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AN EVALUATION OF THE TAX SYSTEM OF THE U.S. ECONOMY

1. INTRODUCTION

The purpose of this paper is to analyze the prevailing tax system and the various revenue sources of the United States economy from 1955-1965. Moreover, we derive the various exogenous tax rates and we assess the necessity for tax coordination as a stimulus for growth and stability of the economy.

2. THE TAX SYSTEM OF THE U.S. ECONOMY

Before we start the elaboration of the various data concerning the different sources of the tax returns to the government, it seems worthwhile to give, in general, an idea of the prevailing tax system in the United States economy. The tax system of the U.S. carried by the Federal, State, and Local governments overlaps to a substantial extent. Most forms of taxation are now employed by both federal and state governments, and to some extent by local governments. The principle exceptions are customs duties which, are levied only by the Federal government, and property, general sales, and motor vehicle license taxes, are employed only dy state anp local governments.

This overlapping of revenue systems has developed principally since the early 1930's. Although the basic elements of the problem were in existence, prior to that time the magnitude of revenue requirements at each level of government was for the most part relatively modest compared with traditional revenue sources. State and local governments depended primarily on property taxation while the Federal government's principle revenue sources were customs and excises, particularly on alcoholic beverages and tobacco. As a result of the revenue needs of World War I, the individual and corporate income taxes developed as important revenue sources at the Federal level.

The present trend in intergovernment fiscal relations was clearly established during the 1930's. After the end of World War II, State and Local government revenues continued upward, reflecting the general expansion of the economy. Rapidly rising property values and the expansion of the property tax base were particularly significant at the local level. At the state level, many of the levies adopted during the depression years of the 1930's became increasingly productive revenue sources; this was particularly true of general sales and corporate and individual income taxes. At the same time, revenue requirements at the state and local levels have grown very rapidly. Especially pressing have been the demands for additional schools, highways, and health facilities. The rapid population increase underlying these growing demands was also required more elaborate systems of police and fire protection, sewage disposal and water supply and in larger number of communities, urban redevelopment.

Concurrently, federal revenue requirements, particularly for defense remain high. State and Local governments were confronted with serious fiscal problems at the biginning of the 1960's. State governments continue the search for new revenue sources while increasing tax rates under existing levies. Many states have given the property tax over to their subdivisions and have granted wider catidute in taxing powers. Local governments continue to rely primarily on property taxation, although an increasing diversification through income taxation, general sales taxes, and selective excises is apparent.

Although state and local overlapping in the property tax area has been almost completely eliminated through the states surrendering this source to their subdivisions, however, overlapping is increasing in other areas as local governments make greater use of non-property taxes such as income, retail sales, motor fuel, and cigarette taxes.

3. THE NECESSITY FOR TAX COORDINATION

The continued growth in the U.S. economy implies a continued rise in the level of many types of public services. Regardless of the respective responsibilities of the federal, state, and local governments in providing these services, it is generally agreed that coordination of revenue systems is required if the discharge of these responsibilities is to be effectively financed. A wide range of coordination methods has been and continues to be explored, both in theory and in practice. It is argued that tax coordination serves to minimize duplication of tax rates, and contributes to uniformity of tax burdens among taxpayers living in different states. For example the deductibility for federal income tax purposes reduces tax liability and diverts part of the impact of the state and local taxes to the federal government. Accordingly, states are able to impose or increase income taxes, say, without imposing an equivalent net burden on their taxpayers. Furthermore, a frequent proposal towards the achievement of this tax coordination is that the fideral government collect certain taxes and share a portion of the revenue with the states and their subdivisions. This proposal of course raises major fifficulties with respect to the distribution of tax revenues.

Some method whould have to be developed for assuring that all of the states now levying such taxes would receive their proper share of aggregate collections. One of the benefits that this method of tax sharing gives when the tax collection is carried out at the federal level is the considerable savings in administrative costs. The use of tax cradits is urged also, as a better means of eliminating multiple taxation than can be achieved through tax deductions. In recent years, a growing uniformity has been observed as far as the tax base and methods of computation employed in the Federal tax are concerned, and these developments have led to the suggestion that a substantial solution to the problem of overlapping taxes lies in the extensive use of tax supplements and joint administration. In the case of federal-state tax relations, for example, it has been suggested that the federal income-tax return be elaborated to provide for supplemental state taxes, which would be designated by the various states as given percentages of the federal liability.

In the following pages we analyze the most significant types of tax finance in the U.S. economy which are 1) the excise taxes 2) the corporation taxes 3) the Individual income tax 4) the social security tax and 5) the estate and gift taxation.

4. EXCISE TAXES

A substantial increase in most of the existing rates of excise taxes comes as a result of the impetus of World War II revenue requirements. Extensive legislation to rivise and reduce excise taxes was underway in 1950 when hostilities in Korea broke out. Accordingly, the World

War II rates of excise taxes were continued and indeed increased until the Excise Tax Reduction Act of 1954. Under this act the rates on certain taxable articles decreased almost 50 percent. Further important reductions went into effect in 1961, while the taxes on the transportation of property and of oil by pipeline were repealed in 1958. A significant increase in excise revenues was provided in 1956 to help finance the expanded federal - aid highway program. At that time increased taxes were levied on gasoline, diesel and special motor fuels, trucks, and tires of the type used on highway vehicles, and new taxes were imposed on tread, rubber and on its use in the tires of heavy trucks. As far as the proper role of excise taxes in the federal revenue system is concerned, it has been the subject of continuing controversy with a wide variety of proposals, ranging from complete elimination of excise taxation to establishing a uniform manufacturers or retailers' sales tax. It is interesting to point out here that the major criticism directed against an excise tax in the federal revenue system is the relative insensitivity of the yield of present excises to changes in national income. By way of contrast, according to one estimate [1], the individual income tax, has an income elasticity of about 1.6 percent, i.e., the tax yield changes by 1.6 percent for each 1.0 percent change in total adjusted gross income. So the built - in - flexibility criterion required by any kind of tax for countercyclical policies is not fulfilled by the excise taxes. For the period that we are interested in, the amount of indirect business taxes is shown in the Table (4-1) for each major industry division. In these taxes we have also included the correspondent state and local taxes.

We can see that this amount has been increased in current values from $ 13.7 billions in 1947 to $ 42.2 billions of constant dollars in 1965. In constant prices the increase has been 3.4 times over the same period.

5. CORPORATION TAXES

While the traditional view holds that the short-run effect of taxes is to reduce profits and the rate of return, this reduction is then expected to depress capital formation in the long-run. However, most discussions

1. *Cf. Pechman,* «Vield of the individual Income Tax During a Recession», National Tax Journal, Vol. VII, No. 1, March 1954, p. 2.

of the corporation tax incidence are carried out in a partial equilibrium framework. This approach is adequate as long as the taxes under consideration are imposed on small sectors of the economy. When tax impositions are more general in their coverage a general equilibrium formulation of incidence analysis is necessary [2]. Theoretical reasoning regarding the effects of a profit tax on the level of private capital formation is most difficult. It can be no more conclusive than is the underlying theory of investment behavior. The corporation income tax as we know it is definitely not neutral. It taxes only the return to corporate equity capital; it misses the returns to corporate borrowed and the return to capital outside the corporation sector. Yet, the capital market tends to equalize the rate of return to all forms of capital, with due allowance for risk, so that, in longterm equilibrioum, the return after taxes to corporate equity capital will tend to be in line with the returns on corporate borrowed capital and on capital used outside the corporate sector [3].

2. *A. C. Harberger* in his article,«The Incidence of the Corporation Income Tax», puplished in the Journal of Political Economy, Vol. LXX, June 1962, p. 215 writes, «It is clear that a tax as important as the corporation income tax, and one with ramifications into so many sectors of the economy, should be analyzed in general-equilibrium terms».

3. For example, suppose that in the absence of the corporation income tax, the rate of return, the earnings - price ratio, on a corporate equity capital would be 10 percent, and that the rate of return on bonds and real estate would be 8 percent. With the tax, the rate of return on corporate equity might be 15 percent before tax and 7 1/2 percent after tax, while the rate of return on bonds and real estate might be 6 percent. The corporation income tax keeps the amount of corporate equity capital lower than it otherwise would be, and augments the amount of capital devoted to other uses. In all likelihood the rate of return on non - equity uses of capital would be higher in the absence of the tax, but even if the rate of return on bonds and real estate turned out to be higher with the tax than without it, the differential introduced by the tax between the rates of returns on equity and on other capital would still be present.

TABLE 4-1

Indirect business taxes for the years 1955-1965 and for each major industry division (Billions of current dollars)

Year	Agriculture	Mining	Contract Construction	Manufacturing	Transportation	Wholesale & retail	Finance	Services	Government enterprise	Total
1955	.8	.5	.3	7.0	2.8	6.3	4.6	.6	*	23.1
1956	.8	.5	.3	7.0	3.1	6.9	5.2	.6	*	24.4
1957	.8	.5	.4	7.4	3.3	7.4	5.7	.7	*	26.2
1958	.8	.5	.4	6.9	3.1	7.7	6.1	1.0	*	26.5
1959	.9	.6	.4	7.4	3.0	8.2	7.1	.6	*	28.8
1960	.9	.6	.5	8.2	3.2	9.7	7.7	.8	.1	31.2
1961	1.0	.6	.5	7.9	3.3	10.0	8.2	.8	.1	32.5
1962	.9	.6	.5	8.4	3.5	10.7	9.1	.8	.1	34.6
1963	1.0	.6	.6	8.9	3.4	10.9	10.5	.9	.1	36.8
1964	1.0	.6	.6	9.2	3.6	12.5	10.9	.9	.1	39.4
1965	1.1	.6	.6	9.6	3.8	13.8	11.6	1.0	.1	42.2

* Less than $ 50 millions.

Source: U.S. Department of Commerce, Office of Business Economics, Survey of Current Business, April 1967, p. 21.

In the following table (5-1) we can observe that the corporation income tax rate had been remaining more or less constant through the above period.

TABLE 5-1

Income subjected to the corporation tax and income taxes during 1955-1964
(Data in billions of current dollars)

Years	*All industries*	*Division*	*Tax rate*
	Income subject to tax	*Income Taxes*	%
1955	47.48	21.74	45.8
1956	46.88	21.36	45.6
1957	44.48	20.58	46.3
1958	43.78	18.81	43.0
1959	47.65	22.52	47.2
1960	47.25	21.87	46.3
1961	47.94	22.19	46.3
1962	51.72	23.93	46.3
1963	54.33	26.28	48.4
1964	60.37	27.85	46.2

Source: Statistics of income Corporation Income Tax Returns, Annual reports 1955-1965.

6. INDIVIDUAL INCOME TAX

The federal individual income tax is by far the biggest single source of tax revenue in the United States. In 1965 it raised about $ 50.0 billion or well over one-half of the net budget receipts of the national government (total budget receipts less refunds and transfers to the highway and social security trust funds), and about $ 4 billion at the state and local level. All other tax sources of federal, state, and local governments ranked well behind: the federal corporation income tax yielded $ 25 billion, state and local property taxes, $ 23 billion, and the aggregate of all other state and local government taxes, $ 29 billion. The individual tax is a global tax assessed against taxable income from all sources; the corporations are generally taxed as separate entities and dividends received by shareholders are subject to the individual income tax.

Unincorporated enterprises are generally not taxed as entities; their proprietors and partners pay the individual income tax on total profit regardless of whether withdrawn or retained in the business [4]. At the level of the state governments some states had experimented with income taxes as long as a hundred years ago, but the modern state personal income tax is largely a contemporary of the federal tax.

We have already noted that although both the federal government and the states have been active in income taxation even earlier than 1920, the field has been dominated by the federal government particularly since World War II. For more than three decades as the federal government pursued its objective of placing more and more relative dependence on income taxes, it was generally assumed that increasingly higher federal tax was the wave of the future, diminishing the scope for state participation in this tax area. Now, for the first time since the 1920's, the national government has embarked on an economic policy, initiated with the 1964 income tax reductions, that holds out the prospect of successive future tax rate reductions. Presumably, this enlarges somewhat the potential of state income taxation, both by leaving the states more "elbow room" and by enhancing the revenue productivity of their taxes at all rate levels. Of the U.S. economy's annual tax payments on personal incomes 93 percent goes to the federal government, and only 7 percent to state and local governments. At the same time the personal income tax supplies about 14 percent of the states' and about 8 percent of state and local governments' aggregate tax revenues. Mention should be made also of the increasing public emphasis placed on the states' needs for more revenue by the leadership of the national administration in recognition on the one hand of the key role of state and local governments in the attainment of national economic and social policies, and on the other hand in helping the state and local governments to solve their fiscal problem which consists in the failure of their revenue systems to generate yields that grow - with - out rate increases or new taxes -as rapidly as expenditure requirements [5]. For example during the examined period 1955-1964 the gross national

4. The Internal Revenue Code of 1954 has permitted that when certain conditions are met, closely held corporations may elect to be taxed as partnerships and owners of unincorporated business may elect to be taxed as corporations, however only a small minority have chosen these options.

5. In the following table a we can see the change of federal state and local governments expenditures for the year 1954 and 1964.

product rose at an average annual rate of 5.5 percent [6]. At the same period state and local direct general expenditures rose steadily by 8.5 percent per year. The states' expenditures rose even more rapidly at 9.2 percent per year, while federal spending increased at a rate of 6.0 percent that barely exceeded the rate of GNP rise. If we want to put this in technical terms we can say that the income elasticity of state revenue systems is less than one and that the GNP elasticity of state general expenditures more than one [7].

TABLE A

Direct general expenditures and sources by governments

Government	*Expenditures*				*Revenues*			
	1954		*1964*		*1954*		*1964*	
	Amount	%	*Amount*	%	*Amount*	%	*Amount*	%
Federal	74.7	70.87	115.8	62.56	69.8	68.30	102.3	63.66
State	13.0	12.33	29.6	15.99	12.4	12.13	28.1	17.48
State & Local	30.7	16.80	69.3	21.45	32.4	19.57	58.4	18.86
All governments	105.4	100.0	185.1	100.0	102.2	100.0	160.7	100.0

Data in billions of current dollars.

Source: U.S. Bureau of the Census, Census of Governments: 1967, Vol. VI, No. 4, Historical Statistics of Governmental Finances and Employment, 1964, pp. 39, 42; Governmental Finances in 1963-64, 1965, p. 22.

6. This figure slightly overstates the true growth rate of the economy because 1954 was a recession year, and 1964 a year of prosperity.

7. We can see the problem better through the following table and sources that provide the gross national product elasticities with respect to major categories of state general revenues.

TABLE B

Revenue source	*Elasticity estimates*		
	Low	*Medium*	*High*
1. Property taxes	0.7	0.9	1.1
2. Income taxes:			
a) individual	1.5	1.65	1.8
b) corporate	1.1	1.2	1.3
3. Sales taxes	0.9	0.97	1.05

Source: The Elasticity of the Property Tax Ban, Some Cross Section Estimates, «Land Economics», Vol. 40, November 1964, pp. 449-51; *James S. Duesenberry, Otto Ecksein* and *Gary Fromms,* «A Simulation of the United States Economy in Recession», Econometrica, Vol. 28, October 1960, pp. 7490808; *H. Groves* and *C. H. Kahn,* «The Stability of State and Local tax yields», American Economic Review, Vol. 42, March 1952, pp. 87-102; *Ernest Kurnow,* «On the Elasticity of the Real Property Tax», Journal Finance, Vol. 18, March 1963, pp. 56-8.

For the examined period 1955-1964 the total amount of income taxes in federal, state, and local government levels as well as the net national income are shown in the following table (6-1).

TABLE 6-1

Federal, state and local government receipts and net national income for the period 1955-1964

Year	*Net National Income*	*Taxes*			
		Total	*Federal government*	*State & Local government*	*Tax rate*
1955	331.02	37.29	33.50	3.79	.112
1956	350.80	41.43	37.08	4.35	.118
1957	366.09	44.32	39.44	4.88	.121
1958	367.76	44.57	39.31	5.26	.121
1959	400.02	48.55	42.62	5.93	.121
1960	414.52	53.02	46.22	6.80	.127
1961	427.34	54.69	47.57	7.12	.128
1962	457.09	59.83	51.72	8.11	.131
1963	481.92	63.61	54.88	8.73	.132
1964	517.28	62.13	52.06	10.07	.120

Data in billions of current dollars.

Source: United States Department of Commerce Office of Business Economics. The National Income and Product Account of the United States 1929-1965. Statistical tables, p. 14, 53, 54.

We can observe from the above table that the flat tax rate has been increased from 11 percent in 1955 to 12 percent in 1964.

7. SOCIAL SECURITY TAX

Programs established in accordance with the Social Security Act [8] have expanded enormously and undergone considerable change in coverage, benefits and tax rates since the Act was passed in 1935. Coverage has been broadened to include virtually all employees, the self-employed and finally professionals including lawyers and doctors. To finance the enormous growth of Old-Age, Survivors, Disability, and Health Insurance (OASDHI), the combined - employer-employee tax rate on an individuals' earnings was increased in several stages between 1937 and 1967 from 2 to 8.8 percent while the amount of maximum taxable earnings rose from $ 3,000 to $ 7,800 in the same period.

Since the OASDHI [9] program began in 1937 as a modest tax to finance old age retirement, the payroll tax for social security has grown into a major component of the federal tax system [10] and figures as an important cost, and a big element in many family budgets. Major changes, in 1946, 1954, 1961, 1962, and 1965 altered coverage benefit eligibility requirements, retirement tests, and financing provisions. Two other significant modifications of the underlying philosophy of the system occured in 1956, when disability benefits were added, and in 1965 when

8. The public programs that provide for income maintenance and other benefits without a means test and which are financed, in general, through prepayment arrangement are as follows: Old-age, survivors, and disability insurance, the rail-road retirement program and railroad unemployment and temporary disability insurance. All these programs are administered directly by the Federal Government.

9. From 1937 through 1955 through 1955 it was known as the OASI (old-age and survivors insurance) tax. Beginning in 1956, disability was added (OASDI), in 1966 health benefits (OASDHI) were introduced. It is interesting to point out here that along with the transition from OASI to OASDHI the level of benefits rose from a $ 60 monthly maximum for an individual in 1939 to the $ 168 provided by the ammendments of 1965, but the end is not in sight.

10. The payroll tax is the third largest federal tax, ranking behind the individual income tax and the corporation income tax. In fiscal year 1967, individual income tax receipts amounted to $ 61.5 billion, corporation tax receipts to $ 34.0 billion, and payroll tax receipts to $ 31.5 billion. These figures are taken from «The budget of the United States Government, Fiscal Year 1969», p. 539.

medicare was authorized. Most of the many other ammendments to the original act made during the intervening three decades have been concerned with increases in the tax rate and the base to which it applies, extention to industrial coverage, and steadily rising levels of benefits.

In many ways the social security tax qualifies as an unusual tax. Like a business tax it is levied on employers but, like a personal tax, it also is levied on individuals[11]. It applies at a flat rate up to a specified level of earnings then the rate drops to zero.

TABLE C

OASDHI Tax Rates and Bases [(a)] 1947-1965

Year	*Maximum taxable base*	*Tax rate (Percent)*			*Maximum tax*		
		combined employer employee	*Employer or Employee alone*	*Self employed*	*combined employer employee*	*Employer or Employee alone*	*Self employed*
1947–1949	$ 3,000	2.0	1.0	(b)	$ 60	$ 30	(b)
1950	3,000	3.0	1.5	(b)	90	45	(b)
1951–1953	3,600	3.0	1.5	2.25	108	54	81
1954	3,600	4.0	2.0	3.0	144	72	180
1955–1956	4,200	4.0	2.0	3.0	168	84	126
1957–1958	4,200	4.5	2.25	3.375	189	95	142
1959	4,800	5.0	2.50	3.75	240	120	180
1960–1961	4,800	6.0	3.0	4.5	288	144	216
1962	4,800	6.25	3.125	4.7	300	150	226
1963–1965	4,800	7.25	3.625	5.4	348	174	259

(a) Disability insurance not included until 1956; hospital insurance not until 1966.

(b) Not covered until January 1, 1951.

Source: Department of Health, Education and Welfare Committee on Ways and Means. «Summary of Major Provisions of H.R. 6675 as Agreed to by the House Senate and Conference Committee», July 21, 1965, p. 10.

11. Theoritically, employer and emloyee pay equal amounts of tax. In practice, however, an emplo yee with more than one job receives a refund for with-holding in excess of the maximum while the excess matched by his employers is never refunded.

Moreover, because retirement benefits to be received later are roughly related to payments of the tax, government literature customarily refers to the payments as "insurance contribution".

A distinguishing feature of the social security tax is its base. Unlike other taxes which apply at a given rate or series of rates to the entire entity being taxed, or to the entire entity after an exemption, this levy taxes the bottom slice of wages. Since the tax is imposed only on the first "x" dollars of wages earned, the result is that the fraction of wages taxed, and hence the effective rates, represent an almost infinite series. That is to say, some persons pay tax on 100 percent of their wages, others on 99 percent, 98, 97 and so on, down through small percentages.

A further result associated with this form of base shows up in total collections. The maximum base ($ 4,800 since 1959 but jumping to $ 6,600)[12] often has been lower than the total wages of many taxpayers, who, therefore, pay their commitment in less than a full year.

This, of course, has an effect on the total tax collections which exhibit a considerable range from the highest to the lowest quarter of each year, in spite of some evening out becaume of seasonal variations in employment.

The other employment taxes are unemployment insurance, railroad retirement, veterans life insurance and federal civilian employee retirement systems. The following table (7-1), shows the total contributions for social insurance paid by the employers and personal contributions for the period 1955-1964.

As we can see from the above table there has been an increase in the contributions to Social Insurance from $ 11.13 billion in 1955 to $ 27.97 billion in 1964, namely there was a 5 % increase per year. This proliferation in contributions to Social Insurance is due to the expansion of the system as a whole in new programs on the one hand, and on the other hand by the increase of the tax rate paid by the employers and employees.

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12. The upward movement of the tax rate and base, and their combined effect on the maximum tax under the program may be seen in the folloing table.

TABLE 7–1

Contributions for Social Insurance, Annually 1955-1964

Year	Total	Contributions Employer Federal	Contributions Employer State	Contributions Personal Federal	Contributions Personal State
1955	11.13	4.91	.99	4.42	.82
1956	12.59	5.65	1.11	4.92	.90
1957	14.50	6.53	1.27	5.71	.98
1958	14.83	6.60	1.38	5.76	1.10
1959	17.57	8.12	1.53	6.72	1.20
1960	20.67	9.65	1.73	8.02	1.27
1961	21.44	9.96	1.85	8.27	1.34
1962	23.99	11.65	2.01	8.87	1.47
1963	26.87	12.86	2.19	10.23	1.59
1964	27.97	13.07	2.35	10.79	1.75

Data in billions of current dollars. The total may not be equal with the partials due to roundings.

Source: U.S. Department of Commerce. «Office of Business Economics». The National Income and Product Accounts of the United States 1929-1965. Statistical tables. A supplement to the Survey of Current Business, p. 58.

8. ESTATE AND GIFT TAXATION

The federal estate tax is imposed upon the transfer of the entire estate of a decedent, rather than upon any particular legacy, device or distributive share[13]. It differs, therefore, from an inheritance tax in which tax is imposed, generally, on the their who receives the property. The estate tax return, was revised as of May 1955 to give effect to the changes in estate tax law introduced by the Internal Revenue Code of 1954. According to the law a return must be filed for the estate of each citizen or resident if the estate was valued at more than $ 60,000 at the time of death. The law allows some other deductions, except the above $ 60,000, from the gross estate, as for example, for charitable bequests, funeral expenses, debts and mortgages and finally a marital decuction for property passing to the decedent's husband or wife[14]. The estate tax

13. This is according to the Statistics of Income «Estate Tax Returns», Filed during calendar year 1954, p. 5.

14. It is worthwhile to note here that one important class of transfers that has

is essentially a progressive tax[15] imposed upon the aggregate of property owned by a decedent at death.

Furthermore, the federal gift tax, which first enacted in 1932 strengthens the estate tax and both together are designed to compliment each other, although somewhat imperfectly in practice, and to compose a system of lifetime and deathtime taxation[16,17]. The amount of federal estate and gift taxes represent a small percentage with comparison to the total federal revenue. This decrease in the importance of the estate and gift taxes to accomplish the social target which has been assigned to them; namely, to contribute to a more even distribution of wealth and to prevent the accumulation of giant propetries through successive years. The following table (8-1) indicates the receipts from the federal estate and gift taxes as a percent of the total budget receipts from 1955 through 1964.

TABLE 8-1

Combined estate and gift tax revenue [1], fiscal years 1955-1964

Year	Estate and gift taxes	Percent of administrative budget receipts
1955	.92	1.5
1956	1.16	1.7
1957	1.36	1.9
1958	1.39	1.9
1960	1.61	2.1
1961	1.90	2.4
1962	2.02	2.5
1963	2.17	2.5
1964	2.39	2.7

1. Data in billions of dollars, net of refunds.

Source: The Federal Tax System «Facts and Problems 1964», Joint Committee print, p. 165, table 28.

never been taxed under the federal estate tax are the trusts. For a discussion concerning this exemption of trusts from estate and gift taxes see Studies of Government Finance. The Brookings Institution «Trusts and Estate Taxation», by Gerald R. Jantscher 1967.

15. The estate tax rate ranges from 3 percent, if the taxable net estate is up to $ 5,000, to 77 percent for a taxable net estate of $ 10,000,000 and over.

16. The gift tax rate ranges between 2.25 percent to 57.75 percent for the same amount of value as that in the estate tax.

17. Actually, the two taxes together do not constitute a truly integrated system. For a discussion of this subject, see U.S. Treasure Department, Advisory Committee on Estate and Gift Taxation, Federal Estate and Gift Taxes: A proposal for Integration and for Correlation with the Income Tax.

9. PROPERTY TAXES

Historically property taxation has proved to be the revenue which local governments can developed to maximum productivity[18]. Currently American state and local governments raise some $ 25 billion a year from property taxes. The continued use of this form of taxation is predicated upon the supposed indespensibility of property as a source of revenue. The property tax is a principle source of the large and growing revenues needed to finance public education and other essential government services. In theory property along with income and spending, may be defended as a necessary source of tax revenue to provide a needed balance in the federal, state, and local tax system, to permit a fuller allowance for ability to pay and benefits, and to arrive at a tax system consistent with economic progress and growth[19]. The Census of government data does not provide a basis for an industry breakdown of property tax payments within the nonfarm business sector; a breakdown which is of some importance for an economic appraisal of business property taxes[20].

Maybe this is due to the fact that the property tax varies among states in the base subject to tax; for example fifteen states have a partial classification system that applies a low tax rate to intangibles; five states have a "comprehensive" classification system with specified rates applied to several classes of property[21], moreover the property tax base is not related in any straightforward fashion to significant economic magnitudes. Furthermore, the tax rates are subject to a pattern of influences different from those that affect the base. In some cases the rate may be limited by constitutional or statutorial restrictions, or by a popular tax concensus that attaches great importance to holding down the tax rata. In these instances, pressure for additional revenue is likely

18. It is said, perhaps cynically, that any old tax is a good tax. Old taxes, as for example the property tax, like old shoes, seem to comform to the mold of the people.

19. *R. Musgrave* in «Theory of Public Finance», 1959 writes with respect to the property tax, «If all accretions to wealth are taxed under the income tax, any part of a persons net worth, whatever the particular form in which it is held, has been subject to tax at some past date when the accretion occurred. This being the case there is no place for a further tax on the holding of property as such». Chapter 8, p. 175.

20, 21. For a more detailed discussion of state differences see *I. M. Labovitz*, «The Property Tax: Quicksand or Bedrock? «Proceedings of the Annual Conference on Taxation, 1960 (Harrisburg: National Tax Association 1967), 58-70.

to be exerted on assessment levels. In all cases, the presence of other revenue sources, such as grants, from federal or state governments or local nonproperty taxes, will offset the volume of revenue that must be raised from property. With these factors taken into account, the expenditure requirements of the taxing jurisdiction will have primary influence, and at this point, I think, political judgment must be exercised by administrators or legislators in weighing the needs for public services against the disinclination of property owners to pay additional levies.

For the period 1955-1964 the amount of property taxes raised by the state and local governments is shown in the following table (10-1).

TABLE 10–1

State and local government property taxes for the period 1955-1964

Year	*Total*	*Property taxes*		*Year*	*Total*	*Property taxes*	
		state	*local*			*state*	*local*
1955	10.77	.32	10.45	1960	16.42	.48	15.94
1956	11.75	.30	11.45	1961	17.93	.58	17.35
1957	12.89	.28	12.61	1962	19.59	.63	18.96
1958	14.06	.30	13.76	1963	20.91	.68	20.23
1959	15.00	.38	14.62	1964	22.35	.73	21.62

Data in billions of current dollars.

Source: U.S. Department of Commerce, «Office of Business Economics». Statistical tables. A supplement to the Survey of Current Business, p. 53.