

MAINE STATE LEGISLATURE

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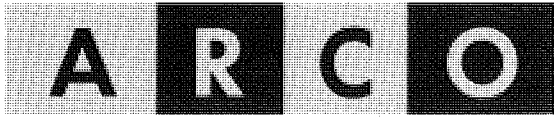
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Oct. 19 1966

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A STUDY OF MAINE'S STATE FINANCES

Ralph J. Chances



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October 19, 1966

To Members of the Maine Legislative Research Committee:

This is the second and final portion of a study of the Maine Economy and Its Revenue Resources which was authorized by the Legislative Research Committee in June. We hope that the committee and the members of the next Legislature will find the contents of the study useful in their deliberations on economic and taxation measures.

In order to meet the deadline of the committee's October meeting this section was printed and bound in a limited number of copies. We anticipate that the full number of copies bound in one volume with the first section will be available soon.

The assistance of a number of persons was acknowledge in the preface to the first section. Additional acknowledgement for assistance on this section in obtaining the necessary source materials should be made to the Maine State Library and to Augusta Catherine Dingman, MA, Bates College, assistant librarian and to the Bates College Library.

Sincerely,

Edward C. Schlick,
President

Dr. Ralph Chances,
Project Director

This is a study of expenditures and revenues of the State of Maine. I concern myself essentially with the past decade and with the coming years. A general framework is required which will enable us to see all the parts and also how they fit with one another. It must in addition be sufficiently durable to include others, like state governments besides ours, and local governments. Governments are organized differently and so present their information differently for historical, social, and economic reasons. Comparisons become difficult, therefore, if we look simply at the data as published in each capital. What one will include under a specific heading may be quite different from that of another. Uniformity is strongly needed. The need is cleanly served by the system of the U. S. Bureau of the Census. Therefore, I shall use its conceptual framework throughout. All governmental expenditures and revenues are classified into three groups, general, liquor stores, and insurance trust. Highway spending, say, is part of general expenditures, and not considered as coming out of a special fund. Tolls that are collected by a Toll Authority are likewise placed in general revenues. Etc. Revenue involves all amounts of money received by a government from external sources -- net of refunds -- other than from issue of debt, liquidation of investments, and as agency and private trust transactions. Revenue excludes noncash transactions such as receipt of services and commodities. Expenditures are treated in parallel fashion. The Bureau's figures virtually all derive originally from the states and localities back home, of course.

General expenditures of state governments have been rising very rapidly indeed. This simple fact has inflicted deep and abiding problems on officials in charge. Governors and legislatures have been tormented by the need to seek out new revenue sources -- not once, but repeatedly. The additions are coming thick and fast now a days.

State expenditures, as Chart 1 makes plain, have climbed from something like \$15 billions for All States combined to over \$40 billions in just about one decade. The same kind of advance occurred in Maine, although somewhat moderated.

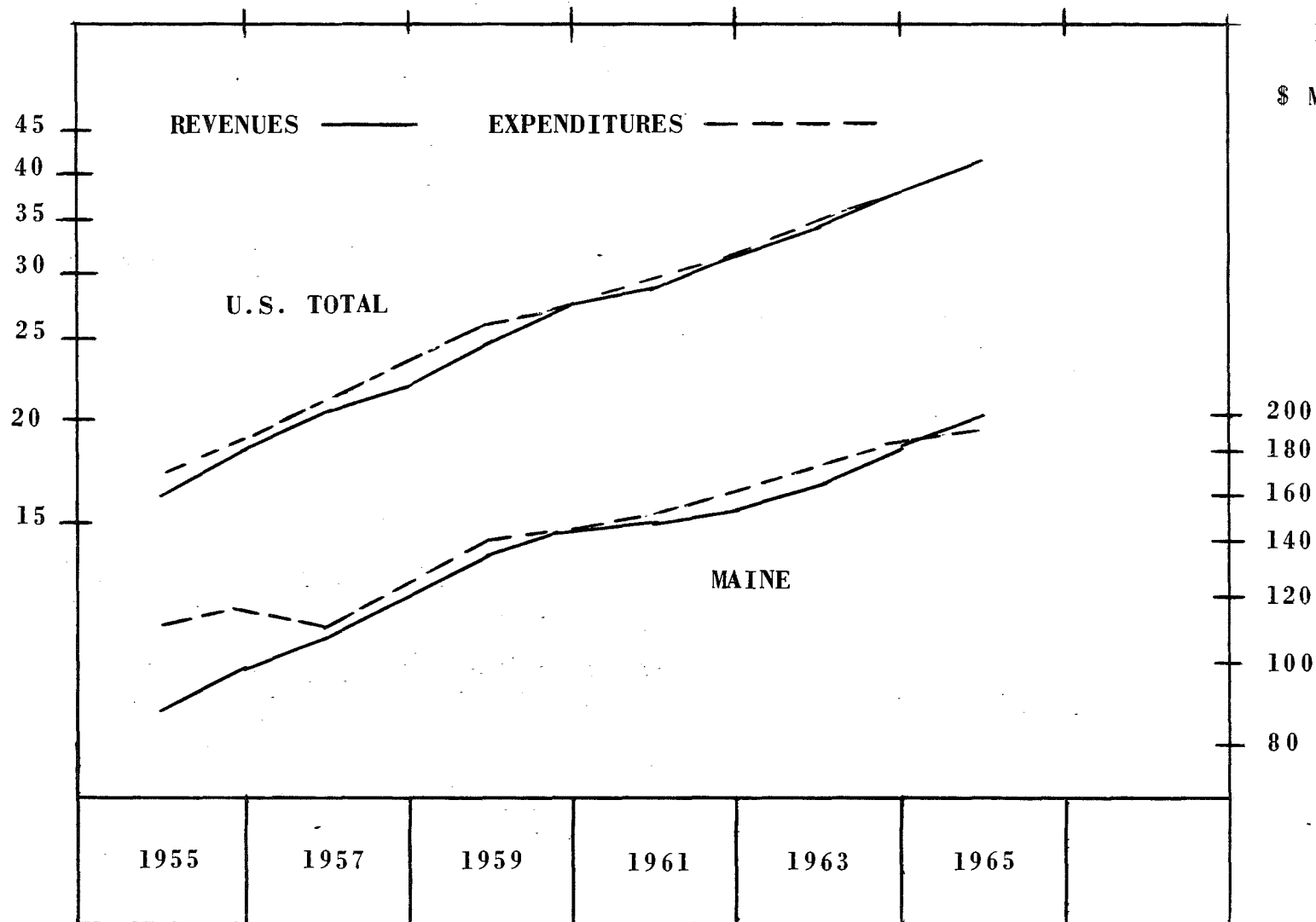
Over what is after all a very brief span, Table 1 shows a growth of better than two-thirds in Maine expenditures, and of well over 100% in the entire country! Now some of this is not true expansion at all, but only a reflection of price changes. People working for states were being paid more dollars for doing the same thing; goods purchased later cost more than they had earlier. This was a not-insignificant 35% for state governments in the large, and for want of a better figure, we assume the same occurred in Maine. This set of costs has advanced more than other prices. Very likely the reason is that productivity has tended to change more slowly in this sector. (Notice that if a commodity, for instance, costs less to turn out because better methods of production are introduced, its price will tend to decline, speedily or slowly depending on the nature of the market.) In this area, such cost reductions have been much less evident than in other sectors of the economy. For states as a whole this meant that the greatest part of the increase was still unaccounted for. It might be well to point out that the real and the price changes combine

GENERAL REVENUES AND GENERAL EXPENDITURES , STATE GOVERNMENTS

CHART ONE

U.S.
\$ BILLIONS

MAINE
\$ MILLIONS



Source same as Table One

to achieve the move in total general expenditures. However, it is one of the quirks of arithmetic that the two will add to the total only for small figures. These elements can be seen in Table 1.

We are left with a real increase of about 60% for the country and 27% for Maine: more "things", in large doses were being provided by states. Some of this was necessary because there was a growing populace (16.6% and 9.2% respectively) so that what had been done for few required doing for many. Some represented an addition of "things" done for each individual. Hefty additions are involved here. To visualize it, what we are saying means that at this rate in some 20 years, the state government is providing twice as much of real substance for each of us in the United States. In Maine the growth while sizeable is less than half the other. These more insistent demands possibly stem from the trend toward urbanization and from the rising incomes of our families. The greater interdependence of city-dwelling calls for more government dollars than does the more simple rural atmosphere. Richer people acquire and require costly schooling, transportation and so on.

Thus Maine's total expansion is not nearly so great as for a "typical" American state, this fact attributable in part to the lesser growth in population. But, much of the difference is traceable to the toned-down increases in the state in what is being done per individual resident by state government. And the latter is due to our lower incomes. Although it can be done, it is more difficult for us to provide additional services than it is for our neighbors, if their pocketbooks are in better shape than ours.

TABLE 1

STATE GOVERNMENTS
GROWTH RATES OF GENERAL EXPENDITURES
1954-56 to 1963-65

A. ALL STATES

	Total Growth in the Period	Growth per Year
Total General Expenditures	115.6%	8.9%
Price (= cost of a unit of goods and services purchased by state governments)	35.0%	3.4%
Real Expenditures	59.7	5.3
Real per Capita	37.0%	3.6%
Population	16.6	1.7

B. MAINE

Total General Expenditures	71.2%	6.2%
Price	35.0%	3.4%
Real Expenditures	26.8	2.7
Real per capita	16.1%	1.7%
Population	9.2	1.0

Source: Calculated from data found in Compendium of State Government Finances
and Survey of Current Business for the various years.

All these forces thus press incessantly and simultaneously -- population, demands by increasingly wealthy communities, and prices. The result is steeply climbing total dollar general expenditures of state government. This climb is persistent. It will not soon vanish.

Tables 2 - 5 provide some clues to what has been occurring. One should not place his complete weight on the pictures that emerge from these tables, however, for they leave significant blanks with respect to spending by local governments. We cannot come to grips, for example, with the question of whether enough is going into public education from the information here, or even whether public outlay in Maine measures reasonably with that of other states. The state-local government data will be examined below but the present facts do direct attention to some state government problems per se, inexorable growth all over the nation with everything this entails.

TABLE 2

GENERAL EXPENDITURES OF STATE GOVERNMENTS

	<u>Total General Expenditures</u>	<u>Education</u>	<u>Highways</u>	<u>Public Welfare</u>	<u>Health & Hospitals</u>
A. ALL STATES					
	\$ Billions				
1957	21.1	6.6	6.0	2.8	1.9
1962	31.3	10.7	8.0	4.3	2.4
1965	40.3	14.5	9.8	5.4	2.9
B. MAINE					
	\$ Millions				
1957	110.9	19.6	40.5	15.9	10.3
1962	163.0	39.7	54.4	24.3	13.0
1965	190.2	49.4	61.8	27.6	13.4

TABLE 3

GENERAL EXPENDITURES OF STATE GOVERNMENTS

Percent

	<u>Total General Expenditures</u>	<u>Education</u>	<u>Highways</u>	<u>Public Welfare</u>	<u>Health & Hospitals</u>
A. ALL STATES					
1957	100.0	31.3	28.4	13.3	9.0
1962	100.0	34.1	25.6	13.7	7.7
1965	100.0	36.0	24.3	13.4	7.2
B. MAINE					
1957	100.0	17.7	36.5	14.3	9.3
1962	100.0	24.4	33.4	14.9	8.0
1965	100.0	26.0	32.5	14.5	7.0

TABLE 4

GENERAL EXPENDITURES OF STATE GOVERNMENTS

Per Capita

	<u>Total General Expenditures</u>	<u>Education</u>	<u>Highways</u>	<u>Public Welfare</u>	<u>Health & Hospitals</u>
A. MEDIAN STATE					
1957	128.26	38.53	40.60	16.46	9.87
1962	177.87	59.76	47.94	20.99	11.26
1965	213.89	76.42	59.75	25.08	13.75
B. MAINE					
1957	119.27	21.12	43.53	17.09	11.04
1962	163.19	39.76	54.50	24.28	12.99
1965	191.57	49.72	62.20	27.83	13.51

TABLE 5

GENERAL EXPENDITURES OF STATE GOVERNMENTS

Per \$1,000 of Personal Income

	<u>Total General Expenditures</u>	<u>Education</u>	<u>Highways</u>	<u>Public Welfare</u>	<u>Health & Hospitals</u>
A. AVERAGE OF ALL STATES					
1957	65.41	20.33	18.48	8.59	5.91
1962	74.76	25.66	19.04	10.25	5.62
1965	82.59	29.77	20.17	11.13	5.95
B. MAINE					
1957	71.55	12.67	26.11	10.25	6.62
1962	88.55	21.57	29.57	13.17	7.05
1965	90.24	23.42	29.30	13.11	6.45

Source: Tables 2 - 5: U. S. Department of Commerce, Bureau of the Census,
Compendium of State Government Finances for the relevant years.

We see strong advances in dollar spending on practically all the major state government categories, education, highways, public welfare, and health and hospitals. There is only one exception visible, there has been virtually no change in Maine's spending on health and hospitals in the last three years, after a substantial increase from 1957 to 1962. We see in Table 3 that education in relation to other expenditures has grown both inside and outside Maine; but within Maine there was a spurt to 1962, slower but continued growth thereafter. The proportion going to education still lags inordinately behind the relative level in the average U. S. state.

In this period, highways were much above any competitors for state government dollars in Maine, even after the education advances; and they took, relatively, much more than elsewhere. In each case the proportion going to highways has fallen, i. e. , needs of other kinds having been more keenly felt.

Public welfare has bounced in each jurisdiction. Maine, a poorer state than average, is a bit higher.

Health and hospital expenditures have been at about the same relative level over these years, the proportion declining in each instance.

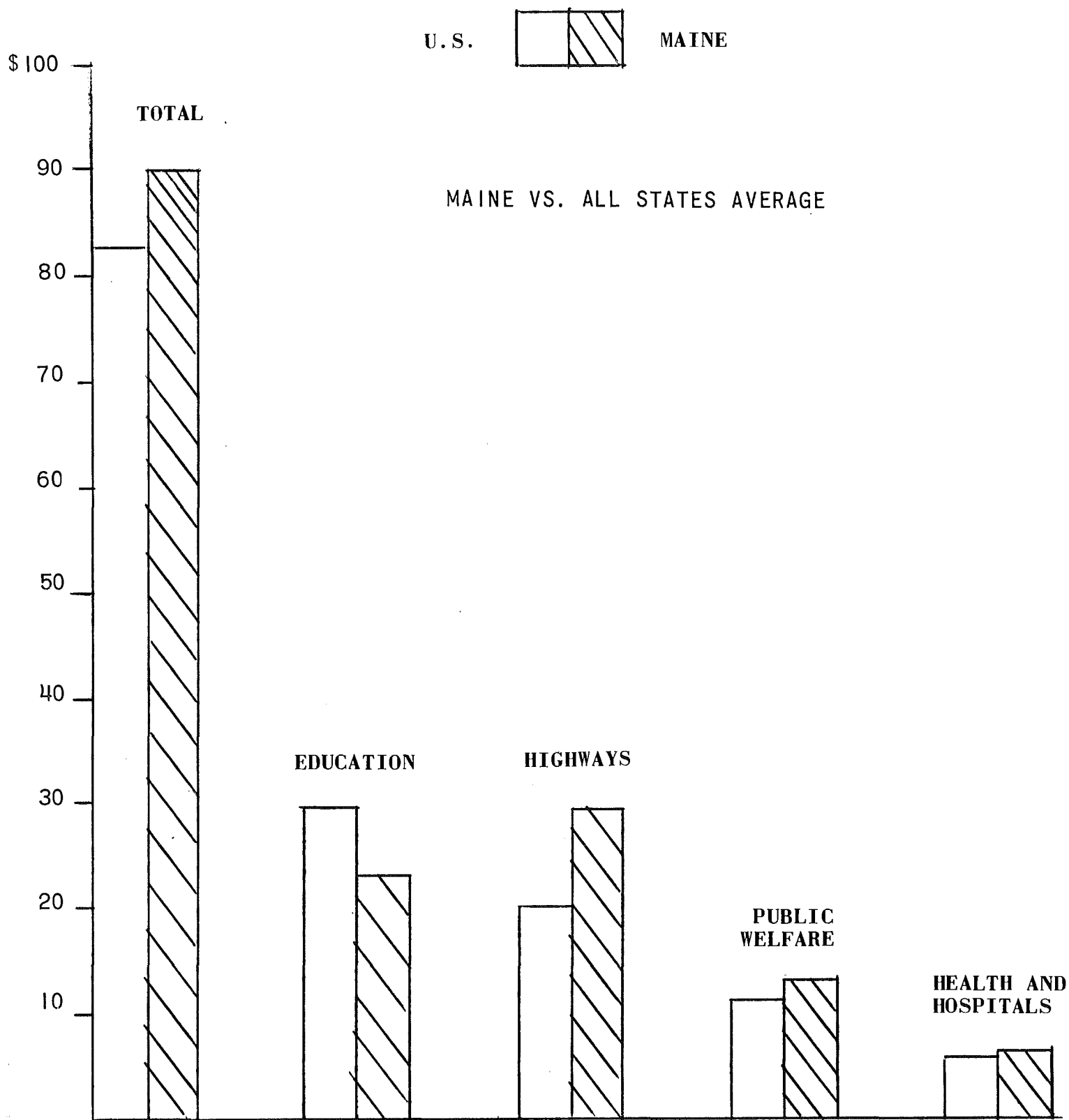
On a per capita basis close examination unveiled essentially the same results.

Chart 2 shows the expenditure structure from a different perspective. Of every \$1,000 of personal income earned in the state, how much goes to state government expenditure? One might perhaps say that this carries us a step beyond the per capita data, for they are expected to be high for a state whose inhabitants have a high income, and vice versa, other things being equal.

CHART TWO

GENERAL EXPENDITURES PER \$1,000 OF INCOME,

1965



Source: Compendium, 1965

But in this instance we look at a picture in which the different states are put on the same income footing. Which then spends more, which less; and what areas are considered important to the state to warrant great government effort in terms of the income its citizenry earns; where is it slacking off? In toto, Maine spends more than average. This is clearest, structurally, for highways, just barely so for health and hospitals. But on education, Maine does not put forth the exertion found typically outside. If we examine the same items moving through time, we seem to see essentially the same relations back to 1957.

STATE AND LOCAL FINANCING

This study centers its attention on the finances of the state government of Maine. It is not completely possible, however, to ignore the existence of local government. Both levels ^{are} frequently involved in providing the same type of service to the public, and distortion would result if one level were ignored. Sums that are not unimportant flow from one level to another. The money raised by one level generally comes out of the same pocket as that collected by the other. Furthermore, some significant information that we require for our central purpose -- that which stems from The Council of State Governments -- comes in the combined state-local package. To analyze the state figures we must untie them from the totals as presented. Consequently we look at the state-local data for information that will help us. The massive tables now coming up deal with some of these points.

TABLE 6

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
A. ALL STATES				
	\$ Billions			
Total	75.0	60.2	40.4	9.2
Education	29.0	22.2	14.1	2.6
Local schools	22.4	17.7	11.7	2.2
Institutions of higher education	5.9	4.0	2.2	.3
Other	.7	.4	.3	.1
Highways	12.2	10.4	7.8	1.5
Public Welfare	6.3	5.1	3.5	1.2
Health and Hospitals	5.4	4.3	3.1	.6
Other	22.1	18.2	11.9	3.3
B. MAINE				
	\$ Millions			
Total	310.8	284.4	191.0	56.3
Education	107.3	103.4	57.2	13.9
Local schools	82.5	81.3	46.5	10.8
Institutions of higher education	19.9	19.0	8.0	1.8
Other	4.9	3.1	2.6	1.2
Highways	78.0	69.3	53.1	14.7
Public Welfare	29.9	26.4	19.0	7.8
Health and hospitals	15.8	15.2	11.0	2.9
Other	79.7	70.0	50.7	16.9
C. NEW HAMPSHIRE				
	\$ Millions			
Total	227.2	187.7	136.8	38.7
Education	79.7	60.7	41.1	9.5
Local schools	58.1	47.1	32.3	7.2
Institutions of higher education	18.1	11.3	7.1	1.9
Other	3.5	2.3	1.6	.4
Highways	56.6	52.5	41.9	10.1
Public Welfare	15.8	13.7	10.8	5.3
Health and Hospitals	14.1	11.9	9.7	2.7
Other	61.0	48.9	33.3	11.1

TABLE 6

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
D. VERMONT				
	\$ Millions			
Total	164.2	146.5	90.9	23.7
Education	62.3	49.7	30.9	6.0
Local schools	39.4	33.3	23.0	5.2
Institutions of higher education	19.5	13.6	6.3	.3
Other	3.4	2.8	1.6	.6
Highways	48.2	50.9	27.3	6.7
Public Welfare	12.9	10.6	7.7	2.5
Health and Hospitals	8.0	7.1	5.6	1.2
Other	32.8	28.2	19.4	7.3

E. MASSACHUSETTS

	\$ Millions			
Total	2,188.0	1,782.7	1,406.3	366.4
Education	651.5	529.0	342.3	83.4
Local schools	560.0	483.7	319.1	78.8
Institutions of higher education	72.1	33.6	15.9	3.0
Other	19.4	11.7	7.3	1.6
Highways	321.5	248.2	291.3	37.7
Public Welfare	247.7	201.6	151.8	64.8
Health and Hospitals	199.2	166.0	145.7	33.7
Other	768.1	637.9	475.2	146.8

TABLE 6

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
F. CONNECTICUT				
\$ Millions				
Total	1,140.0	948.1	732.8	150.5
Education	397.4	325.8	211.0	39.3
Local schools	332.4	279.6	183.3	34.0
Institutions of higher education	44.1	28.7	18.7	2.7
Other	20.9	17.5	9.0	2.6
Highways	204.4	168.1	242.6	29.7
Public Welfare	91.4	68.3	45.0	16.1
Health and Hospitals	65.8	55.6	46.9	10.0
Other	381.0	330.3	187.3	55.4
G. RHODE ISLAND				
\$ Millions				
Total	348.5	254.6	179.6	55.5
Education	114.2	83.2	52.1	14.7
Local schools	86.6	64.4	42.5	13.1
Institutions of higher education	19.8	14.1	6.8	.9
Other	7.8	4.7	2.8	.7
Highways	62.2	37.8	31.3	6.9
Public Welfare	35.7	26.3	20.0	5.5
Health and Hospitals	22.2	18.2	13.7	3.5
Other	114.2	89.1	62.5	24.9

Source: U. S. Department of Commerce, Bureau of the Census, Governmental Finances in 1964-65; Historical Statistics on Governmental Finances and Employment, 1962.

TABLE 7

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

	Percent			
	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
A. ALL STATES				
Total	100.0	100.0	100.0	100.0
Education	38.7	36.9	35.0	28.1
Local schools	29.9	29.5	28.9	24.2
Institutions of higher education	7.9	6.7	5.5	3.2
Other	0.9	0.7	0.7	0.7
Highways	16.3	17.2	19.4	16.2
Public Welfare	8.4	8.4	8.6	13.4
Health and Hospitals	7.2	7.2	7.7	6.4
Other	29.5	30.2	29.5	35.9
B. MAINE				
Total	100.0	100.0	100.0	100.0
Education	34.5	36.4	29.9	24.7
Local schools	26.5	28.6	24.4	19.2
Institutions of higher education	6.4	6.7	4.2	3.2
Other	1.6	1.1	1.4	2.2
Highways	25.1	24.4	27.8	26.2
Public Welfare	9.6	9.3	10.1	13.9
Health and Hospitals	5.1	5.3	5.7	5.2
Other	25.6	24.7	26.4	30.0
C. NEW HAMPSHIRE				
Total	100.0	100.0	100.0	100.0
Education	35.1	32.3	30.0	24.5
Local schools	25.6	25.1	23.7	18.6
Institutions of higher education	8.0	6.0	5.2	4.9
Other	1.5	1.2	1.2	1.1
Highways	24.9	28.0	30.7	26.1
Public Welfare	7.0	7.3	7.9	13.7
Health and Hospitals	6.2	6.4	7.1	7.0
Other	26.8	26.1	24.3	28.7

TABLE 7

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

Percent

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
D. VERMONT				
Total	100.0	100.0	100.0	100.0
Education	37.9	33.9	33.9	25.5
Local schools	24.0	22.8	25.3	21.8
Institutions of higher education	11.9	9.3	6.9	1.1
Other	2.1	1.9	1.7	2.6
Highways	29.4	34.7	30.0	28.4
Public Welfare	7.9	7.2	8.5	10.8
Health and Hospitals	4.9	4.8	6.2	5.2
Other	20.0	19.2	21.3	30.8
E. MASSACHUSETTS				
Total	100.0	100.0	100.0	100.0
Education	29.8	29.7	24.3	22.8
Local schools	25.6	27.1	22.7	21.5
Institutions of higher education	3.3	1.9	1.1	0.8
Other	0.9	0.7	0.5	0.4
Highways	14.7	13.9	20.7	10.3
Public Welfare	11.3	11.3	10.8	17.7
Health and Hospitals	9.1	9.3	10.4	9.2
Other	35.1	35.8	33.8	40.1

TABLE 7

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

Percent

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
F. CONNECTICUT				
Total	100.0	100.0	100.0	100.0
Education	34.9	34.4	28.8	26.1
Local schools	29.2	29.5	25.0	22.6
Institutions of higher education	3.9	3.0	2.5	1.8
Other	1.8	1.8	1.2	1.7
Highways	17.9	17.7	33.1	19.7
Public Welfare	8.0	7.2	6.1	10.7
Health and Hospitals	5.8	5.9	6.4	6.6
Other	33.4	34.8	25.6	36.8
G. RHODE ISLAND				
Total	100.0	100.0	100.0	100.0
Education	32.8	32.7	29.0	26.5
Local schools	24.8	25.3	23.6	23.6
Institutions of higher education	5.7	5.5	3.8	1.7
Other	2.2	1.8	1.6	1.2
Highways	17.8	14.9	17.4	12.5
Public Welfare	10.2	10.3	11.2	9.9
Health and Hospitals	6.4	7.1	7.6	6.2
Other	32.8	35.0	34.8	44.9

TABLE 8

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

Per Capita

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
A. ALL STATES				
Total	386.73	324.00	236.98	68.14
Education	149.47	119.55	82.96	19.18
Local schools	115.44	95.46	68.42	16.50
Institutions of higher education	30.25	21.76	12.95	2.20
Other	3.79	2.33	1.59	.48
Highways	63.05	55.73	45.88	11.05
Public Welfare	32.58	27.36	20.45	9.09
Health and Hospitals	27.66	23.37	18.31	4.39
Other	113.97	97.99	69.38	24.43
B. MAINE				
Total	312.96	290.79	202.51	67.05
Education	108.10	105.72	60.61	16.55
Local schools	83.12	83.10	49.36	12.90
Institutions of higher education	20.02	19.43	8.51	2.18
Other	4.94	3.19	2.74	1.47
Highways	78.56	70.90	56.34	17.55
Public Welfare	30.12	27.04	20.17	9.31
Health and Hospitals	15.94	15.51	11.62	3.49
Other	80.23	71.61	53.77	20.15
C. NEW HAMPSHIRE				
Total	339.58	301.80	239.10	80.41
Education	119.09	97.55	71.84	19.74
Local schools	86.85	75.78	56.55	14.98
Institutions of higher education	27.05	18.09	12.41	3.90
Other	5.18	3.68	2.88	.85
Highways	84.63	84.43	73.30	21.00
Public Welfare	23.57	21.99	18.94	11.01
Health and Hospitals	21.02	19.17	16.94	5.62
Other	91.27	78.66	58.08	23.04

TABLE 8

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

Per Capita

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
D. VERMONT				
Total	413.52	378.56	241.74	69.03
Education	156.95	128.40	82.06	17.57
Local schools	99.36	86.13	61.15	15.03
Institutions of higher education	49.05	35.15	16.74	.77
Other	8.53	7.12	4.18	1.77
Highways	121.32	131.41	72.68	19.59
Public Welfare	32.60	27.35	20.58	7.42
Health and Hospitals	20.24	18.22	15.01	3.61
Other	82.41	73.18	51.41	20.84
E. MASSACHUSETTS				
Total	409.05	343.62	285.32	83.84
Education	121.80	101.97	69.44	19.09
Local schools	104.69	93.24	64.75	18.03
Institutions of higher education	13.48	6.47	3.22	.68
Other	3.63	2.26	1.47	.37
Highways	60.11	47.83	59.10	8.64
Public Welfare	46.30	38.86	30.79	14.82
Health and Hospitals	37.24	32.00	29.56	7.72
Other	143.60	122.96	96.43	33.57

TABLE 8

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

Per Capita

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
F. CONNECTICUT				
Total	402.40	361.19	310.63	83.99
Education	140.26	124.10	89.42	21.95
Local schools	117.33	106.53	77.71	19.00
Institutions of higher education	15.56	10.92	7.91	1.50
Other	7.36	6.65	3.80	1.46
Highways	72.14	64.05	102.85	16.59
Public Welfare	32.25	26.01	19.06	8.98
Health and Hospitals	23.23	21.16	19.86	5.57
Other	134.52	125.87	79.44	30.90
G. RHODE ISLAND				
Total	391.08	290.03	211.09	74.22
Education	128.17	94.78	61.16	19.67
Local schools	97.15	73.33	49.91	17.54
Institutions of higher education	22.26	16.09	7.95	1.24
Other	8.74	5.36	3.31	.89
Highways	69.80	43.09	36.80	9.26
Public Welfare	40.02	29.92	23.55	7.32
Health and Hospitals	24.91	20.72	16.13	4.64
Other	128.18	101.52	73.45	33.33

TABLE 9

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

Per \$1,000 of Personal Income

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
A. U.S. AVERAGE				
Total	152.66	136.91	115.78	75.07
Education	59.00	50.52	40.53	21.13
Local schools	45.57	40.34	33.43	18.18
Highways	24.89	23.55	22.41	12.17
Public Welfare	12.86	11.56	9.99	10.01
Health and hospitals	10.92	9.87	8.95	4.83
B. MAINE				
Total	147.42	148.51	120.10	79.01
Education	50.92	53.99	35.95	19.50
Local schools	39.15	42.45	29.25	15.17
Highways	37.00	36.21	33.41	20.68
Public Welfare	14.19	13.81	11.96	10.97
Health and Hospitals	7.51	7.92	6.89	4.12
C. NEW HAMPSHIRE				
Total	146.09	134.66	127.70	94.57
Education	51.23	43.53	38.37	23.21
Local schools	37.36	33.79	30.16	17.60
Highways	36.41	37.67	39.15	24.69
Public Welfare	10.14	9.81	10.12	12.95
Health and Hospitals	9.04	8.55	9.05	6.61

TABLE 9

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

Per \$1,000 of Personal Income

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
D. VERMONT				
Total	189.35	187.34	144.73	90.71
Education	71.87	63.54	49.13	23.09
Local schools	45.49	42.58	36.62	19.92
Highways	55.55	65.03	43.52	25.75
Public Welfare	14.92	13.54	12.32	9.75
Health and Hospitals	9.26	9.02	8.99	4.75
E. MASSACHUSETTS				
Total	138.23	124.75	123.95	77.77
Education	41.16	37.02	30.17	17.71
Local schools	35.38	33.85	28.12	16.73
Highways	20.31	17.37	25.67	8.01
Public Welfare	15.64	14.11	13.38	13.75
Health and hospitals	12.58	11.62	12.84	7.16
F. CONNECTICUT				
Total	125.62	118.18	113.36	59.09
Education	43.78	40.60	32.64	15.44
Local schools	36.62	34.85	28.36	13.35
Highways	22.52	20.96	37.54	11.67
Public Welfare	10.06	8.51	6.95	6.32
Health and hospitals	7.25	6.92	7.25	3.92

TABLE 9

GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

Per \$1,000 of Personal Income

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
G. RHODE ISLAND				
Total	151.63	124.10	106.04	62.94
Education	49.69	40.55	30.73	16.68
Local schools	37.66	31.38	25.09	14.85
Highways	27.06	18.44	18.49	7.85
Public Welfare	15.51	12.80	11.83	6.21
Health and Hospitals	9.65	8.87	8.10	3.93

Source: Same as Table 6, and Survey of Current Business, July 1965.

TABLE 10

STATE GOVERNMENT PERCENTAGE OF DIRECT GENERAL
EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
United States	34.9	33.8	33.8	30.1
Maine	51.6	49.5	50.7	49.3
New Hampshire	47.6	47.5	49.3	44.9
Vermont	59.7	59.7	51.2	45.5
Massachusetts	32.0	28.0	33.1	18.7
Connecticut	43.1	41.3	50.9	39.3
Rhode Island	48.3	46.8	45.8	30.5

Source: Same as Table 6

In the totals we see a strong rise, as we did before. Table 10 informs us that there were minor changes in the percentages spent by state government out of the total direct general state-local expenditures in the United States, Maine, New Hampshire, Massachusetts, and possibly Rhode Island. Thus in these jurisdictions state and local spending rose at about the same rate.

However, there were big differences (a) in Vermont, where there was a heavy swing toward state government spending, and (b) in Connecticut, strongly away from state spending from 1957 to the 1960's.

Turn to the structural elements. Table 7 makes evident the fact that from 1962 to 1965 the proportion of spending on education in Maine declined, while it was rising in every other one of the jurisdictions portrayed. It must be said that on the other hand from 1957 to 1965 the percentage rose very substantially in Maine, as it did elsewhere.

The directions of the proportions we spend on highways are perhaps too diverse to be easily characterized. As to the latest level of these proportions, notice that the less populous states of New England are, broadly, at the Maine mark.

Public welfare percentages are not remarkably dissimilar. Finally, Table 7 tells us that the proportion going to health and hospitals in Maine runs consistently below that in our sister states, if we exclude Vermont.

Now for the per capita figures, a strong effort pulled Maine close to the country at large from 1957 to 1962, in respect to higher education and to local schools. The relative position deteriorated rapidly; by 1965 Maine was once more far behind. For local schools, our position compared to the others in New England can perhaps be described as similarly uncomfortable. For higher education Maine shows up somewhat better in the comparison.

The highway per capitas in New England are too different to be neatly and simply compared.

The public welfare movements seem to be most uniform for all these geographic entities: Massachusetts is the only one glaringly different; it moved as did the others, but on a far higher plane.

Health and hospitals -- again a rough similarity of movement, but Maine is the lowest of those viewed.

PERSONAL INCOME AND SERVICES

From the important standpoint of the part of personal income spent on government services -- state and local -- we derive some rather interesting results. Spending per \$1,000 of income is of course equivalent to percentage of income spent. When we are told, e. g., that Maine in 1965 spent \$147.42 per \$1,000 of income all-in-all, then our information amounts to 14.7% of personal income. Comparing Maine with the average state in the United States

in 1965, in all the classes shown Maine is lower, with two exceptions: highways and public welfare. The panels of Chart 3 relate Maine to the other New England states. Essentially, Maine stands comfortably in the middle. On the total it is some goodly distance from both bottom and top. In no category is it either first or last. It is second twice -- local schools and highways. It is fifth once, health and hospitals.

Vermont is highest in the two education categories and highways, as well as in the sum of all types of general expenditures. Connecticut is fifth or sixth in all. Massachusetts is frequently near the bottom, but in two expenditure classes puts more of her state's income into them than do the others: health and hospitals, and public welfare.

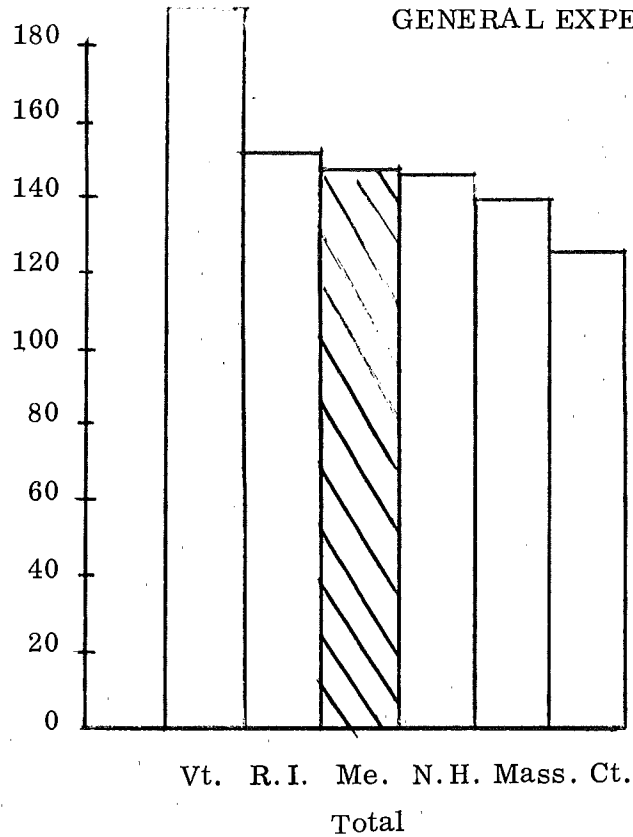
If one is tempted to argue that Massachusetts and Connecticut are low "in the nature of things", i.e., by virtue of their high population and income, the view would have to contend with the fact that (a) rich and populous states outside New England can be found that spend much more on these categories, and (b) if one harks back to 1942, a number of discrepancies with the present can be seen; to choose just one -- Massachusetts spending on local schools was not the lowest, for it was above Maine, Rhode Island, (and Connecticut). Thus, the element of desirability of spending in these ways is of consequence, in addition to the element of arithmetic -- if a schooling is to be given at all, a minimum capital investment is required; if you have few people or little income the spending per capita or per \$1,000 of income must be high. What we are looking at in the panels is the resultant of both thrusts.

CHART THREE

STATE AND LOCAL GOVERNMENTS, 1965

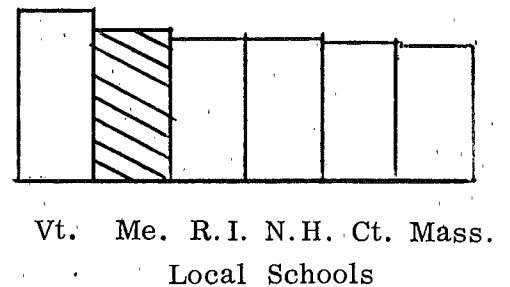
DOLLARS

GENERAL EXPENDITURES PER \$1,000 OF PERSONAL INCOME

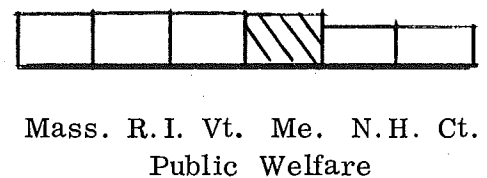
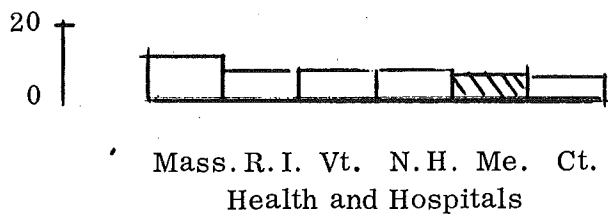
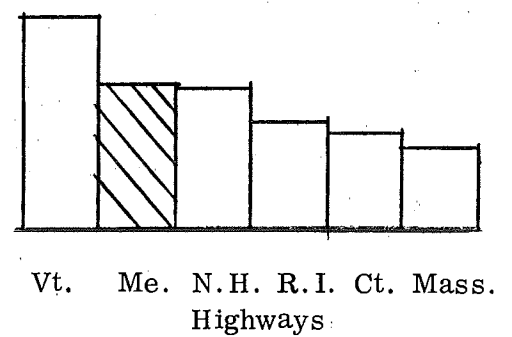
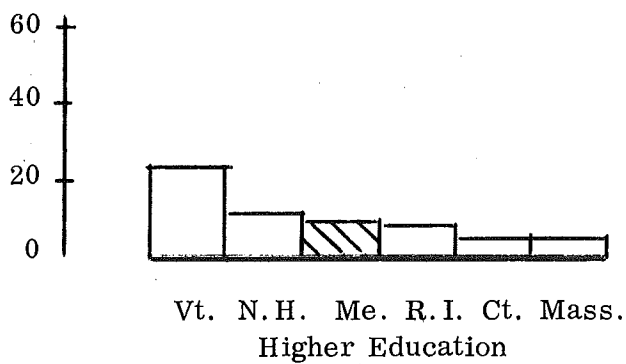


NEW ENGLAND STATES

Source: Table 9



Dollars



PROJECTIONS OF EXPENDITURES

We are trying to discover the dimensions of the Maine tax problem. What faces us in the course of the next few years? To make headway, we must determine first what money is likely to be spent. Charts 4 and 5 provide a framework within which we may come to grips with this. Chart 4 compares total general expenditures of the State of Maine with the gross national product of the entire United states, i. e., with a major measure of our country's income. This is done for the twelve fiscal years ending 1965. Each $\times$ in the graph indicates the pairing for a specific year of Maine expenditures and U. S. gross national product. The latest figure shown is for 1965, for instance, where our expenditures were \$190.2 millions and gross national products was \$654.0 billions. On the basis of these pairs I calculated a relationship. This relationship is plotted on the same paper. Now the connection, as can be seen, is an exceedingly close one.

Chart 5 does the same with expenditures for all the states in the country combined, and again a tight tie is visible. In fact so good are these relationships that for Maine the correlation coefficient is .98, for All States .99 -- where 1.00 represents perfection. More particularly, the relationships can be described this way. Should U. S. national product advance 10% Maine expenditures would increase 11.8% and All States 16.3%.

Possibly a somewhat more accurate method involves finding the relationship between the real Maine expenditures, i. e., the expenditures after we eliminate the effect of price changes, and real gross national product. This produces a very tight connection for the years studied, 1954 - 1965. Next

GENERAL EXPENDITURES IN RELATION TO GROSS NATIONAL PRODUCT

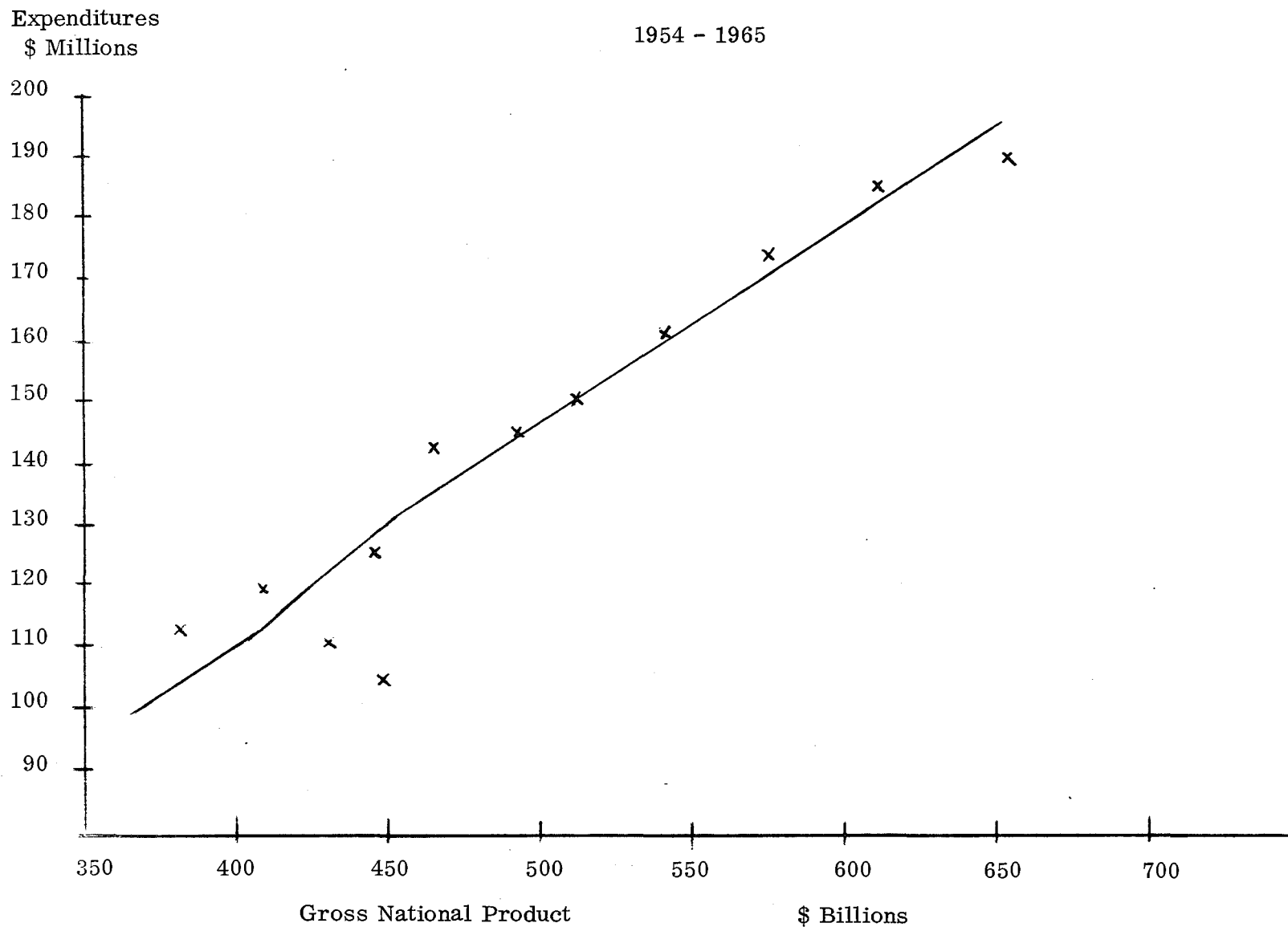
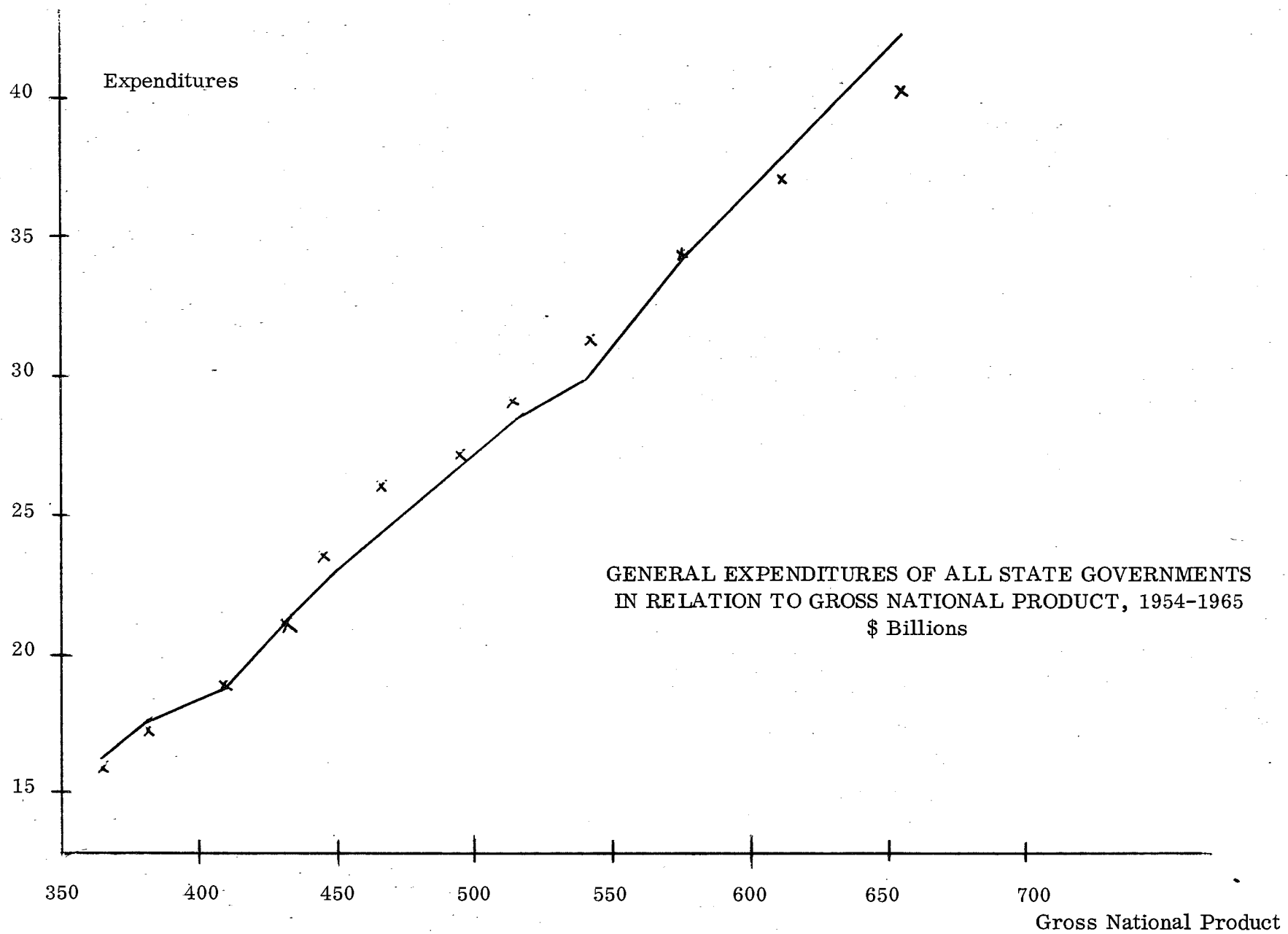


CHART 5



connect the movements of the prices of state government purchases ¹ with prices in general; the objective is to predict the cost of a unit of goods purchased by government. I now have two relationships which are used to predict the real volume of state expenditures to 1970 and the prices per unit. The two are multiplied in each year to give the estimated value of Maine's state government total dollar expenditures. These are the figures that appear as a connected line in Chart 4.

The reason for emphasizing this is that if the connections, which in the past stand out so very clearly, continue to hold in the near future, we may be able to arrive at good expenditure estimates for the developing years. This is what we now attempt. I worked up estimates of gross national product for fiscal years 1967 through 1970, as will be described below in the sections on taxation. The fiscal year 1966 figure has already been published by the United States government. Our calculated relationship has then been put into play to derive the desired expenditure estimates.

These projections should be tested against any other information obtainable on the subject for hints or stronger indications of their potential validity. The regressions, the relationships, which we discovered for Maine expenditures and gross national product used numbers through 1965 only. It is therefore possible to test them for actual 1966 results. The Bureau of the Census gives Maine general expenditures as \$190.2 millions for 1965. Its 1966 figure will not appear for some seven or eight months. Our relationship based on 1966 gross national product predicts 1966 expenditure at \$214.8 millions or virtually a 13% increase.

1. Actually, the data are available for prices of state and local government expenditures combined, and these were the figures that were used.

TABLE 11

ESTIMATED TOTAL GENERAL EXPENDITURES
STATE GOVERNMENT, MAINE

Fiscal Year	U.S. Gross National Product \$ Billions	Expenditures \$ Millions
1966		214.8
1967	792.5	245.9
1968	863.2	271.5
1969	940.3	299.8
1970	1,024.2	331.3

Source: See Text

The Maine Department of Finance and Administration publishes expenditure data which do not relate neatly to that of the Bureau of the Census. However, the Department's 1966 figures are available. What I did was, for 1965 and 1966, take the totals as reported and deduct Transfers to Other Operating Funds, Other Transfers, and Debt Retirement to arrive at a figure as close as one can get at this moment to total expenditures for the state. The 1965 figure is \$167.2 millions; the 1966, \$190.8 millions. My 1966 estimate, if the reporting system of the Maine Department had been used would be \$189 millions, against their reported \$190.8. The error would be less than \$2 millions, or less than 1%. Incidentally, my 1966 estimated total expenditure for Maine in terms of the Bureau of the Census classification scheme is \$214.8 millions.

Another lead we possess is the very painstaking group of studies done by The Council of State Governments.¹ The nine volumes that comprise their State and Local Finances Projects were directed by Selma J. Mushkin. This set provides an elaborate and finely knit work, culminating in eight of the nine, in estimates for the country as a whole and for each of the 50 states and the District of Columbia, of revenues and expenditures in 1970 of state and local governments combined. There are no projections either for years earlier or later than 1970. There is no split of state data from the local. The projections also refer to the calendar year, where ours have all been for fiscal years.

1. Public Spending for Higher Education in 1970 - Selma J. Mushkin and Eugene P. McLoone; Transportation Outlays of States and Cities: 1970 Projections, Selma J. Mushkin and Robert Harris; State Programming and Economic Development, Selma J. Mushkin; Financing Public Welfare: 1970 Projections, Selma J. Mushkin and Robert Harris; Property Taxes: The 1970 Projections, Selma J. Mushkin; Local School Expenditures: 1970 Projections, Selma J. Mushkin and Eugene P. McLoone; Income and Sales Taxes: The 1970 Outlook for States and Localities, Robert Harris; Water-Supply and Sanitation Expenditures of State and Local Governments: Projections to 1970, Robert W. Rafuse, Jr.; Health and Hospital Expenditures of State and Local Governments: 1970 Projections, Selma J. Mushkin. These were published in the years 1964 to 1966.

The work, supported by a special grant from the Ford Foundation, is carried out by a staff that has spent a number of years on it and obtained frequent help from federal agencies. They point to cooperation provided by state governors. They are "estimates based on a series of assumptions both with respect to national economic developments and the economic pattern in states consistent with the assumed pattern of national growth." The assumptions relating to the national economy are apparently based on one of several models of the aggregate economy developed by the U. S. Department of Labor and the Interagency Project on Economic Growth and Employment Opportunities.

The national assumptions: the unemployment rate is not over 4% of the civilian labor force. A 4.1% average growth rate (at constant prices) of the national economy, 1962 - 1970; a higher growth rate in the first part of the period than in the later period. Gross national product thus will reach \$864 billions in 1970; personal income, \$672.8 billions; "as compared with the 1964 rate of \$622 billion for gross national product and \$491 billion for personal income. The 1962 aggregates were \$556 billions ... and \$442 billions for personal income (respectively)."

These estimates assume price increases of 1.5% per year on the ground that these would be consistent with experience in the first five years of the 1960's.

Economic growth in the last part of the 1960's breaks into a 1.6% per year rise in employment and a 2% per year increase in output per worker. At a personal income of \$672.8 billions for 1970, disposable personal income will be \$584.3 billions, and total wages and salaries including military pay, \$460.8 billions.

To project for individual states, assumptions must be made about developments in employment, population, and income in the states. Differences among

them have been the experience, and they can be expected in the years to come. The projections they work with, "are necessarily very approximate, but they are consistent with the patterns of assumption on national economic developments and seem generally useful as a basis for state-by-state evaluation of the financial problem ahead. The general assumptions:

Aggregate personal income is assumed to rise faster in the West and Southeast than elsewhere, as it has in the past decade.

Income per capita will continue to rise more rapidly in the poorer states than elsewhere.

The concentration of population in urban areas will continue; thus a major share of the people even in the states now predominately rural would be city-dwellers."¹

These assumptions are then put to work in the special studies to derive 1970 estimates for higher education, state and city transportation outlays, public welfare, water-supply and sanitation, health and hospital expenditures, property taxes, income taxes, and sales taxes. The detail that is used is minute and very full, calling forth a veritable forest of working assumptions. The possibilities for error are naturally very great, but the probability of being useably accurate is far, far greater than if horseback judgments were made. Pertinent figures from the Mushkin Studies follow. For those interested in comparisons with the U. S. and with other New England states, these may be found in the appendix to the present study, Table A1.

1. The Council of State Governments, Health and Hospital Expenditures State and Local Government, 1966, pp. 89-96.

I attempt now to check these estimates against ours. This is not possible with precision, but it can be done. The two sets were derived in independent ways; not alone are the people who did the projecting different individuals, but the methods are as well. Furthermore, The Council of State Governments worked up only the most important of the expenditure categories. For the present study it was indispensable to have the total of all general expenditures. Finally, we must think in terms of the state government, while The Council of State Governments' numbers refer in every instance to the single sum of state and local outlays.

To come to grips with these problems:

1. I examined the trends from 1960 forward for Maine of state and local expenditures in the categories covered by The Council of State Governments. These are local schools, institutions of higher education, highways, public welfare, and health and hospitals. Only the last four of these apply to the state government significantly. Table 13 contains the relevant numbers.

2. By means of these figures, I derived expenditures per capita and per \$1,000 of personal income for the various classes for the state government alone.

3. The trends they showed were projected to calendar year 1970 and checked with The Council of State Governments' projections. All appeared to be reasonable, except the health and hospitals. But with the various programs of the federal government now -- see the next section on federal grants -- it might easily be that 1970 will see materially higher spending here than Maine trends from 1960 on might lead us to expect. This in fact is what The Council of State Governments would have us believe.

TABLE 12

DIRECT EXPENDITURES, CALENDAR YEAR 1970

	Maine, State and Local Governments Council of State Governments Estimates			Maine State Government
	Total \$ Millions	Per Capita	Per \$1,000 of Personal Income	Total \$; Millions
Local schools	115.6	114.12	60.84	
Institutions of higher education	55.0	54.29	28.95	55.0
Highways	105.7	104.34	55.63	74.0
Public Welfare	41.1	40.57	21.63	36.8
Health and Hospitals	31.3	30.90	16.47	26.6

Source: See Text

TABLE 13

MAINE STATE AND LOCAL GOVERNMENT DIRECT GENERAL EXPENDITURES
\$ Millions

A. TOTAL

	Total	Local Schools	Higher Education	Highways	Public Welfare	Health & Hospitals	Other
1960	249.4	68.6	10.8	66.9	24.6	14.0	64.5
1961	254.0	66.5	14.5	65.4	25.1	15.1	67.4
1962	284.4	81.3	19.0	69.3	26.4	15.2	73.2
1963	298.2	84.6	19.9	73.2	29.1	15.2	76.2
1964	305.8	85.4	20.8	77.0	29.7	14.9	78.0
1965	310.8	82.5	19.9	78.0	29.9	15.8	84.7

B. STATE & LOCAL BREAKDOWN

<u>1960</u>							
State	125.3	.4	10.8	50.0	21.8	11.8	30.5
Local	124.1	68.2		16.9	2.8	2.2	34.0
<u>1961</u>							
State	130.7	1.5	14.5	46.8	22.2	12.9	32.8
Local	123.3	65.0		18.6	2.9	2.2	34.6
<u>1962</u>							
State	140.8	.9	19.0	50.5	23.6	12.9	33.9
Local	143.6	80.3		18.9	2.8	2.3	39.3
<u>1963</u>							
State	150.6	1.0	19.9	53.3	26.5	12.9	37.0
Local	147.7	83.6		19.9	2.7	2.3	39.2
<u>1964</u>							
State	157.2	1.1	20.8	56.6	27.1	12.6	39.0
Local	148.6	84.3		20.4	2.6	2.3	39.0
<u>1965</u>							
State	160.4	1.1	19.9	57.9	26.8	13.4	41.3
Local	150.3	81.4		20.1	3.1	2.4	43.3

C. PER CAPITA

1960	256.06	70.43	11.08	68.69	25.26	14.37	66.22
1961	256.05	67.04	14.62	65.93	25.30	15.22	67.94
1962	290.79	83.10	19.43	70.90	27.04	15.51	74.81
1963	302.47	85.83	20.15	74.20	29.52	15.43	77.34
1964	309.17	86.33	21.02	77.89	30.02	15.05	78.86
1965	312.96	83.12	20.02	78.56	30.12	15.94	85.20

TABLE 13

MAINE STATE AND LOCAL GOVERNMENT
DIRECT GENERAL EXPENDITURES
\$ Millions

	Total	Local Schools	Higher Education	Highways	Public Welfare	Health & Hospitals	Other
D. PER \$1,000 PERSONAL INCOME							
1960	134.74	37.06	5.83	36.14	13.29	7.56	34.85
1961	138.95	36.38	7.93	35.78	13.73	8.26	36.87
1962	148.51	42.45	9.92	36.21	13.81	7.92	38.19
1963	151.23	42.92	10.09	37.10	14.76	7.72	38.64
1964	155.13	43.31	10.55	39.08	15.06	7.55	39.57
1965	147.44	39.14	9.44	37.00	14.19	7.50	40.18

Source: Compiled from data found in Governmental Finances, 1960-61,
1963-65. Census of Governments, 1962.

4. Next we need to look at the total of general expenditures for the state. This consists of the four classes we have talked about plus "other" direct expenditures and also intergovernmental expenditures. The relations of each of the latter two to the total since 1960 were studied and on this basis a judgment was made as to calendar year 1970 estimates.

5. I subtracted, finally, the sum of the two items obtained in #4, \$128.5 millions, from my calendar year 1970 total, \$347.4 millions, to arrive at a number that corresponds to the 4-category sum of The Council of State Governments. My estimate is \$218.9 millions; theirs \$192.4 millions. The difference is 12.1%, not wildly unrelated. Possibly even more relevant, since I require only totals when I come later to study Maine's tax needs, would be a comparison between the total general expenditures I project and the total obtained by adding the four of The Council of State Governments to the two I derived in #4. This total is \$320.9 millions. The difference is 7.6%. I conclude the two games are being played in the same ball park. Our estimates for the next several years may indeed contain some measure of relevance to Maine's tax requirements.

REVENUES OTHER THAN TAXES

Where is all this money coming from? A worthwhile perspective is possible if we return to the combination, the summation, of state and local finances -- more specifically, of their revenues. It helps also to compare Maine with others, so that it may become clearer why different answers to revenue problems appear desirable in different states. See tables 14 - 16, which portray movements from the 1950's to the middle sixties.

TABLE 14

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Percent

	<u>1965</u>	<u>1962</u>	<u>1957</u>
A. ALL STATES			
Total	100.0	100.0	100.0
From Federal Government	14.8	13.5	10.1
From State and Local sources	85.2	86.5	89.9
Taxes	69.4	71.3	75.5
Property	30.8	32.7	33.7
Nonproperty	38.6	38.6	41.8
Charges and miscellaneous general revenues	15.7	15.2	14.4
B. MAINE			
Total	100.0	100.0	100.0
From Federal Government	16.5	15.7	12.1
From State and Local sources	83.5	84.3	87.9
Taxes	71.5	73.8	77.1
Property	35.5	39.0	38.5
Nonproperty	35.9	34.8	38.5
Charges and miscellaneous general revenues	12.1	10.5	10.8
C. NEW HAMPSHIRE			
Total	100.0	100.0	100.0
From Federal Government	15.6	17.9	9.3
From State and Local sources	84.5	82.1	90.7
Taxes	68.9	69.5	77.5
Property	44.4	44.2	48.7
Nonproperty	24.4	25.3	28.9
Charges and miscellaneous general revenues	15.6	12.6	13.2

TABLE 14

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Percent

	<u>1965</u>	<u>1962</u>	<u>1957</u>
D. VERMONT			
Total	100.0	100.0	100.0
From Federal Government	24.9	28.8	13.1
From State and Local sources	75.1	71.2	86.9
Taxes	64.5	62.9	77.5
Property	26.7	28.4	34.8
Nonproperty	37.8	34.5	42.6
Charges and miscellaneous general revenues	10.6	8.3	9.4
E. MASSACHUSETTS			
Total	100.0	100.0	100.0
From Federal Government	13.1	11.0	7.2
From State and Local sources	87.0	89.0	92.8
Taxes	76.1	78.9	83.5
Property	43.8	47.8	48.4
Nonproperty	32.3	31.1	35.1
Charges and miscellaneous general revenues	10.8	10.1	9.3

TABLE 14

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Percent

	<u>1965</u>	<u>1962</u>	<u>1957</u>
F. CONNECTICUT			
Total	100.0	100.0	100.0
From Federal Government	12.4	10.7	5.4
From State and Local sources	87.6	89.3	94.6
Taxes	74.7	76.9	83.0
Property	39.0	41.2	41.5
Nonproperty	35.7	35.7	41.5
Charges and miscellaneous general revenues	12.9	12.5	11.5
G. RHODE ISLAND			
Total	100.0	100.0	100.0
From Federal Government	19.1	13.6	12.2
From State and Local sources	80.9	86.4	87.8
Taxes	71.8	77.4	79.0
Property	33.1	37.0	39.8
Nonproperty	38.7	40.4	39.2
Charges and miscellaneous general revenues	9.1	9.0	8.8

Source: Computed from Governmental Finances in 1957 and 1965; Census of Governments, 1962.

Note: Detail may not add to total because of rounding.

TABLE 15

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Per Capita

	<u>1965</u>	<u>1962</u>	<u>1957</u>
A. ALL STATES			
Total	\$383.56	\$313.48	\$224.00
From Federal Government	56.90	42.36	22.56
From State and Local sources	326.66	271.13	201.44
Taxes	266.11	223.62	169.14
Property	118.25	102.54	75.50
Nonproperty	147.87	121.08	93.64
Charges and miscellaneous general revenues	60.55	47.50	32.30
B. MAINE			
Total	\$326.41	\$273.24	\$193.53
From Federal Government	53.85	42.83	23.34
From State and Local sources	272.55	230.42	170.20
Taxes	233.18	201.69	149.20
Property	116.05	106.51	74.60
Nonproperty	117.13	95.18	74.60
Charges and miscellaneous general revenues	39.37	28.73	21.00
C. NEW HAMPSHIRE			
Total	\$321.11	\$290.22	\$196.36
From Federal Government	50.01	51.91	18.27
From State and Local sources	271.09	238.32	178.09
Taxes	220.95	201.77	152.25
Property	142.46	128.34	95.58
Nonproperty	78.48	73.42	56.66
Charges and miscellaneous general revenues	50.14	36.55	25.84

TABLE 15

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Per Capita

	<u>1965</u>	<u>1962</u>	<u>1957</u>
D. VERMONT			
Total	\$430.61	\$378.57	\$222.75
From Federal Government	106.97	109.10	29.24
From State and Local sources	323.64	269.47	193.51
Taxes	277.84	238.06	172.53
Property	115.21	107.52	77.59
Nonproperty	162.62	130.55	94.94
Charges and miscellaneous general revenues	45.80	31.41	20.98
E. MASSACHUSETTS			
Total	\$396.80	\$347.67	\$247.22
From Federal Government	51.88	38.23	17.83
From State and Local sources	344.91	309.43	229.40
Taxes	302.03	274.23	206.50
Property	173.90	166.09	119.75
Nonproperty	128.13	108.15	86.75
Charges and miscellaneous general revenues	42.88	35.20	22.90

TABLE 15

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Per Capita

	<u>1965</u>	<u>1962</u>	<u>1957</u>
F. CONNECTICUT			
Total	\$389.43	\$339.06	\$235.83
From Federal Government	48.27	36.13	12.84
From State and Local sources	341.15	302.92	222.99
Taxes	291.04	260.58	195.83
Property	151.97	139.61	97.96
Nonproperty	139.07	120.97	97.87
Charges and miscellaneous general revenues	50.10	42.34	27.16
G. RHODE ISLAND			
Total	\$365.97	\$277.79	\$193.60
From Federal Government	69.98	37.76	23.63
From State and Local sources	295.98	240.03	169.97
Taxes	262.74	214.95	152.92
Property	120.95	102.84	77.04
Nonproperty	141.79	112.11	75.88
Charges and miscellaneous general revenues	33.24	25.08	17.05

Source: Same as Table 14

Note: Detail may not add to total because of rounding.

TABLE 16

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Per \$1,000 of Personal Income

	<u>1965</u>	<u>1962</u>	<u>1957</u>
A. U. S. AVERAGE			
Total	\$151.41	\$132.47	\$109.44
From Federal Government	22.46	17.90	11.02
From State and Local sources	128.94	114.57	98.42
Taxes	105.04	94.49	82.64
Property	46.68	43.33	36.89
Nonproperty	58.37	51.16	45.75
Charges and miscellaneous general revenues	23.90	20.07	15.78
B. MAINE			
Total	\$153.76	\$139.55	\$114.78
From Federal Government	25.37	21.87	13.84
From State and Local sources	128.39	117.67	100.94
Taxes	109.84	103.00	88.49
Property	54.66	54.40	44.24
Nonproperty	55.17	48.61	44.25
Charges and miscellaneous general revenues	18.54	14.67	12.45
C. NEW HAMPSHIRE			
Total	\$138.15	\$129.50	\$104.87
From Federal Government	21.51	23.16	9.76
From State and Local sources	116.63	106.34	95.11
Taxes	95.06	90.03	81.31
Property	61.29	57.27	51.05
Nonproperty	33.76	32.76	30.26
Charges and miscellaneous general revenues	21.57	16.31	13.80

TABLE 16

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Per \$1,000 of Personal Income

	<u>1965</u>	<u>1962</u>	<u>1957</u>
D. VERMONT			
Total	\$197.18	\$187.35	\$133.36
From Federal Government	48.98	53.99	17.50
From State and Local sources	148.19	133.36	115.86
Taxes	127.22	117.81	103.30
Property	52.71	53.21	46.45
Nonproperty	74.51	64.61	56.85
Charges and miscellaneous general revenues	20.97	15.54	12.56
E. MASSACHUSETTS			
Total	\$134.09	\$126.22	\$107.40
From Federal Government	17.53	13.88	7.74
From State and Local sources	116.56	112.34	99.66
Taxes	102.07	99.56	89.71
Property	58.76	60.30	52.02
Nonproperty	43.30	39.26	37.69
Charges and miscellaneous general revenues	14.49	12.78	9.95

TABLE 16

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

Per \$1,000 of Personal Income

	<u>1965</u>	<u>1962</u>	<u>1957</u>
F. CONNECTICUT			
Total	\$121.57	\$110.93	\$86.06
From Federal Government	15.07	11.82	4.68
From State and Local sources	106.49	99.11	81.38
Taxes	90.85	85.26	71.47
Property	47.44	45.68	35.75
Nonproperty	43.42	39.58	35.72
Charges and miscellaneous general revenues	15.64	13.85	9.91
G. RHODE ISLAND			
Total	\$141.89	\$118.86	\$97.26
From Federal Government	27.13	16.15	11.87
From State and Local sources	114.76	102.70	85.39
Taxes	101.87	91.97	76.82
Property	46.91	44.00	38.70
Nonproperty	54.96	47.97	38.12
Charges and miscellaneous general revenues	12.88	10.73	8.56

Source: Same as Table 14; and Survey of Current Business, July 1965.

Note: Detail may not add to total because of rounding.

In the first of these, where we see the structure of the state-local revenue systems, we may glean at least the following.

1. The money received from the federal government has grown and is growing steadily, occupying now a solid -- although still definitely minor -- part of the whole. This is true in each of the jurisdictions presented: Maine; each of the other New England States; and the total of all states in the United States, or what is in important respect the same thing, the "average" state.

2. In this regard Maine moved, broadly speaking, as did All States, New Hampshire, and Rhode Island.

3. In Vermont, Massachusetts and Connecticut the federal role roughly doubled in this very brief span -- eight years can hardly be called a long time.

4. In Vermont, Washington supplies a quarter of all government general revenues. This is the least populous and ^{one of the}poorest (in terms of per capita income) states in New England. In Massachusetts and Connecticut, the federal government occupies a relatively small place; these are precisely the richest and the most populous. The others, Maine among them, lie in between.

5. Revenue received by these governments from (a) selling things, be it books in a state university bookstore or water or electric power or rides on a governmentally-owned transit system or whatever, and (b) from a polyglot "miscellaneous" was a fairly stable portion of the whole in this time. It rose moderately, but in every case it did rise between the terminal dates in the Table. By and large, all lie between 10 and 15% of the totals in 1965.

6. The points made thus far reveal that structurally some pressure has been removed from the tax burden of these state and local governments. In Maine, for example, almost 29% of the take now comes from non-state-local taxes,

whereas it was less than 1/4 in 1957. The same general movement and magnitudes, approximately, occurred in All States, New Hampshire, and Rhode Island.

7. Let us divide taxes into just two groups, property and non-property. (The former provide the overwhelming preponderance of tax money for local governments.) In Maine there is about an even split between them, each yielding 1/3 of all general revenue, say. In the average American state the non-property yield more, but recall how many different taxes this includes. (How very productive the property tax is!) This is true in Vermont and Rhode Island too. But in our more urban and prosperous states, Connecticut and Massachusetts, and in New Hampshire too, the property tax produces more than all others combined -- not terribly far in fact from 50%, in the last two.

8. If one rides rough shod over differences in order to achieve a rule of thumb, he might say that this income divides about 1/3 each from property taxes, non-property taxes, and federal government plus charges -- miscellaneous. He might have to blink a bit when making the statement, but it would certainly not require complete blindness.

PER CAPITA DATA

Turn to the per capita data.

1. The dominant theme as expected is growth, more money per person, and strongly at that.

2. Maine collects less than the average American government, or about the same as New Hampshire: around \$320 per capita versus, say, \$380 for All States.

3. The wealthier New England territories collect more than the average. This, one might perhaps surmise in advance. But the poorest, Vermont, rakes in the most, by a good deal. Perhaps as determining factors her low income -- not much per head can be obtained when each head lacks income -- is outweighed by her sparse population. Close scrutiny reveals the gem for Vermont is the federal government, which gave \$107 for each individual in 1965, or approximately double the amount received elsewhere.

4. From state and local sources, Vermont generally parallels All States. Maine and New Hampshire are significantly lower, in the \$270 range.

5. And the richer Massachusetts and Connecticut do what they can afford to do, produce more out of home sources.

TAX EFFORT

In Table 16 we are looking at the efforts put forward by the state-local government grouping relative to income. One test of the willingness to undergo a burden steps forward from these data. If it be true that taxes, e.g., levied with some states are borne by the people there, and not shifted onto someone else's shoulders, then a high fraction of income going to taxes indicates a heavy burden.¹ Of course, one is not always convinced that the individual payer of a tax and the individual burdened are one and the same individual.

1. At any rate, slurring this point now, we see that in Maine, revenue to these governments increased from about 11.5% of income (\$114.78 per \$1,000 of personal income is the same as 11.478% of income) to approximately 15.5%, again an important advance, particularly in view of the narrow time band. This is

1. A meaningful statement, I think, but certainly an incomplete one.

pretty much what occurred on average in the country, and possibly in Rhode Island.

2. In Connecticut, Massachusetts, and New Hampshire it is less.

3. In Vermont the figure is virtually 20%.

4. Something approaching 5% of income comes from federal sources and charges-miscellaneous, in the case of Maine and All States. Again we have more in Vermont and less in Connecticut and Massachusetts.

5. The ^{tax} total/'burden' is remarkably similar these days among the jurisdictions under our magnifying glass. Six of seven are greater than 9% and less than 11%. (Vermont is again the maverick.)

6. Obeisance may be paid to the growth in the tax element, but the big strides since 1957 have been taken by federal payments and by charges.

Tables 17 and 18 point up a little more of the same. Currently -- considering 1965 as current -- about 15% of state and local government general revenue derives from the federal government, a bit more here a little less there. But Vermont is, as usual, different. Notice how successful Vermont has been in garnering federal money.

As between state and local governments the origin of the funds varies a good deal: 45% from the state in Maine and Vermont, only 35% or thereabouts in New Hampshire and Massachusetts; and Connecticut is more like Maine than New Hampshire is; or Massachusetts is less like Connecticut than like New Hampshire. Alternatively, in New Hampshire and Massachusetts local governments raise about 50% more money than does the state government; in Vermont this is reversed.

From 1957 to 1965, examination of the case of Maine versus the "average" state reveals the federal trend (revenue from the federal government) that stood out in the above paragraph and also the lack of trend in each instance in state

TABLE 17

STATE AND LOCAL GOVERNMENTS
GENERAL REVENUE, BY ORIGINATING LEVEL OF GOVERNMENT
(Before Transfers Among Governments)

1965			
Percent			
	Federal	State	Local
All States	14.8	41.2	44.0
Maine	16.5	44.6	38.9
New Hampshire	15.6	34.0	50.4
Vermont	24.9	44.9	30.3
Massachusetts	13.1	36.1	50.9
Connecticut	12.4	42.4	45.2
Rhode Island	19.1	42.8	38.1

Source: Governmental Finances in 1964-65.

TABLE 18

STATE AND LOCAL GOVERNMENTS
GENERAL REVENUE, BY ORIGINATING LEVEL OF GOVERNMENT
(Before Transfers Among Governments)

Percent			
	Federal	State	Local
A. ALL STATES			
1957	10.1	43.1	46.8
1962	13.5	40.6	45.8
B. MAINE			
1957	12.1	45.6	42.4
1962	15.7	41.9	42.4

Source: Historical Statistics on Governmental Finances and Employment, 1962.

collections compared with local.

If governments of nearby states and in the nation at large make a total tax effort of something like 10% of the state's personal income, it may perhaps be unnatural, all circumstances considered, to expect that the state government of Maine will be willing to do more over the near term -- but remember Vermont. Also remember it has been done: taxes have risen, here and elsewhere, so that they amount to a larger part of income than earlier. Furthermore, strong economic growth has often accompanied these tax-income movements. Therefore, if the government expenditure that requires raising additional funds from some source is sufficiently growth-inducing, an appropriate tax may on balance be logically desirable.

REVENUE TRENDS

We must now attend to the state government directly, placing the local deep into the background. Once more we start with a moving picture of structure, and a comparison. Table 17 pointed to the fact that it would be confusing to line up the six New England states, one with another. There is too much that is disparate among them. Let us now concentrate on Maine, but to keep others in mind in a general way we also have before us in Table 19 the All States grouping.

One of the two most important trends visible is the rapid advance of the federal government as a source of state funds. In the dim past, the 1920's, states received 5% of their general revenue from Washington. The depression brought to the surface elemental needs and by the late 1930's, this was pushed to 15%. Twenty years later, 1957, as shown here, the proportion was not much different -- the first post-war decade had not seriously changed the balance for the average

TABLE 19

REVENUES OF STATE GOVERNMENTS

Percent

A. ALL STATES

Fiscal Year	Total General Revenues	From Outside Sources		From Own Sources		
		Federal Government	Local Governments	Total Taxes	Current Charges	Miscellaneous General Revenues
1957	100.0	17.2	2.0	71.1	5.9	3.6
1962	100.0	22.8	1.3	66.0	7.1	2.9
1965	100.0	24.2	1.0	63.8	7.6	3.4

B. MAINE

Fiscal Year	Total General Revenues and Liquor Revenue ^(a)	From Outside Sources		From Own Sources			Liquor Revenue
		Federal Government	Local Government	Total Taxes	Current Charges	Miscellaneous General Revenue	
1957	100.0	18.5	3.2	62.1	8.8	2.2	5.2
1962	100.0	24.1	2.3	57.7	9.3	2.2	4.4
1965	100.0	24.3	2.0	57.0	10.0	3.0	3.7

(a) Liquor revenue is the net contribution to the general funds of the alcoholic beverage monopoly.

Source: Compiled from data in Compendium, and State of Maine Department of Finance and Administration, Financial Report, for the appropriate years.

American state. But the eight years before us strongly altered the stream again. By now, virtually 1/4 of dollars flowing into states come from the national government. In Maine it is the same. This particular answer to a strong need was evidently very widely accepted. (Notice that for Maine, 100% is represented by general revenue plus the net revenue of the state liquor stores.) This points firmly to the difficulties of raising funds from taxation -- our second feature. Taxes keep dropping as a source of state revenue. In the nation at large, they do not now produce even 2/3 of the revenues. In Maine this is approaching half! The focus is altered some, if we add the net liquor store contribution to taxes, since in most other states government collections from liquor derive from taxes and their like, licenses; we find, then, that Maine does not differ much from All States.

Charts 6 and 7 make these points in a somewhat different manner. They talk dollars, not percentages. But one can see the more rapid advance in and out of Maine of the federal government's payments and also charges for current services. These charges are not negligible. 10% the Table informs us.

REVENUE GROUPINGS

State revenues are separated by the Bureau of the Census into three groups: general, alcoholic beverage, and insurance trust. The insurance trust revenues and expenditures are a matter apart and distinct, not intertwined with the problems with which this study concerns itself. I shall not discuss them, therefore. The item, alcoholic beverage, refers to the net contribution of the state liquor stores to the general fund. Table 20 contains some information on this subject.¹

1. A word about the relation of the figures shown under this Net Contribution and those reported in the Annual Financial Report of the Maine Department of Finance and Administration under the heading, "Transferred from Liquor Commission." In 1965 the Department showed \$11.6 millions here. If we take, in Table 20, the \$7.7 millions of Net Contribution, add the \$4.1 millions of Receipts from Taxes, and subtract a number available but not shown, representing expenditures for licensing and law enforcement, of \$0.2 millions, we arrive at the Department's figure.

TABLE 20

STATE ALCOHOLIC BEVERAGE MONOPOLY SYSTEMS

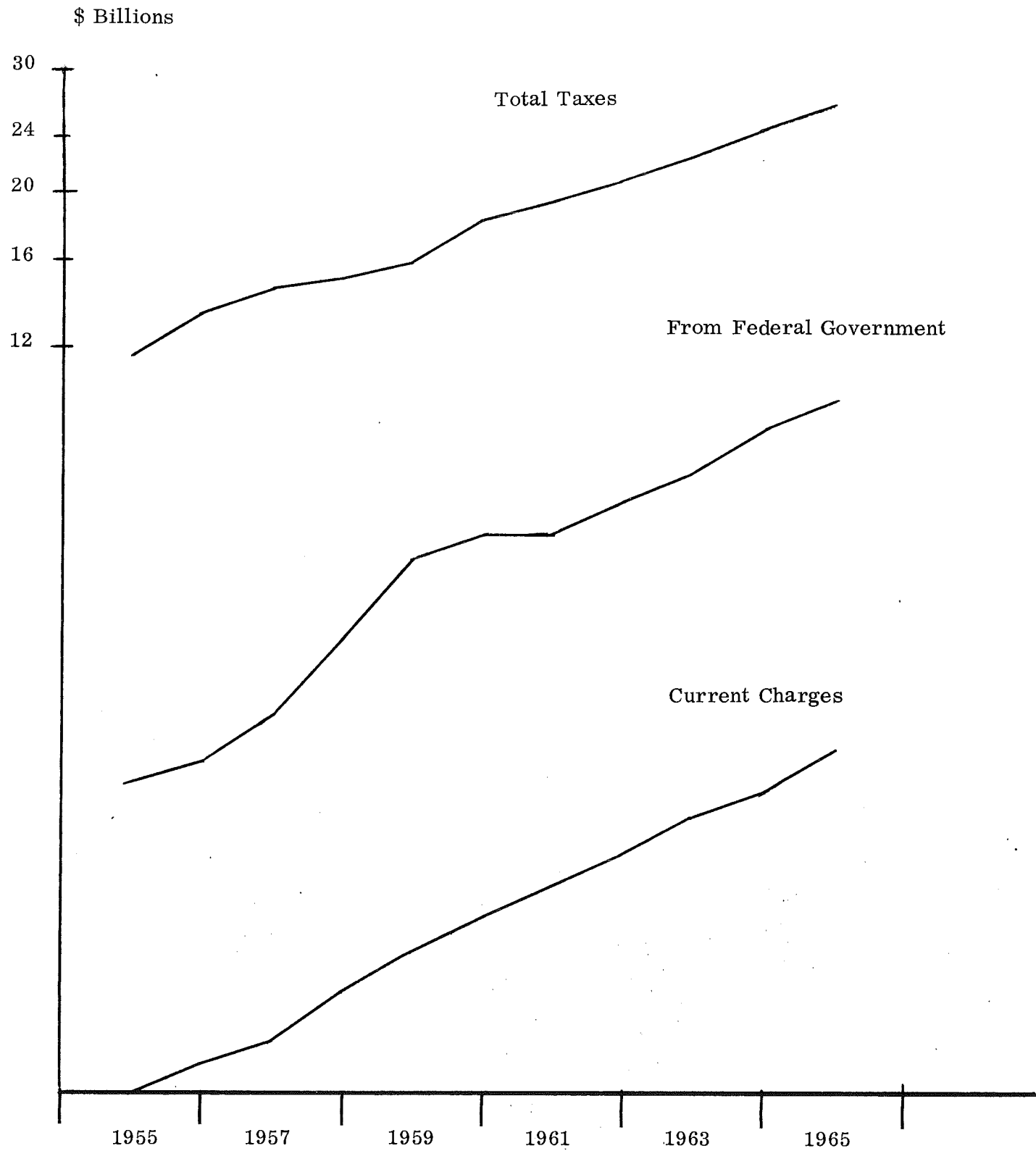
\$ Millions

	Net Contributions To General Funds		Receipts from Taxes, Including Licenses and Permits	
	Total 16 States	Maine	Total 16 States	Maine
1955	183.6	4.7	78.4	2.6
1956	195.9	5.5	84.1	2.7
1957	208.2	5.9	86.4	2.6
1958	225.4	6.0	98.9	2.5
1959	207.5	6.2	101.5	2.5
1960	236.9	6.6	122.6	2.7
1961	232.0	6.8	132.7	2.7
1962	236.0	7.1	136.7	3.8
1963	272.2	7.2	176.5	3.9
1964	205.9	7.3	202.3	4.0
1965	234.2	7.7	213.7	4.1
Average annual change,				
1955-60: 10.7		.4	8.8	...
1960-65: -.5		.2	18.2	.3

Source: Basic data from Compendium and Financial Report for the appropriate years.

CHART 6

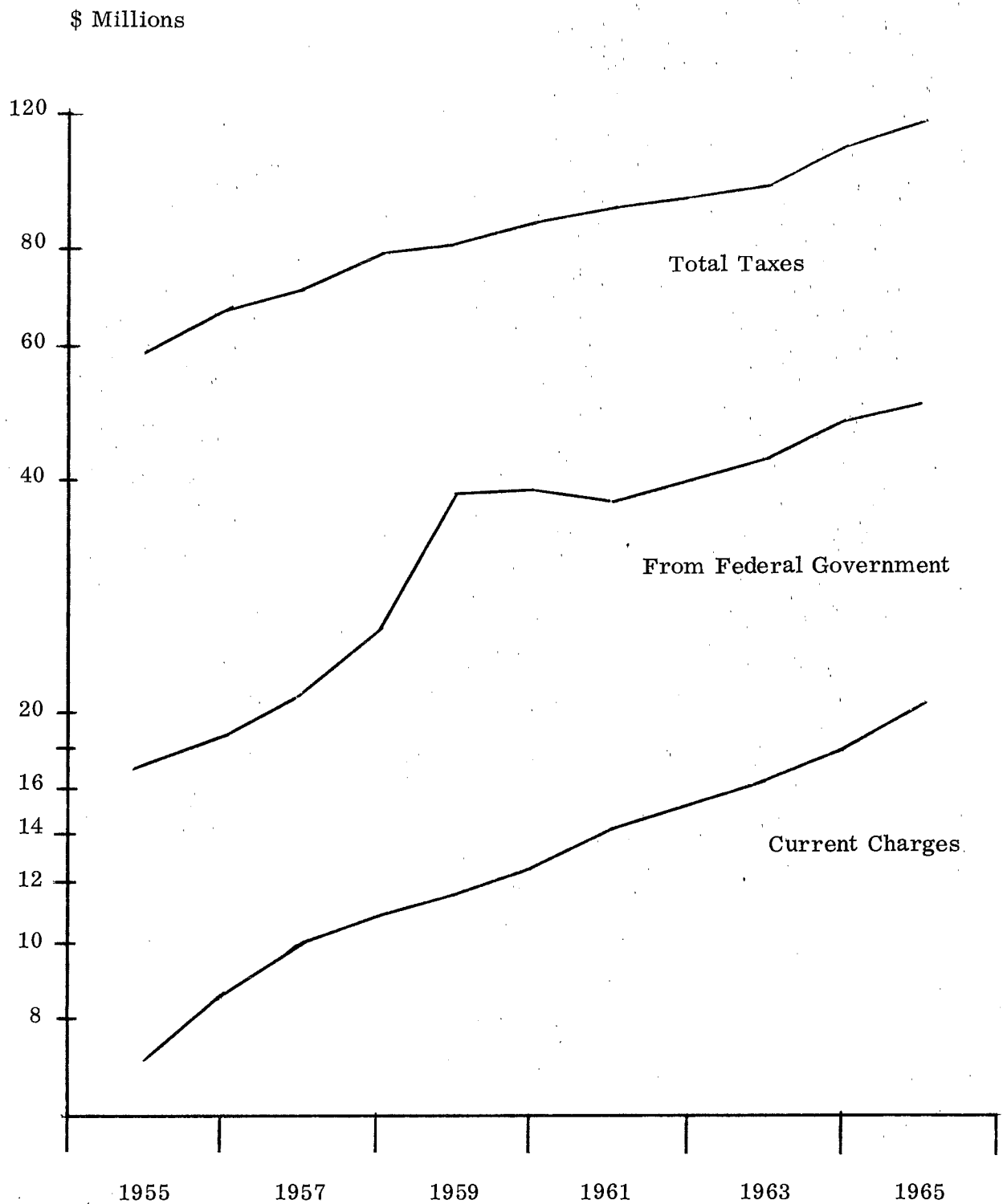
STATE GOVERNMENTS, MAJOR SOURCES OF GENERAL REVENUE
ALL STATES



Source: Compendium

CHART 7

MAINE STATE GOVERNMENT
MAJOR SOURCES OF GENERAL REVENUES



Source: Compendium

The Table shows the Receipts from Taxes, Including Licenses and Permits. The subject of taxes will be aired at length below; the only reason for presenting these at this stage is to bring together elements of what may well be thought of as a single picture. At any rate, it would appear from these numbers that a reasonable expectation is an annual increase of something like \$300,000 for the Net Contribution of the alcohol monopoly. This is formalized in Table 21.

We are left with general revenues, which clearly must be relied upon to obtain most of the money we have spent in the earlier pages. This item, as we saw, comprises taxes (including licenses); intergovernmental revenues from two sources, the federal government, and local governments; service charges for current services performed by a state agency; and a catch-all miscellaneous sum, Other General Revenue.

Other General Revenue, as shown in Table 22, includes intergovernmental revenue from local governments; sale of property; interest earnings, fines and forfeits; rents and royalties; donations; and miscellaneous general revenue, not elsewhere classified. This differs a bit from the earlier Table, for there intergovernmental revenue from local governments was shown separately. The advance in this category is strong but jerky. On the average it seems to have climbed by close to half a million dollars a year in the latter part of the period shown. Hence we postulate such a rise, \$.5 millions annually, over the next few years, producing expected amounts as set down in Table 23. One is convinced that a pattern as neat as this is not what will in fact occur, but perhaps the actuals will not be too, too far away.

TABLE 21

NET CONTRIBUTIONS TO GENERAL FUNDS OF
MAINE STATE ALCOHOLIC BEVERAGE MONOPOLY SYSTEM

	Estimates
	\$ Millions
Fiscal Year	
1967	8.3
1968	8.6
1969	8.9
1970	9.2

Source: See Text

TABLE 22

STATE OF MAINE
OTHER GENERAL REVENUE

\$ Millions

Fiscal Year	
1954	4.7
1955	5.6
1956	6.0
1957	6.2
1958	5.3
1959	5.5
1960	7.4
1961	7.9
1962	7.4
1963	7.6
1964	8.3
1965	10.3
Annual Average Increase	
1954-56 to 1959-61	.3
1959-61 to 1963-65	.45

Source: Compendium, for the various years.

TABLE 23

STATE OF MAINE
OTHER GENERAL REVENUE

Estimates
\$Millions

Fiscal Year	
1967	11.2
1968	11.7
1969	12.1
1970	12.6

Source: See Text

Of the remaining revenue sources we examine next the second largest of all, intergovernmental revenues of the state from the federal government. This is a marvelously complex hydra, as Table 24 hints. It does no more than hint, however, for the number of categories, seven, is not too great, and the directions typically simple to follow. The largest segment goes to highways, whereas in 1957 it went to public welfare. The advancing tide of prosperity may be most responsible, but nevertheless welfare is second. Education is a distant third. The three leaders account for better than 85% of the total in 1965, both for Maine and All States.

We read: "The Federal Government is now administering over 40 separate programs of financial aid for urban development, involving some 13 departments and agencies."¹ Altogether there are perhaps almost 100 separate programs or segments of programs through which federal funds can flow to states and localities for health and hospital facilities and services."² The changes are so vast and so rapid that a Catalogue of this kind of spending issued in 1964 had to be supplemented almost immediately for 1965. Even that was quickly left behind by events; a second supplement was felt to be indispensable in 1966. The number of laws passed by Congress in 1965 alone, aiding states and local governments runs to 85.³

1. Subcommittee on Intergovernmental Relations of the Committee on Governmental Operations, U. S. Senate, Impact of Federal Urban Development Programs on Local Government Organization and Planning, 1964, p. iii.
2. The Council of State Governments, Health and Hospital Expenditures of State and Local Governments: 1970 Projections, p. 81.
3. Subcommittee on Intergovernmental Relations of the Committee on Governmental Operations, U. S. Senate, Catalogue of Federal Aids to State and Local Governments, Second Supplement, 1966, pp. 219-20. See also the Catalogue and the First Supplement; Intergovernmental Relations Commission, Maine, Federal Grant-in-Aid Programs for the State of Maine, August 1965; and Advisory Commission on Intergovernmental Relations, The Role of Equalization in Federal Grants, 1964.

TOTAL 24

STATE GOVERNMENTS
INTERGOVERNMENTAL REVENUE FROM THE FEDERAL GOVERNMENT

Percent

<u>Fiscal</u> <u>Year</u>	<u>Total</u>	<u>Education</u>	<u>Highways</u>	<u>Public</u> <u>Welfare</u>	<u>Health &</u> <u>Hospitals</u>	<u>Natural</u> <u>Resources</u>	<u>Employment</u> <u>Security</u> <u>Administration</u>	<u>Other</u>
A. ALL STATES								
1957	100.0	12.2	27.8	44.2	3.2	3.4	6.9	2.4
1962	100.0	13.9	38.6	34.5	2.2	1.8	5.9	3.0
1965	100.0	14.1	40.4	31.7	2.2	1.7	4.6	5.2
B. MAINE								
1957	100.0	6.2	34.3	42.9	2.9	6.2	5.7	1.9
1962	100.0	5.1	45.9	36.9	1.8	4.4	4.9	1.0
1965	100.0	8.9	45.6	33.4	1.6	4.2	4.2	2.2

Source: Compiled from data in Compendium for the various years.

Note: Detail will not necessarily add to 100.0 because of rounding.

The amounts under such circumstances are exceedingly difficult to predict with assurance that estimates will be meaningfully close to future actuality. Furthermore, in the midst of the nation's Vietnam crisis the pressures are strong for the federal government to spend for arms. Since its funds are limited -- whatever appearances may indicate to the uninitiate -- there exists a powerful deterrent to other spending. High on the list of this "other" is, as we know, the federal aids to state and local governments.

Nevertheless, if one is to discover the magnitude of Maine's tax problem, the attempt must be made. Chart 8 shows the results of a study of these expenditures to the State of Maine as they moved through time. There does appear to be a close connection, with a correlation coefficient of .95 (where a maximum correlation equals 1.00). Additionally it should be stated, the study carried through 1965 data. It predicts \$63.3 millions for fiscal 1966. Actual 1966 seems to be very close to \$64.4 millions. The prediction would have been in error by a mere 1.7%. Would that I could estimate everything that closely! Projecting in this fashion, we arrive at the estimates of Table 26. The numbers climb at a healthy rate, 12% per year, which clearly outstrips either the state government's expenditures, or national income, or gross national product for that matter.

We noticed that charges received by the state for current services it performs constitute a significant sum. What exactly is contained in this class? The Bureau of the Census states they are "amounts received from the public for performance of specific services benefiting the person charged, and from sales of commodities and services, except liquor store sales." Education, we see in Table 25, brings in half or more of these sums. The expansion in expenditure for higher education

TABLE 25

SERVICE CHARGES FOR CURRENT SERVICES

Percent

<u>Fiscal Year</u>	<u>Total</u>	<u>Education</u>	<u>Highways</u>	<u>Other</u>
A. ALL STATES				
1957	100.0	49.5	18.4	32.2
1962	100.0	50.0	19.8	30.2
1965	100.0	54.8	17.8	27.4
B. MAINE				
1957	100.0	40.0	46.0	14.0
1962	100.0	45.7	41.1	13.2
1965	100.0	50.5	36.9	12.6

Source: Compiled from Comendium, for the various years.

Note: Detail will not necessarily add to 100.0 because of rounding.

TABLE 26

MAINE STATE GOVERNMENT
Estimated Revenues

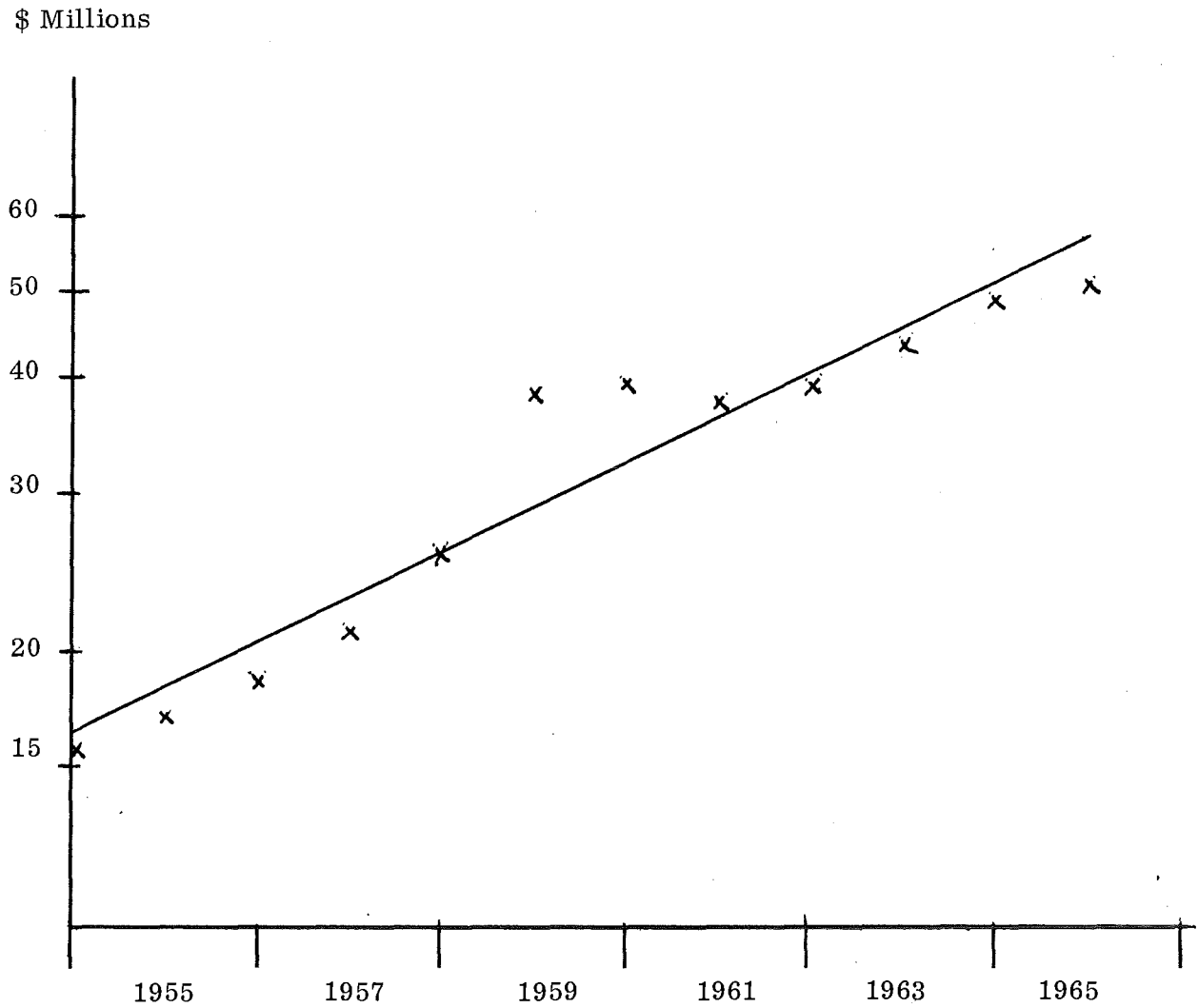
\$ Millions

<u>Fiscal Year</u>	<u>Revenue from Federal Government</u>	<u>Service Charges for Current Services</u>
1967	70.9	31.1
1968	79.4	36.8
1969	88.9	43.4
1970	99.5	51.2

Source: See text

CHART 8

MAINE STATE GOVERNMENT
INTERGOVERNMENTAL REVENUE FROM THE FEDERAL GOVERNMENT

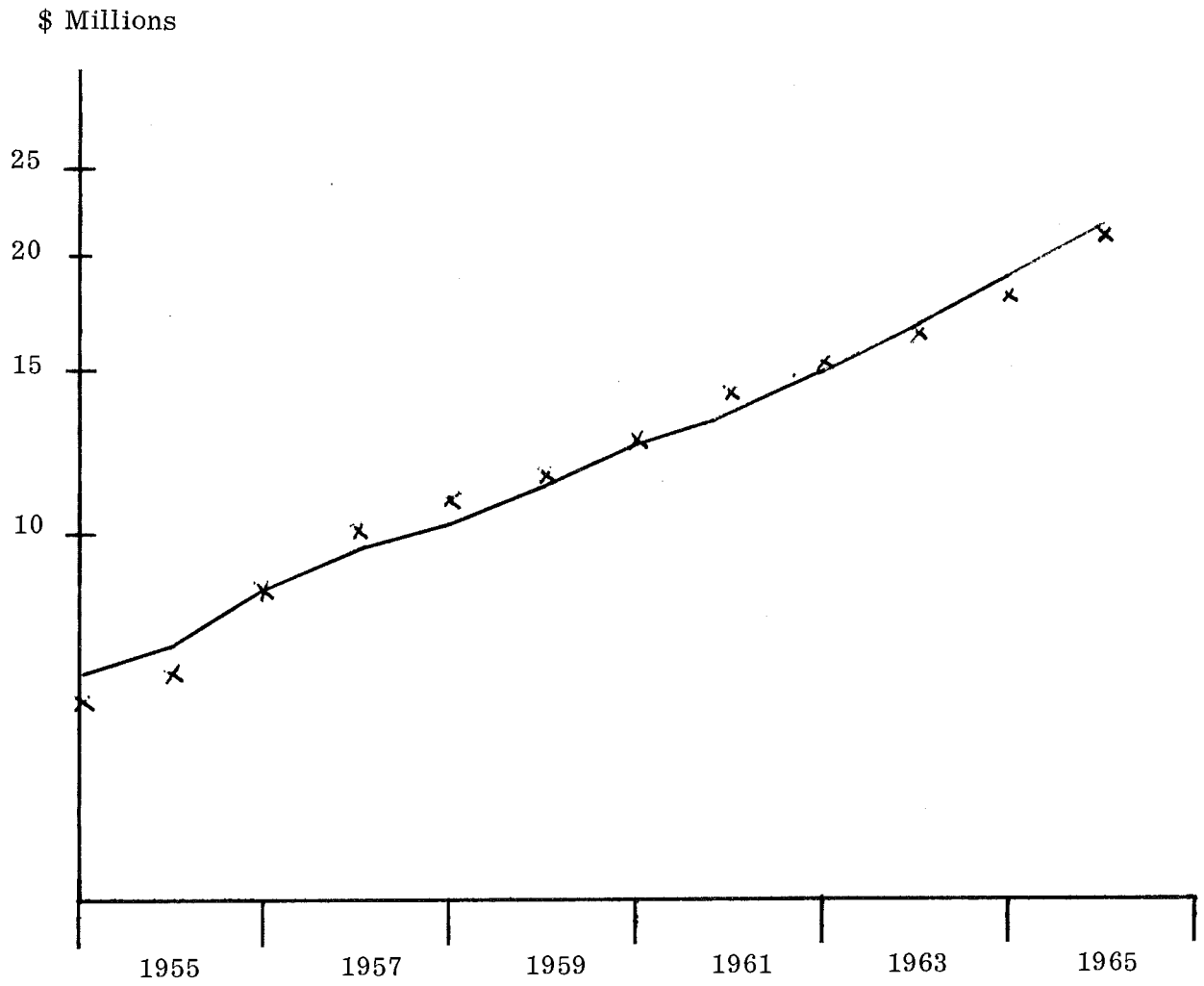


Source: See Text

of late has forced more state tax money, more federal money, and more money via current charges. We realize by now that the total of current charges has been growing markedly, and in this Table we see that the fastest moving sector within this sphere is education -- it now takes a measurably larger percentage of All States total current charges. In Maine its growth has been phenomenal, for it now accounts for half of all. Highways in Maine pay a good deal of the remainder, but note the drop in proportion, 46% to 37%. What remains after these two brings in very small portions of such funds in Maine, more than 1/4 in the average state. It seems likely that such receipts of states, i.e., such spending by the public, would be related to the income of the public, gross national product. This was tested and fortunately the attempt appears to have succeeded. The correlation is .99. See Chart 9. Table 26 offers my estimates for 1967 -70.

MAINE STATE GOVERNMENT
SERVICE CHARGES FOR CURRENT SERVICES

CHART 9



Source: See text

TAXES

Taxes move to the center of the stage. Our statements thus far come to this. General expenditures are expected to total a given amount. We can expect nontax revenues to produce all in all a certain sum. The difference between them is what taxes are required to achieve. Can they? Our answers must come from examination of the tax system. If they can be expected to collect the required monies the present inquiry can rest. If they cannot, we must push on and ask about the best sources, given all the circumstances. Table 27 gives my measures of the tax needs of the state government of Maine, obtained from my work in the earlier pages.

What is the tax system like, the system that is to yield this money? Once more we fall back on comparisons, so that our state is not looked at in a vacuum. Only the relatively important trends of Table 28 need be pointed out. The reader may, if he desires, obtain more details from a longer stopover with this bulky Table.

1. Sales taxes in Maine, important in 1957, are almost pre-empting the entire field at virtually 80% in 1965.
2. Actually it is the general sales tax which has blown up like bubble gum. It has gone in these few years from about 1/4 to virtually 40%.
3. Selective sales taxes were double the general sales volume in 1957; now they are at the same level. Their relative decline is felt most in motor fuels taxes. Perhaps this turn of events is not bad in view of the fact that the federal government collects sums in this manner that are not unsubstantial. A little more of the drop derives from tobacco products taxes. About two percentage points of it stem from Public Utilities. This one is somewhat misleading, however, for public utilities are now also within the scope of the general sales tax.

TABLE 27

MAINE STATE GOVERNMENT
EXPENDITURES AND NONTAX REVENUES

Estimates \$ Millions						
Fiscal Year	(1) General Expenditures, Total	(2) Intergovern- mental Revenue from Federal Government	(3) Current Charges	(4) Other General Revenue	(5) Net Contributions Liquor Monopoly	(6) Tax Requirements =(1)-(2)-(3)-(4)-(5)
1967	\$245.9	\$70.9	\$31.1	\$11.2	\$8.3	\$124.4
1968	271.5	79.4	36.8	11.7	8.6	135.0
1969	299.8	88.9	43.4	12.1	8.9	146.5
1970	331.3	99.5	51.2	12.6	9.2	158.8

Source: Tables 11, 21, 23, and 26.

TABLE 28

STATE TAX SYSTEMS

Percent

A. ALL STATES

	Total Taxes	Total Sales & Gross Receipts	General Sales & Gross Receipts	Selective Sales and Gross Receipts								
				Total	Motor Fuels	Alcoholic	Tobacco Products	Insurance	Public Utilities	Pari- mutuels	Amuse- ments	Other Selective Sales Taxes
1965	100.0	57.7	25.7	32.0	16.5	3.4	4.9	2.8	1.9	1.4	0.2	0.8
1962	100.0	58.5	24.8	33.6	17.9	3.6	5.2	2.9	2.0	1.4	0.1	0.6
1957	100.0	58.1	23.2	34.8	19.5	3.9	3.8	2.9	2.4	1.5	0.1	0.7

	Total License Taxes	Indi- vidual Income	Corporation Net Income	Property	Death & Gift	Severance	Poll	Document & Stock Transfer	Other Taxes
1965	12.4	13.9	7.4	3.0	2.8	1.9	...	0.6	0.5
1962	13.0	13.3	6.4	3.2	2.6	2.1	...	0.6	0.3
1957	15.0	10.8	6.7	3.4	2.4	2.7	...	0.6	0.4

TABLE 28

STATE TAX SYSTEMS

Percent

B. MAINE

	Total Taxes	Total Sales & Gross Receipts	General Sales & Gross Receipts	Selective Sales and Gross Receipts								
				Total	Motor Fuels	Alcoholic	Tobacco Products	Insurance	Public Utilities	Pari- mutuels	Amuse- ments	Other Selective Sales Taxes
1965	100.0	79.2	39.5	39.7	22.5	3.0	6.7	2.5	3.7	1.2	...	...
1962	100.0	77.1	31.7	45.4	25.0	3.5	8.6	2.8	4.3	1.2	...	...
1957	100.0	74.8	24.3	50.4	29.6	2.9	8.2	2.9	5.6	1.1	...	...

	Total License Taxes	Indi- vidual Income	Corporation Net Income	Property	Death & Gift	Severance	Poll	Document & Stock Transfer	Other Taxes
1965	14.9	...	...	1.9	4.1	...	...	...	...
1962	16.7	...	...	2.2	4.0	...	...	...	...
1957	20.2	...	...	2.0	3.1	...	...	...	...

TABLE 28

STATE TAX SYSTEMS

Percent

C. NEW HAMPSHIRE

	Total Taxes	Total Sales & Gross Receipts	General Sales & Gross Receipts	Selective Sales and Gross Receipts								
				Total	Motor Fuels	Alcoholic	Tobacco Products	Insurance	Public Utilities	Pari- mutuels	Amuse- ments	Other Selective Sales Taxes
1965	100.0	63.2	...	63.2	30.8	2.4	10.3	4.4	1.4	13.9	...	...
1962	100.0	61.0	...	61.0	30.6	2.4	9.9	4.6	1.4	12.1	...	...
1957	100.0	53.5	...	53.5	27.5	3.1	9.7	4.7	...	8.4	...	...
	Total License Taxes	Indi- vidual Income	Corporation Net Income	Property	Death & Gift	Severance	Poll	Document & Stock Transfer	Other Taxes			
1965	21.5	4.0	...	4.2	4.2	0.2	2.8	...	...			
1962	22.3	3.7	...	3.9	6.1	0.2	2.9	...	...			
1957	25.3	4.6	...	6.0	6.5	0.1	4.0	...	...			

TABLE 28

STATE TAX SYSTEMS

Percent

D. VERMONT

	Total Taxes	Total Sales & Gross Receipts	General Sales & Gross Receipts	Selective Sales and Gross Receipts								
				Total	Motor Fuels	Alcoholic	Tobacco Products	Insurance	Public Utilities	Pari- mutuels	Amuse- ments	Other Selective Sales Taxes
1965	100.0	43.4	...	43.4	15.8	8.5	6.5	2.4	2.2	2.4	...	5.7
1962	100.0	44.9	...	44.9	18.8	8.8	7.3	2.4	2.9	...	...	4.7
1957	100.0	39.1	...	39.1	19.2	8.6	5.5	2.8	3.1	...	...	...

	Total License Taxes	Indi- vidual Income	Corporation Net Income	Property	Death & Gift	Severance	Poll	Document & Stock Transfer	Other Taxes
1965	17.6	29.5	5.3	0.6	2.5	...	1.3	...	...
1962	19.8	25.7	5.0	0.8	2.4	...	1.5	...	...
1957	20.9	26.1	6.6	1.2	4.0	...	2.2	...	...

TABLE 28

STATE TAX SYSTEMS

Percent

E. MASSACHUSETTS

	Total Taxes	Total Sales & Gross Receipts	General Sales & Gross Receipts	Selective Sales and Gross Receipts								
				Total	Motor Fuels	Alcoholic	Tobacco Products	Insurance	Public Utilities	Pari- mutuels	Amuse- ments	Other Selective Sales Taxes
1965	100.0	32.3	...	32.3	13.4	4.6	7.3	2.9	...	2.3	...	1.9
1962	100.0	34.5	...	34.5	14.9	5.1	7.7	2.5	...	2.6	...	1.8
1957	100.0	34.8	...	34.8	15.1	6.1	6.9	2.3	...	2.8	...	1.7

	Total License Taxes	Indi- vidual Income	Corporation Net Income	Property	Death & Gift	Severance	Poll	Document & Stock Transfer	Other Taxes
1965	22.9	32.6	7.3	...	4.6	...	...	0.3	...
1962	23.0	32.4	6.0	...	3.8	...	...	0.3	...
	25.6	26.9	7.3	...	4.9	...	...	0.3	...

TABLE 28

STATE TAX SYSTEMS

Percent

F. CONNECTICUT

	Total Taxes	Total Sales & Gross Receipts	General Sales & Gross Receipts	Selective Sales and Gross Receipts								
				Total	Motor Fuels	Alcoholic	Tobacco Products	Insurance	Public Utilities	Pari- mutuels	Amuse- ments	Other Selective Sales Taxes
1965	100.0	68.3	31.5	36.8	14.8	4.0	6.1	4.8	6.0	...	...	0.8
1962	100.0	72.4	31.0	41.2	15.5	4.7	6.0	5.3	8.6	...	...	1.0
1957	100.0	70.3	34.8	35.5	18.4	3.2	4.5	4.8	3.3	...	...	1.4

	Total License Taxes	Indi- vidual Income	Corporation Net Income	Property	Death	Severence	Poll	Document & Stock Transfer	Other Taxes
1965	9.1	...	14.6	...	7.9	...	...		...
1962	8.0	...	12.2	...	7.3	...	...		...
1957	9.6	...	13.1	...	7.0	...	...		...

TABLE 28

STATE TAX SYSTEMS

Percent

G. RHODE ISLAND

	Total Taxes	Total Sales & Gross Receipts	General Sales & Gross Receipts	Selective Sales and Gross Receipts								
				Total	Motor Fuels	Alcoholic	Tobacco Products	Insurance	Public Utilities	Pari- mutuels	Amuse- ments	Other Selective Sales Taxes
1965	100.0	71.1	29.7	41.4	15.5	2.7	7.5	2.7	4.9	7.2	...	0.8
1962	100.0	74.0	27.5	46.5	18.4	3.5	7.5	3.0	5.5	7.8	...	0.7
1957	100.0	71.2	24.2	47.0	14.8	3.8	5.5	3.5	6.7	11.3	NA	1.3

	Total License Taxes	Indi- vidual Income	Corporation Net Income	Property	Death & Gift	Severance	Poll	Document & Stock Transfer	Other Taxes
1965	11.8	...	9.9	...	7.3	...	...	...	...
1962	13.0	...	9.8	...	3.1	...	...	...	...
1957	13.1	...	12.6	...	3.2	...	...	...	...

Note: Detail may not add to total because of rounding.

4. Licenses are falling as well. Here again we find motor vehicles involved, for they provide most of this money in vehicle registrations and operators' licenses.

5. In the All States grab-bag sales taxes were virtually stationary, contrary to Maine's movement.

6. Individual and corporate income taxes became increasingly important. Together they now bring in 21.3% of all tax revenue in a typical state. Maine lacks them.

7. Licenses, death and gift, and property taxes are at roughly Maine's level and moved in the same manner.

8. We pointed out earlier the differences ⁱⁿ the financial structure of states and local governments in New England. It should therefore lift no eyebrows when evidence of differences in state tax structures comes into view. New Hampshire, where the state is required to raise considerably less revenue than Maine, has no general sales tax. But the selective sales taxes have grown in importance to the point where they draw almost 2/3 tax money -- motor fuels primarily, followed by pari-mutuels and tobacco products. Licenses are more productive than in Maine, and New Hampshire gets relatively more, in a mild kind of way, from property and poll taxes.

9. Vermont differs from us in different ways yet: no general sales tax; sales taxes yield about half in percentage terms of the figure found in Maine; strong reliance placed on income taxes -- together individual and corporate income taxes have not much less drawing than sales taxes; the remainder is filled out principally by licenses.

10. Massachusetts collected more in the sixties from income than sales taxes. The structure changed in 1966, a year for which we do not yet have the figures. Its licenses are swollen compared with any of our other jurisdictions. Licenses

turn out to be "net income" money from corporations, in part.

Variants of some of the above themes are to be found in Connecticut and Rhode Island. Once more there is diversity.

THE PRESENT TAX SYSTEM

How adequate will the Maine state tax system prove to its needs in the next years? We saw that this question concerns fundamentally the capability of sales taxes to deliver. Given proper enforcement, the yield of a tax will of course equal the tax-rate multiplied by the base. For example, if a tax is based upon sales, a 2% levy will bring in \$2 millions if sales are \$100 millions; a 3% rate \$3 millions, and so on. Suppose the rate is not monkeyed with; we hold it fixed. How much tax money will be forthcoming? An interesting question, because of all the fuss and feathers attendant upon changing a rate for an important tax. If an unchanged tax-rate will yield increasing amounts because the base is swelling, sales, e.g.; and if this growth is at the same annual percentage as the growth in the spending of the government; then, other things being equal -- as economists are fond of saying -- there will be no problem of balancing budgets. Revenues will be sufficient unto requirements. If the base rises faster, and therefore so does tax revenue, a surplus will develop; and vice versa, for a slower move of the tax revenue at a given tax-rate.

One can attack this problem by falling back on the relationship that exists between a tax base and income in the society. If one examines an income tax, it seems fairly clear that there ought to be a relationship between the tax intake -- at unchanged tax rates -- and the income of the country. The most comprehensive income concept in the land is gross national product. Now there is furthermore,

as one might expect, a close relationship between a family's consumption and its income. Since sales are to the fellow behind the counter what consumption is to the housewife, one would think that a tax based on sales would correlate well with gross national product. This connection is labeled the income elasticity of a tax. It is frequently best to look for such ties between "real" magnitudes: how many chairs will be bought if a family's real income is at a given level; how many if "real" income doubles; etc. At the close of investigation the answer can be multiplied by appropriate prices to arrive at dollar figures, when appropriate. For Maine revenues, I did this in the case of motor vehicle registrations. It did not appear feasible to obtain the tax elasticity in this manner for the other tax categories. (It might be well to remember that licenses, of which these registrations are one example, are listed as taxes - license taxes.) In all other instances I correlated dollar taxes at unchanged rates with dollar gross national product (what economists refer to as gross national product in current dollars).

The tax elasticity studies of Maine data were made by me for some 82%, in dollar value, of the state's total tax levies, and also for a type of tax not in Maine's current arsenal. Let us examine the results.

The largest, the general sales and use taxes, appears to have an elasticity of .84, which essentially means that when the gross national product rises by 10% the revenue from this tax will increase 8.4%. In other words, the tax revenue will grow less rapidly than income. Naturally if state expenditures should leap ahead as rapidly as income -- an "expenditure elasticity," if you will, of 1 -- there would be a gap. State expenditures, you see, would be rising by 10%, while tax revenues by only 8.4%. Extra revenue to a dollar amount equivalent to 1.6% would have to be raised in some other fashion: a higher rate, a different type

of tax, or what-not.

This .84 was determined by adjusting revenue from Maine's general sales taxes to a rate of 3%, because this rate was in effect longer than any other, and studying its relationship to gross national product. The results are shown in Chart 10. The line joins all the sales tax values, 1954 to 1966 inclusive, that would arise if the connection with gross national product were perfect. It is not and is not intended to be a straight line. Do not be deceived. Each cross represents a pair of values, actual sales tax and gross national product for a particular year, one cross - one year. Notice the crosses are quite close to the "line."¹ Here the correlation coefficient is .976.

Chart 11 shows the results of an examination of the linkage between motor fuel taxes and gross national product. The points are even closer than in the previous case. An exceedingly tight tie. This is the stuff of which good predictions are made. The correlation is .987. A glance at an earlier result shows us these two taxes alone account for 62% of the total in 1965.

This technique fails in determining cigarette tax revenues. Table 29 shows that at a constant tax-rate, these revenues do not respond at all to income increases. How sluggish this tax is! It is of precious little help (at a constant tax-rate) in paying for expanding government requirements.

The results of elasticity research into Maine's motor vehicle registrations and operators' licenses are shown in Chart 12. The latest year examined was 1963, because a significant change was made in 1964, for which it seemed best not to attempt to adjust. For the ten years shown, the points again are close to the

1. The relationship calculated, and this is true of each of the tax cases below, was one in the logarithms of both variables.

\$ Millions

CHART 10

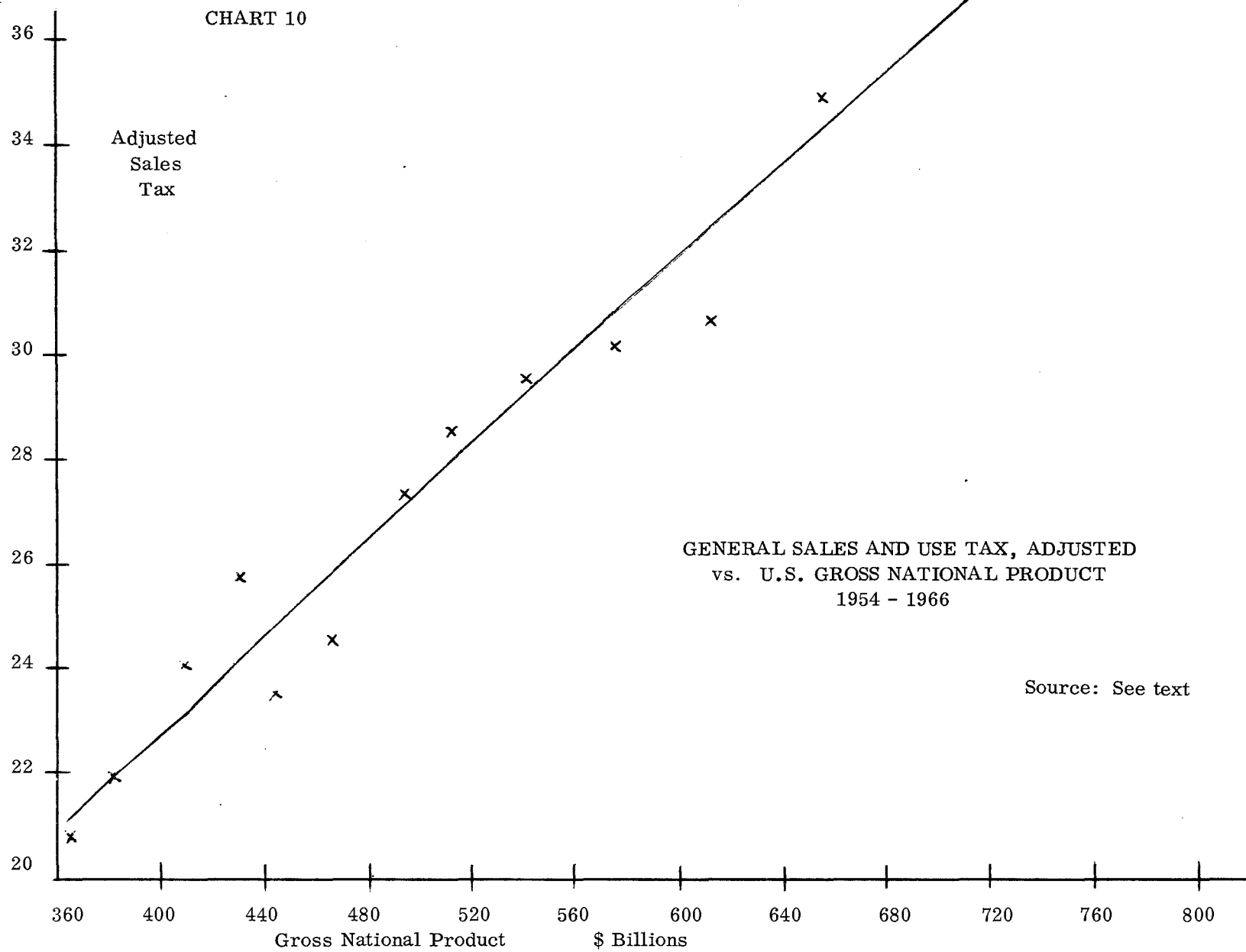


CHART 11

STATE OF MAINE
MOTOR FUEL TAXES, ADJUSTED vs. U.S. GROSS NATIONAL PRODUCT
1954 - 1966

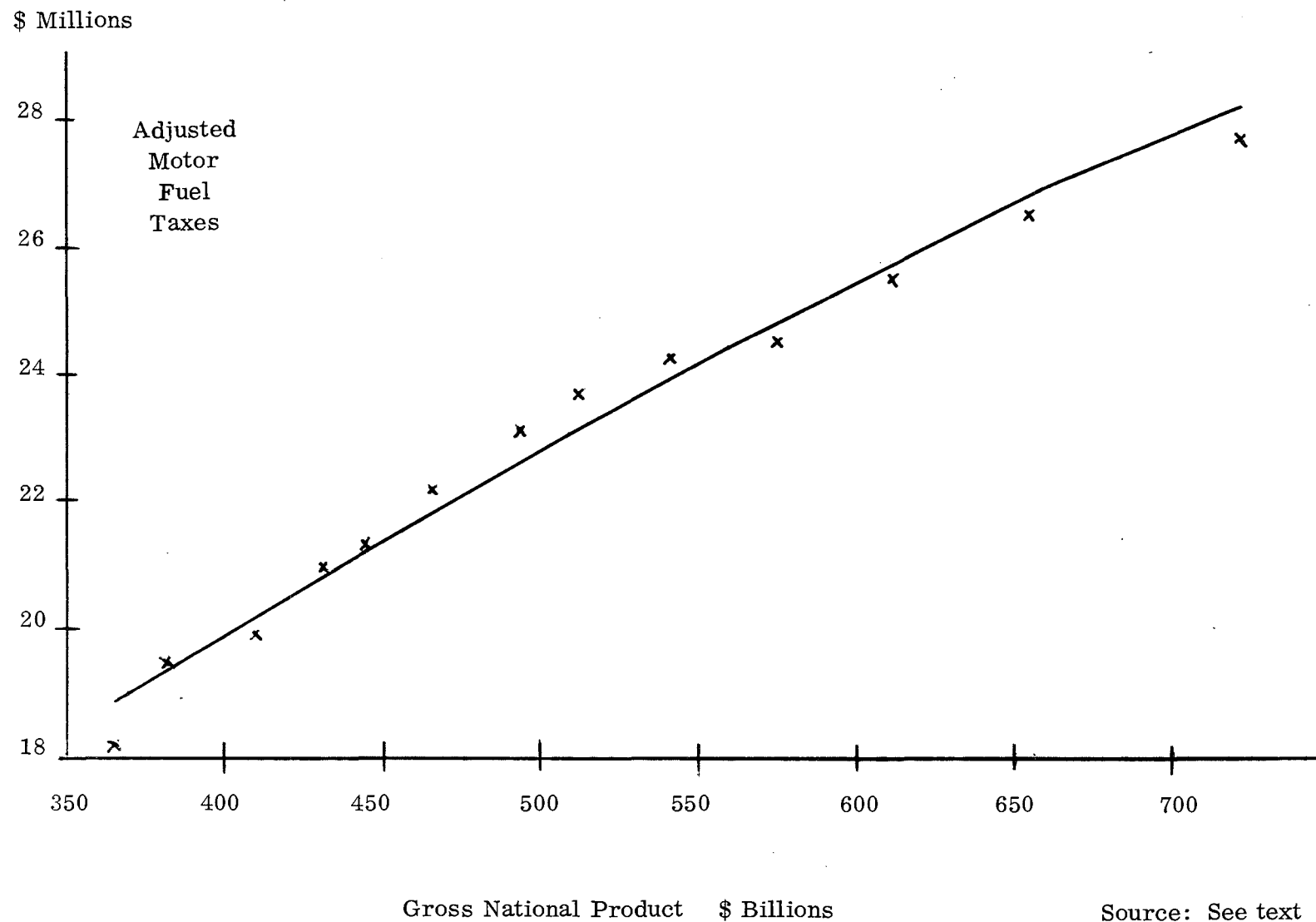
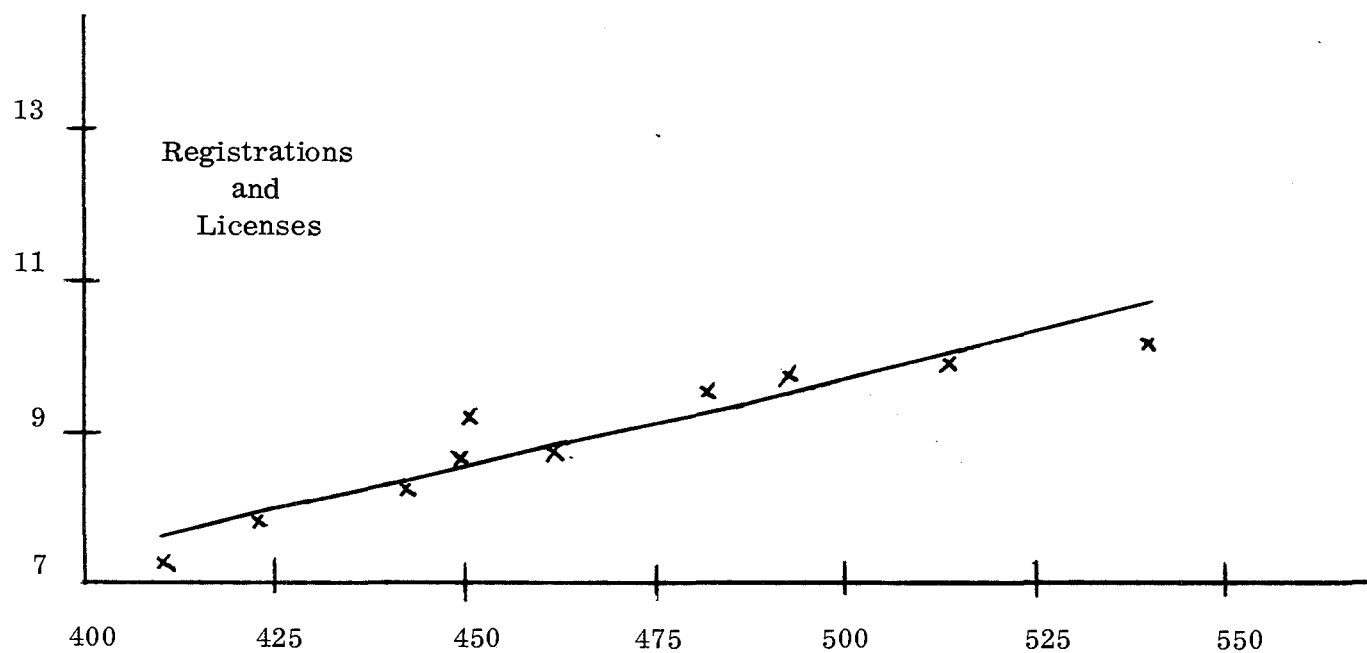


CHART 12

STATE OF MAINE
MOTOR VEHICLE REGISTRATIONS AND OPERATORS' LICENSES
vs. U. S. REAL GROSS NATIONAL PRODUCT

\$ Millions



Gross National Product in 1958 Prices

\$ Billions

Source: See text

TABLE 29

STATE OF MAINE
CIGARETTE TAX REVENUES, ADJUSTED^a
\$ Millions

Year	Adjusted Cigarette Tax Revenues
1955	5.6
1956	5.6
1957	5.8
1958	5.9
1959	6.2
1960	6.6
1961	6.9
1962	6.7
1963	6.7
1964	6.6
1965	6.7
1966	6.6

^a Adjustments made to take into account rate changes in 1956, 1962, and 1965.

Source: Compiled from state Financial Report, and Report of the Bureau of Taxation, for the various years.

TABLE 30

INCOME ELASTICITIES

Tax	Percentage of Maine State Taxes, 1965	Elasticities			
		Present Study, Maine	High	Medium	Low
General Sales	39.5%	.84	1.05	.97	.9
Motor Fuel	22.5	.61	.6	.5	.4
Cigarette	6.7	0	.4	.35	.3
Motor Vehicle Registrations & Licenses	9.6	.84 ^a	.4	.3	.2
Inheritance & Estate	4.1	1.71	1.2	1.1	1.0
Total	82.4%				

^a This is the translation for the sake of comparability of the elasticity as calculated, into an elasticity with respect to Gross National Product in current dollars.

Source: For Maine, see text. Others: Advisory Commission on Intergovernmental Relations, Federal-State Coordination of Personal Income Taxes, 1964, pp. 40-45; Morgan, D.C., Jr., Retail Sales Tax, 1964, pp. 90-91.

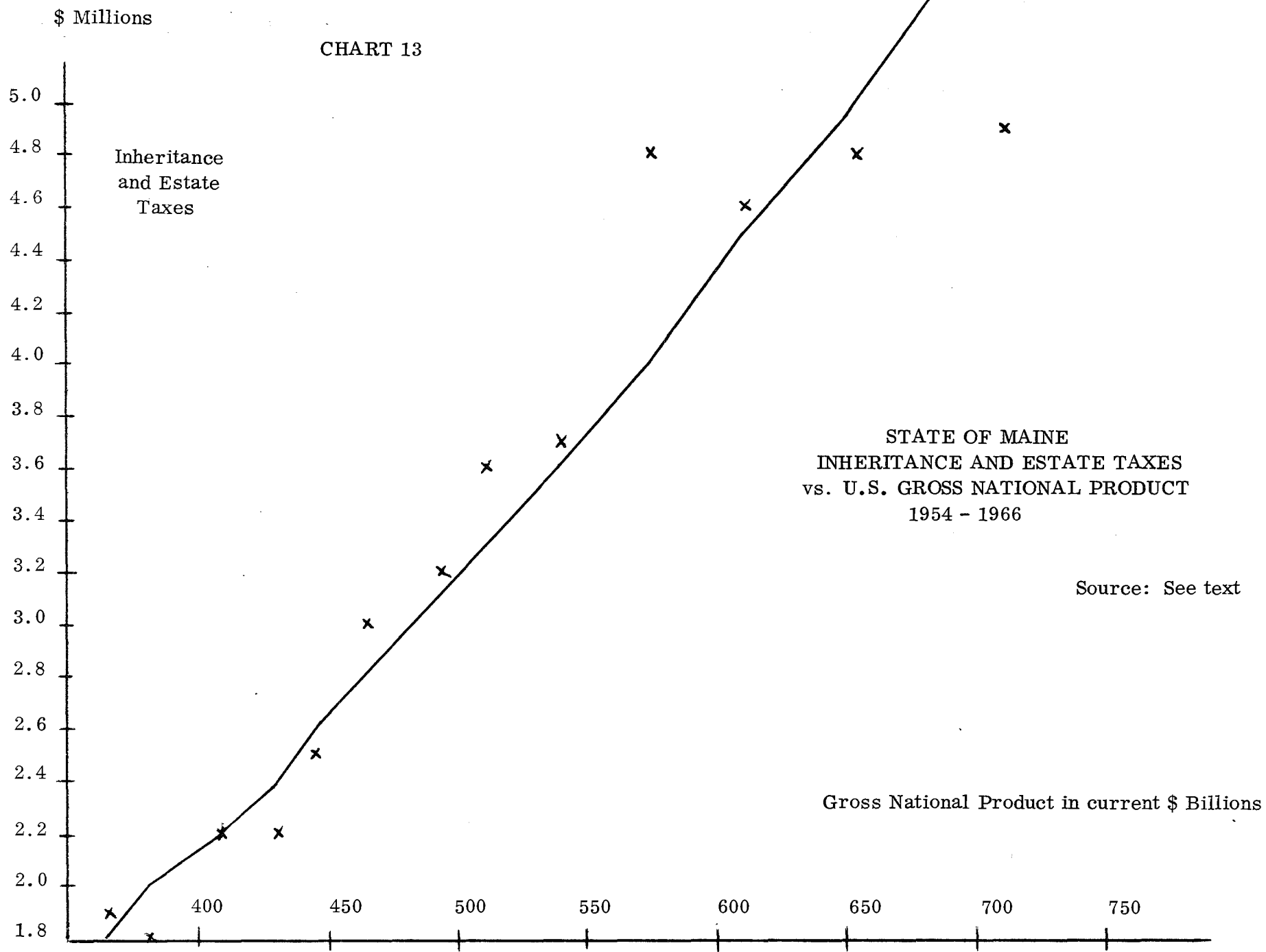
calculated figures. The correlation is .932. These types of taxes accounted in 1965 for close to 10% of all tax revenue. The study matched these against real income, i.e., gross national product after the effect of prices has been eliminated.

Insofar as it is directly pertinent to Maine's system, the final study I made -- for 4% of all 1965 state taxes -- dealt with inheritance and estate levies. See Chart 13. For a tax that has the reputation for high variability, it is surprising how close the actual tax revenues fall to predicted values in all but 2 of 13 years. The correlation coefficient is .966.

We might ask how these results for Maine in the latter half of the 1950's and the first half of the 1960's compare with those of other investigators for other states and times. The following Table gives a very compressed summary. My conclusions are not on the whole very different, but they are different. An interesting question arises as to causes, but we cannot stay, in this study, for the answer. Indeed we cannot find room here for full investigation of many other noteworthy problems.

The significance of the elasticities for the question in hand is that we use them to predict the tax revenues for the individual taxes. If we should know the gross national product of the years ahead, and the way this product affects tax behavior, and should it be true that this relationship is the dominant factor in the tax yield, we would know tolerably well how much money this tax is going to bring in.

I made predictions of gross national product for 1967 - 1970, based on recent experience, developing this out of experience of gross national product per capita, U. S. population, and price levels. I used the relationships discussed



above -- the elasticity studies -- against the specific gross national product predictions to arrive at the tax predictions for general sales, motor fuel, motor vehicle registrations and operators' licenses, and inheritance and estate taxes. These represent more than 3/4 of all 1965 taxes.

However, there still remain the cigarette tax and the various minor ones to bring into the story. Table 29 shows revenue from the cigarette tax, adjusted to eliminate the effect of changes in the rate on three occasions. This shows remarkable stability over the last seven years presented. I therefore postulate a similar stability in the future.

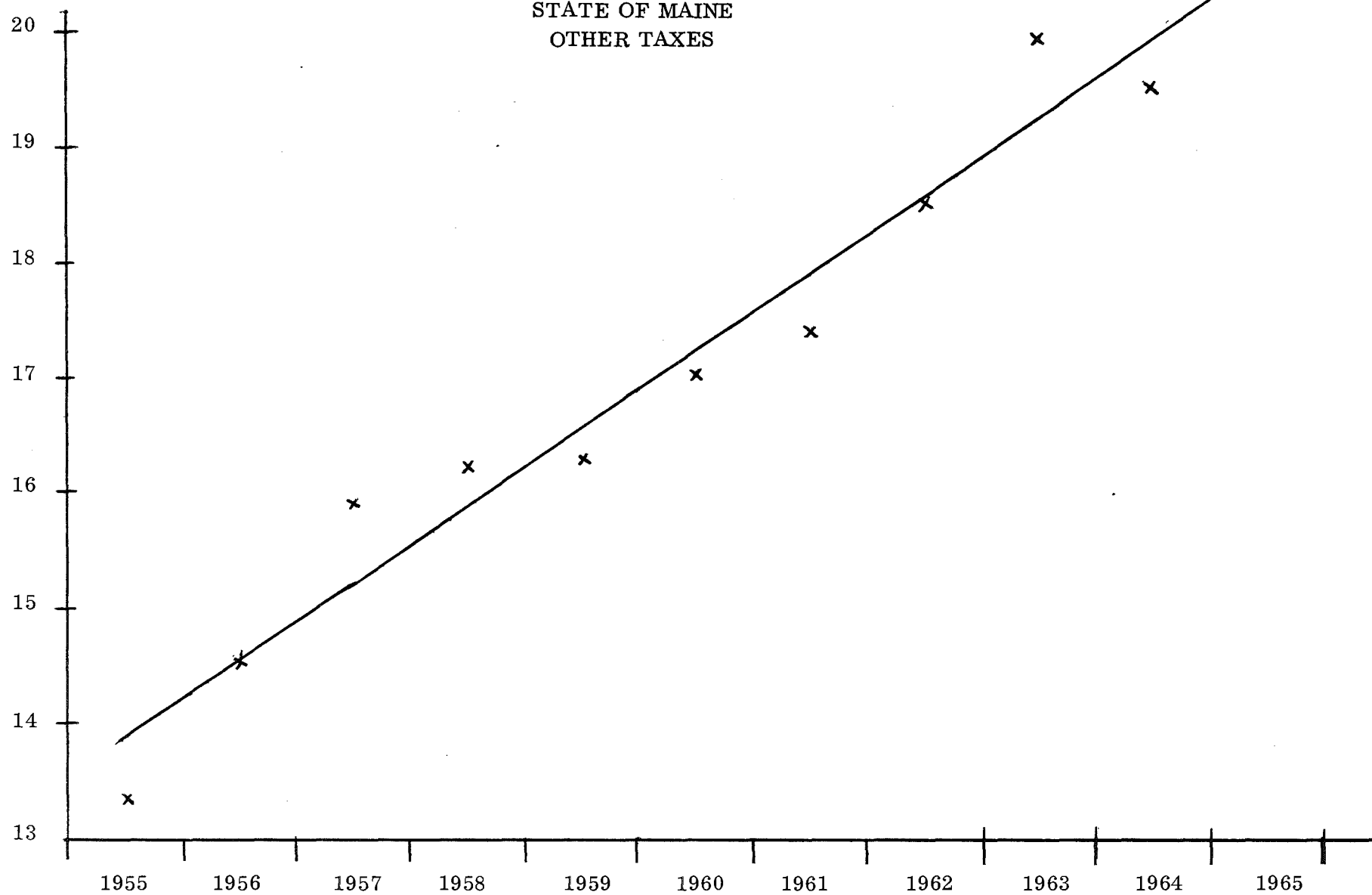
Finally, I have placed into a single category all the remaining taxes: insurance, public utilities, pari-mutuels, corporations in general, amusements, hunting and fishing, other license taxes, poll, alcoholic beverage (malt beverage, excise, and licenses and permits), property, and occupations and businesses not elsewhere classified. Chart 14 reveals how steady has been the arithmetic climb year by year in the sum of these, labeled Other Taxes. The actual points for 1955 to 1965 fall extremely close to a straight line. Therefore, we use this straight line to predict the revenue apt to be forthcoming from Other Taxes to fiscal year 1970.

Table 31 utilizes all the tax relationships for Maine which have been discussed. It classifies them in a way I found convenient to work upon. If the reader will compare the annual totals with the tax requirements derived earlier, it will be apparent that if all these turn out to be reasonable fascimilies of actuality then the expenditures of the state over the next years will be adequately covered by revenues. Obviously if any of the important figures, or a string of

\$ Millions

CHART 14

STATE OF MAINE
OTHER TAXES



Source: See text

TABLE 31

STATE GOVERNMENT, MAINE
TAX REVENUES
Estimates 1967 - 1970^a
\$ Millions

Fiscal Year	General Sales	Motor Fuel	Motor Vehicle Registrations & Licenses	Inheritance & Estate	Cigarette	Other	Total
1966	49.1	28.2	12.1	5.8	10.5 ^b	21.3	127.0
1967	53.8	30.1	13.0	7.0	10.5	22.0	136.4
1968	57.8	31.8	13.8	8.1	10.5	22.6	144.6
1969	62.1	33.5	14.7	9.3	10.5	23.3	153.4
1970	66.8	35.2	15.7	10.8	10.5	24.0	163.0

^a Estimates are based on tax-rates unchanged from 1966 levels.

^b Actual 1966 figure.

Source: See text.

unimportant ones, go the wrong way, there will be trouble. My task, I take it, is to look for the more likely contingencies, and not for a bogey man.

We found earlier that Maine state expenditures have an income elasticity of 1.18, or act as though they do. The total tax system as it presently stands, if my estimates of the future have any relation to reality, turns out to have an elasticity of .68. Our results come to this: a rise in income will be accompanied by an expenditure hike of 12% and a tax advance of only 7%. Taxes, if rates and base structures remain unchanged, will come to play an even smaller role in general expenditures than they do now. By 1970 taxes would raise less than half of revenues! This is a far cry from the common view of expenditures covered primarily by taxes. (If we include the net contributions of the liquor monopoly in taxes, which is not altogether legitimate, taxes would account for just a mite more than half.) The federal government would be providing about 30%. How times have changed! In 1942, which is after all not 1,000 years ago, the federal government was providing about 10%. Current charges would be 15% by 1970; let the receiver of benefits pay for what he receives. This is the logic of events.

OTHER TAXES

The rates of Maine taxes, at least when considered on the bases legally levied upon, e.g., sales, are frequently in a comfortable middle ground. This is true of gasoline and cigarette taxes. The general sales and use tax-rate is somewhat higher than usual: Pennsylvania has 5%; Maine and five others 4%; twenty-four states charge 3-3.9%; and rates keep rising, now one state instituting such a change, soon another.¹ Motor vehicle registrations seem to be lower:

1. See Commerce Clearing House, State Tax Handbook as of September 15, 1965.

Maine charges \$15, while not long ago a representative rate, according to The Advisory Commission on Intergovernmental Relations was \$32.64 per motor vehicle registered.¹

Maine has no personal income tax nor corporation income tax. Their place in the context of some other state tax systems we have seen. It might be mentioned that in 34 states personal income is taxed; of these, 25 also have a general sales tax. Even more tax corporation income, 39.²

Income taxes have a distinct advantage, I might state, from a revenue viewpoint in an era of economic expansion. Their elasticity is greater than that of the bulk of Maine's taxes. Close examination of the payments by Maine residents, 1954 - 1963, of personal income taxes to the federal government provides a pretty good indication of what would have happened had there been a state income tax in effect in those years, naturally at rates far lower than the federal. My study of this question³ yielded an income elasticity of 1.3 (with a correlation coefficient of .972). For national tax payments to the federal government, I obtained an elasticity of 1.2, which is close to that found by Richard Goode.⁴ Studies of state income taxes usually yielded elasticities between 1.5 and 1.8, in one instance even 2.0⁵ Income taxes do bring in money.

1. Measures of State and Local Fiscal Capacity and Tax Effort, 1962, p. 39.
2. The Council of State Governments, Book of States 1966-67, pp. 203-6.
3. Raw data are to be found in U. S. Treasury Department, Internal Revenue Service, Statistics of Income for Individual Income Tax Returns for these years.
4. The Federal Income Tax, Brookings Institution, 1964, 11. 293-4.
5. Morgan, op. cit.; The Advisory Commission on Intergovernmental Relations, Federal-State Coordination of Personal Income Taxes, ibid.

THE GENERAL SALES TAX

The general sales tax is usually thought to be a tax on households. I buy a pair of shoes for myself, and I pay a sales tax on it. In fact a host of purchases by businesses from businesses at various stages of the productive process are taxed under this type of law. Maine is just about like some twenty-two other sales tax states as regards the taxable status of purchases by business enterprises. The following purchases are taxable: industrial machines, tools and equipment; fuel for industrial processing; office equipment and supplies, display equipment, etc.; construction materials and supplies; agricultural machines, tools, etc. In 15 additional states some are taxable, different ones in different states. Exempt in Maine and these others are goods that become, so the rule runs, a physical part of the unit's product. Then they will presumably appear physically at a later stage, and the consumer will pay a tax on them.

A raw material will not be taxed. A machine will not appear in the product and will be taxed. Its purchase is held to be a final sale, and there is consequently no "later" in which to pick it up. This rule is nonsense. The textile machine appears in the final shirts sold in the department store just as truly as does the cotton cloth. Economically they are on a par. Nobody seriously imagines that the company will typically absorb the cost of the machine, whereas it will pass on in the price to the purchaser its payments for cloth. Each will in fact be in the price it charges. Thus if it can reasonably be thought that the sales tax is shifted forward, in other words is passed on to the buyer -- and most economists believe this -- then the sales tax paid by the consumer is capricious. If an article I buy passed through six taxed hands before arriving on the counter in front of me, I will in fact be hit with a much greater tax bill than if it passed through one. Nobody really knows

what this tax score is, item by item. But in total it is not insignificant. A very rough check I made with Maine data for 1965¹ indicates that about a third of all collections, some \$51 millions for the total, represent purchases by businesses, not consumers. This is a good fat sum. One would expect this percentage to vary a good deal among states, considering the differences among them in industries and tax laws. This expectation is borne out. It was found to vary from about 10% to approximately a third in states examined; Wisconsin, Texas, Michigan, and North Carolina.²

If we mean to tax consumers, let us tax consumers. This tax ought to be a single-stage one, insofar as this is administratively feasible.

Another point of consequence. Retail sales to final consumers of goods are from a business and economic standpoint no different from sales to final consumers of services. In fact, in many more than one case they are interchangeable: I might take taxicabs, trains, and planes, or buy a car; buy a swimming pool or go to a commercial one; buy a camera or engage a photographer; ... For the rest if I wish to watch TV and own no set, I buy one (a good); if my set is broken, I pay for the services of a repair man. This matter was not studied exhaustively. Keep the following in mind. Of all personal consumption expenditures in the United States in the second quarter of 1966, services accounted for 40.4%. And consumer services have grown at a higher rate than consumer goods for a very long time. The potential growth in yield is in its favor. Maine might wisely take a serious look in such directions.

1. State of Maine, Bureau of Taxation, Sales and Use Assessments - 1965. This report provides the amounts paid in sales tax and in use tax by each of approximately 90 industries.
2. Texas Research League, "The Sales Tax and Business," Analyzes, June 1961, p. 8; Musgrave, R.A., and Daicoff, D.W., "Who Pays the Michigan Taxes?" Michigan Tax Study, Staff Papers, Lansing, 1958, pp. 142 and 177; Morgan, D.C., Jr., ibid. pp. 26-27.

"The most extensive survey to date (1964) of service taxation under American sales tax bases (showed the following).

"Personal Services. Hotel, motel, and lodging service is the most frequently taxed personal service. Twenty-five states now sales tax this service and many others tax it under special taxes. Seven states tax the services of tailors, six tax dyers, and seven tax the services of dressmakers and seamstresses.

"Repair and Improvement Services. Six states tax automobile painting; eight tax the repair of air conditioning, heating, and refrigeration equipment; seven tax radio and television repair; eight tax the repair of musical instruments; six tax jewelers' services; four or five states tax the services of each of the following: blacksmiths, bookbinders, cabinetmakers, roofers, and fumigators.

"Public Utilities. Electricity is sales taxed in twenty-one states, natural gas in twenty, telephone and telegraph service in seventeen, and water in twelve.

"Amusements. Amusements, admissions, and recreation are subject to sales tax in nineteen states today.

"Professional and Technical Service. Professional service is very seldom taxed, except in gross-income states. However, twenty-six states sales tax photographers' services, thirty-two tax custom printing, and twenty-one tax the entire bill charged by engravers of plates used in printing."¹

1. Morgan, ibid pp. 126-27. See also Hansen, R.R., "An Empirical Analysis of the Retail Sales Tax with Policy Recommendations," National Tax Journal, March 1962, pp. 1-14; Federation of Tax Administrators, "Sales Tax Base - Services," RM366, December 1960, p. 6.

Apparently there are no great administration or enforcement problems with such coverage in the State of Washington.¹

The question of regressivity of the sales tax has been an all-time favorite of discussion. Studies have shown that in the very lowest income class, the percentage of income paid in tax was clearly higher than that paid by low income classes. However, when one moved to incomes just above this, the percentages were not much different; they declined, but only by 1-1.5%, as one moved from low incomes to over \$10,000.² When other sales-type taxes are added, such as cigarette and liquor, about 3/4 of 1% is added to regressivity. However, when food eaten off the premises is exempt from the law, the regressivity feature becomes much less serious. The total spread then tends to be such that the income class, less than \$1,000, is paying only about 1% more of its income than the \$10,000 and over group. In fact, if one uses various other concepts of income, it has even been found to be slightly progressive!³

1. Morgan, ibid., p. 174.

2. Michigan Tax Study, Staff Papers, pp. 131-60; Indiana Commission, Final Report, 1962, p. 22; California Legislature, Assembly Interim Committee on Revenue and Taxation, A Major Tax Study, Part 4, The Sales Tax, p. 34.

3. California Legislature, ibid., pp. 36-71.

Broadening tendencies are occurring in Maine's revenues: money from the federal government and from current charges are increasingly evident. Further possibilities exist in taxation of consumer services far more extensively than is now done, instituting a personal income tax, and instituting a corporate income tax.

CONTINUOUS RESEARCH

State expenditures are headed ever up, and we saw they will soon, very soon, reach almost \$350 millions per year in Maine. Almost inevitably they will push on up from there. They are not about to rest. Thus we have a great deal of spending channeled into numerous streams, whose flows are constantly varying. All kinds and numbers of problems are raised, when so much money must be raised from so many people. Questions tumble about without let in this welter. What will be the great needs that must be attended to if Maine's economy is to prosper, if our people are to enjoy the material life inherently possible in the situation? Where ought we to spend money as a good investment in the future? Where, as a prop to consumer need? Where is a spending reduction wise? Why? How to collect without hurting economic growth? Without seriously damaging consumption or the desire to save or to put forth labor service? How to obtain money most equitably? The sums are huge, and the questions will not down. Research in some single location in the state, continuous research, is indispensable. A constant flow of information into that office is fundamental. It must be organized to study these data day-to-day to find out what the basic, important trends are, to compare them with other areas, and to come up with answers to each hard question. Then it must perform

intensive studies of each answer so that finally the best stand out alone. Best answers among the diverse and scattered parts must next be coordinated. Priorities cannot be ignored. We cannot afford to be caught unawares. The pork barrel temptations are too obvious, the public requirements too great. If the future is not to knock the breath out of us, if the winds of heaven are not to visit our faces too roughly, we must be ready.

TABLE A-1

STATE AND LOCAL GOVERNMENTS
COUNCIL OF STATE GOVERNMENT ESTIMATES

A. Total Expenditures for Local Schools for Fiscal Years 1957 and 1962,
and Calendar Year 1970.

	\$ Millions			Percentage Increase	
	1957	1962	1970	<u>1957-1962</u>	<u>1962-1970</u>
United States	\$11,934.2	\$17,739.3	\$30,996.7	48.6%	74.7%
New England	647.0	989.4	1,756.3	52.9	77.5
Maine	46.5	81.3	115.6	74.5	42.2
New Hampshire	32.3	47.1	88.6	45.8	88.0
Vermont	23.0	33.3	52.2	44.8	56.6
Massachusetts	319.4	483.7	864.5	51.5	78.7
Rhode Island	42.5	64.4	110.7	51.5	71.9
Connecticut	183.3	279.6	524.7	52.5	87.7

B. Total Expenditures of Public Colleges and Universities - \$ Millions

	<u>1962</u>	<u>1970</u>	<u>Percent Increase</u>
United States	\$4,042.9	\$12,097.7	199.2%
New England	120.2	510.3	324.5
Maine	19.0	55.0	189.5
New Hampshire	11.2	34.5	208.0
Vermont	13.6	31.5	131.6
Massachusetts	33.6	219.9	554.5
Rhode Island	14.2	55.3	289.4
Connecticut	28.7	114.1	297.6

C. Total Expenditures of State and Local Governments for Highways

	\$ Millions		Percent of Change <u>1962-70</u>
	<u>1962 Fiscal Year</u>	<u>1970 Calendar Yr.</u>	
United States	\$10,341.5	\$16,163.0	56.3%
New England	629.3	1,062.9	68.9
Maine	71.5	105.7	47.8
New Hampshire	54.1	79.6	47.1
Vermont	50.3	71.8	42.7
Massachusetts	248.3	445.7	79.5
Rhode Island	38.1	74.9	96.6
Connecticut	167.0	285.2	70.8

TABLE A-1

STATE AND LOCAL GOVERNMENTS
COUNCIL OF STATE GOVERNMENT ESTIMATES

D. Total Expenditure for Public Welfare

	\$ Millions		
	<u>Fiscal Year 1962</u>	<u>Calendar Year 1970</u>	<u>Percent of Change, 1962-70</u>
United States	\$5,084.0	\$8,887.8	74.8%
New England	346.8	522.0	50.5
Maine	26.4	41.1	55.7
New Hampshire	13.7	18.9	38.0
Vermont	10.6	16.0	50.9
Massachusetts	201.6	279.5	38.6
Rhode Island	26.3	42.3	60.8
Connecticut	68.3	124.3	82.0

E. Total Expenditures for Health and Hospitals

	\$ Millions			Percent Increase	
	<u>1957</u>	<u>1962</u>	<u>1970</u>	<u>1957-62</u>	<u>1962-70</u>
United States	\$3,139.4	\$4,337.3	\$8,025.5	38.2%	85.0%
New England	232.6	273.9	455.9	17.8	66.4
Maine	11.0	15.2	31.3	38.2	105.9
New Hampshire	9.7	11.9	21.9	22.7	84.0
Vermont	5.6	7.1	14.2	24.9	100.0
Massachusetts	145.7	166.0	239.0	13.9	44.0
Rhode Island	13.7	18.2	44.6	32.8	145.1
Connecticut	46.9	55.6	104.8	18.6	88.5

Source: The various volumes of The Council of State Governments,
Project 1970, ibid.

TABLE A-2

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

\$ Millions

	1965	1962	1957	1942
A. NEW HAMPSHIRE				
Total	214.8	180.5	112.3	41.9
From Federal Government	33.5	32.3	10.5	3.9
From state and local sources	181.4	148.2	101.9	38.0
Taxes	147.8	125.5	87.1	34.0
Property	95.3	79.8	54.7	20.6
Nonproperty	52.5	45.7	32.4	13.4
Charges and miscellaneous revenues	33.5	22.7	14.8	4.0
B. VERMONT				
Total	171.0	146.5	83.8	26.6
From Federal Government	42.5	42.2	11.0	2.9
From state and local sources	128.5	104.3	72.8	23.8
Taxes	110.3	92.1	64.9	22.3
Property	45.7	41.6	29.2	11.2
Nonproperty	64.6	50.5	35.7	11.0
Charges and miscellaneous revenues	18.2	12.2	7.9	1.5
C. MASSACHUSETTS				
Total	2,122.5	1,803.7	1,218.6	414.4
From Federal Government	277.5	198.3	87.9	29.0
From state and local sources	1,844.9	1,605.3	1,130.7	385.4
Taxes	1,615.6	1,422.7	1,017.8	358.2
Property	930.2	861.7	590.3	240.6
Nonproperty	685.4	561.1	427.6	117.6
Charges and miscellaneous revenues	229.4	182.6	112.9	27.2

TABLE A-2

GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS

\$ Millions

	<u>1965</u>	<u>1962</u>	<u>1957</u>	<u>1942</u>
D. CONNECTICUT				
Total	1,103.3	890.0	556.3	163.3
From Federal Government	136.8	94.9	30.3	10.1
From state and local sources	966.5	795.2	526.0	153.2
Taxes	824.5	684.0	462.0	143.6
Property	430.5	366.5	231.1	82.5
Nonproperty	394.0	317.6	230.9	61.1
Charges & miscellaneous revenues	141.9	111.2	64.1	9.7
E. RHODE ISLAND				
Total	326.1	243.9	164.8	56.1
From Federal Government	62.4	33.2	20.1	3.7
From state and local sources	263.7	210.7	144.6	52.5
Taxes	234.1	188.7	130.1	49.4
Property	107.8	90.3	65.6	30.9
Nonproperty	126.3	98.4	64.6	18.5
Charges & miscellaneous revenues	29.6	22.0	14.5	3.1

Source: Historical Statistics, 1962; Governmental Finances, 1964-65