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# The Role of Direct and Indirect Taxes in the Federal Revenue System



A CONFERENCE REPORT OF THE  
NATIONAL BUREAU OF ECONOMIC RESEARCH  
AND THE BROOKINGS INSTITUTION

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THE ROLE OF DIRECT AND  
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FEDERAL REVENUE SYSTEM

This volume is a report of the  
National Bureau of Economic Research and  
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Since the present volume is a record of conference proceedings, it has been exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors of the National Bureau. It has, however, been reviewed and accepted for publication by the Director of Research.

*(Resolution adopted July 6, 1948, as revised November 21, 1949)*

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## Preface

ONE of the oldest issues in public finance concerns the relative advantages and disadvantages of sales, excise, and related taxes, often referred to as "indirect" taxes, on the one hand, and income and other levies, often called "direct" taxes, on the other. Current discussions have centered on the implications for economic growth and for the U.S. balance of payments of varying the relative emphasis on indirect and direct taxation. The French use of the value-added tax and the tentative acceptance of this form of sales tax by the Common Market countries as part of their tax harmonization efforts have led to emphasis on this form of tax in the suggestions for reformulation of U.S. tax policy.

The arguments on the issue are for the most part old and familiar ones, repeated time and again, frequently without careful analysis or consideration of the arguments on the opposite side. For example, it is commonly argued that sales and excise taxes have less deterring effect on investment and the rate of growth than income taxes, but the validity of this point has not been carefully examined.

In light of the renewed interest in the question, the slow progress in the analysis of the issues, and the pertinence of these issues to their studies and research in the field of taxation, the National Bureau of Economic Research and the Brookings Institution concluded that a conference of experts might help to clarify the issues, to ascertain the major points of agreement and disagreement, and to disclose the major aspects on which further analysis and empirical work are needed.

The two sponsoring organizations established, early in 1963, a planning committee for such a conference, consisting of Herbert Stein, Director of Research for the Committee for Economic Development, Richard A. Musgrave of Princeton University, Joseph A. Pechman of the Brookings Institution, Norman B. Ture of the National Bureau of Economic Research, and myself as chairman. The committee requested four persons to prepare papers on four main aspects of the question, and two persons to serve as formal discussants for each of these papers. A group of experts in the field were invited to participate in the conference. A total of forty-three persons attended the conference, which was held at the Brookings Institution in Washington on October 17 and 18, 1963. The participants are listed on p. 315.

## PREFACE

This volume contains a statement of the issues prepared by the chairman of the committee, the four major papers, the comments of the formal discussants, and a summary of the discussion at the conference.

The research conference was part of the National Bureau's program of research on Tax Policies for Economic Growth and of the Brookings Institution's Studies of Government Finance. These programs are being financed by funds provided to the National Bureau by the Rockefeller Brothers Fund and the Life Insurance Association of America and to the Brookings Institution by the Ford Foundation.

JOHN F. DUE

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