

# TAXATION AND WELFARE

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Midway Reprint 1978  
Printed in the United States of America  
ISBN: 0-226-31595-9  
LCN: 77-99171

*For Anita*

## Preface

The articles in this volume are the outgrowth of a long-standing interest in both public finance and welfare economics and especially in the considerable area in which these two branches of economics overlap. This area particularly comprehends the analysis of the resource-allocation effects of tax and other policies, a label which is broad enough to cover all the studies presented here.

The format for the volume is more informal than that of most collections of essays, in that I have preceded most chapters by introductory notes. These notes serve different functions. In some cases they merely describe the article's content, and/or the circumstances under which it was originally written. In other cases they incorporate further thoughts on the problem, stemming either from further independent work, or as a reaction to comments received since the original publication. Much of this material summarizes the main points on which my classroom presentation of the issue in question has been modified since the particular chapter was written. This fact may add to this volume's usefulness for public finance classes at the graduate and advanced undergraduate levels.

Since the introductory notes themselves contain material similar to (and usually more extensive than) the summary statements appearing in introductions to similar collections, only the main outlines of the volume follow. Chapters 1-5 are concerned with consumer surplus analysis, in all cases in a general-equilibrium context. Chapter 1 represents a recent restatement of the basic principles underlying the use of consumer surplus concepts for policy analysis, and Chapters 2 and 3 expand and develop this approach to measuring the welfare costs of various distortions in a general-equilibrium context. Chapters 4 and 5, on the other hand, are applications (paradoxically antedating Chapters 1-3 by some years) in which the resource-allocation costs of a set of distortions are measured. Chapter 4 is concerned with measuring the costs generated by monopoly elements in United States manufacturing, whereas Chapter 5 deals with the distortions of foreign trade, capital, and labor markets that characterized the Chilean economy in the late 1950s.

Chapters 6-11 all deal, in one way or another, with the corporation income tax. Chapter 6, which is my contribution to the *International Encyclopedia of the Social Sciences* on the subject, expounds and introduces the general theme, Chapter 7 deals with the incidence of the tax, and Chapter 8 tries to measure its resource-allocation costs, working within the theoretical framework

developed in 7. Chapter 9 (written jointly with John G. Cragg and Peter Mieszkowski) returns to the incidence issue in an empirical context, arguing the difficulty of answering the incidence question by means of econometric time-series analysis, and includes a response by Marion Krzyzaniak and Richard A. Musgrave.

Chapters 10–12 deal not with the corporation tax as such, but with specific provisions of United States tax legislation which apply particularly (though not exclusively) to the corporate sector. Chapter 10 considers the effects of the various tax incentives (most particularly stepped-up depreciation schedules and the investment tax credit) which were introduced in 1962–64 as investment stimuli. Chapters 11 and 12, on the other hand, both deal with the special tax treatment of minerals. Each covers the percentage depletion and capital gains options offered by the tax law, but the former chapter focuses on minerals generally, whereas the latter concentrates on estimating the relevant tax incentives for oil and gas alone.

Chapters 13–17 might be labeled as covering “Other Tax Issues.” Chapter 13 gives an expository analysis of the value-added tax, culminating in a qualified advocacy for its adoption in the United States. Chapters 14 and 15 both deal with the question of border tax adjustments—the GATT-authorized remission at the border of indirect taxes paid in the production of exported goods, and the corresponding levy of surcharges on imported goods so as to capture from their importers indirect taxes similar in magnitude to those paid on home-produced goods of the same type. These chapters have never before been published, and they treat a topic that seems to have attracted increasing interest in recent years.

Chapters 16 and 17 move away from the United States context, the first to Latin America and the second to Canada. Both deal with tax reform. The first was my contribution to the Second Inter-American Conference on Taxation (Santiago, December, 1962) and sets forth my own thoughts (in this case frequently loaded with value judgments) as to the appropriate directions that tax reform should take in Latin America. This paper has been most noted for its revival and advocacy of the idea of market-enforced self-assessment of property and similar taxes. The last chapter presents a summary evaluation of the reform proposals of the so-called Carter Report on the Canadian tax system, as well as an empirical exercise designed to assess the likely capital-market implications of the Carter proposals. For easier reference, figures, tables, and equations have been renumbered throughout to incorporate the chapter numbers.

In conclusion let me express my thanks to those who have worked most closely with me in the preparation of this volume, without whose help it would probably never have come into being: to David Wall for initially suggesting the idea; to Daniel Wisecarver for helping with the final selection of papers and painstakingly screening them and the final manuscript for errors; and to Alyce Monroe, secretary and helper without peer. I am also grateful to my wife, to whom this book is dedicated, for the multitude of ways, including taxing herself for the welfare of our family, in which she has worked to make this book, along with my other professional activities, possible.

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