

A STAFF REPORT

*Measures of State
and Local Fiscal
Capacity and
Tax Effort*

THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

OCTOBER 1962

M - 16

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Frank Bane, *Chairman*

Don Hummel, *Vice Chairman*

John Anderson, Jr., *Governor of Kansas*

Richard Y. Batterton, *Mayor, Denver, Colorado*

Neal S. Blaisdell, *Mayor, Honolulu, Hawaii*

Howard R. Bowen, *Citizen Member, Grinnell, Iowa*

*Anthony Celebrezze, *Mayor, Cleveland, Ohio*

Edward Connor, *Supervisor, Wayne County, Michigan*

C. Douglas Dillon, *Secretary of the Treasury*

Michael V. DiSalle, *Governor of Ohio*

Clair Donnenwirth, *Supervisor, Plumas County, California*

Robert B. Duncan, *Speaker, House of Representatives, Oregon*

Mrs. Florence P. Dwyer, *Member of the House of Representatives*

Sam J. Ervin, Jr., *Member of the Senate*

L. H. Fountain, *Member of the House of Representatives*

**Arthur J. Goldberg, *Secretary of Labor*

Ernest F. Hollings, *Governor of South Carolina*

Eugene J. Keogh, *Member of the House of Representatives*

Karl E. Mundt, *Member of the Senate*

Edmund S. Muskie, *Member of the Senate*

Arthur Naftalin, *Mayor, Minneapolis, Minnesota*

Graham S. Newell, *State Senator, Vermont*

John E. Powers, *President, State Senate, Massachusetts*

***Abraham A. Ribicoff, *Secretary of Health, Education, and Welfare*

Robert E. Smylie, *Governor of Idaho*

Vacancy, *County Official*

Vacancy, *Mayor*

Wm. G. Colman, *Executive Director*

*Term expired July 27, 1962.

**Term expired September 20, 1962.

***Term expired July 12, 1962.

**MEASURES OF
STATE AND LOCAL
FISCAL CAPACITY
AND
TAX EFFORT**

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

OCTOBER 1962

M-16

PREFACE

This staff study explores alternative approaches to two quantitative measures useful in evaluating intergovernmental tax and grant-in-aid policies: (a) The relative capacities of States and their local governments to finance governmental programs out of their own tax resources, generally designated as State-local fiscal capacity; and (b) the extent to which State and local governments actually utilize their fiscal capacity, i.e., the comparative tax effort they are presently making.

The Commission's concern with these measures stems in part out of its responsibilities in the area of Federal grants-in-aid and in part out of its interest in State and local tax policies and practices. Under Public Law 86-380, 86th Congress, the Advisory Commission is required, among other duties, to—

“(1) bring together representatives of the Federal, State, and local governments for the consideration of common problems;

“(2) provide a forum for discussing the administration and coordination of Federal grant and other programs requiring intergovernmental cooperation;

“(3) give critical attention to the conditions and controls involved in the administration of Federal grant programs.”

At its third meeting held on May 25, 1960, the Commission discussed the question of whether a measure of fiscal capacity for purposes of grant-in-aid distribution could be developed which would be more accurate and equitable than State per capita income.

However, in directing its staff to undertake a pilot study of improved measures of fiscal capacity and tax effort, the Commission had no expectation of developing a set of numbers which would be immediately usable for the distribution of Federal grants-in-aid to States, or in the distribution of State aid to local governments, or in the shaping of State tax programs. Consequently, the scope of this document is more limited. It seeks to focus attention on the complex set of problems implicit in such questions as: How can the ability of a State to raise revenue be compared with that of its neighbors? How best to measure one State's effort to tax itself with the comparable efforts made by other States?

Considerable work was done in this area about two decades ago. Relatively little has been added since that time. During the interval a substantial body of relevant new economic data has been developed. During the interval, also, the volume of intergovernmental financial aids and the level of State and local taxation increased substantially. These

developments have enhanced the importance of devising measures of fiscal capacity and tax effort. At the same time, however, they have augmented the building blocks with which such measures might be constructed.

The present study draws upon this larger body of information—on the distribution of economic and tax resources among the States and on the structure of State and local tax systems—in assessing various facets of fiscal capacity and tax effort. It develops alternative approaches to their measurement, identifies the differences between them, underscores their respective limitations, and pinpoints the very substantial areas which require further research.

The issue of how most equitably to distribute Federal and State grants-in-aid is a most provocative one and the measurement of fiscal capacity and tax effort is central thereto. Therefore, readers of this report are urged to view the work described herein critically, to voice their doubts and reservations and lend their assistance to the improvement of yardsticks for measuring State and local fiscal capacity and tax effort. The direction of further work on this subject will necessarily be influenced by these reactions.

This is a staff information report to be distinguished from the Commission's own reports on substantive policy issues. It contains no recommendations or policy conclusions. None should be read into it.

Publication of the report as a staff document was approved by the Commission at its meeting on May 5, 1962.

WILLIAM G. COLMAN,
Executive Director.

ACKNOWLEDGMENTS

The staff work for this report was conducted by Selma J. Mushkin, senior analyst, and Alice M. Rivlin, analyst, with the assistance of Frank Tippett and Elizabeth David. In developing the report, Drs. Mushkin and Rivlin benefited from assistance and advice generously provided by several individuals and organizations. The Commission desires to express its appreciation to Harvey Brazer, Gerhard Colm, Charles Conlon, Thomas Leahey, Allen Manvel, Joseph Pechman, Chester Pond, Carl Shoup, William Vickrey, and Reuben Zubrow, who served as members of a technical advisory group to counsel and guide the staff at various stages of this undertaking. In addition, I. M. Labovitz, Dick Netzer, Lynn Stiles, and Ronald Welch acted as consultants on special taxation problems. The Commission records its appreciation also to the Governments Division, Bureau of the Census and the Office of Business Economics of the Department of Commerce and to the National Planning Association for the technical help of their staffs.

L. L. ECKER-RACZ,
Assistant Director.

CONTENTS

	Page
Preface	iii
Acknowledgments	v
Tables	viii
Illustrations	x

PART I

CHAPTER 1. CONCEPTS OF FISCAL CAPACITY AND TAX EFFORT	3
What is Fiscal Capacity?	4
Income as a gage of fiscal capacity	5
Tax yields as a gage of fiscal capacity	6
Fiscal capacity and revenue requirements	9
What is Tax Effort?	10
CHAPTER 2. INCOME FLOWS AND CAPACITY	13
Personal Income	13
Deduction of Federal taxes	15
Farm income	19
Corporate income	21
Capital gains	21
Government and nonprofit institutional income	21
"Other labor income" and transfer payments	21
Family and Individual Income	22
Distribution of Income	23
Income Produced	23
A Composite Index	29
CHAPTER 3. THE REPRESENTATIVE TAX SYSTEM APPROACH	31
Inclusion of Particular Taxes	32
Representative Tax Rates	33
Estimating the Tax Bases	45
Property taxes	45
General sales and gross-receipts taxes	46
Motor-fuel taxes	47
Tobacco taxes	47
Alcoholic beverage taxes	47
Public utility taxes	48
Amusement taxes	48
Insurance premium taxes	48
Individual income tax	48
Corporate income tax	49
Estate and inheritance taxes	50
Motor vehicle taxes and operators' licenses	50
Severance taxes	50
Document and stock transfer taxes	50
Miscellaneous taxes	51

	Page
CHAPTER 4. VARIATIONS IN CAPACITY AMONG STATES.....	53
Comparison of Personal Income and Family Income.....	53
Comparison of Income Produced and Personal Income....	53
Yield of a Representative Tax System and Personal Income..	56
The Property Tax Base and Personal Income.....	56
Effect of Alternative Estimates of Property Values.....	67
Nonproperty Tax Bases and Personal Income.....	67
CHAPTER 5. VARIATIONS IN TAX EFFORT AMONG STATES.....	73
Allocation of Resources to the Public Sector.....	73
Public Expenditure Requirements.....	73
Methods of Financing.....	74
Tax Severity and Tax Effort.....	74
Variations in Tax Effort Rankings.....	77
States With High Tax Effort.....	77
States With Low Tax Effort.....	80
The Limitations of Tax Effort Indexes.....	85
CHAPTER 6. SUMMARY OF FINDINGS.....	87
The Tax Source or Income Approach.....	87
The Tax Base or Representative Tax System Approach....	88
Findings.....	89
Issues Raised with Reference to Grants, etc.....	91

PART II

APPENDIX A. Measuring Capacity Relative to Budget Loads and Price Variations.....	97
APPENDIX B. Methods of Estimating Selected Tax Bases.....	107
APPENDIX C. Tax Effort and the Use of Specific Tax Resources.....	123

TABLES

1. Per Capita Personal Income, by State, 1959, 1960, and 1961.....	14
2. Composition of Personal Income, by State, 1960: Percentage Distribution.....	15
3. Industrial Sources of Civilian Income Received by Persons for Participation in Current Production, by State, 1960: Percentage Distribution..	17
4. Total Personal Income, Personal Income After Federal Payments and Disposable Income, by State, 1959: Per Capita as a Percent of U.S. Average.....	19
5. Percentage of Families and Unrelated Individuals in Each State With Less Than Specified Incomes, 1959.....	20
6. Percent of Total Number of Families and Unrelated Individuals and Percent of Total Income Accounted for by Specified Income Groups, by State, 1959.....	24
7. Income Produced, by Source, by State, 1957: Percentage Distribution..	26
8. Per Capita Income for Selected Income Series, by State, 1959.....	27
9. State and Local Tax Collections, by Source, 1960.....	34
10. State and Local Tax Collections, by Source, by State, 1960.....	35
11. State and Local Tax Collections, by Source, by State, 1960: Percentage Distribution.....	37
12. Summary of Tax Rates Used in Representative Tax System.....	39
13. Estimated Yield of Representative Tax System, Total and Selected Taxes, by State, 1960.....	39

Table	Page
14. Estimated Yield of Representative Tax System, by Type of Tax, by State, 1960: Percentage Distribution	41
15. Estimated Yield of Representative Tax System, by State, by Type of Tax, 1960: Percentage Distribution	42
16. Selected Income Series in 1959, and Actual Tax Collections and Estimated Yield of Representative Tax System in 1960, by State	54
17. Total, Property, and Nonproperty Tax Yield Under Representative Tax System, by State, 1960	60
18. Ratio of Estimated Property Values to Personal Income and Income Produced, by State, 1959	62
19. Estimated Market Value of Taxable Property, by Type, by State, 1959, Percentage Distribution	64
20. Ratio of Nonfarm Residential Property Values to Personal Income, by State, 1959	64
21. Ratio of Estimated Nonresidential Property Values to Personal Income and Income Produced, by State, 1959	66
22. Comparison of Personal Income and Estimated Nonproperty Tax Yield of Representative Tax System, by State, 1960	68
23. Total and Taxable Estimated Retail Sales as a Percent of Personal Income, by State, 1959	71
24. Tax Effort Indexes—Actual Tax Collections in 1960 as a Percent of Selected Income Series in 1959 and of Yield Under Representative Tax System, by State	75
25. States Arrayed in Order of Tax Effort Indexes	82
26. Population, by Age, by State: 1960: Percentage Distribution	98
27. Ratio of Dependent Population to Working Age Population, by State, 1950 and 1960	99
28. Percentage of State and Local Direct General Expenditures Spent for Education, Public Welfare, and Health and Hospitals, by State, 1960	100
29. Percentage Increase or Decrease (—) in Population, by Age, by State, 1950 to 1960	101
30. Population, by Age, as an Index of Public Beneficiary Loads, by State, 1960	102
31. Total Population in 1960 and Families With Incomes Below Specified Levels in 1959, by State: Percentage Distribution	103
32. State Sales Taxes: Types and Rates	113
33. Variables Used in Estimating Corporate Income, by State, 1959	120
34. Estimated Corporate Income and State Corporate Income Tax Base, by State, 1959	121
35. Use of Selected Tax Levies by States With High Effort (10 Percent or More Above U.S. Average)	124
36. Use of Selected Tax Levies by States With Low Tax Effort (10 Percent or More Below the U.S. Average)	124
37. Property Taxes by State: Effective Rates, Estimated Base, and Actual and Hypothetical 1960 Collections	125
38. Comparison of Per Capita Tax Collections and Per Capita Yield of Representative System, for Selected Taxes, by State, 1960	126
39. Number of States Using Various Taxes: Distribution According to Percentage of Tax Revenue Obtained From Each Tax, 1960, State Taxes Only	129
40. Effective Property Tax Rates on All Taxable Property, Single-Family Dwellings, and Farm Real Estate as a Percent of the United States Average Rate, by State	130

Table	Page
41. Effective Property Tax Rates on Single-Family Dwellings and on Farm Real Estate, by State, 1957	131
42. Per Capita Personal Income and Effective Property Tax Rates on Single-Family Dwellings, by Region	132
43. Effective Rates of General Sales Tax, Alcoholic Beverages, and Tobacco Products, by State, 1960	133
44. Effective Rates of Levies on Motor Vehicles and Motor Fuel, by State, 1960	135
45. Individual Income Tax Yield, Actual and Under Representative Tax System in 1960 as a Percent of Adjusted Gross Income, by State	138
46. Estimated Yield of Individual Income Levies, Under Alternative Standard Systems, by State, 1960	140
47. Individual Income, Total Sales, and Gross Receipts Taxes: Actual Collections and Yield of Representative System as Percents of Disposable Income, Personal Income Less Federal Tax and Nontax Payments, and Retail Sales and Services, by State	142
48. Income Amounts for Selected Income Series, by State, 1959	144
49. Estimated Yield of Representative Tax System, by Source, by State, 1960	146
50. Actual Tax Collection and Estimated Yield of Representative Tax System for Miscellaneous Taxes, by State, 1960	148
51. Yield of Representative Tax System as a Percent of Personal and Composite Income, by State	150

ILLUSTRATIONS

Figure	
1. State and Local Tax Collections, 1960	8
2. State and Local Tax Yields Under Representative Tax System, 1960	44
3. States With Lowest Capacity	57
4. Comparison of Per Capita Income and Yield of Representative Tax System	58
5. States With Highest Capacity	59
6. Ratio of Taxable Property Values to Personal Income	63
7. Per Capita Retail Sales in Selected States	70
8. States With Above-Average Tax Effort	78
9. States With Below-Average Tax Effort	79
10. Effective Property Tax Rates, 1960	81
11. Taxable Capacity, Personal Income and Income Produced	90
12. Sales and Income Taxes as Percent of Disposable Personal Income	92

PART I

Chapter 1

CONCEPTS OF FISCAL CAPACITY AND TAX EFFORT

Fiscal capacity is a quantitative measure intended to reflect the resources which a taxing jurisdiction can tax to raise revenue for public purposes. Tax effort is a closely related measure quantifying the extent to which a government actually uses its capacity to raise revenue through taxation.¹

The capacity of a people to contribute to the support of their government is determined by many factors including the population's total resources—its income, wealth, business activity, etc.; the demands made upon these resources, including those made upon them by other governmental jurisdictions; the quantity and quality of governmental services provided and the importance the people assign these services as compared with their private wants. The evaluation of some, probably most of these factors, involves subjective judgments particularly for governments which function with the consent of the governed. The level of taxation a people deems to be reasonable and its political leadership finds acceptable depends, in addition to the factors cited, upon innumerable less tangible elements of time and circumstance. The willingness to pay taxes is likely to be enhanced if the tax instrument, with its level of tax rates, is re-

¹ Throughout the following discussion we have ignored revenue sources other than taxation, although not all State and local revenues come from taxes. Other sources of locally raised revenue include service charges, insurance trust fund receipts, and income from proprietary activities such as the sale of public utility services. These other sources account for about a quarter of all government revenues, and are expanding. In addition, States and localities have access to long-term borrowing for financing part of their capital outlays.

garded as fair and conforms with familiar established institutions; if the public need for the program is acute, as in an emergency; and if the governmental program has widespread public support.

Taxable capacity is difficult, probably impossible, to assess in absolute terms, except possibly with benefit of an endless number of specifically identified assumptions. Our interest here, however, is not in measuring the absolute fiscal capacity of States or local governments to finance public functions, but only in estimating their relative capacities. How does the ability to contribute to government in one State or one city compare with the corresponding ability in another? We are seeking to identify some dependable guidelines or yardsticks because they are required for a variety of purposes. These include the development of State and local tax programs, budget projections, and intergovernmental comparisons for guiding the allocation of Federal financial aid among the States and of State financial aid among local governments.

This Commission's interest in the measurement of fiscal capacity and tax effort grows out of its interest in the allocation of Federal and State grants and the need for yardsticks to facilitate interstate fiscal comparisons.

Federal aids to State and local governments (from budget and trust accounts) are approaching an annual level of \$10 billion. They now provide about one-seventh of general revenues available to State and local governments. In connection

with most of these grant programs the question is often raised whether or not their distribution among the States should take into account variations in the fiscal capacities of the States, in their ability to finance governmental services out of their own resources, and, if so, how this capacity should be measured. A number of Federal grant programs now in operation use personal income of the residents of the State as a measure of State capacity.

Parallel considerations arise with regard to the relationship of the taxable capacity of local governments to the financial aid provided by State governments. State financial aid to local governments, financed in part from Federal aid to States, topped \$9 billion in fiscal year 1960 and currently probably exceeds \$10 billion by a substantial margin. Governors and State legislators are seeking for tools with which to evaluate the distribution of State aid among their numerous political subdivisions in terms of their relative capacities to help themselves from their own local resources.

Measures of fiscal capacity and tax effort are helpful also to State and local officials and citizens' groups concerned with types and levels of taxation. When a State's general tax policy is subjected to review some of the first questions usually raised are: How does our State compare with its neighbors in fiscal capacity? How do our tax revenues compare with tax revenues in States with similar capacity or similar economic structure? When specific changes in tax bases or tax rates are contemplated—particularly the imposition of a new tax—interstate comparisons are frequently made. Answers are requested to questions like: What is the size of the actual or potential tax base in our State? To what extent is this base taxed in other States? How much revenue could be raised if we taxed the base at the effective rates prevailing in neighboring (or similar) States?

State and local governments have need for estimates of fiscal capacity to enable them to predict future tax revenues and public service demands. Answers are needed to questions like: Will present State and local revenue systems be adequate to meet expected demands for public expenditures in the future? What levels of tax rate are in prospect assuming continuation of existing programs? Are shifts to new financing methods indicated? Answering these questions requires estimating both future demands for public expenditures and future tax revenues.

What is Fiscal Capacity?

There are essentially two approaches to answering the question: How does the fiscal capacity of one State compare with that of other States? One approach looks to the economic indicators, notably to measures of income in the State out of which State and local taxes can be paid and compares it with the income of other States. The other approach is to evaluate the taxable resources—the tax bases—available within a State; to estimate the amount of revenue they would produce if subjected to various levels of taxation; and to compare these results with comparable calculations for other States.

We treat these as separate approaches although they tend to merge into one another. The economic indicator of most general applicability is income, but, as subsequent discussion makes clear, income measures can be refined in diverse ways to make them more meaningful as indicators of fiscal capacity and most such refinements are steps in the direction of conformity with the definition of the base of some particular kind of tax. Conversely, a combination of tax bases is likely to include economic indicators such as property, income, business receipts, or retail sales, because they serve as

the basis for the kinds of taxes employed by State or local governments.

Income as a gage of fiscal capacity. Taxes are generally paid out of current income. Unless a community is drawing down its capital stock, its income is a measure of its capacity to meet both public and private needs.

For the country as a whole the total value of currently produced goods and services available for public and private uses can be measured either as total net income received by (or accruing to) individuals, or as the value of total net product. These two measures are identical nationally, since the income accruing to individuals equals the value of their product. However, the two measures need not be, and indeed are not, the same for individual States, since income is not necessarily received where the product is produced.

The personal income estimates prepared in the Office of Business Economics of the Department of Commerce are the most comprehensive measures of income received now available on a State-by-State basis. They serve a wide range of purposes for which regional economic indicators are needed. Important among these are their use in some Federal grants-in-aid programs as an element in determining the allocation of funds, and their application by State officials in developing estimates of revenue for State budgets. In its most recent report on *Revenue Estimating* (p. 10) the Federation of Tax Administrators states, "Since the level of State revenue is determined principally by what people spend and what they earn, the two aggregates used most frequently in the revenue estimating process are the personal income and disposable personal income series * * *"

State personal income data are employed also in evaluation of tax programs of the States, as fairly standard indicators of rela-

tive capacity against which to measure tax effort. Most State tax study groups use the relationship of tax collections to personal income as a yardstick in appraising tax effort and the potential for additional taxation. Moreover, increasingly State personal income data are being adopted as a framework for estimates of income by counties, to supplement the information on local fiscal capacity provided by statistics on the value of taxable property.²

As an alternative to measuring income where it is received, one can, at least in theory, measure income where it is produced and use this as a yardstick of fiscal capacity. One way to measure income produced by States is to aggregate the value added to current production by the stages of production which occur in each State. Thus only a portion of the value of an automobile coming off the assembly line in Detroit represents income produced in Michigan—a large portion represents value added by producers of steel in Indiana, rubber in Ohio, etc.

The operations of interstate corporations are complex, however, and the assignment of their product or income to particular States, except on a where-paid-out basis, poses difficult measurement problems.

Is income produced in a State a better measure of taxpaying capacity than personal income received? Not necessarily. State and local taxes are of many kinds and fall on both the sources and the uses of income. Income is taxed as it is received in the form of wages and salaries, interest and dividends. Income is taxed as it is used for consumption via general sales and excise taxes. In addition, income is taxed as it is produced. For example, State and local

² Where the local government is limited to property taxation, the value of taxable property is the most relevant indicator of fiscal capacity. Increasingly, however, local governments are reaching out for other tax sources.

governments impose taxes on the extraction of natural resources and on production at situs.

States individually can do something which collectively they cannot do. Because of the free movement of goods and services across State boundaries, States can "export" their taxes. This means that though the tax is imposed in one State it in fact reduces the income of someone residing in another State. There are a number of ways in which this can be accomplished. The most obvious example is a business tax imposed at the site of production. The individuals who lose income as a result of this tax may be the employees who suffer reduction in wages and salaries, the owners of the business who lose profits, or the consumers of the product who must pay a higher price, depending upon the incidence of the tax. If the people whose income is thereby reduced reside in States other than that in which the business is located, the tax has been "exported."

The result of exported taxes is that the residents of States or localities whose taxes are exported enjoy the services provided by the revenue from the exported tax without having to pay for them.³

If all States, in an effort to export their taxes, derived revenue mainly from taxes on production, then income produced would certainly be a better measure of capacity than income received. But States are unable to do this and must rely heavily on nonexportable taxes as well. One constraint on exported taxes is retaliation by other States. Each State necessarily must look at the tax policies of its neighbors, for interstate tax competition is a familiar restriction on State fiscal operations. Another con-

straint is interstate mobility. If taxes on industry are too high, the owners of the industry may be tempted to move it to another State with more favorable industrial taxes. Thus the tax base on which the exported tax is levied may be moved. Purchases may be similarly mobile. Tourists, for example, may fill their gasoline tanks before entering and just after leaving the State with particularly high gasoline taxes.

The extent to which States actually do export taxes was studied some years ago.⁴ The results indicate that, although all States export part of their taxes, by and large, tax imports balance tax exports. The States for which this was found not to be true are those with large mineral resources. By tapping their resources through business taxes, including property levies and severance taxes, these few States manage to export more taxes than they import.

Tax Yields as a gage of fiscal capacity

Although taxes are generally paid out of the income stream at some point, individual income is by no means the only (or even the principal) basis on which State and local taxes are assessed. Indeed, the tax which yields the greatest amount of revenue to State and local governments in the aggregate is the property tax—a tax based not on income, but on certain forms of wealth. Property, family income, business transactions, consumption of a wide variety of products or of special commodities such as gasoline and tobacco, production, and corporate income are some of the major bases taxed in varying degrees under existing State and local tax laws.

The same types of tax bases are not uniformly available to all the States. States

³ It is conceivable, of course, that in special situations the revenues from these taxes are utilized in whole or in part to cover the cost of governmental services provided to the taxed industry itself.

J. Wilner Sundelson and S. J. Mushkin, *The Measurement of State and Local Tax Effort*, Social Security Board, Bureau Memorandum No. 58, June 1944.

with extensive natural resources use severance levies to retain within their borders a part of the income derived from these resources. Minnesota taxes its iron ore output; Texas and Oklahoma their petroleum and natural gas output. New York, with its concentration of security markets, imposes a levy on stock transfers. Delaware, with its large incorporating business, raises an appreciable amount of revenue from corporation franchise taxes. Kentucky, with its large bourbon production, is able to derive considerable revenue from the taxation of liquor products.

If by "capacity" we mean the potential ability of States and localities to raise revenue through taxation, a direct measure of this potential is the comparative yield of a uniform tax system in each State. If the uniform system reflects the present State and local tax structure, its yield will not necessarily correspond closely to personal income. For, although the Federal Government relies heavily on the individual income tax for revenue, the States (and the local units within them) rely primarily on property and consumer taxes whose yields may not be closely related to the level of personal income. In fiscal year 1960, individual income taxes provided only 7 percent of State and local tax collections. These considerations suggest that it would be instructive to develop measures of taxable capacity which reflect the potential yields of the types of taxes on which State and local governments actually rely in raising revenue.

A major problem in using the revenue yield estimates of a uniform tax system as the gage of fiscal capacity revolves around the composition of that tax system. What kinds of taxes should be included and how much weight should each be assigned? While the 50 States generally use many of the same kinds of taxes, they use them in different combinations with infinite vari-

ations in detailed provisions. One-third of the States do not impose a general sales tax; one-third do not tax personal income; some tax both and some tax neither and no two of the sales or income taxes are exactly alike. Even greater variations prevail in the selected business taxes.

These variations in tax structure are the result of each State's accommodation to its own combination of economic, political, and social factors—an accommodation which ultimately produces a unique tax structure in each State. The States of Washington and Hawaii rely heavily on consumer taxes; Delaware and Oregon on income taxes; New Jersey and Nebraska on property taxes; Alabama on business licenses; Texas and Louisiana on severance taxes. Variations in tax administration introduce additional differences, especially striking in property taxation.

Beyond the selection of taxes to be included in the tax system employed for measuring relative tax capacity is the question of weight to be given the various bases and taxes when combining them into a single index. Among the weighting systems which have been used or suggested are the following: (1) The different bases can be weighted in proportion to the revenue derived from them by State and local governments as a whole (fig. 1). This is the weighting system employed in the "representative tax system"—a yardstick described in chapter 3 of this report; (2) alternatively, the bases can be weighted by applying to all States the average effective tax rates of the States actually imposing each type of tax; and (3) finally, some ideal or hypothetical tax rate structure can be used.

For purposes of the yardstick which we call the representative tax system, we have defined the relative taxable capacities of the States (including their political subdivisions) as the amount of revenue they could

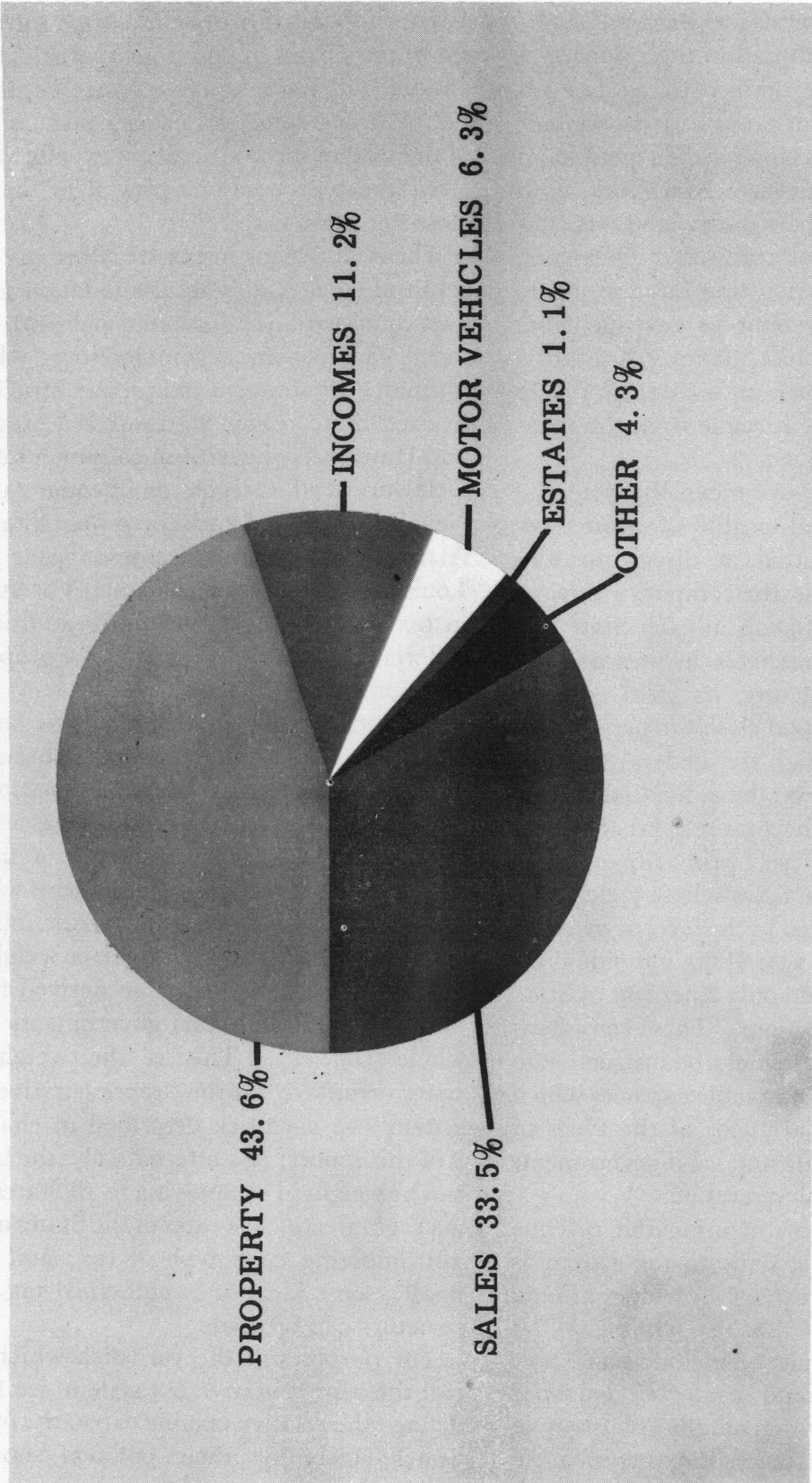


Figure 1. State and Local Tax Collections, 1960

One Capacity Index Is the Yield of a Representative State and Local Tax System. It Relies on the Different Taxes in Proportion to Their Present Contribution to Aggregate Collections.

raise (relative to one another) if all employed an identical tax system, one which represents the average of currently employed State-local tax structures. More specifically, we proceeded as follows. (1) We identified the taxes (including their principal provisions) presently in common use by State and local governments. (2) For each such tax we made estimates of the tax base (uniformly defined) in all States, including those States which do not now employ this type of tax. The term "tax base" is the quantitative measure of the object, activity, etc., to which the tax applies; i.e., the value of taxable property for the property tax, the amount of sales of goods and services for the general sales tax, the number of packs of cigarettes sold for the tobacco tax, the distribution of personal incomes for the individual income tax, etc. (3) We fixed the rate of each of the taxes included in the representative tax system at a level which, when applied to the base of the particular tax, produced an amount of revenue for the States in the aggregate which was approximately equal to the total collections in all the States for this type of tax in the fiscal year 1960. We term this yardstick the representative tax system because it represents a cross section of the tax practice which currently exists in the States, including their local governments.

Fiscal capacity and revenue requirements. We have identified the fiscal capacity of a State with the resources (measured by income or the yield of some combination of taxes) available to the State for public expenditures. But little interest attaches to capacity, as such, unrelated to public needs. An important reason for developing a measure of capacity is to provide answers to questions like: How adequate is the capacity of State A to meet its needs? or how do States A and B compare in capacity to meet public expenditure requirements?

To answer these questions we need a measure of State needs as well as State capacity.

To make interstate comparisons of expenditure requirements, it is necessary to define these requirements. Should our comparison be on the basis of a uniform level of service for all persons in the United States? If so, which services? Should it be only those services which are presently provided in all the States? If so, in some average amount or some ideal amount?

One common procedure—adopted for convenience in this report—is to express capacity on a per capita basis. For example, when personal income is used as a measure of fiscal capacity, comparisons between States are often stated in terms of personal income per capita. This implies that a State's public expenditure needs vary directly with its population. If State A has twice as much personal income as State B, but also twice as many people, the capacities of the two States to meet public needs are assumed to be roughly the same.

The use of total population as the sole indicator of needs for public services clearly leaves much to be desired. Among other things, the age distribution of the population affects public expenditure requirements, since relatively large amounts of public funds normally go to educate the young and assist the elderly. Furthermore, States with great concentrations of population in urban centers have larger budgetary requirements than sparsely populated States.

One possibility is to take as our measure of the needs of all the States the types and amounts of services provided to more than half the population of the United States. We can thus make interstate comparisons of fiscal capacity assuming that all the States will provide those services which most of the population currently receives and that the amounts spent to provide those

services will be some average of what is presently spent in the United States. This procedure, too, has serious deficiencies for variations in the quantity and quality of local and State services, reflecting the will of the particular electorate, is one of the hallmarks of democracy. However, for purposes of guiding the distribution of financial aid from a higher level of government, this kind of consideration can perhaps be disregarded.

Another method of taking account of the differences in the needs of the various States is to set up some yardstick of ideal levels and types of services. For example, it might be assumed that every school-age child in the United States should be entitled to 12 years of education at public expense whose quality is determined by some minimum expenditure per child. Similarly, the need for expenditures on fire or police protection might be determined by value of residential and industrial property in the State. In setting up an ideal measure of each State's needs, consideration would have to be given to which services should be provided (and this may vary by State or region) and in what amounts.

It might be noted that in the last analysis our judgment as to the level of service will have to assume that quality and amount spent for the service are synonymous. The relationship between measures of capacity and need is considered in more detail in appendix A.

What is Tax Effort?

Tax effort can be defined as the extent to which a given State makes use of its fiscal or taxable capacity. If two States have the same fiscal capacity (however this capacity is measured), but State A collects more tax revenues than State B, then State A may be said to be making a greater tax effort. For purposes of this definition it is not relevant

that State A is able to export a large portion of its taxes to other States. All taxes paid to A are counted as part of A's tax effort, since they represent a use of A's available fiscal capacity. This is the sense in which tax effort is used in this report.

One might also be interested in comparing the tax burdens borne by the residents of different States. Estimates of relative tax burden answer the question: How much sacrifice do the residents of State A have to make compared to those of State B in order to maintain a given level of public expenditures? A measure of tax burden should relate the taxes paid to a State by its own residents to some measure of their ability to pay.

As an approximate measure of ability to pay one might use per capita personal income after deduction of Federal taxes and of minimum necessary personal expenditures, but further refinements would be useful. In particular, consideration should be given to the distribution of personal income within the various States. Two States with the same average per capita incomes and average per capita tax collections may be said to have the same capacity and tax effort. However, the tax burdens imposed on groups of individuals in the same or similar economic circumstances may be very different because income is differently distributed within the two States. In one State there may be a cluster of families at each end of the income scale. In the other, incomes may be more evenly distributed.

In addition, one might wish to consider the tax burdens falling on particular groups in the economy. Individuals might be classified and compared by the amount of their income, the source of their income, or the uses of their income. Such a comparison would involve rich versus poor, wage earners versus investors, those whose income is used primarily for consumption versus

those who devote a large part of their income to various forms of saving. Such measures would consider questions like: Is greater burden involved if a given amount of money is raised from the top 10 percent of the income distribution than if it is raised proportionately from all groups; if raised from a tax on wages than from capital gains; if raised from a tax on producers of automobiles than from corner druggists; if it is raised from users of tobacco and alcohol than if raised from general sales?

Finally, it should be remembered that for some purposes measures of the burden of taxation are not very useful in themselves unless coupled with measures of the benefits conferred by the corresponding public expenditures. Only if estimates of the burdens borne and benefits received by various groups in the population can be developed is it possible to draw definitive conclusions about the net effect of governmental programs on the welfare of the community as a whole and of its constituent groups. Those whose concern with relative fiscal capacity is associated with the allocation of financial aid among States or local governments will be concerned more with the relationship of fiscal capacity and tax effort to the requirements for financing a foundation level of benefits (in education, public welfare, public health, etc.) rather than with total requirements for these programs. This is especially true if the objective of the particular grant is to insure that the recipient jurisdiction's revenues from its own sources together with the grant are adequate to pro-

vide a basic level of service deemed essential in the national or State interest.

It should also not be forgotten that benefits as well as taxes can be exported—through the provision of public services to residents of other States (tourists, for example) or through the emigration of the State's residents who have benefited from public services (such as education and health services) by increasing their productive capacity. This is but another way of saying, as has been said already, that different purposes call for differently constructed measures of fiscal capacity and tax effort.

In the chapters which follow we explore in detail alternative approaches to the measurement of the relative fiscal capacities of the States, including their subdivisions. We treat States together with their local governments because the wide variations in the division of responsibilities and revenue resources between State and local governments would make interstate comparisons on any other basis meaningless.

The next chapter explores indexes of capacity based on income. This is followed in chapter 3 by the development of indexes reflecting the estimated yield of a representative tax system. These two approaches are then contrasted and analyzed in chapter 4. Measures of tax effort based on these indexes of capacity are assessed in chapter 5. The overall findings are summarized in chapter 6.⁵

⁵ Because figures are rounded to the nearest even number, the detail in some of the table columns does not add to the total.

Chapter 2

INCOME FLOWS AND CAPACITY

Analyses of the fiscal capacity of governmental jurisdictions conventionally center on the personal income of their population. This is understandable because, in the long run, taxes, certainly most of them, are paid out of income. We recognize that this is not invariably true in the short run, for people and businesses occasionally dip into capital for all kinds of purposes, including taxes. Deficit enterprises number in the millions, in good and bad years and some of their taxes, e.g., property taxes, are affected by the condition of their profit position only very slowly, if at all. Families, too, occasionally live in part on capital and pay taxes from capital funds. But, in the long run, taxes are normally paid out of income.

The relationship of taxes to personal income relevant for the Nation as a whole is less close for its constituent parts, for the States and their local governments. States derive a relatively small proportion of their tax revenues from direct levies on personal income; a substantial part of their tax revenue is raised by tapping the income stream at other stages in its flow from production to profit taking. Hence, other measures of income flow, such as measures of income at point of production, may be at least as relevant to measuring State capacity as is personal income, which reflects the income flow at its ultimate stage.

Personal income, family income, corporate income, and income produced each have relevance, separately and in combination, for State and local fiscal capacity. We

turn first to personal income and examine its meaning in this context.

Personal Income

Personal income estimates prepared by the Office of Business Economics in the Department of Commerce represent the most comprehensive economic index now available on a State-by-State basis. Personal income for a State is defined by the Office of Business Economics as the current income received by its residents from all sources: from business establishments, Federal and State and local governments, households and institutions, and from foreign countries. All forms of income flowing to persons from these sources are included: wages and salaries, various types of supplementary earnings termed "other labor income," the net income of owners of unincorporated business (including farms), net rental income (including imputed income of owner-occupied homes), dividends, interest, and government and business "transfer payments" (consisting in general of disbursements to individuals for which no services are rendered currently, such as unemployment benefits, relief, and veterans' pensions). As defined, "residents" include individuals, nonprofit institutions, private trust funds, and private pension, health, and welfare funds. Incomes of individuals physically residing in a State, whether civilian or military, are included without regard to permanent or legal residence.

While the State estimates are subject to a margin of error, the extent of the error

within the context of the personal income concept is believed to be relatively small. The largest component of total personal income (about two-thirds on a nationwide basis) is wages and salaries. Wages and salaries are based almost entirely on earnings data assembled in connection with the administration of the unemployment insurance taxes. Nationally, the industries covered by this program account for three-fourths of total payrolls. Civil Service accounting records, special censuses, and agency records provide the required data for the classes of employment not covered by unemployment insurance programs (e.g., agriculture, private hospitals, and religious organizations). State-by-State estimates of proprietors' income, while still subject to serious shortcomings, have in recent years been strengthened by the work of the Agricultural Marketing Service on farm income, the more extensive tabulations of business income made available by the Internal Revenue Service, and the data on self-employment income gathered as a byproduct of the administration of the old-age and survivors insurance program. The property income component—rent, interest, and dividend income—has a lower order of reliability than most other types of State income flows. This generalization applies particularly to rental income and interest, which together, however, comprise currently only 9 percent of national personal income.

The estimates of personal income for the United States, the regions, and for each of the States are shown in table 1 for the years 1959, 1960, and 1961.¹ The relative importance of the farm, government, and private nonfarm sectors as sources of personal income in the States is indicated in table 2. A more detailed distribution of *civilian income* by industrial sources is shown in table 3. The interstate variation in the distribu-

tion of income reflects the wide differences among States in industrial characteristics and in government transfer payments.

For purposes of the present study, our concern extends beyond considerations of

TABLE 1.—*Per Capita Personal Income, by State, 1959, 1960, and 1961*

State and region	1959	1960	1961	Percent 1961 of 1959
United States.....	\$2, 160	\$2, 223	\$2, 265	105
New England.....	2, 388	2, 471	2, 542	106
Maine.....	1, 800	1, 900	1, 891	105
New Hampshire....	1, 980	2, 074	2, 119	107
Vermont.....	1, 798	1, 859	1, 891	105
Massachusetts....	2, 437	2, 519	2, 614	107
Rhode Island.....	2, 166	2, 228	2, 296	106
Connecticut.....	2, 781	2, 863	2, 926	105
Mideast.....	2, 515	2, 591	2, 633	105
New York.....	2, 709	2, 789	2, 839	105
New Jersey.....	2, 591	2, 665	2, 716	105
Pennsylvania....	2, 201	2, 266	2, 280	104
Delaware.....	2, 927	3, 013	3, 026	103
Maryland.....	2, 326	2, 394	2, 478	107
District of Columbia	2, 868	3, 008	3, 059	107
Great Lakes.....	2, 316	2, 373	2, 386	103
Michigan.....	2, 253	2, 322	2, 278	101
Ohio.....	2, 283	2, 339	2, 337	102
Indiana.....	2, 101	2, 179	2, 212	105
Illinois.....	2, 571	2, 613	2, 663	104
Wisconsin.....	2, 122	2, 171	2, 216	104
Plains.....	1, 988	2, 071	2, 137	107
Minnesota.....	1, 971	2, 054	2, 127	108
Iowa.....	1, 970	2, 003	2, 163	110
Missouri.....	2, 158	2, 199	2, 260	105
North Dakota....	1, 557	1, 741	1, 484	95
South Dakota....	1, 502	1, 842	1, 804	120
Nebraska.....	1, 966	2, 113	2, 156	110
Kansas.....	1, 990	2, 068	2, 156	108
Southeast.....	1, 566	1, 607	1, 653	106
Virginia.....	1, 792	1, 848	1, 911	107
West Virginia....	1, 635	1, 674	1, 689	103
Kentucky.....	1, 514	1, 543	1, 626	107
Tennessee.....	1, 508	1, 545	1, 594	106
North Carolina....	1, 500	1, 574	1, 640	109
South Carolina....	1, 333	1, 397	1, 441	108
Georgia.....	1, 557	1, 608	1, 644	106
Florida.....	1, 962	1, 988	1, 993	102
Alabama.....	1, 420	1, 462	1, 484	104
Mississippi.....	1, 153	1, 173	1, 233	107
Louisiana.....	1, 605	1, 604	1, 624	101
Arkansas.....	1, 327	1, 341	1, 420	107
Southwest.....	1, 883	1, 912	1, 953	104
Oklahoma.....	1, 789	1, 848	1, 879	105
Texas.....	1, 908	1, 924	1, 972	103
New Mexico.....	1, 820	1, 806	1, 821	100
Arizona.....	1, 912	2, 011	2, 036	106

¹ The regional classification of the States used throughout this report is the classification developed by the Office of Business Economics of the Department of Commerce for regional income comparisons.

TABLE 1.—Per Capita Personal Income, by State, 1959, 1960, and 1961—Continued

State and region	1959	1960	1961	Percent 1961 of 1959
Rocky Mountain	\$2,029	\$2,108	\$2,184	108
Montana.....	1,978	2,018	2,007	101
Idaho.....	1,802	1,796	1,854	103
Wyoming.....	2,240	2,334	2,364	106
Colorado.....	2,186	2,320	2,449	112
Utah.....	1,848	1,910	1,979	107
Far West	2,555	2,633	2,678	105
Washington.....	2,249	2,317	2,380	106
Oregon.....	2,201	2,259	2,280	104
Nevada.....	2,713	2,844	2,960	109
California.....	2,668	2,741	2,784	104
Alaska.....	2,546	2,735	2,718	107
Hawaii.....	2,118	2,274	2,306	109

Source: U.S. Department of Commerce, *Survey of Current Business*.

the quality of personal income estimates, *per se*, to the meaningfulness of personal income as a measure of State fiscal capacity. Its special weaknesses and limitations in this respect are discussed briefly below.

Deduction of Federal taxes. The acceptance of personal income received by the residents of the States as an index of

their relative capacities to devote funds to public and private purposes neglects the income withdrawn from the States by Federal taxes. The Federal tax structure, uniformly applied to the diverse income structures in the States, results in different Federal tax withdrawals, suggesting that the personal income figures should be corrected for the differential impact of these Federal taxes, and, as a minimum, for Federal individual income tax withdrawals.

A fairly extensive study of Federal tax withdrawals from personal income made in 1954 details the conceptual and measurement problems involved in adjusting for these withdrawals. This study, as well as the work done by the Office of Business Economics on developing estimates of personal taxes by States, points to the conclusion that the relative position of the States is affected very little by an adjustment for Federal tax withdrawals.² Table 4 gives the relative position of the States measured

² Selma Mushkin and Beatrice Crowther, *Federal Taxes and the Measurement of State Capacity*, U.S. Department of Health, Education and Welfare, Public Health Service, 2nd Print, December 1954 (processed).

TABLE 2.—Composition of Personal Income, by State, 1960

[Percentage distribution]

State and region	Total personal income	Farm income ¹	Government income disbursement ²		Private nonfarm income ³
			Federal	State and local	
United States.....	100	3.7	11.2	7.4	77.7
New England	100	1.2	11.3	6.6	80.9
Maine.....	100	5.2	15.1	6.9	72.8
New Hampshire.....	100	1.4	14.3	6.3	78.1
Vermont.....	100	6.1	10.7	7.8	75.4
Massachusetts.....	100	.5	12.4	6.8	80.3
Rhode Island.....	100	.4	15.5	7.4	76.7
Connecticut.....	100	.9	7.0	5.7	86.3
Mideast	100	1.0	10.6	6.9	81.6
New York.....	100	.8	8.3	7.9	83.0
New Jersey.....	100	.8	9.1	5.9	84.2
Pennsylvania.....	100	1.2	10.6	6.1	82.1
Delaware.....	100	2.8	8.1	5.0	84.2
Maryland.....	100	1.4	19.1	6.7	72.8
District of Columbia.....	100	.....	42.1	5.0	53.0

See footnotes at end of table.

TABLE 2.—Composition of Personal Income, by State, 1960—Continued

[Percentage distribution]

State and region	Total personal income	Farm income ¹	Government income disbursements ²		Private nonfarm income ³
			Federal	State and local	
Great Lakes	100	2.5	8.4	6.7	82.3
Michigan.....	100	1.7	7.6	7.8	82.9
Ohio.....	100	1.8	8.8	6.1	83.2
Indiana.....	100	4.2	8.4	6.5	80.9
Illinois.....	100	2.4	8.8	6.4	82.5
Plains	100	9.8	10.8	7.3	72.1
Minnesota.....	100	7.4	8.9	8.3	75.4
Iowa.....	100	12.5	9.8	7.3	70.4
Missouri.....	100	5.0	10.4	6.2	78.5
North Dakota.....	100	22.3	12.8	9.1	55.9
South Dakota.....	100	25.2	13.5	7.6	53.7
Nebraska.....	100	13.8	12.7	7.1	66.4
Kansas.....	100	10.6	13.1	7.6	68.7
Southeast	100	5.9	14.6	7.7	71.8
Virginia.....	100	3.5	23.0	6.4	67.1
West Virginia.....	100	1.8	11.3	7.2	79.6
Kentucky.....	100	7.3	14.9	7.2	70.7
Tennessee.....	100	5.0	12.2	7.6	75.2
North Carolina.....	100	9.3	11.9	7.2	71.6
South Carolina.....	100	6.3	16.0	7.1	70.6
Georgia.....	100	5.1	14.7	7.4	72.8
Florida.....	100	4.5	13.3	7.2	74.9
Alabama.....	100	5.4	16.5	8.3	69.8
Mississippi.....	100	11.6	15.4	9.5	63.5
Louisiana.....	100	3.8	9.9	11.2	75.1
Arkansas.....	100	14.5	13.9	8.1	63.5
Southwest	100	6.4	12.9	7.7	73.0
Oklahoma.....	100	7.5	14.9	9.0	68.7
Texas.....	100	6.0	12.1	6.9	75.0
New Mexico.....	100	6.2	17.0	10.8	66.0
Arizona.....	100	7.5	12.3	9.1	71.1
Rocky Mountain	100	7.3	13.0	8.6	71.0
Montana.....	100	13.0	13.7	8.7	64.5
Idaho.....	100	13.4	12.3	8.2	66.1
Wyoming.....	100	8.8	10.5	8.5	72.3
Colorado.....	100	5.1	12.6	8.8	73.5
Utah.....	100	3.2	15.3	8.4	73.2
Far West	100	3.6	11.5	8.9	76.1
Washington.....	100	4.1	14.3	8.7	72.9
Oregon.....	100	4.7	10.3	8.5	76.6
Nevada.....	100	2.3	12.0	7.4	78.3
California.....	100	3.4	11.1	9.0	76.5
Alaska.....	100	.5	40.9	7.6	51.0
Hawaii.....	100	6.5	26.6	8.0	58.8

¹ Consists of net income of farm proprietors, farm wages, and farm "other" labor income, less personal contributions under the OASI program.

² Consists of income disbursed directly to persons by the Federal and State and local governments. Comprises wages and salaries (net of employee contributions

for social insurance), other labor income, interest and transfer payments.

³ Equals total personal income less farm income and Government income disbursements.

Source: Computed from U.S. Department of Commerce, *Survey of Current Business*, August, 1961.

TABLE 3.—Industrial Sources of Civilian Income Received by Persons for Participation in Current Production, by State, 1960¹
[Percentage distribution]

State and region	Total	Agriculture	Mining	Construction	Manufacturing	Wholesale and retail sales	Finance, insurance and real estate	Transportation	Communications and public utilities	Services	Government	Other
United States	100	4.7	1.4	6.6	29.6	19.5	5.1	5.0	2.8	13.0	12.0	0.3
New England	100	1.5	.1	5.9	37.9	18.1	5.6	3.1	2.8	14.0	10.4	.5
Maine	100	7.1	.1	6.8	31.7	18.8	3.6	4.3	2.9	11.0	12.5	1.2
New Hampshire	100	1.9	.1	6.5	38.5	16.8	4.5	2.9	2.9	12.9	12.7	.3
Vermont	100	7.9	1.1	7.0	28.4	19.1	4.0	4.6	2.6	13.7	11.4	.2
Massachusetts	100	.7	.1	5.4	36.1	18.8	5.8	3.3	2.9	15.4	11.1	.4
Rhode Island	100	.6	.1	5.8	38.3	18.8	5.1	3.1	3.0	11.9	12.9	.4
Connecticut	100	1.2	.1	6.3	43.2	16.6	6.3	2.5	2.6	13.0	7.7	.4
Mideast	100	1.2	.6	5.7	32.2	19.7	5.9	5.1	3.0	14.7	11.8	.2
New York	100	1.0	.2	5.3	27.9	22.2	7.5	4.9	3.2	16.4	11.2	.2
New Jersey	100	1.0	.2	6.4	38.7	18.2	4.8	5.1	2.8	13.7	8.9	.2
Pennsylvania	100	1.5	1.8	5.4	39.6	17.2	4.1	5.4	2.9	12.2	9.6	.2
Delaware	100	3.9	(³)	7.4	44.1	14.5	3.6	5.3	2.0	10.9	8.1	.2
Maryland	100	1.8	.3	7.6	24.5	18.5	4.8	5.1	2.8	13.6	20.7	.4
District of Columbia	100	.....	.....	4.0	2.8	14.1	3.7	4.5	2.3	21.2	47.2	.2
Great Lakes	100	3.1	.7	5.9	39.9	18.3	4.1	4.8	2.6	11.0	9.4	.2
Michigan	100	2.0	.7	5.3	45.3	16.8	3.3	3.3	2.7	10.5	10.0	.1
Ohio	100	2.2	.7	5.6	42.2	17.5	3.9	5.1	2.5	10.7	9.3	.3
Indiana	100	5.0	.7	5.7	41.9	17.3	3.8	4.8	2.5	8.9	9.0	.2
Illinois	100	2.9	.8	6.6	33.8	20.2	5.2	5.8	2.7	12.7	9.2	.2
Wisconsin	100	6.2	.3	6.4	38.3	18.3	3.8	4.1	2.5	10.5	9.3	.2
Plains	100	12.5	1.2	7.3	21.4	20.9	4.7	6.3	2.8	11.8	10.8	.3
Minnesota	100	9.3	2.0	8.1	22.6	20.5	5.0	6.5	2.7	11.7	11.2	.3
Iowa	100	16.0	.4	6.5	22.1	20.7	4.4	4.8	2.8	11.8	10.2	.4
Missouri	100	6.3	.5	6.6	27.6	21.3	5.1	7.2	3.1	12.6	9.3	.2
North Dakota	100	28.0	1.1	8.0	3.1	23.1	3.8	5.9	2.9	10.4	13.5	.1
South Dakota	100	31.7	1.2	9.2	6.1	19.8	3.5	3.6	2.6	9.3	12.8	.2
Nebraska	100	17.7	.6	8.0	13.8	21.5	5.4	6.7	2.5	11.9	11.7	.2
Kansas	100	13.9	2.5	7.5	18.9	20.0	4.0	6.8	2.9	11.0	12.2	.2
Southeast	100	7.6	2.3	7.0	24.2	19.8	4.8	5.1	2.7	12.3	13.8	.4
Virginia	100	4.5	1.3	6.4	21.0	19.0	4.3	5.8	2.6	12.8	21.7	.5
West Virginia	100	2.3	14.3	4.8	29.0	16.1	3.1	6.5	4.3	9.8	9.6	.1
Kentucky	100	9.5	4.8	6.9	25.9	18.1	3.6	5.7	2.8	11.2	11.4	.2

See footnotes at end of table.

TABLE 3.—*Industrial Sources of Civilian Income Received by Persons for Participation in Current Production, by State, 1960*¹—Continued
[Percentage distribution]

State and region	Total	Agriculture	Mining	Construction	Manufacturing	Wholesale and retail sales	Finance, insurance and real estate	Transportation	Communications and public utilities	Services	Government ²	Other
Southeast—Continued												
Tennessee.....	100	6.2	.7	6.2	30.4	20.0	4.4	5.0	2.0	12.2	12.7	0.1
North Carolina.....	100	11.7	.3	6.0	32.3	18.2	3.9	4.2	2.1	10.6	10.5	.3
South Carolina.....	100	8.1	.2	6.6	34.7	16.9	4.4	2.7	2.1	11.0	12.9	.2
Georgia.....	100	6.5	.5	6.5	26.2	21.6	5.3	5.4	2.8	11.3	13.3	.7
Florida.....	100	6.3	.6	10.8	12.9	24.1	7.8	4.9	2.6	16.5	12.8	.7
Alabama.....	100	6.6	1.9	6.5	27.1	18.3	4.4	4.1	2.7	10.9	17.2	.2
Mississippi.....	100	14.8	1.8	6.1	21.2	20.0	4.1	3.6	2.9	11.1	14.1	.5
Louisiana.....	100	4.9	6.8	7.2	17.8	20.5	4.8	6.6	3.5	14.1	13.4	.5
Arkansas.....	100	18.7	1.5	5.9	20.3	17.6	3.9	5.7	3.1	10.8	11.9	.6
Southwest.....	100	8.2	6.0	7.8	16.3	21.1	5.2	5.5	3.2	13.1	13.3	.3
Oklahoma.....	100	9.7	8.1	7.2	13.2	20.6	4.9	5.1	3.2	12.4	15.1	.4
Texas.....	100	7.7	5.5	7.1	18.5	21.9	5.3	6.0	3.1	12.6	12.0	.3
New Mexico.....	100	7.9	7.9	9.4	6.6	17.4	4.9	4.4	3.9	16.8	20.6	.3
Arizona.....	100	9.2	4.8	12.6	12.6	18.8	5.3	3.2	3.6	14.7	15.1	.2
Rocky Mountain.....	100	9.3	4.2	9.1	14.8	20.4	4.5	6.4	3.1	12.4	15.6	.1
Montana.....	100	16.8	4.7	7.3	10.7	18.8	4.4	8.2	3.1	11.4	14.7	(³)
Idaho.....	100	16.7	1.6	7.8	15.8	19.8	3.7	6.0	3.0	12.1	13.2	.2
Wyoming.....	100	11.3	9.4	14.5	7.4	16.8	3.7	10.0	2.7	10.2	14.0	.1
Colorado.....	100	6.6	3.0	9.6	15.8	22.1	5.0	5.3	3.2	14.0	15.2	.1
Utah.....	100	3.9	6.1	8.2	18.4	19.8	4.5	6.1	2.9	10.7	19.4	.1
Far West.....	100	4.6	.6	7.7	24.6	20.0	5.6	4.7	2.7	14.5	14.4	.6
Washington.....	100	5.3	.3	7.5	26.0	20.5	5.2	5.6	2.3	11.8	15.0	.5
Oregon.....	100	5.9	.2	7.4	25.2	21.7	4.8	5.8	3.0	12.6	13.1	.3
Nevada.....	100	3.0	3.4	10.9	4.6	18.7	4.2	5.7	3.0	33.0	13.4	.1
California.....	100	4.4	.7	7.5	25.3	19.9	5.8	4.4	2.7	14.8	13.9	.6
Alaska.....	100	.5	2.0	11.9	6.5	16.9	3.2	7.4	5.0	10.1	32.9	3.6
Hawaii.....	100	8.8	.1	11.4	9.8	20.1	4.0	4.7	3.0	14.3	23.5	.5

¹ Consists of wage and salary disbursements, other labor income, and proprietor's income.

² Does not include earnings of military personnel.

³ Less than 0.05 percent.

Source: Computed from U.S. Department of Commerce, *Survey of Current Business*, August 1961.

by personal income minus Federal personal direct taxes and nontax payments and disposable income (i.e., personal income less Federal, State, and local taxes). Both of

TABLE 4.—Total Personal Income, Personal Income After Federal Payments, and Disposable Income, by State, 1959

[Per capita as a percent of U.S. average]

State and region	Personal income		Disposable personal income
	Total	Less Federal payments (tax and non-tax)	
United States	100	100	100
New England	111	110	110
Maine	83	85	85
New Hampshire	92	92	93
Vermont	83	85	84
Massachusetts	113	113	112
Rhode Island	100	100	100
Connecticut	129	127	127
Mideast	116	115	115
New York	125	123	123
New Jersey	120	119	119
Pennsylvania	102	102	102
Delaware	136	132	134
Maryland	108	106	107
District of Columbia	133	129	132
Great Lakes	107	107	108
Michigan	104	105	106
Ohio	106	106	107
Indiana	97	98	99
Illinois	119	118	119
Wisconsin	98	99	97
Plains	92	93	92
Minnesota	91	92	91
Iowa	91	92	91
Missouri	100	101	101
North Dakota	72	73	71
South Dakota	70	70	69
Nebraska	91	91	93
Kansas	92	92	91
Southeast	72	74	74
Virginia	83	84	83
West Virginia	76	77	78
Kentucky	70	71	70
Tennessee	70	71	71
North Carolina	69	72	72
South Carolina	62	64	64
Georgia	72	74	74
Florida	91	92	91
Alabama	66	67	67
Mississippi	53	56	56
Louisiana	74	76	76
Arkansas	61	63	64

TABLE 4.—Total Personal Income, Personal Income After Federal Payments, and Disposable Income, by State, 1959—Continued

[Per capita as a percent of U.S. average]

State and region	Personal income		Disposable personal income
	Total	Less Federal payments (tax and non-tax)	
Southwest	87	88	88
Oklahoma	83	84	84
Texas	88	89	89
New Mexico	84	85	84
Arizona	89	89	84
Rocky Mountain	94	94	93
Montana	92	93	93
Idaho	83	85	84
Wyoming	104	105	101
Colorado	101	101	100
Utah	86	86	86
Far West	118	118	117
Washington	104	103	104
Oregon	102	101	98
Nevada	126	123	121
California	124	123	123
Alaska	117	119	119
Hawaii	96	100	99

Source: Department of Commerce, Office of Business Economics and Bureau of the Census.

these series are shown alongside total personal income before any tax deductions.

Farm income. The comparability of the farm and nonfarm sectors in the Office of Business Economics' estimates of State personal income has been questioned. At present, the rental value of farm dwellings is valued in terms which essentially reflect farm price levels rather than prices for dwellings in the city. More specifically, it has been urged that farm dwellings be valued at urban prices to achieve greater comparability and that the value of food and fuel consumed on the farm be valued at urban retail prices rather than on the basis of the prices at which these products are sold commercially by the farmer as they are at present.

Retail prices of food, on the average, are about twice as high as prices at the farm. The rental value of owner-occupied dwellings in urban areas is also about twice that on farms.

Studies have been made of these adjustments in the course of the consideration of new Federal grant programs, using personal income as an allocation factor and also as part of the research on farm parity prices. The studies suggest (a) that greater comparability between farm and nonfarm areas would be gained by a revaluation of prices of food consumed on the farm, and (b) that a revaluation of rental values of owner-occupied farm dwellings is not justified because of the different quality of farm-housing.

Estimates of the changes which would occur in the personal income ranking of the States if an adjustment were made to value food and fuel consumed on the farm at urban prices (using data on nationwide price differentials in the absence of State-by-State information), however, show little change in the relative position of the States. A similar finding was reached when both food and fuel consumed on the farm and the value of owner-occupied dwellings were adjusted to urban prices.

Refining the measurement of imputed income makes personal income a better measure of the relative capacity of the States for some purposes. However, imputed income (such as the value of home-produced food) is generally not taxed. Hence, if personal income is to be used as a measure of the source of taxpayments imputed income items should be excluded.

While attention has largely been focused on adjustments of personal income for Federal taxes and for comparability between

TABLE 5.—Percentage of Families and Unrelated Individuals in Each State With Less Than Specified Incomes, 1959

State and region	Percent with incomes less than—		
	\$3,000	\$2,000	\$1,000
New England:			
Maine	36.8	25.2	13.2
New Hampshire	30.2	21.2	12.3
Vermont	38.1	27.0	16.0
Massachusetts	26.6	18.8	10.1
Rhode Island	32.0	22.9	11.9
Connecticut	20.9	14.8	8.3
Mideast:			
New York	26.1	18.0	10.3
New Jersey	21.8	15.3	8.6
Pennsylvania	28.0	19.7	11.4
Delaware	27.8	19.7	10.8
Maryland	26.7	19.0	10.7
District of Columbia	31.9	22.1	12.8
Great Lakes:			
Michigan	26.1	19.0	10.7
Ohio	26.4	19.2	10.9
Indiana	28.9	20.8	12.0
Illinois	26.3	19.0	11.1
Wisconsin	28.9	20.6	11.5
Plains:			
Minnesota	33.1	23.6	12.9
Iowa	36.8	26.4	14.6
Missouri	38.3	28.1	15.6
North Dakota	40.2	28.0	14.7
South Dakota	44.8	32.5	18.1
Nebraska	37.4	25.6	13.3
Kansas	34.6	24.8	13.2
Southeast:			
Virginia	38.7	27.8	15.3
West Virginia	40.7	30.2	18.0
Kentucky	46.3	34.6	19.7
Tennessee	46.2	33.7	19.5
North Carolina	45.9	32.9	18.6
South Carolina	48.5	35.9	21.8
Georgia	44.1	31.4	17.0
Florida	40.2	27.5	14.1
Alabama	46.2	34.3	19.9
Mississippi	58.7	45.8	28.0
Louisiana	44.6	32.6	17.4
Arkansas	55.2	41.2	22.9
Southwest:			
Oklahoma	42.1	31.2	16.0
Texas	38.8	28.0	15.4
New Mexico	33.4	23.8	12.5
Arizona	33.1	23.8	13.0
Rocky Mountain:			
Montana	33.5	23.6	11.8
Idaho	31.9	21.8	10.5
Wyoming	27.4	18.6	8.9
Colorado	31.4	21.9	9.9
Utah	26.4	19.1	10.6
Far West:			
Washington	29.1	21.2	9.5
Oregon	29.7	21.3	11.0
Nevada	25.9	18.0	8.8
California	27.5	19.7	9.5
Alaska	35.7	26.7	9.7
Hawaii	31.3	21.5	9.3

Source: Census of Population, 1960. Series PC(1) C, General Social and Economic Characteristics.

farm and nonfarm income, there are other characteristics of the personal income series which affect its usefulness as a measure of fiscal capacity in terms of source of income out of which taxes are paid.

Corporate income. The source of corporate income taxpayments is not measured by personal income. This is so regardless of what is assumed regarding the incidence of corporate income taxes; that is, whether it is assumed that they are shifted forward to consumers, or are paid out of profits by reducing dividends, or are paid out of undistributed corporate earnings.

Capital gains. Ability to command public or private goods and services is affected by the amount of capital gains and losses. Personal income estimates (as well as most regional income series), however, exclude these gains and losses. The omission overlooks a flow of potential purchasing power which is comparable to other categories of income.

Government and nonprofit institutional income. The use of personal income as a capacity measure avoids the complex problem of designing a system of weights implicit in many alternative measures of capacity. The problem of weighting in a sense disappears in that all of the components of the income count are additive. It must be recognized, nevertheless, that the potential claim made by State and local taxes per dollar of this income differs according to its source. Federal civilian or military payrolls in an area are not always accompanied by the same State or local potential tax claim as the payrolls of a private manufacturing plant. The Federal school assistance program in federally affected areas operated under Public Laws 815 and 874 was enacted in part as a payment in lieu of local property taxes on Federal establishments, and various proposals for other Fed-

eral payments in lieu of property taxes also reflect this. Nonprofit institutions, including educational institutions and hospitals, pose a similar problem of differential access of State and local taxes to a dollar of income.

"Other labor income" and transfer payments. Employer contributions to private pension, health, and welfare funds are included as part of personal income and national totals of these amounts are allocated among States on the basis of payrolls, industry by industry.

Additions to wages through fringe benefits, however, do not represent the same amount of tax potential as an increased wage. Apart from the problem of employer contributions used for reserve accumulations, the States and localities do not have as much opportunity to extract tax dollars from fringe benefits as from other income sources. This differential would remain even if benefits paid out were substituted for employer contributions.

Income flows represented by such Government transfer payments as social insurance benefits, military pensions, terminal leave payments, veterans allowances, and public assistance payments, similarly are not available for State and local taxation in the same way as other income items.

Apart from Government income disbursements, including transfer payments and Federal, State, and local payrolls, the changes which would result from adjustment of personal income are not likely to alter significantly the relative income position of the States. The Government component, however, comprises very different proportions of income in the States (table 2). The Federal income disbursements alone range from 7 percent of total personal income in Connecticut to 23 percent of total personal income in Virginia, 27 percent in Hawaii, and 41 percent in Alaska.

Family and Individual Income

As we have noted, personal income estimates are derived from data on wages, interest, rent, and other items paid out by businesses and government. This procedure probably yields reasonably accurate estimates of total personal income received in the Nation and in its geographic subdivisions. However, personal-income estimates do not give us any information on how the income is distributed among families and individuals. For this we have to turn to the family and individual income data collected by the Bureau of the Census.

In connection with the decennial Census of Population and the Current Population Survey, families and individuals are asked to state the amount of income they received in the past year from various sources. Estimates of total income obtained in this way are probably less accurate than those computed from data furnished by business and government, but they have the major advantage that they throw light on the numbers of individuals and families with incomes of various sizes.

Income of families and individuals in each State as reported in the Census of Population is not defined in the same way as personal income in the estimates prepared by the Office of Business Economics. Components of income included in personal income but excluded from census family income, moreover, are more important in some States than in others. For this reason the relative positions of the States tend to shift somewhat when total family income is substituted for personal income as an index of fiscal capacity.

The differences between the composition of the Office of Business Economics' per-

sonal income and the Census Bureau's family income series are summarized below:

Income item	Personal income	Family income
Income retained by private pension, trust and welfare funds.	Included..	Excluded.
Income of nonprofit institutions.	Included..	Excluded.
Income of institutional residents including members of Armed Forces living on post.	Included..	Excluded.
Income of persons who die during year.	Included..	Excluded.
Value of food and fuel produced and consumed on farms.	Included..	Excluded.
Net rental value of owner-occupied homes.	Included..	Excluded.
Wages in kind.....	Included..	Excluded.
Imputed interest.....	Included..	Excluded.
Value of farm inventory changes.	Included..	Excluded.
Personal contributions for social insurance.	Excluded..	Included.
Periodic payments received from life insurance companies.	Excluded..	Included.

Based on materials included in Selma F. Goldsmith, "The Relation of Census Income Distribution Statistics to Other Income Data" in National Bureau of Economic Research, *An Appraisal of the 1950 Census Income Data*, Studies in Income and Wealth, Vol. 23 pp. 65-107.

The total family income count in the census is considerably lower—some 15 percent lower—than that of personal income for the Nation. The largest part of the difference in total income is attributable to differences in the content of the income estimates, but part is also due to understatement of income in field interview compilations of income information. The income reported by the family is probably based on memory rather than on records, and in the majority of instances on the memory of some one person, usually the wife of the family head. On the average, respondents tend to understate their family's income—sometimes deliberately, but probably more often because they forget to mention minor or irregular sources of income or because they are ignorant of the incomes of other family members.

Distribution of Income

Capacity to pay taxes is affected by the distribution of income as well as its average level, and States with similar per capita incomes frequently have very different income distributions.

Families and individuals with incomes below the minimum necessary for adequate food and shelter are generally considered to have little or no ability to pay taxes. This is the philosophy behind the personal exemptions and exemptions for dependents allowed under Federal and State income taxes.

At the other end of the income distribution, States may be limited in their access to very high incomes because of the ease with which these high income taxpayers can move across State lines.

The proportion of families and unrelated individuals in each State with incomes below \$1,000, \$2,000, and \$3,000 is shown in table 5. In table 6 the States are arrayed according to the proportion of low-income families in their population and the propor-

tion of total income received by these low-income families.

It has sometimes been suggested that capacity of the States be measured in a way which would exclude the incomes of those with little ability to pay taxes. As one approximation to such a capacity index, census income data were adjusted to exclude the income of those families below the \$2,000 income level and of unrelated individuals below the \$1,000 income level. As may be seen in tables 8 and 16, this adjustment does not alter the relative positions of the States appreciably.

Moreover, the belief that low-income families have little tax capacity does not insure their freedom from taxation. Various studies are available on the distribution of State and local taxes by family income group and the share of income in each income interval devoted to State and local taxes. One of the recent estimates of the distribution of the tax burdens (1958) is summarized below.

State and Local Taxes as a Percentage of Total Income by Income Class, Calendar Year 1958

Source	Family personal-income class							Total
	Under \$2,000	\$2,000 to \$3,999	\$4,000 to \$5,999	\$6,000 to \$7,999	\$8,000 to \$9,999	\$10,000 to \$14,999	\$15,000 and over	
Individual income.....	0.5	0.8	0.6	0.2	0.2	0.3	0.7	0.5
Corporation income.....	.2	.2	.1	.1	.2	.2	.4	.2
Excises and sales.....	4.8	3.9	3.7	3.6	3.5	3.2	2.1	3.3
Estate and gift.....							.5	.1
Property.....	5.9	4.6	4.1	3.7	3.4	2.8	2.1	3.5
Total, excluding social insurance....	11.3	9.4	8.5	7.7	7.2	6.5	5.9	7.5

Source: George A. Bishop, "Tax Burden by Income Class," *National Tax Journal* (March 1961) 14: 54.

Far from showing that low-income families have little tax capacity, the above estimates indicate that low-income families pay out larger proportions of their incomes for State and local taxes than high-income families.

Income Produced

The importance of business taxes in the State and local tax structure suggests use of an economic measure of capacity which assigns income to the place of production

TABLE 6.—Percent of Total Number of Families and Unrelated Individuals and Percent of Total Income Accounted for by Specified Income Groups, by State, 1959

State	Rank in average per capita personal income (low to high), 1959-61	Percent of total income accounted for by families with income under \$2,000 and unrelated individuals with income under \$1,000	Rank	Families with income under \$2,000 and unrelated individuals with income under \$1,000 as a percent of total number of families and unrelated individuals	
				State	Percent
Mississippi	1	10.6	1	Mississippi	42.5
Arkansas	2	9.3	2	Arkansas	37.7
South Carolina	3	6.5	3	South Carolina	31.9
Alabama	4	6.4	4	Alabama	31.4
Kentucky	6	6.2	5	Kentucky	30.9
Tennessee	5	6.0	6	Tennessee	30.3
North Carolina	7	5.7	7	North Carolina	28.6
Louisiana	10	5.4	8	Louisiana	28.4
South Dakota	12	5.4	9	Georgia	27.4
Georgia	9	5.3	10	West Virginia	27.3
West Virginia	11	5.0	11	South Dakota	27.0
Oklahoma	15	4.8	12	Oklahoma	25.9
North Dakota	8	4.3	13	Texas	23.6
Missouri	31	3.9	14	Missouri	23.5
Texas	20	3.9	15	North Dakota	22.5
Nebraska	28	3.6	16	Virginia	22.1
Vermont	16	3.6	17	Vermont	21.7
Iowa	24	3.5	18	Florida	21.5
Virginia	17	3.5	19	Iowa	21.3
Florida	21	3.4	20	Nebraska	20.4
Maine	18	3.4	21	Kansas	19.4
Kansas	27	3.0	22	Maine	19.1
New Mexico	13	2.9	23	New Mexico	19.1
Idaho	14	2.8	24	Minnesota	18.8
Minnesota	25	2.8	25	Arizona	18.3
Montana	23	2.7	26	Indiana	17.0
Arizona	22	2.6	27	Montana	17.0
Indiana	29	2.4	28	Idaho	16.5
Rhode Island	32	2.3	29	Wisconsin	16.4
Wisconsin	30	2.3	30	New Hampshire	16.1
New Hampshire	26	2.2	31	Rhode Island	16.1
Oregon	34	2.2	32	Pennsylvania	15.9
Pennsylvania	35	2.2	33	District of Columbia	15.8
Colorado	39	2.1	34	Oregon	15.8
California	46	2.0	35	Ohio	15.4
Ohio	40	2.0	36	Michigan	15.3
Utah	19	2.0	37	Delaware	15.1
Michigan	36	1.9	38	Illinois	15.0
Washington	38	1.9	39	Utah	14.7
Wyoming	37	1.9	40	Maryland	14.6
Delaware	51	1.8	41	Colorado	14.5
District of Columbia	50	1.8	42	Washington	13.8
Illinois	43	1.8	43	New York	13.7
Maryland	41	1.8	44	Massachusetts	13.3
Massachusetts	42	1.6	45	Wyoming	13.2
New York	47	1.6	46	California	12.8
Alaska	45	1.4	47	Alaska	12.2
Hawaii	33	1.4	48	Hawaii	11.6
Nevada	48	1.3	49	Nevada	11.6
New Jersey	44	1.3	50	New Jersey	11.6
Connecticut	49	1.1	51	Connecticut	10.9

Source: U.S. Department of Commerce—Office of Business Economics, *Survey of Current Business*, August 1961 and April 1962, and Bureau of the Census, United States

Census of Population, 1960; series PC(1)C, general social and economic characteristics.

rather than place of residence. Differences between personal income and income produced may be illustrated by drawing on a

simplified example of a firm located in Michigan owned by investors in Delaware. At the end of a year's operation the value of

the product of the firm (excluding the costs of materials used up in the production process) might total \$1 million. Of this \$1 million let us further assume \$800,000 was paid out in wages and salaries to employees working and living in Michigan. Of the remaining \$200,000, half was distributed in dividends to the investors in Delaware and the remaining half was retained for corporate use. An allocation of income on a personal income basis would place the \$800,000 of wages and salaries in Michigan, and \$100,000 as dividends in Delaware. Corporate undistributed earnings would not be included in the income flow count. If, however, income produced were being measured all of the \$1 million would be attributed to Michigan in which the value had been added.

Estimates of income produced serve to emphasize regional specialization of key national industries and to focus on the special tax resources available to States by virtue of the location of these special industries. Steel production in Indiana and Maryland, citrus production in California and Florida, salmon fisheries in Washington, tobacco processing in North Carolina, all are illustrative of this. Data on income produced would provide an index of the capacity of the States resulting from the location of key industries there.

Value of net output of goods and services in a State could be provided (1) by summing values added by each class of industry in each State or (2) by adding together the returns to each of the factors of production, wages, and salaries in each State, capital costs, and so forth.

The possibilities of deriving aggregate outputs of goods and services in each State by addition of value added by industrial sectors has been explored fairly extensively and considerable progress has been made toward developing such a set of figures. A major

hurdle in measuring income paid to factors of production (on which research is continuing) is the problem of measuring returns to capital where the production occurs.

The National Planning Association has developed a set of estimates of product, by States, adjusted to the gross national product estimates. For the agricultural, manufacturing and mining sectors, these figures are derived by adding to employee compensation and noncorporate business income by States, estimates of the "residual" product amounts by States. The "residuals" in turn are determined in each State by the amount of value added in that State, industry by industry, after payrolls are deducted. The components of the residual include interest, dividends, business transfer payments, corporate income taxes, retained earnings, capital consumption allowances, and direct business taxes as well as an inventory adjustment. Ratios of each of the components of income produced (other than earnings) to the total of the residual for each industry are assumed to be uniform throughout the Nation. For example, if corporate undistributed profits account for 10 percent of the residual income amount in textile manufacturing nationally, corporate undistributed profits are also assumed at 10 percent of the residual product (after deducting payrolls) of textile mills in each State. For other sectors (for which value added data were directly available), national totals were distributed in proportion to employee compensation. The industrial distribution of product in each State is shown in table 7.

While the estimates of income produced derived in this way by the National Planning Association are approximate, they serve to suggest differences between the relative capacity position of the States when measured by personal income and by income produced (table 8). These differences are discussed in chapter 4.

TABLE 7.—Income Produced, by Source, by State, 1957

[Percentage distribution]

State and region	Total	Agriculture	Mining	Contract construction	Manufacturing	Transportation, communications, and public utilities	Trade	Finance, insurance, and real estate	Services	Government
United States	100	5.0	2.8	5.0	29.9	9.7	17.0	11.3	10.6	8.8
New England	100	1.8	.2	4.9	35.9	7.7	16.5	13.0	11.5	8.4
Maine	100	6.4	.2	4.9	32.2	9.9	17.4	8.7	9.0	11.1
New Hampshire	100	3.5	.1	5.0	37.4	8.1	14.8	9.9	11.0	10.0
Vermont	100	10.8	1.2	4.2	30.8	9.6	14.3	9.2	11.9	7.9
Massachusetts	100	.9	.2	4.4	33.0	8.2	17.8	13.8	12.9	8.8
Rhode Island	100	.8	.1	4.5	35.1	7.7	16.8	12.3	10.1	12.7
Connecticut	100	1.5	.1	6.1	42.6	6.1	14.2	13.7	10.0	5.6
Mideast	100	1.3	.8	4.4	31.4	10.3	17.6	13.6	12.3	8.2
New York	100	1.2	.2	4.1	25.8	10.2	19.8	17.5	14.0	7.4
New Jersey	100	1.2	.3	4.8	41.1	9.7	15.1	10.3	10.5	7.1
Pennsylvania	100	1.7	2.5	4.4	39.7	11.0	15.5	9.3	9.6	6.3
Delaware	100	3.4	.....	8.2	33.0	10.2	15.0	9.8	11.5	8.9
Maryland	100	2.1	.3	6.0	29.1	10.3	15.3	9.8	9.7	17.5
District of Columbia	100	.....	.....	3.9	4.4	10.5	20.5	13.6	23.0	24.1
Great Lakes	100	4.1	.9	4.8	40.3	9.0	16.1	9.6	9.0	6.1
Michigan	100	2.7	1.0	4.3	45.7	7.5	15.4	7.8	9.1	6.4
Ohio	100	2.7	.9	5.2	42.7	9.3	16.0	8.7	8.5	6.1
Indiana	100	6.1	.9	4.5	43.8	8.9	14.8	8.4	6.8	5.8
Illinois	100	4.1	1.1	5.0	34.0	10.0	17.3	12.1	10.5	5.8
Wisconsin	100	9.0	.5	4.6	38.7	8.0	15.5	9.0	8.4	6.3
Plains	100	14.8	2.3	4.9	21.4	11.1	18.0	10.5	9.3	7.6
Minnesota	100	11.3	4.1	5.7	20.6	11.0	19.0	11.4	10.0	6.9
Iowa	100	25.5	.6	4.1	21.4	8.5	16.2	9.2	8.1	6.4
Missouri	100	6.6	1.0	4.7	26.9	12.2	19.8	11.9	10.3	6.7
North Dakota	100	30.9	2.5	6.6	3.4	11.9	19.9	7.3	8.7	8.8
South Dakota	100	36.9	2.7	5.1	6.5	6.6	16.2	7.3	8.2	10.4
Nebraska	100	23.4	.9	4.2	13.8	11.2	16.6	12.2	8.8	8.8
Kansas	100	9.4	5.4	5.0	24.1	13.0	15.9	8.2	8.5	10.6
Southeast	100	6.7	4.4	5.2	25.9	9.5	16.5	10.4	9.8	11.7
Virginia	100	4.5	2.4	5.0	24.8	10.1	14.7	10.0	8.6	19.9
West Virginia	100	2.3	26.2	5.0	24.4	11.6	12.5	6.1	6.5	5.4
Kentucky	100	8.3	7.8	4.1	31.3	10.0	14.0	7.4	8.1	9.1
Tennessee	100	6.8	1.3	4.2	28.5	8.9	19.0	11.4	10.3	9.6
North Carolina	100	9.0	.4	3.6	38.5	7.1	14.7	8.7	8.5	9.6
South Carolina	100	8.0	.3	4.4	32.1	6.3	14.8	10.7	9.2	14.1
Georgia	100	5.8	.7	4.1	26.3	9.7	18.8	12.5	9.9	12.2
Florida	100	5.9	1.0	8.6	11.7	9.8	21.6	14.8	14.8	11.7
Alabama	100	6.1	3.4	5.2	28.0	8.9	15.3	10.9	9.4	12.6
Mississippi	100	15.0	2.3	4.0	20.6	9.1	16.3	9.4	10.7	12.6
Louisiana	100	3.9	9.7	6.7	24.2	10.9	15.9	9.2	10.0	9.3
Arkansas	100	16.2	3.1	4.3	20.1	11.4	16.2	8.3	8.8	11.6
Southwest	100	6.2	13.9	5.2	18.3	9.6	16.6	10.3	9.6	10.3
Oklahoma	100	6.0	20.3	4.3	16.0	9.2	15.6	9.3	8.4	11.1
Texas	100	5.8	12.0	5.0	20.7	9.8	17.0	10.8	9.4	9.5
New Mexico	100	6.1	18.7	6.8	7.1	9.5	13.8	8.0	13.9	16.2
Arizona	100	9.9	14.0	7.8	10.5	8.5	17.3	9.9	10.2	11.9

TABLE 7.—Income Produced, by Source, by State, 1957—Continued

[Percentage distribution]

State and region	Total	Agriculture	Mining	Contract construction	Manufacturing	Transportation, communications, and public utilities	Trade	Finance, insurance, and real estate	Services	Government
Rocky Mountain	100	10.8	8.8	6.5	14.2	12.0	17.3	9.8	9.3	11.2
Montana.....	100	19.3	9.9	5.1	11.3	13.5	16.5	7.3	8.1	8.8
Idaho.....	100	20.4	5.5	6.8	13.4	11.4	16.7	7.9	8.5	9.4
Wyoming.....	100	12.1	16.2	6.7	9.8	16.1	12.6	7.0	8.2	11.4
Colorado.....	100	6.7	5.9	7.0	15.2	11.1	18.8	11.8	11.1	12.4
Utah.....	100	5.5	13.0	6.4	16.9	11.4	17.1	10.1	7.8	11.9
Far West	100	4.9	2.1	5.6	24.9	9.7	17.8	11.8	12.1	11.1
Washington.....	100	6.3	.8	5.6	26.2	10.1	18.1	10.8	9.1	13.0
Oregon.....	100	7.8	.7	4.9	24.3	12.6	19.7	10.5	10.1	9.4
Nevada.....	100	3.6	10.7	8.2	8.6	9.8	14.1	5.6	28.0	11.4
California.....	100	4.5	2.2	5.6	25.0	9.4	17.7	12.3	12.4	10.9

Source: Based on unpublished data, National Planning Association.

TABLE 8.—Per Capita Income for Selected Income Series, by State, 1959¹

State and region	Personal income, 1959 ²	Income of families and unrelated individuals, 1959 ³		Income produced ⁵	Composite series ⁶
		Total	Above minimum amount ⁴		
United States	\$2, 160	\$1, 872	\$1, 822	\$2, 720	\$2, 382
New England	2, 388	2, 046	2, 011	2, 743	2, 463
Maine.....	1, 800	1, 531	1, 480	1, 953	1, 795
New Hampshire.....	1, 980	1, 810	1, 771	2, 264	2, 038
Vermont.....	1, 798	1, 531	1, 477	2, 120	1, 904
Massachusetts.....	2, 437	2, 077	2, 044	2, 862	2, 555
Rhode Island.....	2, 166	1, 830	1, 788	2, 425	2, 192
Connecticut.....	2, 781	2, 390	2, 363	3, 125	2, 813
Mideast	2, 515	2, 133	2, 097	3, 091	2, 716
New York.....	2, 709	2, 258	2, 223	3, 477	3, 016
New Jersey.....	2, 591	2, 300	2, 271	3, 011	2, 689
Pennsylvania.....	2, 201	1, 869	1, 828	2, 640	2, 342
Delaware.....	2, 927	2, 121	2, 082	2, 650	2, 542
Maryland.....	2, 326	2, 035	2, 000	2, 559	2, 319
District of Columbia.....	2, 868	2, 394	2, 349	4, 319	3, 589
Great Lakes	2, 316	2, 007	1, 967	2, 962	2, 585
Michigan.....	2, 253	1, 957	1, 919	2, 745	2, 432
Ohio.....	2, 283	1, 976	1, 937	2, 884	2, 527
Indiana.....	2, 101	1, 851	1, 807	2, 777	2, 407
Illinois.....	2, 571	2, 205	2, 166	3, 430	2, 949
Wisconsin.....	2, 122	1, 861	1, 819	2, 612	2, 309

See footnotes at end of table.

TABLE 8.—Per Capita Income for Selected Income Series, by State, 1959¹—Continued

State and region	Personal income, 1959 ²	Income of families and unrelated individuals, 1959 ³		Income produced ⁵	Composite series ⁶
		Total	Above minimum amount ⁴		
Plains	\$1, 988	\$1, 699	\$1, 640	\$2, 610	\$2, 263
Minnesota.....	1, 971	1, 752	1, 702	2, 631	2, 273
Iowa.....	1, 970	1, 655	1, 598	2, 609	2, 258
Missouri.....	2, 158	1, 765	1, 696	2, 806	2, 441
North Dakota.....	1, 557	1, 369	1, 311	2, 166	1, 855
South Dakota.....	1, 502	1, 330	1, 258	2, 213	1, 860
Nebraska.....	1, 966	1, 640	1, 581	2, 712	2, 319
Kansas.....	1, 990	1, 788	1, 734	2, 373	2, 110
Southeast	1, 566	1, 373	1, 297	1, 985	1, 745
Virginia.....	1, 792	1, 614	1, 557	2, 302	2, 011
West Virginia.....	1, 635	1, 370	1, 301	2, 198	1, 903
Kentucky.....	1, 514	1, 332	1, 250	2, 007	1, 741
Tennessee.....	1, 508	1, 326	1, 246	1, 886	1, 662
North Carolina.....	1, 500	1, 267	1, 194	2, 069	1, 786
South Carolina.....	1, 333	1, 149	1, 075	1, 626	1, 452
Georgia.....	1, 557	1, 373	1, 301	2, 007	1, 756
Florida.....	1, 962	1, 786	1, 721	2, 264	2, 038
Alabama.....	1, 420	1, 256	1, 176	1, 760	1, 555
Mississippi.....	1, 153	974	871	1, 315	1, 199
Louisiana.....	1, 605	1, 391	1, 315	2, 203	1, 895
Arkansas.....	1, 327	1, 130	1, 024	1, 513	1, 375
Southwest	1, 883	1, 661	1, 597	2, 581	2, 213
Oklahoma.....	1, 789	1, 633	1, 554	2, 421	2, 085
Texas.....	1, 908	1, 647	1, 583	2, 624	2, 248
New Mexico.....	1, 820	1, 639	1, 591	2, 513	2, 151
Arizona.....	1, 912	1, 832	1, 785	2, 600	2, 231
Rocky Mountain	2, 029	1, 799	1, 759	2, 639	2, 294
Montana.....	1, 978	1, 699	1, 654	2, 621	2, 273
Idaho.....	1, 802	1, 631	1, 585	2, 286	2, 005
Wyoming.....	2, 240	1, 917	1, 880	2, 925	2, 542
Colorado.....	2, 186	1, 919	1, 878	2, 737	2, 400
Utah.....	1, 848	1, 722	1, 688	2, 617	2, 226
Far West	2, 555	2, 277	2, 240	3, 154	2, 773
Washington.....	2, 249	2, 055	2, 016	2, 767	2, 430
Oregon.....	2, 201	1, 963	1, 920	2, 556	2, 287
Nevada.....	2, 713	2, 410	2, 376	3, 869	3, 262
California.....	2, 668	2, 365	2, 330	3, 302	2, 900
Alaska.....	2, 523	2, 327	2, 295	3, 177	2, 795
Hawaii.....	2, 081	1, 902	1, 876	2, 619	2, 315

¹ Based on total population excluding Armed Forces overseas as of July 1, 1959.

² As reported in U.S. Department of Commerce, *Survey of Current Business*, August 1961.

³ As reported by Bureau of the Census in series PC(1)C, General Social and Economic Characteristics of the U.S. Census of Population: 1960.

⁴ Excludes income of families with income under \$2,000 and income of individuals with income under \$1,000.

⁵ Estimated, 1959 (1957 estimates by National Planning Association increased to 1959 on basis of percentage change in wages and salaries 1957-59).

⁶ Composite of 1959 personal income (less Federal payments), income produced (1959 estimated), and corporate net income in 1959.

A Composite Index

Some State and local taxes seem closely related to personal income, others to income produced, and still others to corporate income. Hence, an index which combines these income measures may reflect the income flows available to the States for tax purposes more accurately than any of the income measures taken alone.

The problem of what weights to give the different income measures in a composite index has been widely discussed. A logical solution is to assign the income sources used to pay State and local taxes weights which reflect the average extent to which each source is drawn upon in the payment of State and local taxes. The classification of taxes in the national economic accounts provides a basis for such a weighting system. The steps used to arrive at a composite index are described below.

Starting from the classification of taxes now used by the Department of Commerce, National Income Division, in developing the national economic accounts, taxes were grouped into three categories: (1) personal direct taxes, (2) business taxes, and (3) corporate income taxes. With one exception, taxes were grouped as is done in the gross product and national income accounts. The exception is the tax on residential real estate which was included here as a personal tax rather than a business levy. In the national gross product, residential real estate taxes are included with business taxes because "housing" is part of the business sector of the gross product estimate. Personal direct taxes include State and local income taxes, estate and gift taxes, motor vehicle licenses, poll taxes, and miscellaneous licenses and permits. Business taxes include sales and excise taxes, both general and selective, and property taxes. Corpo-

rate income taxes include State taxes assessed on corporate profits.

Nontax payments to governments are also divided between direct personal payments to government and business payments.

In 1959, the aggregate State and local tax and nontax payments amounted to \$37.2 billion; of this total \$6.4 billion or 17.2 percent were classified by the National Income Division as personal direct taxes, and \$29.6 billion, or 79.6 percent as business taxes. The rest, 3.2 percent, represented the State corporate net income tax liability. If taxes on residential real estate are reclassified by combining them with personal direct taxes, the percentage distribution of State and local tax and nontax payments becomes 33.1 percent, personal direct taxes; 63.7 percent, business levies; and 3.2 percent corporate net income taxes.

Each of these categories of State and local levies may then be assigned to their appropriate income flow index: personal direct levies to personal income, business levies to income produced, and corporate net income taxes to corporate income in each State. Weighting personal income, income produced, and corporate net income by the proportion of State and local levies paid out of each of the three types of income yields a composite index of capacity of State and local governments which takes account of the different stages of the income flow at which taxes are imposed. More specifically, the following procedure was used:

(1) Personal income in each State in 1959 (less direct Federal personal taxes) was weighted by the proportion of personal direct levies to total State and local levies.

(2) Income produced in each State as estimated by the National Planning Association for 1957 was adjusted to a 1959 level, using the percentage change in total wages and salaries between 1957 and 1959 in each

State as the adjustment index. The product estimates for 1959 were weighted by the proportion of indirect business levies to total State and local revenue.

(3) Corporate net income was estimated, defining this income as the amount of corporate profits determined by the average allocation formula applied by States, for State corporate tax purposes. This corporate net income figure essentially assumes an average relationship between corporate income in a State and the three allocation factors: corporate property, payrolls, and sales. (The corporate income used in this weighted average is derived as indicated in appendix B.)

(4) The composite income index was divided by total population to show the relative capacity positions of the States (table 8).

To summarize, State and local taxes are generally paid out of income, and the various types of income flows can be combined to reflect the extent to which each constitutes a source of taxpayments. An alternative approach to the measurement of tax capacity involves evaluating tax bases (rather than sources of taxpayments) combining these bases into an index of capacity. This approach is developed in the next chapter.

Chapter 3

THE REPRESENTATIVE TAX SYSTEM APPROACH

A direct approach to measuring the comparative capacities of the 50 States to raise tax revenue from their own resources is to calculate what a tax structure applied uniformly in each of them would produce in revenue. Unfortunately, however, there is no obvious or unique answer to the question what that tax structure should consist of; what kinds of taxes, exemptions, and tax rates it should contain.

Calculations of the yield of a uniform tax system for all the States were made nearly three decades ago on the basis of a so-called model State and local tax system.¹ The model used was essentially one developed by the National Tax Association, but with a different set of tax rates. It was a fruitful and stimulating undertaking and ought perhaps be repeated in the light of the current thinking about the composition of a model tax system. This possibility was explored in connection with the present project and found impracticable.

Views on the content of a model or ideal State-local tax system vary widely. No attempt has been made in recent years to crystallize them into a consensus. While this Commission has already considered a number of tax issues, there is as yet not enough on its record to enable the staff to design a State and local tax structure with any confidence that it would reflect the

thinking of the Commission's membership. Nor is a technical project on the development of fiscal capacity indexes the appropriate vehicle for the Commission to develop its ideal State and local tax system. Indeed, the concept of a model tax system has implications for public policy (but not necessarily for fiscal capacity measurement) purposes which may be at variance with the Commission's underlying philosophy that local conditions, preferences, and objectives are so varied among the 50 States as to preclude a single tax model appropriate for all the States.

Another possibility for measuring the States' comparative fiscal capacity is to select several of the now existing State tax systems, sufficient in number to illustrate the different patterns in use, and to calculate the yield of each for all of the States. One might select the tax systems of one or more States which rely principally on property taxation, one or more which rely principally on income taxation, one or more which rely principally on consumer taxes, and so forth. Such a selection would pose problems, for no two State systems are exactly alike, but these problems are surmountable. Calculations of this magnitude, however, are beyond our present staff resources.

Still another approach and the one here pursued is to construct a representative tax system—a single tax system designed to be representative of the tax practice which now prevails across the country. The representative tax system is an average of the tax

¹ Mabel Newcomer, *An Index of the Taxpaying Ability of State and Local Governments* (New York: Bureau of Publications, Teachers College, Columbia University, 1935).

structures which actually exist in the States, and implies no subjective staff judgment about their quality or desirability. The rationale for using the yield of the representative tax system is that comparisons of State fiscal capacity have meaning only in terms of the kinds of taxes and tax rates actually in use by the States, actually within their reach politically. The average tax structure actually in being would appear to be more meaningful as a yardstick of capacity than some ideal system judged to be desirable in the abstract. Public acceptability of tax programs—types of taxes and rates—changes over time. The average of present systems is a reflection of the politically acceptable here and now. We hasten to emphasize, however, that the representative tax system concept is by no means free of problems, many of which flow from the limitations which necessarily attach to an average of the varied characteristics which prevail in the 50 State tax systems. Several of these problems are identified in the subsequent discussion.

Inclusion of Particular Taxes

In constructing a representative tax system it was necessary first to decide what taxes should be included and how the bases of these taxes should be defined. In an effort to make the system representative of current practice in the States the criterion adopted was to include in the system any tax employed by States where more than half the Nation's population lives. Thus, property, sales, income, tobacco, and liquor taxes were included because enough States employ these taxes to account for more than half of the United States population.

In general, a comparable criterion was applied in defining the base of each tax. For example, personal property (except household goods) was included in the property tax base because this is the practice in

States with over half of the Nation's population; and food and medicine were excluded from the retail sales tax base because States which exclude them from their sales tax account for over half of the population of the taxing States.

In the case of taxes on selected business activities which happen to be concentrated in a small number of States, this criterion was modified to include any tax in use in enough States to account for more than half the potential tax base. This additional criterion accounts for the inclusion of severance taxes on gas and oil and stock-transfer taxes in the representative tax system. While the latter are imposed by only four States, these four States include New York, where more than half the Nation's stock transfers take place. Similarly, while States with severance taxes do not account for half of the Nation's population, they do account for more than half of the Nation's gas and oil production. We did not attempt to identify any other levies imposed in States as a consequence of their access to a large share of the national base. Generally, other levies of this type account for a small share of total State and local taxes even in the State which has a favored position. There are exceptions such as the gambling tax, which is important in Nevada. For purposes of the representative tax system, it was not included separately, but was combined with amusement taxes.

We considered and rejected the argument that taxes on activities concentrated in a few States ought to be excluded from the representative system because they fall largely on nonresidents of the taxing State. They do form part of the capacity of the taxing State and contribute to its revenues, although their payment may not indicate a "burden" on the citizens of the State, as has been noted in the first chapter.

One of the questions encountered in constructing a representative tax system is whether benefit levies, earmarked taxes, and user charges should be included. The gasoline tax, for example, is presumed to be paid by those who benefit most directly from highways. Especially if the proceeds are earmarked for highways, the gasoline tax does not differ very much from a highway toll. It does not seem logical to exclude the earmarked gasoline tax, which is as much a part of State capacity as any other tax. Indeed, a good case can be made for including tolls and other fees for public services because they substitute for general-purpose taxes and bear much the same relation to capacity as taxes imposed to finance the same services. It was decided, nevertheless, to restrict the representative system to taxes and to follow the classification used by the Bureau of the Census in its statistics on *Government Finances*. This results in the inclusion of all taxes, whether earmarked or not, with the exception of unemployment compensation taxes, which are treated separately in *Government Finances*. All user charges were excluded with the single exception of the net profit of liquor stores in the States with alcoholic beverage monopoly systems. Departing from Census of Governments practice, the net profits of liquor stores in these States were combined with alcoholic beverage taxes because State excise and State monopoly systems are alternative taxation methods.

This selection procedure produced a representative tax system composed of the following 15 taxation categories:

- (1) Property
- (2) General sales and gross receipts
- (3) Motor fuel sales
- (4) Tobacco sales
- (5) Alcoholic beverage sales (including net profits of State liquor monopolies)
- (6) Amusements

- (7) Public utility receipts
- (8) Insurance premiums
- (9) Individual income
- (10) Corporate income
- (11) Estates and inheritances
- (12) Motor vehicle and operators' licenses
- (13) Severance taxes
- (14) Document and stock transfers
- (15) Miscellaneous

The first 14 categories omit certain State and local taxes, most of which are employed in relatively few places and produce relatively small amounts of revenue. Accordingly, an additional category, "Miscellaneous," was added so that the total yield of the representative tax system would exactly equal the total yield of actual State and local tax systems (including liquor store profits) for fiscal year 1960. It is implicit in the representative tax system approach—a yardstick based on actual State tax practice—that the weights assigned to the different taxes correspond to the actual contribution they are making to State and local tax collections. Since the most recent year for which official data are available for State and local tax collections is 1960, the weights employed are those for 1960. The weight assigned to category (15) "Miscellaneous taxes" corresponds to the difference between total State and local tax collections and the collections from the 14 identified categories.

Total State and local collections in 1960 by source are shown in table 9. The weight assigned the various taxes in the representative tax system correspond to dollar amounts shown in this table. A telescoped summary of these data was presented in figure 1. More detailed collection data on a State-by-State basis are presented in tables 10 and 11.

Representative Tax Rates

The time-consuming element in measuring fiscal capacity on the basis of a representative tax system is developing the tax

TABLE 9.—State and Local Tax Collections, by Source,¹ 1960

Tax	Amount (in millions)	Percentage distrib- ution
Property.....	² \$15,866	43.6
General sales and gross receipts....	5,177	14.2
Selective sales and gross receipts:		
Motor fuel.....	3,369	9.3
Tobacco.....	988	2.7
Alcoholic beverages.....	³ 1,049	2.9
Public utilities.....	657	1.8
Insurance.....	535	1.5
Amusements.....	⁴ 55	.2
Income and death taxes:		
Individual income.....	⁵ 2,452	6.7
Corporation income.....	⁶ 1,617	4.4
Death taxes.....	⁷ 412	1.1
All other:		
Motor vehicle taxes and op- erators' licenses.....	² 2,303	6.3
Severance.....	² 416	1.1
Document and stock transfers.....	⁷ 110	.3
Miscellaneous.....	1,353	3.7
Total.....	36,358	100.0

¹ Includes Alaska and Hawaii. Exclusive of all employment taxes. State employment tax collections in fiscal 1960 were approximately \$2 billion. These collection figures include penalties and interest, but are after refunds which are substantial in the case of State gasoline taxes.

² Property tax collections exclude \$542 million motor vehicle property taxes, which are included in motor vehicle taxes and operators' licenses, and include \$3 million severance taxes on timber.

³ Includes \$134 million license tax collections and \$242 million net liquor stores revenue.

⁴ Includes the following license tax revenue: Public utilities, \$24 million; amusements, \$6 million; and corporation income, \$426 million.

⁵ Includes minor amount of local corporation income taxes.

⁶ Minor amount for Washington, D.C., included in "All other."

⁷ State collections and District of Columbia only. Minor amounts of local insurance tax collections included in "Other selective sales and gross receipts." Local document and stock transfer taxes included in "All other."

Source: Department of Commerce, Bureau of the Census, Governments Division.

bases for the constituent taxes, the amount of taxable property, personal income, corporate income, etc., separately for each of the States. This step necessarily precedes the determination of the rates for the separate taxes.

The rate of each tax in the representative system was set at a level such that when it was applied to the tax base in all States, it yielded the same amount of revenue as the States derived collectively from this type of tax in 1960. For example, total collections

from general sales and gross receipts taxes in 1960 (\$5.2 billion) were divided by the estimated aggregate base for such a tax in all the States (\$176.1 billion) to yield a representative rate of 2.9 percent. Since only about two-thirds of the States now employ a general sales or gross receipts tax, the representative tax rate is lower than both the maximum and the average sales tax rate now in use. The effective rates used in the representative tax system are summarized in table 12.

The aggregate yield of the representative tax system for the 50 States is identical with the amount of revenue, tax by tax, State and local government collected in the base year 1960. In individual States, however, the yield of the representative tax system can be higher or lower for any one source and for all tax sources in the aggregate than actual 1960 tax collections. The fact that a State relies heavily on property taxes for its State and local revenue, for example, does not necessarily mean that it will rank high in an array of property-tax yields under a representative tax system. Since in the representative system the tax rate applied to property value is the same for all States, rank is determined by the value of the property in the State compared to the value of property in other States.

Table 13 shows the yield of the representative tax system in each State by source. This may be compared with table 10, which shows actual State and local collections in 1960 in each State by source. Table 14 shows what percent of the total yield of each type of tax under the representative tax system is accounted for by each of the States. For example, under the representative tax system, New York would produce 13.4 percent of the total income tax yield, but only 7 percent of the motor vehicle taxes.

Table 15 shows what percent of the total yield of the representative tax system in each

TABLE 10.—State and Local Tax Collections, by Source, by State, 1960¹
 [In millions of dollars]

State and region	Total	Prop-erty ²	Sales and gross receipts										Income taxes		All other
			General sales		Selective sales							Motor vehicle and operators licenses	Individual ⁴	Corporation ⁴	
			Total	Motor fuel	Alcoholic beverages ³	Tobacco	Public utilities ³	Insurance	Amusements ³	Miscellaneous					
United States.....	36,358	15,866	5,177	3,369	1,049	988	657	535	55	365	2,303	2,452	1,617	1,928	
New England.....	2,315	1,198	129	183	66	70	27	34	(*)	37	176	165	138	90	
Maine.....	194	96	27	23	9	7	4	2	(*)	1	17	.....	(*)	8
New Hampshire.....	114	65	.....	13	7	4	.....	2	(*)	4	10	.....	(*)	6
Vermont.....	87	42	.....	9	4	3	.....	1	(*)	1	7	.....	.....	5
Massachusetts.....	1,208	645	.....	77	31	39	5	12	(*)	21	85	.....	.....	42
Rhode Island.....	169	75	.....	15	4	6	9	3	(*)	7	14	.....	.....	7
Connecticut.....	543	276	.....	46	10	11	8	14	(*)	3	43	.....	.....	23
Mideast.....	8,976	4,065	.....	544	224	267	211	125	28	164	349	1,008	565	473
New York.....	4,839	2,218	.....	215	81	140	111	64	20	114	143	756	260	191
New Jersey.....	1,262	818	.....	98	27	41	57	18	(*)	35	71	.....	59	36
Pennsylvania.....	2,001	691	.....	330	155	63	19	29	6	1	87	.....	198	214
Delaware.....	89	19	.....	8	2	2	(*)	2	(*)	3	4	.....	17	5
Maryland.....	620	260	.....	56	14	18	18	9	1	8	37	.....	21	20
District of Columbia.....	165	59	.....	23	8	3	6	3	(*)	3	7	.....	10	6
Great Lakes.....	7,348	3,645	.....	675	226	201	136	93	5	35	461	211	182	235
Michigan.....	1,730	829	.....	146	56	54	.....	21	(*)	7	76	.....	69	108
Ohio.....	1,840	881	.....	214	86	60	42	26	2	9	101	.....	47	36
Indiana.....	840	417	.....	101	18	17	.....	10	(*)	(*)	69	.....	1	17
Illinois.....	2,084	1,066	.....	142	48	49	83	27	3	19	172	.....	6	45
Wisconsin.....	855	452	.....	72	18	21	11	9	(*)	.....	43	.....	59	29
Plains.....	2,970	1,533	.....	504	67	70	45	43	(*)	4	242	208	72	108
Minnesota.....	750	402	.....	137	25	21	24	9	(*)	1	44	.....	40	38
Iowa.....	578	300	.....	60	15	11	1	7	(*)	1	46	.....	4	14
Missouri.....	659	274	.....	109	53	16	16	13	(*)	.....	65	.....	16	25
North Dakota.....	126	67	.....	21	4	4	(*)	2	(*)	(*)	11	.....	5	5
South Dakota.....	136	77	.....	15	5	3	(*)	2	(*)	2	13	.....	1	4
Nebraska.....	246	162	.....	38	4	6	1	4	(*)	(*)	22	.....	1	9
Kansas.....	475	251	.....	39	5	9	3	6	(*)	.....	41	.....	9	13

See footnotes at end of table.

TABLE 10.—State and Local Tax Collections, by Source, by State, 1960¹—Continued
 [In millions of dollars]

State and region	Total	Prop-erty ²	Sales and gross receipts										Motor vehicle and operators licenses	Income taxes		All other				
			General sales	Selective sales						Motor fuel	Alcoholic beverages ³	Tobacco		Public utilities ³	Insurance		Amuse-ments ³	Miscel-laneous	Indi-vidual ⁴	Corpo-ration ⁴
				Total	Motor fuel	Alcoholic beverages ³	Tobacco	Public utilities ³	Insurance												Amuse-ments^{3}	Miscel-laneous
Southeast	5,616	1,567	1,003	832	252	170	129	103	6	62	391	367	272	466						
Virginia.....	549	190	1	77	26	2	31	12	1	.....	41	77	33	59					
West Virginia.....	280	76	85	34	15	10	2	6	(*)	.....	28	.....	1	13				
Kentucky.....	362	120	.....	62	20	10	6	7	(*)	.....	28	.....	*22	17			
Tennessee.....	481	141	105	76	15	18	4	9	(*)	.....	49	.....	5	27				
North Carolina.....	636	157	88	99	27	.....	24	13	(*)	.....	47	.....	92	28			
South Carolina.....	309	62	68	51	17	11	5	6	(*)	.....	17	.....	32	15				
Georgia.....	559	145	146	84	26	20	3	11	(*)	.....	3	.....	42	18				
Florida.....	920	342	171	122	49	32	33	12	(*)	.....	58	.....	36	20				
Alabama.....	396	71	101	78	20	20	6	8	(*)	.....	27	.....	2	70				
Mississippi.....	283	67	77	47	5	11	1	5	(*)	.....	1	.....	28	30				
Louisiana.....	616	144	106	64	25	27	11	10	(*)	.....	14	.....	8	18				
Arkansas.....	225	53	55	38	6	9	3	4	(*)	.....	26	.....	13	161				
										1	10	10	33	10						
Southwest	2,416	1,026	173	296	59	109	46	47	1	14	243	34	86	285						
Oklahoma.....	413	132	56	59	14	14	4	10	(*)	.....	46	17	16	45					
Texas.....	1,561	735	.....	388	37	86	36	32	(*)	.....	163	.....	61	214			
New Mexico.....	167	42	45	27	3	5	2	2	(*)	.....	12	.....	*7	21				
Arizona.....	275	117	72	43	5	4	4	3	(*)	.....	22	.....	8	4				
Rocky Mountain	947	451	101	165	29	15	6	12	(*)	.....	73	82	29	47					
Montana.....	152	80	.....	34	8	6	1	2	.....	.....	13	11	5	9			
Idaho.....	130	59	.....	28	6	3	1	2	(*)	.....	10	20	6	7				
Wyoming.....	79	40	12	14	2	2	(*)	1	.....	.....	9	.....	(*)	4			
Colorado.....	406	197	57	37	7	2	3	5	(*)	.....	30	.....	35	20				
Utah.....	180	74	32	32	5	2	1	2	.....	.....	11	.....	12	9			
										1	11	16	6	9						
Far West	5,769	2,380	1,269	874	463	87	55	80	14	47	371	379	274	223						
Washington.....	677	170	262	155	40	18	25	8	3	(*)	49	.....	1	42					
Oregon.....	415	184	.....	67	37	.....	4	6	(*)	.....	31	.....	23	16		
Nevada.....	79	26	13	23	8	.....	(*)	1	10	(*)	8	.....	(*)	8				
California.....	4,409	1,973	932	593	61	64	21	62	1	46	277	.....	242	146					
Alaska.....	37	7	.....	8	4	2	.....	1	(*)	(*)	2	.....	2	8			
Hawaii.....	152	20	62	28	3	2	5	2	(*)	(*)	4	29	6	2						

*Less than \$500,000.

¹ Distribution of local tax collections by source for cities with under 25,000 population, counties, townships, and school districts (\$612 million), partially estimated.
² Excludes \$542 million motor vehicle property taxes, which are included in "Motor vehicle taxes and operators' licenses," and includes \$3 million severance taxes on timber.
³ Including related license taxes. Alcoholic beverage collections also include \$242 million net liquor stores revenue.

⁴ Combined corporation and individual income taxes for New Mexico are tabulated with individual income taxes. Minor amounts of local corporation income taxes for Kentucky, Missouri, and Ohio are tabulated with individual income taxes. Corporation collections include related license taxes.
⁵ Includes \$65 million corporation excise taxes and surtaxes, measured in part by net income and in part by corporate excess.

Source: Department of Commerce, Bureau of the Census, Governments Division.

TABLE 11.—State and Local Tax Collections, by Source, by State, by State, 1960
[Percentage distribution]

State and region	Total	Property	Sales and gross receipts										Motor vehicle and operators licenses	Income taxes		All other
			General sales	Selective sales							Individual	Corporation				
				Total	Motor fuel	Alcoholic beverages	Tobacco	Public utilities	Insurance	Amusements				Miscellaneous		
United States	100	43.6	14.2	19.3	9.3	2.9	2.7	1.8	1.5	0.2	1.0	6.3	6.7	4.4	5.3	
New England	100	51.7	5.6	18.1	7.9	2.9	3.0	1.2	1.5	(*)	1.6	7.6	7.1	6.0	3.9	
Maine	100	49.5	13.9	23.7	11.9	4.6	3.6	2.1	1.0	(*)	.5	8.8	.....	(*)	4.1
New Hampshire	100	57.0	.....	27.2	11.4	6.1	3.5	.....	1.8	(*)	3.5	8.8	1.8	(*)	5.3
Vermont	100	48.3	.....	21.8	10.3	4.6	3.4	1.1	1.1	(*)	1.1	8.0	12.6	2.3	5.7
Massachusetts	100	53.4	.....	15.7	6.4	2.6	3.2	1.7	1.0	(*)	1.7	7.0	12.6	7.9	3.5
Rhode Island	100	44.4	14.8	24.3	8.9	2.4	3.6	3.0	1.8	(*)	4.1	8.3	.....	5.3	4.1
Connecticut	100	50.8	14.2	16.9	8.5	1.8	2.0	1.5	2.6	(*)	.6	7.9	.....	5.9	4.2
Mideast	100	45.3	10.6	17.4	6.1	2.5	3.0	2.4	1.4	.3	1.8	3.9	11.2	6.3	5.3	
New York	100	45.8	10.9	15.4	4.4	1.7	2.9	2.3	1.3	.4	2.4	3.0	15.6	5.4	3.9	
New Jersey	100	64.8	.....	21.9	7.8	2.1	3.2	4.5	1.4	(*)	2.8	5.6	.....	4.7	2.9
Pennsylvania	100	34.5	16.5	18.3	7.7	4.6	3.1	.....	1.4	.3	.....	4.3	5.8	9.9	10.7
Delaware	100	21.3	.....	20.2	9.0	2.2	2.2	(*)	2.2	(*)	3.4	4.5	29.2	19.1	5.6
Maryland	100	41.9	11.9	19.8	9.0	2.3	2.9	2.9	1.5	.2	1.3	6.0	13.7	3.4	3.2	
District of Columbia	100	35.8	13.9	21.2	7.3	4.8	1.8	3.6	1.8	(*)	1.8	4.2	15.2	6.1	3.6	
Great Lakes	100	49.6	16.9	18.6	9.2	3.1	2.7	1.9	1.3	.1	.5	6.3	2.9	2.5	3.2	
Michigan	100	47.9	21.0	16.4	8.4	3.2	3.1	.....	1.2	(*)	.4	4.4	.....	4.0	6.2
Ohio	100	47.9	14.4	23.8	11.6	4.7	3.3	2.3	1.4	.1	.5	5.5	3.9	2.6	2.0	
Indiana	100	49.6	22.5	17.4	12.0	2.1	2.0	.....	1.2	(*)	(*)	8.2	.1	.1	2.0
Illinois	100	51.2	20.4	17.7	6.8	2.3	2.4	4.0	1.3	.1	.9	8.3	.....	.3	2.2
Wisconsin	100	52.9	.....	15.4	8.4	2.1	2.5	1.3	1.1	(*)	.....	5.0	16.3	6.9	3.4
Plains	100	51.6	10.3	17.0	9.2	2.3	2.4	1.5	1.4	(*)	.1	8.1	7.0	2.4	3.6	
Minnesota	100	53.6	.....	18.3	7.6	3.3	2.8	3.2	1.2	(*)	.1	5.9	11.9	5.3	5.1
Iowa	100	51.9	14.0	16.6	10.4	2.6	1.9	2.2	1.2	(*)	.2	8.0	6.4	.7	2.4	
Missouri	100	41.6	18.1	16.5	8.0	1.4	2.4	2.4	2.0	(*)	.....	9.9	8.0	2.4	3.8
North Dakota	100	53.2	12.7	16.7	8.7	3.2	3.2	(*)	1.6	(*)	(*)	8.7	4.0	.8	4.0	
South Dakota	100	56.6	11.8	18.4	11.0	3.7	2.2	(*)	1.5	(*)	1.5	9.6	.....	.7	2.9
Nebraska	100	65.9	.....	21.5	15.4	1.6	2.4	.4	1.6	(*)	(*)	8.9	.....	1.9	3.7
Kansas	100	52.8	15.4	13.5	8.2	1.1	1.9	.6	1.3	(*)	.....	8.6	5.1	1.9	2.7

TABLE 11.—State and Local Tax Collections, by Source, by State, 1960—Continued
[Percentage distribution]

State and region	Total	Prop-erty	Sales and gross receipts										Motor vehicle and operators licenses	Income taxes		All other
			General sales	Selective sales						Miscellaneous	Individual	Corporation				
				Total	Motor fuel	Alcoholic beverages	Tobacco	Public utilities	Insurance					Amusements		
Southeast	100	27.9	17.9	27.6	14.8	4.5	3.0	2.3	1.8	.1	1.1	7.0	6.5	4.8	8.3	
Virginia.....	100	34.6	2	27.0	14.0	4.7	.4	5.6	2.2	.2	.....	7.5	14.0	6.0	10.7
West Virginia.....	100	27.1	30.4	27.1	12.1	5.4	3.6	.7	2.1	(*)	3.2	10.0	.....	.4	4.6
Kentucky.....	100	33.1	.....	29.8	17.1	5.5	2.8	1.7	1.9	(*)	.8	7.7	18.2	6.1	4.7
Tennessee.....	100	29.3	21.8	25.8	15.8	3.1	3.7	.8	1.9	(*)	(*)	10.2	1.0	6.2	5.6	
North Carolina.....	100	24.7	13.8	25.9	15.6	4.2	.....	3.8	2.0	.2	(*)	7.4	14.5	9.4	4.4
South Carolina.....	100	20.1	22.0	31.1	16.5	5.5	3.6	1.6	1.9	.3	1.9	5.5	10.4	6.5	4.9	
Georgia.....	100	25.9	26.1	26.1	15.0	4.7	3.6	.5	2.0	(*)	.5	7.5	6.4	4.7	3.2	
Florida.....	100	37.2	18.6	30.0	13.3	5.3	3.5	3.6	1.3	.1	2.9	6.3	.....	.2	7.6
Alabama.....	100	17.9	25.5	33.6	19.7	5.1	5.1	1.5	2.0	(*)	.3	3.8	7.1	4.5	7.6	
Mississippi.....	100	23.7	27.2	25.4	16.6	1.8	3.9	.4	1.8	(*)	1.1	9.2	2.8	6.0	6.4	
Louisiana.....	100	23.4	17.2	23.7	10.4	4.1	4.4	1.8	1.6	.2	1.5	2.3	2.1	5.4	26.1	
Arkansas.....	100	23.6	24.4	27.1	16.9	2.7	4.0	1.3	1.8	(*)	.4	11.6	4.4	4.4	4.4	
Southwest	100	42.5	7.2	23.6	12.3	2.4	4.5	1.9	1.9	.....	.6	10.1	1.4	3.6	11.8
Oklahoma.....	100	32.0	13.6	24.5	14.3	3.4	3.4	1.0	2.4	(*)	.....	11.1	4.1	3.9	10.9
Texas.....	100	47.1	.....	24.9	11.9	2.4	5.5	2.3	2.0	(*)	.7	10.4	.....	3.9	13.7
New Mexico.....	100	25.1	26.9	22.8	16.2	1.8	3.0	1.2	1.2	(*)	.....	7.2	4.2	.6	12.6
Arizona.....	100	42.5	26.2	15.6	9.1	1.8	1.5	1.5	1.1	(*)	1.1	8.0	3.6	2.9	1.5	
Rocky Mountain	100	47.6	10.7	17.4	10.5	3.1	1.6	.6	1.3	(*)	.2	7.7	8.7	3.1	5.0	
Montana.....	100	52.6	.....	22.4	11.2	5.3	3.9	.7	1.3	.....	.....	8.6	7.2	3.3	5.9
Idaho.....	100	45.4	.....	21.5	11.5	4.6	2.3	.8	1.5	(*)	.8	7.7	15.4	4.6	5.4
Wyoming.....	100	50.6	15.2	17.7	11.4	2.5	2.5	(*)	1.3	.....	.....	11.4	.....	(*)	5.1
Colorado.....	100	48.5	14.0	13.8	9.1	1.7	.5	.7	1.2	(*)	.....	7.4	8.6	3.0	4.9
Utah.....	100	41.1	17.8	17.8	11.7	2.8	1.1	.6	1.1	.....	.6	6.1	8.9	3.3	5.0
Far West	100	41.3	22.0	15.1	8.0	2.2	1.5	1.0	1.4	.2	.8	6.4	6.6	4.7	3.9	
Washington.....	100	25.1	38.7	22.9	8.9	5.9	2.7	3.7	1.2	.4	(*)	7.2	.....	1	6.2
Oregon.....	100	44.3	.....	16.1	8.9	4.3	.....	1.0	1.4	(*)	.2	7.5	22.9	5.5	3.9
Nevada.....	100	32.9	16.5	29.1	10.1	1.3	2.5	(*)	1.3	12.7	(*)	10.1	.....	(*)	10.1
California.....	100	44.7	21.1	13.4	7.7	1.4	1.5	.5	1.4	(*)	1.0	6.3	5.6	5.5	3.3	
Alaska.....	100	18.9	.....	21.6	10.8	5.4	2.7	.....	2.7	(*)	(*)	5.4	24.3	5.4	21.6
Hawaii.....	100	13.2	40.8	18.4	10.5	2.0	1.3	3.3	1.3	(*)	(*)	2.6	19.1	3.9	1.3	

*Less than 0.05 percent.
Source: Computed from table 10.

TABLE 12.—Summary of Tax Rates Used in Representative Tax System

Tax	Rates used
Property	1.4 percent of estimated full taxable property.
General sales and gross receipts	2.9 percent of estimated taxable retail sales.
Selective sales and gross receipts:	
Motor fuel	5.5 cents per gallon of gasoline consumed.
Tobacco	4.4 cents per standard pack of taxable cigarettes.
Alcoholic beverages	\$4.43 per gallon of distilled spirits consumed.
Public utilities	2.9 percent of gross receipts (excludes carriers).
Insurance	1.8 percent of life premiums received and fire and casualty direct premiums earned.
Amusements	1.1 percent of receipts of amusement and recreation services.
Income and death taxes:	
Individual income	⁽¹⁾ .
Corporation income	3.9 percent of estimated taxable corporate income.
Death taxes	10.3 percent of taxable estate as defined by Federal estate tax.
All other:	
Motor vehicle taxes and operators' licenses	\$32.64 per motor vehicle registered.
Severance (oil and gas only)	3.2 percent of the value of oil and gas production.

¹ Graduated rate schedule. See appendix B.

TABLE 13.—Estimated Yield of Representative Tax System, Total and Selected Taxes, by State, 1960

[In millions of dollars]

State and region	Total	Property	Non-property					All other taxes
			Total	Sales and gross receipts	Income	Motor vehicle taxes and operators' licenses	Death	
United States	36,358	¹ 15,866	20,493	² 12,193	³ 4,069	2,303	412	1,516
New England	2,069	844	1,225	725	264	126	41	68
Maine	154	60	94	62	14	12	2	4
New Hampshire	120	50	70	45	12	8	2	3
Vermont	67	28	39	25	6	5	1	2
Massachusetts	1,000	406	594	353	132	56	18	35
Rhode Island	151	59	92	54	18	11	4	5
Connecticut	575	240	335	186	82	34	14	19
Mideast	7,828	3,214	4,614	2,646	1,110	419	129	310
New York	3,562	1,438	2,124	1,183	546	162	70	163
New Jersey	1,296	538	758	445	180	74	16	43
Pennsylvania	2,090	871	1,219	708	268	135	31	77
Delaware	102	41	61	35	16	6	1	4
Maryland	584	252	332	194	76	36	7	18
District of Columbia	194	74	120	80	25	6	4	5
Great Lakes	7,708	3,442	4,266	2,531	933	463	76	263
Michigan	1,576	679	897	530	198	103	13	54
Ohio	2,021	901	1,120	661	245	127	20	67
Indiana	961	440	521	320	102	64	6	30
Illinois	2,373	1,077	1,296	754	304	119	30	89
Wisconsin	778	346	432	266	85	50	7	24

See footnotes at end of table.

TABLE 13.—Estimated Yield of Representative Tax System, Total and Selected Taxes, by State, 1960—Continued

[In millions of dollars]

State and region	Total	Property	Non-property					All other taxes
			Total	Sales and gross receipts	Income	Motor vehicle taxes and operators' licenses	Death	
Plains	3,346	1,578	1,768	1,121	282	229	28	108
Minnesota.....	716	326	390	246	68	49	5	21
Iowa.....	637	333	304	195	48	42	5	15
Missouri.....	868	364	504	319	93	56	9	27
North Dakota.....	139	68	71	49	7	11	(*)	4
South Dakota.....	148	77	71	50	6	11	1	3
Nebraska.....	341	175	166	106	24	23	3	10
Kansas.....	497	234	263	157	37	37	5	27
Southeast	5,939	2,434	3,505	2,204	543	461	46	252
Virginia.....	650	274	376	244	63	45	5	19
West Virginia.....	278	112	166	102	28	19	2	15
Kentucky.....	455	190	265	166	40	37	4	18
Tennessee.....	515	208	307	197	50	41	3	16
North Carolina.....	663	278	385	247	61	52	5	19
South Carolina.....	291	111	180	117	25	28	2	8
Georgia.....	549	208	341	220	54	46	4	17
Florida.....	1,018	447	571	373	88	73	12	26
Alabama.....	437	179	258	162	41	39	2	14
Mississippi.....	250	101	149	97	17	22	1	12
Louisiana.....	582	220	362	189	55	37	4	78
Arkansas.....	249	106	143	93	18	22	1	9
Southwest	3,244	1,482	1,762	1,000	259	210	25	267
Oklahoma.....	441	170	271	158	36	37	3	38
Texas.....	2,340	1,102	1,238	692	186	140	19	201
New Mexico.....	198	83	115	64	15	14	1	21
Arizona.....	265	127	138	87	22	19	1	8
Rocky Mountain	1,018	488	530	319	81	71	7	52
Montana.....	177	91	86	54	12	12	1	7
Idaho.....	146	71	75	48	10	12	1	3
Wyoming.....	108	50	58	30	6	6	1	15
Colorado.....	406	186	220	134	37	28	4	17
Utah.....	184	89	95	56	15	13	1	10
Far West	5,206	2,385	2,821	1,648	597	324	59	193
Washington.....	593	257	336	204	66	43	5	17
Oregon.....	368	158	210	127	40	28	3	11
Nevada.....	85	36	49	34	7	5	1	2
California.....	4,029	1,881	2,148	1,233	468	239	49	158
Alaska.....	32	10	22	15	4	2	(*)	1
Hawaii.....	98	42	56	34	12	7	1	3

*Less than \$500,000.

¹ Excludes \$542 million motor vehicle property taxes, which are included in "Motor vehicle taxes and operators' licenses," and includes \$3 million severance taxes on timber.

² Includes \$242 million net liquor store revenue and the

following license tax revenue: Alcoholic beverages, \$134 million; public utilities, \$24 million; and amusements, \$6 million.

³ Includes \$426 million corporation license taxes.

TABLE 14.—Estimated Yield of Representative Tax System, by Type of Tax, by State, 1960

[Percentage distribution]

State and region	Total	Property	Non-property					Death	All other taxes
			Total	Sales and gross receipts	Income	Motor vehicle taxes and operators' licenses			
United States.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
New England.....	5.7	5.3	6.0	5.9	6.5	5.5	10.0	4.5	
Maine.....	.4	.4	.5	.5	.3	.5	.5	.3	
New Hampshire.....	.3	.3	.3	.4	.3	.3	.5	.2	
Vermont.....	.2	.2	.2	.2	.1	.2	.2	.1	
Massachusetts.....	2.8	2.6	2.9	2.9	3.2	2.4	4.4	2.3	
Rhode Island.....	.4	.4	.4	.4	.4	.5	1.0	.3	
Connecticut.....	1.6	1.5	1.6	1.5	2.0	1.5	3.4	1.3	
Mideast.....	21.5	20.3	22.5	21.7	27.3	18.2	31.3	20.4	
New York.....	9.8	9.1	10.4	9.7	13.4	7.0	17.0	10.8	
New Jersey.....	3.6	3.4	3.7	3.6	4.4	3.2	3.9	2.8	
Pennsylvania.....	5.7	5.5	5.9	5.8	6.6	5.9	7.5	5.1	
Delaware.....	.3	.3	.3	.3	.4	.3	.2	.3	
Maryland.....	1.6	1.6	1.6	1.6	1.9	1.6	1.7	1.2	
District of Columbia.....	.5	.5	.6	.7	.6	.3	1.0	.3	
Great Lakes.....	21.2	21.7	20.8	20.8	22.9	20.1	18.4	17.3	
Michigan.....	4.3	4.3	4.4	4.3	4.9	4.5	3.2	3.6	
Ohio.....	5.6	5.7	5.5	5.4	6.0	5.5	4.9	4.4	
Indiana.....	2.6	2.8	2.5	2.6	2.5	2.8	1.5	2.0	
Illinois.....	6.5	6.8	6.3	6.2	7.5	5.2	7.3	5.9	
Wisconsin.....	2.1	2.2	2.1	2.2	2.1	2.2	1.7	1.6	
Plains.....	9.2	9.9	8.6	9.2	6.9	9.9	6.8	7.1	
Minnesota.....	2.0	2.1	1.9	2.0	1.7	2.1	1.2	1.4	
Iowa.....	1.8	2.1	1.5	1.6	1.2	1.8	1.2	1.0	
Missouri.....	2.4	2.3	2.5	2.6	2.3	2.4	2.2	1.8	
North Dakota.....	.4	.4	.3	.4	.2	.5	(*)	.3	
South Dakota.....	.4	.5	.3	.4	.1	.5	.2	.2	
Nebraska.....	.9	1.1	.8	.9	.6	1.0	.7	.7	
Kansas.....	1.4	1.5	1.3	1.3	.9	1.6	1.2	1.8	
Southeast.....	16.3	15.3	17.1	18.1	13.3	20.0	11.2	16.6	
Virginia.....	1.8	1.7	1.8	2.0	1.5	2.0	1.2	1.3	
West Virginia.....	.8	.7	.8	.8	.7	.8	.5	1.0	
Kentucky.....	1.3	1.2	1.3	1.4	1.0	1.6	1.0	1.2	
Tennessee.....	1.4	1.3	1.5	1.6	1.2	1.8	.7	1.1	
North Carolina.....	1.8	1.8	1.9	2.0	1.5	2.3	1.2	1.3	
South Carolina.....	.8	.7	.9	1.0	.6	1.2	.5	.5	
Georgia.....	1.5	1.3	1.7	1.8	1.3	2.0	1.0	1.1	
Florida.....	2.8	2.8	2.8	3.1	2.2	3.2	2.9	1.7	
Alabama.....	1.2	1.1	1.3	1.3	1.0	1.7	.5	.9	
Mississippi.....	.7	.6	.7	.8	.4	1.0	.2	.8	
Louisiana.....	1.6	1.4	1.8	1.6	1.4	1.6	1.0	5.1	
Arkansas.....	.7	.7	.7	.8	.4	1.0	.2	.6	
Southwest.....	8.9	9.3	8.6	8.2	6.4	9.1	6.1	17.6	
Oklahoma.....	1.2	1.1	1.3	1.3	.9	1.6	.8	2.5	
Texas.....	6.4	6.9	6.0	5.7	4.6	6.1	4.7	13.3	
New Mexico.....	.5	.5	.6	.5	.4	.6	.2	1.4	
Arizona.....	.7	.8	.7	.7	.5	.8	.3	.5	

See footnote at end of table.

TABLE 14.—*Estimated Yield of Representative Tax System, by Type of Tax, by State, 1960—Continued*
 [Percentage distribution]

State and region	Total	Property	Non-property					
			Total	Sales and gross receipts	Income	Motor vehicle taxes and operators' licenses	Death	All other taxes
Rocky Mountain	2.8	3.1	2.6	2.6	2.0	3.1	1.7	3.4
Montana.....	.5	.6	.4	.4	.3	.5	.2	.5
Idaho.....	.4	.4	.4	.4	.2	.5	.2	.2
Wyoming.....	.3	.3	.3	.2	.1	.3	.2	1.0
Colorado.....	1.1	1.2	1.1	1.1	.9	1.2	1.0	1.1
Utah.....	.5	.6	.5	.5	.4	.6	.2	.7
Far West	14.3	15.0	13.8	13.5	14.7	14.1	14.3	12.7
Washington.....	1.6	1.6	1.6	1.7	1.6	1.9	1.2	1.1
Oregon.....	1.0	1.0	1.0	1.0	1.0	1.2	.7	.7
Nevada.....	.2	.2	.2	.3	.2	.2	.2	.1
California.....	11.1	11.9	10.5	10.1	11.5	10.4	11.9	10.4
Alaska.....	.1	.1	.1	.1	.1	.1	(*)	.1
Hawaii.....	.3	.3	.3	.3	.3	.3	.2	.2

*Less than 0.05 percent.

TABLE 15.—*Estimated Yield of Representative Tax System, by State, by Type of Tax, 1960*
 [Percentage distribution]

State and region	Total	Property	Non-property					
			Total	Sales and gross receipts	Income	Motor vehicle taxes and operators' licenses	Death	All other taxes
United States	100	43.6	56.4	33.5	11.2	6.3	1.1	4.2
New England	100	40.8	59.2	35.0	12.8	6.1	2.0	3.3
Maine.....	100	39.0	61.0	40.3	9.1	7.8	1.3	2.6
New Hampshire.....	100	41.7	58.3	37.5	10.0	6.7	1.7	2.5
Vermont.....	100	41.8	58.2	37.3	9.0	7.5	1.5	3.0
Massachusetts.....	100	40.6	59.4	35.3	13.2	5.6	1.8	3.5
Rhode Island.....	100	39.1	60.9	35.8	11.9	7.3	2.6	3.3
Connecticut.....	100	41.7	58.3	32.3	14.3	5.9	2.4	3.3
Mideast	100	41.1	58.9	33.8	14.2	5.4	1.6	4.0
New York.....	100	40.4	59.6	33.2	15.3	4.5	2.0	4.6
New Jersey.....	100	41.5	58.5	34.3	13.9	5.7	1.2	3.3
Pennsylvania.....	100	41.7	58.3	33.9	12.8	6.5	1.5	3.7
Delaware.....	100	40.2	59.8	34.3	15.7	5.9	1.0	3.9
Maryland.....	100	43.2	56.8	33.2	13.0	6.2	1.2	3.1
District of Columbia.....	100	38.1	61.9	41.2	12.9	3.1	2.1	2.6
Great Lakes	100	44.7	55.3	32.8	12.1	6.0	1.0	3.4
Michigan.....	100	43.1	56.9	33.6	12.6	6.5	.8	3.4
Ohio.....	100	44.6	55.4	32.7	12.1	6.3	1.0	3.3
Indiana.....	100	45.8	54.2	33.3	10.6	6.7	.6	3.1
Illinois.....	100	45.4	54.6	31.8	12.8	5.0	1.3	3.8
Wisconsin.....	100	44.5	55.5	34.2	10.9	6.4	.9	3.1

TABLE 15.—Estimated Yield of Representative Tax System, by State, by Type of Tax, 1960—Continued

[Percentage distribution]

State and region	Total	Property	Non-property					
			Total	Sales and gross receipts	Income	Motor vehicle taxes and operators licenses	Death	All other taxes
Plains	100	47.2	52.8	33.5	8.4	6.8	.8	3.2
Minnesota.....	100	45.5	54.5	34.4	9.5	6.8	.7	2.9
Iowa.....	100	52.3	47.7	30.6	7.5	6.6	.8	2.4
Missouri.....	100	41.9	58.1	36.8	10.7	6.5	1.0	3.1
North Dakota.....	100	48.9	51.1	35.3	5.0	7.9	.2	2.9
South Dakota.....	100	52.0	48.0	33.8	4.1	7.4	.7	2.0
Nebraska.....	100	51.3	48.7	31.1	7.0	6.7	.9	2.9
Kansas.....	100	47.1	52.9	31.6	7.4	7.4	1.0	5.4
Southeast	100	41.0	59.0	37.1	9.1	7.8	.8	4.2
Virginia.....	100	42.2	57.8	37.5	9.7	6.9	.8	2.9
West Virginia.....	100	40.3	59.7	36.7	10.1	6.8	.7	5.4
Kentucky.....	100	41.8	58.2	36.5	8.8	8.1	.9	4.0
Tennessee.....	100	40.4	59.6	38.3	9.7	8.0	.6	3.1
North Carolina.....	100	41.9	58.1	37.3	9.2	7.8	.8	2.9
South Carolina.....	100	38.1	61.9	40.2	8.6	9.6	.7	2.7
Georgia.....	100	37.9	62.1	40.1	9.8	8.4	.7	3.1
Florida.....	100	43.9	56.1	36.6	8.6	7.2	1.2	2.6
Alabama.....	100	41.0	59.0	37.1	9.4	8.9	.5	3.2
Mississippi.....	100	40.4	59.6	38.8	6.8	8.8	.4	4.8
Louisiana.....	100	37.8	62.2	32.5	9.5	6.4	.7	13.4
Arkansas.....	100	42.6	57.4	37.3	7.2	8.8	.4	3.6
Southwest	100	45.7	54.3	30.8	8.0	6.5	.8	8.2
Oklahoma.....	100	38.5	61.5	35.8	8.2	8.4	.7	8.6
Texas.....	100	47.1	52.9	29.6	7.9	6.0	.8	8.6
New Mexico.....	100	41.9	58.1	32.3	7.6	7.1	.5	10.6
Arizona.....	100	47.9	52.1	32.8	8.3	7.2	.4	3.0
Rocky Mountain	100	47.9	52.1	31.3	8.0	7.0	.7	5.1
Montana.....	100	51.4	48.6	30.5	6.8	6.8	.6	4.0
Idaho.....	100	48.6	51.4	32.9	6.8	8.2	.7	2.1
Wyoming.....	100	46.3	53.7	27.8	5.6	5.6	.9	13.9
Colorado.....	100	45.8	54.2	33.0	9.1	6.9	1.0	4.2
Utah.....	100	48.4	51.6	30.4	8.2	7.1	.5	5.4
Far West	100	45.8	54.2	31.7	11.5	6.2	1.1	3.7
Washington.....	100	43.3	56.7	34.4	11.1	7.3	.8	2.9
Oregon.....	100	42.9	57.1	34.5	10.9	7.6	.8	3.0
Nevada.....	100	42.4	57.6	40.0	8.2	5.9	1.2	2.4
California.....	100	46.7	53.3	30.6	11.6	5.9	1.2	3.9
Alaska.....	100	31.2	68.8	46.9	12.5	6.3	(*)	3.1
Hawaii.....	100	42.9	57.1	34.7	12.2	7.1	1.0	3.1

*Less than 0.05 percent.

State is attributable to each of the major types of taxes. Note that there is considerable variation in these percentages due to the variation in the relative importance of the several tax bases in each State. Appreciable variations remain even when regional

averages are computed. For example, the property tax would account for 47.9 percent of the total yield of the representative tax system in the Rocky Mountain States and only 41 percent in the Mideast. The regional variations are illustrated in figure 2.

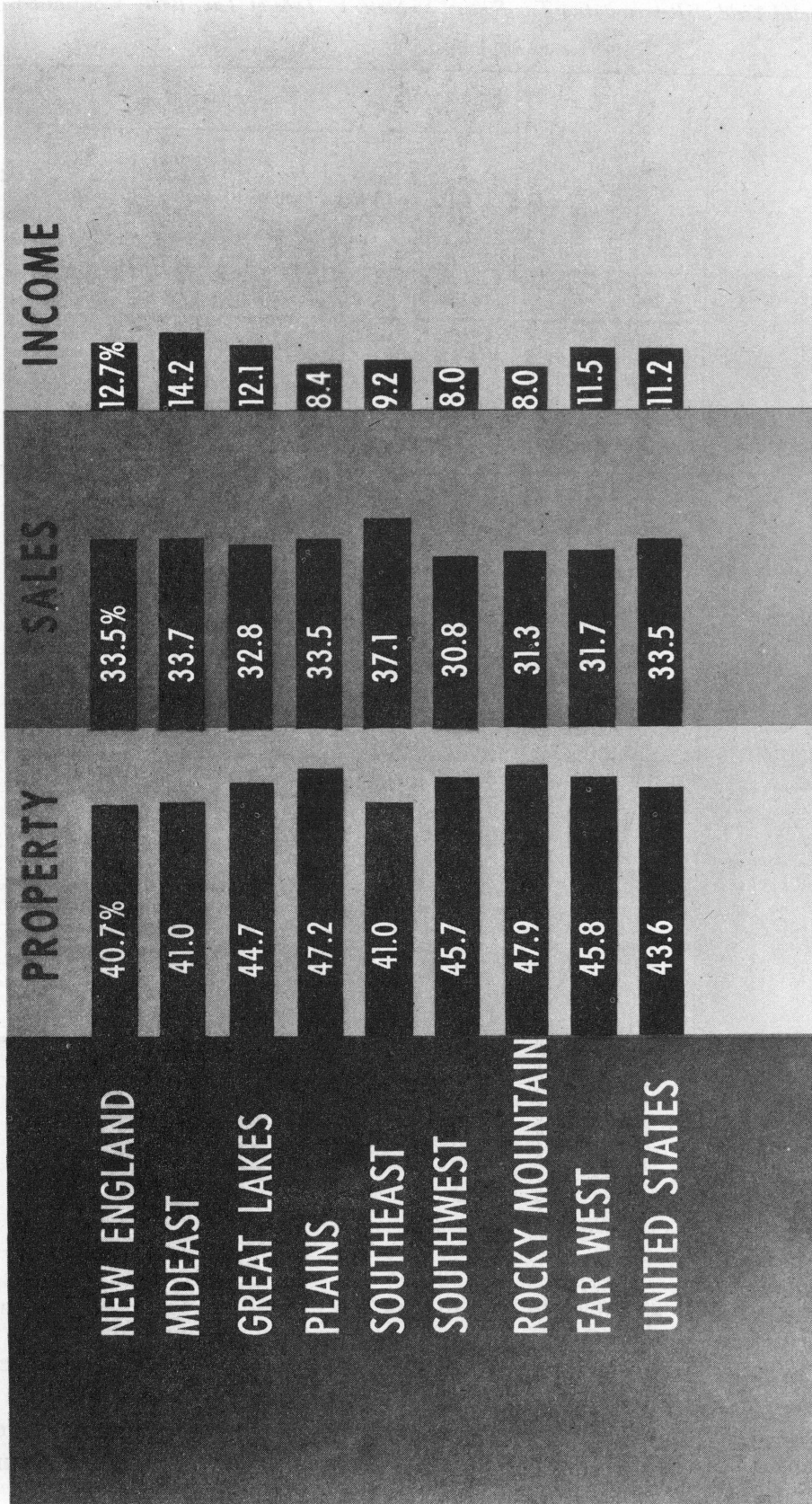


Figure 2. State and Local Tax Yields Under Representative Tax System, 1960

The Same Representative Tax System Produces Different Tax Distributions by Types of Tax in the Regions.

Estimating the Tax Bases

A very brief description is given here of the methods used to estimate the base for each of the 15 tax categories included in the representative system. More details on sources and computation procedures are presented in appendix B.

Property taxes. The application of the representative tax system poses nearly as many problems in the property tax area alone as in all other taxes combined because the American property tax is a very complex, variegated institution. Since it is the mainstay of local revenues and for more than a century was a major State tax source as well, it has been exposed to concentrated economic and political pressures longer than any other American tax. The combined impact of these pressures, working with differing intensity in the different parts of the country against increasingly large revenue needs on the one hand and combinations of legal restrictions on the other, produced a variety unequalled in any other tax category in use by State and local governments. For purposes of the representative tax system it was necessary to abstract from these variations a consistently defined and uniformly measured property tax base.

Two general classes of property were included; namely, real property consisting of land and any structures or improvements on it, and personal property including inventories, livestock, and producers' durable equipment. Household goods such as furniture were uniformly excluded. Automobiles also were excluded and the estimated property taxes on automobiles were combined with other motor vehicle taxes. Intangible personal property—money, bank deposits, stocks, bonds, etc.—were excluded to the extent permitted by the available data.

The methods of estimating the components of the property tax base are described in appendix B. The scope of that operation together with some indication of the limitations which necessarily attach to State-by-State estimates of the value of taxable property is suggested by the following summary of methods employed in compiling the data for the different classes of property obtained from a variety of sources to a State-by-State series of taxable property values.

a. Locally assessed land and structures other than public utilities. Market values of nonfarm property were estimated by applying the weighted average of assessment ratios for locally assessed property developed by the Census of Governments to the assessed valuation of nonfarm property from *Census of Governments: Taxable Property Values in the United States, 1957*. Values of farm property were obtained from 1959 Census of Agriculture. All nonfarm land and structures were adjusted to 1959 values on basis of 1.455-percent rise in property values for each 1-percent rise in State income (from Raymond Goldsmith's wealth estimates related to State personal income change 1956-58).

b. Public utility properties. Public utility property taxes (railroads and other) were estimated on the basis of the ratio of public utility assessments to total property tax assessments using data in *Census of Governments: Taxable Property Values in the United States*, supplemented by unpublished tabulations for 1961 on local assessments of public utility properties. These taxes were excluded from the property-tax base total and distributed separately. While at the outset an attempt was made to estimate the value of public utility property, by State, this approach was rejected (either because the data were not comparable from State to State or not comparable to other property values) in favor of an allocation of public utility property taxes on the basis of general economic indexes of public utility property holdings by State.

c. State assessed land and structures other than public utilities. Value was estimated on the basis of assessments in *Taxable Property Values in the United States*, assuming a uniform assessment ratio of 55 percent in the few States assessing nonutility properties.

d. Nonfarm inventories. Estimated from Census of Business data on sales-inventory ratios, by

class of manufacturing, wholesaling, and retailing (2-digit industrial classifications), assuming nationwide ratios applied to the specific industrial composition within each State as measured by sales data, by industry, and by State.

e. Farm crop inventories. Estimates for 1959 prepared by Department of Agriculture.

f. Farm livestock. Obtained from the 1959 Census of Agriculture.

g. Nonfarm equipment. Equipment purchases by manufacturing and mining firms, by State, for Census of Business years, were used to compute the percentage State distribution of value of equipment. The percentage distribution for intercensus years was estimated by interpolation of census data.

For *construction equipment*, national totals were allocated on the basis of the State distribution of wages and salaries in the construction industry. Office and store equipment was distributed by States on the basis of the total of wages and salaries of wholesale and retail trade, finance, and insurance.

National totals of the selected classes of equipment purchases were obtained from *Survey of Current Business* (unpublished estimates for years after 1954).

In computing the 1959 replacement cost of producers' durable equipment the following periods of depreciation were applied on a straight-line basis:

- 17 years manufacturing equipment;
- 15 years mining equipment;
- 8 years construction equipment; and
- 15 years office and store equipment.

Price adjustments to a 1959 level were based on implicit price deflators of the GNP series for producers durable equipment expenditures from *Survey of Current Business*.

h. Farm equipment. Obtained from 1959 Census of Agriculture (motor vehicles excluded).

i. Fisheries equipment. Total net book value of fisheries from *Statistics of Income* were allocated in proportion to value of catches, by State.

The taxable property value totals developed by the procedures outlined above aggregate over \$1 trillion, composed as follows:

	[In millions]	
Total-----		¹ \$1,020,302
Land and structures-----		811,309
Public utilities-----		(1)
Other-----		¹ 811,309
Personal property:-----		
Inventories-----		96,921
Manufacturing-----		52,400
Wholesale-----		12,714
Retail-----		24,379
Farm crops-----		7,428
Livestock-----		17,655
Producers' durable equipment-----		94,417
Public utilities-----		(1)
Manufacturing-----		62,753
Mining-----		5,921
Office and store machines-----		11,280
Construction equipment-----		2,786
Farm equipment ² -----		11,646
Fisheries-----		31

¹ Excludes public utilities.

² Excludes motor vehicles on farms; includes tractors, etc.

Total 1960 property tax collections, exclusive of public utilities, were distributed among the States in proportion to the State-by-State distribution of estimated property values. An estimate of the public utility property values at market prices was not attempted, because of the wide differences among States in methods of valuation. Instead, property taxes on railroads by States were distributed in proportion to railroad wages and salaries, and property taxes on other classes of public utilities in proportion to gross receipts of utilities by States.

General sales and gross receipts taxes. For the representative tax system, the base of the general sales tax was defined in accord with the definition of the general sales tax in States in which more than 50 percent of the Nation's population subject to a general sales tax resides. While food and drugs are taxed in half of the States, the more populous States exempt these items and also do not tax services except receipts from hotels, motels, and tourist courts. Simi-

larly, the more populous States do not tax public utility receipts under their general sales tax. Feed and fertilizer also are typically exempt from retail sales taxes.

A representative tax base for the general sales tax was defined as the sum of retail sales adjusted as indicated below, plus the receipts of hotels, motels, tourist courts, and camps. Adjustments were made to exclude 90 percent of gross sales of foodstores, 40 percent of drugstore sales, and 100 percent of sales of farm feed and fertilizer stores to represent the exempt retail sales. To other taxable retail sales was added an allowance for the final use of commodities by business establishments as estimated from census data on manufacturers' and construction equipment purchases by State.

The total taxable sales figure used for the United States was \$176.1 billion. Taking total collections in 1960 as a percentage of this base produced an effective rate of 2.9 percent.

Motor fuel taxes. The calculations for the tax on motor fuel were based on the volume of gasoline consumption, State by State, published in the Bureau of Mines' *Mineral Yearbook*. In 1960, total motor fuel tax collections amounted to \$3.4 billion, an average of about 5.5 cents per gallon of gasoline consumed. This rate of tax was applied to gasoline consumption in each State.

Tobacco taxes. Cigarette consumption in each State as estimated by the Department of Agriculture was used as the base for the tobacco taxes. Data were not available on cigar and other tobacco consumption.

The nationwide base used for the representative tax system totaled 22 billion packs of cigarettes for 1960; this implies an average tax rate of about a 4.5 cents per pack and was applied uniformly to cigarette consumption in each of the States.

Alcoholic beverage taxes. Estimated consumption of distilled spirits for 1960 was used as the base of alcoholic beverage levies, including, in addition to taxes, the net profits of liquor stores in monopoly States. On the basis of total collections and beverage consumption in 1960, the average tax equaled \$4.45 per gallon of distilled spirits. This figure was applied uniformly to consumption in each State to compute the value of the alcoholic beverage tax component in the representative tax system.

State and local levies on alcoholic beverages include, in addition to excise taxes on distilled spirits, excises on fortified wine, light wine, and beer. Similarly, licenses are required not only of distillers but also of brewers, wholesalers, retailers, and other businesses and occupations engaged in the production and distribution of alcoholic beverages. In some liquor-monopoly States, supplementary excises are also employed as an adjunct to their sales operation.

Data on the quantity of consumption of different types of alcoholic beverages other than distilled spirits are not available for all the States, however, and even if they were available the consumption figures by type of beverage would have to be weighted for differential tax rates.

Various dollar figures were tested as a proxy base because of the incomplete consumption data. Wholesale sales of alcoholic beverage distributors and also retail liquor store sales were analyzed. The characteristics of these sales data suggested, however, that the information on consumption, although limited to distilled spirits, provides a better measure of the total alcoholic beverages tax base than either wholesale or retail sales. Furthermore, the bases of the excises and licenses are typically not dollar sales but quantity of alcoholic beverages sold.

Public utility taxes. Utilities are subject to special receipts taxes which vary in the different States. In general, the States tax such services to the public as transportation, telegraph and telephone, electricity, gas, and water. Gross operating revenues from utility operations was defined as the base of the tax for the representative tax system, although statutory bases of these taxes vary and include, in addition to gross earnings, tonnage, mileage, or units of service sold.

State public utility tax receipts were classified where data were available by class of public utility (railroads and other transportation, telephones, and telegraph, gas and electricity, and others). Public utility taxes on transportation were allocated among States in proportion to railroad wages and salaries as compiled for personal-income estimates. Public utility taxes on telephones and telegraph were allocated among States in proportion to estimated local telephone revenues. Public utility taxes on gas and electric companies were distributed in proportion to operating revenues obtained from data compiled by State by the American Gas Association and the Federal Power Commission. For other utilities and in States in which utility revenues were not classified by type of utility the allocation among States was proportionate to the combined revenues of gas, electric, and telephone companies, estimated at \$20.7 billion. Excluding taxes on railroads and other transportation, the tax collections on public utilities amounted to \$597 million or the equivalent of a 2.9-percent rate on these partial utility revenues.

Amusement taxes. A wide variety of amusement taxes, including taxes of admissions to movies, to boxing matches, races, bowling alleys, are levied by the States. Except in one State, Nevada, gambling is not legal. Some 24 States exempt parimutuel wagering or betting from the prohibition

against gambling. About \$265 million of the total State and local amusement tax collections were from parimutuels, but these were excluded from the amusement tax and included along with other miscellaneous levies.

Within the criteria of the representative tax system gambling as a tax resource could appropriately be separated from other amusement levies and assigned to Nevada. Parimutuel betting similarly could be assigned to States where such betting is legalized. The potential base of revenues from this source could be assumed to be equal to that currently made lawfully under existing revenue practices in each of these States. In lieu of this, the total reported receipts from amusement taxes and related licenses in the States exclusive of parimutuels (\$55 million) were distributed in proportion to receipts of amusement places, as an indicator of the relative amounts of the amusement base in the States.

Insurance premium taxes. Gross premium taxes are imposed by the States on the basis of premiums paid on insurance policies. These levies often are part of the regulatory procedures of the States in administering the State insurance laws. Premiums taxed include both life and casualty insurance. The base of the insurance tax used in the representative tax system was defined as the sum of life premiums received and fire and casualty direct premiums earned (1959). The nationwide total for premiums was \$29.7 billion and the insurance taxes collected averaged 2 percent of these premiums. This 2-percent rate was applied uniformly to the value of premiums in each State.

Individual income tax. Almost all the States which employ individual income taxes impose progressive rates. Hence, if the representative system was to reflect prevailing State practice, it was necessary to

calculate, not a single representative tax rate, but a representative rate structure. For the base of the individual income tax we needed State-by-State estimates of the number of persons and couples with taxable incomes of various sizes.

For convenience of estimation, taxable income was defined as it is defined in the Internal Revenue Code. In other words, the individual income tax yields of the representative system reflect the assumption that all States employ a uniform set of representative rates; that they employ the Federal Government's practices with respect to exemptions, deductions, and split income. For the major elements in income taxation these assumptions generally accord with fact.

Obtaining income tax yields under the representative tax system involved the following steps:

(a) Estimating an individual's State tax liability as a percent of his taxable income (Federal definition) for various levels of taxable income in each of the States which allow no deduction of Federal income tax.

(b) Computing a weighted average of the tax rates at each level of taxable income, weighted by State population.

(c) Repeating this procedure for joint returns.

(d) Obtaining estimates of the number of persons and couples with average taxable incomes of various sizes in each State from tabulations of Federal tax returns.

(e) Applying the average rates (from *b* and *c*) to these income distributions to obtain a first estimate of the yield for each State.

(f) Adjusting these yields proportionately so that their sum equaled the total collections from State and local individual income taxes in 1960.

Corporate income tax. The preparation of State-by-State estimates of the base for

corporate income taxation presented serious difficulties, both conceptual and practical. Tabulations of Federal income tax returns could not serve as a point of departure (as they did in the personal income tax) because of the importance of corporations doing business and incurring tax liability in States other than the one in which they happen to file their Federal tax returns. The Department of Commerce prepares estimates of personal income by States, but it has not done the same for corporate income. As discussed in chapter 2, the National Planning Association has prepared State-by-State estimates of national product components (including corporate profits) on a "where produced" basis. However, these corporate profit estimates are not an appropriate base for State corporate income taxes, in part because the States do not hold to a "where produced" definition in taxing the income of multistate corporations. To an increasing extent States take the destination as well as the origin of a corporation's sales into account in deciding how much of its net income is taxable by them.

In the absence of comparable statistics on corporate profits for all States, the taxable corporate net income reported in the States which have corporate income taxes was used as a basis for estimating corporate net income in all States. Through the cooperation of the Federation of Tax Administrators data were obtained from 30 of the 38 States which have corporate income taxes, on taxable corporate net income reported to the State for the income year 1959. These estimates were adjusted to make them more comparable by adding estimates of bank and public utility income in the States which exempt such corporations from the tax and by adding estimates of Federal tax paid in States which allow corporations to deduct the Federal tax on their State returns. There was no way of

adjusting for the fact that the States use different formulas for allocating the income of multistate corporations, except to the extent that the allocations were already reflected in the data supplied by the 30 States.

Estimates were made of the average relationship between taxable corporate net income in the 30 States and the three factors most commonly used in allocation formulas: the proportion of corporate property, of payrolls, and of sales accounted for by the State. Then this relationship was used to estimate net corporate income for all the States. Since the relationship between reported corporate net income and these three allocation factors is quite close, it did not seem unreasonable to use this relationship as the basis for estimating corporate income for all the States.

Estate and inheritance taxes. The distribution of the base of these taxes by States employed for purposes of the representative tax system is that of the aggregate value of net estates (after exemptions and deductions) reported for Federal tax returns in *Statistics of Income*. In view of the wide year-to-year fluctuations in the value of estates potentially subject to death duties, the calculations were actually based on the average of three years' State-by-State distribution, 1955, 1957, and 1959. They do not take account of death-tax liabilities to States other than the State of the decedent's last residence, nor do they reflect the fact that most States' death taxes employ lower exemptions than the Federal estate tax. The revenue implications of these variations for comparative revenue-raising ability are not important.

For purposes of the total estimated yield of the representative tax system, the total \$412 million death-tax collections of the States were allocated among them in proportion to the value of net estates on Fed-

eral estate-tax returns filed for the years 1955, 1957, and 1959.

Motor vehicle taxes and operators licenses. Motor vehicle registrations in each State were used as an indicator of the relative magnitude of the base of various taxes and licenses on motor vehicles and on operators of motor vehicles.

Motor vehicle taxes and licenses allocated in proportion to motor vehicle registrations included \$542 million property taxes on motor vehicles, \$61 million sales levies on motor vehicles, and \$1,700 million motor vehicle and operator license fees. The combined total of these levies amounted to \$2.3 billion, or an average of \$33 per motor vehicle.

Severance taxes. The wide range of severance levies that are imposed by the States were classified according to the type of resource taxed. Severance levies on petroleum and natural gas, which account for the major share of all State severance tax collections, were allocated among States in accordance with Bureau of Mines data on petroleum and natural-gas production by States. Other severance taxes on mineral output were allocated in proportion to the total value of mineral production by States. Severance levies on timberlands, only \$3.5 million, were combined with property taxes.

Capacity to raise funds from petroleum and gas severance levies was attributed by this procedure to 33 of the States. Of these 33 States, 15 imposed severance levies in 1960.

Document and stock transfer taxes. We were unable to find any State-by-State estimates of stock and document transfers. The use of sales data for the major stock exchanges was rejected on the ground that there is no reason to assume that transfers take place where the sales are made. In the absence of other information we simply distributed State and local collections from

stock-transfer and other document taxes in 1960 among the States in proportion to collections from Federal stamp taxes on documents and similar instruments.

Miscellaneous taxes. About \$1.4 billion of State and local tax collections in 1960 (4 percent of the total) could not be allocated to any of the 14 tax bases discussed above. This amount was arbitrarily allocated one-half on the basis of personal income and the other half on the basis of

corporate income on the assumption that the distribution of consumption levies included in the miscellaneous category resembles the distribution of personal income, and that the business taxes follow the distribution of corporate income.

The indexes of comparative State (including local) fiscal capacities derived by the representative tax system approach are described and contrasted with income indicators in chapter 4.

Chapter 4

VARIATIONS IN CAPACITY AMONG STATES

If all of the various measures of fiscal capacity showed the States in approximately the same relative positions it would be a waste of time to quibble over which one was conceptually the "best" measure. But this is definitely not the case. The relative positions of the States differ greatly, depending on which measure of fiscal capacity is used. Indeed, for some States there is no single answer to the question: Is this State above or below the national average in per capita fiscal capacity? The answer depends on which measure of fiscal capacity is employed.

In this chapter we will consider the relative positions of the States as measured by several indexes of fiscal capacity: per capita personal income, family and individual per capita income (adjusted to exclude families below subsistence level), per capita income produced, per capita composite income and per capita yield of a representative tax system. Since relative capacity measured by the yield of the representative tax system is found to differ markedly from relative capacity measured by personal income, much of the discussion will focus on the differences between these two indexes and the reasons for them.

Comparison of Personal Income and Family Income

In table 16 the first column shows personal income (as defined by the *Survey of Current Business*) per capita for each of the States as a percent of the national average. The second column shows income of families and unrelated individuals (as de-

finied by the Bureau of the Census) per capita as a percent of the national average. These are both measures of income received, although they differ slightly in definition. (See chapter 2.)

As may be seen by comparing the first two columns of table 16, it makes little difference which measure of income received is used as an index of fiscal capacity. In 28 States there is less than 3 percentage points difference between the two columns and in 44 States there is less than 6 percentage points difference. Only Delaware is markedly affected. This is probably because a relatively large proportion of income received in Delaware is concentrated in the high-income brackets, and these high incomes tend to be understated in census family-income reports.

In the third column of table 16 family and individual income was adjusted to exclude families with incomes under \$2,000 and individuals with incomes under \$1,000. The rationale for this adjustment was that families and individuals with such low incomes cannot be said to have appreciable taxable capacity. However, the adjustment makes very little difference. The maximum difference between the second and third columns of table 16 is 4 percentage points in Arkansas and Mississippi.

Comparison of Income Produced and Personal Income

When one shifts from measures of income received to measures of income produced, more marked differences appear in the relative positions of the States. This is clear if

TABLE 16.—Selected Income Series in 1959, and Actual Tax Collections and Estimated Yield of Representative Tax System in 1960, by State

[Per capita as a percent of U.S. average]

State and region	Personal income 1959 ¹	Income of families and unrelated individuals, 1959 ²		Income produced ⁴	Composite series ⁵	Actual tax collections	Yield of representative system
		Total	Above minimum amount ³				
United States.....	100	100	100	100	100	100	100
New England.....	111	109	110	101	103	109	97
Maine.....	83	82	81	72	75	99	78
New Hampshire.....	92	97	97	83	86	93	98
Vermont.....	83	82	81	78	80	110	85
Massachusetts.....	113	111	112	105	107	116	96
Rhode Island.....	100	98	98	89	92	98	87
Connecticut.....	129	128	130	115	118	105	112
Mideast.....	116	114	115	114	114	115	100
New York.....	125	121	122	128	127	143	105
New Jersey.....	120	123	125	111	113	102	105
Pennsylvania.....	102	100	100	97	98	87	91
Delaware.....	136	113	114	97	107	98	112
Maryland.....	108	109	110	94	97	99	93
District of Columbia.....	133	128	129	159	151	107	126
Great Lakes.....	107	107	108	109	109	100	105
Michigan.....	104	105	105	101	102	109	99
Ohio.....	106	106	106	106	106	94	103
Indiana.....	97	99	99	102	101	89	101
Illinois.....	119	118	119	126	124	102	116
Wisconsin.....	98	99	100	96	97	107	97
Plains.....	92	91	90	96	95	96	107
Minnesota.....	91	94	93	97	95	108	103
Iowa.....	91	88	88	96	95	103	114
Missouri.....	100	94	93	103	102	75	99
North Dakota.....	72	73	72	80	78	99	108
South Dakota.....	70	71	69	81	78	99	107
Nebraska.....	91	88	87	100	97	86	119
Kansas.....	92	96	95	87	89	108	113
Southeast.....	72	73	71	73	73	71	76
Virginia.....	83	86	85	85	84	68	81
West Virginia.....	76	73	71	81	80	75	74
Kentucky.....	70	71	69	74	73	59	74
Tennessee.....	70	71	68	69	70	67	71
North Carolina.....	69	68	66	76	75	69	72
South Carolina.....	62	61	59	60	61	64	60
Georgia.....	72	73	71	74	74	70	69
Florida.....	91	95	94	83	86	91	101
Alabama.....	66	67	65	65	65	60	66
Mississippi.....	53	52	48	48	50	64	57
Louisiana.....	74	74	72	81	80	93	88
Arkansas.....	61	60	56	56	58	62	69
Southwest.....	87	89	88	95	93	84	113
Oklahoma.....	83	87	85	89	88	88	94
Texas.....	88	88	87	96	94	80	120
New Mexico.....	84	88	87	92	90	86	102
Arizona.....	89	98	98	96	94	103	99

See footnotes at end of table.

TABLE 16.—Selected Income Series in 1959, and Actual Tax Collections and Estimated Yield of Representative Tax System in 1960, by State—Continued

[Per capita as a percent of U.S. average]

State and region	Personal income 1959 ¹	Income of families and unrelated individuals, 1959 ²		Income produced ⁴	Composite series ⁵	Actual tax collections	Yield of representative system
		Total	Above minimum amount ³				
Rocky Mountain	94	96	97	97	96	108	116
Montana.....	92	91	91	96	95	111	129
Idaho.....	83	87	87	84	84	96	108
Wyoming.....	104	102	103	108	107	118	161
Colorado.....	101	103	103	101	101	114	114
Utah.....	86	92	93	96	93	100	101
Far West	118	122	123	116	116	133	119
Washington.....	104	110	111	102	102	100	102
Oregon.....	102	105	105	94	96	116	103
Nevada.....	126	129	130	142	137	136	146
California.....	124	126	128	121	122	138	126
Alaska.....	117	124	126	117	117	80	69
Hawaii.....	96	102	103	96	97	117	76

¹ As reported in U.S. Department of Commerce, *Survey of Current Business*, August 1961.

² As reported by Bureau of the Census in Series PC(1)C, General Social and Economic Characteristics, of the U.S. Census of Population: 1960.

³ Excludes income of families with income under \$2,000 and income of individuals with income under \$1,000.

⁴ Estimated, 1959 (1957 estimates by National Planning Association increased to 1959 on basis of percentage change in wages and salaries, 1957-59).

⁵ Composite of 1959 personal income (less Federal payments), income produced (1959 estimated), and corporate net income in 1959.

per capita income produced expressed as a percent of the national average (fourth column of table 16) is compared with personal income per capita as a percent of the national average (first column of table 16). In Delaware, Maryland, Oregon, and all of the New England States personal income is appreciably higher than income produced—residents of these States are net receivers of income produced in other States. But income produced in Nevada, Arizona, New Mexico, and the District of Columbia goes on balance to residents of other States. Absentee ownership of mines in West Virginia and Utah and oil wells in Texas is reflected in the fact that income produced is relatively higher in these States than personal income. On the other hand, personal income in Florida is relatively higher than income produced possibly be-

cause of the large number of retired persons living there.

Regional variation between the two series is most marked in New England and the Southwest. In New England, where dividends and interest constitute a relatively high proportion of personal income, personal income is higher than income produced. In the Southwest, where absentee ownership is important, especially in mineral production, income produced is higher than personal income.

The composite income index is a weighted average of personal income, income produced, and corporate income. Due to the heavy weight given income produced (reflecting the heavy reliance of State and local governments on indirect business taxes), the composite index does not differ greatly from income produced.

Yield of a Representative Tax System and Personal Income

The relative position of many States is drastically altered when the yield of a representative tax system is used as the measure of capacity in place of a personal-income measure. This can be seen in figures 3, 4, and 5, and is also brought out in table 16. The first column shows personal income per capita for each State as a percent of the national average. The last column shows the estimated per capita yield of the representative tax system in each State, also expressed as a percent of the national average. For many States (Vermont, Ohio, Illinois, Wisconsin, Tennessee, and North Carolina, for example) the two measures are also identical. The Southeast ranks low on both measures and the Far West ranks high. The Great Lakes region is near the national average on both measures. The Plains States (especially North and South Dakota), however, rank well above the national average in per capita yield of the representative tax system and well below it in per capita income. The Southwestern States (Oklahoma, Texas, New Mexico, and Arizona) also rank higher in the last column than in the first. The shift of Texas from 12 percentage points below the national average in personal income to 20 percentage points above it in per capita yield of the representative tax system is particularly noteworthy. The Mountain States (Montana, Idaho, Wyoming, Colorado, and Utah) also rank much higher in taxable capacity as measured by the yield of the representative tax system than in personal income—the shifts being particularly marked for Montana and Wyoming.

By contrast, the populous Middle Atlantic and lower New England industrial States (Massachusetts, Rhode Island, Connecticut,

New York, New Jersey, Pennsylvania, Maryland, and Delaware) rank much higher in per capita personal income than they do in the per capita yield of a representative tax system.

What causes the relative capacities of the States measured by the yield of the representative tax system to differ so much from their relative capacities measured by personal income? In particular, why do the relative capacities of the Plains, Rocky Mountain, and Southwestern States appear so much higher under the representative tax system than under personal income? And why do the relative capacities of the New England and Mideastern States appear so much lower?

Very briefly, the answer is this: The Plains, Rocky Mountain, and Southwestern States have higher than average ratios of taxable property to personal income and of taxable sales to personal income, while the New England and Mideastern States have lower than average ratios. Hence, the Plains, Rocky Mountain, and Southwestern States rank higher on both property tax yield and on nonproperty tax yield of the representative tax system than they do on personal income, while the opposite is true of New England and the Mideast. (See table 17 for relative property and nonproperty tax capacity.) Some of the reasons for these regional variations in the relation between tax bases and personal income are discussed below.

The Property Tax Base and Personal Income

Since the representative tax system reflects current State and local tax practice, it places heavy emphasis on the property tax—44 percent of the yield comes from property taxation. This means that the per capita yield of the representative tax system tends to be high in States with high per cap-

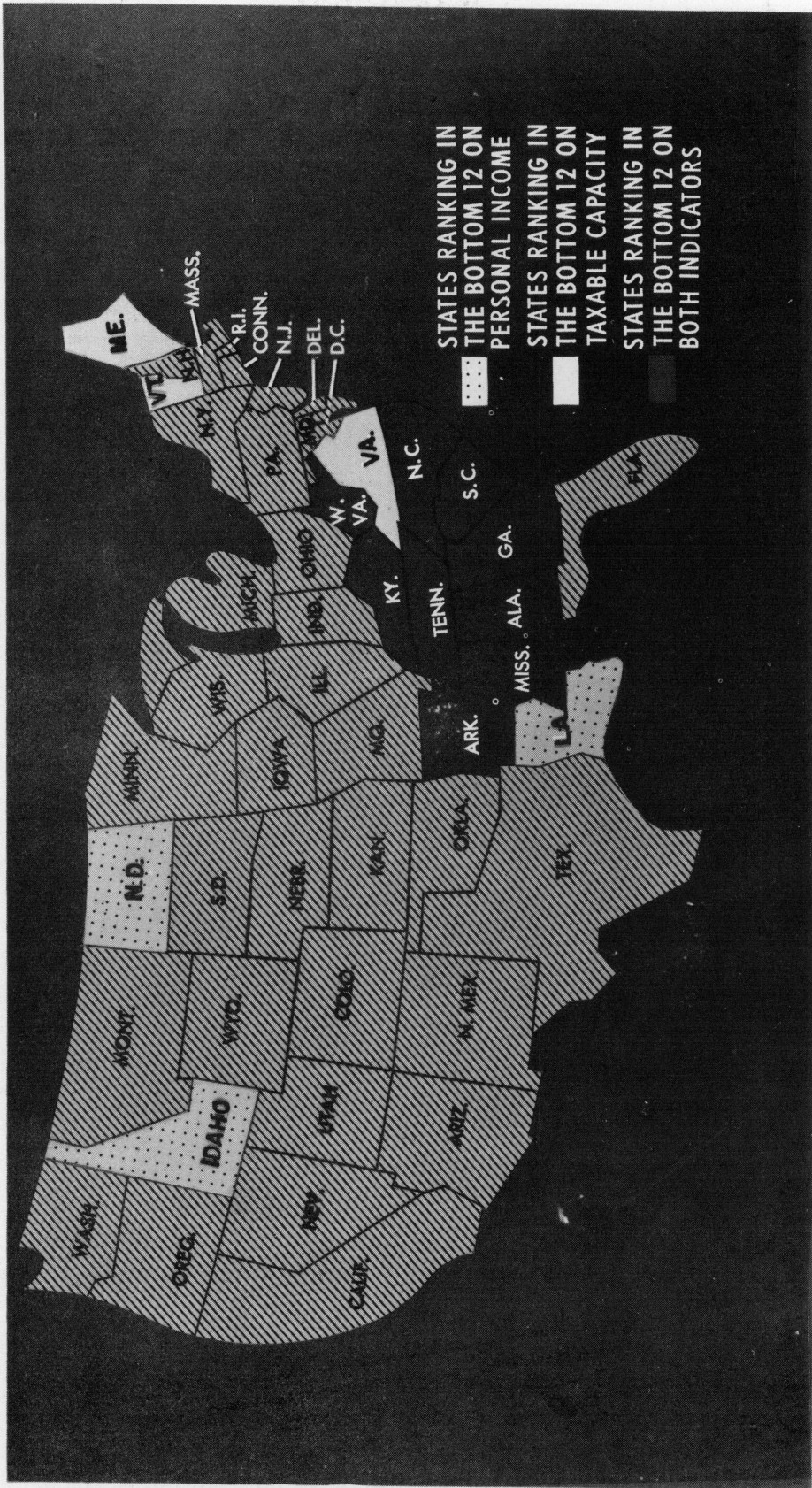


Figure 3. States With Lowest Capacity

Whether Per Capita Income or Per Capita Yield of a Representative Tax System Is Used as an Indicator, the Southeastern States Rank Lowest.

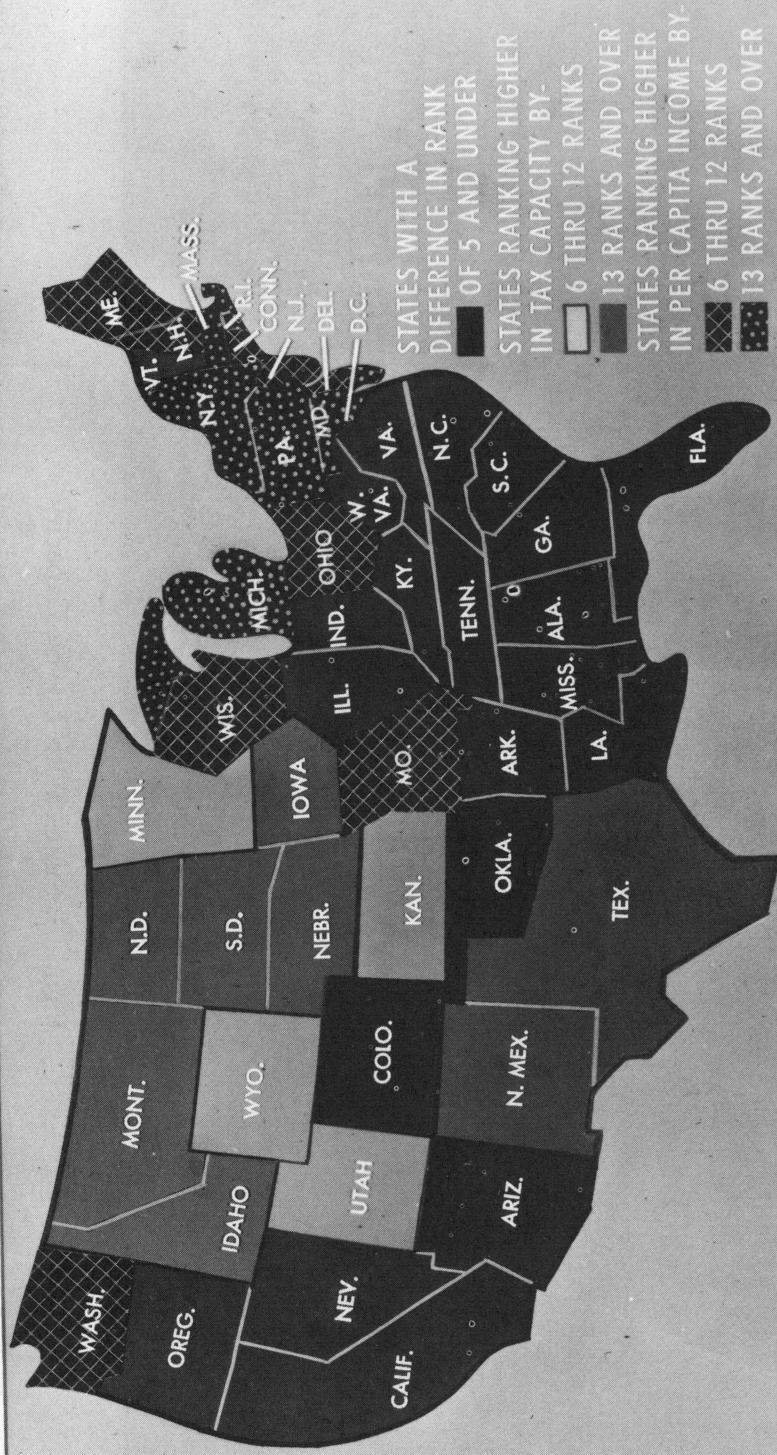


Figure 4. Comparison of Per Capita Income and Yield of Representative Tax System

The Ranks of 21 States Are Not Affected Markedly Whether Per Capita Income or Yield of a Representative Tax System Is Used.

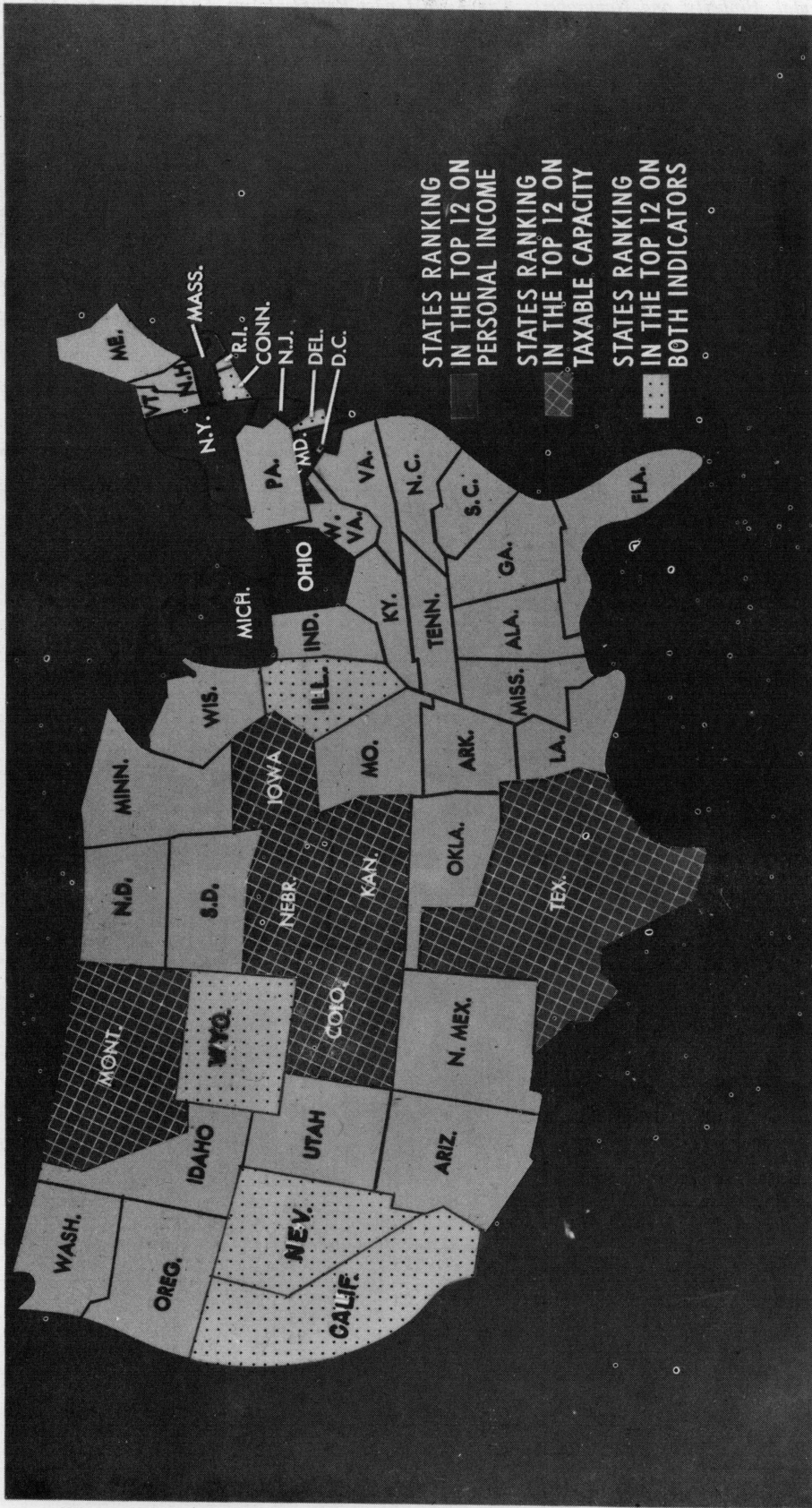


Figure 5. States With Highest Capacity

Farming and Mineral States in the West Rank High in Per Capita Yields Under a Representative Tax System; the Populous Industrial States Tend To Rank High in Per Capita Income.

TABLE 17.—Total, Property, and Nonproperty Tax Yield Under Representative Tax System, by State, 1960

State and region	Per capita yield of representative tax system					
	Total		Property		Nonproperty	
	Amount	Percent of U.S. average	Amount	Percent of U.S. average	Amount	Percent of U.S. average
United States.....	\$202	100	\$88	100	\$114	100
New England	196	97	80	91	116	102
Maine.....	158	78	62	70	97	85
New Hampshire.....	197	98	82	94	115	101
Vermont.....	171	85	72	82	100	88
Massachusetts.....	194	96	79	89	115	101
Rhode Island.....	176	87	69	78	107	94
Connecticut.....	226	112	94	107	131	115
Mideast	203	100	83	94	120	105
New York.....	212	105	85	97	126	111
New Jersey.....	212	105	88	100	124	109
Pennsylvania.....	184	91	77	87	107	94
Delaware.....	227	112	91	103	136	119
Maryland.....	187	93	81	92	107	94
District of Columbia.....	255	126	97	110	157	138
Great Lakes	212	105	95	107	117	103
Michigan.....	201	99	87	98	114	100
Ohio.....	208	103	92	105	115	101
Indiana.....	205	101	94	107	111	97
Illinois.....	235	116	107	121	128	112
Wisconsin.....	196	97	87	99	109	96
Plains	217	107	102	116	115	101
Minnesota.....	209	103	95	108	114	100
Iowa.....	231	114	121	137	110	96
Missouri.....	200	99	84	95	116	102
North Dakota.....	219	108	108	122	112	98
South Dakota.....	217	107	112	127	104	91
Nebraska.....	241	119	124	141	117	103
Kansas.....	228	113	108	122	121	106
Southeast	153	76	63	71	90	79
Virginia.....	163	81	69	78	95	83
West Virginia.....	150	74	60	68	89	78
Kentucky.....	149	74	62	71	87	76
Tennessee.....	144	71	58	66	86	75
North Carolina.....	145	72	61	69	84	74
South Carolina.....	122	60	46	52	75	66
Georgia.....	139	69	53	60	86	75
Florida.....	204	101	89	101	114	100
Alabama.....	134	66	55	62	79	69
Mississippi.....	115	57	46	52	68	60
Louisiana.....	178	88	67	76	111	97
Arkansas.....	139	69	59	67	80	70
Southwest	228	113	104	118	124	109
Oklahoma.....	189	94	73	83	116	102
Texas.....	243	120	115	130	129	113
New Mexico.....	207	102	86	98	120	105
Arizona.....	201	99	97	109	105	92

TABLE 17.—*Total, Property, and Nonproperty Tax Yield Under Representative Tax System, by State, 1960—Continued*

State and region	Per capita yield of representative tax system					
	Total		Property		Nonproperty	
	Amount	Percent of U.S. average	Amount	Percent of U.S. average	Amount	Percent of U.S. average
Rocky Mountain	\$235	116	\$113	128	\$122	107
Montana.....	261	129	135	153	127	111
Idaho.....	218	108	106	120	112	98
Wyoming.....	325	161	152	172	175	154
Colorado.....	231	114	106	120	125	110
Utah.....	205	101	100	113	106	93
Far West	241	119	110	125	130	114
Washington.....	207	102	90	102	117	103
Oregon.....	208	103	89	101	118	104
Nevada.....	295	146	126	143	170	149
California.....	254	126	119	135	136	119
Alaska.....	140	69	44	50	96	84
Hawaii.....	153	76	65	74	87	76

ita property values. These are not necessarily the same States with high per capita incomes. In fact, the ratio of taxable property to income varies widely by States and shows a clear geographic pattern.

Estimates of the ratio of property values to personal income by State are shown in the first column of table 18. The striking thing about this array is that the Mountain and Plains States are clustered at the top and the New England and Middle Atlantic States at the bottom. Note that the first 13 States are all west of the Mississippi and the last 14 (exclusive of Alaska and Hawaii) are all east of it. The Southern, Great Lakes, and Far Western States are mostly near the middle. A graphic illustration of this point may be found in figure 6.

The next question, of course, is: Why do the ratios of taxable property to income differ so widely among States? Is the answer related to the value of residential property? Do residents of North Dakota, for example, have more valuable housing relative to their incomes than the residents

of New York? Or is the answer related to income-producing property? If so, is absentee ownership the explanation? Is an appreciable part of the income produced by North Dakota property received by residents of other States, such as New York? Or is the rate of return on income-producing property substantially lower in North Dakota than in New York?

About 39 percent of the total value of taxable property in the United States is in non-farm residential property, but the proportion varies greatly by States as may be seen in table 19. It is not possible to derive ratios of the total value of housing to personal income by States, since the value of farm housing is not separable from total farm values. Estimates of the ratios of non-farm housing values to personal income by States are given in column 2 of table 20. These ratios are high in two of the Rocky Mountain States (Colorado and Utah), but they are about average in the Southwestern States and definitely low in the Plains States. Adding the value of farm housing to the numerator would raise these ratios more in the

TABLE 18.—Ratio of Estimated Property Values to Personal Income and Income Produced, by State, 1959

Personal income		Rank	Income produced ¹	
State	Ratio		State	Ratio
South Dakota.....	5.04	1	South Dakota.....	3.42
North Dakota.....	4.58	2	Montana.....	3.36
Montana.....	4.45	3	Wyoming.....	3.36
Wyoming.....	4.39	4	North Dakota.....	3.29
Nebraska.....	4.10	5	Iowa.....	3.06
Texas.....	4.03	6	Idaho.....	3.05
Idaho.....	3.86	7	Nebraska.....	2.97
Utah.....	3.56	8	Texas.....	2.93
Arizona.....	3.45	9	Kansas.....	2.87
Kansas.....	3.43	10	Florida.....	2.73
Iowa.....	3.29	11	Colorado.....	2.56
Colorado.....	3.21	12	Arizona.....	2.54
New Mexico.....	3.16	13	Utah.....	2.51
Florida.....	3.15	14	California.....	2.45
Minnesota.....	3.12	15	Arkansas.....	2.44
Nevada.....	3.09	16	New Hampshire.....	2.43
California.....	3.04	17	Minnesota.....	2.34
Indiana.....	2.91	18	Oregon.....	2.32
Arkansas.....	2.78	19	New Mexico.....	2.29
New Hampshire.....	2.78	20	Delaware.....	2.25
Louisiana.....	2.71	21	Mississippi.....	2.24
North Carolina.....	2.71	22	Vermont.....	2.21
Wisconsin.....	2.71	23	Indiana.....	2.20
Illinois.....	2.67	24	Wisconsin.....	2.20
Oklahoma.....	2.65	25	Nevada.....	2.17
Washington.....	2.62	26	Washington.....	2.13
Oregon.....	2.61	27	Michigan.....	2.06
Vermont.....	2.60	28	Maine.....	2.05
Ohio.....	2.59	29	Maryland.....	2.05
Kentucky.....	2.56	30	Ohio.....	2.05
Mississippi.....	2.56	31	Connecticut.....	2.03
Michigan.....	2.51	32	Illinois.....	2.00
Virginia.....	2.49	33	Alabama.....	1.98
Missouri.....	2.48	34	Louisiana.....	1.97
Alabama.....	2.46	35	North Carolina.....	1.96
Tennessee.....	2.42	36	Oklahoma.....	1.96
Connecticut.....	2.28	37	New Jersey.....	1.94
Maryland.....	2.25	38	Kentucky.....	1.93
New Jersey.....	2.25	39	Tennessee.....	1.93
South Carolina.....	2.24	40	Virginia.....	1.93
Maine.....	2.22	41	Missouri.....	1.91
Pennsylvania.....	2.19	42	Rhode Island.....	1.85
West Virginia.....	2.17	43	South Carolina.....	1.83
District of Columbia.....	2.13	44	Pennsylvania.....	1.82
Georgia.....	2.13	45	Massachusetts.....	1.80
Hawaii.....	2.12	46	Georgia.....	1.65
Massachusetts.....	2.11	47	West Virginia.....	1.61
Rhode Island.....	2.07	48	New York.....	1.59
New York.....	2.05	49	District of Columbia.....	1.41
Delaware.....	2.04	50		
Alaska.....	1.41	51		

¹ Excluding Alaska and Hawaii.

Plains, Rocky Mountain, and Southwestern regions than in New England and the Midwest, where only a small proportion of the population is engaged in farming. But there is no reason to think this addition would change the ratios very much.

Instead of adding farm housing to the numerator, farm income was subtracted

from the denominator to obtain ratios of nonfarm housing values to nonfarm income (column 3 of table 20). The nonfarm population of the Plains and Southwestern States does not seem to have more valuable housing relative to its income than the nonfarm population of New England and the Midwest, and it seems likely that this state-

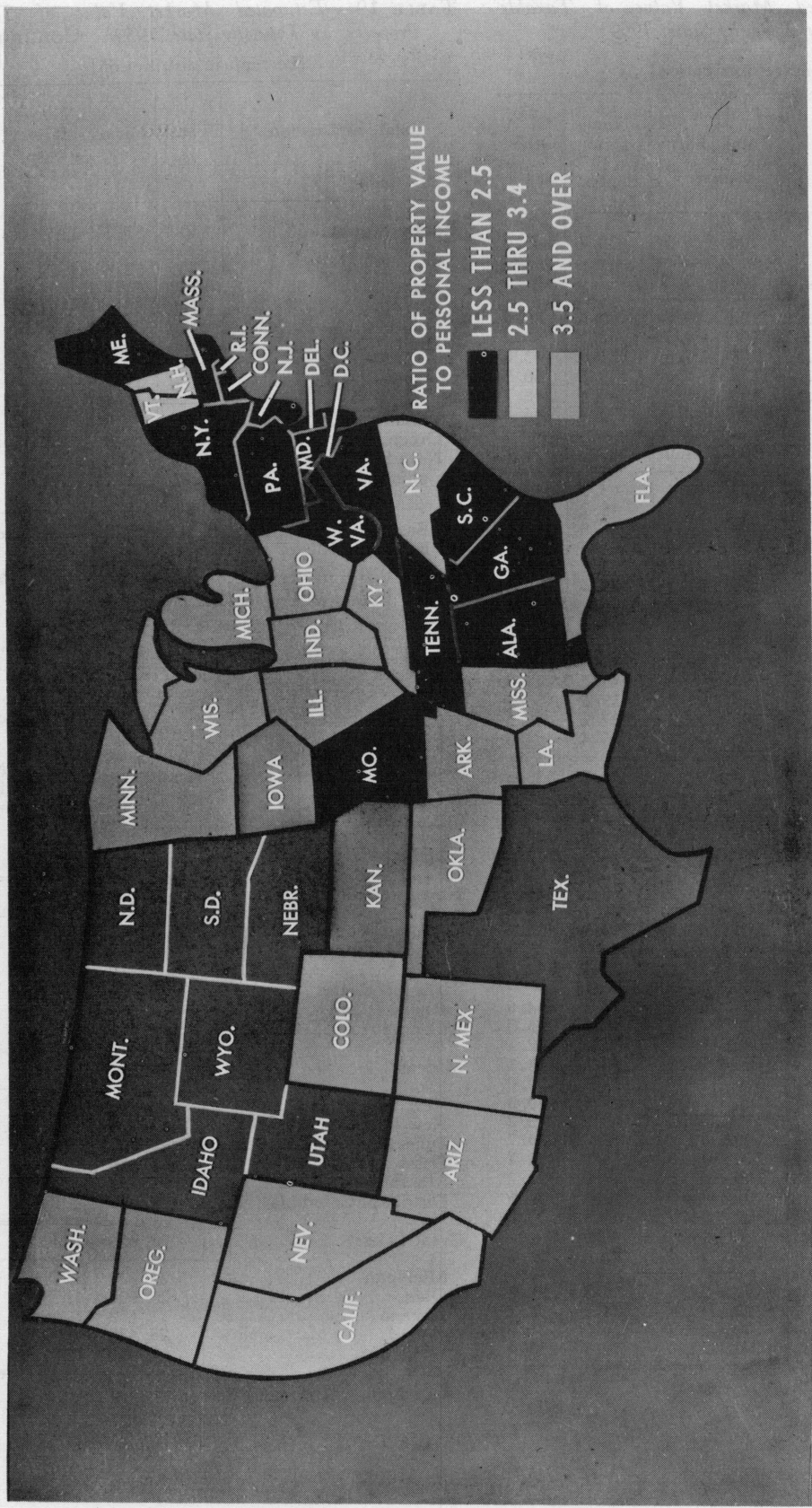


Figure 6. Ratio of Taxable Property Values to Personal Income

Because the Property Tax Is So Important in the Representative Tax System, States With High Ratios of Property to Income Rank Higher in Taxable Capacity Than in Income. In General, High Ratios Are Found in States With Valuable Farms and Mines and Low Ratios in Industrial States With a Large Service Trade Component.

TABLE 19.—Estimated Market Value of Taxable Property, by Type, by State, 1959¹

[Percentage distribution]

State and region	Total	Farm	Non-farm residential	Other
United States ²	100	16.3	38.7	45.0
New England	100	3.3	47.6	49.1
Maine.....	100	9.8	40.6	49.6
New Hampshire.....	100	4.8	42.0	53.2
Vermont.....	100	20.3	36.0	43.6
Massachusetts.....	100	1.6	48.1	50.3
Rhode Island.....	100	1.8	49.4	48.7
Connecticut.....	100	2.8	50.4	46.8
Mideast	100	4.0	45.3	50.7
New York.....	100	3.1	43.3	53.6
New Jersey.....	100	2.6	45.2	52.3
Pennsylvania.....	100	5.7	45.8	48.5
Delaware.....	100	8.4	52.7	38.9
Maryland.....	100	7.1	51.3	41.6
District of Columbia.....	100	.....	55.5	44.5
Great Lakes	100	14.5	41.3	44.2
Michigan.....	100	8.3	47.0	44.7
Ohio.....	100	9.9	45.2	44.8
Indiana.....	100	21.5	39.6	38.9
Illinois.....	100	17.3	37.2	45.5
Wisconsin.....	100	20.2	35.4	44.3
Plains	100	42.1	24.7	33.3
Minnesota.....	100	31.8	24.2	44.0
Iowa.....	100	52.0	21.1	26.8
Missouri.....	100	21.5	36.2	42.3
North Dakota.....	100	72.7	12.5	14.9
South Dakota.....	100	71.5	13.5	15.0
Nebraska.....	100	54.6	21.1	24.3
Kansas.....	100	44.5	23.1	32.4
Southeast	100	17.8	39.5	42.6
Virginia.....	100	13.0	52.4	34.6
West Virginia.....	100	9.4	35.3	55.3
Kentucky.....	100	24.1	33.8	42.1
Tennessee.....	100	20.2	36.6	43.1
North Carolina.....	100	18.7	31.3	50.0
South Carolina.....	100	20.0	29.6	50.3
Georgia.....	100	17.7	42.1	40.2
Florida.....	100	12.2	48.2	39.7
Alabama.....	100	16.6	33.3	50.1
Mississippi.....	100	38.8	30.0	31.2
Louisiana.....	100	15.0	40.4	44.6
Arkansas.....	100	31.5	33.7	34.8
Southwest	100	23.0	26.8	50.2
Oklahoma.....	100	34.6	36.8	28.6
Texas.....	100	19.4	24.3	56.2
New Mexico.....	100	28.9	33.1	38.0
Arizona.....	100	35.2	31.4	33.4

TABLE 19.—Estimated Market Value of Taxable Property, by Type, by State, 1959¹—Continued

[Percentage distribution]

State and region	Total	Farm	Non-farm residential	Other
Rocky Mountain	100	33.3	30.8	36.0
Montana.....	100	52.8	22.3	24.9
Idaho.....	100	51.7	21.1	27.1
Wyoming.....	100	36.4	21.3	42.3
Colorado.....	100	22.9	38.9	38.2
Utah.....	100	18.7	35.3	46.1
Far West	100	13.3	40.7	45.9
Washington.....	100	18.8	39.7	41.5
Oregon.....	100	24.0	38.3	37.8
Nevada.....	100	20.3	30.7	49.0
California.....	100	11.6	41.3	47.1

¹ Exclusive of public utility property and motor vehicles.

² Excluding Alaska and Hawaii.

TABLE 20.—Ratio of Nonfarm Residential Property Values to Personal Income, by State, 1959

State and region	Residential property values		
	Amount (In millions)	Ratio to personal income	
		Total	Non-farm income
United States ¹	\$393,910	1.03	1.08
New England	26,043	1.05	1.06
Maine.....	1,555	0.91	0.94
New Hampshire.....	1,393	1.16	1.18
Vermont.....	650	0.94	0.99
Massachusetts.....	12,588	1.02	1.02
Rhode Island.....	1,891	1.03	1.03
Connecticut.....	7,966	1.15	1.17
Mideast	92,535	0.96	0.97
New York.....	39,906	0.88	0.89
New Jersey.....	15,708	1.02	1.03
Pennsylvania.....	24,758	1.00	1.01
Delaware.....	1,379	1.05	1.08
Maryland.....	8,189	1.15	1.17
District of Columbia.....	2,595	1.17	1.17
Great Lakes	90,856	1.09	1.12
Michigan.....	20,579	1.18	1.20
Ohio.....	25,694	1.17	1.19
Indiana.....	11,192	1.15	1.20
Illinois.....	25,423	0.99	1.01
Wisconsin.....	7,968	0.96	1.02

¹ Excluding Alaska and Hawaii.

TABLE 20.—Ratio of Nonfarm Residential Property Values to Personal Income, by State, 1959—Continued

State and region	Residential property values		
	Amount (In millions)	Ratio to personal income	
		Total	Non-farm income
Plains	\$24, 996	0. 82	0. 91
Minnesota.....	5, 022	0. 75	0. 81
Iowa.....	4, 631	0. 86	1. 00
Missouri.....	8, 302	0. 90	0. 96
North Dakota.....	557	0. 57	0. 68
South Dakota.....	693	0. 68	0. 79
Nebraska.....	2, 384	0. 86	1. 00
Kansas.....	3, 407	0. 80	0. 88
Southeast	61, 206	1. 02	1. 09
Virginia.....	9, 165	1. 30	1. 35
West Virginia.....	2, 339	0. 77	0. 78
Kentucky.....	3, 938	0. 87	0. 94
Tennessee.....	4, 731	0. 88	0. 94
North Carolina.....	5, 716	0. 84	0. 93
South Carolina.....	2, 093	0. 66	0. 71
Georgia.....	5, 449	0. 90	0. 94
Florida.....	14, 252	1. 54	1. 63
Alabama.....	3, 765	0. 82	0. 87
Mississippi.....	1, 915	0. 76	0. 88
Louisiana.....	5, 631	1. 09	1. 14
Arkansas.....	2, 212	0. 93	1. 12
Southwest	26, 068	0. 99	1. 06
Oklahoma.....	4, 022	0. 97	1. 04
Texas.....	17, 682	0. 98	1. 05
New Mexico.....	1, 765	1. 05	1. 13
Arizona.....	2, 599	1. 09	1. 18
Rocky Mountain	9, 708	1. 13	1. 23
Montana.....	1, 309	0. 99	1. 15
Idaho.....	969	0. 82	0. 95
Wyoming.....	680	0. 96	1. 07
Colorado.....	4, 715	1. 26	1. 33
Utah.....	2, 035	1. 25	1. 30
Far West	62, 498	1. 21	1. 26
Washington.....	6, 620	1. 04	1. 08
Oregon.....	3, 865	1. 01	1. 06
Nevada.....	718	0. 95	0. 99
California.....	51, 295	1. 26	1. 31

ment is true of the total population as well. High ratios of residential property values to nonfarm income are found in Florida, California, Utah, and Colorado.

Ratios of total farm, commercial, and industrial property to personal income are

given in table 21. The ratios for the New England and Mideastern States are even lower here compared to the Plains, Mountain, and Southwestern States than they are in table 18, because a smaller proportion of total property in the East consists of farm, commercial, and industrial property (and a larger part is nonfarm residential). (See table 19.) Ratios of farm, commercial, and industrial property to income produced are also shown in table 21. The fact that these ratios show somewhat less extreme variation than the ratios to personal income suggests that absentee ownership is part of the explanation for the variation in the ratio of income-producing property (i.e., farm, commercial, and industrial) to personal income. As noted earlier in this chapter, the New England and Mideastern States are net receivers of income produced in other States, while the opposite is true of the Plains, Rocky Mountain, and Southwestern States.

Nevertheless, very striking differences remain in the ratio of income-producing property to income produced. The ratio is much higher in the Plains, Rocky Mountain, and Southwestern States, where a large proportion of property value consists of farms, than in New England and the Mideast, where a very small proportion consists of farms. This suggests the not very surprising inference that the rate of return on farm property is substantially lower than on other types of income-producing property.

These findings are consistent with the fact, well known to those familiar with farmland values, that in the last few years the price of farm acreage, especially in the Plains and Southwestern regions, has been rising rapidly to levels far out of line with farm incomes. A variety of explanations have been offered for this inflation of farm-

TABLE 21.—Ratio of Estimated Nonresidential Property Values to Personal Income and Income Produced, by State, 1959

Value of farm property as a percent of total nonresidential property values	Ratio of estimated nonresidential actual property values to—				
	Personal income		Rank	Income produced	
	State	Ratio		State	Ratio
82.6	South Dakota	4.36	1	South Dakota	2.96
83.0	North Dakota	4.03	2	North Dakota	2.88
46.3	Wyoming	3.56	3	Wyoming	2.65
68.0	Montana	3.46	4	Montana	2.61
66.0	Iowa	3.21	5	Iowa	2.42
69.2	Nebraska	3.19	6	Idaho	2.40
25.7	Texas	3.05	7	Nebraska	2.35
65.6	Idaho	3.04	8	Texas	2.22
57.8	Kansas	2.68	9	Kansas	2.21
51.3	Arizona	2.38	10	Minnesota	1.77
42.0	Minnesota	2.37	11	Arizona	1.74
28.8	Utah	2.30	12	Utah	1.63
29.3	Nevada	2.16	13	Arkansas	1.62
43.2	New Mexico	2.12	14	Colorado	1.57
37.5	Colorado	1.98	15	Mississippi	1.57
27.2	North Carolina	1.86	16	New Mexico	1.53
47.5	Arkansas	1.84	17	Nevada	1.50
19.8	California	1.79	18	California	1.44
55.5	Mississippi	1.77	19	Wisconsin	1.42
35.6	Indiana	1.76	20	Florida	1.41
31.4	Wisconsin	1.76	21	New Hampshire	1.41
36.4	Kentucky	1.70	22	Vermont	1.41
27.6	Illinois	1.67	23	Oregon	1.39
54.7	Oklahoma	1.67	24	North Carolina	1.35
31.8	Vermont	1.66	25	Indiana	1.33
23.5	Florida	1.65	26	Alabama	1.32
24.9	Alabama	1.64	27	South Carolina	1.29
38.8	Oregon	1.62	28	Washington	1.29
25.2	Louisiana	1.61	29	Kentucky	1.28
8.2	New Hampshire	1.60	30	Illinois	1.26
33.6	Missouri	1.58	31	Oklahoma	1.24
28.5	South Carolina	1.58	32	Maine	1.22
31.2	Washington	1.58	33	Tennessee	1.22
31.9	Tennessee	1.53	34	Missouri	1.21
18.1	Ohio	1.41	35	Louisiana	1.18
14.5	West Virginia	1.40	36	Ohio	1.12
16.5	Maine	1.33	37	Michigan	1.09
15.7	Michigan	1.33	38	Delaware	1.07
4.7	New Jersey	1.24	39	New Jersey	1.06
30.6	Georgia	1.23	40	West Virginia	1.04
10.6	Pennsylvania	1.18	41	Connecticut	1.01
27.4	Virginia	1.18	42	Maryland	1.00
5.5	New York	1.16	43	Pennsylvania	.99
5.7	Connecticut	1.14	44	Georgia	.96
14.7	Maryland	1.10	45	Massachusetts	.93
3.1	Massachusetts	1.10	46	Rhode Island	.93
3.6	Rhode Island	1.05	47	Virginia	.92
17.7	Delaware	.94	48	New York	.90
0	District of Columbia	.94	49	District of Columbia	.63

land values.¹ Buyers have apparently been eager to buy and hold farmland for a variety of purposes besides the expected income from farming. They have sought farms and ranches for residential and recreational use, for mineral rights, and in anticipation of capital gains as cities expand, new high-

¹ A study of the rise in farmland values and the factors underlying the rise is now underway in the U.S. Department of Agriculture.

ways are built, and new industries are developed. Moreover, farmers have generally striven for more land to enlarge their scale of operations. Even when forced to sell, they have tended to reinvest in farmland. This combination of heavy demand and reluctant supply has driven farmland prices up far beyond their expected relation to farm income.

Effect of Alternative Estimates of Property Values

In obtaining estimates of the yield of the representative tax system we experimented with several alternative procedures for calculating the property tax base to see how heavily our results depended on the particular procedure chosen. In the first set of procedures Census of Governments property assessment data were combined with census ratios of assessments to market values to yield State-by-State figures on value of land and structures. When the resulting measures of relative taxable capacity per capita were examined, the Plains, Southwestern, and Mountain States were surprisingly high. The details of the estimating procedure were then reviewed for a clue to the reasons for this and were altered as follows:

(1) Since the sales ratios for "rural" property values derived from the Census of Governments study of the *Taxable Value of Property* were based on recent sales, they tend to give undue weight to farm properties being converted to suburban use. Property values in farming States thus appeared to be overestimated. Accordingly, the Census of Agriculture estimates of farm values by States were substituted for the rural property component of the Census of Governments estimates.

(2) The market value of State-assessed property (more important in the West than elsewhere) was first estimated by assuming that State assessments bore the same relationship to market value that local assessments did. In States where a large share of all properties is assessed by the State rather than the local government, this procedure tends to overestimate the total value of property. In the final computations, taxes on public utility properties, which account for \$1.5

billion of the \$15.9 billion property tax collections, were separated from other property tax collections and allocated on the basis of gross public utility receipts by State in the case of utilities other than railroads, and on the basis of wages and salaries by State in the case of railroads. These adjustments are discussed in greater detail in the property tax section of appendix B.

Although these adjustments reduced some of the extremely high estimates of relative taxable capacity, which were found when Census property values were used, notably in Wyoming, Idaho, Utah, New Mexico, they did not change the overall picture substantially. This suggests that the measures of per capita yields of a representative tax system are at least approximately correct and reflect real phenomena, not statistical aberrations. Better data and more refined procedures would give more accurate measures of the yield of the representative tax system, but the final results are not likely to differ drastically from those developed here.

Nonproperty Tax Bases and Personal Income

The nonproperty tax yields of the States under the representative tax system also diverge markedly from personal income. In general, this divergence reinforces rather than offsets the divergence between property tax yields and personal income.

Almost all of the low income States rank higher in nonproperty tax capacity than they do in personal income, while most of the high income States rank lower in nonproperty tax capacity than in personal income (table 22). All but 4 of the 31 States with personal income below the national average have nonproperty tax yields which are higher relative to the national average than their personal income. (The four exceptions are Indiana, Maine, Virginia and

TABLE 22.—Comparison of Personal Income and Estimated Nonproperty Tax Yield of Representative Tax System, by State, 1960

[Per capita as a percent of U.S. average]

State and region	Personal income	Nonproperty taxes				
		Total	General sales	Selective sales	Severance	All other
United States.....	100	100	100	100	100	100
New England	111	102	100	103	2	109
Maine.....	85	85	90	97	4	75
New Hampshire.....	93	101	97	118	2	93
Vermont.....	84	88	97	92	13	82
Massachusetts.....	113	101	103	97	2	107
Rhode Island.....	100	96	93	92	1	107
Connecticut.....	129	117	103	110	2	136
Mideast	117	105	103	100	13	116
New York.....	125	111	107	103	4	127
New Jersey.....	120	109	103	110	4	116
Pennsylvania.....	102	95	93	90	26	102
Delaware.....	136	121	107	121	1	136
Maryland.....	108	94	90	95	4	100
District of Columbia.....	135	138	162	149	(*)	118
Great Lakes	107	104	103	100	26	107
Michigan.....	104	101	100	97	17	107
Ohio.....	105	101	100	100	13	107
Indiana.....	98	97	100	100	22	95
Illinois.....	118	112	117	105	48	118
Wisconsin.....	98	95	100	97	4	93
Plains	93	100	107	108	74	91
Minnesota.....	92	100	107	105	26	93
Iowa.....	90	96	107	103	9	89
Missouri.....	99	102	107	103	13	95
North Dakota.....	78	98	114	113	139	73
South Dakota.....	83	90	100	113	17	66
Nebraska.....	95	103	114	108	91	91
Kansas.....	93	105	97	113	335	91
Southeast	72	79	79	87	104	70
Virginia.....	83	83	83	95	17	75
West Virginia.....	75	78	79	82	165	70
Kentucky.....	69	76	76	85	87	68
Tennessee.....	70	75	79	82	13	68
North Carolina.....	71	74	76	82	4	68
South Carolina.....	63	66	66	77	35	59
Georgia.....	72	75	79	85	4	68
Florida.....	89	100	110	110	9	89
Alabama.....	66	69	69	74	22	66
Mississippi.....	53	60	59	69	126	48
Louisiana.....	72	97	83	87	835	77
Arkansas.....	60	70	72	79	87	59
Southwest	86	109	97	108	596	91
Oklahoma.....	83	102	90	108	509	84
Texas.....	87	113	100	110	674	93
New Mexico.....	81	105	93	103	761	82
Arizona.....	90	92	100	95	70	84

*Less than 0.5 percent.

TABLE 22.—*Comparison of Personal Income and Estimated Nonproperty Tax Yield of Representative Tax System, by State, 1960—Continued*

[Per capita as a percent of U.S. average]

State and region	Personal income	Nonproperty taxes				
		Total	General sales	Selective sales	Severance	All other
Rocky Mountain	95	107	110	108	300	95
Montana.....	91	111	117	118	230	95
Idaho.....	81	96	114	100	26	86
Wyoming.....	105	151	124	138	1,704	95
Colorado.....	104	110	114	110	170	102
Utah.....	86	93	97	90	296	84
Far West	119	114	114	110	83	118
Washington.....	104	103	107	105	4	102
Oregon.....	102	104	110	103	9	105
Nevada.....	128	149	169	177	61	116
California.....	123	119	114	113	109	125
Alaska.....	123	84	90	100	17	68
Hawaii.....	102	76	76	79	4	77

Wisconsin. On the other hand, 15 of the 20 States with per capita income at or above the national average rank lower in nonproperty tax yields per capita than they do in personal income. (The five exceptions are Wyoming, Colorado, Oregon, Nevada, and the District of Columbia.)

This finding is not surprising. General and selective sales taxes account for 60 percent of the nonproperty tax yield of the representative tax system. It is well known that low-income families spend a higher proportion of their income on consumer goods than high-income families. It follows that States with low average incomes tend to have higher ratios of retail sales to personal income than States with high average income (fig. 7 and table 23). Hence, one would expect the sales tax yield of the representative tax system to be higher relative to income in low-income States than in high-income States.

Nevertheless, the magnitude of some of the differences is surprising and some exceptions are noteworthy. North Dakota moves from over 20 percentage points be-

low the national average in personal income to more than a dozen points above in general and selective sales tax yield under the representative tax system. Wyoming shows remarkably high sales tax yield and Colorado ranks higher in sales tax yield than in personal income—despite the fact that both these States are above the national average in personal income.

It should be remembered that food is not taxed under the representative tax system. In agricultural areas many families grow their own food. These families probably spend a higher proportion of their income on nonfood consumer goods than do urban families who have to purchase food. This may account for the fact that sales tax capacity is so much higher, relative to the national average, than is personal income in some of the agricultural States. Some farm producers' goods may also be included in retail sales in these States.

Only a few States have substantial severance tax capacity, and these are heavily concentrated in the Southwest and Rocky Mountain regions. Oklahoma, Texas, New

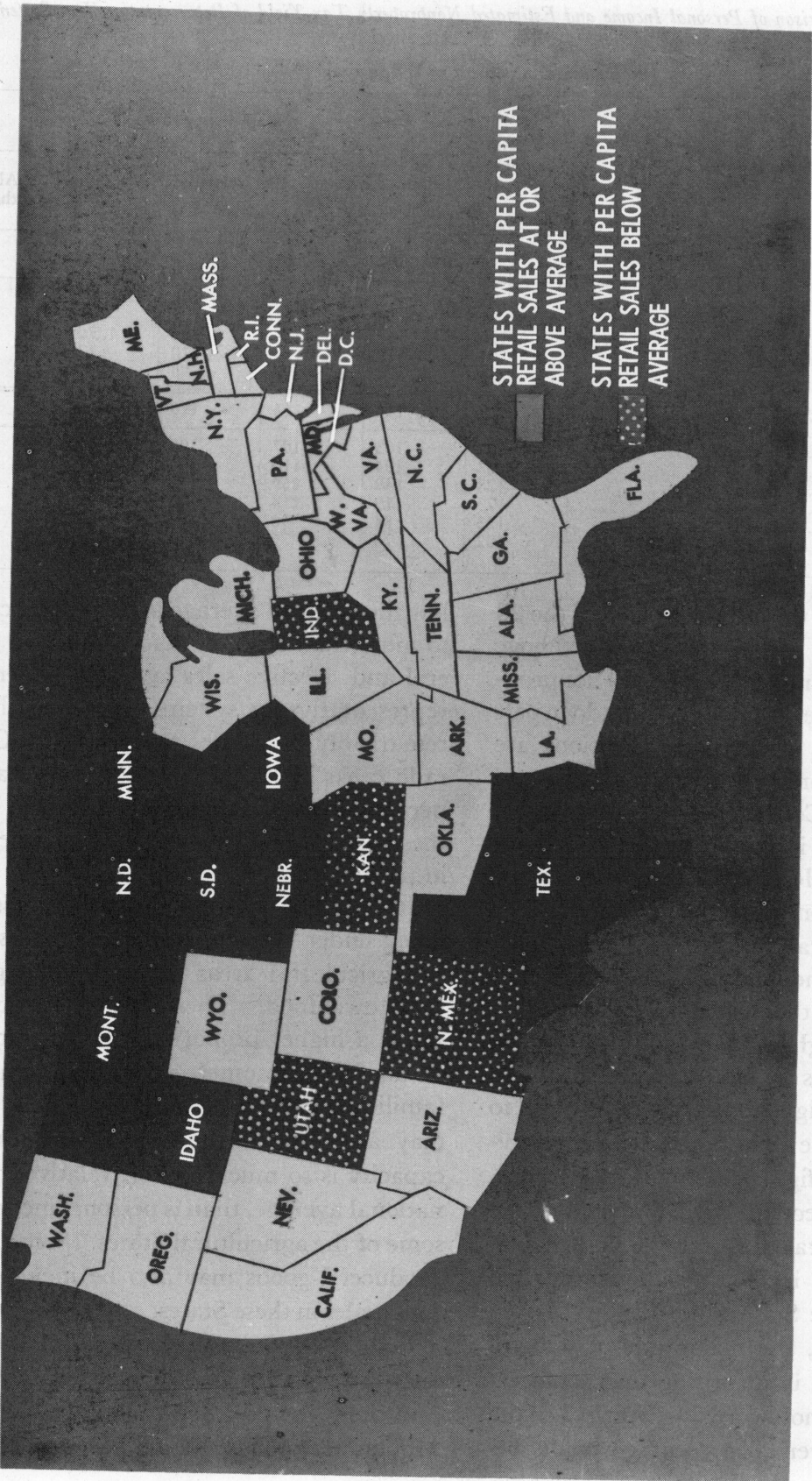


Figure 7. Per Capita Retail Sales in Selected States

Eight of the Twelve States That Shift From Below the National Average in Per Capita Income to Above Average Representative Tax Yields Have Above Average Per Capita Retail Sales.

TABLE 23.—Total and Taxable Estimated Retail Sales as a Percent of Personal Income, by State, 1959

Total retail sales		Rank	Taxable retail sales ¹	
State	Percent of personal income		State	Percent of personal income
North Dakota	86	1	North Dakota	73
South Dakota	83	2	South Dakota	68
Idaho	77	3	Idaho	64
Montana	73	4	Nevada	63
Arkansas	71	5	Montana	60
Nebraska	69	6	Florida	57
Florida	68	7	Nebraska	56
Iowa	68	8	Arkansas	55
Vermont	68	9	District of Columbia	55
Minnesota	66	10	Iowa	54
Mississippi	65	11	Minnesota	54
Tennessee	65	12	Wyoming	54
Texas	65	13	Arizona	53
Arizona	64	14	Colorado	52
Oklahoma	64	15	Mississippi	52
Utah	64	16	New Mexico	52
Wyoming	64	17	Tennessee	52
District of Columbia	63	18	Texas	52
Georgia	63	19	Utah	52
Kansas	63	20	Vermont	52
Maine	63	21	Georgia	51
New Hampshire	63	22	Louisiana	51
New Mexico	63	23	North Carolina	51
Colorado	62	24	Maine	50
Kentucky	62	25	Oklahoma	50
Louisiana	62	26	Oregon	50
North Carolina	62	27	Alabama	49
Oregon	62	28	Kansas	49
Alabama	61	29	Kentucky	49
Missouri	61	30	Missouri	49
Nevada	60	31	New Hampshire	49
South Carolina	60	32	Indiana	48
Washington	60	33	South Carolina	48
Indiana	59	34	West Virginia	48
Wisconsin	59	35	Washington	47
Virginia	58	36	Wisconsin	47
West Virginia	57	37	Illinois	46
Michigan	56	38	Virginia	46
California	55	39	Michigan	45
Illinois	55	40	California	44
Ohio	54	41	Ohio	44
Massachusetts	53	42	Massachusetts	43
Pennsylvania	53	43	Pennsylvania	43
Rhode Island	53	44	Rhode Island	42
Maryland	50	45	New Jersey	40
New Jersey	50	46	New York	39
New York	49	47	Connecticut	38
Delaware	48	48	Delaware	38
Connecticut	47	49	Maryland	38
Hawaii	45	50	Hawaii	36
Alaska	41	51	Alaska	34

¹ Total retail sales plus receipts at hotels, motels, etc., manufacturing expenditures for new machinery and equipment, value of construction machinery and equipment shipments; less hay, grain and feed store sales, 90 percent of food store sales and 40 percent of drug store sales.

Mexico, and Wyoming have per capita severance tax yields under the representative tax system which are 5 to 17 times as high as the national average. Other high States are: Louisiana, Kansas, West Virginia, Montana, Colorado, and Utah.

Since we have defined "tax effort" as the extent to which a State uses its fiscal capacity, the divergent measures of capacity discussed in this chapter imply divergent measures of tax effort. These are considered in chapter 5.

Chapter 5

VARIATIONS IN TAX EFFORT AMONG STATES

We have defined tax effort here as the extent to which States and their local governments use the fiscal capacity available to them. Thus, by computing the percentage of capacity utilized by State and local tax collections, we derive indexes of tax effort. The standard of comparison in each instance is the position of any one State in relation to that of the average State. The comparison of the actual tax collections of a State (including its local governments) with the hypothetical yield of the representative tax system or with the average share of income devoted to State and local taxes over the Nation indicates whether the State is making a greater or lesser than average tax effort.

Tax effort defined in this way has special characteristics which warrant notice here to provide perspective to the analysis of the tax effort indexes developed in this study.

Allocation of Resources to the Public Sector

A high tax effort index does not necessarily mean that taxes are diverting too large a share of resources to State and local governmental programs. Nor does a low tax effort index necessarily point to the need for tax increases. The underlying differences in the States' economic structure preclude such automatic interpretation of tax effort indexes. States at varying stages of economic development and experiencing different growth rates may elect to allocate their resources differently between public and private uses. Quite apart from differences in attitudes toward public versus

private purposes, one State may allocate a small share of its resources to public purposes in an effort to encourage industrial development. The familiar advertisements of low tax rates designed to attract industrial plants evidence this policy. Other States may pursue a less advertised course designed—within the limits of tax alternatives available to them—to maximize private investment funds.

States, moreover, may choose different routes to identical objectives. While one may hope to stimulate private industrial development by keeping taxes low, others may seek to do so by providing a high level of public facilities and services, reflecting the view that the newer electronic and chemical industries place high value on the availability of good-quality school, hospital, library, higher educational, recreation, water, and sanitation facilities. Investments in these facilities would be reflected in tax effort indexes.

Public Expenditure Requirements

Nor does the same tax effort index for two States necessarily mean that the same share of requirements for public services is being met. Even if the "willingness" and capacity to pay taxes in two States with very different expenditure levels are the same, differences in population density and urbanization may create such different requirements for services customarily provided under public auspices as to result in divergent tax effort. The range and scope of public serv-

ices in a State whose population is concentrated in urban areas is very different from the range and magnitude of public services required in predominantly rural States. The requirements of metropolitan communities for streets, mass-transportation facilities, water, garbage collection and sewage disposal, police protection, health inspection of public eating places have to be met if the city is to exist as a safe place in which to live and work. The expenditures for these services are reflected in tax effort. The larger the concentration of the Nation's population in metropolitan communities, the larger the share of tax effort devoted to the public-service component of metropolitan living. Such tax effort denotes more than government's willingness to tax or the people's willingness to be taxed. And one would expect that over the past decade or so, with the increasing urbanization of the population, the costs of these urban-type services have increased and raised the general or average of State and local tax effort. By the same token, the effort of the predominantly rural States which require relatively few of these urban-connected services would have declined in relation to the national average.

In addition to differences among States in the costs of essential governmental services, there are differences in the proportion of the population consisting of the dependent-age groups, the unemployed, and those with needs for publicly assisted housing, which tend to result in variations in expenditures and in effort to raise taxes.

Methods of Financing

Even if it were possible to assume substantial uniformity both in functions undertaken and in the quality of services rendered by the various jurisdictions, interstate differences in combinations of financing methods employed would affect tax effort ranks,

especially over short periods. The utilization of user charges and other nontax revenues and of borrowing to finance public services in any period will affect a State's tax effort rank relative to the average. Only if all States used substantially identical revenue devices to meet costs would the tax effort index provide a precise indication of the relative extent capacity is applied to public services. Part of this problem could be met either by including public charges along with taxes in determining tax effort or by excluding benefit levies along with charges where the benefit-payment relationships are fairly clear cut.

Tax Severity and Tax Effort

An index of tax effort which relates one State's tax collections to its calculated tax capacity and compares that tax effort index with the national average of comparable indexes computed for all the States does not take account of differences in tax burdens either on families or business firms. Tax effort indexes, in other words, are not indexes of tax severity. They make no allowance for the differing absolute levels of per capita income in the States. Admittedly, the payment of a given percent of income in taxes represents a greater effort when per capita income is small than when it is large. A tax severity index has been proposed which would be computed by dividing the tax effort indexes by per capita personal income. The effect of the proposed index can be illustrated by contrasting the tax effort and tax severity indexes of California and Colorado. In 1960 the two States made approximately the same tax effort or devoted about the same share of their income to State and local taxes (table 24). However, per capita income in California was 18 percent greater than in Colorado. Therefore, the tax severity index reflecting these differences in per

TABLE 24.—*Tax Effort Indexes—Actual Tax Collections in 1960 as a Percent of Selected Income Series in 1959 and of Yield Under Representative Tax System, by State*

State and region	Actual tax collections in 1960 as a percent of—						Yield under representative tax system
	Personal income		Income produced		Composite income		
	Percent	Percent related to U.S. average	Percent	Percent related to U.S. average	Percent	Percent related to U.S. average	
United States.....	9.5	100	7.5	100	8.6	100	100
New England.....	9.3	98	8.1	108	9.1	106	112
Maine.....	11.3	119	10.4	139	11.3	131	126
New Hampshire.....	9.6	101	8.4	112	9.3	108	95
Vermont.....	12.5	132	10.6	141	11.8	137	130
Massachusetts.....	9.8	103	8.3	111	9.3	108	121
Rhode Island.....	9.1	96	8.2	109	9.0	105	112
Connecticut.....	7.8	82	7.0	93	7.7	90	94
Midwest.....	9.4	99	7.6	101	8.7	101	115
New York.....	10.7	113	8.4	112	9.7	113	136
New Jersey.....	8.1	85	7.0	93	7.9	92	97
Pennsylvania.....	8.1	85	6.7	89	7.6	88	96
Delaware.....	6.9	73	7.7	103	8.0	93	87
Maryland.....	8.7	92	7.9	105	8.8	102	106
District of Columbia.....	7.5	79	5.0	67	6.0	70	85
Great Lakes.....	8.8	93	6.9	92	7.9	92	95
Michigan.....	9.9	104	8.1	108	9.2	107	110
Ohio.....	8.4	88	6.6	88	7.6	88	91
Indiana.....	8.7	92	6.6	88	7.6	88	87
Illinois.....	8.1	85	6.1	81	7.1	83	88
Wisconsin.....	10.3	108	8.4	112	9.5	110	110
Plains.....	9.8	103	7.4	99	8.6	100	89
Minnesota.....	11.3	119	8.4	112	9.8	114	105
Iowa.....	10.7	113	8.1	108	9.3	108	91
Missouri.....	7.1	75	5.5	73	6.3	73	76
North Dakota.....	12.9	136	9.3	124	10.8	126	91
South Dakota.....	13.3	140	9.1	121	10.8	126	92
Nebraska.....	8.9	94	6.5	87	7.3	85	72
Kansas.....	11.0	116	9.3	124	10.4	121	96
Southeast.....	9.4	99	7.4	99	8.4	98	95
Virginia.....	7.8	82	6.1	81	6.9	80	84
West Virginia.....	9.2	97	6.8	91	7.9	92	101
Kentucky.....	7.9	83	6.0	80	6.9	80	80
Tennessee.....	9.0	95	7.2	96	8.2	95	93
North Carolina.....	9.4	99	6.8	91	7.9	92	96
South Carolina.....	9.8	103	8.0	107	9.0	105	106
Georgia.....	9.2	97	7.1	95	8.2	95	102
Florida.....	9.8	103	8.5	113	9.4	109	90
Alabama.....	8.6	91	6.9	92	7.9	92	91
Mississippi.....	11.4	120	10.0	133	10.9	127	113
Louisiana.....	12.0	126	8.7	116	10.1	117	106
Arkansas.....	9.5	100	8.4	112	9.2	107	90
Southwest.....	9.2	97	6.7	89	7.8	91	74
Oklahoma.....	10.0	105	7.4	99	8.6	100	94
Texas.....	8.7	92	6.3	84	7.3	85	67
New Mexico.....	9.9	104	7.2	96	8.4	98	84
Arizona.....	11.5	121	8.4	112	9.8	114	104

TABLE 24.—*Tax Effort Indexes—Actual Tax Collections in 1960 as a Percent of Selected Income Series in 1959 and of Yield Under Representative Tax System, by State—Continued*

State and region	Actual tax collections in 1960 as a percent of—						Yield under representative tax system
	Personal income		Income produced		Composite income		
	Percent	Percent related to U.S. average	Percent	Percent related to U.S. average	Percent	Percent related to U.S. average	
Rocky Mountain	11.0	116	8.4	112	9.7	113	93
Montana.....	11.5	121	8.7	116	10.0	116	86
Idaho.....	11.0	116	8.6	115	9.9	115	89
Wyoming.....	10.9	115	8.3	111	9.6	112	73
Colorado.....	10.8	114	8.6	115	9.8	114	100
Utah.....	11.1	117	7.8	104	9.2	107	98
Far West	10.7	113	8.7	116	9.9	115	111
Washington.....	10.7	113	8.7	116	9.9	115	114
Oregon.....	10.7	113	9.2	123	10.3	120	113
Nevada.....	10.4	109	7.3	97	8.7	101	93
California.....	10.8	114	8.7	116	9.9	115	109
Alaska.....	6.7	71	5.3	71	6.0	70	116
Hawaii.....	11.8	124	9.4	125	10.6	123	155

capita income would rank California substantially lower than Colorado. While this measure of tax severity reflects the differences in per capita income, it takes no account of differences in the distribution of income around the average.

Tax effort as used here does not purport to reflect the relative severity of taxes, or burdens of taxes, on families or business firms. While these characteristics must be borne in mind as caution signals, the tax effort indexes do provide a summary view of the relative use made by the States of the capacity available to them. They provide meaningful answers to a wide array of questions frequently raised in relation to State and local tax policies and intergovernmental financial aids.

Tax effort indexes provide at least a partial guide to answering such questions as: Which of the States could raise additional taxes without impairing their competitive position? How do the States for which differential aids are proposed or granted

differ in willingness to tax themselves? Are public services in a State low because its tax effort is low or because, despite an effort at or above the national average, the State's limited capacity is unable to support higher service levels? Are the States with relatively high tax effort concentrated in particular regions of the country, thus reflecting regional tax or expenditure patterns? Are the low-effort States principally industrial, or predominantly agricultural?

Answers to these questions would assist materially in the formulation of economic and fiscal policies. It should be stressed again, however, as we have emphasized elsewhere in this document, that the numbers and indexes here developed are not sufficiently firm to serve these policy purposes. They are inadequate for policy use because the underlying data, borrowed and patched from miscellaneous sources, are inadequate. Our sole purpose here is to conceptualize alternative techniques for measuring fiscal capacity and tax effort, to identify the more

promising approaches, in order to guide the direction of future efforts for developing the basic economic data required for developing them.

Variations in Tax Effort Rankings

In this study we have developed and presented various indexes of fiscal capacity. The different capacity positions of the States, particularly the contrasting positions of some States when ranked in relation to per capita income and the per capita yield of a representative tax system, necessarily result in different tax effort rankings for individual States.

As figure 8 and table 24 show, about half the States which appear to be making above-average tax effort when collections are related to personal income of the residents of the States shift below the national average when collections are related to the yield of a representative tax system. The States that shift positions, however, are concentrated in the Plains and Rocky Mountain region where high farmland prices inflate the property tax base potential and therefore the capacity index when measured by the yield of a representative tax system. States which retain their high tax effort rank, whether personal incomes or representative tax system yields are used as the standard, include primarily the States in the northern part of the United States from the Atlantic coast to the Great Lakes and those in the Far West along the Pacific coast.

There is a similar geographic concentration of States with low tax effort rankings under both indexes. Moreover the less-than-average tax effort findings are more consistent from capacity index to capacity index. As figure 9 shows, 15 of the 19 States with less-than-average tax effort based on the ratio of tax collections to personal income also have less than average

effort when taxes are related to the yield of a representative tax system. States with less-than-average effort under both indexes are located principally in the central portion of the United States from the Atlantic coast to Missouri.

A larger number of States appear to be making average or above-average tax effort when tax collections are related to personal income than when these tax collections are compared with the estimated yield of a representative tax system. Using the latter standard, 21 States in all appear to make an average or above-average tax effort and 29 States and the District of Columbia have an effort index below average (table 25). When income becomes the standard against which to test the effort expended in raising taxes, 30 States show average or above-average effort, and about 20 States less-than-average effort. Thus it would appear that a larger number of States are willing to tap income flows for taxpayments at average or above-average levels than are willing to assess tangible wealth by property taxes (taxes which influence markedly the effort position under a representative tax system).

States With High Tax Effort

What are the characteristics of the States with a tax effort index 10 percentage points or more above average—using this cutoff point to indicate the State making a high tax effort?

Twenty States have an effort index, based on personal income as the indicator of capacity, 10 percentage points or more above the national average. Of these 20 States, Hawaii, Mississippi, Maine, New York, Oregon, Vermont and Washington also impose taxes which exceed by 10 percentage points or more the estimated yield of a representative tax system. The tax effort rank of the seven States is comparably high when tax collections are related to income pro-

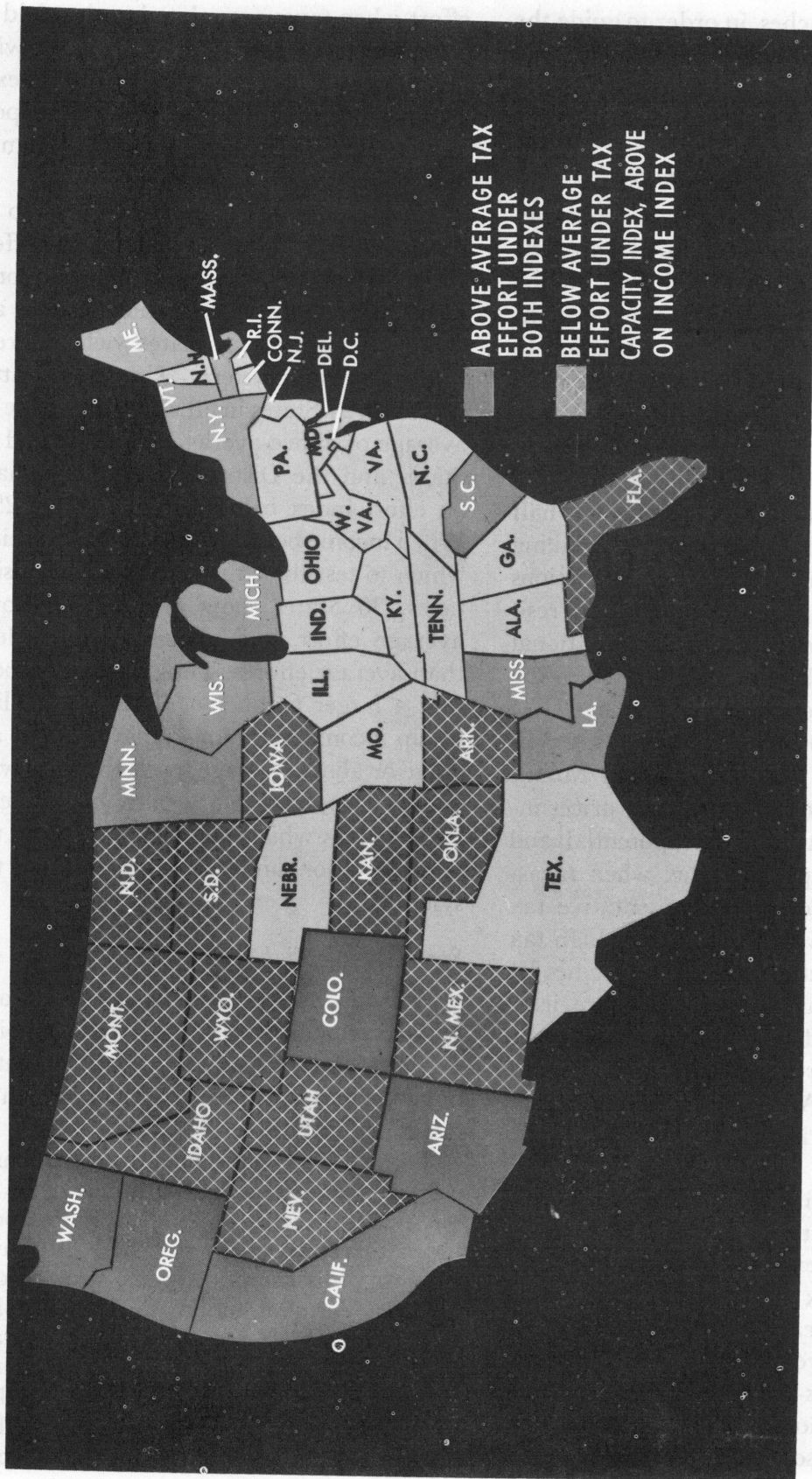


Figure 8. States With Above-Average Tax Effort

About Half the States Which Appear To Be Making Above-Average Tax Effort When Collections Are Related to Income Shift Below the National Average When Collections Are Related to Taxable Capacity.

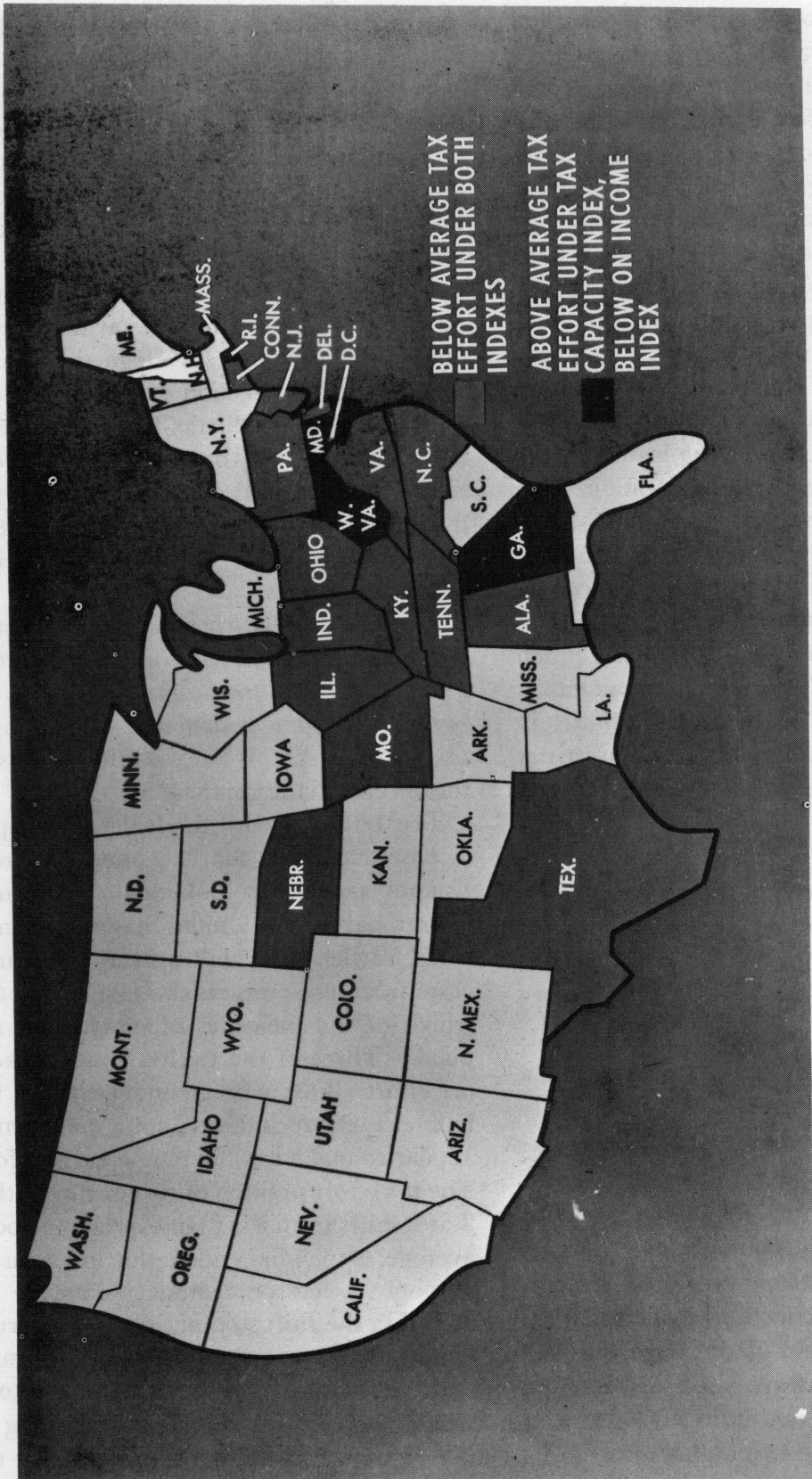


Figure 9. States With Below-Average Tax Effort

Four of the Nineteen States Which Appear To Be Making Below-Average Tax Effort When Collections Are Related to Income Shift Above the National Average When Collections Are Related to Taxable Capacity.

duced and also to a composite measure of income sources available for taxpayments.

These seven States, widely dispersed geographically, have few characteristics in common. They include average-income States with relatively high levels of public services and very poor States with low or average levels of public services. New York's income is high; Washington, Oregon, and Hawaii have a per capita income close to the United States average; the per capita incomes of Maine and Vermont are considerably below average and Mississippi's per capita income is the lowest in the Nation. Tax collections per capita in each of the States, with the exception of Mississippi, are about average for the Nation or above average. Mississippi's tax collections per capita while low are higher than those of a number of States with much higher income. Despite its high tax effort, Mississippi ranks low among the States in most indexes of expenditure levels, in per capita outlays for schools, health, etc.

States With Low Tax Effort

At the opposite end of the scale, there are 11 States with an effort index based on personal income which is 10 percentage points or more below the average. There are 15 States with tax collections 10 percentage points below the estimated yield of a representative tax system. Of these, only Delaware, Illinois, Kentucky, Missouri, Virginia and the District of Columbia appear consistently to be making a tax effort at least 10 percentage points below average, whether the measure of tax effort used compares actual tax collections to personal income or to the yield of the representative tax system. Delaware shifts its position from a State with tax effort 10 percent or more below average to a higher effort rank, if income produced or the composite income

index is applied as the norm against which actual tax collections are assessed.

Which of the States have the capacity to raise taxes without requiring a disproportionate tax effort? The States with a very low tax effort index could impose additional taxes if their citizens so elected and if needs for public expenditure required such increases. Where the indexes consistently point to a low tax effort the availability of unused fiscal resources is a logical presumption. In a later section of this report, the relative use of specific tax bases is discussed, pointing to the types of taxes which are relatively underutilized in States with a low overall tax effort (Appendix C). Figure 10 illustrates effective tax rate variations among the States.

Do the States with low per capita income, who would benefit from any equalization grant-in-aid program under present arrangements, give evidence of willingness to tax themselves? What, in other words, is the tax effort index of these States?

The 12 States with the lowest per capita income are, with the exception of North Dakota and South Dakota, in the southeastern part of the United States. As indicated earlier, the ability of these Southeastern States to raise taxes is low no matter which of the measures of capacity is applied. Three of the twelve States make a tax effort above average under each of the four tax effort indexes; four consistently appear to make less than an average effort. The tax effort position of two or three other States shifts from less than average to above average, depending upon the index used, but only a few percentage points are involved in the shift so that, in general terms, the effort of these States is about average. Only in North Dakota and South Dakota, where the capacity rankings according to the estimated yield of a representative tax system are very much higher than the States'

TABLE 25.—States Arranged in Order of Tax Effort Indexes

Rank	Personal income		Income produced		Composite income		Yield under representative tax system		Rank
	State	Percent related to U.S. average	State	Percent related to U.S. average	State	Percent related to U.S. average	State	Percent	
1	South Dakota	140	Vermont	141	Vermont	137	Hawaii	155	
2	North Dakota	136	Maine	139	Maine	131	New York	136	
3	Vermont	132	Mississippi	133	Mississippi	127	Vermont	130	
4	Louisiana	126	Hawaii	125	North Dakota	126	Maine	126	
5	Hawaii	124	Kansas	124	South Dakota	126	Massachusetts	121	
6	Arizona	121	North Dakota	124	Hawaii	123	Alaska	116	
7	Montana	120	Oregon	123	Kansas	121	Washington	114	
8	Mississippi	119	South Dakota	121	Oregon	120	Mississippi	113	
9	Maine	119	California	116	Louisiana	117	Oregon	113	
10	Minnesota	117	Louisiana	116	Montana	116	Rhode Island	112	
11	Utah	116	Montana	116	California	115	Michigan	110	
12	Idaho	116	Washington	116	Idaho	115	Wisconsin	110	
13	Kansas	116	Colorado	115	Washington	115	California	109	
14	Wyoming	115	Idaho	115	Washington	115	California	109	
15	California	114	Florida	113	Arizona	114	Louisiana	106	
16	Colorado	114	Arizona	112	Colorado	114	Maryland	106	
17	Iowa	113	Arkansas	112	Minnesota	114	South Carolina	106	
18	New York	113	Minnesota	112	New York	113	Minnesota	105	
19	Oregon	113	New Hampshire	112	Wyoming	112	Arizona	104	
20	Washington	110	New York	112	Wisconsin	110	Georgia	102	
21	Nevada	109	New York	112	Florida	109	West Virginia	101	
22	Wisconsin	108	Wisconsin	112	Iowa	108	Colorado	100	
23	Oklahoma	105	Massachusetts	111	Massachusetts	108	Utah	98	
24	Michigan	104	Wyoming	111	New Hampshire	108	New Jersey	97	
25	New Mexico	104	Rhode Island	109	Arkansas	107	Kansas	96	
26	Florida	103	Iowa	108	Michigan	107	North Carolina	96	
27	Massachusetts	103	Michigan	108	Utah	107	Pennsylvania	96	
28	South Carolina	103	South Carolina	107	Rhode Island	105	New Hampshire	95	
29	New Hampshire	101	Maryland	105	South Carolina	105	Connecticut	94	
30	Arkansas	100	Utah	104	Maryland	102	Oklahoma	94	
31	North Carolina	99	Delaware	103	Nevada	101	Nevada	93	
32	Georgia	97	Oklahoma	99	Oklahoma	100	Tennessee	93	
33	West Virginia	97	New Mexico	97	New Mexico	98	South Dakota	92	
34	Rhode Island	96	Tennessee	96	Georgia	95	Alabama	91	
35	Tennessee	95	Georgia	95	Tennessee	95	Iowa	91	
36	Nebraska	94	Connecticut	95	Delaware	93	North Dakota	91	
37	Indiana	92	New Jersey	93	Alabama	92	Ohio	91	
38	Maryland	92	Alabama	92	New Jersey	92	Arkansas	90	
39	Texas	92	North Carolina	92	North Carolina	92	Florida	90	
40	Alabama	91	West Virginia	91	West Virginia	92	Idaho	89	
41	Ohio	88	Pennsylvania	89	Connecticut	90	Illinois	88	
42	Illinois	85	Indiana	88	Indiana	88	Delaware	87	
					Ohio	88	Indiana	87	

43	New Jersey.....	85	Ohio.....	88	Pennsylvania.....	86	Montana.....	43
44	Pennsylvania.....	85	Nebraska.....	87	Nebraska.....	85	District of Columbia...	44
45	Kentucky.....	83	Texas.....	84	Texas.....	84	New Mexico.....	45
46	Connecticut.....	82	Illinois.....	81	Illinois.....	84	Virginia.....	46
47	Virginia.....	82	Virginia.....	81	Kentucky.....	80	Kentucky.....	47
48	District of Columbia.....	79	Kentucky.....	80	Virginia.....	80	Missouri.....	48
49	Missouri.....	75	Missouri.....	73	Missouri.....	73	Wyoming.....	49
50	Delaware.....	73	Alaska.....	71	Alaska.....	70	Nebraska.....	50
51	Alaska.....	71	District of Columbia...	67	District of Columbia...	70	Texas.....	51

Source: Based on table 24.

rank based on income, does the tax effort index change from substantially above average to one below average.

The question whether the States with low per capita incomes are willing to tax themselves cannot be answered unequivocally. About half of the 12 States exploit their tax resources at about the national average rate or better; four tax themselves less; and, for the remaining two States, the answer depends upon the index of capacity employed.

A comparable question may be posed about the level of tax effort of the high-income States; namely: Do these high-income States have sufficient resources to permit them to attain the levels of public service their citizens are seeking without undue tax effort? For four of these States—namely, Connecticut, New Jersey, Illinois, and Ohio—the answer seems to be clearly in the affirmative. The tax effort of these four States is consistently below average regardless of the index employed in the test. For three States, California, Massachusetts, and New York, the answer clearly is in the negative. Each of these States has a tax effort rank higher than average under the four indexes. For the remaining States, Alaska, Delaware, Maryland, Nevada, and Wyoming, the answer depends upon the yardstick applied in assessing the fiscal resources available for taxation.

Do expenditure variations among States reflect differences in willingness to use the fiscal capacity available to them? Or is the revenue-raising potential a more important factor in determining expenditure levels?

A number of studies indicate the importance of fiscal capacity as a determinant of variations in public expenditures, both among cities and among States. While within the context of this report it is not pos-

sible to examine this problem, variations in State and local expenditures for local schools and in tax effort may be used as illustrative. The selection of education is suggested by the importance of education in State and local budgets coupled with the relatively small amount of Federal aid in support of this function so that expenditure variations reflect State and local revenues allocated rather than Federal grants.

The overall tax effort indexes of the 12 States with the highest expenditures per capita for local schools and of the 12 States with the lowest expenditures per capita are summarized below.

*Educational Expenditures and Tax Effort Index:
Percent U.S. Averages*

State	Educational expenditures index	Tax collections related to composite income index	Tax collections related to yield of representative tax system
12 States With Highest Educational Expenditures per Capita			
Wyoming	159	112	73
Delaware	142	93	87
Alaska	138	70	116
California	131	115	109
Utah	128	107	98
Arizona	127	114	104
Colorado	127	114	100
Oregon	127	120	113
Nevada	126	101	93
New Mexico	124	98	84
Washington	122	115	114
New York	117	113	136
12 States With Lowest Educational Expenditures per Capita			
Kentucky	63	80	80
Arkansas	65	107	90
Alabama	66	92	91
South Carolina	68	105	106
Rhode Island	70	105	112
Georgia	72	95	102
New Hampshire	75	108	95
Tennessee	76	95	93
Mississippi	77	127	113
North Carolina	77	92	96
West Virginia	77	92	101
Missouri	83	73	76

As may be seen by comparing the tax effort for the two groups of States, there are low and high tax effort States in both ex-

penditure categories. When the tax effort index is based on the relationship of tax collections to the composite income sources out of which taxes are paid, there is a fairly sharp contrast in effort between the high- and low-expenditure States. Only 3 of the 12 States with high per capita expenditures for local schools have a tax effort below average. Seven of the twelve States with low expenditures make an effort below average. When tax collections expressed as a percent of the yield of the representative tax system are used as the effort index, five of the 12 States in the high-expenditure category make less-than-average effort; five of the 12 States with the low expenditures make above average effort.

The Limitations of Tax Effort Indexes

We have examined the several tax effort indexes as possible alternatives and also used the test of consistency of tax effort rankings to indicate which of the States make a low and which a high tax effort.

Both groups of capacity measures appear to have usefulness as standards from which to measure deviations in tax effort above and below parity. The capacity of States and localities to tax is restricted by the tax practices customarily followed over the country as a whole. This is the rationale for using an effort index based on the representative tax system. In the long run, however, all taxes, no matter what their nominal base, are paid out of income flows. The average share of income allocated to public use as indicated by the percentage of this income paid out in taxes provides a benchmark from which to determine whether a

State is making a standard tax effort or an effort greater or less than standard.

Some high-income States may appear to be making an unduly low effort when their tax collections are related to income. Such a tax effort measure standing alone, however, is inadequate in that it fails to consider constraints on State and local taxation. Income may be high, but attempts to raise effective rates beyond those prevailing in neighboring States may encounter fears that a flight of the tax base will be precipitated. Fears that industry, purchases, and high-income taxpayers may move out of the State are important considerations in determining tax policy. In other States income flows—individual, corporate, and noncorporate—may not be sufficient to support even an average tax structure. Failure of these States to assess effective tax rates comparable to the averages prevailing in the Nation may be a reflection of their inability to impose taxes because the tax bases available to them are relatively limited.

This suggests that the relative tax effort position of the several States is not necessarily reflected by any one measure alone, because the States' tax policies operate against two groups of restraints: (a) Those imposed by prevailing concepts of what is reasonable in terms of tax rates and combinations of taxes, and (b) the size of income flows out of which taxes are paid. If this be the case, then the issue before us is not choosing between two different approaches to the measurement of tax effort, but, rather, how best to make effective use of both of them.



Chapter 6

SUMMARY OF FINDINGS

Our purpose in undertaking this study was to explore the feasibility of developing improved measures of the comparative fiscal capacities of State and local governments and the comparative tax efforts they are making. Fiscal capacity is a measure of the combined ability of the State and its local governments to raise tax revenue for financing governmental programs, while tax effort is a measure of the relationship of the taxes actually collected to fiscal capacity.

The State and its local governments are treated as one entity partly because this accords with general practice in Federal-State relations and partly in recognition of the wide variations in the division of taxing resources and program responsibilities between the States and their local units. The emphasis here is on relative rather than absolute fiscal capacities and tax efforts of the States. The appraisal of a State's fiscal capacity in absolute terms is a political decision it alone can make; it is not a researchable problem.

The Commission, as already indicated, had a twofold objective in authorizing a staff study of State fiscal capacity and tax effort on a pilot project basis: (1) To explore the feasibility of developing measures of these variables for use in the consideration of grants-in-aid and other intergovernmental fiscal relations, interstate tax comparisons, and long-term fiscal plans; and (2) to illuminate the relationship between the relative capacities of the States to finance governmental programs out of their

own resources and the average level of the personal incomes of their residents, the principal statistical indicator of economic well-being regularly available on a State-by-State basis.

We identified two distinct approaches to the problem of measuring State fiscal capacity and proceeded to explore both of them. One approach focuses on the sources out of which State and local taxes are paid; the other on the bases upon which State and local taxes are assessed.

The tax source or income approach (chapter 2). Except in the rare instance in which a community is drawing down its capital stock, taxes are paid out of income. Hence, it seems reasonable to use some measure of the income of a community as an indicator of its ability to raise revenue through taxation. Income, however, may be measured in various ways. The income received by the residents of a State, for example, is not necessarily equal to the income produced by the factors of production physically located in that State. Moreover, some components of the income stream are less available as sources of State and local tax payments than others. In chapter 2 various measures of income were described, and the extent to which they correspond to sources of State and local tax payments was discussed.

We first discussed personal income, which is the most readily available measure of the income received by the residents of a State. This economic series is currently used in some Federal grant programs to measure

variations in fiscal capacity, and it is the basis against which tax effort is commonly measured in studies of comparative State tax effort. Some limitations of the personal-income series as a fiscal capacity measure were discussed—for example, it does not reflect the fact that varying proportions of the income of the residents of different States are drawn off by Federal taxes and that varying proportions of it consist of types of income which do not ordinarily constitute a source of taxpayments (home-produced food, employee fringe benefits, income of nonprofit institutions), and some suggestions were made for improving the interstate comparability of the series.

Some attention was also given to another measure of income received: the family and individual income statistics collected by the Bureau of the Census. While less accurate in the aggregate than the personal income series, the census data have the advantage that they permit interstate comparisons of the distribution of income. It is often alleged that the income received by families and individuals in the lowest income brackets does not (or at least should not) constitute a source of taxpayments, since these people need all the income they have for bare subsistence. Accordingly, we used the census income statistics to compute estimates of income received in each State, excluding the incomes of individuals with less than \$1,000 and of families with less than \$2,000.

Next we turned to the problems involved in developing measures of income produced in each State by aggregating the values added at the stages of production which occur in each State.

We did not attempt to answer the question whether income received or income produced best corresponds to the source of State and local taxpayments. This question has no simple answer. Some State and local

taxes are paid out of income as it is produced (e.g., severance taxes on mineral production); others out of income as it is received by its ultimate recipients (e.g., individual income taxes); and others are paid out of particular segments of the income flow (e.g., corporate income taxes). Accordingly, a composite income index was suggested in which three measures of income for each State were combined in a weighted average—the weights reflecting the extent to which, over the country as a whole, each constitutes a source of State and local taxpayments.

The tax base or representative tax system approach (chapter 3). State and local taxes are assessed on a variety of bases, of which property and retail sales, general or selective, are by far the most important. A direct approach to measuring the relative fiscal capacity of the States is to evaluate the bases available for taxation in each State and then to estimate the amount of revenue each State could raise if all applied a uniform tax system.

The results, of course, will be affected by what tax system is chosen. If the uniform tax system relies heavily on property taxation, for example, States with high property values will appear to have high relative fiscal capacity, and if it relies heavily on sales taxation States with large volumes of sales will appear to have high relative fiscal capacity. In chapter 3 we described the construction for this purpose of a “representative tax system”—a system designed to be representative of present State and local tax practice.

We constructed the representative system in several steps. First, we identified among the taxes currently in use by State and local governments those which satisfied either of two tests. A tax was included in the representative tax system if it was in use in States which account for more than half the

Nation's population or if the States using it account for more than half the total potential base for the tax. The tax rate assigned to each tax included in the representative tax system was derived by dividing its aggregate State and local yield in 1960 by the aggregate base for that tax in all the States (including those which do not now employ this type of tax). This procedure is equivalent to computing a weighted average of the tax bases in each State in which the weights used are the aggregate revenues derived from each tax base in 1960.

Since it reflected current State and local tax practice, the representative tax system gave heavy weight to the property-tax bases (44 percent) and to general and selective sales-tax bases (34 percent) and less weight to other bases such as personal income (7 percent) and corporate income (4 percent).

Findings (chapters 4 and 5). The results of this study of fiscal capacity and tax effort indicate that conclusions about the relative capacity and effort position of a number of States are strongly dependent on which index is used. States in the Southeastern part of the United States have far less fiscal capacity than other areas, and those in the Far West have far more, no matter what index is used (fig. 11). The relative-capacity position of the New England and Mideastern States and of the Plains, Rocky Mountain, and Southwestern States appears quite different, however, when different indexes are employed.

Differences among the various income series are not large. Only in a few States, notably States in which mining and other corporate firms pay dividends and interest to their security holders in other States, is there a shift in relative-income position. The Plains, Rocky Mountain, and Southwestern States generally rank higher in income produced than in income received, while the

opposite is true of the New England and Mideastern regions.

Differences between the income series and the yield of the representative tax system, however, are very substantial. The Plains, Mountain, and Southwestern States rank much higher on the yield of the representative tax system than they do on personal income. In fact, these regions are well above the national average in per capita yield of the representative tax system, although they are below the national average in per capita personal income. The New England and Mideastern States, by contrast, rank substantially higher in personal income than they do in the yield of the representative tax system.

Similar findings can be reported with respect to the measurement of tax effort. We have defined effort as the extent to which a State uses its available fiscal capacity (actual tax collections divided by a measure of capacity). Hence, conclusions about effort depend on which measure of capacity is used. The Plains and Mountain States, for example, appear to be making a low effort when capacity is measured by the representative tax system, but a more than average effort when personal income is used.

A number of States show below-average tax effort regardless of which capacity index is used. The States with the lowest tax effort form a midcontinental band of States east of the Mississippi and include both high-income industrial States such as Connecticut and New Jersey, Ohio, and Illinois and also several of the Southeastern States—Virginia, Kentucky, Tennessee, and North Carolina. The tax effort of the States in the Far West is relatively high no matter which index is used, as is the effort ranking including such States as New York, Massachusetts, Michigan, and Mississippi.

Why are such large differences found between the relative capacities of the States

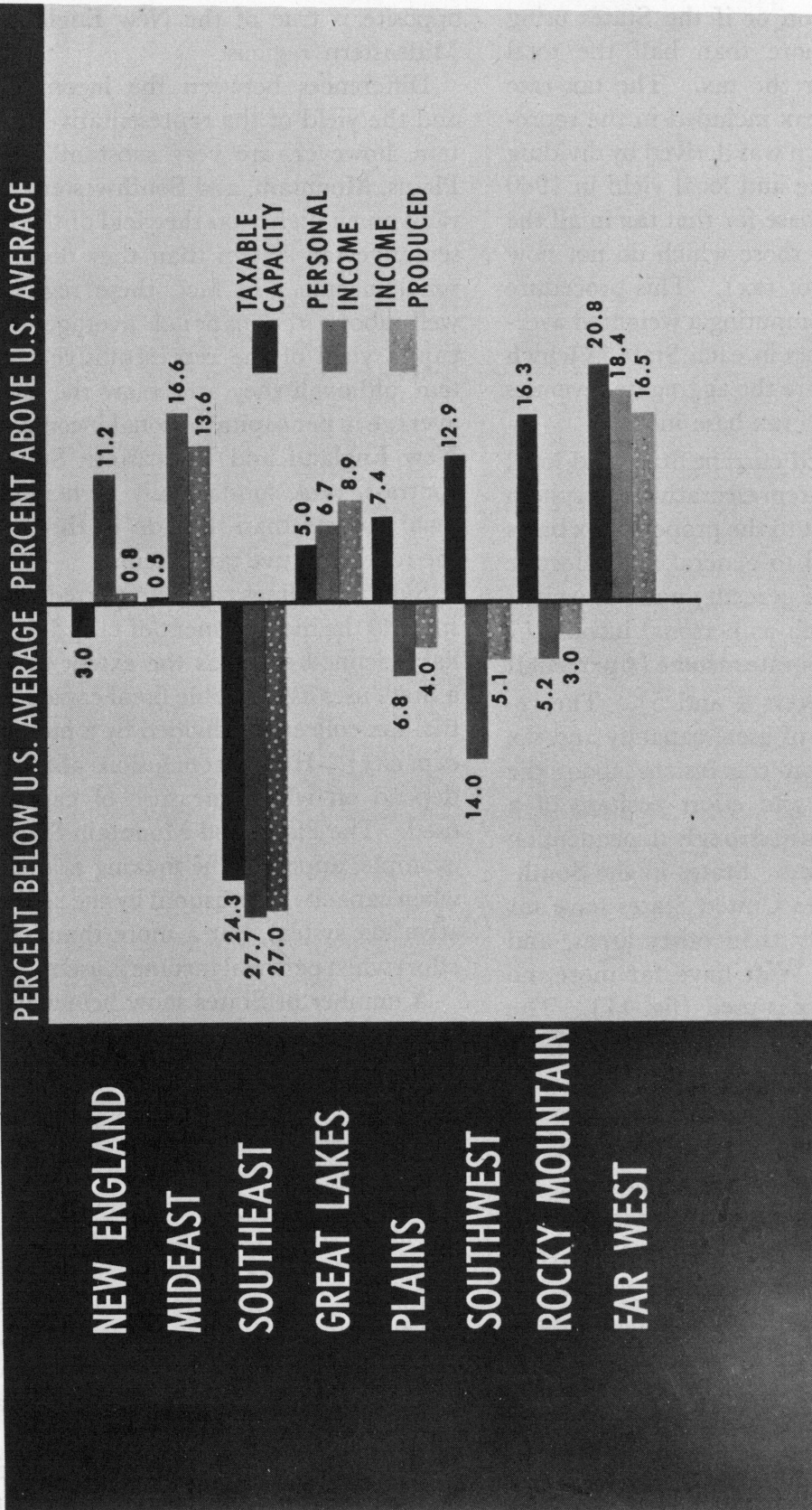


Figure 11. Taxable Capacity, Personal Income, and Income Produced

New England and the Mideast Rank Lower in Per Capita Yield of a Representative Tax System Than in Per Capita Income; the Far West, Plains, Southwest, and Rocky Mountain States Rank Higher.

measured by personal income and the relative capacities measured by the yield of the representative tax system? Part of the explanation lies in the fact that the ratio of the value of taxable property to personal income varies greatly among the States and in a definite geographic pattern. The Plains, Rocky Mountain, and Southwestern States have much higher ratios of taxable property to personal income than do the New England and Mideastern States.

This phenomenon, in turn, is attributable to a combination of factors—the low fixed capital requirements of distributive and service trades concentrated in areas of great population density, the older age of structures, both residential and industrial, in the eastern part of the United States, and the changes which have taken place in farmland values. Of these factors, the most important appears to be the inflation of farmland values in recent years which has pushed the market value of farm acreage far out of line with agricultural income. Absentee ownership of income-producing property in the Plains, Rocky Mountain, and Southwestern States also plays a role.

In addition, taxable sales to personal income are higher in the Plains, Mountain, and Southwestern States than in New England and the Mideast (fig. 12 and table 23). This, plus the existence of severance-tax capacity in the Western States, explains why nonproperty tax capacity (as well as property tax capacity) is substantially higher relative to personal income in the Plains, Rocky Mountain, and Southwestern States than in New England and the Mideast.

Issues raised with reference to grants, etc. Which is the better method of measuring capacity—the amount of income or the yield of a representative tax system? Collaterally, which is the more equitable base upon which to distribute Federal aid to the States and State aid to local governments? There

are cogent arguments on both sides. The basic case for using the representative tax system is that the yield of such a system is the relevant measure of the capacity of the States to raise revenue under prevailing tax structures. State and local governments have traditionally relied heavily on property and consumer taxation for revenue and will probably continue to do so for some time to come. The income tax is principally a Federal levy and is not very important in the State and local revenue picture as a whole. Hence, the yield of a representative tax system, reflecting the potential yield of the taxes on which State and local governments actually rely, may be a more appropriate measure of capacity than personal income.

Consider, in addition, the parallel problem of developing measures of local capacity to be used in a statewide equalization formula. In a State which permits its local units to impose only property taxes few would deny that property values represent a more appropriate measure of capacity to support public programs than does personal income. The representative system carries over this point of view to the problem of measuring State capacity. The States are bound, not by Federal law, but by tradition and circumstance, to rely heavily on property and consumption taxation and they cannot be expected to shift this reliance substantially in the foreseeable future. The representative system reflects this reliance.

A good case can also be made for the opposite point of view—that income is more appropriate than the yield of a representative tax system as a measure of capacity, including the use of such a measure as a basis for Federal grants-in-aid in the support and furtherance of State programs. The argument runs as follows: (a) All taxes, no matter what their nominal base, are ultimately paid out of income, and income is

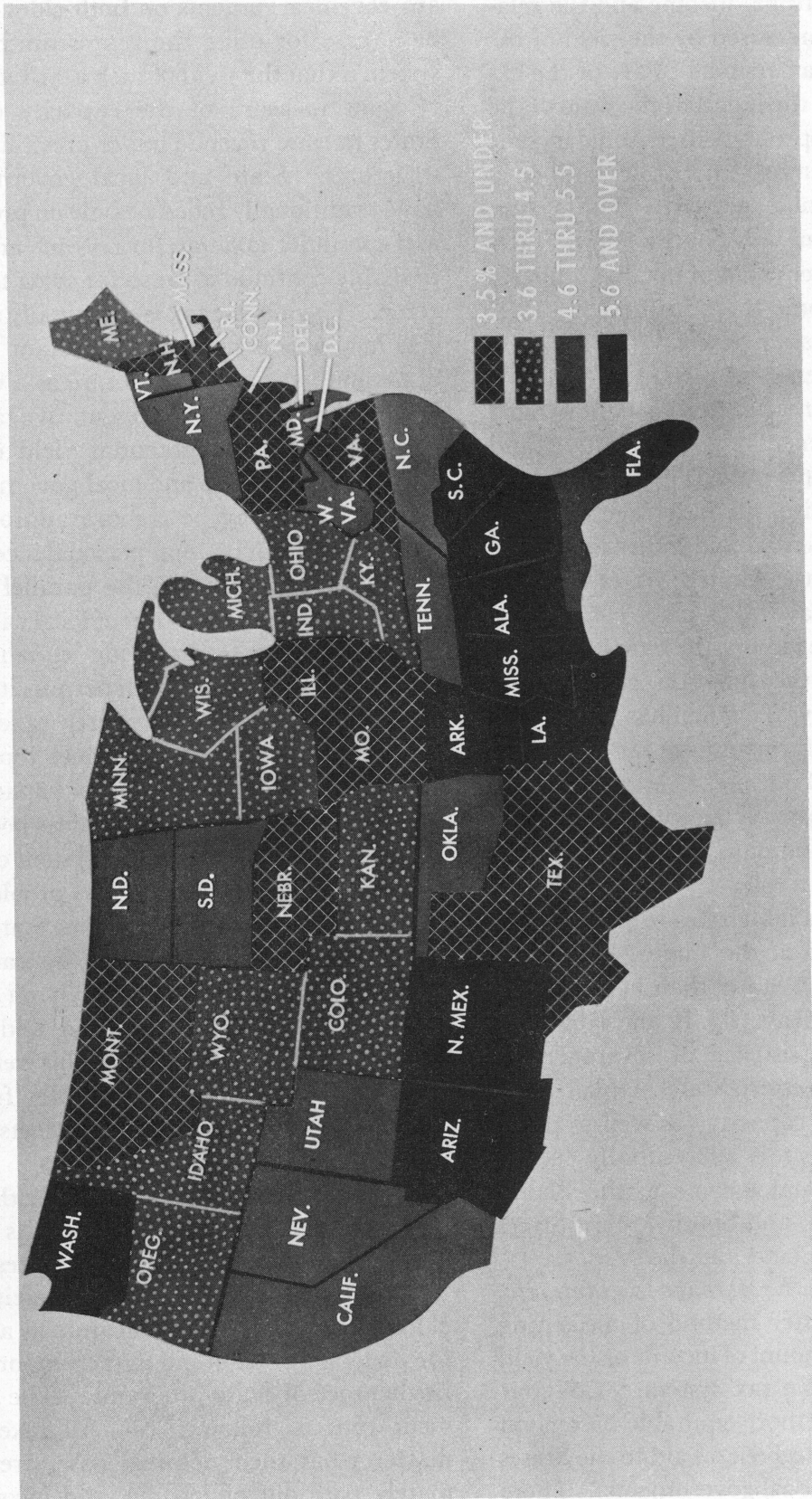


Figure 12. Sales and Income Taxes as Percent of Disposable Personal Income
Sales and Individual Income Taxes Range From 2 to 7 Percent of Disposable Personal Income.

the best measure of ability to pay taxes; (b) property and sales taxes are less equitable than income taxes because they are not based on the individual's ability to pay; (c) State and local governments cannot abandon property and sales taxation, but the Federal Government would be compounding the inequity by relating its grant contributions to property and sales rather than to income.

No attempt to resolve these issues is made here. Indeed, an issue may not exist, for the divergent indexes mean different things in different contexts. The question they pose is how they can best be employed in combination, supplementing one another, to assist in answering the different kinds of problems which will confront public officials increasingly in future years.

The findings herein presented demonstrate the practicality of developing at least two meaningful measures of State and local capacity in addition to personal income: one based on the estimated revenue yield in each State of what, for want of better a term, we here call the representative tax system; the other geared to income flows, to reflect the size of the income sources States may tap for tax purposes at successive stages of these flows through the economy.

We have found that these two approaches produce measures of fiscal capacity and tax effort which depart from those indicated by per capita personal-income data for some of the States. Fiscal capacity and tax effort are not likely to be reflected by any one measure alone because executives and legislators operate against two separate

groups of tax restraints, those imposed by the public's views of what is fair and reasonable taxation and those imposed by the limitation of taxable resources within their reach.

Although the statistical data which underlie these calculations leave much to be desired, their weakness is not of sufficient relative importance to cast doubt on the general validity of the conclusion that fiscal capacity and tax effort indexes *can* be constructed that would materially facilitate the formulation of public policies. The statistical data, however, need to be improved before these goals can be realized; clearly, the indexes here presented are not firm enough to serve immediate policy ends. Work now in process and in the planning stage by private and public agencies looking to the development of improved data on the market value of taxable properties, income produced, and on national wealth will help to bridge this gap. Potentially a very useful source is the information State and local governments could tabulate incident to the administration of their tax laws. Readers of this document can be helpful in locating additional data sources and by identifying the specific kinds of statistical information private and public agencies should be encouraged to develop on a continuing basis for the purpose of improving the measures of State and local fiscal capacity and tax effort and in shaping the direction of further work in this area, which hopefully other, more adequately staffed organizations can be encouraged to undertake.

PART II

Appendix A

MEASURING CAPACITY RELATIVE TO BUDGET LOADS AND PRICE VARIATIONS

Capacity Relative to Budget Loads

Of the total personal income in the United States, 41 percent is received in the five most populous States, accounting for 35 percent of the United States population. The five States with the smallest populations account for only 1 percent of the total personal income and 1 percent of the total population of the Nation. Similarly, variations in total yields of a representative tax system are explained primarily by differences in geographic population distribution. (Table 26 shows the percent distribution of the population in 1960 by State.)

When the various income or tax base measures of capacity are divided by population to show relative resources of the States, population serves essentially as a proxy for budgetary loads or program requirements to be financed out of fiscal capacity.

Differences among the States in the number of dependent children, and other population and employment characteristics are great enough to impair the meaningfulness of per capita income or per capita tax yields as a measure of capacity relative to budgetary requirements. Moreover, it has been shown that State differences in population characteristics, that is, age composition and labor force participation, significantly affect the variation in per capita income among the States. "Some 15-25 percent of the variation found in State per capita income (in 1950) is accounted for by differences in the relative number of children below productive ages, of persons 65 years or

older, or of the relative number of persons who are in the labor force and thus contributing directly to income production. The largest difference is that associated with the total labor force."¹ Table 27 shows the ratio of the dependent population to population of working age in the States. In most States in the South, the dependent-population ratio is high and exceeds the population of working age. Mississippi in 1960 had more than 1.2 persons in dependent ages for each person of working age; South Carolina and New Mexico 1.1 in dependent-age groups for each person of working age.

Variations in population characteristics among the States point to the need for a better measure of relative budgetary loads on the fiscal capacity of the States than that provided by per capita income, product, or hypothetical tax yields. Assessment of State and local expenditures indicates that budgetary loads are not uniform per person in the population. Certain groups in the population—given the prevailing allocation of services between the public and private sector in the economy—occasion a significant share of total State and local public outlays. About 36 percent of State and local expenditures go to finance education for young people. Another 10 percent or so of State and local outlays go primarily for payments or services to the aged, the young, or low-income groups.

¹ Frank A. Hanna, "Age, Labor Force, and State Per Capita Incomes, 1930, 1940, and 1950," *Review of Economics and Statistics* 1955, p. 68.

TABLE 26.—Population, by Age, by State, 1960

[Percentage distribution]

State and region	Total	Under 17 years	5 through 17 years	18 through 20 years	21 through 64 years	65 years and over	Dependent population (under 21 and 65 and over)
United States.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New England and Mideast.....	27.3	25.3	25.2	24.7	28.6	29.2	26.0
Maine.....	.5	.5	.5	.6	.5	.6	.6
New Hampshire.....	.3	.3	.3	.3	.3	.4	.3
Vermont.....	.2	.2	.2	.2	.2	.3	.2
Massachusetts.....	2.9	2.7	2.6	2.8	2.9	3.5	2.8
Rhode Island.....	.5	.4	.4	.5	.5	.5	.5
Connecticut.....	1.4	1.3	1.3	1.2	1.5	1.5	1.4
New York.....	9.4	8.3	8.3	8.1	10.0	10.2	8.6
Pennsylvania.....	6.3	5.9	6.0	5.8	6.5	6.8	6.1
Delaware.....	.2	.3	.2	.2	.3	.2	.2
Maryland.....	1.7	1.8	1.8	1.7	1.8	1.4	1.7
District of Columbia.....	.4	.3	.3	.5	.5	.4	.4
New Jersey.....	3.4	3.1	3.1	2.8	3.6	3.4	3.2
Midwest.....	28.8	28.9	28.6	27.5	28.4	30.7	29.1
Michigan.....	4.4	4.6	4.5	4.1	4.3	3.9	4.4
Ohio.....	5.4	5.5	5.4	5.1	5.4	5.4	5.4
Indiana.....	2.6	2.6	2.6	2.6	2.5	2.7	2.7
Illinois.....	5.6	5.4	5.3	5.2	5.8	5.9	5.4
Wisconsin.....	2.2	2.3	2.2	2.1	2.1	2.4	2.3
Minnesota.....	1.9	2.0	2.0	1.8	1.8	2.1	2.0
Iowa.....	1.5	1.5	1.5	1.5	1.5	2.0	1.6
Missouri.....	2.4	2.3	2.3	2.4	2.4	3.0	2.4
North Dakota.....	.4	.4	.4	.4	.3	.4	.4
South Dakota.....	.4	.4	.4	.4	.3	.4	.4
Nebraska.....	.8	.8	.8	.8	.8	1.0	.8
Kansas.....	1.2	1.2	1.2	1.2	1.2	1.4	1.3
South.....	29.5	31.4	31.8	33.2	28.4	26.5	30.6
Virginia.....	2.2	2.3	2.3	2.7	2.2	1.7	2.2
West Virginia.....	1.0	1.1	1.2	1.1	1.0	1.0	1.1
Kentucky.....	1.7	1.8	1.8	1.9	1.6	1.8	1.8
Tennessee.....	2.0	2.0	2.1	2.3	1.9	1.9	2.0
North Carolina.....	2.5	2.8	2.8	3.2	2.5	1.9	2.6
South Carolina.....	1.3	1.5	1.6	1.8	1.2	.9	1.4
Georgia.....	2.2	2.4	2.4	2.6	2.1	1.8	2.3
Florida.....	2.8	2.6	2.6	2.6	2.8	3.3	2.8
Alabama.....	1.8	2.0	2.1	2.0	1.7	1.6	1.9
Mississippi.....	1.2	1.4	1.4	1.5	1.1	1.1	1.4
Louisiana.....	1.8	2.0	2.0	2.0	1.7	1.5	1.9
Arkansas.....	1.0	1.0	1.1	1.1	.9	1.2	1.1
Oklahoma.....	1.3	1.3	1.3	1.4	1.3	1.5	1.3
Texas.....	5.3	5.7	5.6	5.8	5.2	4.5	5.5
New Mexico.....	.5	.6	.6	.6	.5	.3	.6
Arizona.....	.7	.8	.8	.8	.7	.5	.8
West.....	14.4	14.4	14.4	14.6	14.5	13.6	14.3
Montana.....	.4	.4	.4	.4	.4	.4	.4
Idaho.....	.4	.4	.4	.4	.3	.4	.4
Wyoming.....	.2	.2	.2	.2	.2	.2	.2
Colorado.....	1.0	1.0	1.0	1.1	1.0	1.0	1.0
Utah.....	.5	.6	.6	.6	.4	.4	.6
Washington.....	1.6	1.6	1.6	1.5	1.6	1.7	1.6
Oregon.....	1.0	1.0	1.0	.9	1.0	1.1	1.0
Nevada.....	.2	.2	.2	.1	.2	.1	.1
California.....	8.8	8.5	8.4	8.7	9.0	8.3	8.5
Alaska.....	.1	.1	.1	.2	.1	(¹)	.1
Hawaii.....	.4	.4	.4	.5	.3	.2	.4

¹ Less than 0.05 percent.

Source: computed from table 30.

TABLE 27.—Ratio of Dependent Population to Working Age Population, by State, 1950 and 1960¹

State and region	1950	1960	Increase, 1950-60	State and region	1950	1960	Increase, 1950-60
United States.....	0. 770	0. 958	0. 188	West Virginia.....	. 942	1. 043	. 101
New England and Mideast.	. 674	. 870	. 196	Kentucky.....	. 953	1. 065	. 112
Maine.....	. 892	1. 044	. 152	Tennessee.....	. 888	. 999	. 111
New Hampshire.....	. 810	. 990	. 180	North Carolina.....	. 947	1. 030	. 083
Vermont.....	. 914	1. 086	. 172	South Carolina.....	1. 043	1. 135	. 092
Massachusetts.....	. 713	. 926	. 213	Georgia.....	. 925	1. 032	. 107
Rhode Island.....	. 690	. 909	. 219	Florida.....	. 747	. 953	. 206
Connecticut.....	. 664	. 880	. 216	Alabama.....	. 977	1. 076	. 099
New York.....	. 627	. 826	. 199	Mississippi.....	1. 065	1. 222	. 157
New Jersey.....	. 633	. 838	. 205	Louisiana.....	. 903	1. 085	. 182
Pennsylvania.....	. 718	. 896	. 178	Arkansas.....	. 980	1. 104	. 124
Delaware.....	. 719	. 927	. 208	Oklahoma.....	. 880	. 995	. 115
Maryland.....	. 718	. 916	. 198	Texas.....	. 826	1. 000	. 174
District of Columbia.....	. 524	. 736	. 212	New Mexico.....	. 988	1. 116	. 128
Midwest.....	. 759	. 982	. 223	Arizona.....	. 884	1. 030	. 146
Michigan.....	. 748	. 985	. 237	West.....	. 731	. 942	. 211
Ohio.....	. 739	. 964	. 225	Montana.....	. 841	1. 087	. 246
Indiana.....	. 792	. 999	. 207	Idaho.....	. 928	1. 124	. 196
Illinois.....	. 674	. 900	. 226	Wyoming.....	. 813	1. 012	. 199
Wisconsin.....	. 796	1. 025	. 229	Colorado.....	. 819	1. 009	. 190
Minnesota.....	. 817	1. 072	. 255	Utah.....	. 983	1. 184	. 201
Iowa.....	. 843	1. 063	. 220	Washington.....	. 764	. 983	. 219
Missouri.....	. 769	. 970	. 201	Oregon.....	. 751	. 989	. 238
North Dakota.....	. 947	1. 139	. 192	Nevada.....	. 667	. 815	. 148
South Dakota.....	. 884	1. 128	. 244	California.....	. 676	. 897	. 221
Nebraska.....	. 815	1. 033	. 218	Alaska.....	. 730	. 915	. 185.
Kansas.....	. 818	1. 014	. 196	Hawaii.....	. 862	. 984	. 122
South.....	. 904	1. 032	. 128				
Virginia.....	. 833	. 960	. 127				

¹ Dependent population consists of population under 21 years of age and 65 and over. Working age population consist of population 21 through 64 years of age.

Source: Department of Commerce, Bureau of the Census, U.S. Census of Population, 1950 and 1960.

In the fiscal year 1960, a total of \$28 billion out of the \$52 billion direct expenditures of States and localities was for education and for other public services such as public hospital care, public welfare, and for housing and community development programs in which children, aged, or low-income groups are direct beneficiaries. Other age or income groups in the population occasion no similar concentration of public services. While various public outlays related to transportation such as airports or highways can be thought of as benefiting particularly the middle- and high-income groups and those in the working ages, these public services are not so closely identified with a specific age group

or eligibility restrictions, which limit the public services in accordance with test of income status.

The proportions of State and local direct expenditures which go for education, hospitals, and public welfare are shown in table 28. Housing and community redevelopment expenditures are omitted because they are not separately shown in the 1960 statistics on governmental expenditures compiled by the Governments Division of the Census. Basic population and income variations underlying these State-by-State differences in expenditures are summarized in tables 26 and 27, and also in tables 29-31.

In general, the New England and Mid-eastern States have a somewhat lower pro-

portion of children under 17 years of age than would be suggested by their share of the total population and a somewhat higher proportion of aged persons (table 26). The Southern States have a somewhat higher proportion of children and lower proportion of aged than indicated by total population.

In terms of budget loads for facilities—schools, hospitals, roads, and so forth, not only is the relative age distribution of the population significant, but the rate of change of the population in the different age groups is also important. While the population of the United States increased 18.5 percent between 1950 and 1960, the

population in the dependent-age groups rose 33.3 percent (table 29).

Increases were far from uniform among the States. The population of Florida increased 78.7 percent between the 2 census years; that of Nevada, 78.2 percent; and in Alaska, 75.8 percent. At the other extreme, West Virginia's and Arkansas' population declined and Mississippi's population grew less than 0.05 percent between 1950 and 1960.

The percentage rise in the dependent populations in a number of States was double or more than double that of the total population. In the New England and Mid-east States as a group and in the Midwest

TABLE 28.—Percentage of State and Local Direct General Expenditures Spent for Education, Public Welfare, and Health and Hospitals, by State, 1960

State and region	Percent	State and region	Percent
United States.....	51.9	Southeast.....	53.0
New England.....	48.0	Virginia.....	53.4
Maine.....	48.4	West Virginia.....	53.9
New Hampshire.....	38.2	Kentucky.....	51.4
Vermont.....	47.3	Tennessee.....	51.1
Massachusetts.....	47.4	North Carolina.....	58.0
Rhode Island.....	47.0	South Carolina.....	53.7
Connecticut.....	50.0	Georgia.....	54.8
Mid-east.....	48.1	Florida.....	48.5
New York.....	46.4	Alabama.....	51.6
New Jersey.....	49.4	Mississippi.....	53.9
Pennsylvania.....	51.0	Louisiana.....	53.8
Delaware.....	54.1	Arkansas.....	56.2
Maryland.....	49.7	Southwest.....	54.0
District of Columbia.....	42.9	Oklahoma.....	61.9
Great Lakes.....	52.5	Texas.....	51.3
Michigan.....	56.3	New Mexico.....	58.5
Ohio.....	49.8	Arizona.....	54.1
Indiana.....	56.4	Rocky Mountain.....	55.1
Illinois.....	51.5	Montana.....	47.3
Wisconsin.....	49.4	Idaho.....	45.4
Plains.....	53.3	Wyoming.....	48.0
Minnesota.....	53.4	Colorado.....	61.3
Iowa.....	52.3	Utah.....	58.8
Missouri.....	57.6	Far West.....	54.7
North Dakota.....	44.6	Washington.....	56.2
South Dakota.....	46.2	Oregon.....	52.0
Nebraska.....	51.9	Nevada.....	44.0
Kansas.....	53.7	California.....	55.5
		Alaska.....	53.2
		Hawaii.....	41.5

Source: Department of Commerce, Bureau of the Census, Governments Division.

TABLE 29.—Percentage Increase or Decrease (—) in Population, by Age, by State, 1950 to 1960

State and region	Total	Under 17 years	5 through 17 years	18 through 20 years	21 through 64 years	65 years and over	Dependent population (under 21 and 65 and over)
United States.....	18.5	36.7	42.8	6.2	7.1	34.7	33.3
New England and Mideast.....	14.1	37.0	43.5	-1.1	2.1	30.8	31.8
Maine.....	6.1	17.9	22.4	-4.9	-1.9	13.8	14.8
New Hampshire.....	13.8	32.9	39.8	4.3	3.4	17.2	26.4
Vermont.....	3.2	15.8	21.0	-5.6	-5.6	10.0	12.2
Massachusetts.....	9.8	32.8	38.4	-1.5	-2.4	22.2	26.8
Rhode Island.....	8.5	30.7	38.1	0	-3.8	28.6	26.6
Connecticut.....	26.3	57.4	64.9	7.8	11.9	37.3	48.2
New York.....	13.2	37.6	45.0	-2.1	.8	34.2	32.6
New Jersey.....	25.5	55.5	64.0	4.3	11.5	42.1	47.5
Pennsylvania.....	7.8	24.8	29.4	-9.0	-2.3	27.3	21.9
Delaware.....	40.3	73.4	77.0	23.1	25.4	38.5	61.7
Maryland.....	32.3	58.7	68.1	20.0	18.7	38.4	51.3
District of Columbia.....	-4.8	18.9	25.7	2.9	-16.5	21.1	17.4
Midwest.....	16.1	38.7	44.2	5.2	3.1	27.8	33.3
Michigan.....	22.8	47.8	53.3	7.6	8.1	38.1	42.3
Ohio.....	22.1	49.1	57.4	14.0	8.1	26.5	41.1
Indiana.....	18.5	40.4	46.7	10.1	6.2	20.8	34.0
Illinois.....	15.7	42.8	47.5	4.9	2.0	29.3	36.2
Wisconsin.....	15.1	35.7	40.8	2.1	2.0	30.0	31.4
Minnesota.....	14.5	35.3	40.7	4.0	.4	31.6	31.7
Iowa.....	5.2	21.0	26.9	-3.6	-6.0	20.1	18.5
Missouri.....	9.2	26.9	29.8	1.9	-2.0	23.6	23.7
North Dakota.....	2.1	12.5	16.2	-10.3	-6.9	22.9	12.0
South Dakota.....	4.3	18.6	24.3	-10.0	-7.5	30.9	18.0
Nebraska.....	6.5	23.2	27.8	-10.2	-4.9	26.2	20.5
Kansas.....	14.3	33.1	38.2	2.4	3.2	23.7	28.0
South.....	17.2	25.0	29.8	4.6	9.8	42.4	25.3
Virginia.....	19.5	31.4	37.2	6.2	11.8	34.4	28.8
West Virginia.....	-7.2	-5.1	1.2	-20.2	-11.8	24.5	-2.4
Kentucky.....	3.2	7.6	11.9	-6.3	-2.5	24.3	9.0
Tennessee.....	8.4	14.3	19.6	-1.8	2.3	31.5	15.2
North Carolina.....	12.2	16.0	21.4	1.8	7.6	38.7	17.0
South Carolina.....	12.5	16.2	21.4	10.7	7.7	31.3	17.2
Georgia.....	14.5	21.4	26.2	4.1	8.5	32.3	21.0
Florida.....	78.7	102.0	110.3	57.8	59.8	133.3	104.0
Alabama.....	6.7	10.9	14.9	-6.0	1.5	31.2	11.9
Mississippi.....	(¹)	5.5	9.1	-8.8	-7.1	24.2	6.6
Louisiana.....	21.4	35.4	40.2	10.4	10.8	36.7	33.2
Arkansas.....	-6.5	-5.8	-1.7	-14.0	-11.9	30.2	-8
Oklahoma.....	4.3	8.8	12.6	-4.9	-1.8	28.4	11.1
Texas.....	24.2	40.2	46.1	7.7	13.4	45.2	37.4
New Mexico.....	39.6	50.9	55.1	20.6	31.3	54.5	48.2
Arizona.....	73.7	88.7	93.4	55.9	61.1	104.5	87.5
West.....	37.5	65.1	77.2	30.1	22.7	46.1	57.9
Montana.....	14.2	33.3	39.4	8.3	.6	27.5	30.0
Idaho.....	13.3	25.2	31.0	8.0	3.0	31.8	24.7
Wyoming.....	13.6	32.0	38.1	-20.0	2.5	44.4	27.7
Colorado.....	32.4	54.5	62.4	21.3	19.8	36.2	47.6
Utah.....	29.3	44.2	48.8	20.6	17.6	42.9	41.6
Washington.....	19.9	43.6	57.5	3.8	6.8	32.2	37.3
Oregon.....	16.3	36.6	49.3	12.1	2.4	38.3	34.8
Nevada.....	78.2	112.8	120.0	66.7	63.5	63.6	100.0
California.....	48.5	84.2	99.1	46.5	31.1	53.7	74.1
Alaska.....	75.8	134.2	139.1	27.3	59.5	0	100.0
Hawaii.....	26.6	38.7	45.3	13.3	19.0	45.0	35.9

¹ Less than 0.05 percent.

Source: Department of Commerce, Bureau of the Census, U.S. Census of Population, 1950 and 1960.

TABLE 30.—Population, by Age, as an Index of Public Beneficiary Loads, by State, 1960

[In thousands]

State and Region	Total	Under 17 years	5 through 17 years	18 through 20 years	21 through 64 years	65 years and over	Dependent population (under 21 and 65 and over)
United States	179, 323	64, 202	43, 881	6, 998	91, 564	16, 560	87, 759
New England and Midwest	48, 988	16, 232	11, 076	1, 732	26, 195	4, 831	22, 795
Maine.....	969	349	240	39	474	107	495
New Hampshire.....	607	210	144	24	305	68	302
Vermont.....	390	142	98	17	187	44	203
Massachusetts.....	5, 149	1, 709	1, 160	195	2, 673	572	2, 476
Rhode Island.....	859	281	192	38	450	90	409
Connecticut.....	2, 535	861	582	83	1, 349	243	1, 187
New York.....	16, 782	5, 336	3, 645	565	9, 193	1, 688	7, 589
New Jersey.....	6, 067	2, 010	1, 368	196	3, 301	560	2, 766
Pennsylvania.....	11, 319	3, 815	2, 627	404	5, 972	1, 129	5, 348
Delaware.....	446	163	108	16	232	36	215
Maryland.....	3, 101	1, 136	770	120	1, 619	227	1, 483
District of Columbia.....	764	220	142	35	440	69	324
Midwest	51, 619	18, 573	12, 564	1, 925	26, 042	5, 078	25, 576
Michigan.....	7, 823	2, 959	1, 990	284	3, 942	638	3, 881
Ohio.....	9, 706	3, 508	2, 369	359	4, 942	897	4, 764
Indiana.....	4, 662	1, 699	1, 156	185	2, 332	446	2, 330
Illinois.....	10, 081	3, 439	2, 309	362	5, 306	975	4, 776
Wisconsin.....	3, 952	1, 453	984	144	1, 952	403	2, 000
Minnesota.....	3, 414	1, 283	867	129	1, 647	354	1, 766
Iowa.....	2, 758	987	680	106	1, 337	328	1, 421
Missouri.....	4, 320	1, 459	993	165	2, 192	503	2, 127
North Dakota.....	632	252	172	26	296	59	337
South Dakota.....	681	262	179	27	320	72	361
Nebraska.....	1, 411	500	340	53	694	164	717
Kansas.....	2, 179	772	525	85	1, 082	240	1, 097
South	52, 915	20, 161	13, 943	2, 324	26, 037	4, 390	26, 875
Virginia.....	3, 967	1, 465	1, 006	189	2, 024	289	1, 943
West Virginia.....	1, 860	702	506	75	911	173	950
Kentucky.....	3, 038	1, 140	798	134	1, 471	292	1, 566
Tennessee.....	3, 567	1, 314	921	160	1, 784	309	1, 783
North Carolina.....	4, 556	1, 775	1, 248	225	2, 245	312	2, 312
South Carolina.....	2, 382	992	698	124	1, 116	151	1, 267
Georgia.....	3, 943	1, 533	1, 061	179	1, 941	291	2, 003
Florida.....	4, 952	1, 681	1, 140	183	2, 535	553	2, 417
Alabama.....	3, 266	1, 290	900	142	1, 573	261	1, 693
Mississippi.....	2, 178	905	626	103	980	190	1, 198
Louisiana.....	3, 257	1, 315	893	138	1, 562	242	1, 695
Arkansas.....	1, 786	669	474	74	849	194	937
Oklahoma.....	2, 328	815	572	97	1, 167	249	1, 161
Texas.....	9, 580	3, 639	2, 477	407	4, 789	745	4, 791
New Mexico.....	951	409	273	41	449	51	501
Arizona.....	1, 302	517	350	53	641	90	660
West	25, 800	9, 234	6, 298	1, 019	13, 289	2, 259	12, 512
Montana.....	675	260	177	26	323	65	351
Idaho.....	667	268	186	27	314	58	353
Wyoming.....	330	128	87	12	164	26	166
Colorado.....	1, 754	649	440	74	873	158	881
Utah.....	891	382	256	41	408	60	483
Washington.....	2, 853	1, 027	712	108	1, 439	279	1, 414
Oregon.....	1, 769	631	445	65	890	184	880
Nevada.....	285	100	66	10	157	18	128
California.....	15, 717	5, 449	3, 704	608	8, 284	1, 376	7, 433
Alaska.....	226	89	55	14	118	5	108
Hawaii.....	633	251	170	34	319	29	314

Source: Department of Commerce, Bureau of the Census, U.S. Census of Population, 1960.

TABLE 31.—Total Population in 1960 and Families With Incomes Below Specified Levels in 1959, by State

[Percentage distribution]

State and region	Total population	Families with income under \$2,000 and unrelated individuals with income under \$1,000	State and region	Total population	Families with income under \$2,000 and unrelated individuals with income under \$1,000
United States.....	100.0	100.0	Southeast.....	21.6	31.3
New England.....	5.9	4.5	Virginia.....	2.2	2.6
Maine.....	.5	.6	West Virginia.....	1.0	1.4
New Hampshire.....	.3	.3	Kentucky.....	1.7	2.7
Vermont.....	.2	.3	Tennessee.....	2.0	3.0
Massachusetts.....	2.9	2.1	North Carolina.....	2.5	3.6
Rhode Island.....	.5	.4	South Carolina.....	1.3	2.0
Connecticut.....	1.4	.8	Georgia.....	2.2	3.0
Mideast.....	21.5	16.7	Florida.....	2.8	3.4
New York.....	9.4	7.3	Alabama.....	1.8	2.8
New Jersey.....	3.4	2.1	Mississippi.....	1.2	2.4
Pennsylvania.....	6.3	5.3	Louisiana.....	1.8	2.5
Delaware.....	.2	.2	Arkansas.....	1.0	1.9
Maryland.....	1.7	1.3	Southwest.....	7.9	9.7
District of Columbia.....	.4	.5	Oklahoma.....	1.3	1.9
Great Lakes.....	20.2	16.7	Texas.....	5.3	6.6
Michigan.....	4.4	3.4	New Mexico.....	.5	.5
Ohio.....	5.4	4.4	Arizona.....	.7	.7
Indiana.....	2.6	2.3	Rocky Mountain.....	2.4	1.9
Illinois.....	5.6	4.7	Montana.....	.4	.3
Wisconsin.....	2.2	1.9	Idaho.....	.4	.3
Plains.....	8.6	10.1	Wyoming.....	.2	.1
Minnesota.....	1.9	1.9	Colorado.....	1.0	.8
Iowa.....	1.5	1.8	Utah.....	.5	.4
Missouri.....	2.4	3.2	Far West.....	12.0	9.1
North Dakota.....	.4	.4	Washington.....	1.6	1.2
South Dakota.....	.4	.5	Oregon.....	1.0	.9
Nebraska.....	.8	.9	Nevada.....	.2	.1
Kansas.....	1.2	1.3	California.....	8.8	6.6
			Alaska.....	.1	.1
			Hawaii.....	.4	.2

Source: U.S. Department of Commerce, Bureau of the Census, U.S. Census of Population, 1960.

and Plains States, for example, the dependent population rose far more rapidly than the total population in each of these regions.

The population 5 to 17 years of age nationally rose 42.8 percent compared with a rise of 18.5 percent for the total population. In most States, the rise in population of school age was two or more times that of the total population. The notable exceptions are principally in Southern States and States in the West.

Increases in the aged population were largest in Florida and Arizona.

While almost 30 percent of the total population lives in the South, 41 percent of the families with incomes under \$2,000 reside there (table 31). Not only are the relative numbers of families with incomes under \$2,000 relatively high in the South, but the average family size there exceeds that of all but four States—Hawaii, Utah, Alaska, and North Dakota. In terms of something approaching a uniformly applied eligibility test, accordingly, the expenditures for programs restricted to those with low income would be relatively high in the South. In

practice, of course, this is not the case. Fiscal resources, as well as characteristics of the population determine the public services provided.

To achieve greater precision in making interstate comparisons of budget loads, an index of expenditure requirements other than total population is needed. In the case of special public programs, for example, public schools, total population of school age, numbers enrolled in public school, or average daily attendance figures become the denominator of capacity in place of total population. Similarly, in some child-health programs, total child population figures have been used. When one moves to the housing, welfare, and health programs with their very different "tests" of eligibility, however, the prevailing standards among programs and between States are so widely different as to make it difficult to design a single national index of budgetary loads.

Several further qualifications must be borne in mind. Services provided collectively by States and localities, while occasioned in significant part by special groups within the population, are not solely of benefit to these identifiable beneficiary groups. Public expenditures are rarely made with a single objective or public purpose in view. While children may be considered, for example, as the direct beneficiaries of an education program, their families, employers and the people collectively in the community, State, and Nation benefit from an educated citizenry. The decision within a locality or State to spend for education is occasioned in part by the numbers of children to be educated; in part it depends upon decisions on the allocation of resources between public and private uses and on the allocation of resources among the various public purposes.

Current differences among the States in tax effort in general and for specific func-

tions such as education only partially reflect the differences in underlying population characteristics. Variations in industrialization in the States and in their economic development are reflected, as are also the citizens' view on the types of governmental activities which are considered essential. Although States within a single nation are fairly similar in political, economic, and social characteristics, these characteristics do not necessarily tend toward uniformity. Historical as well as current economic and social differences between Northern and Southern States, for example, have produced different preferences for various government activities. The scope of the public sector of the economy in each State is determined by the political and social pressures which arise out of unfulfilled needs for its citizens. But the perspective on these "needs" and the ways in which the relative pressures are alined in budget decisions accord with the special history and policies of the particular jurisdiction. Differences in the proportion of young, or old, in housing needs, and in poverty as well as in requirements for highways, for example, are not the sole basis for budgetary allocations.

Price Variations

When relative capacity is measured by relating income, product, or representative tax yields to population, or to a more precise index of budget loads, variations in price among regions of the United States are neglected. The dollar values may merely reflect differences in wage and salary scales and cost of living. If differences among States in per capita costs for the same quality of public services exactly matched differences in per capita income, for example, substantial uniformity in public functions and quality of services rendered could exist

despite the recorded differences in capacity relative to population.

Correction of dollar measures of capacity for price differences among States has in recent years received some attention. A recent study attempts to develop State and regional price indexes appropriate for adjusting current dollar State income payments estimates for geographical differences in price trends. "Indexes based on the deflated per capita income series are indicators of regional change in the purchasing power of per capita income to buy goods and services, pay taxes, and save . . ." ²

Price indexes for cities developed by the Bureau of Labor Statistics and the National Industrial Conference Board are combined into State urban averages. These State urban indexes in turn are combined with a rural price index to derive the overall price index for the entire State. Department of Agriculture data are used as indicators of differences between urban prices and prices paid by farmers. Weights for combining the two indexes are determined from population counts and studies of expenditure levels of urban and rural families. Variations were measured from 1947-49 prices.

On the basis of the findings, which summarize the change in per capita income position of the States relative to the United States, using both the unadjusted per capita income data and the price-adjusted data, the study concludes: "Availability of the

² Abner Hurwitz and Carlyle P. Stallings, "Inter-regional Differentials in Per Capita Real Income Change," in National Bureau of Economic Research, *Regional Income, Studies in Income and Wealth*, Vol. 21, p. 195.

deflated State per capita income series does not add materially to knowledge about the relative per capita income position of the States to the national average. . . . Variations in price change between States were not of sufficient magnitude to shift the position of most States from their relative levels in terms of current dollars per capita income . . ." ³

These price adjustments are focused on historical price trends and do not adjust the income figures for the variation in *levels* of price from State to State. "Although some adjustment (for price levels) could be attempted, based on existing studies of inter-city differences in price level, only the roughest approximations to true differentials in real income could be expected." ⁴

Not only is an index of State-by-State differences in price levels not available, there is some question as to whether the basic framework of existing price indexes—consumer expenditures of moderate- or low-income families—is the appropriate one. What is needed is a set of price indexes for State and local public-expenditure components. The conceptual framework for this type of index, at least for public education, is now being studied at the Maxwell School of Syracuse University. Alaska's entrance into the Union, with its markedly different price pattern, intensifies the need for design of a study on variations in levels of price and the collection of the required price information.

³ *Ibid.*, p. 217.

⁴ *Ibid.*, p. 218.

Appendix B

METHODS OF ESTIMATING SELECTED TAX BASES

Additional detail is presented here on the methods used in estimating the bases of four major taxes: property, retail sales, individual income, and corporate income.

PROPERTY TAX

The representative tax system which we are using as a standard in this study calls for defining the property-tax base as it is defined where half or more of the people in the United States reside. It accordingly calls for valuing at 1959 market prices the following classes of property:

1. Real property in the State, other than—

- (a) public lands;
- (b) property used by Federal, State, and local governments;
- (c) property used for publicly beneficial purposes, such as church properties and properties used by nonprofit hospitals, educational institutions, and similar nonprofit organizations.

2. Tangible personal property, other than household goods, furniture, jewelry, etc., and motor vehicles.¹

The tangible personal property counted as part of the standard tax base represents inventories and durable equipment. Inventories of retailers, wholesalers, manufacturers, and farmers are included, as well as producers' durable equipment on the farms,

¹ Motor vehicles are omitted from the property-tax base and taxes on motor vehicles are included along with other similar motor vehicle levies (i.e., motor vehicle and operators' licenses).

in mines, factories, and other business enterprises.

Intangible personal property, while subject to a property tax in some States, is excluded from the representative system because it is not taxed in States where half the population lives.

In short, our target is to determine for 1959 on a State-by-State basis the value of land and structures privately owned, the value of durable equipment of all types used by private enterprise and in farming and the value of inventories. The data now available to derive such estimates are far from complete. The sources used in developing the property value estimates on which the yields were computed are presented below together with brief notes on the limitations of data.

Land and Structures

The land and structure component of the estimated property values has four parts: (1) Locally assessed real property (other than public utilities and farm property), (2) Farm property, (3) Public utility property, and (4) State-assessed property other than public utilities. The basic data on values of land and structures come from the U.S. Bureau of the Census, 1957 Census of Governments, *Taxable Property Values in the United States*, volume 5. The Census of Governments volume reports property values of land and structures for locally assessed property. For State-assessed property—principally railroads and public utili-

ties—however, the reported property values include personal property as well as land and structures. Information was not readily available with which to divide the totals for State-assessed properties between personal property and real property.

Locally assessed land and structures. Locally assessed real property is reported by the census for 1956. The census volume also presents the results of a sample survey of market sales of real property and shows by State the ratios of assessed values to sales price. These ratios were used as a basis for estimating the 1956 market value of locally assessed property in each State.

Farm property. Farm properties were also separately estimated. There is reason to believe that census ratios of assessments to market value of acreage and farm properties derived from a sample of sales of farm properties are lower than such ratios for farm property generally. A disproportionate share of farm properties sold are those being converted to nonfarm uses with higher acreage values. This means that use of these assessment ratios derived from the Census of Governments sample of sales may yield unrealistically high estimates of the market values of farm properties in general. Accordingly, the 1959 Census of Agriculture data on value of farm properties were substituted for the estimates of rural land and structure values derived from the Census of Governments. This substitution has very little effect on the relative State position as measured by total property values. (It should be noted that the coverage of properties in the agricultural census is somewhat more restricted than the Census of Governments "Acreage and Farms" category. The latter includes unimproved timberland, and, in some States, mineral land, as well as rural residential properties, in addition to lands used for agricultural purposes.)

Public utility properties. Public utility properties, however, were excluded from other locally assessed real property and from State assessed properties. Market sales are not a useful index of assessment practices for public utilities which turn over infrequently. Moreover, unless locally assessed public utility properties are excluded it is difficult to achieve a comparable value count both for those States in which public utilities are State assessed and those States in which assessments are made by a local agency. (See the subsection on public utility property taxes for a summary of the method used in determining utility property yields in a representative tax system.)

To exclude locally assessed public utility properties from other local assessments, it was necessary to draw on unpublished information gathered by the Governments Division of the Bureau of the Census, as part of its 1961 study of taxable property values. The Governments Division ran a special tabulation of its 1961 assessment data on local assessed public utility properties for the purpose of the present study.

For the locally assessed land and structures (excluding farms and public utilities) the 1956 values were determined by inflating census property assessment data in accordance with census assessment ratios to derive market values. The 1956 figures were then adjusted to 1959 values as follows:

The value of land and structures was increased in each State in accord with the percentage rise in total personal income in that State, by 1.455 percent for each 1-percent increase in State personal income. The rate of 1.455 was arrived at by comparing the percent rise in land and structures values derived from Raymond Goldsmith's study of savings with the percent rise in State personal income for 1956-58.

Land and structure values for the two years were taken from Goldsmith's *Statistical Appendix to the National Wealth of the United States in the Post War Period*, National Bureau of Economic Research, February 1961.

An earlier comparison of the percent change in full market value of real property and State personal income in selected States shows that real-property values in recent years were increasing far more rapidly than income (National Bureau of Economic Research: *Public Finances: Needs, Sources and Utilization*; Princeton University Press, 1961, p. 76).

Income Elasticity of Full Market Values of Real Property, Selected States and Years

State	Percentage change over period			
	Period	Full market value	State personal income	Elasticity ratio
Illinois	1948-55	62	36	1.7
Kentucky	1948-55	78	39	2.0
Wisconsin	1948-55	81	42	1.9
California	1951-57	96	55	1.7
New Jersey	1951-57	52	41	1.3

Public utility properties. In the estimates presented here, property taxes on public utilities were separated from other property-tax collections and economic indicators of the relative amounts of public utility properties in the States were used in lieu of estimates of public utility property values to approximate the yields under a representative tax system.

Several procedures for estimating public utility property taxes on a uniform basis from State to State were discussed or tried.

Initially, State public utility property assessments, along with locally assessed public utility properties, were adjusted to market values, on the assumption that average assessment ratios in each State could be applied to all public utility properties. In

some States, particularly the few in which State-assessed property accounted for 30 percent or more of total assessments, this procedure seemed to bias the results and to account for some of the phenomenon of high property values to income ratios in the States west of the Mississippi.

A substantially higher assessment ratio was assumed for State-assessed properties than for locally assessed properties. This assumption accords with well-informed opinion on the relative assessment levels of State and locally assessed properties. In a second computation a uniform State assessment ratio of 60 percent (or double the average local ratio) was assumed. This is clearly unrealistic, in view of the fact that performance can be expected to vary from State to State. A carrier compilation of assessment ratios of railroad properties, comparing these ratios to the average for all locally assessed properties, indicates no consistency in the pattern of variation.² There was thus no basis for uniformly increasing, for example, the local assessment ratios by 50, 75, or 100 percent.

Book-value figures by States for at least some classes of utilities could be compiled from trade association or regulatory agency data and, similarly, the value bases for rate determination could be gathered. The book-value figures for public utilities clearly would not be comparable to market-value estimates for other classes of property and value determinations for rate purposes—because of differences in criteria used by rate-fixing bodies—similarly would not gain the necessary comparability. In view of the time-consuming work involved in compiling the required information, this method was not worked out to a set of State-by-State values. Yields from public utility property taxes on a uniform basis from State to State were assumed to vary in accord with

² James N. Ogden, "Railroads Deserve Tax Equality," in *National Tax Association Proceedings*, 1960, p. 387.

such indirect indexes of public utility property holdings as payrolls and gross receipts by State. In the case of the railroads, payroll figures by States were used, and for other classes of public utilities gross receipts. The gross-receipt estimates were those compiled for allocation of the yields of public utilities gross-receipts taxes and represent the receipts of gas utilities, electric companies, and telephone companies.

Other State assessed properties. In the case of the few States which assess nonutility properties on a Statewide basis, a uniform assessment ratio of 55 percent was applied. This figure was suggested by technical experts who reviewed the earlier findings in place of the 60-percent ratio applied experimentally.

It should be noted that the several methods which were tried did not alter the general findings of the estimated property-tax yields under a representative system. Yields under each of the several methods continued to be high per capita for the States west of the Mississippi.

Inventories

Estimates were made of inventories of (a) retailers, (b) wholesalers, and (c) manufacturers. (In the course of the censuses of business inventory data are collected, but these data are not now tabulated by State.) To the estimates of retail, wholesale, and manufacturers' inventories, data on the value of crops stored on farms, as estimated by the Department of Agriculture (Mr. F. Stocker), were added.

The estimates of retail, wholesale, and manufacturing inventories were based on the assumption that inventory-sales ratios for each industry are fairly constant from State to State and that variations among the States in amounts of inventory are attributable primarily to differences in sales levels and industrial composition in each State.

For each of nine groups of retailing establishments (food group, eating and drinking places, general merchandise group, apparel group, furniture and appliances group, lumber, building, hardware, farm-equipment group, automotive group, gasoline service stations, and other retail stores) the nationwide inventory-sales ratio (end of December 1958) from the 1958 Census of Business Retail Trade, was applied to sales as reported in the retail census. The totals thus computed were adjusted to an end-of-the-year-1959 level using national figures on the total book value of inventories (seasonally adjusted data from the 1960 *Statistical Abstract*, table 642). The State distribution of inventories for 1959 was assumed to be the same as that for 1958.

A similar procedure was followed for wholesale inventories. Nationwide data on inventory-sales ratios for merchant wholesalers from the 1958 Census of Business, Wholesale Trade, were applied to sales data for each of 17 classes of wholesale operations in each State for that year. To the figures, thus derived, were added tabulated 1958 census data on inventories of petroleum bulk plants and terminals. Omitted from the figures were inventories of manufacturers' sales branches and sales offices, and of merchandise brokers. The 1958 State distribution of inventories of wholesalers, as estimated, was assumed to remain unchanged in 1959, but the total was adjusted in accord with national estimates of wholesale inventories for 1959.

In the case of inventories of manufacturing establishments, the same procedure was again followed. Manufacturing sales by industry for each State were used to estimate State-by-State inventories. The nationwide data on inventories by type of manufacturing for December 31, 1958, were computed as a ratio of manufacturers' sales for 20 classes of manufacturing establishments.

These ratios were then applied to sales by industry for each of the 20 groups of manufacturing establishments by State. The sales figures by State, by class of manufacturing, are unpublished census data.

The total inventory figures used were:

[In billions]	
Total	\$96. 9
Manufacturing	52. 4
Wholesale	12. 7
Retail	24. 4
Farm crops.....	7. 4

Producers' Durable Equipment and Livestock

The data on the value of farm equipment and livestock are from the 1959 Census of Agriculture.

Producers' durable equipment for non-farm operations of five types were included; namely, manufacturing equipment, mining equipment, construction equipment, store and office machines, and fisheries.

Nationwide market value. The national market values of producers' durable equipment in the first four categories were derived from annual purchases of equipment as reported by the Office of Business Economics *Supplement to the Survey of Current Business*, "U.S. Income and Output," November 1958. Table V-5 (p. 192) and table V-12 (pp. 196-197) (supplemented by unpublished Office of Business Economics estimates).

About two-thirds of producers durable equipment purchases are possibly accounted for by these four special categories plus farm equipment and also public utility equipment that are included in the utility property taxes. The remaining third, largely omitted from the taxable value estimates include:

- business furniture and fixtures
- service industry machinery
- fishery equipment, boats, etc.
- tree-planting equipment used by foresters

- public utility equipment in some States
- aircraft and airline equipment
- miscellaneous equipment

Of these items, only fisheries are so concentrated geographically as possibly to influence the comparability of State-by-State estimates. Accordingly, national data on property assets of the fishing industry were included in the estimates of taxable property values using Internal Revenue Service information on value, less depreciation for 1959.

Conversion of purchases to property value. In deriving property values from annual purchases of durable equipment the procedures used were:

(1) The annual purchases were adjusted to a 1959 price level using the "implicit price deflator" for producers' durable equipment for 1946-54 from "U.S. Income and Output," op. cit., 1958, table VII-15, and for producers' durable equipment, table VII-7, comparable figures for later years from *Survey of Current Business*, July issues.

(2) Purchases for each year were added after depreciation of the gross purchases by deducting from each year's purchases a share of the purchases, determined as a uniform percentage per year elapsing between the purchase date and 1959, assuming the following length of life for each class of producers' durable equipment:

- 17 years manufacturing equipment;
- 15 years mining equipment;
- 15 years store and office equipment; and
- 8 years construction equipment.

State distributions. Data are available on equipment purchases for manufacturing and for mining from censuses of business and the Bureau of Census "Annual Survey of Manufacturers." Data on manufacturing equipment purchases are available for 1939, 1947, 1951, and each year thereafter. Data

on mining equipment are available for 1939, 1954, and 1958. The percentage distribution by State of equipment purchases was computed for each census year; for the period intervening between census years the State percentage distribution was assumed to change uniformly each year as determined by averaging the change between census years and dividing by the number of years elapsing.

Similar data are not available for construction equipment and for office and store equipment. The estimated value of these two types of equipment (at 1959 depreciated value) was distributed among the States on the basis of wages and salaries in the appropriate industrial classification. The assets of fisheries were distributed in proportion to the value of fish catches by State.

Comparison of Goldsmith's Wealth Estimates and Taxable Values of Property in This Report

The following table compares Raymond Goldsmith's estimates of private wealth (in taxable categories) for 1958 with the estimates of taxable value of property developed for this report for 1959. The aggregate is about 20 percent below the Goldsmith estimate.

Adjusting the Goldsmith estimate approximately to a 1959 level, the total difference between the taxable base as computed here and the Goldsmith figures would be about \$235 billion. The largest share of this is undoubtedly due to the omission of public utility properties from the taxable property count. Using the ratio of estimated public utility property taxes to total property taxes as a basis for judging, about one-half of the difference might be attributable to public utilities. The land and structures estimates, however, are within \$2 billion of each other after adjusting the

Goldsmith estimates to 1959 (assuming a 4-percent rise between 1958 and 1959) and the taxable value figures by increasing them upward some 15 percent to include public utility properties. The omission of classes of producers' durable equipment explains most of the underlying difference in estimates.

Value of property

[In billions]

All classes of private property:	
1958, Goldsmith	\$1, 208
1959, Taxable properties (exclusive of public utilities)	1, 020
Land and structures (private, other than non-profit):	
1958, Goldsmith	895
1959, Taxable properties (exclusive of public utilities)	811
Producers' durable equipment:	
1958, Goldsmith	192
1959, Taxable properties (exclusive of public utilities and motor vehicles)	94
Inventories:	
1958, Goldsmith	104
1959, Taxable properties	97
Livestock:	
1958, Goldsmith	18
1959, Taxable properties	18

General Sales Tax

Some form of general sales tax was included in the tax structure of 34 States in the fiscal year 1960. Kentucky and Texas have introduced a general sales tax since then.

Most of these States confine their tax base to retail sales, although some include sales of wholesalers, extractive industries, and of manufacturers in their base, usually at a lower rate. One State, Indiana, taxes gross income from wages and salaries as well.

More than half the States tax retail sales of foods and medicines as well as other commodities. But in States where half the people live, foods and medicines are exempt from the tax (except that restaurant meals are generally subject to tax). Table 32 summarizes the provisions on taxable sales.

TABLE 32.—State Sales Taxes: Types and Rates

State	Type of tax ¹	Rate (percent) on tangible personal property at retail	Rate (percent) on selected services subject to tax					Water Percent	Transportation of persons and property Percent	Rates on other services and nonretail businesses subject to tax
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electric			
Alabama	Retail sales	3	3	3	3	1½	1½	3 1½	Mining and manufacturing machinery, 1½ percent; gross receipts of amusement operators, 3 percent.	
Arizona	do.	3	3	3	3	1½	1½	3 1½	Advertising, printing, publishing, contracting, extracting and processing minerals and timber, 1½ percent; storage, apartment, and office rentals, 3 percent; meatpacking and wholesale sales of feed to poultrymen and stockmen, ¾ percent; amusement operators, 3 percent; printing and photography, 3 percent.	
Arkansas	do.	3	3	3	3	3	3		Rental income of amusement machines, 3 percent.	
California	do.	3	3	3	3	3	3		Charges on amusements and amusement devices, 3 percent.	
Colorado	do.	2	2	2	2	2	2		Manufacturers, producers, and wholesalers, ½ percent; sugar processors and pineapple canners, 2 percent;	
Connecticut	do.	3½	4 3½	3½	3½	3½	3		insurance solicitors, 1½ percent; contractors, sales representatives, professions, radio broadcasting stations, service business, and other businesses (not otherwise specified), including amusement businesses, 3½ percent.	
Florida	do.	2 3	3	3	3	3	3		Property sold in connection with a sale of service 3 percent (2½ percent after June 30, 1963); remodeling, repairing, reconditioning, and rental of tangible personal property, 3½ percent.	
Georgia	do.	3	3	3	3	3	3		Gross income from sales by manufacturers, producers, processors, wholesalers (except grocer wholesalers), gross income from display advertising, laundry and dryclean-	
Hawaii	Multiple-stage sales.	3½	3½	3½	3½	3½	3			
Illinois ⁵	Retail sales	3½	3½	3½	3½	3½	3			
Indiana	Gross income	¾	¾	1½	1½	1½	1½	1½		

See footnotes at end of table.

TABLE 32.—State Sales Taxes: Types and Rates—Continued

State	Type of tax ¹	Rate (percent) on tangible personal property at retail	Rate (percent) on selected services subject to tax					Water Percent	Transportation of persons and property Percent	Rates on other services and nonretail businesses subject to tax
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electric			
Iowa.....	Retail sales.....	2	2	.....	2	2	2	.....	Rates on other services and nonretail businesses subject to tax
Kansas.....	do.....	2½	2½	2½	2½	2½	2½	.....	ing, ½ percent; gross income of all other business and persons (not otherwise specified) including amusement businesses, 1½ percent. Gross receipts derived from operation of amusement devices and commercial amusement enterprises, 2 percent.
Kentucky.....	do.....	3	3	3	3	3	3	.....	Gross receipts from the operation of any coin-operated device and charges for participation in pool, golf, and other amusements, 2½ percent.
Louisiana.....	do.....	2	2	2	.....	.....	.....	.....	Sewer services, photography, and photofinishing, 3 percent. Laundry, dry cleaning, automobile and cold storage, printing, repair services to tangible personal property, 2 percent.
Maine.....	do.....	3	3	3	.....	.....	3	.....	Production, fabrication, or printing on special order, 3 percent; farm equipment, 2 percent.
Maryland.....	do.....	3	4 3	3 3	.....	3 3	3	.....	Wholesaling, ½ percent; beer and motor fuel, 3 percent; extracting or mining of minerals, 3 percent; specified miscellaneous businesses (including bowling alleys, pool parlors, laundry and drycleaning, photofinishing, storage, certain repair services), 3 percent, except cotton ginning, 15 cents per bale; contracting (contracts exceeding \$10,000), 1½ percent; farm tractors, 1 percent.
Michigan.....	do.....	4	4	4	.....	4	.....	.....	Trailer camp rentals, 3 percent.
Mississippi.....	Multiple-stage sales.....	3	3	3	3	7 3	3	.....	
Missouri.....	Retail sales.....	2	2	2	2	2	2	.....	
Nevada.....	do.....	2	2	.....	.....	.....	.....	.....

New Mexico.....	Multiple-stage sales.....	2	2	2	2	2	2	2	2	2	Wholesaling, ½ percent; extracting minerals (except potash, coal, oil, and gas) and timber, ½ percent; potash extracting, 2 percent; coal extracting, ½ percent; smelting, refining, or processing of minerals (including oil and gas), ½ percent; preparing timber or lumber, ¼ percent; contracting, 1 percent; professions and service businesses (including amusement businesses), excluding ordinary wages and salaries, 2 percent; farm implements, 1 percent.
North Carolina.....	Retail sales.....	3	3	3	3	3	3	3	3	3	Laundry and drycleaning, 3 percent; horses or mules, sales of fuel to farmers, manufacturing industries, and plants other than for residential heating purposes, and to commercial laundries or to pressing and drycleaning establishments, sales of machinery to farmers, manufacturing industries, laundry and drycleaning establishments, and other selected items, 1 percent (maximum tax is \$80 per article for several items). Gross receipts from coin-operated music machines, 2 percent.
North Dakota.....	do.....	2	2	2	2	2	2	2	2	2	Printing and reproducing, 3 percent.
Ohio.....	do.....	3	3	3	3	3	3	3	3	3	Advertising (limited), gross proceeds from amusement devices, printing, automobile storage, 2 percent.
Oklahoma.....	do.....	2	2	2	2	2	2	2	2	2	Repairing, altering, and cleaning of tangible personal property, cleaning, polishing, lubricating, and inspecting of motor vehicles, and rental income of coin-operated amusement machines, 4 percent.
Pennsylvania.....	do.....	4	4	4	4	4	4	4	4	4	Laundry and drycleaning, 3 percent. Gross receipts from amusement devices, 2 percent.
Rhode Island.....	do.....	3	3	3	3	3	3	3	3	3	Laundry and drycleaning, 3 percent.
South Carolina.....	do.....	3	3	3	3	3	3	3	3	3	Gross receipts from amusement devices, 2 percent.
South Dakota.....	do.....	2	2	2	2	2	2	2	2	2	Parking lots and storage of motor vehicles, 3 percent; machinery for "new and expanded" industry, 1 percent.
Tennessee.....	do.....	3	3	3	3	3	3	3	3	3	Laundry and dry cleaning, repairing, renovating, and installing, 2½ percent.
Texas.....	do.....	2	2	2	2	2	2	2	2	2	Charges for certain specified services, 4 percent; selected amusement and recreation activities, 4 percent (unless subject to county or city admissions taxes), in which case they
Utah.....	do.....	2½	2½	2½	2½	2½	2½	2½	2½	2½	
Washington.....	do.....	4	4	4	4	4	4	4	4	4	

See footnotes at end of table.

TABLE 32.—State Sales Taxes: Types and Rates—Continued

State	Type of tax ¹	Rate (percent) on tangible personal property at retail	Rate (percent) on selected services subject to tax					Water Percent	Transportation of persons and property Percent	Rates on other services and nonretail businesses subject to tax
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electric			
West Virginia ²	Retail sales	3	3	3	3					remain taxable under the State business and occupation tax at 1 percent. All services (including services rendered in amusement places) except public utilities and personal and professional services, 3 percent.
Wyoming	do	2	2		2		2			
District of Columbia	do	2	2	3			2		2	

¹ All but a few States levy sales taxes of the single-stage retail type. Hawaii, Mississippi, and New Mexico levy multiple-stage sales taxes (although Arizona's tax is applicable to some nonretail businesses, it is essentially a retail sales tax). Washington and West Virginia levy a gross-receipts tax on all businesses, distinct from their sales taxes. Alaska also levies a gross-receipts tax on businesses. The rates applicable to retailers (with exceptions) under these gross-receipts taxes are as follows: Alaska, 1/2 percent on gross receipts of \$20,000-\$100,000, and 1/4 percent on gross receipts in excess of \$100,000; Washington, 4/100 percent and West Virginia, 1/2 percent. Michigan imposes a form of value-added tax in addition to a retail sales tax. The tax is applicable to the professions and the self-employed, as well as to businesses, and the rate is 7/4 mills (except public utilities, which are taxed at 2 mills). Indiana's "gross income" tax (applicable to personal and business income) is included in this tabulation because of its many sales-tax features.

² Several States have special provisions for the sales of automotive vehicles. The States that tax such sales at different rates are as follows: Alabama, 1 1/2 percent; Florida, 1 percent; Mississippi, 2 percent; New Mexico, new and used vehicles, 1 percent; North Carolina, including airplanes, 1 percent (1.5 percent effective July 1, 1962), maximum rate \$120. The following States exempt such sales but impose either the use tax or a special tax: Iowa, subject to use tax; Maryland,

subject to a 2 percent titling tax; Oklahoma, subject to a special tax of 2 percent. ³ Arizona and Mississippi also tax the transportation of oil and gas by pipeline. Missouri, Oklahoma, and Utah do not tax transportation of property. Mississippi taxes bus and taxicab transportation at the rate of 2 percent. Oklahoma does not tax local transportation, school transportation, and fares of 15 cents or less. Utah does not tax street-railway fares.

⁴ Restaurant meals below a certain price are exempt: Connecticut, less than \$1; Maryland, \$1 or less; Pennsylvania, 50 cents or less.

⁵ Illinois' 3 1/2 percent rate includes a 1 percent additional tax effective through June 30, 1963; West Virginia's 3 percent rate includes a 1 percent additional tax (on sales in excess of \$1) effective through June 30, 1962.

⁶ Illegal sales, including sales of whisky, are also taxed; wholesale, 5 percent; and retail, 8 percent. Illegal sales are also subject to a 10 percent "black market" tax.

⁷ Mississippi taxes industrial sales of gas and electricity at the rate of 1 percent. South Carolina's tax is not applicable to sales of gas. Texas exempts gas and electricity used in manufacturing, mining, or agriculture.

⁸ Food and beverages for off-premises consumption are taxed at the rate of 1 percent.

Accordingly, the general sales tax in the representative tax system is assumed to apply to all retail sales except food, medicine, and feed and fertilizer. The data on retail sales by States are those from the Census of Business, Retail Trade, for 1958. Sales of feed and fertilizer stores are excluded, sales of foodstores are reduced 90 percent to reflect the assumed exemption of food, and sales of drugstores by 40 percent to reflect the assumed exemption of drugs and medicines. (The 90- and 40-percent figures were furnished us by the head offices of two chainstores, one a food chain and the other a drug chain.)

The 1958 sales were projected to 1959 on the basis of regional information on the change in sales between 1958 and 1959 (1959 Retail Trade Annual Report, Bureau of the Census). These regional changes were applied uniformly to each State within the region.

It should be noted that the sales-tax States generally apply their sales levies to industrial machinery, tools and equipment, office equipment, and supplies sold to businesses for "final consumption" (i.e., not to be used up in the manufacture of a sales-taxed product). In part such sales are included in retail sales as reported by the census, but other sales of this type are excluded, since they represent sales directly made by wholesale and manufacturing firms. Equipment purchases of manufacturers and construction-equipment purchases from the census data were added to

retail sales in each State to take account of these final consumption purchases made by business firms.

The only sales of service industries taxed by States in which half the people live are hotel and similar charges. Accordingly, hotels, motels, and other lodging place receipts as reported in the Census of Business are included in the base of the representative tax system.

Individual Income Tax

For each of the 12 States which do not allow deduction of the Federal from the State income tax we computed individual and joint tax liability at 15 levels of taxable income (Federal definition). For this purpose we assumed all features of each State tax were identical with the Federal except the personal exemption and the split-income provision. For example, an individual with \$3,000 taxable income by the Federal definition would have only \$1,100 taxable income in Louisiana, which has a \$2,500 personal exemption, and would pay \$22 tax. (Rates and exemptions in 1959 were taken from Clara Penniman and Walter W. Heller, *State Income Tax Administration*, tables 3 and 18.) We computed a weighted average of these tax liabilities for each level of taxable income, weighting by the populations of the 12 States entering into the average.

For comparative purposes we repeated this procedure for the 17 States which allow a full deduction of the Federal from the State income tax. The two sets of rates are shown on the following page.

Weighted Averages of State Personal Income Tax Rates in 1959

Taxable income (Federal definition) before Federal tax	Average rates in 12 ¹ States in which Federal tax is not deductible		Taxable income (Federal definition) after Federal tax	Average rates in 17 ² States in which Federal tax is fully deductible	
	Single	Joint		Single	Joint
\$1,000.....	0.008	0.003	\$1,000.....	0.009	(³)
\$2,000.....	.013	.009	\$2,000.....	.015	0.009
\$3,000.....	.017	.012	\$3,000.....	.020	.013
\$4,000.....	.020	.016	\$4,000.....	.023	.017
\$6,000.....	.024	.021	\$6,000.....	.028	.024
\$10,000.....	.033	.029	\$10,000.....	.038	.033
\$20,000.....	.050	.043	\$20,000.....	.048	.044
\$30,000.....	.058	.051	\$30,000.....	.051	.047
\$50,000.....	.064	.063	\$50,000.....	.054	.052

¹ 12 nondeductibility States are Alaska, Arkansas, California, Washington, D.C., Georgia, Hawaii, Maryland, Mississippi, New York, North Carolina, Vermont, Virginia. Total population: 54,042,000.

² 17 deductibility States are Alabama, Arizona, Colorado, Idaho, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Minnesota, Missouri, Montana, New Mexico, North Dakota, Oklahoma, Oregon, Utah. Total population: 38,350,000.

³ Not computed.

We did not make use of the rates computed for the deductibility States. It is interesting to note, however, that the rates for the States which allow deduction of the Federal tax are not appreciably higher (in fact, in the upper income brackets they are actually lower) than the rates for the States which do not allow the deduction of Federal tax. This rather surprising result is due to the fact that the average rates for the nondeductibility States are dominated by the rates in New York and California, which have relatively high and progressive individual income tax rates.

From the Federal income tax tabulations we estimated the number of persons and couples in each State at various taxable income levels (U.S. Treasury Department, *Statistics of Income, Individual Income Tax Returns for 1959*, table 17).

We applied the estimated rates for the nondeductibility States to these State income distributions and obtained a total yield of \$3,931 million. Actual individual income tax collections by State and local governments in 1960, however, totaled only \$2,452 million. Hence, we multiplied the estimated State collections by 0.624 so that

their sum would equal \$2,452 million. Thus, the individual income tax rates implied in the representative tax system are 0.624 times the rates given for the nondeductibility States in the above table.

A summary of the steps involved in these calculations is as follows:

(a) An estimate was made for each individual filing a single tax return of his taxable income for 15 levels (Federal definition) of taxable income in each of the 12 States which do not allow deduction of Federal income tax.

(b) A weighted average was computed of the percent at each level of taxable income—weighting by State population.

(c) This procedure was repeated for joint returns.

(d) Estimates were obtained of the number of persons and couples with average taxable incomes of various sizes in each State from tabulations of Federal tax returns.

(e) The average rates (from (b) and (c)) were applied to these income distributions to obtain a first estimate of the yield for each State.

(f) These yields were adjusted proportionately so that their sum equaled the total

collections from State and local personal income taxes in 1960.

Corporate Income Tax

The first step in estimating corporate income was to regress taxable corporate income reported to the 30 States for which we had data (X_1) by commercial and industrial property (X_2), wage and salaries (X_3) and a measure of sales (X_4)—all variables being expressed as percents of a national total. The variables were defined as follows:

X_1 —Taxable corporate income reported to the State for the income year 1959 as a percent of total taxable corporate income reported to the Federal Government for 1959.

Estimates of taxable corporate income reported to the State for the income year 1959 were obtained for us by the Federation of Tax Administrators. We made some adjustments to increase comparability. For States which allow deduction of the Federal tax we added Federal taxes to reported corporate income (based on the ratio of Federal tax to profits after tax as shown in *Statistics of Income, 1958-59, Corporation Income Tax Returns*, table 2). For States which do not tax banks we added an estimate of the net income of banks in 1959 (Federal Deposit Insurance Corporation, *Annual Report for the year ending December 31, 1959*, tables 108 and 118). Since Federal Deposit Insurance Corporation does not show the net income of mutual savings banks by State, an estimate of this amount was made on the assumption that the ratio of mutual savings bank income to commercial bank income in each State was the same as the ratio of mutual savings bank deposits to commercial bank deposits in that State. For States which do not tax public utilities the estimate of corporate income was increased by 15 percent (derived from the ratio of net income of public utilities to net income of other industries as shown in *Statistics of Income, 1958-59, Corporation Income Tax Returns*, table 2). We expressed the resulting estimates as a percent of total corporate surtax net income reported on Federal tax returns for the period ending June

1960 (estimated for this study by the Treasury Department, Tax Analysis Staff). These percentages are shown in column (1) of table 33.

X_2 —Value of commercial and industrial property in the State as a percent of the national total.

For each State we added (1) market value of commercial and industrial real property in 1959; (2) value of manufacturing, wholesale and retail inventories in 1959; (3) value of producers' durable equipment in mining, manufacturing and construction, and office and store machinery. (See property tax section of this appendix for derivation of these estimates.) These sums, expressed as percents of the national total, are shown in column (2) of table 33.

X_3 —Wages and salaries paid in the State in 1959 as a percent of the national total.

From total wage and salary disbursements in each State, we subtracted disbursements in farming, services, and government on the grounds that these were largely noncorporate (U.S. Bureau of Census, *Statistical Abstract of the United States, 1961*, p. 308). The remainders, expressed as percents of the national total, are shown in column (3) of table 33.

X_4 —Wholesale, retail and manufacturing sales as a percent of the national total for 1958.

Adding these three components gives a sales measure which is a compromise between sales by origin and sales by destination, but gives considerably heavier weight to the latter. (Estimates taken from U.S. Bureau of the Census, *Statistical Abstract of the U.S., 1961*, p. 787, 834, 845.) These percents are shown in column (4) of table 33.

The multiple regression using these figures yielded the following relationship:

$$X_1 = 0.224 + 0.4641X_2 + 0.5556X_3 - 0.2818X_4$$

(0.1018) (0.2019) (0.1410)

$$R^2 = 0.984$$

While the individual State estimates of corporate income derived from this formula seem reasonable for all but a few States, the formula itself appears to imply that there is a negative relationship between sales and corporate income. This occurs because there is such a close relationship between wages and salaries, property, and sales that

TABLE 33.—Variables Used in Estimating Corporate Income, by State, 1959

State and region	(1)	(2)	(3)	(4)	(5)
	X_1	X_2	X_3	X_4	X'_1
	Corporate income	Property	Wages	Sales	Estimated income
New England:					
Maine.....					0.36
New Hampshire.....					.27
Vermont.....					.14
Massachusetts.....	2.34	2.94	3.38	3.10	2.72
Rhode Island.....	.24	.42	.49	.43	.39
Connecticut.....	1.85	1.67	2.09	1.48	1.56
Mideast:					
New York.....	8.30	11.29	12.07	13.41	10.63
New Jersey.....	3.79	4.15	4.58	3.99	3.68
Pennsylvania.....	5.23	6.39	7.20	6.56	5.83
Delaware.....	.23	.27	.34	.33	.27
Maryland.....	1.27	1.40	1.72	1.48	1.32
District of Columbia.....	.39	.47	.22	.42	.32
Great Lakes:					
Michigan.....					4.48
Ohio.....					5.56
Indiana.....					2.45
Illinois.....					6.37
Wisconsin.....	2.19	2.26	2.31	2.29	1.98
Plains:					
Minnesota.....	1.52	1.87	1.68	1.95	1.59
Iowa.....	.50	1.12	1.15	1.56	1.10
Missouri.....	1.82	2.15	2.46	2.80	2.14
North Dakota.....	.09	.14	.18	.25	.16
South Dakota.....	.09	.15	.17	.26	.16
Nebraska.....	.31	.52	.55	.82	.54
Kansas.....	.94	.77	.93	1.05	.79
Southeast:					
Virginia.....	1.64	1.63	1.58	1.49	1.32
West Virginia.....					.72
Kentucky.....					.97
Tennessee.....	1.28	1.33	1.37	1.65	1.26
North Carolina.....	1.82	2.07	1.71	2.06	1.69
South Carolina.....					.64
Georgia.....	1.28	1.27	1.53	1.84	1.34
Florida.....	1.62	2.29	1.92	1.81	1.74
Alabama.....	1.05	1.27	1.11	1.18	1.03
Mississippi.....	.46	.44	.50	.55	.43
Louisiana.....	1.71	1.72	1.26	1.38	1.26
Arkansas.....	.49	.54	.47	.52	.44
Southwest:					
Oklahoma.....	1.80	.79	.89	.87	.74
Texas.....					4.23
New Mexico.....	.38	.28	.33	.24	.24
Arizona.....					.40
Rocky Mountain:					
Montana.....					.26
Idaho.....					.23
Wyoming.....					.12
Colorado.....	.46	.97	.83	.85	.76
Utah.....	.53	.37	.41	.40	.34
Far West:					
Washington.....					1.34
Oregon.....	.91	.93	.95	1.01	.83
Nevada.....					.13
California.....	8.88	12.50	9.94	9.00	9.08
Alaska.....	.05	.10	.10	.06	.08
Hawaii.....	.23	.26	.22	.19	.19

TABLE 34.—Estimated Corporate Income and State Corporate Income Tax Base, by State, 1959

[In millions of dollars]

State and Region	Total corporate income	State corporate income tax base	State and Region	Total corporate income	State corporate income tax base
United States.....	47, 647	41, 272	Southeast.....	7, 062	6, 117
New England.....	2, 992	2, 593	Virginia.....	724	629
Maine.....	200	172	West Virginia.....	395	343
New Hampshire.....	148	129	Kentucky.....	534	462
Vermont.....	76	67	Tennessee.....	691	600
Massachusetts.....	1, 496	1, 296	North Carolina.....	929	805
Rhode Island.....	214	186	South Carolina.....	353	305
Connecticut.....	858	743	Georgia.....	739	638
Midwest.....	12, 126	10, 506	Florida.....	958	829
New York.....	5, 846	5, 065	Alabama.....	567	491
New Jersey.....	2, 025	1, 753	Mississippi.....	238	205
Pennsylvania.....	3, 207	2, 778	Louisiana.....	691	600
Delaware.....	148	129	Arkansas.....	243	210
Maryland.....	724	629	Southwest.....	3, 082	2, 673
District of Columbia.....	176	152	Oklahoma.....	405	353
Great Lakes.....	11, 463	9, 929	Texas.....	2, 325	2, 015
Michigan.....	2, 463	2, 135	New Mexico.....	133	114
Ohio.....	3, 059	2, 649	Arizona.....	219	191
Indiana.....	1, 348	1, 167	Rocky Mountain.....	944	815
Illinois.....	3, 502	3, 035	Montana.....	143	124
Wisconsin.....	1, 091	943	Idaho.....	129	110
Plains.....	3, 570	3, 087	Wyoming.....	67	57
Minnesota.....	877	758	Colorado.....	419	362
Iowa.....	605	524	Utah.....	186	162
Missouri.....	1, 177	1, 020	Far West.....	6, 408	5, 550
North Dakota.....	91	76	Washington.....	739	638
South Dakota.....	91	76	Oregon.....	457	395
Nebraska.....	295	257	Nevada.....	71	62
Kansas.....	434	376	California.....	4, 993	4, 326
			Alaska.....	43	38
			Hawaii.....	105	91

the prediction based on two of the three factors is sufficient to account for the variation observed. Applying the regression equation yielded negative estimates of corporate income for a few States.

A second estimate of corporate income was then derived using an average of the three factors for each State. A regression through the origin yielded the following relationship: $Y=0.866X$ where Y is the State corporate income base and X is the average of the three factors.

The aggregate collections from State corporate income taxes in 1960 were distributed in proportion to the latter estimates of the corporate income tax base under a representative tax system. The estimated total State corporate income tax base derived from the regression equation is shown in table 34, together with a State-by-State distribution of the total Federal corporate surtax income, assuming the total is distributed among States in the same way as the State corporate income tax base.

Appendix C

TAX EFFORT AND THE USE OF SPECIFIC TAX RESOURCES

It was stated above that measures of fiscal capacity and tax effort would be helpful, among others, to those charged with State tax policy decisions. The interpretations to which tax effort indexes lend themselves are here illustrated.

The tax effort of one State relative to others reflects the interplay of two groups of comparative measures: one the resources available for taxation; the other the kinds of taxes and level of tax rates employed. If the amounts of taxable resources are approximately equal, then an overall high tax effort suggests comparatively high rates or a large number of levies. Conversely, low tax effort points to low effective rates or neglect of some major State or local revenue sources.

Tax Effort and Tax Rates

By examining the information on tax collections by source and comparing these collections with the material compiled on the yield of a representative tax system and its uniformly defined tax bases, it is possible to make some general observations about tax practices—observations pointing to the great diversity among both high-effort and low-effort States.

First, effective property tax rates—that is, the rates on property valued at market prices—do not always determine whether the summary tax effort index will be high or low. High tax effort States include States with effective property-tax rates below 1 percent (table 35). In fact, a number of the high-effort States have effec-

tive property tax rates below the 1.4-percent national average; and in two of these States the rate is one-half the national average. Among low tax effort States is New Jersey with an effective property tax rate among the highest in the country.

At the same time, it should be noted that of the 20 States with a tax effort index 10 percent or more below standard under either of the two tax effort indexes shown in table 36, only 5 have effective property-tax rates at or above the national average. Of these five States, Illinois alone shows up with a below-par tax effort index based on the yield of a representative tax system, and an effective property tax rate as high as 1.5 percent.

Second, few States follow a policy of either making extensive use of all of the major tax bases or of underutilizing all of them. As may be seen from table 38, which compares the per capita yields under a representative tax system with actual per capita tax collections, only in New York and Maryland do per capita collections exceed the estimated yield under a standard tax system, in the aggregate, and for each of the tax categories shown. Of the States with per capita collections less than estimated yields under a standard tax system, only five—namely, Nebraska, Oklahoma, Pennsylvania, Texas, and Wyoming—collect less through each of the selected taxes than they would under a standard tax system. Most of the States with above-standard use of taxes available to them, as measured by the yield of a representative tax system, under-

TABLE 35.—Use of Selected Tax Levies by States With High Effort (10 Percent or More Above U.S. Average)

	Effective rates on standard base		
	Property taxes	Individual income tax ¹	General sales taxes, State or local
Both personal income and representative tax system base:			
Vermont.....	2.1	2.3.....	Not taxed.
Hawaii.....	.7	2.9.....	13.5.
Maine.....	2.4	Not taxed.....	3.2.
Mississippi.....	.7	0.6.....	6.0.
New York.....	2.1	2.1.....	3.0.
Oregon.....	1.6	3.2.....	Not taxed.
Washington.....	.9	Not taxed.....	8.7.
Personal-income base only:			
South Dakota.....	1.4	Not taxed.....	2.3.
North Dakota.....	1.3	0.8.....	2.2.
Louisiana.....	.8	0.4.....	4.1.
Arizona.....	1.0	0.6.....	5.6.
Montana.....	1.1	1.2.....	Not taxed.
Minnesota.....	1.9	1.8.....	Do.
Utah.....	1.1	1.2.....	3.8.
Idaho.....	1.0	2.3.....	Not taxed.
Kansas.....	1.4	0.8.....	3.4.
Wyoming.....	1.0	Not taxed.....	3.0.
California.....	1.4	0.8.....	5.2.
Colorado.....	1.4	1.3.....	2.9.
Iowa.....	1.2	1.0.....	2.8.
Representative tax system base only:			
Massachusetts.....	2.4	1.6.....	Not taxed.
Alaska.....	1.1	3.1.....	0.2.
Michigan.....	1.8	Not taxed.....	4.7.
Rhode Island.....	1.9	Not taxed.....	3.2.
Wisconsin.....	1.9	2.2.....	Not taxed. ²

¹ For purposes of this comparison, tax collections are computed as a percent of adjusted gross income, by State reported for Federal income tax purposes.

² Sales tax enacted in 1961.

TABLE 36.—Use of Selected Tax Levies by States With Low Tax Effort (10 Percent or More Below the U.S. Average)

	Effective rates on standard base		
	Property taxes	Individual income tax	General sales taxes, State or local
Both personal income and representative tax system base:			
Illinois.....	1.5	Not taxed.....	3.7.
Delaware.....	.7	2.9.....	Not taxed.
District of Columbia.....	1.3	1.4.....	1.9.
Kentucky.....	.8	2.1.....	Not taxed.
Missouri.....	1.1	0.8.....	2.6.
Virginia.....	.9	1.5.....	(1).
Personal income base only:			
Ohio.....	1.4	0.4.....	2.8.
New Jersey.....	2.3	Not taxed.....	Not taxed.
Pennsylvania.....	1.3	0.6.....	3.1.
Connecticut.....	1.6	Not taxed.....	2.9.
Alaska.....	1.1	3.1.....	0.2.
Representative tax system base only:			
Indiana.....	1.2	(1)	4.1.
Montana.....	1.1	1.1.....	Not taxed.
New Mexico.....	.6	0.6.....	5.1.
Wyoming.....	1.0	Not taxed.....	3.0.
Nebraska.....	1.4	do.....	Not taxed.
Texas.....	1.0	do.....	Do. ²
Arkansas.....	.6	0.7.....	4.2.
Florida.....	1.1	Not taxed.....	3.2.
Idaho.....	1.0	2.3.....	Not taxed.

¹ Less than 0.1 of 1 percent.

² Sales tax enacted in 1961.

TABLE 37.—Property Taxes by State: Effective Rates, Estimated Base, and Actual and Hypothetical 1960 Collections

[Dollar amount in millions]

State and region	Effective rate	Estimated base (1959)	Actual 1960 collections ¹	Hypothetical 1960 collections assuming ²		
				1 percent rate (4)	1½ percent rate (5)	2 percent rate (6)
	(1)	(2)	(3)			
United States.....	1.4	\$1,020,302	\$14,343	\$10,203	\$15,305	\$20,406
New England	2.1	54,749	1,142	547	821	1,094
Maine.....	2.4	3,829	90	38	57	76
New Hampshire.....	1.9	3,313	62	33	50	66
Vermont.....	2.1	1,804	38	18	27	36
Massachusetts.....	2.4	26,175	632	262	393	524
Rhode Island.....	1.9	3,825	72	38	57	76
Connecticut.....	1.6	15,803	248	158	237	316
Midwest	1.8	204,218	3,705	2,042	3,063	4,084
New York.....	2.1	92,095	1,919	921	1,382	1,842
New Jersey.....	2.3	34,787	786	348	522	696
Pennsylvania.....	1.3	54,062	691	541	812	1,082
Delaware.....	.7	2,618	18	26	39	52
Maryland.....	1.5	15,978	232	160	240	320
District of Columbia.....	1.3	4,678	59	47	70	94
Great Lakes	1.5	219,766	3,378	2,198	3,297	4,396
Michigan.....	1.8	43,826	808	438	657	876
Ohio.....	1.4	56,784	777	568	852	1,136
Indiana.....	1.2	28,251	353	283	424	566
Illinois.....	1.5	68,421	1,016	684	1,026	1,368
Wisconsin.....	1.9	22,483	425	225	338	450
Plains	1.4	101,301	1,388	1,013	1,520	2,026
Minnesota.....	1.9	20,788	392	208	312	416
Iowa.....	1.2	21,936	269	219	328	438
Missouri.....	1.1	22,915	242	229	344	458
North Dakota.....	1.3	4,473	57	45	68	90
South Dakota.....	1.4	5,140	73	51	76	102
Nebraska.....	1.4	11,305	154	113	170	226
Kansas.....	1.4	14,746	202	147	220	294
Southeast.....	.9	154,793	1,343	1,548	2,322	3,096
Virginia.....	.9	17,497	164	175	262	350
West Virginia.....	.9	6,626	57	66	99	132
Kentucky.....	.8	11,665	99	117	176	234
Tennessee.....	1.0	12,917	125	129	194	258
North Carolina.....	.8	18,278	144	183	274	366
South Carolina.....	.8	7,064	54	71	106	142
Georgia.....	.9	12,958	121	130	195	260
Florida.....	1.1	29,588	330	296	444	592
Alabama.....	.5	11,307	59	113	170	226
Mississippi.....	.7	6,384	44	64	96	128
Louisiana.....	.8	13,941	108	139	208	278
Arkansas.....	.6	6,568	39	66	99	132
Southwest	1.0	97,195	929	972	1,458	1,944
Oklahoma.....	.9	10,927	100	109	164	218
Texas.....	1.0	72,655	700	727	1,090	1,454
New Mexico.....	.6	5,332	31	53	80	106
Arizona.....	1.0	8,285	98	83	124	166

See footnotes at end of table.

TABLE 37.—Property Taxes by State: Effective Rates, Estimated Base, and Actual and Hypothetical 1960 Collections—Continued

[Dollar amount in millions]

State and region	Effective rate (1)	Estimated base (1959) (2)	Actual 1960 collections ¹ (3)	Hypothetical 1960 collections assuming ²		
				1 percent rate (4)	1½ percent rate (5)	2 percent rate (6)
Rocky Mountain	1.2	\$31,532	\$379	\$315	\$472	\$630
Montana.....	1.1	5,865	64	59	88	118
Idaho.....	1.0	4,582	45	46	69	92
Wyoming.....	1.0	3,196	32	32	48	64
Colorado.....	1.4	12,116	175	121	182	242
Utah.....	1.1	5,772	63	58	87	116
Far West	1.3	156,747	2,076	1,567	2,350	3,134
Washington.....	.9	16,662	155	167	250	334
Oregon.....	1.6	10,104	161	101	152	202
Nevada.....	.9	2,340	20	23	34	46
California.....	1.4	124,271	1,713	1,243	1,864	2,486
Alaska.....	1.1	632	7	6	9	12
Hawaii.....	.7	2,739	20	27	40	54

¹ Excludes estimated property tax on public utilities of \$1,523 million, and estimated motor vehicle taxes of \$542 million. Includes \$3 million estimated severance taxes on timber.

² Inconsistencies between collections shown here and actual collections shown in column (3) are due to rounding.

TABLE 38.—Comparison of Per Capita Tax Collections and Per Capita Yield of Representative System, for Selected Taxes, by State, 1960

State and region	Total		Property		Total sales		Individual income	
	Actual tax collections	Yield of representative tax system	Actual tax collections	Yield of representative tax system	Actual tax collections	Yield of representative tax system	Actual tax collections	Yield of representative tax system
United States	\$202	\$202	\$88	\$88	\$68	\$68	\$14	\$14
New England	220	196	114	80	52	69	16	15
Maine.....	199	158	99	62	75	64	.....	7
New Hampshire.....	187	197	107	82	51	74	3	11
Vermont.....	223	171	107	72	49	64	28	8
Massachusetts.....	234	194	125	79	37	68	29	16
Rhode Island.....	197	176	88	69	77	63	.....	13
Connecticut.....	213	226	108	94	66	73	.....	21
Mideast	233	203	105	83	65	69	26	18
New York.....	288	212	132	85	76	70	45	21
New Jersey.....	207	212	134	88	45	73	.....	18
Pennsylvania.....	176	184	61	77	61	62	10	14
Delaware.....	198	227	42	91	40	78	58	24
Maryland.....	199	187	83	81	63	62	27	16
District of Columbia.....	217	255	77	97	76	105	33	25
Great Lakes	202	212	100	95	72	70	6	15
Michigan.....	220	201	106	87	82	68	.....	15
Ohio.....	189	208	90	92	72	68	7	14
Indiana.....	180	205	89	94	72	68	(*)	12
Illinois.....	206	235	105	107	79	75	.....	18
Wisconsin.....	216	196	114	87	33	67	35	12

* Less than \$0.50.

TABLE 38.—Comparison of Per Capita Tax Collections and Per Capita Yield of Representative System, for Selected Taxes, by State, 1960—Continued

State and region	Total		Property		Total sales		Individual income	
	Actual tax collections	Yield of representative tax system	Actual tax collections	Yield of representative tax system	Actual tax collections	Yield of representative tax system	Actual tax collections	Yield of representative tax system
Plains	\$193	\$217	\$99	\$102	\$52	\$73	\$13	\$10
Minnesota	219	209	117	95	40	72	26	11
Iowa	209	231	109	121	64	71	13	10
Missouri	152	200	91	84	53	74	12	12
North Dakota	199	219	106	108	58	77	8	6
South Dakota	199	217	113	112	60	73	.....	4
Nebraska	174	241	115	124	37	75	.....	10
Kansas	218	228	115	108	63	72	11	10
Southeast	144	153	40	63	66	57	9	8
Virginia	138	163	48	69	37	61	19	10
West Virginia	151	150	41	60	87	55	.....	8
Kentucky	119	149	39	62	35	54	22	7
Tennessee	135	144	39	58	64	55	1	8
North Carolina	139	145	34	61	55	54	20	6
South Carolina	129	122	26	46	69	49	13	5
Georgia	142	139	37	53	74	56	9	7
Florida	184	204	68	89	89	75	.....	11
Alabama	121	134	22	55	71	49	9	7
Mississippi	130	115	31	46	68	44	4	4
Louisiana	188	178	44	67	77	58	4	10
Arkansas	126	139	30	59	65	52	6	6
Southwest	170	228	72	104	52	70	2	11
Oklahoma	177	189	57	73	67	68	7	9
Texas	162	243	76	115	40	72	.....	11
New Mexico	174	207	44	86	87	67	7	10
Arizona	209	201	89	97	87	66	8	11
Rocky Mountain	218	235	104	113	61	74	19	11
Montana	224	261	118	135	50	80	16	10
Idaho	194	218	88	106	42	72	30	9
Wyoming	238	325	120	152	78	90	.....	12
Colorado	231	231	112	106	64	76	20	13
Utah	201	205	83	100	71	62	18	10
Far West	269	241	110	111	99	76	18	18
Washington	202	207	59	90	146	72	.....	14
Oregon	234	208	104	89	38	72	54	14
Nevada	274	295	90	126	125	118	.....	17
California	278	254	124	119	96	78	16	19
Alaska	162	140	31	44	35	66	39	10
Hawaii	237	153	31	65	140	53	45	12

utilize some particular tax base. Conversely, many States with a below-average use of aggregate tax resources generally use some specific type of tax more than the standard.

Third, a high tax effort rank does not require that a State levy both an income and a retail sales tax. The high tax effort States

include some that do not tax individual income and others that do not tax general sales at either the State or local level. In fact, half of the high-effort States included in table 35 employ only one of these taxes. The extremes in tax practices are perhaps illustrated by Oregon, Washington, and Hawaii. Oregon imposes no general sales

levy, but its effective rate of individual income taxation is the highest among the States shown. Washington, its northern neighbor, does not levy an individual income tax, but its general sales tax rate exceeds that of all States, except Hawaii. Hawaii, on the other hand, imposes both an individual income tax and general sales tax at effective rates (on a standard base) considerably in excess of the averages prevailing throughout the country. Its property tax rate, however, is only about one-half of the national average.

Fourth, the substandard position of the low-effort States also reflects differing combinations of tax practices. Many of the low tax effort States, 8 of the 20 States shown in table 36, lack either a general sales tax or an individual income tax. Three additional States—New Jersey, Nebraska, and Texas (as of 1960)—levied neither tax. The remaining nine States either employ low tax rates across the board or impose above-average rates for one type of tax, counterbalanced by very low rates for the others.

Interstate Comparisons of Effective Tax Rates

Diverse tax patterns among the States, coupled with the great diversity in allocation of responsibility for public functions—schools, hospitals, public assistance—point to the use of comprehensive indexes of tax effort in making interstate comparisons. In such comprehensive indexes all taxes are combined without regard to the base or to whether the collection unit is the State or its local governments. But aggregate collections come, in fact, from a large number of separate levies. The hard decisions, on which tax policy is based, are made in terms of increasing rates or broadening the base of existing taxes, or of introducing a new tax. Should the general sales tax be increased? Should services be taxed? Is an

individual income or a sales tax preferable? These are the kinds of questions which confront policymaking officials and can be answered only with benefit of interstate comparisons of specific taxes.

The facts sought are essentially of two kinds. One documents the tax experience of the States. It answers, for example, such questions as: What statutory definition of the tax bases is used by neighboring States? What is their rate structure? How many of the States impose an individual income tax; a general sales tax; etc.? The second set of facts throws light on interstate differences in effective rates paid by taxpayers on property, sales, or income as a consequence of the combination of statutory rates and definition of the tax base.

Two earlier reports of the Advisory Commission give considerable information on the tax bases and statutory rates assessed by States and localities.¹ Table 39 shows the number of State governments using each of the tax bases, along with the proportion of State revenue derived from each.

The components of the representative tax system permit comparisons among States of effective rates used for specific levies. Since the base for each tax source is defined in the same way for each State, the effective tax rate differences reflect the combined effects of differences between the standard base and that actually assessed as well as variations in statutory rates. Without uniformly defined tax bases, rate variations would not be very meaningful. For example, one State may have a 2-percent general sales tax applicable to all retail sales including foods and drugs and a wide range of services. Another State with a 3-percent general sales rate may define its retail sales tax narrowly and exempt a broad

¹ *Tax Overlapping in the United States, 1961*, GPO, September 1961; *Local Nonproperty Taxes and the Coordinating Role of the State*, September 1961.

TABLE 39.—Number of States Using Various Taxes: Distribution According to Percentage of Tax Revenue Obtained From Each Tax, 1960

State taxes only

Tax	Number of States using tax in 1960	Distribution of the total according to the percentage of tax revenue obtained from the tax in each State								
		Under 5	5 to 10	10 to 15	15 to 20	20 to 25	25 to 30	30 to 35	35 to 40	40 and over
Individual income.....	1 33	5	5	6	3	4	4	3	2	1
Corporation income.....	1 37	11	16	10	.....	.....	.....	.....	.....	.....
Death and gift.....	49	46	3	.....	.....	.....	.....	.....	.....	.....
General sales.....	2 34	.....	.....	3	2	8	11	6	4	.....
Motor fuel.....	50	.....	7	17	15	9	1	.....	1	.....
Alcoholic beverage.....	50	39	11	.....	.....	.....	.....	.....	.....	.....
Tobacco.....	2 46	20	24	2	.....	.....	.....	.....	.....	.....
Amusement.....	44	38	4	1	.....	1	.....	.....	.....	.....
Public utility.....	39	34	5	.....	.....	.....	.....	.....	.....	.....
Property.....	45	29	13	.....	2	.....	1	.....	.....	.....
Motor vehicle and operators' licenses.....	49	6	22	15	6	.....	.....	.....	.....	.....
All other.....	50	4	19	15	6	3	.....	.....	1	2

¹ New Mexico, which reports combined individual and corporation income tax revenues, is included in the totals of both taxes. South Dakota is included in the total number of States using the corporation income tax, even though its levy applies only to financial institutions. West Virginia enacted an individual income tax effective Jan. 1, 1961.

² Kentucky, which enacted a general sales tax effective July 1, 1960, is not included in the total number of States

using the general sales tax. Texas enacted a general sales tax effective Sept. 1, 1961.

³ Virginia, which enacted tobacco taxes effective Aug. 1, 1960, is not included in the total number of States using tobacco taxes.

Source: Derived from Department of Commerce, Bureau of the Census, *Compendium of State Government Finances in 1960*.

range of household and business purchases. The effective rate of sales taxation is certainly not half again as high in the second State as in the first. Similarly, property-tax rates can be compared among jurisdictions only if property is valued a uniform way. Assessment practices as well as property-tax exemptions are too diverse to permit a meaningful comparison of nominal rates alone.

Our computation of the effective rates of the more important taxes for each State is presented above. A brief discussion of these rate variations follows.

The relative exploitation of the different taxes by the States, as measured by these effective rates and their deviation from the nationwide average provide an indication of the States' yet untapped tax potential. The choice which has to be made among alternative tax policies, however, depends upon many political, economic, and social factors. Variation in effective tax rates and

measures of the additional yield potential of specific taxes are technical guidelines, and nothing more. They are not wholly adequate even as technical guidelines. Estimates for 50 States developed from national data often fail to take account of the special circumstances prevailing in particular States. For these reasons, calculations of this kind can at best serve only as approximations of general magnitudes.

Property taxes. The effective rates on property values, defining property as market value of land, structure, equipment, and inventories (exclusive of public utilities and motor vehicles), vary substantially among the States (table 37 and fig. 10).

Property tax variations follow a fairly distinct regional pattern. Effective rates for the New England region average over 2 percent. In the major industrial States in the Mideast the average rate is 1.8 percent, and in the Southeast and Southwest 1 per-

cent or less. These rates are computed by dividing actual tax collections by the estimated amount of taxable property in the State, when property is uniformly valued at market prices. If property in all of the States were taxed at a rate comparable to the rate of the Southeastern and Southwestern States, the collections (chiefly local) from property taxes (excluding public utility properties) would be reduced from \$14 billion to \$10 billion. If, on the other hand, property in all of the States were taxed at rates prevailing in New England, the na-

tional property tax yield would be increased from \$14 billion to about \$20 billion.

Regional variations around the national average property tax rates reflect both differences in the willingness of the citizens of each State to tax themselves for local public services and the accommodation of property taxation to the economic and political forces operating in the States.

Perhaps a better indicator of interstate difference in consumer-voters' willingness to pay taxes for the local services they seek is obtained by comparing effective property tax rates on single-family dwellings.

TABLE 40.—*Effective Property Tax Rates on All Taxable Property: ¹ Single-Family Dwellings and Farm Real Estate as a Percent of the U.S. Average Rate, by State*

State and region	Total (1960)	Farm real estate (1957)	Single-family dwellings (1957)	State and region	Total (1960)	Farm real estate (1957)	Single-family dwellings (1957)
United States ²	100	100	100	Southeast	64	56	54
New England	150	200	154	Virginia.....	64	67	62
Maine.....	171	255	146	West Virginia.....	64	44	31
New Hampshire.....	136	222	146	Kentucky.....	57	78	62
Vermont.....	150	200	146	Tennessee.....	71	56	85
Massachusetts.....	171	211	177	North Carolina.....	57	44	54
Rhode Island.....	136	111	131	South Carolina.....	57	44	31
Connecticut.....	114	167	115	Georgia.....	64	56	54
Mideast	129	144	123	Florida.....	79	56	62
New York.....	150	211	138	Alabama.....	36	44	46
New Jersey.....	164	167	146	Mississippi.....	50	56	38
Pennsylvania.....	93	122	108	Louisiana.....	57	44	38
Delaware.....	50	56	62	Arkansas.....	43	56	46
Maryland.....	107	78	115	Southwest	71	56	69
District of Columbia.....	93	.....	77	Oklahoma.....	64	67	54
Great Lakes	107	122	92	Texas.....	71	56	77
Michigan.....	129	111	100	New Mexico.....	43	33	46
Ohio.....	100	89	77	Arizona.....	71	78	85
Indiana.....	86	89	77	Rocky Mountain	86	111	85
Illinois.....	107	144	100	Montana.....	79	100	77
Wisconsin.....	136	200	138	Idaho.....	71	111	69
Plains	100	133	92	Wyoming.....	71	100	62
Minnesota.....	136	156	115	Colorado.....	100	133	108
Iowa.....	86	122	85	Utah.....	79	111	62
Missouri.....	79	89	38	Far West	93	100	92
North Dakota.....	93	122	92	Washington.....	64	67	46
South Dakota.....	100	156	100	Oregon.....	114	111	77
Nebraska.....	100	144	108	Nevada.....	64	56	38
Kansas.....	100	122	77	California.....	100	100	69
				Alaska.....	79	(³)	(³)
				Hawaii.....	50	(³)	(³)

¹ Excluding property taxes on public utilities and motor vehicles.

² Excluding Alaska and Hawaii for farm real estate and single-family dwellings.

³ Not available.

TABLE 41.—Effective Property Tax Rates on Single-Family Dwellings and on Farm Real Estate, by State, 1957

State and region	Effective rates on—		State and region	Effective rates on—	
	Single-family dwellings	Farm real estate		Single-family dwellings	Farm real estate
United States ¹	1.3	0.9	Southeast	0.7	0.5
New England	2.0	1.8	Virginia .....	.8	.6
Maine	1.9	2.3	West Virginia .....	.4	.4
New Hampshire	1.9	2.0	Kentucky .....	.8	.7
Vermont	1.9	1.8	Tennessee	1.1	.5
Massachusetts	2.3	1.9	North Carolina .....	.7	.4
Rhode Island	1.7	1.0	South Carolina .....	.4	.4
Connecticut	1.5	1.5	Georgia .....	.7	.5
Mideast	1.6	1.3	Florida .....	.8	.5
New York	1.8	1.9	Alabama .....	.6	.4
New Jersey	1.9	1.5	Mississippi .....	.5	.5
Pennsylvania	1.4	1.1	Louisiana .....	.5	.4
Delaware .....	.8	.5	Arkansas .....	.6	.5
Maryland	1.5	.7	Southwest .....	.9	.5
District of Columbia	1.0	.....	Oklahoma .....	.7	.6
Great Lakes	1.2	1.1	Texas	1.0	.5
Michigan	1.3	1.0	New Mexico .....	.6	.3
Ohio	1.0	.8	Arizona	1.1	.7
Indiana	1.0	.8	Rocky Mountain	1.1	1.0
Illinois	1.3	1.3	Montana	1.0	.9
Wisconsin	1.8	1.8	Idaho .....	.9	1.0
Plains	1.2	1.2	Wyoming .....	.8	.9
Minnesota	1.5	1.4	Colorado	1.4	1.2
Iowa	1.1	1.1	Utah .....	.8	1.0
Missouri .....	.5	.8	Far West	1.2	.9
North Dakota	1.2	1.1	Washington .....	.8	.6
South Dakota	1.3	1.4	Oregon	1.4	1.0
Nebraska	1.4	1.3	Nevada .....	.8	.5
Kansas	1.0	1.1	California	1.3	.9

¹ Excluding Alaska and Hawaii.

Part of the property taxes on business firms are “exported” out of the community and it may be argued, therefore, that they do not measure the community’s assessment of the value of benefits from governmental activities.

However, as tables 40 and 41 show, effective rates on single-family dwellings follow the same distinctive regional pattern as overall property taxes.² Average effective

² In deriving estimated rates, 1956 assessments of single-family houses as reported in the Census of Governments, *Taxable Property Values in the United States* were converted to market values using the weighted average assessment ratios derived in the Governments Division census study by matching market sales data and

rates for single-family dwellings are highest in the New England area and, within it, in Massachusetts. Effective rates in the South range as low as 0.4 percent in West Virginia and South Carolina.

Except in the Far West, property-tax rates on single-family dwellings are high in States with high per capita personal income and tend to be low in low-income States (table 42).

assessment information. Property tax collections applicable to single-family houses in each State were estimated from census data on total general property taxes, taking account of significant homestead and veterans’ exemptions insofar as they affect the taxable value of single-family houses. The market values were then divided into the estimated tax payments on single-family houses.

TABLE 42.—*Per Capita Personal Income and Effective Property Tax Rates on Single-Family Dwellings, by Region*

[United States average=100]

Region	Index of single-family dwelling rate	Index of of per capita income	Region	Index of single-family dwelling rate	Index of per capita income
New England.....	154	111	Plains.....	92	92
Mideast.....	123	116	Rocky Mountain.....	85	94
Great Lakes.....	92	107	Southwest.....	69	87
Far West.....	92	118	Southeast.....	54	72

Variations in property tax rates on single-family dwellings, however, are far greater than differences in per capita income. These wider variations are, in part, suggestive of the pressures which the public services required for metropolitan living exert on property tax rates (as contrasted with public services in rural areas) and of regional differences in attitudes toward standards for the more general public functions, such as schools. The variations in aggregate property tax rates and in rates on single-family dwellings also suggest, however, some accommodation of property tax practices—assessment ratios or nominal rate structures—to income available for tax-payments and to other aspects of the State's economy. Effective property tax rates are relatively high in the industrial States in New England and the Mideast where ratios of taxable property values to personal income and to income produced in the State are low; they are relatively low in the Rocky Mountain and Southwestern mining and farming States where the ratio of the value of taxable property to income is high, where, in other words, income flows serve to limit property tax rates.

It should be noted, however, that in those Plains States where the value of taxable property is high relative to income (table 18) property tax rates approximate the national average.

One might be tempted to conclude that

farm properties in the Plains States are not underassessed relative to other classes of property only because of the lack of opportunity to tax business and to export a share of the property tax. What the State-by-State differences in table 40 suggest, however, even though the differences are small, is a research question. Is there a different order of assessment ratios by class of property in the States? Do some States, for example, tax farms more than residential dwellings? Do some tax residential dwellings at higher rates than manufacturing firms?

Some very preliminary calculations of effective property tax rates on manufacturing firms, by States, derived by relating the 1957 Census of Manufactures data on property taxes paid to estimates of the value on property holdings of manufacturers, strengthen the view that the scale of assessment ratios is different from State to State and that in this respect, as in others, property tax practices have been accommodated to the economic requirements of the State. In some States, notably those in which there has been relatively slower economic growth, effective rates on manufacturing firms are below that for single-family dwellings, while in others, they are above.³

³ The estimates of State-by-State effective rates on manufacturing establishments are not reproduced here because of their tentative quality, but can be made available for research purposes.

General and selective sales taxes. A number of States which rely heavily on consumer taxation have low overall income levels. The largest geographic concentration of States with high effective general sales taxes is in the South, where the nominal retail sales-tax rate of State levies on taxable sales is generally 3 percent, with foods and medicines taxed. The effective sales-tax rate (on a uniformly defined base) averages 3.5 percent despite the fact that Virginia and

Kentucky do not tax retail sales. This 3.5-percent rate is 0.2 percentage points above the nationwide average (table 43).

The effective sales-tax rate, calculated on a uniformly defined base (retail sales with food, drugs, feed and fertilizers exempt), is highest in Hawaii and Washington. Hawaii's gross-receipts tax is imposed not only on retail establishments but also on manufacturers, wholesalers, and professional and other services at selective

TABLE 43.—*Effective Rates of General Sales Tax, Alcoholic Beverages, and Tobacco Products, by State, 1960*

State and region	General sales ¹		Alcoholic beverages ²		Tobacco products ³	
	Effective rates on basis of actual collections	Rates on actual collections minus rate under representative system (2.94%)	Effective rates on basis of actual collections	Rates on actual collections minus rate under representative system (\$4.43)	Effective rates on basis of actual collections	Rates on actual collections minus rate under representative system (4.43 cents)
	Percent	Percent			Cents	Cents
United States	3.72	+0.78	\$4.43	.....	4.62	+0.19
New England	3.03	+ .09	3.47	-\$0.96	4.62	+ .19
Maine	3.16	+ .22	6.77	+2.34	5.09	+ .66
New Hampshire	(4)	-2.94	5.04	+ .61	3.20	-1.23
Vermont	(4)	-2.94	7.99	+3.56	5.95	+1.52
Massachusetts	(4)	-2.94	3.56	-.87	5.68	+1.25
Rhode Island	3.21	+ .27	3.41	-1.02	4.91	+ .48
Connecticut	2.93	-.01	1.78	-2.65	2.80	-1.63
Mideast	2.97	+ .03	3.53	-.90	5.08	+ .65
New York	2.99	+ .05	2.67	-1.76	5.74	+1.31
New Jersey	(4)	-2.94	2.34	-2.09	4.77	+ .34
Pennsylvania	3.13	+ .19	7.79	+3.36	4.67	+ .24
Delaware	(4)	-2.94	2.73	-1.70	2.72	-1.71
Maryland	2.72	-.22	3.03	-1.40	4.64	+ .21
District of Columbia	1.91	-1.03	1.80	-2.63	1.99	-2.44
Great Lakes	3.68	+ .74	4.97	+ .54	4.32	-.11
Michigan	4.65	+1.71	6.28	+1.85	5.50	+1.07
Ohio	2.75	-.19	7.70	+3.27	4.83	+ .40
Indiana	4.09	+1.15	4.82	+ .39	2.79	-1.64
Illinois	3.65	+ .71	2.95	-1.48	3.58	-.85
Wisconsin	(4)	-2.94	3.32	-1.11	4.65	+ .22
Plains	2.78	-.16	4.08	-.35	3.89	-.54
Minnesota	(4)	-2.94	5.68	+1.25	5.60	+1.17
Iowa	2.79	-.15	7.23	+2.80	3.61	-.82
Missouri	2.61	-.33	1.80	-2.63	2.71	-1.72
North Dakota	2.24	-.70	6.46	+2.03	6.39	+1.96
South Dakota	2.32	-.62	6.43	+2.00	4.24	-.19
Nebraska	(4)	-2.94	2.20	-2.23	3.68	-.75
Kansas	3.44	+ .50	2.95	-1.48	3.85	-.58

See footnotes at end of table.

TABLE 43.—Effective Rates of General Sales Tax, Alcoholic Beverages, and Tobacco Products, by State, 1960—Con.

State and region	General sales ¹		Alcoholic beverages ²		Tobacco products ³	
	Effective rates on basis of actual collections	Rates on actual collections minus rate under representative system (2.94%)	Effective rates on basis of actual collections	Rates on actual collections minus rate under representative system (\$4.43)	Effective rates on basis of actual collections	Rates on actual collections minus rate under representative system (4.43 cents)
	Percent	Percent			Cents	Cents
Southeast	3.53	+ .59	\$6.29	+\$1.86	4.59	+ .16
Virginia.....	.03	-2.91	4.32	- .11	.41	-4.02
West Virginia.....	5.81	+2.87	9.53	+5.10	5.06	+ .63
Kentucky.....	(⁴)	-2.94	6.69	+2.26	2.81	-1.62
Tennessee.....	3.77	+ .83	6.86	+2.43	4.98	+ .55
North Carolina.....	2.58	- .36	6.61	+2.18	(⁴)	-4.43
South Carolina.....	4.47	+1.53	7.48	+3.05	5.22	+ .79
Georgia.....	4.71	+1.77	9.01	+4.58	4.88	+ .45
Florida.....	3.17	+ .23	5.21	+ .78	4.67	+ .24
Alabama.....	4.47	+1.53	9.95	+5.52	6.87	+2.44
Mississippi.....	5.95	+3.01	3.75	- .68	5.96	+1.53
Louisiana.....	4.07	+1.13	5.94	+1.51	7.73	+3.30
Arkansas.....	4.23	+1.29	5.96	+1.53	5.51	+1.08
Southwest	4.11	+1.17	4.98	+ .55	6.83	+2.40
Oklahoma.....	2.75	- .19	7.78	+3.35	5.21	+ .78
Texas.....	(⁴)	-2.94	4.80	+ .37	8.09	+3.66
New Mexico.....	5.10	+2.16	3.19	-1.24	5.06	+ .63
Arizona.....	5.62	+2.68	3.37	-1.06	2.41	-2.02
Rocky Mountain	3.16	+ .22	5.90	+1.47	3.16	-1.27
Montana.....	(⁴)	-2.94	10.49	+6.06	7.56	+3.13
Idaho.....	(⁴)	-2.94	10.95	+6.52	4.51	+ .08
Wyoming.....	3.03	+ .09	4.34	- .09	4.35	- .08
Colorado.....	2.91	- .03	3.00	-1.43	0.90	-3.53
Utah.....	3.79	+ .85	7.49	+3.06	3.20	-1.23
Far West	5.74	+2.80	3.54	- .89	3.34	-1.09
Washington.....	8.70	+5.76	10.96	+6.53	6.12	+1.69
Oregon.....	(⁴)	-2.94	8.54	+4.11	(⁴)	-4.43
Nevada.....	2.73	- .21	1.27	-3.16	3.41	-1.02
California.....	5.19	+2.25	2.23	-2.20	2.93	-1.50
Alaska.....	.18	-2.76	4.37	- .06	3.97	- .46
Hawaii.....	13.48	+10.54	4.37	- .06	4.14	- .29

¹ Collections as a percent of estimated taxable retail sales in 1959.

² Collections per gallon of consumption of distilled spirits in 1960.

³ Collections per standard pack of 20 cigarettes taxed in 1960.

⁴ Not taxable.

rates. Washington imposes a 4-percent retail sales tax and exempts neither foods, medicines, nor services.

Selective sales levies also are relatively high in the low-income Southern States. Their average tax rate on alcoholic beverages is \$1.86 above the U.S. average per gallon of distilled spirits consumed. In the

Southwest, tobacco taxes are high, with a regional rate per pack of cigarettes of 6.8 cents; i.e., 2.2 cents above the national average. The Southeastern States, where most of the tobacco is produced, average 4.6 cents tax per pack of cigarettes, which is less than the national average. North Carolina, the largest tobacco-producing State, is without

a tobacco tax, and Virginia's taxes on tobacco average only 0.4 cent, or less than one-tenth the U.S. average rate.

Fairly wide variations exist in tobacco taxation among States within geographic regions. Thus, in the New England States the collections per pack of cigarettes vary from 2.8 cents in Connecticut to 6.0 cents in Vermont. Within the Mideastern States the range is from 2 cents per pack in the District of Columbia to 5.7 cents in New York; within the Great Lakes States, from 2.8 cents per pack in Indiana to 5.5 cents in Michigan.

Variations within the other regions are as great or greater. For example, in the Southeastern States the range is from a high of 7.7 cents to a low of 0.4 cent; in the Southwest, from 2.4 to 8.1 cents; in the Mountain States, from 0.9 to 7.6 cents, and in the Far West from 2.9 to 6.1 cents.

The representative tax system calculations are based on an average effective rate of 4.4 cents per pack. Differences between this and the actual effective rates for all States are shown in the last column of table 43.

State and local motor fuel taxes per gallon of gasoline, like the general sales tax, are highest in the Southern States, lowest in the Plains States (table 44). Within regions the pattern of effective tax variation in gasoline taxation is also fairly marked. Of the Southeastern States, Virginia has the lowest motor-fuel tax, 5.8 cents per gallon of gasoline; Alabama, the highest (7.8 cents). In the New England States, the lowest effective rate is 5.4 cents in Massachusetts; the highest, 6.9 cents in Maine. The variation within a region is most marked in the Plains States. Missouri,

TABLE 44.—Effective Rates of Levies on Motor Vehicles and Motor Fuel by State, 1960

State and region	Motorfuel and motor vehicle and operators' license tax revenue per motor vehicle registered in 1959		Motor fuel tax collections per gallon of gasoline consumed in 1959	
	Actual collections	Representative system	Effective rates on basis of actual collections	Rates on actual collections minus rate under representative system (5.47 cents)
			Cents	
United States	\$80.38	\$80.38	5.47	.....
New England	93.37	76.83	5.89	+ 0.42
Maine	107.46	80.11	6.92	+ 1.45
New Hampshire	95.51	77.96	6.41	+ .94
Vermont	108.84	81.63	6.85	+ 1.38
Massachusetts	94.46	78.13	5.40	- .07
Rhode Island	88.15	73.86	6.03	+ .56
Connecticut	84.78	72.60	5.99	+ .52
Mideast	69.59	78.22	5.09	- .38
New York	72.31	78.09	5.23	- .24
New Jersey	74.19	80.86	4.88	- .59
Pennsylvania	58.52	75.74	4.76	- .71
Delaware	65.57	93.44	3.92	- 1.55
Maryland	85.27	77.86	6.20	+ .73
District of Columbia	97.44	90.77	6.08	+ .61

TABLE 44.—Effective Rates of Levies on Motor Vehicles and Motor Fuel by State, 1960—Continued

State and region	Motor fuel and motor vehicle and operators' license tax revenue per motor vehicle registered in 1959		Motor fuel tax collections per gallon of gasoline consumed in 1959	
	Actual collections	Representative system	Effective rates on basis of actual collections <i>Cents</i>	Rates on actual collections minus rate under representative system (5.47 cents)
Great Lakes	\$79.93	\$79.14	5.59	+ .12
Michigan.....	70.10	78.78	5.46	-.01
Ohio.....	80.77	78.26	6.58	+1.11
Indiana.....	86.28	82.57	5.62	+ .15
Illinois.....	86.09	78.16	4.68	-.79
Wisconsin.....	75.31	80.03	5.44	-.03
Plains	73.43	84.01	4.15	-1.32
Minnesota.....	67.07	80.88	4.29	-1.18
Iowa.....	82.81	83.59	5.03	-.44
Missouri.....	68.11	87.50	3.06	-2.41
North Dakota.....	65.67	82.39	3.60	-1.87
South Dakota.....	81.34	88.05	4.32	-1.15
Nebraska.....	86.10	81.09	6.15	+ .68
Kansas.....	71.49	84.36	3.69	-1.78
Southeast	86.48	81.12	6.64	+1.17
Virginia.....	86.67	85.64	5.82	+ .35
West Virginia.....	106.72	82.41	6.45	+ .98
Kentucky.....	78.90	75.94	6.82	+1.35
Tennessee.....	100.16	84.82	6.40	+ .93
North Carolina.....	90.78	82.49	6.77	+1.30
South Carolina.....	77.70	78.62	6.98	+1.51
Georgia.....	88.85	82.71	6.47	+1.00
Florida.....	80.90	78.83	6.49	+1.02
Alabama.....	77.57	77.82	7.84	+2.37
Mississippi.....	107.06	86.03	7.09	+1.62
Louisiana.....	69.15	79.43	6.63	+1.16
Arkansas.....	94.96	80.86	6.40	+ .93
Southwest	83.78	88.79	4.48	-.99
Oklahoma.....	93.43	85.70	5.40	-.07
Texas.....	80.89	91.04	4.03	-1.44
New Mexico.....	88.84	86.33	6.24	+ .77
Arizona.....	82.54	79.72	5.11	-.36
Rocky Mountain	78.97	78.29	5.43	-.04
Montana.....	81.25	78.26	5.54	+ .07
Idaho.....	70.22	75.56	5.35	-.12
Wyoming.....	95.34	83.42	5.03	-.44
Colorado.....	76.92	77.38	5.19	-.28
Utah.....	81.27	80.25	6.10	+ .63
Far West	84.05	77.71	5.66	+ .19
Washington.....	83.36	80.60	5.25	-.22
Oregon.....	79.07	75.58	5.48	+ .01
Nevada.....	100.00	84.81	5.31	-.16
California.....	84.07	77.06	5.69	+ .22
Alaska.....	86.96	97.10	4.95	-.52
Hawaii.....	95.24	79.52	8.90	+3.43

North Dakota, and Kansas have effective rates ranging from 3.1 to 3.7 cents per gallon compared with Nebraska's 6.2-cent rate. The least variation occurs in the Far West, where effective rates are confined to a 5.3- to 5-7-cent range.

Aggregate Automotive Taxes

Combined taxes on motor vehicles, including motor fuel, property taxes, and vehicular and operator's licenses per motor vehicle registered in each State, are shown in table 44.⁴

The regional pattern of these aggregated motor vehicle effective rates reflects largely the regional pattern of motor-fuel taxation and practices with respect to taxation of personal property. The New England States have the highest taxes, the Plains States a less-than-average rate, and the Mideastern States the lowest.

In 1960, the combined State and local taxes on motor vehicles in the Nation averaged \$80 per vehicle; in the Southeast, \$86; and in the Mideastern States, \$70.

States with aggregate taxes per motor vehicle of \$100 or more include Maine, Vermont, West Virginia, Tennessee, Mississippi, and Nevada. With the exception of Nevada, each of these States ranks low in per capita income.

Interstate differences in motor vehicle taxes per registered vehicle under the representative tax system reflect primarily differences in motor fuel consumption. The New England States show the lowest yield per

motor vehicle under a representative tax system, the Southwestern States the highest. The individual State with the highest yield per motor vehicle under the representative tax system is Alaska, reflecting largely motor fuel consumption per vehicle. The State with the lowest rate of motor fuel consumption is Connecticut.

Individual Income Tax

In the States with income taxes, the effective tax rate averages 1.21 percent. This embraces a range of effective rates from 0.01 percent in Indiana to 3.20 percent in Oregon (table 45). Two factors explain these differences: variations in the distribution of income and in tax rates. Each State's rate was computed by multiplying the effective rate for each income class by the amount of income in each class. The average rate thus reflects the number of people in each income group; i.e., the skewness of the income distribution. States with a disproportionately large number of low-income people and an about-average rate of tax for each income group will tend to have a lower effective tax rate than States with a large number of high-income people.

The effective rate reflects also differences between States in tax rates for each income group, so that even States with substantially identical income distributions may have different average effective tax rates if their actual tax rates by income class diverge.

States which rely heavily on individual income rather than sales taxes can be identified by comparing their actual tax rate with that of the representative tax systems. When the actual rate is lower, as in Ohio, Arizona, and California, this indicates that the State makes less-than-average use of the income tax. These States not only make less use of the tax than other income tax States but also less than the national average, including the States which do not levy income

⁴ Motor vehicle registrations used as the standard for comparison reflect neither the relative number of motor vehicles used for industrial and commercial uses, nor the distances traveled, nor the value of the motor vehicles. The bases used by the States in taxing motor vehicles, however, would, in fact, take account of these factors. It should be noted also that motor fuel consumed in a State other than State of registration is assigned to the State in which the fuel is consumed rather than to the registration State.

TABLE 45.—Individual Income Tax Yield, Actual and Under Representative Tax System in 1960 as a Percent of Adjusted Gross Income, by State¹

State and region	Actual	Representative tax system		Difference, Alternative No. 1 minus Alternative No. 2
		Alternative No. 1 ²	Alternative No. 2 ³	
United States	1.21	0.85	0.85	.....
New England	1.49	.85	.84	+0.01
Maine .....	.....	.61	.64	-.03
New Hampshire .....	.21	.69	.72	-.03
Vermont	2.34	.58	.60	-.02
Massachusetts	1.58	.84	.84	.....
Rhode Island .....	.....	.82	.75	+.07
Connecticut .....	.....	.98	.97	+.01
Mideast	1.59	.92	.90	+.02
New York	2.13	.98	.93	+.05
New Jersey .....	.....	.89	.90	-.01
Pennsylvania .....	.60	.83	.82	+.01
Delaware	2.86	1.18	.99	+.19
Maryland	1.45	.88	.88	.....
District of Columbia	1.43	1.08	1.05	+.03
Great Lakes .....	.69	.85	.86	-.01
Michigan .....	.....	.84	.86	-.02
Ohio .....	.41	.83	.85	-.02
Indiana .....	.01	.77	.81	-.04
Illinois .....	.....	.92	.93	-.01
Wisconsin	2.21	.76	.78	-.02
Plains	1.11	.76	.82	-.06
Minnesota	1.81	.77	.92	-.16
Iowa	1.01	.73	.76	-.03
Missouri .....	.83	.83	.83	.....
North Dakota .....	.77	.60	.63	-.03
South Dakota .....	.....	.51	.51	.....
Nebraska .....	.....	.74	.77	-.03
Kansas .....	.78	.72	.85	-.13
Southeast	1.19	.75	.75	.....
Virginia	1.54	.76	.78	-.02
West Virginia .....	.....	.69	.72	-.03
Kentucky	2.10	.70	.70	.....
Tennessee .....	.13	.73	.72	+.01
North Carolina	2.10	.67	.65	+.02
South Carolina	1.55	.61	.61	.....
Georgia .....	.88	.72	.72	.....
Florida .....	.....	.87	.83	+.04
Alabama .....	.90	.72	.71	+.01
Mississippi .....	.58	.67	.66	+.02
Louisiana .....	.36	.89	.82	+.07
Arkansas .....	.70	.68	1.00	-.32
Southwest .....	.58	.84	.83	+.01
Oklahoma .....	.59	.76	.76	.....
Texas .....	.....	.86	.85	+.01
New Mexico .....	.58	.78	.78	.....
Arizona .....	.56	.85	.84	+.01

See footnotes at end of table.

TABLE 45.—*Individual Income Tax Yield, Actual and Under Representative Tax System in 1960 as a Percent of Adjusted Gross Income, by State*¹—Continued

State and region	Actual	Representative tax system		
		Alternative No. 1 ²	Alternative No. 2 ³	Difference, Alternative No. 1 minus Alternative No. 2
Rocky Mountain	1.39	.77	.77	.....
Montana.....	1.15	.79	.82	— .03
Idaho.....	2.30	.68	.68	.....
Wyoming.....	.....	.76	.80	— .04
Colorado.....	1.25	.81	.82	— .01
Utah.....	1.23	.71	.67	+ .04
Far West	1.05	.91	.91	.....
Washington.....	.....	.82	.85	— .03
Oregon.....	3.20	.80	.82	— .02
Nevada.....	.....	.94	.96	— .02
California.....	.78	.94	.93	+ .01
Alaska.....	3.07	.92	1.06	— .14
Hawaii.....	2.93	.82	.83	— .01

¹ Adjusted gross income as reported on taxable Federal income tax returns for 1959.

² Using average tax rate of States not allowing deduction of Federal income tax in computing State income taxes.

³ Using average tax rate of States allowing deduction of Federal income tax.

tax at all. Delaware and Oregon, on the other hand, derive a much larger than average proportion of their revenues from income taxes.

Two separate income tax calculations have been made for the representative tax system. Under the first, the rates applied to each income class are the average, for each income class, of the rates used by States which do not permit the deduction of the Federal income tax in computing State income tax liability. Under the second, the rates used are those in States which allow this deduction. The States which do not allow a Federal tax deduction generally also have the higher tax rates. Apparently, States electing to rely on income taxation rely on both higher tax rates and a broad tax base (net income before Federal tax payments). The importance of Federal deductibility to high-income individuals is illustrated by the divergence in the figures between the alternatives.

In conformity with the weighting principle employed for purposes of the representative tax system, the average effective tax rates derived from the State-by-State calculations were deflated so that their aggregate yield for the 50 States would equal total State and local income tax collections in 1960. The application of the average rates (by income class) used in those States which do not allow Federal tax deductions to all of the States produces an additional revenue yield of \$1.4 billion (table 46, col. 6).⁵

⁵ These yields were derived as follows: Col. 1 represents actual tax collections; col. 2 was derived by multiplying the average effective tax rate by income class of States allowing Federal tax deductibility to the adjusted gross income, by income class of all States, regardless of whether they have an individual income tax or not. Col. 3 was similarly derived except that the rates applied to the income classes were the average of the rates used by States not allowing deduction of Federal tax liability. The figures in col. 4 are the same as those in col. 3 but deflated so that total tax collections under the representative tax system equal actual total personal-income tax collections.

TABLE 46.—Estimated Yield of Individual Income Levies, Under Alternative Standard Systems, by State, 1960

[In millions of dollars]

State and region	Tax collections 1960 (1)	Hypothetical yields			Difference between tax collections and hypothetical yield		
		Federal tax deductible (2)	Federal tax non-deductible (3)	Representative system (4)	(1)–(2) Federal tax deductible (5)	(1)–(3) Federal tax non-deductible (6)	(1)–(4) Representative system (7)
United States.....	12,452	2,462	3,884	2,452	-10	-1,432	.....
New England.....	165	163	257	162	+2	-92	+3
Maine.....		8	12	7	-8	-12	-7
New Hampshire.....	2	7	10	7	-5	-8	-5
Vermont.....	11	3	4	3	+8	+7	+8
Massachusetts.....	152	81	129	81	+71	+23	+71
Rhode Island.....		11	18	11	-11	-18	-11
Connecticut.....		53	84	53	-53	-84	-53
Mideast.....	1,008	682	1,107	699	+326	-99	+309
New York.....	756	332	552	348	+424	+204	+408
New Jersey.....		112	175	111	-112	-175	-111
Pennsylvania.....	116	158	252	159	-42	-136	-43
Delaware.....	26	9	17	11	+17	+9	+15
Maryland.....	85	52	81	51	+33	+4	+34
District of Columbia.....	25	19	30	19	+6	-5	+6
Great Lakes.....	211	558	862	544	-347	-651	-333
Michigan.....		117	181	114	-117	-181	-114
Ohio.....	171	146	224	141	-75	-153	-70
Indiana.....	1	59	88	56	-58	-87	-55
Illinois.....		187	293	185	-187	-293	-185
Wisconsin.....	139	49	76	48	+90	+63	+91
Plains.....	208	175	255	161	+33	-47	+47
Minnesota.....	89	46	60	38	+43	+29	+51
Iowa.....	37	28	42	27	+9	-5	+10
Missouri.....	153	53	85	53	0	-32	0
North Dakota.....	5	4	6	4	+1	-1	+1
South Dakota.....		3	5	3	-3	-5	-3
Nebraska.....		15	22	14	-15	-22	-14
Kansas.....	24	26	35	22	-2	-11	+2
Southeast.....	367	304	479	302	+63	-112	+65
Virginia.....	77	39	60	38	+38	+17	+39
West Virginia.....		16	23	15	-16	-23	-15
Kentucky.....	166	22	35	22	+44	+31	+44
Tennessee.....	5	27	43	27	-22	-38	-22
North Carolina.....	92	29	46	29	+63	+46	+63
South Carolina.....	32	13	20	13	+19	+12	+19
Georgia.....	36	29	47	29	+7	-11	+7
Florida.....		54	89	56	-54	-89	-56
Alabama.....	28	22	35	22	+6	-7	+6
Mississippi.....	8	9	15	9	-1	-7	-1
Louisiana.....	13	30	51	32	-17	-38	-19
Arkansas.....	10	14	15	10	-4	-5	0
Southwest.....	34	152	243	153	-118	-209	-119
Oklahoma.....	17	22	35	22	-5	-18	-5
Texas.....		106	169	107	-106	-169	-107
New Mexico.....	17	9	15	9	-2	-8	-2
Arizona.....	10	15	24	15	-5	-14	-5

See footnote at end of table.

TABLE 46.—*Estimated Yield of Individual Income Levies, Under Alternative Standard Systems, by State, 1960—Continued*

[In millions of dollars]

State and region	Tax collections 1960 (1)	Hypothetical yields			Difference between tax collections and hypothetical yield		
		Federal tax deductible (2)	Federal tax non-deductible (3)	Representative system (4)	(1)–(2) Federal tax deductible (5)	(1)–(3) Federal tax non-deductible (6)	(1)–(4) Representative system (7)
Rocky Mountain	82	50	78	49	+32	+4	+33
Montana.....	11	8	12	7	+3	-1	+4
Idaho.....	20	6	9	6	+14	+11	+14
Wyoming.....		4	6	4	-4	-6	-4
Colorado.....	35	23	36	23	+12	-1	+12
Utah.....	16	9	15	9	+7	+1	+7
Far West	379	379	601	380	0	-222	-1
Washington.....		43	65	41	-43	-65	-41
Oregon.....	95	24	38	24	+71	+57	+71
Nevada.....		5	8	5	-5	-8	-5
California.....	246	296	473	299	-50	-227	-53
Alaska.....	9	3	4	3	+6	+5	+6
Hawaii.....	29	8	13	8	+21	+16	+21

¹ Combined corporation and individual income taxes for New Mexico are tabulated with individual income taxes. Minor amounts of local corporation income tax for Kentucky, Missouri, and Ohio are tabulated with individual income taxes.

The differences between actual collections and those postulated if the Federal tax is deductible are quite striking. Some of the New England and the Mideastern States collect far more from the individual income tax under the existing rate structure than they would if the Federal tax were deductible. This is largely because these States presently levy income taxes which do not allow Federal tax deductions. With the exception of Wisconsin, which relies heavily on income taxation, the Midwest makes considerably less use of the income tax than either the Mideast or the average State.

The differences between actual collections and those under the average rates in effect in the States which do not allow the deduction of Federal income taxes are even more striking. The only States which would not gain considerable amounts of revenue are, because of our method of averaging existing rates, those presently levying the tax without deductibility at more than the aver-

age rate. Those which would lose significant amounts of revenue if the average rates were applied include New York, Massachusetts, Wisconsin, Kentucky, North Carolina, and Oregon.

Sales and Individual Income Taxes Combined

Differences in taxing patterns between the States relying primarily on the sales tax and those relying more heavily on the individual income tax suggest a combination of sales and income levies to assess State-by-State variations. Table 47 shows the actual State and local individual income and sales tax collections as a percent of disposable personal income (excluding, alternatively, all taxes and Federal taxes only) and of purchases of goods and services. Individual income taxes and sales levies account for 4.2 percent of disposable personal income and 5.7 percent of purchases of goods and services on the average.

TABLE 47.—*Individual Income, Total Sales and Gross Receipts Taxes: Actual Collections and Yield of Representative System as Percents of Disposable Income, Personal Income Less Federal Tax and Nontax Payments, and Retail Sales and Services, by State*

State and region	Individual income and sales and gross-receipts tax collections in 1960 as a percentage of—					
	Disposable personal income in 1959		Personal income less Federal tax and nontax payments 1959		Estimated retail sales and receipts of services in 1959	
	Actual tax collections	Yield of representative system	Actual tax collections	Yield of representative system	Actual tax collections	Yield of representative system
United States.....	4.2	4.2	4.2	4.2	5.7	5.7
New England.....	3.1	4.0	3.1	4.0	4.6	5.9
Maine.....	4.3	4.4	4.2	4.3	5.5	5.6
New Hampshire.....	2.5	4.7	2.5	4.7	3.2	5.9
Vermont.....	4.9	4.5	4.7	4.3	5.8	5.3
Massachusetts.....	3.0	4.0	2.9	3.9	4.3	5.7
Rhode Island.....	4.0	4.0	3.9	4.0	5.9	5.9
Connecticut.....	2.8	3.9	2.7	3.8	4.5	6.4
Mideast.....	4.1	3.9	4.1	3.9	5.8	5.5
New York.....	5.2	3.8	5.0	3.7	6.8	5.0
New Jersey.....	2.0	4.0	2.0	3.9	3.1	6.1
Pennsylvania.....	3.5	4.0	3.5	3.9	5.2	5.8
Delaware.....	3.9	4.3	3.9	4.3	6.4	7.1
Maryland.....	4.7	3.9	4.6	3.8	7.2	6.0
District of Columbia.....	4.3	5.3	4.3	5.3	4.8	6.0
Great Lakes.....	3.7	4.0	3.6	4.0	5.1	5.5
Michigan.....	3.9	3.9	3.9	3.8	5.4	5.4
Ohio.....	3.7	4.0	3.7	4.0	5.3	5.8
Indiana.....	3.8	4.1	3.8	4.1	5.3	5.7
Illinois.....	3.4	4.0	3.4	4.0	4.6	5.4
Wisconsin.....	3.7	4.1	3.6	3.9	4.9	5.4
Plains.....	3.7	4.7	3.6	4.6	4.5	5.6
Minnesota.....	3.7	4.7	3.6	4.6	4.4	5.6
Iowa.....	4.3	4.6	4.1	4.5	5.0	5.4
Missouri.....	3.4	4.4	3.3	4.3	4.3	5.6
North Dakota.....	4.8	5.9	4.6	5.7	4.6	5.7
South Dakota.....	4.6	6.0	4.5	5.8	4.5	5.8
Nebraska.....	2.1	4.7	2.1	4.7	2.5	5.6
Kansas.....	4.3	4.8	4.1	4.7	5.5	6.2
Southeast.....	5.3	4.6	5.2	4.5	6.8	5.8
Virginia.....	3.4	4.5	3.3	4.4	4.6	6.1
West Virginia.....	5.5	4.2	5.5	4.1	7.9	6.0
Kentucky.....	4.4	4.6	4.3	4.4	5.7	5.9
Tennessee.....	4.9	4.6	4.8	4.6	6.0	5.7
North Carolina.....	5.4	4.3	5.3	4.3	7.2	5.8
South Carolina.....	6.8	4.3	6.6	4.2	9.3	5.9
Georgia.....	6.0	4.6	5.9	4.5	7.6	5.8
Florida.....	5.4	5.0	5.2	4.9	5.9	5.5
Alabama.....	6.1	4.5	6.0	4.4	8.2	6.0
Mississippi.....	6.7	4.4	6.7	4.3	8.8	5.7
Louisiana.....	5.7	4.4	5.6	4.4	7.3	5.7
Arkansas.....	5.8	4.8	5.7	4.7	6.8	5.6

TABLE 47.—Individual Income, Total Sales and Gross Receipts Taxes: Actual Collections and Yield of Representative System as Percents of Disposable Income, Personal Income Less Federal Tax and Nontax Payments, and Retail Sales and Services, by State—Continued

State and region	Individual income and sales and gross-receipts tax collections in 1960 as a percentage of—					
	Disposable personal income in 1959		Personal income less Federal tax and nontax payments 1959		Estimated retail sales and receipts of services in 1959	
	Actual tax collections	Yield of representative system	Actual tax collections	Yield of representative system	Actual tax collections	Yield of representative system
Southwest	3.5	4.9	3.4	4.8	4.2	5.9
Oklahoma.....	4.9	4.6	4.8	4.5	6.2	5.8
Texas.....	2.6	5.0	2.6	4.9	3.1	6.0
New Mexico.....	6.0	5.0	5.8	4.9	7.3	6.2
Arizona.....	5.9	4.8	5.8	4.6	7.0	5.7
Rocky Mountain	4.4	4.8	4.3	4.6	5.2	5.6
Montana.....	3.5	5.1	3.4	5.0	3.9	5.8
Idaho.....	4.2	5.1	4.7	5.0	4.4	5.3
Wyoming.....	4.0	5.1	3.8	4.8	4.8	6.0
Colorado.....	4.5	4.6	4.3	4.5	5.4	5.6
Utah.....	5.3	4.5	5.2	4.4	6.5	5.5
Far West	5.3	4.2	5.1	4.1	7.0	5.6
Washington.....	7.0	4.4	6.9	4.3	9.1	5.7
Oregon.....	4.4	4.6	4.2	4.4	5.3	5.6
Nevada.....	5.3	5.5	5.1	5.3	4.3	4.5
California.....	4.9	4.2	4.8	4.1	6.6	5.6
Alaska.....	3.4	3.5	3.3	3.4	6.6	6.8
Hawaii.....	10.2	3.3	9.9	3.2	17.2	5.6

Effective rates of the combined levies are substantially above average in the Southeast and Far West. Rates in the New England region are the lowest in the Nation. Looking at individual States rather than regional averages we find the lowest effective use of sales and income levies combined in New Jersey, Nebraska, New Hampshire, and Texas, in that order. The highest effective rates are found in Hawaii, Washington, South Carolina, and Mississippi.

Specific Tax Rates and Income Flows

Comparisons of effective rates of tax for property, sales, and income, presented above, do not take account of the State variations in income flows. Unless the tax bases are available to the States and localities they cannot raise the revenue required. Simi-

larly, if the income resources are not available for payment of a standard tax rate on the available tax bases, rates tend to be adapted to the amount of income that is available. By way of a summary measure of the income constraint on State and local taxation, the yields of a representative tax system, at standard rates, are computed as a percent of the income in each State. Table 48 shows the aggregate incomes in the States, and table 49 the yields of a representative tax system in total and by tax type. Table 50 supplements table 49 by showing the major components of "all other" taxes. The percent of income, which implicitly would be required in each State to finance a representative tax system with its uniformly derived bases and standard rates is shown in table 51.

TABLE 48.—Income Amounts for Selected Income Series, by State, 1959

[In millions of dollars]

State and region	Personal income, 1959 ¹	Income of families and unrelated individuals, 1959 ²		Income produced ⁴	Composite series ⁵
		Total	Above minimum amount ³		
United States.....	382, 583	331, 666	322, 873	481, 825	421, 999
New England	24, 786	21, 230	20, 865	28, 467	25, 558
Maine.....	1, 724	1, 467	1, 418	1, 871	1, 720
New Hampshire.....	1, 192	1, 090	1, 066	1, 363	1, 227
Vermont.....	694	591	570	818	735
Massachusetts.....	12, 387	10, 556	10, 388	14, 547	12, 985
Rhode Island.....	1, 850	1, 563	1, 527	2, 071	1, 872
Connecticut.....	6, 939	5, 963	5, 896	7, 797	7, 019
Mideast	95, 766	81, 209	79, 832	117, 669	103, 400
New York.....	45, 016	37, 530	36, 940	57, 777	50, 118
New Jersey.....	15, 441	13, 708	13, 534	17, 946	16, 025
Pennsylvania.....	24, 728	20, 994	20, 541	29, 664	26, 312
Delaware.....	1, 285	931	914	1, 163	1, 116
Maryland.....	7, 096	6, 210	6, 101	7, 806	7, 075
District of Columbia.....	2, 200	1, 836	1, 802	3, 313	2, 753
Great Lakes	83, 065	71, 991	70, 566	106, 248	92, 706
Michigan.....	17, 469	15, 175	14, 880	21, 280	18, 852
Ohio.....	21, 947	18, 992	18, 614	27, 717	24, 285
Indiana.....	9, 700	8, 544	8, 343	12, 818	11, 113
Illinois.....	25, 643	21, 993	21, 607	34, 209	29, 417
Wisconsin.....	8, 306	7, 287	7, 122	10, 225	9, 039
Plains	30, 372	25, 952	25, 050	39, 871	34, 574
Minnesota.....	6, 658	5, 918	5, 751	8, 886	7, 678
Iowa.....	5, 409	4, 544	4, 386	7, 163	6, 197
Missouri.....	9, 250	7, 563	7, 271	12, 028	10, 461
North Dakota.....	976	859	822	1, 358	1, 163
South Dakota.....	1, 020	903	854	1, 502	1, 263
Nebraska.....	2, 757	2, 299	2, 217	3, 802	3, 251
Kansas.....	4, 302	3, 866	3, 749	5, 131	4, 561
Southeast	59, 995	52, 606	49, 708	76, 041	66, 847
Virginia.....	7, 041	6, 340	6, 116	9, 046	7, 901
West Virginia.....	3, 060	2, 564	2, 436	4, 114	3, 562
Kentucky.....	4, 564	4, 015	3, 766	6, 048	5, 248
Tennessee.....	5, 348	4, 703	4, 420	6, 690	5, 895
North Carolina.....	6, 752	5, 703	5, 376	9, 315	8, 039
South Carolina.....	3, 157	2, 722	2, 545	3, 850	3, 438
Georgia.....	6, 075	5, 359	5, 075	7, 831	6, 852
Florida.....	9, 398	8, 556	8, 242	10, 844	9, 761
Alabama.....	4, 602	4, 070	3, 811	5, 702	5, 038
Mississippi.....	2, 493	2, 105	1, 883	2, 844	2, 592
Louisiana.....	5, 145	4, 459	4, 216	7, 063	6, 074
Arkansas.....	2, 360	2, 010	1, 822	2, 692	2, 446
Southwest	26, 237	23, 146	22, 252	35, 968	30, 844
Oklahoma.....	4, 117	3, 756	3, 575	5, 570	4, 798
Texas.....	18, 033	15, 572	14, 963	24, 805	21, 252
New Mexico.....	1, 689	1, 521	1, 476	2, 332	1, 996
Arizona.....	2, 398	2, 297	2, 238	3, 261	2, 798

See footnotes at end of table.

TABLE 48.—Income Amounts for Selected Income Series, by State, 1959—Continued

[In millions of dollars]

State and region	Personal income, 1959 ¹	Income of families and unrelated individuals, 1959 ²		Income produced ⁴	Composite series ⁵
		Total	Above minimum amount ³		
Rocky Mountain	8,630	7,652	7,481	11,225	9,757
Montana.....	1,319	1,133	1,103	1,748	1,516
Idaho.....	1,186	1,073	1,043	1,504	1,319
Wyoming.....	728	623	611	951	826
Colorado.....	3,776	3,313	3,244	4,726	4,144
Utah.....	1,621	1,510	1,480	2,296	1,952
Far West	53,732	47,880	47,119	66,336	58,313
Washington.....	6,350	5,801	5,692	7,811	6,860
Oregon.....	3,865	3,447	3,371	4,488	4,016
Nevada.....	757	672	663	1,080	910
California.....	40,915	36,269	35,725	50,634	44,476
Alaska.....	555	512	505	699	615
Hawaii.....	1,290	1,179	1,163	1,624	1,435

¹ As reported in U.S. Department of Commerce, *Survey of Current Business*, August 1961.

² As reported by Bureau of the Census in series PC(1)C, General Social and Economic Characteristics of the U.S. Census of Population: 1960.

³ Excludes income of families with income under \$2,000 and income of individuals with income under \$1,000.

⁴ Estimated, 1959 (1957 estimates by National Planning Association increased to 1959 on basis of percentage change in wages and salaries 1957-59).

⁵ Composite of 1959 personal income (less Federal payments), income produced (1959 estimated), and corporate net income in 1959.

TABLE 49.—Estimated Yield of Representative Tax System, by Source, by State, by 1960
 [In millions of dollars]

State and region	Total	Prop-erty 1	Sales and gross receipts										Motor vehicle taxes and operators' licenses	Income taxes		All other 3
			General sales		Selective sales							Individual		Corporation 2		
			Total	Motor fuel	Alcoholic beverages 2	Tobacco	Public utilities 2	Insurance	Amuse-ments 2	Miscel-laneous						
United States.....	36,358	15,866	7,016	3,369	1,049	988	657	535	55	365	2,303	2,452	1,617	1,928		
New England	2,069	844	417	170	84	67	34	37	2	23	126	162	102	110		
Maine.....	154	60	37	18	6	6	3	2	(*)	2	12	7	7	6		
New Hampshire.....	120	50	17	11	6	6	2	2	(*)	1	8	7	5	5		
Vermont.....	67	11	14	7	2	2	1	1	(*)	1	5	3	3	3		
Massachusetts.....	1,000	406	198	78	39	31	18	19	1	12	56	81	51	53		
Rhode Island.....	151	23	31	14	5	5	2	3	(*)	2	11	11	7	9		
Connecticut.....	575	240	77	109	42	17	8	10	(*)	7	34	53	29	33		
Mideast	7,828	3,214	1,505	584	281	233	157	139	19	92	419	699	411	439		
New York.....	3,562	1,438	665	225	134	108	72	68	14	44	162	348	198	233		
New Jersey.....	1,296	538	262	110	50	38	25	22	2	15	74	111	69	59		
Pennsylvania.....	2,090	871	398	178	53	60	45	36	2	24	135	159	109	108		
Delaware.....	102	41	21	11	3	3	2	1	(*)	1	6	11	5	4		
Maryland.....	584	252	80	114	49	17	12	9	1	6	36	51	25	26		
District of Columbia.....	194	74	44	11	20	7	1	3	(*)	2	6	19	6	9		
Great Lakes	7,708	3,442	1,423	660	202	207	147	114	9	84	463	544	389	339		
Michigan.....	1,576	679	301	146	40	44	27	24	2	18	103	114	84	66		
Ohio.....	2,021	901	284	178	49	55	42	29	2	22	127	141	104	87		
Indiana.....	961	440	136	98	17	27	17	14	1	10	64	56	46	35		
Illinois.....	2,373	1,077	343	411	166	61	48	36	3	26	119	185	119	119		
Wisconsin.....	778	346	116	72	25	20	13	11	1	8	50	48	37	31		
Plains	3,346	1,578	647	360	73	80	59	44	3	28	229	161	121	136		
Minnesota.....	716	326	141	73	20	17	13	10	1	7	49	38	30	27		
Iowa.....	637	333	85	110	65	14	9	8	(*)	5	42	27	21	19		
Missouri.....	868	364	134	95	23	26	18	13	1	9	56	53	40	36		
North Dakota.....	139	68	21	28	3	3	2	2	(*)	1	11	4	3	5		
South Dakota.....	148	77	20	19	3	3	2	2	(*)	1	11	3	3	4		
Nebraska.....	341	175	46	60	34	7	6	4	(*)	2	23	14	10	13		
Kansas.....	497	234	62	95	8	10	9	6	(*)	4	37	22	15	33		

	5,939	2,434	900	1,304	686	178	185	107	86	6	56	461	303	240	297
Southeast															
Virginia.....	650	274	96	148	72	26	22	12	9	1	6	45	38	25	24
West Virginia.....	278	112	43	59	29	7	9	7	4	(*)	3	19	15	13	17
Kentucky.....	455	190	66	100	50	13	16	10	6	1	4	37	22	18	22
Tennessee.....	515	208	82	115	65	10	16	11	8	(*)	5	41	27	23	19
North Carolina.....	663	278	100	147	80	18	21	10	10	1	7	52	29	32	25
South Carolina.....	291	111	45	72	40	10	9	5	5	(*)	3	28	13	12	10
Georgia.....	549	208	91	129	71	13	18	11	9	1	6	46	29	25	21
Florida.....	1,018	447	159	214	103	42	30	15	14	2	8	73	56	32	37
Alabama.....	437	179	67	95	54	9	13	8	7	(*)	4	39	22	19	16
Mississippi.....	250	101	38	59	36	6	8	4	3	(*)	2	22	9	8	13
Louisiana.....	582	220	77	112	53	18	16	11	8	1	5	37	32	23	81
Arkansas.....	249	106	38	55	33	5	7	5	3	(*)	2	22	10	8	10
Southwest															
Oklahoma.....	3,244	1,482	402	598	361	52	71	51	36	3	24	210	154	105	293
Texas.....	441	170	60	98	60	8	12	8	6	(*)	4	37	22	14	40
New Mexico.....	198	83	26	38	24	4	4	3	2	(*)	18	140	107	79	220
Arizona.....	265	127	38	49	27	6	7	4	3	(*)	2	14	10	5	22
Rocky Mountain															
Montana.....	1,018	488	139	180	100	22	21	17	11	1	8	71	49	32	59
Idaho.....	177	91	23	31	17	4	4	3	2	(*)	1	12	7	5	8
Wyoming.....	146	71	22	26	15	3	3	2	2	(*)	1	12	6	4	5
Colorado.....	108	50	12	18	10	2	2	2	1	(*)	1	6	4	2	16
Utah.....	406	186	58	76	39	11	10	7	5	1	3	28	23	14	21
Far West.....	184	89	25	31	19	3	3	3	2	(*)	1	13	9	6	11
Washington.....	5,206	2,385	706	941	447	158	124	85	66	11	50	324	380	217	251
Oregon.....	593	257	89	116	63	16	13	10	7	1	6	43	41	25	23
Nevada.....	368	158	57	71	37	9	9	7	5	(*)	4	28	24	16	14
California.....	85	36	14	20	8	5	3	1	1	2	1	5	5	2	3
Alaska.....	4,029	1,881	528	705	325	122	97	64	51	8	39	239	299	169	207
Hawaii.....	32	10	6	9	4	2	1	1	1	(*)	(*)	2	3	1	1
	98	42	14	20	10	3	2	2	2	(*)	1	7	8	4	4

* Less than \$500,000.
¹ Excludes \$542 million motor vehicle property taxes, which are included in "motor vehicle taxes and operators' licenses," and includes \$3 million severance taxes on timber.
² Including related license taxes. Alcoholic beverage collections also include \$242 million net liquor stores revenue.
³ For major components, see table 50.

TABLE 50.—Actual Tax Collection and Estimated Yield of Representative Tax System for Miscellaneous Taxes, by State, 1960

[In millions of dollars]

State and region	Severance		Estate		Document and stock transfer	
	Actual collections	Yield of representative system	Actual collections	Yield of representative system	Actual collections	Yield of representative system
United States	416.2	416.2	412.2	412.2	109.8	109.8
New England . . . . .		.5	47.2	41.3	1.3	4.8
Maine . . . . .		.1	3.2	2.3		.2
New Hampshire		(*)	2.1	1.7		.1
Vermont . . . . .		.1	.7	.7		.1
Massachusetts . . . . .		.2	20.5	18.1	1.3	3.1
Rhode Island		(*)	3.8	4.3		0.3
Connecticut . . . . .		.1	16.9	14.1		1.0
Mideast		9.8	149.4	129.4	78.1	51.1
New York		1.8	71.6	70.3	57.6	42.4
New Jersey . . . . .		.4	20.6	16.2		2.1
Pennsylvania		7.2	51.1	30.6	20.5	4.6
Delaware		(*)	1.1	1.5		.4
Maryland . . . . .		.4	5.0	7.2	(*)	1.3
District of Columbia		(*)		3.7		.3
Great Lakes	1.2	21.2	63.1	76.2		16.0
Michigan . . . . .	.8	3.5	12.1	12.8		2.3
Ohio		3.3	8.7	20.1		3.6
Indiana . . . . .	.4	2.4	7.6	6.4		1.0
Illinois		11.5	22.0	30.2		7.9
Wisconsin . . . . .		.5	12.7	6.6		1.2
Plains	19.4	25.9	25.0	28.3	.9	5.2
Minnesota	14.6	2.2	7.1	5.4	.9	1.4
Iowa . . . . .		.6	7.3	5.0		.6
Missouri	(*)	1.1	5.3	8.9		2.0
North Dakota	2.5	2.0	.3	.5		.1
South Dakota . . . . .	.5	.3	.9	.6		.1
Nebraska	1.4	2.9	.4	3.4		.5
Kansas . . . . .	.4	16.8	3.7	4.6		.5
Southeast	152.7	91.7	40.4	46.3	28.4	9.9
Virginia . . . . .	.1	1.4	4.9	5.3	3.6	1.0
West Virginia		7.1	2.4	2.2	.4	.3
Kentucky . . . . .	.4	6.1	5.3	3.8	.8	.6
Tennessee . . . . .		.9	4.6	3.1	1.5	.8
North Carolina . . . . .		.3	6.3	4.6		.8
South Carolina . . . . .		.2	1.6	2.3	1.3	.3
Georgia . . . . .		.5	1.0	3.8		.9
Florida	(*)	1.0	5.5	11.7	19.2	2.7
Alabama	1.2	1.6	.6	2.4	1.2	.6
Mississippi	10.2	6.4	.7	1.3	.4	.3
Louisiana	136.4	62.7	7.2	4.4		1.3
Arkansas	4.4	3.5	.3	1.5		.3
Southwest	230.4	195.3	19.6	25.1	.3	6.0
Oklahoma	33.0	27.3	5.8	3.1		.8
Texas	180.9	149.1	12.6	19.5	.3	4.2
New Mexico	16.5	16.8	.7	1.0		.3
Arizona		2.1	.5	1.5		.7

See footnote at end of table.

TABLE 50.—Actual Tax Collection and Estimated Yield of Representative Tax System for Miscellaneous Taxes, by State, 1960—Continued

[In millions of dollars]

State and region	Severance		Estate		Document and stock transfer	
	Actual collections	Yield of representative system	Actual collections	Yield of representative system	Actual collections	Yield of representative system
Rocky Mountain	9.9	29.9	10.1	6.9	.....	1.7
Montana.....	3.0	3.6	1.8	1.2	.....	.2
Idaho.....	.1	.4	.8	.8	.....	.2
Wyoming.....	.1	13.0	.3	.5	.....	.1
Colorado.....	2.8	6.8	6.2	3.6	.....	.9
Utah.....	3.9	6.1	1.0	.9	.....	.3
Far West	2.7	41.5	57.6	58.7	.8	15.5
Washington.....	.....	.4	8.9	5.0	.8	1.2
Oregon.....	.1	.3	4.3	2.8	.....	.7
Nevada.....	(*)	.4	.....	.7	.....	.2
California.....	1.2	40.3	43.7	49.4	.....	13.1
Alaska.....	1.4	.1	.1	(*)	.....	.1
Hawaii.....	.....	(*)	.6	.8	.....	.2

*Less than \$50,000.

TABLE 51.—Yield of Representative Tax System as a Percent of Personal and Composite Income, by State

State and region	Yield of representative tax system as percent of—		State and region	Yield of representative tax system as percent of—	
	Personal income, 1959 ¹	Composite income, 1959 ²		Personal income, 1959 ¹	Composite income, 1959 ²
United States.....	8.5	8.6	Southeast	9.9	8.9
New England	8.3	8.1	Virginia.....	9.2	8.2
Maine.....	8.9	9.0	West Virginia.....	9.1	7.8
New Hampshire.....	10.1	9.8	Kentucky.....	10.0	8.7
Vermont.....	9.7	9.1	Tennessee.....	9.4	8.7
Massachusetts.....	8.1	7.7	North Carolina.....	9.8	8.2
Rhode Island.....	8.2	8.1	South Carolina.....	9.2	8.5
Connecticut.....	8.3	8.2	Georgia.....	9.0	8.0
Mideast	8.2	7.6	Florida.....	10.8	10.4
New York.....	7.9	7.1	Alabama.....	9.5	8.7
New Jersey.....	8.4	8.1	Mississippi.....	10.0	9.6
Pennsylvania.....	8.5	7.9	Louisiana.....	11.3	9.6
Delaware.....	7.9	9.1	Arkansas.....	10.6	10.2
Maryland.....	8.2	8.3	Southwest	12.4	10.5
District of Columbia.....	8.8	7.0	Oklahoma.....	10.7	9.2
Great Lakes	9.3	8.3	Texas.....	13.0	11.0
Michigan.....	9.0	8.4	New Mexico.....	11.7	9.9
Ohio.....	9.2	8.3	Arizona.....	11.1	9.5
Indiana.....	9.9	8.6	Rocky Mountain	11.8	10.4
Illinois.....	9.3	8.1	Montana.....	13.4	11.7
Wisconsin.....	9.4	8.6	Idaho.....	12.3	11.1
Plains	11.0	9.7	Wyoming.....	14.8	13.1
Minnesota.....	10.8	9.3	Colorado.....	10.8	9.8
Iowa.....	11.8	10.3	Utah.....	11.4	9.4
Missouri.....	9.4	8.3	Far West	9.7	8.9
North Dakota.....	14.2	12.0	Washington.....	9.3	8.6
South Dakota.....	14.5	11.7	Oregon.....	9.5	8.9
Nebraska.....	12.4	10.5	Nevada.....	11.2	9.3
Kansas.....	11.6	10.7	California.....	9.8	9.1
			Alaska.....	5.8	5.2
			Hawaii.....	7.6	6.8

¹ Personal income as reported in U.S. Department of Commerce *Survey of Current Business*, August 1961.

² Composite of 1959 personal income (less Federal payments), income produced (1959 estimate), and corporate net income in 1959.

PUBLISHED REPORTS OF THE ADVISORY COMMISSION
ON INTERGOVERNMENTAL RELATIONS

- Coordination of State and Federal Inheritance, Estate and Gift Taxes.*
January 1961. (Report A-1; 134 p., printed.)
- Modification of Federal Grants-in-Aid for Public Health Services.*
January 1961. (Report A-2; 46 p., offset.)
- Investment of Idle Cash Balances by State and Local Governments.*
January 1961. (Report A-3; 61 p., printed.)
- Intergovernmental Responsibilities for Mass Transportation Facilities
and Services in Metropolitan Areas.* April 1961. (Report A-4;
54 p., offset.)
- Governmental Structure, Organization and Planning in Metropolitan
Areas.* July 1961. (Report A-5; 83 p., printed.)
- State and Local Taxation of Privately Owned Property Located on
Federal Areas: Proposed Amendment of the Buck Act.* June 1961.
(Report A-6; 34 p., offset.)
- Intergovernmental Cooperation in Tax Administration.* June 1961.
(Report A-7; 20 p., offset.)
- Periodic Congressional Reassessment of Federal Grants-in-Aid to State
and Local Governments.* June 1961. (Report A-8; 67 p., offset.)
- Local Nonproperty Taxes and the Coordinating Role of the State.*
September 1961. (Report A-9; 68 p., offset.)
- State Constitutional and Statutory Restrictions on Local Government
Debt.* September 1961. (Report A-10; 97 p., printed.)
- Alternative Approaches to Government Reorganization in Metropolitan
Areas.* June 1962. (Report A-11, 88 p., offset.)
- Tax Overlapping in the United States, 1961.* September 1961. (Re-
port M-11; 136 p., printed.)*
- Factors Affecting Voter Reactions to Governmental Reorganization in
Metropolitan Areas.* May 1962. (Report M-15, 80 p., offset.)
- Directory of Federal Statistics for Metropolitan Areas.* June 1962.
(Report M-18, 118 p., printed.)

*This publication, priced at \$1.00, may be purchased from the Superintendent of Documents, Government Printing Office, Washington 25, D.C. Single copies of the other reports listed may be obtained from the Advisory Commission on Intergovernmental Relations, Washington 25, D.C.

