

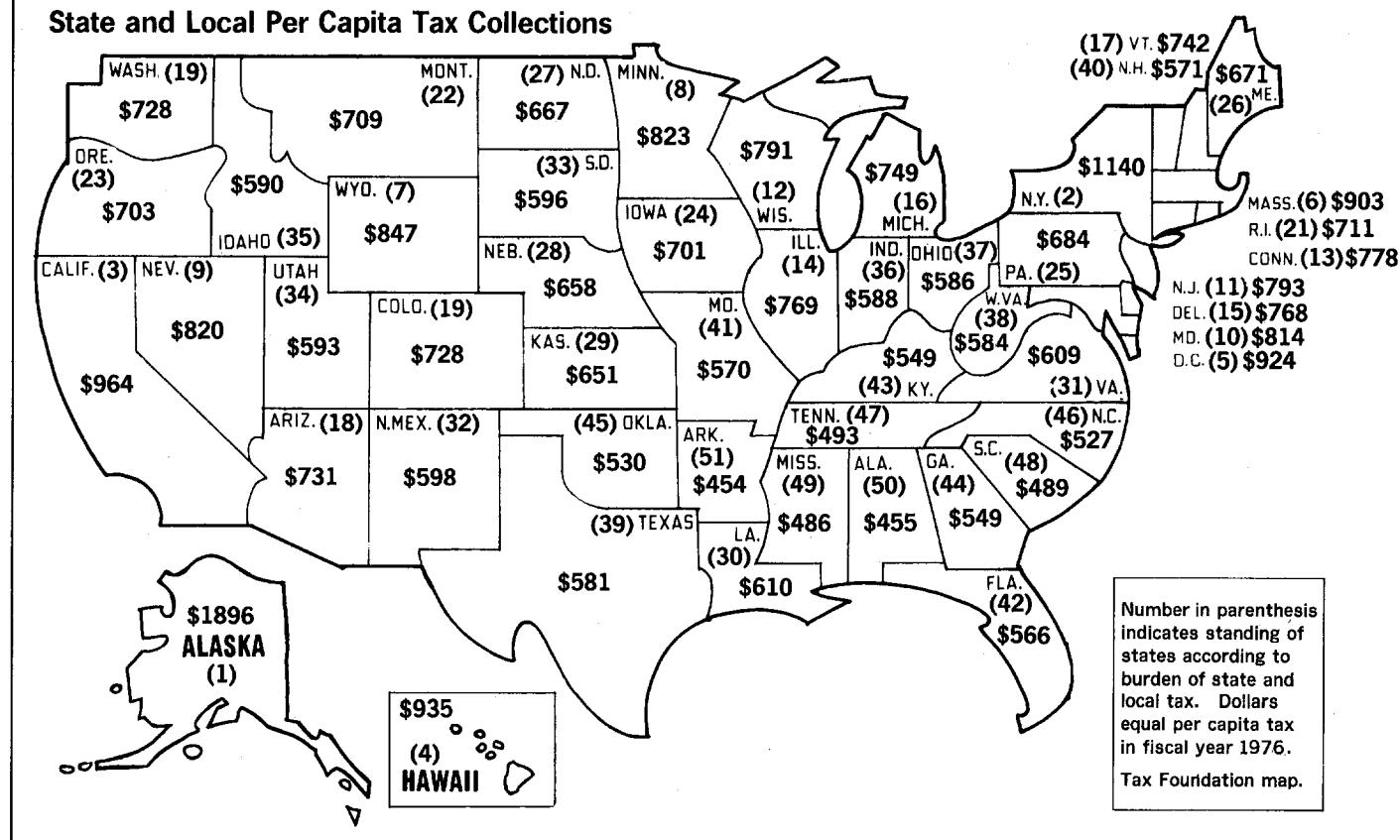
MONTHLY TAX FEATURES



Tax Foundation, Inc.

50 Rockefeller Plaza □ New York, New York 10020 □ 212-582-0880 □ **Volume 21, Number 9, December 1977**

State and Local Per Capita Tax Collections



Property Taxes Shoot Up 131% in Decade

Property tax payments to state and local governments totaled \$57 billion in fiscal year 1976, an increase of 131 percent over the \$24.7 billion paid ten years earlier, according to the Tax Foundation.

The increase, sharp as it was, fell slightly below the rise in personal incomes of 136 percent during the decade. On average, property taxes amounted to \$46 per \$1,000 of personal income in 1966 and to \$45 per \$1,000 of income in 1976.

When adjustment is made for growth in population—that is, on a per capita basis—the average property tax was

\$266 in 1976, up by \$140 or 111 percent over the decade.

There were wide variations from state to state in both levels of the tax and in rates of change. The accompanying map and table provide details.

The most spectacular change took place in Alaska, where 1976 per capita property taxes of \$1,048 were more than 15 times as large as ten years earlier, and nearly four times the U.S. average in 1976. Not surprisingly, Alaska ranked first both in the amount of 1976 per capita collections and in the size of the ten-year advance.

Following Alaska in the amount of

per capita property taxes were New Jersey, Massachusetts, California, and New York—all in excess of \$400.

At the low end of the scale were Alabama, Louisiana, Arkansas, New Mexico, and Kentucky—with per capita collections of \$105 or less. Alabama's \$57 per capita property tax was the lowest of any state.

During the decade the average property tax more than doubled in 27 states, with individual state changes ranging from increases as small as 47 percent in Utah and 54 percent in Minnesota up to 1,419 percent in Alaska, 190 percent in

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U.S. Eating into Its Seed Corn

The following remarks are drawn from an address by Reginald H. Jones, Chairman and Chief Executive Officer, General Electric Company, on receiving the Distinguished Public Service Award of the Tax Foundation on November 30, 1977.

Some of the economists who have been telling us that this country has no capital formation problem seem to be surprised by [the current] lag in business spending. But actually, it's what we have been predicting all along because we are dealing with a secular, not a cyclical problem. The causes go very deep.

To put the issue briefly, this country has been eating into its industrial seed corn. We have been failing to invest a sufficient proportion of our national output in the modernization and expansion of our industrial machine. We have been more concerned with the redistribution than the creation of wealth. We have stressed consumption rather than production; expanded the public sector at the expense of the productive private sector.

However you want to measure it—compared with other industrialized countries, compared with previous times in our own country, compared with the estimated capital needs of the coming decade—we are not channeling enough of the national output into new industrial plant and equipment....

Suffice it to say that the capital for-

mation problem—which was a complete mystery to most of official Washington when some of us first began to speak and testify on the subject about four years ago—has now become a matter of genuine concern among the leaders of the Administration and the Congress.

Why has capital investment been lagging?

The reasons are both economic and political.

Perhaps the economic reasons are best exemplified by the long-term decline in the real return that managers and investors can expect from their investments. When you take out the inflationary effects of underdepreciation and phantom inventory profits, industry's real return on investment, after taxes, declined from 9.9 percent in 1965 to about 4 percent this year, and was even lower in the recession.

While the incentives declined, the risks increased. The political factors that deter capital investment today can

be summed up in one word: "uncertainty."

What business can plan ahead with any assurance when energy costs and availability are completely up in the air? When the tax laws are so sharply tilted against savings and investment? When government crowds business out of line whenever credit becomes scarce? When inflation eats up capital, balloons costs, and raises the threat of politically inspired wage and price controls? When the economy faces a major tax increase to keep the social security system afloat? When government red tape—in environmental matters for example—makes every capital project subject to capricious interruption? When overseas investment is encouraged one year, frowned on the next? When the very existence of companies is threatened by arbitrary divestiture, industry restructuring, and other exotic extensions of the law.

Until the Administration and the Congress come up with a coherent long-term economic game plan, we can expect a continued shortfall in business investment.

Others Outstrip U.S. Capital Ratio

Capital formation as a share of total output in the United States has fallen far short of that in seven major competitor nations for many years, according to a Tax Foundation analysis.

Since 1969, for example, gross capital formation in the United States has ranged from a low of 16.2 percent of gross national product (GNP) in 1975 and 1976 to a high of only 18.4 percent in 1973. (See table).

In six of the major competitor nations capital formation during this period has been at or above 20 percent of GNP in every year. In Japan, the country with the highest rate, capital formation has ranged from around 30 percent to 37 percent of GNP over the past nine years.

Even in the United Kingdom, where capital formation rates have been relatively low, they have exceeded rates prevailing in the United States.

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Ratio of Gross Fixed Capital Formation to GNP, United States and Seven Competitor Nations¹

1969-1977
(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	25.5	26.4	21.2	25.6	18.3	35.1	21.0
1971.....	17.7	25.6	26.7	20.2	25.7	18.3	34.3	21.8
1972.....	18.3	25.7	26.1	19.7	23.6	18.4	34.5	21.6
1973.....	18.4	25.5	24.6	21.2	22.9	19.3	36.6	22.2
1974.....	17.8	26.2	22.5	23.5	21.9	20.0	34.2	23.2
1975.....	16.2	23.4	21.2	21.2	21.4	19.7	30.8	24.3
1976.....	16.2	n.a.	20.9	n.a.	n.a.	18.9	30.0	23.4
1977 ²	16.6	n.a.	n.a.	n.a.	n.a.	n.a.	29.6	23.2

¹Measured in current prices. Gross fixed capital formation covers private and government sectors except military.

²Seasonally adjusted annual rate, first quarter 1977.

Source: U.S. Department of Commerce, Domestic and International Business Administration.

Social Security Needs Only Tiny Increase To Remain Sound, Expert Claims

Increasing social security tax rates by only a fraction of one percent would be enough to "keep the system sound for the next five or ten years," J.W. Van Gorkom, an expert on social security financing, told a business and academic audience at Tax Foundation's recent annual national tax conference.

Van Gorkom recommended an increase ranging between 0.25 and 0.3 percentage points as more realistic than the much higher official recommendation, which, he said, is based on a deficit forecast for the next 25 years. He pointed out that the official forecast depends on predictions of the changes in three factors—wages, prices, and fertility rates—about which there is great uncertainty.

Since no one knows what really is going to happen, Van Gorkom suggested, it might be better to wait and see how these factors will actually move rather than to increase the tax substantially now, before it is actually necessary to do so.

Van Gorkom, President of Trans Union Corporation, was a member of the Quadrennial Advisory Council on Social Security and served as chairman of its Subcommittee on Finance. He told the Tax Foundation meeting, on the basis of his background and current analysis of the situation, "I do not regard the social security system as being in terrible jeopardy."

He objected to current proposals to increase the maximum wage subject to social security tax. While he acknowledged that such an increase would temporarily bring in more revenue, he

warned that a substantial increase in the maximum would encroach on private savings and endanger adequate capital formation.

"The one thing that can destroy the social security system," he asserted, "is runaway inflation. If inflation should get to double-digit figures and stay there, I'm not sure the system could survive."

He stressed the importance of supplemental income systems, reminding the audience that income maintenance for the retired or disabled cannot rely on social security alone.

"There's only a certain amount of money you can force people to save before you induce real hardship. For

poor people, the social security tax is a very heavy burden." He recommended a needs-tested supplemental income system, funded by general revenues, to meet the problems of retirees with inadequate finances, rather than relying on the social security system alone.

"It becomes a welfare system," he warned, if general revenues are used to finance social security. Such an approach, he said, is the most expensive way to help people at the lower end of the economic scale.

Van Gorkom also suggested that it would be appropriate to increase the retirement age, beginning about the year 2000. By the turn of the century, he said, the work force will be unnaturally small, compared to today, and we will have had 35 additional years of medical advancement to increase the health and working ability of older persons.

Confidence-Restoring Tax Cuts Suggested

"Repeated attempts to galvanize business confidence by some form of mass psychotherapy—usually initiated by the White House—are not going to work," Alan Greenspan, prominent economic consultant and chairman of the Council of Economic Advisers under President Ford, warned conferees at the recent annual meeting of Tax Foundation, Inc., in New York City. "People are uncertain and cautious for rational reasons, and you're going to change that only if the underlying environment which they're trying to confront changes."

Pointing to the "dramatic increase in the degree of uncertainty which plagues the business community and individual policymakers who make judgments as to whether to go ahead or not on various types of capital projects," Greenspan predicts that the fundamental force which will govern the United States economy for the next several years is the abnormally high rate of risk associated with investment.

"We have an opportunity to turn a sluggish economy into a vibrant one," Greenspan noted, asserting that in the short run the excessively high risk rate which today interferes with sufficient investment could be offset by lowering the corporation income tax rate.

For the average project, he said, a cut of 8 to 10 percentage points in the corporate tax rate would restore the risk rate to a more normal level.

Such a tax cut would not be a large revenue loser, Greenspan claimed. He estimated the initial revenue reduction at \$12 to \$13 billion, but added that if the expected effect of galvanizing the capital goods market took place, the revenue loss would be small or zero.

Asserting that "economic policy in this country is too much affected by an unfortunate anti-business attitude," Greenspan stressed that "the important thing is to dispassionately look at the total structure and ask what is the right policy, not who gets what."

"We do indeed need a tax cut...as a transition, as a mechanism which will enable us to move towards a much more viable capital goods industry," he commented. The disappointment in individual tax cuts today, he noted, is that they lead to "strength in consumer spending, which shortly peters out without triggering any investment process," because of lack of business confidence.

Greenspan raised the question of how we can have "a state of affairs in which

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The Tax Foundation has prepared a summary of the revised version of the Humphrey-Hawkins bill, recently endorsed by the President. The measure is called the revised Full Employment and Balanced Growth Act of 1977.

Copies of the 7-page summary are available from the Foundation upon request.

Moynihan Predicts No Big Tax Change Soon

A large, comprehensive change in the tax code is an unlikely event in the year ahead, in the opinion of Senator Daniel Patrick Moynihan (Dem., N.Y.), one of the speakers at the recent annual conference of Tax Foundation, Inc.

Senator Moynihan pointed out that the social security bill now under consideration will "change the tax code in very large ways" and if passed more or less as presently proposed, will "constitute the largest tax increase in modern peacetime history." In addition, he noted, "there will be an energy bill of some kind, and it will include tax increases."

"These two events are obviously going to have a considerable depressing effect on the economy," the senator observed. "It seems to me very clear that what we need next year is a tax cut, but it's got to be a simple one."

"No doubt there is a constituency that thinks the Internal Revenue Code is a 'disgrace to humanity,' but it's a very small one. The notion that there is any large demand for huge changes is wrong," the senator asserted. Should the President send a huge, complex tax bill to Congress at this time, Senator Moynihan suggested that "he must expect to get back something unrecognizable."

Confidence...

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there is nothing but extraordinary malaise overhanging the business community, and yet a seeming buoyancy, an optimism, being exhibited by the action of the consumer segment." The explanation, he said, is that the same lack of confidence creates different forms of action by the consumer and by the businessman. Consumer incomes are not rising, and the savings rate is falling rapidly. But since 1976, he said, great numbers of consumers are cashing in the capital gains on their homes, and using about half of the gains for the purchase of automobiles, large-ticket retail items, vacations, and so forth—leading to strong consumer markets. Long-term pessimism, Greenspan pointed out, underlies such consumer behavior.

Property Taxes...

(Continued from Page 1)

South Carolina, and 187 percent in Georgia.

In 34 states and the District of Columbia, the rise in property taxes fell below the growth in personal incomes.

In the ten states with highest property taxes as a share of income in 1976, Alaska again headed the list, with \$120 in tax per \$1,000 of personal income. Following Alaska were Massachusetts,

New Jersey, New Hampshire, and Montana. The highest 10 states in this comparison reported property taxes of \$60 or more per \$1,000 of personal income in 1976, as compared to the national average of \$45.

In the lowest ten states, Alabama was again at the bottom of the list, with property taxes of \$13 per \$1,000 of personal income. The other nine lowest states had property tax collections below \$27 per \$1,000 of state personal income.

Property Tax Collections by State

Per Capita and Per \$1,000 of Personal Income

Fiscal Years 1966 and 1976

State	Per Capita Property Tax			Property Tax per \$1,000 of Personal Income				
	1966	1976	Percent increase	Rank 1976	1966	1976	Percent change	Rank 1976
U.S. AVERAGE	\$126	\$266	111	—	\$46	\$45	- 2	—
Alabama	33	57	73	51	17	13	- 24	51
Alaska	169	1048	1419	1	22	120	+445	1
Arizona	138	282	104	19	60	54	- 10	13
Arkansas	149	101	106	49	27	22	- 19	46
California	198	415	110	4	63	64	+ 2	6
Colorado	156	271	74	23	58	46	- 21	20
Connecticut	161	369	129	6	48	53	+ 10	14
Delaware	65	130	100	41	19	19	0	49
Florida	98	191	95	33	42	34	- 19	35
Georgia	62	178	187	35	29	35	+ 21	34
Hawaii	79	174	120	37	28	27	- 4	39
Idaho	113	190	68	34	47	37	- 21	31
Illinois	150	284	89	18	46	42	- 9	24
Indiana	140	226	61	27	49	40	- 18	25
Iowa	163	278	71	20	61	46	- 25	21
Kansas	148	274	85	21	56	46	- 18	19
Kentucky	52	105	102	47	25	22	- 12	48
Louisiana	53	90	70	50	26	19	- 27	50
Maine	125	297	138	14	55	63	+ 15	8
Maryland	121	239	98	25	41	37	- 10	29
Massachusetts	190	431	127	3	62	70	+ 13	2
Michigan	135	324	140	11	45	52	+ 16	16
Minnesota	165	254	54	24	62	44	- 29	22
Mississippi	50	110	120	45	32	27	- 16	38
Missouri	97	195	101	32	36	35	- 3	33
Montana	162	350	116	8	67	65	- 3	5
Nebraska	178	319	79	12	67	53	- 21	15
Nevada	137	272	99	22	43	42	- 2	23
New Hampshire	152	348	129	9	60	66	+ 10	4
New Jersey	186	446	140	2	58	67	+ 16	3
New Mexico	60	103	72	48	28	22	- 21	45
New York	167	412	147	5	51	63	+ 24	9
North Carolina	54	130	141	40	27	26	- 4	42
North Dakota	130	212	63	30	57	37	- 35	29
Ohio	126	224	78	28	45	38	- 16	28
Oklahoma	78	124	59	43	34	24	- 29	44
Oregon	142	333	135	10	52	59	+ 13	11
Pennsylvania	88	176	100	36	32	30	- 6	37
Rhode Island	128	294	130	15	46	50	+ 9	18
South Carolina	40	116	190	44	22	25	+ 14	43
South Dakota	153	288	88	17	69	59	- 14	12
Tennessee	57	129	126	42	29	27	- 7	40
Texas	100	213	113	29	43	39	- 9	26
Utah	117	172	47	39	50	36	- 28	32
Vermont	116	308	166	13	50	63	+ 26	7
Virginia	75	173	131	38	32	30	- 6	36
Washington	104	236	127	26	36	38	+ 6	27
West Virginia	55	106	93	46	27	22	- 19	47
Wisconsin	153	289	89	16	56	51	- 9	17
Wyoming	170	352	107	7	66	60	- 9	10
District of Columbia	109	210	93	31	30	27	- 10	41

Source: Bureau of the Census, U.S. Department of Commerce, and Tax Foundation computations.