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1966

Taxes, People, Plains, Part I : Why Be Concerned?

Cooperative Extension, South Dakota State University

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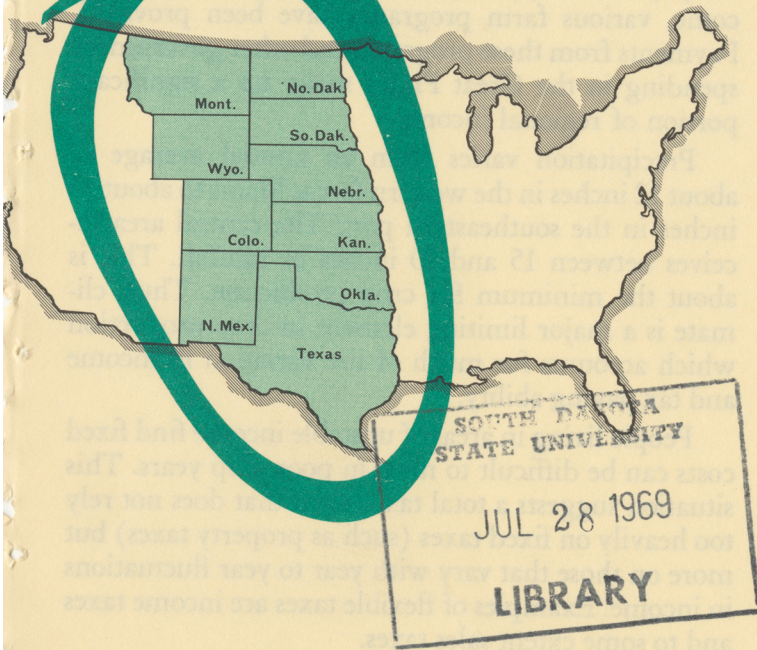
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- TAXES
- PEOPLE
- PLAINS

Part I



Why Be Concerned?

The purpose of this series of leaflets on public spending and taxation is to help people in the Great Plains make the kinds of public finance decisions they need to make to achieve their particular goals. By pointing out past, current, and projected social and economic changes, improved decisions on public spending and taxing should result.

This is the first of a series of three publications on taxation. Part II is entitled "Providing and Paying for Public Services" and Part III is entitled "Decision Making in Public Finance."

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PUBLIC SERVICES play a very important part in developing and maintaining the kind of society we desire. In the Great Plains region we will continue to expect public services comparable with other areas. Obtaining such quality services, however, will require study, planning, and action in many aspects of taxation and public spending.

For the public to make informed and wise tax judgments and policy decisions, it is essential they be aware of conditions and changes taking place in the social and economic environment within which tax systems operate. It is also important that those who understand these aspects of taxes be able to communicate their knowledge, ideas, and desires. Thus, "Taxes, People, and the Plains" was designed to increase citizen understanding and communication of this subject.

In our growing and complex society, people of all ages have a real stake in public finance decisions. They are and will continue to be affected by having taxes take a substantial portion of their income, and also by kinds of public services available to them. They will continue to be concerned about fairness of taxation and adequacy of public services.

In a democracy, local people or those empowered to represent them make the decisions about changes in the tax structure and public service programs. Thus, we all have important responsibilities in public finance decisions. Such decisions should be considered in terms of (1) their impact on community, area, state, and regional activity; (2) how fairly people are treated in terms of tax obligations; and (3) how adequately and efficiently public services can be provided.

A public finance system can be shaped and used to help develop the kind of society people desire. Or, it can be neglected and become outmoded causing inequities, inadequacies, inefficiencies, and stagnation in economic growth.

The demands for public services in the Plains, as elsewhere, are affected not only by what happens locally or in the region, but perhaps even more by growth and development in other areas. As standards and levels of public services increase in one area, other areas often desire and strive to meet such standards. This must be done to meet community and regional competition and develop the kind of social and economic structure our mobile society desires.

Because of our changing society, a tax system designed for one period may fall short of accomplishing objectives of society later. Thus, to adjust the tax system to our changing environment requires constant study of the new relationships developing between the economy and the tax structure.

While we recognize that the economy as a whole is constantly changing, we are often not so aware of the nature of changes taking place within it. For ex-

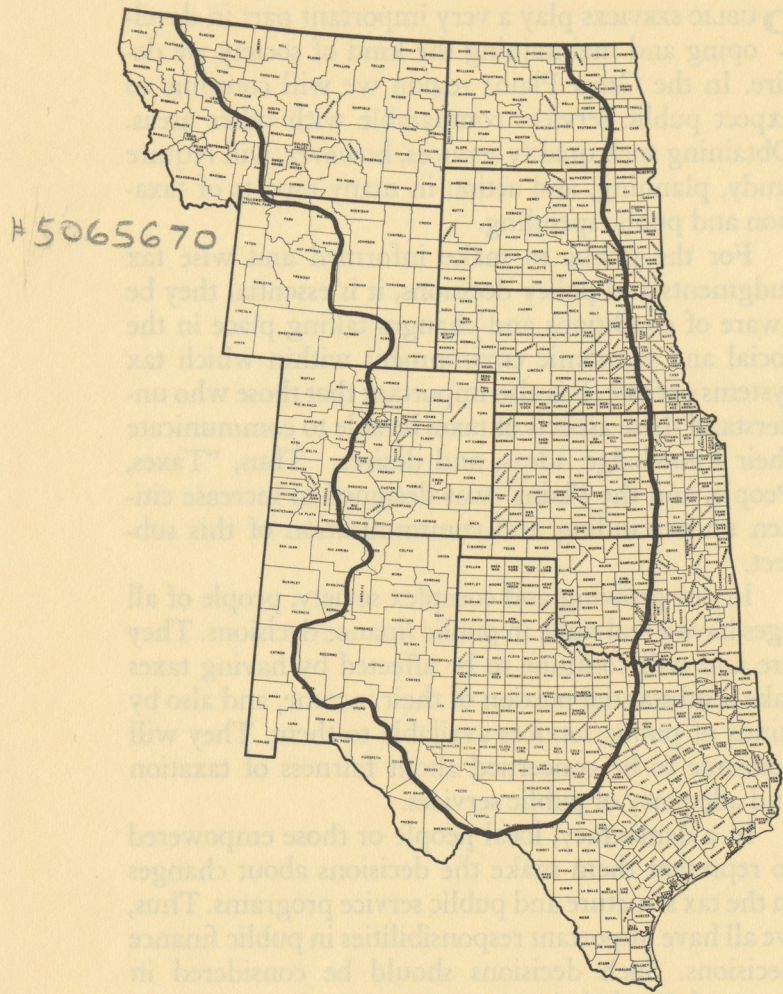


Figure 1. The Great Plains Region

ample, industrial areas are undergoing changes different from those taking place in agricultural regions. New types of services are playing an increasingly important role. Some areas have expanding incomes, population, and job opportunities; others do not. Consequently, the type of tax system that fits well in one area may not be good in others.

The Great Plains is a unique region with many similarities among the states. Because of this, several of the Plains States have common public finance problems. Also, some degree of uniformity in state tax structures might logically be pursued. By working together, the possibility of improving public finance decisions in all of the states is enhanced. Understanding the problems and possible solutions for one part of the region should be of benefit to other parts.

GREAT PLAINS CHARACTERISTICS AFFECTING PUBLIC SPENDING AND TAX POLICY

What are the Great Plains conditions that need to be considered when deciding on the quality and quantity of public services? What influence should the unique characteristics of the Plains have on tax policy decisions? This section will attempt to answer these questions.

AGRICULTURAL CHARACTERISTICS

First, the Great Plains is primarily an agricultural area and is subject to technological changes taking place in food and fiber production. Applying new techniques to agriculture has increased farm size and reduced farm numbers and population. The increase in production has also contributed to a large supply of agricultural products in relation to demand. This has had its effect on prices and income and the ability of tax payers to support public services. To support income, various farm programs have been provided. Payments from these programs and other government spending in the Great Plains make up a significant portion of regional income.

Precipitation varies from an annual average of about 12 inches in the western Great Plains to about 30 inches in the southeastern part. The central area receives between 15 and 20 inches of rainfall. This is about the minimum for crop production. Thus, climate is a major limiting element in crop production which accounts for much of the variation in income and tax paying ability.

People living in areas of unstable income find fixed costs can be difficult to meet in poor crop years. This situation suggests a total tax system that does not rely too heavily on fixed taxes (such as property taxes) but more on those that vary with year to year fluctuations in income. Examples of flexible taxes are income taxes and to some extent sales taxes.

MINING, INDUSTRY AND COMMERCE

Important contributors to public revenue in many of the Great Plains States are levies on mineral and oil production. Minerals are relatively more important to the economy of these states than to the United States as a whole (based on mining income as a percentage of total personal income).

Unlike mining, industry and commerce are relatively less important in the Plains than in the rest of the nation. According to the Department of Commerce's *Survey of Current Business*, manufacturing accounted for 11% of total personal income in the 10 Great Plains States in 1963 compared with 21% for the nation.

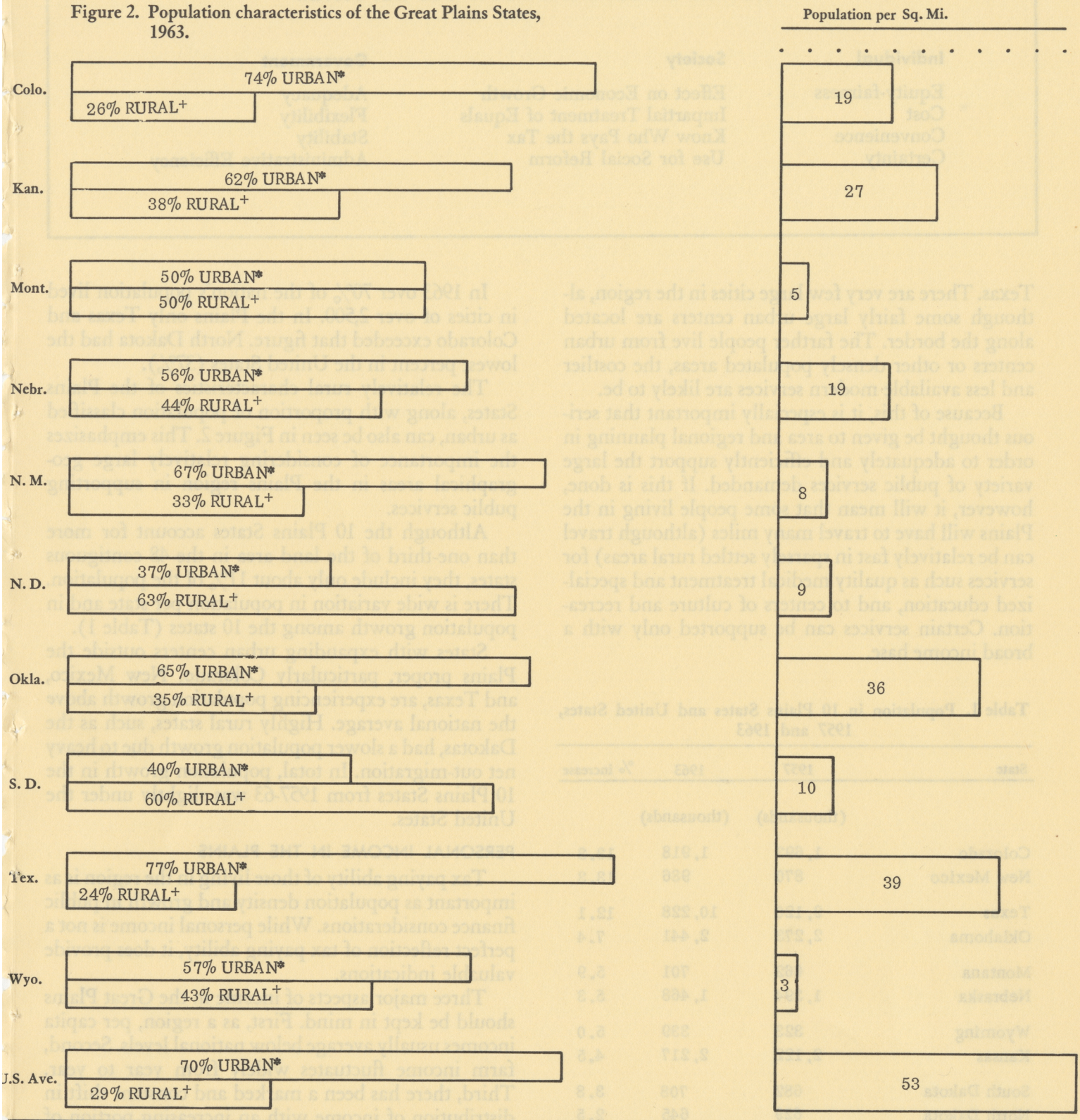
As a region the Great Plains is a net importer of industrial products and net exporter of agricultural products. It is also a net exporter of the best educated and most highly trained young people. Again this condition has important implications for tax policy decisions. Since the Great Plains does not have a large industrial base, tax revenue from this source is limited. Taxes are concentrated on nonindustrial sources—primarily agricultural and agriculturally related. Small businesses serving agriculture make up the major portion of commerce in the region.

POPULATION IN THE GREAT PLAINS

The sparseness of population in the Great Plains is apparent in Figure 2. Every state in this region in

1963 had an average population density per square mile under the national average of 53. The range for the region was from a low of 3 in Wyoming to 39 in

Figure 2. Population characteristics of the Great Plains States, 1963.



Populations in urban centers over 2,500.
Rural population includes all people living on farms and in towns under 2,500.

Source: National Education Association—*Rankings of the States*, 1965, Research Report 1965-R1 table 11.

WHAT WE SHOULD KNOW ABOUT OUR TAX SYSTEM

Individual

Equity-fairness
Cost
Convenience
Certainty

Society

Effect on Economic Growth
Impartial Treatment of Equals
Know Who Pays the Tax
Use for Social Reform

Government

Adequacy
Flexibility
Stability
Administrative Efficiency

Texas. There are very few large cities in the region, although some fairly large urban centers are located along the border. The farther people live from urban centers or other densely populated areas, the costlier and less available modern services are likely to be.

Because of this, it is especially important that serious thought be given to area and regional planning in order to adequately and efficiently support the large variety of public services demanded. If this is done, however, it will mean that some people living in the Plains will have to travel many miles (although travel can be relatively fast in sparsely settled rural areas) for services such as quality medical treatment and specialized education, and to centers of culture and recreation. Certain services can be supported only with a broad income base.

Table 1. Population in 10 Plains States and United States, 1957 and 1963

State	1957	1963	% increase
	(thousands)	(thousands)	
Colorado	1,693	1,918	13.3
New Mexico	870	986	13.3
Texas	9,120	10,228	12.1
Oklahoma	2,273	2,441	7.4
Montana	662	701	5.9
Nebraska	1,394	1,468	5.3
Wyoming	323	339	5.0
Kansas	2,122	2,217	4.5
South Dakota	682	708	3.8
North Dakota	629	645	2.5
10 Plains States	19,968	21,651	9.5
U. S.	171,108	188,616	10.2

Source: "Population Estimates, Current Population Reports," Series P-25, Bureau of Census.

In 1963 over 70% of the nation's population lived in cities of over 2,500. In the Plains only Texas and Colorado exceeded that figure. North Dakota had the lowest percent in the United States (37%).

The relatively rural characteristics of the Plains States, along with proportion of population classified as urban, can also be seen in Figure 2. This emphasizes the importance of considering relatively large geographical areas in the Plains region in supporting public services.

Although the 10 Plains States account for more than one-third of the land area in the 48 contiguous states, they include only about 11% of the population. There is wide variation in population per state and in population growth among the 10 states (Table 1).

States with expanding urban centers outside the Plains proper, particularly Colorado, New Mexico, and Texas, are experiencing population growth above the national average. Highly rural states, such as the Dakotas, had a slower population growth due to heavy net out-migration. In total, population growth in the 10 Plains States from 1957-63 was slightly under the United States.

PERSONAL INCOME IN THE PLAINS

Tax paying ability of those living in the region is as important as population density and growth in public finance considerations. While personal income is not a perfect reflection of tax paying ability, it does provide valuable indications.

Three major aspects of income in the Great Plains should be kept in mind. First, as a region, per capita incomes usually average below national levels. Second, farm income fluctuates widely from year to year. Third, there has been a marked and constant shift in distribution of income with an increasing portion of the total going to nonfarm people. This trend can be expected to prevail as rural to urban migration continues.

Table 2 shows that per capita personal income for the region in 1963 varied from a low of 77% of nation-

Table 2. Income Characteristics of the Great Plains, 1963

State	Per capita	% Natl. ave.	Wages & salaries *	Proprietors' income		% of total personal income †	
				Farm	Nonfarm	Property income	Transfer payments
Colorado	2,464	101	67	2	9	15	7
Kansas	2,255	92	60	8	10	14	7
Montana	2,197	90	61	11	8	12	8
Nebraska	2,312	94	58	12	10	14	7
New Mexico	1,918	78	70	5	8	10	7
North Dakota	2,050	84	53	20	9	10	7
Oklahoma	1,953	80	64	4	10	13	9
South Dakota	1,886	77	51	18	11	12	7
Texas	2,068	84	68	4	9	13	6
Wyoming	2,475	101	65	7	7	16	6
U.S. Average	2,449	100	69	2	8	13	7

*Includes other labor income.

†May not add to 100% because of rounding.

Sources: U. S. Department of Commerce—Bureau of Census, *Statistical Abstract* and *Survey of Current Business*.

al average for South Dakota to only slightly over the United States average for Wyoming and Colorado.

In the Plains States, total personal income increased by 31% from 1957 to 1963, compared to 32% in the United States (see Table 3). However, because of the slower increase in population in the Plains, per capita income increased 21% in this region compared to the 20% for the United States.

Gross farm income comparisons of the Great Plains and the United States show that since 1949 the level of income has been lower for the Plains States and year to year fluctuations have been considerably greater.

The shift in income distribution among major occupational groups can be seen in Figure 3. As might be expected, the decline in farm population and increase in number of people employed in the nonfarm sectors of the economy have shifted income accordingly. Thus, income paid in wages and salaries has shown a marked increase for the region relative to the other major sources of income. This pattern exists for each of the 10 states.

There are several tax implications that can be drawn from the characteristics of Great Plains income. Because per capita income tends to be lower in this region, it is especially important that public spending be carried on in a way to get the maximum return from tax funds collected. This suggests the need for continual evaluation of alternative actions to achieve greater efficiency in public finance. Such measures might include combining governmental functions, reducing

duplication of services, broadening the base of support by reorganization, increasing the use of mechanical and more centralized data processing. Some types of services in sparsely settled areas might be eliminated and provided or obtained elsewhere. To provide equal quality, services in low income regions requires either a larger percentage of income be used for public functions, greater efficiency be achieved in financing the

Table 3. Changes in Personal Income, Plains States and United States, 1957 and 1963

State	Total personal income		% increase from 1957 to 1963 *	
	1957 (millions)	1963	Total	Per capita
Colorado	\$3,367	\$4,831	43	25
New Mexico	1,401	1,953	39	20
North Dakota	939	1,300	38	31
Oklahoma	3,703	4,858	31	22
Texas	16,556	21,351	29	14
Wyoming	650	834	28	19
South Dakota	1,091	1,390	27	20
Nebraska	2,638	3,319	26	22
Kansas	3,838	5,017	31	25
Montana	1,280	1,553	21	15
10-State Ave.	3,549	4,641	31	
U. S.	348,742	461,610	32	19

*1963 per capita income is shown in Table 2.

Source: *Survey of Current Business*, August, 1965, p. 16.

services, or special assistance be given in the form of outside assistance.

Individual and community income variability in the Plains also suggests the need for public finance policies that can give stability to public financing and at the same time gear year to year tax payments to ability to pay.

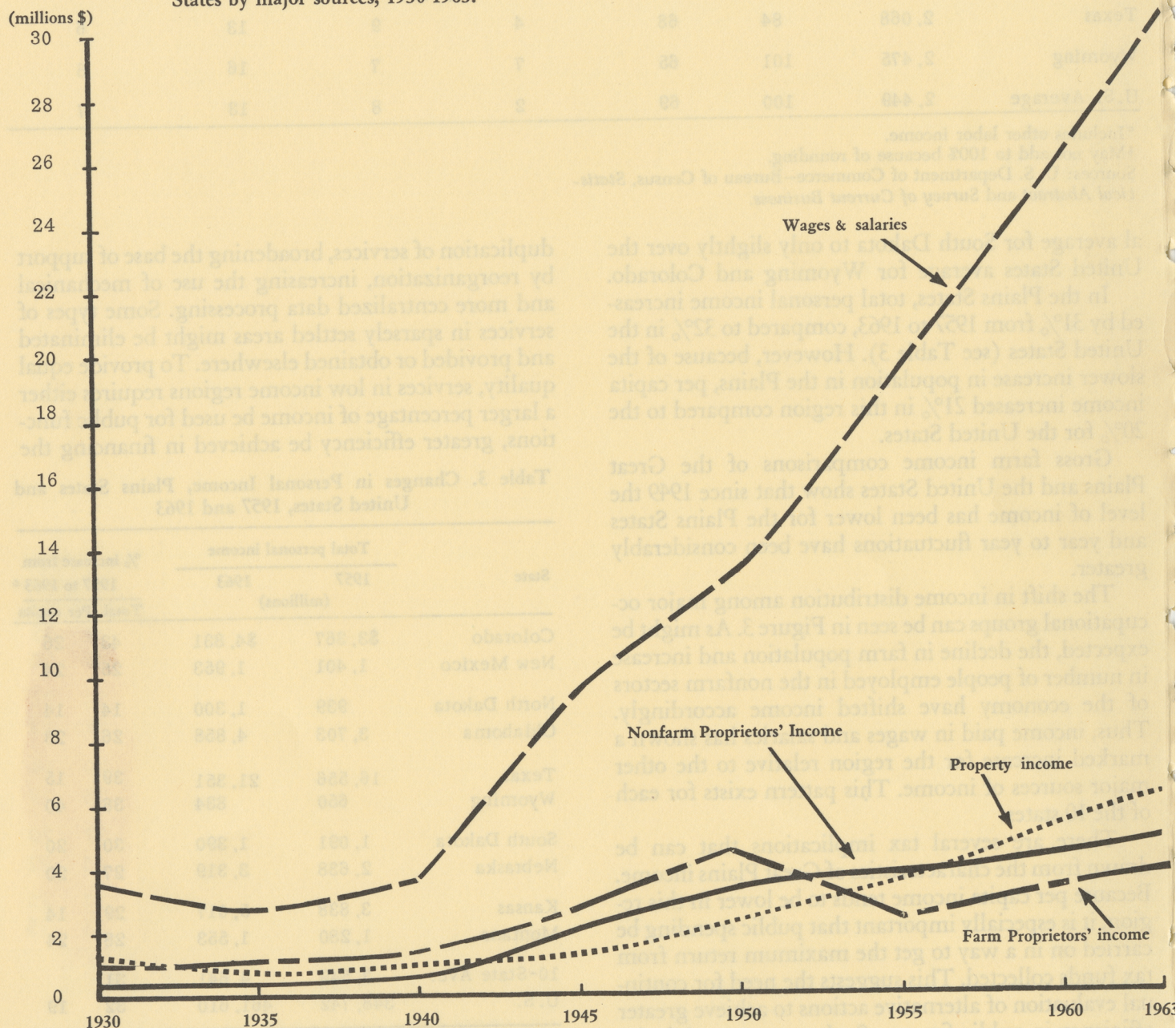
With enough flexibility in the tax structure and long range planning in spending, reserves could be built up when incomes are high to be used when incomes are low. Such reserves could be adequately protected by constitutional and legal devices, by auditing procedures, and by public statements.

Finally, the shift in income distribution should be taken into account when considering fair tax structure design. Some taxes, primarily income and sales taxes, follow income shifts while others such as real property taxes do not.

While these changes in population and income have been occurring, the tax systems in the Plains States have been relatively stable. This will be pointed out in subsequent sections.

General observations about income and population have been made for the region. However, additional analysis should be made of the tax implications from specific changes taking place within each state.

Figure 3. Trends in personal income for the Great Plains States by major sources, 1930-1963.



Source: Department of Commerce—Survey of Current Business.

OTHER PUBLIC FINANCE CONSIDERATIONS FOR THE PLAINS

Studies made of income and employment growth in the region indicate the increasingly important role of government, finance, services, and construction. Federal, state and local government spending such as for national defense, education, highways, welfare, dams, and recreation projects have served as important functions in economic growth for the region.

For example, the Bureau of Census report on governmental finances shows that in 1962, federal aid amounted to 14% of state and local general revenue in the nation. The average for the Great Plains States was 17%. Kansas was below the national level at 13%. Wyoming, having the largest percentage assistance from federal aid in the region (31%), was exceeded only by Alaska among all states.

GOVERNMENT FUNCTION IN PUBLIC FINANCE

Democratic government is an institution that was developed and intended to function in accordance with the desires of man. It is man-made. It was developed because man recognized the need for group action to accomplish some things for society that would not get done if left only to a system of individual action and competition.

A major objective of our economy is to produce an abundant supply of high quality goods and services at the lowest possible cost. Thus, government activities which provide services that the private sector needs and cannot provide as efficiently, are necessary for maximum economic growth. For example, education, financing streets, roads, and highways and in developing and maintaining water and sewer systems, parks, zoos, community buildings, and various institutions for welfare and correction.

There are other valuable types of national, regional, and state financed projects and programs that do not lend themselves to private financing. For instance, vast sums of money are often required for a long peri-

od with relatively low and perhaps no measurable monetary rate of return on the investment. Such projects might include national defense; development of national parks and forests; building dams and reservoirs for flood control, recreation, navigation, irrigation, and power generation; or conservation programs for maintaining and developing soils and wildlife for future generations.

When one considers the large number of people employed in providing the many different types of services, it becomes obvious that government spending—local, state, and federal—is an important and valuable part of economic activity and indeed highly productive. Also, government spending on such services as national defense, state and local police protection, and in the development of many of the natural resources of the nation makes possible and protects private investment and production.

An example of productive government spending is our public educational system. An informed and skilled society provides the greatest hope for survival, growth, and development and improvement in the lives of all mankind. The way we think will determine our future, and the way we think will be greatly affected by the scope and quality of education we are able to provide.

Decisions on financing education are largely local. Thus, local governmental control in education carries with it state, national, and international responsibilities for both present and future generations.

Providing quality education is especially important for the people of the Great Plains. With the major industry in this region—agriculture—employing fewer and fewer people, there is an urgent need to determine ways to stimulate economic growth. Potentials for growth and development will evolve from the minds of men.

Adult attitudes toward education, and financial support given this important public service, will greatly affect the supply and quality of our most valuable resource—educated people.

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