

SPEECH OF PROFESSOR C. LOWELL HARRIS AT
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It has been my privilege within the last 4 or 5 years to travel almost all over the world. I have seen a great deal, superficially of course about what is being done. In most cases, my work centered on taxation, government finance, fiscal and monetary policy, and other related areas.

I say this in order to perhaps clarify myself just a little, in what I have seen. Because the world is a pretty big place, and conditions differ tremendously from one place to another, as dollars from one kind to another. One thing certain is that through the years significant progress has been attained by the countries I have been privileged to visit, using general standards of measure or appraisal about what progress is. But I think that most of the developing countries in the world today have accomplished much by way of raising the levels of living of their people, despite the rather rapid advance in their population. I think they have attained price stability of some sort. Nevertheless, many problems remain. Foremost among these are raising aggregate production to meet the growing needs of burgeoning population.

It is my pleasure to address this annual conference of your Association. I congratulate you for the efforts you are doing in the discussion of important public issues that vitally affect your government and people. Your theme in this year's conference is most timely, for you would want to impress upon the authorities and the people as a whole the immense and complex problems that confront the tax system of your country.

Certainly in the U.S. where our statistical data and techniques and sources of information are probably almost as good as anywhere else, we need to know a tremendous amount of information in order to better evaluate public policy decisions, especially in the field of taxation.

But in making choices in a complex world, where the simple routines of agriculture are no longer the major considerations of how people are going to live, the world of modern economics, so many more opportunities, so many more kinds of choices, alternatives, etc., that we wanted to take advantage of, and most of them involve choices of more or less qualifications and the challenging opportunities for creating constructive uses of statistics.

This morning, reference was made to the measurement of the results of government spending. Now, in the United States — and I could point to many things about the United States that are certainly not for export in any case — the growth of expenditure in government in the United States has been stupendous. I am not talking about defense expenditures here although it is in this area where government expenditure have been substantial. Government expenditures in the United States for purely civilian or non-defense purposes have gone to such an extent that they now undermine the private sector. Most Americans wonder whether the results of such expenditures would not have been the same with less governmental participation and more participation from the private sector. All of these questions are bound to be unanswerable beyond some point, but nevertheless, the better we can measure these problems, the better it would be in the analysis of the impact of government expenditures on the economy.

Great many things are projected but many things don't deserve serious considerations than they get. One reason for this is that it is difficult sometimes to portray the results or know what will happen as a result of one way or another kind of policy that has been mostly documented. The role of collecting data and evaluating the results has always mean

the best that man can give in terms of developing ability to improve our life. One is to avoid avoidable mistakes, and policy makers should use these in their policy formulations. Starting with the United States tax system, I think I am going to emphasize a couple of points.

One is that I don't think it is wise to try to emphasize tax bills. I think the *corporate income* tax shall to use progressively and that *taxes on land or property taxes* should be used much more intensively than in any place in the world. As far as *business taxation* is concerned, I think it imposes a heavy load on businessmen in their legitimate quest for a source of livelihood. This is chiefly true in the United States.

In the United States, about 83 per cent of the total output of the economy by traditional measurement is in the public sector including professional services. Nevertheless, *corporations* are organizations by which capital, by which management attempts to organize resources to employ human and non-human productive capacity to satisfy wants, and the least that the *tax system* does is to tax away part of the earnings of business which are better left untouched. The tax system does not help men in using the business mechanism to get what they want — output, good jobs, productive use of taxes.

The *tariff system* by and large is mostly about the tax on corporate earnings. A great deal of the tax is actually a substitute for someone different complications, but one job of man to society is to find out what we want, more of this and less of that. The market system is to measure the price for doings and to tax on corporation earnings.

As far as production is concerned, again a tax of this is a tax on one aspect of the fruits of production, namely, the earnings of equity. This is the major basis for taxation of corporate earnings. This type of tax may bring about mis-allocation of productive resources because it is actually a disincentive on production. A better way of raising revenues possible as far as it concerns the productive taxes is to impose the tax on personal income and all personal expenditures

and all personal wealth in a meaningful sense. To tax only one type of wealth or income is to miss the point that wealth consists of debts as well as equities, real properties as well as public shares.

Throughout the Western World, in the 19th century, in the early 20th century until the first world war up to the second war, this whole history of economic development was one in which taxes by all modern standards were low. I think this is no exception to you. During the second world war, the tax rates rose from 12, 15, 40 to as high as 50 per cent. And I think we failed to reduce them at the end of the second world war, so that now we have a system of very high taxes.

On business earnings, I would think that during the last 10 or 20 years, developing as well as developed nations would be better off if they rely less on business taxes, as taxes on one aspect to return to as equity capital.

I have occasions to study the tax system in other countries. As far as developing countries are concerned, it takes years to compete with other countries for capital, taxes are by no means the major considerations. But taxes are questions, which our government must do something about, and this kind of international competition is going to intensify the coming years so that more or less out of necessity for many developing nations are going to find the ability to rely on some kind of corporation income tax for fairly income in the world.

On those things for which we are trying to compete, the world exports. Now, then, to maintain a *too cared* system on a low tax rates on business that produces for exports and higher rates on those for the domestic market, it seems to me that the kind of solution is one which is beginning to get plenty of favorable actions around the world. This is the tax on *value-added*. I think, nevertheless, that if we are going to offer a much more rational way to try to deal with the problem on corporation income, we should tax their income less. There are some political questions involved in this issue,

foremost of these problems are who really shoulder the burden of taxation and how much.

The *value-added tax* is a tax on consumption. A more wise, sure way of taxing consumption is then common in the world. The United States does not have any significant number of consumption taxes except taxes on those three things people like so well, the gasoline tax, the tax on automobiles, and the tax on our telephone service.

The *retail sales taxes* are essentially the same as the tax on value-added. But I would think that in developing nations, 5, 10 and 15 years probably the much better of if value-added as a consumption part of tax will take the place of most of the tax on corporation income. Most of the tax on consumption except for particular items for which there are some good reasons for trying to tax much more heavy than others, such as the gasoline tax to maintain our highways, are essentially a burden to the poor.

There was references in the regressivity in your tax system. I would suggest that the more significant thing on regressivity centers on the question of how these impositions adversely affect the poor. Progressivity and regressivity of taxation are deceptively simple, but I think it is a very unjust tax system to make poor people more miserable, and the tax systems of my country employ this taxation technique in varying degrees.

There is in the United States and in some developing countries a system by which on the basis of the tax return, anyone can gather an exemption of a minimum amount on consumption. At the end of the year, the fair tax return of the lowest income is entitled to a refund for basic sales tax as applied to X-hundred dollars worth of purchases. The consumption tax as a tax on the poor, and the regressivity of the tax system penalizes the low-income groups. Obviously, developing countries cannot use this kind of device effectively without administering technique, which can get some kind of a tax return from poor people.

We know why most people do not or cannot file their tax return. Some of them have very negligible income to report. But I think there are more rational, more human ways of raising taxes even from the low-income groups without hurting them, so that the operations of the government can be financed.

When we propose a progressive expenditure tax, Congress didn't vote on it. But the way things stand now, I think that a way to simpler effect a refund of the sales tax on the *flat rate basis*.

Another type of tax which an increasing number of countries have availed of lately is the *tax on laying grounds*. This is an economic principle and it is known and made exclusively for two sense, namely, that land area is one thing in the world that doesn't depend upon taxes.

If you tax land, chances are that the incidents of the tax would ultimately fall on the people in terms of higher land rent. Now, as population increases, as people move around especially in the cities, the demand for land rises. With the supply of land being fixed, the rise in population presses itself critically on the supply of land, and land rent rises.

So, people pay more, and this is a payment which differs from all other payment with a few exceptions. The quantity is not responsible to the difference in prices. And the higher the tax, the greater the pressure put on the best use of the land and the wrong tax makes it possible to keep land underutilized. It seems to me that anything else as one tax, which overtire, is burden so much except on the heirs of the people who will get higher land prices.

Now, land taxes can be worth for it is a simple matter that is for a dollar revenue. By most standard of fairness, it's just a class by itself as far as fairness is concerned. Now, I would think that from the basic policy decision with any other place in the world, certainly United States for a long time it takes time for ideas to get old and are not taxes on buildings is a different matter.

I don't think the same argument in the price there will have a very high tax for a very low land same land could be very high. I don't say changing overnight but the world's going to be around a long-run. Long life planning for tax reform should emphasize very substantially much heavier taxes on land with the revenue in most cases being earmarked for local government with valuation done compositely not easy to come by, but it can be done again and I just came from Taiwan and I don't understand Chinese, so I may not have understood their customs but I studied their customs in three weeks and I think they have a very pretty good system of valuing land for tax purposes.

On this basis, which I could figure out no opportunity for corruptional favoritism. It's negligible and it is now, I see these are some courses of defects. But the basic job can be done by the trained people who concentrate their time on a mass appraisal basis. And as population increases local government spend more and more money to build streets, schools, and other facilities. Here it seems to me is another strong reason for tying land tax revenues into local governments.

Someone this morning asked me what to do about the problems in government finance. Well, one thing not to do is boycott classes. I don't see it helps anything. This is observation, it was all the time Plato, namely, that a person who is 20 years old don't have to be experienced as the person who is 40. Everyone who is 40 has been 20, but not the other way around. Now, the main thing is you've got to get and develop technique and competence.