

APR 7 1969

Honorable John S. Wold  
House of Representatives  
Washington, D. C. 20515

Dear Congressman Wold:

In response to your letter of March 28, 1969, let me first point out that it was never the intention of the Advisory Commission on Intergovernmental Relations to "point the finger" at any State--either for merit or criticism. Rather, our intention was simply to provide a factual basis for determining the proportion of State and local taxes to personal income. In this regard, you will note that the heading of Table 1 avoids the phrase "tax burden" and simply says "State and Local Revenue as a Percent of State Personal Income, by State, 1957, 1962 and 1967."

Similarly my statement in the accompanying news release was neutral on this point. Specifically, my remarks were "Tax collections ranged from a high of more than 12 percent of personal income in Hawaii, Wyoming and New York to a low of less than 8 percent in Ohio and Illinois. Whether we view this an index of tax effort or tax burden depends upon how we view the role of State and local government in the American federal system."

Let me further point out that the data presented in Table 1 are essentially similar to the series published by the Bureau of the Census in their annual publication, Governmental Finances. Census presents several series of general revenue per \$1,000 of personal income and one of their specific tabulations is total State and local taxes in relation to income. Further, the series published in our report is similar to the data that is so frequently mentioned as the "tax effort" factor to distribute various proposed revenue-sharing plans.

With regard to the measure Mr. Allen has proposed, it would seem necessary to exclude the State and local taxes that other States export before determining Wyoming's relative position. It is not clear from your letter whether this has been done in reaching the conclusion that Wyoming would emerge 33rd or 32nd under this substitute measure. The reference that "Wyoming has some unique conditions" that vitiate our approach makes me suspect that this was not done. Tax exporting, however, is not unique to Wyoming; virtually all States

do it to some extent. You may incidentally be interested in a somewhat dated study that appeared in the National Tax Journal, March 1967, pp. 49-77. In that study, Charles E. McLure, Jr., made estimates of the percentage of all State and local taxes that were exported for 1962. His estimates for short-run exporting show that nine States<sup>1/</sup> export more of their State-local taxes than does Wyoming; in the long run, five States<sup>2/</sup> exceed Wyoming's rate of 23.3 percent. Perhaps of even greater significance is Mr. McLure's statement (p. 66) "However, the overall export rates for 1962 are fairly similar between states, despite considerable differences in state economies and tax structures." To the extent this observation is true, Wyoming's tax exporting is not only not unique but not strikingly different from the practice of other States and, of course, roughly similar tax exporting ratios would lead to similar rankings among States both in State and local "tax burden," or under the approach we took.

As a second comment on Mr. Allen's proposed measure, let me offer the suggestion that if the purpose of the alternative series is to distinguish tax burdens among States, it should not only exclude State and local taxes exported by all States but it should include State and local taxes imported by the respective States since the latter are ultimately also paid by residents of a particular State. I am not at all sure that Wyoming would emerge on a favorable basis if this were done. Essentially the reasons Mr. Allen offers for "favorable tax exporting" in Wyoming--i.e., its extractive resources--would be the basis for an "unfavorable tax importing" situation--the relative lack of a manufacturing sector. I do not, however, know of any comparable tax importing studies that have been done.

The question of estimating tax burdens for residents of a particular State then can become a quite complex exercise. It is for the reasons given here that the staff of the Advisory Commission chose to present the familiar State and local taxes as a percent of personal income in its report. With these points in mind, let me again state that we felt we were publishing useful and factual data regarding one of the many facets of State-local finance.

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<sup>1/</sup> These States are: Arizona, Connecticut, Delaware, Louisiana, Michigan, Nevada, North Carolina, South Carolina and Texas.

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After having said all of this, I want to share your concern at the way the news media have handled these data to the detriment of those States that have the highest ratio of State and local tax receipts to total personal income. Specifically, I am attaching a letter to the Editor of the U. S. News and World Report, calling his attention to the highly questionable terminology used to describe our State and local tax findings.

Sincerely yours,

Farris Bryant  
Chairman

Enclosure