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U.S. Spends $41,000 Per Factory Worker, Double 1963 Figure

The capital investment behind each U.S. factory worker exceeded $41,100 in 1973 (latest data available), according to Tax Foundation estimates. That represents the total capital investment by all manufacturing firms for each worker on the production line. According to Tax Foundation economists, this was more than twice the amount invested in 1963 when it cost, on the average, $20,426 to create one job.

Of the ten major industries studied, chemicals and allied products had the highest capital investment per production worker, with an average of $90,209 in 1973. The food, beverages and tobacco industries registered second, with an average of $51,628. The paper and allied products industry ranked third at $40,706, followed by metal products and processes ($37,772); printing and publishing ($31,866); stone, clay and glass products ($30,799); rubber products ($26,250); lumber and furniture products ($21,518); leather and products ($15,626); and textiles and their products ($14,420).

Analyzing the industry breakdown from 1963-1973, Tax Foundation economists found the biggest increase in capital investment per production worker occurred in the tobacco industry, which spent $118,402 per worker in

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Rep. Ullman Says Value-Added Tax Could Help Fund Social Security

A wholesale transaction tax using the value-added concept may be the most effective way to keep Social Security on a sound financial basis, Al Ullman, Chairman of the House Ways and Means Committee, told a group of leading corporate executives in New York on December 6.

Speaking at the Tax Foundation's 41st Annual Dinner at which he also received the Foundation's 1978 Distinguished Public Service Award, Ullman also gave qualified endorsement to President Carter's anti-inflation program.

"The President," he said, "has put forth a very positive program to combat inflation. While I have reservations about certain technical aspects of it, I fully support his thrust."

"Monetary restraints, coupled with aggressive action to shore up the dollar in world money markets and a wage-price program that is specific in what it sets out to achieve are sound alternatives to more draconian measures," Ullman told the business leaders.

In a wide-ranging preview of 1979 Congressional tax action, the Ways and Means Chairman touched upon what he predicted would be the highlights of the 96th Congress.

• "The first order of business," he said, "will be the President's anti-inflation wage insurance proposal." Ullman said that he foresaw pressure for "general indexing of the tax code," maintaining that he remains "diametrically opposed to indexing because it forecloses using the tax system to meet the economic demands of the country."

• "Careful consideration must be given in 1979 to capital gains at death as the result of the deferral this year of the carryover basis provisions," Ullman said. He pledged to work for "cleaning up carryover basis, including eliminating its application to small estates" and devising "some sane and simple rules for implementation."

• Oil pricing will demand Congressional attention, Ullman said, pointing out that "We cannot hope to achieve the absolutely essential conversion to other energy forms unless we move domestic prices to the world level." If the President moves to decontrol oil prices, Ullman told the businessmen, Ways and Means will move to implement "a windfall profits tax that could be phased out over a period of years."

• Capital formation incentives will also deserve the Committee's action, he said, especially "as to where such issues as asset depreciation range and integration of corporate and individual taxes fit with relation to corporate rates and the investment tax credit."

"At this time," Ullman said, "I do not foresee the need for a tax reduction on

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Cost Per Worker

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1973, a 150 percent jump over 1963. Since 1940, tobacco manufacturers have consistently shown the largest increases in investment per job. In 1973, manufacturers of apparel and fabric products ranked the lowest in capital investment per production worker at $10,964, a position this division of the textile manufacturing industry has continued to occupy since 1939.

Noting that the 1973 data are the latest available, Tax Foundation economists said that current figures would be considerably higher, partly because of rising prices of new structures and equipment. Since 1963, these prices have risen by more than 50 percent. While annual expenditures for new plant and equipment have risen from $38 billion in 1973 to an estimated $67 billion in 1978, the United States has consistently fallen short of its major competitor nations in capital investment as a portion of its total production (see study on page 4).

The accompanying table provides data on trends in the averages since 1939.

Capital Invested Per Production Worker In Manufacturing[a]

Selected Calendar Years 1939-1973

Industry	1939	1949	1959	1963	1973
All Manufacturing[b]	$ 5,188	$ 8,089	$17,528	$20,426	$ 41,139
Food, beverages, and tobacco	n.a.	10,790	19,770	22,315	51,628
Food and beverages	6,505	9,837	18,485	20,680	47,863
Tobacco manufacturers	n.a.	23,446	38,468	47,239	118,402
Textiles and their products	2,106	4,483	6,789	7,283	14,420
Textile-mill products	2,743	5,850	9,566	11,122	19,102
Apparel and fabric products	1,283	3,050	4,607	4,607	10,964
Leather and products	1,983	3,624	5,049	7,128	15,626
Rubber products	6,470	7,438	15,330	16,645	26,250
Lumber and furniture products	n.a.	4,565	9,512	9,358	21,518
Lumber and wood products	n.a.	4,666	10,528	10,103	29,379
Furniture and fixtures	n.a.	4,310	7,640	8,148	11,714
Paper and allied products	6,650	9,533	18,173	20,575	40,706
Printing and publishing	6,281	8,279	12,945	15,192	31,866
Chemicals and allied products	15,758	20,737	36,291	44,732	90,209
Stone, clay, and glass products	5,577	6,594	16,174	18,634	30,799
Metal products and processes	n.a.	8,898	16,843	19,756	37,772
Primary metal industries	n.a.	10,345	23,766	26,449	49,612
Fabricated metal products[c]	n.a.	7,221	11,695	14,240	24,452
Electrical machinery	4,061	7,190	12,537	15,655	42,522
Machinery, except electrical	8,300	10,432	18,034	19,181	45,376
Motor vehicles and equipment	7,050	8,428	17,914	22,788	62,423
Other transportation equipment					
Instruments and related products	n.a.	7,116	17,655	22,572	42,618
Miscellaneous manufacturing[c]	n.a.	8,205	13,681	14,536	28,702

[a] Capital invested is total assets less investments in government obligations and securities of other corporations. It is measured in book values. Data for 1959 and later years are not strictly comparable with earlier years.

[b] Includes some categories not shown separately.

[c] Prior to 1963, ordnance and accessories are included in fabricated metal products; in 1963 included in miscellaneous manufacturing, excluded in 1973.

Source: The Conference Board; Treasury Department; Department of Labor, Bureau of Labor Statistics; and Tax Foundation computations.

State and Local Pension Systems Endangered by Overcommitments

State and local employee pension systems have promised more than they can deliver, Dr. Elsie M. Watters, Director of Research for the Tax Foundation, told a Congressional Subcommittee on November 15.

Testifying in Wheaton, Illinois, before the Subcommittee on Labor Standards of the Committee on Education and Labor of the U.S. House of Representatives, Dr. Watters called such overcommitments "the most serious problem facing state and local systems." There is discouraging evidence," she said, "that many of the systems are out of control — on a runaway course which would in the years ahead force choices between bankruptcy and unrealistic increases in tax burdens."

Dr. Watters had been invited by the Subcommittee to offer testimony on HR 14138. The proposal for a Public Employee Retirement Income Security Act (PERISA) stems from Congressional studies of public pension plans, mandated by the 1974 private pension reform law. The measure was introduced in Congress September 20 by Representatives John Dent of Pennsylvania and John Erlenborn of Illinois, and will probably come before the 96th Congress. It seeks to regulate state and local pension systems and to impose uniform standards for reporting and disclosure, fiduciary responsibilities, and plan administration. In her testimony, Dr. Watters stressed the need for participating employees and the taxpaying public in general to have adequate financial information about the pension systems. "Every employee has a right to know," she said, "the details of his benefits when he accepts a job, and also when changes are made in the plan."

"At the same time," she pointed out, "the rights of taxpayers should be recognized." She said that, according to Tax Foundation estimates, "state and local taxes currently provided about $15 billion annually to state and local employee retirement systems."

Another flaw in the system, according to Dr. Watters, is that the state and local officials who determine the provisions of employee pension systems often lack sufficient knowledge of the inner workings of the system to enact sound legislation.

"Requirements for openness in reporting and disclosures provisions of public employee pension systems as contained in HR 14138," she said, "would open the door to greater awareness by employees, taxpayers, and legislators of potential problems in these systems." She pointed out the need for experienced actuaries to evaluate the adequacy of funding of such plans.

Dr. Watters called for "careful public scrutiny of purchases by public pension funds of securities issued by their own states and local governments." Such purchases, she claimed, could weaken the bargaining position of employees vis-a-vis their government employers, would yield less income to pensions funds than other investments, and might be used as a cover-up for poor financing on the part of state and local government.

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U.S. Productivity Has Slowed Sharply

The U.S. rate of growth in productivity over the past decade has fallen below that of any of seven major competitor nations except Great Britain, according to Tax Foundation researchers.

Using Department of Commerce data, Foundation economists found that productivity in U.S. manufacturing, as measured by output per man-hour, increased by only 2.4 percent annually from 1967 to 1977, as compared to rates more than three times as high in the Netherlands (7.9 percent) and Japan (7.5 percent). In West Germany and France the rates were in the 5.4 to 5.5 percent range, and in Italy, 4.9 percent, Canada, with a 3.6 percent annual increase in output per man-hour, was more than a full percentage point above the United States. Productivity in the United Kingdom over the decade rose at almost exactly the same pace as in the United States, just under 2.4 percent.

These annual increases, when compounded, translate to productivity gains over the past decade of 107 percent in Japan, 99 percent in the Netherlands (for the last nine years only), 72 percent in France, 70 percent in West Germany, 43 percent in Canada, and 27 percent in the United States and the United Kingdom.

While the output per man-hour of U.S. manufacturers has increased each year since 1969, except for a drop in 1974, American manufacturers have steadily lost ground to most major competitor nations, the Foundation analysis shows.

The accompanying table provides year-by-year indexes, based on 1967 as 100, of productivity in U.S. and competitor nations.

Output Per Man-Hour in Manufacturing
United States and Seven Competitor Nations
Index Numbers, 1967 = 100

Period	United States	France	F.R. Germany	Italy	Netherlands	United Kingdom	Japan	Canada
1969	104.9	115.4	113.8	112.2	122.6	108.4	130.0	113.3
1970	104.5	121.2	116.1	117.8	134.0	108.6	146.5	114.7
1971	110.3	128.5	121.4	123.5	143.0	112.9	150.5	122.8
1972	116.0	136.8	128.7	132.9	154.4	121.2	161.0	128.1
1973	119.4	143.7	136.6	147.8	170.2	126.3	179.0	133.4
1974	112.8	147.8	145.0	155.9	184.3	127.6	180.3	135.6
1975	117.9	151.1	150.4	150.2	181.0	124.4	172.4	133.4
1976	123.5	165.3	162.8	161.5	198.9	128.7	194.8	137.8
1977	126.7	171.6	169.6	162.3	n.a.	126.6	206.6	143.3

Source: U.S. Department of Commerce, Industry and Trade Administration.

Government Spending Holds the Key To Lasting Tax Reform, Brown Says

"There is a formula for tax revolt that will reduce out tax burden while continuing to give government the revenues it really needs," Robert C. Brown, Executive Vice President of the Tax Foundation, told the Associated Taxpayers of Idaho on November 15 at their annual conference in Boise.

Brown said that "the bureaucrats, the regulators and program writers" whom he called the "Unelected Government" - "love Proposition 13 and its misbegotten offspring."

"Such measures," he said, "shift funding and control to the state and Federal bureaus." They force money-lacking local communities "to ask big government to assume responsibility for an increasing number of local services."

"The simple truth of the matter," Brown said, "is that there can be no true tax relief unless and until we put a lid on government's ability to spend. If you want a formula for tax revolt, that's it: Put a lid on government spending. If they can't spend the money, they have less reason to try to take it out of your wallet."

Brown gave his audience what he called "five guidelines for tax revolt":

1. "Know your enemy. Big spending is the real enemy. It is the reason for big taxes, big deficits and inflationary monetary policy that plague our nation.

2. "Know your objectives. Long-term relief for all - not short-term gains for today's homeowner - is what we need. Keep that in mind when people tout property tax relief as a fiscal cure-all.

3. "Recruit as many allies as you can. Divide and conquer has been used by rulers to keep people in subjection since the days of Julius Caesar. If we stick

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Pensions

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Cautioning against any attempt by the Federal government to mandate standards for vesting and funding, Dr. Watters said, "the Federal government scarcely seems in a position to mandate funding standards for state and local systems, in view of the deficiencies in many of its own retirement systems."

Dr. Watters applauded the trend among smaller local units to consolidate pension funding and management into large state general systems, which she said provided many advantages in administration, management of assets and other areas.

She cautioned that the additional regulations, controls and paperwork burdens mandated by the bill could present difficulties for smaller units of governments and urged either exemption from the law or a grace period during which smaller units might take steps to merge with a larger system.

Finally, Dr. Watters said that HR 14138, "by the establishment of a single agency to enforce the law for all public and private systems," would "remove the dual and conflicting jurisdiction of the Treasury and the Department of Labor."

Ullman

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the order of those we provided in 1976 and 1978."

Ullman pledged Committee action in the areas of health, welfare, trade and Social Security. He said that he would seek to tighten and restructure the health and welfare system rather than focus on "vast new spending programs."

"Trade is a key to our economic standing both here and abroad," Ullman pointed out, commenting that a recent trip to Europe has left him "more firmly convinced than ever that positive action to enhance our export markets is warranted."

Calling Social Security "one of the most critical issues confronting the 96th Congress," Ullman said there would be need to "take a hard look at the whole system — the benefit structure as well as revenue sources."

He predicted an effort to tighten up on the benefit side and consideration of universal coverage, as well. Ullman said he remains opposed to using "general revenues derived from income tax to supplement Social Security tax revenues." He proposed, as an alternative financing mechanism, "a wholesale transaction tax as a source of revenue that would allow us to ease the burden of payroll taxes."

Ullman gave three reasons for favoring "a value-added-type of tax":

"First, since it is a tax that rests on consumption, it tends to emphasize savings and could diminish the influence taxation has on allocation of resources to productive processes.

"Second, a value-added tax offers substantial opportunities for improving the competitive position of American-produced goods in world and domestic markets through border tax adjustments that are not feasible under our current, more direct forms of taxation.

"Third, a value-added tax would be a more stable source of revenue for the Federal government than either the income or payroll taxes."

"The 96th Congress," the Ways and Means Chairman predicted, "will be one of re-evaluation and review. We've spent a lot of yesterdays in this country living as though there was no tomorrow."

U.S. Falling Behind In Capital Formation

Capital formation as a share of total output in the United States has lagged behind that of seven major competitor nations for many years, according to Tax Foundation economists.

Since 1969, gross capital formation in the United States has ranged from a low of 16.3 percent of gross national product (GNP) in 1975 to a high of only 18.4 percent in 1973. By contrast, the majority of the competitor nations (excluding the United Kingdom), maintained a capital formation ratio of 20 percent or higher during this period.

Japan has consistently topped the list of competitor nations in gross capital formation. In 1973, Japan attained its highest rate, 36.6 percent. Down 7.4 percentage points by 1978, Japan nevertheless continued to lead its competitors in gross capital formation with a rate of 29.2 percent. At the same time, Japan also lead most other competitor nations in productivity growth (see table page 3).

Since 1975, Canada has ranked second in the ratio of gross fixed capital formation to GNP. Even in the United Kingdom where capital formation rates have been relatively low, they have exceeded rates prevailing in the United States, every year except 1972.

The accompanying table offers comparative data by country and by year from 1969 to 1978.

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Brown

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together - small taxpayer, independent businessman, and big industry - we can win this thing to the benefit of all.

4. "Don't by taken in by sloganeers. There's no free lunch. And there's no quick solution to the thorny question of public finance.

5. "Take the long view. We can seek immediate selfish gain. Or we can build a national fiscal policy which will serve our children and our children's children. We can't do both. And we can't pay today's bills with tomorrow's dollars. If you think we can, take a good look at the shape of the social security program."

Ratio of Gross Fixed Capital Formation to GNP, United States and Seven Competitor Nations[a]
1969-1978
(Percent)

Period	United States	France	F.R. Germany	Italy	Netherlands	United Kingdom	Japan	Canada
1969	18.1	25.4	24.1	20.8	24.3	18.3	35.1	21.6
1970	17.3	23.4	25.6	21.2	25.6	18.4	35.0	21.0
1971	17.7	23.6	26.4	20.2	25.7	18.3	34.3	22.0
1972	18.3	23.6	25.9	19.7	23.6	18.2	34.5	21.9
1973	18.4	23.8	24.5	21.2	22.9	19.1	36.6	22.5
1974	17.8	24.5	21.9	22.5	21.7	20.3	34.2	23.2
1975	16.3	23.3	20.8	20.7	21.2	19.9	30.8	24.2
1976	16.4	23.3	20.7	20.1	19.7	19.0	29.6	23.4
1977	17.4	n.a.	20.8	19.8	21.3	17.9	28.9	23.0
1978[b]	17.6	n.a.	20.5	n.a.	n.a.	17.9	29.2	22.1

a. Measured in current prices. Gross fixed capital formation covers private and government sectors except military.
b. Seasonally adjusted annual rate, first quarter 1978.
Source: U.S. Department of Commerce, Industry and Trade Administration.