

MAINE STATE LEGISLATURE

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SUPPORTING DATA
FOR
THE REPORT OF
THE TAX REVISION
COMMITTEE

E R R A T A

The following tables have been omitted, but the information contained in them has been incorporated into those next in order in the text.

XXXVII

XLVIII

LV, LVI, LVII, LVIII, LIX

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REPORT OF THE TAX REVISION COMMITTEE

It was decided at an early stage that the final report of the Tax Revision Committee should be concise and that it should confine itself to general observations and recommendations. The necessary detailed supporting data would be coordinated into a more comprehensive analysis which would serve to document and elaborate the summary report. Some of the information contained in the following detailed analysis was gathered by the working sub-committees of the Tax Revision Committee, which was divided into six groups: (1) local government, (2) state government, (3) new sources of revenue, (4) cost of government, (5) publicity, (6) co-ordination.

The data gathered by these sub-committees have been supplemented by more information, especially in the area of state expenditures, so that members of the committee and the general public might have available statistics on the cost of state government and significant trends.

A lay committee of 56 persons, representing the general public and important economic and professional groups, obviously could not undertake a comprehensive study of state expenditures and revenue. In fact, it was assumed from the beginning that the Governor had intended that the committee should not undertake any such study. The Committee, therefore, recognized its limitations and addressed itself to the more important general problem. What is the present state of the finances of Maine and what significant trends, if any, can be observed in the fiscal experience of the state over the last decade? But before we discuss in some detail the fiscal problems of the state and local governments in Maine, we should like to state some general factors which have influenced our thinking.

We feel strongly that fiscal policy cannot be regarded as an academic question; rather it is a matter which concerns all of us intimately. At a time when all governmental revenue from taxes is in excess of \$56 billion, when each of us is contributing a substantial part of his income to support governmental services, when approximately 25 per cent of the national income is dedicated to governmental

purposes, and when the trend is toward higher taxes and a still higher proportion of our income for public purposes, it behooves every citizen to examine the expanding sphere of government. The trend in the past is all too clear, but what of the future?

We should concern ourselves with fiscal policy because today and in the future more is involved than the raising of money. As the government controls the raising and expenditure of more and more moneys, we are confronted with a situation in which we are actually socializing our economy by the use of the taxing and spending powers. Taxation becomes, therefore, more than a device to raise revenue; it is also a media for achieving social and economic objectives.

Many citizens are seriously disturbed by the present high level of taxes; still more are convinced that any attempt to raise present governmental income can only result in economic disaster. The initial impulse of most citizens, when a new tax is mentioned, is to feel that here is another burden. Certainly, few recall the famous Holmes dicta that, "Taxes are the price we pay for civilization."

The tendency to view taxes as a burden and to resent the taking of a part of our income for public purposes is a natural one. Yet it is not wholly justified. For what do we utilize our income ----- primarily to buy food, shelter, security, leisure, and education. Government today furnishes us with many of these services; nevertheless, we often object to paying taxes because: (1) we are not aware of the services offered, (2) we do not approve of them, (3) we do not approve of financing them from tax funds, (4) we believe that the tax burden is inequitable. Also the benefit from the tax may be a social rather than an individual one, and we may feel that since we do not directly benefit, we should not be called upon to help finance it. Yet most citizens are convinced that the services which the government performs are worthwhile and that we should continue to support them. No one presumes to suggest that we capitulate in the cold war with the USSR because the cost is excessive; few would like to see us abolish the free public high school or the state university; any suggestion that our highway network be

handed over to free private enterprise would arouse little support. For the most part the services of government appear reasonable, and one soon discovers that there is little real support for proposals to curtail or abolish them.

But what are the limits? Is there no end to governmental expenditures? Is not 25 per cent of our income a dangerously high proportion to spend on governmental purposes? Will not any further increases in taxation destroy incentive -- both to embark on new enterprises on the part of capital and to work industriously on the part of labor? Unfortunately, it is impossible to give any categorical answer as to when taxes are so high as to be dangerous. In fact, one may not know until that point has been reached and the damage has been accomplished. The actual limits are fixed by a number of factors, of which at least one is immeasurable. First, the ability to collect taxes without damage to the economy will depend to some extent upon the nature of the taxes levied. Are they progressive or regressive? Second, it will depend upon the existence of a taxable capacity. Third, it will be influenced by the attitude of the taxpayer. Harmful effects will be felt at any level of taxation if the taxpayer is convinced that governmental funds are being wasted and that they are being expended for non-essential purposes. All of these factors, and others, fix the limits to taxation, and when these limits are reached will depend upon each situation, and it is impossible to risk any valid generalizations as to the maximum percentage of our income which we can safely dedicate to taxes. The limits of taxation will depend on the circumstances and public reaction.

Tax revision is not a new story in Maine; there has been tax study after tax study. Some have been in great detail; some have been in summary form. But the results have been the same. No action by the legislature. Yet session after session of the Maine legislature has regularly considered a major tax bill. True, some years the case for tax revision has been urged more seriously than others, but the problem has been with us in a more or less acute form for more than a genera-

tion. Cigarette and tobacco taxes have been levied and with the repeal of prohibition, the sale of alcoholic beverages became an important source of revenue. Gasoline taxes are used to support our highways. But our tax base still remains one of the narrowest in the United States. Those who drink, smoke, own and operate an automobile, and who own real estate pay the bulk of the taxes collected by the state and local governments. As one wit has put it ----Maine's budget stringency arises from the fact that there just isn't enough sin to support state government.

The committee would like to go on record regarding a fundamental fact which should be apparent to all. The inability to broaden the tax base in the State of Maine is essentially a political problem which is aggravated by the constitutional provision permitting all but emergency legislation to be submitted to a popular referendum. It is axiomatic that people do not tax themselves except in times of crisis. The legislature, the elected representatives of the people, more cognizant of the problems of the state, will eventually have to make the decision. But the legislature will not make the decision in vacuo. It will decide who will pay the bill by passing a new tax law, and its final determination cannot help but be influenced by what the various interested groups have to say.

It is difficult to approach constructively the problem of new taxes for Maine since there is no agreement as to need. Many argue that the state has enough money if it only spent it wisely. Others feel that the state is performing many services which are of a luxury character and that these activities should be dispensed with before asking the citizens to assume an additional financial burden by the payment of more taxes. Still others are convinced that the state and local units are overlapping in their services and that a reallocation of functions between the state and local governments would permit the same level of services without any increase in taxes.

Some of these assertions often represent wishful thinking--that if we

could only find the way, we could have more than we have now without paying any more for it. Some have had a great deal of truth in them. Funds have been saved by economies; more could be saved if we were willing to forego services. Consolidation of activities may be an answer in some instances.

But this fact should be made clear at the outset. Maine is not the federal government--nor is it merely a smaller edition of it. The former is a complex organization, spending fabulous sums on a variety of programs. Maine is still a relatively simple government which has refused to enter new fields of governmental activity with the alacrity displayed by the federal government. The latter is a government which has never had a comprehensive administrative reorganization; Maine has one of the most integrated administrative structures in state government, an excellent accounting system, and a comprehensive executive budget. (For example, the recent reorganization in New Hampshire still leaves that state far behind the structure adopted in this State by the Administrative Reorganization Code of 1931). In recent years it has enjoyed several governors who have practiced rigid economy. Anyone who assumes that the state of Maine is squandering the taxpayers' money and that great economies are to be accomplished by administrative reform has not acquainted himself with the government of the State.

Finally, there is naturally disagreement as to where additional funds shall be secured if it is demonstrated that the state does need more revenue. The fundamental question is what new tax or taxes will provide the state with additional revenue, broaden the tax base, and insure the greatest degree of equity in the tax system. No two people see eye to eye as to the advantage of one particular tax over another. With these generalizations in mind let us consider the fiscal problems of the State of Maine.

Fact No. 1

An adequate and equitable fiscal program cannot under our federal system be devised in terms of any one government.

The federal government today is the major consideration in any study of fiscal policy, and it is impossible for an individual state to undertake the revision of its tax base without regard for what the federal government is doing at the moment and what it is likely to do in the future. Federal fiscal policy is especially important today when we are in a period of partial mobilization and when the methods of financing this mobilization are not yet completely clear. We cannot, however, in considering the future of taxation in Maine disregard the fact that federal taxation will be substantially increased in the immediate future and that disposable individual income which can be utilized to pay state and local taxes will be decreased.

The importance of the federal government to the Maine taxpayer is demonstrated by the fact that approximately 67 per cent of the taxes paid are to support the federal government. Federal tax collections in Maine are shown in Table I.

TABLE I
Federal Tax Collection in Maine
1945-49

<u>YEAR</u>	<u>TOTAL</u>	<u>Percent of total federal taxes collected in Maine</u>
1945	\$ 150,087,933	.34
1946	135,159,599	.33
1947	124,220,871	.32
1948	130,747,192	.31
1949	117,543,221	.29

In 1949, the federal tax collections were divided as follows;

Personal income tax	\$ 56,794,725
Corporate income tax	40,038,153
Taxes on alcohol	408,501
Tobacco tax	6,042
Admissions	1,364,333
Manufacturers excise	703,182
Retailers excise	1,335,543
Employment taxes	9,808,112
Other taxes	7,084,630
TOTAL	\$ 117,543,221

Source: Treasury Department Annual Reports, 1945-1949

Federal tax collections are not particularly significant. They certainly are not indicative of the total of the federal tax payments in any one state, for some taxes are shifted and federal excises are often levied on the manufacturer, but they are paid by the consumer when he purchases the product upon which the excise is imposed. It is not possible to determine the actual tax collections of the federal government from Maine taxpayers, but an attempt was made to estimate the incidence of federal taxes in the state. As one would expect, the incidence is greater than the reported collections:

TABLE II

The Incidence of Federal Taxation in Maine

<u>Tax</u>	<u>Actual collections</u>	<u>Estimated incidence</u>
Corporate income	\$ 41,126,637	\$ 57,000,000 ¹
Personal income	56,794,724	56,794,724 ²
Retail excises	1,335,542	1,335,542 ²
Admissions	1,364,333	1,364,333 ²
Estate tax	3,212,659	3,212,659 ²
Gift tax	260,182	260,182 ²
Club dues	73,307	73,307 ²
Narcotics	2,552	2,552 ²
Firearms	3	3 ²
Dealers' taxes	117,395	117,395 ²
Miscellaneous	231,361	231,361 ²
Manufacturers excises-		
manufactured products	400	93,000 ³
Transportation of property	1,311,622	1,311,000 ⁴
Employment taxes--employee	4,467,542	4,467,542 ²
Employment taxes--employer	5,340,569	7,262,000 ⁵
Tobacco	6,042	9,747,000 ⁶
Alcohol	70,346	5,687,000 ⁷
Stamp Tax	56,736	56,736 ⁸
Stamp Tax	56,736	186,000 ⁹
Electrical energy	553,096	426,000 ¹⁰
Gas tax	5,920	3,226,000 ¹¹
Automobile excises	28,408	2,195,000 ¹²
Manufacturers and miscellaneous	163,978	2,946,000 ¹³
Oil pipe line	1,442	124,000 ¹⁴
Lubricating oil		26,184 ¹⁵
		29,000 ¹⁶
Miscellaneous	666,417	3,024,880 ¹⁶
TOTAL	\$ 117,543,221	\$ 161,699,399

TABLE II CONTINUED

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1. Maine proportion of 1947 income from dividends reported for income tax purposes.
2. Actual collections.
3. Taxes on non-beverage alcohol and processed oils as Maine proportion of national income.
4. Maine proportion of all retail sales.
5. Maine proportion of all retail sales.
6. Maine proportion of national consumption.
7. Estimated from Liquor Commission sales.
8. One-half of Maine collections.
9. Maine proportion of 1947 income from dividends reported for income tax purposes.
10. Maine proportion of national consumption.
11. Maine proportion of national consumption.
12. Maine proportion of national consumption.
13. Maine proportion of all retail sales.
14. Maine proportion of national consumption.
15. Maine proportion of national consumption.
16. Maine proportion of national income. (includes taxes on telegraph, telephone, and cable; leased wires; and transportation of persons).

It would appear that the actual incidence of federal taxation in Maine in 1949 was in excess of \$161 million, or 38 per cent more than the 117 millions reported as collections in the state. In 1940, federal tax collections were \$16.277 millions and the estimated incidence was \$33.957, or 109 per cent above collections. Some of the discrepancy in these figures may be explained by the fact that the same formula was not employed to estimate incidence in each case.

It has been assumed that the corporate income tax cannot be shifted and that it will be paid by the owners, but there is an increasing tendency among tax economists to question the assumption that the corporate income tax is borne by stock holders. On the contrary, there is ample evidence that under some market conditions it is treated as a cost of doing business and is shifted to the consumer. If we assume that consumers, rather than owners, pay the corporate income tax, its incidence in Maine in 1949 would have been approximately \$62 millions, which would have increased the total incidence of federal taxes by \$5 millions to a total of more than \$166 millions.

It is obvious that the financial importance of the federal government has been constantly increasing. In 1932, federal tax collections in Maine were \$4 millions,

or 1.4 per cent of the individual income payments in the state; in 1942 federal collections had reached \$37 millions, or 5.4 per cent of individual income payments; but the substantial increase in federal revenue collections came with the full impact of World War II and in 1949 federal revenue reported from Maine reached \$117 millions, or 10.7 per cent of income payment. There has been an expansion in domestic programs, but the fundamental reason for the increased financial importance of the federal government is to be found in World Wars I and II. About 85 per cent of the increase in the federal budget between 1939 and 1950 "is directly attributable to national security and past wars."

To measure accurately the impact of federal taxation on the State of Maine is impossible, but there is no question that the federal government is the largest tax collector by far and that it cannot be ignored in planning the fiscal policy of the state and local governments. In fact, we must not only consider the present impact of federal tax collections in the state, but we must also attempt to anticipate the scope and implications of proposed changes in federal fiscal policy. It is a sound practice to pay for as much as possible of our military expenditures on a current basis. It is not yet clear whether we are engaged in a police activity in Korea or in a full scale mobilization, but in either case, it appears imperative that federal taxes be raised to take care, at least in part, of the increase in federal expenditures. At this point, the amount of this increase can only be estimated. However, if we assume that total federal tax needs are \$10 billions, not an unreasonable assumption at the moment, we find that the contribution of tax payers in Maine will be approximately \$29 millions in collections in the state and \$40 millions in actual incidence.

The fact that the federal government is the major tax collecting governmental unit in the State of Maine has other implications than those of sheer magnitude. It is important to consider the total impact of all taxes on the taxpayer, and it is desirable, therefore, that revision in local and state taxes should be viewed in

the light of the total tax payment, federal, state, and local. This fact is extremely important in an evaluation of the progressiveness of the tax system. It is possible to have a proportional, or even regressive, state and local tax system but when federal taxes are also considered, the final impact remains highly progressive. We shall deal with this point more extensively in discussing tax equity, but we mention it here merely to call attention to the fact that the tendency of the federal government to rely rather heavily on progressive taxes, such as the personal income levy, mitigates if not justifies the regressive characteristics of many local and state tax systems.

The federal government also has an important impact upon state and local expenditures in the State of Maine. In many instances federal grant-in-aid policy is motivated by an intent to encourage state and local expenditures upon particular programs---often without any real consideration of the ability of the state or local units to undertake such services. We cannot here examine the full impact of federal expenditures upon the economy of Maine, but The Sub-committee on State Government gave some attention to this question, and it is possible to make some general observations.

Few citizens realize the scope of the federal grant-in-aid program or the importance of direct payments by the federal government. Table III shows these federal expenditures in Maine for the last five years, a period in which they increased 107 per cent.

TABLE III
Federal Expenditures in Maine
1945-1949

<u>Year</u>	<u>Federal Grants-in-aid</u>	<u>Direct federal payments</u>	<u>Total</u>
1945	\$ 5,390,799	\$2,227,216	\$ 7,618,015
1946	5,674,427	1,754,405	7,428,832
1947	8,380,013	2,121,339	10,501,352
1948	9,644,148	21,861,410	31,503,558
1949	11,168,060	18,963,164	30,131,224

In 1949 federal grants-in-aid were 12.8 per cent of total state and local revenue from taxes, and the total of federal payments was 34.5 per cent of all local and state taxes. In the same year revenue from the federal government was 17.6 per cent of all state income.

There is considerable discussion as to whether Maine enjoys a net gain or loss from federal grants and payments. There is some evidence that the state gains from federal grants. It is certainly true that if in 1949 federal grants had been treated as shared taxes and returned to the state on the basis of revenue collections, rather than according to some other formula, the federal grants would have totaled \$5.4 million if they were distributed on the basis of reported collections in the State and \$7.4 million if they were returned on the basis of estimated incidence. It would appear, therefore, that Maine benefits by approximately \$4 million from the present formula for distributing federal grants.

Direct federal payment in 1949 totaled \$18,963,164, but if they had been made on the basis of reported tax collections, the total would have been \$10,552,000 and if the payments were made on the basis of estimated incidence they would have been \$14,555,000. The apparent gain to the State of Maine in federal payments is \$4.5 millions. The State would appear to profit by the present distribution of both federal grants and federal direct payments. Its inhabitants pay .29 percent of internal revenue collections and receive .55 per cent of federal grants and direct expenditures.

In all fairness it should be pointed out, however, that the apparent monetary gain should be balanced by certain other considerations. First, federal grants generate state and local expenditures--often beyond the point that can be justified by the fiscal ability of the unit involved. Second, the acceptance of federal grants means that the state or municipal government must meet federal standards--standards which are often higher than they would be if the state or local government were to undertake the service on its own initiative and solely with its own funds. Third, it can be argued that federal grants tend to take the initiative

from the state and local governments, where it belongs, and place it in the federal government which is often so far removed from the scene of actual services that it is unable to lay down acceptable standards.

It is difficult, if not impossible, to compare the total of all federal expenditures in the state with revenue collections. Many federal expenditures, such as those for foreign affairs, cannot be regarded as benefiting only one region; also federal dollars collected in Maine but spent elsewhere may be used by those who receive them to purchase goods and services in the State. The Federal Reserve Bank of Boston has recently released a study of the New England area, however, showing that the federal government in 1948 spent in the area only 71 cents of every dollar it collected, so there would appear to be a net loss.

The impact of federal grants-in-aid must also be considered in terms of specific services; although there are 46 grant-in-aid programs, federal money is not available to support all state activities. For example, in 1949 the federal payments to Maine for education and general research were only \$310,693 as compared with \$6,067,235 for health, welfare, and security; The latter and highways account for 76 per cent of federal grants and shared taxes.

It is quite natural that the state should be interested in financing those activities toward which the federal government contributes most lavishly, but the resulting distortion of the state and local budgets is serious and should be carefully scrutinized so that state and local services of a worthwhile nature will not be ignored or slighted because federal assistance is not available.

TABLE IV

FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS FOR THE 1949 FISCAL YEAR

(MAINE only)

Veteran benefits and service	\$ 261,631
Welfare, health, and security	6,067,235
Housing and community development	64,680
Education and general research	310,693
Labor	822,767
Agriculture and agricultural resources	560,520

TABLE IV CONTINUED

Natural resources not principally agricultural	\$ 207,315
Transportation and communication	2,873,219
TOTAL	\$ 11,680,060

Source: Treasury Department Annual Report, 1949

A more detailed breakdown of federal payments to Maine in the 1949 fiscal year is shown in TABLE V.

It is impossible in this short discussion to describe every grant-in-aid program, its purposes, administration, and effect. It is evident, however, that the state is tied to the federal government in a wide variety of services, and that the degree of federal control and supervision covers a wide range.

Apparently some federal grant programs have been the result of political pressure; others have been established to meet an immediate need without adequate consideration of the overall implications. The results are all too patent - no integrated grant-in-aid policy and no conscious development of an adequate system of intergovernmental fiscal relations.

TABLE V

FEDERAL GRANTS-IN-AID AND SHARED REVENUE (1949-MAINE ONLY)

(Amount in Thous.)

Veteran Services and benefits	
Self and Unemployment allowances	\$ 201,224
Veteran educational facilities (emergency grant)	60,407
Welfare, health and security	
Vocational rehabilitation	99,219
Public assistance	
Old Age Assistance	3,557,613
Aid to Dependent Children	1,333,882
Aid to the Blind	181,428
Maternal and Child Welfare	
Maternal and Child Health	95,107
Crippled Children	68,370
Child Welfare	60,109
Control of V.D.	43,183
Control of T.B.	27,867
General Assistance	87,574
TOTAL	5,554,352
Hospital construction	164,727
Mental health	20,833
National school lunch program	327,323
TOTAL for Welfare, health, and security	6,067,235

TABLE V CONTINUED

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Housing and community development	
Public Works Planning	\$ 66,680
Education and general research	
Co-op. vocational education	166,655
College for Agriculture and Mechanical Arts	79,669
Maintenance and operation of schools	18,703
State of Maine Schools	45,666
TOTAL for education and general research	310,693
Labor	
Administration of Unemployment	
Compensation and the employment service	822,767
Agriculture and agricultural resources	
Co-op agricultural extension work	217,853
Agricultural experiment station	114,124
Research and Marketing Act of 1946	40,356
Surplus agricultural commodities	188,187
TOTAL Agriculture and agricultural research	560,520
Natural resources not primarily agricultural	
Forest Fire Cooperation, etc.	141,322
National Forest Fund	7,185
Wildlife restoration	58,531
Migratory Bird Act	277
Transportation and Communication	
Highway construction	
Regular grants	2,814,267
Emergency grants	4,518
Federal airport program	54,434
TOTAL transportation and communication	2,873,219
GRAND TOTAL	\$11,680,060

Source: Treasury Department, Annual Report, 1949

It is unsound and even dangerous to our federal system to have the federal government influencing if not dictating the activities of the state in 46 distinct fields. Grants-in-aid must continue "because the structure of the economy does not coincide with the political boundaries of subordinate units, and because the functions of government cannot be neatly laid out in layers like a layer cake, but are apportioned on a cooperative basis of joint programming." (Tax Policy, January, 1949, p. 11) But as they now are administered, they are an obstacle to sound state and local budgeting.

Serious consideration should be given to the Block Grant-in-aid as a possible solution to some of our present difficulties. Such a grant would continue to make Federal funds available to state and local governments but would permit considerable discretion on the part of the recipients as to the actual allocation of the money

to specific programs. For example, a general health grant might replace those now given separately for the control of V.D., T.B., and cancer, for general and mental health, heart disease, hospital construction, and water pollution control.

It is interesting to note that in the 1949 fiscal year Maine was the 32nd state in rank order in per capita federal grants and that it was also 32nd in average per capita income for the period 1946-48. Moreover, it was 31st in federal grants as a percentage of income payment. Apparently in the case of Maine, the amount of the federal grants corresponds rather closely to the fiscal ability of the state.

TABLE VI

PER CAPITA FEDERAL GRANTS TO STATES AND LOCALITIES, BY STATE AND PURPOSE,

FISCAL YEAR 1948-49
PER CAPITA GRANTS

States ranked by '46-'48 Average Per Capita Income	Av. Per Cap. Inc. '46-'48	Total	Assist. Paym'ts & Adminis.	Employ. Security Adminis.	Health Service	Other Welfare	Educ.	Other
U.S. Total	\$ 1,315	\$ 12.88	\$ 6.34	\$.95	\$.44	\$.65	\$.25	\$ 3.65
High Inc. Group		10.64	5.59	1.20	.32	.47	.19	2.87
Nevada	1,764	43.78	4.99	2.81	.90	.64	.97	33.47
New York	1,760	7.22	4.07	1.31	.21	.39	.15	1.79
Illinois	1,642	10.92	5.88	.81	.43	.54	.17	3.10
Delaware	1,635	11.92	2.17	1.08	.70	.86	.73	6.38
California	1,628	13.33	8.07	1.61	.24	.50	.12	2.79
Montana	1,624	27.37	8.90	1.27	.73	.84	.49	15.13
Connecticut	1,596	7.37	3.07	1.21	.32	.64	.17	1.97
New Jersey	1,534	6.76	1.98	1.21	.37	.38	.14	2.68
Rhode Island	1,466	11.63	5.39	1.52	.40	.50	.34	3.54
Maryland	1,451	8.10	2.70	1.15	.48	.52	.19	3.06
Massachusetts	1,433	12.03	8.02	1.20	.34	.42	.15	1.90
North Dakota	1,430	21.50	5.98	.76	.69	.69	.44	12.94
Ohio	1,425	9.39	5.66	.83	.28	.46	.18	1.99
Wyoming	1,404	30.28	5.18	1.32	.61	.84	.30	21.03
Washington	1,404	17.48	10.85	1.29	.30	.64	.65	3.75
Middle Income Group		12.48	6.21	.87	.33	.56	.24	4.27
Michigan	1,394	11.74	5.99	1.19	.29	.63	.20	3.44
South Dakota	1,392	22.17	6.65	.58	.58	.29	.41	13.67
Colorado	1,362	26.43	14.79	.86	.41	.62	.25	9.48
Pennsylvania	1,338	8.71	4.10	1.02	.25	.41	.17	2.77
Wisconsin	1,332	11.76	5.18	.64	.33	.62	.23	4.76
Nebraska	1,287	14.60	6.77	.58	.40	.56	.31	5.99
Indiana	1,277	8.56	4.31	.70	.30	.54	.20	2.50
Oregon	1,274	13.04	5.26	1.17	.44	.55	.21	5.41
Iowa	1,263	12.85	6.58	.46	.29	.63	.26	4.64
Idaho	1,240	17.44	6.92	1.23	.65	.67	.52	7.45

TABLE VI CONTINUED

PER CAPITA FEDERAL GRANTS TO STATES AND LOCALITIES, BY STATE AND PURPOSE,
FISCAL YEAR 1948-49

States ranked by '46-'48 Average Per Capita Income	Av. Per Cap. Inc. '46-'48	PER CAPITA GRANTS						
		Total	Assist. Paym'ts. & Adminis.	Employ. Security Adminis.	Health Service	Other Welfare	Educ.	Other
Minnesota	\$1,229	\$13.81	\$ 6.77	\$.81	\$.35	\$.66	\$.23	\$ 4.98
Missouri	1,227	16.89	11.67	.55	.27	.59	.23	3.58
Kansas	1,211	15.22	6.95	.63	.43	.63	.37	6.22
Utah	1,171	18.64	7.00	1.21	.64	.95	.36	8.48
New Hampshire	1,165	12.82	4.89	1.35	.44	.59	.40	5.15
Vermont	1,148	16.24	5.70	1.31	.78	.86	.60	6.99
Maine	1,146	12.11	5.65	.92	.58	.54	.35	4.08
Low Income Group		14.40	7.51	.69	.71	1.00	.34	4.15
Florida	1,128	16.93	10.95	.86	.93	.82	.16	3.19
Arizona	1,123	20.52	7.43	1.42	.63	.99	.54	9.51
Texas	1,118	15.55	8.54	.63	.51	.75	.32	4.80
Virginia	1,075	6.82	1.87	.52	.50	.76	.24	2.94
New Mexico	1,030	21.96	7.61	1.17	1.03	.87	.43	10.85
West Virginia	1,027	9.69	4.72	.63	.54	.97	.31	2.53
Oklahoma	941	26.53	19.47	.69	.65	1.05	.38	4.29
Louisiana	909	23.25	17.32	.72	.80	1.05	.22	3.14
Georgia	907	14.31	6.38	.64	.89	1.27	.64	4.49
Tennessee	906	13.77	6.09	.76	.60	.98	.33	5.01
North Carolina	879	9.97	3.56	.69	.72	1.11	.27	3.62
Kentucky	846	10.73	5.21	.48	.70	.99	.29	3.06
Alabama	828	12.05	5.98	.82	.90	1.16	.39	2.80
South Carolina	798	12.87	4.69	.76	.90	1.28	.35	4.89
Arkansas	776	13.90	6.71	.65	.68	1.12	.41	4.33
Mississippi	674	13.77	5.10	.70	1.03	1.29	.40	5.25

Source: Social Security Bulletin June 1950, p. 12.

TABLE VII

FEDERAL GRANTS TO STATES AND LOCALITIES IN RELATION TO INCOME PAYMENTS AND
STATE TAX COLLECTIONS, BY STATE, FISCAL YEAR 1948-49

TOTAL GRANTS TO STATES

States ranked by '46-'48 average per capita income	Amount (Thous.)	As % of Income Paym'ts.	As % of State Taxes
U. S. Total	\$1,794,883	.87	21.5
High Income Group	640,884	.63	17.4
Nevada	7,180	2.61	65.3
New York	112,690	.42	12.6
Illinois	91,139	.60	20.8
Delaware	3,575	.68	21.0
California	137,982	.81	16.0
Montana	13,987	1.53	48.2

TABLE VII CONTINUED

States ranked by '46-'48 average per capita income	Amount (Thous.)	As % of Income Paym'ts.	As % of State Taxes
Connecticut	\$ 14,667	.43	14.5
New Jersey	32,243	.42	16.5
Rhode Island	8,703	.75	18.2
Maryland	17,450	.52	12.9
Massachusetts	55,809	.80	20.8
North Dakota	12,511	1.46	33.8
Ohio	73,654	.61	18.3
Wyoming	8,629	2.03	50.8
Washington	43,065	1.20	19.4
Middle Income group	536,769	.88	22.2
Michigan	72,987	.79	16.1
South Dakota	13,549	1.41	42.3
Colorado	31,685	1.85	34.8
Pennsylvania	91,272	.60	18.0
Wisconsin	38,808	.81	19.3
Nebraska	18,734	.99	40.7
Indiana	33,522	.61	18.0
Oregon	21,372	1.00	19.1
Iowa	33,571	.86	22.4
Idaho	10,222	1.39	30.1
Minnesota	40,506	1.02	22.9
Missouri	65,733	1.25	36.5
Kansas	28,846	1.18	27.0
Utah	12,488	1.51	27.2
New Hampshire	6,704	1.02	27.9
Vermont	5,894	1.32	29.5
Maine	10,878	.99	23.7
Low Income group	617,230	1.42	27.4
Florida	41,140	1.49	28.4
Arizona	14,449	1.76	25.4
Texas	114,582	1.30	34.2
Virginia	20,798	.59	15.1
New Mexico	12,540	1.95	27.9
West Virginia	18,524	.86	15.8
Oklahoma	60,876	2.58	40.0
Louisiana	60,250	2.32	25.2
Georgia	45,306	1.47	37.8
Tennessee	43,766	1.44	28.2
North Carolina	37,853	1.07	16.4
Kentucky	30,632	1.18	26.2
Alabama	34,969	1.35	29.4
South Carolina	25,508	1.49	25.3
Arkansas	26,926	1.61	30.6
Mississippi	22,111	1.82	31.3

Source: Social Security Bulletin June 1950, p. 13

The cost of government.

We have indicated the importance of federal taxes, but in a federal system, the taxpayer is interested in his total tax bill, state, local, and federal. We shall deal later with the tax payments of some hypothetical individuals and shall show the impact of tax payments upon different income groups, but at this point we are concerned with the total cost of government and the effort by taxpayers in Maine.

In 1949, tax payments by inhabitants of Maine totaled \$205 million. Of this sum, the state received \$43.7 million and local government \$43.6 million; the federal government accounted for the largest share, however, with \$117.5 millions. The distribution of these tax payments as to governmental unit and type of tax is shown in Table VIII.

TABLE VIII
DISTRIBUTIONS OF TAX COLLECTIONS IN MAINE, 1949
(percentage)

Type of Tax	Federal	Governmental Unit State	Local	Total
Property		2.78	19.35	22.13
Personal Income	27.73			27.73
Corporate Income	19.55			19.55
Automobile, regis., lic.		2.87		2.87
Liquor and tobacco	.20	5.91		6.11
Amusement	.66			.66
Business	.99	2.59		3.58
Gas Tax		5.87		5.87
Employment Taxes	4.79			4.79
Other	3.46	1.31	1.94	6.71
TOTALS	57.38	21.33	21.29	100.00

The per capita payment in Maine for all governmental purposes in 1949 was \$228, or 53 per cent of the \$433 per capita in Connecticut, the highest of the New England states. Maine ranked 5th in rank order in the New England states

TABLE IX
PER CAPITA TAX PAYMENTS (STATE, LOCAL, & FEDERAL)

Maine	\$228	N.H.	\$235
Conn.	433	R.I.	393
Mass.	391	Vt.	207

in cost of government--an indication that the total impact of federal, state, and local taxation was not in excess of the general experience in this area. In general, taxes levied by the state appear to be moderate. Table X indicates that per capita state tax revenue in Maine is exceeded by every New England state, except New Hampshire, and that, as one would anticipate, a high effort by Maine does not produce relatively as much revenue as in Massachusetts, Connecticut, or Rhode Island since taxable income is low.

TABLE X
PER CAPITA STATE TAXES
(exclusive of unemployment compensation tax)
(Dollars)

State, Rank	1945	1946	1947	1948	1949
Maine	27.14	30.68	34.23	42.73	43.37
Rank, N.E.	5	6	6	5	5
Rank, U.S.	30	35	36	33	35
Mass.	32.20	40.54	44.71	47.22	48.41
Rank, N.E.	1	1	1	4	3
Rank, U.S.	19	14	18	29	29
N. H.	26.44	32.55	36.62	35.06	37.84
Rank, N.E.	6	5	4	6	6
Rank, U.S.	34	29	31	42	43
Vt.	30.62	36.19	41.75	47.85	50.54
Rank, N.E.	3	2	2	3	2
Rank, U.S.	22	19	22	28	26
R. I.	28.03	35.04	39.25	53.95	53.34
Rank, N.E.	4	3	3	2	1
Rank, U.S.	26	24	27	17	20
Conn.	32.18	32.76	36.27	54.23	47.19
Rank, N.E.	2	4	5	1	4
Rank, U.S.	30	25	32	15	30

Source: U. S. Bureau of the Census, Compendium of State Government Finances

Maine is fairly comparable to Vermont and New Hampshire as to the per capita state and local taxes collected. All three northern/^{New England} states are significantly below the more industrial states of Massachusetts, Rhode Island, and Connecticut.

TABLE XI
PER CAPITA STATE AND LOCAL TAXES

State	1945	1946	1947	1948	1949
Maine	\$65	\$63	\$ 74	\$ 86	\$ 96
Conn.	79	75	85	112	107
Mass.	88	92	102	117	125
N. H.	54	76	83	94	98
R. I.	67	74	77	99	104
Vt.	72	73	82	95	94

Effort. Statistics for state finances are not strictly comparable for a number of reasons. For example, some states raise a great deal of revenue which is returned to local government units, while others tax less heavily but permit municipalities to levy sizable amounts for local purposes.

Considering state taxes alone, we find that Maine's effort is respectable. Table XII showing the percentage of income taken for state taxes, indicates that Maine is second from the top of the New England states in terms of tax effort and about at the median for the 48 states.

TABLE XII
PROPORTION OF INCOME TAKEN FOR STATE TAXES
(1948-49)

State	1948	1949	Rank order in U.S.		Rank Order in N.E.	
			1948	1949	1948	1949
48 States	3.6	3.6				
Maine	3.8	3.6	24	27	2	2
Mass.	3.3	3.2	36	33	4	4
N. H.	3.1	3.0	40	35	6	5
Conn.	3.2	2.8	37	40	5	6
Vt.	4.1	4.1	22	17	1	1
R. I.	3.6	3.4	29	31	3	3

Table XIII, based upon retail sales per capita, shows much the same result--- a relatively high effort. It is true that in 1948 Maine state taxes, as a percentage of retail sales, were 5th in the rank order of the New England states, but the spread between Maine and the top New England state, Connecticut, was insignificant, only four tenths of a percent.

TABLE XIII
PERCENTAGE OF STATE TAXES TO RETAIL SALES

State	1948	1949	Rank order in U.S.		Rank order in N. E.	
			1948	1949	1948	1949
Maine	5.0	6.3	32	23	5	1
Mass.	5.2	5.6	21	26	3	3
N. H.	4.0	4.4	43	44	6	6
Conn.	5.4	4.7	19	40	1	5
Vt.	5.2	5.6	21	26	4	4
R. I.	5.4	5.8	20	24	2	2

When state and local taxes are combined, the effort by Maine taxpayers, measured by the proportion of income taken for state and local purposes, drops to fourth in the New England area. However, in 1948, an increase of \$7 million in state and local tax revenue would have brought Maine abreast of Massachusetts, the highest state in the New England group. In 1949, a \$3 million increase would have placed Maine at the top of the New England states. There is no significant difference in the effort to sup^{port} state and local governments combined in the New England area when measured by retail sales.

TABLE XIV
COMBINED STATE AND LOCAL TAXES AS PER CENT OF
INCOME PAYMENTS AND RETAIL SALES

State	Income Payments		Rank Order		Retail Sales		Rank Order	
	1948	1949	1948	1949	1948	1949	1948	1949
Maine	7.6	8.0	4	2	10	13	x	2
Mass.	8.3	8.3	1	1	13	15	1	1
N. H.	7.9	7.8	3	3	10	11	x	x
Conn.	7.0	6.5	5	6	11	11	2	x
Vt.	8.2	7.8	2	3	10	11	x	x
R. I.	6.6	6.7	6	5	10	11	x	x

If federal tax collections are also taken into consideration, the financial effort to support government in Maine, as compared with the other New England states, is significantly below that of the southern New England states and about the same as that for Vermont and New Hampshire. The heavy influence of the federal corporate income tax in this table is an indication that the northern New England

TABLE XV
FEDERAL, STATE, AND LOCAL TAXES AS A PERCENTAGE
OF INCOME PAYMENTS TO INDIVIDUALS AND OF RETAIL SALES

State	Income Payments		Rank Order		Retail Sales		Rank Order	
	1948	1949	1948	1949	1948	1949	1948	1949
Maine	19	19	5	4	28	30	4	4
Mass.	26	26	2	1	45	46	1	1
N. H.	20	19	4	4	28	27	4	5
Conn.	26	26	2	1	45	43	1	2
Vt.	18	17	6	6	24	24	6	6
R. I.	27	25	1	3	42	42	3	3

states of Maine, New Hampshire, and Vermont have less corporate income, an income flowing from nation-wide activities, and that to maintain the same standard of governmental living as our neighbors to the south will require a greater fiscal effort.

Both in terms of total per capita taxes and of the proportion of taxes to individual income payments and retail sales, the states of Maine, New Hampshire, and Vermont fall significantly below Connecticut, Rhode Island, and Massachusetts. The former group of states is less industrialized and income payments are lower, but the differential is reflected in tax revenue. It would appear that a new major tax in Maine would naturally represent some hardship, since the economic base is so limited, but that the adoption of such a levy would not result in increasing the effort or the total cost of government above that prevailing in New England.

Fact No. 2

The trend of governmental cost in Maine, as in other states, is upward.

Whether we view the trend of state and local expenditures from the short or long run vantage point, it is evident that costs have risen radically. It is indicative, however, of the tendency toward centralization in our modern economy that the expenditures of local government units have increased relatively less than those of the state and federal governments. The following table indicates in a general way the tremendous inflation in the budget of the State of Maine in the

first half of the twentieth century.

TABLE XVI
TAX REVENUE AND EXPENDITURES OF THE
STATE OF MAINE 1900-49
(in Thousands)

Year	Tax Revenue	Per Cent Change	Cost Payments	Per Cent Change
1900	\$ 1,807	---	\$ 1,808	---
1910	4,106	227	4,106	227
1922	13,076	724	15,697	868
1930	20,049	1,110	22,567	1,248
1940	26,871	1,487	29,830	1,648
1945	29,547	1,635	31,489	1,741
1949	47,917	2,651	58,063	3,211

Table XVII shows the expenditures for specific state activities for the years 1902, 1913, 1932, and 1949. Although all costs have been upward, increases are most noticeable in such activities as health and welfare, highways, and education.

TABLE XVII
GOVERNMENTAL COSTS OF THE STATE OF MAINE
(in Thousands)

Operation	1902	1913	1932	1949
General government	\$ 206	\$ 365	\$ 650	\$ 2,055
Protection of persons and property	109	327	1,146	1,808
Development & conservation	17	---	902	4,041
Health & Sanitation	15	50	658	720
Highways	10	403	4,285	11,071
Charities, hospitals, & corrections	397	925	2,422	16,125
Education	707	791	3,760	4,115
Recreation	---	---	8	143
Miscellaneous	124	---	742	1,204
TOTAL OPERATION	1,585	2,861	14,573	41,282
Aid paid to local government				8,160
Interest	76	40	1,099	369
Capital outlay			11,022	11,821
Less debt retirement				1,920
Contributions to trust funds, etc.				7,653
TOTAL	\$1,661	\$2,901	\$26,785	\$69,285

Local expenditures increased four times between 1902 and 1942, a much less radical increase than that registered by the state. It is also interesting that local expenditures for 1942 were actually below those for 1932 ---one indication that the increased responsibility assumed by the state and federal governments for such activities as education and welfare had reduced some of the pressure upon local budgets, and that local expenditures were already reflecting World War II.

TABLE XVIII
LOCAL GOVERNMENT COST PAYMENTS
(000 omitted)

Activity	1902	1913 ³	1932	1942
General government	1,138	917	2,741	2,507
Protection of persons and property	838	909	2,630	2,790
Health and sanitation	200	186	630	752 ¹
Highways	1,202	1,123	6,105	5,600
Charities, Corrections and Hospitals	869	424	2,966	2,218 ²
Education	1,509	1,791	10,670	10,938
Recreation	26	84	231	
Miscellaneous	31	49	527	
TOTAL	5,811	5,843	26,500	26,892
Public Service Enterprises	402	525	965	
Interest	529	796	1,910	1,108
Outlays	814	1,823	7,569	736
TOTAL	7,556	8,358	36,944	30,540

Source: U. S. Bureau of the
Census, Census of
Governments.

1. Includes hospitals.
2. Welfare only.
3. Places under 2500 omitted.

An interesting feature of the growth of local budgets is that it has been manifested in almost all activities. Education has registered the greatest increase, but there has been a substantial expansion of local activities in such fields as welfare, highways, health and sanitation, and protection of persons and property. Indubitably, the extremely low figure for capital outlay in 1942 was simply the reflection of a war year and cannot be taken as indicative of any trend. Local revenue has been increased to meet these new needs, until today total municipal income is

361 per cent greater than it was in 1902.

TABLE XIX
LOCAL GOVERNMENT REVENUE
(000 omitted)

	1902	1913 ¹	1932	1942
Taxes				
General property	5,372	4,868	24,011	29,643
Special	180	169	436	
Polls	181	237	605	
Licenses and permits	7	13	94	
TOTAL	5,740	5,287	25,146	30,409
Other revenue	1,756	2,616	8,842	4,014
TOTAL	7,496	7,903	33,988	34,523

Source: U. S. Bureau of the Census,
Census of Governments

1. Places under 2,500 omitted.

State expenditures: 1941-1950

The last decade has witnessed a growth in state expenditures of such magnitude as to arouse serious concern as to how long such a rate of increase can continue. Table XX indicates that from 1942 to 1949, the only years for which there exists reasonably comparable statistics, the state increased its payments from the General Fund for salaries and wages by 85 per cent from \$3.7 million to \$6.2 million and that other current expenditures rose from \$2.7 million to \$4.8 million, or 76 per cent.¹ Expenditures for grants, subsidies, and pensions, the real program costs, climbed from 10 million to 18.9 million, or 88 per cent. It is encouraging that administrative costs increased somewhat less than actual payments for services. Capital outlays are not a particularly important item in the general fund, but they also jumped from \$244,569 to \$427,391, or 75 per cent. Total operating expenditures increased 85 per cent from \$16.4 million to \$30.4 million.

1. A word of caution is necessary regarding the following discussion of state expenditures. Statistics relating to state finances are rarely strictly comparable, and the figures used here are no exception. They are indicative of a trend, but they should not be utilized without a realization of their limitations. Changes in the law and in accounting procedure may add or remove items from a particular fund so that the figures for any two years may not be absolutely comparable. For example, in 1942 the \$652,591 expended by the Department of Inland Fish and Game was included in the General Fund; in 1950 the \$1,186,267 expenditure was in the Special Fund.

TABLE XX

GENERAL FUND

Comparative Statement of Expenditures, by Character and Object, for Fiscal years 1942-1949 Showing Per Cent Increase and Decrease over Preceding Years, 1948 and from 1942, 1948 & 1949

	1942	1948	1949	% Inc. (% Dec.)	% Inc. 1942-49
PERSONAL SERVICES					
Salaries and Wages	\$ 3,373,729	\$ 5,462,491	\$ 6,235,750	14%	85%
OTHER CURRENT EXPENDITURES					
Professional Fees,					
Services	146,687	250,093	312,949	25	113
Operation of State Autos	22,836	9,337	11,217	20	(51)
Traveling Expenses	314,833	398,875	456,176	14	45
Operation of State Veh.					
Planes and Boats	17,285	53,143	59,289	12	243
Utility Services	163,498	208,253	230,876	11	41
Rents	80,680	80,112	84,431	5	5
Repairs	101,326	255,655	204,711	(19)	102
Insurance	40,942	57,463	86,885	51	112
General Operating Expense	377,968	439,813	530,659	21	40
Foods	571,379	1,446,202	1,494,140	3	161
Fuel	192,771	410,016	455,078	11	136
Office Supplies	73,380	101,079	103,557	2	41
Clothing & Clothing					
Materials	65,476	105,146	107,882	3	65
Other Dep't & Instit.					
Supplies	403,218	480,361	481,374	1	19
Bond Interest	63,850	1,800	1,350	(25)	(98)
Contributions & Transfers					
To Other Funds	73,547	166,369	143,092	(14)	95
Total	\$ 2,709,676	\$ 4,463,719	\$ 4,763,666	7	76
GRANTS, SUBSIDIES, PENSIONS					
Grants to Fed. Govt.	61,618	12,049	11,813	(2)	(81)
Grants to Cities, Towns	1,913,991	4,478,091	4,933,808	10	158
Grants to Public, Private					
Organizations	934,776	2,007,466	1,965,812	(2)	110
Grants for Aid to Depen-					
dent Children	847,459	1,932,568	2,816,019	46	232
Grants for Old Age					
Assistance	3,711,894	5,501,996	5,737,815	4	55
Grants for Assistance					
and Relief	2,137,777	2,198,188	2,285,170	4	7
Miscellaneous Grants					
to Indiv.	40,650	69,625	53,268	(24)	31
Pensions	421,612	1,114,628	1,143,733	3	171
Total	\$10,069,777	\$17,314,611	\$18,947,438	9	88
CAPITAL OUTLAYS					
Land or Land Rights	29,534	8,972	1,168	(87)	(96)
Building and Improvements	65,891	81,633	210,253	157	219
Equipment	149,144	258,707	215,960	17	45
Total	244,569	349,313	427,381	22	75

TABLE XX (CONTINUED)
GENERAL FUND

	1942	1948	1949	(% Inc. Dec.)	% Inc. 42-49
TOTAL OPERATING EXPENDITURE	\$16,397,751	\$27,590,134	\$30,374,234	10	85
Debt Retirement	360,000	45,000	45,000	00	(88)
NON-RECURRING EXPENDITURE	360,026				
Deductions					
TOTAL EXPENDITURES	\$17,117,777	\$27,635,134	\$30,419,234	10%	82%

() indicates % decrease.

SOURCE: Expenditure Figures from Department of Finance Annual Reports

Table XXI shows these same expenditures for 1942 and 1949 reduced to a standard dollar, that of 1940. Naturally, a comparison of Table XX and XXI indicates that much of the increase in state expenditures can be attributed to the rise in the cost of living. As the dollar has declined in value, it has been necessary to reflect price inflation in larger state expenditures so that the same quantity and quality of services could be continued.

When corrections are made for changes in the price level, payments from the General Fund for salaries and wages increased only 27 per cent, or 3.4 per cent annually. Operating expenses were up 21 per cent, or less than 3 per cent a year; but grants, subsidies, and pensions, up 30 per cent, registered the largest increase. Capital outlays showed the least change, with an expansion of 20 per cent. Total operating expenses, closely paralleled payments for salaries and wages, and rose 28 per cent.

Both the adjusted and unadjusted general fund expenditures classified by character and object reveal an interesting tendency. State payments to municipalities or individuals, such as educational grants or assistance payments, have increased more rapidly than the expenditures for salaries and other current operating expenses.

Capital items are relatively unimportant in general fund expenditures because in recent years they have been largely financed by appropriations from the surplus. The combined expenditures for capital items from both the unappropriated surplus and the General Fund were \$245,000 in 1942 and \$1 million in 1949, an increase of 323 per cent. On an adjusted basis the payments were \$210,000 and \$612,000, an increase of 191 per cent. In 1949, 3 per cent of all expenditures from surplus and general fund was for capital items, and this figure was typical of the average post-war experience.

Since the virtual exhaustion of the unappropriated surplus has eliminated this convenient source of funds for expenditures of a capital nature, the state should undertake a program of capital budgeting, with proper provisions for the financing

TABLE XXI
GENERAL FUND
Comparative Statement of Expenditures, by Character and Object, for Fiscal Years
1942 and 1949

	1942 Expend.	1949 Expend.	1942 Expend., 1940 Dollars	1949 Expend., 1940 Dollars	% Increase 1940 Dollars
PERSONAL SERVICES					
Salaries and Wages	\$ 3,373,729	\$ 6,235,750	\$ 2,901,744	\$ 3,695,305	27.31%
OTHER CURRENT EXPENDITURES					
Professional Fees, Services	146,687	312,949	126,165	185,453	46.99
Traveling Expenses	311,833	456,176	270,788	270,330	(.17)
Operation of State Autos.	22,836	11,217	19,611	6,617	(66.16)
Operation of State Veh., Planes, Boats	17,285	59,289	14,867	35,135	136.32
Utility Services	163,498	230,876	140,625	136,817	(2.71)
Rents	80,680	84,431	69,393	50,034	(27.90)
Repairs	101,326	201,711	87,150	121,312	39.19
Insurance	40,912	86,885	35,214	51,488	46.21
General Operating Expense	377,968	530,659	325,090	314,469	(3.27)
Foods	571,379	1,494,143	491,443	885,427	80.16
Fuel	192,771	455,078	165,802	269,679	62.65
Office Supplies	73,380	103,557	63,114	61,368	(2.77)
Clothing and Clothing Materials	65,476	107,882	56,316	63,931	13.52
Other Dep't. & Instit. Supplies	403,218	481,374	346,808	285,262	(17.70)
Bond Interest	63,850	1,350	54,917	800	(98.55)
Contrib. & Transfers to Other Funds	73,547	143,092	63,258	84,796	34.04
Total	\$ 2,709,676	\$ 4,763,666	\$ 2,330,592	\$ 2,822,948	21.12%
GRANTS, SUBSIDIES, PENSIONS					
Grants to Federal Government	61,618	11,813	52,998	7,000	(86.80)
Grants to Cities, Towns	1,913,991	4,933,808	1,646,224	2,923,774	77.60
Grants to Pub., Priv., Organizations	934,776	1,965,812	804,001	1,164,940	44.89
Grants to Individ. for Aid to Dep. Child.	847,459	2,816,019	728,899	1,668,773	128.94
Grants to Individ. for Old Age Assist.	3,711,894	5,737,815	3,192,600	3,400,229	6.50
Grants to Individ. for Assist. & Relief	2,137,777	2,285,170	1,838,702	1,354,192	(26.36)
Miscellaneous Grants to Individ.	40,650	53,268	34,963	31,567	(19.72)
Pensions	421,612	1,143,733	362,628	677,776	86.90
Total	\$10,069,777	\$18,947,438	\$ 8,661,015	\$ 11,228,252	29.64%

TABLE XXI (continued)
GENERAL FUND
Comparative Statement of Expenditures, by Character and Object, for Fiscal Years 1942 & 1949

	1942 Expend.	1949 Expend.	1942 Expend., 1940 Dollars	1949 Expend., 1940 Dollars	% Increase 1940 Dollars
CAPITAL OUTLAYS					
Land or Land Rights	\$ 29,534	\$ 1,168	\$ 25,402	\$ 692	(97.28)
Buildings and Improvements	65,891	210,253	56,673	124,596	119.85
Equipment	149,144	215,960	128,279	127,967	(.25)
Total	\$ 244,569	\$ 427,381	\$ 210,354	\$ 253,266	20.39%
TOTAL OPERATING EXPENDITURE	\$16,397,751	\$30,371,234	\$14,103,706	\$17,999,771	27.62%
Debt Retirement	360,000	15,000	309,636	26,667	(91.39)
Non-recurring Expenditures	360,026	---	309,658	---	---
TOTAL EXPENDITURES	\$17,117,777	\$30,119,234	\$14,723,000	\$18,026,438	22.43%

SOURCE: Expenditure Figures from Department of Finance
Annual Reports.

() Indicates % Decrease.

of capital items.

TABLE XXXII
EXPENDITURES FOR CAPITAL ITEMS
1942-1949

Year	Total expenditures for capital items	Percent of total expenditures from surplus and general fund
1942	\$ 244,569	1.4 %
1943	147,456	0.9
1944	245,921	1.3
1945	214,234	1.1
1946	506,130	2.2
1947	1,758,109	6.2
1948	1,443,968	5.0
1949	1,033,578	3.3

Perhaps even more interesting than the character and object classifications is an analysis of general fund outlay in terms of activities. In the decade, 1941-1950, the cost of general administration increased 34 per cent from \$1 million to \$1.4 million;¹ protection of persons and property, 153 per cent from \$441,000 to \$1.1 million; development and conservation, 97 per cent from \$749,000 to \$1.5 million; and health and sanitation, 169 per cent from \$127,000 to \$340,000. The bulk of state expenditure, however, is for welfare, institutions, and education. In 1941 welfare and charities involved a total sum of \$7 million, and in 1950 the payments had more than doubled to \$14 million. Once an unimportant state function, education has now become an important financial responsibility of the State. The expansion of state grants to municipalities for education was largely responsible for the decided increase in expenditures for education and libraries, which were up 136 per cent to a total of \$8 million. Institutional costs have risen but not spectacularly; expenditures for charitable institutions increased 110 per cent; those for correctional institutions, 98 per cent; and those for hospitals and sanitoriums, 127 per cent. Payments for recreation and parks, a new but expanding program, increased from \$13,000 to \$92,000, or 599 per cent. Total expenditures

1. This figure is definitely distorted because it compares a legislative with a non-legislative year.

TABLE
GENERAL FUND
SUMMARY OF EXPENDITURES (1941-1945)
-WAR PERIOD

Expenditures	1941	1942	Per Cent Increase Decrease	1943	Per Cent Increase Decrease	1944	Per Cent Increase Decrease	1945	Per Cent Increase Decrease
General Adminis.	\$ 1,069,919	\$ 864,033	(19%)	\$ 1,055,313	22%	\$ 935,673	(11%)	\$ 1,210,060	29%
Protection of Persons & Property	440,622	375,963	(16)	473,640	26	512,677	8	473,452	(8)
Development of Conserv. of Nat. Res.	1,260,013	1,164,356	53	916,083	(21)	1,120,937	22	1,256,614	12
Health & Sanitation	126,518	142,392	13	161,536	13	164,631	2	182,757	11
Welfare & Charities	7,008,825	7,391,057	5	7,450,831	1	7,911,989	5	8,463,924	8
Institutions									
State Hospitals & Sans.	1,622,996	1,731,911	7	1,819,537	5	2,129,655	17	2,054,408	(4)
Correctional	536,887	615,156	15	528,242	(12)	723,435	37	777,560	7
Charitable	70,750	75,996	7	73,708	3	80,195	9	80,511	1
Education & Libraries	3,387,173	3,641,905	8	3,738,886	3	4,308,644	15	4,509,731	5
Recreation & Parks	13,154	25,226	92	21,647	(14)	24,814	15	24,444	(2)
Miscellaneous	22,732	773,353	223	4,868	(93)	13,301	790	4,363	(90)
Unemploy. Adminis	476,921	359,902	(25)	239,902	(33)	---	---	---	---
Contrib. & Transfers	116,582	139,742	20	427,308	206	485,683	14	478,297	(2)
Refund of R.R. & Teleg. Tax	139,193	92,935	(33)	97,595	5	---	---	---	---
Debt Service									
Principal	215,000	360,000	67	245,000	(32)	220,000	(10)	145,000	(34)
Interest	40,487	63,850	58	49,150	(23)	38,050	(23)	25,700	(32)
TOTAL									
EXPENDITURES	\$16,547,772	\$17,117,777	3%	\$17,303,247	2%	\$18,599,715	7%	\$19,686,821	6%

() indicates decrease

1. Fish and Game and Unemployment Administration expenditures deducted from 1941 in calculating percentages.

(Continued)
TABLE
GENERAL FUND
SUMMARY OF EXPENDITURES (1946-1950)
Post-War Years

Expenditures	1946	Per Cent Increase Decrease	1947	Per Cent Increase Decrease	1948	Per Cent Increase Decrease	1949	Per Cent Increase Decrease	1950	Per Cent Increase Decrease	Per Cent Increase Decrease 1941-50
General Adminis.	\$1,152,635	(5)%	\$ 1,596,854	39%	\$ 1,316,926	(17)%	\$ 1,756,795	33%	\$ 1,437,302	(18)%	34%
Protection of Persons & Property	688,187	45	583,207	(15)	1,024,796	76	732,136	(29)	1,114,100	52	153
Development of Conserv. of Nat. Res.	1,562,394	24	1,992,032	27	1,149,137	(42)	1,171,551	2	1,492,729	27	97
Health & Sanitation	233,785	28	300,677	29	309,245	3	294,371	(5)	340,354	16	169
Welfare & Charities Institutions	9,310,392	10	10,929,656	17	10,877,322	1	12,448,492	14	14,265,290	15	104
State Hospitals & Sans.	2,432,987	18	2,986,841	23	3,289,405	10	3,632,479	10	3,497,929	1	127
Correctional	877,159	13	1,007,824	15	1,019,586	1	1,106,182	8	903,757	(4)	98
Charitable	99,394	23	189,024	90	203,066	7	217,669	7	148,345	(32)	110
Education & Libraries	5,684,506	26	6,486,171	14	7,200,527	11	7,756,757	8	8,010,290	3	136
Recreation & Parks	44,371	82	51,031	15	62,866	23	127,589	103	91,897	(28)	599
Miscellaneous	39,134	797	8,142	(79)	7,844	4	4,413	(44)	10,800	145	(52)
Unemploy. Adminis.	---	--	---	--	---	--	---	--	---	--	--
Contrib. & Transfers	514,252	8	563,295	10	1,127,612	100	1,121,451	1	1,391,359	24	993
Refund of R. R. & Teleg. Tax.	---	--	---	--	---	--	---	--	---	--	--
Debt Service											
Principal	145,000	0	95,000	(34)	45,000	(53)	45,000	0	45,000	0	(79)
Interest	24,100	(6)	7,250	(70)	1,800	(75)	1,350	(25)	900	(33)	(98)
TOTAL EXPENDITURES	\$22,808,298	16%	\$26,797,006	17%	\$27,635,134	3%	\$30,419,234	10%	\$32,750,053	9%	(104)%

() indicates decrease

1. Fish and Game and Unemployment Administration expenditures deducted from 1941 in calculating percentages.

were up 104 per cent in this period, or if unemployment administration and the refund of railroad and telephone and telegraph taxes are omitted from the 1941 base, 106 per cent.

Table XXIV shows general fund expenditures by activities adjusted to a standard dollar, that of 1940. Total expenditures rose 33 per cent in the decade. Specifically, general administration rose very slightly -- the decrease in 1950 is partly due to the fact that it was a non-legislative year and hence only the expenses of the special session are included. Welfare and charities and development and conservation increased 27 and 23 per cent respectively. The greatest increment in costs, 338 per cent, was for recreation and parks; at the other extreme correctional institutional costs were only up 24 per cent, as compared with 35 per cent for hospitals and sanitoriums and 31 per cent for charitable institutions. Finally, health and sanitation payments increased by 68 per cent, and education and libraries, by 48 per cent.

As a result of World War II, highway costs in the last decade have shown a wide fluctuation, but since 1944 they have more than doubled. Total expenditures in the period 1941 to 1950 rose from \$12.4 million to \$24.3 million, but if we exclude payments for debt service, miscellaneous items, and contributions and transfers, charges jumped from \$9.5 million to \$22 million, or 132 per cent.

Payments for general administration increased 119 per cent; those for protection of persons and property, 138 per cent. As one might anticipate, expenditures for snow removal and sanding are becoming increasingly important. They rose from \$895,000 to \$2.2 million, 149 per cent, while expenditures for highways and bridges increased 131 per cent from \$7.8 million to \$18.1 million.

Adjusted to a standard dollar, highway expenditures showed a less spectacular rate of growth. Total expenditures were up 22 per cent, but more significant was the 45 per cent increase in payments for general administration, protection of persons and property, highways and bridges, and snow removal and sanding. In this

TABLE XXIV
GENERAL FUND
SUMMARY OF 1941, 1949 and 1950 EXPENDITURES
EXPRESSED IN 1940 DOLLARS

Expenditures	1941 Expenditures	1949 Expenditures	Per Cent Increase 1941-49	1950 Expenditures	Per Cent Increase 1941-50
General Administration	\$ 1,019,098	\$ 1,041,076	2.13%	\$ 857,206	(15.89%)
Protection of Persons & Property	419,692	625,236	48.97	664,449	58.31
Development & Conservation of Natural Resources	723,298 ¹	696,038	(3.79)	890,263	23.08
Health and Sanitation	120,508	174,444	44.73	202,987	68.45
Welfare and Charities	6,675,906	7,373,976 ²	10.50	8,507,819	27.44
Institutions					
State Hospitals & Sanitoriums	1,545,904	2,152,607	39.22	2,086,165	34.94 ³
Correctional	511,385	655,523	28.16	539,001	23.89 ³
Charitable	67,389	128,990	91.37	88,473	31.30
Education and Libraries	3,226,282	4,596,654	42.45	4,777,337	48.07
Recreation and Parks	12,529	75,609	500.49	54,807	337.72
Miscellaneous	21,652	2,615	(87.93)	6,441	(70.26)
Unemployment Administration	---	---	---	---	---
Contributions and Transfers	111,044	664,571	498.37	829,806	647.29
Refund of Railroad & Telegraph Tax	---	---	---	---	---
Debt Service					
Principal	204,787	26,667	(86.99)	26,838	(86.90)
Interest	38,564	800	(97.93)	537	(98.61)
TOTAL EXPENDITURES	\$14,688,585	\$18,026,438	22.72%	\$19,532,132	32.97%

1. Inland Fish and Game expenditures omitted.

2. World War Assistance included in Welfare and Charities.

3. Adjusted for state farm expenditures.

() indicates decrease.

TABLE
HIGHWAY FUND
SUMMARY OF EXPENDITURES (1941-1945)
WAR PERIOD

Expenditures	1941	1942	Per Cent Increase Decrease	1943	Per Cent Increase Decrease	1944	Per Cent Increase Decrease	1945	Per Cent Increase Decrease
General Administration	\$ 415,500	\$ 414,479	() ¹	\$ 407,470	(2)	\$ 429,972	6%	\$ 422,523	(2%)
Protection of Persons, & Property	337,507	341,446	1	329,818	(3)	373,801	13	396,327	6
Highways & Bridges	7,841,292	7,882,616	() ¹	4,492,842	(43)	4,871,618	8	4,802,335	(1)
Snow Removal & Sanding	895,092	854,854	(5)	1,110,128	30	1,184,016	7	1,347,663	14
Sub Total	9,489,391	9,493,395	1	6,340,258	(33)	6,859,407	8	6,966,846	2
Miscellaneous	58,432	54,651	6	37,266	(32)	37,763	1	59,462	57
Contributions & Transfers	212,695	51,281	(76)	42,095	(18)	97,257	131	98,851	2
Debt Service									
Principal	1,853,000	1,209,000	(35)	1,824,000	51	2,074,000	14	1,774,000	(14)
Interest	805,932	741,062	(8)	679,018	(8)	616,495	(9)	552,723	(10)
TOTAL EXPENDITURES	\$12,419,452	\$12,549,389	1%	\$8,922,637	(29%)	\$9,684,923	9%	\$9,453,884	(2%)

1. Less than 1%.
(). Indicates decrease.

TABLE (continued)
HIGHWAY FUND
SUMMARY OF EXPENDITURES (1946-1950)
POST-WAR PERIOD

Expenditures	1946	Per Cent Increase Decrease	1947	Per Cent Increase Decrease	1948	Per Cent Increase Decrease	1949	Per Cent Increase Decrease	1950	Per Cent Increase Decrease	Per Cent Increase 1941-1950
General Adminis- tration	\$ 458,588	9%	\$ 594,195	30%	\$ 625,164	5%	\$ 816,847	31%	\$ 911,533	112%	119%
Protection of Per- sons & Property	416,750	5	569,920	37	629,912	11	644,766	2	801,653	24	138
Highways & Bridges	6,065,017	26	10,323,282	70	14,283,797	38	17,611,658	23	18,104,634	3	131
Snow Removal & Sand- ing	1,658,746	23	1,836,824	11	2,009,988	9	1,849,784	(8)	2,227,582	20	149
Sub Total	8,599,101	23	13,324,221	55	17,548,861	32	20,923,055	19	22,045,402	5	132
Miscellaneous	107,604	81	72,820	(32)	69,557	(4)	69,565	1	44,389	(36)	(24)
Contributions & Transfers	162,185	64	158,741	(2)	206,941	30	215,160	4	259,896	21	22
Debt Service											
Principal	1,724,000	(3)	1,729,000	1	1,729,000	1	1,629,000	(6)	1,629,000	1	(12)
Interest	496,700	(10)	441,428	(11)	386,705	(12)	331,983	(14)	280,261	(16)	(65)
TOTAL EXPENDITURES	\$11,089,591	17%	\$15,726,210	42%	\$19,941,064	27%	\$23,168,764	16%	\$24,258,948	5%	96%

1. Less than 1%

(). Indicates decrease.

TABLE XXVI
HIGHWAY FUND
SUMMARY OF 1941, 1949, and 1950 EXPENDITURES
EXPRESSED IN 1940 DOLLARS

Expenditures	1941 Expenditures	1949 Expenditures	Per Cent Increase 1941-49	1950 Expenditures	Per Cent Increase 1941-50
General Administration	\$ 395,764	\$ 484,063	22.31%	\$ 543,638	37.36%
Protection of Persons, Property	321,475	382,088	18.85	478,106	48.72
Highway, Bridges	7,468,831	10,436,668	39.73	10,797,604	44.56
Snow Removal & Sanding	852,575	1,096,181	28.57	1,328,530	55.82
Sub-total	9,038,645	12,399,020	37.17	13,146,878	45.47
Miscellaneous	55,656	41,224	(25.94)	26,473	(52.44)
Contributions and Transfers	202,592	127,504	(37.07)	155,002	(23.50)
Debt Service					
Principal	1,765,982	965,345	(45.34)	971,536	(44.99)
Interest	767,650	196,733	(74.38)	167,148	(78.23)
TOTAL EXPENDITURES	\$11,829,528	\$13,729,809	16.06%	\$14,468,037	22.30%

() indicates decrease.

TABLE XXVII
SPECIAL REVENUE FUND
SUMMARY OF EXPENDITURES (1941-1945)
War Years

Expenditures	1911	1942	Per Cent Increase Decrease	1913	Per Cent Increase Decrease	1914	Per Cent Increase Decrease	1915	Per Cent Increase Decrease
General Administration	\$	\$ 15,224	—%	\$ 40,722	(9.98%)	\$ 42,544	3.98%	\$ 36,508	(14.26%)
Protection of Persons & Property	73,696	75,092	1.85	73,519	5.93	91,751	15.38	91,431	2.92
Development & Conservation of Natural Resources	301,080	471,397	55.02	518,765	10.01	718,364	38.47	706,423	(1.67)
Health and Sanitation	256,946	288,719	12.22	297,627	3.21	401,313	34.84	490,611	23.78
Welfare and Charities	17,158	20,364	18.68	27,019	32.62	27,468	1.54	40,861	(24.05)
Recreation, Parks State Park Commission	—	—	—	—	—	—	—	—	—
Institutions State Hospitals and Sanitoriums	47,725	65,273	36.73	29,179	(54.84)	27,680	(6.11)	11,476	(58.55)
Correctional	—	—	—	—	—	—	—	—	—
Education and Libraries	331,642	781,535	135.65	706,604	(9.58)	529,600	(25.05)	557,683	(32.47)
Unemployment Compensation Commission	—	—	—	—	—	219,446	—	213,183	(2.86)
Contributions & Transfers	2,700	—	—	9,328	—	21,502	130.51	19,108	(11.14)
TOTAL EXPENDITURES	\$1,033,918	\$1,717,201	68.98%	\$1,709,093	2.19%	\$2,079,501	21.67%	\$1,956,295	(5.93%)

() Indicates % Decrease.

(Continued)
TABLE XXVII
SPECIAL REVENUE FUND
SUMMARY OF EXPENDITURES (1946-1950)
Post-War Years

	1946	Per Cent Increase Decrease	1947	Per Cent Increase Decrease	1948	Per Cent Increase Decrease	1949	Per Cent Increase Decrease	1950	Per Cent Increase Decrease	Per Cent Increase Decrease '41-'50
General Administration	\$ 48,343	33%	\$ 55,012	14%	\$ 68,898	25%	\$ 53,750	78%	\$ 52,286	(3%)	---
Protection of Persons & Property	94,309	1	168,915	79	189,443	12	167,148	(12)	244,378	46	232
Development & Conservation of Natural Resources	720,827	2	960,608	33	2,211,955	130	2,397,705	8	2,518,350	5	728
Health and Sanitation	564,838	14	549,541	(3)	488,173	(11)	475,329	(3)	502,013	6	95
Welfare and Charities	26,613	28	32,179	21	46,259	44	72,711	57	47,633	(34)	178
Recreation, Parks State Park Commission	---	---	---	---	2,735	---	806	(71)	2,391	199	---
Institutions State Hospitals and Sanitoriums	---	---	1,125	---	---	---	1,125	---	---	---	---
Correctional	---	---	---	---	---	---	---	---	---	---	---
Education and Libraries	100,185	(72)	428,241	327	401,901	(6)	439,414	9	484,461	10	46
Unemployment Compensation Commission	330,979	55	734,378	122	933,823	27	914,634	(2)	1,070,389	17	---
Contributions & Transfers	22,489	18	81,044	260	68,743	15	99,737	45	98,487	(1)	3,546
TOTAL EXPENDITURES	\$1,908,584	(2)%	\$3,011,043	58%	\$4,411,946	47%	\$1,622,360	5%	\$5,020,388	9%	386%

SOURCE: Department of Finance

() indicates % decrease.

1. Less than 1 per cent.

TABLE XXVIII
SPECIAL REVENUE FUND
SUMMARY OF 1941, 1949 and 1950 EXPENDITURES
EXPRESSED IN 1940 DOLLARS

Expenditures	1941 Expenditures	1949 Expenditures	Per Cent Increase 1941-49	1950 Expenditures	Per Cent Increase 1941-50
General Administration	\$ ----	\$ 31,852	----	\$ 31,183	----
Protection of Persons & Prop.	70,195	99,052	41.10	145,747	107.64
Devel. & Conserv. of Nat. Resources	289,636	1,420,880	390.57	1,501,944	418.57
Health & Sanitation	244,741	281,680	15.09	299,401	22.33
Welfare and Charities	16,343	43,088	163.64	28,408	73.84
Recreation, Parks State Park Comm.	----	478	----	1,426	----
Institutions State Hospitals & Sans.	45,458	667	(98.54)	----	----
Correctional	----	----	----	----	----
Education and Libraries	315,889	260,397	(17.57)	288,933	(8.54)
Unemploy. Compensation Comm.	----	542,012	----	638,380	----
Contributions & Transfers	2,572	59,104	2,197.97	58,738	2,184.63
TOTAL EXPENDITURES	\$ 984,835	\$2,739,210	178.13	\$2,994,159	204.02

() indicates decrease,

group, payments for highways and bridges jumped 45 per cent and those for snow removal and sanding, 56 per cent. While highway debt service charges declined, all other items show a significant increase on both an adjusted and unadjusted basis.

Expenditures from the Special Revenue Fund are not of particular concern to the Tax Revision Committee because they represent activities which are very largely self-supporting, but Tables XXVII and XXVIII are included so that the experience with this Fund over the last decade could be compared with that of the Highway or the General Fund.

Expenditures for general government.

The increase in state expenditures has not been extreme, however, when measured by the experience of other states. Table XXIX indicates that in the post war period, general state expenditures for Maine rose 77 per cent as compared with 95 per cent for the total expenditures for all forty-eight states. In fact, only 8 states, Connecticut, Indiana, Massachusetts, New Jersey, New York, North Carolina, Rhode Island, and Wisconsin reported a smaller rate of increase.

TABLE XXIX
TOTAL GENERAL EXPENDITURES BY STATE
1945-1949
(Amounts in Thousands)

State	1949	1948	1947	1946	1945	Percent Increase 1949 over 1945
Total...	\$11,782,420	\$10,400,376	\$8,155,332	\$6,454,806	\$6,029,257	95.42
Alabama.....	199,954	150,938	124,569	98,995	91,894	117.59
Arizona.....	71,317	63,824	54,573	37,713	34,616	106.05
Arkansas.....	120,036	109,967	93,057	64,247	59,086	103.17
California.....	1,170,053	943,861	691,699	559,210	539,439	116.90
Colorado.....	135,319	121,438	95,437	67,618	61,250	120.92
Connecticut....	152,595	171,113	123,544	94,931	88,762	71.91
Delaware.....	28,070	24,346	19,605	16,083	14,699	91.06
Florida.....	225,164	199,920	159,728	110,318	96,265	133.90
Georgia.....	181,950	157,298	141,791	100,271	93,242	95.13
Idaho.....	45,977	41,106	37,183	24,547	22,518	104.24
Illinois.....	681,475	705,730	399,689	319,599	303,362	124.64
Indiana.....	246,221	214,549	177,215	149,626	149,936	64.22

TABLE XXIX CONTINUED
TOTAL GENERAL EXPENDITURES BY STATE 1945-1949
(Amounts in Thousands)

State	1949	1948	1947	1946	1945	Percent change 1949 over 1948
Total.....	\$11,782,420	\$10,400,376	\$8,155,332	\$6,454,806 ¹	\$6,029,257	95.42
Iowa.....	188,436	168,698	132,651	99,318	95,466	97.39
Kansas.....	132,385	126,475	101,129	79,579	68,352	93.68
Kentucky.....	148,268	131,235	103,908	79,087	73,134	102.74
Louisiana.....	385,235	211,866	173,899	131,886	133,844	187.83
Maine.....	71,205	62,378	55,369	44,815	40,329	76.59
Maryland.....	174,967	139,269	101,043	85,572	84,905	106.08
Massachusetts..	322,479	299,242	350,961	233,313	190,357	69.41
Michigan.....	637,463	736,572	483,348	398,305	284,714	123.89
Minnesota.....	239,635	201,989	163,119	130,893	128,808	86.05
Mississippi....	135,386	126,905	93,854	64,533	61,114	121.54
Missouri	255,483	211,001	175,149	140,412 ¹	131,354	94.50
Montana	53,945	43,750	37,537	27,933	25,953	107.87
Nebraska.....	77,390	77,856	60,601	45,468	41,960	84.43
Nevada.....	19,620	17,582	15,249	8,767	8,402	133.54
New Hampshire..	44,115	38,310	32,277	28,048	22,041	100.14
New Jersey.....	257,130	290,579	265,236	233,706	228,980 ²	12.29
New Mexico.....	69,432	61,464	51,977	35,777	27,569	151.92
New York.....	1,242,259	1,267,580	907,040	739,626	739,279	68.03
North Carolina.	269,291	225,051	195,341	142,784	179,058	50.39
North Dakota...	47,740	42,285	32,790	24,862	24,753	92.88
Ohio.....	723,551	429,064	372,305	332,031	338,773	113.58
Oklahoma.....	225,732	191,959	161,729	124,303	111,013	103.34
Oregon.....	154,807	133,694	99,596	76,476	69,710	122.06
Pennsylvania...	679,997	574,826	491,263	415,792	352,919	92.68
Rhode Island	57,602	59,598	58,895	40,113	38,653	49.03
South Carolina.	146,438	132,051	106,360	84,227	64,513	126.99
South Dakota...	49,020	44,115	30,231	20,767	19,483	151.62
Tennessee.....	223,380	188,868	123,700	98,036	92,829	140.65
Texas.....	441,915	348,868	272,250	231,393	223,291	97.90
Utah.....	69,133	61,884	53,449	40,180	37,995	81.97
Vermont.....	32,065	27,869	22,353	18,599	14,415	122.50
Virginia.....	183,345	176,403	156,704	114,328	96,527	89.95
Washington.....	325,148	267,150	257,701	186,207	159,649	103.67
West Virginia..	150,848	133,223	101,791	89,288	83,455	80.76
Wisconsin.....	258,461	222,687	179,946	153,165	169,251	52.70
Wyoming.....	30,983	23,440	16,491	12,059	11,340	173.19

¹ Revised.

² Includes \$18,814 thousand, amount of public utilities franchise and gross receipts taxes levied by the State and locally collected and retained. In reports for 1944 and prior years, these taxes were classified by the Bureau of the Census as local taxes, and the amount of collections was not included as State revenue or as state expenditure.

SOURCES: Summary of State Government Finances in 1949, 1945 and Compendium of State Government Finances in 1947, Bureau of the Census, U.S. Department of Commerce, Washington, D.C.

Per capita expenditures

There are no available figures as to the total of local expenditures, so we must confine our analysis to the state level, although the data is only roughly comparable.

In 1949, Maine was third among the New England states in total general ex-

TABLE XXX
Per Capita General Expenditures
1949
(exclusive of Debt Retirement)

State	Total Expenditures	Rank Order in the U.S.	Operation Expenditures in U.S.	Rank Order in U.S.	Aid to Local Government	Rank Order in U.S.
Maine	\$77.15	22	\$45.97	12	\$ 9.09	43
Conn.	73.82	27	43.88	15	10.60	42
Mass.	68.86	32	24.03	42	28.96	12
N. H.	80.78	18	48.45	10	7.24	47
R. I.	75.00	26	40.60	21	14.81	35
Vt.	86.49	16	48.40	11	14.62	36
U. S. Average	79.56		34.23		24.40	

SOURCE: Bureau of the Census, Compendium of State Government Finances in 1949

penditures per capita and 22nd in the United States. In the New England area New Hampshire and Vermont surpassed Maine in state expenditures. It is interesting that all New England states, except Massachusetts, rank high in the expenditures for operation. Massachusetts is also atypical of the area in its high per capita grants for local government. There are, however, only five states, of which one is New Hampshire, which provide less state aid to municipalities than does Maine. The result is that the local property tax is called upon to bear a heavier share of governmental costs in Maine.

General expenditures for operation reveal that Maine spends more for highways and welfare and less for education in comparison with the other forty-eight states.

TABLE XXXI
SELECTED EXPENDITURES FOR OPERATION
(1949)

State	Education	Rank Order	Highways	Rank Order	Welfare	Rank Order
U. S. Average	\$5.19		\$ 3.77		\$ 3.99	
Maine	4.58	34	12.33	3	12.40	15
Conn.	4.76	32	8.85	9	8.47	27
Mass	1.64	48	3.22	31	1.53	35
N.H.	6.30	19	9.20	7	11.33	21
R.I.	3.97	37	3.03	34	13.14	11
Vt.	3.67	40	13.32	2	11.04	22

SOURCE: Bureau of the Census, Compendium of State Government Finances in 1949

Fact No. 3

Currently the State of Maine is spending more than its income.

As we have already noted, the revenues and expenditures of the State of Maine must be analyzed in terms of three major funds, i.e., General, Highway, and Special Revenue Funds. The concern of this committee is primarily with the first of these, but some data were collected on the other two.

First, with the exception of one year, 1948, in which the revenue of the Department of Inland Fish and Game was seriously reduced by the forest fires in the fall of 1947, the Special Revenue Fund has enjoyed an excess of revenue over expenditures. This fund appears to be in a sound condition, but any unusual

TABLE XXXII
SPECIAL REVENUE FUNDS

Year	Revenue	Expenditures	Excess of Revenue over expenditures
1941	\$1,235,395	\$ 1,033,948	\$ 201,447
1942	1,774,935	1,747,204	27,730
1943	1,789,657	1,709,093	80,564
1944	2,178,796	2,079,501	99,295
1945	2,060,134	1,956,295	103,839
1946	1,999,294	1,908,584	90,711
1947	3,062,034	3,011,043	50,991
1948	3,991,637	4,411,946	(420,309)
1949	4,937,208	4,622,360	314,847
1950	5,187,946	5,020,388	167,558

circumstances, such as the forest fires of 1947, which affect special fund revenue, can materially change the present favorable outlook.

Second, the Highway Fund is in a less satisfactory condition than the Special Revenue Fund. Even with the increase of the gas tax from 4 to 6 cents per gallon in 1948, the fund is unable to support the present level of activities. On the contrary, in three out of the last five years, its expenditures have exceeded revenue, and the Fund is at present so short of cash that the Federal Government has advanced \$500,000 for revolving fund purposes. It appears that highway services must be reduced, or highway revenue must be increased still further.

TABLE XXXIII
HIGHWAY REVENUE FUND

Year	Revenue	Expenditures	Excess of Revenue over Expenditures
1941	\$ 12,284,197	\$ 12,419,452	(135,255)
1942	12,090,706	12,549,389	(458,682)
1943	10,392,639	8,922,637	1,470,000
1944	9,571,043	9,684,923	113,880
1945	9,698,449	9,453,884	244,565
1946	11,381,384	11,089,591	291,793
1947	15,211,073	15,726,210	(515,137)
1948	20,197,230	19,941,064	256,165
1949	22,264,553	23,168,764	(904,210)
1950	23,985,712	24,258,948	(273,237)

Third, an analysis of the General Fund is complicated by the fact that, during the last decade, a surplus account was accumulated. Thus a discussion of this fund must include transactions of both the General Fund and the unappropriated surplus.

Until the 1950 fiscal year the General Fund revenue exceeded expenditures by substantial amounts. This fortunate circumstance was at least partially due to the fact that revenue remained at a high level after the war. However, in 1950 the picture was drastically altered, and expenditures exceeded revenues by \$496,000, a direct consequence of the appropriation from surplus by the special session of the 94th legislature of over \$1 million for current operations. In addition there was a balance of \$953,597, which was carried over to the 1951 fiscal year and which

already has been heavily encumbered. Specifically, the increase in reserves for authorized expenditures was \$724,825. There is no question that the General Fund is in serious financial straits.

TABLE XXXIV
GENERAL FUND

Year	Revenue	Expenditures	Excess of revenue over Expenditures
1941	\$ 17,087,295	\$16,547,772	\$ 1,050,168
1942	19,362,134	17,177,777	2,244,357
1943	20,769,446	17,303,247	3,466,199
1944	22,433,561	18,599,715	3,833,846
1945	22,615,235	19,686,821	2,928,413
1946	24,355,085	22,808,298	1,546,787
1947	27,592,318	26,797,006	795,312
1948	30,399,955	27,635,134	2,764,821
1949	31,144,189	30,419,234	724,954
1950	32,254,359	32,750,053	(495,694)

How serious can perhaps be best demonstrated by an examination of the appropriations from unappropriated surplus. Since 1943, the legislature, has appropriated \$20.6 million from surplus, mostly for non-recurring items and working fund advances, but in 1950 the special session of the 94th Legislature appropriated \$3,140,800 for current expenses in welfare and education; \$1,073,400 was to be expended in the 1950 fiscal year and \$2,067,400 in 1951. Thus, at the end of the 1951 fiscal year, unless current revenues increase appreciable - a not very likely development under present conditions¹ - the state's expenses for current operations will be at a level approximately \$2 million over its anticipated revenue. This figure is conservative because expenditures at the end of the fiscal year are higher than the average for the period, and the state will, therefore, enter the 1951 year with a prospective deficit in excess of \$2 million.

1. Running horse racing will bring in about \$300,000 in 1950, but this will not materially change the revenue outlook.

As we have pointed out, capital items in the last decade were often financed from surplus. Since 1943 approximately \$6 million has been appropriated from surplus for non-recurring items, of which \$3.2 million was for capital purposes. Over the period of the last nine years, an average of \$670,244 was appropriated annually for non-recurring items.

TABLE XXXV

APPROPRIATIONS FROM SURPLUS
1943-1950
(in Thousands)

Year	Surplus	Appropriations non-recurring	Working capital advances	Bonds called in advance	Public works reserve	Other	Operations
1943	\$ 4,694	\$ ---	\$ 1,395	\$ ---	\$ ---	\$ 100	\$ ---
1944	4,103	1,028	874	1,010	950	100	---
1945	5,767	785	572	---	---	792	---
1946	3,195	1,829	425	765	990	---	---
1947	3,368	55	54	714	---	---	---
1948	6,146	---	---	---	---	525	---
1949	7,118	221	3	---	---	150	---
1950	2,496	1,869	2,000 ¹	---	---	---	1,073
1951	---	246	---	---	---	---	2,067
TOTAL		\$ 6,032	\$ 5,322	\$ 2,489	\$1,940	\$1,667	\$ 3,140

1. A \$2 million appropriation for operating capital

If the history of state expenditures has any meaning there will be further increases in the obligations of the General Fund. We shall discuss this question later, but a projection of the past rate of growth in state expenditures indicates that an additional \$900,000 will be required for the first year of the next biennium.

Thus a conservative estimate of General Fund needs would appear to be:

Operating expenses	\$2,000,000
Capital and non-recurring items	600,000
Normal growth	900,000
TOTAL	\$3,500,000

This figure could be increased still further by a number of factors. First, the legislature may authorize expensive new programs. Second, while no one can

predict what will happen to prices over the next two years, there has already been a sufficient taste of inflation to result in some increase in state expenditures. A 10 per cent rise in the price level, if reflected completely in General Fund expenditures, would mean an additional \$3 million. Third, the Republican Party platform contains a plank supporting the withdrawal by the State from the property tax. Realization of this plank would mean a loss of revenue to the State of approximately \$5 million.

To complicate the fiscal picture still further, there is uncertainty as to the kind of war which we are fighting. If we are entering a period of full scale mobilization, state expenditures will be curtailed somewhat by shortages of personnel and material, and the need for revenue may be less pressing. On the other hand, the tendency toward a further decline in the value of the dollar will be almost fully reflected by the need for more revenue by the state, if this is a period of limited mobilization.

It is obvious that additional revenue must be found for the General Fund, and since the unappropriated surplus is now exhausted, with the exception of the \$2 million for operating capital, the legislature must increase current revenue either by adopting new taxes or by raising the rates on those already being utilized. Those who dispute the need of the state for additional revenue simply do not realize the present condition of the General Fund.

The consolidated financial statement, including all funds, for the State shows that in 1949 the state expended \$601,000 more than its current revenue; as compared with a surplus of \$93,000 in 1948. The present inadequacy of the General and Highway Funds is, therefore, reflected in the consolidated financial statements.

TABLE XXXVI
CONSOLIDATED REVENUE AND EXPENDITURES

Year	Revenue	Expenditures	Excess of revenue over expenditures
1941	\$34,871,208	\$33,010,334	\$1,860,874
1942	39,440,426	33,605,724	5,834,702

(continued)

TABLE XXXVI
CONSOLIDATED REVENUE AND EXPENDITURES

Year	Revenue	Expenditures	Excess of revenue over Expenditures
1943	\$42,335,835	\$28,742,931	\$13,592,904
1944	42,775,080	30,440,533	12,334,547
1945	34,277,076	31,165,435	3,111,641
1946	37,757,518	35,700,261	2,057,257
1947	45,731,816	45,413,275	318,541
1948	54,394,957	51,993,381	2,401,576
1949	58,156,895	58,063,522	93,374
1950	61,210,063	61,811,435	(601,372)

Fact No. 4

Despite the great rise in governmental costs already experienced, it seems likely that further increases are still ahead.

We have already indicated that state expenditures have been increasing at a rate which to many spells economic disaster, yet realism suggests that we have not reached the end of this tendency for governmental costs to increase. Whether we approve of the trend or not, there are very real and basic reasons why we continue to spend more and more for government. These factors, rather than extravagance by state and local officials and rather than a consuming desire on the part of the taxpayer to pay more taxes, explain why governmental costs have risen in the past and will continue to rise in the future.

First, the present inflationary policies followed by the national government mean that everything that we purchase costs more and governmental services are no exception. In this instance, we again have an example of the predominant role played by federal fiscal policy and the impossibility of financial planning at the state and local level without the support and cooperation of federal agencies. Unfortunately, the costs of state and local governments are to a very considerable extent dictated by these external factors over which the citizens of the state, their legislative agents, and the state financial administrative agencies have little direct control.

We have already indicated that the rise in state and local costs over the last

decade can be largely attributed to the inflation of prices. The high cost of living is a factor that we are all keenly conscious of in our own personal budgets, but we often ignore the fact that state and local agencies are confronted by the same type of pressure. A 59 cent dollar cannot build as many miles of highways, pay as many school teachers, or provide as much welfare assistance as 100 cents did in 1939. Table XXXVII shows what inflation has meant to the costs of state government since 1941 and what it will mean if the present conflict with The USSR results in a 50 cent dollar - unfortunately a very probable eventuality.

TABLE XXXVIII

Year	Cost of living index	Value of the dollar	Total state Expenditures	Total state expenditures (1940 dollar)
1940	100.00	\$ 1.00		
1941	104.99	0.9525	\$33,010,334	\$31,442,343
1942	116.27	0.8601	33,605,724	28,904,283
1943	123.35	0.8107	28,742,931	23,301,894
1944	125.25	0.7984	30,440,533	24,303,722
1945	128.14	0.7804	31,165,435	24,321,505
1946	139.02	0.7193	35,700,261	25,679,198
1947	158.88	0.6294	45,413,275	28,583,115
1948	170.86	0.5853	51,993,381	30,431,726
1949	168.76	0.5926	58,063,522	34,408,443
1950	167.98	0.5964	61,811,435	36,864,340
19-	200	0.5000	61,811,435	30,905,717

The effective increase in state services between 1941 and 1950, measured in dollars, is the difference between \$31.4 and \$36.8 million, 17 per cent, rather than between \$33 and \$61.8 million, 88 per cent. It is interesting to note that the state did not exceed its 1941 levels until 1949, and that a further decrease in the value of the dollar to 50 cents, with no increase in state expenditures, would reduce the present level^{of} state services below that of 1941.

Let us illustrate what a 50 cent dollar would mean in terms of major activities and services. In effect, it would result in an effective decline of 17 per cent in the dollar value of all state services. If the same level of expenditures was continued, those receiving welfare services would suffer a loss of over \$2 million;

education grants would buy \$700,000 less; and highways and bridges would be curtailed by over \$3 million.

TABLE XXXIX
THE IMPACT OF INFLATION ON SPECIFIC SERVICES

Service or activity	Present expenditures	Expenditures 50 cent dollar
General administration	\$ 2,401,121	\$ 2,000,934
Protection of Persons and Property	2,160,131	1,800,109
Development & Conservation	4,011,079	3,342,566
Health, welfare, and charities	15,155,290	12,629,408
Old age assistance	7,497,864	6,248,220
Aid to Dependent Children	3,646,619	3,038,849
General Assistance	2,285,170	1,904,308
Institutions	4,550,031	3,791,693
Education and Libraries	8,494,751	7,078,959
Grants to cities & towns	4,724,904	3,937,420
Highways and Bridges	20,376,607	16,980,506
Highway construction	10,483,155	8,735,963
Highway maintenance	5,617,921	4,681,601

Second, rising costs of government are a natural concomitant of a nation which is growing. As the population increases, the demand for governmental services is likewise greater. Fortunately, as the national income rises, larger sums may be expended for government without any increase in effort. For example, in 1941 the State of Maine expended \$33 million, which was 6.5 per cent of the \$505 million reported for individual income payments; in 1949 total expenditures were \$58 million, but only 5.6 per cent of income payments, which reached \$1,094 million in 1948.

This pressure of a growing community upon the state budget can be illustrated by several criteria, all of which indicate the probability of further increases in state expenditures.

1. Population -----There is no indication that the population of the State of Maine will not continue to grow; in fact, further industrialization would increase the rate of growth because, by providing job opportunities, it would reduce the emigration, which has been of constant concern to many who are interested in the future of the state. For example, in the past decade, it is estimated

that 27,697 more persons left the state than came here to live. At any rate the population of the State rose from 847,226 in 1940 to 907,404 in 1950, an increase of 7.1 per cent, and it is probable that there will be over 950,000 people in Maine by 1960. To provide services for over 40,000 more individuals, who if they were in one place would comprise a community the size of Lewiston, will mean a larger state budget. This point can perhaps be illustrated more vividly by dealing with three specific activities---highways, education, and welfare.

2. Highway Travel---Highway costs are largely dictated by traffic; a greater number of cars travelling greater distances necessitate more expenditures on highways. Automobile registrations in 1960 may well approach 300,000 as compared with 270,000 in 1950, and travel may total 3,075,000 miles as compared with 2,734,000 in 1950. An increase of 11 per cent in automobile registrations and of 12 per cent in vehicle miles travelled is an excellent indication that there can be no great reduction in highway expenditures; in fact, on many main routes they should be greater, if the volume of traffic is to be handled safely and at a reasonable speed.

3. School population-----Prior to World War II population experts were predicting a stable or declining population for the United States in the second half of the twentieth century. Recent increases in the birth rate have played hob with these prognostications, but we still have not recast our thinking to take cognizance of our increasing population and our unexpectedly high birth rate. A general indication of the expanding demand for educational facilities can be gathered by the anticipated impact of peak enrollments in our public schools.

By 1963 we shall have 19,000 more pupils in our high schools and as early as 1957 we shall have increased the elementary school enrollment by 32,000. To remedy obsolescence in our school plant, to restore curtailed courses and to service this additional school population, we shall need more class rooms and teachers.

School
The State Building Commission has in progress a survey of building needs and its preliminary estimate is that we shall require \$65 million for new school

facilities.

It is also probable that we shall need approximately 1,000 additional teachers. Every indication is that educational costs at both the state and local level will continue to increase.

4. Welfare-----There are 87,000 persons in Maine, 65 years of age or over, who are potential recipients of old age assistance, but in 1949 the state reported 14,500 old age assistance cases, or 167 per 1,000 as compared with a national average of 241. There are also 291,000 children under 16, but in 1949 the A.D.C. program covered only roughly 9,000 of these children. There is one bright spot in this picture, however, because recent changes in Old Age and Survivors Insurance, expanding the coverage and increasing benefit payments, will materially reduce the potential load on Old Age Assistance.

Third, even without the pressure of inflation and an increasing population, the experience has been that more and more services are demanded from government. It is impossible, however, to predict the future of governmental activities; they depend upon what the people believe to be the proper sphere for government. But one might hazard a guess that the state and its local sub-divisions will institute new and expand old programs. For example, mental health, recreation, and vocational education -- to mention only a few new services which are definitely on the horizon -- will indubitably receive more emphasis in the future. Some of these programs will be at the initiative of the state and local units of government; others will be encouraged by pressure from federal policies. It would certainly be unrealistic to assume that the functions now performed by the State of Maine and its local sub-divisions represent the ultimate in governmental activities. On the contrary, intelligent financial planning must proceed on the assumption that the legislature will enact statutes expanding the scope of governmental services.

This picture of an evidently never-ending expansion of governmental expenditures and services evokes some fundamental questions which should be of concern

to all of us. What are the present functions performed by the state and local units? How much do they cost? Are any of these services unessential? Can economics be affected without curtailment of essential activities? What is the fiscal ability of the State to support governmental activities?

An analysis of state governmental functions and costs in the 1950 fiscal year

In an attempt to evaluate the activities of the State, the expenditures for 1950 were analyzed in some detail.

Activities supported by the special Revenue Fund are, for the most part, self-supporting and do not, therefore, enter directly into a discussion of the need for new taxes. It is well, however, to call the attention of the citizens of Maine to the fact that many functions are financed by taxes or fees levied on the group which benefits. For example, as Table XL indicates, many of the licensing and examining boards and regulatory agencies are financed by fees or special taxes; the Municipal Audit Division, by charges for services; and some development and conservation activities, by special taxes, licenses, and fees. Many of the health, sanitation, welfare, and educational activities included in this fund are financed primarily by federal grants.

TABLE XL
SPECIAL REVENUE FUND ACTIVITIES, 1950

I. Licensing and Examining.	Available	Expenditures
A. Board of Accountancy	\$ 1,054	\$ 332
B. Board of Bar Examiners	1,644 ¹	1,644
C. Board of Chiropractors	2,068	1,242
D. Board of Dental Examiners	2,399	1,537
E. Board of Embalming Examiners	18,533	3,834
F. Board of Registry of Medicine	19,534	1,622
G. Board of Registry of Nurses	42,350	10,637
H. Board of Optometry	2,134	1,190
I. Board of Osteopathy	3,190	668
J. Board of Commissioners of Pharmacy	13,355	3,609
K. Board of Veterinary Examiners	640	212
L. Board of Podiatry and Chiropody	4,563	157
M. Board of Professional Engineers	4,575	1,820
N. Board of Architects	3,911	578
	\$ 119,950	\$ 29,082
	1/ \$242 from General Fund	

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(continued)
TABLE XL

SPECIAL REVENUE FUND ACTIVITIES, 1950

	<u>Available</u>	<u>Expenditures</u>
II. General Administration.		
Municipal Audit	\$ 61,443	\$ 52,286
III. Regulatory.		
A. Maine Aeronautics Commission	95,870	69,985
B. Insurance Department		
1. Examining and Auditing annual statements	67,118	34,372
2. Examination of Agents and Brokers	12,010	2,965
3. Fire Investigation and Inspection	157,954	60,207
C. Milk Commission	33,857	24,584
D. Milk Advisory Commission	18,230	16,131
E. Real Estate Commission	16,212	7,038
	\$ 401,251	\$ 215,282
IV. Development and Conservation.		
A. Blueberry Inspection	\$ 4,295	\$ 4,295
B. Suppression of Corn Borer ¹	10,011	5,109
C. Sardine Inspection	80,471	59,563
D. Shipping Point Inspection	695,548	452,746
E. Certification of Seed	146,548	110,556
F. Maine Apple Tree Pool	4,951	4,950
G. Foundation Seed Program	24,930	10,592
H. Blueberry Research	28,893	27,000
I. Potato Tax	261,835	199,934
J. Restoration and Development of Shellfish	13,911	12,189
K. Inland Fish and Game	1,352,982	1,229,724
L. Maine Forestry District	722,234	401,686
	\$ 3,346,609	\$ 2,518,344
1_/ Tax adminis. in Gen. Fund.		
V. Health and Sanitation.		
A. Sanitary Engineering	\$ 106,965	\$ 58,496
B. Bedding and Mattress Inspection	9,841	4,513
C. Water Pollution ¹	10,501	6,501
D. U.S.P.H.S. General ¹	97,796	95,260
1. V.D. Control ¹	37,344	36,185
2. T. B. Control ¹	34,036	31,405
3. Rapid Treatment Program ¹	-	-
4. Aid to Crippled Children ¹	77,385	76,998
5. Cancer Control ¹	28,235	27,192
6. Mental Health ¹	21,831	18,130
E. Hospital Survey and Planning	-	-
F. Heart Disease	9,536	85
G. Children's Bureau - Maternal & Child Health	92,934	92,257

(continued)

TABLE XL

	Available	Expenditures
H. Medical and Hospital Care-- Service Men's Wives ¹	\$ -	\$ -
I. Control over Plumbing	25,728	18,654
J. Regulation of Cosmetics	10,666	6,689
K. Sale of Prophylactic Rubber Goods	6,893	1,758
L. Barber's and Hairdressers	38,174	20,498
M. Plumbing Examining Board	10,862	7,392
1/ Financed from Fed. Grants.	\$ 618,727	\$ 502,013
VI. Welfare and Charities.		
A. Child Welfare Service ¹	\$ 45,221	\$ 45,221
B. Indian Township Administration	6,834	2,412
1/ Financed from Fed. Grants.	\$ 52,055	\$ 47,633
VII. Miscellaneous		
A. Institutions	\$ -	\$ -
B. Parks	2,391	2,391
	\$ 2,391	\$ 2,391
VIII. Education.		
A. Vocational Education	\$ 7,414	\$ 3,179
B. Federal Vocational Education		
1. Smith-Hughes ¹	89,570	41,189
2. George-Barden ¹	224,210	97,173
C. School Lunch ²	363,507	338,620
D. Vocational Education Equipment	7,083	1,367
E. Surplus Food	10,265	2,933
	\$ 702,049	\$ 484,461
1/ Financed from Fed. Grants.		
2/ Cost of Tax Adminis. is part of General Fund. Expend.		
IX. Unemployment Compensation	\$ 1,100,746	\$1,070,389
Special Fund	1,000	
	\$ 1,101,746	\$1,070,389
TOTAL	\$ 6,411,714	\$4,921,881
X.. Contributions and Transfers		98,487
TOTAL Special Funds		\$5,020,368

In 1950, over \$5 million, or 8 per cent of all state expenditures, were for these self-supporting state functions. Since such services are frequently performed at the request of those directly concerned and are also financed by these groups,

TABLE XLI
HIGHWAY FUND ACTIVITIES
(1950)

	Appropriation	Total Available	Expenditures	Balance
I. General Administration				\$ 219
Administration	\$ 241,000	\$ 339,570	\$ 339,351	
Highway Planning Survey		164,398	133,922	30,476
Topographic Mapping	10,000			
Secretary of State				
Motor Vehicle Division	319,896	433,634	428,042	5,592
Maintenance of Secretary of State, Motor Veh. Building	10,600	10,600	10,218	382
Total	581,490	948,202	911,533	36,669
II. Protection of Persons & Prop.				
State Police	780,337	783,058	745,317	37,741
Maintenance of Headquarters	8,092	8,092	7,162	930
Public Utilities Control over Motor Trucking		84,655	49,174	35,481
Total	788,429	875,805	801,653	74,152
III. Highways & Bridges				
Improved State-Aid Roads	1,441,596	1,995,110	1,601,853	393,257
State Aid Construction		5,724	1,278	4,446
3rd Class Roads-Reconstruction		42,893	9,650	33,243
Special Resolves	185,482	229,074	100,266	128,808
State Highways -Construction				
Redonstruction	37,360	14,611	14,611	
Maint. of Bridges	445,000	490,948	440,225	50,723
Suspense Account		25,000	7,430	17,570
Maint. of State & Aid Highway	5,670,000	5,637,806	5,617,921	19,885
Betterment of State & State Aid Highways	1,010,000	942,356	940,673	1,683
Town Road Improvement Fund	500,000	588,231	465,563	122,718
Compensation for Injuries	50,000	50,000	42,249	7,751
First Surface Treatment		5,621	2,542	3,079
Removal of Snow(Highway)	2,270,868	2,270,868	2,227,582	43,286
Post-War Surveys		34,984	23,462	11,522
Federal Secondary Roads		3,022,238	2,380,246	641,992
Federal Grade Crossings		94,986	7,321	87,665
Grade Crossing Protection	20,000	20,000	9,910	10,090
Bridge Loan Fund	1,416,989	2,432,169	1,403,587	1,028,582
Maine Turnpike Authority	165,000	165,000	13,497	151,503
Highway Loan Fund	3,000,000	6,133,429	5,066,739	1,066,690
Total	16,212,295	24,301,098	20,376,605	3,924,493
IV. Debt Retirement				
Retirement of Bonds	1,629,000	1,629,000	1,629,000	
V. Interest on Bonded Debt	280,261	280,261	280,261	
VI. Contributions & Transfers to Other Funds				
Contributions & Transfers	247,357	260,324	259,896	928

any reduction in Special Revenue Fund expenditures would indubitably also result in a decline in special revenue. Hence one cannot look to the Special Revenue Fund either for economies in state services or for additional income to meet the revenue requirements of the General and Highway Funds. It can also be argued that it is not politically feasible or economically desirable to utilize special revenue for general government purposes, since these special activities, like the Highway Fund services, are being financed on a benefit basis.

Theoretically, however, all special funds should be eliminated and all revenue and expenditures should be handled through one fund, the General Fund. The use of dedicated revenue can be criticized on several scores. First, it tends to remove this segment of state expenditures and revenue from the control of the legislature and the Finance Department and Governor. If carried to an extreme, it makes a farce of the executive budget and legislative appropriations. Second, certain functions are financed lavishly (see Board of Registry of Nurses), while others do not have sufficient income to cover essentials. Third, excess funds become sterilized in these special accounts; in 1950, the State had a balance of over \$1 million in the Special Revenue Fund. Fourth, the existence of many funds, financed from special sources, complicates unnecessarily state budgeting and accounting. While, it would not be an answer to the revenue needs of the State, it would be desirable, for accounting and budgeting reasons, to consolidate all Special Revenue Funds with the General Fund.

Highway Fund activities have from time to time been severely criticized. The Tax Revision Committee was in no position to make a detailed analysis of highway services and expenditures. But it is a matter of common knowledge that our highway net work is not adequate for present traffic volumes, and that maintenance costs are excessive. There have also been assertions that the accounting and engineering techniques employed by the Commission have not been sufficiently developed to handle satisfactorily a highway program of the scope of that with which the State is now confronted.

The Commission is in the process of reorganization, however, and new control and encumbrance systems should increase the effectiveness of its expenditures. The former makes it possible for the first time to assign maintenance costs to specific sections of highways. Nevertheless, it is extremely dubious whether a plural headed body, such as the bi-partisan commission, is a satisfactory means for administering a highway program, and consideration should be given to the possibility of creating the Office of Commissioner or Engineer to head the Highway Department. Administrative reorganization alone is not sufficient to produce a satisfactory highway program; policies must also be re-examined. It is particularly important that the relationship between the state and its local sub-divisions in the construction and maintenance of highways should be reviewed, and that the criteria for designating mileage as part of the state highway or state aid systems should be examined. A rationalization of our highway policy should not only result in economies but also in an improved highway system.

One area in which substantial economies might be achieved is in the determination of maximum load limits and in their enforcement. Overloading of our highways in past years has resulted in excessive deterioration, with the consequence that the state has been required to expend exorbitant sums for maintenance and reconstruction. Taxpayers have a considerable investment in our highway plant, and an economy, which would in no way curtail essential services, would be laws vigorously enforced to protect this investment.

A basic question of highway finance, which is being much agitated at the moment, is whether the present pay-as-you-go policy should be reversed in favor of borrowing. The arguments supporting each policy are complex, and cannot be reviewed here. It is apparent, however, that either borrowing or an increase in highway income is necessary if we are to accelerate our program of highway construction and reduce our high maintenance costs.

The Tax Revision Committee has been most interested, however, in the General

Fund, since it is here that the revenue problems of the State are most pressing. Table XLII shows in detail, where the \$32.8 million expended from the General Fund went in 1950.

First, there are the expenditures for general administration, which include those for the financial agencies, the Department of Finance, including Accounts and Control, Finance Commissioner, Bureau of Purchases, and Taxation; The Treasurer; and the Auditor; those for the executive departments of Secretary of State and Attorney-General; those for the Bureau of Personnel and Superintendent of Buildings; those for the Governor's Office; and finally the expenditures for the Legislature & Judicial branches of government. The total expended for general administration was \$1.4 million, or 4.4 per cent of general fund expenditures.

The only items which might be questioned in this group as unessential are the expenditures for county attorney salaries, the Executive Council, and Travel Bureau. They total, however, only \$56,000, and with the possible exception of the first, convincing arguments can be advanced for continuing these agencies and activities.

In Group II, Protection of Persons and Property, are included the state expenditures for the Adjutant-General, War Veterans Services, and World War Assistance, all expenses related to defense or past wars. There are also the agencies regulating or promoting banking, insurance, industrial accidents, labor and industry, and public utilities, and those dealing with boxing and horse racing. In 1950, \$1.1 million was expended for these and other miscellaneous activities.

Again, it is difficult to see areas where services can be dispensed with. We might forego the fingerprinting of children, and we might give up marking inland-water-ways. These two activities, however, total only approximately \$10,000 and are worthwhile. The fact is that over 50 per cent of the expenditures for this group are for military and veteran programs. Under present conditions, it is difficult to see how these activities can be reduced.

In Group III, the Development and Conservation of Natural Resources, there may be more disagreement as to what is essential. Included in this group are the state activities relating to agriculture, forestry, sea and shore fisheries, and

TABLE XLII
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
I. General Administration				
A. Accounts & Control	\$ 248,350	\$ 259,894	\$ 243,810	\$16,084
Administration			22,280	
General Accounting			26,370	
Liquor Accounting			37,063	
Pre-Audit			29,983	
Machine Accounting			98,428	
Payroll			6,599	
File Room			10,394	
Property Records			12,693	
B. Attorney General	48,396	48,723	44,986	3,737
Administration			40,511	
Criminal Investigations			4,474	
Law Court Digest		60	32	27
County Attorney's Salaries	34,650	36,616	36,616	
C. Audit	75,164	77,840	76,853	987
D. Executive	43,503	44,555	40,667	3,898
Administration			40,025	
Art Commission		60	320	
Executive Council	10,173	10,173	10,019	154
Governor's Account	10,000	10,000	10,000	
Blaine House	13,422	15,358	14,899	459
Fire Emergency		6,989	6,671	318
Contingent Account		332	153	179
Civil Defense		15,000	6,698	8,302
E. Finance Commissioner	30,706	30,120	29,716	404
Dep't Operations			12,384	
Budget Office			17,332	
Travel Bureau	8,497	9,113	9,078	35
F. Bureau of Personnel	35,583	36,831	36,822	9
Advisory Council	700	700	117	583
Merit Award Board	10,000	10,000	3,068	6,932
G. Sup't of Pub. Buildings	183,490	193,006	189,295	3,711
Staff House		1,245	989	256
H. Bureau of Purchases	33,960	35,498	35,498	
General Administration			32,815	
Highway			2,683	
Mailing Room	12,264	13,669	12,320	1,349
Printing	11,382	11,998	11,882	116

(Continued)
TABLE XLII
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
I. General Administration (con't.)				
I. Secretary of State	\$ 25,721	\$ 26,657	\$ 24,525	\$ 2,132
Elections	28,470	29,250	25,634	3,616
Amendment & Referendum	1,100			1,100
J. Taxation	166,307	218,295	209,971	8,324
Operations		96,369	96,369	
Cigarette Tax			52,874	
Corn Tax		116	116	
Blueberry Tax		401	401	
Potato Tax		8,289	8,289	
Gas Tax		34,600	34,600	
Inheritance Tax		15	17,318	
Delinquent Accounts	1,000	1,000	980	20
K. Treasurer	36,009	38,349	37,354	695
L. Comm'n on Interstate Co-op.	3,000	3,000	2,622	338
M. Com'nrs. of Uniform Legislation	900	900	565	335
N. Legislative	150,772	150,772	29,566	121,206
Research Committee	42,078	42,590	37,640	4,950
O. Judiciary	248,517	248,275	247,916	359
TOTAL	\$1,514,114	\$1,627,908	\$1,437,302	\$190,605
II. Protection of Persons and Property				
A. Adjutant General	\$ 119,273	\$ 130,729	\$ 126,169	\$ 4,560
Military Fund	46,993	64,697	58,132	6,565
State Armories	90,500	107,569	85,471	22,098
B. Banks and Banking	86,791	89,287	93,111	6,176
Administration			18,723	
Bank Examinations			51,007	
Loan Agency Inspection			4,595	
Regulation of Security Dealers			8,870	
C. Boxing Commission	4,971	5,548	5,393	155
D. Apprenticeship Council	797	912	511	401
E. War Veteran's Services	64,583	67,235	66,362	873
F. General Law Pensions	32,000	32,150	32,035	115
G. Industrial Accident Commission	62,923	65,575	62,662	2,913
H. Insurance-Administration	31,570	32,662	32,617	45
Fire Insurance	90,000	90,000	81,301	8,699
Fidelity Insurance	3,050	3,050	2,830	170

TABLE XLIII (continued)
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
<hr/>				
II. Protection of Persons and Property (continued)				
I. Labor and Industry	\$ 42,430	\$ 50,464	\$ 48,879	\$ 1,585
Administration			17,845	
Factory Inspection			6,645	
Boiler Inspection			11,789	
Safety Indus. Inspection			5,469	
Arbitration & Conciliation			821	
Elevator Inspection			2,912	
Her Own Business			3,397	
J. Public Utilities Commission	84,855	87,907	83,863	4,044
Topographic Mapping		20,658	8,511	12,147
Inland Water bouys	1,200	1,200	1,130	70
K. Racing Commission	17,596	19,489	19,393	96
L. Running Horse Race Commission		7,200	6,277	923
M. Search for Lost Persons	1,500	1,500	1,409	91
N. Fingerprint School Children	10,370	11,150	8,880	2,270
O. World War Assistance	285,000	299,114	299,114	
TOTAL	\$1,076,042	\$1,188,096	\$1,114,100	\$73,996
<hr/>				
III. Development & Conservation of Natural Resources				
A. Agriculture, Administration	\$ 73,910	\$ 75,938	\$ 75,419	\$ 520
B. Promotion of Agriculture	25,995	75,242	73,432	1,810
C. Eastern States Building		6,502	2,648	3,854
D. Animal Industry	89,622	91,086	84,312	6,774
Operations			18,560	
Dairy			40,815	
Maine Egg-Laying Contest			24,087	
Bangs Disease	119,881	120,193	119,475	718
E. Dog License Administration	85,000	85,000	75,750	9,250
F. Bangs Disease Bonds	45,900			
G. Division of Inspection	55,761	92,722	88,494	4,228
Operations			69,872	
Blueberry Fly Control			3,766	
Slaughterhouse Inspection			11,133	
Sardine Boat Inspection			4,169	

TABLE XLII (Continued)
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
III. Devel. & Conservation of Natural Resources (Continued)				
H. Division of Markets	\$ 39,697	\$ 63,795	\$ 58,921	\$ 4,874
Operations			36,841	
Hope Flannagan Act			21,992	
I. Division of Plant Industry	29,726	36,808	28,115	8,693
Certification of Oats			891	
J. Soil Conservation	4,988	6,835	5,394	1,441
K. Bee Industry	750	1,278	334	944
L. Maine Development Commission	289,885	305,507	288,066	17,441
Office and Administration			22,662	
Recreation			100,152	
Chicago Sportsman's Show			2,445	
Publicity			34,022	
Industry			38,435	
Agriculture			34,520	
Sea and Shore Fisheries			30,370	
Geology			8,394	
Advertising Port of Portland			1,081	
Kittery Information Bureau			1,900	
General Promotion			14,083	
M. Forestry				
Administration	13,856	14,395	13,480	915
Northeast Fire Compact			489	
Admin. of Public Lands	1,000	1,000	496	504
State Forest Nursery	3,961	7,993	6,106	1,887
Forest Fire Aid	34,988	69,022	68,221	801
White Pine Blister	7,099	7,255	7,168	87
General Forestry	183,075	326,628	242,007	84,621
Aid to Small Wood. Owners	4,812	9,812	9,520	292
Entomology	55,980	70,316	58,082	12,234
N. Sea and Shore Fisheries	162,997	212,528	185,148	27,380
Administration			22,505	
Statistics			4,357	
Warden's Service			98,830	
Research & Development			22,472	
Patrol Boats			12,797	

TABLE XLII (Continued)
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
III. Devel. & Conserv. of Natural Resources (Continued)				
N. Sea and Shore Fisheries (Con't.)				
Promotion and Publicity		\$	2	
Propagation of Shell-fish			11,709	
Pemaquid Lobster Pound			103	
Lab. & Workshop			3,806	
Fisheries Research Stations			8,566	
Atlantic Sea Run Salmon	\$	650	640	\$ 10
Construction of Rearing Sta.				
Atlantic State s Marine Fisheries Commission		1,500	1,500	
TOTAL	\$1,330,343	\$1,682,005	\$1,492,727	\$189,278
IV. Health and Sanitation.				
A. Bureau of Health	\$ 274,671	\$ 342,374	\$ 326,621	\$ 15,753
Central Administration			15,552	
District Offices			81,838	
Vital Statistics		2,400	21,379	
Lab. Services		115	21,910	
Mental Health			7,554	
Dental Health		4,015	20,926	
Crippled Children			6,491	
Hospital Service		3,975	9,062	
Sanitary Engineering			13,151	
Communicable Disease		1,307	9,480	
T. B. Control			20,270	
Pub. Health Nursing- State		181	12,617	
Pub. Health Nursing- Field		38,203	75,253	
V. D. Control			11,144	
Advisory Council	1,999	1,999	1,772	227
B. Sanitary Water Board	13,994	14,306	11,961	2,345
TOTAL	\$ 290,664	\$ 358,679	\$ 340,354	\$ 18,325

TABLE XLII
(Continued)
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
V. Welfare and Charities.				
Bangor Anti-T.B. Ass'n	\$ 13,500	\$ 13,500	\$ 9,000	\$ 4,500
Children's Aid Society	2,000	2,000	1,180	820
Good Samaritan Home	5,000	5,000	5,000	
Healy Asylum	4,500	4,500	4,500	
Belfast Home for Aged Women	500	500	500	
Maine Children's Home	4,000	4,000	3,784	216
Maine Institution for the Blind	15,000	15,000	10,951	4,049
Opportunity Farm	2,750	2,750	2,750	
St. Joseph's Orphanage	4,500	4,500	4,500	
St. Elizabeth's Asylum	3,500	3,500	3,499	1
St. Louis's Home for Boys	2,000	2,000	2,000	
Temporary Home	4,500	4,500	4,499	1
York County Children's Aid	1,800	1,800	1,669	131
TOTAL	\$ 63,550	\$ 63,550	\$ 53,832	\$ 9,718
VI. Health and Welfare				
A. General Administration, Welfare	\$ 570,200	\$ 836,321	\$ 835,788	\$ 533
Executive			17,880	
Bureau of Administration			135,971	
State Public Assistance			12,309	
Old Age Assistance		161,245	13,433	
Aid to the Blind		8,263	1,766	
Aid to Dependent Children		74,814	3,435	
Public Assistance, Field			395,761	
Child Welfare - State			14,928	
Child Welfare - Field		11	163,577	
Personnel Training, P.A. W.			4,517	
Division of Licenses			6,047	
Services for the Blind		13,595	26,944	
General Relief			34,875	
Indians			4,054	
Miscellaneous Grants			292	
B. Children				
Board and Care of Neglected	825,000	865,000	864,992	8
Aid to Dependent Children	1,100,000	2,862,008	2,781,627	80,381

TABLE XLII (Continued)
GENERAL FUND
(1949-1950)
Money Available

	Appropriations	Total Available	Expenditures	Balance
VI. Health and Welfare. (continued)				
C. Blind				
Aid To	\$ 128,000	\$ 349,149	\$ 345,127	\$ 4,022
Services To	46,925	43,557	42,896	661
General			2,665	
Medical			13,905	
Educ. of Blind Children			21,568	
Vocational Rehabilitation			4,758	
D. Old Age Assistance	2,610,000	7,497,992	7,497,821	18,171
Burials		20,000	18,043	1,957
E. G. A. R. Department of Maine	1,200	1,200	1,200	
F. Special Pensions	92,000	89,000	88,369	631
G. Hospital Aid	578,000	578,000	578,000	
H. Indians				
Passamaquoddy	74,798	76,777	70,504	6,273
Penobscot	48,970	53,906	47,784	6,122
I. Support of Paupers	600,000	987,903	986,059	1,844
J. Jefferson Camp	59,110	75,527	71,248	4,279
TOTAL	\$6,734,203	\$14,336,340	\$14,211,458	\$124,882
VII. Institutions.				
A. Maine School for the Deaf	\$ 93,075	\$ 103,972	\$ 99,426	\$ 4,546
B. Military and Naval Childrens				
Home	54,155	55,478	48,919	6,559
State Hospitals and Sanatoriums				
A. Department of Inst. Services	26,787	26,156	19,736	6,420
B. Emergency T. B. Service	34,950	34,950	19,050	15,900
C. Augusta State Hospital	1,025,649	1,060,535	1,026,522	34,013
D. Bangor State Hospital	876,859	939,157	839,200	99,957
E. Central Maine San.	413,590	430,658	401,907	28,751
F. Northern Maine San.	210,346	220,824	206,494	14,330
G. Pownal State School	886,425	852,720	747,074	105,646
H. Western Maine Sanatorium	231,996	255,707	237,946	17,761

TABLE XLIII (Continued)
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
VII. Institutions (Continued)				
Correctional Institutions				
A. State School for Boys	\$ 150,933	\$ 157,132	\$ 136,582	\$ 20,550
B. State School for Girls	163,438	166,138	148,152	18,586
C. State Reformatory (Men)	145,633	158,410	146,097	12,313
D. Maine State Prison	312,831	360,885	325,961	34,904
E. State Reformatory (Women)	136,787	141,157	126,291	14,866
Parole Board	18,497	19,797	17,762	2,035
Mackworth Island		6,608	2,912	3,696
TOTAL	\$4,781,951	\$4,990,864	\$4,550,031	\$440,833
VIII. Education and Libraries				
A. Perm. School Fund Interest	\$	62,606	\$ 30,475	\$ 32,131
Subsidies for Plans, Surveys		15,031		
High School Diplomas		618		
B. Subsidies to Cities, Towns				
Tuition	230,000	234,362	234,362	
Teaching Positions	3,200,000	3,746,096	3,746,096	
School Census	510,000	532,056	532,056	
Conveyance in Lieu of				
Teaching Positions	185,000	210,664	210,664	
Temporary Residence	3,000	1,726	1,726	
C. Departmental Operations	139,711	141,911	140,855	1,056
D. Aid to Academies	120,000	131,301	131,301	
E. Farmington State Teacher's	81,841	275,943	274,254	1,689
F. Gorham State Teachers	109,254	253,859	244,217	9,642
G. Machias Normal School	42,284	9,699	85,916	4,783
H. Madawaska Training School	52,214	88,184	88,160	24
I. Presque Isle Normal School	40,192	95,407	92,282	3,125
J. Farmington State Reserve	1,000	5,328	295	5,033
Peter Mills Reserve		7,483		7,483
K. Gorham State Reserve	1,000	11,367	6,423	4,944
Peter Mills Reserve		6,302		6,302
L. Machias Normal Reserve	1,000	3,841	952	2,889
M. Madawaska Training Reserve	1,000	3,052	1,633	1,419
N. Presque Isle Normal Reserve	1,000	7,018	4,421	2,597
O. Schooling of Children Unorg. Territory	179,780	216,064	181,737	34,327
P. Sup't of Towns in School Unions	183,000	180,874	180,874	

TABLE XLII (Continued)
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
VIII. Education and Libraries (Cont.)				
Q. Vocational Education	\$ 67,762	\$ 134,175	\$ 134,054	\$ 121
R. Vocational Training	36,611	84,357	77,623	6,734
S. Vocational Rehabilitation	39,974	124,447	122,179	2,268
T. Educ. of Orphans of Veterans	750	450	450	
U. School Lunch Administration	19,595	20,376	20,376	
V. Special Educ. for Physically Handicapped	15,000	16,496	16,496	
W. Special Educ. for Island Children	2,000	1,690	1,690	
X. Bd. of Approval, Spec. Institutions	750	442	442	
Y. Industrial Education	135,000	20,169	20,169	
Z. Physical Educ. Subsidies	37,500			
Equalization	500,000	519,540	519,540	
Libraries, Other				
A. State Historian, Dep't Oper.	500	2,170	2,145	25
B. Maine State Library	70,785	73,288	68,433	4,855
C. Maine Court Reports	4,196	4,196	815	3,381
D. Maine Maritime Academy	75,000	75,000	75,000	
E. University of Maine	762,176	762,176	762,176	
TOTAL	\$6,851,875	\$8,145,115	\$8,010,287	\$134,828
IX. Recreation, Parks.				
A. Oper. and Maint. of Parks	\$ 58,937	\$ 86,985	\$ 78,954	\$ 8,031
B. Fort Knox Reservation	27,000	27,000	1,998	25,002
C. Former Governor's Cemetery Lot	500	250	164	86
Baxter State Park Commission				
A. Operation and Maintenance	12,605	10,677	10,780	897
TOTAL	\$ 98,501	\$ 125,912	\$ 91,896	\$ 34,016
X. Debt Retirement				
Bond Retirement				
A. Mo. Agricultural Bonds		\$ 45,000	\$ 45,000	
XI. Interest on Bonded Debt				
Bond Interest				
A. Mo. Agricultural Bonds		\$ 900	\$ 900	

TABLE XLII (Continued)
GENERAL FUND
(1949-1950)
Money Available

	Appropriation	Total Available	Expenditures	Balance
XII. Miscellaneous				
A. Fishway at Croostook Falls		\$ 2,241	\$	\$ 2,241
B. Knox Memorial Ass'n.	\$ 1,000	1,000	1,000	
C. Maine Historical Society	2,500	2,500	2,500	
D. Mark Graves of Revol. Sold'rs	200	200	200	
E. Miscellaneous Resolves	7,100	7,100	7,100	
TOTAL	\$ 10,800	\$ 13,041	\$ 10,800	\$ 2,241
XIII. Contributions & Transfers to Other Funds				
	\$1,392,697	\$1,422,342	\$1,391,359	\$30,983

general development and publicity. Total expenditures for these purposes in 1950 were \$1.5 million, or 4.6 per cent of general fund disbursements.

One might question the expenditure of \$73,000 for the promotion of agriculture, i.e., for "payment of Fair Stipends, Grants to Poultry Organizations, Dairymen's Conferences, Pomological Society, and Farmers' Institutes," but \$49,000 of this is from non-tax revenue. To some the Maine Building at the Eastern States Exposition is not essential, nor is state support of the Maine Egg Contest. Certain activities of the Maine Development Commission, such as publicity, are also sometimes attacked as non-essential. The State might also eliminate from its budget expenditures for the state forest nursery, /the farm forestry program, and the propagation activities of Sea and Shore Fisheries. Conservation and development activities are often revenue producing, and net savings would be small. For a state as dependent as Maine is on its natural resources, any reductions in these items would be a false economy since many activities of immediate as well as ultimate value would suffer.

Health and Sanitation, Group IV, involved a relatively small expenditure of \$340,000, or 1 per cent of the total. It is difficult to see how any services in this group can be curtailed. On the contrary, Maine should expand some of its public health activities because it has lagged behind other states in this field.

Welfare and Charities represent state assistance furnished to thirteen associations, asylums, and homes. In 1950 this aid totaled only \$54,000.

In the \$14 million expended for health and welfare, we have 43.6 per cent of general fund disbursements. No one would seriously urge, however, that the State should cease to care for those who are so unfortunate as to need assistance. If welfare expenditures are to be reduced, it should not be by eliminating services; rather it should be by a more careful screening of those who are furnished aid.

State institutions, i.e., hospitals and sanatoria, prisons and schools for boys and girls, and charitable schools and homes, cost the State \$4.5 million in 1950. By any criteria, these institutions are essential.

Education and libraries accounted for 24.5 per cent of expenditures. The \$8 million expended included support of Normal Schools and Teachers' Colleges, The University of Maine, the state library, various educational programs, and educational subsidies for cities and towns. There are some possibilities for economies in this group of expenditures; indubitably, we could provide better services more economically with fewer normal schools. It is doubtful, however, whether a consolidation of normal schools would result in lower expenditures. On the contrary, realism forces one to conclude that the necessity for an expanded plant and the probability of a more elaborate curriculum would increase costs. This is a step which the Legislature should seriously consider, nevertheless, since our normal school educational facilities would be greatly improved.

In 1950 the State expended \$92,000 for parks and recreation. To many, this may appear to be an extravagance at a time when the general fund revenue is inadequate for current needs. Yet, for a State which depends upon recreation for a major source of its economic income, such restricted expenditures for parks and recreation would appear to be an unwise economy.

The fact is that an analysis of the General Fund indicates that there are few programs which some influential group will not regard as essential. It is also apparent that any major economies must be made in Health and Welfare, Education, and Institutions, which expend 82 per cent of the General Fund.

Minor savings no doubt can be achieved by improved management practices and by administrative reorganization. How great these savings would be the Committee cannot predict, since it was not able to make a detailed survey of state agencies. In all probability, however, such savings would be small because the Reorganization Code of 1931, with some exceptions, established an integrated administrative structure for the State and laid the basis for the present excellent budget and financial administrative organization.

Municipal services and expenditures

There is no available data on local expenditures, but the Sub-Committee on

Local Government analyzed the expenditures of 38 communities. They found the following distribution by functions of local disbursements.

Education	31.33%	General government	5.39%
Highway	15.56	Debt reduction	3.69
Protection	12.83	County tax	2.11
Other	10.27	Health	1.50
State tax	9.03	Recreation	1.29
Welfare	5.89	Interest	1.11

A total of 654 questionnaires was mailed to various economic and professional groups querying citizens as to the adequacy of local services. The 170 usable replies revealed that citizens will not support the abolition of any major service now in existence, and that they are of the opinion that more should be done by local units in the fields of highways and education.

County services and expenditures

Counties in New England, and Maine is no exception, perform a very limited range of governmental services in their capacity as agents of the State. They operate penal institutions, exercise general law enforcement powers through the sheriff and county attorney, and support the Superior Court system. Counties also have limited highway functions.

There have been advanced, occasionally, proposals that county government be abolished, and such a step would probably result in both some monetary savings and better government. There is no activity performed by county government today which the state and municipal governments could not administer as well. Law enforcement could be more competently handled by state police; and the Superior Court system could be administered directly by the State. Highway activities could be placed under the State Highway Commission. The Tax Revision Committee did not concern itself with the details of county reorganization, but the abolition of counties might well result in savings of \$500,000 or more.

Fiscal ability.

Since it appears that General Fund revenue must be increased over present levels, we are naturally concerned with the ability of Maine citizens to pay more

TABLE XLIII
COUNTY REVENUES & EXPENDITURES, 1949

Revenues	
Taxes Commitment	\$ 1,706,733
Fees and Costs	479,326
Fees of Office	163,062
Rentals	4,979
Board	11,911
Sales	1,716
Miscellaneous	30,813
Total Revenue	2,398,510
Add:	
Transfer from Surplus	17,875
Transfer From Capital Reserve	23,280
GRAND TOTAL	\$ 2,439,695
Expenditures	
County Courts	466,674
County Officers	200,588
Sherriff's Department	164,996
Support of Prisoners	276,512
County Officer's Salaries	345,851
Clerk Hire	134,070
County Bldgs.	213,321
Highways and Bridges	452,951
Farm Bureau	54,100
Law Library	18,170
County Indebtedness	95,919
Suppression of Crime	25,036
Index	41,731
Airports	11,900
Miscellaneous	64,873
Total Expenditure	2,566,692
Add:	
Trans. to Capital Res. Fund	15,000
Trans. to Road Repair Accounts	3,900
GRAND TOTAL	\$ 2,585,592
Net Gain (or Loss) from Operations	\$ (145,897)

SOURCE: State Auditor's Report
for fiscal year 1949, 1950.

() Indicates Net Loss.

taxes. Maine is not a wealthy state and decisions to embark upon new governmental expenditures must be approached with caution. Table XLIV indicates that in terms of per capita income payments and retail sales, both rough indices of fiscal ability, Maine ranks lowest of the six New England states and is near the top of the lower one-third of all the forty-eight states. It is also significant that Maine has gone from 17th in rank order in all states in per capita income payments to individuals in

TABLE XLIV
INCOME PAYMENTS AND RETAIL SALES PER CAPITA

State	Retail Sales per capita		Rank Order in New Eng.		Rank order in the U.S.		Income per cap. Aver.		Rank order in New Eng.		Rank order in the U.S.	
	1949	1948	1949	1948	1949	1948	1946-48	1948	46-48	'48	46-48	'48
Maine	\$767	\$838	6	6	35	36	\$1146	\$1219	6	6	32	33
Conn.	998	988	1	1	11	16	1596	1700	1	1	7	4
Mass.	857	912	5	4	30	27	1433	1509	3	3	11	14
N.H.	868	900	4	5	26	31	1165	1261	4	4	30	29
R.I.	929	988	2	2	21	16	1466	1564	2	2	9	11
Vt.	880	949	3	3	25	20	1148	1229	5	5	31	32

1933 to 33rd in 1948. The impact of inflation in the post-war period has tended to make Maine's position in terms of the rest of the nation worse and to reduce relatively our ability to meet the high costs of government. It is true, of course, that the one reason for the lower per capita income in Maine may be the rural economy of much of the state. The imputed income from food raised for home consumption is difficult to estimate and is probably never fully recognized in the income payments shown for rural states. In any case there is no significant difference between Maine and Vermont or New Hampshire in per capita income.

Disposable income after taxes is another index of the limited fiscal ability of Maine, Vermont, and New Hampshire. There can be no question that the resources

TABLE XLV
DISPOSABLE INCOME AFTER TAXES
1949

Maine	\$ 991	Massachusetts	\$ 1118
New Hampshire	1026	Rhode Island	1171
Vermont	1022	Connecticut	1267

of Maine are limited and that the keynote of fiscal policy should be caution.

To maintain a high standard of governmental services will necessarily require greater effort than in Massachusetts, Rhode Island, and Connecticut. It might also be well to question whether citizens of rural states require as many services.

We have already indicated, however, that in our opinion, more revenue is necessary to support state and local government in Maine. Where is this money to be secured? By what taxes? This question brings us to our fifth fact or conclusion.

Fact No. 5

There are grave difficulties involved in trying to rely upon our present sources of taxes for any substantial further increase in revenue.

Local revenue

Let us consider the present plight of local government with respect to its income. Since there are no available statistics on all local units in Maine, the Subcommittee on Local Government selected thirty-eight municipalities, divided into four population groups and located in various parts of the State, for study. Seventy-six per cent of the revenue of these municipalities came from the property tax; 1 per cent, from the poll tax; 5 per cent, from excises; 8 per cent, from the State, and 10 per cent, from departmental earnings.

It is significant that the larger the community the greater the reliance on the property tax, primarily because state grants are a less important source of income. This tendency is well illustrated by Table XLVI in which the thirty-eight municipalities are arranged in four groups. In general, communities decrease in size from Group I to IV.

TABLE XLVI
SOURCES OF LOCAL REVENUE
Percentage distribution

	Property tax	Poll Tax	Excise tax	State	Departmental earnings
Group I	77.64	1.24	4.58	5.99	10.55
Group II	72.37	1.19	4.46	11.73	10.25
Group III	68.74	1.07	3.99	17.02	9.18
Group IV	64.15	1.29	4.15	26.61	3.80
TOTAL	75.58	1.22	4.50	8.46	10.24

It is also evident that 91.5 per cent of the cost of local government was borne by the local inhabitants, and that only 8.5 per cent came from the State in the form of grants or shared taxes.

Perhaps more significant, however, is the fact that 93 per cent of the total tax revenue for municipal government came from the property tax.

TABLE XLVII
LOCAL REVENUE FROM TAXES
Percentage Distribution
1949

	Property tax	Poll tax	Excise Tax
Group I	93	1.5	5.5
Group II	92.8	1.5	5.7
Group III	93.1	1.5	5.4
Group IV	92.2	1.9	5.9
TOTAL	92.9	1.5	5.5

There are two approaches to the problem of an adequate tax base for local government; but they are not exclusive; on the contrary, they probably would be most successful when utilized together.

First, it is obvious that if municipal government is to continue with its present tax base, it must turn to still further exploitation of the property tax for any significant increase in revenue. Some relief would be provided under such circumstances if the state were to retire from the property tax and relinquish its $7\frac{1}{4}$ mills to the municipalities. But in either case, an extremely heavy load, even heavier than at present, would fall on the property owners.

Whether such a burden could be carried without disastrous results is impossible to determine. It is true that the assertion is frequently advanced that the property tax has reached its limits. But the fact is that no one can verify such a statement, for the limits of any tax are not a matter of minute calculation since they depend upon psychological as well as economic considerations. Any tax has reached the limits of its exploitation, no matter how slight its economic impact, when the populace becomes convinced that the tax is an inequitable levy and that the burden is not fairly distributed. It is impossible, therefore, to state categorically that the property tax cannot be utilized by local government to raise

additional revenue. No doubt it can be, but it is highly dubious as to whether still further exploitation of the property tax is sound fiscal policy. The owners of real and personal property are already carrying a large proportion of the costs of local government at a time when other forms of wealth, such as intangibles, escape taxation entirely or are taxed very lightly.

Second, new sources of revenue for local units is another answer, and in other states cities and towns, in their attempt to reduce the load carried by real and personal property, are turning to taxes and service charges which formerly were regarded as unsatisfactory for local use. Sales and income levies, gross receipts taxes, and service charges for garbage collection and sewage disposal, to mention only the most lucrative new sources of local revenue, are yielding significant income for local purposes. We cannot discuss here the relative merits of these new municipal taxes, but, from the viewpoint of local government, a general enabling act authorizing municipalities to levy any tax which does not conflict with the state tax system would be most satisfactory since it would guarantee a maximum of local independence in fiscal policy.

New local taxes cannot be, however, the complete answer to the problem of expanding local revenues, especially in a state, such as Maine, where many towns are rural and where the taxable capacity is strictly limited. For these municipalities, the answer must be a limited supplementation of local funds by the state. It would also appear imperative to rationalize our whole system of state assistance to local units before municipalities are encouraged to experiment with types of taxes which are certainly not ideal for local use. A study of the formulae utilized for educational grants is already under way and if the proposed composite formula is accepted, there will be an improvement in one field of state assistance.

An expanded program of state assistance is not a novel idea, except in the extremes to which it is carried. The Moore Plan in New York, the most ambitious program of this type yet attempted, has received nationwide attention. In 1949 Maine ranked 43rd in per capita grants to local units so it is obvious that state finan-

cial assistance to local subdivisions is lagging behind the experience in other states. There has been, nevertheless, a decided increase in the last ten years in the amount of state funds which have been made available to cities and towns, especially for financing educational services. In part, these funds have been in the form of increased grants, such as subsidies for education; in part in terms of direct state assumption of the cost of a service, such as the program for committed children; and in part through the media of a reduction in the contributions which cities and towns must make to the state, such as municipal grants for welfare, education, and highways. For example, state grants for education in 1941 were \$1.2 million as compared with \$4.7 million in 1950; state expenditures for the board and care of neglected children increased from \$404,000 in 1942 to \$865,000 in 1950; local payments to the state for all activities have declined from \$1.7 million, 5 per cent of state revenues in 1941 to \$1.5 million, 2.4 per cent of state income, in 1950. Near Shared taxes are not a significant factor in state-local fiscal relations in Maine. Currently, there are three levies collected by the State--, the proceeds of which are distributed to municipal government. These are the bank tax, the railroad tax, and the telephone and telegraph tax, and they are shared to compensate localities for the loss from ad valorem taxes. For the 1949 fiscal year they totaled \$233,685, \$21,906 and \$38,259 respectively. Shared taxes are not as satisfactory from the local viewpoint as grants-in-aid because they do not guarantee a stable income, but they have the advantage of being distributed without any direct state control and without being earmarked for specific services. If the bank stock, the railroad, and the telegraph and telephone taxes are continued as shared levies, however, a change should be made in the basis upon which they are distributed.

The costs of local government will surely increase, and the solution must be found in a combination of three approaches. First, it is axiomatic that local units should practice economy and that they should administer their affairs with maximum efficiency. On the whole, municipal government is economically administered, but economy cannot be the whole answer. More revenue must be made available to municipi-

palities, either by further exploitation of the present tax base or by new revenue from local taxes or state assistance. In the latter case, a balance must be established between revenue locally collected for which the municipal government assumes the responsibility of making the levy and state assistance.

It is time that we recognize that strong local government cannot exist without an adequate revenue base --- no matter what its legal or constitutional powers. In 1932 local governments collected \$25 million, which was 8.4 per cent of income payments in the state; by 1949 local taxes had increased to \$44 million, which, however, was only 4.0 per cent of income payments. There is no question that the trend toward centralization is encouraged by the financial limitations under which local government operates. Unless cities and towns are freed from the financial strait-jacket imposed by their almost exclusive reliance upon the property tax, they will cease to exist as vital institutions of government.

State revenue

The income of the State of Maine will be analyzed first in terms of the three major funds, Highway, General, and Special Revenue. Then it will be summarized in a consolidated statement.

The Highway Fund is primarily supported by user levies-----the gasoline tax, automobile registrations, and drivers licenses. Collections from the former, which was raised from 4 to 6 cents in 1947, increased from \$6.3 million in 1941 to \$12.5 million in 1950, or 97 per cent; in the same period registrations and drivers licenses rose from \$4.3 to \$6.2 million, or 45 per cent. The gas tax is also supplemented by a use fuel levy and a motor carrier tax from which the collections in 1950 were \$39,000 and \$27,000 respectively.

Two other significant sources of highway revenue are grants from the federal and local governments. Federal assistance increased from \$1 million in 1941 to almost \$4 million in 1950; the percentage increase was exceeded only by the miscellaneous levies included in the item, Other Taxes. Contributions from cities, towns, and counties rose for the decade, but have declined since their high point in 1948.

TABLE LXIX
HIGHWAY FUND
SUMMARY OF REVENUE (1941-1945)
War Years

	1941	1942	Per Cent Increase Decrease	1943	Per Cent Increase Decrease	1944	Per Cent Increase Decrease	1945	Per Cent Increase Decrease
Revenues									
Property Taxes	\$ 21,365	\$ 24,934	16.70%	\$ 16,457	(34.00%)	\$ 5,802	(64.75%)	\$ 4,613	(20.50%)
Gasoline Taxes	6,336,563	5,799,769	(8.48)	4,355,755	(21.90)	4,077,826	(7.76)	4,358,678	8.48
Motor Carrier Tax	---	---	---	---	---	---	---	---	---
Use Fuel Tax	---	4,443	---	2,603	(41.42)	3,318	27.46	3,061	(7.74)
Motor Veh. Regis. & Licenses	4,301,922	4,154,828	(3.42)	3,727,929	(10.28)	3,919,294	5.13	4,015,078	2.44
Other Taxes	28,286	30,445	7.63	34,722	14.04	29,316	(15.57)	26,696	(8.94)
Federal Grants	1,086,722	1,229,461	13.13	1,775,970	44.45	1,081,895	(39.09)	723,587	(33.12)
From Cities, Towns, Counties	414,934	694,064	67.27	370,406	(46.60)	376,832	1.73	404,580	7.36
Service Charges for Cur. Serv.	34,238	116,189	239.35	44,877	(61.38)	65,226	45.34	64,146	(1.66)
Other Revenues	60,165	56,572	(5.98)	63,918	12.98	71,532	11.91	98,011	37.01
TOTAL REVENUES	\$12,284,197	\$12,090,706	(1.58%)	\$10,392,639	(14.05%)	\$9,571,013	(6.12%)	\$9,698,449	1.33%

SOURCE: Department of Finance

() indicates % decrease.

TABLE LXIX (continued)
HIGHWAY FUND
SUMMARY OF REVENUE (1946-1950)
Post-war Years

	1946	Per Cent Increase Decrease	1947	Per Cent Increase Decrease	1948	Per Cent Increase Decrease	1949	Per Cent Increase Decrease	1950	Per Cent Increase Decrease	Dec. Inc. Decrease	41-50
Revenues												
Property Taxes	\$ 3,468	(25)%	\$ 3,106	(10)%	\$ 3,620	(17)%	\$ 3,314	(8)%	\$ 4,128	23%	(81)%	
Gasoline Taxes	5,776,107	33	7,371,680	28	11,312,522	54	11,966,136	55	12,456,823	4	97	
Motor Carrier Tax	---	---	---	---	19,209	---	43,966	129	26,763	(39)	---	
Use Fuel Tax	9,790	229	12,684	30	20,594	63	21,836	6	39,130	81	---	
Motor Veh. Regis. & Licenses	1,535,326	13	5,025,244	11	5,666,278	13	5,887,541	4	6,222,659	6	45	
Other Taxes	31,741	19	40,311	27	93,035	131	109,091	17	109,858	1	285	
Federal Grants	232,201	(68)	1,721,525	613	1,626,844	(7)	2,882,732	77	3,971,252	38	265	
From Cities, Towns, Counties	635,372	57	887,483	40	1,246,891	40	1,203,984	(3)	958,059	(20)	131	
Service Charges for Cur. Serv.	37,226	(42)	36,462	(3)	45,276	24	43,676	(4)	49,869	14	46	
Other Revenues	120,152	23	109,518	(9)	132,960	21	102,215	(23)	117,069	44	144	
TOTAL REVENUES	\$11,381,384	17	\$15,211,073	34	\$20,197,230	33	\$22,264,553	10	\$23,985,712	8	95	

() indicates % decrease.

Source: Dept. of Finance.

It is obvious that the story of highway revenue can be told in terms of three items--- The gas tax, automobile registrations and drivers licenses, and federal grants. The latter can be ignored in a discussion of new revenue since any increase in federal grants, because of the matching requirements, necessitates an expansion in state revenue. The question, therefore, is: if we need more highway income, can we turn to the gas tax and licenses and registration?

Before we analyze these two items of highway revenue, however, a few remarks on the theory of highway finance are in order. It is vital to our consideration of the Highway Fund that we realize that highways are no longer regarded as an ordinary function of government to be financed by general taxes. On the contrary, the assumption now is that highway taxation should be related to benefit ---an assumption quite contrary to that in other fields where the principle of ability to pay is considered as fundamental to tax equity and where the benefit theory of taxation^{is rejected} either because benefit cannot be measured or because it violates the concept of tax equity.

If the benefit principle is to prevail in highway financing, some effort should be made to measure and apportion the benefits accruing from our highway system. Unfortunately, we have not concerned ourselves with this question in our discussion of highway taxation, and if we had made the effort, it would have proved difficult to reach any definitive conclusions because theorists and practitioners do not agree as to what proportion of highway costs should be borne by users and what by general taxpayers, including special beneficiaries, such as the general property owner. All agree that highways are multi-purpose, yielding benefits to the general public and property owners as well as users, but there is no consensus as to how one is to measure cost and apportion it. Some want benefit measured by a percentage determination of type of use; others urge that a highway be financed according to its predominant use. Neither theory offers a completely satisfactory statistical methodology.

It is time that we made an effort to allocate equitably highway costs between

the user and the general taxpayer. In the past, the contribution of the property owner to highways was probably in excess of any amount which could be justified by the benefit theory. On the national scale a survey revealed that from 1921-1940, over \$41 billion was expended on highways, of which \$27 billion, 65 per cent, came from property owners. The trend is, however, toward increasing the share borne by users.

As we have seen, state highway activities are primarily supported by the user, but local expenditures for highways and streets are raised chiefly from automobile excises and the property tax. In 1949 the state and local government spent approximately \$30.6 million for highways, of which over 74.4 per cent came from the user. This compares rather closely with the figure of 76 per cent collected from users in California. A careful survey of highway use and benefits will be necessary, however, before one can evaluate the equity of the present distribution of costs.

All statistics for Maine indicate a very heavy reliance on automobile taxes. In 1950, 44.6 per cent of all the tax revenue of the state came from highway users, as compared with 28.9 per cent for the forty-eight states. In fact, almost a third of all state revenue was derived from user sources. It would appear that, compared with the experience in other states, highway user revenue is already at a high level.

The gas tax

The first state to levy a gas tax was Oregon in 1919, and in 1923 Maine enacted a one cent tax, which was increased to 3 cents in 1923 and to 4 cents in 1925. No further change was made in the rate, however, until 1947, when it was raised to 6 cents. Currently, a use fuel tax of 6 cents a gallon is also levied on all fuels, not subject to the gasoline tax, and a motor carrier tax, enacted in 1947, requires that "every motor carrier shall pay a road tax equivalent to the existing rate of taxation per gallon, calculated on the amount of motor fuel used in its operation within this state." On the latter tax a credit is allowed on all gas purchased within the state.

The 6 cent gas tax, which was made permanent in 1949, definitely raises our

TABLE L
STATE MOTOR VEHICLE FUELS TAXES-1949

State	Levy (Thousands)	% of Total Revenue	Levy Per Capita	Rank Order in U. S.
Alabama	\$ 27,758	25.6%	\$ 9.10	31
Arizona	9,588	20.5	12.92	11
Arkansas	20,971	25.7	11.04	19
California	128,375	17.1	12.26	14
Colorado	18,563	21.9	14.12	6
Connecticut	17,555	18.7	8.80	34
Delaware	3,060	19.6	9.65	27
Florida	46,492	33.6	17.01	1
Georgia	38,199	34.9	11.18	18
Idaho	9,354	31.5	15.96	2
Illinois	51,280	13.6	5.90	44
Indiana	36,985	21.1	9.44	29
Iowa	25,026	18.0	9.59	28
Kansas	20,472	20.2	10.78	22
Kentucky	31,434	31.2	10.72	23
Louisiana	38,793	17.4	14.53	5
Maine	12,099	30.4	13.34	9
Maryland	20,660	17.3	8.90	32
Massachusetts	23,925	10.7	5.05	46
Michigan	43,322	11.5	6.84	42
Minnesota	26,154	16.0	8.81	33
Mississippi	21,819	25.0	10.05	25
Missouri	17,693	11.6	4.51	47
Montana	7,660	29.9	13.05	10
Nebraska	18,176	41.4	13.90	7
Nevada	2,490	27.6	15.76	3
New Hampshire	4,618	23.3	8.73	35
New Jersey	30,057	20.6	6.23	43
New Mexico	8,740	19.6	12.91	12
New York	83,837	11.2	5.69	45
North Carolina	44,547	21.1	11.04	19
North Dakota	5,346	14.8	8.68	36
Ohio	64,628	17.9	8.18	39
Oklahoma	28,111	19.5	12.61	13
Oregon	20,643	21.0	13.67	8
Pennsylvania	78,849	17.7	7.56	40
Rhode Island	5,886	14.8	7.49	41
South Carolina	23,105	25.0	10.96	21
South Dakota	6,492	21.5	9.99	26
Tennessee	39,033	27.8	11.90	15
Texas	71,636	23.1	9.33	30
Utah	7,127	16.5	10.39	24
Vermont	4,137	22.6	11.00	20
Virginia	38,375	29.3	11.81	16
Washington	27,633	14.1	11.70	17
West Virginia	16,781	16.5	8.39	38
Wisconsin	29,259	15.4	8.56	37
Wyoming	4,520	28.2	15.64	4

rate above that of our neighbors and, in a sense, our competitors. In Massachusetts the gas tax is 3 cents; in Rhode Island, Connecticut, and New Hampshire it is 4; and in Vermont it is 5 cents. Nationally, the picture is not so disturbing. In May 1950 there were ten states with a rate in excess of 6 cents, Arkansas, Florida, Georgia, Kentucky, Louisiana, New Mexico, North Carolina, Oklahoma, Tennessee, and Washington. Another nine states levied a 6 cent tax ---Alabama, Colorado, Idaho, Mississippi, Montana, Nebraska, Oregon, South Carolina, and Virginia. Thus twenty states have a gas tax of 6 cents or more and in several states municipal governments are also levying a motor fuel tax.

The gas tax is the most lucrative tax levied by the State. In 1949, it produced \$13.34 per capita and accounted for over 30 per cent of total revenue. Maine was the ninth state in rank order in the per capita yield of motor fuel taxes, exceeded only by Florida, Idaho, Nevada, Wyoming, Louisiana, Colorado, Nebraska, and Oregon, in that order. It should be pointed out that the high per capita yield in Maine is partially a reflection of our tourist economy.

By all indications, the gasoline tax is already being utilized to such an extent that any further increase would raise the rate too far above that in the other New England states.

The gasoline tax is a simple and inexpensive tax to collect; in the 1948 fiscal year cost of administration was only 27/100 of 1 per cent. Greatest difficulties in administration result from the exemptions granted for non-highway uses. Such exemptions are expensive to administer, and it is almost literally impossible to prevent their abuse. It would greatly facilitate the enforcement of this levy if the legislature would repeal the present refunds for non-highway use. In the 1950 fiscal year, they totaled \$573,484.

Motor vehicles registrations and drivers licenses

In 1901, New York levied the first registration fee on automobiles; now all states have such registration taxes. The actual fees vary widely, and there is little uniformity in the basis upon which they are levied. There is, however,

a tendency toward a flat fee within weight classifications, because it is easy to administer.

The committee did not attempt to study our schedule of automobile registration fees, but there is some readily available evidence which indicates that the present burden in Maine falls too heavily on light passenger cars, and that fees for trucks, buses, and other heavy vehicles should be increased.

TABLE LI
Rank order on Annual
Motor Vehicle and Related Taxes
(November 1, 1949)

State	Small Passenger Vehicle	Large Passenger Vehicle	Medium truck (intrastate contract carrier)	Heavy truck (intrastate common carrier)
Maine	7	10	17	26
Vermont	26	38	24	29
N. H.	31	23	32	37
R. I.	24	21	40	43
Conn.	19	17	37	38
Mass.	37	31	46	48

SOURCE: Griffenhagen and Associates, Annual Motor Vehicle and Related Taxes on Motor Vehicles of Various Types in the Forty-eight States as of November 1, 1949.

Comparison of the total tax burden on motor vehicles is difficult because in many jurisdictions these vehicles are also subject to property and sales taxes. In Maine, for example, there is a local excise tax, which is levied in lieu of the property tax. In revenue from registrations and licenses alone, however, Maine ranks tenth among all states with a per capita income of \$6.56, but it is below Vermont and New Hampshire which are first and sixth respectively.

Although there should be a revision in the schedule of registration fees, which would no doubt result in some increases for heavy vehicles, there should be no general rate increase. In theory, it is sounder to keep such fees low and levy a higher gas tax, since the latter is a better reflection of highway use and subsequent benefits.

In conclusion, it would appear to be unwise for the State to attempt any

TABLE LII

STATE MOTOR VEHICLE & OPERATOR'S LICENSE TAXES-1949

State	Levy	Per Cent of Total Revenue	Levy Per Capita	Rank Order in U. S.
Alabama	\$ 6,836	6.3%	\$ 2.24	42
Arizona	3,114	6.7	4.20	26
Arkansas	6,871	8.4	3.62	32
California	55,664	7.4	5.32	17
Colorado	5,673	6.7	4.31	25
Connecticut	9,937	10.6	4.98	19
Delaware	1,558	10.0	4.91	20
Florida	21,000	15.2	7.68	3
Georgia	5,089	4.7	1.49	44
Idaho	680	2.3	1.16	47
Illinois	35,194	9.4	4.05	29
Indiana	15,635	8.9	3.99	30
Iowa	19,336	13.9	7.41	5
Kansas	9,273	9.1	4.89	21
Kentucky	7,342	7.3	2.50	39
Louisiana	6,636	3.0	2.49	40
Maine	5,938	14.9	6.56	10
Maryland	9,048	7.6	3.90	31
Massachusetts	11,411	5.1	2.42	41
Michigan	38,358	10.2	6.06	14
Minnesota	15,474	9.5	5.22	18
Mississippi	3,142	3.6	1.45	45
Missouri	16,138	10.6	4.11	28
Montana	609	2.4	1.04	48
Nebraska	1,657	3.8	1.27	46
Nevada	1,290	14.3	8.16	2
New Hampshire	3,803	19.2	7.18	6
New Jersey	32,872	22.5	6.82	8
New Mexico	4,300	9.6	6.35	12
New York	68,861	9.2	4.67	23
North Carolina	16,748	7.9	4.15	27
North Dakota	4,603	12.7	7.47	4
Ohio	43,604	12.1	5.52	15
Oklahoma	14,569	10.1	6.53	11
Oregon	10,358	10.5	6.86	7
Pennsylvania	50,563	11.4	4.85	22
Rhode Island	4,276	10.8	5.44	16
South Carolina	4,338	4.7	2.06	43
South Dakota	1,940	6.4	2.98	38
Tennessee	10,057	7.2	3.07	35
Texas	23,435	7.5	3.05	36
Utah	2,378	5.5	3.46	34
Vermont	3,880	21.2	10.32	1
Virginia	11,624	8.9	3.58	33
Washington	7,142	3.6	3.02	37
West Virginia	9,170	9.0	4.59	24
Wisconsin	21,622	11.4	6.33	13
Wyoming	1,968	12.3	6.81	9

appreciable increase in either the gas tax or registration fees.

Our primary concern is with the General Fund. There are four separate sources of income for this Fund, from which in 1950 over \$5 million was derived. The Property tax, 17 per cent of all revenue yielded \$5.6 million; the cigarette tax, 15.9 per cent, \$5.1 million; federal grants, 20.9 per cent, \$6.7 million; and liquor profits and excises, \$6.5 million, or 20.4 per cent. Federal grants, as with the Highway Fund, do not represent a net gain even if they are increased, since the State must augment its own revenue collections to be able to match federal funds. Other significant sources of General Fund Revenue are inheritance and estate taxes, levies on public utilities and insurance companies, and service charges.

TABLE LIII
PROPORTION OF GENERAL FUND REVENUE
from Specific Sources, 1950

Property tax	17.3%	Pari-Mutuels	1.0 %
Inheritance & estate tax	4.6	Other taxes	1.0
Cigarette tax	15.9	Federal Grants	20.9
Taxes on corporations	.7	From cities, towns, & counties	1.5
Taxes on public utilities	7.9	Taxes on insurance companies	4.2
Taxes on banks	.5	Service charges	2.7
From liquor	20.3	Other revenue	1.5

Revenue for the General Fund increased 91 per cent in the last decade, but expenditures rose 104 per cent in the same period, another indication of the present deficiency in General Fund revenue. The state property tax did not reflect the recent inflation and remained relatively stable; thus it was an unsatisfactory levy from the viewpoint of flexibility. The greatest increase, 2072 per cent, was in the cigarette tax, with the income from pari-mutuel betting next with a 624 per cent increase. Taxes on public utilities rose 82 per cent, those on insurance companies, 108 per cent; and liquor revenue, 82 per cent. In the following discussion, we shall deal with each of the major taxes utilized for the General Fund, with special reference to the possibility of increasing revenue from each source.

First, the property tax is the third most important source of General Fund revenue; it is exceeded in yield only by federal grants and liquor profits. There has been, however, an increasing tendency in recent years to question state utilization of the property tax. Many are convinced that this levy should be reserved for local utilization, and the experience in other states has been in this direction. Indubitably, the failure of the Maine legislature to relinquish the property tax to municipal government arises from its inability to agree on another major tax to replace it.

The state tax on cities and towns is a levy of $7\frac{1}{4}$ mills on all municipalities; it is included in the local commitment and is collected as a part of the local property tax. The tax is, however, assessed upon the basis of the state valuation, which is made every two years, rather than the local assessment.

There is some confusion as to how the state valuation is computed, but it should be understood that it is not levied on individual properties as such, but on cities and towns. It is the practice of the State Tax Assessor to determine local valuation practices. Then "by a process of field checking, comparing appraisals and sales prices with local valuations, an estimate of the local valuation ratio--the proportion of 'just' value at which property is locally assessed - is obtained. Thus the over-all local valuation is adjusted in the light of the ratio thus obtained." This is not an ideal procedure, but it is the best that the Bureau of Taxation can do with its present budget and staff. There are, at the moment, fewer than 5 full time employees engaged in the preparation of the state valuation. The final solution, however, should be to improve local valuations, rather than a prolonged and expensive effort to involve an accurate state valuation.

In addition to the state tax on cities and towns, there is a property tax on the unorganized territory, which is assessed and collected directly by the State. This tax is primarily on timber land, and the valuation is based upon a cruise which is made about every fifteen years for each parcel of property. In the interim period the valuation is adjusted by factors to take care of growth and cut.

TABLE LIV
STATE DEATH & GIFT TAXES- 1950

State	(thousands) Levy	% of Tax Revenue	Levy Per Capita	Rank Order in U. S.
Alabama	\$ 914	.71%	\$ 0.30	36
Arizona	118	.23	.16	39
Arkansas	203	.23	.11	41
California	19,857	2.13	1.90	7
Colorado	1,919	2.07	1.46	13
Connecticut	5,868	4.96	2.94	2
Delaware	2,879	10.66	9.08	1
Florida	3,011	1.63	1.10	17
Georgia	613	.45	.18	38
Idaho	222	.65	.38	34
Illinois	7,259	1.67	.83	22
Indiana	3,042	1.37	.87	21
Iowa	3,408	2.21	1.31	14
Kansas	1,081	.86	.57	29
Kentucky	2,618	2.14	.89	20
Louisiana	1,510	.59	.57	29
Maine	1,476	3.13	1.63	9
Maryland	2,583	1.84	1.11	16
Massachusetts	9,660	3.12	2.05	4
Michigan	7,934	1.73	1.25	15
Minnesota	2,334	1.19	.79	23
Mississippi	232	.25	.11	41
Missouri	2,675	1.45	.68	25
Montana	422	1.30	.72	24
Nebraska	189	.33	.14	40
Nevada				
New Hampshire	911	3.75	1.72	8
New Jersey	9,600	5.05	1.99	5
New Mexico	215	.39	.32	35
New York	22,375	2.04	1.52	11
North Carolina	2,211	.96	.55	30
North Dakota	113	.29	.18	38
Ohio	4,194	.98	.53	32
Oklahoma	2,449	1.48	1.10	17
Oregon	1,467	1.33	.97	19
Pennsylvania	21,706	4.36	2.08	3
Rhode Island	1,556	3.16	1.98	6
South Carolina	397	.41	.19	37
South Dakota	375	.95	.58	28
Tennessee	1,955	1.21	.60	27
Texas	6,047	1.76	.79	23
Utah	370	.80	.54	31
Vermont	371	1.69	.99	18
Virginia	2,006	1.30	.62	26
Washington	3,559	1.51	1.51	12
West Virginia	888	.78	.44	33
Wisconsin	5,338	2.54	1.56	10
Wyoming	110	.57	.38	34

In general, it is the policy of the state to maintain a stable valuation. Whether this is a wise policy or not may be debatable, but there is rather general agreement that the adoption of a severance tax for timber, such as that recently instituted in New Hampshire, would be a better solution to the taxation of our timber stand than an attempt to improve present valuation practices.

By 1949, approximately half of the states had withdrawn from the property tax in whole or in part, and in 1950, this levy comprised only 4 per cent of the tax revenue, exclusive of unemployment compensation, of the forty-eight states, as compared with 12 per cent for Maine. At a time when other states are relinquishing the property tax to local governments so as to alleviate their revenue problems, it would appear to be unwise to increase the state property tax.

Second, since 1947 the inheritance and estate taxes have been assessed and collected by the Bureau of Taxation, and administrative practices have been revised to facilitate enforcement of this levy. There can be no great increase in income from this source without an increment in rates which should not be attempted since they are already high enough. Moreover, inheritance taxes are an unstable source of revenue, and no state can afford to rely on them for a major portion of its income. Maine already ranks ninth among the forty-eight states, in the per capita income raised from this source.

A popular and extremely lucrative selective sales tax is that on tobacco, which is imposed in forty states. Most of the revenue from this tax invariably comes from the sale of cigarettes, but nine states tax other tobacco products as well. It is interesting that tobacco taxes are a rather recent source of state revenue, even though the first federal tobacco tax was imposed by the Second Congress. Tobacco levies are also utilized by some municipal governments, but there is a rather general agreement that they are not easy taxes for small areas to enforce.

The enforcement of the tax is accomplished in all states, with the exception of Massachusetts, by stamps or by a metering device, and the manufacturer or distributor is responsible for stamping all packages. Maine follows the common

TABLE IX
STATE TOBACCO TAXES - 1949

State	Levy (Thous.)	Per Cent of Total Revenue	Levy Per Capita	Rank Order in U. S.
Alabama	\$ 7,662	7.1%	\$ 2.51	23
Arizona	N A	N A		
Arkansas	6,053	7.4	3.19	14
California				
Colorado				
Connecticut	7,295	7.8	3.66	9
Delaware				
Florida	12,519	9.1	4.58	3
Georgia	8,327	7.6	2.44	25
Idaho	1,628	5.5	2.78	19
Illinois	30,169	8.0	3.47	12
Indiana	12,499	7.1	3.19	14
Iowa	4,904	3.5	1.88	30
Kansas	4,790	4.7	2.52	22
Kentucky	5,008	5.0	1.71	31
Louisiana	15,781	7.1	5.91	1
Maine	5,170	13.0	5.70	2
Maryland				
Massachusetts	21,234	9.5	4.51	4
Michigan	22,583	6.0	3.57	10
Minnesota	8,856	5.4	2.98	16
Mississippi	6,691	7.7	3.08	15
Missouri				
Montana	1,306	5.1	2.22	27
Nebraska	3,835	8.7	2.93	18
Nevada	492	5.4	3.11	14
New Hampshire	2,157	10.9	4.07	6
New Jersey	17,996	12.3	3.73	9
New Mexico	N A	N A		
New York	52,226	7.0	3.54	11
North Carolina				
North Dakota	1,658	4.6	2.69	20
Ohio	17,602	4.9	2.23	26
Oklahoma	9,455	6.6	4.24	5
Oregon				
Pennsylvania	41,128	9.2	3.94	7
Rhode Island	2,964	7.5	3.77	8
South Carolina	5,545	6.0	2.63	21
South Dakota	1,712	5.7	2.63	21
Tennessee	8,206	5.8	2.50	24
Texas	22,658	7.3	2.95	17
Utah	867	2.0	1.26	32
Vermont	1,202	6.6	3.20	13
Virginia				
Washington	5,164	2.6	2.19	28
West Virginia	2,203	2.2	1.10	33
Wisconsin	6,748	3.6	1.97	29
Wyoming				

practice of allowing distributors a $3\frac{1}{2}$ per cent discount for affixing stamps.

The state of Massachusetts claims to have saved a million dollars a year and to have interfered less with normal business practices, by dispensing with stamps altogether.

The trend in tobacco tax revenue in the last decade has been upward. In 1947, Maine increased its cigarette tax from 2¢ to 4¢ per package and imposed a tax of 20 per cent on the usual retail selling price of tobacco products. The present rate of 4 cents per package of cigarettes is exceeded by only 6 states. These selective sales taxes were supplemented in each instance by a use tax.

TABLE LXI
CIGARETTE TAX RATES

2 cent rate (7 states)	3 cent rate (17 states)	4 cent rate (8 states)	5 cent rate (5 states)	8 cent rate (1 state)
Arizona	Alabama	Arkansas	Florida	Louisiana
Delaware	Connecticut	Minnesota	Georgia	
Iowa	Idaho	Maine	Massachusetts	
Kentucky	Illinois	New Mexico	North Dakota	
Montana	Indiana	Mississippi	Oklahoma	
Ohio	Kansas	Pennsylvania		
Utah	Michigan	Vermont		
	Nebraska	Washington		
	Nevada			
	New Jersey			
	New York			
	Rhode Island			
	South Carolina			
	South Dakota			
	Tennessee			
	Texas			
	Wisconsin			

The rate in N. H. is $2\frac{1}{2}$ ¢ and in West Virginia 1 cent per pack.

Since 1941 the income from tobacco taxes has increased 2,000 per cent, but as of this year, there has been a decline of 5.4 per cent from the peak revenue year of 1948. The widespread use of tobacco and the substantial income from this tax establish it as a consumer tax and removes it from the category of luxury levies.

Of all the 40 tobacco states, Maine derives by far the largest proportion of its total tax revenue from tobacco levies. In 1949 cigarette, cigar and tobacco products taxes amounted to 13 per cent of Maine's total income from taxes. For purposes of comparison, the state of New Jersey, which derived 12.3 per cent of its

tax revenue from the cigarette tax (no taxes on other tobacco products), was our closest rival in tobacco tax collections; at the other extreme was Utah, which was last in the nation with only 2 per cent of total tax yield coming from its 1 mill tax on cigarettes.

TABLE LXII
RECEIPTS FROM THE TOBACCO TAX

Year	Amount
1941	\$ 236,708
1942	1,338,843
1943	1,440,388
1944	1,601,442
1945	1,371,515
1946	1,964,411
1947	2,305,929
1948	5,433,354
1949	5,170,388
1950	5,141,821

The above figures (percentages) are significant only in relation to total tax revenue, however; six states tax cigarettes and other tobacco products at higher rates than Maine does, and seven states tax at the same rate. A glance at Table LX reveals, however, that Maine's per capita tobacco tax levy of \$5.70, outstripped only by Louisiana's \$5.91, is the second highest in the country. The latter state has a 4 mill tax on cigarettes as compared with our 2 mill rate.

In the light of the above statistics and in view of the fact that cigarettes are considered by most smokers to be necessities, it seems unwise to rely on Maine's already disproportionately high tobacco levy for even more revenue than it now produces. Indeed it would appear that if the Legislature should authorize either a state income or sales tax, the cigarette tax ought to be reduced.

Commission on Pari - Mutuels

The state income from pari-mutuel betting in 1950 was \$320,000 or 1 per cent of General Fund Revenue, and in 1951 this source of income will increase by approximately \$300,000 as a result of the establishment of running races. A state which builds its revenue system upon drinking and gambling is not in an enviable position, and it appears that Maine is already raising a sufficient proportion of its revenue

TABLE LXIII

STATE PARE-MUTUEL TAXES- 1949

State	Levy (Thousands)	Per Cent of Total Revenue	Levy Per Capita	Rank Order in U. S.
Arizona	\$ 852	1.8%	\$ 1.15	10
Arkansas	631	.8	.33	15
California	16,990	2.3	1.62	9
Delaware	950	6.1	3.00	4
Florida	13,206	9.5	4.83	3
Illinois	8,633	2.3	.99	11
Kentucky	679	.7	.23	18
Louisiana	776	.3	.29	16
Maine	253	.6	.28	17
Maryland	4,758	4.0	2.05	5
Massachusetts	8,065	3.6	1.71	8
Michigan	3,244	.9	.51	12
New Hampshire	2,678	13.5	5.05	2
New Jersey	9,786	6.7	2.03	6
New Mexico	NA	NA	--	--
New York	27,245	3.7	1.85	7
Ohio	556	.2	.07	19
Oregon	645	.7	.43	13
Rhode Island	4,041	10.2	5.14	1
Washington	679	.3	.29	16
West Virginia	747	.7	.37	14

from pari-mutuels. Moreover, pari-mutuel betting in Maine will never yield the substantial amounts reported for New Hampshire, Rhode Island, Florida, New Jersey, and Delaware. There is simply not a sufficient concentration of population upon which to draw. Of course, if professional gamblers are attracted to the State in any numbers, the tax income from this source will increase, but this is not an altogether happy future to contemplate.

Other Taxes

This classification includes a miscellaneous group of items, such as other business taxes, poll taxes, certain property and school taxes in the unorganized territory, and various inspection and licensing fees. No significant amount of new revenue can be conveniently raised from these sources, without aggravating their nuisance character.

Service charges

This non-tax revenue is comprised primarily of charges for various services rendered by the state, such as hospital charges and school tuition, income from rents, and the sale of commodities. Only a limited amount of revenue is available from this source.

Contributions from cities, towns, and counties

Cities, towns, and counties contribute to the state for various welfare, health, and educational programs, but, in the light of the present financial stringency reflected in local budgets, it would be unwise to attempt to increase these items substantially. On the contrary, the trend is in the opposite direction.

Liquor and Beer

Taxes on alcohol were first imposed by the Federal Government in 1791; and although this first step into the field of alcohol excises resulted in the "whiskey rebellion", levies on alcohol have continued, aside from the interruption of the Prohibition era, ever since. After the repeal of Prohibition in 1933, all states imposed an excise tax, although before Prohibition they had been content with revenue

from licenses. Again, we are dealing with a relatively new style levy. It is also interesting to observe that all states levy an excise tax on alcohol, even though Oklahoma and Mississippi are dry.

In sixteen states (Maine is one of these), a system of monopoly control is utilized; in all but Wisconsin this control is exercised through retail stores. In North Carolina, counties may operate liquor stores, and in Minnesota some municipalities are permitted to engage in the sale of liquor. An excise tax on malt beverages is also imposed in monopoly states. In fifteen states the general sales tax is applicable to sales of alcohol, and it is customary to license manufacturers, wholesalers, retailers, restaurants, clubs, drugstores, etc.

Most states collect the tax on alcohol through the Tax Commission, but in eighteen the levy is administered by a liquor control board. In general, stamps are employed as a collection device, but some states still collect on the basis of reported sales. It is probable that the high state and local excises on alcohol encourage evasion - how much, it is difficult to estimate.

It is often claimed that Maine relies very heavily on its liquor revenue, and statistics bear out this assertion. In 1949, Maine's per capita revenue from alcoholic beverages was \$7.76, a figure exceeded only by Florida, Montana, New Hampshire, Pennsylvania and Washington. Only eight states derived more than 15 per cent of their total tax revenue from alcoholic beverage taxes; Maine ranked fifth in this group with 17.7 per cent of its tax revenue coming from liquor levies.

The bulk of Maine's liquor revenue comes from state store profits, which in 1949 amounted to almost \$4.5 million; in comparison, manufacturer's excises on wines and beer brought in only slightly over \$2 million, with license fees totaling less than \$500,000.

Maine's liquor stores already operate on a 61 per cent markup, which is in effect a consumer's sales tax of rather staggering proportions. It is doubtful if this source of revenue can be expanded appreciably without opening the way for

TABLE LXIV
STATE ALCOHOLIC BEVERAGE TAXES-1949

State	Levy (Thousands)	Per Cent of Total Revenue	Levy Per Capita	Rank Order in U. S.
Alabama	\$ 13,869 ¹	12.7%	\$ 4.54	20
Arizona	2,162	4.6	2.91	33
Arkansas	5,507	6.8	2.90	34
California	26,161	3.5	2.50	37
Colorado	4,326	5.1	3.29	28
Connecticut	8,232	8.8	4.13	22
Delaware	1,032	6.6	3.26	29
Florida	21,534	15.6	7.88	4
Georgia	14,016	12.8	4.10	23
Idaho	3,917 ¹	13.2	6.68	10
Illinois	23,553	6.3	2.71	35
Indiana	15,163 ¹	8.6	3.87	26
Iowa	11,501 ¹	8.3	4.41	21
Kansas	4,605	4.5	2.42	39
Kentucky	11,092	11.0	3.78	27
Louisiana	16,232	7.3	6.08	13
Maine	7,037 ¹	17.7	7.76	6
Maryland	5,946	5.0	2.56	36
Massachusetts	19,053	8.5	4.63	18
Michigan	38,870 ¹	10.3	6.14	12
Minnesota	13,701	8.4	4.62	19
Mississippi	2,251	2.6	1.04	47
Missouri	6,351 ¹	4.2	1.62	46
Montana	5,246 ¹	20.5	8.94	1
Nebraska	2,718	6.2	2.08	43
Nevada	497	5.5	3.15	32
New Hampshire	4,133 ¹	20.9	7.80	5
New Jersey	15,387	10.5	3.19	31
New Mexico	1,287	2.9	1.90	45
New York	68,691	9.2	4.66	17
North Carolina	9,250	4.4	2.29	40
North Dakota	2,433	6.7	3.95	24
Ohio	52,754 ¹	14.6	6.68	10
Oklahoma	4,940	3.4	2.22	41
Oregon	8,728 ¹	8.9	5.78	15
Pennsylvania	89,253 ¹	20.1	8.55	2
Rhode Island	1,695	4.3	2.16	42
South Carolina	14,529	15.7	6.89	9
South Dakota	3,197	10.6	4.92	16
Tennessee	8,062	5.7	2.46	38
Texas	14,669	4.7	1.91	44
Utah	4,048 ¹	9.4	5.89	14
Vermont	2,745 ¹	15.0	7.30	8
Virginia	24,727 ¹	18.9	7.61	7
Washington	20,127 ¹	10.2	8.52	3
West Virginia	12,421 ¹	12.2	6.21	11
Wisconsin	10,963	5.8	3.21	30
Wyoming	1,128 ¹	7.0	3.90	25

1. Includes State Store Profits.

large-scale evasion practices, such as bootlegging and smuggling which, with their undesirable social effects and increased law enforcement costs, seem hardly worth what extra money a sizeable increase in liquor taxes might bring.

The excise taxes levied in Maine on both domestically produced and imported wines and beer compare favorably with those of other states. Our taxes of 5 1/3¢ per gallon on domestic malt beverages and 16¢ per gallon on imported beers and ales are only slightly above the U. S. median.

License fees for the manufacture and sale of alcoholic beverages in this state range from \$50 for the manufacture of wine from domestic raw materials to \$3,000 for the privilege of brewing or distilling entirely with imported materials.

Retailers' licenses are issued to stores, taverns, clubs, restaurants and hotels; fees for these licenses range from \$100 for a malt beverage license issued to a club or store to \$600, which is the price of a liquor license for a hotel in a city of 10,000 or more population.

Taxes on business

Taxes on corporations and public service enterprises date from early in the nineteenth century. The earliest corporation taxes were merely fees to cover costs of incorporation, or else they were special assessments intended to prevent corporations from evading state taxes on intangible property. Income from these levies was relatively small.

Currently, however, taxes on corporations constitute an important source of state revenue although federal court decisions have somewhat limited the power of the states to tax the entrance and activities of "foreign" corporations.

Two types of corporation taxes are now in use throughout the country. The first of these is the organization or entrance tax, which has replaced the original flat fee for incorporation; the second type of corporation levy is the so-called franchise, or privilege tax. In addition to these two types of taxes, thirty-three states now collect corporate income levies, either in lieu of, or to supplement, the general corporation taxes already mentioned. Revenue from the corporate

income tax alone amounted to \$641 million in 1949.

TABLE LXV
CORPORATION TAXES IN DETAIL FOR THE STATE OF MAINE-- COLLECTIONS FOR
FISCAL YEARS
1944 and 1949

Classification	1944-45 (Thousands)	1948-49 (Thousands)
Railroads	\$ 1,526	\$1,908
Street Railroads	14	15
Telephone	531	842
Telegraph	31	37
Express Co's	26	25
Parlor Car Co's.	1	1
Credit Unions	1	1
Corporate Franchise	199	204
Savings Banks	125	141
Trust and Banking	4	11
Insurance	813	1,305
Fire Invest. & Prevent.	38	68
Loan & Bl'dg. Ass'ns.	7	14
National Bank (Stock)	110	139
Trust and Banking (Stock)	63	95
Total	\$ 3,489	\$4,806

1. Less than \$500.

Source: Bureau of Taxation
Annual Report

The corporate franchise tax

This tax, as it is levied in Maine, is a nominal levy upon corporations and in 1950 yielded only \$214,000. Rates are graduated from \$5 for corporations whose authorized capital is under \$50,000 to \$50 for those with a capitalization of \$500,000 to \$1 million, with \$25 additional for every additional million in capitalization. A comparable schedule is used for stock issues with no par value.

In addition, corporations pay a small filing and organization fee with the Secretary of State when incorporated, and foreign corporations are subject to a small fee for the privilege of doing business in the State.

It is obvious that the corporate franchise tax is not producing all the revenue that could be derived from this source. However, before any changes are made in the basis upon which it is levied, a decision should be reached as to whether or not

the State should adopt a corporate income tax or some type of a gross receipts levy.

Public utility taxes

State taxes on public utilities have been levied since the advent of the railroad, the telegraph, and the telephone. The history of public utilities taxation, however, has been erratic, since for many years the states could not agree upon equitable or even satisfactory bases for the taxing of transportation, communication, or other public service facilities. After 1875, the gross receipts tax came to be generally accepted as the universal tax for public utilities, although many states still levy on their public service corporations a hodge podge of special property taxes, mileage taxes, and taxes on bonded indebtedness.

It is, therefore, difficult to compare states as to the burden of taxation on public utilities. For the limited number of states with special levies on public utilities, income from this source is of minor importance. Maine, however, in 1949 derived 7 per cent of its total tax revenue from public utility taxes; in fact, Minnesota is the only state with a larger proportion of the tax dollar from this source. Maine and Louisiana ranked third highest among the forty-eight states in per capita public utility levies. These figures should be used with caution since they are not comparable. State taxes in Maine do not include any levy on electric companies; many states also tax utilities under their corporate income or general property tax.

In Maine taxes are levied on a gross receipts basis on railroads, telegraph and telephone companies, express companies, and parlor cars. These taxes are regarded as being in lieu of the property tax, although railroads pay a property tax on all land and buildings outside the right of way, and the telegraph and telephone companies pay on all buildings and land. There is some evidence that utilities pay less than they would if they were taxed wholly under the property tax.

The major problem of public utility taxation would appear to be the placing of all utilities on a comparable tax basis, preferably gross receipts.

Tax on insurance companies

There is a tax of 1 per cent on gross direct premiums sold to citizens of Maine. It yielded \$1.4 million in 1950 and appears to be a fair tax but the rate should not be increased.

Other business taxes

The state also taxes the stock shares or deposits of Credit Unions, savings banks deposits, trust companies, fire insurance companies, building and loan associations, and stock in banks and trust companies. The Committee was unable to examine the administration and impact of these miscellaneous business taxes, but it is convinced that they cannot be regarded as potential major revenue sources.

It is easy to overlook the fact that the most important tax on business in Maine still is the property tax, but that is, nevertheless, the case. It is estimated that approximately 23.5-30.3 per cent of the municipal valuation is in industrial property. Thus the industrial valuation under the property tax totals from \$181 to \$223 million. In addition, mercantile and other business properties pay a substantial property tax, which, unfortunately, cannot be accurately estimated. Business also, along with other taxpayers, contributes a part of the revenue from the selective levies upon which the state relies so heavily.

There should be further study of business taxation in Maine, with special reference to the probable effect of the adoption of some type of general business tax based either upon gross receipts or net income.

Dedicated and undedicated revenue

Our discussion of General Fund Revenue has made no distinction between dedicated and undedicated revenue. It should be pointed out, however, that in 1950, \$8 million of the income for general fund purposes was dedicated by legislative action for specific activities. There was, therefore, only \$24.2 million, which was directly subject to the budget.

The utilization of dedicated revenue is to be deplored because it reduces the

comprehensive of budget control, encourages irresponsibility in expenditures, and makes impossible effective utilization of the funds which are available. The Legislature should cease, therefore, the custom of dedicating revenue for specific purposes.

The income of the Special Revenue Fund is primarily from fees, licenses, and special taxes imposed upon particular groups or professions. As we have already indicated, activities included in this group are self-supporting, and since the income is dedicated to the support of specific programs, an increase in the revenue of this fund will not solve the fiscal problems of the State. Moreover, there is no potential major revenue source in the items included in this Fund.

Consolidated revenue

A study of consolidated revenue in 1950 reveals a very heavy reliance on the gas tax, automobile registrations and drivers' licenses, federal grants, and revenue from liquor---all facts already demonstrated by our analyses of the General and the Highway Funds.

TABLE LXVII
CONSOLIDATED REVENUE STATEMENT
1941 and 1950
(in thousands)

	1 9 5 0		1 9 4 1	
State Tax on cities and towns	\$ 5,187	3.47%	\$ 4,473	12.83%
State Tax on wild lands	341	.56	336	.96
Inheritance and estate taxes	1,476	2.41	554	1.59
Gasoline tax	12,522	20.46	6,350	18.21
Motor Carrier-Fuel Tax	27	.04		
Cigarette and Tobacco Taxes	5,142	8.40	237	.68
Taxes on Public Utilities	2,539	4.15	1,397	4.01
Taxes on Insurance Co's	1,452	2.37	689	1.97
Motor vehicle registration and drivers licenses	6,223	10.17	4,314	12.37
Hunting and fishing licenses	1,079	1.76	397	1.14
Commissions on Pari-mutuels	320	.52	44	.13
Other taxes	1,727	2.82	989	2.83
From Federal Government	13,012	21.26	4,564	13.09
From cities, towns, and counties	1,484	2.42	1,721	4.94
Service charges	1,589	2.60	587	1.68
Liquor and beer	6,566	10.73	3,615	10.37
Other revenue	525	.86	368	1.06
TOTAL	\$61,210	100%	38,871	100%

The shift in the proportion of revenue collected from particular sources from 1941 to 1950 is of interest. The inflexibility of the property tax, as it is now utilized as a state tax, is demonstrated by the fact that it was 13 per cent of all revenue collections in 1941 but in 1950 it had declined to 3.5 per cent. At the other extreme, the increasing reliance on the cigarette tax is obvious. In 1941 it was less than 1 per cent of consolidated revenue; by 1950 it was 8.4 per cent. Both the gas tax and drivers' licenses and automobile registrations were 2 per cent less important in 1950 than in 1941. The proportion of revenue from beer and liquor and public utilities, however, remained practically constant.

An especially alarming feature is the expansion of the importance of federal grants. In 1941, federal financial assistance to the state was only 13 per cent of all revenue; by 1950 it was 21 per cent. The implications to state finance are clear when we realize that for every dollar expended by the state government, 21 cents comes from the Federal Government. The freedom of the State to budget its own particular needs is increasingly limited; already since federal grants generally require matching, somewhere between 30 and 40 per cent of state expenditures are subject to direct supervision by the Federal Government. A vital federal system may eventually prove impossible unless there is coordination of federal, state, and local tax policies, with adequate revenue sources guaranteed to the last two.

The increasing importance of federal grants also results in another condition, which sometimes we do not sufficiently appreciate. For example in the 1949 General Fund Expenditures more state tax dollars were spent on education and libraries than on health and welfare. Specifically, \$7 million was appropriated for the former, and \$6.8 million for the latter. Other revenue also equaled 10.4 per cent of expenditures for development and conservation of natural resources, and 11.1 per cent of those for institutional services. Proponents of substantial economy in the Health and Welfare Department should realize that approximately \$6.8 rather than \$12.4 million is the expenditure total within which the economies must be effected.

TABLE LXVIII
SUMMARY OF EXPENDITURES, APPROPRIATIONS,
AND REVENUE
1949

	Expenditures	Appropriations	Other revenue as per cent of Expenditures
General Administration	\$ 1,756,795	\$ 1,800,566	2.5
Protection of persons and property	1,055,073	739,339	5.0
Development & conservation	1,174,551	1,033,442	10.44
Health and welfare	12,419,926	6,835,137	45.64
Institutions	4,956,330	4,157,521	11.14
Education and libraries	7,756,757	7,080,570	7.99
Recreation and Parks	127,589	67,857	23.63
TOTAL	\$30,419,234	\$22,857,539	23.31

The incidence of taxes on individuals

In an attempt to measure the impact of present taxes on individuals, a number of hypothetical taxpayers were assumed. These individuals, of course, are not typical of any one person, but they do illustrate the tax payments which individuals in different income groups might be expected to make under normal conditions.

We have taken as examples five cases from different income levels. It was assumed that A's income is \$1,500; B's, \$2,500; C's, \$5,100; D's, \$10,200; and E's, \$41,000.

Table LXIX indicates that each hypothetical case pays the following percentage of his income for state and local taxes:

A	B	C	D	E
8%	7.5%	7.1%	7.1%	3.3%

It is evident that, except for the very high and the very low income groups, the impact of state and local taxes is proportional.

Conclusion

An analysis of the three major funds reveals that it would be unwise to increase state revenue by further exploitation of existing levies. One is struck by the degree to which the State of Maine relies upon voluntary taxes. While most other states have at least one tax which is broadly based and which is related to economic

TABLE LXIX

Individuals	A	B	C	D	E
<u>State taxes</u>					
Cigarettes	\$ 8 (200 packs)	\$ 8 (200 packs)	\$ 16 (400 packs)	\$ 24 (600 packs)	\$ 24 (600 packs)
Automobile					
Gas Tax	15 (250 gals.)	30 (500 gals.)	36 (600 gals.)	60 (1000 gals.)	78 (1300 gals.)
Registration	14	14	4	16	32
Drivers' Licenses	2	4	4	4	4
Alcohol	1	2	4	10	20
Property Tax	9	13	30	44	90
Total State	\$ 49	\$ 71	\$ 94	\$ 158	\$ 248
<u>Local taxes</u>					
Property	66	99	231	330	688
(60 per cent valuation 755 mill rate)	\$2,000 house	\$3,000 house	\$7,000 house	\$10,000 house	\$25,000 house
Poll tax	3	3	3	3	3
Excise on car	5	5	20	45	100
Personal Property				162	275
Misc.	2	10	15	20	25
Total local	\$ 76	\$ 117	\$ 269	\$ 570	\$ 1,091
Total state & local	125	188	363	728	1,339
Federal income	0	0	365	1,206	19,000
Total	\$ 125	\$ 188	\$ 728	\$1,934	\$ 10,339

activity, either through income and/or sales, Maine, like New Hampshire and New Jersey, continues to rely upon the property tax and selective consumer levies, such as taxes on alcohol, cigarettes, and gasoline---levies which may be avoided and which single out particular groups.

AIMS OF RECOMMENDATION

The Tax Revision Committee attempted to arrive at some general considerations which would serve as guideposts in the formulation of specific recommendations. The members realized from the start of their deliberations that tax systems are not made in heaven; nor are they the product of abstract theory. Rather tax making is "a group contest in which powerful interests endeavor to rid themselves of present or proposed tax burdens."

"A good tax", therefore, defies definition. Goodness depends upon a specific time and a given set of circumstances, and generalizations covering all situations necessarily fail us. Fundamentally, one's criteria to determine a good tax depend upon such broad considerations as one's concept of the economic system. Finally, one must always remember that today no tax stands alone and that individual levies must be analyzed, therefore, in terms of the composite of all tax systems, federal, state and local.

Adam Smith, a good many years ago, formulated the classic canons of taxation. To repeat them is to run the risk of being accused of dealing with the trite. According to Adam Smith, tax systems in a classical economy were to be measured by certain criteria, equity, certainty, convenience, and economy of administration. There is no need to indulge in a lengthy discussion of these canons here, but it should be noted that the Committee attempted to measure our present tax system and proposed changes in relation to such criteria as (1) adequacy of revenue, (2) equity in the distribution of the tax burden, (3) flexibility to meet changing economic conditions, (4) economy of administration, (5) political and economic feasibility of present and proposed taxes, (6) diversity in tax sources and a broad base.

First, an adequate tax system, over the long run at least, must provide sufficient revenue to meet normal governmental needs; otherwise it becomes necessary to resort to deficit financing. But the inflationary policies of the federal government are not available to state and local units--fortunately so, for these policies have already gone far to destroy the solvency of local government and even to threaten the financial independence of the states.

The question of adequacy naturally raises the query: adequate for what? What is meant by normal services? Obviously, there can be little real agreement as to the adequacy of our tax system until there is some consensus as to the proper scope of government and the adequacy of present services.

The facts are clear, however. Unless there is a reduction in present services, the available revenue will not meet the requirements of the State. On this count, it is impossible to give the present revenue system of Maine a passing grade. In fact, it was this deficiency which provided the occasion for the Tax Revision Committee.

Second, a tax system should have a broad base so that the support of government does not fall upon a selected few and so that financial responsibility is apportioned among all inhabitants. Moreover, there should be sufficient diversity in the tax base so that the failure of any one source does not cripple government. Finally, all citizens benefit from government, and they should feel that they have a direct financial interest in it and its activities.

We have already pointed out, in fact, almost ad nauseam, the very limited tax base in Maine. Those who drink alcoholic beverages, those who own and drive cars, those who smoke, and those who own property are responsible for the great bulk of state and local revenue. There are no broad base levies, such as the sales and income taxes, and if one is so inclined, he may keep his financial contributions to local and state government at a ridiculously low figure.

Third, the narrowness of the tax base raises the question of another criteria by which a satisfactory tax system may be identified. Does it spread the cost of

government equitably over all classes? Does it provide for uniformity? Is the support of government measured according to the "faculty" of the taxpayer? Today, it is more or less universally accepted that general taxation should not be promised on benefit or sacrifice and that "faculty" should be measured in terms of marginal utility. Thus a basis is provided for progressive taxation, which is regarded as fair and equitable. But there still is no consensus as to how progressive a tax system must be to be fair. As we have already pointed out the present incidence of direct taxes in Maine, with the exception of the very high and the very low income groups, is proportional rather than progressive or regressive. Taken alone, therefore, the state and local tax systems are not geared to ability to pay, but the total tax impact, federal as well as state and local, is still highly progressive. This Committee is not prepared to say whether it is too progressive or whether it is not progressive enough.

It must be admitted that in its distribution of the costs of government among different groups of taxpayers, the state and local tax systems are inequitable. For over a generation there has been agitation because owners of intangibles, with a relatively few exceptions, do not bear their proportionate share of governmental costs. There is also general agreement that the administration of the property tax, still the most important levy utilized by state and local governments, results in many inequities, which will be discussed later. There is also evidence that the burden on the real property owner is relatively too heavy. Probably, the greatest problem of equity at the moment, however, is the tendency of intangibles to escape taxation altogether.

Fourth, a tax system should have as little adverse effect upon the economy of the state as possible. But when is a tax system harmful? There is a real and fundamental disagreement among economists as to the effect of specific taxes upon the economy, since theories of desirable tax incidence are premised upon one's concept of the economic system rather than vice versa.

The impact of the present state and local tax system on the economic life of

of the state is difficult to analyze, because we do not possess sufficient evidence of the importance of these taxes to our industries and business enterprises. There is no corporate income tax, of course, and levies on insurance companies and public utilities are the only important taxes on business as such. There is no indication, however, that these levies are so onerous as to affect adversely the economic development of the state. The great proportion of revenue, of course, comes from selective sales levies and the property tax. The former are natural taxes for a State where there is a substantial transient population, and in Maine they mean that our summer visitors contribute heavily to the support of government. There is, however, a limit to the exploitation of these taxes because the recreational business is competitive. Excessive reliance on selective sales taxes eventually may affect adversely our recreational business.

The property tax is extremely unsatisfactory as a means of taxing industry because it must be paid whether profits are earned or not. Moreover, since the valuation of industrial property is a technical task, its administration is difficult. In fact, the impact of the property tax in Maine is tolerated only because of the present maladministration of this levy. Wholesale exemptions, undervaluation, and tax bargaining are universal, but if the property tax is ever enforced according to the letter of the law, business may find that its impact is disastrous. Certainly, it should not be pleasant for business owners to realize that their property tax can be trebled, or increased even more, without any legal recourse on their part.

There is, of course, disagreement as to the probable effect of the adoption of a sales or income tax on the economic life of the State. Many feel that a state income tax is out of the question since it would aggravate the harmful effects of the very progressive federal levy. By retarding the rate of saving, such a tax results in a less rapid rate of economic growth and eventually it has a injurious effect on our industrial potential. On the other hand, opponents of the sales tax, especially those belonging to the consumption school of economics, believe that

the fundamental problem of economic expansion is the existence of adequate markets. They are opposed, therefore, to the sales tax because it tends to reduce consumption and hence the market. Thus both the sales and the income taxes are regarded by their opponents as harmful to the economy.

Fifth, there should be in any tax system, an element of flexibility and elasticity so that necessary adjustments can be made to meet new and unforeseen conditions. However, the limited nature of the tax base in Maine tends to make it rigid and reduces the area over which readjustments may be attempted.

Sixth, the tax base should be stable enough so that the State will not be without any revenue in times of crisis, and yet it should possess the capacity to expand with the business cycle so that revenue will reflect to some degree the higher prices and greater business activity of periods of prosperity. The attainment of stability can never be achieved without the establishment of tax stabilization funds, such as those employed in New York, California, and Rhode Island. The Maine tax base is, however, relatively stable, and its selective sales taxes do reflect ^{the} volume of business activity.

Seventh, taxes should be easily collected, with only a small percentage for the cost of administration, and they should be as convenient as any tax can be for the taxpayer. On this score the Maine tax system rates reasonably well.

Eighth, it is desirable that taxes be imposed in such a manner as to make people conscious of the fact that they are paying for the support of government. Selective sales taxes may accomplish this purpose, but too often people are not aware of the taxes levied on gasoline, cigarettes, and alcohol. However, the property owner is certainly tax conscious.

Ninth, taxes should recognize and support political values, i. e., they should give substance to our political system. Strong local government and sovereign states cannot survive unless they are provided with tax powers adequate for their purposes. Maine should, therefore, beware of any situation in which its budget

policy is dictated by the national government because of its dependence on federal grants, and likewise it should insure to its local sub-divisions sufficient revenue sources to permit them to exercise real independence.

In conclusion, the aim of most tax theorists is to construct a tax system which would be as harmless as possible. In general taxes should fall on revenue and not on capital; they should fall on net income and not gross revenue; they should not reduce the minimum subsistence required by taxpayers; and they should not destroy wealth or drive it from economic use. With the present high level of taxes, however, some adverse affect is inevitable; the problem is to keep it at a minimum.

Tax policy is economic policy and considerations of tax systems can be based on no other premise. Gone is the day when taxes were employed only as revenue devices; today their impact on economic policy must be weighed. The problem of a sound tax system for Maine is the problem of a sound economic future for the state.

THE SALES TAX

We are inclined to forget that sales taxes are a relatively late arrival, for it was not until the depression of 1929 that they were widely accepted for state tax purposes. In twenty years, therefore, they have developed into one of the main sources of state revenue. Today there are twenty-eight states with some form of a sales tax and municipalities, especially in California, are utilizing the levy. It is interesting to note, however, that sales taxes have never been popular in New England, but with the addition of Rhode Island and Connecticut to the sales tax states, they may become more widely accepted in this area.

It has been pointed out frequently that sales taxes were the product of the depression. That as the property tax and other levies failed to meet local and state requirements at a time when governmental commitments were expanding, states turned to sales taxes in desperation. However, in 1947 the pressure of inflation and increasing state and local services resulted in the first converts to the sales tax since 1937 when four states, Maryland, Connecticut, Tennessee, and Rhode Island, adopted the levy. In 1949, Florida joined the group of sales tax states.

Types of sales Taxes

Sales taxes are of various types, but the most common classification, in terms of coverage, is into: (1) retail sales, (2) general sales, (3) gross receipts, and (4) gross income. The first is levied on retail sales for use or consumption of tangible personal property, but it occasionally may include admission charges and the sale of utility services. A general sales tax comprehends sales by wholesalers, jobbers, and manufacturers. A gross receipts tax is still broader and includes personal and professional services. Finally, a gross income tax is assessed on all income not specifically exempted.

There are twenty-three states taxing retail sales:

Alabama
Arkansas
California
Colorado
Connecticut
Iowa

Kansas
Louisiana
Maryland
Michigan
Missouri
Oklahoma

Rhode Island
South Dakota
Tennessee
Utah
Washington
Wyoming
Florida
North Dakota
West Virginia
Illinois
Ohio

TABLE LXX
GENERAL SALES, USE, OR GROSS RECEIPTS TAX
COLLECTIONS
SELECTED YEARS 1940&1949, BY STATE
(In Thousands of Dollars)

	1949	1940	Percent Increase 1949 over 1940
States Using Tax	27	23	%
Alabama	\$ 32,173	\$ 7,787	313.2%
Arizona	17,453	4,030	333.1
Arkansas	21,949	5,460	302.0
California	294,446	94,666	211.0
Colorado	25,739	8,805	192.9
Connecticut	15,282		
Delaware	24 ^a		
Illinois	172,817	90,963	90.0
Indiana	72,327	23,538	207.3
Iowa	56,088	16,383	242.4
Kansas	38,593	10,082	282.8
Louisiana	44,457	8,131	446.8
Maryland	27,951		
Michigan	200,511	60,376	232.1
Mississippi	25,535	6,965	266.6
Missouri	70,439	23,131	204.5
New Mexico	17,294	4,190	312.7
New York			
North Carolina	40,649	12,192	233.4
North Dakota	12,104	3,107	289.6
Ohio	140,071	52,679	165.9
Oklahoma	35,181	12,608	179.0
Pennsylvania			
Rhode Island	5,931		
South Dakota	11,530	4,434	157.1
Tennessee	42,732		
Utah	13,609	4,233	221.5
Washington	107,960	24,577	339.3
West Virginia	59,450	19,045	212.2
Wyoming	6,538	1,954	234.6
Total	\$1,608,883	\$ 499,386	222.2

a. Delaware's war emergency gross income tax law expired December 31, 1944.

SOURCE: Summary of State Government Finances in 1949,
Compendium of State Government Finances in 1948,
State Finances 1946, 1944, 1942, Financial
Statistics of States 1940, U. S. Bureau of the
Census, Department of Commerce, Washington, D.C.

Two taxing general sales:
Arizona North Carolina

Three taxing gross receipts:
Mississippi New Mexico Washington

Two taxing gross income:
Indiana and West Virginia

Sales taxes may also be typed as to legal incidence into (1) taxes on the privilege to do business, (2) excises on the actual sales, (3) excises on gross receipts or income. In the first and third type the retailer is legally responsible for the tax; in the second, the responsibility is on the consumer, but the retailer is required to make the collection.

Tax on privilege to do business:

Alabama	Kansas	North Carolina
Arizona	Michigan	South Dakota
California	Mississippi	Washington
Illinois	New Mexico	West Virginia

Tax on actual sale:

Arkansas	Missouri	Utah
Colorado	Ohio	Wyoming
Louisiana	Washington	

Tax on gross receipts:

Iowa	North Dakota	Oklahoma
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Tax on gross income:

Indiana

Yield

The yield of the sales tax depends upon the rate and the coverage, but invariably it produces a substantial amount. In fact, it is rapidly becoming the workhorse of state tax systems; in 1949, states collected \$1.6 billion from this source and the trend in recent years has been steadily upward.

In the 1949 fiscal year, sales taxes accounted for 21.8 per cent of state revenue, and were the most important source of revenue utilized by the states, a position which they have held since they first exceeded motor vehicle fuel taxes in 1944. The growing importance of state sales taxes can be appreciated even more vividly when we realize that in 1932 they were responsible for less than 1 per cent

TABLE LXXI
SALES & USE TAX DATA BY STATES (1949)

State (28)	Total State Tax Collections(1949)	Sales & Use Yield (Thousands)	Sales & Use as % of Total	Sales & Use Year Adopted
Ala.	\$ 108,434,000	\$ 32,173	29.7%	1936
Ariz. o	46,797,000	17,453	37.3	1933
Ark.	81,462,000	21,949	26.9	1935
Calif.	752,235,000	294,446	39.1	1933
Colo.	84,827,000	25,789	30.4	1935
Conn.	93,854,000	15,282	16.3	1947
Fla.	138,293,000			1949
Ill. o	376,258,000	172,817	45.9	1933
Ind. o	175,424,000	72,327	41.2	1933
Iowa	138,951,000	56,088	40.4	1933
Kans.	101,561,000	38,593	38.0	1937
La.	223,097,000	44,457	19.9	1936 ¹
Md.	119,505,000	27,951	23.4	1947 ²
Mich.	377,184,000	200,511	53.2	1933
Miss.	87,376,000	25,535	29.2	1933
Mo. o	152,054,000	70,439	46.3	1934
N. Mex.	44,592,000	17,294	38.8	1933
No. Car.	210,973,000	40,649	19.3	1935
No. Dak.	36,111,000	12,104	33.5	1935
Ohio	360,343,000	140,071	38.9	1934
Okla.	144,167,000	35,181	24.4	1933
R. I.	39,740,000	5,931	14.9	1947
So. Dak.	30,233,000	11,530	38.1	1933
Tenn.	154,768,000	42,732	30.4	1947
Utah	43,185,000	13,609	31.5	1933
Wash.	196,491,000	107,960	54.9	1933
W. Va. o	101,542,000	59,450	58.5	1933
Wyo.	16,043,000	6,538	40.8	1935

o-----Sales Tax Only

Georgia-Enacted 1929
Expired 1931
Penna.-Enacted 1932
Expired 1933
New York-Enacted 1933
Expired 1934
New Jersey -Enacted 1935
Repealed 1935
Idaho-Enacted 1935
Repealed 1936
Kentucky-- Enacted 1934
Repealed 1936

1. La. Sales Tax Repealed 1940
Reenacted 1942.

2. Md. Sales Tax Repealed 1940
Reenacted 1942.

of state revenue.

More significant perhaps is the experience of the states actually utilizing the sales tax. Rhode Island derives only 14.9 per cent of its revenue from this source, but at the other extreme, Washington relies on it for 54.9 per cent of its income.

The per capita revenue from the sales tax varies from \$7.68 in Connecticut to \$43.83 in Washington, but since there is a wide variation in fiscal ability, per capita statistics are not a real indication of the sales tax burden. A more accurate index of burden was calculated, however, by establishing a relationship between the per capita sales tax and per capita income payments. According to this index, the heaviest sales tax burden in 1949 was in the State of Washington; the lightest was in Connecticut.

It is estimated that a 1 per cent sales tax including food would yield approximately \$7.5 million in Maine, and that, exclusive of food, the income would be from \$5.4 to \$5.9 million. These estimates were based upon the following methods.

The yield from the sales taxes now utilized by twenty-seven states was computed in relation to three factors, (1) the per capita revenue from the sales tax, (2) the percentage of income payments taken by the sales tax, and (3) the ratio of the revenue from the sales tax to retail sales. These three indications of yield were then converted to a one per cent rate, and after some of the atypical cases were deleted, an average was computed.

ESTIMATES OF SALES TAX REVENUE
Estimates of Sales Tax Revenue

	1%	2%
Per capita (1950)	\$ 8,407,000	\$16,814,000
Percentage of income (1948)	7,986,000	15,972,000
Percentage of retail sales 1949	6,887,000	13,774,000
Average	\$ 7,760,000	\$15,525,000

TABLE LXXII
IMPACT OF SALES TAX ON INDIVIDUAL INCOME PAYMENTS FOR SALES TAX
STATES IN 1949

AMOUNTS IN DOLLARS			
State	Per Capita Sales Tax Collections	P. C. Sales Tax-% of U. S. Average	Per Capita Income Payments
Alabama	\$ 11.09	\$100.00%	\$ 891
Arizona	24.79	223.73	1,168
Arkansas	11.33	102.26	863
California	23.44	256.68	1,651
Colorado	21.51	194.13	1,429
Connecticut	7.68	69.31	1,700
Delaware	.08*	.72	1,741
Illinois	20.70	186.82	1,817
Indiana	18.46	166.61	1,403
Iowa	21.47	193.77	1,491
Kansas	20.36	183.76	1,291
Louisiana	17.16	154.87	1,002
Maryland	12.97	117.06	1,546
Michigan	32.26	291.16	1,484
Mississippi	12.08	109.03	758
Missouri	18.10	163.36	1,356
New Mexico	30.28	273.29	1,125
No. Carolina	10.70	96.57	930
No. Dakota	20.80	187.72	1,473
Ohio	17.86	161.19	1,548
Oklahoma	15.33	138.36	1,029
Rhode Island	7.96	71.84	1,564
So. Dakota	18.87	170.31	1,577
Tennessee	13.44	121.30	955
Utah	20.31	183.30	1,231
Washington	43.83	395.58	1,453
West Virginia	31.11	280.78	1,133
Wyoming	22.94	207.04	1,494
U. S. AVERAGE	\$ 11.08		\$ 1,408

* Back Taxes Only

SOURCE: Bureau of the Census Compendium of State Government Finances
in 1949

TABLE LXXII (Continued)
IMPACT OF SALES TAX ON INDIVIDUAL INCOME PAYMENTS FOR SALES TAX STATES
IN 1949

AMOUNTS IN DOLLARS

State	P. C. Income pay.-% of U. S. Aver.	Index of Sales Tax Load (Tax Inc.)	Rank Order in U.S. (As To Tax Load)
Alabama	63.28%	124	19
Arizona	82.95	212	5
Arkansas	61.29	131	18
California	117.26	172	6
Colorado	101.49	151	12
Connecticut	120.74	45	25
Delaware	123.65	1	26
Illinois	129.05	114	22
Indiana	99.65	132	17
Iowa	105.90	144	14
Kansas	91.69	158	10
Louisiana	71.17	171	7
Maryland	109.80	83	23
Michigan	105.40	217	4
Mississippi	53.84	159	9
Missouri	96.31	133	16
New Mexico	79.90	269	3
No. Carolina	65.05	115	21
No. Dakota	104.61	141	15
Ohio	109.94	115	21
Oklahoma	73.08	149	13
Rhode Island	111.08	51	24
So. Dakota	112.00	120	20
Tennessee	66.83	141	15
Utah	87.43	165	8
Washington	103.20	302	1
West Virginia	80.47	275	2
Wyoming	106.11	154	11

SOURCE: Bureau of the Census Compendium of State Government Finances
in 1949

TABLE LXIII
YIELDS FROM GENERAL SALES, USE AND GROSS RECEIPTS TAXES, BY STATES
1 9 4 9

States		1. Pop. (Thousands)	Revenue Per Capita	2. Total Inc. Revenue (Indiv., as % of Millions) Inc.	3. Total Retail Sales (Thousands)	Revenue as % of Ret. Sales
Ala.	RS	2,901	\$ 11.09	\$ 2,585 1.24	\$ 1,769	1.82
Ariz.	GS	704	24.79	823 2.12	687	2.54
Ark.	RS	1,937	11.33	1,672 1.31	1,281	1.71
Calif.	RS	10,354	28.44	17,099 1.72	11,490	2.56
Colo.	RS	1,199	21.51	1,713 1.51	1,418	1.82
Conn.	RS	1,989	7.68	3,381 .45	1,986	.77
Del.		300	.08	522 .05	267	.90
Ill.	RS	8,348	20.70	15,167 1.14	8,219	2.10
Ind.	GY	3,917	18.46	5,494 1.32	3,328	2.17
Iowa.	RS	2,612	21.47	3,895 1.44	2,760	2.03
Kans.	RS	1,895	20.36	2,446 1.58	1,964	1.97
La.	RS	2,591	17.16	2,597 1.71	1,878	2.37
Md.	RS	2,155	12.97	3,116 .90	1,939	1.44
Mich.	RS	6,216	32.26	9,223 2.17	6,504	3.08
Miss.	GRS	2,114	12.08	1,603 1.59	1,142	2.24
Mo.	RS	3,892	18.10	5,278 1.33	3,763	1.87
N. Mex.	GRS	571	30.28	643 2.69	532	3.25
N. Car.	GS	3,798	10.70	3,531 1.15	2,130	1.91
N. Dak.	RS	582	20.80	858 1.41	591	2.05
Ohio	RS	7,842	17.86	12,136 1.15	6,623	2.11
Okla.	RS	2,295	15.33	2,361 1.49	1,618	2.17
R. I.	RS	745	7.96	1,165 .51	692	.86
S. Dak.	RS	611	18.87	963 1.20	666	1.73
Tenn.	RS	3,179	13.44	3,036 1.41	1,895	2.25
Utah.	RS	670	20.31	825 1.65	576	2.36
Wash.	GRS	2,463	43.83	3,578 3.02	2,305	4.68
W. Va.	GY	1,911	31.11	2,166 2.74	1,516	3.92
Wyo.	RS	285	22.94	426 1.53	360	1.82

1. 1948 Population—from Census Bureau "Compendium of State Gov't Finances 1949"

2. 1948 Income — " " " " " " " " " "

3. Source: May 10, 1950 issue "Sales Management"

- o -- Food Exempt
- RS -- Retail Sales Tax
- GS -- Gross Sales
- GY -- Gross Yield
- GRS -- Gross Receipts Tax

TABLE LXIII (Continued)
YIELDS FROM GENERAL SALES, USE AND GROSS RECEIPTS TAXES, BY STATES
1949

States		Levy	Revenues / 1 % Levy Per Cap. % of Inc. % of Ret. Sales		
Ala.	RS	2	\$ 5.55	.62%	.91%
Ariz.	GS	2	12.40	1.06	1.27
Ark.	RS	2	5.67	.65	.86
Calif.	RS	2 3/4	10.34	.63	.93
Colo.	RS	2	10.76	.75	.91
Conn.	RS	1 1/2	.51*	.30*	.51*
Del.					
Ill.	RS	2	10.35	.57	1.05
Ind.	GY	1 1/2	36.92*	2.64*	4.34*
Iowa.	RS	2	10.74	.72	1.02
Kans.	RS	2	10.18	.79	.99
La.	RS	2	8.58	.86	1.19
Md.	RS	2	6.49	.45	.72
Mich.	RS	3	10.75	.72	1.03
Miss.	GRS	2	6.04	.80	1.14
Mo.	RS	2	9.05	.67	.94
N. Mex.	GRS	2	15.14	1.34	1.63
N. Car.	GS	3	3.57*	.38*	.64*
N. Dak.	RS	2	10.40	.71	1.03
Ohio	RS	3	5.95	.38	.70
Okla.	RS	2	7.67	.75	1.09
R.I.	RS	1	7.96	.51	.86
S. Dak.	RS	3	6.29	.40	.58
Tenn.	RS	2	6.72	.71	1.13
Utah	RS	2	10.16	.83	1.18
Wash.	GRS	3	14.61	1.01	1.56
W. Va.	GY	2	15.56*	1.37*	1.96*
Wyo.	RS	2	11.47	.77	.91
Average			9.27	.73	1.03

o ---Food Exempt
RS---Retail Sales Tax
GS---Gross Sales
GY---Gross Yield
GRS---Gross Receipts Tax

* not included in average

The yield under 1950 economic conditions, of course, would be higher, but no estimate has been made of the increase because of the greater volume of retail sales in this year. It should be pointed out, however, that the yield in the initial stages, when enforcement problems are prevalent, will be well below these estimates.

If food is exempted, there would be a loss in revenue of from \$1.5 to \$2 million, with a definite tendency toward the larger figure. This figure was estimated by two methods. First, the revenue of a 1 per cent sales tax on food in states utilizing the sales tax was estimated, and an average was calculated. By this method, the loss from exemption of food sales in Maine was \$1.5 million. Second, it was assumed that a sales tax would yield \$7.5 million under 1949 conditions. In that year food sales were 28 per cent of total sales, and a proportionate reduction in sales tax yield would have totaled approximately \$2 million.

Although it does vary with the volume of business activity, the sales tax provides a more stable source of revenue than a net income levy. An analysis of six sales and six income tax states over the period 1937 to 1948 demonstrated that the income tax revenue fluctuated 62 per cent more than income payments and that sales tax revenue fluctuations were only 42 per cent greater than income payment changes.

Rate

During the depression when sales taxes were being initiated, the tendency was to raise rates, but until recently there has been no noticeable pattern in sales tax rates. More recently, the trend appears to be upward. In 1947-48, there were four states with a 3 per cent rate; today there are 7. There has been, however, no change in the number (19) levying a 2 per cent rate. Rhode Island is the only state with a 1 per cent tax, although the Indiana gross income levy is assessed at rates varying from $\frac{1}{2}$ to $1\frac{1}{4}$ per cent -- $\frac{1}{2}$ per cent on wholesale sales, $\frac{5}{8}$ per cent on retail sales, and $1\frac{1}{4}$ per cent on income from personal services.

TABLE LXXIV
SALES TAX RATES
1950

3 Per Cent (7 states)	2 Per Cent (19 states)	1 Per Cent (2 states)
California	Alabama	Missouri
Florida	Arizona	New Mexico
Michigan	Arkansas	North Dakota
North Carolina	Colorado	Oklahoma
Ohio	Connecticut	Tennessee
South Dakota	Illinois	Utah
Washington	Iowa	West Virginia
	Kansas	Wyoming
	Louisiana	
	Maryland	
	Mississippi	

* .5 to 1.25 per cent gross receipts tax.

Exemptions

The yield of the tax, the burden, and the ease of administration are all determined by exemptions. There is naturally strong pressure to exempt essentials, such as food, on the grounds that the regressive features of the sales tax are reduced, if not eliminated. Other exemptions represent concessions to political expediency and administrative difficulties.

The following are commonly exempted:

1. Food---Five states, California, Ohio, Maryland, Rhode Island, and Connecticut exempt food consumed at home. North Carolina provides for partial exemption, and Alabama, Connecticut, North Carolina, West Virginia, and Utah have specific food exemptions.
2. Farm products---Approximately one-half of the sales tax states have some exemptions covering farm products.
3. Casual or isolated sales are frequently exempted, primarily because of the high cost of enforcement.
4. Feed, seed, and fertilizer used in agricultural production are usually untaxed.
5. Property entering into the manufacturing process is universally exempt.
6. Sales for resale.

7. Sales in interstate commerce.
8. Miscellaneous items, such as:
 - a. school books
 - b. motor fuel, tobacco products, liquor and other products previously taxed.
 - c. sales to institutions and governmental units.
 - d. newspapers
 - e. service and delivery charges.

Three states adopting the sales tax in 1947 exempted medical supplies, and Connecticut excluded childrens' clothing from its levy. New sales tax laws also reveal a tendency to exempt food. Sales tax administrators are opposed, however, to expanding the list of exemptions because they feel that any such step would magnify enforcement problems.

Enforcement and administration

Critics of the sales tax are prone to criticize it as difficult and expensive to collect. The fact is that a sales tax law properly drafted need not cause too many serious administrative difficulties.

Sales taxes are best collected if the vendors are licensed and bonded. Evasion is also made more difficult if the tax liability is on sales rather than collections. Although tokens are used in a few states, there is almost universal agreement that they are a nuisance. Merchants, in particular, dislike them and prefer some form of a bracket system.

Administrative costs are certainly not excessive; they range from 1 to 2 per cent of collections. Of course, enforcement costs will be higher in the period when the tax is being established. A word of caution is also in order, for low administrative costs are not necessarily an index of administrative efficiency. Actually, they may be a sign of lax enforcement. Almost all sales tax states are convinced that they do not have a sufficient number of auditors and that there is considerable evasion.

There is no agreement as to whether merchants should be compensated for

collecting the tax. In many states, they are not directly compensated, but through the bracket system, they are able to collect more than the tax and hence to reimburse themselves.

Use of sales tax revenue

At least six of the twenty-eight sales tax states make some provision for sharing it with their local units. If a sales tax is adopted in Maine, however, it should be devoted solely to state purposes, although some revenue from it might reach municipalities in the form of state grants.

The incidence of the sales tax

Sales taxes are usually attacked as falling on the low income group. An analysis of income distribution in 1945 illustrates why this assertion is in general valid. In that year the top fifty per cent of our spending units enjoyed seventy-eight per cent of the aggregate income. At the other extreme, the lower half of

TABLE LXXV
CONCENTRATION OF 1945 INCOME

Spending units according to size of income	Percentage of aggregate income	Amount of income of smallest income receiver of the group
10	29	\$ 4,450
20	45	3,500
30	58	2,950
40	69	2,450
50	78	2,050
60	85	1,700
70	91	1,350
80	96	1,000
90	99	550
100	100	0

the spending units possessed only twenty-two per cent of the aggregate income, and no spending unit enjoyed an income in excess of \$2,050.

It is obvious that those with limited income, the great bulk of the populace, have no option but to spend all their receipts on the necessities of life. But those who are more fortunate may save some of their income or spend part of it for personal services. The former, therefore, find a large portion of their income

subject of the sales tax, while the latter are given, in effect, an exemption on a part of their income.

This point may be illustrated by showing the impact of the sales tax upon different income groups. The following table indicates that the sales tax is regressive, i.e. it becomes less burdensome as income increases. If incomes over \$10,000 were included, it would appear even more regressive.

TABLE LXXVI
SALES TAX INCIDENCE

Income	Tax Payment	Per cent of income
500	\$ 3.42	.684
1,000	6.07	.607
1,500	8.47	.564
2,000	10.81	.540
2,500	12.63	.513
3,000	14.59	.486
3,500	16.25	.464
4,000	17.76	.444
4,500	19.24	.427
5,000	20.55	.411
10,000	35.61	.356

The exemption of food from the sales tax, however, appears to make the levy

TABLE LXXVII
SALES TAX INCIDENCE
(excluding food)

Income	Tax Payment	Per cent of income
500	\$ 1.53	.306
1,000	2.78	.278
1,500	4.19	.279
2,000	5.63	.281
2,500	6.93	.277
3,000	8.08	.269
3,500	9.40	.268
4,000	11.42	.285
4,500	13.13	.291
5,000	13.70	.274
10,000	24.53	.245

almost proportional since it takes approximately the same per cent from all income groups. This tendency of the sales tax to lose some of its regressive features

when food is excluded has led to the argument that it is to be preferred as a state levy to the net income tax. The reasoning is that a proportional state tax does not offend against equity when it is combined with the progressive federal income tax.

A state sales tax of 2 per cent would still leave the combined impact of federal, state, and local taxes as progressive. Table LXXVIII indicates the contribution of different income groups.

TABLE LXXVIII

PERCENTAGE OF INCOME TAKEN BY DIRECT TAXES

Income	Without 2% Sales Tax	With 2% Sales Tax
\$ 1,500	8.0%	9.0%
2,500	9.4	10.6
5,100	14.3	15.9
10,200	18.9	19.6
41,000	24.5	24.9

Conclusions

The arguments for the sales tax have been advanced so frequently that we shall merely summarize them.

1. It provides a broad base and makes people tax conscious.
2. Its yield is relatively stable and is substantial.
3. It is easy and painless to collect.
4. Revenue is immediately available.
5. It curbs inflation.
6. It balances the progressive income tax.
7. It is a flexible tax.
8. Services supported by the sales tax are usually enjoyed by all people.

Those against the levy are equally familiar.

1. It is regressive and is especially burdensome in time of depression.
2. It imposes a burden on merchants.

3. It curtails consumption.
4. It is a politically inexpedient tax.
5. It is so painless it discourages citizen interest.
6. It reduces the standard of living of those with low income.
7. It is deflationary and hence a poor tax for depressions.
8. It is difficult to administer because:
 - a. Taxpayers do not keep adequate records.
 - b. There are a large number of tax accounts.

We have outlined those arguments which are usually advanced in any debate on the sales tax. But the case can be resolved into two major determinants. On the one hand, there is the undeniable adequacy of the tax as a revenue producer; on the other there is the lack of tax equity in that the levy falls heavily on the low income group. These are in their simplest form, the major considerations which control any decision to adopt this levy.

One cannot escape, however, from the fact that the sales tax is the most important tax source now utilized by states, and that it has financed welfare, education, and other vital services at a time when other taxes were not adequate. Despite the objections to it on the grounds of tax equity, it may be that the State of Maine has arrived at the point where there is no alternative to some form of the sales tax, if governmental services are to be continued in the future. Certainly other States have found that the real issue "whether the State can maintain the same standard of service in government without a sales tax, and at the same time maintain a tax program that will not retard the industrial progress of the State." The choice may be between a sales tax and a reduction in state services.

INCOME TAXES

Since the State of Maine does not assess a personal or corporate income tax, the Committee naturally considered these as possible means of raising additional revenue.

The Personal Income Tax

Income taxes upon individuals are levied in 31 states, where they have become firmly established as important sources of revenue for state purposes. In the New England area, Maine is the only state which does not have an income tax of some type, Vermont and Massachusetts tax personal and corporate income; New Hampshire assesses the income from intangibles; and Rhode Island and Connecticut impose their levies only on corporate income. It is interesting to note, however, that no state has enacted an income tax law since the establishment of the very high federal rates after 1939, and that South Dakota and West Virginia repealed their taxes in 1943. All but two states assess all income, but New Hampshire and Tennessee tax only the income from intangibles.

Yield

States have shown great restraint in the rates which they have established for income taxes, and the impact of these taxes, therefore, has been relatively modest. As Table LXXX indicates no state takes more than 1.88 per cent of income payments by this levy, and the general experience is nearer .5 per cent.

Nevertheless, states derive a substantial amount of their revenue from the personal income tax. In 1949, total collections from this source were \$593 million. The proportion of the total tax receipts of individual states from the personal income tax varied from 36 per cent in Oregon, which is atypical in the extent to which it relies on income taxation, to a low of 2 per cent in Tennessee, where the tax is assessed only on the income from intangibles. The average percentage for the 31 states was 8 per cent; and if the Maine experience were average, we could anticipate a yield of approximately \$3.5 million.

Per capita yield from the personal income tax varied from a high of \$21.88 in Oregon to \$.94 in Tennessee. The median was \$6.29 and the average \$4.08.

TABLE LXXIX
DATA ON STATE INCOME TAXES

States	Year Adopted	Percent of Total Taxes-1949	Per Capita Tax-1949	Per Cent of income Payments
Alabama	1933	11.6%	\$ 4.33	.49%
Arizona	1933	6.4	4.28	.39
Arkansas	1929	3.9	1.64	.17
California	1935	6.7	4.85	.32
Colorado	1937	13.2	9.33	.01
Delaware ¹	1917	15.0	7.84	.53
Georgia	1929	10.6	3.66	.40
Idaho	1931	19.8	10.04	.84
Iowa	1934	12.1	6.42	.46
Kansas	1933	11.7	6.30	.52
Kentucky	1936	10.0	3.54	.40
Louisiana	1934	8.5	7.36	.75
Maryland	1939	15.5	8.61	.58
Massachusetts	1917	18.5	8.93	.67
Minnesota	1933	19.8	10.98	.90
Mississippi	1912	4.8	2.00	.24
Missouri	1917	14.5	5.36	.45
Montana	1933	16.1	8.07	.45
New Hampshire	1923	4.8	1.80	.15
New Mexico	1933	3.3	2.60	.21
New York	1919	21.6	11.30	.66
North Carolina	1921	11.6	6.45	.73
North Dakota	1919	13.7	8.50	.72
Oklahoma	1915	5.6	3.52	.37
Oregon	1929	36.4	21.88	1.88
South Carolina	1922	11.5	5.37	.62
Tennessee	1929	2.1	.94	.11
Utah	1931	9.7	6.28	.52
Vermont	1931	11.9	6.01	.70
Virginia	1926	10.9	4.68	.42
Wisconsin	1911	21.7	12.50	.94

Median \$6.29

1. In 1949, Delaware replaced its net income tax with a gross income levy.

TABLE LXXX
STATE INDIVIDUAL INCOME TAX COLLECTIONS, SELECTED YEARS, 1940,
1948, and 1949
(In Thousands of Dollars)

States Using Tax	1949	1948	1940	Percent Increase
	31	31	31	1949 over 1940 %
Alabama	12,551 ^b	5,436	1,348	831.1
Arizona	3,010	2,594	462	551.5
Arkansas	3,176	2,561	389	716.5
California	50,178	49,482	19,570	156.4
Colorado	11,189	6,976	2,074	439.5
Delaware	2,353	1,886	1,654	42.3
Georgia	11,580	10,862	2,501	363.0
Idaho	5,882	5,525	704	735.5
Iowa	16,781	15,735	3,902	330.1
Kansas	11,931	9,715	1,315	807.3
Kentucky	10,113	7,648	2,345	331.3
Louisiana	19,064 ^c	7,916	2,568	642.4
Maryland	18,551	15,399	6,245	197.1
Massachusetts	41,437	37,138	20,291	104.2
Minnesota	32,228	22,647	6,685	382.1
Mississippi	4,231	3,946	802	427.6
Missouri	22,037 ^c	24,756 ^c	---	191.9 ^d
Montana	4,125	3,075	543	659.7
New Hampshire	943	783	562	67.8
New Mexico	1,483	1,999	215	589.8
New York	160,831	134,106	105,753	52.1
North Carolina	24,507	24,304	3,279	647.4
North Dakota	4,948	4,122	309	1,501.3
Oklahoma	8,067	6,924	2,403	235.7
Oregon	35,863	30,863	3,775	850.0
South Carolina	10,634	9,348	1,427	645.2
South Dakota	---	---	---	---
Tennessee	2,995	2,573	1,653	81.2
Utah	4,210	3,398	795	429.6
Vermont	2,183	1,812	618	253.2
Virginia	14,291	12,792	1,943	635.5
West Virginia	---	6 ^a	1,596	---
Wisconsin	41,257	33,918	8,253	399.9
TOTAL	\$592,629	\$499,445	\$205,979	187.7%

^a Some back taxes only.

^b Corporation income tax except that on financial institutions, included with individual income tax; segregation not available.

^c Corporation income tax included with individual income tax; segregation not available.

^d Data for 1940 not available. Percentage based on 1949-1942 figures.

SOURCE: Summary of State Government Finances in 1949, Compendium of State Government Finances in 1948, Financial Statistics of States, 1940, 1948, and 1949, U. S. Bureau of Economic Warfare, U. S. Department of Commerce, Washington, D. C., 1950.

The yield of a personal income tax in Maine was estimated by several methods. A fairly progressive tax with large personal exemptions, such as that utilized in the State of New York, would produce approximately \$4 million. This tax provides for exemptions of \$1,500 for individual, \$2,500 for husband and wife, and \$400 for each dependent. The first \$1,000 of taxable income is assessed at 2 per cent, the next \$2,000 at 3 per cent, with a 1 per cent increase in each \$2,000 increment of taxable income up to a maximum of \$9000.

A levy of the type utilized in Vermont with lower exemptions, i.e., \$500 for each person and with the following schedule of rates: 1st \$1,000, 1½ per cent; next \$2000, 3 per cent; next \$2,000, 4½ per cent, and over \$5,000, 5½ per cent, would yield somewhat more revenue, probably from \$5 to \$5.5 million.

It is evident from these estimates of income tax yield that Maine is not a wealthy state, and that a tax on income with broad exemptions will not produce sufficient revenue to meet the immediate and prospective requirements of the State and permit tax reform at the same time. The fact is that the approximately 54,000 persons who would pay an income tax if the exemptions were those now utilized in New York cannot pay the bill for the over 900,000 inhabitants of the State without resorting to rates which are in excess of those commonly utilized in other states.

It is true that the income tax is generally not as stable as the sales tax, because, net income is more sensitive to a business recession than retail sales; nevertheless, the former has been a satisfactory levy over the last decade. Although the increase in the total yield from state income taxes from \$206 million in 1940 to \$593 million in 1949, an increment of 188 per cent, did not match the 222 per cent rise in state sales tax receipts, state income taxes have reflected the prosperity of the war and post-war years and have increased steadily over the last decade.

Rates and exemptions

It is impossible to discuss concisely the rates and exemptions established under the different income tax statutes, because the schedules are too varied and

complex. Common exemptions, however, are \$1,000 for a single person, and \$2,000 to \$2,500 for married couples.

TABLE LXXXI
PERSONAL EXEMPTIONS ALLOWED

1. FROM TAX	SINGLE	MARRIED	DEPENDENT
Wisconsin	\$ 8.00	\$ 17.50	\$ 4.00
Arizona	10.00	20.00	4.00
MINNESOTA	10.00	30.00	10.00
Iowa	15.00	30.00	7.50
Kentucky	20.00	50.00	10.00
2. FROM INCOME			
Vermont	\$ 500	\$ 1,000	\$ 500
North Dakota	500	1,500	500
Utah	600	1,200	300
Kansas	600	1,200	600
Idaho	700	1,500	200
Oregon	750	1,500	300
South Carolina	1,000	1,800	200
Delaware	1,000	2,000	200
Virginia	1,000	2,000	200
Montana	1,000	2,000	300
North Carolina	1,000	2,000	300
Maryland	1,000	2,000	400
Oklahoma	1,000	2,000	500
Colorado	1,000	2,500	400
Georgia	1,000	2,500	400
Louisiana	1,000	2,500	400
Mississippi	1,000	2,500	400
New York	1,000	2,500	400
Missouri	1,200	2,400	400
New Mexico	1,500	2,500	200
Alabama	1,500	3,000	300
Massachusetts*	2,000	2,500	250
California	2,000	3,500	400
Arkansas	2,500	3,500	400

* From earned income.

SOURCE: Minnesota's Income Tax.

Rates are usually graduated, but Massachusetts and Maryland are exceptions because they assess their income tax at a flat rate. State income tax rates, however, are rarely in excess of 10 per cent (the average top rate appears to be 6 per cent) and the income brackets to which the progression is applied usually end at less than \$10,000.

Thus, although state income taxes are progressive, this feature is much less significant than in the federal levy in which the graduated rates are continued into the very high income levels. For example the effective federal rate on an income of \$1 million is 77 per cent for a family with two children.

TABLE LXXXIII
MINIMUM AND MAXIMUM INCOME TAX RATES

State	Minimum Rate and Income Bracket	Maximum Rate and Income Bracket
Georgia	1% on first \$1,000	7% over \$20,000
Iowa	1% on first \$1,000	5% over \$ 4,000
MINNESOTA	1% on first \$1,000	10% over \$20,000
Missiouri	1% on first \$1,000	4% over \$ 9,000
Utah	1% on first \$1,000	5% over \$ 4,000
Wisconsin	1% on first \$1,000	7% over \$12,000
Oklahoma	1% on first \$1,500	6% over \$ 7,500
Arizona	1% on first \$2,000	4 1/2% over \$ 9,000
Colorado	1% on first \$2,000	6% over \$10,000
Kansas	1% on first \$2,000	4% over \$ 7,000
Montana	1% on first \$2,000	4% over \$ 6,000
North Dakota	1% on first \$2,000	15% over \$15,000
Arkansas	1% on first \$3,000	5% over \$25,000
Mississippi	1% on first \$4,000	6% over \$25,000
California	1% on 1st \$10,000	6% over \$30,000
New Mexico	1% on 1st \$10,000	4% over 100,000
Alabama	1 1/2% on 1st \$1,000	5% over \$ 5,000
Idaho	1 1/2% on 1st \$1,000	8% over \$ 5,000
Vermont	1 1/2% on 1st \$1,000	5 1/2% over \$ 5,000
Oregon	2% on first \$ 500	8% over \$ 8,000
New York	2% on first \$1,000	7% over \$ 9,000
So. Carolina	2% on first \$2,000	5% over \$ 6,000
Kentucky	2% on first \$3,000	5% over \$ 5,000
Virginia	2% on first \$3,000	5% over \$ 5,000
Louisiana	2% on 1st \$10,000	6% over \$50,000
No. Carolina	3% on first \$2,000	7% over \$10,000

SOURCE: Minnesota's Income Tax.

We have no such state income taxes, and for true ability to pay and progression, we must look to federal taxation.

The impact of selected state income taxes

The relative burden of state income taxes is demonstrated by the tax paid by the following hypothetical families. It is assumed that these cases are a couple with two children. It is evident from Table LXXXIII/^{page 95} that the Vermont tax with its graduated rates is much more progressive than the flat rate imposed in Massachusetts.

An income tax of the Vermont type, if superimposed upon our present state and local tax systems, would have the following effect :

Case	State & local taxes	State Income Tax	Federal Income Tax	Total Taxes	Percent of Income	Percent without state income tax
\$ 1,500	\$ 120	---	---	\$ 120	8%	8%
\$ 2,000	\$ 188	\$ 1.50	---	\$ 189.50	9.5	9.4
\$ 5,100	\$ 363	\$ 58.00	\$ 365	\$ 786	15.4	14.3
\$10,200	\$ 728	\$ 335.00	\$1,206	\$ 2,269	22.2	19.0
\$42,000	\$1,339	\$ 2,145.00	\$8,500	\$12,084	28.8	23.7

TABLE LXXXIII
BURDEN OF STATE INCOME TAXES

State	\$2,000 income	\$3,000 income	\$5,000 income	\$7,000 income	\$10,000 income	\$25,000 income
Mass.	---	---	\$ 27	\$ 55	\$ 96	\$ 280
N. Y.	---	---	\$ 41	\$ 108	\$ 243	\$ 1,256
Vt.	---	\$ 15	\$ 75	\$ 165	\$ 330	\$ 1,155

Thus, while the combined impact of state and local taxes plus the federal income tax is progressive, the assessment of a state income tax makes it slightly more so.

Administration of the state income tax

Problems of administration depend upon the income tax statute, but a workable act should not occasion too many serious problems. The administration of an income tax statute is facilitated, of course, by the fact that federal income tax returns can be examined by the state collecting agency. Administrative costs should, therefore, be lower than for a sales tax.

The personal income tax evaluated

As we have already noted, the debate over the sales versus the income tax, sounded in so many taxation texts and legislative halls, is essentially one between two theories or principles---the ability-to-pay and the benefit principles. The latter assumes that we all profit from government and its services and that consequently it is a good practice for all of us to pay something toward the support of government. The benefit theory, however, has never been widely accepted as a desirable means of financing general government, even though it has gained wide-

spread adherence in the fields of highway taxation and in municipal charges for such services as garbage removal and sewage disposal.

In financing general government activities, however, we have operated on the principle that those who can should pay for services without regard for direct benefit. Although not all agree, the income tax is regarded in many circles as the fairest and most equitable tax since it, better than any other levy, recognizes the principle of ability-to-pay. Moreover, it is urged that since in the final analysis all taxes must be paid from income, the most equitable tax is necessarily the one which is collected from the taxpayer in accordance with the size of his income.

The specific arguments supporting or attacking the income tax are so familiar that we shall treat them in summary form.

In support of a personal income tax it is urged:

1. It is based on ability-to-pay and is progressive.
2. It is easy to administer and is a flexible tax.
3. It balances the regressive sales taxes, which comprise a substantial part of our revenue.

Against the income tax, it may be urged:

1. It reduces savings, investment, and economic expansion.
2. The Federal Government has raised its income tax rate to such a high level that ability-to-pay is already adequately recognized in federal taxation.
3. It will be easier to achieve federal-state tax coordination if the State does not adopt an income tax.
4. The income tax may be utilized to redistribute wealth as well as raise income.

It should be pointed out that some support a state income tax because, at the upper income levels at least, much of the state tax would come from the larger payment which would be made to the federal government if no state tax were assessed. In answer to this reasoning, it should be pointed out that the Federal Government has certain revenue requirements and that if it does not meet them in one way, it

will in another.

It appears, therefore, that whether one supports an income tax for Maine or opposes it depends upon the premise from which one embarks. If one views the combined impact of federal, state, and, local taxes, he is inclined to argue that taxes in toto are sufficiently progressive and that a state income tax is not justified. On the other hand, if one analyzes our state and local tax systems alone, he is impressed with their proportional or slightly regressive character and is likely to maintain that in the interests of tax equity it is imperative that the state adopt an income tax.

One is tempted to conclude this short discussion of the state income tax with the observation that in a State of limited wealth, such as Maine, it simply does not yield sufficient revenue to permit tax reform (the retirement of the state from the property tax and the reduction of some of our present levies) and at the same time to meet the anticipated revenue requirements of the State. Much as we might wish to observe tax equity, there is not a sufficiently high level of income in Maine to finance government services without resorting to a broad levy, such as the sales tax.

THE CORPORATE INCOME TAX

Thirty-three states have a corporate income tax law as compared with thirty-one with personal income taxes. Connecticut, Pennsylvania, and Rhode Island have corporate but not personal income taxes.

The yield from corporate income taxes in 1949 varied from \$160 million in New York to \$185,000 in South Dakota. Per capita receipts were highest in Wisconsin at \$13.98 and lowest in South Dakota at \$.30. The State of Wisconsin raised 14 per cent of its tax revenue from this source, but at the other extreme South Dakota received only .6 per cent of its tax receipts from a corporate income tax.

It was impossible to prepare a reasonable estimate of the yield of a corporate tax in Maine, but revenue from this source, if a 4 per cent levy were enacted,

TABLE LXXXIV

STATE CORPORATION INCOME TAX COLLECTIONS, SELECTED YEARS,
1940, 1948, 1949

States Using Tax	(In Thousands of Dollars)		1940	Percent Increase or Decrease 1949 over 1940
	1949	1948		
	33	33	32	%
Alabama	678 ^a	5,675	1,322	- 48.7%
Arizona	5,269	5,647	856	515.5
Arkansas	6,325	5,095	334	1,793.7
California	75,798	69,181	29,594	268.1
Colorado	5,783	4,620	1,035	458.7
Connecticut	15,276	15,200	3,567	328.3
Georgia	15,419	18,177	3,167	386.9
Idaho	3,610	3,061	1,043	246.1
Iowa	2,946	2,640	905	225.5
Kansas	3,763	3,142	754	399.1
Kentucky	8,819	7,638	1,952	351.8
Louisiana	(d)	8,496	3,114	172.8 ^b
Maryland	7,665	3,992	1,392	450.6
Massachusetts	26,153 ^c	28,331 ^c	4,141	531.6
Minnesota	17,680	20,211	4,380	303.7
Mississippi	7,779	6,370	993	683.4
Missouri	(d)	(d)	6,945	
Montana	2,240	1,907	688	225.6
New Mexico	1,415	1,011	220	543.2
New York	160,775	165,531	42,631	277.1
North Carolina	41,016	35,280	8,655	373.9
North Dakota	1,421	1,189	281	405.7
Oklahoma	9,022	8,305	3,840	134.9
Oregon	20,041	16,576	1,712	1,070.6
Pennsylvania	94,793	58,636	23,777	298.7
Rhode Island	6,644	6,451		
South Carolina	19,300	16,494	2,076	829.7
South Dakota	185	107	705	-73.8
Tennessee	8,509	7,072	1,813	369.3
Utah	3,005	2,081	881	969.4
Vermont	1,401	1,301	187	649.2
Virginia	22,625	12,488	2,690	741.1
Wisconsin	46,128	42,918	8,741	427.7
TOTAL	\$641,483	\$584,823	\$155,391	312.8

- a. Corporation income tax, except that on financial institutions, included with individual income tax; segregation not available.
- b. Percentage based on 1948-1940 figures.
- c. The amount shown for license and privilege taxes includes \$40,631 thousand from corporation excise tax and surtax measured in part by net income and in part by corporate excess.
- d. Corporation income tax included with individual income tax; segregation not available.
- g. Amount shown for license and privilege taxes includes \$40,888 thousand corporation excise tax and surtax measured in part by net income and in part by corporate excess.

SOURCE: Summary of State Government Finances in 1949,
Compendium of State Government Finances in 1948, State
Financial Statistics of States 1940, U. S. Bureau
of the Census, Department of Commerce, Washington, D. C.
of Commerce, U. S. Bureau, D. C.

TABLE LXXXIV
CORPORATE INCOME TAX - 1949

State	Yield (Thousand)	Per Cent of Total Taxes	Yield Per Capita
Alabama	\$ 678 ¹	.6% ¹	\$ 0.23 ¹
Arizona	5,269	11.3	7.48
Arkansas	6,325	7.8	3.27
California	75,798	10.1	7.32
Colorado	5,783	6.8	4.82
Connecticut	15,276	16.3	7.68
Georgia	15,419	14.1	4.87
Idaho	3,610	12.2	6.16
Iowa	2,946	2.1	1.13
Kansas	3,763	3.7	1.99
Kentucky	8,819	18.7	3.09 ₂
Louisiana	3,000 ²	0.0 ²	0.00
Maryland	7,665	6.4	3.56
Massachusetts	26,153	11.6	5.64
Minnesota	17,680	10.8	6.03
Mississippi	7,779 ²	8.9 ₂	3.68 ₂
Missouri	0.0	0.0	0.00
Montana	2,240	8.7	4.38
N. Mexico	1,415	3.2	2.48
N. York	160,175	21.5	11.30
N. Carolina	41,016	19.4	10.80
N. Dakota	1,421	3.9	2.44
Oklahoma	9,022	6.3	3.93
Oregon	20,041	20.4	12.23
Pennsylvania	94,793	21.3	9.05
Rhode Island	6,644	16.7	8.92
South Carolina	19,300	20.9	9.74
South Dakota	185	.6	.30
Tennessee	8,509	6.1	2.68
Utah	3,005	7.0	4.49
Vermont	1,401	7.6	3.86
Virginia	22,625	17.3	7.42
Wisconsin	46,128	24.3	13.98

1. Only for financial institutions - other corporate income is reported with individual income and the two are not separable.

2. Corporate and Individual income figures are not separable.

would probably be less than \$ 3.0 million.

The impact of the corporate income tax.

A recent study on Minnesota's Income Tax prepared the following estimates of corporate liability under different state corporate income tax statutes.

State	\$50,000 ²	\$100,000 ²	\$150,000 ¹	\$500,000 ¹
Mass.	1,431	2,863	4,951	16,504
Conn.	1,500	3,000	2,550	8,500
R. I.	2,000	4,000	3,400	11,333
Vt.	2,000	4,000	3,400	11,333
N.Y.	2,750	5,500	4,675	15,583

1. Assumed 80% of property, 80 % of payroll, and 10 per cent of sales in the states.

2. All business done within the state.

The Committee was unable to study the impact of taxation on business; consequently it cannot discuss what a corporate levy would mean to business enterprise in the State. Many, however, feel that because of the distance from markets and raw materials and the other competitive disadvantages against which business in Maine must contend, that caution should be observed in imposing a corporate income tax. Certainly, if such a law is enacted, there should be a lightening of the property tax now imposed on business.

THE COMBINED INCOME AND SALES TAX

It has not been usual for states to adopt both the income and sales tax in one package, and one must confess that proposals for such a tax would be met by such potent political opposition as to make it a very dubious tax bill from the viewpoint of political feasibility.

There is, however, much to be said for a combined income and sales tax. It would provide sufficient revenue so that the State could withdraw from the property tax and lower the cigarette tax. It would also be possible to divert some general funds to highway use.

Moreover, it would provide a badly needed balance in the distribution of the costs of state government. As we have pointed out, both the income and sales taxes are subject to criticism. The first because it discourages savings; the second

because it discourages consumption. By combining the two at a low rate, we may find the best possible solution to what appears to be an insoluble dilemma.

It has been urged that the combined taxes will yield so much revenue as to encourage extravagance. The answer is that the legislature still will control the spending power, and we have no reason to assume that they will abrogate it. It is also argued that the State does not need this much money. Although it is true that the State does not require the income from both these taxes to support present or prospective services, it does if it is to reduce or cease to assess taxes which it is already levying.

TAX ADMINISTRATION

State tax administration

State tax administration in Maine is generally satisfactory, although there is some criticism, especially from local levels, of the state property tax valuation. There is a widespread feeling that the state valuation is not an accurate figure, primarily because many do not understand the method by which it is computed. One should realize, however, that criticism of the state valuation will always occur as long as it represents a factor in determining the state tax bill. It is to be expected that local officials and other interested persons will challenge the valuation, in an attempt to reduce municipal liability under the state property tax.

Since the publication of the Lutz Report¹ in 1933, (in which a number of suggestions were made for improving tax administration in Maine), a considerable integration of collection activities has been made in the Bureau of Taxation, which is a division of the Department of Finance. In 1947 the collection of the Inheritance Tax was placed in the Bureau of Taxation, and in the same year the complete administration of the taxes on insurance companies was also vested in this bureau.

1. Lutz, Harloy L., The Maine Tax System, 1933.

At present, the only major levies not collected by the Bureau of Taxation are the automobile and liquor fees, the hard liquor profits, and the excise on beer. It would probably be more economical to place the collection of these levies in the Bureau of Taxation.

The Bureau of Taxation is divided into several functionally independent divisions which are titled in accordance with the taxes they collect. Thus, there is an inheritance tax division, a gasoline tax division, a tobacco tax division and a property tax division. The latter also assesses and collects the taxes on corporations and utilities, all poll and property taxes in the unorganized territories, and the special taxes on sweet corn, potatoes, and blueberries.

Gas Tax Administration

One ~~other~~ suggestion can be made under the heading of tax administration, and that is that the state should abolish the 5¢ per gallon refund on gasoline used for non-highway purposes. The refund itself is a reasonable one, especially since the gas tax is intended specifically as a user tax, the revenue from which is earmarked exclusively for highway fund purposes. Administratively, the refund is a liability since it greatly increases the cost of gas tax collection, and also because wide spread abuse of the refund privilege is known to exist, particularly in farming and fishing communities. State audit costs are also increased as a result of the refund provision.

Local tax administration

Probably the greatest single weakness in the structure of American state taxation today is the great difficulty encountered by state tax administrators in maintaining satisfactory and equitable assessments at the local level. Supervision of local assessors is at best a thankless task, but in Maine it has proved to be a practically impossible one. On the one hand, the Tax Bureau's budget has never been sufficient to permit the hiring of a large enough staff to maintain close contact with local assessors; on the other hand, any attempt made by the state to concern itself with local assessment methods is regarded with hostility,

by city and town officials.

There have been a sufficient number of studies made of property assessments in Maine to warrant our stating some generalizations without any further detailed analysis. We know the problem; in fact, the State Tax Assessor defined it concisely in his Annual Report for 1947 and 1948 when he listed the following four shortcomings of local property assessments:

1. Inequitable valuation within towns.
2. Inequitable valuation of similar properties, such as industrial plants, between towns.
3. Failure to value property at, or anywhere near, "just" value.
4. Lack of facts, and especially recorded facts, concerning property, adequate to support the assessments.

As long as the present system of assessing is retained, there is little reason to anticipate an equitable and scientific valuation, either at the state or local level. However, the state is making a significant effort to improve matters by sponsoring assessment schools and by furnishing consultants to local boards of assessors; it could and should do more, if its budget permitted. There are also encouraging signs that local interest in better assessments is growing and is demanding action. A number of municipalities have had revaluation surveys, and others are taking more limited steps by improving their property records and by developing tax maps.

But the fact remains that elected, underpaid and part-time assessors simply cannot do the job; although many towns have improved their assessments, there can be no widespread advance, especially in rural areas, until some change is made in the size of the assessment district, and in the method of selecting assessors.

One method of improving local tax administration in the small communities so typical of Maine would be for two or more towns jointly to support a full time assessor who would be able to devote his entire efforts to preparing full property descriptions and drawing tax maps for all the communities in the assessment district.

The advantage of this plan is that by sharing costs several small towns may enjoy the benefit of professional assistance which individually they could not afford.

Assessment districts

The State should be authorized, therefore, to encourage and even require the formation of new assessment districts which would be large enough to employ trained assessors. The State Tax Assessor should also be responsible for the training of district assessors and should be required to confirm the selection of assessors by the combined boards of selectmen of the municipalities comprising the local assessment districts. If the State Tax Assessor is not convinced of the competency of the local assessor, he should refuse to confirm the appointment.

The alternative to the creation of larger assessment districts by local action will be repugnant. If municipalities are unable to achieve satisfactory valuations, then direct state control of assessments will be inevitable.

Poor local assessments are largely responsible for much of the distrust and criticism of the state valuation. As we have noted, the actual computation of the state valuation is accomplished by adjusting the local returns. Any improvement in local assessment will inevitably result in an increased local valuation, but when the state valuation rises proportionately with the increased local figure, the accusation is hurled that the state is encouraging good local assessment in order to increase its own revenue. So bitter has been the controversy on this point that the state, in order to encourage even moderate reforms in local assessment practices, has been forced to stabilize its own valuation and to realize less revenue from the property tax than it is legally entitled to receive.

It appears that a solution must be found to the state-local valuation dilemma, since the present situation is productive only of ill-feeling. Moreover, improved property tax administration at the local level is made difficult and the state is deprived of income.

The ends of improved local assessment, greater revenues for both the state and municipal governments, and better state-local relations could be achieved if the

State were to adopt a new major tax and retire from the property tax.

Personal property

Personal property may be defined as anything which can be seen or touched and which is not attached to the ground. Its taxation under the general property tax has been a subject of long and bitter debate. Unlike real estate, tangible personal property is characterized by mobility, although some states tax as personal property objects which could hardly be moved without their destruction or that of the building in which they are housed.

For purposes of taxation, the state of Maine defines personal property as follows:

"...all goods, chattels, moneys and effects, wheresoever they are; all vessels at home or abroad, all obligations for money or other property; money at interest and debts due the persons to be taxed more than they are owing; all public stocks and securities; all shares in moneyed and other corporations within or without the state, except as otherwise provided by law; all annuities payable to the persons to be taxed when the capital of such annuity is not taxed in this state; and all other property included in the last preceding state valuation." ¹

As can be seen from the above definition, the Maine property tax is assessed on all personal property, tangible and intangible; the only personal property not taxable is that which is specifically declared by law to be exempt. In general, the following classes of property are exempt: aircraft, automobiles, and tractors on which excises are regularly levied as a condition of operation or registration; pleasure boats belong^{ing} to non-residents, farm crops, farm animals (under certain conditions), farmers' and mechanics' tools, property situated in and taxed by another state, property in interstate transit, vessels under construction or in drydock,

1. Bureau of Taxation, Guido for Use of Assessors, April, 1950.

Federal or State of Maine securities, radium for medical purposes, and wearing apparel.

In the administration of the tax on tangible personal property, the assessor must depend upon the taxpayer to provide him with a list, or the assessor must view the property and prepare such a list himself. In Maine the law requires that the taxpayer shall submit a declaration to the assessor, or else accept whatever valuation the town deems reasonable. The fact that less than 1% of Maine taxpayers present lists of personalty to their assessors is eloquent testimony that personal property is being assessed at far less than its true value or else is being overlooked completely. For we may be sure that if the assessors habitually overvalued personal property when lists were not filed, then promptness in filing would become of immediate concern to every taxpayer. If the localities ever attempted to tighten their collection methods in respect to the personal property tax, evasion would flourish, because most personalty is portable and therefore capable of concealment.

A special problem encountered in taxing personal property is the assessment of inventories and machinery. The former vary constantly in value, character and size; and where such property is taxed at all, its assessment usually is based on a mutual understanding between owner and assessor, and the valuation often represents only a token amount. The assessment of industrial or other machinery is also difficult because there are countless types and styles of machines, even the purpose of which may be unknown to the assessor.

Despite the above difficulties, Maine in some instances has managed to tax business property rather thoroughly. So successful has it been in collecting property taxes from corporations, utilities, etc, in comparison with its woeful underassessment of the land and personalty of individuals, that the state has been accused of discrimination against the former groups. It can be appreciated at once that even if all real estate in a given town, whether owned by individuals or by businesses, be taxed on an entirely equitable basis, still the business is liable

for a further tax on its machinery and equipment as personal property, whereas the individual householders are able for all practical purposes to escape any tax on their personalty. In fact, the personal property tax has become primarily a tax on industry and mercantile establishments. In 1949, personal property valuations were divided as follows:

Total 1949
Personal Property Valuation - \$133,678,500

<u>Percentage Distribution</u>	
Industrial Property	31.8%
Mercantile	45.5
Farm	7.1
Household Personalty	5.4
Intangibles	2.0
Boats	1.5
Miscellaneous	6.7
	<u>100.0%</u>

SOURCE: Tax Bureau Records.

In the interests of tax equity the state should exempt all personalty from assessment under the property tax, as the states of Delaware and New York have done. Even though the valuation of personalty by local assessors remains largely a formality as far as individual property owners are concerned, the success with which the personal property tax is applied to business in this state will probably assure its retention on the books for some time to come. However, as has been pointed out in the discussion of corporate taxes, more revenue and greater equity will be realized if the tangible personal property tax on business is abandoned and more reliance is placed on a gross receipts or net income tax. The following example illustrates the greater equity of a tax on the volume of business.

Consider the following three stores, each with the same inventory, but having different volumes of business:

	Co. A	Co. B	Co. C
Inventory	\$ 200,000	\$ 200,000	\$ 200,000
Turnover	4 times	5 times	6 times
Cost of Sales	\$ 800,000	\$ 1,000,000	\$ 1,200,000
Percentage Gross Profit on Cost	40%	20%	10%
Amount Gross Prof.	320,000	200,000	1120,000
Amount of Sales	\$ 1,120,000	\$ 1,200,000	\$ 1,320,000

If a personal property tax of 50 mills were levied on the inventories, it would mean that all three would pay the same amount, \$10,000. A gross receipts tax at .5 per cent would result in taxes of \$5,600, \$6,000, and \$6,600. A gross profits tax of 2 per cent would be more equitable, as it would tax the three enterprises A, B, and C, \$6,400, \$4,000, and \$2,400 respectively. Either of these two taxes would be more equitable as a business tax than is the present ad valorem levy on inventories.

Manifestly, the state will not retire from or greatly alter the structure of the property tax unless it is assured of a comparable or greater source of revenue. However, if a state income tax is levied with provisions for taxing corporations, or if a state sales tax is adopted there will be an immediate hue and cry for relief from the discriminatory tangible personal property tax, and the state would then be in a position to act.

A second argument, put forth by the proponents of the personal property tax is that there is no effective substitute for the taxation of things as such. The increasing preoccupation of the state governments with income, sales, use, and privilege taxes, and the growing discontent with the administration of the property tax, which first turned the states from this source of revenue, would seem to indicate that there exist sources of income which are quite as desirable from the standpoint of yield and which arouse much less controversy than do taxes on tangible property.

The final argument in favor of the personal or property tax maintains that this levy reaches persons who otherwise would pay no other tax. While it is true that even persons living in rented houses pay property taxes as a percentage of their rent, they are not seriously affected by the tax on tangible personal property as it is administered, and there is no reason why the tax cannot be abolished if alternative forms of business taxation are employed.

The tax on tangible personal property is no longer a satisfactory device of taxation, primarily because it has never been, is not now, and we believe, never

will be, capable of proper administration. This tax as presently administered discriminates unduly against property owners since its burden on renters is non-existent; when efficiently applied to business, the tangible personal property tax can be extremely damaging and certainly as it is assessed now, it is discriminatory against industry.

PROPERTY TAXATION- INTANGIBLES

Of all the shortcomings which beset the administration of the general property tax, undoubtedly the most serious is the impossibility of assessing and collecting the tax on intangible personalty. This tax has been so universally unsatisfactory that many states which still retain the personal property tax in some form have abandoned the attempt to tax intangibles. Maine, however, still retains this tax on the statute books.

Intangible personal property consists of stocks, bonds, and money at interest. Obviously few tax assessors have either the time or inclination to search out and assess all the stock certificates or bank deposits belonging to each individual in their jurisdiction. While real estate, farm machinery, dairy herds, and even such items as pianos, electric refrigerators, and radios may be easily seen, the assessor must depend entirely upon the good faith of the taxpayer to declare intangibles for assessment. When we recall that less than 1 per cent of the taxpayers submit lists of personal property, it is not difficult to imagine that the percentage of persons declaring intangibles must be even smaller.

The liberal exemptions allowed in Maine on intangibles reduces yield still further. Not taxable are: Federal securities, Maine state and municipal stocks and bonds issued after 1909; capital stock of mining, manufacturing, smelting, agricultural and stock raising corporations; capital stock of telephone and telegraph companies operating in Maine; stock of railroads operating in this state; stock of trust companies organized under Maine laws, and stock of Maine banks organized under U. S. laws; deposits in Maine savings banks and trust companies, and loans secured by mortgages on Maine real estate.

As can be seen from the table below, the valuations placed on intangible personalty have been extremely erratic, but the total figures for each year show a general downward trend.

Total of Local Valuation on Intangibles in Maine
(In Thousands)

	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
Stocks, Bonds	\$ 1,474	\$ 720	\$ 871	\$1,336	\$1,378
Money at Interest	3,337	3,903	4,314	2,537	1,284
Total	4,811	4,623	5,185	3,873	2,662

(In 1946, Bangor stopped assessing stocks and bonds, thereby reducing the total state valuation for this item almost by half. The city has since returned to this source of revenue).

There are no figures available for 1949, but it is interesting that in 1946 the valuation set on intangible personalty in Maine was \$4,623,000, while income from dividends and interest reported by citizens of this state for Federal income tax purposes was \$32,261,000.

While not all of the securities or money at interest represented in this figure would be taxable in Maine, the discrepancy is too large to be explained away. The fact is that only a few municipalities are making a significant effort to tax this form of property. As proof of this statement, the following table, which is based on Tax Bureau records, seems to indicate that the bulk of the state's intangible personal property is located in no more than 7 Maine cities and towns.

Valuation of Intangible Personal Property, Showing
Relative Concentration
1949

I. Stocks & Bonds.

		<u>% of State Valuation</u>
Total State Valuation	\$ 1,378,000	100%
Bangor Valuation	608,000	44.1%
Bath "	419,000	30.4
Falmouth "	68,000	4.9
Galais "	40,000	2.9
Thomaston "	36,000	2.6

I. (continued)
Stocks & Bonds

Wiscasset Valuation	35,000	2.5%
So. Portland "	24,000	1.7
Total, 7 Communities	<u>\$1,230,000</u>	<u>89.1%</u>

II. Money at Interest.

Total State Valuation	1,284,000	100.0%
Portland Valuation	736,000	58.9
Bar Harbor "	138,000	10.7
Augusta "	96,000	7.4
Belfast "	45,000	3.5
Kennebunk "	38,000	2.9
Total, 5 Communities	<u>\$1,073,000</u>	<u>83.4%</u>

SOURCE: Bureau of Taxation, County
Valuation Summaries.

In summary, then, the arguments against including intangibles in the general property tax appear to be as follows:

(1) It is almost impossible to discover intangibles.

On page 57 of the Maine Bureau of Taxation's Guide for use of Assessors, there appears this significant statement: "Because intangible personal property is usually difficult or impossible for the average assessor to locate, and hence is so largely overlooked in local assessments, the assessment of this class of property is not discussed..in this guide."

(2) Yields on most securities and on bank deposits are now so low that the tax takes an undue proportion of dividends and interest derived from intangibles.

(3) Owners of large amounts of intangible personalty are encouraged to congregate in low-rate districts, or where they may avoid assessment altogether.

(4) Double taxation is encountered when both tangibles and intangibles are taxed.

Many states which still tax intangible personal property avoid some of the more serious inequities mentioned above by making use of the so-called classified property tax, which is a system of taxation which does not utilize a single tax rate but applies a different rate to each type of personalty. Thus it is possible to apply a low rate of taxation to a low yield security, a higher rate to a valuable machine or dairy herd. When such a system of taxation-in-proportion-to-value is

used, taxpayers are more willing to list their personalty, but the lower rates imposed usually result in the collection of less revenue, despite the added number of returns made. The value of the calssified property tax is, then, that it is more equitable on the taxpayer.

The most desirable method of taxing intangibles is to exempt them from the property tax entirely, and to tax the income derived from them under a state income tax.

Conclusions

1. The taxation of intangibles in Maine, as presently administered under the general property tax, is grossly inefficient and productive of neither equity nor revenue.
2. If a serious attempt is to be made to tax intangible personalty in this state, the method of assessment should be revamped so that evasion will be discouraged and yield increased.
3. To achieve this end, two alternatives are open:
 - A. The adoption of a classified property tax. This tax is equitable, and there will be less incentive for evasion.
 - B. Tax intangibles under an income tax, as does the Federal government. This tax is most equitable, since it takes account only of the income which a taxpayer derives from his property, which is the best indication of real value.

Public utilities and the property tax.

Attention is called to the accompanying table which illustrates graphically the result of taxing utilities, in particular the power companies, under the property tax. Although the power companies draw upon the resources of the entire state and sell their goods and services to as wide a market, a relatively small number of communities now benefit disproportionately from taxes assessed on these utilities. As can be seen from the table, 20 Maine towns, out of the 45 which tax utility property valued at \$200,000 or over, derive 25 per cent or more of their income from this source.

Property tax appeals

Existing statutory provisions permit the taxpayer to appeal his valuation to the county commissioners and then to the Superior Court, provided he has filed his declaration with the board of assessors. In effect, there is no effective appeal

TABLE LXXXV

LOCAL VALUATIONS ON PUBLIC UTILITY PROPERTY IN MAINE CITIES AND TOWNS FOR 1949
(LISTING OF MUNICIPALITIES HAVING PUBLIC UTILITY PROPERTY WORTH \$200,000 or more)

Municipality	Local Tax Rate	Total Property Value	R. R. Property Value	Power, Light Property Value	Total Public Utility Value	Pub. Utility Value as % of Total Val.
Auburn	.055	\$20,070,026	54,250	\$2,117,410	\$2,316,660	11.54%
Lewiston	.048	37,306,402	143,050	3,369,390	3,513,440	9.42
Turner	.070	1,092,317		299,350	299,350	27.40
Caribou	.078	6,230,105	120,850	139,000	259,850	4.17
Baldwin	.086	664,456	1,125	362,300	363,425	54.69
Brunswick	.053	8,918,013	76,500	483,661	560,161	6.28
Gorham	.067	3,061,007	5,275	1,111,595	1,116,870	36.48
Portland	.0556	94,989,400	2,026,725	1,249,800	3,276,525	3.45
So. Portland	.0595	17,641,162	594,770	865,075	1,459,845	8.27
Standish	.055	1,995,990	3,595	795,525	796,120	39.88
Windham	.0675	2,759,291	1,300	467,283	468,583	16.98
Bucksport	.0496	4,356,146	4,705	820,340	825,045	18.94
Ellsworth	.072	3,545,150	22,375	726,475	748,850	21.12
Augusta	.056	15,569,660	75,200	360,330	435,530	2.79
Farmingdale	.063	991,190		318,225	318,225	32.10
Oakland	.079	1,860,241	14,250	386,975	401,225	21.57
Waterville	.045	18,390,938	670,470	112,650	783,120	4.26
Winslow	.057	3,608,055	600	239,980	240,510	6.66
Rockland	.0566	8,776,090	60,740	431,680	492,420	5.61
Wiscasset	.059	1,724,941	3,860	689,508	693,368	40.19
Rumford	.073	7,733,735	95,000	995,285	1,090,285	14.10
Bangor	.0548	36,528,744	757,080	553,685	1,310,765	3.59
E. Millinocket	.084	1,684,650	3,300	492,700	496,000	29.44
Enfield	.084	503,180	3,560	219,425	222,985	44.31
Howland	.083	1,131,180		264,540	264,540	23.39
Modway	.118	350,961		212,554	212,554	60.56
Milford	.073	755,954	1,500	397,000	398,500	52.71
Old Town	.063	6,224,140	9,900	258,600	268,560	4.31
Veazie	.062	714,759		449,900	449,900	62.94
Milo	.07386	1,791,050	385,400	125,000	510,400	28.49
Bath	.054	10,499,020	63,080	320,050	384,130	3.65
Embdon	.071	431,823	735	228,550	229,285	53.09
Fairfield	.0668	3,351,884	8,425	664,355	672,780	20.07
Moscow	.032	2,816,750		2,564,861	2,564,861	91.05
Pittsfield	.070	2,379,845	4,500	247,620	252,120	10.59
Skowhegan	.064	5,504,595	19,300	1,067,400	1,086,700	19.74
Solon	.060	728,270	250	352,700	352,950	48.46
Pleasant Ridge	.0285	2,990,810		2,900,000	2,900,000	96.96
Baileyville	.060	2,348,410	4,000	677,000	681,000	28.99
Berwick	.099	1,218,905	3,935	203,085	207,020	16.98
Biddeford	.039	16,398,652	43,370	722,946	766,316	4.67
Buxton	.0544	2,365,578	850	1,337,969	1,338,819	56.59
Dayton	.040	943,951		677,663	677,663	71.79
Hollis	.065	1,047,506	1,000	666,356	667,356	63.71
Saco	.063	7,304,045	11,885	764,446	776,331	10.63

SOURCE: Bureau of Taxation County Summary Sheets.

from the determination of the local board of assessors. It is suggested that taxpayers be permitted to appeal their assessment to a board of tax appeals, composed of persons qualified in appraisal work, which would hear cases for the whole state. A further appeal to the Superior Court on questions of law would be allowed.

Other suggestions

1. The state should make its supervision of local assessment practices more effective. Although the statutes give the Tax Assessor authority to order the local assessors to conduct a re-evaluation if "... in his judgment such reassessment is advisable or necessary to the end that all classes of property in such town shall be assessed in compliance with the law....", this power has never been utilized, and perhaps cannot be until it is further clarified by statutory amendments.
2. A clear distinction should be made in the internal divisions of the Bureau of Taxation between the collecting and the assessing functions.
3. The Legislature should create in the Bureau of Taxation a tax research division. Such a division would be invaluable in preparing recommendations for changes in the law, administrative practices, and the revenue base. This Division could also handle departmental reports and publicity.
4. The Bureau of Taxation is to be commended for its Assessor's Manual and for its school for assessors and it should continue and expand such activities.

CONCLUSION AND SUMMARY

1. Costs of state and local government have increased steadily and the present inflationary spiral, plus the incessant demand for more governmental services, insures that costs will continue to climb.
2. The Highway Fund and the General Fund are without sufficient revenue to support the present level of state services.
3. There has never been a wholesale overhauling of the Maine Tax system, and as it has developed, it relies almost exclusively on the property tax and selective sales taxes.
4. These taxes are, however, already at such a high level that further income from them appears unfeasible and inequitable.
5. There are only two major taxes now utilized by states to which Maine can turn---the sales tax and the income tax.