MONTHLY TAX FEATURES

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James H. Evans, president of Union Pacific Corp. (left), John V. James, president of Dresser Industries, and Robert C. Brown, Tax Foundation executive vice president, shown at Dallas Membership Meeting.

Central Planning is Target Of Membership Meetings

Central government economic planning was attacked by distinguished speakers at two meetings of Tax Foundation members in April.

The first speaker, David M. Roderick, president of United States Steel Corporation, and a trustee of Tax Foundation, addressed a capacity crowd of Foundation members and their guests at a luncheon in Chicago. James H. Evans, president of the Union Pacific Corporation, also a Foundation trustee, spoke on the same subject before a similar crowd in Dallas two days later.

Heeding the warning voiced earlier by Thomas Murphy, Chairman of General Motors, of the danger of government planning proposals, Mr. Roderick said pressure to adopt a form of central economic planning in the United States is a "time bomb" ticking away in the Halls of Congress.

What this country needs, he told the Chicago meeting, is not more government regulation of business, but less.

"Instead of the Congress considering how to pile on several more layers of bureaucracy in the form of national planning commissions, they might consider the negative economic impact of what they have already created. Just in the past fifteen years, Congressional actions have given birth to 235 regulatory agencies, bureaus and commissions."

The cost to American business of the paper work alone in complying with the government regulations is already $18 billion a year, Mr. Roderick pointed out.

As examples of government's inability to plan efficiently, he cited the

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National Taxpayers Conference Debates Government Spending

Delegates to Tax Foundation's 34th annual National Taxpayers Conference agreed the U.S. taxpayer faces a wide gap between his view of the legitimate role of the Federal government and the government's own aims and actual performance.

Speakers at the three-day Washington meeting covered issues involving Federal spending and procedures for controlling it, the effect of taxation on economic growth, Federal compensation, social security, revenue sharing, productivity in the public sector and other areas of concern.

Setting the theme for the conference, Tax Foundation Executive Vice President Robert C. Brown urged participants to review the history of our two-century-old republic in order to avoid repeating past errors. We keep forgetting, he said, that under the Constitution the people are responsible *for* the government—not *to* it—and the government is specifically forbidden to function in fields other than those to which the people have given their approval.

Now, said Bob Brown, we are drifting towards central government planning again—a reversal of our historic experience of advancing through freedom.

Other speakers included Keith Anderson, president of the Montana Taxpayers Association, and chairman of the National Taxpayers Conference, Senator Carl Curtis of Nebraska, who outlined his proposal for a Constitutional amendment mandating a balanced budget, Chairman Robert

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Senate Finance Receives Two Tax Proposals

C. Lowell Harriss Discusses Capital Formation Incentive

A "capital force" can expand enormously the productive power of the "labor force." And it is labor—that is, people who work—who benefit the most from the increase in productivity.

This way of looking at a Federal tax structure which discourages savings and prevents capital from flowing into productive capacity was put before the Senate Finance Committee in testimony by C. Lowell Harriss, Columbia professor of economics and economic consultant to Tax Foundation.

Capital, said Professor Harriss, takes loads off our backs. All of us who work need productive tools—a "capital force" often of tens of thousands of dollars per person—to realize the potential of our abilities.

As taxes reduce the capital which the employer can use to improve the ability to produce, the damage falls on flesh-and-blood human beings, not merely on some industrial giant, he explained.

Antagonists argue that such benefits would go to huge and impersonal entities, not the men, women and children who are consumers, employees and owners. "How can a more correct view be conveyed?" the professor asked the senators.

"Can we not defuse the adversary aspects of tax debate to emphasize elements of common interest?"

More capital means more real income, better living standards for all of us. All benefit. Relatively, those who do not themselves do the saving benefit the most in rising productivity, more housing, energy sources, prevention of inflation, environmental improvement, stronger competitive position in world markets and so on. Two thirds to three fourths of additions to income go to people for their time and effort on the job, Professor Harriss pointed out.

Even government depends on the productivity of the private economy to generate taxes for its programs. But the tax laws, he said, have not given heavy weighting to concern about saving.

As a result we face capital needs of an utterly incomprehensible magnitude. Whatever the figure—and they are trillions of dollars over the next 10 to 15 years—the American people will expect a level of living which requires capital in increasingly large amounts per person.

"Our children," said Professor Harriss, "who are to be served by capital facilities cannot now express the very real desires they will have in the 1980's. Young people starting their working lives need facilities which can be available only if their parents and others provide in advance. A 'tilt' of tax policy to aid private investment in production facilities can help to convert distress into a sense of satisfaction," he concluded.

Norman Ture Argues Against Stiffer Tax On Foreign Income

The case for increasing the U.S. Federal income tax on foreign source income is analytically incorrect, according to Norman B. Ture, president of Norman B. Ture, Inc., and economic consultant to the Tax Foundation.

In testimony prepared for the Senate Finance Committee Dr. Ture argued that the proposals would neither enhance the equity of the taxation nor contribute to greater productivity of the U.S. economy. He offered a long, closely-reasoned analysis in deliberately abstract and hypothetical terms in order, he said, to expose the fundamental issues involved in determining the "best" tax treatment of foreign-source income.

Abundant evidence has been supplied by U.S. companies that investment by their foreign subsidiaries does not displace the parent companies' investment at home.

"Indeed, U.S. companies whose foreign subsidiaries are most rapidly expanding the scale of their operations are for the most part investing domestically at rates exceeding those of purely domestic companies in the same industries," Dr. Ture testified.

The evidence also shows:

A direct, positive connection between the foreign investment in these subsidiaries and the expansion of the parent company exports.

A return flow to the United States of earnings on foreign investments which exceeds each year the additions to the stock of capital in the foreign subsidiaries.

No correlation of changes in net foreign investment with changes in the unemployment rate.

No association of the recent strong growth of investment with any change in the labor share of national income or the growth in its dollar amount.

Dr. Ture characterized the deleterious effects of proposed reforms in the tax on U.S. international business as "neomercantilism."

"One would have thought," he said, "that the benefits of trade would become increasingly evident as the economies of the world became increasingly 'open.' The thrust of the reform proposals is to erect new barriers to the efficient allocation of capital, to the disadvantage of everyone."

The complete texts of the two statements offered in testimony are available from Tax Foundation. Please call Margaret Price at 212 JU 2-0880.

Senator Adopts "Tax Freedom Day"

Indignant about the taxpayer's heavy burden, Sen. J. Glenn Beall, Jr. (R.-Md.) introduced Joint Resolution 189 in Congress requesting May 1, 1976 be proclaimed "National Tax Freedom Day."

The date of Tax Freedom Day was announced by Tax Foundation in its April *Monthly Tax Features.*

He told Congress "the creation of 'National Tax Freedom Day' is one way to increase the awareness of burdens imposed on the taxpayer by government at all levels. We can't keep asking our citizens to keep paying more and more taxes," Sen. Beall said.

Burden of Federal Grants Falls Unevenly on States

Federal grants-in-aid to state and local governments totaled $48.2 billion in fiscal 1975, the highest ever and up $3.6 billion from the 1974 grants of $44.6 billion.

The tax burden for such grants fell unevenly on taxpayers across the nation, ranging from 42 cents per dollar of grants in Alaska to $1.46 in Florida, according to calculations just completed by Tax Foundation.

Close behind Florida was Indiana, whose taxpayers had a burden of $1.41 per dollar of aid. Ohio paid $1.40, and Connecticut, Delaware, Illinois and New Jersey each paid $1.36.

Thirteen other states had a tax burden for grants greater than the grants they received. All the remaining states but two, and the District of Columbia, received more than they paid for. Arizona and Pennsylvania came out even.

Revenue sharing grants totaled $6.1 billion in Fiscal Year 1975.

The formula under which the tax burden is allocated to the states was developed by Tax Foundation in cooperation with other organizations. The method and bases for estimating the allocations have been in use for the past 13 years.

States that got the most for their money besides Alaska were New Mexico, which paid 50 cents, Mississippi, 52 cents, and South Dakota, 55 cents.The District of Columbia had a tax burden of only 28 cents for each dollar of aid.

New York, contrary to some opinions, also received a good deal on its grants from the Federal government. Its burden was 83 cents per dollar of aid. New York led the nation, however, in the total amount of grants it received at $5.7 billion. Its tax burden for this aid was $4.7 billion.

California, on the other hand, was a loser. Its tax burden for grants was $5.3 billion, while it received only $4.9 billion in grants. California taxpayers bore nearly eleven percent of the total U.S. tax burden to fund grants. New York paid just under ten percent of the total.

Other states receiving substantial grants were Pennsylvania at $2.7 billion, Illinois and Texas with $2.2 billion, and Michigan, $2.1 billion. Florida received $1.3 billion in grants against a tax burden of $1.9 billion, four percent of the total.

The Tax Foundation formula for allocating tax burden is designed to show more accurately than the U.S. Treasury figures, where the tax dollars actually originate. U.S. Treasury figures show where taxes are collected. For example, tobacco taxes are collected in a few southern states, but the burden of the tax falls on smokers in all states.

Federal Grants-in-aid to State and Local Governments and Estimated Tax Burden of Federal Grants[1]

Fiscal Year 1975

State	Grants (millions)	Estimated Tax burden for grants[2]	Tax burden per dollar of aid
TOTAL	$48,195.5	$48,195.5	$1.00
Alabama	809.7	597.6	.74
Alaska	251.0	106.0	.42
Arizona	458.8	457.9	1.00
Arkansas	508.6	332.5	.65
California	4,892.9	5,267.8	1.08
Colorado	565.1	568.7	1.01
Connecticut	672.7	915.7	1.36
Delaware	120.1	163.9	1.36
Florida	1,316.5	1,918.2	1.46
Georgia	1,176.9	949.4	.81
Hawaii	246.6	216.9	.88
Idaho	203.9	154.2	.76
Illinois	2,226.1	3,017.0	1.36
Indiana	805.5	1,137.4	1.41
Iowa	555.6	592.8	1.07
Kansas	444.0	496.4	1.12
Kentucky	832.4	578.3	.69
Louisiana	878.0	655.5	.75
Maine	291.1	192.8	.66
Maryland	965.1	1,065.1	1.10
Massachusetts	1,455.9	1,426.6	.98
Michigan	2,112.2	2,236.3	1.06
Minnesota	899.2	833.8	.93
Mississippi	632.9	327.7	.52
Missouri	905.9	978.4	1.08
Montana	221.1	144.6	.65
Nebraska	337.3	327.7	.97
Nevada	138.1	159.0	1.15
New Hampshire	170.7	178.3	1.04
New Jersey	1,500.4	2,043.5	1.36
New Mexico	375.4	188.0	.50
New York	5,681.7	4,728.0	.83
North Carolina	1,047.7	1,002.5	.96
North Dakota	169.6	120.5	.71
Ohio	1,787.5	2,496.5	1.40
Oklahoma	652.9	496.4	.76
Oregon	558.1	506.1	.91
Pennsylvania	2,696.2	2,689.3	1.00
Rhode Island	248.7	216.9	.87
South Carolina	572.5	486.8	.85
South Dakota	211.9	115.7	.55
Tennessee	887.6	785.6	.89
Texas	2,197.5	2,501.3	1.14
Utah	287.9	212.1	.74
Vermont	154.0	91.6	.59
Virginia	1,002.5	1,084.4	1.08
Washington	780.0	848.2	1.09
West Virginia	550.9	308.4	.56
Wisconsin	918.2	988.0	1.08
Wyoming	97.9	86.8	.89
Dist. of Columbia	722.5	202.4	.28

[1]Excludes shared revenues; general revenue sharing and trust fund aids.

[2]The total burden for aid payments is assumed to equal aid payments.

Estate Taxes Have High Social Impact

Estate and gift taxes deplete and absorb the total supply of capital more fully than any other tax. But the revenue they produce is minor compared to their impact on families, on the amount of capital available for investment and on the form of ownership and type of investment capital.

Consequently, these taxes should be appraised in terms not only of social policy but also of general economic policy.

Writing in Tax Foundation's *Tax Review* for May, Professor Dan Throop Smith, senior research fellow at the Hoover Institution, Stanford University, warns that proposals to revise these taxes that do not take into account their social and economic impact are likely to be perverse or even destructive.

Estimated Federal estate and gift tax receipts for 1977 come to $5.8 billion—less than four percent of individual income taxes and considerably less than receipts for alcohol and tobacco taxes. But such estate and gift taxes are paid out of capital. What is taken by taxes simply reduces the property by that amount, Professor Smith points out.

His article, entitled "Impact of Federal Estate and Gift Taxes," analyzes six suggested changes:

Tax-free transfers to spouses

Integration of estate and gift taxes

Taxation of unrealized capital gains at death

Deduction for charitable bequests

Trusts; and Substitution of inheritance taxation for estate taxation. Under the latter proposal each legatee would be taxed separately resulting in a smaller total tax.

Professor Smith's article is from his statement submitted for the record to the House Ways and Means Committee.

Central Planning

(Continued from page 1)

postal system, the nation's railroads, shortages of natural gas, and the bottlenecks of 1973 and 1974 that developed out of Washington's price controls.

Environmental controls are another. The steel industry is expected to spend $8.2 billion for additional pollution control by 1983. Environmentalists, according to David Roderick, claimed that the investment would create 24,600 jobs. But the same capital, he pointed out, invested in steel production facilities, would directly generate 114,000 new jobs.

The market system is a planned system, he concluded. "And the world's best planners are those American Consumers who make countless economic decisions every day of their lives when they agree to buy or not buy a particular product or service."

Continuing the argument against central government economic planning, James Evans reminded his Dallas audience that it is our system of planning that relies on the individual—on his wisdom, initiative and ability to make rational plans and to act on them—that has made this country great. What is missing, he said, is a public appreciation and awareness of how the free enterprise system coordinates individual plans and the vital role played by the business community in the system's operation.

"We at Union Pacific are well aware of the pitfalls of central planning. Our railroad was involved in a merger case which took the Interstate Commerce Commission nearly 11 years to decide. By the time the ICC reached its decision, the Rock Island—the other party to the Merger—had deteriorated to the point where it was forced into bankruptcy," he said.

It is time the government put its own house in order, Mr. Evans warned. Federal deficit spending has added more than one-half billion dollars *per week* to the national debt. Nobody knows how much a new economic planning agency would add to the amount, "but if it's anything like the Department of health, Education and Welfare, it could add 145,753 people to the already swollen Federal payrolls.

"In contrast, in my own company, which had one and three quarter billion dollars in revenue and sales last year, there are only 118 people on the corporate headquarters staff."

Can we really blame the sector for the meteoric rise in governmental expenditures which have caused rampant inflation, strained our capacity to raise capital, and so often misallocated our resources, he asked.

"The more deeply we look, the more signs we find of previous government interventions at the root of our present problems. More unnecessary governmental planning and control will only make things worse, not better," Mr. Evans concluded.

Host chairman of the Dallas meeting was John V. James, chairman of Dresser Industries. The Chicago meeting was chaired by Arthur M. Wood, chairman of Sears, Roebuck and Co. who is a trustee of Tax Foundation. Additional membership meetings are scheduled for New York in May and Detroit, Kansas City and Minneapolis-St. Paul in June.

Copies of the two addresses are available from Tax Foundation. Please call Margaret Price at 212-JU 2-0880.

National Taxpayers

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Hampton of the U.S. Civil Service Commission, James Kelley of the House Ways and Means Committee, WilliamThurman of GAO, Priscilla Crane of the Office of Revenue Sharing, Professors Martin Feldstein of Harvard, David Meiselman of Virginia Polytechnic, and C. Lowell Harriss of Columbia, delegates from several of the state taxpayer organizations and members of the Tax Foundation staff.

No Regional Comparability In Government Pay Scales

An error of only 1 percent in establishing rates of compensation for government jobs could cost the taxpayer $400 million. That is why the U.S. Civil Service Commission is striving to set appropriate pay scales for its workers, according to the Honorable Robert Hampton,commission chairman.

The problem is complicated by the 18 pay grades in the Civil Service system and by regional differentials in wages. A new plan of government pay scales is to be implemented in 1978. The Commission hopes the scales will be comparable with private sector compensation on a regional basis.

In answer to questions about the effect of unionization of government workers, Mr. Hampton replied that he believes an elected representative should have the third seat in a tripartite system of labor negotiations so that somebody is there to represent the taxpayer. He pointed to the example of San Francisco where a sanitation worker can be paid as much as $19,000 a year just for showing up for his 32-hour a week job.

Half of Unemployed Are Out Only Three Weeks

The widely-held idea that there is a "pool" of unemployed is misleading, according to Dr. Martin Feldstein, Harvard economist. In a review of the main issues in unemployment insurance, he cited reports indicating that half of those unemployed in 1975 were out of work for less than 3 weeks. The average period of unemployment for those who become unemployed at any time is six weeks.

The notion there are seven million persons permanently unemployed leads to demands that the Federal government make a plan to employ them. But such efforts, says Professor Feldstein are wasteful. They make the rate of unemployment go up, not down.

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