

# MONTHLY TAX FEATURES



**Tax Foundation, Inc.**

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## 'Humphrey-Hawkins' Bill Shows Economic Ignorance

Minneapolis—Warning against the “foolish and incorrect notion” that a government-operated economy will eliminate poverty and unemployment, Chairman Willard F. Rockwell of Tax Foundation’s Board of Trustees urged businessmen to join together and spread the alarm over the so-called “Humphrey-Hawkins Full Employment Bill.”

Mr. Rockwell, chairman of Rockwell International Corporation of Pittsburgh, addressed a luncheon meeting of members of the Foundation and their guests in Minneapolis June 24. Chairman of the meeting was James P. McFarland, chairman of General Mills.

The bill is not, Mr. Rockwell warned, a mere device to provide government jobs. It is, instead, a master plan for having the government program and control just about every function of the nation’s economy.

“Even if this were possible, which I doubt, it certainly is not desirable,” Mr. Rockwell declared. He cited a 1,750-page report published by the University of Miami on the viability of economic planning that concludes not even the high speed computers we could build in the foreseeable future could handle the billions of billions of computations required for the Federal government to “plan intelligently for the American people.”

“The thing that stands out in the Humphrey-Hawkins bill,” said Mr. Rockwell, “is a complete ignorance of the unique American economic system.” “We are free,” he said, “because we are free to work where we wish at whatever task we wish and to dispose of the proceeds of our labors in any manner that we wish.”

“The freedom to work begets the

freedom to save. The freedom to save begets the freedom to invest. The freedom to invest begets the freedom to

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*Willard F. Rockwell, Jr.*

## State Income Taxes Have Grown to Second Largest

By State Supreme Court ruling, the public schools in New Jersey were forced to close July 1 because the state had failed to impose a method other than local property taxes to finance the state’s school system.

Until late June 30, New Jersey’s legislature had tried unsuccessfully to enact a state personal income tax to replace the property tax funding of the school system.

But the drastic action ordered by the Court points out a growing national phenomenon in the financing of state social services. A study by the Tax Foundation shows that the individual income tax, considered in many quarters to be the “fairest” tax, has grown nationwide to become the second largest source of state tax revenue.

The largest source, the study shows, is the state sales tax.

Information for this study comes from the Tax Foundation’s comprehensive handbook, “Facts and Figures on Government Finance.” It points out that there has been an almost steady rise in the importance of the state personal income tax since 1911, when the first personal income tax was enacted in Wisconsin. As a measure of its growth in importance, the individual income tax in 1922 comprised only 4.5 percent of all state tax collections. But by 1975 the income tax had jumped to 23.5 percent of all state revenue from taxation.

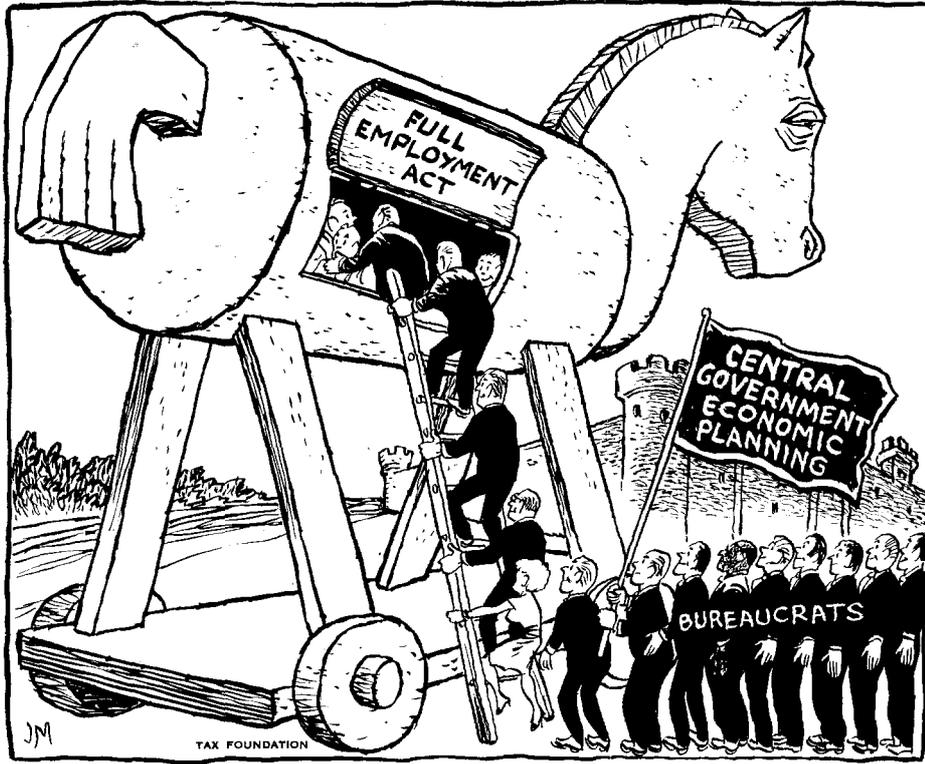
The largest hikes in state personal income tax occurred during the mid 1930’s and from the late 1960’s to the present. In 1930 only 15 states charged an individual income tax. By 1940 the number had increased to 31.

Between 1946 and 1974 the importance of the state personal income tax multiplied at its fastest rate. The rate rose from 7.9 percent in 1946 to 10.3 percent in 1956 to 14.6 percent in 1966 and finally, the biggest hike, to 23.0 percent of all state revenue in 1974.

Wisconsin, the originator of the state personal income tax, imposed the highest

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# Government Full Employment Proposals Hide Move to Destroy U.S. Capitalism



Kansas City, Mo.—Former Governor John Love of Colorado took issue with Congressional proposals to solve the nation's unemployment problem by means of central government economic planning. Governor Love addressed a Tax Foundation membership meeting in Kansas City June 16.

Specifically, the former governor, now president and chief executive officer of Ideal Basic Industries, Inc., of Denver, and vice chairman of Tax Foundation, referred to the Humphrey-Hawkins so-called "Full Employment Act" as a "Trojan Horse. Within it," he said, "is a master plan for having the government program and control just about every function of the nation's economy, from allocating its raw materials to scheduling production for industry."

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## Real Culprit in U.S. Economy Is Erratic Regulatory Policy

Proposed legislation to provide full employment by means of central government economic planning is "inane, at the least, and a giant step toward stultifying the U.S. economy by enmeshing it in a web of bureaucratic controls, at the worst."

This warning was issued to Detroit businessmen by Norman B. Ture, president of Norman B. Ture, Inc., at a membership meeting of Tax Foundation in Detroit June 1. The major thrust moving the legislation toward passage is "the anti-business, anti-free market virus, spreading rapidly in a culture of antagonism," Dr. Ture pointed out.

Source of the virus, he said, is the "misinformed, doctrinaire persuasion of an influential elite that the free market system is intolerably inefficient."

The fact is, said Dr. Ture, where it is allowed to operate with at least a reasonable degree of freedom, the private market system operates relentlessly to

absorb and suppress economic disturbances.

"When competitive forces are not limited by masses of regulation, when market clues are not obscured by government controls, when business and household spending, saving, and investment decisions are not distorted by government fiscal and monetary measures, the private market system allows, indeed imposes, rapid countervailing adjustments to shocks which occasionally may divert the economy from a steady growth path. The real economic instability culprit—the principal source of the shocks imposed on the private sector of the economy—is the Federal government's erratic fiscal, monetary and regulatory policies."

Nowhere in the Humphrey-Hawkins so-called full employment bill is there any recognition of the critical role of

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## 'Rockwell'

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form pools of capital. Capital formation begets the tools of production. The tools of production beget jobs," the aerospace executive explained.

"To see that this process remains unimpeded is our greatest and most pressing self-interest," he pointed out.

Section 402 of the proposed bill requires that the government will provide "last resort" jobs at "prevailing wages." Estimates by economists of the inflationary impact this would have average 15 percent a year. Such a high rate of inflation would bring on another recession, followed by a new round of unemployment. That would bring Section 402 into play again in the endless spiral, and in no time at all inflation would be up to 30 percent.

"The only workable approach for the government is to create the incentives and the economic climate to encourage more jobs in private employment," Mr. Rockwell concluded.

The Minneapolis-St. Paul membership meeting is the sixth in this year's series.

## 'State Taxes'

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rate of the income levy (as a percentage of personal income) in 1974. Minnesota, whose personal income tax dates back to 1933, charged the second highest rate in 1974, and Hawaii, which enacted a personal income tax in 1901, over a half-century before becoming admitted to U.S. Statehood, imposed the third highest rate in 1974.

States collecting no personal income tax in 1974 were: Florida, Nevada, South Dakota, Texas, Washington and Wyoming. (New Jersey's income tax was imposed only on out-of-state residents working in the state.)

In 1975 the largest receipts on personal income tax were collected respectively, from New York, California, Illinois, Pennsylvania, and Massachusetts. Of these, New York, Massachusetts and California had all enacted state personal income taxes by 1935.

The study also showed that the state personal income tax had been replacing in importance many specific state excise taxes, such as the alcoholic beverage tax, the motor vehicle fuel sales tax and the property tax which have been generally declining. The state corporate income tax generally has fluctuated in importance with the economic health of a state or the country.

In its report on "Significant Features of Fiscal Federalism," the Advisory Commission on Intergovernmental Relations said that "increasingly, states have found both the general sales and personal income taxes essential to prevent excessive local property tax

# Business Economists Join In Seminar With Tax Foundation

Tax Foundation and the National Association of Business Economists New York chapter teamed up in June in a seminar on "Emerging Issues in State and Local Government."

Dr. Elsie M. Watters, Tax Foundation's director of research, and Robert C. Brown, executive vice president, led discussions on financing government workers' pension systems and on the budget process in government.

The most important tool for evaluating government fiscal policy is the budget, Mr. Brown told the economists. The budget process, he explained, was summed up by Benjamin Franklin, who said, "Progress in human affairs is produced not so much by great pieces of good fortune that seldom happen as by little advantages that occur every day."

Budgeting in government is largely a question of judgement in forecasting the sources and amount from which and for which the operation of government is to be derived; then in establishing the proper allocation of these funds to serve the greatest good of the greatest number. But, Bob Brown pointed out, budgeting requires courage. And po-

burdens, proliferation of local property taxes, interlocal fiscal disparities and undue dependence on Federal aid. The use of these two broadly-based taxes has become the standard by which state fiscal effort is judged."

litical courage can be enhanced by forgetting the possibility of re-election. Upon election, he added, a politician should announce he is not a candidate. In that way he can devote his single term of office to making his state or city a better place to live.

Speaking from notes, Mr. Brown reviewed the policies of a government unit which must be analyzed in determining the most efficient means of funding any capital expenditure. These include personnel costs, pensions, growth in staff, union contracts, and present, future, mandated and contemplated programs.

### Runaway Public Pensions

Dr. Watters reviewed the "Financing of State and Local Pension Systems," stating that these retirement systems are "out of control on a runaway course which over the next quarter century may force choices between bankruptcy and crushing tax increases."

Dr. Watters said that the major threat to financial solvency of most pension plans lies not in commitments already made, but in proposals to increase pension benefits.

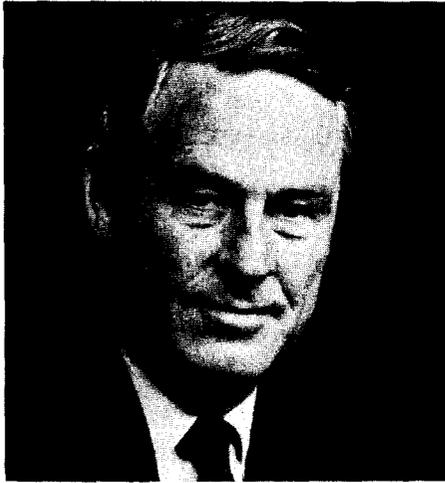
"Where pension bills must be considered, officials do not always have full knowledge as to the effects of the pension proposals. One legislative session can saddle constituents with exorbitant retirement plan costs for more than a generation," she said.

Other prominent speakers were: John E. Peterson, Washington Director and Economist for the Municipal Finance Officers' Association, discussing "Trends and Issues in State and Local Finance;" Jackson Phillips, Executive Vice President of Moody's Investor Service, Inc. on the "Problems and Considerations in Rating Municipal Obligations," and Ralph L. Schlosstein, Economist with the Joint Economic Committee of the U.S. Congress on "The Impact of State and Local Sector Spending on the National Economy in the Next Five Years."

## PERCENTAGE DISTRIBUTION OF STATE TAX COLLECTIONS BY SOURCE

Year	Total Tax Collections	General Sales, use or gross receipts	Motor Vehicle fuel sales	Tobacco product sales	Alcoholic Beverage sales and licenses	Motor Vehicle and operators' licenses	Income				Death and gift	Severance	Other
							Total	Individual	Corporation	Property			
1941....	100.0	15.9	25.3	2.9	7.5	12.0	11.7	6.2	5.5	7.4	3.3	1.5	12.3
1946....	100.0	18.2	17.9	4.0	9.5	8.9	16.8	7.9	9.0	5.0	2.9	1.8	14.9
1951....	100.0	22.4	19.1	4.8	6.1	9.4	16.7	9.0	7.7	3.9	2.2	2.5	12.9
1956....	100.0	22.7	20.1	3.8	4.7	9.7	16.9	10.3	6.7	3.5	2.3	2.7	13.6
1961....	100.0	23.7	18.0	5.3	4.1	8.6	19.0	12.4	6.6	3.3	2.6	2.4	13.1
1966....	100.0	26.8	15.7	5.2	3.8	7.6	21.5	14.6	6.9	2.8	2.8	1.9	11.8
1971....	100.0	30.0	12.9	4.9	3.2	6.2	26.3	19.7	6.6	2.2	2.1	1.4	10.7
1972....	100.0	29.4	12.1	4.7	2.8	5.6	29.1	21.7	7.4	2.1	2.2	1.3	10.8
1973....	100.0	29.1	11.8	4.6	2.7	5.3	30.9	22.9	8.0	1.9	2.1	1.2	10.4
1974....	100.0	30.5	11.1	4.4	2.6	5.1	31.1	23.0	8.1	1.8	1.9	1.7	10.0
1975....	100.0	30.9	10.3	—	—	4.6	31.8	23.5	8.3	—	—	—	6.3

Source: Computed by Tax Foundation from Bureau of the Census data.



John A. Love

## 'Love'

*(Continued from Page 2)*

The luncheon at the Kansas City Club is the fifth of a series of such meetings in principal cities throughout the U.S. Chairman of the meeting was Paul H. Henson, chairman of United Telecommunications, Inc. Hosts were Edward M. Douthat, Sr., chairman of Locke Stove Co.; W. C. Gummere, chairman and president, The Vendo Co.; and Stanford Miller, president and chief executive officer, Employees Reinsurance Company.

The problem of joblessness is one that we all wish to solve, said Governor Love. But legislation for "the total socialization of my country is far too high a price to pay."

"The Humphrey-Hawkins bill would destroy capitalism. It is as simple as that—and as dangerous as that."

The freedom to save and to invest in the tools of production is what begets jobs. It is this freedom that is our greatest and most pressing self-interest, the former governor said.

"If this system does not always provide enough jobs, it is because well-meaning lawmakers and well-intended government interferences and intervenors have impeded and flawed the system," he added.

Mr. Love is a trustee of Tax Foundation.

Also in attendance at the meeting were Lester B. Fisher, executive director of the Missouri Public Expenditure Survey, Jefferson City; and Robert C. Brown, executive vice president of Tax Foundation.

## Taxpayer Shells Out For Peanut Growers

Like the soothsayer divining the future, the Tax Foundation ran an article in 1974 on the status of peanut production in the U.S.

It showed the peanut farmers and "big government" feed better off each other than is currently acknowledged.

The April, 1974 issue of *Monthly Tax Features* reported that peanut production in the U.S. doubled from 1955 to 3 billion pounds in 1971. But consumption has not increased as fast as production.

A 1938 law requires that the government buy all surplus peanuts that can be grown on 1.61 million acres. As a result, the Commodity Credit Corp. has had to buy a higher percentage of each year's crop, and the U.S. taxpayers have shelled out more than half a billion dollars to support the price of peanuts between 1955 and 1971, the article said.

## Face of U.S. Business Needs No Make Up, Says Ad Exec.

Speaking truth in business and in advertising is the appropriate way to deal with critics of the American System of business.

Truth means we must believe in our economic system, ourselves, first, believe that "business operates in the public interest as well as in its self interest," said Neal W. O'Connor, 1975-76 chairman of the American Association of Advertising Agencies.

Speaking at the annual conference of the 4 A's, Mr. O'Connor, who is chairman of the Executive Committee of N. W. Ayer ABH International, a leading advertising agency in New York, said that "once business people begin to believe in themselves "we won't have to soften the focus or make up the face of business." And in presenting the truth, "even if we show up flawed," Mr. O'Connor said, "we will be believed as men and women of good will. And then maybe we can begin to create some understanding."

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Norman B. Ture

## 'Ture'

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capital formation in expanding employment opportunities. Nowhere, said Dr. Ture, is there any perception of the growing government-imposed impediments to increasing jobs.

"The simplistic—or simple-minded—premise upon which this legislation is founded is that if the Federal government will only have a master plan for the economy, we will achieve 'full employment' ". It is, he concluded, a rearticulation of the blind faith in the notion that the government can solve any problem by throwing money at it.

Dr. Ture's firm is a Washington-based economic consultant.

The complete text is available from Tax Foundation. Please contact Margaret Price at JU 2-0880 in New York.

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