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# Basic Tax Issues

Roy Blough

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*By* Roy Blough*

A belief which I am sure we all share and without which this conference would be pointless is that tax policy can and should be better than it is. I do not doubt that there is some friendly disagreement among us over what should be regarded as "better" with respect to various provisions of the law, but we would all agree that there ought to be some changes.

How is a better tax policy to be achieved? Every year fine-sounding pronouncements issue from one or more of the many existing economic and political groups to the effect that there must be a thorough-going reformation of the taxing structure. We must, we are told, cast off the present faulty tax structure; we must wipe the slate clean and make a fresh start. It is a stimulating thought: to clean the slate and make a fresh start; but it is not the way tax policy is made. The tax system is a going concern in which past, present, and future are part of a continuing institution. Tax policy grows through a succession of changes in the existing system. In almost every year there are changes, in some years numerous changes, but rarely is there a really drastic upheaval. Our most recent revolutionary change was the introduction of the progressive income tax in 1913, and even that did not appear so drastic at the time as it eventually became, since it was only after World War I began that the income and profits taxes assumed a dominating role in federal taxation.

*Roy Blough: former Principal Director of Economic Affairs for the United Nations, and now Professor of International Business in the Graduate School of Business, Columbia University. Author of *The Federal Taxing Process.*

To be sure, efforts have been made at irregular intervals to clarify and redefine the law within the general limits of its existing structure. The most recent of these was made in 1954. As usual in such cases, that revision left the tax law with many raw edges to be tucked back into harmony with the general pattern before administration could proceed smoothly and effectively.

The process of making tax policy is essentially the decision of a succession of tax issues. By a tax issue I mean an aspect of the tax laws on which two or more alternative courses of action are open, so that a decision must be made. These issues concern all conceivable details. In connection with the Revenue Act of 1954, the Congressional Joint Committee on Internal Revenue Taxation has issued an analysis of Congressional action with respect to various issues involved in the bill. You may find of interest a classification of the various points included in this analysis. There were according to my count 20 items on procedure and administration, 20 items on liquor, tobacco, and other excise taxes, 18 items on estate and gift taxes, and 134 items on income taxes. This makes a total of 193 items on which new decisions were made by at least one House of Congress. This does not include items that were considered but did not pass either House.

This list of items indicates that the members of congressional committees and other officials directly concerned with tax policy face a complicated and confusing task. Fortunately for the sake of our discussion, most of these details involve efforts to apply the decisions made on a few basic issues to the multiplicity of situations presented by our complex economy. For the purpose of this discussion I would like to think of tax issues not with respect to whether they involve rates of tax, exemptions, definitions of the tax base, etc., but with respect to the dominant objective or consideration on which the tax proposal rests. The groups of issues to which I shall direct my comments are those designed to affect revenue yields, or to increase fairness and justice in taxation, or to make taxes more convenient and simple for the taxpayer and the tax administrator, or to grant or impose special economic incentives.

### *The Revenue Goal*

A basic issue which sets the stage for most other decisions concerns the amount of revenue to be raised. Were it not for the need for revenue, there would be no tax issues, since there would be no taxation. "Taxation for revenue," however, should not be thought of as solely a matter of supplying the government with spendable funds. Especially in the case of the federal government there are sources of funds other than taxation that could be drawn on freely if it were not for the adverse economic effects of spending them. Taxation for revenue performs the necessary function of withdrawing spendable funds from private hands, thus preventing the inflationary results that follow when the government and its citizens engage in competitive spending for the same limited supply of goods and services.

When the volume of revenue to be raised increases more rapidly than the national income, tax rates must rise, or new tax sources must be tapped, or both. A consequence of rising tax rates is to accentuate the importance of the decision of tax issues, since the line drawn between taxability and non-taxability becomes a matter of greater concern. A consequence of tapping new tax sources is to enlarge the taxable area, and thus to increase the number of decisions to be made.

What factors determine the amount of revenue set as the goal for tax legislation? The chief factor in determining the amount to be raised is the amount being spent. The two amounts, however, need not be the same. The question whether they should be the same, and if not, which should be the larger and by how much, are major problems of budget policy. Traditionally, "sound finance" called for an annually balanced budget. There are still many people who maintain this to be the only proper rule. But even they usually allow exceptions. Would it really have been possible to finance World War II out of current tax revenues? A few people answer yes to that question, but I wonder if any of them would have been prepared to accept the levels of taxes that would have been necessary to achieve the result, or the economic and political consequences of taxes at those levels. The wartime deficit of around 210 billion dollars undoubtedly could have been kept smaller if there had been the political will to do so. But that is a quite different matter from no deficit at all.

Be that as it may, we have a federal debt accumulated in World War I, during the depression years, during World War II, and in recent years. With this large accumulated debt we face the following question. Should our revenue goal be high enough to provide for the repayment of that debt, and, if so, how rapid a repayment? One looks in vain for any signs that a substantial degree of repayment is politically feasible, while economically debt repayment could be harmful unless limited to the changing capacity of the economy to absorb it.

This brings me to an approach to budget policy which has developed over the last quarter-century and is now accepted by most economists, and to an increasing extent by members of Congress and other policy makers. I refer to the use of budget policy as an instrument for economic stabilization. In brief, this policy calls for surpluses of revenues over expenditures during periods of high prosperity and deficits during periods of recession or depression. From the economic point of view this doctrine seems firmly established, but its effective use depends on a degree of political understanding and courage not yet evident. There would seem to be substantial danger that the politically attractive half of the formula—namely, that deficits are desirable in periods of depression—is being accepted, while the other half, which calls for surpluses in periods of prosperity, is being abandoned by our policy makers, even though this side of the formula is reinforced by the need to make a new start at retiring the debt and by the older doctrines of "sound finance." The excuse often given for lowering taxes while running a deficit in a period of prosperity is that tax rates are too high. A major difficulty with this argument is that you can search the annals of this century, at least, without finding a period in which recognized leaders were not giving a public airing to the same kind of statements. Whatever the level of taxes, there are always many people who insist that tax rates are so high as to have economically destructive effects.

One method of securing a fairly automatic budget surplus in prosperous times and budget deficit in depressed times is to adopt taxes that have a highly fluctuating yield. For example, collections from taxes that are measured by the net profits of corporations fluctuate a good deal more than do collections from taxes that are measured by the gross sales of corporations. Again, a tax imposed at progressive rates gives a more highly fluctuating revenue than does a tax imposed on the same tax base at a uniform or flat rate. The idea of actually preferring fluctuating revenues to steady revenues is in sharp contradiction to the more traditional idea that the more stable the revenue the better, since it permits fiscal planning for an annually balanced budget. Responsible financial officials undoubtedly feel much more comfortable with stable revenues than with fluctuating revenues. Moreover, there is danger that the high levels of revenue received in prosperity periods will encourage tax reductions that are not justified by the average tax yield over a period of years. Thus, economic considerations may come into conflict with administrative and political considerations.

The revenue goal, then, gives us the frame within which we are to paint the tax picture and determines the size of that picture. The size is of considerable importance for all other tax issues. When a picture is enlarged its defects become more noticeable. When a picture is enlarged it also may become distorted; this is of particular importance in the tax field. It is sometimes argued that a permanent tax structure should be determined on "general principles," and that when more or less revenue is needed all tax rates should be raised or lowered proportionately.

Proportional changes in tax rates may be practicable for minor changes in the revenue goal, but not for major increases. Rate increases that are workable and acceptable for one tax or taxing bracket would not be for others. Diminishing returns set in at different points for different taxes. Also a proportionate increase in rates might result in some persons paying more than 100 percent of their income. Obviously any major change in the revenue goal requires a complete reappraisal of the tax rate structure.

### *Fairness in Distributing the Tax Load*

Many tax issues reflect the objective of making taxes more fair and equitable. If the economic situations of all people were alike, virtually any kind of tax or tax system would be as fair as any other kind, since everyone would be treated the same under each. In fact, of course, people's situations vary widely. Some of the differences reflect inequalities of income and wealth. Other differences are in the occupations in which people engage, in the forms of their investments, in the ways in which they carry on business, and so on.

The tax issues that revolve around the fair distribution of the load involve two major problems. The first is how to treat, for tax purposes, people who have widely differing amounts of taxpaying capacity. It is not sufficient to make some generalized statement, such as that everyone should be treated equally. Indeed, it immediately appears that if persons in an unequal situation are to be treated fairly they must be treated unequally. This is the problem of progression in taxation. The second problem is how to treat fairly people who have substantially the same taxpaying capacities but who, because of one or more of the differences I have mentioned, would not be taxed fairly without some special taxing provisions.

Let me turn first to the problem of progression.

### *Progression*

While the whole idea of progressive taxation continues to have bitter enemies, progression is firmly established in the federal tax system and in the public attitude toward federal tax policy. The extent or degree of progression, however, is a continuing basic tax issue that is reflected in many specific issues. Such matters as the size of the income tax exemption, the progressive rate scale of the income tax, and similar issues for the estate and gift taxes, are clearly in this group. Special tax treatment of capital gains and the deduction of corporate dividends, as well as the choice among excise taxes that fall on people at different income levels, also often contain elements of the progression issue.

The frequency and importance of the issues concerning the degree of progression have given rise to attempts by scholars and others to develop an objective mathematical measurement of the proper scale of progression, mostly around the idea that taxes should be levied in accordance with "ability to pay." These efforts have not achieved their goal of measuring "ability to pay," but they have popularized the concept. "Ability to pay" is by far the most frequently used argument urged upon policy makers in support of proposals for greater progression. The term is used also to support other kinds of tax proposals, however, and it has become little more than a slogan with the rather vague intellectual content that the people who have the money should pay the taxes. As used, it throws little light on the degree of progression that is desirable.

It would, of course, be very convenient in making tax policy if someone would be able to demonstrate and prove just what the extent and pattern of progression should be in the tax system. People like to be able to base their financial affairs upon something precise. The absence of a formula of this kind, however, is no denial of the validity of progression. It merely puts that important issue in the same class with most of the imponderables on which public policy, including fiscal policy, must be based. It would, for example, be very convenient if there were a demonstrably accurate formula for determining how much government should spend on defense, or on welfare, or on any other function. Axioms and considerations are developed, to be sure, but because of conflicting interests and competing considerations what actually comes out is a result of the political process at work. Great issues of public policy are not scientifically determinable, and we must not expect easy answers to them.

For an interesting examination of the history of thinking with regard to progression I would refer you to the book by Professors Blum and Kalven, *The Uneasy Case for Progressive Taxation.*[1] One of their findings was that tax theorists, generally speaking, were opposed to progression until after the public had approved it and the policy makers had introduced it into the federal tax structure. It would be unkind and perhaps not true to suggest, as one might be tempted to do, that the theorists then started to work to find reasons why they too should be in favor of progression. The theories which they proposed are along several lines. Perhaps the central arguments were based on theories of benefit, theories of sacrifice, and theories of "faculty." As Blum and Kalven point out, these theories have proved vulnerable to critical analysis, although I am inclined to think there is more left of the arguments than these authors appear to believe.

The disappointing state of progression theory grows out of two factors. The first has been a failure to recognize theories consistent with the idea that taxation in its very nature is political, that conflicting interests and competing views of what is in the public interest are inevitable, and that these are and ought to be part of the taxing process. The second factor seems to have been a reluctance on the part of at least some of the theorists to admit that there was any connection between progression and dissatisfaction with, or at least doubt about, the desirability of the then prevailing distribution of wealth and income before taxes. This unwillingness may have reflected not only a natural reluctance to become involved in a highly controversial issue of social policy, but also a continuing faith that economic forces in the main achieve an equitable distribution of income and wealth.

Without arguing the case here, I would suggest that the sacrifice, faculty, and even benefit theories point to progression, but only in a rather moderate degree. Progression to the extent that we have it in our tax system appears to involve also at least a degree of skepticism that the distribution of income and wealth resulting from the operation of our economic system is demonstrably the best one. This does not necessary mean that our degree of progression requires an active discontent with the distribution of income and wealth that would exist in the absence of progressive taxes. There is an important distinction between, on the one hand, deliberately using tax and expenditure measures to reduce the incomes of people because these are deemed to be too high, and on the other hand, looking around for the best place to impose taxes that have to be levied on someone. It is this latter, not the former, attitude that has chiefly been involved.

Undoubtedly many ideas and considerations are mixed up together in the minds of anyone who has any views on the subject of progression. There are two major considerations—one of these having two major subdivisions—that seem to have the most to do with attitudes toward progression. The first, which I have been discussing, is the consideration of what is fair and just. The concept of justice, of giving people what they deserve, looks to the past to find the tests for social action. There would seem to be at least two ideas for fairness that compete with each other. On the one hand most people, including those with large incomes, are conscious of the very large part that good fortune, or chance, or providence, has played in their lives beginning with conception and birth. Most people would agree that to a considerable extent they are what they are and where they are because of this chance factor that is not the result of their personal merit. Recognition of that factor cannot help but affect one's views toward tax progression.

On the other hand, social policy must rest on the assumption that people can be induced to do socially desirable things and to avoid doing socially undesirable things. The rewards and punishments of the economic system have constituted a set of inducements. It is only fair that those who have done the socially desirable things in response to these inducements should be rewarded for having done so in comparison with those who have reacted in socially undesirable ways. In other words, it is not fair to hold out a carrot to a donkey and then not give it to him when he has carried the load. There are interpretations of this idea that would make impossible any change in governmental policy, which is a palpable absurdity. There would seem to be little unfairness, for example, in taking away gains in excess of the amounts of anticipated gain that would have been necessary to produce the socially desirable action. Moreover, it is important to remember that progressive taxation and the possibility of higher rates being imposed at any time have been one of the "rules of the game" for nearly two generations.

In summary we have two main ideas influencing our view regarding the fairness of substantial progression, and they do not point in the same direction.

Fairness and justice is not the only major consideration that affects attitudes toward progression. Another is the expected impact of progression on the economy. This consideration looks to the future effects of the progressive rate schedule. The most reliable motivation to productive economic activity, and one that we have found to be necessary, is the incentive of profit or other economic gain. In distributing the tax burden policy makers must have in mind the kinds and amounts of incentives that are necessary to bring forth the volume and quality of economic activity required for satisfactory operation of the economy. In addition to incentives, the pattern of taxes affects consumption, saving, and investment, and these also require consideration. At the same time it should not be forgotten that a sense of fairness—or, more accurately, a sense of unfairness—itself has a bearing on economic incentives. If a large and important economic group—whether that group be at the bottom or the top of the income scale—continues to feel deeply that the tax system is grossly unfair, their economic behavior may be affected adversely to the smooth and dynamic operation of the economy.

We are thus faced in progression with considerations which lead in various directions. It is necessary for the public to weigh these considerations and reach a reasonable decision. It is this kind of reasonableness on which most great issues of government must rest for their proper decision under our system of government. While, of course, most people's conception of the public interest is greatly affected by their position in the economic hierarchy, I think we have had adequate proof that democracy need not break down through pressure for equalization of wealth and income. Perhaps the large middle-class group, which, incidentally, now includes many millions of working people, is responsible for that hope. But in addition there seems good reason to believe that people can be persuaded that their best interests lie in larger total production rather than in a larger fraction of small production.

### *"Loopholes" and "Hardships"*

The problem of progression, as I have indicated, is to deal fairly with people whose economic positions are substantially unequal, having due regard in this fair treatment to the requirements of a dynamic economy. Another aspect of tax fairness, and the one which I would suppose gives rise to the great majority of tax issues, arises out of the desire to impose equal tax burdens on persons who are considered to have substantially equal tax paying capacity, although the formal differences in their economic positions require variations in tax treatment in order to equate their taxes.

I shall mention only a few examples among the many cases of this kind of problem. One is the equating for tax purposes of families having different numbers of dependents. Obviously, some large families should pay the same amount of tax as some other small families. The question is, what pattern of exemptions and rates can achieve this result for families in general.

Another example concerns the equating of incomes from various sources. Some people receive income from their personal services, while others receive income from their capital. The risks of life affect both of these persons, but in different ways. There have been many efforts, thus far not notably successful, to give some kind of special credit to persons with incomes from personal services, as an allowance for depreciation of their personal capital. Another case involves current income as compared with capital gains. There are some aspects of capital gains which require special treatment if tax burdens are to be equated. This has proved to be a highly troublesome problem.

There is also the question of equating taxes on incomes received from the profits of corporations as compared with incomes gained through unincorporated businesses.

One of the most troublesome problems is that of equating taxes on incomes that are received in a steady stream year after year, with taxes on highly fluctuating incomes. In general, our present tax laws do not equate for this difference—largely because of the practical difficulties involved—but some special measures have been provided to take care of certain outstanding cases that have been brought vigorously to the attention of Congress—notably the spreading of incomes earned by authors, inventors, and certain other groups over the period during which the activity producing the income took place.

There is another kind of problem, or at least another set of examples, which fall in this general category of endeavoring to equate taxes. For a variety of reasons, some income is taxed at full rates while other income is taxed at lower rates or is exempt from taxation. Drawing the lines between the particular items of income to be subjected to the different rates presents a difficult problem of minimizing inevitable unfairnesses. Everyone is conscious of what he considers unfair discrimination against him in drawing the line. Everyone who thinks he has a chance of success tries to have the relevant part of his income classified as eligible for the especially favorable treatment. For example, in the case of capital gains we have seen a considerable expansion in the types of situation in which income is subject to the capital gains treatment. Similarly, the favorable treatment of minerals through percentage depletion has tended to spread far beyond the mineral resources to which it was deemed appropriate to grant the favorable treatment in the first instance. The extension of special treatment to additional situations is not a real solution, since it is likely to give rise to new requests. One of the most disquieting things about our taxing process is the apparent ease with which small taxpayer groups and even particular taxpayers can get Congress to extend favorable treatment to them. For the most part the public knows nothing about what is going on in these matters, and usually it would not be in a position to take the time to understand the facts, even if it did know what was going on.

Efforts to equate taxes by taking away the special treatment from taxpayers who do not deserve it is commonly referred to as removing loopholes, while extending special treatment to taxpayers who have not received it and deserve to do so is referred to as removing hardships. The line between opening new loopholes and removing hardships is a narrow one, and people are likely to disagree as to which process is happening in the case of any specific change in the tax law.

In referring to uniformity in taxation, it should be noted here that uniform administration is no less important than equitable legislative treatment.

### *Special Economic Incentives*

Another basic issue, or basic objective of many specific tax issues, concerns tax discrimination that is deliberately applied in order to provide special incentives. The repressive effects of all taxation make it possible to encourage (or discourage) certain activities or organizations by reducing (or increasing) the tax load on them while continuing to apply the standard rate of taxation to other taxpayers. Encouragement usually is provided through allowing a tax exemption or deduction, or by applying a differentially low rate of tax. Among the examples of features of the law which were adopted for incentive purposes or have been stoutly defended on that ground are the exemption of churches and philanthropic institutions, the deduction of charitable contributions, percentage depletion, low capital gains taxation, rapid amortization or depreciation, and special treatment of income derived from business abroad.

It is perhaps not surprising that many tax incentives—of the encouraging type, of course,—have been proposed. Indeed, I could not say with assurance that any desirable economic activity or institution has not been the subject of a tax incentive proposal, and I know of a great many that have been. The argument for such proposals is a stock one, combining an appeal to the unusual importance of the activity or institution to the national economy, and to its lack of attractiveness in the absence of the tax incentive.

Some writers on taxation condemn all special incentive tax measures as being a violation of the principle that taxes should be for revenue only. I find myself unable to accept either the principle or the conclusion. Every tax system inevitably redirects economic activity to some extent, and the redirection might better be along desirable than undesirable lines. On the other hand, I am very dubious about the desirability of most special incentive proposals for a number of practical reasons.

In the first place, it is not possible to use successfully very many incentive devices at the same time. Since incentives inevitably compete with each other, each new incentive measure tends to reduce the incentive effect provided by measures already in the law. Moreover, as the amount of tax base exempted or taxed at low rates increases, the basic economic structure which does not receive an exemption must bear an increasing load of tax, with harmful effects possibly greater than the benefits that might be derived from the special incentive.

In the second place, the activities which are to be given special benefits are often really no more important than other activities in the economy. Their only special merit may be that they have enthusiastic support by influential people who know how to get favorable legislative action.

In the third place, unless the proposed incentive legislation is very carefully drawn, and oftentimes even then, it will be possible for taxpayers to derive the benefits without making the special economic contribution for which the exemption or other incentive measure is intended. Moreover, many taxpayers may already have been carrying on the activity in question without needing any special benefit. It is obviously a waste of public money to give them extra payment for what they already have found to be profitable.

In the fourth place—and this particularly disturbs me—the whole philosophy of these incentives is that one should achieve their results by departing from uniform taxation. There is thus at least a prima facie unfairness about the resulting tax structure. In the beginning this unfairness is not a matter of concern because the policy makers consider the purpose to be achieved more important than any resulting unfairness. As times goes on, however, memories dim. Then the taxpayers who did not receive the special benefit are likely to press on grounds of fairness for an expansion of the benefits to include them; and on the basis of experience they seem pretty likely to get it, too. If and as this happens, the force of the stimulus diminishes and the cost to the public treasury is increased. For all four of these reasons I suggest a high degree of restraint in providing special tax incentives.

### *Tax Simplification*

On at least one occasion the simplification of taxes was the basis for a tax law. I refer to the Income Tax Act of 1944. The revenue acts of 1940, 1941 and 1942 had greatly increased the tax load and by drastically lowering the exemptions had changed the income tax from a "class" tax to a "mass" tax. In addition to applying the traditional income tax complications to many millions of new taxpayers, efforts had been made to ease the pain of higher rates by introducing a number of provisions designed to decrease unfairness and prevent hardship. Each of these provisions added some complication, although to be sure most of them did not apply to the great majority of taxpayers. What broke the camel's back was the skip-a-year plan provided in the Revenue Act of 1942, which required the computation of two years' income and many special calculations. The resulting very complicated return was to be filed in March, 1944. Even before the filing date was reached, the protests reaching the Congress were so numerous and vigorous that the taxing committees promised that once the Revenue Act of 1943 was out of the way, a bill would be considered to simplify the income tax. On the instruction of the Committee on Ways and Means, the Treasury and Joint Committee staffs worked out the draft of a bill, in which a number of provisions improving the fairness of the tax were dropped in the interests of simplicity. The Congress accepted this draft virtually in the form in which it was presented to it. During and after the legislative consideration of the measure many complaints were received that tax fairness had been reduced, but these were met both in the Congress and by the Administration with the statement that while unfortunately this was true it was necessary in order to secure a simplified income tax.

With the passage of the years since then, while in certain respects the taxpayers' problems of making and filing returns have been eased, in other respects they have been made more difficult. The Revenue Act of 1954, for example, added a number of categories of complication, some of which apply to large numbers of taxpayers.

Perhaps there is a kind of cycle, with a phase in which tax fairness has top priority with respect to changes in the tax law. After a time the resulting complications may pile up to the point that simplification becomes the dominant consideration, with fairness giving way to convenience. Just where we are now in this cycle and how soon the income tax will again be found to be overloaded, with simplification again becoming the major consideration, remains to be seen. But unless greater care to avoid complications is taken it seems probable that the wheel will turn again—or perhaps it is the worm that will turn.

### *How Tax Issues Are Decided*

Before bringing this discussion to a close, it is well that we consider whether the operation of the process by which tax issues are decided should give us confidence that the public interest will be promoted. A good many ordinary citizens with no special knowledge on the subject seem to be frankly cynical about legislative action on taxation. I hope my sample is not representative, since that is a most undesirable attitude.

Whether or not we should be cynical we at least should not be complacent. There are various factors that may impair the ability of the taxing process to achieve the public interest. The only one I shall go into here is the fact that the legislative process involves not only elected representatives but a great body of legislative agents or lobbyists, as well as the direct intervention of taxpayers, operating to press for action. This lobbying activity is inevitable and necessary. My criticism is that the lobbying is not divided up in such a way that most people are adequately represented. Most of the pressures on Congress and the Administration come from the business community, or more accurately from a small fraction of it.

Related to the lack of representation of great groups of people in promoting their interests in the Congress is the undoubted fact that great numbers of people are not aware of where their interests lie with respect to many tax issues. Indeed, they are often not aware of the existence of the issues. It is no wonder that the political process is not entirely successful in dealing with the interests of the people.

While I am not happy about the way in which the taxing process sometimes works—or does not work—I would like to stress that tax issues must be decided in the political arena. Some people seem to believe that tax policy can be made a science and that with competent "experts" it is possible to determine scientifically what the proper tax structure and rate pattern should be. Such ideas have not always been discouraged by economists, and they have been stimulated and encouraged by people who claim that their own tax proposals are scientific, in the hope of persuading policy makers to adopt them. But it is fundamental that science has no way of determining what kind of a society people ought to prefer and accordingly cannot determine what policy ought to be.

This does not mean that scientific study has no part in the policy making process. There is great need for such study. Many mistakes in policy decisions grow out of ignorance regarding the effects of various tax measures and regarding what would be in the best interest of different groups of people. What is needed is an integration of the scientific approach—that of bringing to bear more adequate knowledge—into a process which gives full recognition to that play of political forces on which in a democratic society we must rely for the determination of tax policy.

One final word. I have indicated my belief in the inevitability and the desirability of the decision of tax issues on the basis of the operation of political forces, given a well-informed electorate and Congress. But legislation is not all there is to taxation. The administrative and judicial sides are also highly important—in bridging gaps in the legislation, in applying the law to the specific situation of each taxpayer, and in fully and uniformly enforcing the law. The play of political forces and political pressures is completely out of place in the administrative and judicial stages of taxation, and any signs of the political factor should give rise to the most vigorous reaction by tax students and tax practitioners alike. The proper forum for political action is the legislature—and also the executive branch in so far as it participates in the legislative process. To extend the area of political action to the administrative and judicial branches of government can only result in undermining and destroying the whole policy-making process.