for now)



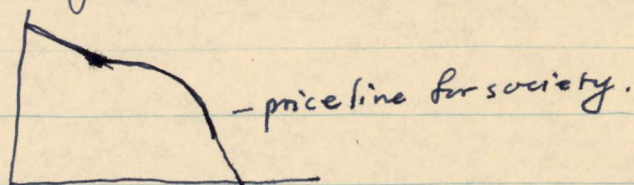
quantity of x taken

Therein is crux.

(Assumptions of perfectly elastic supply, & inelastic demand, are also atypical, must be checked)

Label of ordinate may be crux too. How say what govt gets?

(changing supply prices would be represented by curved price lines. - if they changed in response to amt demanded. Individual's price lines will be pretty straight, but when society demands more of something its price rises, so society can't have as much, but other becomes cheaper:



- price line for society.

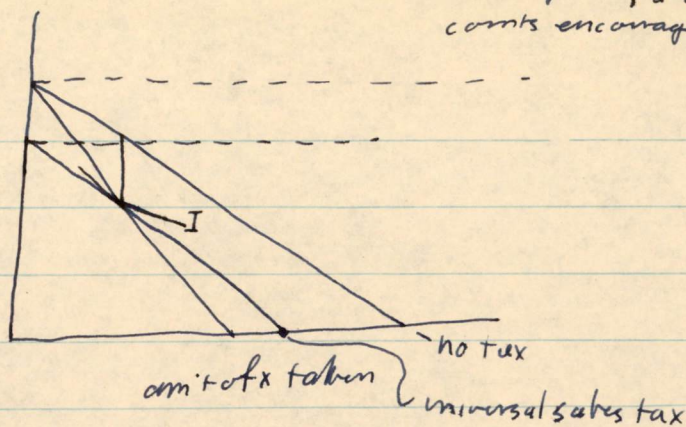
This jazzes up this tax proposition even more. - see how later)

We are just dealing with an individual in this proposition, asking is it better for him to give a certain sum to govt. in one way or another.

Ralph, 4 Oct, 6
 Given: amt available
 to spend.

need amt of other
 satisfactions gotten,
 amt of
 in need for
 everything but
 buying x, amt
 measured in m - but
 be careful.

Abstract from hoarding - either tax
 encourages it, & whichever is worst on other
 counts encourages it more.



1. With universal ~~excise~~ sales tax, govt gets difference of old & new price times amt taken. This is a given %, vertical distance between lines. (Incidentally, while ind. f. curves let us abstract inc. from sub. effect, they don't allow opposite).

2. With mono sales tax, to raise same revenue, hit same point. But with such a tax you never would hit this point, since price line not tangent to ind. f. curve. The two are not alternatives, i.e. Stig. says glibly 'by raising given revenue by other way, we are on lower ind. f. curve'. But if we raised it the other way, we would not be at this point. - but 2 taxes differ in this.

(you can never raise but one amt of rev. at 1 pt, with sales tax of given %. & by changing it to bring in desired amt, always cross lower price line at angle, be on lower curve!)

Argument cannot be reversed between taxes, since to get to higher ind. f. curve with mono tax you must get less revenue, while with poly tax get same.

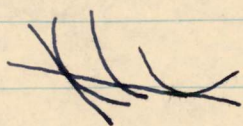
So: my only valid objection is that you can reverse ~~direction~~ conclusion by considering reducing taxes.

Before tackling it from that angle, try to state ^{implication} ~~conclusion~~ in English: If you pay a given tax amt on just one thing, you must need it or you would stop buying it altogether & they'd get no tax. If everything is higher, you can cut down on

Those less attractive to you personally. You pay just as much, but things attractive to

- - Whatever amt you can get by taxing one thing, you can get by taxing all things. Tax one thing, let individual choose best position resulting, & then you can tax all things to get same amt, & it is necessarily true that the reduction in price of x relative to all others allows individual to take more x & less others than at point chosen & be better off. - assuming smooth continuous indiff. curves.

At pt of tangency marg rate of subst of x for y on indiff. curve is nec. higher than on price line, going to right, for that is ~~how~~ point of how pt was selected. By changing tax, can give him a price line whose marg. rate exceeds indiff. curves a little at least, let him better self. (but is 1 price line = $\frac{P_x}{P_y}$?) i.e., consumer lets marg rate of subst = price ratio. Now by changing tax we change price ratio such that $M.R.S_{xy}$, which equalled price ratio, now exceeds price ratio, x being cheaper, & allows us to improve our position - without affecting tax proceeds, for whatever we buy is taxed.

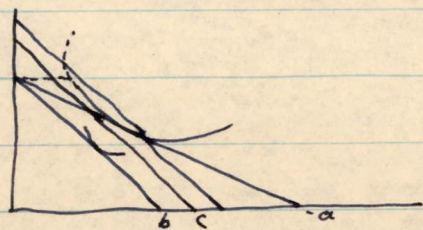
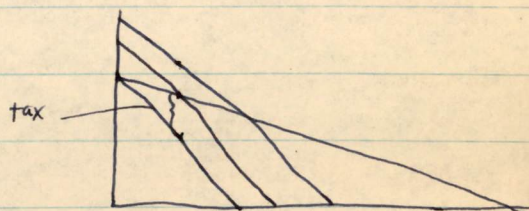


Whenever the rate of subst. on indiff. curve, e.g. $2x = 1y$, is not inverse to prices, e.g. $P_y = 2P_x$ (& we don't know that price line means this), then one can improve himself, for he can buy different amounts. If $2x = y$, & $P_x < \frac{P_y}{2}$, then one can do better by taking more x ; if $P_x > \frac{P_y}{2}$, by taking less x . Impose ^{more} tax, & at some point $\frac{P_x}{P_y} = 1$ (= r.s. ~~any~~ x) (as above), consumer shifts there. But can get same revenue by taxing everything. Do so. Now x is cheaper, ^{by deconv.} $\frac{P_x}{P_y} < 1$, & we can become better off just by shifting expenditures, & with no loss of revenue. It is always possible to improve on a given mixture when price ratios change, tho in other cases there is no assurance of going to a

Adding tax would do what to actual price lines? More than just

higher level since new price line need not go thru point we are at. In tax case it does by hypoth. Still, we can generalize some: whenever price of one thing ~~rises~~ falls, even tho others rise --- well, with no basis for saying how much they rise, no basis of generalizing. Well, a given increase in costs is better if spread around evenly.

Now suppose a given reduction in taxes. Is better to reduce all, or just one? Which one? Any one?

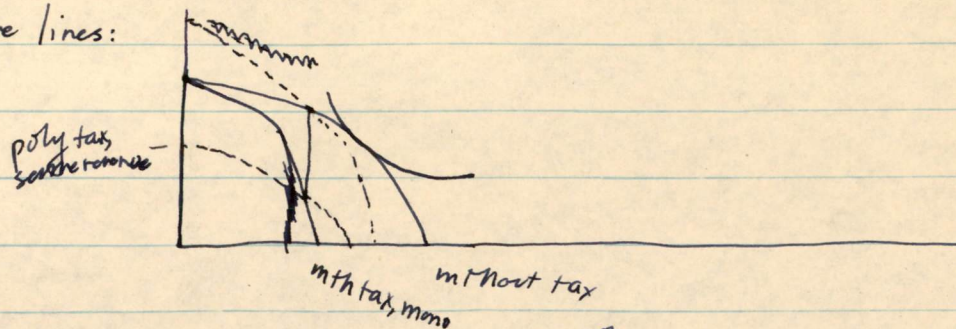


Let's abstract subst. effect, in a way, by giving back all the revenue we got. But not by repealing mono tax, but reducing all existing ones a little, until we get him up to price line c. We would have done better by him to return to original position. ~~Is this~~ ^{Is this} true no matter what is on x, & no matter how little preference is shown it - (tho not how much)? (But now we must also consider the reduced (or increased) expenditures on other taxed items)

2 strange conclusions: 1. If ^{relative} cost structure were anything but what it is we should be worse off! 2. Better to raise taxes together, but lower them individually - well, this conclusion is more particularized. We must know situation. Better to lower them individually if resulting price line hits higher indifference than another world, but no possible way of knowing if it would a priori, (& even if you've been on one of lines before. So can't conclude it's better to lower them individually, or altogether. But this also means we can't conclude ~~that~~ #1. For we might be better off. So only conclusion that follows is one they actually draw. & ~~Rolph's objections are only valid~~ & my potential objections are not forgetting. - tho I'm still hoping.

(a big consideration re taxing one or many things is that in taxing one you run into supply ~~inelasticity~~ sooner, both because alternatives are not taxed & because you tax one resource 'further' - tho that may have opposite effect, short run.)

Price lines:



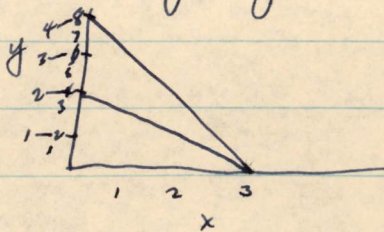
Adding tax, consider that supply not ^{100%} elastic.

(considering all society, also recognize that society gets ~~most~~ of its income from things in question, so amount available to spend may change?)

Probably the more is produced, the greater is supply elasticity, since more producers will come in from other work to which they can return.

What does this do to analysis of tax? Same conclusion, see above.

First, 1 of price line is one arbitrary distance over another. Only in terms of units of x & y can it mean anything.



$\frac{P_x}{P_y}$

$$3 P_x = 4 P_y$$

$$\frac{P_x}{P_y} = \frac{4}{3} = \frac{y \text{ intercept}}{x \text{ "}}$$

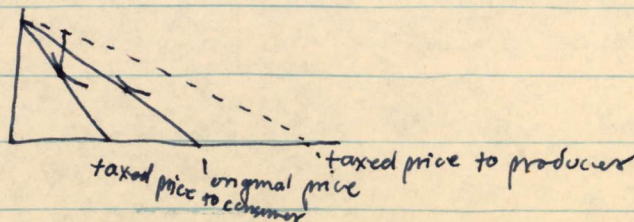
$$Q = x P_x + y P_y$$

$$Q = 3 P_x + 0$$

$$Q = 0 + 4 P_y$$

Assume units of x & y have same scale. Then $\frac{P_x}{P_y} = \frac{y \text{ intercept}}{x \text{ "}} = 1$

Elastic supply:



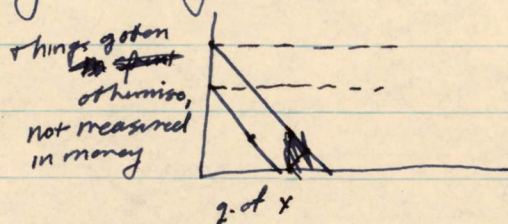
See re

This ~~method~~ tells us nothing about quantity taken, only ratios.

With supply not 100% elast, revenue per person is higher from mono tax than Stig's analysis showed. ~~But~~ This also lowers taxed price to consumer & increases quantity taken. This wins analysis utterly.

Poly tax & supply elasticity. (hp)

'Real' p.p. in money.
'Real' amt of m to spend
for other than x.



(You can't use money measure on left in this analysis, since its value may change - another flaw in proof)

If ~~the~~ 100% inelastic supply, prices don't change due to tax (assuming govt spends it at same V , & forgetting extra T , & need to increase cash balances). Then reduced price line just means less m to spend by individuals as sales tax reduces incomes. This is like Stig's income tax assumptions. But if we allow any price changes, must not have m on ordinate. (First, what is revenue if no price change? Difference of old & new income, which is $t \cdot x \cdot \text{old income}$. If no price change, can express it as less m to spend, ~~the~~ measured by vertical separation of price lines. But if value of m changes, inc. reduction still vertical distance. Get around it by having 'real' amt of m held on ordinate. This falls if prices rise or m incomes fall, - & indiff curves needn't be redrawn. The fall of income is the fall of m held, + fall in amt spent on x. $1 + x \frac{\text{vertical fall}}{\text{total}}$, & almost = it when x exp. small. Stig wrong, tho, to say it numerically = income tax burden, for it doesn't - can't loss on x.

Things you can buy, which is difference of amt of y you can get now if you take so much x, & what y you could get before. This equals in value the x you now can't get if you take so much y. But easier to measure in y, as that

M. F. W. Joseph, The Excess Burden of Indirect Taxation

Will try, with indiff. curves, to show the excess loss ~~with~~ without assuming const. m.u. of money.

Runs thru the demonstration in Stigler's prop. in taxation. The excess burden which I have been content to call the difference between the two indiff. curves, he makes by drawing a 3d inc. line parallel to the first tang. to the indiff. curve reached by the excise tax, and the difference ~~between~~ between their two y-intercepts is the excess burden.

(But note that this analysis doesn't ~~succeed~~ succeed in allowing for changes in m.u. of money. Money, unchanged, is on the y axis) *Does this differ from 'inc. effect'?*

How about AP?

The greater the curvature of the indiff curves, the less ^{the less elastic demand at that pt.} the excess burden and, in extreme case, curve has a rt. angle where the price line after excise tax touches it, and the price line after inc. tax with same yield touches it at same spot, no excess burden. This means elast. of subst. of tea for m is zero at that pt. Or marg. rate of subst., as I would say. *Curvature's the rate at which x becomes more valuable as less is had.*

Marshall had said the less elastic the demand, the less the excess burden, as less reduction in quantity taken would occur. Joseph doesn't state if he said same about supply.

Joseph says excess burden is zero when marg. rate of subst. of the taxed good for money is zero, this being a limiting case. Says excess burden depends on a certain relation of price elasticity to income elasticity, not on price elasticity alone. The ~~more~~ less important the article taxed, the smaller must price el. be in relation to income elasticity to avoid excess burden. He shows this with some geometry that I don't follow.

But idea is when income elasticity of demand for item is high, then the income effect of the tax will affect the demand for the item. The general condition he says for the minimizing excess burden is that marg. rate of subst., or as he says, elasticity of subst., shall be zero, rather than that elastic. of demand shall be zero. These two coincide when proportion of income spent on item is very small. But if it is large, then

you spend based on other things... or have less to spend on them. So your cons. pattern changes, a distortion. This is my interpretation of him, anyway.

Further states that the undesirability of an ~~excise~~ excise tax increases with its rate.

But nowhere, so far as I see, analyzes excise taxes on all goods, just those on a few goods.

Concludes that if you must use excise taxes, tax those with a low elasticity of substitution, i.e. an inelastic demand. But ^{but the 2 are not identical since demand elast. includes income effect} elasticity of demand is made up of both income and subst. effects, and if inc. effect negligible, then subst. effect gives right result. But if inc. effect great -- e.g. inferior goods, where a rise in income causes a fall in demand -- then inelasticity of ~~demand~~ ^{income} does not mean small excess burden.

Tax many commodities lightly rather than a few heavily; if just a few are taxed, let them be those most purchased.

See if you can figure out from this what the guy said.

production of the thing is loss, but just decline of c.s., which implies the displaced factors go to work somewhere else.

To show that c.s. should be measured with "const. m.u. of m", i.e. ass. that income is unchanged, consider a practical case, an irrigation project. The c.s. is the value of the water over & above what customers pay for it, and not what the value of the water would be to them if their incomes were lower. This would even be true if they were the final consumers of the water. This is the measure of their welfare. *i.e., not an all or nothing proposition*

Over Hicks says c.s. is the difference in income between the indiff. curve you would be on if price of thing so high you bought none, & curve you are on. There is no difference between this and *my concept of* Marshall's c.s. Of course that does not mean that the other concept could not be expressed, if Hicks had not flubbed up. It is what individual would pay for the good in an all or nothing bargain, the most he would pay. And the issue is, is c.s. the difference between the "all-or-nothing" price and the pq he pays, or is it the excess of the area under demand ~~curve~~ curve over pq? (re above criticism of Hicks c.s., he might say "You mean individual would not pay for the good the amount of his increased welfare caused by it?" And answer is no, he would not, because he lacks the income, under an all-or-nothing price, to pay for it as much as his increased welfare would be ~~xxxxxx~~ when it is cheaper) And my answer is, it is the area under the demand curve, because you cannot pay as much for the good, at the all-or-nothing price, as you are helped by the amount you can buy at a lower price.

There is more to elasticity of demand than curvature of indiff. curves. The slope of the curves is more important. Curvature is the rate at which slope changes. Neither one is exactly elasticity.

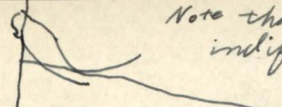
Joseph is not satisfied with Marshall's dictum that excess burden is a minimum when elast. of demand is zero. But Marshall is ok. Joseph ignores that Marshall's elast. of demand is a composite of Joseph's elast. of subst. & elast. of inc. He speaks as tho Marshall's elast. of demand were like Joseph's elast. of subst., & Marshall had ignored elast. of inc.

I take it back. Joseph says general condition for no excess burden is that elast. of subst., which he distinguishes from elast. of demand, eq. zero. It seems to me the condition for no excess burden is that demand for factors be unimpaired, i.e. that demand elast. equal zero. So I disagree with Joseph on this count. Subst. elast. might be zero and still, due to inc. elast, you might take less of the taxed article, causing excess burden. *But then you would also take less of other goods, so resources wouldn't shift. He may be right. He's wrong: over*

The other big error of excess burden argument was in identifying excise taxes with mono taxes.

Not clear just what Joseph concluded, but it looks as tho he finally came around and said that demand elast. was crucial for excess burden, and when subst. elast. was the same as demand elast.

This saying of Rolph & Frisch that it is adequate for prices to be proportional to mc for ideal allocation, is sophistry. By which I mean it is making the point seem more profound and significant than it really is. For if you say the tax is not a cost, then after excise taxes have been applied to all goods, factors will not move from what

C.S.  Note that by putting M on axis, we make distances between indiff. curves ~~and~~ cardinal.

i.e., Hicks used his new apparatus to show what could be shown just as well with Marshall, and what I had always thought Marshall did mean: C.S. is area under demand curve. For very small quantities, with no 'income effect', this would be same as excess of what you would be willing to pay over what you do pay. & maybe Marshall at one point expressed it that way. But the other idea can be expressed thru Marshall's curve easily.

Excess burden comes from tax: affecting your choice
If demand for taxed item abs. inel., tax doesn't affect choice: you take as much as ever (& less of other things)
But if subst. is abs. inelast., you take less of it, proportionate to reduction of other purchases. But, as it costs more now, you avoid it more than other things, to avoid reducing income? No, despite higher price, just reduce purchases $\propto -\Delta Y$. So, again, fact that it is taxed has no effect on demand for it $\therefore$ i.e., fact that it, rather than something else is taxed. So is no excess burden in either case. So he is write, for no elast. of subst. also applies to no elast. of demand, except that thing, as inc. falls, x is substituted for other goods, but that is an inc. effect, not a price effect. He is only wrong if he said there was excess burden with 0 price elast. to only excess burden when price affects purchases

they were doing before, producing as much as ever. There will be no increase of prices, just increased taxes paid, just as tho they were income taxes. (perhaps more leisure will be taken) Prices will still equal mc . If, alternatively, the tax is taken as a cost, then the alternative opportunity costs of the factors fall, since other opportunities are also taxed, and costs in this sense fall, while the tax is added to cost to make up the difference. In either case, mc continue to equal price.

Choice between leisure and work will be distorted. This does not mean that mc will not equal price, but that all mc will rise a little. And prices too.

Summary of criticisms of Musgrave & Domar

1. Full loss offsets, with progressive tax, will not reduce losses as much as they reduce gains. Suppose a constant income from one source, and risky inc. from another. If you win, you pay at higher rates; if you lose, offset steady income at lower rates.

He probly assumed proportional tax. (which corp. inc. tax is)

2. The only pressure discussed by Musgrave that caused risk taking to increase was that people were made poorer, hence mu of further income increased. But a, This means a tax which made them poorer w/o penalizing marginal gains would do even better; b, when people are poorer they have less to invest.

3. Ass. that people shy from risk per se is not nec. so.

4. All they have shown is that taxes (with loss offsets) make people shift investments from less risky to more risky assets, not that total inv. will increase. But, a, this in itself is quite something to show; b, People will tend to convert m into other assets, due to lower risk differential, (this increases inv.?) But on the other hand, lower yields in general has just opposite effect, so get no net conclusion from this.

So the only net conclusion is that taxation causes undue lack of caution about risks, which is a diseconomy.

Cary Brown is talking about incentive to invest, not to take risk. (re Musgrave, incidentally, cannot say that mu of income to a corporation is greater if it has less, only to individuals. And the individuals income will not be reduced by taxation, they will just get it in form of govt. services instead of things they buy. So last leg of Musgrave argument goes)

Brown argument is good, even if it be assumed that taxation increases inv. For then it is simply turned around. And all Brown is saying is that if you allow inv. to be immediately deducted from inc. tax base, you neutralize effect of bus. inc. tax on incentives, whatever that effect may be.

Over | Rolph speaks of govt. expenditures, (G), and taxes (T), as analogous to S & I, uses them in same eqns. But G & T are gross concepts, shouldn't be treated with net concepts. Treating govt. like another individual, which it can be monetarily, its net saving and net inv. are of interest, and they, when totalled with private s & I, will equal. To throw in the gross concepts does not destroy the equality, but makes totals too big.

| The general idea, I think, of Rolph's monkeying with S & I concepts is just to say that govt. should be in the picture, which is obvious and even trivial.

Rolph, using Robertson, assumes that current taxes have no effect

Is a question of whether you want to separate out
govt income creating expenditures, or subsume them in

C&I. Purely optional

on current spending, on idea that current spending is fn. of last pd's income, and current taxes only take from this pd.s inc., and only that part of it which would have been saved, not spent. Which is fantastic. But from it he concludes that to increase both taxes and expenditures simultaneously will increase spending in the current period, which ain't nec. so.

→ Rolph prefers Robertson to K. analysis, inter alia, because with Rob., you know that dC means less S, while with K it might mean more inc. in same pd., don't know what it does to S. I think by either method of analysis the net outcome is indeterminate without more information.

~~xxxxxxxxxxxxxxxx~~

Another serious shortcoming in saying resource allocation is all right if only mc prop. to price is that this would make monop.s ok, if all production monopolized and prices raised same proportion above mc. Must keep the crux in mind, which is that resources must not be kept from producing the highest possible mp, and as long as they are not, production is most efficient. *This is very reason why Rolph says universal monop would be ok.*

Rolph himself prefers to look at taxes as reducing prices to sellers, not increasing costs. Which is ok. & in so doing he will keep p eq. mc, perhaps w/o realizing it.

Domar & Musgrave argument only applies to some risks, those that are risk of absolutely losing m. The risk of not getting as much yield as otherwise, which is a form of risk, gives you no offset. This kind of risk is still avoided.

New
subject

Lerner makes an important distinction that other K. ec-ists seem to miss, which is that dM itself need not lower mr, but only if the dM comes on mkt as loans at low i.r. This to Lerner is a very important distinction, so to him borrowing & taxing have distinct functions. You borrow when you just want to take m away and also raise mr; you tax when you want to take m away but not raise mr. To a degree he concedes taxing will raise mr by reducing saving, but generally treats it as tho it didn't at all. And this, as opposed to K formulation, is very good.

Joseph criticized conventional presentation of excess burden argument in wrong place. He said that weakness was with ass. of const. m.u. of m. But this was not a weakness; it is doubtful if his formulation gets away from the weakness if it is one; there were other weaknesses, esp. the ass. that displaced resources not used elsewhere -- but this weakness could be overcome by specifically stating that reduced productivity was the loss -- and conventional argument didn't imply, come to think of it, that displaced factors would not be used elsewhere, but just that they would be applied marginally elsewhere while they could be applied supermarginally here. Classical analysis doesn't say the whole ~~xxxx~~ decline of

Henderson, The Case for Indirect Taxation, Ec. Jnl., December 1948

Classics condemned indirect taxation because of excess burden. Recently it has been more realized that income taxes had also an excess burden, that this burden appeared as absenteeism from work which was more harmful than loss of consumer surplus, or at least more spectacular; that this was from affecting choice between leisure and work; and it has been concluded that income taxes are as bad as excises, or worse.

Henderson will show that excises have the same affect on choice between work & leisure as income taxes, and in addition distort consumer preference, and are worse. That the only advantage in them is they are less progressive. I agree 200% from the start.

The same tax rate on all items does not insure proportional results, (for, due to ~~shangxinx~~ differences in s & d conditions, each commodity will change in price differently, and the tax finally arrived at is not prop. to original price. Is this relevant? Is my idea)

Henderson just says that if the tax rates differ on different items, excise tax may be progressive or regressive. Suppose two items only, taxed at different rates. If one has inc. el. of demand greater than one, & other less, then if that with higher inc. el. taxed more, system is progressive, if v.v., regressive.

p. 541

Henderson accepts and repeats the Joseph-Stigler argument. Then remarks that excise taxes can be progressive & non-prop., that this involves an excess burden, and draws a graph with inc. before tax on abscissa, after tax on ordinate, a 45 deg. line showing line of equality, and two lines underneath it, the difference between the lower two being the excess burden, by def. I don't think this graph shows much, that he didn't already say from Joseph.

Now he turns to supply side, and follows Wald. Leisure on ordinate, all goods on abscissa, draws indiff curves so that when inc. tax imposed, take ~~xxxxleisure~~ more leisure (i.e., elastic demand for leisure in terms of effort) (its price falls and you take more of it? No, spend more for it?)

Get some practice drawing these curves and showing excess burden, will probly have to some day. Over

The ideal tax for redistributive purposes is on "earning capacity", if that defined in such a way that individual cannot influence it. But as this is impossible, actual earnings are best he says. (Amazing that they state principles which so directly declare that lvt is best tax, but do not mention it. Even when they have Hotelling throwing it in their faces)

Now he will consider saving. (excise taxes distort choice between sav. & cons., but this probably a good thing for society as a whole, to increase cap. formation) Excise taxes exempt saving, so encourage it, which is good for increasing capital he says, esp. in booms, but on other hand distorts consumer choice. Various other complications, conclusion depends on situation. But notes that indirect taxes reduce real income and thereby reduce saving.

So by introducing saving, some doubt is brought into traditional Over

case vs. indirect taxation.

Also says that irrationality of individual decisions, meaning meaningless shifts of indifference maps, makes case unclear, for then it is not clear that distorting individuals choices will hurt any.

Why, then, he asks, are people coming to favor indirect taxation more in Britain now?

1. It is a means of making tax structure less progressive, which cannot be done by changes in income tax for political reasons, but has to be done to increase incentive to work. political reason

2. Administrative reason: any one tax, no matter how good theoretically, is subject to evasion, and those who evade income tax are caught by excises, esp. luxury taxes.

3. To ~~raise~~ bring administered prices into line with mc. This wouldn't apply to free market prices, but English prices not free. Excise tax on tobacco recently justified on grounds that L was overvalued relative to \$, so too much tobacco was being consumed. (he's wrong here I think. Reason was that an excise tax on an imported item is a tariff, and Eng. needed tariffs at that time to improve terms of trade)

Leisure

Goods

When "income" falls, you can get less goods, but same leisure.
When tax imposed, goods more expensive, leisure same price. You may take more or less leisure, depending on ind. th. map. If, due to e.g. redistrib. taxation, goods are more expensive while income is unchanged, of course you take more leisure. (dotted lines)

Ch. 9, 10, 12

Black, Duncan, The Incidence of Inc. Taxes, London, Macmillan, 1939

Ch. 9: Conditions Assumed, & Method to be followed.

(shifting & incidence of taxes is similar to identifying beneficiaries of public expenditures. Like benefits, taxes only come to rest where there's restricted mobility)

To Schuyman, 'Incidence' is who pays it, 'effects' is what it does to production. Black debates of distinction. Common would just 'incidence,' speak only of 'effects'. Black will use 'incidence' to mean 'effects'.

Marshall & Edgeworth distinguished 'incidence, burden, & weight' of taxes, over various runs. Black likes gen. eq. method of Lausanne school, in which everything is held variable, as opposed to ceteris paribus of partial eq., & all interactions considered. (how can all interactions be considered?) The method calls for large no. of eqns, to be solved simultaneously, is ponderous in practice. Useful because it keeps you aware that many vbls involved, ~~but~~ while you use partial eq. analysis. (analogous to partial differentiation)

Will cf. situation pre-tax vs. post-tax 'method of ceteris paribus statics'. - Following x'tion from one eq. to another, disturbance caused by tax.

Assumes pure comp. in selling, not in buying factors. No monopoly, but ~~monopoly~~.

Effects of tax a comb. of its effect on demand for goods, & supply of factors.

Ch. 10: On disregard of expenditure of tax proceeds in theory of incidence

He favors counting in expenditure increase in figuring tax incidence, not considering tax alone. (this crucial to proving income tax reduces work) Marshall sometimes considered benefits.

Ch. 12: Effect on supply of labor. Because inc. not ~~not~~ reduced by inc. tax - it being given back free - but marg. incentive reduced, inc. tax reduces supply of labor.

Very good. But he understates his points.

Goode, Richard, 'Inc. Tax & Labor Supply', JPE, Oct '49, pp 428-38

Classical analysis of effects of tax on production are in choice between leisure & inc. Tax reduces price of leisure. Like other price changes, has a subst. effect & an inc. effect. But inc. effect small, because govt. services come back - it may even be they are worth more than a tax. This seems conclusive to me, but not to Goode.

The more progressive the tax, the more it deters work. Excises better than inc. taxes on this score. They do not deter saving, either.

People also work for pleasure of work, & want high pretax inc. as conventional symbol of success.

Tax causes more work for one's self, reduces trade, distorts allocation. Costs of training not deductible, training discouraged.

Cultivate self-sufficiency, for inc. taxes will rise. Buy home tools - a good inv., not subject to infl.

Fluctuating inc. jobs discouraged.

Tax on self-employed depends on voluntary compliance. This counterbalances above sometimes.

I think inequality essential to incentives, the more the better, so long as opportunities equal.

Fed. Tax Policy for Ec.
Growth & Stability

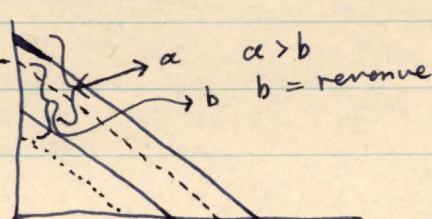
Jt. Committee on the Ec.
Rept Nov. 9 '55.

is more universal: 'real p.p. ~~lost~~ in money' is scale, 'amt held' is item for which curve is drawn.

So tax revenue is reduced income - assuming no price change - (which would mean less production, tax revenue < reduced income due to idleness) & reduced income is vertical (or horizontal) separation, value of.))

If production declines, revenues are difference of new price line & a line between new & old representing income that now would be available if govt got none & production were what it is with tax.

This line is what people could buy with reduced production, no tax.



original expenditure line
new price line with diminished production & hence income falls, prices rise, people get even less

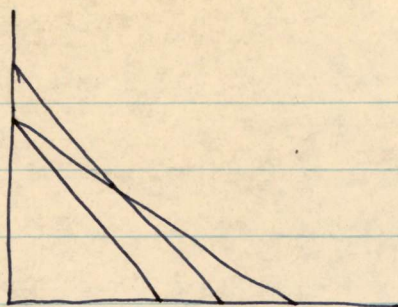
Govt gets difference of 2 dotted lines. They must be closer together than 2 solid lines, since revenue will be a % of upper one, & the lower it is the less is taken from people.

This too weakens original proposition. But mono tax would also reduce production in general, when we considered that there it would even up.

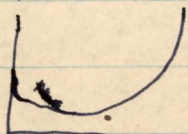
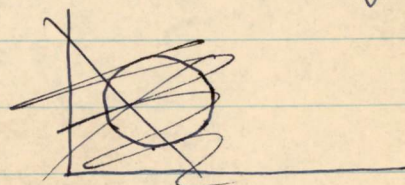
So main criticism is that if elastic 100% supply is assumed, must consider what else factors might produce. & if it isn't, must consider that producers will sell cheaper - Tho this might be discounted as a loss to them, hence shouldn't be considered as social gain.

Suppose factors move into other work, ^{due to mono tax} is that a social loss? Take either case where factors ~~at~~ leaving taxed work just go into other work, or where other taxes are lightened. - take 2d, needn't bother

with a revenue.



((Incidentally, price line means, at x intercept, you are spending entire money on x . So x units are very small - millions of them in that space. & way beyond having any value. So indiff. curves look so.



& This means elastic demand pretty much.))

You can only get a probability I think, that society is worse off. Factors will have opportunities opened in de-taxed fields to compensate for taxed one, & it is only probable that mp is lower there - just as consumers will have some lower prices & a higher one. This opens fascinating possibility that one might figure angles & by playing them raise welfare. But it ~~requires~~ requires taxes on production &/or subsidies etc, is bad certainly, & good is problematical.

History Reveals Strange Taxes

MEN HAVE paid taxes — and grumbled about it — since the earliest days of recorded history.

More than 35 centuries ago, a cuneiform writer of Sumer in what is now Iraq, cut this proverb on a clay tablet: "You can have a lord, you can have a king, but the man to fear is the tax collector."

Taxation in one form or another went on. During the Golden Age of Bablyon, says the National Geographic Society, King Hammurabi used advanced knowledge of astronomy to figure exact time of payments.

HAMMURABI was a born internal-revenue man. When a leap year month was needed in the 17th century B.C., he had the sixth month, "Elul," repeated. An extra round of taxes, he decreed, would be due on the 25th of Elul II.

Egypt's pharaohs gathered fortunes in direct levies and tribute, as shown by graphic carvings on tombs and monuments. After dividing land among his people, Rameses the Great (1318-1232 B.C.) set up a special tax scale based on the share each farmer received.

The Bible contains many references to taxes imposed by the Israelites on themselves and to the even less popular demands of Egyptian, Syrian, and Roman overlords. Mary and Joseph went to Bethlehem at the time of the Nativity because of census-revenue requirements.

The Roman tax system as its height was all inclusive, with charges on land, property, and income, plus poll, luxury, temple and road fees.

Like other important trading nations, such as Greece, England and the medieval republic of Venice, Rome also set duties on both export and import items.

Feudal Europe struggled in a maze of assessments — church tithes, royal dues and land and traffic levies paid to petty princes and local lords.

THE ENDLESS search for state revenues has led to taxes on nearly everything people need or desire, including salt, tea, coffee, wines, furs, clothing, houses — even on water and grass consumed by animals.

MOTOR VEHICLE auto license collections are up nearly \$2.6 million, and gasoline taxes have produced an additional \$500,000. Income tax collections — not including the final deluge of yesterday's deadline — have increased more than \$2.5 million in the nine month comparisons.

Morris said there was a total of \$155,070,956 in cash on hand, deposited in banks or United States securities to Missouri's credit last March 31.

All state tax collecting agencies are watching with keen interest what effect the recession will have on their receipts. But up to this point, most of them still are filing monthly reports of prosperity.

Man Says Fireworks Was 'for the Birds'

Shooting firecrackers is "for the birds," says George Herndon, 32.

He was issued a summons at 8:03 last night for shooting firecrackers within the city limits.

Police said he was shooting them in a storeroom above Hunt's drugstore, 801 East Broadway. He said he was placing firecrackers on the window ledge to scare the birds away.

To Su

KANSAS CITY Secretary of State says President will not attend any summit with the Soviet Union.

The onetime President Harry Truman said a summit will fail unless there is more united European action.

Acheson made a speech to 500 delegates at the Jacobson Foundation Dinner last night. He was once a partner in a clothing store, and an American friend of Israel. Acheson.

ACHESON said negotiations with the Soviet Union will be held because the West must at all times be terminated . . . all proposals concerning the interests of the West.

"To involve the Soviet Union in these meetings is attached and finally he must reserve too likely to be

Parks of Columbia

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SURVEY ASSAILS STATE SPENDING BY 'AUTOMATION'

By **BOYD F. CARROLL**
Jefferson City Correspondent
of the Post-Dispatch.

JEFFERSON CITY, Sept. 25 —Curbing of steadily mounting expenditures of the Missouri State Government under the existing system of "appropriation through automation" was urged today by the Missouri Public Expenditure survey.

The survey, a privately supported fact-finding agency headed by Edward Stples of Jefferson City, pointed out that Gov. James T. Blair and the Legislature actually had complete control over only about 13.5 per cent of the \$533,903,000 appropriated for the current 1958-1959 fiscal year.

The other 86.5 per cent of the spending authorizations for the fiscal year, beginning last July 1 and ending the following June 30, are predetermined by fixed control laws and formulas, which give neither the Governor nor the Legislature full discretion to determine needs.

Blair and state fiscal agencies have established that the financial requirements for operation of all activities of the state government in the 1959-1961 biennium will exceed one billion dollars, which would require additional tax revenues.

Calls for Halt.

The survey, in its analysis of the state's immediate financial future urged "a halt in the onward march of appropriation by automation."

It pointed out five ways in which appropriations are committed in advance to a financing pattern or formula that "wholly or partially restricts the budgetary discretion" of the Governor and the lawmakers. They are:

1. Earmarking by state constitutional provisions of receipts from certain taxes, such as gasoline taxes, for specified purposes. Such controls account for 21 per cent of the total state budget.

2. Fixed controls of funds received from the Federal Government, which also sets specific conditions controlling expenditures of state matching funds in some instances. Such federal funds account for approximately one third of the state budget for a fiscal year.

3. Requirements that the state match certain federal funds, if they are to be received by the state. Such funds make up about 10 per cent of the state budget.

4. Commitments by previous legislatures as to state funds, which specify the spending formulas to be met. Such commitments account for about 21 per cent of the budget.

5. Earmarking of receipts and fees received by state hospitals and institutions for use by the state boards and institutions which collect these fees and receipts.

Some Earmarking Desirable.

The survey, in its study, conceded it was sound and desirable to earmark some funds in advance of collections, such as funds for debt service as an aid in the sale of state bonds at favorable interest rates, and earmarking of highway user revenues for highway purposes, to prevent road fund diversion to non-highway purposes.

The report urged that any further reduction of the control of the Governor and Legislature over appropriations of revenues "should be resolutely avoided."

A new budget system and trained budget staff set up on recommendations by Blair "can overcome some, but not all of the disadvantages of excessive predetermination by law of how and to what extent State funds will be appropriated," it was said.

The survey said further study of the present fiscal system would "reveal instances of needless precommitment of funds that could be corrected."

"Control over the purse strings of the state to the maximum degree possible and practical by the elected Representatives of the State, the Legislature and Governor," was recommended by the survey.

"This is essential," it was said, "if state funds are to be appropriated prudently in the

lawmaker, nor easily understood or readily susceptible to public review and change. Most economists would probably agree that many of our tax laws defy economic law. Our existing structure includes a maze of shifts of burden from one place to another, of exemptions and discriminations.

A number of the Section's members believe this Section's next task should be a reappraisal of the tax system according to these criteria to the end of proposing whatever tax revisions such study may show to be desirable. Such an appraisal is a job those who pay the taxes should not shirk.

CONCLUSIONS OF GOVERNMENTAL FINANCE SECTION SUBMITTED TO COMMONWEALTH CLUB OF CALIFORNIA FOR FUTURE BALLOT†

(Results of Mail Ballot of Section Membership Following Study of "Criteria of a Sound Tax System")

1. As to each of the following, indicate whether you regard it as a proper criterion for judging the soundness of a tax system:	Considered an important criteria by:*
a. The balancing of the relative need of the national, state and local governments. Yes 58, No 24	(20)
b. The encouragement of economic effort. Yes 67, No 16	(30)
c. Restraint on undesirable economic practices. Yes 38, No 44	(11)
d. Social and moral restraint. Yes 32, No 49	(5)
e. Neutrality as to economic or social effect. Yes 34, No 44	(8)
f. Sufficiency of yield. Yes 53, No 26	(24)
g. Ability to pay. Yes 60, No 24	(31)
h. Benefits received. Yes 69, No 15	(24)
i. Nonshiftability. Yes 49, No 31	(15)
j. Awareness and ease of understanding. Yes 77, No 5	(22)
k. Public control Yes 72, No 10	(18)
l. Acceptability. Yes 37, No 38	(3)
m. Uniformity of application. Yes 75, No 6	(27)
n. Certainty. Yes 76, No 5	(12)
o. Reliability. Yes 59, No 20	(8)
p. Efficiency of administration and collection. Yes 74, No 8	(18)
2. Do you believe that we now have a sound tax system?	Yes 12, No 67
3. Irrespective of your opinion on the above questions, do you approve the Section's proposed report as to form and content only?	Yes 73, No 6

*Members were asked to check, if they desired, five important criteria.

†A Section vote cannot commit the Club. To determine the Club's viewpoint, a vote of the Club's membership is necessary.

In Support of the Section Report

BY LOUIS J. KROEGER
Management Consultant

PRESIDENT BOHANNON: We will now call on Louis J. Kroeger, to give us the argument in support of the Report. Mr. Kroeger, management consultant, was Chairman of the Section when the study began and is Chairman of the Committee which drafted the Report.

THIS REPORT is the result of a very long study, of many sessions of the Section's Drafting Committee, and of much discussion in the Section itself. I strongly suspect that no combination of words as long as a phrase or clause has survived from the original draft.

There has been a great deal of earnest thought, of hammering out honest differences of opinion about what such a report should include.

Subject of Report Important

Three reports recently sent out by a research organization indicate how important the subject matter of this Report is. The first advises any of us who own stock how we should manipulate our stock between now and the end of the year to minimize the tax effect of our transactions.

The second advises any of us who manage corporations how we should manage division of our corporate earnings between now and the end of the year to minimize the effect of taxes on those earnings.

The third was a more general report on the economic situation which included a prediction that there would be no tax reduction next year unless a severe economic slump should make such an adjustment necessary.

Encourages Evasion

The thing that impressed me was how these three reports suggest that our present tax system encourages widespread evasion, flouting, or taking advantage of the law. The authors are acknowledging that to a considerable extent the present tax system may indeed be a severe burden on our economic system.

This relationship of taxation to our general economic well-being makes it important that we give serious consideration to the Section Report.

Sixty-seven members of the Governmental Finance Section have concluded that by the criteria offered in the Section's Questionnaire (page 57) — and most of these criteria have been accepted by the Section vote—we do not now have a sound tax system. It behooves all of us to give serious thought to what needs to be done about the tax system.

Preceded by Related Studies

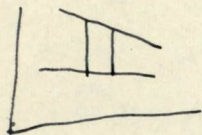
Over the last five years, the Governmental Finance Section has been engaged in a series of related studies. One was specifically concerned with the tax problems of cities—where cities must look to raise their revenues. That was followed by a more general Report on controlling expenditures in government service; we analyzed various aspects of government expenditures and hoped to find some means of curbing their spiraling effect. This Report was related to the specific, direct aspects of budget planning. A following Report analyzed indirect aspects of expenditures.

In the current Report we turned initially to a review of what would constitute a sound tax system. We found that study too broad in its concept and decided first to try to find the criteria by which we could judge tax systems.

Then came the suggestion that, as a further step, if we are seriously concerned with taxation (as the vote here would indicate) there should be a further study

all excises should go, they reduce elasticity to producer from com. demand of given class.

to do all intermed. gaps. Unless % - wide markups (but so are excises)
 If intermediary exaction is just %, should faithfully transmit com. elast. to mfr, at lower P. $\frac{\frac{\Delta Q}{Q}}{\frac{\Delta P}{P}}$ ΔP is higher by same proportion that P is higher



But with specific excises & markups, inelasticities are magnified.

Ad valorem excise increases elasticity
Problem: how to magnify general excise

A progressive sales tax, instead of progressive inc. tax.

One possibility: on all items of same general classification, eg. razor blades, excise $\propto$ rises with price? No, taxes quality, as well as mpy.

High i.v. helps, makes markups more det. by original cost than specific handling charges.

Mpy in retailing means mfr $-\Delta P \rightarrow \Delta$ mgn for retailer, not Δ volume.
(& v.v.?) No mpy breeds mpy. A little push either way has big repercussions. We are on fence now, system almost works ok, needs to be pushed right way.

→ All excises should go, even ad val. For anything that adds to gap between seller & buyer lowers elast. to seller, because relative ΔP are greater to him than to consumer --- even if absolute ΔP greater to consumer.

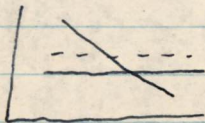
People are very free about asserting certain taxes are passed on. Union Oil Co, SF Chronicle, p. 28, Mon Aug 11 '52, asserts that corp inc tax, sales & excise taxes, social insurance contributions, & property taxes, are all passed on.

Property taxes "(If a family rents its home, farm or apt, it may not pay all these taxes directly. But it pays them indirectly, for the landlord has to include them when he sets the rental price.)"

Fed. Tax Policy for Ec.
Growth & Stability

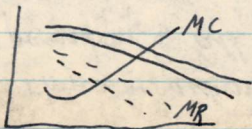
Jt. Committee on the Ec.
Rept Nov. 9 '55.

If taxes are in fact all passed on to consumer; suggests competition among suppliers, & elastic supply.



Or else that firms act like competitors, even if not, & sell at 'cost' (but including in this 'costs' det. by price, i.e. rents)

A monopst wd absorb some tax:



To those who assume taxes are
100% passed on, & all is mnpy, are
inconsistent.

Taxes on ostentation goods can be passed on 100%, since demand is inelastic.

Hence won't discourage production.

Many taxes on production work out for this reason. Luxury taxes. & Monopols of ostentation production -- diamonds, haircuts, music. Even income is ostentation to many, & demand for income in terms of

effort is of unit elasticity,
so you get same amt of
effort expended, despite
tax -- even more, by
some.

This ostentation effect
is quite beyond 'income
effect'.

25 PER CENT CEILING ON TAXES?

It Could Come—What It Will Mean to You

If a 25 per cent ceiling on federal taxes becomes law:

Individuals with high incomes will get big tax savings.

Big corporations will pay about half the present tax rate.

Government will have to cut spending, or find new tax fields.

Peacetime rearmament may have to rely on borrowed funds.

Here are the facts about the proposed lid on U. S. taxes.

There is a real possibility now that the U. S. Constitution will be amended to fix a 25 per cent limit on the tax that the Federal Government can impose upon the income of any person, the profit of any corporation, or the proceeds of any estate or gift.

That possibility—and the vision of a 16-billion-dollar annual loss in federal revenue—is causing concern in the new Republican Congress.

Already, some 28 State legislatures have passed resolutions demanding the

tax limit. If 32 States act, then Congress will be required by the Constitution to submit the 25 per cent Amendment for ratification by the States, or else call a constitutional convention.

Actually, at least eight of the 28 State resolutions are being challenged on legal grounds. Yet the demand has been approved by one house of four other legislatures and will be pushed in many State assemblies that meet this year. Just how this campaign can work out is explained in detail on page 50.

Opposition to the whole idea of a rigid tax ceiling is widespread. A showdown may be delayed for years. Even so, Government tax authorities are evidencing concern. They are looking into the question of what will happen if such a ceiling is forced on the Government.

Effects, as uncovered by these authorities, are these:

Tax revenues of the Federal Government will be reduced drastically by a 25 per cent tax limit.

Corporations, in income and excess-profits taxes, will pay 13.5 billion dollars less in a year if the amendment is adopted—provided their income is as high as it is now.

Individuals will pay 2.7 billion dollars less in income taxes.

Estates and gifts will be taxed 143 million dollars less than they are now.

Federal Government, for its part, will find these revenues dropping from 58.1 billions now to 41.8 billions—or by 28 per cent—on the basis of estimates made by the U. S. Treasury Department.

What all this means, in the official view, is a national sales tax of at least 10 per cent on everything, including food. Government, it is explained, will have to turn to a sales tax in order to get the money it needs.

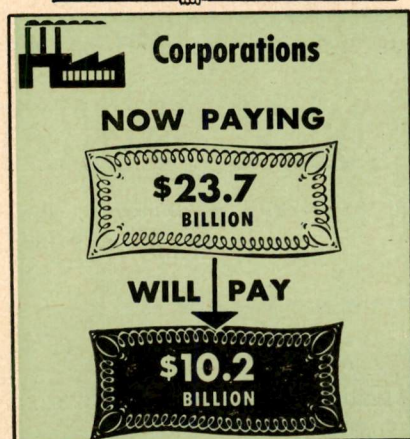
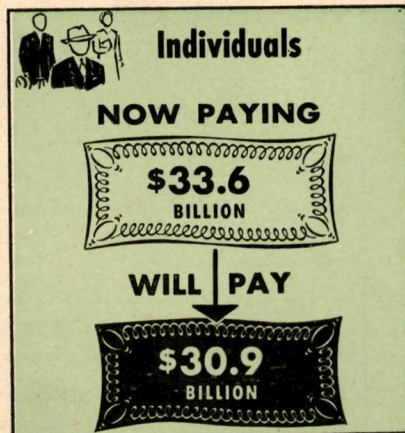
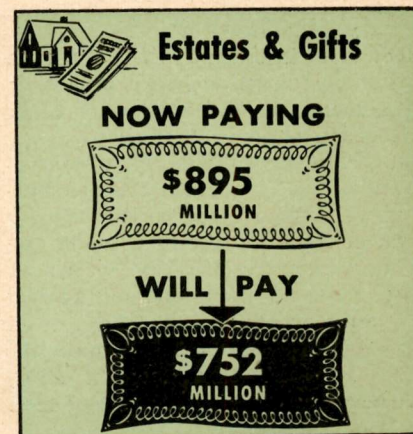
Those who favor the proposal, on the other hand, deny that a sales tax will be necessary. The whole idea, they point out, is to cut Government spending, to force Government to give up some of its scores of programs.

As official planners see the proposal, it also means an end to the "safety valve" provided by present taxes. As rates now are fixed, they say, a business recession causes an automatic drop in tax payments. That stimulates private spending. As prices and incomes rise, the tax take rises even more rapidly. That, according to theory, discourages inflation.

(Continued on page 88)



If Taxes Stop at 25% . . .



Total tax saving: \$16.3 BILLION of which corporations will save



Based on estimates by Tax Advisory Staff of the Secretary of the Treasury

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U. S. NEWS & WORLD REPORT

... Changes in Taft-Hartley may advance AFL interests

There still was a possibility that the CIO might get one of the four assistant-secretary jobs in the Department, but this was not enough to restore CIO's prestige.

The future doesn't look good for CIO, in terms of Washington influence. Where CIO formerly received White House blessing for wage demands, it now could expect Ike to remain aloof, or even to encourage employers to resist.

AFL's influence, on the other hand, is likely to grow. The AFL may be able to get some of its ideas written into the Taft-Hartley Act amendments. AFL may get a break through amendments



—Harris & Ewing

CIO PRESIDENT REUTHER

... second fiddle?

that will help it and hurt the CIO, with its industry-wide unions. AFL may have more influence in the writing of other labor legislation.

The CIO is more vulnerable to injunctions under the Taft-Hartley Act's emergency section than is the AFL, and CIO may be in court oftener than under the Truman Administration. This section of the law allows 80-day injunctions against strikes affecting a vital industry, or a major part of it. The CIO calls more industry-wide strikes than does the AFL, which bargains more on a plant or area basis.

Attempts to bring about a merger of CIO and AFL probably will be set back considerably by these developments. If AFL retains a favored spot with the Eisenhower Administration, and CIO remains out in the cold, the AFL is not likely to hurry into an alliance.

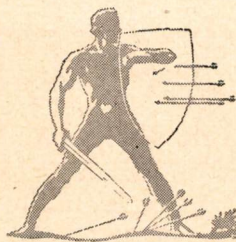


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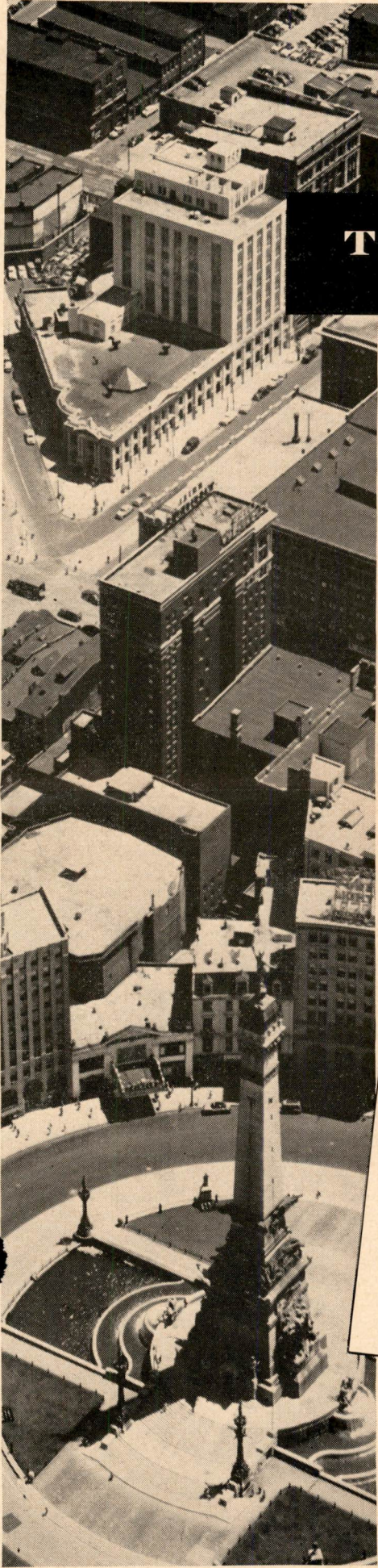
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December 31, 1952

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U. S. Government Securities . . .	167,012,792.78	
Other Bonds and Securities . . .		26,528,019.37
Stock in the Federal Reserve Bank . . .		645,000.00
Loans and Discounts . . .		88,631,507.91
Bank Buildings . . .		2,000,000.00
Accrued Interest Receivable . . .		933,664.76
Customers' Liability under Letters of Credit . . .		599,037.38
Other Resources . . .		286,332.97
		<u>\$411,197,976.91</u>

Liabilities

Capital . . .	\$ 6,500,000.00	} \$ 27,576,478.29
Surplus . . .	15,000,000.00	
Undivided Profits . . .	6,076,478.29	
Accrued Interest, Taxes and Other Expenses . . .		1,774,585.36
Dividend Payable January 2, 1953 . . .		227,500.00
Deposits . . .		380,358,664.94
Unearned Discount . . .		575,513.95
Letters of Credit Issued . . .		599,037.38
Other Liabilities . . .		86,196.99
		<u>\$411,197,976.91</u>

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THE COLUMBIA GAS SYSTEM, INC.

The Board of Directors has declared this day the following quarterly dividend:

Common Stock
No. 74, 20¢ per share
payable on February 14, 1953, to holders of record at close of business January 20, 1953.
DALE PARKER
January 8, 1953 Secretary

Finance Week

Family of four would not gain by ceiling on tax unless income went above \$20,000 level . . .

It is this safety-valve action that tax officials expect to be knocked out by any 25 per cent ceiling.

Other effects, too, are predicted for the proposed tax lid.

Huge tax savings to be realized if the proposal becomes law will go almost entirely to bigger corporations and to individuals with higher incomes.

For individuals, the 2.7-billion-dollar melon will go to 1 per cent of the country's 42 million taxpayers. These are the upper-income persons who now pay an over-all rate of more than 25 per cent on their incomes. This Treasury estimate assumes that the ceiling will be in the form of a maximum effective rate on incomes figured after deductions.

For single persons, only individuals with incomes above \$8,000 will benefit from the proposal. Married couples with two children will need more than \$20,000 to share in the cut.

For higher-bracket taxpayers, the windfall will be substantial.

A single person getting \$100,000 a year, after deductions, will find his tax reduced from \$69,688 now to \$25,000. He will save \$44,688, or 64 per cent of his present tax.

A married couple with two children and an income of \$500,000 a year will see its tax reduced from \$411,224 to \$125,000. With this 70 per cent tax reduction, the couple will keep more than three times as much income as now.

That, at least, is the picture of tax cuts that the U. S. Treasury shows for the 25 per cent tax ceiling.

For corporations, an effective ceiling of 25 per cent on income taxes will have these results:

The present 30 per cent "normal" rate on the total amount of net income received by all corporations will be reduced to 25 per cent. That drop already is scheduled in law for April 1, 1954.

The 22 per cent surtax on all corporation income above \$25,000 will be wiped out by a 25 per cent ceiling. This is Government's really big money raiser.

Excess-profits tax—now 30 per cent of so-called "excess" profits—will be killed by the ceiling, if adopted. It is scheduled to die next June, anyway.

Tax-saving melon expected by corporations under a 25 per cent limitation will be cut like this:

A small corporation, one making \$25,000 a year in profits, will save \$1,250 per year under the amendment. Actually, this tax cut—about 16.7 per cent—is one that small corporations will get before long, anyway.

A larger corporation, earning \$100,-

000 a year, will find its taxes dropping by \$21,500, or by 46.2 per cent.

A still bigger corporation, one clearing 1 million dollars a year, will get a tax cut of \$264,000—about 51 per cent.

All corporations earning at least \$300,000 a year will get a tax reduction of at least 50 per cent. At the maximum, a corporation paying the top income and excess-profits tax rates will get a 64 per cent cut in its taxes.

Estates and gifts will be affected far less than incomes. Exemptions are so high that only about 1 per cent of the estates passed on by individuals are subject to any federal tax. Big estates, though, will benefit.



—Wide World

CHAUNCEY REED

. . . time to put on the lid?

Tax on a single person's 10-million-dollar estate, for example, will be reduced 2.4 million dollars, or by about half, under the proposed ceiling.

A married person, using the benefits that go with income splitting, will have to leave an estate of more than 20 million dollars if his heirs are to share the tax cut.

As for gifts, the proposed tax cut will begin to take effect at even higher levels than for the estate tax.

Other effects of a 25 per cent ceiling also are being turned up.

Graduated income tax will be all but dead, if the ceiling is adopted as proposed. Rates will start at around 22 per cent on low incomes and rise to 25 per cent. If Congress reduced rates on low incomes, to keep the graduated-tax principle, revenue loss would be still greater.

Hi progressive inc. tax means those
with hi outside incomes do not
consider given assets so valuable as
do those with lesser incomes. —
yield them less after tax. So
they sell to poorer for cap. gain.

Thus hi tax tends to distribute
land etc. more evenly?

Pigou.

Would make marg. sacrifice of taxes eq. to all indiv. - (assumes marg. utilities are commensurable, implicitly) But would assume all taxpayers have some 'compensumt', so princ. of eq. marg. sacrifice says tax to equalize all inc. absolutely. This is what he would conclude if 'announcement' problems ruled out - i.e., if effects of tax on behavior assumed away. But taxing rich reduces savings, hurts future, by reducing cap. compl. & taxing poor hurts their efficiency. So tax middle group! (ugh)

All reasoning is on basis of individuals, not things.

Rolph has a peculiar concept of "shifting". By tax "shifting", I mean raising the selling price of the taxed article including tax, i.e. adding tax to price. Rolph means increasing gross receipts of taxed industry. (whenever shifting is discussed, mention this, mention that I am speaking of shifting in conventional way) Thus if demand for an industry were of unit elast. or more, the tax could not be shifted, for consumers would spend less on the product, regardless of price, regardless of how much price rose. So determining factor to Rolph is elast of demand.

About analyzing effects of taxes & assuming an increase in govt. expenditures corresponding: let us admit that you can do it either way. Is no reason for saying one way right, other wrong. Just so you recognize what you are doing. I imagine Rolph would agree.

Both Black & Goode have pointed out that when income taxes do not reduce income of individuals because services given back free, that you reduce supply of resources offered for money. Which is very straightforward & obvious, really. When earning money is no longer the means of acquiring satisfactions, people cease to bother to earn it. Other means of making them work must be found. Which is an old but Goddam true observation. On which I could write an interesting study, comparing money incentive system with alternative incentive systems.

Rolph's argument that interferences with freedom are ok because they may counterbalance other interferences is not 100% wrong. E.g., if you tax non-monop. products, force resources into monop. industries, they may produce things of more value there, even tho they get less returns. But, as a practical matter, to say that the chances are just as good that interferences will balance out requires tremendous proof. Offhand, seems to me at least a 9-1 chance that you will cause further distortion. Indeed, to ~~xxxxxxxxxxxxx~~ say that the discr. tax might improve allocation is to say that it would be part of an overall system that was less discr.

His other argument, that taxes are not really taxes, is just hogwash.

Rolph says that intermediate services of govt. are small. I imagine they are very large. Outweighed by military, to be sure.

Rolph on incidence of single commodity tax.

His motive, I believe, is the usual combination, to upset the apple cart and be conservative.

His assertion: single commodity tax is a burden on factors, not on "consumers".

His argument: the loss of cons. surplus due to higher price is offset by the lower prices of other things the resources produce after being displaced from this field by the tax. (which is wrong because the other things they produce will be less valuable)

Besides which, the distinction between consumers in general and resources (producers) in general is meaningless. Except for individuals living off assets.

He speaks of the loss to producers in competing industries into which the displaced resources go as part of burden of tax, as "sideways shifting". But this is not burden or shifting, as it has nothing to do with paying tax. It is just an incidental effect, a redistribution of income among individuals due to the movement of resources occasioned by the tax. Of course it is of interest, for the burden of a tax is the final net loss of income caused by it, and to complete the analysis we would have to add up all the gains & losses to each individual.

The more elastic are demand and supply, the less tax is collected, for the more resources and consumers leave the industry.

Rolph says the loss is all the producers', not the consumers, because the consumers can buy other goods cheaper now. In first place, this not strictly true, as shown; in 2d, is no more reason to say this than to say that producers are just as well off because there is now more demand for their services in other industries -- which there will be unless demand for taxed item is inelastic, & in that case burden is obviously on consumers.

Rolph's method of assuming taxes independent of expenditures abstracts the excess burden of tax. For, as it is not really a tax, but just a means of reducing money in circulation, only net burden is effect in distorting allocation.

The truth, is, of course, that those who are closely bound to the taxed commodity, either as producers or consumers, will bear the tax, while those producers & consumers who can escape will not bear it. Rolph supplements ~~xxxx~~ the straightforward analysis in terms of s & d elasticities by observations on effect on other prices. He observes that suppliers moving outwards will lower prices elsewhere -- but not that consumers moving outwards will raise them. So he fails to handle case in which demand is elastic.

More than that, involved in his reasoning are two basic assumptions that foul up everything: first, that taxes are just money collections, not matched by expenditures, for analysis; 2d, that allocation is already distorted, that taxes have as good a chance of improving allocation as distorting it further. Using these two assumptions, he reasons that consumers are no worse off because the new goods may be worth more -- tho this is obviously false, for if they were the resources would already have been producing them; and that producers are much worse off, because demand for their products has declined, because the govt. doesn't spend the money it collects.

IV ~~Processing of Evidence~~

In my analysis I would not use these two assumptions. I would assume an increase in govt. spending equivalent to the tax, as otherwise it is no tax. Of course you could reason w/o ~~xx~~ it, in which case you have abstracted excess burden, and, in addition, you have assumed deflation, which means a windfall to holders of money, Rolph's "consumers", and that is one reason he gets no burden on consumers. But he doesn't explicitly state this. He has just as many resources working for consumers after the tax as before, just differently distributed.

Could expand on this indefinitely, but have enough for any exam.

Summary of my stand on Musgrave

Musgrave tries to show that corporate proportional income taxes with full loss offsets will not reduce investment. On grounds that it is simply a question of how you are going to hold your assets, not of how much assets you will have, that the main deterrent to real investment is "risk", that inc. tax with offsets gets rid of risk, hence encourages investment.

Even if this were true, the shouldering of risk by govt. would result in people's taking uneconomic risks. Indeed, even if it is not true, this holds. Loss offsets means a distortion of capital allocation because the incentive not to lose money is gone, or reduced, so managers will not put themselves out so much to prevent losses. & govt. will have to step in to direct allocation to prevent gross waste.

Anyway, as to holding assets, when returns from inv. in general are lower, you hold more assets as money; and you tend to live on the assets you have, instead of investing them again. This is explicitly stated in Somers' expression of alternative ways of holding assets, one being consumption.

Besides, investors also have other sources of income, or most of them do. Musgrave's argument is based on the assumption that a lower income due to lower yields causes ~~xxxxxx~~ an increased m.u. of income. But this increase may be negligible. We do not ~~xxxxxx~~ determine m.u. of income by the size of our income, but by the am't of our assets. If we already have large assets, changes in income have negligible effect on m.u. of income to us. If we do not have assets, chances are we work for a living, and property income is negligible to us, so again reduction of yields does not ~~xxxxxx~~ increase m.u. of income much.

Musgrave argument applies to your choice between different kinds of investments. But not to investment in general. Is a suggestion in it that you will tend to hold less of your assets as money, more as other things, thus increase real investment. This overlooks basic pressure that, as implicit yields from money not taxed, while explicit ones are, you tend to hold more money. Besides, is some question if, by shifting assets from one form to another, you create more assets. Investment occurred when you accepted money. When you buy another asset with the money, you are giving someone else a chance to invest in the money, but they have that chance anyway, and if they do not wish to invest in the money they pass it on -- still, tho this increases V & money commands no more assets, the assets have been created, so

perhaps you have created more assets. Anyway, is question about it, something to write about.

Further criticism: Musgrave assumes the only deterrent to investment is risk of loss. But if that were so, distribution of anticipated yields would center on zero. ~~Isxaxfwrkxx~~ - well, only if that much inv. were called forth so productivity of cap. were zero. But if only deterrent were risk, that much WOULD be called forth, no effort. As capital gets a price, must be further deterrent. This not reduced by lowering income much, etc.

Springs from Keynesian bs that only sacrifice made by investor is parting with liquidity. There are, of course, individuals, and amounts of saving, which require no return. But the amount of investing which the economy gives yields to requires yields to call it forth. And if there were no yields from investing, there would be no point, social or individual, for investing. Except to prevent deflation, and this can be handled other ways.

Cary Brown recognizes there is a deterrent to investment. So he says the effect on investment of the proportional corp. income tax is offset only if you both offset losses and also let the investment be deducted from tax in the year made, which amounts to exempting the income from the investment from taxation. Because otherwise you would subtract amortization over earning lifetime of asset. This way you get that offset to taxes right away, get interest on it.

Further thought on Musgrave: when you reduce people's incomes, they have less capacity to invest.

Putting basic criticism another way: people expect gain to exceed loss; hence loss offsets do not compensate for the tax.

Besides, people like risk. In sense of risk of gain. Risk of loss they don't like so well. But if define risk as dispersion of anticipated possible future yields, they like it.

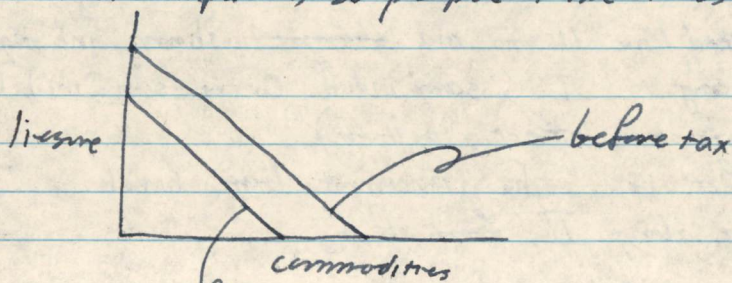
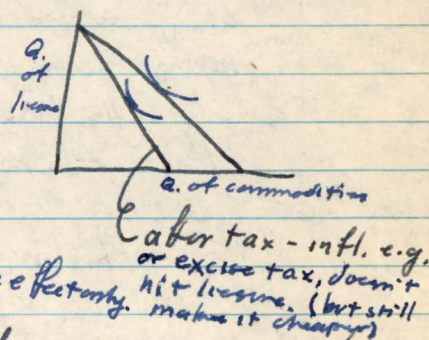
Rolph uses some graphs to illustrate points. Typically, he uses them to bolster something that is obvious w/o them, & spends too much time on these non-essentials. He puts risk on ordinate, yields on abscissa, individuals have preferences of combinations of risk and yield. But with a tax, they prefer more risk per yield before tax.

When you spend money, you are merely taking possession of goods to which you already had title, which you already created. You are not investing. You may be causing others to invest more than they otherwise would. You are making others hold more cash. They may just sell you existing goods for it. It is probably more likely that, in response to your action, others would simply change composition of their assets, rather than total. For alternative is they should increase their assets, produce more than they consume. But don't get into this too far or deep.

Rolph, Oct. 17

- ✓ Joseph, Excess Burden of Indirect Taxes, R.E. Studies, June '39, p. 226
- ✓ Stigler, Theory of Price, p. 81-2
- ✓ Hotelling, General Welfare in Relation to Taxation & of Railway & Utility Rates, Econometrica, vol. 6, July 1938. See Apr. '39 for disc.

Flat ~~tax~~ unconditional taxes reduce ability to buy leisure, but also to buy other things. But if you did no work before, you must work now to pay tax. In S. Afr., they put poll tax on natives, to make them work. Their ability to buy leisure is impaired, but marg. returns from work not impaired, so people take less leisure, as well as less other goods.



1 Knight said ~~after tax~~, utility of all goods greater can buy less of everything, including leisure.

1 Robbins said, with tax on work, leisure is cheaper.

— If govt. takes more (w/o returning it) people get less. They work harder, as they can take less leisure. - if leisure price unchanged.

? Robbins treated tax as - ΔY , which Rolph says not permissible.

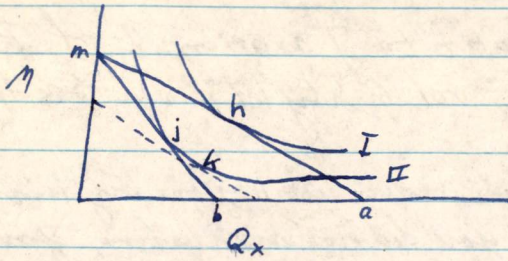
✓ In Robbins case, goods were more expensive in terms of effort. This is same as a tax. Changes price of leisure. If govt. finances by inflation, this lowers living standard, & also lowers price of leisure, & it depends on elast. of demand for inc. in terms of effort.

(Nowadays, Robbins says taxes make you work less.)
Get a subst. effect, making you work less; & inc. effect, making you work more. ~~Leaving inconclusive~~
— 'can buy less leisure' 'substitute leisure for goods'

With inc. tax, is conclusive? Is infl. same as inc. tax?

Inc. tax, announcement effect is to make you take more leisure, since that form of income not taxable. (This is the subst. effect, no?)

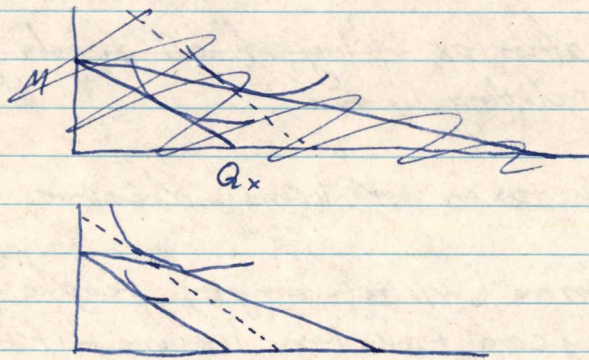
A review of just what is meant by inc. & subst. effects.



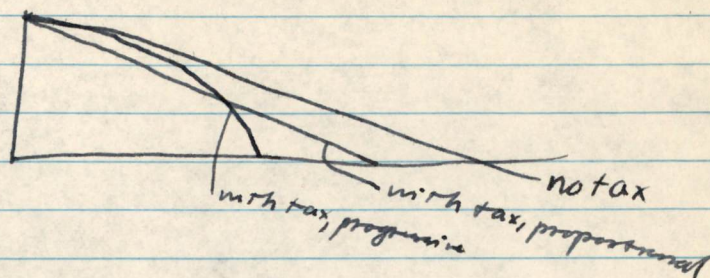
Price rises from a to b . Consumer moves from position h to j . The inc. effect is ~~that~~ the movement to indiff. curve II if relative prices unchanged. The dotted line h to ma ~~shows~~ shows inc. equivalent to what at j , where it is tang. to II (same indiff. curve, same inc.) (it is perhaps a poor name. 'Level of satisfaction effect' better.)

The 'income effect' is $\therefore$ the movement from h to k . The substitution effect the movement, along II, from k to j .

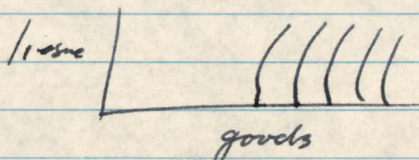
This works backwards too, when P_x falls:



Progressive inc. tax:



There may be people with indiff. curves like this:



Who work as much, despite tax, won't take leisure regardless. Ralph has these curves set up on axes. That 12 hrs/day of work is working with no leisure. Actually he can't do it — actually you may sometimes work > 12 hrs, & inc. effect may sometimes outweigh subst. effect & make you work more.

Progressive inc. tax raises level of lower groups absolutely, because upper groups have less to spend.

Effects summarized:

1. Price effect — rich work less
2. Redist. effect — rich work more, since they become poorer. (inc. effect)
3. Poor, not taxed, but prices lower, work less. (sociological exception: steam boiler theory of wages — very poor work better when better fed)

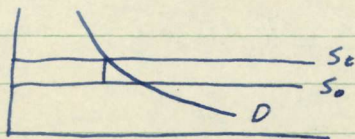
Rolph, Oct. 22

Leone old typewriter in Ciam., take notes!

- ✓ A. Henderson, 'The Case for Indirect Taxation', ECJnl, Dec 1948
- ✓ Rolph & Break, 'Welfare Aspects of Excise Taxes', ~~AEJ~~ JPE, Feb 49
- ✓ Demar & Musgrave, 'Prop. Taxation & Risk Taking', QJE, May '44

Common argument: excise taxes are regressive & bad.
This assumes tax is shifted - [which means lower rates of return caused to buyers.]

Classical indictment of excise taxes because (they add to mc & reduce production) consumer surplus is reduced, by triangle.



Doctrine of 'excess burden'.
Assumes tax added to price.

Govt. gets rectangle, individual loses rectangle plus triangle.
Rolph skeptical of cons. surplus argument, based on ass. of const. marg. utility of m , R. says if you had spent more on previous units you would be ready to spend less on remainder. Doctrine of consumer surplus justified on ground it shunned 'excess burden'.

Hotelling. Concerned with welfare ec., with misuse of resources. Should have $p = mc$, even if incur losses.

Toll bridge. $MC = 0$, should be no toll. With r.r.s, price should just cover mc , not fixed costs. Whether it should have been built at first is another question, to H. (a bridge & r.r. are monop., competitive pricing won't work right)

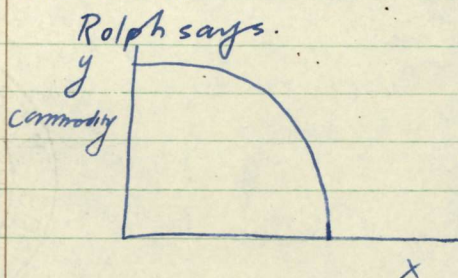
Frisch criticism of Hotelling - & made him swallow it - that ^{relative} prices be proportional to ^{relative} mc , not =. Price might be twice mc , e.g. This is still argued, is proportionality sufficient. ~~For~~ If all monop., could keep relative p same, reduce output. ~~relative~~ So, I say, relative prices not adequate basis of reasoning.

Proportionality argument is saying relative p , not relation of p to mc , is relevant.

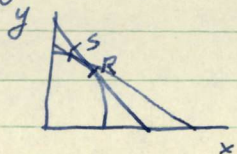
Case for progressive taxation: equitarianism.

Stigler argument in taxation is based on idea that you are distorting his choices, & this causes extra burden.

Frisch says ~~only~~ argument doesn't hold if everything subject to excise tax.



Line shows all possible combinations of resources 2 commodities with given resources.

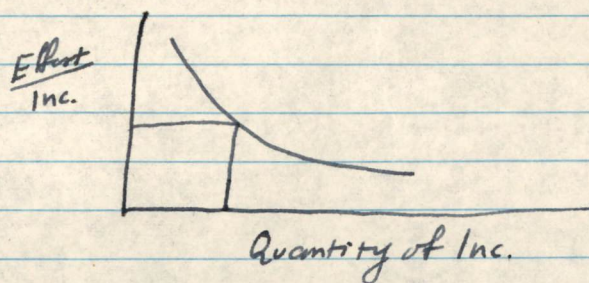


New tax x , lowers amt of x produced. Move from R to S, on curve (not line). If tax y the same, no change, output unaffected. Prices to consumer unaffected. - except leisure & saving not taxed, will get more less production. Henderson talks about this.

Rolph never adds taxes to costs, but treats as reduced prices. Tax lowers price you can get. But, if all commodities taxed, opp. costs lower, costs lowered as much as P , so production not changed. (but leisure not taxed) Even aside from leisure (which is why must have equality, not just proportionality). No excess burden. ~~Along~~ Excise taxes do not ~~reduce~~ reduce production & raise price, no excess burden. (if they don't. But, like all conditional taxes, they do reduce production)

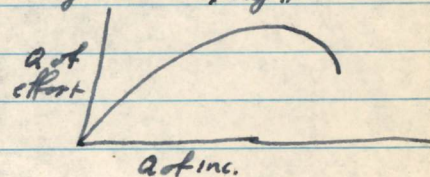
Stick with that marginal vs. intra-marginal conception. It covers situation.

Robbins, On the Elasticity of Demand for Income in Terms of Effort
from *Economica*, 1930



This a clumsy formulation, since what we want to know is amt of effort resulting. But that is product of 2 co-ordinates, just as with any price, which is simple enough. More direct to just say 'Will people do more or less work as ~~the~~ income rates rise -- wage rates really? (Must treat all factors of production distinctly. As prop. land inc. rises, owners will demand labor less, e.g.)

Robbins also uses, & prefers "integral apparatus":



Pigou & Knight claim it is a formal, a priori, necessity that at lower wages, or higher taxes, people work harder. Robbins says it is purely a posteriori, will analyze Knight & Pigou. Their arguments based on dim. marg. utility of inc. Robbins agrees that additional units are less valued, but not that the effort-demand for inc. declines so rapidly that elasticity is < 1 .

Knight says if you earn more, your p.p. As, you will buy more leisure, just as other things. (but leisure is now more expensive) Or, as Robbins puts it, other things are cheaper in terms of effort. - he also puts it the other way. It is a question of elasticity, finally.

Pigou says if you take away income you make further units more valuable, make people work harder. (ignoring that they get less for their work.)

Rolph, in ass. no expenditure corresponding to tax, is in effect assuming no burden from taxes at all. (Even on this ass., is an excess burden from more taxes, for they make a burden where was none.)
Rolph & Break, The Welfare Aspects of Excise Taxes. JPE, Feb. '49

Discussing the Joseph indiff. curve argument about indirect taxes. Two main criticisms: 1., Taxes in general do not make people worse off, because there is less m to spend, they simply lower prices and the same output is put out. (but people will not produce as much as before if m demand is less than m costs of production. And alternative to this is assuming govt spends the m it takes in in taxes, which Rolph evidently is avoiding)

2., involves ass. that resource allocation was ideal before the tax. But if it was not, tax might just as well make it better as worse. (a poor argument, for it implies you can improve society by changing the symptoms of evils, rather than the causes) (Same thing Frisch erroneously tossed at Hotelling. Frisch & Rolph in this represent blind reaction to constructive ideas, have nothing of their own to offer that is constructive)

(as to 1, they also ignore that with increased income you save more, hence prices will not ~~rise by full amount of increased income~~ fall by full amount of reduced income. Except that since the reduction will be only monetary, if prices do fall, real incomes will not have fallen and saving need not fall)

The released resources will be used to produce other things, and these things may be worth more to society than the things not produced he says. (this obviously not so for, if they were, resources would have been producing them before the tax)

1. In making this argument, Rolph is implicitly assuming that taxes are independent of expenditures of govt., hence that taxation has same effect as not-spending, that prices will fall due to taxation. In short, that govt. will not spend the m it raises by taxation. This is obviously irrelevant. We must start out by granting that some revenue is going to be raised by some method, and are comparing the methods. But if govt. merely squirrels the tax m away, it has not raised any revenue in real terms, has not taken anything real from ~~the public~~ the public, has just lowered price level. Rolph takes these chicken shit arguments just to get something in journals I think, just to look as tho he's making a point. He should be very explicit in saying he's making this rather odd assumption.

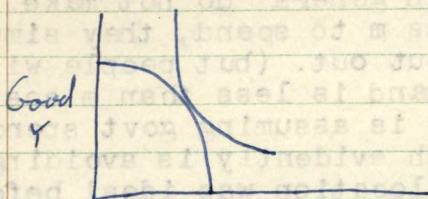
But he does say that this doesn't really hurt argument that there is excess burden.

He gets supply picture onto indiff. curves by putting on his "compound-production curve" onto same map. Tangency of it with indiff. curve is pt. of max. welfare. He also has a price line going thru here, tangent to both curves. Then, with tax, price line moves steeper, is tangent to an indiff. curve at new intersection with production curve, but not tangent to production curve. But the production reached must be on this production curve, so this is where new production will be, and is on a lower indiff. curve. (what about former method of determining pts.?)

They are careful to point out that this only holds if original pt. of eq. is best. (seems to me even if it not best, excise tax likely to shift you farther from best); and that a uniform excise tax would produce no shifts of resources.

Says allocation improved by excises on things not sold at ~~competitive~~ monop. prices, forcing people to buy from monops!

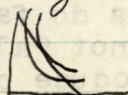
Excise taxes may be good on things rich buy, a subst. for inc. progressive tax. But people who produce luxuries may be injured, so dubious. In general he is not so much for excise taxes as against certainty. He likes to leave things up in the air, in his articles as in his classes.



Good X

Assume society can only buy what it produces; & that all factors will be used, regardless, along compound-prod. line.

Equilibrium where price line is tangent to indiff. curve. Where marg. rate of substitution = prices.

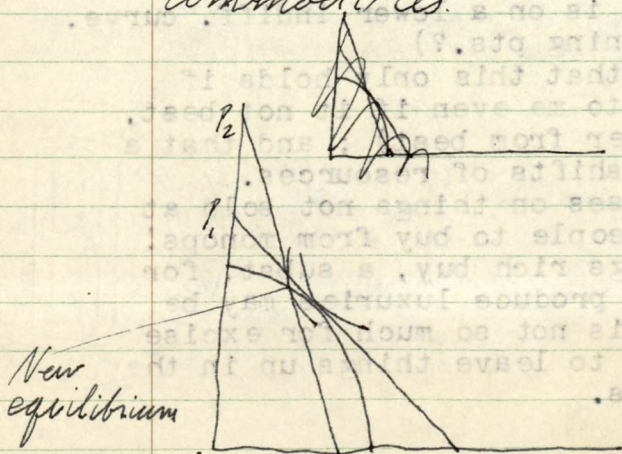


For on any other indiff. curve you can get to a higher by changing ~~the~~ composition of purchases.

At same time, these purchases in mass, affect prices. So price line shifts its slant. Slope of price line is simply slope of composite production curve at point where you are. So wherever you are (with no tax) price line tangent to composite production line. But with a mono. tax, prices cease to be an index to costs, do not represent relative value of alternatives, & price line ~~then~~ no longer tangent to composite prod. curve.

Prices no longer proportional to MC. Will still get equilibrium where prices prop. to m.u. -- ~~more~~ meaning by price the price to consumer - if we meant price to producer, analysis opposite. & equilibrium will also be where price line tang. to indiff. curve on production curve

Loss would be represented by diff. of 2 indiff. curves, one that you are on, other you would be on if tax were on both commodities.



Price line will keep rotating, (never tangent to prod. curve) until reaches eq. as shown

same with Joseph argument.

Basis of Marshall argument vs. excise taxes is that production will be reduced. Rolph is right in pointing out that the displaced factors will produce something else. But he should say that the other things they produce will not be as valuable as the things from which they were displaced. This, it seems to me, is the argument vs. discriminatory excise taxes. And not Joseph's geometry. From the demand side, consumers will have confronting them higher prices for something they want more, and lower prices for things they want less -- which is a less clear way of observing the same thing from the other side. The argument is clearest from the supply side. It is the same as the argument against any barrier to the free mkt. Factors are kept from moving where they will produce the greatest human satisfactions. over

A system of perfectly proportional excise taxes, i.e. that did not change the proportions of prices, would not distort allocation of factors among different work, but only ~~among~~ between work & leisure.

In analyzing taxes on work in general, they tend to cf. them with no taxes, and get inconclusive results as to effects on supply of work. ~~But~~ They shouldn't, the conclusions are pretty clear I think. But in any event, they should rather be cf.ing them to alternate taxes, esp. to taxes that are not conditioned on work. Such taxes take away money and thus have all the incentive effects of other taxes, but they do not lower marg. returns to work, thus have none of the detrimental effects. A very clear case. But no one has pointed it out. Something for me to do. Is pretty easy to do. Another article for Am. Jnl?

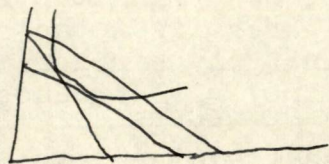
I do not think, then, the argument vs. excise tax can be based on loss of cons. surplus. For the displaced factors will go into other production, and may create as much or more c.s. there as in what they left? No, for in where they go they will be scattered & applied on the margin, while that from which they were driven, their productivity was higher -- non-tax productivity -- by the amount of the c.s. at that point -- the c.s. and the m. productivity arguments then merge? No, they are additive. The mp argument refers to the depth of the s curve below price, ~~refers~~ i.e. to producers surplus. The other to the part above price. The discrim. tax takes factor from producing something of greater value, of which he can also produce a greater amount, and puts him elsewhere at margin. Both these can be stated w/o using the controversial ideas of cons. & prod. surplus.

The sort of argument ~~like~~ Frisch essayed, that ~~price~~ base prices don't mean much anyway because already affected by other inst. imperfections, is further wet because it means, if carried to logical conclusion, that prices mean nothing, that economics means nothing, is no point in economizing on anything.

The Joseph indiff. curve approach has the disadvantage, among others, that supply is not shown on same graph with demand, so only the loss of cons. surplus is shown. (if that) (Hicks has c.s. as diff. of what you do pay for an amount, and what you would pay for it. This is a diff. concept -- as he states -- from c.s., which is not what you would pay for the whole am't, but for each unit taken separately going down the curve. And I don't see why Hicks concept is any more useful)

*article
potential*

Joseph's argument, recall, rests on ass. that displaced factors do not go to work anywhere else.



P_x rises because factors move out of producing it -- there is the assumption of fewer factors -- & no account taken of what they do elsewhere. They would lower prices of other things, & thereby raise y-intercept of price lines which represent, after all, not nominal money, but what money will buy. Leaving indeterminate result

Hotelling says that mc should $eq.$ p , in all cases, or rather that price charged should $eq.$ mc , and implies this is not always followed. Seems to further imply this means capital costs will not always be covered.-- without defining capital costs. This, tho well meant, leaves some important matters fuzzy.

Abstract from monop -- assume p eq marg. revenue. (H. did not specify) Then everyone will increase production until mc $eq.$ p -- it is not a question of placing p $eq.$ to mc , causation is the other way. The yields of the capital invested are the difference between those marginal costs before the final ones and the price finally for which products are sold.

P eq mc is not, therefore, a formulation which denies returns to capital.

H. was thinking of a non-competitive situation, probably with declining costs to scale too, where price is set by administrative decree, not the market. Argued that price should be set $eq.$ to mc -- without saying tho just where this equality should be est., but, implicitly, he meant that production should be expanded until such a point as prices fell, and mc rose or fell less than p , so that p $eq.$ mc . He should have stated this more explicitly. 2, that even if this price did not cover costs the project might still be justified; 3, that covering costs was no consideration in setting an administered price, but just making p eq mc . This latter idea is correct, but sounds alarming as stated. (Hot. was at fault in writing with the fervor of a socialist in condemning the price system, when he should have been more accommodating to those he was alarming, presented this as an amendment to what they already knew, rather than as a triumphant argument over prejudice.) For it sounds as tho he would overlook costs in planning projects also, but he wouldn't. He would use cap. such that it gave highest yields, as he defines yields. But once the cap. existed, then only mc would count. Besides this, he would subsidize declining cost industries, and that is dubious. Why should they merit special favors?

Anyway, the main point is that Any monop. should act like a competitor, i.e. charge p $eq.$ to mc , or increase production until mc $eq.$ price. The only reason a monopolist would do otherwise would be, not to "cover costs", for he is out to get as much as he can in any event; but rather to exploit a monop. position, to consider mr & mc rather than wage & price. (Hotelling didn't consider monopsony position, used mc like cost of factors). But it is argued that x r.r.s etc. should exploit that monop. position to increase total revenues on grounds they ought to cover their fixed costs. And H. argues vs. this, rightly. This is a radical new principle for setting rates of p.u.s, lowering them, and taking up the excess by site taxes. A phenomenal suggestion -- and no one knew what he was talking about, and negative minded Frisch & Rolph carped at him.

(note that anything which is a monop. by nature creates lots of ec. rent, because of falling demand curve. Hence is a natural subject for public ownership, subsidy thru taxation where nec.)

I don't see this argument that prices need only be proportional to mc , instead of equal. (i.e. that prices should bear same proportion to each other as mc to each other) For if mc all exceeded p in same proportion, still you would be producing too much of everything. Maybe all they said was that excise taxes were ok if they didn't chang the proportion of p to mc , and that is another matter, involves a tax, is ok.

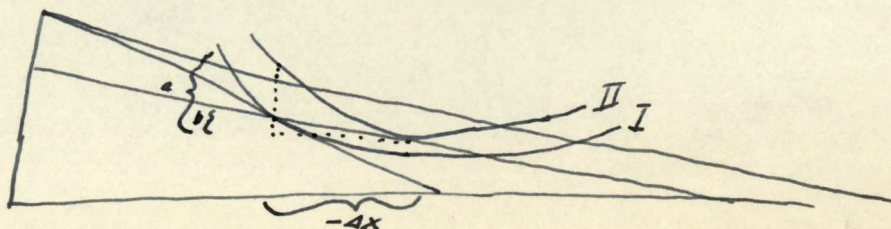
Hotelling's
proposition

What is the essence of the Joseph argument? Could it not be turned around, so that by taxing all goods but one, making it relatively cheaper, you make all better off by flattening the price line? *over*

Review, first, what is the true argument vs. disc. taxes. Probably not that they destroy c.s., for they create as much where the factors move to as where they come from. But they destroy producer surplus, for the factors move into occupations in which they do not produce as much, as shown by the supply curve, representing alternative uses of the resources. (incidentally, since they will not produce quite as much of the other goods as they would have produced of this one, it follows that they will not create quite as much c.s.) They will produce less value, i.e., when value measured at price before tax. This is the area below the horizontal line thru price; and does not account for the area above that line below the demand curve. Not only have we moved factors from producing things at which they were more effective in terms of the previous price level, but also from producing things that were worth more to consumers; from the supermarginal here to the marginal elsewhere. Even, i.e., if costs were not rising, but constant along the line of final price all the way, the factors would be producing things more valuable than their cost right out to the final point. But when they go elsewhere they are applied marginally. How about the fact that they increase production & c.s. elsewhere? It is true they push down prices elsewhere, but that means nothing, is simply a redistribution. The net benefit is the increment to production, and the value of that increment is less when factors are applied marginally than when applied supermarginally. They are taken from a high point on one demand curve and applied to the marginal end of another demand curve. This is the loss from discrim. taxes.

Joseph views only the demand side of this, the reduction in c.s. i.e. His objection to Marshall's c.s. is perhaps this: raise the p of one item, and you lose c.s. all right; but raise p of all, and people have less to spend, hence wouldn't give as much for smaller amounts, i.e. demand curves fall, and c.s. is less. (incidentally a wise K.ian answer would be that higher supply prices would cause demand curves to rise as much as higher prices would make them fall. And is much truth in this, from non-K view too, as observed earlier. If this is simply a redistribution of p.p., it won't reduce total demand) This is a valid argument for some individuals, but not for society as a whole, since the tax merely redistributes money, doesn't destroy it. Govt. demand replaced private demand. By & large, there is no "income effect" from taxation that refutes c.s. idea. Indeed, even if the m were destroyed, as Rolph points out, prices might simply fall, and real p.p. be as great as ever. So for society as a whole, indiff. curves are unnecessary and, since they are confusing, & in all respects except income effects inferior to other curves, let's abandon them.

But first I must figure out what they mean. What is crux of Joseph argument, besides sheer geometry? By raising the price of the taxed item you force people to shift their consumption away from it toward other things, and the other things which they are able to substitute for it are worth less than it was to them before the tax, the difference being c.s., the difference between two indiff. curves. So:



The essence of Joseph argument is that people are
thrown out of work. So no point in monkeying with it.

by
JP
P
P

5

With an income tax raising same am't, you would be at tangency of II. Due to the tax being raised by taxing one item, its price goes up, and you substitute other things for it. You take $-dX$ less of it, and can substitute for this b of other goods, ~~which~~ altho ~~with~~ with an income tax dX of the good would be worth a of other goods. $a-b$ is measure of loss.

Well, I could struggle with this & do better. But it is a struggle, and the other way is easier & clearer. & note the limiting assumptions of this method: the tax is completely shifted; the displaced factors do not reappear; that calculations for individuals, whose p.p. are reduced by taxation, can be xferred to society as a whole, whose p.p. is not reduced.

any loss of producer surplus cannot be handled.

Indiff. analysis would show an excess burden from any thing that reduced production and raised prices; it would appear as a reduction in income.

But c.s., as shown by Hicks, is for one commodity only. Presumption is that for all commodities taken together, is no c.s., because income falls as p rise. But this not so for all society. Indiff. curves cannot be xferred to all society.

Note that by inc. effect in respect to taxes we mean something different from what we originally meant by inc. effect. Originally it referred to one cause of reduced purchases of something whose price rose. In taxation, it refers to the reduction in p.p. due to the rise in price, something entirely different.

It is not the relative price change per se that leaves you worse off; but the interference with your buying the thing that is most valuable to you, forcing you to buy something less valuable.

The tax drives an artificial wedge between mc and p , the cause of the loss. I'm not sure it is possible to distinguish the c.s. loss from the p.s.

Frisch right, I think, that proportionality of mc & p enough; for if all goods taxed so as to keep this proportionality, supply curves would ~~xxxxxx~~ move to the right in all production the same, as alternatives declined (except leisure), and the reduced demand (from supplier's viewpoint) would not decrease production of any good much, or any.

The indiff. curve analysis of excise tax arrives at conclusion of excess burden primarily by the assumption that the displaced factors do nothing. But dropping this ass., the proof is no good. The critical element in a real proof is that mc are made more different from p ; and indiff. curves offer no means of analyzing this. Hence inadequacy of method. Indif. curve method seems to imply that base $pd.$ is nec. superior, but doesn't show why. But primarily the fault in analysis is, as said, it simply assumes a reduction in production, w/o going into reasons for it.

One way of showing this fallacy in Joseph argument is by assuming utterly inelastic supply, so production of taxed item does not fall. Then where is excess burden?

Another big error in J. of course is that he makes the distinction between excise & inc. taxes, rather than between particular & general taxes.

✓ Main flaw, tho~~x~~, is ass. of reduced empl.

Demand curves exist on indiff. maps. But you cannot see them unless all the indiff curves are drawn. Well, you could draw a line which would be a locus of pts. of tangency of indiff. curves with price lines -- opportunity lines is the best name --- as p rose. This line would have the advantage over ordinary demand curves that it reflects the decline in income, as well as the tendency to subst. other goods for X, when p rises. But an ordinary demand curve does that, implicitly. If lower income is a factor in lower demand at higher prices, demand curve shows that. It shows what people will actually pay at the higher p, which is just what indiff. curves show. This reduces usefulness of indiff. curves still further.

As to c.s., tho indiff. curves gives a slightly different concept of it, it is a concept that cannot be measured. While demand curves give a measurable and usable concept -- measurable where the c.s. goes into higher land values.

Joseph says excess burden of mono. tax is minized when price elast. of demand is very low -- i.e., so production is not reduced -- this depends on his special assumption then. (Which is also Marshall's special assumption, except Marshall has a means of showing, from supply side, that the barrier to exchange hurts you even if factors go elsewhere. Also from demand side. And from demand side Joseph can show it too: units of x with marg. rates of subst. with m higher than the former rate are now not produced, up to a certain pt., and the displaced factors can only go into production of things with lower marg. rates of subst. with m, i.e. prices. This fact is independent of the type of analysis.) He continues to say it is not mere lowness of P elast., but some special relation to inc. elast. This I cannot see offhand, because inc. elast. is subsumed in p elast. But check his reasoning. The idea is that p elast. of demand needn't be zero to have no excess burden, provided there is also an income effect, i.e. a reduction in demand due to reduced income.

(Add another criticism of Joseph: he distinguishes price elast. of demand from inc. elast., but actually inc. elast. is subsumed in p. elasticity. He has a concept of p. elastic. as merely showing subst. effects)

Hicks concept of c.s. is difference in your level of welfare with and w/o the good. But that is exactly the same as Marshall's c.s., the area under the demand curve. Hicks says that he is not assuming "const. m.u. of m", and Marshall is. Hicks concept is of the difference between what you do pay, and what you would be willing to pay on an all or nothing basis. This is a different idea of course. But the increase in welfare, with which we are concerned, is greater than the difference between what you pay and what you would be willing to pay, precisely because of income effect. Willing and able, I should say. E.g., if it were a question of all the goods you buy, what you are willing to pay on an all-or-nothing basis is about what you actually do pay, and there is no c.s. at all. But the increase in your welfare due to having all goods is immensely greater than what you pay.

So here is the key to the mystery. Two different things are under discussion. The relevant one is the increase in welfare due to the good, and that is greater than what you would be willing to pay for it all.

Evidently DuPuit & Marshall expressed the concept of c.s. as what people would be willing to pay in all or nothing bargains; or just "what they would be willing to pay", subject to dual interpretation as what pay for each little unit, or all-or-nothing.

Hicks, p. 39, makes an error in exposition on c.s. that reveals ~~that~~ he does not see this little point. He ~~then~~ says consumers would be willing to pay for a good, x , an am't of m eq. to what he does pay plus the vertical difference between the tangency of price line and indiff. curve he is on, and indiff. curve he would be on if couldn't by any x . In fact, he would not be willing to pay that much, because as he started to do so, money would become more valuable to him because he had to reduce consumption of other things, -(that is what they mean by m.u. of m rising. And since m is on ordinate, this means indiff. curves would change, money becoming more valuable relative to x , curves flattening out. So even to analyze this, for which indiff. curves are supposed to be especially adapted, you would run into this immense complication. A new set of indiff. curves, new pts. of tangency, a complex problem to analyze. How much simpler to, if you want to talk about this, simply draw a line under the demand curve showing the all or nothing demand curve)

((A much more critical assumption would be that the increments of x do not lower the satisfaction from the intramarginal units -- or productivity, if we are talking of producer-consumers. Of course if it does this is a subtraction in its value, which would mean that either it did not, and the c.s. is the area ~~xxxxxx~~ under the demand curve, or it did, and so there is a satisfaction from the incrementsal units above and beyond that shown on the d. curve, which cancels the loss to intramarginal units. So forget it.)

In practice, I think, c.s. concept has been limited to theory of psychological demand. It rests on ass. of dim. m.u. The more important, or as important, in practice, is concept of dim. mp, and the surplus value under the productivity curve, which is also a demand curve.

To Hicks, c.s. "is" the excess of what you would be willing to pay over what you do pay. Hence his representation "is" c.s. If this is what Marshall meant by c.s., ok. But if so, note that it is less than the excess of benefits over cost, which is the significant concept.

Hicks thinks that argument about mono taxes, which was reason for keeping c.s. doctrine (he thinks, & evidently many ec ists think) is not injured by his amendment.

Marshall wanted to tax increasing cost industries to subsidize decreasing cost. Why? Probly because each unit added to a decreasing cost industry adds more to production than it receives, and v.v. for increasing cost. This is ok if the increasing costs are physical and not just pecuniary, i.e. due to raising factor prices.

Basis of Rolph's objection to Stigler's "proposition in taxation" is that the reason the price of the good subject to excise tax rises is that production of it is curtailed, and this sends factors into producing other things, which lowers their prices, and Stigler doesn't account for this.

The question now before the house is: is this "excess burden from excise taxes" the same as that shown by Marshall? Marshall's was on basis that production was reduced, raising price, and thus cutting out a triangle of consumer surplus. I think this argument is not particularly relevant to excise taxes, but to all taxes conditioned on production, which discourage production. Marshall made his point too easily, by talking of an excise tax on just one commodity and then overgeneralizing. But his point is still good, because taxes on production are taxing one class of commodities and exempting another class of pleasures, like leisure, so there is a substitution effect and reduced production, and reduced production has a 2dary burden, or "excess burden". (this is 2dary benefits reasoning backwards) Stigler's excess burden is also on basis that production of the taxed commodity is reduced. Is it the same argument? ~~The basis of Stigler's argument is not that production is reduced, but that ~~excise~~ relative prices are changed. If all production ~~was reduced~~ was reduced equally, Stigler would show no excess burden. I should say if all ~~production~~ prices rose equally.~~

(Rolph questions idea of consumer surplus, perhaps condemns it, because it does not consider "income effect", i.e. that if higher prices actually were charged for the intramarginal units then demand for further units would be less. Even if this applied to individuals, it would not apply to society as a whole, for the purchasing power of society as a whole would not be affected just because prices were charged for intramarginal units. And it does not even apply to individuals, because their reduced income will cause them to reduce their demand for all other goods, not just the one in question, and relative prices will tend to remain the same. -- well, that's not relevant tho, for question is about concept of consumer surplus. But is another reason: who says it is assumed in idea of c.s. that consumers actually do spend the higher amounts? Taking their income as given, we are observing what things are worth to them. This is perfectly valid, and has a definite meaning. When we ask what does a r.r. add to land values, e.g., we can say it adds the amount under the demand curve, and the fact that if this were taxed away the demand might be less (it needn't be, if this replaced other taxes) is not relevant. The benefit to society is what it is, the amount under the demand curve, regardless of what it might be under some other conditions.)

Rolph, Nov. 14.

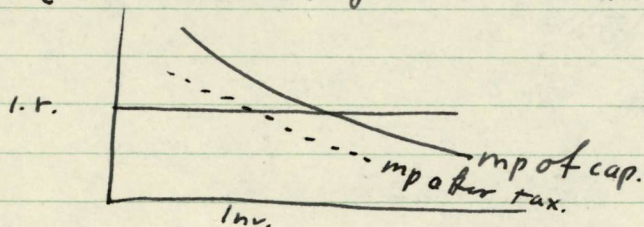
Tax capitalization. No work on theory of it since 19th c.

T. S. Adams, Tax Exemption thru Tax Capitalization etc.; AER, June 1916

Seligman, reply, AER, Dec. '16.

Keynes, GT, chs 11-14, get implications for tax matters.

Brown.

(Why does Brown say must have loss offsets as well as inv. exemption?)
(he assumes int. payments not deductible from tax base, which differs from reality)

Get less inv.

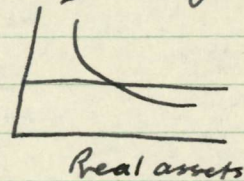
Brown is ass. no risk. Unique projections. Musgrave. implies you would always prefer some gain to none, & if no risk, would hold no cash except for taxation, so you always inv. all in you have. Musgrave has no i.r., thinks each inv. has given unit to inv. So Musgrave has unit det. by fixed supply, it is all a question of how you distribute assets. Brown has fixed i.r., vble units.

Rolph would attack this on its own grounds, idea that i.r. will fall. Given supply of loanable funds, so i.r. falls, inv. stays same.

Knight ignores supply, assumes certainty, & equmong. inv.

obtain ?
diction.

Says costs are const, & Q of inv. const.



Taxes won't matter. Says ass. of certainty is crux.

But question, can you assume a fixed S of cap loanable funds?

Least aggregate sacrifice the only ultimate principle of public finance. In practice these means equal sacrifices for persons similarly situated (whatever that means)

A tax formula is a rate & a base; a tax scheme is a set of formulae. Distinguishes "families" of taxes: progressive, proportional, regressive, etc.

Various things must be true: no tax on a 0 base; no tax on a smaller base larger than on a bigger base; etc.

If "progressive" in sense that marginal rate of tax increases, also progressive in sense that average increases.

Chooses to measure degree of progression by the second derivative of the function relating Revenue to base. *This is conventional. over*

If different tax schemes could be presented to each citizen, a lower aggregate sacrifice could be achieved than when each must meet same objective conditions. He doesn't favor individualized taxes, but just points this out.

Various obvious interactions among different taxes. Mainly that one tax raises less if other things taxed also.

Aggregate sacrifice depends on distribution of tax, and announcement of it. If we rule out announcement effect it means people do not modify their conduct due to tax, except to spend less, & less on luxuries & saving.

Discrim. taxes ok provided they counterbalance other discr. taxes.

Principle of least aggregate sacrifice, assuming all individuals equally "sensitive", means reduce all to same income. p.76

But this would reduce capital formation and thus injure all, so is not best after all. He assumes that capital is complementary to other factors, w/o any discussion. But he would not tax the poor either, as this would lower their working efficiency. Would tax middle class. (ugh)

He talks as tho, when taxes reduce work, the total reduced income were the loss of satisfaction. When really that is not so, as you have more leisure. It is that choice between the two is distorted, and you are some worse off. He doesn't just assume this, tries to demonstrate it. Says sacrifice from tax is at a minimum when the marg. utility to him of his income after tax equals marg. disutility of producing that income before tax. (he shouldn't speak of marg. disutility of large quantities. Evidently he means just of marg. units) (But this equality is a condition that is always satisfied, due to the behavior of taxed people. It has nothing to do with the nature of the tax.)

His words are ambiguous, but it looks as tho he concludes that the more work you do under a tax yielding a given revenue, the better it is. Says the result is perfectly general. *Take this in & ask Rolph, p. 64.*

Perhaps what he is saying is that if, due to elasticity of supply of work, you can raise as much revenue with a lower rate tax as with a higher, the lower is better.

The higher the marginal rate of tax, the more work is checked.

Just how much less work is done depends on elasticity of supply of work. But, he says, hours of work fixed by custom mainly, individuals have no control over amount of work they do, hence supply inelastic, type of tax doesn't make much difference. (even in England, I doubt this. There is a question of how hard you shall buck for a promotion, e.g. Overtime. Piece work in coal mines. &, if people generally wanted to work less, employers who offered shorter hours would get more labor offered to them. etc.)

Progressive inc. taxes discourage risk, because of higher rates on large gains. Where risks covered by insurance, no loss on them, not so bad.

$$4 \quad y = kx$$

Proportional tax

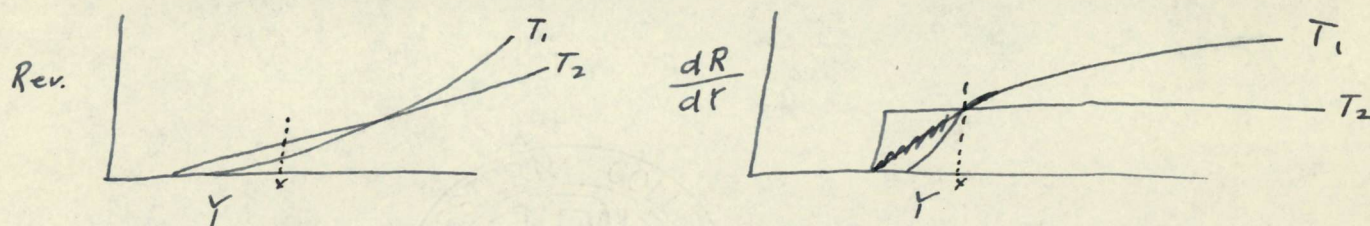
$$y' = k$$

$$y'' = 0$$

He deals separately with two aspects of taxes: the way they are distributed, and the way they are announced. The distributional aspect means just that, the way it is distributed among different individuals, and it was on this ground that he concluded it was best, for equal sacrifice or at least equal results, to tax everyone down to same level, but effects on capital formation are against this. (also effects on work, but that is an announcement, not a distributional effect. Effect on cap. formation is a distributional effect, at least that part of it is that he talked about there, for it is due to reducing incomes of those who save most, and not due to incentives)

Now he will talk about the two effects together. From announcement standpoint, poll taxes, site taxes, taxes on true rents & monop's ideal. From distributional standpoint they may not be so hot. (here is big error. This principle of equimarginal sacrifice. It doesn't really mean anything when you boil it down. Only announcement effects are important. And also various inheritance effects which are not covered by the principle of equimarginal sacrifice, which does not take into account that the world is inhabited by succeeding generations. It is sort of a social contract theory, a concept of man in some archaic condition before govt., & now govt. suddenly appearing on the scene and trying to disturb things as little as possible.)

Given two progressive inc. taxes raising same revenue, one more progressive than the other in P's sense, i.e. 2d derivative of fn. relating tax to base always higher than the other. Then, he says, this one is more progressive in upper brackets, but in lower brackets marg. tax rates lower, and rate of increase of marg. tax rates lower too, up to a point. And so below this pt. the more progressive tax has better announcement effects. So?



$T_2'' = 0$; $T_1'' > 0$ for all values, getting lower with higher inc.

Pigou says at value x , where $T_2' = T_1'$, i.e. rates of change are =,

below this T_2 , the less progressive tax, is more progressive. I deny this, for T'' is measure of progressivity, & it is 0 for all values of

T_2 But he's not talking about progressivity measure. He's saying that t.2, the less progressive tax, will have a greater announcement effect in the range until T_2' equals T_1' , because the discouraging effect of a tax is the marginal rate, i.e. the slope of the tax fn., i.e. the magnitude of the first derivative. Several things wrong with this. First, a more progressive tax could be more progressive all the way, i.e. it could be that T_1 line was concave downwards. 2, the discouraging effect is not the increase of revenue resulting from an increase in income, but the increase in tax rate. 3., An adjustment must be made because we are assuming small incomes untaxed, are not starting from origin. If we start from origin, the more progressive tax is more discouraging all along. Only by exempting smallest incomes,

Pigou, 3

and therefore having to jump higher in a small range when you start taxing low incomes, is the less progressive tax made to seem more discouraging. But it is more discouraging here only by virtue of being more progressive. i.e. in the region of this jump, 2d derivative is suddenly positive and very high, only to recede quickly to zero.

The old boy's math is pretty shaky.

And he concludes, adding this consideration to fact that supply of work is inelastic, that announcement effects may as well be ignored.
So I don't care for Pigou.

But to his credit let it be said that in Chapter 14, "Taxes on the Public Value of Land", he says some nice things about lvt.

My argumeent in test for Rolph has a loophole which can be plugged.

I said that when monop. was the wedge that separated mc and p, then proportionality of p & mc was not adequate to insure ideal allocation.

To which one might reply, since opportunities for all labor have declined in other industries as well, assuming labor supply is fixed, we will get as much production as ever, with returns differently distributed. The mc of labor will fall, to labor. However the marg. social cost of labor is same as ever, is another way of looking at it, and equals price, where prices are proportional to mc viewed otherly. And allocation remains ideal.

Answers:

1. Mr may become zero, or below steam boiler subsistence level, before production reaches former level. This corresponds with implicit assumption in my argument that product on would be reduced by monop. (mr is zero whenever elast. of demand is one, ~~which~~ or less, which is frequent. Surely we can count on some demand curves being so)
2. Choice between leisure and work distorted, more leisure taken. But this is also true of excises, and has been universally observed, I should have mentioned it on test.

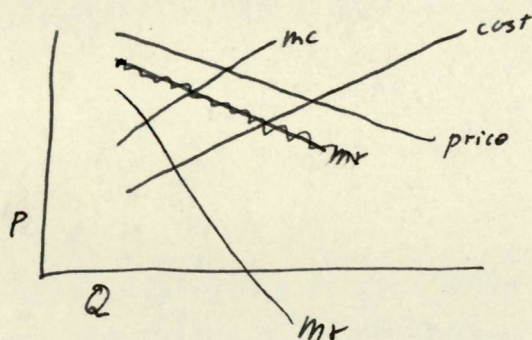
3. Proportionality of price with mc not adequate criterion for ideal allocation with monop., since mr now is demand for resources and, at identical prices, can have different mrs, due to different sloped demand curves. Work this out. *Then cost would not & mr, & my hyp not satisfied. So this argument no good.*

4. Monopolies are made by limiting some key resource. If as much of this resource were supplied as before, the monop. could not maintain its position, for -- either it keeps as much of this limiting resource in use as before monop., but it wouldn't do that because --- well, there need be no limiting resource. Imagine the monop. to be purely legal. In every industry some one is given the exclusive right to buy wholesale and sell retail. He supplies no factor, but controls production, and collects the monop. rent, i.e. the excess of price over mr. This is the situation imagined by economists generally when they speak of monop. All resources get less, the institutional legal monopolist gets the difference. He owns no resources, and even if he did, he would have to just impute lower returns to them, for they are not the source of his monopoly power, but victimized by it along with other resources.

But change the supposition. Suppose the monop. is due to exclusive ownership of a limited resource -- a strategic site, or an ore. There is no legal power to prevent others from competing. Suppose the monopolist would use the strategic ores, if he used them, by renting them out. No matter how low the hps of complements go, does it not still pay him to hold some of them idle? He exerts his monop. power by holding some of the resources idle. Now suppose in response to this, the costs of other factors fall, so mc falls and he increases production. Supposing mc of other resources continues to fall until as much employment is given as before. Can we say that the mc of the resources he owns will also fall? In the case of ores, clearly not, for the establishment of the monop. increases their future value, and hence the cost of using them. And the lower i.r. caused by reducing inv. opp. also increases their value, and cost of using them. But is there not some more straightforward answer, w/o bringing these things in? i.e. w/o recourse to time considerations. The oc of using them would be smaller than before, for the same reason that oc of other resources fell, alternatives blocked off. But, here is the crux, the mr of the limiting resource will be farther below its

physical mp than for other resources, hence it won't be used as much as they are. Consider again the monopolist who owns all the sites on which a certain service can be rendered, and rents them out. (Or Am. Shoe Mach.) ~~xxxxxx~~ The individuals to whom he rents compete with each other. To each of them, ~~xxxxx~~ mr of labor they hire is just price. But to the monopolist, he knows this will lower general price, lower what he can rent sites for. To him, mr of labor is less than price of mp. But, as the sites are the tool by which his monopolist is exerted, his limiter, his limiting their supply to originally drive wages down causes a pressure to use more labor per site. Of course as labor comes back to work for less, this drives up the mp of sites, he tends to put them back into use. (but if all went back into use, renters, competing with each other, would bring wages back up to original level. Wages can only be kept down if limiting resources are kept permanently out of use) Since sites are his monopolist tool, if he allows one more to go on mkt., this means complements of labor & cap. added to it, production is increased by much more than just the mp of site. So mr to monopolist of adding another site is way down below price, further below it than is the mr of another laborer. Hence sites will not be returned to production as much as in competitive conditions.

The tendencies above will prevail if resource owner also manages resources? Work it out some day.



Magnitude of mr affected by, proportional to, ^{other things =} price. But sign of mr determined by elast. of demand (not λ , for elast. changes with position of curve), & magnitude also affected.

My only really good point is that mr may get below zero. (the pt. about the limiting resource is probly good, but too hard to express. At least I haven't worked it out well yet.) This is quite adequate for Rolph now when we discuss test. Just say you were assuming this, forgot to mention it.

Oddly, tho, this is just an extension of the principle that choice between work & leisure is distorted. As long as all resources remain employed, and prices are proportional to mc, allocation is as good as ever.

I can say that my point about monopolist was just my way of saying that choice between leisure and work was distorted.

In the real world, a big cause of industrial unemployment is probably that mr sometimes is less than zero. Or I mean less than subsistence. So work is just not available at any price, literally.

~~Call Al, Tues. PM - Get meal ticket~~

Rolph, Oct. 31. Henderson.

If prices are merely prop. to inc, choice between leisure & work distorted. - i.e., if all commodities taxed, leisure not, leisure costs less, in terms of other goods.

Henderson prefers poll or capacity taxes, or inheritance, ^{maybe on site taxes} but indirect or inc. taxes nec. for revenue.

Essays in Honor of Alvin Hansen, ~~Musgrave~~, "Income, Emph. & Public Policy", essay by Carey Brown.

Musgrave & Dornar. 'Risk'. Most unsettled issue in ec.

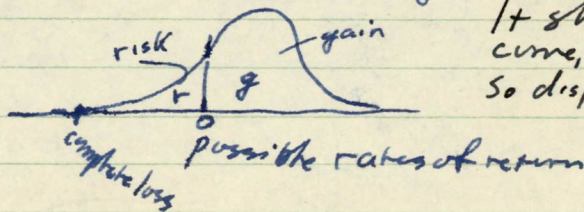
Musgrave surprised that he concluded that higher tax rate caused more inv. (but this was on ass. of full offset for losses, which means you make people poorer but don't affect risk)

(He didn't consider that poorer people have less capacity to invest)

Corp. inc. tax is proportional, or close to it.

(Many losses ~~are~~ on inv. are, in effect, offset, because when corp. invests in assets, it may lose on it, reduces inc - not looked on as cap. gain, or loss, just straight subtraction) Oil co.s can deduct dry holes in full, e.g. Can carry forward (~~in back?~~) 5 yrs.

Musgrave starts out with freq. theory of probability. He has freq. dist. of probability of various yields.



It shouldn't be just areas under curve, but moment-arm ^{times} freq. (Σfx) So dispersion is relevant.

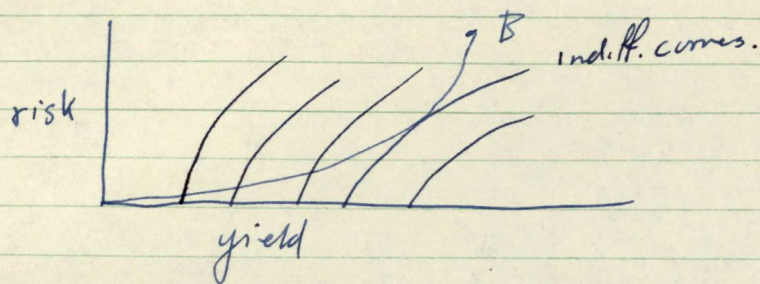
Def. of yield

yield $\equiv$ gain - risk ; if $r = g$, no yield.

(If you were just gambling, 50-50 chances, 0 would be at mean. But due to costs of gambling, i.e. interest & management etc, it has to be at left before you invest.)

~~Dispersion irrelevant.~~

Rolph, Oct. 31, p. 2



Cf. with graph on preceding page. If, as risk rises, yield also rises, it can only mean a dispersion, since $y \equiv g - r$

He chooses assets with highest ratio $\frac{g}{r}$. Finds a point, B, at which he is invested so he thinks he will get max yield.

~~Rolph disagrees that higher taxes mean higher risk.~~

Seems to me that, in Musgrave's formulation, since gain is expected to be greater than loss, loss offsets do not compensate for taxes on gains. Which is another way of saying pure interest is an extra cost of investing, beyond risk, which is taxed & not compensated by offsets. (but all Musgr. is saying is that risk per se, abstracted from int., is not discouraged. & this is ok. Except that when you make gains you go up into higher rate, when make losses offset at lower rate). & the greater the risk, i.e. dispersion of possible yields, the more this counts (except corp. tax is prop.)

People like risk. Higher yields on stocks are not to offset 'risk', but to offset years of possible no yields. Gambling is characteristic of our culture. 9/10 r.e. speculators lose. etc.

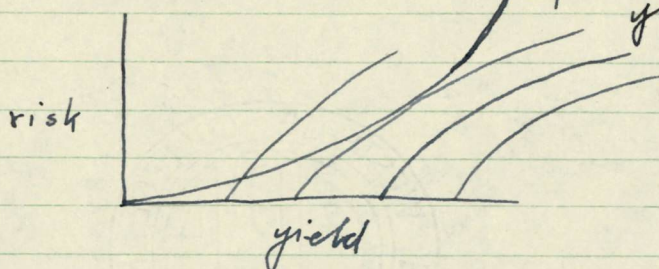
Re Hotelling: if general taxes lower alternatives for factors, then mc are lower. Principle holds that $mc_{short} = p$

Rolph, Nov. 6?

Test next week, no ass.

- possibilities open.

your indiff. comes - according to Demarr & Masgrave.



(Who was I reading on this subject? Lange?)

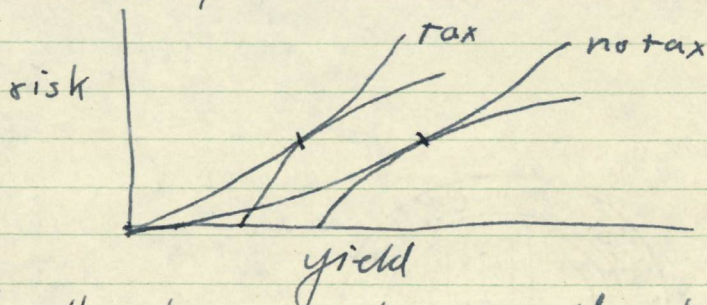
If people like risk, -- problem of defining 'risk'. I like def. as 'dispersion of possible future yields'.
Rolph starts to suggest that if people like risk, higher ~~tax~~ tax means more inc., but stops when I say it doesn't. A risk in dispersion sense, risk of gain.

But must relate this dispersion to point of 0 gain in it. This is perhaps handled by position of mode.

5 yr carryover of losses, & 1 yr carryback, in present tax laws.

Basic assumptions: dim. marg. ut. of inc. as inc. Δ s; & ~~falling~~ rising marg. disutility of risk as risk rises.

Tax shifts 'possibilities' curve.



With tax
He will take more risk per yield. - buy riskier assets, (where risk figured before tax?) He himself may take less risk after taxes, but takes greater risk before taxes. - because govt. is now taking much of risks, both + & -, & to get as much risk as he wants, must take more. (Also, his lower inc. prompts him to value inc. more, subst. it for safety) When tax rate was 100%

as British corps were taxed in war, no risk of gain or loss. So
gert. must make decisions, privates have no incentive to invest wisely.

So these taxes cause you to invest in more risky things
(but not nec. inv. more)

Can conclude that high taxes lessen differential ~~or~~ between
more & less risky inv., & $\therefore$ cause people to inv. in more risky
things - assuming that they avoid risk in prime. - & that they expect
to break even on higher risks.

over He thinks of Ling inv. in terms of converting M into other
assets. Hence can conclude that reducing risk on non-m assets causes
shift of m into them, which he calls inv.

Doesn't clearly define either yield or risk. Says 'can get
more yield by taking more risk', but the risk is that the
yield will be low.

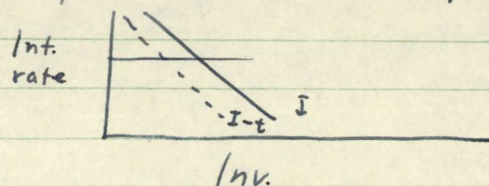
Rolph mentions by Atax you cut down power to invest.

& by this analysis you get no quantitative judgements.

& Rolph thinks it's ok as far as it goes. Many object to
analyzing people's plans in terms of probability analysis.

Few in tax field have read this, carelessly, & see its
meaning.

Brown. Radically different assumptions. Assumes an
adverse effect before starts. Takes certainty then uncertainty.



Put on tax & they will inv. less.

Reconcile for next
week.

He maybe right. If non-mon. inv. have less risk, people will

try to reduce proportion of assets held as cash, ΔV , Δ inv. in other

Things & by ΔP , $-\Delta$ real c.b.

Brown, Cary, 'Bus.-Inc. Taxation & Inv. Incentives'

Mostly about treatment of depreciation in computing corp. inc. tax ~~base~~ base. Incidentally about loss effects.

Concludes: 1. Effect on investm. incentive of prop. bus. inc. tax neutralized if both a, Inv. exp. deducted from tax base in yr. made
b, Losses fully offset.

2. Allow deprec. in 3-5 yrs, would almost accomplish (a), above. (with canyon where deprec. > inc.)

3. If deprec. spreads over ec. life of asset, not so good, & hurts inv. the more if
a) Life of asset longer - because the rebates are then further in future
b) Higher mr of indiv. firm
c) Greater 'uncertainty' of future inc.

4. Tax injures incentive to new inv. more than to replace, hits new firms & new kinds of cap. most.

5. The greater the tax greater the effects.

(By allowing deprec. in jig time, he is in effect exempting int. inc. from taxation. If you allow deprec. over time, you are remitting some amt, but at later dates.)

Replacement encouraged by full life deprec., because by replacing you shorten life, speed deprec. rebates. (Does it really work this way?)

With uncertainty, is a doubt that will be any net inc. against which to offset losses, adds to discouraging effect of tax. The further in future, greater uncertainty, greater discouragement.

Since, in fact, int. payments are deductible, this lessens int. cost to entrepr. (but not to supplier of cap., who is ultimate determiner of Q of cap.) Hence, for debt financed inv., already have effects, int. cost reduced as much as yields.

Has long been stressed that taxes, income, reduce yields from investments. They will add that they also reduce risks. -- if losses can be offset against other income. (But this only applies to realized losses. If my investment doesn't yield as much as it was supposed to, even if negative, I never get a chance to take this loss off my taxes)

If no losses can be offset, the conclusion is ~~definite~~ theoretically inconclusive, whether more or less risk will be taken (i.e. investment be done) For the reduced income may make you invest more, due to higher marg. utility of further units of income; while the lower marg. return on yields will make you invest less. (they do not mention that you lower income gives you less with which to invest. Nor that the "income effect" is not an income effect, but a long delayed effect that waits upon reduction in assets over some time, that at any one time taxes ~~are marginal~~ affect marginal yields more than marg. utility of further income)

Practical evidence suggests that effect of income taxes is to reduce inv. (but here we deal with progressive taxes, which obviously have that effect, & their theoretical analysis assumed proportional taxes)

If losses can be completely offset, they conclude, risk taking is just as attractive as before, and m.u. of further inc. higher, people will invest more.

(Their assumption is wrong that risk is only cost of investing)

You can only utilize loss offset provisions in tax law if you subsequently make other capital gains. (& these are only from securities etc., no? How about dealing in real things? Those are called "profits" and not distinguished from other inc. I think. Indeed, how distinguish a profit from a capital gain?) Thus loss ~~array~~ offset provisions discriminate in favor of large corps. They favor unspecified technical changes in law, possibly even direct payments to those who make losses : to allow loss offset, but not favor large investors. 393

They do not allow any return for simply investing, regardless of risk, because the only reward they recognize is that for parting with liquidity, and that is simply, they say, the risk of having to sell at a loss in a rush sometime. utter bs

For each degree of risk there will be a best combination of cash with other assets. Locus of pts. showing this combination is optimum asset curve to them, is principal tool of their analysis.

(Economics will advance when people learn to express simple ideas in simple English instead of complex geometry and mathematics) The idea that geometry or math affords a "formal proof" where words do not is a misconception.)

The more optimistic the individual's mkt outlook, they say, the less the unfavorable effect of a tax on investment.

I skipped most of it, which was an elaborate geomtric "formal proof" of the simple propositions outlined above.

Carey Brown vs. Domar & Musgrave. Conclusions.

Rolph says the difference between Cary Brown vs. Musgrave is that Musgrave starts off assuming a constant amount to be invested, which will be somehow invested at any i.r.; while Brown assumes a very yield-elastic supply of capital funds, as would be true for any one business, but not for business as a whole, nec.

He is right about Brown.

Musgrave does not just assume that total inv. won't be changed. He mentions that it is often thought otherwise, and he, Musgrave, is showing it not nec. so.

Main basis of his argument is the old one that tax will reduce your income, and make you work harder for more. This argument has some application when income in general is being discussed, but is much less clear for inv. income in particular, esp. when corps.

~~ARM~~ & corp. inc. tax is under discussion alone. For the corps. themselves have no marg. utility; and their stockholders have income from other sources, and taxation of dividends will not reduce their incomes from all sources, just from the one source; but will particularly discourage ~~investments~~ taking income thru corporate investments.

Furthermore, with capital, in general, analysis not same as with total income. For there is a further possibility of simply living off the capital, taking no income from it, (or only implicit income, which distortion is recognized ok) Which is perhaps just another aspect of the idea that people will save less. But is a more conclusive way of looking at it. Take someone with given capital, and alternatives of investing it or consuming it. His current income is a small element in his mu of income to him, his capital is a much more determining element, and that changes ~~little~~ not at all for a while. It is only over many years that the tax may affect mu of income to individual. But it immediately, conclusively, lowers yields from investing, and favors the alternative of not investing -- either consuming, or holding as cash -- but holding as cash is a form of taking implicit interest, so if we mention it we must mention general distortion of inv. into lines yielding implicit interest.

My argument is not injured by fact that at any one time, of a person's assets, only some are liquid. For over a fairly short time, inventories are sold, fixed capital is amortized, and individual has alternatives. We can never look on nat. cap. as fixed, just because it seems to be sunk in real things. A few years of living off those things, and they are done for. Capital must be continually re-invested, and this is a point that capital taxers and income taxers overlook.

So this leg of Musgrave argument is no good. Cannot say that supply of funds forthcoming to be invested will not be reduced by reduction of level of yields. Surely the 30s demonstrated that.

They did show that taxation with full loss offsets encourages risky investments as opposed to less risky investments, where by risk is meant the possibility of losing m in such ~~an~~ way as to reduce tax. And that is all.

Reviewed

Rolph, Jan. 8

Tues, 16th, 201 Wheeler, exam.

Effect of taxes on allocation
on income distribution

How much sacrifice

Taxes under socialism.

'Turnover tax' yields most revenue in Russia. Levied only at one stage in production, usually at manufacturing level, so is what we would call a manufacturing excise tax. Different rates on different things. Tax base value is not selling price, but on fictitious price, acting price.

✓ (Difference between gross receipts & sales tax is gross rec. tax is on sale price plus tax, sales on price before tax. Important distinction when tax rates high.)

They have continuous inflation in Russia, because people don't like taxes there either. Besides that, they are forming cap. beyond individual desire to save, presumably pay out more wages than they produce goods, securities, & taxes each year. In other words, they use inflation to exploit money holders to get funds for govt, even as we. -- & they may create more cap. by their govt expenditures than we do.

In effect, the Russian turnover tax is just a mechanism in setting prices, & in effect Russian taxes are really profits of govt. industry.

Ellis is strong on allocating by price, Rolph always looking for examples where price not right way to ration.

Go in & see him about letter I wrote. Profs pay attention when you write them letters, try it some more.

ration
-o ration

Rolph app apple apple apple ~~the~~ Napa Napa Napa
Discipline yourself.

Rolph, Dec. 11

Review Lange & Taylor

AER, March '46, Somler, Soviet Union War budget

JPE, Oct 1950, in Soviet Union

Bergson, QJE, Last 2 issues, almost unintelligible.

" SCE, Not recommended.

Atkinson, ~~few~~ & ~~low~~ in Socialist state, vol 15, RES, p. 78

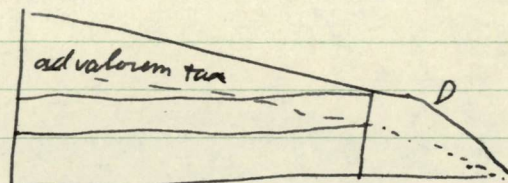
Henderson, Prices & profits in state enterprises. RES,

? Studenski, Nat Bur, Studies in income & wealth.

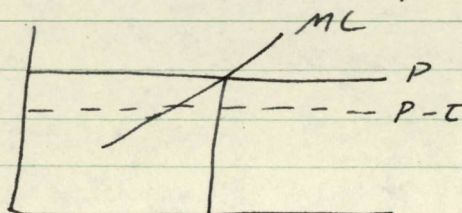
Pigou, Dobb, Hayek, Mises

Brown ~~view~~ viewpoint is that commodity tax is borne by factors, not consumers.

Rolph says single commodity ~~tax~~ tax borne by not consumers.



After tax gross receipts fall, to sellers



Each seller has incentive to cut production. Resources will lose producer surplus. -- & moving into other industries, lower resource ~~supply~~ supply curves. Higher production, lower prices elsewhere. The more specialized factors take loss of producer surplus, others spread burden around entire economy. (but lower prices are benefit to some. Loss of producer surplus must account for tax)

He is counting loss of m inc. to competing producers in untaxed industries as a loss, but not

the gain to consumers as a gain.

This shift of burden to resources in other industries called backward shifting -- Ralph calls sideways shifting. (Wrong to call it a burden. Is not a burden, it gives nothing to govt, is simply a redistribution. Ralph is badly fooled upon this)

By shifting, reduce yield. If resources all get out of industry, no tax collected. (this would require elastic demand as well as elastic supply. Indicating tax hits cons. surplus as well as producer.)

If el. $K_d > 1$ (of public demand) people spend less on gov, more on other things.

If el. < 1 , public spends more on gov, less on other things

Ralph concludes that any tax system cuts money income. Never shifted forward -- in Ralph's special sense of word. (Is shifted forward in price sense, in part, but & you may make people spend more on it)

Thinks whole tax comes from lower money incomes to resources -- but gets this by saying losses of consumer surplus are 'offset' by gains in other c.s. -- & in part they are, but still here is burden, other is a redistribution which he previously ignored when calling loss to resources in other industries part of burden -- which it is, incidentally, loss of producer surplus, & every final burden must come from surpluses. But if we follow Ralph we get burden greater than real burden to society, for some of his supposed burden is not net, is redistribution.

So a test will be a matter of stating ~~the~~ what I consider correct & contrasting it with Ralph's analysis -- stressing net differences if any.

~~Call to order, H. 30~~ [Local taxes that reduce production are partly shifted to people outside area -- can view them that way, & thus explain actions of local govt. They shift it by reducing production.]

Residual assignments: Black: 2, 3, 4, 9, 10, 11

Empirical research teach anything about tax incidence?

Study Schultz on demand curves, & labor

Not ex post studies -- U.K. Hicks' distinction of 2 concepts of tax incidence. But before & after studies, areal contrast, -- all my I.D. methods, which review.

for 200C { ~~Lintner, Theory of M&P, in New ec.~~
~~Sellner, Postscript on war inflation, AER,~~
~~Galbraith, Disorg. System, June '47 AER.~~
~~10 Ec. insts on inflation, RES, Feb. '48.~~
~~& Look at chief ec. indicators in recent SRB~~

Portland has lowest cpi on coast, because no sales tax -- about 3% lower.

Would have to continue to see if wages & int. correspondingly lower. Couldn't tell anything about land -- about Oregon i.e. -- because not homogeneous enough.

To get stat. results, you must have contrast -- e.g. between areas or times. Either sort of situation gives a particular result. Between areas, you get e.g. Oregon situation. & then, due to mobility of labor, get equalized real returns -- tho even here, are no absolute comparisons, because of non-monetary satisfactions -- & also because only labor whose wages are faithfully recorded is usually unionized. Any residual effects are taken out in ~~xxxx xxxx~~ local rents, mainly land, & these not homogeneous, hence not comparable between areas.

Empirical research can give some clue to the mobility of labor & goods in fact, to the elasticities of supply & demand of taxed items. But meaning of these only clear thru theory.

Time contrasts no good, because short run effects very different from long, tax may be excuse to do something you would have soon done anyway.

You could make ~~fantastic experiments~~ elaborate empirical studies to get elasticities. In this way you could know. This applies to overall taxes, too. But then it becomes a matter of predicting how people act when their income is reduced in particular ways, & this is impossible.

You never get a neat, simple, statistical case. Life just isn't that way. Always room for interpretation. Does this mean you might as well not look at facts to begin, start right out with theory? No, but expect to ~~find~~ have to interpret facts; & be familiar with them to create theory, but don't expect them to substitute for a theory. They are never self-evident or self-explanatory until you make them so.

You don't really know what the tax policy is, just to see a figure in a column. They rarely are in commensurable units. ~~Yaxzrexax~~ &, with land tax, significant thing is anticipated future taxes -- as Adams-Seligman brought out -- & these are harder to know, tho bonds give a clue. Differences of administration, of winking at delinquency, etc., may be more significant than tax rate. & you don't know real rate just from official rate. As to water tolls, are taken in all sorts of different ways, very hard to cf.

& the thing you are trying to measure, rate of development or full use of land, need lots of defining. Reducing land speculation is hard to put finger on meaning. This, in fact, turned out to be main problem of my study, until I solved it the rest meant little.

Well, not impossible, but is more a matter of reason that stat. Tho it is important to know that we work shorter hours now when incomes higher; and that in war people worked longer because marginal returns higher.

My attempts with IDs.

Seemingly a perfect lab. About 100 different ones, all over Cal, many adjacent & very similar. All with slightly different tax policies.

But as you get into it, discover it requires encyclopedic knowledge of all affairs of each ID to make spatial comparisons. e.g. we have Modesto & Turlock to cf. with Merced & Madera. Or, again, Fresno, Alta, --- object being all along to see if water toll type taxes acted as ~~income~~ tax on new production, by seeing if production was discouraged. --- vs. Miller & Lux -- to see if land tax caused subdivision.

In every case, whatever effects you want to impute to the tax can be imputed to other causes, & usually are by local folks. In a very general way your experience helps you explain the facts, but only by being sifted & judged in your own mind as you construct a logically consistent theory that is consistent with all the facts you know.

E.g., when you get into Reclamation Districts, the theory that land taxation necessarily causes subdivision is shattered. & then you look back & see that where you thought you had proved it, in other cases, there were other reasons too: distribution systems that serve every 30 acres e.g., better water rights, water more cheaply distributed. More residentially desirable land.

In areas where farms were big, it was often said that the taxes were the cause, because the poor man couldn't pay them; where small, often said they were the cause, because the speculator couldn't pay them. Which empirical fact led to realization that it was future taxes, not present taxes, that discouraged speculators more; & present taxes discouraged settlers more.

Another approach: rates of development over time of different districts, correlated with their tax systems. Much possibility here. But a big difficulty is that are still too many variables. Big bonded debt is good, & lvt good, but to get something to cf. with lvt must get a ID with big bonded debt & water tolls -- otherwise the land debt one will have spent more on improvements, destroying the comparison. & then you are left with a cf. son of land tax & water toll. But these requirements too stringent -- I have not yet found any two IDs that meet conditions. -- these, plus other elements of comparability.

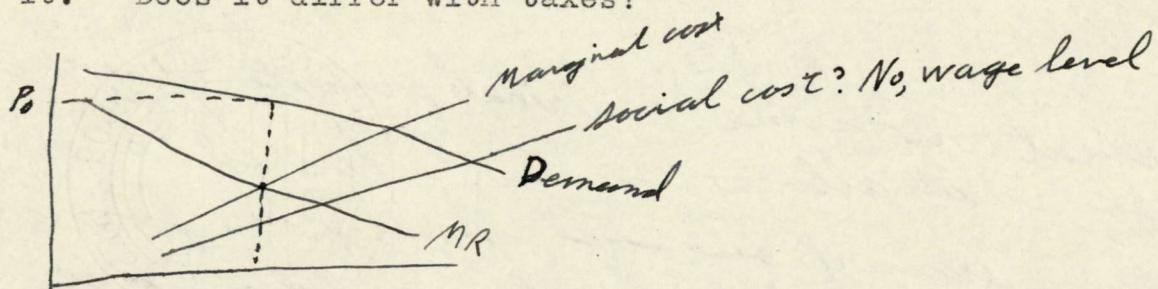
Reducing to simpler matters, you do get simpler examples of incidence. e.g. at border of San Benito & Santa Clara Cties, one has higher tax rate, & identical land on opposite sides of border sells at different prices. One could study to see if this difference were capitalized value of tax. difference.

At national borders, you see effects of tariffs in part -- Maine, Imperial Valley.

Cf. IDs with other IDs; with land not in any district; with other kinds of districts; with water co.s -- pretty fruitful.

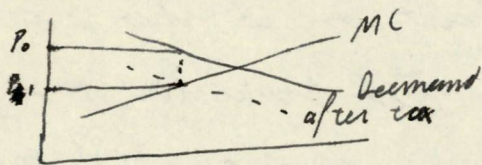
Is not Frisch's 'proportionality' of p & mc really equality? In all cases? It is for monop. Try tax

With monopoly, I mean case where all industries monopolized to same degree, so that "mc prop. to price", what it finally comes to is that mc , meaning the price on demand curve for which labor's product could be sold in another industry, is equal to price in monop. industry. That is how one would justify monop., not that mc are prop. to price, but equal to it. Does it differ with taxes?



Perfect allocation prevails if P_0 in one industry is same as in all others. To identify MC as demand curve in other industries takes a certain stretch of imagination, a change of wording, or of words' meanings, on which I could have criticized Frisch.

With taxes:



P_0 is what article is worth
 P_1 is what producer gets

But when other industries are taxed, "MC" ceases to be the MC curve. ~~It is~~

~~It is~~ It is curve showing price one must pay for resources, but as these resources are paid less than their social MC, it is not social MC curve.

Frisch should have expressed his point this way, rather than by saying MC should be prop. to prices. He really means they should be $= P_1$. & his way of expressing it breaks down in monop. case. ~~Why the difference?~~ Because in tax case the proportionality means it only 'breaks down' because ~~the~~ "MC" there can refer to monop. MC as well as cost level. He obviously would have referred to cost level curve in this case, so he would be ok. Over

However, as he was being c.s. in his criticism of Hotelling, we can be a bit c.s. with him. He should have specified more clearly what he meant by MC, which monop. case is useful to bring out. & if he had, he would have revealed that he was not saying anything much, that he was not really denying that $MC = P$

Write Rolf

Final outcome: original principle that $MC = P$ for ideal allocation never referred in principle to MC in sense of ~~the~~ supply price, for in monopoly case this clearly wouldn't be true unless by MC were meant demand price of what resources could produce in other industries. So Frisch was ~~using~~ MC in different sense than it was meant in principle that $MC = P$. Had he stuck with original meaning, he would have had little to say.

Basic cause of misallocation is when producer or resources he hires do not get paid as much as their ~~MC~~ MP. Causes both misallocation & maldistribution.

Symposium, QJE, The Incidence of Sales Taxes

Higgins:

He criticizes Gilbert for drawing policy conclusions from a long run analysis. Says that in short run, since fixed equipment is installed, production will be reduced more than in long run -- just opposite of truth.

Says that Gilbert concluded ad valorem tax worse under monop. than specific tax. But was just opposite.

Would have Gilbert consider path of movement from old to new eq.; use firm instead of industry. But really says nothing.

Jastram:

Interprets Gilbert as having added tax to supply curve, not subtracting it from demand curve. This is conventional. But now Jastram gets things bass ackwards. He says that the ad valorem tax differential above the supply curve is $\frac{1}{2}$ the tax % of the demand curve ordinate at that abscissa. But it actually is a % of the supply curve, for that is the tax base at that price. The s curve tells us how much supply is forthcoming at that price, and the relevant tax is the tax at that price.

So Jastram concludes as you move to right, s curve with tax gets closer to s curve, but actually it is just opposite.

Jastram calls this the "ad valorem curve".

Says Gilbert wrong to call it a supply curve.

Later says ad valorem curve will be more steeply inclined than original, tho his earlier remarks give opposite conclusion.

Gilbert concluded that ad valorem taxes converted industries of constant costs into decreasing costs. Taking the ad valorem curve as the cost curve. He must have been reasoning along the demand curve, like Jastram -- an error. Anyway, Jastram says is wrong -- and primarily because of his conclusion that the ad valorem curve will be more steeply inclined than the original s curve! So he is swallowing his statement about the demand curve I judge.

Further bs, I skip all.

need practice in our writing

our writing

our

our writing handwriting

Rolph is an odd ball

I don't think he knows what the hell
he is talking about

The quick sly fox jumped over the
lazy brown dog.

This class has a distressing way of boring the
hell out of me. Rolph messes up most everything

The Shifting of Sales Taxes, Dona Ed Wood Gilbert, JP QJE,
Feb '39

Recent shift away from specific sales or excise taxes to ad valorem ones. Literature has neglected differences in effects of these two different kinds of taxes. They differ in that, as output is reduced due to the tax, and price rises, the ad valorem tax goes up with price, while the specific tax, being on volume physical, does not. Hence the ad valorem tax is more of a tax. It will reduce output more -- be a higher rate -- (this doesn't mean it will collect more revenue, if supply ~~is~~ elastic)

better

With monopoly, the ad valorem tax is ~~worse~~. (because the monop. can evade the ad valorem tax by reducing price?)

He treats ad valorem tax as a reduction of mr; and a specific tax as an increase in costs. But anyway, tho he doesn't point it out clearly, the reason an ad valorem tax is better on monops. than a specific tax is that the monop. can evade some of the tax by lowering prices, which is expressed in a flattening of its mr curve after tax. To be sure it will reduce output, and the mr curve after tax is lower than before tax, but it has flatter slope. If one drew a mr curve after specific tax, it would be lower than mr before tax, and with same slope.

He distinguishes increasing cost, const. cost, & decreasing cost industries. Thinks each should have its own tax policy. Would have govt. consider carefully the tax policy for every industry apply different one to each industry.

Basis of all his points is that ad valorem taxes change as prices change.

His analysis is confused, tho. He says ad valorem taxes will put a higher burden on consumer, when all he means is they will be higher taxes. He brings in excess burden idea, not calling it by name, & he has something there, that the higher the tax the higher the excess burden. But he is not clear on it.

With const. cost industries, of course, price to producers cannot fall, so entire tax is shifted, and how much excess burden depends on elast. of demand. (This is an argument against excises in ~~px~~ general, not vs. ad valorem ones in ~~particular~~)

With increasing costs, get same thing, but less extreme. Partial shifting. Again, not particularly relevant to contrast of ad val. & specific taxes. All he is really contrasting is less ~~With~~ tax vs. more tax.

With decreasing cost industries, shouldn't tax them, or minimize taxes anyway.

Rolph on Tax Incidence

He doesn't define the word, but he has peculiar concept of it.

He figures that resources will leave the taxed industry, and move to other industries. And that there they will produce things of as much value as they already were producing. An error, missing main point, that they are taken from supermarginal production here, applied marginally elsewhere.

He says that if el. of demand is 1, as less is produced due to tax, gross receipts before tax are as great as ever, and tax has not been shifted. I say this gross receipts is absolutely irrelevant. He is ignoring that less costs now incurred. It is price per unit that counts. If price rises at all, tax is partly shifted. He is muddying the waters, as he loves to do.

See Weeks 4-5

Shifting of sales & purchase taxes

→ 'Pay close heed' ✓ H.G. Brown, Incidence of sales taxes
✓ JPE, v. 47, Apr '39. Brown's last contribution
✓ QJE, v. 53 Feb '39. & Aug '40. Gilbert, & symposium.
Fagom, Tax shifting & incs of cost, QJE Aug '33, don't read
unless you need standard partial eq.

Black says no distinction of effects & incidence.

Effective tax rates on ind. ^{& pers. prop} less than resid. prop, most places.

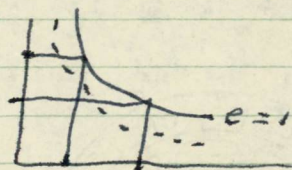
Conditions nec. for shifting:

1. Must have announcement effects, positive
2. Incentive effects lead to changes in your actions
3. Income must Δ before deducting taxes
4. Income of others declines

3. To shift, your gross before tax must be greater he says. But what if you reduce output & raise price? Can't you shift w/o Δ ing gross inc.?

When $e_l = 1$, no change in gross. But, if it $e_l < 1$, seller gets less, still shifts some.

He reasons it all in gross terms. Gets usual indeterminate answer.



With $e=1$, no gross loss to "industry". But no shifting either?
Much bs. Restate him.

Rolph, Nov. 21

See him Mon. about test

Topic: Incidence

Black, Incidence of Inc Tax, Ch 2, 3, 4, 9, 10, 11
✓ UK Hicks, Terminology of Tax Analysis, EJ, Apr. '46
+, look at some incidence theory as referred to by Black.
General criticism of tests: were technically ok, but
relationships to larger issues not pointed
out

(K. took one d.r. for all discounting, said "the" d.r.
which equated value of future yields with present supply price, but
if you have different rates for different years)

K. says supply price of asset, not mkt price, is to be
equated to discounted yields. Distinction of mkt price & supply
price is between monop & comp.

Rolph thinks most people who deal with declining mp
are fuzzy as to why it declines

K. says stock mkt affects mec - saying cap gains
are part of mec

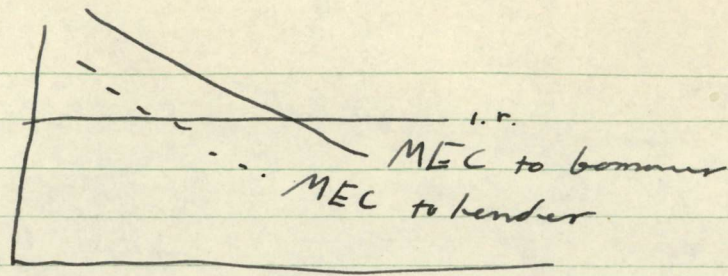
Abstracting from risk is same as having
'certainty equivalents' -- you act as tho
possible outcomes could be treated as one
outcome. Means all assets are perfect
substitutes -- after deducting for risk

To get a falling mp schedule of cap yields, you
must assume individual owns a resource, whose value is from
excess over marginal, & this will be capitalized at marg. i.r.,
so individual with no resource but cap. can't get these
supermarginal returns.

Rolph thinks distinction of insurable risks vs uncertainty
is overdone.

Unless borrowers make same projections as lenders,
"the i.r." is not equated with mec, for lenders cut borrowers

Off sheet:



? { Now, if impose taxes, less production, need less m to transact,
people use m to buy securities. But are fewer sec. to buy.
i.r. falls.
But -AM -- ?

With K Theory, get solution that i.r. falls, inv. not discouraged

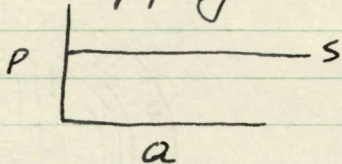
Rolph thinks if you assume certainty, you assume no risk, so
cash m held for spec. or precautionary motives, only for taxation,
so supply of loanable funds not affected by i.r. -- wrong
in 2 ways. 1, Certainty equivalents do not imply certainty, &
you do not stop holding cash for precaution etc.
2, You will A com.

Rolph criticizes K. because his theory
assumes certainty. Seems pregame to me

Rolph, Dec. 2 ~~See him after class about test~~

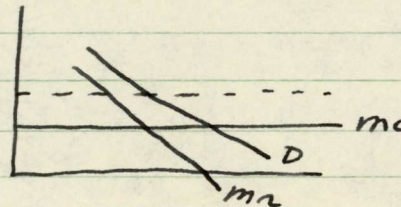
For next week, answer question, to what extent does empirical evidence help ~~to~~ know about tax incidence? Do own research, come in & cf. notes

Perfectly elastic supply he calls same as constant costs.



Is this the idea of constant costs?

With monop, tax also raises p & lowers returns to suppliers raises price less than would otherwise - e.g., with constant costs, is clear -- is due to difference of slope of D curve & mr curve



Brown's analysis of sales tax gets unusual result that sales tax is ~~not~~ not regressive, but but proportional to income --- because it reduces returns to producers, i.e. it is not shifted forward in which case ~~it is~~ it is ~~is~~ does not exempt saving etc

???

Does gov't demand, from spending tax money, bring factor returns back up? Resources now work for gov't. So prices rise - get ΔP despite ~~the~~ supposed deflationary effects, for is as much demand for factors as ever. Prices rise, people buy less. & get ΔP because of $-\Delta T$ --- the true services of gov't do not require T . Brown assumed no change of gov't expenditures

Brown's work on social security, c. 1922, standard work on subject --- concluded social security tax would lower wages.

Re Michigan case of Brown, must have demand elasticity > 1 to get inflation.

So prices at home rise -- unless
~~at~~ other states tax sales too. & foreign
prices tend to ~~fall~~ fall -- more supply, less
demand.

Shifting:

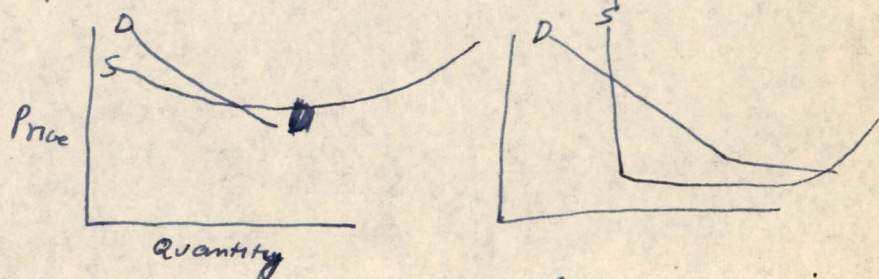
No end of possible taxes & possible conditions. Work some out.

Tax conditioned on production or exch. vs others.

Immediate effects vs. effects after adjustment - esp. on durables.

Tax on increasing cost vs decreasing cost industry.

The decreasing cost industry is either monopolistic or non-equilibrium, else it would increase production & sell at lower prices. But



conceivably marginal units might not sell. — each firm would expand because it could then lower costs. This means optimum size of each firm is larger than present size, so this is non-equilibrium. — i.e., if the decreasing costs are decreasing because firm's costs are decreasing. If it is because whole industry's costs are decreasing, because demand allows new areas to be settled, new costly research to be done, etc, then S curve looks so:



Again, non-equilibrium.

Tax on ~~incr.~~ decr. cost ind. is added to a dynamic situation in which small firms are ~~being replaced~~ becoming larger & fewer. When situation is worked out it becomes normal tax, ~~is~~ split among many. While costs are decreasing, suppliers are in a terrible comp. position. — they are being weeded out anyway. This means consumers are already buying below cost from many of them, have the better position. It is the one in the better position who will be more elastic, bear more of tax. ~~is~~

i.e., ordinarily we say if demand is more elastic than supply, supply will bear the tax. — & if it is absolutely inelastic demand, it bears

Shifting, 2

entire tax. ~~How~~ ~~inelastic~~ ~~supply~~ What makes inelastic supply?

~~At~~ Natural limits, as on land - & on labor also, in short run. Monopoly gives unpredictable supply. - it may increase production tremendously in response to Δ demand. Probably monopoly supply is inelastic, so monopolist bears excise tax, more than in other industries, in general. He could reduce output, but his interest is not to.

Above is thinking of excise taxes. Poll tax would lower real wage at margin, & ~~this would~~ lower real wages everywhere. But it should not be considered in these terms - it is a factor reward, it increases cost of being alive, not factor rewards.

Prop. taxes should be treated ~~just~~ like excises, but with int. considerations added. Say a tax on improvements alone. - & assuming it is an old tax. New improvements are not built unless demand will cover both cost & tax - which rules out marginal improvements. This is just like the regular excise considerations. But 'prop.' will be taxed every year, not just once. Consider it for its yield - then it is as tho it were currently produced - regular excise considerations hold. - except that supply is less mobile, less elastic. Marginal supply is just as elastic, but most of supply is already produced. Inelastic supply means it bears brunt of ~~tax~~ new tax. But in long run supply is normally elastic, probly a normal amount is passed on in higher price & less production.

In producing items subject to prop tax unusually high % of surplus is used - at least is in product. So int. cost is very high %. Elasticity of supply $\therefore$ depends greatly on elasticity of int. Prop. tax in general reduces yields on surpluses in general, $\therefore$ ~~thereby~~ reduces incentive to save, ~~but it reduces~~ by reducing i.r. If only one category of surpluses is taxed, yield in others will be higher, most of tax in the one category will be passed on - no, no greater %, for then demand could shift to the other categories just as well. Both supply & demand in the category would be curtailed, equal distr. of burden.

Land? rent take up?

Special int. considerations?

Shifting 3

Prop. tax on improvements then is just an excise on durables that is collected in proportion to durability. It is: especially a tax on int. & amortized returns. i.e., if factors produce in fields of perishables they pay only once. If they choose to save, to accept rewards slowly over years, they pay many times. A tax on saving, on real saving i.e. The one who ~~saves~~ 'carries' the surplus pays. From producer's view, he is taxed once whatever he sells; from consumer's, he is taxed for saving, escapes if he consumes. So does ~~prop~~ improvement tax fall exclusively on int?

That depends on whether perishable prop. can be substituted for durable. If it can, completely, then demand for factors is as great as ever. If not, & this is realistic, then demand for factors is reduced by ~~prop~~ ^{impr.} tax. They will have to reduce their demands, & bear part of tax. ~~Probably~~ They can shift to perishable production some, however, & int. cannot, so it takes most burden on supply side.

Will impr. tax all come from rent? No. It reduces yields on good & marg. land indiscriminately ~~reduces~~

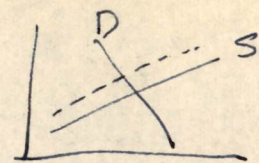
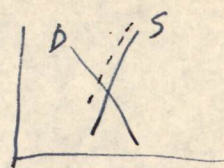
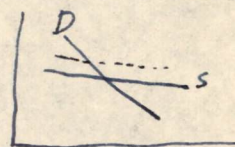
(This fact affects 2 Georgist ideas: a) That free trade raises rent
b) That ~~impr.~~ taxes reduce rent. a) Free trade increases productivity over all land, raises wages rather than rent b) Impr. taxes reduce yields over all land, lower ^{& int.} wages, not rent. Both facts mean it will not raise rent as much as we supposed, ~~so~~ will raise wages more.

~~So~~ Impr. tax hits ~~non-int.~~ factors because in order to use products in durable ways one must pay this special tax. If no int. existed, still the tax would have to be paid. It pushes ~~surpluses~~ factors into producing perishables, but the return there will not be as high, & productivity suffers. - if not in money returns, then in what money will buy.

The 'yield' of a durable is $\text{int} + \text{amort}$. Value is from capitalizing yield over years. - you figure ~~the~~ what you realize each year is subtracted from what you expect int on in future years - taxes are simply subtracted from yield insofar as they cannot be added to price.

Shifting 4
De-

Increasing cost industries; ~~low~~ tax decreases supply tremendously, is shifted. This is a very very elastic supply - so elastic that reduced demand not only does not lower price, it raises it.



Should tax be added to S or D? curve. Supply, as usually administered. But (What about total effects, on all prices)

If ~~the law~~ impacted on consumers, tax curve should be a subtraction from demand. - & this is realistic, when considering passing 'backward', i.e. from impacted to their suppliers. This is more than a mere formality - tho perhaps impact itself is a mere formality. But given a certain impact, it matters which curve you add to.

~~In general taxes will not reduce productivity, because the one must pay more & get less, in return one gets govt services. Even on margin, considering this, raises rent?~~
~~However, tax is taken from~~

Assuming rev. is to be raised somehow & comparing different taxes, we do find excises decreasing production margin. ~~Govt~~ (which is doubtful)

Govt services in general will not raise rent ~~because~~ they raise margin as much as other productivity.

This view makes wages, not rent, the inelastic item that catches benefits & v.v. But it is assuming a margin fixed in ^{general} space & variable in yield. Actually spec. will quickly lower spatial margin almost to old yield level when changes occur. This is why rent actually absorbs so much of the change.

Shifting, 5

Leigh concluded that special taxes could be shifted because cap. would avoid field, & general taxes not because cap would have nowhere to go. Other view is that special tax cannot be shifted because no one else will raise price, & general taxes can because all must raise price.

Actually, both are true tendencies, true of all factors not just cap., & weight of each must be considered.

So total effect of universal excise is to divert demand from what consumers would buy to what govt will buy. Consumers buy govt by paying more for products. Demand for products so discouraged is taken by govt, so factor rewards are no less in general. The only harm in excises then is: a) They replace but b) They are a nuisance c) They slightly misallocate resources. d) Govt may waste money. ? e) They are conditioned on production & exch.

Do they discourage production & exchange? If so, it is not by reducing demand for products, as govt demand replaces discouraged private demand. But they do discourage production by being conditioned on it. This is why they are bad, chiefly.

Also they come out of wages & int, while lut doesn't, because they affect the margin as much as anything.

Taxes levied so as to have incidence on mobile factors ~~or~~ consumers drive marginals out. The tax will be paid by those remaining, but rewards in these lines will remain "equal to" those in other lines. So other lines are affected, thru mobility. But land is not mobile, often not diversifiable, will bear taxes. But this is a matter of degree. - land may often be shifted, too, tending to spread the rent reduction. & when all production is taxed, no factor is mobile in respect to it, mobility $\therefore$ plays no part in determining which shall bear it.

Physiocrats said all taxes came from ~~the~~ land rent; Hobson from Pareto rent. 2 angles at least to Pareto: productivity of surplus & labor beyond what is paid for them - this is econ. rent, & on margin only most productive factors can be used & they bring no surplus. This is

Shifting, 6

amount paid to factors beyond what one would need to pay to attract them. Latter is really it. ~~the taxes~~ Taxes do not reduce this differential. They do reduce amount of such differential for particular factors, by moving them closer to the margin. But they do not catch the differential itself. - they affect all factors alike.

'Capitalization' is shifting of future taxes to present owner.

Note how prone I am — & others are more so — to think I have a subject all figured out when I don't. You never have it all figured until you have a perfect outline figured out.

The lumber severance tax will be paid by land, because lumber land is less mobile than other factors. i.e., the inshiftable part will be paid by land. Supply is inelastic I presume - supply of land i.e., not of lumber -. Lumber supply may be elastic, demand probly more so because price is unusually high, supply is getting unusual ^{"dig."} monop. profits, which makes it less elastic, more likely to bear tax. It is less elastic because few firms are marginal.

Taxes on monopolies that vary with output encourage further restriction, to find new point of max. inc. [Net inc. tax will have no effect.]

Doubtful. It varies with output. - business inc. i.e. It will of course affect non-monop-ists, drive marginals out, allow others to get more. But the But graduated inc. tax probly won't affect marginals - this is Hobson's point. ∴ it will not reduce supply, not raise price. But it doesn't follow that ~~the~~ distance from being marginal varies with income - of individuals. It is true of firms. But ~~while~~ a firm with no income is ^{not nec} certainly marginal, & a firm of large income may be - depending on what factors' rewards consist of the firm's income. Marg. firms & people are not nec. poor ones, just ones who require extra inducements to enter production. Even grad. inc tax then cuts out some marginals, is passed on.

Note - as it raises prices, it will further reduce rewards from pp. angle as well as yields. Circularists could 'prove' from this that all production must cease, for as real rewards ~~are~~ decline more factors are withdrawn, further raising prices, further withdrawing factors, etc ad inf. A tax on all production, a universal excise, would be subject to this argument. Actually the price increments prevent further factor

* Shifting, 7

withdrawals. - they increase rewards as much as they increase them. All circular arguments depend on such an oversight of compensatory items.

Prevailing incidence theory does not consider effect of reduced purch. power due to reduced factor rewards. But as govt. spends money, no matter.

If we can say of the grad. retinc. tax that it is less shiftable because it is, crudely, esp. tender on marginal individuals, we must note that it is especially severe on marginal efforts of supermarginal individuals.

It is possible that higher rewards for factors, if general, should reduce the ~~numbers~~ supply. But it is not possible that this situation might continue, for it is unstable. When demand increased supply would decrease, until price rose so high that rising rewards attracted more factors. - they would do so not only by enticing idle factors, but by increasing living costs to idle ones. & v.v.

Above ~~does not~~ apply to question: do taxes increase or decrease supply? ~~if~~ if they do increase it, no harm done. However, if they do, then lower demand would also increase it & that is impossible. Few empirical studies of shifting.

Who benefits from highways? Yield at margin increased. for non-users too? Say I can now get food cheaper, tho I never drive. Will this be taken from me? By truckers? - no, they are freely reproducible. By owners of terminal land? Not if highway improves marginal land as well as better. Of course it will affect different land differently - but looking at its very general effect, to increase productivity of all land the same, ~~the~~ land owners, with in general will be in no position to take the benefit. As to the benefit's being distributed equally among the mobile factors, this operates by specially benefitting certain ~~the~~ ones. Now if we impose a tax on some of them to pay for it - the ones who actually use the highways - this will decrease the benefit they receive, & also that they may pass on to others in benefitable positions. It is reducing the benefit given - roughly, it is making the consumers pay for the product, so the only gift involved is govt.'s abstaining from using its monop. position to charge extra. This reduces the effect in increasing yields - tho that is inevitable, as they must be paid for somehow.

~~Taxes on Business~~ Shifting, &

anyway. But as it is an excellent sort of production, yield is increased vastly more than it costs. Well, this means fewer will rush in to occupations whose yield is increased by highway.

Groves, Financing Government

Ch. 7: The income tax, background and procedure.

These notes, like all my notes on books of my own, cover only items relevant to the course, leaving much of general interest underlined in the books, to be noted later perhaps

It is a common opinion among economists that the ratio of "property" owned to income is larger among farmers than among other producers. This is obviously impossible, for if it were so no one would invest in farming, and farm land wouldn't have the imputed value, etc. However, the truth may be that in computing this the statisticians have truly recorded that the physical assets value in manuf. is relatively smaller, and the cause of the higher return on investment there is that monopoly is more common there, and it is not ordinarily listed as an asset, nor is it necessarily connected with particular land, but rather with a particular person.

The strongest argument for ability to pay taxes is that they are assured of collection, while benefits received taxes might force bankruptcy proceedings against indigents, etc.

Corporate earnings were allocated among stockholders, realization not necessary, in civil war tax.

1909 corporate income tax of 1%, 5,000 exemption. 1913, personal income tax amendment.

c. 1912, Wisconsin enacted the first satisfactory state income tax law. Now 2/3 states have them.

Life insurance receipts, gifts and inheritance, u.s. pensions, not taxed. Nor state and munic. bonds, pre-1940 Fed bonds.

If instead of deducting items from the tax base, you deducted small %s of them from the tax itself, everyone would get an equal deduction. As it is, the higher brackets are saved a higher % of the deduction. On other hand, lower brackets get to deduct a higher % of their income, increasing the progressivity of the tax rates; even a flat rate would be progressive.

Normal tax has 500\$ exemption, surtaxes have 500 for self and also for each dependent.

Certain govt bonds exempt from normal, not surtax.

Deduct three times from gross income: income not taxed, deductible business expenses, personal allowance.

Corps taxed flat until 1935, when graduated scale introduced. - still virtually flat. *J*

Wartime excess profits tax was 1/4 95% of the excess profits as defined. (F29?) Postwar credit of 10% of the taxes paid, 80% max for inc and e.p., .

Only 7 state inc taxes have top rates above 7%. High exemptions.

Philadelphia municipal income tax, first and only such. Pa. permits cities to tax anything not taxed by state, and no state inc. tax. 1%

Ill. has no state inc. tax.

In Eng., "irregular receipts", as sale of investments, not counted as income.

Fed tax does not touch income that is produced and consumed personally, without exchange. Some state taxes, as Wisc, do, on farms. In Eng, rental value of owner occupied house is counted.

The implicit interest one receives from ownership of consumable surpluses should be counted, but the amortization, or the consumption of the corpus, has already been counted, already taxed.

Consumer coop patronage dividends not taxed to individual recipients. Coop's "own" income not taxed either, if it is agricultural, and more than half its business is with its members.

You cannot deduct, I judge, for expansion.

Groves, Chap 7, 2

Capital gains may result from monetary inflation, be illusory. But not so illusory at that, for when the new debts that caused the inflation are repaid, money will again appreciate and the goods depreciate, and one could have sold his goods when they were high. Assuming the inflation is from the kind of debts that are repaid, not govt debts.

You may deduct for depreciation, obsolescence and impairment of "capital". And if you are a miner, you can therefore deduct the ~~deprec~~ impairment of your mine as you take the coal from it. Encourages ruining resources, perhaps, if administered so. Often criticized as overgenerous to mineral owners.

"Reasonable" depreciation etc must be figured rather arbitrarily.

In w.w. 2, fed govt started to collect at source. States still use "report and collect" method. Europe has collected at source for years. Along with this change, taxes were collected currently instead of waiting. Previously, Jan 1940 to Jan 1941 income was reported on March 15 1941, and paid possibly in instalments thereafter. With change, you pay as you go.

Fed tax now uses "information at source" method. You are required to report your payments to others--of interest, wages and rent.

Fed law says individuals keep books at their own risk and they are available to govt field auditors at all times.

British tax farmers on "presumptive income"---what their farm would ordinarily yield under ordinary management. Approaches LVT, but perhaps is a tax on income from surpluses, too.

Much reliance placed on honesty, especially of the smaller taxpayers. Ha.

In GB you report by code rather than name. All states but Wisc keep inc tax info confidential. Once you could inspect fed records, but no longer. Public inspection in Wisconsin has exposed many frauds. Many taxpayers given huge refunds, it is said because they are campaign contributors.

If your net income is less than \$5,000. you probably won't be inspected. Others are sent to Washington. GB much less centralized, has 725 district agents with wide discretionary powers who settle most cases themselves. That's getting authority pretty far away from the voters.

Chapter 8: Difficult applications of the income tax to cpl gains and losses, corporations, and their security holders.

1944 law: gains on items held under 6 months, just like regular income. Held over 6 mo., cut in half, then treat like regular income. Or, optionally, tax at 25% maximum. Losses can be deducted from gains in full, and from other income up to 1,000. 5 year carryover.

British ignore both gains and losses, with arbitrary, important, difficult to administer exceptions.

1926-40, net income from cap gains, with allowance for losses, was 15.2% of individual income tax receipts. Gains esp in upper brackets, losses in lower.

If not realized until death, gains not taxable.

Losses are somehow segregated, so that you can only deduct them from gains in a similar category. Much resented.

Since one must pay a premium for tax-exempts, ~~that~~ you do not avoid taxes, but favor issuers.

Groves, Ch. 8

Eng. corp tax is a collection at source device, is deducted from stockholders taxes.

Formerly, intercorp dividends not taxed at all. Now only on 15% base.

Public utilities famous for passing on taxes to consumers.

Before 1930, cash dividends exempt from fed normal tax.

Some states deduct corp taxes from stockholders'.

Stock dividends not taxable until they become realized capital gains. Just the same would happen if plowbacks were made without stock dividends and ones stocks appreciated.

But dividends in stock, i.e. stock of other corps, are taxable just like cash.

Varying supreme court decisions. Dividends of preferred stock to common stockholders are taxable income when given.

1920 Eisner vs. Macomber decision that stock dividends are not taxable, followed by great increase in stock dividends.

Excessprofits tax allowed as deduction in computing income tax, for corps.

1923-33, corps plowed back 30% of their profits; figure rising to 40% in late twenties. This is ~~tax~~ deductible from corps income?????--at any rate, from stockholders income until realization.

The best way to bequeath is to keep stock a long time, pass it on, for it is then not taxable for capital gain.

I think that plowbacks are often not deductible.

Statutes say that if income is withheld from distribution "for the purpose of evading individual taxes" it is taxable at prohibitive rates. But this is not enforced, for intent is impossible to prove. Laws should use behavior criteria, objective.

Chapter 9: Other income tax problems

Avoidance methods: tax-exempts, holding cap gains til death, reinvesting corp earnings.

You can incorporate an investment company to get your earnings, only 15% of its income from other stocks is taxed. If you can keep it from qualifying as a personal holding company. You can incorporate some consumption surplus, assign some stocks to it for income, deduct the upkeep expenses as business expenses, rent it to yourself at low fee. etc. By incorporating your securities in Bahama Isl.s, avoid tax. But these loopholes have been partly closed. But you can still evade thru an investment h.c. not so closely held as the legal definition.

Trusts must pay personal income taxes, its the law. Since 1937 trusts no longer get that 1,000 exemption apiece, but they still can be created without limit to split income.

Most common evasion method among wealthy, gifts within family. The gift is not deductible, but it reduces donor's sources of income. Recipient is taxed on income from gift, but doubtless at a lower rate. He must also now pay a gift tax.

Read Wedgwood, Jos, "The economics of inheritance".

Had all corporate losses been offset against gains, 1922-1939, net income would have been reduced 45%. That represents corps whose losses never were offset by gains within the 5 year limit. ? New small companies in equipment goods industries

Groves, Ch 9 cont

the most typical losers. But carryovers were only for 2 years before w.w. 2, and in the 30s no carryover at all was allowed. This makes the 45% figure more believable. In w.w. 2, carryover and carry back of 2 yrs each way permitted making 5 yrs in all. British allow 6 yr carryback.

1924-43, earned income favored.

States allowed utter leeway in claiming authority over taxpayers. States use different criteria, much confusion possible. I'd say that certainly only the state in which one is a voter should tax him.

State taxes are deductible in figuring fed tax.

1932 Illinois passed an income tax law which state supreme court declared unconst, because it did not treat all property equally. And Ill. const cannot be amended.

Chapter 10, Death and Gift taxes

Average effective rate of Wisconsin inheritance taxes of 3.1%; typical.

10% British nat and local revenue from death taxes. 5% in u.s.

Estate tax main revenue source everywhere because simpler to administer than inheritance. British exemption: 400£; ours, 60,000\$.

1885 NY tax first successful one, but proportional. 1903 Wisconsin tax progressive, the first really "scientific" one. Different rates for different degrees of relationship.

1924 and 6, Federal Credit enacted. Only Nevada has failed to take full advantage of it. Whatever the state law requires of the estate it gets, and ~~only if~~ then the fed tax is calculated and everything which was paid to the state is considered paid, fed govt collects extra. Except that the state cannot take more than 80% fed govt's claim---it can, but if it does estate must pay it all, no credit.

Some insure selves against death--life insurance---. You also insure against death taxes, pay the company and when you die it pays the taxes.

1894, British death tax inaugurated.

Income tax hits spendthrift and saver alike, as far as annual consumption is concerned. But death tax only hits the man who saved, therefore especially reduces saving.

Ø Estate tax can be paid on instalments for ten years, hence need not force liquidation.

If estate is transferred twice in 5 years it is usually exempt from two taxes. Estate may be valued a year after transfer, to prevent hardship.

Most state inheritance funds not earmarked, but in general fund. Very poorly administered.

States claim tax against each other often, so that one estate may be taxed several times, and must pay them all. Heirs domicile gets no tax; decedent's domicile does; state in which property is gets to tax; 1932-9, this was not so, but before and after those dates double taxation has been possible. State in which corp is domiciled has a claim on stocks that are ~~not~~ devised, as does state in which the stocks are kept in safe deposit. A States in which corps own property cannot any

more.

Groves, Ch 10, cont

1932-42, state of domicile of corp could not tax, but before and after they can. Multiple taxation common at present.

Investigators have first crack at decedent's safe deposit vaults, and insurance records.

If two states both think they can prove domicile, both can tax an estate. Certainly at least they should make each state fight the other for one tax, rather than let each tax it.

Gifts: in contemplation of death, to take effect at death, "causa mortis or death bed, and inter vivos or not concerned with death.

The fight is between the first and the last. Wisconsin law declared that any gift made less than 6 years before death was presumed to be in contemplation of death, therefore taxable as part of the estate. Supreme court threw it out. Now the law states that if gift made 6 yrs before death, or less, burden of proof is on the estate that it was not in contemplation, i.e. it was inter vivos.

Trusts may be created so that income goes to the settlor, and to the beneficiary only on the settlor's death. This makes it a "gift to take effect at death", and part of the estate therefore. If the trust is revocable, or reserves a life estate to the settlor.

Gift tax designed specifically to prevent evasion of inheritance tax -- avoidance, rather --- by gifts. However it has its own exemptions, cuts tax base in half if used judiciously. Also somewhat lower rates than death taxes.

You can create a trust that is a life estate with a remainder, which means property will be used to support your son while he lives and then go to your grandson, being taxed for only one death transfer. This is the common practice among estates over 60,000.

Administration of law, and possibilities of avoidance, are such that death taxes strike mainly those estates whose decedents die unexpectedly, without having a chance to put their house in order. Most cases of gifts are decided proven that gifts were not in contemplation of death.

Fed and 11 states now have gift taxes. Fed tax: 1924-6, and 1932-present. 3/4 rates of fed estate tax. Gifts are cumulative. Not later taxed as part of estate.

Fed estate tax dates from 1916.

declared them legal.

In Sweden church and state education systems are "merged", with evidently no dominant.

Most states forbid public money for sectarian education.

1941, 2.5 b.\$ total expense for public education, c. 30% local exp.

60% educ cost from ~~state~~ local, 36% states, 4% fed. 70% from prop tax. Wide variations in state support, but it is largely a matter of central collection.

100,000 indep school districts in country, typical units of school support. Are not most school districts integrated with villages, cities, etc????

Most common state aid: flat grant per unit of educational need, which is variously defined in several obvious ways. Over half all state aids are in this wise. 2/3 states have some sort of equalization scheme, subsidizing poor schools--mostly in those districts where ratio of children to prop value is high.

How about this problem in general? For lvt, that is. Obviously, revenues should not be returned to their point of origin, for that is against the whole idea of common prop. On other hand, many reasons say they should be locally administered and collected, with worldwide equalization being taken care of by allowing free immigration. It is not private property, even for the group, if anyone can move in to enjoy the benefits of the economic rent. Then what incentive for local improvements? Why not? If the revenues are not used for that, they will be returned to all residents, and that will encourage immigrants as much as the benefits of public works. However, suppose the public works will benefit the society more than private returns, but citizens consider result will be higher land values, which will mean more returns to them for only a short time, soon will bring more immigrants. However the new immigrants will again increase values, so absolute rewards of old citizens will ~~not~~ for some time still be larger thanx to their improvements. Much to work out in this.--but immigration is the key to the solution, avoids necessity of worldwide authority directing all expenditures, which is absurd.

Fed govt's small % is mostly for vocational education, and in defense areas.

'33-7, PWA built 80% all public construction in u.s.

1916, Fed Highway grants-in-aid started. ~~597~~

Highways should be constructed by central govt units if they are thru roads, else nonuniformity is a bother. Kansas delayed road building, great nuisance. Distribution of lvt revenues for this purpose, as for other central purposes, no problem: localities make original collections, then contribute to central govt in proportion to their local values. But this discourages municipal improvements? Well, as the public works built by municipalities are built from lvt money, they should not belong peculiarly to the municipalities. who produced them. It will still be advantageous to order municipal expenditures most economically because only a portion, and I hope a small portion, is to be centrally collected, for one reason. Also a time lag will certainly exist between improvements and immigration resulting, and another lag between immigration and getting on the g.i. rent rolls---tho this should be short, so as not to penalize migration. But what of long term projects? If citizens take g.i. rent now, they get entire benefit; if they build permanent public works, they share benefit with future immigrants. Perhaps it is well that govts do not build many permanent public works, as common property.

As to units of local collection, they should be organic, include both places of residence and work, so that no problem shall arise of whether people should receive g.i. rent where they live or where they work. There could be many people who lived on one area and worked in another without causing trouble; the trouble would come if some small non-res. high rent district were a separate tax unit and its few residences got all the g.i. rent. Then ~~if~~ it would be invaded by residences and it is presumably more suitable for other land use. Immigration would tend to make equal the per-cap g.i. rent in all places. Yet it would only be a trend, and probably not the strongest one, influencing migration. ~~But~~ But the other trends, which would cause high rents, while g.i. rent results from high rents, would work in the same direction. So per cap. g.i. rent would tend to be equal. That is public exp. /cap would be; but there might be great community differences in ratio of revenues spent on public services and works, and on cash returns to citizens. Public services would not be discouraged, for they are annual, are for immediate benefit, might just as well be taken as money, if desired. But permanent public works, like roads, parks, etc, would bring an influx of pop. until per/cap benefits were equalized with other localities. The solution: let the payment for the works, as well as the benefits, be in the future; build them by borrowing, pay the debts as the works depreciate. Now, then, what is to prevent a municipality from borrowing for current expenditures, then moving away and leaving the debts? Mainly that they could not get loans for such purposes, under lvt. Under today's system, of course, they could, because of their equity in the land they will stay anyway. So borrowing is the solution. Thank God.

1921, Fed Aid System of Highways authorized, not to exceed 7% mileage in any state, aids distributed according to 3 ratios: area, pop, miles of post road; fed aid system not contiguous with fed highway marking, which is for convenience of interstate travel, but two systems are almost identical, because each is for main thru routes. Wisc: 10,000 miles state roads, 18,000 city rds, 60,000 munic. streets. Only fed govt and school dist. do not administer some roads. ~~As~~ Since 1930, trend to centralization under states for highways.

Local highway administration has often been wasteful, for small units evidently. But under central administration of course problems of who gets what arise. This is a matter of technique, the only principle being that the optimum size productive unit should be sought, granting that with no competition it is easier to be wrong. But the major problem, seeking special regional privilege, will be negligible with lvt.

State highway funds embattled, between city and country, as well as many other categories. Cities have lost..

"Prominent English architect" says NY slums are worse than in any Eur or S.Am. city.

Welfare: relief, welfare, social security; 5 b, all units, 1941. 1913, est. .05 b\$.

Late 30s, fed govt discontinued direct relief, started work relief and categorical aids. Relief is not usually granted in cash but, I guess, in food esp. Categorical aids are in cash, to children, aged, blind---thru fed aids to states, passed in 1935 Social Security Act.

Chap 22: General Aspects of Public Expenditures.

Taxes have only been increasing in real terms per cap, *only* since sometime in 19th cent.---and perhaps late in 19th century, or even in 20th cent.

Cyclically, govts have spent freely in booms, stopped in depr.

Eur. govt, at least France and England, far more centralized than we.

Nazi Gy, govt could force industry to employ as many men as he ~~way~~ fit, whether needed or not.

In Sweden we have a situation of govt participating in much enterprise, but not regulating other enterprise so much. This seems more compatible with democracy than having govt regulate enterprise. So socialism has different shades of tending to authoritarian govt.

"Theoretically the fed govt has no police power".

260,000 sq mi land grants to r.r.s; cf with 114,000 for schools. Helps to explain why our frontier was not such a free frontier after all, why we were not so much better off then than now.

Swede govt has monop. of liquor, tobacco and radio.

Increasing cost with increasing size common in big cities expenses. Is this because they give more services? That is probably partly it, but on the other hand they give more because they have to give more, because nature provides less. That would be true of water? No. One uses no more water because he lives in a big city.---and what he uses he pays for anyway. It must be mostly increasing costs of producing the same things per cap. Groves says that big city standards are higher, but also many outlays for health, welfare and recreation are found in big and not small cities. Cost of water is obviously greater for big city per cap, but I don't know if this is paid for at all by taxes. 1926 cost of urban govt per/family NY: 151¢; typical 2d class city, 56¢.

In some states only prop owners can vote on bond issues.

Increase in graft not so; probably has decreased.

Self-liquidating, reproductive, productive, and non-productive public expenditures. Repr. are those that redound to public good later. Prod produce direct pleasure.

Ch. 23: Expenditures for particular functions, and possibilities of economy

Protection, education, public works, welfare, administration.

In war 1, defense plant credits supplied privately.

Table, p. 488, 1941 fed state and local exp. p. 469-70, fed exp 1791-present, and all units.

Renegotiation operated only one way--did not compensate losers. Or were there any?

Administrators went beyond their powers in renegotiating to consider all elements, not just one they were renegotiating. Here is example of how little control voters have over powerful govt.

Costplus used much in war 1; less in 2. Cost plus fixed fee used more in 2---it is open to obvious abuses.

1825-50, battle in north for non-sectarian public schools, won. elementary. Gradually secondary schools too---1874 Kalamazoo case

Chap 18: Non-tax revenues
Decreasing in importance. Special ass., sale of public lands,
revenue of munic. enterprise.

In 30 public land states, 114,000 sq mi donated for schools,
of which most was profitlessly alienated.

Many Eur. cities buy outskirt land for cheap housing as city
grows.

P.O. delivers periodicals below cost.

Peak load etc service often costs more, higher rate than is.

Municipally owned utilities avoid fed income tax on corps,
and individual stockholders, hence can charge less.

c. 90% U.S. ~~drinking~~ water is municipally supplied; conceded to
be correct. Municipal electricity successful in Ontario, elsewhere.
Recall the S.D. cement plan for a most miscellaneous state owned
enterprise. N.D. has state mill, elevator, bank, ins., all lost *(to fight cement money)*
money.

Public corporation looked to as remarkable new device. However
this is being blinded by the superficial form the fundamental.
Directors of private corp are required to make profits; of public,
to get votes.

15% revenue from municipal services is average.--from munic.
enterprises, i.e.

Judicial process characterized by much foot-taking. This is not
as it should be. Litigation should be free.

Result of prop. tax limitation laws is to make municipalities
charge for services. Sewage disposal, e.g.

Local sheriffs and Justices of the Peace often paid by fees,
which encourages them to do dastardly deeds.

I think fines should be large, and a handsome way of punishing
and raising revenue, esp. from the rich who try to pull deals.
Jailbirds live on the public. It is better for people and for
society if they work to pay fines. If they won't pay, they should *be much*
punished.

Groves, chap 23, cont

Colo., 1936, 45\$/mo. for those over 60 passed by referendum vote, organized pressure of old timers. Cramps other state expenditures.

Only a few states and lower use the "merit system", and fed govt does not use it thruout. However its benefits are in doubt, it has such stultifying and bureaucratic tendencies.

Centralized purchasing an area with great possibilities for economy.

Groves, chap 6: Shifting and incidence.

Backward, forward, and capitalization shifting distinguished.
Physiocrat theory that all taxes came from rent.

Hobson, they come from Paretian rent.

Canard, diffusion theory.

Prevailing theory, as developed by Marshall esp., Seligman and Edgeworth.

Shifting easy when supply is elastic. They say this is true when prices are above normal, when tax is imposed on all competitors (but they later say, or Leigh does, that the opposite is true, because then capital can migrate)
Decreasing cost industry argument.

Capitalization shifting is different: is more concerning sales between persons in the same line of production, not from producer to consumer. Not sales in the "ordinary course of production and exchange" in static economy, but sales involving changes in personnel and/or structure of production (or residences) reproducible

He claims that ~~non-reproducible~~ goods cannot have tax shifted by capitalization as easy as reproducible, but he is confusing capitalization and shifting to consumers of current yields. Once the tax sacrifice is determined, it is completely on the present owners, but it is possible that it may be shifted to his consumers of annual product in part.--in fact it probably will, just like any tax on active factor rewards.

? Monopoly taxes will be shifted if on gross income, not if on net.

Chap 11: Taxes on Business

A. Sales, property, excess profits, corporate net income, gross income. B. Occupational taxes, incorporation fees, capital stock taxes, corporate excess taxes.

Retailers can be taxed harder than manufacturers, because they have no out of state competition.

South, and France, have occupational taxes.

Incorp. fees usually based on capit. stock

Capital stock tax so-called is combined with excess profits tax, declaration of value allowed at any level. One can take any profit and the tax schedules and decide what to declare a cap stock.

Corporate excess tax now in little favor, only Mass. makes much of it, Ill. has small one. On corp value above tangible assets.

R.R.s taxed centrally in most states, by "unit rule" treating it as organic whole. Securities, income, physical value are various indicators of value. Then tax is apportioned among local unitson various bases, states however now compete among each other to tax r.r.s more; average state rate is usually then applied, revenues distributed on various bases.

Minnesota uses gross earnings tax on r.r.s. Simpler, and if administration is poor it is the better tax, otherwise property should be evaluated.

Utilities are valued once for rate making and again, differently, for taxing. The rate making valuation is simply a determination of the return necessary to draw capital into the business. ~~of/capital~~ differences creep in here.

Groves, chap 11, cont

Some states tax utilities on leased property, because they make a unit assessment.

Utility taxes are apportioned locally, should not be says Groves.

Municipally owned utilities are tax exempt, also Fed owned, tho TVA pays local taxes gratuitously.

Many r.r. taxes may be superimposed--they need not stop at one.

The many systems of valuation are not reconciled by any formula, nor is one used exclusively, but they are all considered in a "huddle".

Chap 12: Taxes on business, cont

Fed chartered banks cannot be taxed by local govts. Banks prop is mostly intangible, special problem. Special treatment is due to loancreating power, rather than intangible assets. Section 5219 is 1863-8 legislation about National Banks. Banks' real estate and its shares may be taxed at regular local rate.

Banks had taxation privilege under personal prop. tax because other businesses were taxed on gross assets regardless of debts, banks only on their equity. In addition, bank real estate value was deducted from its equity value before taxation "to avoid double taxation". But in practice bank equity was rigorously assessed, other personal prop. not, banks actual rate of tax was usually higher.

Gradually personal prop. taxes were abolished, but bank shares tax remains.

1921 Richmond Bank case declared this unconstitutional, states had to either stop taxing banks shares or tax all such items as personal prop.

Section M
? 1923, Congress amended section 5219. It said the share tax was allright, and added two other ways of taxing nat. banks: net income and dividends. Only one of the three could be used unless all state corps were similarly taxed twice. In other words, the taxes must be uniform with those on all state taxed corps.

1927 Hartford Bank Case declared that banks could not be so taxed especially---at this point the two new taxes added in 1923 were not special bank taxes, only the revised section on taxation of bank shares allowed special bank taxation and this congressional act was evidently declared unconstitutional, in effect at least.

Finally, in 1926 congress passed law permitting excise on bank's franchise, and the value of the franchise could be determined according to bank's net income. This does not seem to be a prop. tax, but another consideration. So the prop. tax situation is left with bank shares not specially taxed, as Richmond Bank case said.

The '26 law allows indirectly the taxation of interest on tax exempt bonds, which many banks hold in profusion, and add to their income, are exempt from income tax but not from franchise tax graduated according to income!

Many states still retain nominal personal prop. taxation and therefore can tax bank shares. In general, banks thought to escape unduly.

Insurance co.s declared not to be interstate commerce, subject to state taxation, c. 1905. --even tho now they are

Groves, chap 12, cont

subject to anti-trust law. Ins. co.s have nonetheless broken away from gen. prop tax on their intangible assets.

Gross premiums tax most common. Mass. taxes prop., Conn. on income from investments (for mutual co.s). Fed govt taxes them on net income of course, it is very difficult to determine. Very complicated pattern of classifications, exemptions, and state realiations. Dispute as to whether they are taxed higher or lower than others.

Chain store taxes, by states, many of them, on many different bases, some held unconstitutional because of "unreasonable classification", others ok.

Chap 13: Taxes on consumption

1940, 35% fed rev.: Alc, tob, motor fuel, } customs, in that order. Eur. uses them far more than we, and on necessities more. Probly less now than in 18th and 19th.

2.5 b\$ spent for public education in 1941, c. 10 b. for entertainment.

Rich purchase more things not hit by cons. taxes, such as personal services. Of course many luxury taxes are progressive. Saving is the real cause of regressivity, and saved money is no good until you spend it, so I wouldn't worry about that.

War 1, Eur. turned to sales tax, save Eng., it became one of most important rev. sources---most imp in Austria.

Tariff expensive to administer. c. 5%.

Chap 14: Motor vehicle taxes.

Gasoline tax is most productive state tax.

Chap 15: Poll tax

Chap 16: ~~taxation of property~~ Social security taxes