POLICY REPORT

Volume I Number 2 | A PUBLICATION OF THE CATO INSTITUTE | February 1979

Capital, Consumption, and Tax-Transfer Politics

by Richard E. Wagner

The central concern of wise and proper tax policy seems commonly understood to be the distribution of tax burdens. Much of this understanding is grounded in a belief that the present tax system is biased in favor of those with above-average incomes, particularly those whose incomes come from capital, the accumulation of which was the product of previous saving. Upon congressional approval of the tax reduction legislation later signed by President Carter, an article in the *Washington Post* announced: "A Middle-Class Congress—Haves over Have-Nots." This legislation was said to signify a substantial change from previous tax legislation because the bulk of the tax reductions this time were said to be given to people with above-average incomes. Such items as the reduction in the maximum rate of tax on corporation income, the increase in the exclusion of capital gains from the income tax, and the granting of 79 percent of the estimated value of the tax reductions to the top 50 percent of taxpayers were presented as evidence of this shift.

It would be easy to dispute the "facts" that lay behind this assessment. In 1970 the highest 50 percent of taxpayers paid slightly less than 90 percent of the total income tax burden, and by 1976 they were bearing slightly more than 93 percent of the burden. By giving these taxpayers only 79 percent of the tax reduction, the legislation has actually made their burdens still heavier. But disputation is not my interest here. My interest instead lies in the appropriate central concern of tax policy. Economic life is a positive- rather than a zero-sum affair, and the central problem of economic order is the attainment of an institutional order most conducive to prosperity. Lest a negative-sum destruction of prosperity occur, the central concern of tax policy must be prosperity, which requires that taxes be assessed in terms of their impact on incentives to produce, to save, and to accumulate.

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Our income tax system essentially taxes saving twice as heavily as it taxes consumption. Between two people with the same earnings, the one who saves more will pay a higher rate of tax. The difference in tax treatment arises from the ability of saving to generate earnings in the future through capital that is created. While earnings that are consumed are taxed only at the time they are earned, earnings that are saved are taxed in two different ways. One way is at the time of earning, as with consumption. The other way is through the taxation of the yields from the saving as they accrue in the future. While these latter acts of taxation do not actually take place until the yields are realized, it is the original act of saving that creates the liability.

Some simple arithmetic can illustrate this proposition. If income is taxed at 50 percent, $200 of earnings will leave $100 for consumption. If this amount is saved instead, the total anticipated tax burden will rise to $150, so long as the anticipated rate of return is equal to the rate of discount. If the anticipated rate of return on saving is 10 percent, the anticipated annual yields of $10 will carry with them anticipated tax burdens of $5, which gives a present value of tax liability of $50. Should the anticipated rate of return be 20 percent, the anticipated annual yields will carry with them anticipated tax burdens of $10. At a 20 percent rate of discount, the present value of the tax liability will still be $50. While the share of income that is consumed is taxed at 50 percent, the share that is saved is taxed at 100 percent.

A single taxpayer with taxable income of $30,000 who saves nothing will pay a tax of $8,400, using the rate schedule for 1978. Another single taxpayer who has the same income but who saves $7,500 can anticipate bearing a tax burden of $11,775, which is 40.18 percent higher. For any particular anticipated rate of return and rate of discount, the anticipated present value of the tax on the act of saving is $3,375, which is the product of the 45 percent marginal rate applicable at that level of income and the amount of saving, $7,500. In consequence, the average rate of tax rises from 28 percent in the absence of saving to 39.25 percent in the presence of $7,500 of saving. Put

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EDITORIAL

Voters Versus the Public Schools

by Edwin G. West

One of the most intriguing developments in the American school problem, ever since the famous *Serrano* case of 1971, is the tendency of the judiciary to become embroiled in the battle against "misbehaving" taxpayer-voters, through the latter's representatives. For instance, the Ohio Court of Appeals, on September 5, 1978, upheld a lower court ruling that the state's system of financing public elementary and secondary education is unconstitutional. The plaintiffs argued that, under its constitution, the state has an obligation to provide a "thorough and efficient" education to all children. But they insist that this responsibility cannot be delegated to district voters. And they claim that the system of financing public education, which traditionally has been dependent mainly upon local property taxes, produces grossly disparate educational opportunities among the 617 school districts in the state. This leads to accusations of violation of Ohio's equal protection laws. The appeals court argued that education is a fundamental right under Ohio's constitution. But, equally significant, it rejected the state's argument that the present fiscal system is necessary to preserve local control.

Appeals from the defendants are now in the Ohio Supreme Court. But if experience elsewhere is a guide, the chances of a sympathetic hearing are not good. The State of Washington's school finance system, for instance, was declared unconstitutional by its Supreme Court in a six-three ruling on September 28, 1978. The verdict there was that the state has failed to provide the "ample" education it is obliged to do under the state's constitution. By July 1, 1981, the Washington legislature must devise a system that meets the constitutional guidelines detailed by the court.

Events in Ohio and Washington will no doubt be echoed elsewhere in the coming months. They carry disturbing implications for those who hoped to slow down the weakening in the separation of powers in the American Constitution. The supreme courts have for some time been making what amounts to *legislative* decisions in U.S. education. The courts now seem to be the leading voice in the decision as to what kind of tax shall *not* be selected to finance education. And in some cases they now appear to have the last word in deciding how education is to be *defined*.

The whole problem arises because Americans are obliged by law to pay for their education indirectly, via the government tax process, instead of directly, to the schools. The whole issue has become obfuscated by the vague belief in some mythical "public funds," that allow education to be paid by someone other than people. The Washington Supreme Court held in 1978, for instance, that constitutional responsibility is not fulfilled by authorizing districts to raise special levies to provide education; the basic program was not to be determined by the whim of the voters. And consider again the Ohio Court of Appeals' dismissal of the idea that responsibility for finance can be delegated to district voters.

It seems that if practiced long enough, the policy of "free" education can work the confidence trick of inducing belief in an education that is really free (without the quotation marks). And the history books don't help in discouraging the fiction, for they rarely note that education has not always been free to the mass of American families. Yet most people from all classes once paid their tuition directly in the form of rate bills, which were effectively the same as conventional school fees. The lawyer A. V. Dicey seems to have been one of the few writers of the late nineteenth century who spotted the emerging confusion and the central paradox:

> This last change [the abolition of fees] completely harmonizes with the ideas of collectivism. It means that A, who educated his children at his own expense, or has no children to educate, is compelled to pay for the education of the children of B, who though, it may be, having means to pay for it, prefers that the payments should come from the pockets of his neighbors.

One possible explanation of the late 1970s rebellion by taxpayers is that after a century of "free" education, they do not like the product. After such a long lesson, they may now prefer to purchase it directly instead of indirectly. Indeed, the time seems not far off that the only remaining way out for school districts in Ohio, Washington, New York, and elsewhere will be to obtain their funds directly from their customers—but only in exchange for better service. It is true that to question "free" education has for a long time been like questioning motherhood. Yet the original American common school was not "free." Zero-priced education is *not* a traditional part of American democracy.

It will be objected that some people cannot afford to pay for schooling, but this objection is based on an illusion. Many people fail to realize that they already pay for education. They do this through nearly a dozen taxes, including property taxes, gasoline taxes, and sales taxes. Moreover, people should assess their personal tax contributions to "free" education on a

lifetime basis. To accommodate demunicipalization of education, a loan system through intermediary financial institutions would allow people to pledge their future incomes for present cash spendable on the private education of their choice. Beyond this, cases of hardship can be met by direct transfers of income. Welfare needs in housing, food, and clothing are not met by arrangements for compulsory and "free" provision at specified neighboring public suppliers. Nobody has ever clarified why education should be different.

Once education is returned to the fee-paying system, the likelihood is that because of increased efficiency, people will not, in any case, have to pay so much for it. As for the courts, they will be able to return to their legitimate and basic functions—the protection of legal relationships and the enforcement of contracts. No longer would the courts be in danger, as they are now, of becoming entangled with *legislative* activities.

Of course many states will be obliged to resort to constitutional amendment to reinstate tuition payments. But after Proposition 13, it looks as though constitutions everywhere are going to be shaken up anyway. The reform suggested here is the logical and practical first step. Even a tuition fee of one dollar per week per child would establish the new principle—the principle that people should have the right to pay directly for services they consume. But then again, it is not a new principle. It is a *return* to an older and wiser one. ■

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differently, at the 45 percent marginal rate bracket, the marginal rate of tax on saving is actually 90 percent. When the marginal rate of tax reaches 50 percent, which is $34,200 of taxable income for single taxpayers, the rate of tax on saving will have reached 100 percent.

This simple arithmetic avoids some difficult questions. For instance, anticipations are unique to each person, and there is no necessary equivalence between the rate of return a person might anticipate from an act of saving and the rate of discount he might act upon with regard to the future. If the anticipated rate of return is less than the rate of discount, the present value of the anticipated future taxes on saving will be less than it would be if both rates were the same. Conversely, if the anticipated rate of return exceeded the rate of discount, the present value of the anticipated future taxes implied by the act of saving will be more than it would be if both rates were the same. Despite the possible complexities that could be introduced, the central point is valid: Acts of saving, and hence capital accumulation, are discriminated against by our income tax system. To avoid double taxation, either saving or the yield from saving must be exempt from the tax.

Capital Gains Discrimination

The taxation of capital gains at a lower rate than ordinary income is widely described as a particularly large loophole that favors the wealthy. This presumption is based on the Haig-Simons definition of income as the sum of consumption and changes in net worth. As Robert Haig put it: "Income is the money value of the net accretion to economic power between two points of time."[1] Suppose a person with an income of $20,000 possesses assets valued at $200,000, the latter being valued at $100,000 the previous year. Using the Haig-Simons definition, income would be $120,000,consisting of two components: (a) the $20,000 ordinary income, and (b) the $100,000 capital appreciation. Within this conceptual framework, a tax system that taxed capital appreciation less heavily than it taxed ordinary income would confer a tax privilege on capital appreciation.

To understand the issues raised by

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POLICY REPORT

Published by the Cato Institute, *Policy Report* is a monthly review that provides in-depth evaluations of public policies and discusses appropriate solutions to current economic problems.

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ISSN: 0190-325X

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capital appreciation, it is necessary to get behind the nominal, monetary magnitudes to an understanding of the real meaning of these magnitudes. Capital and income are two primary, distinct economic magnitudes. Capital refers to the valuation at some date of a stock of productive assets; income refers to the value of a flow of services emanating from the productive assets between two dates.[2] The value of the two magnitudes are related by a rate of interest. A capital asset that yields a net income of $10,000 will tend to be valued at $100,000 when the rate of interest is 10 percent and at $200,000 when the rate is 5 percent.

A dairy farm may yield an annual net income of $30,000. When the rate of interest is 10 percent, the net capitalized value of the farm will be $300,000. Let us suppose that one year later the capital value of the farm is $400,000. To understand the issues at stake for tax policy, it is necessary to examine the reason for the increase in capital value. One possible reason is a decline in the rate of interest to 7.5 percent. In this instance the higher capital value signifies no accretion to real economic power, to use Haig's wording. To tax the appreciation is actually to destroy economic value. The size of the dairy has remained the same, as has the yield emanating from the dairy. All that has happened has been a general decline in the rate of time preference, with the future coming to be valued more strongly relative to the present.

A second possible reason for the higher capital value is an increase in net income to $40,000. This could result from either an increased productivity or an increased demand for dairy products. At a 10 percent rate of interest, the $10,000 increase in net income implies a $100,000 increase in capital value. The increase in capital value, in other words, is merely a reflection of the increase in income. It is double counting to consider both the increased net income and the increased capital value as accretions to economic power.

When the increased income is taxed under the income tax, to tax the capital appreciation also is actually to tax the increased income a second time. Stated differently, to tax both income and capital appreciation is to tax income at twice its announced rate. At a 50 percent rate of tax, the $10,000 increase in net annual income will elicit a $5,000 increase in annual tax liability. The present value of these tax liabilities will be $50,000, which is 50 percent of the capital appreciation. The income tax claim of 50 percent in effect sets aside 50 percent of the capital appreciation, with the yield being used to pay tax. If the 50 percent tax is also levied against the capital appreciation, the rate of tax will actually be 100 percent. A tax of $55,000 in the year the capital appreciation takes place, followed by taxes of $5,000 on the higher income in subsequent years, means imposing a tax liability of $100,000 in present value terms, which is a 100 percent rate of tax.[3] The taxation of capital gains, therefore, involves the same double taxation of saving and capital as does the failure to exempt saving or the yield from saving from the income tax.

"Tax policy becomes, as it were, an effort to give some people larger shares of what turns out to be a pie that becomes ever smaller relative to the pie that would otherwise have existed."

One further possible reason for capital appreciation is currency depreciation. The resulting rise in prices will increase the nominal value of capital assets, even though there has been no change in either the real amount of such assets or their productivity. Since income taxes on capital gains are based on nominal values, it is possible to have real rates of tax in excess of 100 percent. A 10-year period of 7 percent inflation will increase a price index by 96.7 percent. Suppose an asset purchased at the beginning of this period for $25,000 is now sold for $50,000. Since the initial purchase price expressed in current dollars is $49,180, the real capital gain is only $820. Nonetheless, $10,000 of the nominal gain will be subject to income tax. For a person in the 45 percent rate bracket, the resulting tax liability of $4,500 will be 549 percent of the real capital gain. Indeed, positive taxes can be paid on real losses in capital value. If the selling price of the asset were only $49,000, a real loss of $120 would have resulted. Nonetheless, the nominal capital gain of $24,000 would have resulted in a tax liability of $4,320.

The recent increase in the exclusion of capital gains from 50 percent to 60 percent has been widely assailed as expanding a tax loophole. But no loophole has been expanded, for *any* taxation of capital appreciation in a system of income taxation is double taxation. The increase in the rate of exclusion is actually a reduction in the extent of excessive, double taxation of saving and capital, with such excessive taxation being fully eliminated only when capital appreciation is excluded entirely from the income tax.

Tax-Transfer Politics

While it may be admitted that present tax institutions place penalties upon, rather than provide a loophole for, those who save and accumulate, it might be argued that such penalties are desirable because it is desirable to redistribute wealth, and such tax policies are a convenient means of doing so. Indeed, when looked at from relatively short periods of time, tax policy would seem to deal primarily with the distribution of tax burdens and disposable income. The fundamental issues concerning whether or not to exempt

capital appreciation from the income tax would seem to be ones of distribution. When looked at from a longer period of time, however, tax policy is seen to deal primarily with the production—and destruction—of wealth. The excessive taxation of saving and capital actually reduces the consumption opportunities available generally within a society.[4] Tax policy becomes, as it were, an effort to give some people larger shares of what turns out to be a pie that becomes ever smaller relative to the pie that would otherwise have existed.

While tax policies that promote capital destruction—and a reduction in the incentive to accumulate is still capital destruction, though it might be described as relative rather than absolute destruction—are negative sum, there are some political forces operating to create such policies. Tax-transfer politics can fit readily into the framework of majoritarian democracy. The expropriation of wealth provides momentary gains to the expropriators. Though expropriation reduces the incentive to accumulate wealth, the opportunities for expropriation are larger the wealthier a society. With 50 percent of the taxpayers now paying less than 7 percent of the taxes, and with millions of other voters being absent from the tax rolls entirely, the existence of representation without taxation provides opportunities for politics to evolve into a bread-and-circuses spectacle.[5]

This short-run, negative-sum aspect of politics is reinforced by some peculiar problems of knowledge. While absolute capital destruction can create an initial period of raising standards of living, ultimately these standards must decline. Consequently, absolute capital destruction will lead eventually to the present being compared unfavorably with the past. The memory provides a basis for comparison. With relative capital destruction, standards of living can still be rising, only less rapidly than they could be. What these standards could have been under a different institutional order is, however, not grounded in any experience, but can only be created as a product of the imagination.[6] With experience or the memory being unable to provide a basis for comparison, capital destruction will evoke weaker expressions of citizen discontent.

This point can be illustrated quite simply.[7] Suppose $10,000 is invested, with an anticipated annual return of 20 percent. The annual yield will be taxed at 50 percent, with the revenues used to finance transfer payments. The exposition can be simplified by assuming that the yield remaining after tax is also invested. The first year the investment yields $2,000, of which $1,000 is taxed away and the remaining $1,000 reinvested. The second year there is $11,000 of capital, the gross yield on which is $2,200. The tax is $1,100, which leaves the same amount to be reinvested. The third year there is $12,100 of capital, which yields $2,420 in gross income. Tax collections are

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INFLATION MONITOR

A regular feature of *Policy Report*, the "Inflation Monitor" reports on the effects of inflation as a monetary phenomenon and demonstrates its distorting influence on the structure of relative prices in the economy.

	PERCENTAGE CHANGE (ANNUAL RATE)			
	Latest 1 month	**Latest 3 months**	**Latest 6 months**	**Latest 12 months**
M-1	3.7	9.1	7.9	7.8
M-2	7.2	10.4	9.1	8.2
M-3	10.3	12.5	10.7	9.4
PRICE OF GOLD	98.25	76.96	55.94	41.55
CPI-URBAN WAGE EARNERS	9.64	8.13	9.72	8.78
COMMODITIES, LESS FOOD	8.14	7.78	7.45	6.83
FOOD	10.03	6.17	9.05	11.33
SERVICES	10.58	9.81	10.46	9.36
FINISHED GOODS	17.06	7.76	8.67	8.59
CONSUMER GOODS, FOOD	20.13	7.10	6.12	11.93
CONSUMER GOODS, NON-FOOD	7.72	6.49	7.86	7.44
CAPITAL EQUIPMENT	7.14	6.20	7.57	7.46
PRODUCER PRICES, BY STAGE OF PROCESSING				
COMMODITIES				
Crude materials, non-food	25.03	10.44	14.28	17.14
Intermediate materials, less food	13.70	10.00	7.89	7.42
Capital equipment	7.14	6.20	7.57	7.46
Consumer finished goods, less food	7.72	6.49	7.86	7.44
FOOD				
Farm products	44.25	9.78	7.38	21.30
Consumer foods	20.13	7.10	6.12	11.93

All figures are taken from the *Chartbook on Prices, Wages, and Productivity* (U.S. Department of Labor), *Monetary Trends* (Federal Reserve Bank of St. Louis), and the *Wall Street Journal*.

Washington Update

✓On February 26 the Department of Energy sent its comprehensive gasoline rationing plan to Congress for review and approval. Secretary Schlesinger had previously drafted a speech for President Carter proposing "mandatory conservation" of gasoline. Congress mandated the rationing plan four years ago in Public Law 94–163, the Energy Policy and Conservation Act.

✓As momentum grows for a constitutional amendment to require Congress to balance the federal budget, nearly everyone is overlooking Section 7 of the 1978 amendments to the Bretton Woods Agreements Act which reads, in its entirety: "Beginning with fiscal year 1981, the total budget outlays of the Federal Government shall not exceed its receipts." The law is more stringent than most of the proposed constitutional amendments, for it allows no exceptions. Evidently the Administration doesn't worry about complying with the law: Its estimates of future budgets show a deficit of $1.2 billion in fiscal 1981. Pressure is so great, however, that the House and Senate Judiciary Committees have announced plans to hold hearings on the various amendments, and the House and Senate Budget Committees are studying the issue.

✓Something odd going on at the IRS: On February 13, the IRS published in the *Federal Register* its revised revenue procedure on private schools that allegedly practice racial discrimination. The procedure is incoherent in several places, and one member of Congress at hearings conducted February 20 by the Subcommittee on Oversight of the House Ways and Means Committee, raised questions about the competence of the IRS to administer any tax laws. An example of the IRS's incoherence? "A school 'adjudicated to be discriminatory' means any school found to be racially nondiscriminatory as to students by a final decision of the federal or state court of competent jurisdiction."

✓House and Senate Banking Committees heard testimony from Alfred Kahn and Barry Bosworth during February on the Council on Wage and Price Stability. The Administration wants to extend the life of the council for two years (from September 30, 1979, to September 30, 1981), increase its permanent staff positions from 39 to 233, and step up its funding by giving it an additional $5.8 million in 1979, and $6.1 million in each of 1980 and 1981. The council is now administering the President's "voluntary" price and wage standards. The General Accounting Office and the Economic and Resources Controls Committee of the American Bar Association both issued statements pointing out the illegality of the "voluntary" program. The ABA committee declared: "The Government claims its wage/price controls program is a voluntary one. . . . But the President's program is not voluntary. . . . In our view, the President's wage/price controls program depends not on voluntary behavior but rather on a fear of Government retaliation against companies that 'violate' pay or price standards; . . . we have substantial doubt that the Government's use of its procurement authority (or any other authority) to 'enforce' its 'voluntary' guidelines is legal."

✓Social Security taxes are going up: $123.4 billion in 1978, $237.1 billion in 1984, according to the Office of Management and Budget. Other taxes will rise dramatically, too: Individual income taxes $181 billion in 1978, $392 billion in 1984; corporation taxes $60 billion in 1978, $98.6 billion in 1984. Trouble is, the OMB is using an inflation rate (Consumer Price Index) of 5.7% down to 2.7% for the years 1981–1984. OMB also projects a budget surplus in 1984 of $106.5 billion.

✓First legislative skirmish of the 96th Congress in the House of Representatives occurred on February 21. The issue? Funding for committee staffs. House committee staffs increased from 181 in 1947 to 986 in 1973, to 2014 in 1977. Committee funding has increased from $1.3 million in the 80th Congress (1947 and 1948) to $12.4 million in the 91st Congress (1969 and 1970), to $71.3 million in the 95th Congress (1977 and 1978). House members present on the floor forced recorded votes on all funding resolutions. Word has it that most of those who supported recorded votes were freshmen. Many feel that the best way to reduce the size of government is to begin at home by reducing the size of the congressional bureaucracy.

✓The sources of funds for the proposed 1980 budget are substantially different from those of the 1960 budget. While the proportion of total receipts coming from individual income taxes has remained about the same (44%), the percentage of total receipts represented by Social Security taxes has almost doubled (from 16% to 30%) and the percentage of total receipts represented by corporation taxes has almost halved (from 23% to 13%). The single largest department is Health, Education, and Welfare, with a total proposed budget of $199.4 billion. If HEW were a sovereign state, its budget would be the third largest in the world. Still, Secretary Califano complains that he doesn't have enough money to do everything he wants.

✓The House changed its rules this year to make it more difficult to get recorded roll-call votes, and to allow the House leadership to defer votes, to cluster votes, and generally be more flexible in its management of floor activity. Some members not previously known for their concern about government spending have been objecting to "costly" roll-call votes. ■

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now $1,210, with an equal amount being reinvested to produce a capital base of $13,310 to start the fourth year.

In each year the budgetary process appears to deal essentially with a zero-sum redistribution of wealth from savers to consumers. In the first year, the primary budgetary question appears to be whether to impose a tax of $1,000 upon recipients of capital income, with the proceeds used to finance, in one way or another, the consumption activities of other people. In the second year, the same question about distribution seems to be the primary issue of budget policy, only the amount in question is $1,100, and with this amount rising to $1,210 the third year. The central aspect of the budgetary process seems to be the use of taxes on capital income to finance the consumption of the beneficiaries from government expenditure.

This simple zero-sum situation vanishes, however, once the entire process is examined over a sequence of years. If the yield from saving were not taxed, $2,000 would have been invested at the end of the first year. In turn, the resulting capital base of $12,000 would have generated a yield of $2,400 the following year. Continuing the illustration one more year, the capital base of $14,400 at the start of the third year would have yielded $2,880, which would have left capital of $17,280 at the end of the year. When seen in this perspective, tax policy has been responsible for the destruction of capital, and the value of capital destroyed has exceeded the amount of taxes collected. Instead of the accumulation of $7,280 of capital over the three-year period, only $3,310 has been accumulated. The $3,310 of expenditure has been financed by the destruction of $3,970 of capital. And the size of the capital destruction relative to the size of the expenditure increases starkly with the passage of time.

If 40 years are allowed to pass, wealth will be $453,000 and tax collections will have been $442,000. Since the amount of wealth would have been $14,800,000 in the absence of tax, the tax collection of $453,000 was responsible for the destruction of $14,347,000 of capital. The outcome of the policy of taxing saving to finance consumption is, as this illustration shows, strongly negative sum, though the peculiar problems of knowledge remain to contribute to the survival of short-run expediency.[8]

A Concluding Note

The savers and accumulators are the primary benefactors of any society. As an old, wise adage once noted: "Without frugality none can be rich, and with it few would be poor." As Ludwig von Mises put the point:

> Every single performance in this ceaseless pursuit of wealth production is based upon the saving and preparatory work of earlier generations. We are the lucky heirs of our fathers and forefathers whose saving has accumulated the capital goods with the aid of which we are working today. We favorite children of the age of electricity still derive advantage from the original saving of the primitive fishermen, who, in producing the first nets and canoes, devoted a part of their working time to provision for a remoter future. If the sons of these legendary fishermen had worn out these intermediary products—nets and canoes—without replacing them by new ones, they would have consumed capital, and the process of saving and capital accumulation would have had to start afresh. We are better off than earlier generations because we are equipped with the capital goods they have accumulated for us.[9]

Contemporary tax policy seems to be too riveted to questions of distribution; the debate over progressivity and related matters seems to have been conducted too much in terms of its impact on the distribution of income and wealth. The struggle over the tax burdens to impose on saving and capital has been interpreted essentially as a matter of distributional concern, but the capital destruction that results from the double taxation of saving and capital means less wealth for everyone. It would seem appropriate for tax policy to become much more concerned with the attainment of the common prosperity. Economic life is, after all, a positive-sum affair, though this positive-sum character also implies the potential for it to degenerate into a negative-sum calamity. Policies and institutions that do not penalize saving and capital accumulation are not arrangements for favoring some segments of the population at the expense of others. Rather, they are arrangements that enhance the well-being of all segments. ■

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FOOTNOTES

[1]Robert M. Haig, "The Concept of Income—Economic and Legal Aspects," reprinted in *Readings in the Economics of Taxation*, ed. Richard A. Musgrave and Carl S. Shoup (Homewood, Ill.: Irwin, 1959), p. 75; originally published in *The Federal Income Tax*, ed. R. M. Haig (New York: Columbia University Press, 1921), chap. 1. See also, Henry C. Simons, *Personal Income Taxation* (Chicago: University of Chicago Press, 1938).

[2]See, for instance, Irving Fisher, *The Nature of Capital and Income* (New York: Macmillan, 1906); and Israel M. Kirzner, *An Essay on Capital* (New York: Kelley, 1966).

[3]While capital appreciation is, of course, taxed only upon realization, the economic impact of the tax is basically independent of the timing of realization or the payment of tax. Therefore, I have made no distinction here as to whether the appreciation is realized or unrealized, for to do so would only complicate the discussion.

[4]For a brief survey on this point, see Michael J. Boskin, "Is Heavy Taxation of Capital Socially Desirable?" *Tax Review* 39 (October 1978): 43-46.

[5]A seminal treatment of these qualities of politics may be found in James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962).

[6]See, for instance, G. L.S. Shackle, *Decision, Order, and Time in Human Affairs* (Cambridge: At the University Press, 1961).

[7]This illustration is adapted from Irving Fisher and Herbert W. Fisher, *Constructive Income Taxation* (New York: Harper, 1942).

[8]The recent concern over the negative impact of social security upon saving and capital accumulation presents exactly the same problem. Living standards have been rising while social security has been in existence; however, they have risen less rapidly than they would have in the absence of a pay-as-we-go program of social security. Since the loss of wealth has never been experienced, it can only be conjectured. See Martin S. Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy* 82 (October 1974): 905-26.

[9]Ludwig von Mises, *Human Action*, 3rd ed. (Chicago: Regnery, 1966), p. 492.

"To be governed . . ."

In both Sweden and Britain some kinds of care are being deliberately denied some people, generally the elderly and those whose disease is most advanced, solely for financial reasons. In recent years, several thousand Britons suffering from acute kidney disease have been dying annually because the National Health Service does not want to spend the money, perhaps $10,000 a year per person, to keep them alive. In Sweden, there is a tacit understanding that such operations as organ transplants (a heart transplant costs, on the average, $50,000) will not be available to people over 70.

—*New York Times*, Dec. 17, 1978

The chairman of the House Ways and Means Committee said that he doesn't like President Carter's "wage insurance" plan but that his committee may accept it for want of any other acceptable weapon to fight inflation.

"It isn't very effective, and it probably wouldn't be good tax policy. But there's a feeling that it's all we got," Rep. Al Ullman (D., Ore.), the chairman, told reporters.

—*Wall Street Journal*, Jan. 31, 1979

An old bridge over the Brandywine River in Wilmington [Delaware] has been closed since May. The state applied for Federal aid to rebuild the bridge, which is on a busy traffic artery, at a cost of $6 million, but the request was rejected on the ground that the bridge replacement program could not consider an application under $10 million.

—*New York Times*, Jan. 16, 1979

U. S. News & World Report (Feb. 5, 1979) observes that the "printing of 532 billion $1 bills"—just enough to pay for Carter's proposed 1980 budget—"would take the government's Bureau of Engraving and Printing, working seven days a week—*121½ years.*"

In a little-noticed action, Congress passed a law last year requiring a balanced budget for fiscal 1981, starting Oct. 1, 1980.

But President Carter's Office of Management and Budget views the provision with disfavor and has indicated it may be disregarded when the President submits his 1981 budget.

—*Los Angeles Times*, Jan. 23, 1979

A Revlon Inc. unit pleaded guilty to a federal charge that it failed to notify Medicare officials it was using a blood test machine in 1975 that substantially reduced the cost of the test.

Yesterday National Health [Laboratories, Inc.] agreed to pay $500,000 in civil penalties and restitution, and federal Judge Charles P. Sifton imposed a criminal fine of $10,000 on the company, the U.S. Attorney's office said.

A federal investigation discovered that in the summer of 1975 National Health began using a computerized method of analyzing blood that was able to perform as many as 22 separate tests simultaneously on a single blood sample. Previously, the laboratory used costlier manual and less sophisticated computer methods.

—*Wall Street Journal*, Jan. 31, 1979

The time required to get the necessary government clearances and build a single electric power plant in the U.S. is now triple the length of time the U.S. needed to mobilize and fight World War II.

—*Wall Street Journal*, Jan. 22, 1979

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