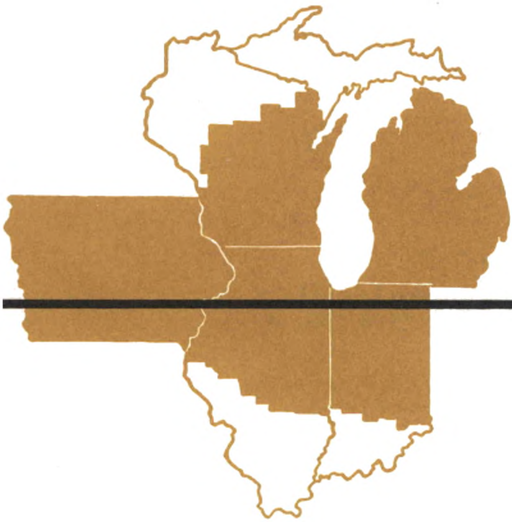
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1959 September

Contents

THE Trend OF BUSINESS

The American economy was moving ahead with undiminished vigor up to the point in mid-July when the steel strike idled 87 per cent of the nation's steel-making capacity. Total spending for goods and services is estimated to have reached an annual rate of about 485 billion dollars in the second quarter. This was the third successive quarter to bring a rise of 13 billion or more. In recent months, total spending, after adjustment for slightly higher prices, was 10 per cent above the recession low and 5 per cent above the pre-recession high in 1957. Even with a substantial slowing in the rate of increase in activity, the economy would have passed a half-trillion dollar annual rate of output before year end.

Retail sales and employment continued to show gains through July, on a seasonally adjusted basis, and construction activity held at a plateau 15 per cent above the rate in the spring of 1958. Increases in output and sales have been broadly based, with virtually all lines participating in the upward movement. It is quite possible that the speed of the uptrend would have slackened in the second half even without a steel strike, in view of the fact that construction and Government outlays had leveled off and inventory building was expected to slow down. But the inability of the negotiators for labor and management to reach an agreement without a shutdown of steel production has raised a new question as to the trend in the months ahead.

In June, employment in the steel industry was about 650,000 persons, of whom about 500,000 went on strike in July. This compares with 16.5 million persons in all manufacturing and over 67 million persons holding jobs of all kinds. Thus, employment in the steel industry accounts for less than 1 per cent of total employment. The proportion of national income originating in this industry is somewhat larger, averaging about 1½ per cent in recent years. But the possible ramifications of a steel strike are incalculable. An extended period of work stoppage would permeate virtually all sectors of economic activity. The total impact will depend upon two factors: the size of steel inventories at the start of the shutdown and its duration.

Users of steel were well aware of the possibility of a strike, and many of them had accumulated inventories in excess of normal requirements. But the situation varies greatly among individual firms and industries. Some managements gambled on a settlement without a strike, some could not spare or obtain the funds necessary for the additional investment in inventory, and some did not place their orders early enough.

Steel shortages were forcing a curtailment of output in some firms as early as mid-August, and some Midwest firms have informed their workers that if steel did not begin to flow by the end of August or early in September, layoffs would be necessary because of the exhaustion of raw materials. Early shortages of steel were relatively more important among small manufacturers than large ones. However, steel warehouses which do the bulk of their business with relatively small users of steel were said to have at least a six weeks' supply at the beginning of the strike.

The postwar experience

Some insight into the extent of the repercussions which may result from the strike can be obtained through an examination of the experience with such developments earlier in the postwar period. There have been four previous important steel strikes since 1945.

Year	Period	Duration
1946	Jan. 21 - Feb. 17	28 days
1949	Oct. 1 - Nov. 11	42 days
1952	Apr. 29 - May 2	3 days
	June 2 - July 26	55 days
1956	July 1 - Aug. 3	34 days

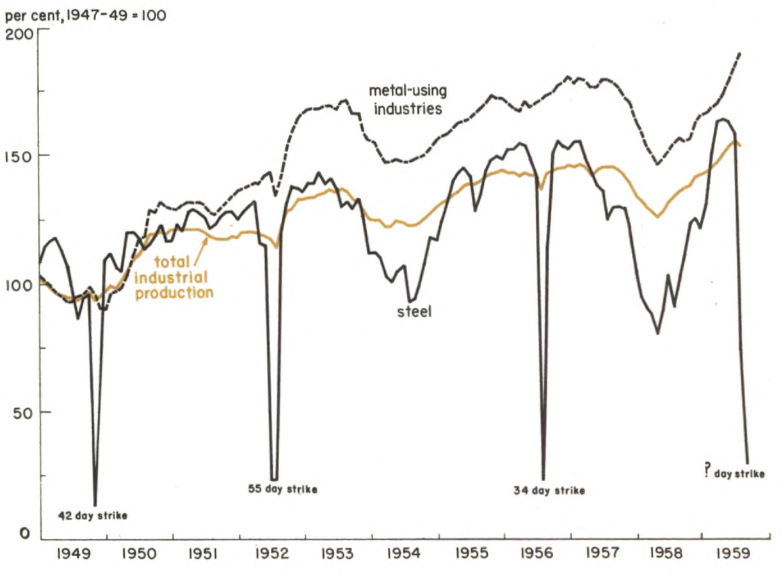
The strikes listed above had this much in common: each took place while the economy was in a rising phase, and in each period the rise in activity was dampened but was not reversed by the steel shutdown. Nevertheless, each of these periods was marked by significant differences.

The 1946 steel strike took place in the turbulent atmosphere created by the reconversion from war production. During that year, important work stoppages took place in other fields, such as railroading. Altogether 116 million idle man-days resulted directly from strikes in 1946, a total which has not been approached in subsequent years. In 1958, for example, the number of man-days lost in strikes totaled only 24 million, or about a fifth as much as in 1946.

The 1949 steel strike, which started in October, occurred much later in the year than the others. However, it occurred much earlier in the expansion phase of the business cycle. In fact, by one reckoning, that of the National Bureau of Economic Research, the upturn in general business in 1949 did not begin until November. However, such measures as industrial production and total spending had shown some modest improvement in the third quarter of the year.

In 1952, the period of shutdown totaled 58 days, the longest of all by a substantial margin. This strike was also unique in that it took place while the Korean War was in

Steel strikes and production compared



progress, so that a revival of activities after the settlement was a foregone conclusion. During 1956, the strike occurred when the upswing had been under way two years, considerably longer than in the present case.

Each of the postwar steel strikes has been associated with a decline in total industrial production. However, in each case, the drop in total production was approximately concurrent with the steel shutdown and was not much greater than might have been accounted for by the reduction in output in the steel industry itself which has a weight of 3.5 per cent in the index of industrial production. Of course, substantial declines in production of metal-using firms occurred during and after the longer postwar strikes.

In 1949, metal fabricating of all types dropped back for two months by about 9 per cent. In 1952, the decline in these industries was somewhat smaller and lasted only one month. In 1956, metal fabricating in the aggregate did not decline at all, despite the fact that the steel strike lasted 34 days. As in the present case, it had been well-heralded and prepared for.

In none of the strike periods since World War II, with the possible exception of 1949, was there any appreciable rise in total unemployment. The strikers themselves are not counted as unemployed unless they seek permanent jobs elsewhere.

The longer a strike lasts the longer it takes to reachieve maximum production. The refractory linings of steel furnaces and blast furnaces are apt to be damaged, the lake shipping season is artificially shortened and maintenance problems accumulate. This effect of a long strike was shown in 1952. The strike ended July 26, but production of steel did not fully recover until the month of September.

In summary, even the longest steel strikes during the postwar period—1949 and 1952—have not been associated with the beginning of general business downtrends. The economy appeared to be waiting for steel and made use of it when it became available. Perhaps this is to be expected when underlying expansive forces are strong. Production and sales tend to be postponed rather than "lost forever." During the postwar period we have not yet faced the consequences which might develop should the income losses associated with a strike in the steel industry be added to other powerful forces working toward a reduction in general business.

State legislatures boost taxes

Fiscal measures adopted thus far during this year's legislative sessions promise to enlarge the tax take of the state governments by something like 1½ to 2 billion dollars during the year now under way. This amount roughly measures the net effect of a host of changes in tax rates—and redefinitions of the bases to which the rates apply—and adoptions of some new taxes.

Any estimate of the amount of additional revenue which the tax changes will yield must be tentative. Revenues to be realized will hinge as much upon the state of business—the volume of retail sales, personal income, highway use and the like—during the remainder of the fiscal period as they will upon the tax rates and base definitions now in force under the states' multitude of tax laws. If business continues to improve, fiscal 1960 collections doubtless will exceed those in 1958 by appreciably more than the estimated 12 or 13 per cent margin. And a downturn would, of course, in some measure nullify the effect of the past season's tax changes.

As the 1959 legislative assemblies convened, it appeared likely that more would be done on tax matters than in any prior post-war year. All told, 45 of 48 legislatures met in 1959; financial problems loomed large as the lawmakers gathered, and virtually all the sessions were to be concerned at one time or another with revenue and other problems of a fiscal nature.

In retrospect, there were fewer adoptions of new taxes than had seemed likely earlier, but rate changes—mostly upward—and revisions in coverage—nearly all in the direction of broadening—proved more numerous than in other recent years. Rate or base modifications affecting sales taxes were made by 14 of the 33 states using this tax; similar statutory recasting affecting income taxes was done in 12 of the 31 states taxing individual income and 14 of the 35 levying on corporation income; gasoline tax rates were upped by four of the states. California's new 3-cent (per pack) tax on cigarettes is the year's only new entry in this field, but 14 states increased the rates under existing cigarette taxes and 6 more joined the ranks of the 11 that had been taxing tobacco products other than cigarettes. These are only a few of the year's major innovations; many other changes, of varying significance from a revenue standpoint, scatter through the ranks of the 30 or more states whose tax structures underwent revamping in the course of the legislative season.

Perhaps the main reason that final legislative results for 1959 are rather less striking than had been anticipated is that business activity continued to improve while the sessions were under way. The recession of 1957-58, of course, left its mark on the states' finances. A decline in consumer durables buying and a small dip in personal income curtailed sales and income tax receipts, while mounting joblessness during the setback took its toll in rising outlays under the public assistance programs. The business upturn, it is true, appears now to have been under way since the second quarter of 1958, a good many months before the legislatures convened. This was not clear at the time, however; not until summer was it reasonably apparent to the legislators that the corner had been turned. Meantime, the process of financial planning for the 1959 legislative season had already begun.

Results for fiscal 1958 formed a disquieting backdrop during the stage of tax and expenditure estimating for fiscal 1960. Gubernatorial messages delivered to the lawmakers as their sessions opened commonly stressed the need for specific action in the sphere of taxes or, at the least, for earnest study of the fiscal situation. Evidence of an improving economic climate accumulated as time passed, and much of the earlier sense of urgency ebbed away.

Midwest experience widely varied

Perhaps no state has been more in the limelight this year than *Michigan*. A fiscal stringency of crisis proportions remains unresolved even at the present writing. Difficulty centers in the state's "general purposes fund." At the end of June, the deficit in this fund had reached 96 million dollars, and unpaid bills had piled up to the tune of 50 million. General fund expenditures for fiscal 1960 are estimated at 425 million dollars. Revenues under existing legislation are expected to cover only about two-thirds of requirements, leaving a gap of some 140 million dollars. To date, none of the several new revenue proposals has won acceptance, and the legislature remains stalemated.

Michigan's troubles appear to have been building up for some years. The recent recession, which had an especially sharp impact on the state's numerous automotive centers, simply served to bring a chronic problem to the acute stage. The dip in business placed a pincers-like squeeze on the

1959 state tax revisions: the results at a glance

	State revenues in fiscal 1958		
	Actual	Estimated under 1959 legislation	Change
	(billion dollars)		
General tax revenues	10.8	12.2	+13%
Consumption taxes	**5.5**	**6.3**	+14
General sales, use, gross receipts	3.5	3.9	+11
Tobacco	.6	.8	+33
Alcoholic beverages[1]	.8	.9	+12
Other	.6	.7	+17
Income taxes	**2.6**	**3.0**	+15
Individuals	1.6	1.9	+19
Corporations[2]	1.0	1.1	+10
Other	**2.7**	**2.9**	+ 7
Highway user charges	4.3	4.7	+ 9
Motor fuel taxes	2.9	3.3	+14
Vehicle licenses	1.4	1.4	—
Total tax revenues	15.1	16.9	+12
Received from Federal and local governments	4.8	—	—
Charges, fees, miscellaneous income[3]	2.1	—	—
Insurance trust receipts	3.4	—	—
Total state revenues	25.3	—	—

[1]Includes profits of state liquor stores.

[2]Excludes franchise taxes based on some measure of income.

[3]Excludes liquor store revenues. Profits only are included with tax revenues.

state treasury: expanding assistance rolls resulted in unanticipated welfare disbursements, while reduced employment curtailed consumer spending and the dollar volume of retail sales, the state's major tax base.

A leading cause of the state's trouble has been the subordinate position of the general purposes fund as a claimant on tax revenues and the importance of revenue earmarking. The lucrative sales tax, which produced well upwards of 300 million dollars in 1958, is largely earmarked for support of local governments; the state's own general purposes fund receives only a residual share. This is its position, also, with respect to a number of other important tax sources.

In sharp contrast to Michigan is *Iowa,* a state whose economy rode through the 1957-58 recession virtually unscathed. Early in the year, legislative agreement was reached on two revenue measures. Under one, the corporation income tax rate was upped from 2 to 3 per cent; under the other, the cigarette tax rate was raised a penny to 4 cents a pack. With these changes, and the transfer of 20 million dollars from the state's still surviving "rainy day" fund built up during the war and early postwar years, it is expected that a projected 20 per cent increase in the over-all operating budget can be taken in stride.

The *Indiana* legislature took no action on state revenue legislation during the 1959 session. Expenditure projected for the biennium ahead is up about 8 per cent from that of 1957-59, but no explicit provision was made to bridge the gulf between the expected outgo and the estimated total of funds available.

The principal changes made in *Illinois* consist of a half-point hike in the use and sales tax rate, bringing it to 3 per cent (plus the permissive half-cent levy by municipalities); a 50 per cent increase in alcoholic beverage tax rates; and an added penny, for roughly a year's time, on the 3-cent per pack tax on cigarettes. Proceeds of this increase are earmarked for a Korean veterans' bonus.

During its session this year, the *Wisconsin*

—continued on page 14

Competition from abroad

More than three quarters of a million persons passed through the turnstiles at the Chicago International Trade Fair during the 16 days it was open to the public, July 3-18. Many, presumably most, were casual visitors —sightseers—possibly attracted by the pomp and pageantry associated with the official opening of the St. Lawrence Seaway. But the large attendance is indicative also of a heightened interest in international trade by both consumers and businessmen. Attendance during "business sessions," when admission was restricted to "bona fide management personnel," was on the order of 2 thousand daily. And some exhibitors reported that order books were filled midway through the fair.

This evidence of interest in goods produced abroad comes as no surprise to most businesses. American manufacturers have been aware of growing competition from foreign producers in both domestic and overseas markets for some time. The increased competition became particularly noticeable toward the end of last year. In the second half of 1958, although domestic purchases of goods were below the same months a year earlier, imports showed a slight gain. In the first five months of 1959, imports continued to increase, topping the year-ago figures by 15 per cent.

Most of the recent *import* gains have been in manufactured and semimanufactured nonfood products. Purchases abroad of these goods during the last half of 1958 were 8 per cent higher than the same 1957 months. Through May of this year, such imports were more than one-fourth, or 700 million dollars, above the year-earlier level and accounted for the entire rise in incoming shipments.

Meanwhile, U. S. *exports* were declining. Sales abroad dropped a billion dollars, or 10 per cent, between the final halves of 1957 and of 1958. Of the total drop, over two-thirds was in finished and semimanufactured goods. In part, this reflected both the expanded productive capacity abroad and the recession in economic activity in Europe and Canada. It also reflected the greater competition that U. S. firms are facing in foreign markets from producers in other countries.

In recent years, United States shipments abroad have accounted for about 20 per cent of aggregate world trade. Yet, the 3 billion dollar drop in United States' exports during 1958 represented 60 per cent of the decline in the combined exports of all countries.

Manufactured imports rise

The gain in United States imports over the past few years has been almost entirely in manufactured goods. From 1953 through 1958, total purchases from abroad rose 2 billion dollars, 1.7 billion of which was in manufactured goods. In 1958, manufactured imports were 77 per cent above the 1953 level and had risen from 20 per cent to 30 per cent of over-all shipments into the United States.

Despite this rapid rise, imports of manufactured goods are still dwarfed by the value of our exports of such products. Last year this country sold almost 11 billion dollars of manufactured goods abroad, while purchases from overseas were under 4 billion dollars.

Competition for Midwest

Several important Midwest industries are among those that have been most vitally affected by foreign competition. The steel industry is a prime example. During 1958, consumption of steel in the U. S. declined. Despite this, imports of steel increased from 1.3 million tons in 1957 to more than 1.8 million last year, a rise of 40 per cent. While the proportion of domestically used steel coming from abroad almost doubled, imports still represented only 3 per cent of U. S. consumption.

Yet, steel products sold in the U. S. by foreign producers in 1958 were well below the amount imported in 1951, a year in which the increased requirements for both defense and civilian uses taxed the capacity of domestic manufacturers. The 1958 volume, moreover, was only slightly above the 1953 level, the first half of that year also having been one of stringent supplies.

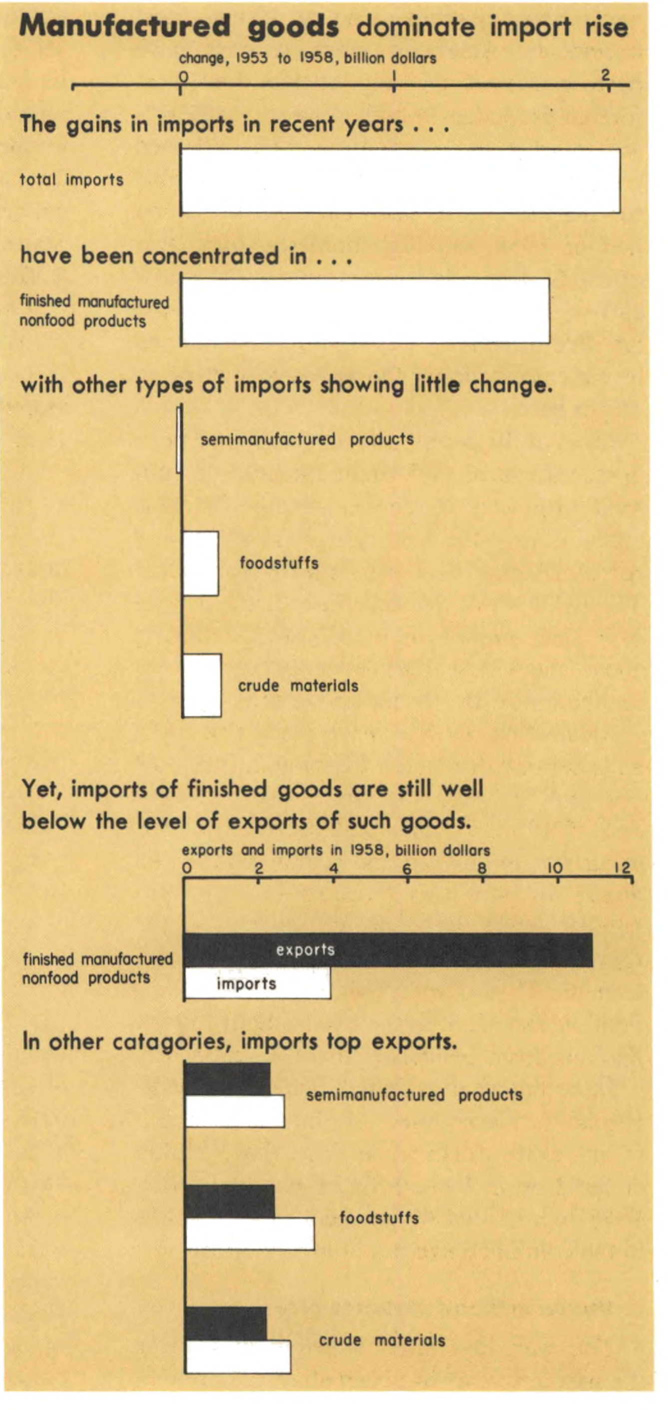
At the same time that imports of steel were rising, United States exports were reduced to just a little more than half the 1957 level. Despite the rise in imports and decline in exports, the volume of shipments abroad during all of 1958 was still almost two-thirds higher than the volume of imported steel.

The rise in imports of individual steel mill products has varied greatly. Domestic producers of steel rods, wire and nails have felt the stiffest competition from abroad. These products are generally made from low-grade steel and do not have to meet rigid quality standards. As a result, the 40 per cent increase in the tonnage of steel mill imports in 1958 was associated with only a 9 per cent gain in dollar value.

Imports of many steel products that now are important in the United States market were negligible in the early postwar years. Even as recently as 1953, imports of wire rods represented 8 per cent of total supplies, less than half the 1958 figure of 17 per cent. Nails and staples rose from 7 per cent of domestic consumption in 1953 to 33 per cent last year, while over the same period barbed wire showed a gain from 9 per cent to 52 per cent of total domestic utilization.

The increase in imports of steel products may be related largely to the development of greater capacity in foreign mills. Producers overseas are now able both to meet their domestic needs and seek out new markets to utilize their expanded facilities.

In 1959, imports of steel products have continued to gain and during the first several months of the year were equal to the volume of exports. Mills overseas are be-



coming more familiar with the United States market and the types and grades of steel required by domestic users. The variety of steel imports has expanded beyond the low-quality, low-cost, low-profit items. In part, this may have been due to the pressures on domestic mills as steel consumers sought to build up inventories in anticipation of a strike. In part, it also reflected increased efforts on the part of foreign producers to further penetrate the domestic market.

The auto industry is another field in which foreign manufacturers have made substantial inroads into the domestic market. The number of cars imported last year was about 430 thousand units, compared with 260 thousand in 1957 and 30 thousand in 1953. In the case of autos, style may play a significant role in the increase in imports. One indication of this has been the success of domestically produced "compact" cars.

But this does not appear to be the case in the glass industry where the product is more standardized. Glass manufacturers have been feeling the effect of greater foreign competition since 1955. Heavy hurricane damage that year and the boom in both autos and construction resulted in a shortage of glass. This led users in the United States to supplement domestic output with foreign supplies. Glass imports in 1955 were valued at 54 million dollars, double those of the previous year. Imports rose further in 1956, but during the past two years have been at about the 1955 level.

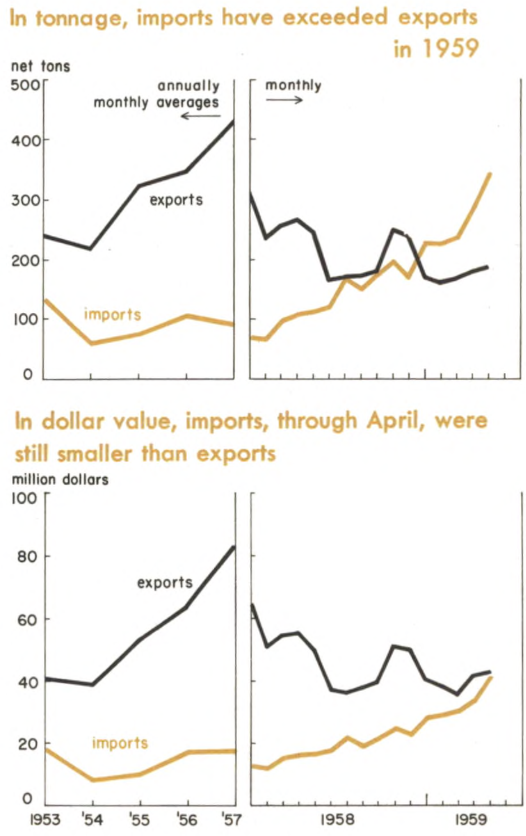
Last year, however, a decline in the use of glass in the U. S. boosted the relative importance of imports. With automobile production and residential and commercial construction below the 1957 levels, glass manufacturers in this country reduced output by 11 per cent. Domestic production of glass and glass products dropped to the lowest level since 1954, while imports held at the 1957 level.

Foreign firms do not appear to *produce* glass at a lower cost than United States manufacturers. But in the cutting and packing operation, in which labor used is relatively high, overseas producers have a sizable cost advantage that more than makes up for their higher transportation costs.

Two recourses

How have United States manufacturers met the intensified foreign competition? In

Imports of steel-mill products gain sharply in recent months



some cases, individual companies faced with increased competition from overseas producers have expanded research and development work, with an eye toward improving products and expanding into new fields. Recently a Midwest producer of watch movements announced plans to again manufacture movements in the United States, after having imported them for several years.

In other sectors, increased foreign competition has led to some form of import restriction. The Government, for example, has imposed quotas on the amount of crude oil and petroleum products that may be imported and similarly restricted lead and zinc imports. Woolens have also been subject recently to tightened import controls.

In the past several months, the two major manufacturers of heavy electrical power generating equipment sought additional import restraints on foreign-produced equipment. The Office of Civil and Defense Mobilization, however, has recently turned down the petition. Curbs had been sought on the grounds that the ability of these domestic firms to produce these items in a period of national emergency would be impaired. The OCDM has received similar requests from manufacturers of items ranging from dental burrs to wool knit gloves, and the Tariff Commission has been urged by domestic manufacturers to take steps to reduce imports of such products as hardwood plywood, zigzag sewing machines, mink skins and shower heads. Also, additional Government subsidies have been proposed to help boost exports; for example, cotton textiles and agricultural commodities.

Any increase in barriers to the flow of international trade tends, of course, to offset benefits accruing to consumers from recent improvements in production and transportation. On both a domestic and international basis, strides have been made in reducing the cost of bringing goods from the mines, factories and farms to the market place. In the United States, improved highways, combined truck-rail hauls and bigger and faster airplanes are among the advances being hailed as means of cutting transport costs.

On an international scale, the approach of the jet transport, the construction of mammoth tankers and the development of other specialized vessels have brought the world markets closer together. The most dramatic advance in recent years has been the opening of the St. Lawrence Seaway, providing a through route for ocean-going ships to and from Great Lakes ports. The United States has made a large investment in the widening and deepening of the Seaway, with the anticipation that lower transport costs would mean both lower prices to consumers for foreign products or goods containing imported materials and gains in employment and income resulting from increased exports. Higher tariffs and more restrictive import quotas tend to nullify such potential savings to domestic consumers. Furthermore, gains in United States exports cannot be expected if imports are curbed, except as they might be financed through credit or aid programs or the limited amount that other countries might draw down their gold and dollar reserves.

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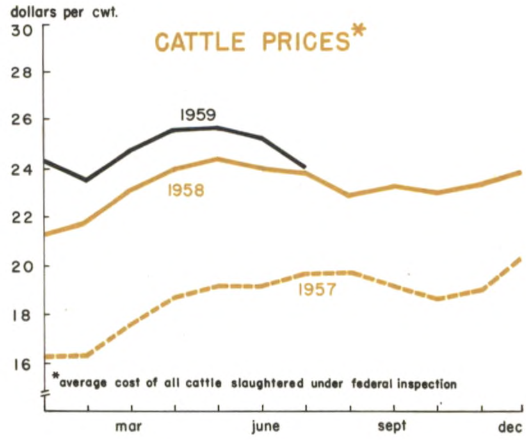
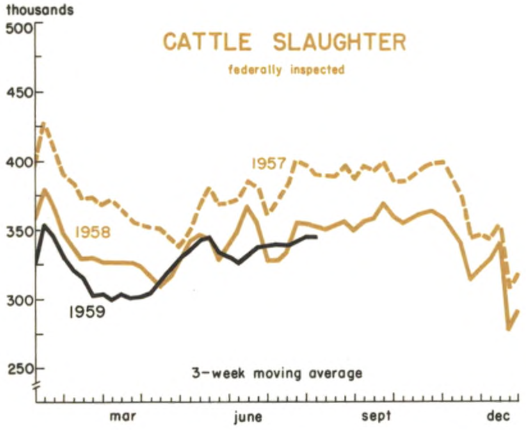
A profile of the cattle cycle

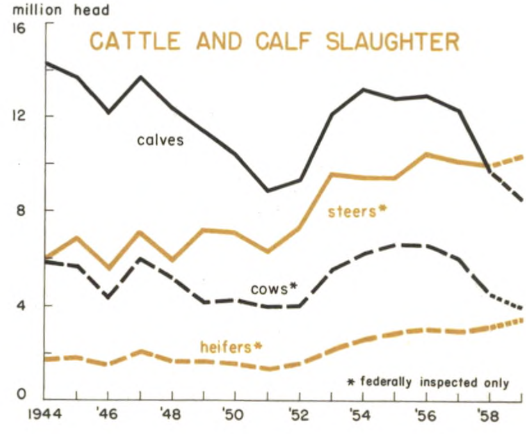
Cattle prices in the first seven months of 1959 have averaged nearly $25, up 7 per cent from the same period last year and 33 per cent above 1957. The upswing in prices has been a response to . . .



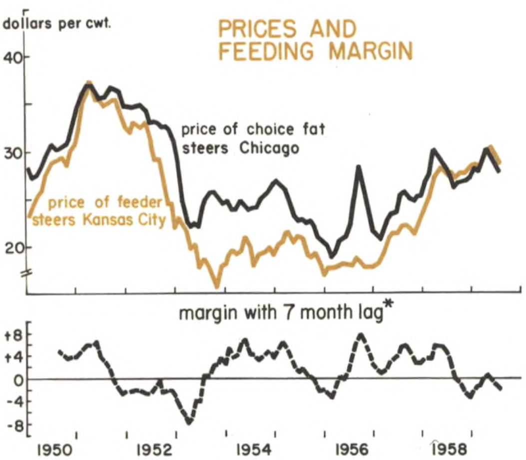


. . . reduced slaughter of cattle. When rains broke the drought in the Plains and Mountain states in 1957, ranchers began rebuilding their cattle herds. Very favorable grazing conditions in 1958 brought further withholding of breeding stock resulting in . . .

. . . sharp reductions in cow and calf slaughter and smaller total beef supplies. The major factor in the movements in cattle slaughter and prices is the cycle of cattle numbers. In the last upswing of cattle numbers, beginning in 1949, cow and calf slaughter declined to low levels. The rate of increase in cattle numbers reached 6 million head in 1951 and 1952 and cattle prices reached their highest levels. Then drought brought liquidation of breeding herds, a sharp increase in slaughter, large beef supplies and a drastic price decline. This year, slaughter of cows and calves has dropped to the low levels of 1951 as . . .

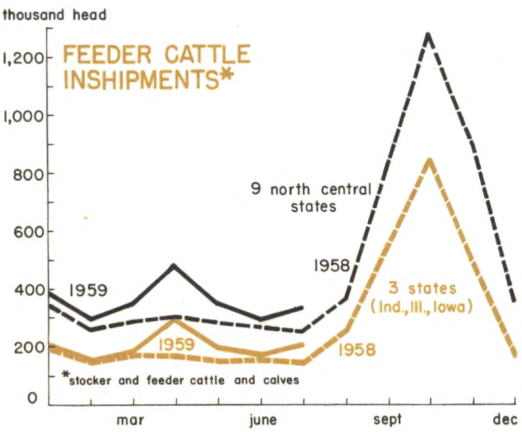


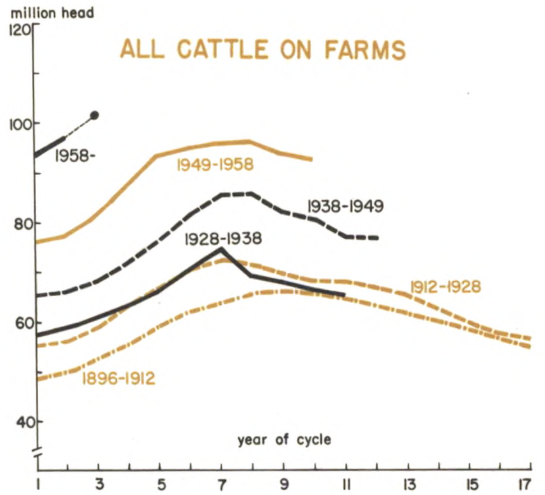
. . . cattle numbers climbed above the 1956 peak. In the previous cycle, prices of choice steers stayed above $30 in 1951-52. However . . .



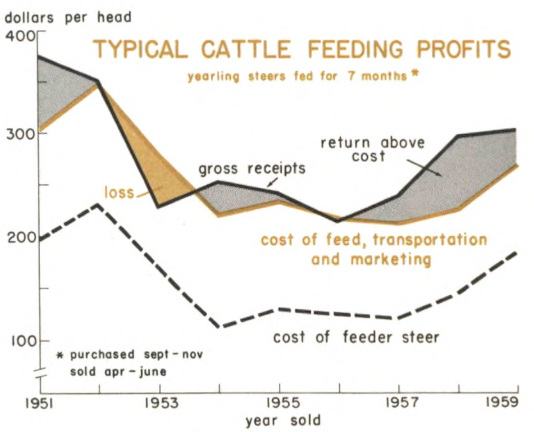
*Difference between prices received and prices paid seven months earlier adjusted for transportation and marketing expense.

. . . losses in cattle feeding in 1952-53. In the fall and winter of 1957-58, prices rose over $5, bringing large positive margins and above-average returns. Continued above-average returns in 1959, together with a record corn crop, have stimulated . . .





. . . large negative feeding margins appeared in 1953 as fat steer prices dropped nearly $9 in four months and sold $8 below their cost as feeders bringing . . .



. . . high levels of cattle feeding, with shipments of feeder cattle 25 per cent above last year. If drought does not slow the upswing of cattle numbers, a price break similar to that of 1952-53 would be unlikely in the coming year.

Taxes—*continued from page 7*
legislature raised the individual income surtax rate from 20 to 25 per cent and adopted a new tax on firms owning and leasing equipment used in "piggy-back" railroad service. The legislature will reconvene on November 3 to tackle the revenue problem again, drawing upon findings of an official tax study recently under way and slated for completion soon.

Of the states bordering the Seventh District, both Ohio and Minnesota adopted a number of sweeping changes. So also did California, New York and Pennsylvania, among the populous industrial states in other areas. Individual income taxes were raised in California, Minnesota and New York; corporate income taxes in California, Minnesota and Pennsylvania. Sales taxes were boosted in Ohio and Pennsylvania, as well as in Missouri, which otherwise made only minor changes in its revenue structure. Motor fuel tax rates were raised in Ohio, Pennsylvania and New York. Parimutuel taxes came in for a good share of attention this year: three of the big states—California, New York and Ohio—increased rates substantially. Nebraska, one of only two or three among the group of bordering or comparable states continuing to draw substantial revenues from property taxes, adopted a new ad valorem levy to finance capital outlay.

More changes in store

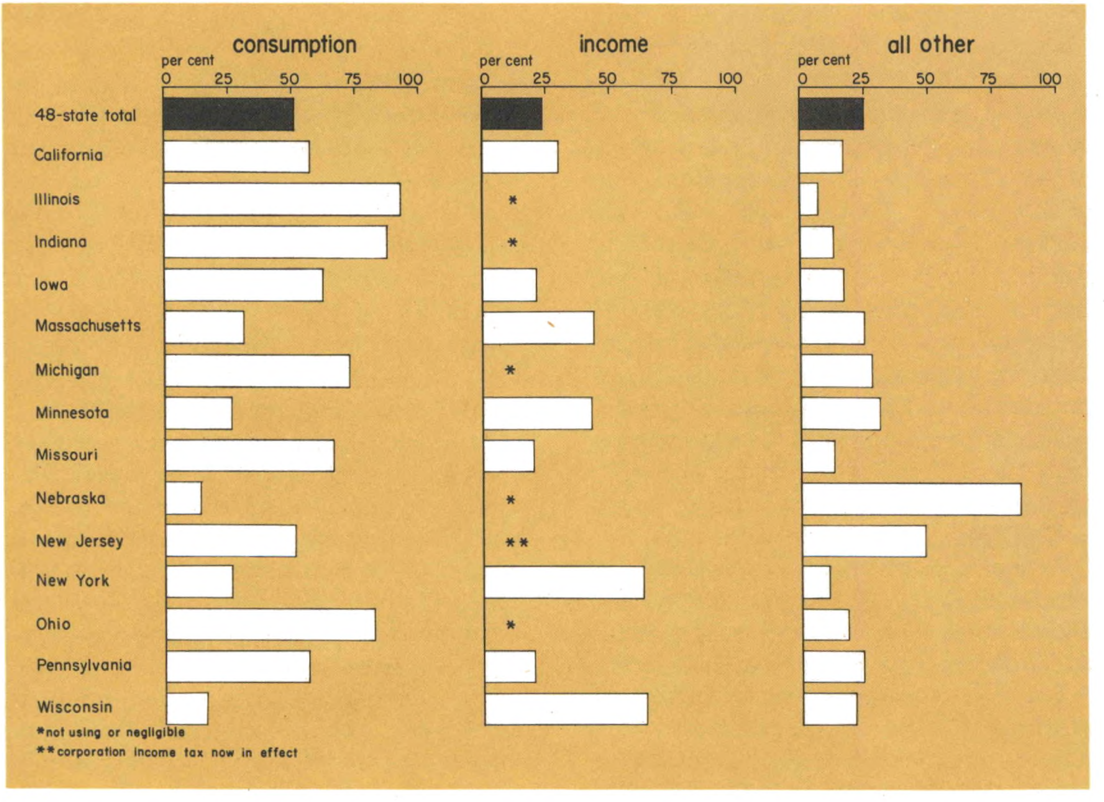
The year's legislative actions reflect an impressive volume of work on the states' fiscal systems, with virtually all of it directed toward raising tax revenues. Why has this been necessary? Why is it that the "natural" growth of the tax bases upon which the states rely has so obviously failed to match growing requirements? Are further rounds of rate and base adjustments in the works for the 1961 legislative season and beyond?

One reason for expecting that pressure on the states will persist in the future is to be found in a common characteristic of the demand for state (and local) public services. A sizable portion of all state-local spending —almost half in fiscal 1957—provides benefits specifically for the young and the elderly among the total population.

Between 1957 and 1965, according to an estimate of the Census Bureau, the population of the United States will increase about 14 per cent. The number of young people of primary and secondary school age, however, will gain by 26 per cent, almost twice as much; the number of college age, by 36 per cent, well over twice as much. The ranks of the elderly, or persons 65 and more, meanwhile, are estimated to increase by 20 per cent, which is half again the expected gain in the total. The number between 20 and 65, the segment of the population from which the work force is drawn, is expected to grow by only 7 per cent—just half the gain foreseen for the total and appreciably less than the increases in store for both the young and the aged in the population. The potential "market" for public school services, for old-age assistance, for public hospital services and for aid to dependent children, therefore, promises to grow by appreciably more than the 14 per cent gain estimated for total population.

Added to this will be the effects of further upgrading in the quality of public services that may be expected to proceed as private circumstances continue to improve. And there must be added, too, the effects of continuing population redistribution, of continuing migration from farm to city and from older sections of the city to new communities on the fringes. Such factors as these are likely to sustain pressure on public budgets well

Consumption-based levies dominant among general tax revenues of larger Midwestern states



above and beyond that afforded by further increases in population alone.

Revenues under existing tax forms appear destined to increase, also, and under the influence of the same set of developments. Growth in population coupled with an advance in per capita income will swell the tax bases of states leaning on individual income as a source of revenue. Rising consumer expenditure will spell rising sales at retail and climbing sales and excise tax collections. And, of course, still more widespread ownership and use of automobiles may be expected to contribute a growing stream of gasoline and vehicle tax receipts, the source of the bulk of highway construction and maintenance expenditures. The states' revenues, therefore, will in all likelihood climb as expenditure requirements grow—though not necessarily at the same rate—even in the absence of additional modification of tax rates and broadening of their bases.

State revenues, however, defray only part of the cost of the stream of services provided by the state and local governments. The big additional source is the local property tax, a tax form of traditionally sluggish and tardy response in the face of changing economic circumstances. Given that local expenditure requirements continue to climb at a rate even greater than that of the population, it appears likely that grants and aids channeled to the local units by the states will increase at a still more rapid rate, if only to fill the gap left by failure of property tax yields to grow at the same pace as local expenditure. The upshot would appear to be that the states' revenue structures will bear the brunt of future advances in the combined rate of spending by the state and local governments. On this account, also, the chance seems good that the years ahead will see still further upward adjustment in state tax rates, further broadening of the coverage of state taxes and adoptions of new taxes by the individual states.

In time, the states' revenue systems may more and more come to resemble one another. Beyond a point, a state may be reluctant to increase its income tax rates, when a modest rate on some other base, such as retail sales, might be the alternative—especially if its neighbors and "competitors" had already paved the way. Similarly, the states now lacking taxes on, say, income may elect to enter this field in preference to exploiting further their taxes on consumption.

Although this year's legislative actions wrought a substantial number and variety of changes in the individual states' revenue structures, the broad contours of state finances remain essentially unaffected. In fiscal 1958, aggregate revenues—from taxes and all other sources—of the 48 states combined came to 25.3 billion dollars. Deducting 3.4 billion in revenues accruing to a variety of insurance trust funds left 21.9 billion dollars as the total of *general* revenues. Roughly a third of this, or 6.8 billion, represented receipts from the Federal Government and the proceeds of fees and service charges. Tax revenues therefore amounted to 15.1 billion. Of this total, roughly 4.3 billion dollars consisted of gasoline taxes and vehicle license receipts largely reserved for highway purposes. The remaining 10.8 billion, then, was the total of state revenues from taxes on general sales, income, tobacco products, alcoholic beverages, property, mineral production and all the other bases upon which the governments levy. Roughly 51 per cent of this came from taxes on sales or consumption, broadly defined; 24 per cent from taxes on income, both individual and corporate; and 25 per cent from other sources.

Individually, many of the states may be classed as having either consumption- or income-based tax structures. Some, of course, lean heavily on both sources and still others on neither. In the Midwest, Illinois, Michigan and Indiana have revenue systems clearly oriented to a consumption base. Wisconsin's system leans toward income and Iowa's utilizes both. Each of the two largest states, New York and California, draws substantial support from both income and consumption, though the emphasis differs, with New York leaning preponderantly on income; California, on consumption. Several of the other big or neighboring states also use both bases—Massachusetts, Pennsylvania, Minnesota and Missouri are examples. Ohio, like its neighbors to the west and north, relies upon a revenue system based heavily on consumption.

These general characterizations remain unaffected as a result of the statutory revisions made in 1959 and, indeed, have been valid for roughly a generation. Not since prewar days has the tax structure of any of the larger or nearby states undergone a basic transformation.