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The A-B-C's of Revenue vs. Developmental Aspects  
of Tax Policies

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It must be obvious to everyone that up to this point this shortcourse has skirted some of the policy issues in agriculture to which many persons are sensitive -- the issues that become emotional and stir up the most heated controversies. They are issues concerning the ownership of or access to property, and the rights and restrictions that accompany ownership.

To be sure, we have recited platitudes that a policy for agriculture must consider the interests of all persons. We have said that the general welfare must take priority over the special interests of individual groups -- including, implicitly, the owners of property.

We have expressed sentiments that resemble closely the idea that Flores calls "the theory of cumulative and circular causation" which he elaborates in a quotation from Gunnar Myrdal:

"The principle of a circular interdependence in the process of cumulative causation is valid in all the fields of social relations, and should constitute the principle hypothesis when one studies underdeveloped and developed economies."

Moreover, Flores parallels the Biblical practice of first promising good to the faithful and then threatening harm to the unfaithful. For he adds a citation from Winslow:

"It was clear...that poverty and sickness constitute a vicious circle. Men and women were sick because they were poor; they became poor because they were sick, and their health became worse because they became poorer."<sup>1</sup>

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<sup>1</sup>Edmundo Flores, Tratado de Economía Agrícola, Fondo de Cultura Económica, México-Buenos Aires, 1961, p. 33. Internal quotations from Gunnar Myrdal

What we are revealing in these opening remarks is a universal tactic that is employed whenever the subject of ownership and control of property is addressed. That tactic is to remind, in view of the divisiveness of class interests, that we have common bonds that transcend our petty bickerings. We all are passengers on spaceship earth and we all survive or perish together. Or, as Soshil Kuwan Day of India expressed the idea in an excellent address given at Minsk, USSR in August 1970, "... in the final analysis prosperity, like peace, must be undivided."<sup>2</sup>

Events of our time force upon our consciousness a concern for some of the bigger and more disturbing issues regarding the organization of our society and our economy. I have been reading Karl Polanyi, learning from him that our present economic system, based on private ownership of property and market exchange, is an historically recent one. I also read authors such as Allen Kneese who say that our overdue concern for our environment, now being despoiled, leads us to accept the idea of "common property resources."

It is entirely possible that the western world is moving toward fundamental changes in its concepts of property. Being more pragmatic than ideological, we may simply find ourselves forced to make evolutionary changes. Pollution, poverty, congestion -- these and other problems may require some modifications in our "conventional wisdom."

Not all persons who take part in making policy for agriculture are yet willing to consider such global questions. They do not want to open up discussions that could challenge some of our favorite ideas and most cherished social Teoría Económica y Regiones Subdesarrolladas, Fondo de Cultura Económica, Mexico, 1959, p. 35; and C. E. A. Winslow, The Cost of Sickness and the Price of Health, Series monográficas, n<sup>o</sup> 7, Ginebra, 1957, p. 9.

<sup>2</sup>Soshil Kuwan Day, "International Economic Policies in Aid and Trade," Theme Papers, Fourteenth International Conference of Agricultural Economists, Minsk, USSR, Aug. 1970, Univ. of Oxford, Institute of Agrarian Affairs.

and economic institutions. Some years ago a man with whom I worked in Argentina went to great lengths to assure the big landowners that his government's policy was directed solely to improving the technical productivity of Argentine agriculture. New technology and not land reform was the road to a more productive agriculture and it was the road the government was taking. So he declared.

It will already be inferred that my remarks will try to persuade that the institutions for ownership, taxation and tenure of land are inescapably a part of the policy for agriculture of any nation. This is equally as true of developed as of developing countries. In general, there are fewer differences in the economic and social problems of developed and developing nations than the seers and scholars of Europe and the U.S. care to admit. On the topic of privileges and rights of property, there are virtually no differences.

Multi-purpose policies. Mindful of the elusiveness of my subject I choose to examine some fundamental questions. What, for example, do we mean by the term, an economic system? What is a system? I think the word connotes not only regularity and order, and not merely continuity, though both are involved. It also means that we set a process in motion that performs several tasks simultaneously.

I said in an earlier lecture that we try to select economic policies that fulfill a number of goals. We want our economic system to perform multiple functions. It must put our common resources to use, distribute total product equitably, conserve resources, create a favorable environment for living. We expect it to be progressive, innovative. And we want the economic system to be one that can be sustained peacefully, without inducing conflict internally or warfare beyond our borders.

It is a large assignment.

Our forefathers may have been over-sanguine when they thought a system of private property and its voluntary exchange could fulfill all these goals. Yet, fundamentally this is what they thought, and they acted accordingly.

Nevertheless, we must admit that they never applied those principles exclusively. All countries were quick to reserve some functions to the government. Defense, education, and a postal service are well known examples. Transportation always is subject to some regulation by government.

Let me illustrate the basic principle further. In agriculture, as an example, we say that the price of commodities carries out several functions. It guides resources into production, for a high price stimulates production and a low price discourages it. More than that, the opportunity to devise a new or modified product and get a high price for it may be a powerful incentive for innovation and progressiveness. As a second function, the price received becomes income for the recipient and determines how much of the total production of the economy becomes his own for his use and consumption.

Our Moral Code. Next, let us admit that each nation holds to certain moral values that influence its economic policy. All nations of the western hemisphere are of the Judeo-Christian tradition, which gives us a degree of common values and ideology. We accept the democratic creed not only of the fundamental worth of the individual human being but also of his basic rights including the right to have a voice in determining the conditions which shape his destiny.

Our code includes a big dosage of puritanism. Probably we have more in the United States and Canada than prevails in Latin America. It not only requires that each person do his part toward fulfilling our common purposes, but rewards each person proportionately to his contribution.

But we have other moral values as well, and some of them conflict with those just named. We advocate charity. We support the young, the aged, the handicapped. And we declare that we want to assure each person a maximum opportunity to develop his talents and thereby earn a satisfactory income.

It is manifestly difficult to do everything we promise ourselves in our goals and moral values. But we must try.

The Sources of Productivity. If we are even to approximate a democratically conceived economic system, we must distribute equitably the means whereby each person is able to earn an income equivalent to his abilities.

With this in mind, let us think about the sources of productivity. In ancient times, when nearly everyone lived on land, it was necessary to possess fertile land in order to live well. Frequently, a few families gained control of much of the better land. They were able to reduce the other people to economic and political subservience. We call the system feudalism.

In the modern age of industry and commerce, possession of land is no longer so exclusive a source of power, social status and income. Scientific technology has created a need for the nimble brain, and the learned and skilled person can compete with holders of property for a share of national income.

An interesting digression is that in many nations, taxes on land have been used to finance public schools, which educate people who then compete with landholders for prestige and wealth.

As we convert our economy to large corporate units, we create a need for a different kind of talent, that of management. In the U.S., most of our large corporations are now managed by professional managers, not by their owners.

Finally, an industrial nation creates various kinds of intangible wealth. Patents and copyrights; exclusive franchises as for a television station; or just the good will possessed by established businesses -- these are intangible property.

But is "real" property, i.e., land, now unimportant? By no means! In agriculture, certainly, land is as essential as ever. Chemical fertilizer makes land more productive and in this sense substitutes for it, but the fertilizer without land produces nothing. Land is still essential.

The pattern of ownership of land still has a big influence over the performance of a nation's agriculture. This is true for virtually all systems of ownership. Where land is concentrated in a few hands, as in parts of Latin America, certain consequences follow. Where land is fragmented into thousands of small tracts, requiring each farmer to farm several tiny blocks, as in parts of Europe, different results are to be found.

Let us use high concentration of ownership as an example. If only a few families or corporations own most of the good land that is suitable for producing a particular commodity, several undesirable effects may be <sup>expected.</sup> / One is that tenants or workers will be powerless to negotiate for favorable incomes they will be poor. or wages;/ Another is an underutilization of the land. Another may be a lack of progressiveness. A fourth is that the income received by the landholder may go into luxury consumption or investment in another country, instead of being reinvested in the owners' own country.

Let me repeat, I am only illustrating the possible effects of landholding institutions on a nation's agriculture. Other speakers will examine the subject more completely. I am building up to a principle that I want to enunciate with emphasis. I have become convinced that an economic system of private property and voluntary buying and selling can work satisfactorily only if property is distributed fairly widely among the population. Excessive concentration of wealth is incompatible with that kind of economic system. It even threatens democracy itself.

We were fortunate in the U.S. that property in land was distributed among millions of our citizens as they arrived from Europe, or moved from the coasts to the interior of our country. <sup>until</sup> Not/ a generation or two ago did land begin to become scarce. In parts of Latin America the history was somewhat different.

When ownership of land or, now, of intangible property is not distributed among a large part of the population, or if opportunities are denied

to a great many persons, a simple market exchange system will not fulfill the goals we set for it. No longer will a single system be adequate. Modern nations have reached this situation. As a result, most of them add other mechanisms for directing the economy.

Let me list for illustration a few we use in the U.S. Your nations also use one or more.

1. Limits to ownership of property. We have not limited the amount of land a person may own. It has been suggested that the size of landholdings by corporations ought to be restricted. However, through anti-trust laws we restrict the size of some industrial and commercial corporations.

We limit ownership where public use is involved. If private property is needed for public use, as for a highway, the government has the power to transfer it from private ownership (with compensation). The authority to do this is known as the "right of eminent domain."

2. Property holding is restricted in another way. It cannot be used so as to cause harm to the community. Laws to prohibit pollution of water or air are a contemporary example. Some cities require weed control on vacant lots. We have some laws that can force a farmer to conserve his land (that is, to prevent it from eroding or otherwise being damaged), but they are not applied often. Instead, we induce farmers to protect their soil by subsidizing conservation practices.
3. Rights to organize for collective action. As a counterweight to the power of large landholders and big corporations, we have granted the right to organize for collective action. Industrial labor has negotiated collectively with industrial corporations. Professional

and clerical workers are now organizing. Hired laborers on farms in California have finally won the right to bargain with the largest farm owners. And small farmers who produce crops or poultry under contract are gradually forming associations through which to bargain with food processing firms.

4. Taxation and subsidization.

Modern nations have converted the instrument of taxation to serve a thousand purposes. This item should be divided into --

- a. Direct subsidization. We use tax revenues to help many groups who have been unable to share in our national wealth. These are the unemployed, the physically handicapped, the abandoned mother, the aged.

Tax revenues provide many social services. Education is the most important. Health services, and infrastructure such as highways, are perhaps next most important.

Aid to enterprises. We subsidize our merchant marine, our feeder airlines, our agriculture. The list of enterprises receiving federal subsidy is long.

- b. Taxation -- indirect stimulation and indirect subsidization.

Taxes used most are property taxes, income taxes upon individuals, income taxes upon corporations, sales taxes, excise taxes, tariff duties. Tariff duties are a relatively small source of our tax revenues.

Other nations have chosen a somewhat different set of policies than we have. For instance, some countries have laws regulating the terms of tenure under which a farmer may rent land from an owner. Quite a few countries rely more heavily than we do on controls over imports and exports as a means to direct their internal economies.

Let me add a final word on taxation. We often say we levy taxes because we must pay for schools and roads and armies. This is true. But we also use taxes as an instrument to direct our economy. In no small measure, we use them to offset the inequitable distribution of ownership of real and intangible property in our nation.

The graduation of our income taxes is a conspicuous example. A wealthy person pays a higher percent of his income as taxes than a poor person does. Nearly equally important but more hidden are the exemptions allowed in our income taxes. Few persons understand how powerful a force is the exemption privilege. Most physicians, for example, deny that they receive any federal subsidy. But when my government permits me to deduct part of my medical expense from my income on which I pay income tax, it is subsidizing physicians and hospitals.

There is still another use of taxes. This relates to the so-called Keynesian "New Economics" which declares that tax rates should be adjusted up and down according to the state of employment or unemployment in the economy. This is not the proper occasion for examining the policy. Let me only say that our fear of industrial depression has led us to grant favorable tax treatment to money going into investment. However, some of the concessions were reduced or ended a couple of years ago, in an effort to arrest inflation.

Finally, taxes affecting landowners and land have much to do with the manner in which land is used. They also influence the distribution of benefits.

Probably the overriding principle is almost a paradox. It is that taxing land according to its potential productivity makes it more productive. If <sup>on his land</sup> taxes/are low a wealthy landowner can allow good land to lie idle -- perhaps as land where he can hunt. If, on the other hand, taxes are levied proportionate to potential productivity, the consequence is different. Then, that good land would be assessed at a high value and high taxes would be levied. The owner probably would have to put it into intensive use.

As an opposite example, land might be productive but also very subject to erosion. It might be desirable to keep it in grass or perhaps trees. It would be necessary to tax it at low rates; otherwise the owner could not afford to take action to control the erosion.

"The power to tax is the power to destroy." This is the old saying, and it holds much truth. Even the direct and indirect subsidies named above have a negative component. For if some businesses receive tax aid, all others which compete with them are thereby placed at a disadvantage. Moreover, all too frequently a tax rule which seems to help the majority of the population has a hidden provision or loophole which gives even greater benefits to certain wealthy persons. It is alleged that ordinary farmers in the U.S. are injured competitively by tax benefits that wealthy nonfarmers, such as movie stars, can obtain by investing in land or livestock. Indeed, the power to tax can become the power to destroy.

But I prefer to return to the positive and optimistic viewpoint. The power to tax is also the power to stimulate, and to improve equity, and to stabilize. If the revenues derived from taxes are used wisely, the power to tax can also be the avenue leading to a significant development of a nation's resources.

In an enlightened nation, hereditary ownership of land is not so exclusively a source of social status and political and economic power as it formerly was. In many countries, landholding is being shared among more people. Mexico is everywhere notable among countries that made a major change in its landholding. But almost/  
landholding has / <sup>transferred</sup> some of its power to the rising technical and management classes. And above all, governments have employed various measures to direct the economy. Among them, tax policies may be the most powerful.