

So while discovery was made in the name of the sovereign, no land in the West was ever bought by the Spainards. The French had an agreement with the Indians which carried with it right of ownership, but the Dutch charters required that title was to be acquired through outright purchase.

The sovereign rights of the Indians were not recognized by the British, and English records are silent on the subject of land titles. The right of discovery was their basis of ownership and all land was discovered in the name of the King or Queen. The Crown then transferred it to subordinates, allowing much leeway to local authorities. Methods of purchase, gifts from the Indians, acquisition by seizure, occupancy under long-term leases, and "treaties", were all used to establish the claims of the new landowners.

Thus in our historical review we find land tenure and title determined by numerous methods, the foremost being discovery. However, the right of discovery raises several important points-- one being that the right of ownership is not based on original discovery but rather the first of the Europeans to discover the New World. If this basis of land ownership is valid, does that mean that any group outside of the Europeans can henceforth claim title based upon discovery? Who owns the land?

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# Long Island Georgist

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"I ask no one to accept my views. I ask him to think of himself."  
Henry George

## FROM OUR EDITORIAL DESK

Once upon a time, when governmental budgets were small, scant attention was paid to taxes but that was once upon a time. Now, with governmental services greater than ever, people are very much concerned with taxes. On the local level, costs have risen sharply in education, especially since World War II. Historically, public education has been financed with the property tax. As expected, this tax also has increased significantly. Therefore, the property tax has come under close scrutiny.

What with recent court decisions, this means of financing education has met strong resistance. It appears that the worst features of the property tax have been magnified. But to replace it or lessen its effect is not in the best interest of the community. In light of the importance of the property tax, the LONG ISLAND GEORGIST is devoting much of this issue to reasons why it should be reformed.

LET'S KEEP THE PROPERTY TAX FOR OUR SCHOOLS

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The Long Island Georgist welcomes comments from its readers.

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(The following article appeared in Newsday. Stan Rubenstein, the author, is director of the Long Island Extension of the Henry George School.)

Now Johnny Quintera was going to show his friend Chris Dorman who was right. Even President Nixon himself was on Johnny's side and was going to help.

Johnny and Chris have worked side-by-side in the electronics plant for some time. When Johnny moved out of the city and bought a modest house in a modest neighborhood, Chris chided him for wanting to become his own janitor. Chris had stuck to his apartment close to the plant and was protected by rent control.

Johnny made the move for the kids. And when Chris complained about deterioration of the neighborhood and the school, Johnny was smug. But when Johnny complained about the way his property taxes were soaring, Chris just shrugged and said, "You wanted the kids to have a better school."

Now someone was listening to Johnny's plaint. A court in California said it is unconstitutional to use property taxes to support local schools and other states are going along. The President has called it archaic. To Johnny this means that he should pay less taxes and his friend Chris should share some of the burden, while both their kids should have the same kind of schools.

With simplistic egalitarian reasoning, the California Supreme Court ruled that the use of the property tax enabled wealthier communities to maintain better education facilities than poorer ones could, thus depriving some children of equal protection under the law. A boy's or a girl's educational opportunity should not depend upon where he lives, said the court.

Whatever validity there may be in this concept of "one child-one dollar" it should not be used as an argument against the property tax. Such reasoning only confuses issues already poorly understood and can open a Pandora's box of taxes.

As the legal issue continues to gain prominence--it may even be placed before the Supreme Court--it may become an umbrella wide enough to shelter those discontented with the property tax itself. It may cover those antagonistic to the tax, particularly the family that sought to escape to suburbia, or even exurbia, only to find the press of population and rising school costs pushing their taxes uncomfortably high.

With educational costs mounting, especially in the past decade,

the chorus against the property tax to support schools understandably has become louder. Those communities with predominantly poorer properties on their tax rolls have had to levy more heavily on the values at their disposal as compared with wealthier areas, where generously valued properties could more readily support educational demands. Nature being what it is, the poorer communities are often called upon to educate more youngsters than are the richer ones.

Continuing court disapproval of this means of financing schools may result in the taking over of property taxation by state authorities. This may have certain net advantages. It will mean some loss of local independence, some disassociation of benefits from those who pay for them. It may, however, improve the administration of the tax, making assessment practices more uniform and less susceptible to local political pressure.

But it may blow open 50 Pandora's boxes, allowing a host of new taxes to escape. These taxes are likely to be old ones in new packages. Most prominently mentioned of these "new" levies is the Value Added Tax (VAT). This is a complicated series of levies on the value added to a product at each stage along the production chain and ultimately passed onto the consumer. There is also the possibility of higher sales taxes. All of these indirect levies fall most heavily on the poor. Then, too, the income tax can be increased to take up the load. Although supposedly progressive, this is avoided by the rich, escaped by poor and paid by the middle class.

This is not to say that the property tax is beyond question. Indeed, it is in need of overhaul. The property tax is really two taxes: a levy on the land and another on the building or other improvement that stands on the land. This might appear to be a distinction without a difference, but the building site and the building are two very different things and derive their values from different sources.

Land, or site value, depends on location, traffic, the movement of people in the area and the community services. The building value obviously stems from the investment in it and its usefulness. The land value arises from nature and community activity. To tax it is to recompense the community. The improvement value results from the investment and efforts of the owner. To tax it is to penalize thrift, industry and initiative.

This is readily seen in the record. Land values have increased in recent years at a faster pace than anything else. During the past five

years, when construction costs have risen 40 per cent, land values on Long Island have soared more than 100 per cent.

Authorities in the field do not want to discard the property tax, but to reform it. They would shift the burden away from earned income onto unearned income; lessen or abolish the tax on improvements while increasing the tax on land.

Housing consultant Perry Prentice, a former vice-president of Time Inc., states: "Today's property tax harnesses the profit motive backward instead of forward. There is not a city in this country that is not making its growth, urban renewal and redevelopment problems worse by the way it misapplies the property tax to penalize improvements and subsidize the misuse of land."

A tax on land values and a tax on improvements are fiscal contradictions. What is good for one is bad for the other. The academic community is rapidly recognizing the advantages of taxing land values heavily as Australia, New Zealand and the Union of South Africa do with considerable success.

The elimination of the property tax--particularly the tax on land--would not only open the way to more onerous forms of taxation, it would, in effect, give a subsidy to the professional speculator.

The landowner does not create the value of his site. This is readily demonstrated. In the first place, he did not create the land; it was there before him and will continue to be there after he is gone. Moreover, he does not cause the presence of the community that surrounds his land. And he does not directly cause the transportation, utility and other community activities that make his location attractive.

If the landowner, by virtue of his ownership, creates no value, the speculator is responsible for none. He can only make the site more expensive than its ordinary location value would warrant. He does this because he holds land not to use it, but only to make a profit from the community--created increases in land rent. As a group, speculators force this increase in rent--with no accompanying increase in output of goods or services--by holding land out of use or underusing it. This is the principal reason for urban sprawl.

Thus to remove or reduce the tax on land would not only permit landowners to benefit from community services without paying for them but would encourage the speculator to reap even greater unearned profits while doing even greater injury to the community. There may be inequities in educational opportunities under present conditions and there are faults in the tax system. But scrapping the property tax will improve neither.

PLUCKING THE GOOSE

Napoleon Bonaparte, General deGaulle, Louis Pasteur, Joan of Arc, and George Bizet. Burgundy, Champagne, Sauterne, and Chablis. The Eiffel Tower, Le Louvre, Notre Dame, and Sacre Coeur. And the revolutionary spirit of Rousseau, Voltaire, and Montesquieu during the eighteenth century. Add to this list, with all its grandeur and depository of greatness, the initials V.A.T. to round out the panoramic picture France has given to the world. VAT has made an indelible mark on fiscal policies throughout Western Europe. For, in France, a seed has been sown, perhaps to blossom in this country in the not too distant future. Whether it becomes a weed or flower is a question yet to be determined.

Reports have trickled back to this country from Western Europe on the effects of the value-added tax--reports that have interested administration circles. President Nixon is focussing attention upon this tax, stating that it may provide means to relieve the homeowner of the ever-increasing property tax. And others have joined in guarded exaltation, terming the property tax regressive, to be rescued by some magical tax. But most alluring, whetting the palates of politicians and economists alike, is the potential for adding billions to the United States Treasury.

What is this tax--termed by some economists as a miracle tax and answer to numerous budgetary problems? Edward G. Boehme, director of the Federal Reserve Bank of Philadelphia states: "VAT is, not surprisingly, a tax on the value added during the productive process. Added value is what the production process is all about. But if that wheat is transformed, stage by stage into a loaf of bread, it has value."

For example, let us assume there are four stages involved in getting a loaf of bread to the breakfast table. At each stage of the productive process, the value-added tax is added to the value of the product. If the tax rate say, is 10 per cent, then the below table shows what happens:

	Stage 1	Stage 2	Stage 3	Stage 4
Purchases from other firms	0	.11	.33	.44
Value added in stage	.10	.20	.10	.10
Cumulative value added	.10	.30	.40	.50
Tax at stage	.01	.02	.01	.01
Cumulative tax	.01	.03	.04	.05
Selling price to next stage	.11	.33	.44	.55

The consumer pays the final price of 55 cents, which includes the cumulative value added plus the cumulative tax. The seller at stage 4 will keep 4 cents of the 5 cents tax collected for that is the tax paid out.

Common Market countries have been experimenting with the VAT for several years--nations such as France, West Germany, Belgium, the Netherlands, and Scandanavian countries. Rates vary, some with standard rate such as Norway and Denmark and others with a multi-rate system. France, for example, has a general rate of 23% but differences occur based upon the product--about 7% for food products, but 33% on automobiles and luxury goods. Whatever the rate, that is the amount which is added to each stage of production and distribution.

Revenue, of course, varies, based upon the rate. West Germany, cited as one country where the effects appear to have been beneficial, uses 11% as the rate. Twenty-five per cent of government money comes from this tax, leaving little doubt as to why President Nixon looks favorably upon this means of financing a sagging budget. Potentially, it is alluring, for it is estimated that a 3% rate in this country would produce well over 10 billion dollars in revenue. If West Germany's rate were used, it could produce about 25% of the federal budget--a sum not to be readily discounted.

That it has advantages, according to Administration circles, can be little disputed. Potential for revenue is enticing. Production-wise, say some economists, it is neutral, for the businessman does not pay any of the taxes. Manufacturers, rather than be taxed on their dividends and profits, merely pass the tax on to the consumer. It is argued that more money for the businessman will be available to pour back into investments, thus its neutral effect. And it is hidden from the consumer--a criteria considered beneficial in today's taxation structure.

Dean Richard Lindholm, from the University of Oregon, one of the more forceful advocates of the value-added tax states: "VAT treats the production of land, labor, capital, and entrepreneurship equally, the base for VAT is as broad as the gross national product and therefore very stable; payments are made after income from transactions has been received and all businesses are treated the same, no matter how organized or financed or what their type of financial activity."

And herein lies the perennial fiscal rub. When taxes fail to distinguish between that which is earned and that which is unearned then little has been accomplished in making a tax fairer and more equitable. That no distinction is made between value added to land, labor and capital, is to prolong a mass of confusion. For any value added to land is

TAXWORK ORANGE

How long does it take for a wrong to become a right? And now a new twist: How long does it take a right to become a wrong?

The time-hallowed institution-- the local property tax-- may be declared illegal in New York State if what has happened in the States of California, Texas, and Florida are taken as precedents. The issue at hand deals with quality education for all children in a particular state. As the legal issue captures the mind of the public, few indeed may be aware of what is happening during the process--the diminution of freedom. It is the property tax alone that continues to allow the individual citizen a voice regarding the taxes he pays.

Long Islanders are all too familiar with the defeat of school budgets year after year. Politicians are well aware of this discontent but what is also clear is that there is discontent with other taxes as well. Inasmuch as the property tax is the only tax that can be voted down, there is a tendency to overstate the discontent with the property tax and underplay all the other onerous taxes. When property taxes rise, all have a chance to discuss and debate the issues. But not so with other taxes for it is the politicians who do the debating and make the decisions. Who can forget how the last increase in the sales tax was railroaded through by the legislators and became a fait accompli quietly and quickly? How convenient to shift this tax from the local to the state level. How else to pluck more from the goose with less squawking?

When once the State is given the power to apply the property tax for education what assurances can be given that it will not be used for other purposes? Even if legal assurances are given, laws can be altered in any given administration. But of central importance is the further centralization of government and the individual citizen diminished to the final clockwork orange.

And how may the State take-over of the property tax become a reality? Under the legal issue of "equalizing education". After all, which person of good will can openly object to this concept? But upon closer examination, it may become apparent that this issue is nothing more than a pie in the sky.

Experience has shown, during the past two decades, that you cannot truly equalize education. What does succeed is driving youngsters out of the public schools into private schools. For, as with other services and commodities, consumers want different quantities and qualities. And education is not different from other services. People are desirous of different qualities and are willing to spend more or less based on their

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Today's property tax with its weight on improvements instead of on the land harnesses the profit motive backward instead of forward. There is not a city that is not making its urban development problems worse by misapplying the property tax to penalize improvements and subsidize the misuse of land.

Time Magazine  
May 3, 1971

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Just correcting the gross underassessment of idle and underused land (in Southfield Michigan) enabled us to reduce the taxes on many homes by as much as 22%.

James S. Clarkson  
Mayor, 1961-69  
Southfield, Mich.

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Heavier taxation on site values has the apparent advantage of discouraging speculative withholding of land from development and of enabling the public to recoup more easily the benefits it bestows on local landowners through improvements. Lighter taxation of improvements might remove existing tax disincentives which discourage new construction, rehabilitation, or adequate maintenance.

President's Committee on  
Urban Housing (Kaiser  
Commission)

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Land values rise mostly because of other peoples' and other taxpayers' investment, community development, and population growth--not because of any actions by the owner. The community creates the unearned value-increments and has every right to recapture them by taxation.

Dick Netzer  
Dean, Graduate School of  
Business  
New York University

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Lower taxes on improvements encourage new construction and rejuvenation. Lower tax on site values have the opposite effect because they invite land speculation, raise land prices, and discourage construction.

Robert C. Wood  
Pres., University of Mass.  
Former Secretary U. H. R.

The real property tax reflects and promotes every unsound public policy imaginable. It encourages urban blight, suburban sprawl, and land speculation. It thwarts urban rehabilitation, construction-investment in building, and improving homes. And it prevents orderly development and planning.

As a very simple start, we should remove the tax from improvements and put it on the land. In this way, each man would pay his fair share of what the community was doing for him and would not be punished for what he was doing for the community by putting his land to good use.

Robert Hutchins  
President, Center for the  
Study of Democratic Institutions

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A powerful tool for rebuilding urban centers through private initiative lies in reforming the property tax. Higher taxation of location values and lower taxation of improvements would help push land into more effective use.

Carl Madden  
Chief Economist  
United States Chamber of Commerce

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Shifting the full weight of a fairly heavy property tax off improvements onto location values would so change the arithmetic of property ownership that no subsidy at all would be needed for urban renewal.

M. Masson Gaffney  
Resources for the Future

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One of the two conflicting taxes fused and confused in the property tax is the tax on improvements--the tax on what past, present, and future owners of the property have spent or will spend to improve it. And it must be obvious to anyone that heavy taxes on improvements are bound to discourage, inhibit, and often prevent improvements.

The other levy confused in the property tax is the land tax--the tax on location value of the site, the tax on what the property would be worth if the owner had never done anything or spent anything to improve it, the tax on the value that derives mostly from an enormous investment of other peoples' money and other taxpayers' money to create the community around it and make the location accessible, livable, and richly salable. And it must be obvious to anyone that heavy taxes on the location cannot discourage or inhibit improvements; on the contrary, heavy taxes on location could put effective pressure on the owners to put their sites to better use so as to bring in enough income to earn a good profit after paying the heavier tax.

"Financing Our Urban Needs"

PROPERTY TAX: WHO PAYS?

(Below are excerpts from an article which appeared in Tax Review, the publication of the Tax Foundation. The author C. Lowell Hariss is Professor of Economics at Columbia University and has served as a consultant to the U.S. Treasury and other government agencies.)

What are the present property tax burdens? Who bears them?

Such questions are crucial for making good decisions--to change or not to change. Yet in trying to answer them, one finds that the term, "the property tax," embraces widely different elements. Of fundamental significance is the economic difference between land, fixed in supply, and buildings and machinery, the supply of which in a community can be affected by high, as against low tax rates....

Over the state of New York the 1967 Census found farms assessed at 16% of sales price and commercial and industrial properties at 48%. In Massachusetts vacant land was assessed at half the percentage of residential property. And so on.

The same term can mean quite different things when it is applied to both a residential suburb of generally similar properties and a city with widely varied industrial and commercial property. Some localities are new, others old. Some have good assessments. In other places however, inequalities of assessment are scandalous-- sometimes discriminating against residential property and in favor of factories or stores, sometimes favoring homeowners, but generally favoring farms and vacant land....

A tax on gasoline adds to the price; an income tax reduces the take-home pay. An annual tax on the value of land affects the price--the capital amount-- which a buyer will pay. The higher the tax, the lower the price....

The principles of supply and demand operate-- except that the quantity of land is not changeable in the way that supplies of manufactured products can be raised or lowered. As to supply of land, the prior owner will presumably have tried to get as high a price as possible. He could not reduce the supply (space on the earth's surface) to get a higher price. As to demand for the price of land-- except as the spending of more tax revenue raises demand for living or conducting business in the area-- nothing will offset the effect of higher tax in lowering the price.

Some of the present property tax on land is no real burden on the owner or user. If the tax had been lower, he would have had to pay a higher price....

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HISTORICALLY SPEAKING

Indian Land Ownership

The first quarter of the seventeenth century witnessed a small exodus of settlers from England and the Netherlands to the New World-- a territory occupied by numerous Indian nations. The clash of century-old civilizations and cultures brought land tenure into sharp and vivid focus. Isolated from the Roman and feudalistic forms of ownership in Western Europe the American Indian evolved over many generations a claim to the land based solely on occupancy and usage. The European concept of private ownership introduced by the new settlers caused endless conflict. Eventually something emerged known as the "American Way."

Even before the discovery of this continent by Columbus and subsequent explorers, the Indian economy had passed from a purely nomadic food-gathering economy to a food-producing economy. Formerly they had roamed at will and supplied the necessities by hunting and fishing where they pleased. After they learned to cultivate the soil a transition in land relations naturally resulted in claims of ownership based on labor by the occupants. However Indian life was so strongly bound up in the tribe that no matter how long an individual used the same plot of ground it was never considered to belong to him personally, but to the tribe, and land inheritance therefore accrued only to a tribe or clan-- this is the nearest thing we can claim to "common ownership" in the American annals.

Although historical records are incomplete and void of specific data, numerous historians agree that the right of occupancy enabled each tribe to absolute title to, and sovereignty over, a particular section of the country. Each member was an owner by virtue of being a member of that tribe. But ownership could not be transferred outside the tribe. The all-powerful chief acted as proprietor or trustee of all the land though he himself claimed no direct or personal ownership.

In other respects, and especially regarding personal property, the tribes developed independently. Even though the communal idea of land ownership was accepted, there was no universal acceptance of other views regarding property. The six nations of the Iroquois seem to have made little distinction between real and personal property and conformed to some of the basic tenets of communism. The Omaha and Pueblo Indians of New Mexico and Arizona followed the same pattern as the Iroquois, in contradistinction to other tribes who adopted the European idea of individual ownership of personal property.

When Columbus was granted ships and men for his historic journey it was agreed that any land discovered would belong to the Crown of Spain.

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EXPLORING THE ISSUES

For the past several years, faculty members of the Long Island Extension of the Henry George School have discussed vital economic issues on radio station WVHC. Last year, discussions were expanded to include some of the prominent economic professors from the University of the State of New York in Stony Brook. Beginning this Fall, in co-operation with the Long Island Council of Social Studies, several high school economic teachers will participate in the series.

Mr. Stan Rubenstein, serving as moderator each session, discusses specific issues with one member of the Henry George School and one teacher from a Long Island high school.

Below is the Fall Schedule, which begins during the month of October. Please check local newspapers for exact dates.

Role of Economist in Government

Mr. Albert Rosen from Huntington High School and Professor Jack Schwartzman from the HG School

Subsidies

Mr. Philip Levy from Levittown School District and Mr. Jerry Medowar from the HG School

Poverty--Whose Responsibility?

Mrs. Vicky Gottfried, West Hempstead High School, Mr. Martin Rosen, Farmingdale High School and Mr. Jerry Schleicher from the HG School

Government Spending--Too Much?

Mr. Vincent Carvalho, John Glen High School in Huntington and Professor Jack Schwartzman

The Market Place--Is It Dead?

Mr. Martin Rosen of Farmingdale High School and Mr. Jerry Schleicher of the HG School

Corporations--How Much Regulation?

Mr. Vincent Carvalho, John Glen High School in Farmingdale and Professor Jack Schwartzman of the HG School

Population--Blessing or Menace?

Mrs. Vicky Gottfried, West Hempstead High School and Mr. Jerry Schleicher of the HG School

Galbraith or Friedman--Whose Right?  
Mr. Albert Rosen, Huntington High School  
and Professor Jack Schwartzman of the HG School

Taxation--A Fairer Method?  
Mr. Martin Rosen, Farmingdale High School  
and Mr. Jerry Schleicher of the HG School

Economics in the High School  
Mr. Philip Levy, Levittown School District  
and Mr. Jerry Medowar of the HG School

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TAXWORK ORANGE (continued from Page 8)

circumstances. What a consumer cannot get in one store will be purchased elsewhere.

Equalizing education may not only be a mirage but also an attempt to confuse the issue of the property tax. For almost two hundred years this tax has satisfied local needs. It is only fairly recently that State Aid has been required to supplement the increasing cost of education. And because educational costs have skyrocketed, the current method of administering the property tax has been in for much criticism. This is mainly due to a misunderstanding of the tax.

The property tax is really two taxes in one, each entirely different from the other: one on the building, a product of labor and capital; the other on land, which is neither a product of labor nor capital. In point of fact, the latter is not a tax but rather rent, for that is what the landowner collects. Rent is not a product of labor or capital, or the labor of the landowner but a return for the monopoly privilege of being allowed to use the land. Land confers a certain benefit upon the user-- more can be earned with it rather than without due to its inherent advantages of fertility, mineral content, or superior location.

Hence the outcry against the property tax is actually, although unwittingly, a gripe against the building tax. This outcry is a legitimate cry of protest, but should not be directed against the freezing of the land value tax which is a just tax. Reform of the property tax is what is needed and ought to include reduction on the building tax and increasing the tax on land values.

To destroy the concept of the property tax would be a blow to local control and a step towards further centralization. For, if quality education makes sense on a state level, then is not every child in the nation entitled to the same education? And thus, step by step, local control will have disappeared, connoting a further withering away of the say we have in our destinies.

PLUCKING THE GOOSE (continued from Page 7)

unearned as opposed to the other factors, which in all probability is earned. VAT makes no such separation between earned and unearned-- in the same manner as the corporation tax or capital gains tax and most other taxes.

Then there is also the concept that an indirect tax is a better tax than a direct tax. Better for whom-- the tax collector or the taxpayer? The VAT is built into the product so that the consumer will probably not be aware of exactly how much is being paid. With all its bad features, the ability to pay tax at least allows each to know the amount paid. Weekly pay checks indicate the exact amount. But this tax is hidden. It is something almost subliminal; the effect is there but one does not know about it-- except in higher prices.

Not only are prices higher but there is a pyramiding effect-- that is, a profit may be placed on top of the tax. It is a common practice for retailer and manufacturer alike to make a profit on the tax, for they consider it as part of their expense. And as all consumers know, when prices go higher, a reduction in demand results. This being the case, it is difficult to see how the tax can be neutral, for it discourages and diminishes consumption.

Good points the tax has, but its major advantages could be realized by reforming the property tax, not diminishing its importance. Property taxes are being criticized but can be reformed because they are in the open, for men of good will to observe, discuss and improve. But the VAT is hidden, only to be paid by the consumer who is also the homeowner.

Jean Baptiste Colbert, finance minister under Louis XIV, wrote: "The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers while provoking the smallest amount of hissing."

VAT may cause less hissing, but is it fair or equitable or even economically sound?

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PROPERTY TAX: WHO PAYS? (continued from Page 11)

Ownership of wealth is more concentrated than is the receipt of income. Many persons with low incomes own little or no capital, either man-made or land. In relation to income, therefore, property tax as a burden on capital probably does have a progressive element. It will, however, be very uneven as among family with equal incomes....

Clearly, burdens today differ very widely from one place to another. For the country as a whole, however, for the great majority of families the tax appears to be roughly proportional to income. At the lowest and the highest ranges of the income distribution the estimates...reveal considerable regressivity relative to income.