A Commission Report

REGIONAL GROWTH

Interstate Tax Competition

Advisory Commission on Intergovernmental Relations
WASHINGTON, D.C.
MARCH 1981

A-76

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Preface

Growing public discussion and controversy concerning the implications of uneven patterns of economic growth in different regions of the United States, as well as allegations that federal government taxing and spending policies have contributed to such disparities, prompted the Advisory Commission on Intergovernmental Relations (ACIR) to undertake a series of research studies on the subject. The results of the ACIR investigations are presented in a three-volume study entitled *Regional Growth.*

The first volume of the study, *Regional Growth: Historic Perspective,* examined the economic growth of the various regions of the United States and pointed out the importance and ramifications of the converging growth rates throughout the nation.

The second volume, *Regional Growth: Flows of Federal Funds, 1952-1976,* focused on the impact of federal financial activities, both spending and taxing, on states and regions. This study, too, found convergence: interstate and interregional differences in the ratio of federal expenditures to revenues were considerably narrower in 1974-76 than they were in 1952.

This, the third volume, examines the issue of whether interstate tax competition has brought about any significant differential regional growth pattern. In particular, the Commission addresses the intergovernmental concern of whether the economic health of states is being adversely affected to the point that federal intervention to curb competitive interstate tax activities is warranted.

In light of the findings in the ACIR series of studies of regional growth, the Commission, at this time, concludes that it sees no additional role for the federal government in regulating interstate competition to influence the location of people, capital, and jobs.

At the same time, however, the Commission is keenly aware of the growing concern for the economic growth prospects of energy "have," contrasted with "have not," states. It recognizes that as the energy rich states gain revenues from exportable severance taxes on gas, oil, and coal they may replace income, sales, and property taxes paid by resident individuals and businesses. If this happens, state-local tax differentials could become far more significant for industrial location than they now appear to be. The Commission intends to monitor this development actively to detect any new source of divergence in regional and state economic growth.

Abraham D. Beame
Chairman

Acknowledgements

Will S. Myers prepared this analysis of the relationship between regional growth and tax-based interstate competition for the manufacturing industry. He was assisted most immediately by staff members Susan Carmon, Al Davis, Robert Ebel, Janet Pack, Ruthamae Phillips, Richard Reeder, and Charles Richardson. Former colleagues Andrew Supplee and Robert Kleine laid much of the original groundwork for this study. John Shannon, assistant director for Taxation and Finance, supervised the research and publication process, and other members of the Commission staff reacted to drafts at several steps in the study.

In addition, the Commission and its staff sought and received help from many individuals during all stages of the report preparation. Thanks go to "thinkers" who gathered in Washington at the Commission's invitation and suggested the content of what would have been an exhaustive Frostbelt-Sunbelt study. Unfortunately, personnel and time limitations prevented Commission staff from tackling the problem in as ambitious a manner as was suggested at the thinkers' session.

When the study reached draft report form, the staff fanned it out to "critics" to cast a perceptive eye over the facts, the findings, and the conclusions. Particular thanks go to Kenneth Ainsworth, Shelly Amdur, Todd Berry, William R. Brown, Arnold Cantor, John Due, Robert Reischauer, Leon Rothenburg, Jonathan Rowe, and Bernard L. Weinstein. Their comments and criticisms added depth and focus to the study.

Full responsibility for the content and accuracy of the study rests, of course, with the Commission and its staff.

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Executive Director

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Assistant Director
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Introduction

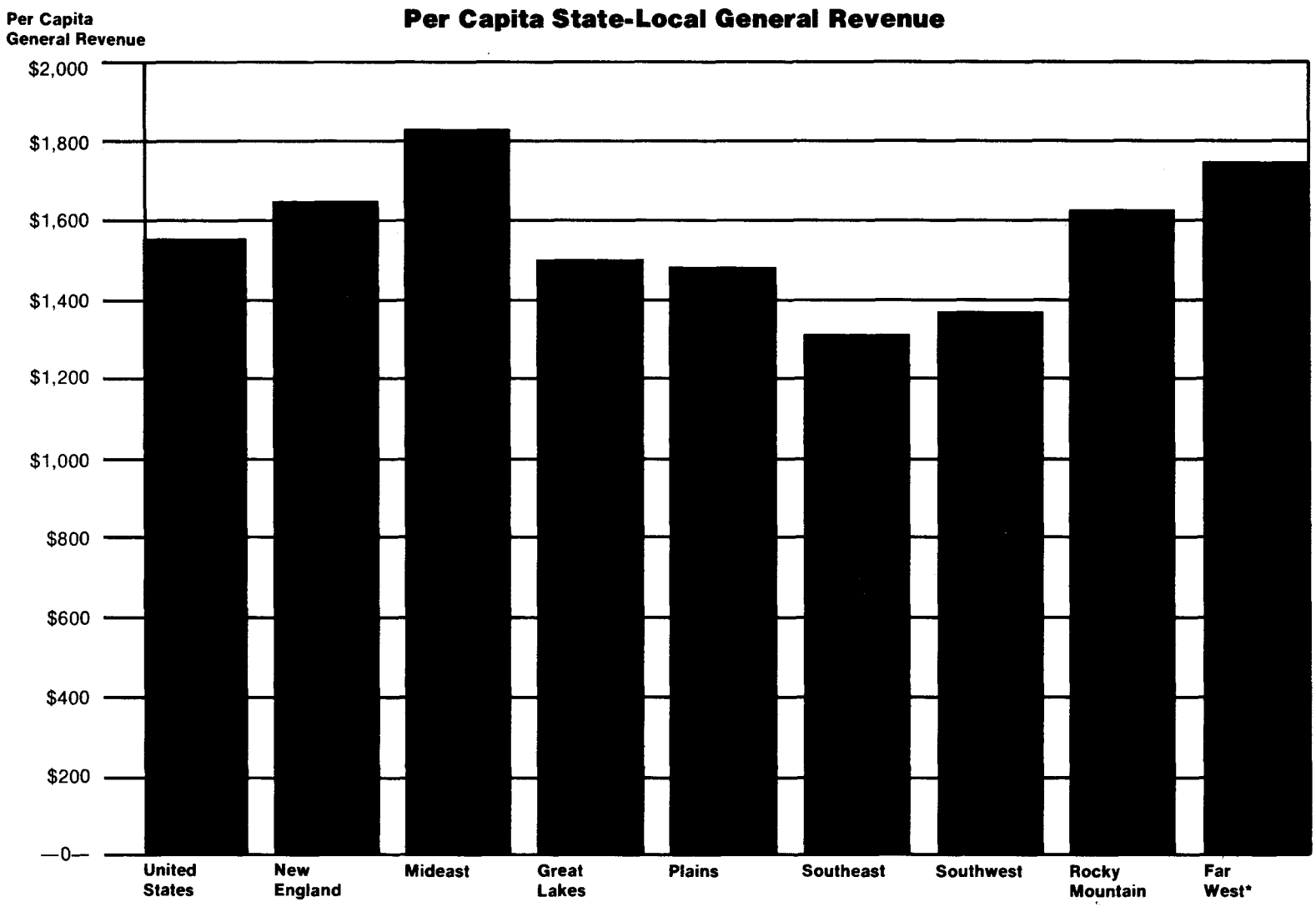
Two recessions of the 1970s activated a long-standing interest in the effect of state-local tax rate and burden differentials and industrial development incentives on regional growth and industrial location. Throughout the 1970s the "Sunbelt" states experienced economic growth while a number of the "Frostbelt" states were being hard hit by recession and seemed to be characterized by economic stagnation or decline. The Sunbelt states generally have lower tax burdens than Frostbelt states. The Sunbelt states are usually depicted as being more aggressive in pursuit of manufacturing firms. Often they allegedly are more willing to fashion tax policies to encourage industrial location.

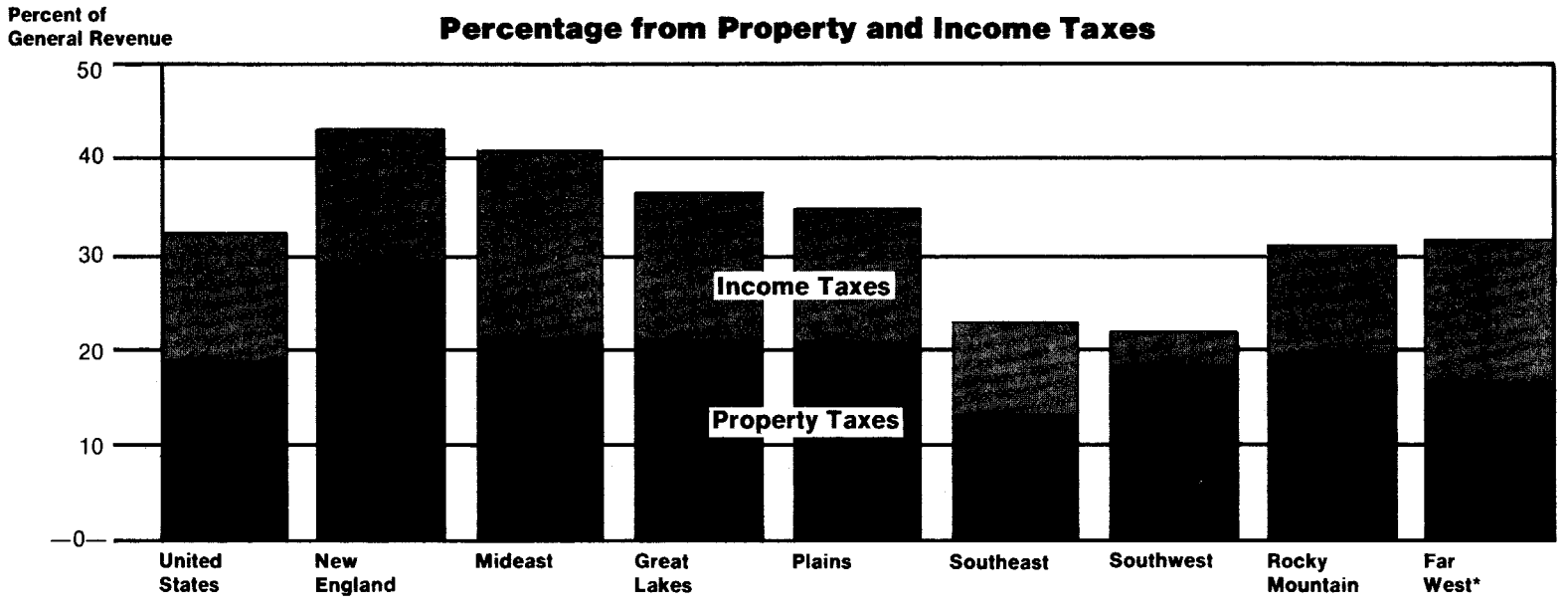
There is a persistent concern that tax-based competition for people, capital, and jobs will reach the point where many state policymakers will feel obliged to pursue a "beggar thy neighbor" strategy. Such a strategy could be harmful in two ways: (1) certain states may be vulnerable to a competing state that adopted a probusiness tax policy; and (2) the state espousing this strategy might shortchange its own citizens' public service needs.

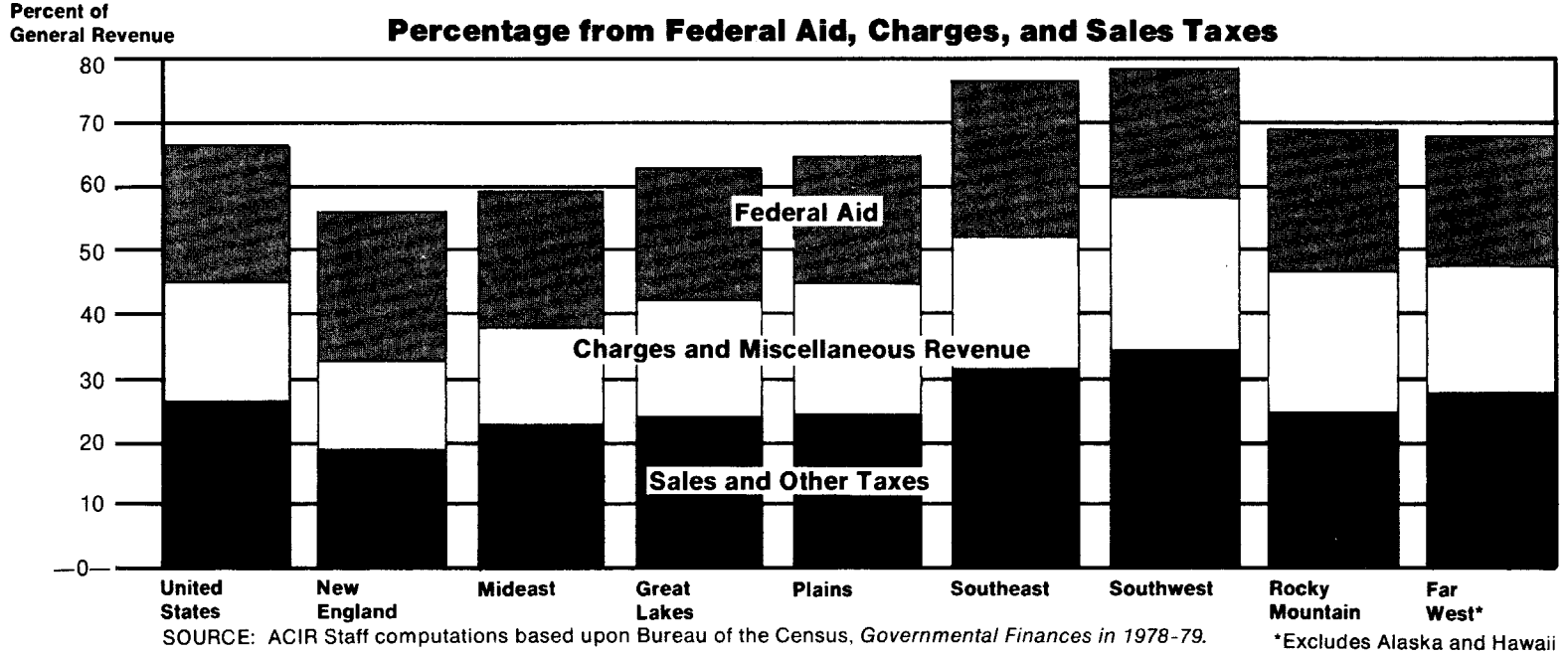
In this third study, the Commission inquires whether federal intervention is needed because interstate competition for industry has reached a point that is demonstrably adverse to the economic health of the states and the nation. Neither appropriate state policy toward localities nor voluntary regional initiatives among the states has been researched.

Note: There are significant regional variations in both the weight and mix of taxes. See the *chart* on pages two and three.

REGIONAL REVENUE STRATEGIES, 1978-79







SOURCE: ACIR Staff computations based upon Bureau of the Census, *Governmental Finances in 1978-79.*

*Excludes Alaska and Hawaii

FEDERAL INTERVENTION: TWO CONTRASTING VIEWS

Federal tax policies designed to reduce interstate tax competition draw adherents and antagonists on the basis of polar economic positions.

On the one hand, it can be argued that there is a close but adverse relationship between taxes and the economy—particularly at the prevailing tax levels in the United States. Following this line of reasoning, anything that holds taxes in check helps the nation prosper. Tax-based interstate competition holds down state and local taxes and is therefore desirable. It can also be argued that interstate tax competition would be even more effective if the federal government disallowed the deduction for federal income tax purposes of state and local income, general sales, and property taxes—thereby accentuating tax rate differentials and encouraging business to locate in areas with the lowest taxes.

On the other hand, it is often claimed that state and local tax levels explain very little of the shifts in the location of economic activity. By comparison, regional differentials in the wage bill usually far exceed those in a state and local tax bill. Business is guided by demand and cost. As the experience of California demonstrates, high state and local taxes, standing alone, do not drive out business. Low state and local taxes do not necessarily assure an influx of business, as the plant location data for Ohio and Missouri show. State tax policy that kowtows to business is a giveaway that both diminishes the legislature's ability to enact meaningful tax reform and deprives citizens of useful public services. Thus, the federal government needs to intervene to stop this sapping of the state-local fiscal strength.

FEDERAL INTERVENTION TESTS

How does one tell when interstate tax competition is seriously damaging the federal system? Our federal system would appear to be headed for trouble if there is clear evidence of two conditions brought on by interstate tax differentials:

a) some states are losing jobs and capital investment to other states because their tax levels are too high; and
b) the "losing" states are unable to stop this outflow over a reasonable period because the requisite tax and spending cutbacks would cause severe public service hardships.

CONCLUSIONS

The Commission concludes that state-local tax differentials, as they influence interregional development, do not currently constitute a problem for our federal system. In support of this conclusion, it is noted (a) that the facts about the movement of firms support the view that state-local tax differentials are of limited importance in interregional decisions of industrial location; (b) that current federal and state income tax policy works automatically in the direction of lessening state-local tax differentials and the intended effects of tax and fiscal concessions; and (c) that powerful economic forces that have been at work for decades underlie much of the continuing interregional redistribution of people, capital, and jobs.

The Commission further concludes that tax competition between neighboring states has not yet become a serious problem for our federal system. The Commission recognizes that within a region—and particularly between states in the same metropolitan area—interstate tax differentials can become the "swing" factor in industrial location decisions. But it notes that even in those situations where high-tax states appear to be losing industry to their low-tax neighbors, there are usually other reinforcing factors that contribute to the decision to move or to expand elsewhere. There is also evidence that the high-tax states—New York and Massachusetts in particular—are now taking action to restore their competitive position.

The Commission recognizes that the principal function of deductibility of state income, sales, and property taxes for federal income tax purposes is to keep each taxpayer's marginal income tax rate from exceeding 100%. The Commission notes that in serving this purpose, deductibility also goes a long way toward reducing distortions in the location of people, capital, and jobs that could arise if the full effects of interstate tax differentials were not muted by this federal tax policy. The Commission recommends, therefore, that the President and Congress reject any proposal to change the deductibility of major state and local taxes that does

not at the same time retain the protection against unbridled interstate tax competition.

FINDINGS

In support of the above conclusions, the Commission drew upon the following research findings.

1. Historical evidence suggests that the South's favorable tax climate has tended to reinforce more important business and social conditions responsible for the relatively strong economic growth performance of states in that region since World War II. For decades, most states in the Southeast and Southwest have enjoyed a more favorable business tax climate than have the states in the Northeast quadrant of the nation. In per capita terms, the general level of taxation in the Sunbelt states has remained well below the national average. More significantly, most of the Sunbelt states have made below average use of income and property taxes—the two taxes apparently of most concern to businessmen. Moreover, states in the Sunbelt were in the vanguard of the tax and fiscal concession movement. Despite these long- standing tax advantages, the Sunbelt's personal income disadvantage has been reduced only gradually with time. This suggests other factors were more important contributors to the economic growth of the Sunbelt states—lower wage rates; the growth of population and markets; technological developments (particularly the air conditioner); the natural resource base; the greater ease of access to markets in other regions provided by the interstate highway system; and the decline in racial discrimination as a brake on political, economic, and social participation.

2. Widespread state enactment of incentives to businesses in the 1960s and the 1970s has tended to neutralize their "pulling" power. The vast majority of states now authorize an array of financial incentives to attract new and expanding industry. Industrial development bond financing is now available in all but five states. Two-thirds of the states authorize the property tax exemption of raw materials used in manufacturing. Thus, the widespread availability of inducements means they have probably lost some of their effectiveness as a factor differentiating between locations in most states. Existing incentives are likely to remain on the statute books for their symbolic value if not their actual pulling power. The dispute over whether or not incentives are needed to enhance a state's competitive position frequently diverts attention from (a) the costs for sites, labor, transportation, and other services, and (b) whether regional trends in these costs are likely to narrow or expand the differences in economic well-being among regions.

3. While much of the publicity over competition for industry focuses on Frostbelt vs. Sunbelt, states within regions are frequently the fiercest competitors. Competition for auto plants is probably keener among Great Lakes states than between a Frostbelt state and a Sunbelt state. Massachusetts, a high-tax station, faces tougher competition from neighboring New Hampshire than from Sunbelt states. Similarly, both New York State and New York City, characterized by heavy reliance on personal income taxes, face the toughest tax competition from neighboring Connecticut, a state with no personal income tax.

4. Officials, industrialists, and economists disagree heartily on whether state tax and fiscal incentives can influence industrial location decisions. Supporters argue that incentives:

a) are a prompt and available means of reducing business costs;
b) can prove to be the swing factor in close location decisions;
c) can offset other adverse factors;
d) have a symbolic value to businessmen, as a pledge of community support and understanding;
e) can encourage firms to expand at home rather than elsewhere; and
f) are self-correcting when used to excess because they are harmful only to the decisionmaking donor state—not to the nation—when they are too generous.

Opponents argue that incentives:

a) are ineffective development tools because they cannot outweigh regional wage, raw material, and transportation cost differentials in locational considerations;
b) frequently discriminate unfairly between the new and the established firm;
c) can sap revenues that would help to achieve other state and local fiscal policy objectives—such as taxpayer equity, ease of administration, or locational neutrality

as between locations within a state;

d) distort decisions made by firms on how to produce and thereby adversely affect economic efficiency;
e) are substantially diluted by the operation of the federal income tax; and
f) inefficiently shift industry location among regions without necessarily contributing to economic expansion.

5. Major manufacturing establishments (those with 20 or more employees) do not generally pick up and move from one region to another or from state to state. Firms may shift the locus of their manufacturing activities by setting up a new branch plant rather than by expanding at the old home plant.

ACIR's analysis of the data for 1969 and 1976, from the Dun's Market Identifiers (DMI) file of Dun & Bradstreet, Inc., indicates that in 1976 only 554 major manufacturing establishments were located in a state other than where they were in 1969 (when there were about 140,000 such establishments). Although a substantial part of this movement was intraregional, New England and Mideast states did lose more establishments to the Southeast states than to other states in their own region. *Table 1.*

6. The creation of branches and new single manufacturing establishments suggest that shifts in the location of manufacturing employment are gradual and are enmeshed in longstanding and broad forces of economic adjustment rather than being due to sudden and dramatically successful manipulation of development devices by states. Manufacturing activity responds to movement of people and markets and is subject to shifts in product demands and relative costs across economic sectors—not only to fixed differences in costs or resources across regions. The data on the location of new manufacturing establishments set up between 1969 and 1976 support the view that much of the regional shift in the locus of manufacturing activity and employment reflects long-term economic trends that have been responsive to lower wages and easier access to raw materials, closeness to energy sources, and to expanding markets. Between 1969 and 1976, the Southeast, Southwest, and Far West regions obtained a larger share of births of major new manufacturing establishments than their proportion of such establishments in 1969. While other regions did not fare as well, they were far from stagnant in terms of new establishment births. *Table 2.*

7. States have been able to make varying decisions about reliance on and use of tax policy strategies in the competition to attract and hold manufacturing industry. Not all states have been forced into identical policies by competition. States can decide to forebear in their use of devices and take their chances in interstate tax-based competition for industry. Alternatively, they can grant tax and fiscal concessions, use nontax attractions to enhance their business climate, and use a state development agency to marshal facts about specific sites for recruiting specific industrial prospects. States also have the ability to partially counteract, and sometimes deter, any sister state's attempt to exploit a tax or fiscal advantage. Recent efforts by New York and Massachusetts to bring their taxing and spending policies under tighter control demonstrate the variety of policy options open to states.

8. Federal and state income tax provisions that permit business to write-off state and local taxes diminish the importance of any tax liability differences. One of the least publicized effects of current federal policy is the mitigating influence of the federal income tax on the inevitable differences in state and local tax rates. In income tax states, state tax provisions perform a similar but quantitatively smaller role with respect to local tax differences. For every dollar of state or local tax given up, the business gains less than one dollar in overall tax relief.

As long as current federal and state income tax policy continues to allow the write-off of taxes on business, state and local policymakers will recognize the possibility that a policy favoring business may result in more public revenue foregone or more public expenditures incurred than is necessary or justified to attract a manufacturing plant to locate or expand in a particular community.

9. State and local policymakers increasingly confront the issue of whether more manufacturing industry will bring too costly an increase in demand for public services and facilities. A state or locality that successfully attracts industry and people sows the seeds for a change in the scope and level of public sector activities. There are limits to the availability of scale economies from greater utilization of existing public facilities and services.

Table 1

NUMBER OF MANUFACTURING[1] ESTABLISHMENTS LOCATED IN A DIFFERENT REGION IN 1976 THAN IN 1969

Regions Losing Establishments	REGIONS GAINING ESTABLISHMENTS									Estimated Number of Manufacturing Establishments as of 1969
	New England	Mid-East	Great Lakes	Plains	South-East	South-West	Rocky Mountains	Far West	Total Loss	
New England	36[2]	5	3	0	12	0	0	4	60	10,050
Mideast	34	48	18	4	88	11	0	23	226	35,898
Great Lakes	5	10	29	10	41	14	8	8	125	28,919
Plains	1	0	4	12	8	4	1	4	34	9,902
Southeast	2	2	3	2	18	4	1	2	34	21,907
Southwest	1	0	1	2	6	6	2	2	20	9,847
Rocky Mountains	0	0	1	0	0	2	1	0	4	2,735
Far West	0	5	2	1	8	8	6	21	51	20,835
Total Gain	79	70	61	31	181	49	19	64		140,093

554 = Total moves

Note: "Far West" includes Alaska and Hawaii.

[1]Establishments classified in Standard Industrial Classification (SIC) codes 20,22-39,48,and 73 having 20 or more employees.

[2]This and other entries showing simultaneous gains and losses for a single region refer to the number of establishments that moved from one state in the region to a different state within the same region.

SOURCE: ACIR ACCESS file.

Table 2

PERCENTAGE OF 1969 ESTIMATED BASE OF MAJOR MANUFACTURING ESTABLISHMENTS AND EMPLOYMENT, BY REGION, AND PERCENTAGE OF ESTABLISHMENT BIRTHS, AND EMPLOYMENT, BY REGION, 1969-76[1]

Region	Estimated Establishments[2] 1969	Percent of Establishments 1969	Percent of Establishment Births	Estimated Employment 1969	Percent of Employment 1969	Percent Employment in New Establishments
United States	140,093	100.00%	100.00%	15,252,753	100.00%	100.00%
New England	10,051	7.17	6.48	1,340,183	8.79	6.32
Mideast	35,897	25.62	19.53	3,665,889	24.03	17.88
Great Lakes	28,918	20.64	19.15	4,159,735	27.27	23.22
Plains	9,902	7.07	5.90	926,465	6.07	5.73
Southeast	21,907	15.64	22.39	2,867,792	18.80	24.49
Southwest	9,847	7.03	8.40	669,945	4.39	7.25
Rocky Mountain	2,736	1.95	1.88	151,153	0.99	1.41
Far West	20,835	14.87	16.26	1,417,591	9.65	13.70

[1]Establishments in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73, having 20 or more employees.

[2]This is an estimate based on the relationship of all establishments to those with 20 or more employees.

Detail may not add to total because of rounding.

SOURCE: ACIR ACCESS File.

10. Short of highly coercive or discriminatory legislation, Congress appears to have no ready means to prohibit states from using tax and fiscal measures to try to enhance their individual development prospects. Although Congress' Constitutional mandate to regulate commerce is clear, it has been loathe historically to interfere with the taxing powers of the states. The courts, on their part, have allowed states wide discretion in the exercise of their taxing powers. The deductibility of state and local income, property, and general sales taxes for federal income tax purposes also mutes the possible competitive payoff to states from manipulation of their mix of taxes—income, property, or sales—or the structure of the income tax.

11. There is growing concern that the energy rich states will replace income, property, and sales taxes paid by their own residents and businesses with taxes on oil, gas, and coal that are exported to residents and businesses of other states. If this concern materializes, the differences in state taxes can be expected to have far more significance on the location of people, capital, and jobs than has been the case to date. Among the energy rich states, Texas stands out as having a favorable business tax situation because it has neither a personal nor a corporate net income tax. The potential replacement of sales and income taxes in other severance tax states may strongly enhance their industrial growth prospects.

Chapter 2

The Sources of Discontent

The persistent growth of manufacturing employment in the Southeast and Southwest states and the relative stagnation and decline of manufacturing employment in the New England, Mideast, and Great Lakes states has led to the suggestion that the national government adopt policies designed to reduce regional variations in the rate of growth of manufacturing jobs.

Tax rate and burden differentials are frequently cited as a reason for the regional growth variations. For example, Ralph Widner, Director of the Academy for the Study of Contemporary Problems, identified the difficulty for the Northeast Governors in the following terms:

> Along with its sister states in the industrial Midwest, the Northeast possesses some of the highest wage rates; some of the highest land costs; some of the highest tax burdens; and the greatest load of obsolescense in manufacturing plants, public facilities, and housing; among the highest energy costs; some of the most serious problems of institutional rigidity in the nation. Under past conditions, these costs were tolerable because the benefits of the Northeastern location outweighed the costs. No more. The locational advantages are not nearly so great as they once were. Result: Costs are exceeding benefits and the flow of capital is in other directions.

Taxes stand out on Widner's list as one of the principal items within the control of state policy-

makers, as well as one where states have frequently sought to gain competitive advantage in the contest for economic development.

Three arguments are advanced for considering federal intervention in state policymaking designed to attract people, capital, and jobs. Intergovernmental relations figure prominently only in the first.

THE "SAVE THE STATES FROM THEMSELVES" ARGUMENT

Much of the concern about tax-based state competition for industry stems from the belief that state-local policymakers cannot resist arguments for business tax breaks. For obvious reasons, few companies that are pondering a location for a new plant give an impression of indifference to taxes. On the contrary, business regularly transmits its deep concern about the tax question to state and local policymakers. As Jonathan Rowe described the situation, "No public official wants to be perceived as having the blood of a runaway plant on his or her hands." Those who are alarmed by the competition believe that the result will be: (a) state-local tax systems of the "least common denominator" variety—that is, with minimum reliance on ability-to-pay, income-based taxation; (b) a progressive shift of state-local taxation from levies on business to levies on individuals and families; and (c) deficiencies in state and local expenditure programs.

In some states the course of tax policy can be read as the fruits of interstate tax competition. For example, the "least common denominator" effect can be implied in the opposition to income taxation in the nine states which do not have this tax, in the hard-fought battle against an income tax in New Jersey, the existence of flat-rate state income taxes in Illinois and Pennsylvania, and in the campaign against capital gains taxation and for a reduction in rates for high-income brackets in New York. Proposition 13 in California and limits on state and local budgets elsewhere have been attributed in part to fear of adverse business tax climates.

The ante in the game of industrial sweepstakes apparently can be continually raised. One firm can use the incentives available in its home state as a bargaining chip in every state in which it might locate a new branch plant on purely economic grounds. In the absence of concrete evidence of their effectiveness, the apparent proliferation of industrial development subsidies would seem to indicate that the defensive use of such subsidies is on the upswing. While it can be argued that proliferation robs incentives of their effectiveness, the concern about their effects is not limited to resentment over being forced into defensive concessions. Concern also compasses the possibility that their availability involves adverse welfare effects— inequities in taxation and deficiencies in public expenditure programs.

A Massachusetts state legislator described the public policy effect on expenditures as follows:

> The first demand of the business community in Snowbelt states is for reductions in state and local spending. This usually means cutbacks in spending on human service programs. . . . Business leaders who demand reduced state spending may not wish to see welfare recipients hurt, but they rarely participate in efforts to find more humane budget cuts.[1]

The tax consequences of adherence to a business tax policy posture, according to the Massachusetts legislator, takes the following form:

> . . . the business community's pressure on the states is to make state tax structures less progressive. In addition to pressing for generally lower spending and tax practices, the business community has demanded a disproportionate share of tax relief to itself, in both its corporate and its individual capacities.[2]

Although some tax concessions are self-limiting, the general concept of business tax relief is not. The pressure for an extension of tax concessions to business and individuals need never abate when proponents argue that the "tax breaks" do not shift taxes because they promote prosperity for everyone.

Moreover, to the extent that states undercut their tax capacity by adopting offensive and defensive business tax breaks, they tend to strengthen the argument for greater federal aid on the grounds that the federal government is not vulnerable to this type of cut-throat competition.

THE "ZERO-SUM GAME" ARGUMENT

The second argument for consideration of federal intervention to curb tax-based state competition

for industry is largely economic and has produced a substantial body of literature.

Economists view state business tax policies through the prism of national economic growth. From this perspective, state tax strategies to appeal to business do virtually nothing to stimulate the aggregate national demand for goods and services; nor do state tax and fiscal incentives save on the real resources needed to maintain business activity. Across all states and localities, separate state-local tax and fiscal incentives are not an effective substitute for aggregate demand stimulation, increased investment, or improved productivity. According to this view, policymakers who expect a quick pay-off at home, from foregone business taxes or subsidies to business plant and equipment, are misguided.

Economic development—the basic rationale for interjurisdictional tax competition—is a long-term process. The results of foregoing business taxes or providing incentives are generally neither noticeable nor measurable until long after the fact, and the attribution of any causal relationship between a tax policy and manufacturing employment is highly speculative.

Moreover, from the national perspective, interstate competition for manufacturing industry represents a "zero-sum" game. The growth of manufacturing employment depends on the current state of the economy—one that reflects revenue prospects as well as cost probabilities. Seldom do state tax and fiscal incentives influence any of the national concerns for economic development. One analyst asked ". . . how can any desired distribution of economic activity be accomplished through them [state fiscal incentives to industry] if they are being used nationally to underwrite conflicting patterns of economic development?"[3]

In recent years the national economy has been characterized by an absolute and relative decline in manufacturing employment. Thus, when states compete with one another for manufacturing industry they are largely engaged in shifting its location—assuming their tax and fiscal incentives are effective in doing even this for a state.

THE INTERNATIONAL TRADE ARGUMENT

The third argument for considering federal intervention in state tax policies designed to attract industry deals with international relations.

Although states originally competed with each other largely over domestic manufacturers and their plants, the multinational firm is increasingly the target of state development activity. Auto industry investment stands out as a prime example of this tendency. Pennsylvania put together a combination of incentives to attract the new Volkswagen North American plant. Ohio has done the same for Japanese automobile manufacturers. Competition over the estimated $50-$60 billion in new investment by U.S. automakers through the mid 1980s to meet U.S. fuel-efficiency standards has led to urgent discussion between U.S. and Canadian officials.[4]

Late in 1978, the Canadian government, in conjunction with Ontario, offered the Ford Motor Company an inducement of $68 million to build a new plant in Ontario rather than in Ohio or Michigan. When the U.S. government strongly objected, the Canadians maintained that their intervention was necessary to match what Ohio had offered Ford.

Federal officials on both sides of the border expressed concern about the situation. Asst. Secy. of the Treasury C. Fred Bergsten wrote to ACIR noting that such practices (a) can result in an uneconomical allocation of resources and hence less output and income for the world as a whole, and (b) may artificially divert the benefits from investments from one political jurisdiction to another, leading possibly to the kind of "beggar-thy-neighbor" competition that took place in the trade and exchange rate areas in the 1930s. He noted the announcement by Jack H. Horner, the Canadian Minister for Industry, Trade and Commerce, that his government's position is that

> . . . its involvement in competitive subsidization with the U.S. federal, state, or municipal governments is a costly, no-win proposition for the governments. Such intervention in the investment decisionmaking process will lead to uneconomic decisions.[5]

On December 3, 1978, *The New York Times* reported that, "New York, New England, and the Midwestern states can expect greatly increased competition from Ontario as the struggle for regional economic development stiffens in the coming months and years," according to Ontario's Premier, William D. Davis. "It's a game that I don't think should be played but if it is going to be

played, we're going to be a real part of it."[6] Mr. Davis' remarks indicate that competition for industry has been extended from the issue of how one state can protect itself from another to how subnational governments of two separate nations can compete against each other.

State policies to lure industry cause the national government discomfort when dealing with foreign governments on the investment subsidy issue. Federal intervention against state and local tax and fiscal concessions could be supported on grounds that such concessions compromise the U.S. position in trade and investment negotiations. The U.S. cannot argue for the reduction of subsidies to their exporters by foreign countries on the grounds that the U.S. does not grant such subsidies. From the foreign government perspective, the niceties of American federalism have nothing to do with the fact that state and local tax and fiscal concessions are determined not by the national government but by officials of subnational governments.

The U.S. negotiating position can be weakened by the autonomy of state and local tax and fiscal policymaking. It can be argued that the progressive integration of the world's economy now supports the contention that the international economic interests of the U.S. have taken on so much significance that state and local tax autonomy has to give way to the national need.

* * * *

Because of the Commission's intergovernmental focus, the main interest of this report is in consideration of the "Save the States from Themselves" argument. The idea that federal intervention is necessary to save the states from themselves bristles with intergovernmental implications.

In contrast to the arguments marshaled in favor of federal intervention to mute state-local tax effects for the industrial location purposes, four arguments are advanced against any change in current federal policy. The following chapters treat each of these arguments separately.

FOOTNOTES

[1]Barney Frank, "Sorry States," *The New Republic,* Washington, DC, December 29, 1979, pp. 7-10.
[2]*Ibid.*
[3]Ralph Widner and Gary C. Cornia, "Interstate Tax Competition," *Proceedings of the Seventy First Annual Conference on Taxation,* NTA-TIA, Columbus, OH, 1979, p. 50.
[4]Letter and accompanying materials from Asst. U.S. Treasury Secy. C. Fred Bergsten to ACIR Ex. Dir. Wayne F. Anderson, May 24, 1979.
[5]Andrew H. Malcolm, "Ontario Welcoming Concerns from U.S.," *The New York Times,* December 3, 1978.
[6]*Op. Cit.,* letter from C. Fred Bergsten.

Chapter 3

Current Federal Policy Effects

One of the least publicized effects of current federal income tax policy is its mitigating influence on the differences in state and local tax rates and tax burdens from region to region, state to state, community to community, and, indeed, individual to individual. The regional and state aspects of these results are the focus of this chapter.

REGIONAL RATE AND BURDEN DIFFERENTIALS

The American federal system has long been characterized by wide differences in tax rates and tax burdens from region to region and state to state. As a rule, the states in the Southeast and Southwest regions have been able to get by with lower property, personal income, and general sales taxes than have states in other regions—particularly states in New England, Mideast, and Great Lakes regions—as the following tables show. *Tables 3-5.*

Although the states of the Southeast and Southwest regions have imposed taxes at rates generally lower than those of states in other regions, in an earlier period the burden of taxes in relation to income was generally unfavorable in the Sunbelt regions vis-a-vis other regions. This circumstance was more attributable to the Sunbelt's low personal income relative to the national average than to its tax rates. As the Sunbelt's personal income level has converged toward the national average, its tax burden in relation to income has dropped. *Table 6.*

Thus, the Sunbelt states as a group now enjoy the advantages of having both lower tax rates and

Table 3

RANGE OF EFFECTIVE REAL ESTATE TAX RATES, BY REGION, 1958, 1971, 1978[1] (in percent)

Region	1978	1971	1958
New England	1.58 to 3.64	2.21 to 3.14	1.44 to 2.21
Mideast	0.89 to 3.30	1.26 to 3.01	0.71 to 2.09
Great Lakes	1.20 to 2.63	1.47 to 3.01	0.84 to 1.82
Plains	1.18 to 2.43	1.79 to 3.15	1.12 to 2.01
Southeast	0.47 to 1.48	0.69 to 1.58	0.48 to 0.97
Southwest	0.95 to 1.69	1.35 to 1.91	0.86 to 2.14
Rocky Mountain	0.76 to 1.74	1.38 to 2.45	1.05 to 1.72
Far West	1.72 to 2.26	0.92 to 2.48	0.62 to 1.55
U.S. Average	1.56	1.98	1.34

[1]Measured as a percent of market value for existing single family homes with FHA-insured mortgage.
SOURCE: ACIR staff computations.

Table 4

RANGE OF EFFECTIVE STATE PERSONAL INCOME TAX RATES, BY REGION, 1953, 1963, 1977[1] (in percent)

Region	1977	1963	1953
New England	2.1 to 4.0	1.6 to 5.0	1.7 to 3.9
Mideast	1.7 to 4.7	2.3 to 5.2	1.5 to 4.4
Great Lakes	1.4 to 5.6	1.7 to 5.7	4.8
Plains	2.0 to 6.7	1.7 to 5.4	1.4 to 4.6
Southeast	1.0 to 3.9	0.9 to 4.6	0.9 to 4.7
Southwest	1.4 to 2.5	0.9 to 1.5	0.6 to 1.6
Rocky Mountain	2.6 to 3.6	2.6 to 4.7	1.9 to 2.8
Far West	2.5 to 4.3	1.7 to 4.3	1.1 to 3.4
U.S. Average	2.7	2.8	2.5

[1]Measured for a married couple with two dependents and $25,000 adjusted gross income.
SOURCE: ACIR staff computations.

lower average tax burdens than do other states—two tax features that can reinforce other factors weighed by business in making its location decisions. Moreover, their heavier relative emphasis on sales taxes and their comparatively light use of personal income and property taxes tend to appeal more to the tax philosophy ascribed generally to business persons.

THE STATE PERSONAL INCOME TAX ISSUE

Although the emphasis on business taxes dominates the discussion of interstate tax competition for industry, the state personal income tax appears to be gaining in importance among the perceived tax factors influencing location decisions.

A Houston, TX, Chamber of Commerce official pointed out that:

> "Houston has not found the need to stimulate its economy artificially by the granting of special tax moratoriums on property taxes or the offering of industrial bonds through special economic development corporations. The major tax incentive is the lack of a state or local income tax."[1]

A businessman who moved his operation from New York to Texas pointed out, "I can bring in an executive and he will get a 20 percent boost in income after expenses, even at the same salary he earned elsewhere."[2]

This development suggests one area in which a change in federal policy could be implemented.

The essential question is whether the federal government should adopt a pro-state personal income tax approach that would ease the tax climate concerns of states that rely heavily on state income taxes. This approach would discourage substitution of sales for income taxes and encourage non-income tax states to join the state income tax ranks. For example, a relatively mild incentive would be to disallow the deductibility of the sales tax for federal income tax purposes. A strong federal incentive, in contrast, would call on the federal government to provide a preferential tax credit for state personal income taxes paid.

In contrast to the emphasis on ameliorating the influence of the state income tax differential, federal tax reformers have repeatedly advocated the elimination of the deductibility of state and local taxes matched with a commensurate reduction in the federal tax rates.

Implementation of this proposal to enhance horizontal equity (equity among persons in the same income class) would constitute a severe blow to high-income tax states, such as New York and Massachusetts, with low tax neighbors. High-income tax states would be completely exposed to the competition from border states that either

Table 5

RANGE OF STATE GENERAL SALES TAX RATES, BY REGION, 1976, 1966, 1956 (in percent)

Region	1976	1966	1956
New England	3.0 to 7.0	3.5 to 4.0	2.0 to 3.5
Mideast	4.0 to 6.0	2.0 to 5.0	2.0 to 3.0
Great Lakes	4.0	2.0 to 4.0	0.5 to 3.0
Plains	2.5 to 4.0	2.0 to 3.0	2.0 to 2.5
Southeast	3.0 to 5.0	2.0 to 4.0	2.0 to 3.0
Southwest	2.0 to 4.0	2.0 to 3.0	2.0
Rocky Mountain	3.0 to 4.0	2.5 to 3.0	2.0
Far West	3.0 to 4.75	2.0 to 4.2	2.0 to 3.3
U.S. Modal Rate	4	3	2

SOURCE: ACIR staff compilations.

Table 6

STATE AND LOCAL TAX REVENUE IN RELATION TO STATE PERSONAL INCOME, BY STATE AND REGION, SELECTED YEARS, 1953-78
(Tax revenue as a percent of personal income)

Region and State	1978	1977	1975	1965	1953	Annual Average Percent Increase or Decrease (–) 1975-78	1965-75	1953-65
United States	12.75	12.80	12.29	10.45	7.58	1.2	1.6	2.7
New England	13.49	13.59	12.79	9.97	7.90	1.8	2.5	2.0
Connecticut	11.64	12.00	10.82	9.08	6.06	2.5	1.8	3.4
Maine	13.29	12.44	12.59	10.98	8.95	1.8	1.4	1.7
Massachusetts	15.11	15.14	14.20	10.21	8.77	2.1	3.4	1.3
New Hampshire	10.51	10.62	10.75	9.51	8.28	– 0.8	1.2	1.2
Rhode Island	12.52	12.64	11.94	10.19	7.02	1.6	1.6	3.2
Vermont	14.48	15.18	15.46	12.72	9.62	– 2.2	2.0	2.4
Mideast[1]	14.50	14.66	13.94	10.54	7.46	1.3	2.8	2.9
Delaware	12.28	11.80	11.66	8.98	4.21	1.7	2.6	6.5
Maryland	13.01	12.95	12.26	9.34	6.33	2.0	2.8	3.3
New Jersey	12.42	12.61	11.59	9.07	6.59	2.3	2.5	2.7
New York	17.19	17.68	16.65	11.87	8.79	1.1	3.4	2.5
Pennsylvania	12.25	11.88	11.68	9.47	6.17	1.6	2.1	3.6
Great Lakes	11.60	11.72	11.35	9.73	6.78	0.7	1.6	3.1
Illinois	11.80	11.73	11.73	8.89	6.37	0.2	2.8	2.8
Indiana	10.30	10.54	11.15	10.24	7.08	– 2.6	0.9	3.1
Michigan	12.67	13.04	11.66	10.67	7.31	2.8	0.9	3.2
Ohio	9.93	10.00	9.69	8.64	5.87	0.8	2.0	3.3
Wisconsin	14.16	14.36	13.83	12.55	8.91	0.8	1.0	2.9
Plains	11.77	12.14	11.73	10.83	8.25	0.1	0.8	2.3
Iowa	11.62	12.03	12.14	11.63	9.22	– 1.5	0.4	2.0
Kansas	11.29	11.32	10.86	11.70	8.71	1.3	– 0.7	2.5
Minnesota	14.16	14.70	13.94	12.72	9.38	0.5	0.9	2.6
Missouri	9.94	10.26	10.35	8.74	6.14	– 1.4	1.7	3.0
Nebraska	12.15	12.78	10.96	9.34	7.69	3.5	1.6	1.6
North Dakota	11.63	11.84	10.95	11.77	11.27	2.0	– 0.7	0.4
South Dakota	11.48	12.35	11.60	12.60	10.79	– 0.3	– 0.8	1.3

Southeast	11.01	10.91	10.70	10.04	7.86	1.0	0.6	2.1
Alabama	10.21	10.00	9.94	9.74	7.00	0.9	0.2	2.8
Arkansas	10.18	10.18	9.90	9.77	7.92	0.9	0.1	1.8
Florida	10.64	10.47	9.94	10.53	9.20	2.3	– 0.6	1.1
Georgia	11.26	11.15	10.79	9.96	7.67	1.4	0.8	2.2
Kentucky	11.26	11.28	11.32	9.62	6.47	– 0.2	1.6	3.4
Louisiana	12.25	12.01	12.99	12.05	10.43	– 1.9	0.8	1.2
Mississippi	11.77	11.82	11.84	11.85	9.37	– 0.2	•	2.0
North Carolina	10.93	10.98	10.58	9.97	8.25	1.1	0.6	1.6
South Carolina	11.09	10.77	10.46	9.67	8.61	2.0	0.8	1.0
Tennessee	10.74	10.73	10.04	9.71	7.32	2.3	0.3	2.4
Virginia	11.05	10.87	10.67	8.55	6.09	1.2	2.2	2.9
West Virginia	11.29	11.64	12.27	9.85	6.81	– 2.7	2.2	3.1
Southwest	11.15	11.10	11.06	10.16	7.34	0.3	0.9	2.7
Arizona	14.28	14.42	13.26	12.15	8.50	2.5	0.9	3.0
New Mexico	13.26	11.96	13.54	12.16	8.66	– 0.7	1.1	2.9
Oklahoma	10.66	10.65	10.53	10.44	9.07	0.4	0.1	1.2
Texas	10.55	10.56	10.56	9.60	6.68	*	1.0	3.1
Rocky Mountain	12.91	12.99	11.78	11.61	8.60	3.1	0.1	2.5
Colorado	12.56	12.97	11.61	11.40	8.93	2.7	0.2	2.1
Idaho	12.00	11.70	11.02	12.14	9.00	2.9	– 1.0	2.5
Montana	13.76	13.60	12.57	11.78	7.62	3.1	0.7	3.7
Utah	12.66	12.59	11.63	11.78	8.44	2.9	– 0.1	2.8
Wyoming	15.95	15.48	13.43	11.28	8.73	5.9	1.8	2.2
Far West[2]	15.13	14.84	14.07	11.79	8.34	2.5	1.8	2.9
California	15.80	15.49	14.59	11.98	8.41	2.7	2.0	3.0
Nevada	13.10	12.93	13.23	10.69	7.93	– 0.3	2.2	2.5
Oregon	12.84	12.93	12.13	10.94	8.24	1.9	1.0	2.4
Washington	12.73	12.23	12.06	11.18	8.07	1.8	0.8	2.8
Alaska	17.49	23.48	21.45	8.11	5.03[3]	12.0	4.4	4.1
Hawaii	14.02	14.07	14.44	11.72	8.23[3]	– 1.0	2.1	3.0
Exhibit: District of Columbia	13.63	13.05	10.67	8.09	5.90	8.5	2.8	2.7

*Less than 0.05%.
[1]Excluding the District of Columbia.
[2]Excluding Alaska and Hawaii.
[3]Estimated, based on the U.S. average change between 1953 and 1957 (the earliest year readily available).
SOURCE: ACIR staff compilation based on U.S. Department of Commerce, Office of Business Economics, *Survey of Current Business,* various years; and Bureau of the Census, *Governmental Finances,* various years.

have no income tax or make relatively light use of income taxes. Upper income people—especially those residing in a metropolitan area that overlaps this interstate situation—would consider moving to the lower tax states for the purpose of minimizing taxes.

The allowance of state and local tax payments as a business expense for income tax purposes, and the deductibility of income, property, and sales taxes for federal individual income tax purposes, effectively reduces the rates of state and local taxes to well below their nominal levels and mutes interstate tax differentials. This federal tax policy also deters states from offering excessive tax concessions in the knowledge that the taxpayer will not benefit to the full extent of the revenue the states and localities forego.

THE MITIGATING INFLUENCE OF FEDERAL DEDUCTIBILITY

A study for the Federal Reserve Bank of Boston found substantial differences in state and local tax burdens for hypothetical higher income families in different parts of the United States. The study noted, however, that "deduction of these taxes from the federal income tax greatly diminishes this

Table 7

COMPARISON OF 1977 PERSONAL TAXES IN SELECTED STATES, $50,000 INCOME

States	Total	State and Local Taxes As Percent of Income	Index[a]	Total	State, Local, and Federal Taxes As Percent of Income	Index[a]
Arizona	$3,863	7.7%	.74	$13,946	27.9%	95
California	5,998	12.0	1.14	15,182	30.4	1.03
Colorado	4,355	8.7	.83	14,231	28.5	.96
Connecticut	4,257	8.5	.81	14,175	28.4	.96
Georgia	4,590	9.2	.88	14,368	28.7	.97
Illinois	3,986	8.0	.76	14,017	28.0	.95
Indiana	4,390	8.8	.84	14,252	28.5	.97
Kentucky	4,789	9.6	.91	14,483	29.0	.98
Maine	5,996	12.0	1.14	15,180	30.4	1.03
Massachusetts	7,205	14.4	1.37	15,885	31.8	1.08
Michigan	4,602	9.2	.88	14,374	28.8	.97
Minnesota	7,404	14.8	1.41	16,000	32.0	1.08
New Hampshire	3,496	7.0	.67	13,739	27.5	.93
New Jersey	6,628	13.3	1.26	15,560	31.1	1.05
New York	8.555	17.1	1.63	16,694	33.4	1.13
North Carolina	4,126	8.3	.79	14,098	28.2	.96
Ohio	4,086	8.1	.78	14,075	28.2	.95
Pennsylvania	5,875	11.8	1.12	15,113	30.2	1.02
Rhode Island	6,317	12.6	1.21	15,375	30.8	1.04
Texas	2,777	5.6	.53	13,343	26.7	.90
Vermont	4,989	10.0	.95	14,599	29.2	.99
Wisconsin	7,044	14.1	1.34	15,787	31.6	1.07
Average	$5,242	10.5	1.00	$14,749	29.5	1.00

[a]Total personal taxes relative to the average.

SOURCE: Ecker, Deborah S. And Syron, Richard F., "Personal Taxes and Interstate Competition for High Technology Industries," *New England Economic Review*, September/October 1979, Boston, MA, Federal Reserve Bank of Boston, 1979, p. 29.

Table 8

A COMPARISON OF STATE AND FEDERAL INCOME TAX EFFECTIVE RATES WITH AND WITHOUT FEDERAL DEDUCTIBILITY OF STATE INCOME TAXES— MARRIED COUPLE WITH TWO DEPENDENTS, WITH $50,000 ADJUSTED GROSS INCOME,[1] BY STATE, 1977

Region and State	State and Federal Effective Rates (current law)			Combined State and Federal Effective Rate If There Were No Federal Deduction for State Income Tax	Percentage Point Decrease in Total Effective Rate Due To Federal Deductibility
	Total	State	Federal		
United States			23.3		
New England					
Connecticut	23.3	--	23.3	23.3	N.A.
Maine	25.9	4.7	21.2	28.0	2.1
Massachusetts	25.8	4.6	21.2	27.9	2.1
New Hampshire	23.3	--	23.3	23.3	N.A.
Rhode Island	25.3	3.7	21.6	27.0	1.7
Vermont	26.1	5.2	20.9	28.5	2.4
Mideast					
Delaware	27.2	7.1	20.1	30.4	3.2
District of Columbia	27.1	7.0	20.1	30.3	3.2
Maryland	25.4	3.8	21.6	27.1	1.7
New Jersey	24.4	2.1	22.3	25.4	1.0
New York	28.0	8.5	19.5	31.8	3.8
Pennsylvania	24.4	2.0	22.4	25.3	0.9
Great Lakes					
Illinois	24.6	2.3	22.3	25.6	1.0
Indiana	24.3	1.9	22.4	25.2	0.9
Michigan	24.7	2.6	22.1	25.9	1.2
Ohio	24.5	2.3	22.2	25.6	1.1
Wisconsin	27.4	7.4	20.0	30.7	3.3
Plains					
Iowa	25.8	4.5	21.3	27.8	2.0
Kansas	25.0	3.1	21.9	26.4	1.4
Minnesota	27.7	7.9	19.8	31.2	3.5
Missouri	24.8	2.8	22.0	26.1	1.3

Nebraska	25.7	3.8	21.9	27.1	1.4
North Dakota	25.7	4.3	21.4	27.6	1.9
South Dakota	23.3	--	23.3	23.3	N.A.
Southeast					
Alabama	24.7	2.6	22.1	25.9	1.2
Arkansas	25.8	4.5	21.3	27.8	2.0
Florida	23.3	--	23.3	23.3	N.A.
Georgia	25.5	4.0	21.5	27.3	1.8
Kentucky	25.1	3.2	21.9	26.5	1.4
Louisiana	24.2	1.6	22.6	24.9	0.7
Mississippi	24.8	2.7	22.1	26.0	1.2
North Carolina	26.1	5.1	21.0	28.4	2.3
South Carolina	25.9	4.8	21.1	28.1	2.2
Tennessee	23.3	--	23.3	23.3	N.A.
Virginia	25.5	4.1	21.4	27.4	1.9
West Virginia	24.9	3.0	21.9	26.3	1.4
Southwest					
Arizona	25.2	3.4	21.8	26.7	1.5
New Mexico	25.3	3.6	21.7	26.9	1.6
Oklahoma	25.2	3.4	21.8	26.7	1.5
Texas	23.3	--	23.3	23.3	N.A.
Rocky Mountain					
Colorado	25.2	3.5	21.7	26.8	1.6
Idaho	26.1	5.1	21.0	21.4	1.7
Montana	26.0	4.9	21.1	28.2	2.2
Utah	25.4	3.9	21.5	27.2	1.8
Wyoming	23.3	--	23.3	23.3	N.A.
Far West					
California	26.4	5.6	20.8	28.9	2.5
Nevada	23.3	--	23.3	23.3	N.A.
Oregon	26.7	6.2	20.5	29.5	2.8
Washington	23.3	--	23.3	23.3	N.A.
Alaska	25.7	4.4	21.3	27.7	2.0
Hawaii	26.6	6.0	20.6	29.3	2.7

[1]All income is assumed to be from wages and salaries earned by one spouse. Limited personal income taxes are excluded such as those in Connecticut on capital gains and dividends and in New Hampshire and Tennessee on interest and dividends.

N.A.—Not applicable.

SOURCE: ACIR staff computations.

variation since it transfers much of the high tax burden in the northern industrial states to the federal tax base."[3] For example, at the $50,000 income level, among 22 states with a heavy concentration of high technology industries, the lowest tax state was 53% of the average when only state and local taxes were considered. The highest tax state was 163% of the average when only state and local taxes were considered. But when the comparison took into account the federal income tax, the range of tax burdens for the hypothetical family narrowed to 90% of average in the lowest tax state and 113% of average in the highest tax state. *Table. 7.*

The Boston Federal Reserve Bank study further noted that at the $50,000 income level, New York, Massachusetts, Minnesota, and Wisconsin nevertheless had a combined federal, state, and local tax burden that was $1,000 or greater than the group average and $2,000 or more greater than the lowest state examined. The authors suggested that although high-tax states may not be able to make immediate, drastic reductions in state and local taxes, they clearly need to reexamine their levels of public services and recognize the need for spending restraint in order to retain their positions in an increasingly competitive world.

It is illuminating to hone in specifically on the effects of federal income tax deductibility on the state personal income tax liability of high income individuals. For this purpose, it is useful to compare combined state and federal income tax effective rates with and without federal deductibility of state income taxes for a married couple with two dependents and $50,000 adjusted gross income from wages of one spouse. With federal deductibility, the range of effective rates is 4.7 percentage points—an effective federal rate of 23.3% in states with no state income tax to an effective rate of 28.0% in New York, where the combined federal and state taxes result in the highest effective rate. Without federal deductibility, the range of effective rates would be 8.5 percentage points and New York's effective rate would jump to 31.8%. *Table 8.*

Clearly, current federal income tax policy goes a long way toward eliminating the potentially adverse effects on ability to compete for industry and high income residents that would arise from high levels of state-local income and property taxes. It is important to note, however, that those who believe in a rigorous, competitive economy would argue that federal deductibility of state and local income, sales, and property taxes protects inefficient governments and thereby erodes the public welfare. Without deductibility, income taxes would fall, leaving individuals with more money to spend and the economy with a larger demand and incentive to expand.

FOOTNOTES

[1]Letter from Roger H. Hord, Staff Executive, Economic Development Division, Chamber of Commerce, Houston, TX, June 29, 1977.

[2]"Lower Taxes Bring High Employment," *Nation's Business,* October 1976.

[3]Deborah S. Ecker and Richard F. Syron, "Personal Taxes and Interstate Competition for High Technology Industries," *New England Economic Review,* Boston, MA, Federal Reserve Bank, September/October 1979, pp. 31-35.

Chapter 4

State Adaptability To Competition

Differences in state and local tax rates and tax burdens are fundamental to the American federal system. Geography, the pattern of settlement, tradition, and politics dictate place-to-place differences in tax and spending activities. A federal effort to intervene in the hope of muting these differences and their effects on industrial location is not likely to succeed—nor is it necessary, in view of the demonstrated capacity of the states to adjust to the rigors of interstate tax and fiscal competition.

In the competition to attract or hold manufacturing industry, states can and do pursue various strategies, ranging from passivity in the face of provocation to defensive reaction and even aggressive offense.

THE PASSIVE STRATEGY

There are several grounds on which state policymakers can justify a decision to let their state take its chances in the competition with other states to attract and hold industry.

While state policymakers need not discount the appeal of low taxes to attract industry, they can draw comfort from the association of low taxes with low service levels. Managers, in some industries at least, might be amenable to paying somewhat higher taxes as a modest price for governmental "inputs"—police or fire protection, or education of workers' children—that indirectly help assure successful operation of a plant.[1]

State policymakers can further justify a "go

slow" approach by recognizing that policymakers in competing states must harbor the suspicion that they might forego more public revenue or incur more public expenditures than necessary to get a manufacturing plant to locate or to expand in their state. These misgivings, taken in conjunction with the muting effect of the federal income tax on interstate tax differentials, tend to put real limits on how far states are willing to go to attract business by giving tax concessions.

A cautious policy draws further support from the argument that if a state is fairly successful in attracting industry and people, this process itself sows the seeds of its own slowdown. New Hampshire has enjoyed favorable economic growth and low unemployment relative to its neighbors and has not been reluctant to cite low taxes as a reason to consider the state for industrial location purposes. A *New York Times* story suggests that New Hampshire's success has brought demands for added public services to communities unaccustomed to providing them.[2]

This "growing pains" argument, however, must be taken with several grains of salt. The average percentage increase in per capita expenditures of the 25 states that enjoyed the fastest growth in personal income over the 1965-75 decade was scarcely different from the average percentage increase in per capita expenditures for the 25 states with the least rapid growth (172% vs. 171%).

Within states, however, individual communities experiencing rapid economic expansion may find themselves with very acute growing pains. For example, in October 1979, *The New York Times* reported that San Jose, CA, study groups—consisting of industrialists, real estate brokers, and elected officials—are recommending public control of private industrial development in Santa Clara County to keep job growth in line with service capabilities of government. According to the study group report, large industrial companies should be urged to locate most of their future expansion outside of the county until both the natural and manmade systems are ready to absorb higher service demands.[3]

OFFENSIVE AND DEFENSIVE STRATEGIES

Where states have offered concessions in order to gain or help industry, it is difficult to separate policy approaches that are aggressive from those that are essentially reactive.

State and local tax and financial incentives to attract or hold industry have been used in this country for many years. Tax concessions were first used in New Jersey in 1791. The use of municipal revenue bonds to finance industrial projects began in Mississippi in 1936. But although the widespread use of these bonds did not begin until the 1950s, almost every state now has authorized their use. The first use of loan and loan guarantee programs for industry occurred in 1955, when New Hampshire authorized the first state industrial finance authority.

Tax and Fiscal Concessions

The number of states using tax and fiscal incentives to improve their business climate for manufacturing firms took a sharp upswing between 1966 and 1970. Although the pace of enacting industrial development legislation slowed somewhat during the 1970s, interest in attracting and holding manufacturing activity has continued. *Table 9.*

Certain financial and tax incentives are apparently perceived as so essential that the vast majority of states now make them available to new and expanding industry. Industrial development bond financing is now available at the state or local level in all but five states. Two-thirds of the states authorize the sales tax exemption of raw materials used in manufacturing to keep or attract industry. The availability of some of these inducements is widespread and, as a result, they have probably lost some of their effectiveness as a factor differentiating between locations in most states. However, they will undoubtedly remain on the statute books for their symbolic as well as actual value.

Recent tax concession activity also reflects a growing awareness among state policymakers of the great importance of encouraging expansion of firms that are already located in the state. Academicians have indirectly encouraged this approach by pointing out that more jobs are developed from the expansion of existing business than from the establishment or attraction of new businesses.[4]

Businessmen have also taken up the theme that states should concentrate on keeping the firms they have. Among them is John A. Murphy, then President of the Miller Brewing Company, who in a 1975 speech entitled "Government and the Industrial Climate," noted that—

Table 9

NUMBER OF STATES EMPLOYING STATE AND LOCAL TAX INCENTIVES FOR INDUSTRY, SELECTED YEARS, 1966, 1970, 1978

	1966	1970	1978
Corporate Income Tax Exemption	11	21	21
Personal Income Tax Exemption	15	20	19
Excise Tax Exemption	5	9	10
Tax Exemption or Moratorium on Equipment, Machinery	15	21	28
Inventory Tax Exemption on Goods in Transit (freeport)	32	39	41
Sales Tax Exemption on Raw Materials Used in Manufacturing	32	39	44
Sales/Use Tax Exemption on New Equipment	16	26	33
Accelerated Depreciation on Industrial Equipment	9	14	25
Tax Exemption or Moratorium on Land, Capital Improvements	10	17	23

NUMBER OF STATES EMPLOYING STATE AND LOCAL FINANCIAL ASSISTANCE FOR INDUSTRY

State-sponsored Industrial Development Authority	25	29	32
Privately Sponsored Development Credit Corporation	31	36	34
State Revenue and/or General Obligation Bond Financing	10	16	22
City and/or County Revenue and/or General Obligation Bond Financing	28	43	45
State Loans for Building Construction	11	13	19
City and/or County Loans for Building Construction	8	5	8
State Loan Guarantees for Building Construction	11	11	14
State Financing Aid for Existing Plant Expansion	14	26	29

SOURCE: "The Fifty Legislative Climates," an annual survey published by Conway Research, Inc., of Atlanta, GA, in the November-December issue of *Industrial Development* for years 1966, 1970, and 1978.

Most often when a community thinks of industry, it thinks of new industry. But consider that competition is fierce for the relatively few new industries announced each year. Consider also that over 90% of industrial growth comes from existing industry. So, if you have some industry in your respective communities, a way to begin to build further economic development is to be responsive to the particular needs of that industry. *In other words, KEEP IT. Don't kill it.*

Manipulating Tax Provisions

Business taxes are fairly easy to manipulate, as is demonstrated in both the corporate and business property tax field. Even states that otherwise endeavor to conform their income tax base to the federal income tax base include provisions such as the investment tax credit or enact their own, more expansive, investment tax credit in order to encourage business investment.

States also have an opportunity to change their method of apportioning income of multistate firms to encourage continuation of within-state manufacturing or to entice out-of-state manufacturers to establish a new factory within the state. For example, Iowa adopted a single-factor apportionment formula that uses only the ratio of sales in Iowa to sales everywhere to apportion the income of multistate corporations. By this device Iowa helps home manufacturers that ship goods out-of-state, taxing only the income of such firms attributable to sales in Iowa. Most other states apportion income under a three-factor formula—sales, payroll, and property. In June 1976, the United States Supreme Court

upheld the validity of Iowa's apportionment formula and suggested to the Congress that it enact appropriate legislation if it deemed Iowa's action to be adverse to the national interest.[5]

For reasons similar to Iowa's, Florida, Massachusetts, New York, and Wisconsin have given double weight to the sales factor in their apportionment formulas for corporate income tax purposes. Firms with multistate operations are thereby encouraged to stay put or to expand facilities in Wisconsin and New York.

Although surveys of businessmen continually play up the tax explanation for economic growth, these findings are usually discounted on grounds that the responses are self-serving or are offered in the absence of any knowledge about or consideration of the magnitude of actual tax differences.[6] Econometricians have not been able to develop the methodology that would enable them to say whether taxes really count in industrial location decisions. The likelihood that taxes weigh heavily in some manufacturing location decisions, but not at all in others—along with the inability to distinguish between these two circumstances—have left the policymaker free to follow personal advice, intuition, and inclinations.

Moreover, tax differentials do not present like advantages or disadvantages to all firms or industries. This is because state and local tax structures affect them differently, according to their financial and operating characteristics.[7] A given tax structure will have a different impact on firms of the same total asset size when the composition of these assets is different.

For example, a firm with a relatively high investment in real property and a relatively small profitability tends to pay the highest total state-local tax in those states which stress property taxes and the lowest total tax in those states which stress income taxes. Similarly, firms with a high ratio of profits to property may fare better in a state that stresses property taxes and has low, or no, corporate income taxes. Even more subtly, corporate tax apportionment formulas will cause firms to be affected differently by operations in a state, depending on the extent and organization of their operations in other states.

Because of the difficulty of pursuing business tax policies that benefit all kinds of industry, state policymakers have frequently sought ways to improve the state's business climate by means other than tax policy changes.

Business Climate as Contrasted to Tax Climate

Much of the interstate competition for industry does, in fact, center on the concept of a state's business climate. This concept encompasses tax as well as nontax considerations. Nontax factors include right-to-work laws and the importance of labor unions, living environment, recreational and cultural opportunities. Tax factors refer not only to business taxes but also to direct personal taxes, such as the state income tax. Because wage and salary payments may need to be higher in one state than another to compensate for higher personal tax rates, managers are increasingly concerned about their own, as well as their associates', personal tax situation.

While profit maximization as an hypothesis may still be useful for predicting business decisions, recent behavioral studies suggest that businessmen are not all cold, calculating economic creatures. On the contrary, many have feelings of insecurity and isolation and see themselves as members of an endangered species. In such cases, tax concessions have value as signs and pledges of long-run community sympathy toward and accommodation with the needs of the businessman. The brisk state legislative business in tax concessions in recent years undoubtedly reflects this desire to send out signals to businessmen—signals that say they are wanted and appreciated.

The newest wrinkle in competition for industrial plants involves packaging one or more financial assistance techniques with full or partial tax exemption; the expenditure of public funds for highway, sewer, and railroad hookups; and the training of the work force with *Comprehensive Employment and Training Act* and state and local manpower funds. Noteworthy instances of this level of competition have occurred recently in Pennsylvania, Ohio, and Michigan, with the advent of new auto plants. Volkswagen's selection of New Stanton, PA, stands out in this area.

Direct tax comparisons are most useful where it is assumed that industry will react rationally to maximize profitability and where subjective, random, personal factors will not alter the locational choice. Recent literature on industrial location, however, has tended to give more attention to the subjective factors, including judgments about the "quality of life."

Industrial location specialists have developed

measures to capture as many of these interests as can be identified and to use such measures as composite indicators of "business climate."

Industrial Development, a bimonthly magazine, publishes an annual state-by-state tabulation of the 50 state legislative elements for business, showing the various tax and fiscal incentives and concessions. It includes 41 items and touches on such diverse considerations as the presence or absence of right-to-work and noise abatement laws, and the availability of free land, training for industrial employees, and tax exemptions.

Spread of State Development Agency Idea

An increasing number of states have recognized the useful role a state government agency can play in helping industry to identify prime locations and thereby contribute to the vigor of the state's economy.

Prior to the depression of 1929 only a handful of state development agencies existed. By 1957 all but three states had such agencies. Today each of the 50 states and the Commonwealth of Puerto Rico have state economic development agencies that are either part of other departments—such as the state department of commerce—or are separate governmental entities.[8]

In his 1973 survey of directors of state economic development agencies, William R. Thomas found that agency directors see the primary problems they are attacking as unemployment and low per capita income. When asked how they deal with these problems, the agency directors emphasized two central aims: (1) assisting the expansion of existing industry, and (2) attracting new industry.[9] Although agency directors define their organizations' objectives in broad terms, Thomas found a well defined common theme in the desire to provide "more better paying jobs in an effort to raise the state's standard of living."[10] Organizational success is most often measured in terms of the number of new jobs created.[11]

In 37 states where comparable data existed, the total budgets of state economic development agencies increased from nearly $25 million in fiscal year 1966 to slightly over $63 million in fiscal year 1974.[12] The bulk of these budgets go for promotion—both advertising in trade and business publications and personal "selling" of the advantages of locating within the state. The latter includes a number of technical services, such as statistical, architectural, engineering, and legal information. Thomas found that in 1973 all of the states except California had personal representatives whose job it was to travel and seek out-of-state industry.[13]

Thomas also found that state development agencies have continually attempted to update the types of services they provide in order to meet the needs of industry. Continued evolution can be expected.

STATE CAPACITY TO ACT ON ECONOMIC GROWTH ISSUES

In a series of editorials during the fall of 1979, *The Wall Street Journal* sounded the call for each state to assume responsibility for its own economic destiny. One editorial held that:

> The secret of the Sunbelt lies in its politics, its willingness to limit government and free the private sector. Evidence is as strong as any we have seen in debates on public policy that this growth relates directly to state policy on spending and taxation.

The Journal went on to lay out a policy prescription:

> . . . states have more control than liberals care to admit over their economic and social destinies. The real issue is no longer Sunbelt versus Frostbelt but Growbelt versus Taxbelt. In these conditions the road to social progress lies more with Howard Jarvis than with the partisans of active government.

New York and Massachusetts stick out like sore thumbs when their tax burdens are compared to those of their neighbors. *Table 10. The Journal* may have been speaking especially to those two states.

Policymakers in these states have confronted hard choices. In order to provide liberal human service benefits and programs, each state has equipped itself with a powerful, heavy-duty tax system.[14] New York and Massachusetts have the reputation of being high-tax states with particularly burdensome personal income taxes that presumably lessen their attractiveness as industrial locations.

New York and Massachusetts make intensive use of the personal income tax. New Hampshire

Table 10

RELATION OF NEW YORK'S, MASSACHUSETTS', AND CALIFORNIA'S STATE-LOCAL PUBLIC SECTOR SIZE TO THOSE OF NEIGHBORING STATES

State	1976-77 Item Per $1,000 of Personal Income			
	All Own-Source General Revenue	Taxes	All General Expenditures	General Expenditures From Own Sources
NEW YORK	$217.49	$176.83	$253.52	$202.19
Connecticut	142.43	119.97	156.10	125.13
Massachusetts	177.03	151.36	208.20	158.13
New Jersey	151.79	126.06	179.55	143.40
Pennsylvania	141.82	118.80	179.96	138.78
Vermont	188.72	151.84	239.80	161.07
MASSACHUSETTS	177.03	151.36	208.20	158.63
Connecticut	142.43	119.97	156.10	125.13
New Hampshire	137.37	106.23	191.81	150.85
New York	217.49	176.83	253.52	202.19
Rhode Island	156.59	126.37	204.51	145.93
Vermont	188.72	151.84	239.80	161.07
CALIFORNIA	187.78	154.93	211.40	163.16
Arizona	180.23	144.15	216.72	176.95
Nevada	176.63	129.30	213.00	172.95
Oregon	178.21	129.25	230.43	169.31

SOURCE: Bureau of the Census, *Governmental Finances, 1974-75 and 1976-77,* Washington, DC, U.S. Government Printing Office.

and Connecticut impose income taxes only on selected aspects of personal income—interest and dividend income in New Hampshire and capital gains in Connecticut. New York and Massachusetts tax burdens per $1,000 of personal income are substantially heavier than are New Hampshire's and Connecticut's. Relative to New Hampshire, taxes per $1,000 of personal income in Massachusetts grew further out of line between 1975 and 1977. Relative to Connecticut, taxes per $1,000 of personal income in New York moved slightly more in line between 1975 and 1977.

Because they have major metropolitan areas that overlap low-tax neighboring states, Massachusetts and New York have tax and business tax climate worries not ordinarily found in most states. In the prime metropolitan areas of each state—New York City and Boston—an industry can decide to serve a market and make its site selection taking into account both state and local tax differentials. This, of course, is not the case in California where both the Los Angeles and San Francisco metropolitan areas are far from a neighbor state. Thus, if New York and Massachusetts can be categorized as "sore thumb" situations, the designation may stem as much from their border state situation as from their tax and spending levels.[15] Moreover, whatever influence tax and spending levels may have on industrial location, they weigh in on the side of all other adverse factors a central city location may possess—congestion, crime, inferior public schools, and the like.

Quite apart from geography, New York and Massachusetts policymakers have taken steps recently to reduce the growth in spending and the associated level of taxation. For example, in an April

24, 1979, reply to a letter from ACIR, in which the Commission pointed out its recommendations and model legislation to reduce the rate of state and local spending, New York State Gov. Hugh L. Carey wrote:

> During the past four years, New York State has demonstrated that the way to provide tax relief and revive the economy is to control the growth in spending. Spending increases have been held far below the rate of inflation, making state tax cuts possible three years in a row. At the same time, we have encouraged local governments to reduce spending and property taxes by providing targeted increases in state aid and by assuming the local shares of certain programs.

In recent years New York has also been very active in enacting tax concessions to improve its business tax climate and encourage business to create and maintain jobs in depressed areas. Full page ads in *The Wall Street Journal* proclaim that "New York is getting down to business." Gov. Carey's letter, however, implies that something more than tax concessions were necessary in New York's case and that he has instituted appropriate action to assure that New York's economy is not harmed by its outlyer position on the tax and spending fronts.

A state that becomes hypersensitive to tax-based competition theoretically has an option to gain release from its vulnerable position. In such a case, however, the state would be forced to make deep program cuts to complement major tax reductions—a cause fraught with political danger.

Unfortunately for a state like New York, where spending and tax levels are substantially above average, there is no moral obligation on its neighbors to refrain from coveting industry that is seeking a lower spending and taxing environment. Moreover, to the extent that neighbor states succeed in enhancing their economic growth—independently or at the expense of New York—they deepen the hole in which New York finds itself. Thus, New York confronts a most difficult situation if it hopes to hold its own. In order to join *The Wall Street Journal's* roll of "Growbelt" states, New York must consider slowing its tax take—not only to below the national average, but far enough below it to offset its less-than-average growth of personal income.

FOOTNOTES

[1]William S. Sneath, "Business and the States," *Alabama Municipal Journal,* Alabama League of Municipalities, October 1978, p. 6 ff.

[2]John Kipner, "New Hampshire's Growth Linked to Tax Rise," *The New York Times,* March 1, 1976, p. 45.

[3]*The New York Times,* October 16, 1979.

[4]David L. Birch, "Generating New Jobs, Are Government Incentives Effective?," *Commentary,* New York, NY, American Jewish Committee, July 1979, pp. 3-6.

[5]Moorman Manufacturing Co. *vs.* G.D. Bair, U.S. Supreme Court Docket No. 77-454, June 15, 1978.

[6]Stephen S. Fuller, "An Empirical Examination of Tax Differentials as Residential and Business Location Determinants: New Evidence," *Proceedings of Seventieth Annual Conference on Taxation,* NTA-TIA, Columbus, OH, 1978, pp. 223-30.

[7]Thomas Vasquez and Charles W. deSeve, "State/Local Taxes and Jurisdictional Shifts in Corporate Business Activity: The Complications of Measurement," *National Tax Journal,* NTA-TIA, Columbus, OH, Vol. XXX, No. 3, September 1977.

[8]William R. Thomas, *Historical and Functional Aspects of State Industrial Development Organizations,* Columbia, SC, University of South Carolina, College of Business Administration, 1975, p. 20.

[9]*Ibid.,* pp. 25-27.

[10]*Ibid.,* p. 29.

[11]*Ibid.,* p. 31.

[12]*Ibid.,* p. 42.

[13]*Ibid.,* p. 76.

[14]ACIR, *Measuring the Fiscal Blood Pressure of the States,* M-111, Washington, DC, U.S. Government Printing Office, February 1977, Chart II, p. 11.

[15]In the Washington, DC, metropolitan area, where tax differentials between jurisdictions are smaller than in the Boston or New York areas, a survey of the location decisions of businesses and individuals indicates differentials to be of limited significance in location decisionmaking. Only half of the business respondents were aware of tax differentials in the metropolitan area, and 57% of the businesses stated they would not relocate even if their tax burdens became more unfavorable. Stephen S. Fuller and Joan E. Towles, "Impact on Intra-urban Tax Differentials on Business and Residential Location," *Technical Aspects of the District's Tax System,* Committee on the District of Columbia, U.S. House of Representatives (Serial No. S-11), Washington, DC, U.S. Government Printing Office, 1978.

Chapter 5

The Moves and Why?

The economic growth argument is that state tax concessions taken together do little to enhance national economic development but, instead, inefficiently shift industrial location among the states. Although it may be correct, this, by itself, would not be a sufficient case for federal intervention unless it is clear that concessions adversely affect national economic development. Doubt on this subject stems from (a) the subordinate role of taxes at the initial regional phase of the location decision process; (b) the insignificant number of interregional interstate moves of major manufacturing plants; (c) the fairly logical pattern of new single establishment and branch plants among the states and regions; and (d) the fact that differential regional growth rates primarily appear to be the continuation of the long-term historical trend toward dispersion of manufacturing activity among the regions—dispersion made possible and normal, given the growth of markets elsewhere, transportation, and energy availability.

Manufacturing activity is the obvious focus of attention in interstate tax-based competition because it is the main target of state and local efforts designed to spur their economic development. Manufacturing jobs tend to be higher paying. They are assumed to have a multiplier effect, leading to jobs in other types of industry. Manufacturing may be thought of as a source of exports from the area that will enhance a state's ability to buy products from outside of its area. Manufacturing firms seem to have more location flexibility than do industries which are directly dependent on natural resources

or convenience to individual customers. Thus, the touchstone for the state economic development effort for most states and localities, continues to be manufacturing industry. Indeed, state and local development efforts are directed mainly at large manufacturing establishments on the theory that "one Volkswagen plant is worth a thousand frozen food plants."

TAXES: AN UNIMPORTANT FACTOR IN SELECTING REGIONAL LOCATION

Analysts of industrial location decisionmaking advance the theory that the process involves several stages. Factors taken into account in selecting a general area—the first stage—are substantially different from those considered in site selection—the second stage.[1] In the first stage, selection is based on operational prerequisites such as markets, labor market conditions, raw materials, and transportation.[2] Regional differences in construction, energy, and labor costs are generally too large to be outweighed by any differences in state and local taxes or fiscal incentives.[3] The subordinate role of taxes at this stage is borne out by a composite case history of new facility location based on responses to a comprehensive questionnaire prepared by The Industrial Development Research Council. Respondents on manufacturing projects identified taxes as a minor item in total annual costs at the location of the project. On a composite basis, the median tax cost represented 3% of annual costs, and the modal tax cost reached 4% of annual costs.[4]

For most manufacturers, labor costs can be many times larger than state and local tax payments. A very small wage differential then becomes as important as a much greater tax differential, underscoring the significance of identifying other cost factors relevant to location decisions.[5] While regional manufacturing wage rates have been converging toward the national average, differentials of as much as 10% of the average remain and, along with right-to-work laws, probably exercise greater influence on location decisions than do state and local tax differentials. *Table 11.*

The subordinate place of taxes in the regional location decision has been confirmed by persons involved in the economic development field. J. Gerard Sheehan, business expansion director of Ohio's Growth Association, said that, "Tax abatement is not an incentive to prevent a relocation from Ohio to Alabama or Texas. If a major manufacturer is considering a location in the South or West versus the North, the cost considerations would be wages and the distance to suppliers and

Table 11

INDEX OF MANUFACTURING WAGE RATES, BY REGION, SELECTED YEARS, 1909-76

Region	1909	1929	1947	1955	1960	1965	1970	1976
United States	100	100	100	100	100	100	100	100
New England	96	90	92	90	89	89	92	87
Mideast	101	104	102	105	106	106	105	105
Great Lakes	104	110	109	116	116	116	116	119
Plains	111	95	94	101	101	101	101	105
Southeast	73	67	77	82	84	85	86	87
Southwest	119	88	94	104	101	98	94	93
Rocky Mountain	143	111	102	111	111	110	106	105
Far West	151	110	116	123	121	121	121	112

SOURCE: 1909-47 data: Simon Kuznets, Ratner Miller, and Richard A. Easterlin, *Population Redistribution and Economic Growth, United States,* 1870-1950, Vol. II of *Analyses of Economic Change,* Philadelphia, PA, The American Philosophical Society, 1960, Table A3.5; 1955-76 data: ACIR computations based on data in Bureau of Labor Statistics, *Handbook of Labor Statistics,* Washington, DC, U.S. Department of Labor, 1972, 1974, 1977.

Table 12

CLASSIFICATION OF INTERSTATE MOVES OF MAJOR MANUFACTURING ESTABLISHMENTS[1]—1976 LOCATION VS. 1969 LOCATION

Regions	Total Gain for States in Region Due to Inter-state Moves	Total Loss for States in Region Due to Inter-state Moves	Intra-regional/ Inter-state Moves	Interregional Moves									Exhibit: Estimated Number of Major Manufacturing Establishments 1969
				New England	Mideast	Great Lakes	Plains	South-east	South-west	Rocky Mountains	Far West	Total	
New England	79	60	36	—	5	3	0	12	0	0	4	24	10,051
Mideast	70	226	48	34	—	18	4	88	11	0	23	178	35,897
Great Lakes	61	125	29	5	10	—	10	41	14	8	8	96	28,918
Plains	31	34	12	1	0	4	—	8	4	1	4	22	9,902
Southeast	181	34	18	2	2	3	2	—	4	1	2	16	21,907
Southwest	49	20	6	1	0	1	2	6	—	2	2	14	9,847
Rocky Mountain	19	4	1	0	0	1	0	0	2	—	0	3	2,736
Far West	64	51	21	0	5	2	1	8	8	6	—	30	20,835
Totals	554	554	171	43	22	32	19	163	43	18	43	383	140,093

Note: "Far West" includes Alaska and Hawaii.

[1]Establishments classified in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73, having 20 or more employees.

SOURCE: ACIR ACCESS file.

customers. Taxes probably would not play a major role."[6] David Pals, former industrial development manager for the Illinois Department of Business and Economic Development, noted, "In reality we rarely compete with the Sunbelt states because most major U.S. companies that Illinois recruits need regional plants in all parts of the country, including the Midwest for distribution purposes."[7]

PLANT MOVEMENTS FROM REGION TO REGION OR STATE TO STATE, 1969-76

ACIR assembled data from the Duns Market Identifiers (DMI) file of Dun & Bradstreet, Inc., to find out how many major manufacturing establishments picked up stakes in one state and moved to another state between 1969 and 1976.[8] The D&B data indicated that 554 major manufacturing firms, existing in 1976, were located in a different state than in 1969. *Table 12.*

The total "pick up and go" movement of 554 establishments over the six-year period, when related to the 1969 estimated base of 140,093 major manufacturing establishments, suggests that both interregional and interstate movement of major manufacturing establishments is an uncommon experience. Only the Mideast and Great Lakes regions lost more establishments to another region—the Southeast—than to other states in their own region.

ACIR also analyzed the DMI records to show the location, by state, of new major manufacturing establishments—specifically those "born" between 1969 and 1976 as a single establishment firm, a headquarters or a branch, or a parent or subsidiary. (*Tables 13 through 16* show the number and proportion of establishment births by state.) When the percentage of establishments and the associated employment are arranged by region and compared with each region's percentage of the 1969 manufacturing and employment base, the winners and losers in landing major new manufacturing plants are clearly identified. *Table 17.*

It is true that the Southeast, Southwest, and Far West regions were winners: they obtained a larger share of births between 1969 and 1976 than their proportion of establishments with 20 or more employees in 1969. Indeed, it was the exceptional state in other regions that could claim a similar experience. It is also clear, however, that the Mideast and Great Lakes regions are far from stagnant in terms of actual births of major manufacturing establishments.

It was not possible in this analysis of the DMI file to determine the number of instances in which an establishment closed in one place (region) and

Table 13

BIRTHS OF MAJOR MANUFACTURING ESTABLISHMENTS, BY REGION, 1969-76[1]

Region	Total Births	Single Establishment Firms	Parents	Headquarters	Branches	Subsidiaries
United States	35,988	14,925	350	3,042	15,105	2,566
New England	2,331	1,082	41	174	851	183
Mideast	7,029	3,454	96	697	2,213	569
Great Lakes	6,890	2,383	52	550	3,425	480
Plains	2,125	726	21	173	1,065	140
Southeast	8,057	3,059	46	528	3,844	580
Southwest	3,002	1,224	33	277	1,269	219
Rocky Mountain	676	869	9	54	259	38
Far West	5,858	2,681	52	589	2,179	357

[1]Establishments in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73, having 20 or more employees.
SOURCE: ACIR ACCESS File.

Table 14

PERCENTAGE OF MAJOR MANUFACTURING ESTABLISHMENT BIRTHS, BY REGION, 1969-76[1]

Region	Percent of Total Births	Percent of Single Establishment Births	Percent of Parent Births	Percent of Headquarters Births	Percent of Branch Births	Percent of Subsidiary Births	Exhibit: Region Percent of U.S. Population 1977
United States	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
New England	6.48	7.25	11.72	5.72	5.63	7.13	5.7
Mideast	19.53	23.14	27.43	22.91	14.65	22.17	19.6
Great Lakes	19.15	16.15	14.85	18.08	22.67	18.71	19.0
Plains	5.90	4.86	6.01	5.69	7.05	5.46	7.8
Southeast	22.39	20.50	13.14	17.36	25.45	22.60	22.6
Southwest	8.40	8.19	9.43	9.11	8.40	8.53	8.8
Rocky Mountain	1.88	2.11	2.03	1.63	1.71	1.48	2.7
Far West	16.26	17.89	14.87	19.36	14.43	13.91	13.8

[1]Establishments in Standard Industrial Classification (SIC) codes 20, 22-39, 48, 73, having 20 or more employees.
Detail may not add to total because of rounding.
SOURCE: ACIR ACCESS File.

Table 15

EMPLOYMENT IN MAJOR MANUFACTURING ESTABLISHMENT BIRTHS, BY REGION, 1969-70[1]

Region	Total Employment in New Establishments	Employment in New Single Establishments	Employment in New Parents	Employment in New Headquarters	Employment in New Branches	Employment in New Subsidiaries
United States	3,931,686	714,235	31,485	297,445	2,601,935	286,586
New England	248,445	55,709	4,937	19,142	149,644	19,013
Mideast	703,074	162,974	9,408	68,581	400,335	61,776
Great Lakes	912,802	111,569	3,446	54,768	686,514	56,505
Plains	225,302	34,483	1,837	16,488	159,106	13,388
Southeast	963,017	161,971	3,402	56,382	669,364	71,898
Southwest	284,887	54,277	4,785	31,364	166,024	28,437
Rocky Mountain	55,445	13,609	405	4,306	34,429	2,696
Far West	538,714	119,643	3,265	46,414	336,519	32,873

[1]Establishments in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73, having 20 or more employees.
SOURCE: ACIR ACCESS File.

Table 16

PERCENTAGE OF EMPLOYMENT IN MAJOR MANUFACTURING ESTABLISHMENT BIRTHS, BY REGION, 1969-76[1]

Region	Percent Employment in New Establishments	Percent Employment in New Single Establishments	Percent Employment in New Parents	Percent Employment in New Headquarters	Percent Employment in New Branches	Percent Employment in New Subsidiaries
United States	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
New England	6.32	7.79	15.68	6.43	5.64	6.63
Mideast	17.88	22.81	29.87	23.06	14.64	21.56
Great Lakes	23.22	15.62	10.95	18.40	22.68	19.72
Plains	5.73	4.83	5.83	5.55	7.05	4.67
Southeast	24.49	22.68	10.80	18.96	25.43	25.09
Southwest	7.25	7.61	15.20	10.54	8.41	9.92
Rocky Mountain	1.41	1.90	1.28	1.45	1.71	0.94
Far West	13.70	16.75	10.37	15.61	14.43	11.47

[1]Establishments in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73, having 20 or more employees.
Detail may not add to total because of rounding.
SOURCE: ACIR ACCESS File.

Table 17

PERCENTAGE OF 1969 ESTIMATED BASE OF MAJOR MANUFACTURING ESTABLISHMENTS AND EMPLOYMENT, BY REGION, AND PERCENTAGE OF ESTABLISHMENT BIRTHS, AND EMPLOYMENT, BY REGION, 1969-76[1]

Region	Estimated Establishments 1969	Percent of Establishments 1969	Percent of Establishment Births 1969-76	Estimated Employment 1969	Percent of Employment 1969	Percent Employment in New Establishments 1969-76
United States	140,093	100.00%	100.00%	15,252,753	100.00%	100.00%
New England	10,051	7.17	6.48	1,340,183	8.79	6.32
Mideast	35,897	25.62	19.53	3,665,889	24.03	17.88
Great Lakes	28,918	20.64	19.15	4,159,735	27.27	23.22
Plains	9,902	7.07	5.90	926,465	6.07	5.73
Southeast	21,907	15.64	22.39	2,867,792	18.80	24.49
Southwest	9,847	7.03	8.40	669,945	4.39	7.25
Rocky Mountain	2,736	1.95	1.88	151,153	0.99	1.41
Far West	20,835	14.87	16.26	1,417,591	9.65	13.70

[1]Establishments in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73, having 20 or more employees.
Establishment 1969 is an estimate based on the relationship of all establishments to those with 20 or more employees.
Detail may not add to total because of rounding.
SOURCE: ACIR ACCESS File.

opened in another place (region) under a new name but with essentially the same ownership. Thus, interregional and interstate movements as defined here may be understated. However, if the 554 interstate movements are added to the births of new single establishments, it is evident that the amount of interregional movement of major manufacturing firms is quite small.

Assuming that the period 1969 through 1976 was one of "normal" activity in the location of major manufacturing establishments, the number of interstate location decisions made in the course of a year averages slightly over 5,000. The bulk of these locations are divided roughly equally between new single establishment locations and new branches of existing firms. Since the universe of major manufacturing establishments in 1969 was about 140,000, there is a good reason to conclude that a location decision is one that arises infrequently in the life of most manufacturing firms. Moreover, the number of interstate relocations of major manufacturing firms revealed by ACIR's analysis of the Duns Market Indicators files for the years 1969 and 1976 suggests that the newspaper stories about the events stem more from their painful effects on the abandoned locality than on their economic consequences among either regions or states.

The low average number of industrial location decisions in relation to the total number of major manufacturing establishments supports the view that, everything else being equal, major manufacturers are predisposed to expand at their present location, rather than branch—much less pick up and leave. But clearly everything else is not equal: population and personal incomes are growing in some regions and declining in others. Manufacturers that intend to serve a nationwide market would therefore probably find that the firm's current markets dictate a different optimal plant location. A new branch plant in a region or state other than an existing plant would be especially attractive if the manufacturer's present facilities were not capable of further on-site expansion.

The data tend to support the view that the establishment of the first plant for a major manufacturing company occurs in areas of industrial concentration. Thus, D&B data show that the ten states with the most major manufacturing establishments (63% in 1969) spawned 63% of the new single establishments over the 1969-76 period. Because of the shift in population and income, it seems logical that these ten states accounted for only 55% of the new branch establishments—which, by definition, are more likely to be associated with new locations.

It is noteworthy that several high-tax states and several low-tax states do not show the level of manufacturing firm births that might be expected if the association between taxes and firm births were causal. The high-tax states with a high level of firm births per 1,000 establishments are Massachusetts, Arizona, Wyoming, California, and Hawaii. Wyoming can be dismissed as an aberration because (1) it is remote; (2) it is relatively sparsely settled; and (3) its high taxes originate in natural resource exploitation where the burden is passed on to the users of the resources, only a few of whom reside in Wyoming. Aside from Wyoming, the experience in other high-tax states cannot be explained easily. Despite above-average taxes per $1,000 of personal income, four states show above-average birthrates of single establishment manufacturing firms.

Interestingly, similar incongruities can be found among the low-tax states. States with below-average taxes in relation to personal income and below-average birthrates of single establishment manufacturing firms are Indiana, Ohio, Missouri, and Arkansas. Oklahoma is a borderline case for inclusion in this group. Despite the fact that Indiana and Ohio, in particular, make a fetish of their low taxes as a lure to industry, on the basis of the DMI data the tax approach appears not to succeed. *Tables 18* through *21*.

The existence of eight states that fail to conform to the expected relationship between taxes and single-establishment manufacturing firm births casts doubt on the argument that taxes explain much about industrial location and strengthens the argument that economic development in the United States reflects an underlying process of geographic dispersion of economic activity.

Other studies based on the Dun and Bradstreet file reinforce the finding that interregional movements of manufacturing establishments are infrequent. Allaman and Birch found that employment change resulting from interregional migration of manufacturing firms between 1970 and 1972 amounted to no more than 0.5% of 1969 employment.[9] Jusenius and Ledebur examined employment decline in the North, relative to the South, and found that employment losses in both regions due to interregional firm migration were

Table 18

NUMBER OF MAJOR MANUFACTURING ESTABLISHMENTS AND BIRTHS, BY STATE AND REGION, 1969-76[1]

Region and State	Establish-ments 1969	Total Establishment Births	Single Establishment Births	Parent Births	Headquarters Births	Branch Births	Subsidiary Births
United States	140,093	35,988	14,925	350	3,042	15,105	2,566
New England	10,051	2,331	1,082	41	174	851	183
Connecticut	2,567	564	249	17	48	195	55
Maine	629	128	49	1	13	57	8
Massachusetts	4,878	1,148	530	13	84	433	88
New Hampshire	526	174	70	3	8	81	12
Rhode Island	1,144	250	155	7	15	56	17
Vermont	307	67	29	0	6	29	3
Mideast	35,897	7,029	3,454	96	697	2,213	569
Delaware	245	73	26	1	9	33	4
Maryland	1,643	489	192	4	49	203	41
New Jersey	6,580	1,580	724	33	139	576	108
New York	18,815	3,005	1,741	45	311	641	267
Pennsylvania	8,614	1,882	771	13	189	760	149
Great Lakes	28,918	6,890	2,383	52	550	3,425	480
Illinois	8,846	2,233	699	17	192	1,179	146
Indiana	3,190	786	286	4	45	401	50
Michigan	6,325	1,456	580	9	112	634	121
Ohio	7,292	1,716	580	18	148	858	112
Wisconsin	3,265	699	238	4	53	353	51
Plains	9,902	2,125	726	21	173	1,065	140
Iowa	1,636	360	102	1	24	203	30
Kansas	1,342	290	109	2	31	131	17
Minnesota	2,548	550	189	9	55	259	38
Missouri	3,010	631	232	5	42	315	37
Nebraska	864	175	56	3	10	95	11
North Dakota	224	48	18	0	4	23	3
South Dakota	278	71	20	1	7	39	4

Southeast	21,907	8,057	3,059	46	528	3,844	580
Alabama	1,608	594	256	2	25	278	33
Arkansas	1,045	367	99	3	28	206	31
Florida	3,886	1,350	637	11	117	485	100
Georgia	2,551	1,201	408	10	69	641	73
Kentucky	1,383	392	108	2	30	217	35
Louisiana	1,597	442	173	4	35	197	33
Mississippi	1,030	417	152	0	12	233	20
North Carolina	3,030	1,123	431	5	76	502	109
South Carolina	1,225	458	150	2	18	261	27
Tennessee	2,067	829	322	3	63	375	66
Virginia	1,749	694	263	4	47	338	42
West Virginia	736	190	60	0	8	111	11
Southwest	9,847	3,022	1,224	33	277	1,269	219
Arizona	893	260	108	3	26	96	27
New Mexico	434	163	90	0	9	59	5
Oklahoma	1,518	373	157	4	34	155	23
Texas	7,002	2,226	869	26	208	959	164
Rocky Mountain	2,736	676	316	9	54	259	38
Colorado	1,272	363	166	6	24	143	24
Idaho	394	81	31	3	8	35	4
Montana	361	60	27	0	3	26	4
Utah	552	133	72	0	17	41	3
Wyoming	157	39	20	0	2	14	3
Far West	20,835	5,858	2,681	52	589	2,179	357
California	15,901	4,894	2,273	40	486	1,794	301
Nevada	222	71	26	1	9	28	7
Oregon	1,869	345	124	1	25	174	21
Washington	2,290	428	189	7	56	156	20
Alaska	163	34	13	2	5	10	4
Hawaii	390	86	56	1	8	17	4

Note: District of Columbia is omitted.

[1]Major manufacturing establishments are those with 20 or more employees in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73. Establishment 1969 is an estimate based on the relationship of all establishments to those with 20 or more employees, as reported in the *1972 Census of Manufacturers.*

SOURCE: ACIR ACCESS File.

Table 19

PERCENTAGE OF MAJOR MANUFACTURING ESTABLISHMENTS AND BIRTHS, BY STATE AND REGION, 1969-76[1]

Region and State	Percentage of Establishments 1969	Percentage of Total Establishment Births	Percentage of Single Establishment Births	Percentage of Parent Births	Percentage of Headquarters Births	Percentage of Branch Births	Percentage of Subsidiary Births
United States	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
New England	7.17	6.48	7.25	11.72	5.72	5.63	7.13
Connecticut	1.83	1.57	1.67	4.86	1.58	1.29	2.14
Maine	0.45	0.36	0.33	0.29	0.43	0.38	0.31
Massachusetts	3.48	3.19	3.55	3.71	2.76	2.87	3.43
New Hampshire	0.38	0.48	0.47	0.86	0.26	0.54	0.47
Rhode Island	0.82	0.69	1.04	2.00	0.49	0.37	0.66
Vermont	0.22	0.19	0.19	0	0.20	0.19	0.12
Mideast	25.62	19.53	23.14	27.43	22.91	14.65	22.17
Delaware	0.17	0.20	0.17	0.29	0.30	0.22	0.16
Maryland	1.17	1.36	1.29	1.14	1.61	1.34	1.60
New Jersey	4.69	4.39	4.85	9.43	4.57	3.81	4.21
New York	13.43	8.35	11.66	12.86	10.22	4.24	10.41
Pennsylvania	6.15	5.23	5.17	3.71	6.21	5.03	5.81
Great Lakes	20.64	19.15	16.15	14.85	18.08	22.67	18.71
Illinois	6.31	6.20	4.68	4.86	6.31	7.81	5.69
Indiana	2.28	2.18	1.92	1.14	1.48	2.65	1.95
Michigan	4.51	4.05	3.89	2.57	3.68	4.19	4.72
Ohio	5.21	4.77	3.89	5.14	4.87	5.68	4.36
Wisconsin	2.33	1.94	1.59	1.14	1.74	2.34	1.99
Plains	7.07	5.90	4.86	6.01	5.69	7.05	5.46
Iowa	1.17	1.00	0.68	0.29	0.79	1.34	1.17
Kansas	0.96	0.81	0.73	0.57	1.02	0.87	0.66
Minnesota	1.82	1.53	1.27	2.57	1.81	1.71	1.48
Missouri	2.15	1.75	1.55	1.43	1.38	2.09	1.44
Nebraska	0.62	0.49	0.38	0.86	0.33	0.63	0.43
North Dakota	0.16	0.13	0.12	0	0.13	0.15	0.12
South Dakota	0.19	0.20	0.13	0.29	0.23	0.26	0.16

Southeast	15.64	22.39	20.50	13.14	17.36	25.45	22.60
Alabama	1.15	1.65	1.72	0.57	0.82	1.84	1.29
Arkansas	0.75	1.02	0.66	0.86	0.92	1.36	1.21
Florida	2.77	3.75	4.27	3.14	3.85	3.21	3.90
Georgia	1.82	3.34	2.73	2.86	2.27	4.24	2.84
Kentucky	0.99	1.09	0.72	0.57	0.99	1.45	1.36
Louisiana	1.14	1.23	1.16	1.14	1.15	1.30	1.29
Mississippi	0.74	1.16	1.02	0	0.39	1.54	0.78
North Carolina	2.16	3.12	2.89	1.43	2.50	3.32	4.25
South Carolina	0.87	1.27	1.01	0.57	0.59	1.73	1.05
Tennessee	1.48	2.30	2.16	0.86	2.07	2.48	2.57
Virginia	1.25	1.93	1.76	1.14	1.55	2.24	1.64
West Virginia	0.53	0.53	0.40	0	0.26	0.73	0.43
Southwest	7.03	8.40	8.19	9.43	9.11	8.40	8.53
Arizona	0.64	0.72	0.72	0.86	0.85	0.64	1.05
New Mexico	0.31	0.45	0.60	0	0.30	0.39	0.19
Oklahoma	1.08	1.07	1.05	1.14	1.12	1.03	0.90
Texas	4.99	6.19	5.82	7.43	6.84	6.35	6.39
Rocky Mountain	1.95	1.88	2.11	2.03	1.63	1.71	1.48
Colorado	0.91	1.01	1.11	1.17	0.79	0.95	0.94
Idaho	0.28	0.23	0.21	0.86	0.26	0.23	0.16
Montana	0.26	0.17	0.18	0	0.01	0.17	0.16
Utah	0.39	0.37	0.48	0	0.56	0.27	0.12
Wyoming	0.11	0.11	0.13	0	0.01	0.09	0.12
Far West	14.87	16.26	17.89	14.87	19.36	14.43	13.91
California	11.35	13.60	15.23	11.43	15.98	11.88	11.73
Nevada	0.16	0.20	0.17	0.29	0.30	0.19	0.27
Oregon	1.33	0.96	0.83	0.29	0.82	1.15	0.82
Washington	1.63	1.19	1.27	2.00	1.84	1.03	0.78
Alaska	0.12	0.09	0.01	0.57	0.16	0.67	0.16
Hawaii	0.28	0.24	0.38	0.29	0.26	0.11	0.16

Note: District of Columbia is omitted.
[1]Major manufacturing establishments are those with 20 or more employees in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73. Establishment 1969 is an estimate based on the relationship of all establishments to those with 20 or more employees, as reported in the *1972 Census of Manufacturers.*
Detail may not add to total because of rounding.
SOURCE: ACIR ACCESS File.

Table 20

EMPLOYMENT IN MAJOR MANUFACTURING ESTABLISHMENTS AND IN NEW ESTABLISHMENTS, BY STATE AND REGION, 1969-76[1]

Region and State	Employment 1969	Employment in New Establishments	Employment in New Single Establishments	Employment in New Parents	Employment in New Headquarters	Employment in New Branches	Employment in New Subsidiary
United States	15,252,753	3,931,686	714,235	31,485	297,445	2,601,935	286,586
New England	1,340,183	248,445	55,709	4,937	19,142	149,644	19,013
Connecticut	400,786	52,277	11,042	2,440	5,485	27,321	5,989
Maine	90,209	18,762	3,228	30	2,171	11,444	1,889
Massachusetts	616,697	127,838	30,150	1,432	9,383	78,147	8,726
New Hampshire	87,350	17,375	2,854	235	767	12,939	580
Rhode Island	113,503	27,038	6,999	800	1,063	16,609	1,567
Vermont	31,638	5,155	1,436	0	273	3,184	262
Mideast	3,665,889	703,074	162,974	9,408	68,581	400,335	61,776
Delaware	55,101	8,635	1,141	275	2,328	3,909	982
Maryland	253,719	53,927	9,147	398	5,650	33,726	5,006
New Jersey	707,831	155,027	33,533	2,702	12,457	94,900	11,435
New York	1,367,937	278,852	81,995	3,863	28,006	137,744	27,244
Pennsylvania	1,281,301	206,633	37,158	2,170	20,140	130,056	17,109
Great Lakes	4,159,735	912,802	111,569	3,446	54,768	686,514	56,505
Illinois	1,115,158	292,597	31,290	1,311	20,146	221,751	18,099
Indiana	555,487	127,576	11,279	134	3,181	108,392	4,590
Michigan	888,644	171,333	26,825	582	11,758	119,313	12,855
Ohio	1,203,118	239,203	29,795	1,196	15,063	178,484	14,665
Wisconsin	397,328	82,093	12,380	223	4,620	58,574	6,296
Plains	926,465	225,302	34,483	1,837	16,488	159,106	13,388
Iowa	174,357	47,942	4,968	50	3,948	34,597	4,379
Kansas	98,098	24,538	5,301	110	3,670	14,170	1,287
Minnesota	212,888	64,828	8,900	607	3,825	49,053	2,443
Missouri	362,305	63,139	11,432	656	3,091	44,379	3,581
Nebraska	62,435	14,863	2,481	360	1,006	10,307	709
North Dakota	5,260	4,520	669	0	475	2,981	395
South Dakota	11,122	5,472	732	54	473	3,619	594

Southeast	2,867,792	963,017	161,971	3,402	56,382	669,364	71,898
Alabama	223,077	77,155	14,822	175	3,171	54,564	4,423
Arkansas	138,135	42,908	4,425	375	2,013	33,595	2,500
Florida	202,424	125,542	28,949	689	10,454	76,443	9,007
Georgia	358,416	130,318	20,063	759	7,462	95,520	6,514
Kentucky	186,110	49,846	5,555	240	2,608	36,982	4,461
Louisiana	127,451	50,858	9,090	174	4,648	31,312	5,634
Mississippi	124,479	74,443	9,452	0	1,297	60,274	3,420
North Carolina	475,809	140,780	24,630	332	10,158	89,470	16,190
South Carolina	267,241	70,936	10,199	50	1,435	56,697	2,555
Tennessee	384,839	97,627	16,803	330	6,163	65,518	8,813
Virginia	282,274	81,161	14,718	278	6,438	52,266	7,461
West Virginia	97,537	21,443	3,265	0	535	16,723	920
Southwest	669,945	284,887	54,277	4,785	31,364	166,024	28,437
Arizona	76,663	26,140	4,193	387	1,575	17,466	2,519
New Mexico	15,194	11,936	3,757	0	828	6,676	675
Oklahoma	88,597	34,223	6,423	246	3,162	20,434	3,958
Texas	489,491	212,588	39,904	4,152	25,799	121,448	21,285
Rocky Mountain	151,153	55,445	13,609	405	4,306	34,429	2,696
Colorado	75,860	33,415	7,274	162	1,819	22,339	1,821
Idaho	22,346	6,609	1,588	243	656	3,952	170
Montana	15,125	3,780	1,090	0	276	2,198	216
Utah	34,340	9,824	2,821	0	1,450	5,404	149
Wyoming	3,482	1,817	836	0	105	536	340
Far West	1,471,591	538,714	119,643	3,265	46,414	336,519	32,873
California	1,154,869	461,036	100,250	2,597	37,876	291,426	28,887
Nevada	8,613	5,152	1,356	108	611	2,542	535
Oregon	120,610	27,858	5,276	41	1,971	19,375	1,195
Washington	168,313	36,388	8,598	396	5,102	20,725	1,567
Alaska	4,180	1,934	444	95	442	738	215
Hawaii	15,006	6,346	3,719	28	412	1,713	474

Note: District of Columbia is omitted.

[1]Major manufacturing establishments are those with 20 or more employees in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73. Employment for major manufacturing establishments is an estimate made by subtracting from reported employment, for these industries in each state, an estimate of the employment of small manufacturing establishments (less than 20 employees). Small manufacturing establishments were asumed to employ ten persons on average.

SOURCE: ACIR ACCESS File.

Table 21

PERCENTAGE OF EMPLOYMENT IN MAJOR MANUFACTURING ESTABLISHMENTS AND IN NEW ESTABLISHMENTS, BY STATE AND REGION, 1969-76[1]

Region and State	Percent of Employment 1969	Percent of Employment in New Establishment	Percent of Employment in New Single Establishment	Percent of Employment in New Parent	Percent of Employment in New Headquarters	Percent of Employment in New Branch	Percent of Employment in New Subsidiary
United States	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
New England	8.79	6.32	7.79	15.68	6.43	5.64	6.63
Connecticut	2.63	1.33	1.55	7.75	1.84	1.29	2.09
Maine	0.59	0.48	0.45	0.09	0.73	0.38	0.66
Massachusetts	4.04	3.25	4.22	4.55	3.15	2.87	3.04
New Hampshire	0.57	0.44	0.39	0.75	0.26	0.54	0.20
Rhode Island	0.74	0.69	0.98	2.54	0.36	0.37	0.55
Vermont	0.21	0.13	0	0.09	0.19	0.19	0.09
Mideast	24.03	17.88	22.81	29.87	23.06	14.64	21.56
Delaware	0.36	0.22	0.16	0.87	0.78	0.22	0.34
Maryland	1.66	1.37	1.28	1.26	1.90	1.34	1.75
New Jersey	4.64	3.94	4.69	8.58	4.19	3.81	3.99
New York	8.97	7.09	11.48	12.27	9.42	4.24	9.51
Pennsylvania	8.40	5.26	5.20	6.89	6.77	5.03	5.97
Great Lakes	27.27	23.22	15.62	10.95	18.40	22.68	19.72
Illinois	7.31	7.44	4.38	4.16	6.77	7.81	6.32
Indiana	3.64	3.24	1.58	0.43	1.07	2.65	1.60
Michigan	5.83	4.36	3.76	1.85	3.95	4.20	4.49
Ohio	7.89	6.08	4.17	3.80	5.06	5.68	5.12
Wisconsin	2.60	2.09	1.73	0.71	1.55	2.34	2.20
Plains	6.07	5.73	4.83	5.83	5.55	7.05	4.67
Iowa	1.14	1.22	0.70	0.16	1.33	1.34	1.53
Kansas	0.64	0.62	0.74	0.35	1.23	0.87	0.45
Minnesota	1.39	1.65	1.25	1.93	1.29	1.71	0.85
Missouri	2.38	1.61	1.60	2.08	1.04	2.09	1.25
Nebraska	0.41	0.38	0.35	1.14	0.34	0.63	0.25
North Dakota	0.03	0.11	0.09	0	0.16	0.15	0.14
South Dakota	0.07	0.14	0.10	0.17	0.16	0.26	0.21

Southeast	18.80	24.49	22.68	10.80	18.96	25.43	25.09
Alabama	1.46	1.96	2.08	0.56	1.07	1.84	1.54
Arkansas	0.91	1.09	0.62	1.19	0.68	1.36	0.87
Florida	1.33	3.19	4.05	2.19	3.51	3.21	3.14
Georgia	2.35	3.31	2.81	2.41	2.51	4.24	2.27
Kentucky	1.22	1.27	0.78	0.76	0.88	1.44	1.56
Louisiana	0.84	1.29	1.27	0.55	1.56	1.30	1.97
Mississippi	0.82	1.89	1.32	0	0.44	1.54	1.19
North Carolina	3.12	3.58	3.45	1.05	3.42	3.32	5.65
South Carolina	1.75	1.80	1.43	0.16	0.48	1.73	0.89
Tennessee	2.52	2.48	2.35	1.05	2.07	2.48	3.08
Virginia	1.85	2.06	2.06	0.88	2.16	2.24	2.60
West Virginia	0.64	0.55	0.46	0	0.18	0.73	0.32
Southwest	4.39	7.25	7.61	15.20	10.54	8.41	9.92
Arizona	0.50	0.66	0.59	1.23	0.53	0.64	0.88
New Mexico	0.09	0.30	0.53	0	0.28	0.39	0.24
Oklahoma	0.58	0.87	0.90	0.78	1.06	1.03	1.38
Texas	3.21	5.41	5.59	13.19	8.67	6.35	7.43
Rocky Mountain	0.99	1.41	1.90	1.28	1.45	1.71	0.94
Colorado	0.49	0.85	1.02	0.51	0.61	0.95	0.64
Idaho	0.15	0.17	0.22	0.77	0.22	0.23	0.05
Montana	0.09	0.10	0.15	0	0.09	0.17	0.08
Utah	0.23	0.25	0.39	0	0.49	0.27	0.05
Wyoming	0.02	0.05	0.12	0	0.04	0.09	0.12
Far West	9.65	13.70	16.75	10.37	15.61	14.43	11.47
California	7.57	11.73	14.04	8.25	12.73	11.88	10.08
Nevada	0.06	0.13	0.19	0.34	0.21	0.19	0.19
Oregon	0.79	0.71	0.74	0.13	0.66	1.15	0.42
Washington	1.10	0.93	1.20	1.26	1.72	1.03	0.55
Alaska	0.03	0.05	0.06	0.30	0.15	0.07	0.08
Hawaii	0.09	0.16	0.52	0.09	0.14	0.11	0.17

Note: District of Columbia is omitted.

[1]Major manufacturing establishments are those with 20 or more employees in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73. Employment for major manufacturing establishments is an estimate made by subtracting from reported employment, for these industries in each state, an estimate of the employment of small manufacturing establishments (less than 20 employees). Small manufacturing establishments were assumed to employ ten persons on average. Detail may not add to total because of rounding.

SOURCE: ACIR ACCESS File.

nearly identical—with regional migration representing an insignificant component of employment change for manufacturing firms.[10]

A North Carolina state senator made the following observation on the "smokestack chasing" that takes place among regions: ". . . the facts simply do not support the notion of northern decline caused by southern larceny of Snowbelt industries. Yet simple images, however erroneous, are often hard to dispel."[11]

A LOGICAL PATTERN OF ESTABLISHMENT BIRTHS

It is not at all clear that the location decision for a new major manufacturing establishment rides on a state's tax and fiscal policies. In the New England region, Massachusetts (a high-tax state) gave birth to more than its 1969 proportion of the region's major manufacturing establishments—both single establishments and branches. New Hampshire did likewise, at a much lower level of activity, of course. Connecticut fared least well among New England states, getting less than its proportion of both new single establishment and branch births in the region. *Chapter Five, Appendix Tables 1-4.*

In the Mideast region, New York lagged in its proportion of new single establishments and branches. Maryland and New Jersey fared consistently well in both classes of new major manufacturing establishments. Pennsylvania and Delaware each got more than a proportionate share of the region's new branches.

Illinois stood out in the Great Lakes region, getting more than its proportionate share of both single establishments and branches. Indiana was a slight gainer, while Michigan was a slight loser. Ohio and Wisconsin—the states with the relatively highest and lowest overall tax burdens—failed to gain their proportionate share of either single establishment or branch births.

Except in the Mideast and Plains regions, the state that was the center of manufacturing in the region held its own as the spawning ground for new major manufacturing establishments. Thus, Massachusetts, Illinois, Florida, Texas, Colorado, and California all acquired a more than proportionate share of their region's new single establishments or branches, or both. Among the Plains states, Missouri fared badly in acquiring its share of the region's new single establishments and branches, despite its low tax burden.

New York State warrants separate analysis because it could be contended that its situation alone ought to elicit federal action to protect the state's manufacturing base. Among the 303 major manufacturing establishment moves in the seven industrial classifications with the largest number of interstate moves, New York accounted for 91. Apparel and machinery establishments were the major industrial classes affected. While the states in the Southeast region were the major beneficiaries

Table 22

NEW YORK STATE AND SOUTHEAST REGION BIRTHS OF SINGLE ESTABLISHMENTS AND ASSOCIATED EMPLOYMENT FOR MAJOR MANUFACTURING CATEGORIES 1969-76

Industry Class	New York State				Southeast Region			
	Establishments		Employment		Establishments		Employment	
	Number	Percent of National Total	Number	Percent of National Total	Number	Percent of National Total	Number	Percent of National Total
Food	25	4.8%	1,347	5.0%	111	21.6%	5,434	20.1%
Textiles	110	17.3	5,110	14.4	310	48.8	19,935	56.1
Apparel	646	29.6	26,765	23.5	503	23.1	34,893	30.6
Fabricated Material	54	5.0	1,977	4.6	164	15.2	7,009	16.1
Machinery	51	4.7	2,474	5.6	175	16.1	7,615	17.1
Electrical Equipment	86	9.9	4,325	10.4	89	10.2	3,788	9.1

SOURCE: ACIR ACCESS File.

Table 23

REGIONAL DISTRIBUTION OF U.S. POPULATION, 1910-77

(dollar figures in millions)

Region	1910	1920	1930	1940	1950	1960	1970	1975	1977
United States	91,972	105,711	122,776	131,699	151,237	179,954	203,795	213,040	216,332
	100%	100%	100%	100%	100%	100%	100%	100%	100%
New England	7.1	7.0	6.7	6.4	6.2	5.9	5.8	5.7	5.7
Mideast	23.0	23.1	23.3	23.0	22.3	21.4	20.9	20.0	19.6
Great Lakes	19.8	20.3	20.6	20.2	20.2	20.2	19.8	19.2	19.0
Southeast	23.9	23.0	22.2	22.9	22.4	21.6	21.6	22.4	22.6
Plains	12.7	11.9	10.8	10.3	9.3	8.6	8.0	7.8	7.8
Southwest	6.6	7.0	7.4	7.4	7.6	7.9	8.2	8.6	8.8
Mountain	2.2	2.4	2.2	2.3	2.3	2.4	2.5	2.7	2.7
Far West	4.7*	5.3*	6.8*	7.5*	10.3	12.0	13.3	13.5	13.8

*Does not include Alaska or Hawaii.

SOURCE: Harvey S. Perloff, et al, *Regions, Resources, and Economic Growth*, Lincoln, NE, University of Nebraska Press, 1960, p. 12, and The BEA Regional Economic Information System, Regional Economic Division: 1977. The 1977 figures are provisional from the Bureau of the Census, *Current Population Reports*, series P. 20, Washington, DC, U.S. Government Printing Office, April 1978.

of these interstate moves from New York; other Mideast region states were the next most favored group. Remarkably, while New York was losing establishments to other states in six industrial categories, it was also the site of 734 new single establishments, branches, headquarters, or subsidiary establishments in these same industrial classes.

When one looks at specific industries—particularly those industries that represent the largest employment and number of establishments in manufacturing—it is clear that New York retains a strong and dynamic manufacturing base. Nearly 30% of the new single establishments with 20 or more employees in the apparel and other textile mill products classes, born between 1969 and 1976 and still existing in 1976, began life in New York. The number of births of such firms in New York (646) exceeds the total number of births of such firms in all of the Southeastern states (503). *Table 22* compares New York State and the Southeast region births of single establishments and associated employment for the major manufacturing categories.

NEIGHBOR STATE COMPETITION

The Dun and Bradstreet data provide evidence of the keen competition between neighbor states. This competition involves moves of establishments rather than the birth of new establishments. For example, Massachusetts lost 25 major manufacturing establishments to states within the New England region between 1969 and 1976—17 establishments to New Hampshire alone, according to the DMI file. Similarly, New York lost 29 major manufacturing establishments to states in the Mideast region between 1969 and 1976, according to the DMI file—12 establishments to New Jersey, and 13 to Pennsylvania.

Massachusetts and New York, each with more than half of the major manufacturing establishments in their respective regions in 1969, were apparently vulnerable to neighbor state competition. They impose generally higher taxes than their neighbors, and the regions in which they are located are so compact geographically that a location in any state within their region provides easy access to markets in all other states of the region.

In the Great Lakes region, Illinois occupies a position analogous to but less dominant than Massachusetts and New York. Between 1969 and 1976, it lost 17 major manufacturing establishments to states within its region—11 establishments to Wisconsin alone. Wisconsin's performance is surprising. As a September 1977 *Wall Street Journal* article put it, "In the battle among states for people and jobs, Wisconsin has all the attributes of a loser,"[12] because it imposes the heaviest tax burdens among the Great Lakes states. *The Wall Street Journal* story cited the growing appeal of winter sports and noted that, "If taxes are high, Wisconsinites are reasonably sure that their tax dollars aren't being squandered."[13]

The importance of this aspect of competition and the uncertain role of taxes in this area must be weighed in the context of previously discussed evidence and the point to follow.

LONG-TERM TRENDS

Federal intervention to mute state and local tax and fiscal policies designed to influence industrial location appear untimely now because of the long history of differential regional economic growth in the United States. An earlier volume in this ACIR series on regional growth revealed a dramatic shift between 1910 and 1977 in total economic activity away from the regions of earliest development (New England, Mideast, and Great Lakes). *Tables 23 through 27.* For example, although 50% of the country's 1910 population lived in New England, the Mideast, and Great Lakes areas, the percentage for 1977 was only 34%. A corresponding shift in shares of economic activity must also be expected.

"To evolve from a country of very substantial disparities in regional economic development and per capita incomes to one in which economic activity has dispersed across the nation with its benefits relatively evenly spread is a singular accomplishment." Since the accomplishment was achieved without conscious federal interference, a change of policy now would appear to be untimely if not unwise. It would be premature to assume that the gradual loss of historic advantages of the older manufacturing states will soon place them in a clearly inferior position.

Table 24

REGIONAL DISTRIBUTION OF PERSONAL INCOME, 1900-77
(dollar figures in millions)

Region	1900	1920	1930	1940	1950	1960	1970	1975	1977
United States	$15.391	$69,276	$76,780	$78,522	$226,214	$399,947	$808,223	$1,257,354	$1,518,390
	100%	100%	100%	100%	100%	100%	100%	100%	100%
New England	9.9	8.8	8.6	8.2	6.6	6.4	6.3	5.9	5.8
Mideast	30.8	30.2	33.3	30.5	26.2	24.8	23.5	21.8	21.0
Great Lakes	22.4	22.2	22.6	22.7	22.5	21.7	20.6	19.9	19.9
Southeast	12.0	13.0	11.2	13.2	15.3	15.8	17.7	19.2	19.5
Plains	13.3	10.3	8.9	8.3	8.9	7.9	7.6	7.7	7.6
Southwest	3.8	5.7	4.8	5.2	6.6	6.9	7.3	8.0	8.4
Mountain	2.5	2.5	1.9	2.0	2.3	2.3	2.2	2.5	2.6
Far West	5.3*	7.4*	8.8*	9.9*	12.2	14.1	14.7	14.9	14.7

*Does not include Alaska or Hawaii.

SOURCE: Harvey S. Perloff, et al, *Regions, Resources, and Economic Growth*, 1960, p. 223, and the BEA Regional Economic Information Systems, Regional Economic Division: 1977, however, 1977 figure reported by *Survey of Current Business*, August 1978.

Table 25

REGIONAL DISTRIBUTION OF MANUFACTURING LABOR FORCE

Region	1910	1930	1950	1960	1970	1975
United States	100%	100%	100%	100%	100%	100%
New England	13.42	10.48	9.59	8.7	7.5	7.1
Mideast	33.55	30.31	29.11	26.7	23.3	20.9
Great Lakes	22.61	25.59	28.94	26.8	26.0	25.2
Southeast	12.69	14.38	15.43	16.6	20.2	21.6
Plains	8.35	7.11	5.68	6.0	6.3	6.7
Southwest	2.74	4.13	3.28	3.8	5.1	5.8
Mountain	1.64	1.34	.87	1.1	1.3	1.5
Far West	5.00	6.66	7.10	10.4	10.6	11.3

SOURCE: 1910-1950, Harvey S. Perloff, *et al.* Table 102; 1960-77 ACIR staff computations from *Appendix Table A16.*

Table 26

REGIONAL DISTRIBUTION OF VALUE ADDED BY MANUFACTURING

Region	1910	1930	1950 (47)	1958	1966	1973
United States	100%	100%	100%	100%	100%	100%
New England	14.32	10.35	9.36	7.9	7.1	6.2
Mideast	36.90	33.75	29.87	28.2	24.5	21.0
Great Lakes	25.59	31.63	31.57	30.5	30.1	28.3
Southeast	10.04	9.86	12.49	14.7	15.6	18.7
Plains	6.42	5.74	5.54	6.6	6.2	6.8
Southwest	1.49	2.00	3.00	4.7	4.7	5.7
Mountain	1.21	.95	.88	1.3	1.2	1.4
Far West	4.03	5.72	7.49	11.7	10.7	11.8

SOURCE: 1910-50, Harvey S. Perloff, et al, *Regions. Resources and Economic Growth*, Table 103; 1958-73, U.S. Bureau of the Census, *Census of Manufacturing*. 1972, and *Annual Survey of Manufacturers. 1973.*

Table 27

REGIONAL DISTRIBUTION OF SERVICES LABOR FORCE

Region	1910	1930	1950	1960	1970	1976
United States	100%	100%	100%	100%	100%	100%
New England	8.43	7.44	6.27	7.3	7.2	6.7
Mideast	29.48	29.00	24.63	26.9	25.1	24.9
Great Lakes	20.15	21.19	18.95	19.1	18.5	18.1
Southeast	16.13	15.45	19.00	16.1	16.8	18.7
Plains	11.84	9.94	8.91	8.0	7.5	5.5
Southwest	4.72	6.11	7.89	6.7	7.4	8.1
Mountain	2.48	2.03	2.44	2.3	2.4	2.7
Far West	6.77	8.84	11.91	13.4	15.0	15.3

SOURCE: 1910-50, Harvey S. Perloff, et al, *Regions. Resources and Economic Growth*, Table 107; 1961-76, Bureau of the Census, U.S. Department of Commerce, *Statistical Abstract of the United States.*

FOOTNOTES

[1]David Mulkey and B.L. Dillman, "Location Effects of State and Local Industrial Development Subsidies," *Growth and Change*, April 1976; Roger W. Schmenner, *The Manufacturing Location Decision*, Cambridge, MA, Harvard-MIT Joint Center for Urban Studies, March 1978.

[2]T.E. McMillan, "Why Manufacturers Choose Plant Locations *vs.* Determinants of Plant Locations," *Land Economics*, August 1965.

[3]Gary C. Cornia, William A. Testa, and Frederick D. Stocker, *State-Local Fiscal Incentives and Economic Development*, Columbus, OH, Academy for Contemporary Problems, June 1978.

[4]Industrial Development Research Council, *A Composite Case History of New Facility Location*, Atlanta, GA.

[5]Cornia, et al, *op. cit.*

[6]Fred McGunagle, "The Tax Cut War," *The Cleveland Press*, April 26, 1978.

[7]Don Elsass, "Industrial Sweepstakes," *Illinois Issues*, December 1978, p. 4.

[8]Major manufacturing establishments, for purposes of this study, consist of those in Standard Industrial Classification (SIC) codes 20, 22-39, 48, and 73, having 20 or more employees.

[9]Harold Wolman, "Components of Employment Change in Local Economies," *Literature Review*, Washington, DC, The Urban Institute, January 1979, p. 5.

[10]*Ibid.*, p. 7.

[11]Willis P. Whichard, "Regional Fiscal Disparities . . . It's Time to Clean Up the Rhetorical Smoke," *Alabama Municipal Journal*, June 1977, p. 7.

[12]Paul Ingrassia, "Star of Snowbelt," *The Wall Street Journal*, September 6, 1977.

[13]*Ibid.*

Table 1

NUMBER OF MAJOR MANUFACTURING ESTABLISHMENTS AND BIRTHS BY MIDEAST STATE, 1969-76

State	Establishments 1969		Establishment Births 1969-76		Single Establishment Births 1969-76		Branch Establishment Births 1969-76	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Delaware	245	0.7%	73	1.0%	26	0.7%	33	1.5%
Maryland	1,643	4.6	489	7.0	192	5.6	203	9.2
New Jersey	6,580	18.3	1,580	22.5	724	21.0	576	26.0
New York	18,815	52.4	3,005	42.7	1,741	50.4	641	29.0
Pennsylvania	8,614	24.0	1,882	26.8	771	22.3	760	34.3
Totals	35,897	100.0	7,029	100.0	3,454	100.0	2,213	100.0

SOURCE: ACIR ACCESS File.

Table 2

NUMBER OF MAJOR MANUFACTURING ESTABLISHMENTS AND BIRTHS BY GREAT LAKES STATE, 1969-76

State	Establishments 1969		Establishment Births 1969-76		Single Establishment Births 1969-76		Branch Establishment Births 1969-76	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Illinois	8,846	30.6%	2,233	32.4%	699	29.4%	1,179	34.4%
Indiana	3,190	11.0	786	11.4	286	12.0	401	11.7
Michigan	6,325	21.9	1,456	21.1	580	24.3	634	18.5
Ohio	7,292	25.2	1,716	24.9	580	24.3	858	25.1
Wisconsin	3,265	11.3	699	10.2	238	10.0	353	10.3
Totals	28,918	100.0	6,890	100.0	2,383	100.0	3,425	100.0

SOURCE: ACIR ACCESS File.

Table 3

NUMBER OF MAJOR MANUFACTURING ESTABLISHMENTS AND BIRTHS BY NEW ENGLAND STATE, 1969-76

State	Establishments 1969		Establishment Births 1969-76		Single Establishment Births 1969-76		Branch Establishment Births 1969-76	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Connecticut	2,567	25.5%	564	24.2%	249	23.0%	195	22.9%
Maine	629	6.3	128	5.5	49	4.5	57	6.7
Massachusetts	4,878	48.5	1,148	49.3	530	49.0	433	50.9
New Hampshire	526	5.2	174	7.4	70	6.5	81	9.5
Rhode Island	1,144	11.4	250	10.7	155	14.3	56	6.6
Vermont	307	3.1	67	2.9	29	2.7	29	3.4
Totals	10,051	100.0	2,331	100.0	1,082	100.0	851	100.0

SOURCE: ACIR ACCESS File.

Table 4

INTERSTATE MOVERS FROM NEW YORK BETWEEN 1969 AND 1976, SELECTED INDUSTRIAL CLASSIFICATIONS

New York "Losses"	"Gainers"								Total Losses	Exhibit: Births of Establishments in New York 1969-76
	New England	Mid-East	Great Lakes	Plains	South-East	South-West	Rocky Mountain	Far West		
Food	0	3	3	0	1	0	0	1	8	89
Textiles	2	4	0	0	5	0	0	0	11	158
Apparel	2	4	1	0	14[1]	0	0	1	22	25
Chemical	0	5	2	0	6	0	0	0	13	78
Fabricated Metals	0	0	1	1	1	1	0	0	4	112
Machinery	7	4	0	0	7	2	0	1	21	106
Electrical Equipment	2	1	1	0	3	0	0	5	12	166
Total Gains	13	21	8	1	37	3	0	8	91	734

[1]Six to Florida.

SOURCE: ACIR ACCESS File.

Chapter 6

Federal Involvement Issues

Under ideal conditions the competition among firms in the American free enterprise economy is a self-policing process tending to produce the correct regional allocation of people, jobs, and capital. It has been argued that this self-correcting competitive process also extends to tax competition:

> . . . so long as the free movement of goods, services, and people is preserved, the excesses of any particular state's policy will be corrected by market discipline. Market discipline should work by expanding and contracting the pool of rent reflected in state property values. On the one hand, excessively antibusiness policies should discourage new industry, increase unemployment, encourage emigration, and ultimately depress property values. Eventually property owners should mount pressure to correct the disincentives and attract new industry. On the other hand, excessively probusiness policies should attract a flood of new firms and employees, put a heavy burden on municipal services, increase the tax load on real property owners, and eventually inspire corrective measures in the opposite direction.[1]

Those who subscribe to the view that interstate tax competition will be kept within bounds by natural forces tend to be from the states and regions

that are currently growing most rapidly. For example, Texans are particularly eager to allow interstate tax competition.

According to *The New York Times,* December 6, 1978, Stanley Marcus of Neiman-Marcus commented as follows on the announced shift of American Airlines' headquarters from New York to Dallas:

> . . . marketing of companies is just like the marketing of goods—you win some and you lose some and you don't cry about it.

William Broyles, editor of the *Texas Monthly,* delivered a harsher judgment on New York's loss of American Airlines' headquarters. He asserted that New York and other Northeast and Midwest cities attained their lofty position as a result of "sound economics rather than divine ordination." He expressed understanding for their feeling that "the dispersion of industry and population is not as good for the country as was its original concentration in their regions." He noted that "representative institutions of small towns and rural counties have been managing decline for three generations and that New York and other cities had profited from the conditions that led to small town decline." He pointed out that "the best way for the rest of us to help New York and its sister states would be to do nothing. People follow jobs and opportunities unless they have incentives to stay where there are none." He concluded that the "sooner the Northeast recognizes its competitive disadvantages with the rest of the country, the sooner it will reach some equilibrium of jobs and population."[2]

The forces of self-correction include in-staters as well as out-of-staters. This was highlighted recently in a "man bites dog" story in *The New York Times:*

> In an unusual stance for a labor group, the union [The Teamsters Joint Council 16] asserted that taxes on employers reduced the money pool available for workers. Escalated worker wage demands to cope with personal tax burdens, it said, start a "chain reaction which frequently leads to reduced employment opportunities, and worse, relocation of the business."[3]

The self-correcting thesis was also stressed in a *Times* story by Peter Kilborn about the upgrading of the Camden, NJ, economy:

> The growing tax differences are beginning to narrow, as are wages and the cost of factory sites. It is a slow shift, and in places it is less apparent than in others, but at the very least, Camden and cities like it have found that hell may have a floor.[4]

Carol Steinbach began a recent article about interstate competition for industry with the statement that:

> Economic development is not an optional activity for state governments. By action or inaction, interest or indifference, state governments make daily decisions that have profound effects on the lives of their citizens and the health of their communities.[5]

The ever-widening deployment of state tax and expenditure policies in pursuit of economic development has caused some persons to believe that "the common interest of all states may be better served by limitations on individual state policies."

CONDITIONS FOR FEDERAL INVOLVEMENT

The call for greater federal involvement to mute the effects of state and local policies designed to attract industry would seem to require two types of evidence:

1) that states imposing heavier than average direct tax burdens on individuals, as distinct from business, are losing jobs and capital to states imposing below average burdens; and
2) that in order to stop the outflow of jobs and capital, states with the heaviest average tax burden would have to make spending cuts and tax reductions of damaging and extraordinary proportions.

In the interest of "optimizing" the workings of our federal system, it would also be desirable to identify a federal policy response that could minimize, if not eliminate, tax-based interstate competition for industry while leaving states with a wide scope for adapting their tax structures to their needs.

TESTING FOR THE FIRST CONDITION

The Harris Bank of Chicago has published a study that concludes that those states which re-

duce their tax burden relative to others should expect to experience above average economic growth, although the positive-response relative tax burden could take about three years to become evident.[6] The authors found little relationship between relative economic growth (as measured by the growth in personal income) and average state-local tax burdens (taxes divided by personal income) over the period 1969-76. They found only a weak relationship between relative economic growth and changes in state-local tax burdens. But, after allowing for a three-year time lag, the relationship between relative income growth and changes in state-local tax burdens was described in the study as "striking." *Figure 1.*

While the Harris Bank study seems to provide formidable support for the link between economic growth and changes in tax burden, it can be criticized on three grounds:

1. An association is established between personal income and tax burden, but tax burden consists of taxes divided by personal income in this case. Thus, the independent and lagged dependent variables share the same measure—a situation where one would expect some correlation.
2. The study focuses narrowly on taxes and ignores expenditures—the purposes for which taxes are imposed. More specifically, the findings imply that all government expenditures that result in increased taxes impair the economic growth of a state—an inference that is counterintuitive in the case of highways, water supply, sewage disposal, and quite possibly also for education, health, and other human service outlays.
3. The statistical relationship is so simple that it is hard to believe that it could explain so much of the variation (about 60%) in state personal income growth rates.

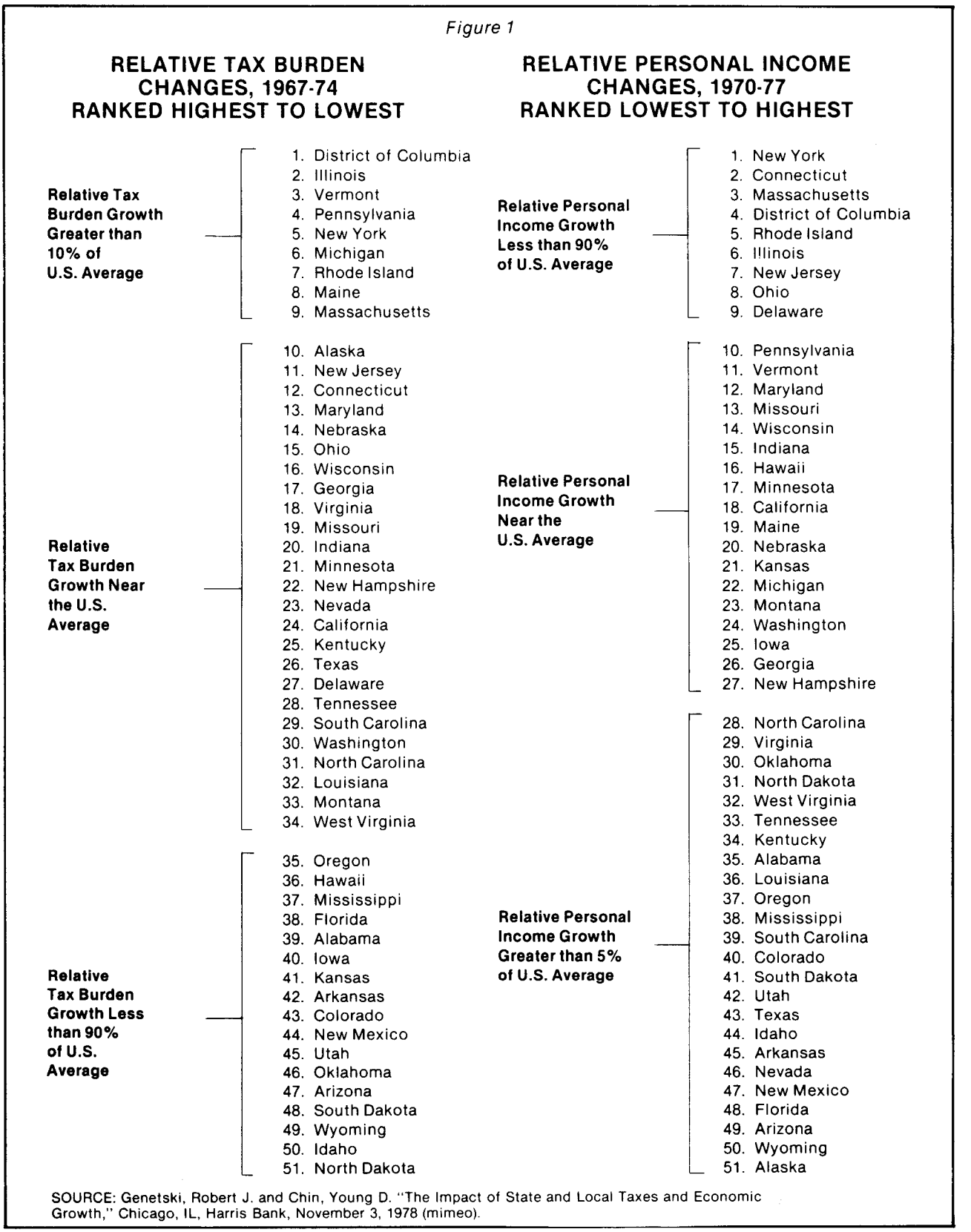
Why would a manufacturing firm want to locate in the states of the South and West where tax burdens are lower and have not grown as rapidly? Many of the possible answers to this question involve taxes only indirectly. For example:

1. The Sunbelt states are gaining population and represent new market potential.
2. Many of the Sunbelt states are not highly unionized and have right-to-work laws, both of which are presumed to mean lower wage rates.
3. The people and governments of the Sunbelt states appear to welcome industrial development and are sympathetic to the business viewpoint on tax and fiscal and regulatory issues.
4. The firm that moves to the Sunbelt does so to assure supply or closer proximity to low cost energy, labor, and raw materials.
5. The firm's existing facilities outside the Sunbelt cannot be easily or cheaply expanded or the firm wants to alter its manufacturing operation to develop, process, product, market area, or other capacity specialization and enlargement.
6. The Frostbelt community or the environs of an existing plant have aged or deteriorated since the plant was first sited and a new branch plan in the Sunbelt looks attractive as a base for ultimate relocation.
7. The Frostbelt community in which an existing plant is located faces higher costs in the future in terms of personnel recruitment and transportation of supplies, as well as products and plant security.
8. The company management has changed and it no longer feels a loyalty to the community in which a plant is located.

In this scenario, these reasons for establishing a new major manufacturing establishment, when considered along with relative tax burdens, of course, happen to favor the low tax burden over the high tax burden state.

The evidence suggests that more factors than above or below-average tax burdens are triggering the movement of people, capital, and jobs among and between the states and regions. The shift to the Sunbelt states is part of a long-term trend toward the dispersion of manufacturing activity that traces its origin back to the beginnings of the 20th century or earlier. Interstate movement of major manufacturing establishments enjoys wide publicity because of the specific localities that gain and lose, but as a matter of significance to regional growth and decline, interstate movement of major manufacturing establishments is of minimum con-

Figure 1



SOURCE: Genetski, Robert J. and Chin, Young D. "The Impact of State and Local Taxes and Economic Growth," Chicago, IL, Harris Bank, November 3, 1978 (mimeo).

sequence. Births of new single establishments and branches are widely spread among all states, and high tax burden states show few signs of stagnation in absolute terms. *Tables 18 and 20.* But there is no gainsaying that in relative terms the New England, Mideast, Great Lakes, and Plains regions are not holding their own in the competition for manufacturing establishments. *Tables 19 and 21.*

TESTING FOR THE SECOND CONDITION

Would states with the heaviest average tax burden have to make extraordinarily large spending and tax cuts to protect themselves from a loss of people, capital, and jobs?

Excluding Alaska and Hawaii, because of their noncontiguous location to other states, the phenomena of high tax burden in relation to personal income is not a characteristic uniquely present in the Frostbelt region. The 11 states that had a tax burden one-half percentage point above the average for the nation represented outlyers in all regions except the Southeast. Maine, Massachusetts, and Vermont were the standouts in New England; New York represented the Mideast; Wisconsin, the Great Lakes; Minnesota, the Plains; Arizona and New Mexico, the Southwest; Montana and Wyoming, the Rocky Mountains; and California, the Far West. Montana and Wyoming achieve their outlyer status mainly as a result of severance and other taxes on companies engaged in extracting mineral wealth. Such taxes are generally not considered a burden on the residents of these two states, on the theory that the firms severing the minerals pass tax costs along to those who purchase or process them for ultimate consumption.

To bring their tax burdens down to within one-half percentage point of the national average, the 11 states would have to reduce their state-local tax take—from 0.3% in Maine to 23.4% in New York. *Table 28.*

In 1978, Californians voted themselves a $6 billion property tax reduction through the approval of Proposition 13. This was more than enough of a dollar tax reduction to bring California's 1978 level of burden to within one-half percentage point of the national average burden.

On the basis of California's action, it might be argued that every state—with the possible exception of New York—has the capacity to reduce its taxes without severely curtailing essential public services. But before accepting this conclusion, it is necessary to note that California was able to reduce its property tax with full knowledge that surplus state and local revenues from prior years and a booming current economy, with its effects on current revenue, would virtually bar an immediate drastic reduction in public services.

All of our evidence suggests that only New York—and possibly Massachusetts—might meet the second condition; namely, that of having to make extraordinarily large spending and tax cuts as a means of protection from a loss of people, capital, and jobs. The current fiscal austerity in New York appears to be bringing the state into a somewhat more competitive position. A look at New York's recent fiscal history may suggest how far it can go to bring its tax and fiscal magnitudes back in line with practices in other states.

New York has suffered from long-term economic decline. Its relative proportion of the U.S. personal

Table 28

PERCENTAGE REDUCTION IN STATE-LOCAL TAXES REQUIRED TO BRING TAX BURDEN WITHIN ONE-HALF PERCENTAGE POINT OF THE NATIONAL AVERAGE BURDEN IN 1978

New York	23.4%	**Minnesota**	8.1%
California	17.2	**Wisconsin**	8.1
Wyoming	17.2	**Arizona**	7.6
Massachusetts	12.3	**Montana**	3.7
Vermont	8.5	**Maine**	0.3
		New Mexico	0.1

income and employment has declined more rapidly than has its proportion of the U.S. population. In the early 1960s, New York's state and local expenditures were above those in the rest of the nation by about the same proportion that its per capita personal income exceeded the national average. The long-term economic decline of New York, together with the further growth of state and local spending, has resulted in New York's public sector outlays per dollar of personal income being about 30% higher than the average for the rest of the nation.

In some quarters, it is argued that high tax states like New York are high need states which, because of unfair federal aid allocations, cannot cut their taxes and still meet their needs as well as do other states.

New York's welfare spending per dollar of personal income in the early 1960s was below the average for the rest of the nation. After 1966, and with the advent of medical assistance, New York's welfare situation changed radically. As the state's relative economic position in the nation fell, its welfare burden escalated. Its welfare outlays per dollar of personal income increased from 50% to 85% higher than those of the rest of the nation. The growth of the state-local tax burden at a time of long-term economic decline gave the state a bad reputation as a place to locate. In response to this unfavorable situation, the legislature worked out a program for the reduction of the high bracket state personal income tax rates and froze welfare benefit levels. The maximum personal income tax rate was scaled down from 15% to 12% on wage income and 14% on investment income. Corporate tax surcharges were allowed to expire. Since 1974, the welfare benefit for a family of four has remained unchanged—at $258 and a maximum of $212 for rent per month.[7]

Among states with the heaviest average tax burden, New York stands out as the only state that clearly would have to make extraordinary spending or tax cuts to protect itself from tax-based competition of other states. New York has already begun to bring itself back in line. The rate of increase in its state and local tax burden (1.1%) was below the national average (1.2%) in the period 1975-78. Moreover, its rate of increase in tax burden (1.1%) was even more strikingly below the 1975-78 rate of increase, both in Connecticut's tax burden (2.5%) and in New Jersey's (2.3%).

AN ALTERNATIVE DEFENSE TO TAX COMPETITION: RESTRICTING BUSINESS MOBILITY

Apart from considering tax cuts, state legislators and other officials in at least three states have perceived the threat of interstate competition for industry to be so severe that they have proposed bills which would place restrictions on the movement of business. These measures, similar to the pending "National Employment Priorities Act" proposed at the federal level, would both provide for government investigation of business movement and establish rules and penalties for firms whose moves are not deemed "justified." Similar legislation has been passed in Maine and introduced in the Ohio and New Jersey legislatures.[8] The Ohio proposal features severance pay for workers affected by a relocated business, and both the New Jersey and Ohio proposals require businesses to give advance notice of their intentions to relocate. Government assistance to affected workers—which includes food stamps, cash payments, early retirement payments, and relocation allowances—is another feature of the bills. The steam behind the idea in Ohio may have been built up by the dire consequences foreseen for Youngstown in 1977, when the Lykes Corporation announced the closing of its Campbell steelworks. A year later, however, *The Wall Street Journal* carried a story proclaiming Youngstown to be alive and well.[9]

In his study of these legislative restrictions, Richard B. McKenzie challenges the claim that firm migration is devastating for many workers and communities and claims that government restrictions on business mobility could slow the economic growth of all regions—including the regions which would supposedly benefit from firm migration. McKenzie also contends that several negative consequences of restrictions on business mobility are serious enough to cancel potential benefits:

> Restrictions on business mobility will increase costs by reducing the efficiency with which resources are allocated on an inter and intra-regional basis. . . . Granted, restrictions on business movement will affect income and wealth transfers which may be a social objective of its proponents. However, relocation rules are

> a particularly haphazard way of accomplishing such social objectives.[10]

One consideration that is important when discussing firm migration is the impact of firm closures or cutbacks upon individuals. While individual hardships undoubtedly follow business decisions to relocate, it is essential that the true costs and benefits of legal restrictions are determined. On this subject McKenzie concludes, "After the political rhetoric is peeled away and the emotions of individual employment losses are set aside, restrictions on business mobility have very little to recommend them."[11]

States may, for a time, find it in their interest to capture their present industry through such measures, regardless of the national economic interest as a whole. But such a policy may discourage new industry for fear of being trapped when economic circumstance would dictate a change in location or scale of operations.

This new strategy, while politically attractive for a state, may not be the best course of action even from its local interest and could slow down the national economy as a whole and work against a federal government that is interested in making industry competitive in international trade.

EVALUATING FEDERAL POLICY OPTIONS

Short of highly coercive or expensive action, there seems to be no easy way for the federal government to stop or inhibit states from using tax, spending, and regulatory policies to try to manipulate their industrial development.

Although the U.S. Constitution gives Congress the authority to regulate commerce among the states, Congress and the courts historically have been loathe to interfere with the taxing powers of the sovereign states.

In June 1978, the Supreme Court demonstrated its aversion to interference in state tax policy in the case of *Moorman vs. Bair.* Here the Court validated Iowa's use of single factor sales formula for the apportionment of income of a multistate corporation, subject to the state's corporate income tax—despite the virtual universal use of the three factor apportionment formula by corporate income tax states. The effect of Iowa's single factor sales formula is to encourage firms to locate manufacturing activity in Iowa. If a firm wants to sell in a national market, it can, by locating in Iowa, appreciably reduce its taxes to other states because the firm will share, at most, one of the three factors with other states. The bulk of property and payroll will be assigned to Iowa where it will not enter into the tax calculation. A multistate firm determines its taxable income for Iowa by multiplying its total income by the fraction obtained by dividing sales in Iowa by sales elsewhere. In *Moorman,* the Court pointed out that the Constitution vested in the Congress the power to enact remedial legislation:

> It is clear that the legislative power granted to Congress by the Commerce Clause of the Constitution would amply justify the enactment of legislation requiring all states to adhere to uniform rules for the division of income. It is to that body, and not this Court, that the Constitution has committed such policy decisions.

There are only two recent instances where Congress has dealt with state taxing power. Through the passage of P.L. 86-272 (1959), Congress determined that the mere solicitation of business in a state was not a sufficient nexus to bring a firm within the jurisdiction of that state for purposes of its taxes on, or measured by, net income. Congress also authorized a study of the problem of state taxes on interstate firms. The completed study's recommendations resulted in proposed legislation which subsequently was introduced but failed to pass.

In P.L. 94-210 (1976), Congress provided railroads with injunctive relief from discriminatory assessment of railroad property at a value bearing a higher ratio to the "true market value" of such property than the comparable ratio for all other commercial and industrial property. If a ratio for all other commercial and industrial property cannot be established through a ratio study, then the court will use for comparison a sales ratio for all other property in the assessment jurisdiction in which the taxing district is located. The first case under the law has now been settled in favor of the railroads, in the U.S. District Court for Tennessee.[12] Congressional reluctance to interfere with state tax policy was demonstrated further during 1978 when the Senate was asked to ratify a tax treaty with the United Kingdom which would have required states to recognize "separate ac-

counting" at the international level instead of permitting them to reach income from foreign activity through the unitary or other methods of allocation and apportionment used to determine the state's taxable corporate income. The Senate took exception to that portion of the treaty, leaving the states free to continue their current practices.

Any act of Congress to regulate state tax policies with respect to business would have the appearance of being drastic in the light of the long tradition of freedom of state tax action. And other actions Congress might take would also be highly coercive, expensive, or inequitable to taxpayers in the states. For example, an action by Congress to consider conditioning continued state participation in federal General Revenue Sharing on the elimination of special state tax and fiscal concession to business, would surely arouse the enmity of Governors and state legislators. Alternatively, Congress could relieve the competitive pressure on high tax states like New York by assuming the cost of public assistance—including Medicaid—but that would be expensive and most helpful to states that now support the most generous welfare benefits. A similar problem arises for federal tax credits from state-local taxes that would be more generous than the deduction now allowed.

In 1973, the Commission suggested two tests to determine whether a proposal could be justified on the grounds of a strong national interest:

- The problem that precipitated the demand for federal intervention stems from a head-on conflict—a serious undercutting of a major federal program objective by policies of most states.
- The intergovernmental conflict can be resolved only by federal action.

A proposal for federal action to curb state practices of granting tax and fiscal concessions to business would appear to fail both of these tests. Indeed, federal action at this time would be a great affront to state tax sovereignty—a hallmark of federalism. This position does not imply any coolness, however, toward voluntary regional cooperation among neighboring states in order to dampen tax competition, or toward state action to limit use of concessions by localities—the choice of which may be strongly influenced by tax levels. Nor does the Commission wish to prejudge, especially with regard to energy taxation, the role that the federal government might play in lessening interstate fiscal disparities.

FOOTNOTES

[1] Hufbauer, G. C. and Clapp, A.E., "International Aspects of State Tax and Expenditure Policies," *Proceedings of the Annual Conference on Taxation,* Oklahoma City, OK, 1979, National Tax Association-Tax Institute of America, Columbus, OH, 1980.

[2]William Broyles, "Do Nothing for New York . . .", *The New York Times,* April 3, 1979.

[3]*The New York Times,* November 20, 1977.

[4]*The New York Times,* March 25, 1979.

[5]Carol Steinbach, "Economic Development in the States: There's a New Look Coming," *State Legislatures,* Vol. 5, No. 3, Denver, CO, National Conference of State Legislatures, March 1979, p. 6.

[6]Robert J. Genetski and Young D. Chin, "The Impact of State and Local Taxes and Economic Growth," Chicago, IL, Harris Bank, November 3, 1978, mimeo.

[7]*The New York Times,* editorial, June 5, 1980.

[8]State of Maine, Severance Pay Law, Title 26, Section 625-A, pp. 83-85; State of Ohio, General Assembly, S.B. No. 337, Regular Session, 1977-78; State of New Jersey, Assembly, Employment Relocation Assistance Act, No. 61, 1978 Session.

[9]Thomas Petzinger, Jr., "Bouncing Back," *The Wall Street Journal,* October 18, 1978, p. 48.

[10]Richard B. McKenzie, *Restrictions on Business Mobility: A Study in Political Rhetoric and Economic Reality,* Washington, DC, American Enterprise Institute for Public Policy Research, 1979.

[11]*Ibid.,* p. 61.

[12]*State of Tennessee vs. Louisville and Nashville Railroad Co.,* No. 793025, U.S. District Court for the Middle District of Tennessee, August 15, 1979.

Appendix

State-Local Taxes with an Initial Impact on Business

State and local taxation of business is a persistent source of controversy in both public policy deliberations and public finance theory. Its public policy significance arises from the efforts of state and local officials to use business tax policy and tax concessions to attract industry. Its public finance significance arises from the inability of economists to determine—among consumers, employees, or stockholders and proprietors, and among income groups—where the burden of taxes imposed on business ultimately falls.

Lacking a measure of the ultimate incidence of business taxes, researchers must fall back on less-than-perfect measures such as taxes with an initial impact on business. This concept attempts to measure for each state-local system the relative reliance on levies that business firms may or may not be able to shift to consumers or employees.

Taxes with an initial impact on business consist of several distinguishable elements such as:

1) levies of a general character, like the property tax on business property and the retail sales tax as it applies to purchases by business for its own use or consumption; and
2) levies of a specific character that apply to business, including:
   a) corporation and unincorporated business income taxes;
   b) gross receipts business taxes on the

entire gamut of business activities and occupations, such as those in Washington and West Virginia;

c) Michigan's single business (value added) tax;
d) capital stock taxes;
e) license taxes on business, whether at a flat rate or measured by gross receipts; and
f) taxes on particular activities, such as severance of minerals, insurance underwriting, banking, and public utility services.

The foregoing business tax categories are distinguished from taxes on individuals, such as:

1) the personal income tax, including that portion of the tax attributable to income from noncorporate business organizations;
2) the property tax on residences, farms and acreage, and vacant platted lots;
3) the general sales tax collected by vendors who are expected to collect the tax from individual, as contrasted to business, purchasers;
4) specific excise taxes, such as those on cigarettes, alcoholic beverages, parimutuels, and the like, where business is, in effect, a collecting agent and is expected to reimburse itself from the prices charged its customers; and
5) motor fuel and motor vehicle taxes, which take on the character of user charges to finance the highway system.

RELATIVE DECLINE IN BUSINESS TAX PAYMENTS

Continuing a trend first identified by ACIR in 1967, state and local taxes with an initial impact on business have declined in their fiscal importance relative to taxes falling primarily on individuals. The share of total state and local tax receipts provided by business taxes (excluding unemployment taxes) has declined steadily during the period 1957 to 1977—from 36.8% to 30.6%. *Table A-1.*

Business property taxes showed the most dramatic decline—from 20.3% of total state and local tax revenues in 1957 to 12.3% in 1977. Two other categories of business taxation—e.g., severance, and license and others—diminished in relative significance over this 20-year period. In the last decade, however, the relative reliance on severance taxes seems to have picked up—a change that may indicate both the rapid price increases in minerals and fuels subject to this tax and the increase in severance tax rates.

Corporation net income taxes registered a strong relative increase, rising from 3.6% to 5.6% of total receipts during the 1957-77 period. Corporate income tax collections rose sharply between 1967 and 1977, from $2,479 million to $9,902 million. Correspondingly, these collections, as a percent of total state-local tax collections, rose from 4.1% to 5.6%. This substantial increase is not surprising, given the widespread increases in state corporate income tax rates over the last decade.

Business sales and gross receipts taxes have also increased as a proportion of total tax collections. In 1957, sales and gross receipts taxes paid by business were estimated at $1,902 million, or 6.6% of total collections. Estimates for 1977 show receipts to be $15,062 million, or 8.6% of total state-local tax collections. This represents a 30% increase in the percentage of total state-local taxes derived from business sales taxes—which is understandable given the steady rise of general prices, as well as the sales tax rate increases in a number of states.

Taxes on individuals increased in the aggregate from 63.2% of total state and local taxes in 1957 to 69.4% in 1977. *Table A-1.* The property tax for individuals grew as a proportion of total taxes between 1957 and 1962, and then declined from 1962 to 1977. Sales taxes on individuals as a percent of total state-local collections have risen consistently over the last two decades—increasing from 10.9% in 1957 to 16.0% in 1977. The most significant relative increase occurred in personal income taxation, which rose from 5.7% in 1957 to 16.2% in 1977. Eight states enacted broad-based personal income taxes between 1967 and 1976. The personal income tax, more than other state and local taxes, responds to growth—both real and inflationary—in the economy.

Selective excise taxes on individuals—such as those on cigarettes, alcoholic beverages, and motor fuel—are least responsive to economic growth since they are usually imposed at specific rates. This is evident in their significant relative decline since 1957, from 14.1% of total collections to 9.9%.

Table A-1

STATE AND LOCAL TAXES WITH AN INITIAL IMPACT ON BUSINESS AND ON INDIVIDUALS, BY TYPE OF TAX, 1957, 1962, 1967, 1977

Item	Amount (in millions)				Percent of Total			
	1977	1967	1962	1957	1977	1967	1962	1957
TAX COLLECTIONS:								
Excluding Unemployment Taxes	$175,879	$61,000	$41,554	$28,645	100.0%	100.0%	100.0%	100.0%
Including Unemployment Taxes	184,437	63,911	44,209	30,159	—	—	—	—
TAXES WITH AN INITIAL IMPACT ON BUSINESS:								
Total, Excluding Unemployment Taxes	53,874	19,900	14,478	10,553	30.6	32.6	34.8	36.8
Total, Including Unemployment Taxes	62,432	22,811	17,133	12,067	—	—	—	—
Property (Real and Personal)	21,642	10,298	8,156	5,808	12.3	16.9	19.6	20.3
Sales and Gross Receipts	15,062	4,076	2,694	1,902	8.6	6.7	6.5	6.6
Corporation Net Income	9,902	2,479	1,332	1,043	5.6	4.1	3.2	3.6
Unemployment Tax	8,558	2,911	2,655	1,514	—	—	—	—
Severance	2,168	577	451	388	1.2	0.9	1.1	1.4
License and Other	5,100	2,470	1,845	1,412	2.9	4.0	4.4	4.9
TAXES, PRIMARILY ON INDIVIDUALS:								
Total	122,005	41,100	27,076	18,092	69.4	67.4	65.2	63.2
Property (Real and Personal)	40,893	15,749	10,898	7,056	23.3	25.8	26.2	24.6
General Sales and Gross Receipts	28,112	8,158	4,712	3,118	16.0	13.4	11.3	10.9
Selective Excises	17,421	8,296	5,602	4,046	9.9	13.6	13.5	41.1
Personal Income	28,517	5,573	3,013	1,644	16.2	9.1	7.3	5.7
License and Other	7,062	3,324	2,851	2,228	4.0	5.4	6.9	7.8

SOURCE: Estimates prepared by ACIR staff from published and unpublished data from the Governments Division, U.S. Bureau of the Census; U.S. Department of Agriculture data; supplementary data supplied by several states; and ACIR staff estimates.

Regional Patterns

Examination of the states arranged according to geographic region reveals distinctive patterns of decline in the ratio of business taxes to total state and local tax receipts. *Table A-2.* Each of the eight principal regions showed percentage decreases from 1957 to 1967; the Southwest registered the largest decrease over the ten-year period (−16.5%), followed by the Mideast (−13.7%), and the Plains region (−12.6%).

Between 1967 and 1977, only one region—the Southwest—had a percentage increase (+4.4%), the region with the largest decrease during the previous ten-year period. The regions providing the largest decrease for this latest ten-year period were the Great Lakes (−11.7%) and New England (−9.5%).

Over the 20-year period from 1957 to 1977 the reduction in the ratio of taxes on business to total tax collections was 16.8%. Dramatic decreases in the proportion of taxes falling on business during this period occurred in each of the eight geographic regions.

Table A-2

RELATIONSHIP OF STATE AND LOCAL TAXES WITH AN INITIAL* IMPACT ON BUSINESS TO TOTAL STATE AND LOCAL TAXES, BY STATE, 1977, 1967, 1962, AND 1957[1,2] (in millions of dollars)

Region and State	Total State and Local Taxes				State and Local Taxes on Business[2]			
	1977	1967	1962	1957	1977	1967	1962	1957
United States	$175,879	$61,000	$41,554	$28,645	$53,874	$19,900	$14,478	$10,553
New England	(10,915)	(3,818)	(2,711)	(1,898)	(2,923)	(1,129)	(871)	(642)
Connecticut	2,751	983	684	461	920	337	254	166
Maine	714	253	197	140	176	74	58	44
Massachusetts	5,793	2,004	1,423	1,015	1,367	556	441	341
New Hampshire	525	177	126	87	158	45	35	28
Rhode Island	741	267	189	130	199	85	59	46
Vermont	391	134	92	65	104	32	24	17
Mideast	(43,261)	(15,531)	(10,305)	(7,131)	(12,807)	(5,099)	(3,502)	(2,709)
Delaware	483	178	112	59	165	51	34	16
District of Columbia	739	275	183	143	236	87	60	48
Maryland	3,692	1,172	714	460	891	319	208	142
New Jersey	6,827	2,240	1,508	987	2,033	766	561	403
New York	22,445	8,424	5,452	3,712	6,817	2,833	1,868	1,386
Pennsylvania	9,075	3,242	2,336	1,770	2,665	1,043	771	714
Great Lakes	(32,074)	(11,566)	(8,264)	(5,856)	(9,177)	(3,744)	(2,934)	(2,116)
Illinois	9,674	3,250	2,462	1,724	3,097	963	788	585
Indiana	3,478	1,471	951	635	1,031	434	364	237
Michigan	8,017	2,715	1,896	1,392	1,891	974	748	557
Ohio	6,857	2,612	1,980	1,398	2,255	946	740	486
Wisconsin	4,048	1,518	975	707	903	427	294	251
Plains	(12,460)	(4,864)	(3,403)	(2,424)	(3,322)	(1,315)	(1,004)	(748)
Iowa	2,155	919	638	488	463	193	157	114
Kansas	1,692	717	519	367	558	209	165	120
Minnesota	3,062	1,256	869	598	943	409	311	238

Missouri	2,924	1,199	819	551	911	337	245	178
Nebraska	1,208	390	271	200	231	77	58	47
North Dakota	445	178	135	108	119	45	35	28
South Dakota	434	205	152	112	97	45	33	23
Southeast	(29,051)	(9,744)	(6,347)	(4,473)	(9,345)	(3,179)	(2,237)	(1,610)
Alabama	1,871	677	437	318	610	196	129	98
Arkansas	1,059	393	255	178	292	100	71	55
Florida	5,309	1,623	1,061	663	1,697	476	367	235
Georgia	3,075	1,025	627	468	791	305	199	144
Kentucky	2,079	674	467	323	597	164	131	94
Louisiana	2,494	959	655	497	1,238	530	371	258
Mississippi	1,260	461	317	234	399	157	122	88
North Carolina	3,275	1,129	739	502	954	357	244	178
South Carolina	1,579	511	331	245	412	170	104	80
Tennessee	2,425	821	528	403	847	255	166	125
Virginia	3,468	1,071	624	423	985	312	214	158
West Virginia	1,157	400	306	219	525	157	119	97
Southwest	(12,501)	(3,896)	(2,824)	(1,909)	(5,087)	(1,519)	(1,212)	(891)
Arizona	1,898	524	328	183	604	165	115	67
New Mexico	743	272	187	128	289	102	77	43
Oklahoma	1,682	629	458	345	590	218	154	128
Texas	8,178	2,471	1,851	1,253	3,604	1,034	866	653
Rocky Mountain	(4,517)	(1,506)	(1,061)	(734)	(1,473)	(508)	(378)	(274)
Colorado	2,158	678	476	313	664	215	161	108
Idaho	548	205	136	100	151	69	46	34
Montana	583	213	162	125	218	76	61	49
Utah	827	300	205	136	236	100	78	57
Wyoming	401	110	82	60	204	48	32	26
Far West	(31,103)	(10,078)	(6,642)	(4,224)	(9,748)	(3,408)	(2,344)	(1,567)
California	23,843	7,785	5,143	3,304	7,371	2,670	1,836	1,234
Nevada	565	166	95	60	172	62	35	24
Oregon	1,885	631	418	348	523	202	144	123
Washington	3,004	1,109	760	512	1,040	380	269	186
Alaska	934	86	52	n.a.	421	25	17	n.a.
Hawaii	872	301	174	n.a.	221	69	43	n.a.

Table A-2 (cont.)

RELATIONSHIP OF STATE AND LOCAL TAXES WITH AN INITIAL* IMPACT ON BUSINESS TO TOTAL STATE AND LOCAL TAXES, BY STATE, 1977, 1967, 1962, AND 1957[1,2]

Region and State	Taxes on Business as Percent of Total Taxes				Percent Change		
	1977	1967	1962	1957	1957-67	1967-77	1957-77
United States	30.6%	32.6%	34.8%	36.8%	−11.4%	−6.1%	−16.8%
New England	(26.8)	(29.6)	(32.1)	(33.8)	(−12.4)	(−9.5)	(−20.7)
Connecticut	33.4	34.3	37.1	36.1	−5.0	−2.6	−7.5
Maine	24.6	29.3	29.1	31.4	−6.7	−16.0	−21.7
Massachusetts	23.6	27.7	31.0	33.6	−17.6	−14.8	−29.8
New Hampshire	30.1	25.5	28.0	31.8	−19.8	+18.0	−5.3
Rhode Island	26.9	32.0	31.3	35.5	−9.9	−15.9	−24.2
Vermont	26.6	24.0	26.2	26.8	−10.4	+10.8	−0.7
Mideast	(29.6)	(32.8)	(34.0)	(38.0)	(−13.7)	(−3.9)	(−22.1)
Delaware	34.2	28.8	30.5	27.8	+3.6	+18.8	+23.0
District of Columbia	31.9	31.8	32.8	33.9	−6.2	+0.3	−5.9
Maryland	24.1	27.2	29.1	30.7	−11.4	−11.4	−21.5
New Jersey	29.8	34.2	37.2	40.8	−16.2	−12.9	−27.0
New York	30.4	33.6	34.3	37.3	−9.9	−9.5	−18.5
Pennsylvania	29.4	32.2	33.0	40.4	−20.3	−8.7	−27.2
Great Lakes	(28.6)	(32.4)	(35.5)	(36.1)	(−10.2)	(−11.7)	(−20.8)
Illinois	32.0	29.6	32.0	33.9	−12.7	+8.1	−5.6
Indiana	29.6	29.5	38.2	37.2	−20.7	+0.3	−20.4
Michigan	23.6	35.9	39.4	40.0	−10.3	−34.3	−41.0
Ohio	32.9	36.2	37.4	34.8	+4.0	−9.1	−5.5
Wisconsin	22.3	28.1	30.2	35.5	−20.8	−20.6	−37.2
Plains	(26.7)	(27.0)	(29.5)	(30.9)	(−12.6)	(−1.1)	(−13.6)
Iowa	21.5	21.0	24.5	23.4	−10.3	+2.4	−8.1
Kansas	33.0	29.2	31.9	32.6	−10.4	+13.0	+1.2
Minnesota	26.2	32.6	35.9	39.7	−17.9	−19.6	−34.0
Missouri	31.2	28.1	30.0	32.3	−13.0	+11.0	−3.4
Nebraska	19.1	19.8	21.5	23.2	−14.7	−3.5	−17.7
North Dakota	26.7	25.4	25.7	25.8	−1.6	+5.1	+3.5
South Dakota	22.4	21.9	21.6	20.9	+4.8	+2.3	+7.2

Southeast	(32.2)	(32.6)	(35.2)	(36.0)	(– 9.5)	(– 1.2)	(– 10.6)
Alabama	32.6	28.9	29.5	30.9	– 6.5	+ 12.8	+ 5.5
Arkansas	27.6	25.4	27.7	30.7	– 17.3	+ 8.7	– 10.1
Florida	32.0	29.3	34.5	35.4	– 17.2	+ 9.2	– 9.6
Georgia	25.7	29.7	31.7	30.7	– 3.3	– 13.5	– 16.3
Kentucky	28.7	24.3	28.1	29.1	– 16.5	+ 18.1	– 1.4
Louisiana	49.6	55.3	56.6	51.9	+ 6.6	– 10.3	– 4.4
Mississippi	31.7	34.0	38.5	37.6	– 9.6	– 6.8	– 15.7
North Carolina	29.1	31.6	33.0	35.4	– 10.7	– 7.9	– 17.8
South Carolina	26.1	33.3	31.5	32.8	+ 1.5	– 21.6	20.4
Tennessee	34.9	31.1	31.5	31.1	0.0	+ 12.2	+ 12.2
Virginia	28.4	29.1	34.3	37.3	– 22.0	– 2.4	– 23.9
West Virginia	45.4	39.1	39.0	44.3	– 11.7	+ 16.1	+ 2.5
Southwest	(40.7)	(39.0)	(42.9)	(46.7)	(– 16.5)	(+ 4.4)	(– 12.8)
Arizona	31.8	31.5	35.2	36.9	– 14.6	– 1.0	– 13.8
New Mexico	38.9	37.6	41.2	33.9	+ 10.9	+ 3.5	+ 14.7
Oklahoma	35.1	34.6	33.6	37.0	– 6.5	+ 1.4	– 5.1
Texas	44.1	41.9	46.8	52.1	– 19.6	+ 5.3	– 15.4
Rocky Mountain	(32.6)	(33.7)	(35.6)	(37.3)	(– 9.7)	(– 3.3)	(– 12.6)
Colorado	30.8	31.7	33.9	34.4	– 7.8	– 2.8	– 10.5
Idaho	27.6	33.5	33.7	34.5	– 2.9	– 17.6	– 20.0
Montana	37.4	35.9	37.4	38.8	– 7.5	+ 4.2	– 3.6
Utah	28.5	33.2	37.8	41.7	– 20.4	– 14.2	– 31.7
Wyoming	50.9	43.6	38.4	43.4	+ 0.5	+ 16.7	+ 17.3
Far West	(31.3)	(33.8)	(35.3)	(37.1)	(– 8.9)	(– 7.4)	(– 15.6)
California	30.9	34.3	35.7	37.3	– 8.0	– 9.9	– 17.2
Nevada	30.4	37.3	36.8	40.2	– 7.2	– 18.5	– 24.4
Oregon	27.7	32.0	34.5	35.4	– 9.6	– 13.4	– 21.8
Washington	34.6	34.3	35.4	36.4	– 5.8	+ 0.9	– 4.9
Alaska	45.1	28.6	32.1	n.a.	n.a.	+ 5.7	n.a.
Hawaii	25.3	22.9	24.9	n.a.	n.a.	+ 10.5	n.a.

*N.B.: Impact does not mean that business necessarily bears the ultimate burden of these taxes.
n.a.: Data not available.
[1]Excluding unemployment compensation.
[2]Business taxes include an estimate of the portion of general sales taxes initially paid by business.

SOURCE: Estimates prepared by ACIR staff from published and unpublished data from the Governments Division, U.S. Bureau of the Census; U.S. Department of Agriculture data; supplementary data supplied by several states; and ACIR staff estimates.

State Patterns

Several states demonstrated a marked percentage decrease in their reliance on business taxes from 1957 to 1977, as reflected in the ratios of taxes on business to total taxes. *Table A-2.* The ten states with the greatest percentage decreases in their ratios—as well as the nine states exhibiting percentage increases in ratios—are listed below.

Percent Decrease 1957-77

1.	Michigan	– 41.0%
2.	Wisconsin	– 37.2
3.	Minnesota	– 34.0
4.	Utah	– 31.7
5.	Massachusetts	– 29.8
6.	Pennsylvania	– 27.2
7.	New Jersey	– 27.0
8.	Nevada	– 24.4
9.	Rhode Island	– 24.2
10.	Virginia	– 23.9

Percent Increase 1957-77

1.	Delaware	+ 23.0%
2.	Wyoming	+ 17.3
3.	New Mexico	+ 14.7
4.	Tennessee	+ 12.2
5.	South Dakota	+ 7.2
6.	Alabama	+ 5.5
7.	North Dakota	+ 3.5
8.	West Virginia	+ 2.5
9.	Kansas	+ 1.2

More than two-thirds of the states showing percentage decreases in their business tax ratios are so-called Frostbelt states, while Sunbelt states constitute four of the nine states with percentage increases over the 1957-77 period. Older industrial states in the Northeast and Midwest may be attempting to enhance their competitive position for industry by exempting part of their business tax base or selectively cutting business tax rates. The decline may also indicate a decrease in the relative role of industry in the economy of these states.

Frequently, variations in state reliance on business taxes are not easily explained. Tax policy formulation is politically charged and heavily influenced by economic trends. In addition, the proliferation of taxing jurisdictions presumably imparts a unique character to each state's business tax policies. While all of this suggests care in making interstate comparisons, some general observations nonetheless seem possible.

Some states have high business tax ratios relative to other states because they are rich in natural resources that can be tapped for public purposes with severance-type levies. Texas, Louisiana, and New Mexico stand out in this respect. Other states have relatively low ratios of business taxes to total taxes because the level of public services they choose to support results in relatively high effective tax burdens on all available components of their economic structure. For 1977, eight states—notably none in the Sunbelt—exhibited low ratios of taxes with an initial impact on business to total state-local taxes (under 25% compared to the U.S. average of 30.6%)—Iowa, Maine, Maryland, Nebraska, South Dakota, Massachusetts, Michigan, and Wisconsin. Six of the eight states are characterized by higher than average percentages of state tax revenue from individual income taxes for the same year—Maine and South Dakota being the exceptions.

Summing Up

While increasing from $10,553 million in 1957 to $53,874 million in 1977, business tax collections have declined in relative fiscal importance as a component of state and local taxes—from 36.8% to 30.6% over the 20-year period.

Several explanations can be offered for this development: (a) the enactment of new state personal income and general sales taxes has diminished the importance of business taxes; (b) income and sales tax collections respond to growth in the economy more readily than do business levies; (c) tax policy has reflected concern over the effect of state and local taxes on the business climate of the state; and (d) tax policy has also reflected concern for the equitable distribution of tax burdens among individuals. In addition, since the 1950s, states have adopted policies of selective business tax reductions and exemptions to woo industry and commercial enterprises, while minimizing state and local revenue losses.

Property tax limitations and reductions, such as California's Proposition 13, signify substantial further relief for businesses not yet evident in *Tables A-1* and *A-2.* A nationwide trend toward exemption in the taxation of personal property—particularly

for business inventories and goods-in-transit—also portends a continuation of the declining reliance on taxes with an initial impact on business.

This decline appears to have slowed, however, over the 20-year period under investigation. In particular, the decade between 1967 and 1977 shows a slowing of the decline. Given their continuing need for revenue, perhaps the states are reaching the limit of business tax adjustments.

DERIVATION OF ESTIMATED BUSINESS TAXES

An earlier ACIR study, *State and Local Taxation and Industrial Location,* contained estimates of taxes with an initial impact on business for 1962 and 1957. Subsequently, similar estimates were prepared for 1967 in conjunction with the measurement of state-local fiscal capacity and tax effort. Each of these estimates was tied to a quinquennial Census of Governments because such censuses contained data on the composition of the property tax base. The scope of the 1972 Census of Governments had to be cut and the data on the composition of the property tax base were one element that was sacrificed, thereby precluding an estimate of business taxes for 1972. The composition of the property tax base has again been reported in the 1977 Census of Governments, thus enabling ACIR to resume this data series for taxes with an initial impact on business.

Most of the business tax categories are shown directly by the Bureau of the Census in its periodic reports of state and local tax collections. Two large components must be estimated; namely business property taxes and sales tax collections on business purchases. The property tax estimate is explained in a later section of this *Appendix.* The sales tax estimate for 1977 is based on the findings reported by Richard F. Fryman in the *National Tax Journal* of June 1969. Fryman found that business purchases subject to state sales and use tax varied from 15 to 25% of sales and use tax collections, depending on the tax status of food, drug, and machinery and equipment purchases. In light of the Fryman article, the staff made judgments about the scope of each state's sales tax.

Table A-3 presents the state-by-state data for each major category of tax with an initial impact on business. The data sources and a description of any requisite estimating procedure are provided in the following paragraphs.

Corporate net income taxes (column 1) consist of two elements: (1) state corporate net income taxes as reported by the U.S. Bureau of the Census, *State Government Finances in 1977,* and (2) local corporate net income taxes imposed along with local payroll taxes in a few states. The local corporate income tax, with three exceptions, was estimated to be 15% of total local income tax receipts, as reported in U.S. Bureau of the Census' *Governmental Finances in 1976-77.* Kentucky, New York City, and District of Columbia tax officials supplied local corporate income tax figures.

Real and personal property taxes on business (column 2) are derived from an analysis of the value of state and locally assessed property. They are the result of a lengthy series of computations. A step-by-step procedure, along with an example for Florida is provided at the end of this *Appendix.*

The business portion of state and local general sales and gross receipts taxes (column 3) is derived by applying an estimated percentage of the sales taxes paid by business to total state and local general sales tax revenue, as reported in *Governmental Finances in 1976-77.* The factor estimates are based on an article by Fryman, "Sales Taxation of Producer's Goods in Illinois," *National Tax Journal,* June 1969. Again, New York City and the District of Columbia figures were obtained directly from local tax authorities.

Insurance and severance tax figures (columns 4 and 5) are as reported in *State Government Finances in 1977.*

Public utility gross receipts taxes (column 6) consist both of state data from *State Government Finances in 1977* and an estimated local component. Because 1977 data for localities were not available, the local figures were estimated by applying the 1971-72 percentage of total local public utility gross receipts taxes by state *(1972 Census of Governments)* to the 1977 total local public utility gross receipts tax figure. It is assumed that the local public utility receipts distribution by state has not changed markedly between 1972 and 1977. Once again, New York and the District of Columbia supplied figures directly.

Occupation and business license taxes (column 7) consist of (a) corporation licenses in general, (b) alcohol license taxes, (c) public utility license taxes, and (d) occupation and business license taxes (n.e.c.), all from *State Government Finances in 1977.* The category also includes motor carrier li-

Table A-3

STATE AND LOCAL TAXES WITH AN INITIAL* IMPACT ON BUSINESS, BY STATE, 1976-77 (in millions of dollars)

Region and State	Corporate Net Income Taxes	Real and Personal Property Tax on Business	Business Portion of General Sales and Gross Receipts	Insurance Taxes	Severance Taxes	Public Utilities Gross Receipts Taxes	Occupation and Business License Taxes[1]	Miscellaneous Business Taxes[2]	Total Taxes on Business[3]	Ratio of Taxes on Business to Total Taxes[3]
United States	$9,902	$21,642	$8,202	$2,354	$2,168	$4,161	$2,222	$3,223	$53,874	30.6
New England	(725)	(1,236)	(290)	(170)	(0)	(169)	(67)	(266)	(2,923)	(26.8)
Connecticut	202	374	146	43	—	117	25	13	920	33.4
Maine	35	59	42	9	—	12	10	9	176	24.6
Massachusetts	397	590	66	96	—	0	20	198	1,367	23.6
New Hampshire	33	83	—	8	—	2	7	25	158	30.1
Rhode Island	41	83	28	10	—	29	3	5	199	26.9
Vermont	17	48	8	4	—	9	2	16	104	26.6
Mideast	(3,012)	(5,054)	(1,173)	(458)	(0)	(1,356)	(651)	(1,103)	(12,807)	(29.6)
Delaware	29	18	—	7	—	9	87	15	165	34.2
District of Columbia	56	60	35	18	—	43	5	19	236	31.9
Maryland	115	375	93	69	—	119	13	107	891	24.1
New Jersey	333	888	228	69	—	347	99	69	2,033	29.8
New York	1,813	3,105	588	176	—	556	111	468	6,817	30.4
Pennsylvania	666	608	229	119	—	282	336	425	2.665	29.4
Great Lakes	(1,937)	(4,068)	(1,457)	(340)	(14)	(808)	(293)	(260)	(9,177)	(28.6)
Illinois	384	1,410	560	79	—	503	52	109	3,097	32.0
Indiana	86	475	405	44	—	0	19	2	1,031	29.6
Michigan	817	661	211	82	10	33	34	43	1,891	23.6
Ohio	398	1,102	181	101	4	214	171	84	2,255	32.9
Wisconsin	252	420	100	34	—	58	17	22	903	22.3
Plains	(658)	(1,328)	(560)	(179)	(78)	(227)	(123)	(169)	(3,322)	(26.7)
Iowa	92	218	87	31	—	0	17	18	463	21.5
Kansas	123	274	85	25	1	16	19	15	558	33.0
Minnesota	258	297	117	47	60	84	25	55	943	26.2
Missouri	119	376	160	45	—	121	38	52	911	31.2
Nebraska	42	88	55	16	1	5	10	14	231	19.1
North Dakota	22	31	28	7	15	1	9	6	119	26.7
South Dakota	2	44	28	8	1	0	5	9	97	22.4

Southeast	(1,459)	(2,711)	(1,815)	(534)	(708)	(852)	(480)	(786)	(9,345)	(32.2)
Alabama	76	111	119	47	14	108	55	80	610	32.6
Arkansas	67	101	61	20	11	12	10	10	292	27.6
Florida	194	542	280	81	47	247	74	232	1,697	32.0
Georgia	171	297	170	51	—	19	19	64	791	25.7
Kentucky	161	107	102	50	113	14	24	26	597	28.7
Louisiana	95	225	202	49	496	31	74	66	1,238	49.6
Mississippi	46	161	95	27	25	5	32	8	399	31.7
North Carolina	204	324	130	56	—	144	75	21	954	29.1
South Carolina	107	149	62	28	—	16	20	30	412	26.1
Tennessee	156	297	186	45	2	18	55	88	847	34.9
Virginia	159	291	86	60	—	234	30	125	985	28.4
West Virginia	23	108	322	20	—	4	12	36	525	45.4
Southwest	(152)	(2,173)	(708)	(199)	(1,201)	(267)	(311)	(76)	(5,087)	(40.7)
Arizona	52	386	91	21	—	27	11	16	604	31.8
New Mexico	29	53	67	13	103	10	7	7	289	38.9
Oklahoma	71	178	51	38	191	20	20	21	590	35.1
Texas	0	1,556	499	127	907	210	273	32	3,604	44.1
Rocky Mountain	(162)	(770)	(250)	(67)	(102)	(32)	(41)	(49)	(1,473)	(32.6)
Colorado	81	347	141	28	2	17	15	33	664	30.8
Idaho	31	73	16	12	—	3	13	3	151	27.6
Montana	25	122	—	11	44	4	7	5	218	37.4
Utah	25	108	67	12	9	6	3	6	236	28.5
Wyoming	0	120	26	4	47	2	3	2	204	50.9
Far West	(1,797)	(4,302)	(1,949)	(407)	(65)	(450)	(255)	(523)	(9,748)	(31.3)
California	1,642	3,329	1,311	323	2	265	127	372	7,371	30.9
Nevada	0	58	34	7	0	6	14	53	172	30.4
Oregon	91	300	—	25	4	15	70	18	523	27.7
Washington	0	253	519	31	35	125	29	48	1,040	34.6
Alaska	36	314	—	8	24	3	10	26	421	45.1
Hawaii	28	48	85	13	0	36	5	6	221	25.3

*N.B: Impact does not mean that business necessarily bears the ultimate burden of these taxes.

[1]Includes alcohol license taxes, public utility license taxes, corporate license taxes in general, motor carriers license taxes, and occupation and business license taxes.

[2]Includes amusement license taxes, document and stock transfer taxes, miscellaneous state business taxes (of which $345 million are selective sales taxes), and the business portion of local other and unallocable taxes.

[3]Does not include unemployment compensation taxes.

SOURCE: Estimates prepared by ACIR staff from published and unpublished data from the Governments Division, U.S. Bureau of the Census; U.S. Department of Agriculture data; supplementary data supplied by several states; and ACIR staff estimates.

cense taxes from *State Government Tax Collections in 1977.*

Miscellaneous business taxes (column 8) consist of amusement license taxes, document and stock transfer taxes, miscellaneous state business taxes, and local other and unallocable business taxes. Miscellaneous state business taxes are a composite of data shown in the columns headed "other selective sales and gross receipts taxes" and "other taxes" as reported in *State Government Finances in 1977,* pages 21 and 23. Local other and unallocable figures were estimated by applying the 1971-72 state percentages of local other and unallocable taxes by state *(1972 Census of Governments)* to the 1977 total of local other and unallocable taxes. It was assumed that the distribution by state has not changed significantly since 1972.

State and local taxes on business, excluding unemployment compensation (column 9), are the summation of the preceding eight columns. These figures, divided by the total state and local tax figures from *Governmental Finances in 1976-77,* form the ratio of state and local taxes on business as a percent of total state and local taxes (column 10).

LIMITATIONS RESPECTING INTERSTATE COMPARISONS

Taxes with an initial impact on business should not be interpreted as showing the final incidence or burden of taxes paid by business, especially when it is clear that business does not bear the ultimate burden of many taxes it pays: The burden ultimately falls on individuals—as owners of business (including stockholders), consumers of the products, employees of the business, and other suppliers of the business. How the final burden of any tax will be distributed depends upon the nature of the tax, competitive factors, and other considerations. Unfortunately, a large part of the final distributional effects of certain business taxes, as well as certain taxes on individuals, are not ascertainable, therefore necessitating distinctions such as the one of "initial impact."

A related problem concerns the interstate comparison of the final ratios (state and local taxes with an initial impact on business as a percent of total state and local tax revenue). It is erroneous to assume that each type of business in a state pays that proportion of a given tax, and that because a neighboring state has a lower ratio generally, each business would consequently bear a lower burden in that neighbor state. Each state is characterized by variations in its state and local tax structure, and in some cases, intrastate tax burdens differ more than the average burdens among states. Thus, in terms of a specific type of business, the only meaningful state-by-state comparison would require an analysis of the state and local taxes that firm would pay in each state.

Several state revenue officials object to the concept of taxes with an initial impact on business, especially as applied to their state. The thrust of their comments are summarized below, as an aid to understanding and interpreting these estimates.

C. William Cudworth, North Dakota state research analyst, objected to having the coal severance tax included as an initial business impact, contending this tax is eventually paid by the consumer. Similar objections could apply to the insurance premium and utility gross receipts taxes.

Donald R. Burrows, deputy director of the State of Washington department of revenue, identified an important limitation of the estimation procedure: a lack of consistency in the initial impact concept when applied to Washington State's business and occupation tax and other states' income taxes. (Specifically, there is an overstatement of business tax revenue from Washington State because of the inclusion of unincorporated firms (e.g., sole proprietors and partners) under the state's business and occupation gross receipts tax—an area in which estimates for other states include only the amount of corporate net income taxes and not the income tax paid as a result of noncorporate business activity.)

Business tax estimates for West Virginia raise the same issue as does the Washington State estimate. West Virginia's business and occupation tax is an allowable credit against the state's corporate or personal net income tax. The calculations for these states, then, are not strictly comparable to the calculation for other states.

The estimate of sales taxes on business purchases also elicited comments from several state revenue officials. A percentage factor was applied to total general sales and use tax collections on the basis of sales tax provisions and nature of the economy in a state, as well as the relative scope of the sales tax base. Washington, Texas, and North Dakota officials suggested alternative levels of sales taxation on business. The differences in approach are summarized in the following table:

State	ACIR Factor	ACIR Sales & Use Business Tax Estimate (millions)	State Factor	State Sales and Use Business Tax Estimate (in millions)
Washington	25%	$518.6	20%	$ 467.8
Texas	25	499.3	58	1,158.3
South Dakota	25	27.8	—	6.0—7.0

PROPERTY TAX ESTIMATION

The procedure used to estimate the 1977 business portion of state and local property taxes differs slightly from the methodology used for previous estimates. Changes in methodology are necessary because the Bureau of the Census has not collected and reported data on taxable property values in precisely the same detail in each *Census of Governments*.

1977 METHODOLOGY AND DATA SOURCES FOR ESTIMATING BUSINESS PROPERTY TAXES

1. Gross assessed real property value, total locally assessed	(*Taxable Property Values,* Table 4)
2. Real property exemptions, total	(*Taxable Property Values,* Table V)
2a Real property exemptions, acreage	(*1970 Census of Housing*)
2b Real property exemptions, residential	(2 – 2a)
3. Taxable assessed value, total	(1 – 2)
4. Gross assessed value, acreage	(*Taxable Property Values,* Table 4)
5. Taxable assessed value, acreage	(4 – 2a)
6. Taxable assessed value, excluding acreage	(3 – 5)
7. Gross assessed value, residential real property	(*Taxable Property Values,* Table 4)
8. Taxable assessed value, residential real property	(7 – 2b)
9. Taxable assessed value, nonbusiness personal property, locally assessed, excluding motor vehicles and intangibles	(*Taxable Property Values,* Table D)
10. Taxable assessed value, residential real property and nonbusiness personal property, excluding motor vehicles and intangibles, locally assessed	(8 + 9)
11. Vacant lots (locally assessed)	(*Taxable Property Values,* Table 4)
12. Total nonbusiness real and personal property, other than motor vehicles and intangibles	(5 + 10 + 11)
13. Total business real and personal property, including motor vehicles and intangibles, locally assessed	(*Taxable Property Values,* Table 3 – 12)
14. State assessed business real and personal property (TAV)	(*Taxable Property Values,* Table 2)
15. Total TAV of business and real and personal property, locally and state assessed	(13 + 14)
16. Taxable assessed value of business property including motor vehicles and intangibles—(15) as a percent of total taxable assessed value, both state and locally assessed	(Line 15) as percent of column 1, Table 2) (*Taxable Property Values*)
17. Total business property tax receipts, including motor vehicles and intangibles—(16)x total property tax receipts	(Line 16) x column 6, Table 6 of *Governmental Finances in 1976-77*)

18. Motor vehicle and intangible property tax receipts	(*Taxable Property Values,* pp. 7-9; unpublished data from U.S. Bureau of the Census, Governments Division; estimates supplied by several states; and ACIR staff estimates)
19. Total business property tax receipts excluding motor vehicles and intangibles	(17 – 18)

ESTIMATED 1977 FLORIDA BUSINESS PROPERTY TAXES, 1977 (in millions of dollars)

1. Gross assessed real property value, totally locally assessed	$94,913
2. Real property exemptions, total	10,702[1]
a. Real property exemptions, acreage and farms	257[2]
b. Real property exemptions, residential	10,463[2]
3. Taxable assessed value, total: (1)—(2)	84,193
4. Gross assessed value, acreage and farms	10,926
5. Taxable assessed value, acreage and farms: (4)—(2a)	10,669
6. Taxable assessed value, excluding acreage and farms: (3)—(5)	73,524
7. Gross assessed value, residential real property	57,898
8. Taxable assessed value, residential real property: (7)—(2b)	47,435
9. Taxable assessed value, nonbusiness personal property, locally assessed, excluding motor vehicles and intangibles	0
10. Taxable assessed value, residential real property and nonbusiness personal property, excluding motor vehicles and intangibles, locally assessed: (8)—(9)	47,435
11. Vacant lots (locally assessed)	7,648
12. Total nonbusiness real and personal property, other than motor vehicles and intangibles: (5) + (10) and (11)	65,752
13. Total business real and personal property, including motor vehicles and intangibles, locally assessed (total TAV locally assessed minus (12))	33,848
14. State assessed business real and personal property (TAV)	409
15. Total TAV of business real and personal property, locally and state assessed: (13) + (14)	34,257
16. Taxable assessed value of business property, including motor vehicles and intangibles: (15) as a percent of total taxable assessed value, both state and locally assessed	34.25%
17. Total business property tax receipts, including motor vehicles and intangibles: (16) x total property tax receipts receipts	610.9
18. Motor vehicle and intangible property tax receipts	68.5
19. Total business property tax receipts, excluding motor vehicles and intangibles: (17)—(18)	542.4

[1]Homestead exemption.
[2]Distributed on the basis of the ratio of the number of farm to nonfarm one-family occupied units, as reported in the *1970 Census of Housing.*

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