

Book Review: Taxation and the American Economy, an Economic, Legal and Administrative Analysis

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BOOK REVIEW

William H. Anderson, *Taxation and the American Economy, an Economic, Legal and Administrative Analysis*. New York, 1951, Prentice-Hall, Inc., pp. XXI and 598.

This book is dedicated "to . . . students of public finance everywhere . . . our citizens and taxpayers . . . our teachers in public finance . . . our tax attorneys and accountants . . . our tax administrators." (p.I). Unfortunately, considered as an all purpose book, intended to be of value and use for all these groups, the volume must be somewhat of a disappointment to all of them. The author, who presently is a professor of Economics at the University of Southern California, has had previous experience with the University of Wisconsin, Extension Division, where he developed extension and correspondence courses (p.XX.). This background explains more realistically the intended as well as the maintained level of instruction. The book is reasonably complete, giving adequate and sometimes detailed factual information. On the other hand, it helps little to show the student of taxation how this information is related to (legal or economic) principles. Analysis and discussion of controversial issues is not extended enough to permit the reader to cope with problems for himself. It seems best suited for readers who are not familiar with either the principles of law or of economics as is actually the case with most citizens interested in taxation, short of a systematic course of study. In sum, the work is long on fine description but short on thorough analysis.

The book is divided in eight parts: Foundations, Property Taxes, Income Taxes, Gift and Inheritance Taxes, Business Taxes, Consumption Taxes, "Other" Taxes and Revenues, and "Taxation and the Functioning of the Economic System." These topics form (adding mostly a few chapters on expenditure and budget) the usual content of the academic course in Public Finance and Taxation.

The economic analysis is hardly up to the level of carefulness and refinement the better present day textbooks in Public Finance commonly do offer. For example, in discussing shifting of corporate income taxes (pp.303ff.) opinion surveys are fully related; but a clear distinction between income in the accounting and tax sense and pure profit in the sense of economic theory would have been helpful in order to show why and to what extent a tax based on the former is or is not likely to be shifted. Similar criticism could be applied to the discussion of shifting of personal income taxes (p.86,187) which refers mainly to old fashioned versions of what is called "prevailing" theory. If the author complains about its "analytical shortcomings" (p.92) he might have quite easily improved his own analytical statements in accordance

with modern theory in order to avoid such criticism. Moreover, to identify the short run with the market period (p. 82) is not in accordance with present day prevailing theory which relates the short run to spending of variable cost. The author's use of terminology will be rather confusing to a reader who has learned some Economics. As the book touches on the relation of tax policy to fiscal and monetary policy, though it does not address itself formally to economists, it ought nevertheless to give more analysis than listing "areas" (chapter 32 contains 6 pages; see *e.g.* p. 567.) To state about fiscal policy "The overall purpose and mechanism is provided under the Employment Act of 1946," (p.566), is not a very helpful statement on the actual work done or to be done on the intricate problem of balancing consumption and investment through taxation and the making of appropriate tax laws. Essentially tables are offered by the author as a simple listing of fourteen factors here and seven factors there; this is more apt to confuse the reader than to help him (pp. 516, 525.)

Similar criticism can be offered in regard to legal analysis. For example, under the heading of General Welfare Limitation, a short discussion contrasts the *Hoosac Mills* case¹ and the Social Security cases,² and summarizes with the following statement: "At the federal level a tax to discourage or control some private activity will usually be found as not levied for the general welfare. This does not, however, prevent highly protective tariffs or specific subsidies to certain social and economic groups within the economy" (p. 33.). A few pages earlier, only in another context, the old but quite pertinent cases *Veazie Bank v. Fenno*³ and *McCray v. United States*⁴ are discussed but not applied to this problem. *Sonzinsky v. United States*⁵ (p. 506) concerning "regulatory" taxes under the National Firearms Act might also have been mentioned contradicting the contention of the text. In a book of this kind a little more ought to be done than to contrast cases under headings of "Nonfiscal purposes upheld" (p. 28) and "Nonfiscal purposes held invalid" (p. 30) as the reader of this book is not supposed to study the full cases to form his own judgment. On the other hand rather technical problems of estate tax avoidance through life estate remainders are well treated, using diagrams, etc. (p. 287) in much detail, and as thorough as possible in a book which should be understandable for non-lawyers.

The book might be recommended as a first introduction for a lawyer who has never been exposed to Economics or Public Finance

¹ *United States v. Butler*, 297 U.S. 1 (1935).

² *Stewart Machine Co. v. Davis*, 301 U.S. 548 (1936).

³ *Veazie Bank v. Fenno*, 8 Wall. 533 (1869).

⁴ *McCray v. United States*, 195 U.S. 27 (1903).

⁵ *Sonzinsky v. United States*, 300 U.S. 506 (1936).

and is interested in a rapid factual survey of our existing taxes or as a general reference book for the interested citizen. The aggressive publisher has embellished the charts with eyecatchers (e.g. p. 10, 14) and has added a number of rather pointless, supposedly humorous cartoons (pp. 138, 529). As the same publisher has brought out another book in the same field the use of cartoons must have been intended by the publisher as a form of product differentiation. This is most unfair to our author as his is a useful and sincere book.

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