

tion of the tax to imports would be recognized as forms of government subsidy—in the first case to export industries, in the second as a tariff on imports.

A useful refinement of the value added tax that would permit it to be viewed realistically as a benefits doctrine tax would be to apply the tax to the cost of the value added by a business enterprise, rather than to its market price. This would exempt profits from taxation and would permit profits to be more fully an incentive for productive efforts. It could be made clear to any business enterprise that the most effective way of reducing its federal tax liabilities would be to reduce its costs of production. This method of making goods more competitive in both international and domestic markets would interfere less with the workings of the market place than do the government's subsidies.

In an address to the Tax Foundation in New York in December, 1968, Professor Dan Throop Smith of Harvard University said of the inequities

of the corporation profits tax:

"The two most useful changes in our tax structure from the standpoint of economic efficiency and growth would be a substitution of a value added tax for a substantial part of the corporation income tax and a reduction in the rapid progression and excessive marginal rates in the individual income tax."

The most significant feature of Professor Smith's proposal for corporations is that it would lead away from the ability-to-pay approach and toward a benefits approach. In the realm of personal income taxation, a reduction in the progressiveness of the tax would also have the effect of turning it in the direction of benefits and away from ability to pay. This should be of particular interest to those who realize the importance of a tax on land value, for it is a prime example of a benefits doctrine tax. The taxation of land values and exemption of improvements would result in taxes being paid to a municipality in direct relation to the benefits provided.

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VAT — A Common Market Tool

Europe is the source of much interest in value added tax. One reason is that Europeans are in the habit of paying only a minimal income tax. They employ various evasion devices available to them. In the U.S. the Internal Revenue Service is aided by income reporting systems which make evasion difficult, and penalties can be severe.

Europe notes that the U.S. market for equipment such as that for power generation and transmission is bigger than that of all Japan, Britain, Sweden, France, Holland, Belgium and Italy, together. They look on value

added rebates on their exports as a way of beating their GATT (General Agreement for Trade and Tariff) assessments against subsidies. These VAT rebates are not yet prohibited. This puts U.S. makers at a disadvantage in many products for the home market, without considering whether foreign competition at lower prices benefits the whole economy.

Protectionists believe a country is better off when not being paid for its exports, calling this a favorable balance of trade. Many companies are

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that Congress had the power to make laws to promote the general welfare—the power to levy taxes, but not the power to legislate, or to build houses. In the absence of such powers the system has been to give grants in aid, i.e. "if you do certain things in a certain way we'll give you some money." This grant program needs to be studied and simplified. The list of grants is so extensive that a very thick volume is required to list them all. The problem is to shut off the flow.

People wonder why they have to wait so long and why these grants have to be tied to political programs. The reason is that there has to be a pay-off for the office holder. Meanwhile the system has grown tremendously complex, and to operate successfully officials need a great deal of expertise. New York does pretty well—it has a large bureaucracy at the top. But many smaller cities do not have the skill and personnel to take advantage of the programs.

We've reformed the cities but in doing so we created a lot of new problems and are faced with a challenge we didn't expect. We ended up with a government that is huge and slow, touching many more aspects of urban

life than ever before. If you pass a law you must look at results in terms of decades. It's all-encompassing and all-powerful because of the tremendous amount of money available through the income tax. And sometimes the spin-offs are not what you expect at all!

Municipal government is great in theory but people have different goals and regard different things as being important. The government acts pretty much as we do. We fail to realize why politicians don't uphold our goals, but they have to win elections. It's an administrative maze. Public officials need a lot of knowledge and experience, and usually we fire them before they gain it.

The present popular change that is being proposed is for the federal government to take over welfare. Will the mayors succeed in getting the U.S. to pick up the tab for city services? If so they will have to give something in return. Professor Connery's view was that they will not get all they want, and they will excuse themselves by telling the ordinary voter they're not to blame.

This lecture series, which will explore all phases of urban development, closes on December 22nd.

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eager to export as long as imports to pay for their products are those of another industry or field of production. They advocate subsidy for anything they wish to sell and think VAT is a fine subsidy for exports.

VAT is a protectionist tool in restraint of trade through which imports enable foreigners to pay us for our exports. An argument in favor of it is that companies losing money pay no income taxes and get the benefits of government without paying. Payers feel they are being required to con-

tribute to inefficient competing managements.

We find pluses and minuses in value added tax. It is true the income tax is based on ability to pay, the same moral as those of the hold-up man. He asks, "How much do you have? Give it to me or else."

The only true benefits received tax is the location value tax, for locations have no value save from association and through human cooperation. After all, in the words of Henry George, "civilization is cooperation."

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