MONTHLY TAX FEATURES

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U.S. Taxes & Budget Will Be Scrutinized At 34th TF Conference

"The Federal Fiscal Dilemma—Is There a Solution?" will serve as the theme of Tax Foundation's 34th National Conference on December 1 at the Plaza Hotel in New York City. The day-long conference will be keynoted by Leif H. Olsen, Senior Vice President and Economist of Citibank, who will start the program with his overview on the current economy and a forecast for 1983.

The remainder of the morning session will discuss "Alternatives to the Present Federal Income Tax System," including presentations by Al Ullman, former Chairman of the Ways and Means Committee of the House, on "The Broad-Based Consumption Tax" and by Robert E. Hall, Professor of Economics at Stanford University, on "The Flat-Rate Income Tax." A response will be given by C. Lowell Harriss, Executive Director of The Academy of Political Science.

Edward A. Sprague, Executive Director of the Tax Executives Institute, will chair the morning session.

"The Balanced Budget Amendment" will provide the focal point for the afternoon session, to be chaired by Bernard M. Shapiro, former Counsel of the Joint Committee on Taxation, and currently Director of National Tax Policy for Price Waterhouse and Company. Nobel laureate James V. Tobin, Sterling Professor of Economics, Yale University, will offer his

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Federal and State Funds Supply 44% Of $232 Bil. Local General Revenues

General revenue of local governments reached over $232 billion in fiscal 1980 (latest year reported), nearly three times the $81 billion recorded in 1970, according to calculations by Tax Foundation economists. From 1979 to 1980 alone, local general revenues rose by $20.5 billion, or 9.7 percent.

Intergovernmental aid topped $100 billion in 1980, for the first time in history. Federal and state funds combined accounted for 44 percent of local revenue in 1980, and for 48 percent of growth in local revenue for the decade. Direct Federal aid rose from less than $3 billion in 1970 to over $21 billion in 1980—up 711 percent. State aid increased from $27 billion to $81 billion, or 202 percent.

Property taxes remain the largest segment of locally collected revenues, rising from $33 billion in 1970 to $66 billion in 1980, Tax Foundation researchers say. This 99 percent increase, however, was the smallest rate of growth recorded for any major revenue source. As a result, the relative share of local general revenue derived from property taxes slid from 41 cents per dollar of revenue in 1970 to about 28 cents in 1980.

Local sales and gross receipts taxes showed almost a fourfold increase for the decade, but still accounted for only a small share of total local general revenue—about 5 cents per dollar in 1980.

Other local taxes, including income taxes and licenses, accounted for less than 4 cents per dollar of general revenue in 1980, up only slightly as a share for the decade.

In 1980, local governments raised nearly $44 billion (19 percent of total general revenue) through charges for public services and other nontax

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Composition and Growth of Local Government Revenue by Source

Fiscal Years 1970 and 1980

Source	Amount (billions)		Percent of total		Percent change
	1970	1980	1970	1980	1970-1980
Total general revenue, all sources	$80.9	$232.5	100.0	100.0	187.3
Total, own sources	51.4	130.0	63.5	55.9	153.0
Total, taxes	38.8	86.4	48.0	37.2	122.5
Property tax	33.0	65.6	40.7	28.2	99.0
Sales and gross receipts	3.1	12.1	3.8	5.2	293.5
Other taxes and licenses	2.8	8.7	3.5	3.7	210.8
Charges and miscellaneous	12.6	43.6	15.5	18.8	247.5
Total, intergovernmental aid	29.5	102.4	36.5	44.1	246.9
From states	26.9	81.3	33.3	35.0	202.0
From Federal	2.6	21.1	3.2	9.1	711.4

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

The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Reflections on a Drive Across Country"

August provided a long-desired opportunity to combine work and pleasure in a cross-country auto trip.

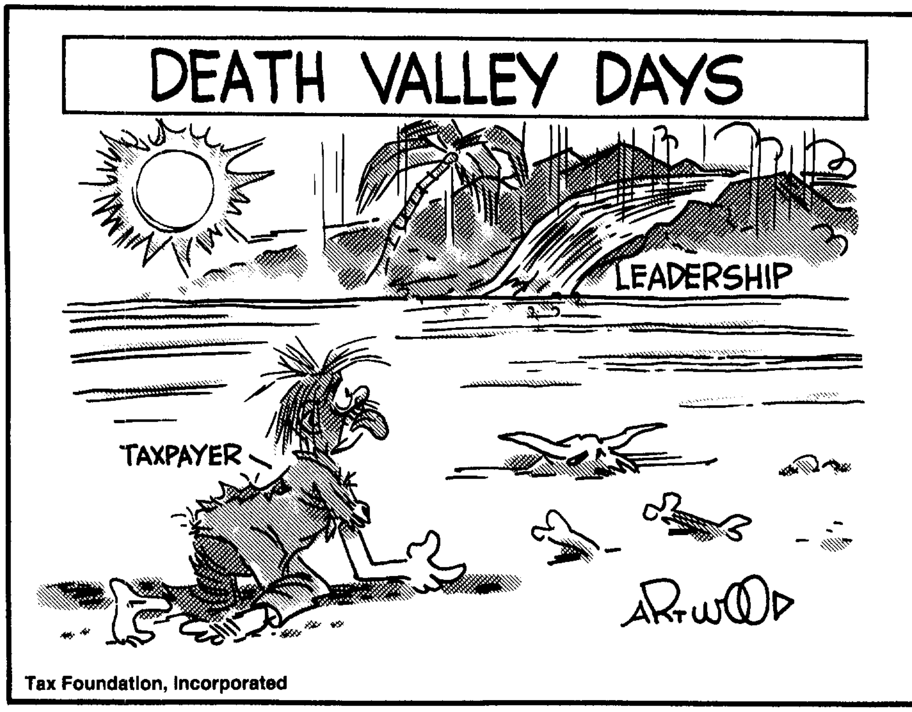
As state after state rolled by, evidence of the recession mounted: Railyards crowded with empty boxcars in Omaha; a trucker in North Platte, Nebraska, commenting that his company had 13 rigs hauling farm equipment components last year and only five this year; Denver, once considered recession-proof, in the grip of a slowdown that is strangling its basic industries.

The Northwest is an economic disaster area. Even sunny economic skies of California are succumbing to clouds for selected industries. Coming home was hardly more reassuring, except for the mood in Oklahoma where the Sooners showed themselves determined to weather the storm until the situation improves.

Local newspapers and talk shows in the smaller cities and towns brought home a number of common themes:

- Many questioned the advisability of giving tax breaks one year and taking them back the next. One letter to the editor in Roanoke, Virginia, put it: "The Republicans have fallen into a Democratic trap and given the government a $98 billion revenue windfall. If the recovery comes soon, we'll be back to business as usual and out $98 billion."
- A caller to a talk show in Oklahoma said, "The Reagan program has gone awash on the rocks of reality, and he has aided and abetted the process."
- A common attitude that appeared in editorials and columns was, "We'll work our way out of this if the government will leave us alone."
- Another talk show caller expressed the fear that the government is eradicating the taxpaying middle class. "If they don't change," he said, "we'll have only a wealthy elite and an impoverished majority."
- There is little confidence in the Congress. The President got plaudits; his advisers anything but.
- State and local governments are cutting budgets and looking for new revenue sources. They are also resisting special interests.
- The New Federalism is viewed as a struggle over turf between Washington and state/local politicians. "No matter who wins," one man commented, "we'll end up paying."

What does this all add up to? Certainly, the country remains in bad shape. Confidence in government, particularly the Federal Government, regardless of party affiliation, is at a low ebb. The people are willing and ready to cope. They also want some leadership in that struggle. The coming election may contain their judgment on the quality of leadership they have been getting.



Local Revenues

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receipts. This compares with $13 billion in 1970, representing an increase of 248 percent.

Although recent increases in local revenues have been sizable, growth in the last half of the 1970s was nearly 30 percent below that experienced between 1970 and 1975. Increases have slackened, not only in property taxes, but also in other major tax sources and in Federal and state financial aid. The only major revenue source which grew more rapidly in the last half of the 1970s than in the first half was charges and miscellaneous general revenues. As a result of the overall slowing in revenue growth, total local general revenues were $32 billion, or 14 percent, below the level they would have reached under the 1970-1975 trend.

The table on page 1 gives details.

About Tax Features

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State/Local Pension Holdings Climb to Over $200 Billion

Financial assets of state and local employee retirement systems continued their sharp upward climb in 1981 (latest year reported), passing the $200 billion mark for the first time, to reach $210 billion by the end of the fiscal year, according to Tax Foundation economists. This represented a $25.2 billion rise (13.6 percent) over 1980 and followed similar increases in recent fiscal years. Largely as a result of more profitable investments and greater taxpayer contributions, pension fund assets have expanded more than 10-fold since 1960. Up until the mid-seventies, annual increases in these cash and security holdings were averaging just over 12 percent; since then they have been going up at almost 14 percent a year.

Annual receipts for the funds, which cover over 3,000 state and locally administered systems, totaled $43.4 billion in 1981, a rise of 16.4 percent over the previous year. Benefit and withdrawal payments, $15.6 billion during 1981, were up only 11.5 percent for the year.

Analysis of the source of receipts reveals the continuation of a long-term trend toward smaller shares of payments coming from employee contributions, sharply increasing portions attributable to investment earnings, and a generally stable share funded by governmental employers from taxpayer receipts.

In 1981, employee contributions made up 17 percent of total receipts, down from 34 percent in 1960, and 28 percent in 1970. Investments on earnings, at 37 percent of the total in 1981, were up from 18 percent in 1960, and 25 percent in 1970. Employer contributions, 46 percent in 1981, have varied within a narrow range of 45 to 49 percent of total receipts over the past two decades, with no discernible pattern of change.

While the share of government contributions has remained roughly the same, they have continued to be the largest single source of support for state-local employee pension systems, providing over $20 billion in 1981—$11.3 billion from local governments and $8.7 billion from the states.

The more rapid growth in investment earnings, totaling $16.1 billion in 1981, is seen in their rise from about 35 percent of taxpayer contributions in 1960 to more than 80 percent today.

Employee contributions, at $7.3 billion in 1981, were equal to 36 percent of government contributions, in sharp contrast to the 69 percent prevailing in 1960.

During 1981, in six states and the District of Columbia, employer contributions provided more than half of the receipts of public pension plans, compared with 11 states and the District in 1979, when a previous Tax Foundation survey was made. The 1981 proportions were: District of Columbia (86 percent), Florida (60 percent), New York and Oklahoma (56 percent), Connecticut and Indiana (55 percent), and Michigan (52 percent). In 1979, only one state, New Hampshire, derived less than one-third of its pension fund receipts from this source. In 1981, five states fell into this category: New Mexico and North Dakota (32 percent), Arizona and South Dakota (31 percent), and New Hampshire (24 percent).

In 1979, the five states of Hawaii, Nevada, South Carolina, Vermont, and Wisconsin obtained 40 percent or more of their current financing from investment earnings. By 1981, there were 19 states in this category, the highest ranking state being Wisconsin (55 percent), followed by Nevada (49 percent), Delaware (45 percent), and Missouri and South Carolina (44 percent). Once again the District of Columbia ranked in last place (8 percent in 1979, 3 percent in 1981). In 1979, six states derived less than one-quarter of fund receipts from investment earnings; by 1981, there was only one state (plus the District of Columbia) in this category, Massachusetts (23 percent).

The earlier 1979 report turned up 11 states in which employee contributions made up 30 percent or more of receipts; in 1981, there were but three such states: New Hampshire (33 percent), New Mexico (30 percent), and Utah (35 percent). In 1981, the low-ranking states (less than 10 per-

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MARK YOUR CALENDAR

Tax Foundation's 34th National Conference and 45th Annual Dinner will be held this year on Wednesday, December 1st, at the Plaza Hotel in New York City. See details on page 1 of this issue of *Monthly Tax Features.*

Assets and Annual Receipts of State and Local Employee Retirement Systems
Selected Fiscal Years 1960–1981
(Billions)

Year	Cash and security holdings[a]	Receipts by source: Total	Employee contributions	Government contributions	Investment earnings
1960	$ 18.5	$ 3.4	$1.1	$ 1.7	$ .6
1965	31.8	5.3	1.6	2.4	1.2
1970	54.9	9.8	2.8	4.6	2.5
1975	98.1	18.9	4.5	9.1	5.3
1976	111.5	21.6	4.8	10.5	6.3
1977	123.5	25.3	5.2	12.4	7.7
1978	142.6	28.0	5.7	13.6	8.7
1979	161.6	31.9	6.1	15.3	10.5
1980	185.2	37.3	6.5	17.5	13.3
1981	210.4	43.4	7.3	20.0	16.1

[a] As of end of fiscal year.
Source: Compiled by Tax Foundation from annual reports of the U.S. Department of Commerce, Bureau of the Census.

Pension Systems

(Continued from page 3)

cent) were: Delaware and Wisconsin (8 percent), Michigan (5 percent), and Florida and New York (4 percent).

The composition of the public pension fund investment portfolios still reflects essentially the turnabout that occurred during the past two decades, with corporate stocks and bonds replacing government (Federal, state-local) securities as the biggest block of assets. In 1981, the securities of corporations comprised 60 percent of the total, with government bonds making up but 22 percent. In 1960, in contrast, government holdings made up 56 percent, with private corporate assets constituting only 35 percent.

The decline in state-local securities has been especially pronounced. Two decades ago, state-local securities constituted 23 percent of all pension fund assets; today they are down to 2 percent of the total, a point they had reached by the mid-seventies. Federal security holdings, at 32 percent of the total in 1960, plummeted to 6 percent in the mid-seventies, but have since risen to 20 percent of state-local pension fund assets.

Recent reports have pointed to increased interest by public pension plans in real estate mortgages as an investment outlet for plan assets. The data, however, do not indicate any proportionate increase, at least as yet, in this type of asset. Mortgages constituted 7 percent of fund holdings in 1975 and 1976. Following a temporary rise to 9 percent in 1977, the proportion dropped back to 7 percent for all succeeding years. Mortgage holdings of these pension funds totaled $15.1 billion in 1981, up from $12.8 billion in 1980.

The tables on pages 3 and 4 provide further details.

Receipts of State and Local Employee Retirement Systems by State
Fiscal Year 1981

	Amount (millions)				Percent of total receipts		
State	Total receipts	Employee contributions	Government contributions	Earnings on investments	Employee contributions	Government contributions	Earnings on investments
TOTAL	$43,441.5	$7,288.8	$20,120.1	$16,132.5	17	46	37
Alabama	477.5	93.1	226.9	157.4	19	48	33
Alaska	257.0	45.6	117.6	93.7	18	46	36
Arizona	487.4	135.4	153.5	198.5	28	31	41
Arkansas	257.8	37.3	129.7	90.8	14	50	35
California	7,496.4	1,222.6	3,599.0	2,674.8	16	48	36
Colorado	562.8	126.1	210.4	226.3	22	37	40
Connecticut	585.6	87.3	323.8	174.5	15	55	30
Delaware	128.7	9.7	61.7	57.3	8	48	45
Florida	1,012.9	44.4	603.9	364.6	4	60	36
Georgia	768.2	179.1	317.2	271.9	23	41	35
Hawaii	241.5	63.0	80.5	98.0	26	33	41
Idaho	137.6	27.8	57.4	52.4	20	42	38
Illinois	2,199.8	555.9	849.2	794.7	25	39	36
Indiana	404.1	76.6	222.2	105.3	19	55	26
Iowa	341.9	51.4	145.8	144.7	15	43	42
Kansas	300.8	60.6	116.6	123.7	20	39	41
Kentucky	417.6	100.6	175.6	141.3	24	42	34
Louisiana	664.0	189.3	271.5	203.2	29	41	31
Maine	160.9	36.0	77.1	47.7	22	48	30
Maryland	653.3	117.1	318.2	218.0	18	49	33
Massachusetts	966.5	255.5	485.2	225.8	26	50	23
Michigan	1,685.8	77.2	876.4	732.2	5	52	43
Minnesota	771.1	160.8	284.5	325.8	21	37	42
Mississippi	272.9	74.2	113.6	85.1	27	42	31
Missouri	626.3	110.6	240.9	274.8	18	38	44
Montana	139.3	38.0	58.0	43.3	27	42	31
Nebraska	92.7	22.4	30.7	39.7	24	33	43
Nevada	171.3	18.2	68.6	84.5	11	40	49
New Hampshire	63.2	20.7	15.1	27.4	33	24	43
New Jersey	1,078.4	246.7	425.8	405.9	23	39	38
New Mexico	207.8	61.9	66.1	79.8	30	32	38
New York	6,794.0	244.6	3,795.6	2,753.8	4	56	41
North Carolina	863.9	203.3	288.7	371.9	24	33	43
North Dakota	54.7	16.0	17.5	21.2	29	32	39
Ohio	2,543.9	605.6	1,020.1	918.2	24	40	36
Oklahoma	367.6	54.1	206.3	107.3	15	56	29
Oregon	418.0	108.4	203.6	106.0	26	49	25
Pennsylvania	2,039.6	353.4	989.7	696.5	17	49	34
Rhode Island	143.1	34.7	58.2	50.2	24	41	35
South Carolina	421.6	99.3	138.0	184.3	24	33	44
South Dakota	71.0	19.9	22.3	28.8	28	31	41
Tennessee	625.8	111.6	292.5	221.8	18	47	35
Texas	2,092.0	499.3	852.0	740.0	24	41	35
Utah	220.0	76.6	85.2	58.2	35	39	26
Vermont	70.1	17.4	23.8	28.9	25	34	41
Virginia	646.3	126.0	267.6	252.7	19	41	39
Washington	905.7	200.7	366.3	338.7	22	40	37
West Virginia	197.1	56.4	78.3	62.4	29	40	32
Wisconsin	1,086.9	82.8	408.1	596.0	8	38	55
Wyoming	64.8	12.6	24.8	27.4	19	38	42
Dist. of Columbia	184.2	20.8	158.7	4.6	11	86	3

Source: Department of Commerce, Bureau of the Census, Governments Division; and Tax Foundation computations.

Currently Available

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Unemployment Insurance: Trends and Issues, Research Publication No. 35, 88 pages, $5.00. Summary, 8 pages, free.

"The Classified Real Property Tax," Research Bibliography No. 70, 10 pages. Single copies free.

"Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1982," 5 pages. Single copies free.

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34th Conference

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appraisal of the amendment. William A. Niskanen, Jr., member of the President's Council of Economic Advisers, will provide the Administration's viewpoint. Dr. Hendrik S. Houthakker, Professor of Economics, Harvard University, will also present a paper on the amendment.

Further details of the program, including the luncheon speaker, will be announced in the October issue of *Monthly Tax Features*.