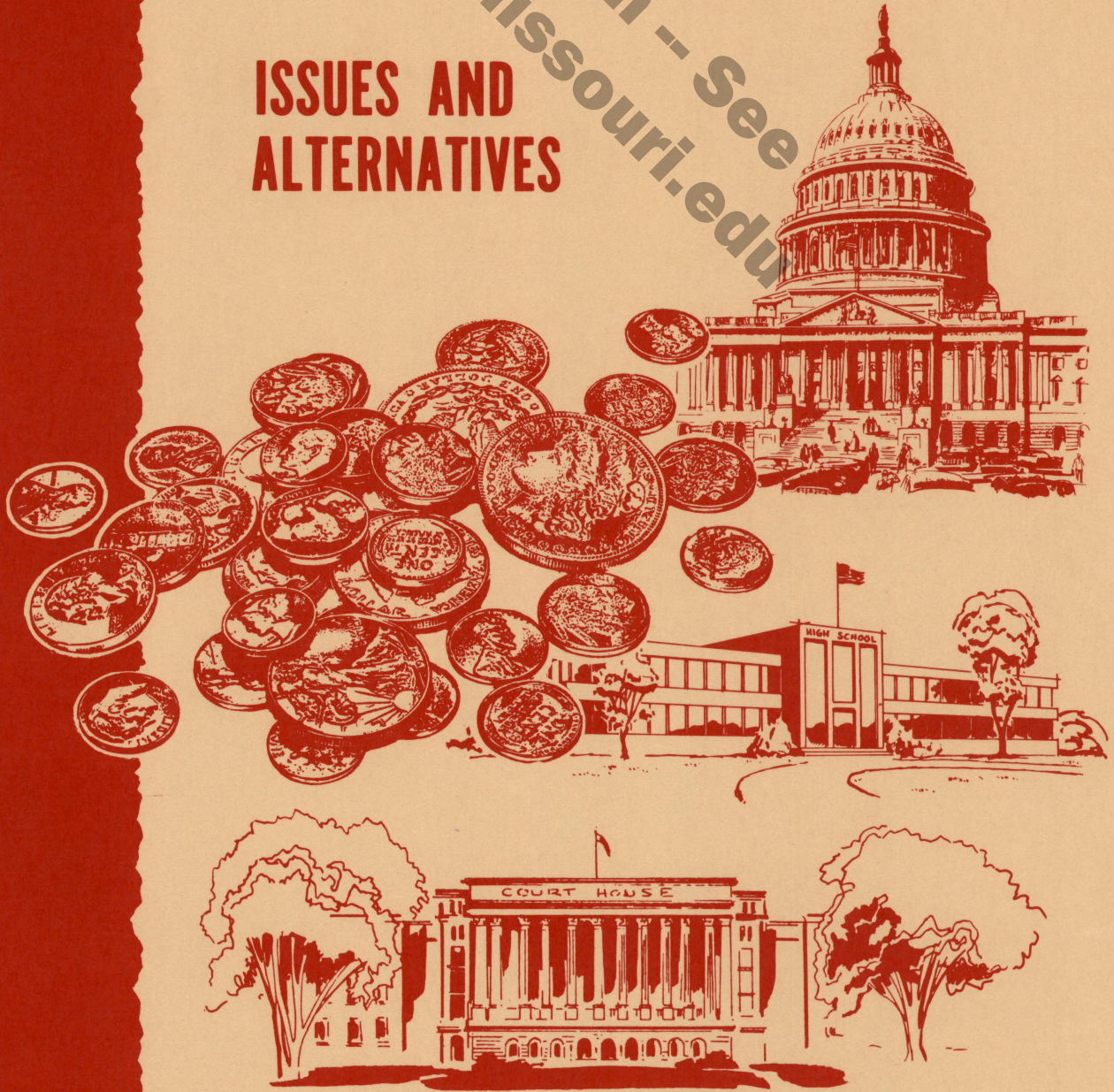


PROVIDING PUBLIC SERVICES

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ISSUES AND ALTERNATIVES



Alternatives for Providing Public Facilities and Services

State and local governments throughout the nation face financial crisis. As President Nixon said in his 1971 State of the Union Message: "The financial squeeze on state and local government is acute and shows no sign of becoming less painful."

This situation is no less acute in Missouri. Our most pressing problem is finding more efficient and effective methods of providing needed public facilities and services. The problem will grow in magnitude with continued rise in population, inflation, and demands for services unless alternative methods of dealing with it are understood and applied.

This can best be accomplished by public study and discussion of the issues and alternatives. The University of Missouri is committed to such public affairs education. As the State University, it must help the citizens of Missouri to better understand and deal with critical issues. The University can provide facts and present alternatives for consideration. *But only the people of Missouri can or should decide what to do about public issues.*

This education program is the result of two years of preparation by the University. It is designed to help you to better understand and deal with the critical problem of meeting the growing demands upon government.

—C. Brice Ratchford, Interim President—
University of Missouri

Contents

Introduction	2
Governmental Adaption	3
Tax System Variables	5
Objectives of Taxation	10
Framework for Decision	10
Facts and Opinion	11
Perspective	12

This paper begins with a general look at why we provide public facilities and services and at the public questions we are thus forced to answer. Next is a brief look at the possibilities for governmental adaptation to meet changing needs.

The discussion then turns to directions in which solutions to some current revenue problems might be sought. It ends with a call for a systems approach to public decision and a plea that we earnestly devote ourselves to the substantial task before American democracy.

Alternatives for Providing Public Facilities and Services

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ACKNOWLEDGMENT

The author acknowledges helpful comments from Professors Curtis Braschler and Jack Timmons of the Department of Agricultural Economics, Professor James Cook of the Department of Regional and Community Affairs and Professor Fred Culver, Extension Division.

Alternatives for Providing Public Facilities and Services

Introduction

Public facilities and services are created for numerous reasons. Sometimes they come about like the ambulance service in many Missouri communities: Nobody else is doing it and the community feels that the service must be performed.

Sometimes a service must be provided on an all or nothing basis. Either a street is built or it isn't and it cannot easily be denied to those unwilling to voluntarily help pay for it. A freewill toll basket at the entrance to every street would not likely provide enough money to pay for streets. There are some services for which we don't wish to make everyone pay.

We also use government to provide some kinds of services we want available in case we need to use them, even though we do not anticipate using them often or at all. The subsidized city bus line is an example. Fares do not support many city bus lines, but there is a benefit accruing to those who drive cars most of the time. There is value in just knowing the bus service is there if you need to use it. Fire departments might be regarded as another example of a service to provide *just in case*.

There are services which the community believes to be of such importance that they are provided publicly and their use is compulsory. In cities, toilets have to be tied to sewer lines. Children have to go to school and most of them go to

the public schools. It has become a matter of public policy to provide public schools.

What is considered to be an appropriate public facility or service will depend upon the philosophic views of the society and the specific conditions which exist. Because both conditions and views change over time the dividing line between the appropriate and the inappropriate is mutable. Yet for whatever reason they are provided and whatever they may be, public facilities and services always cost. There is the money cost and it is that with which we are most familiar. This cost shows up in budgets and in official documents.

There is another kind of cost and this is more subtle. This is what economists call the opportunity cost. With a given amount of money, purchase of one good or service precludes purchase of another good or service. The cost of doing or having anything is the value of what had to be foregone in order to do that thing.

For instance, the cost of a new boat for the lake may be the mink coat that the wife did not get but could have had instead of the boat. Thus, while money costs are important, it is also necessary to keep in mind that the real cost of anything is the opportunity foregone by having made a particular choice.

Simultaneous Questions

There are at least four questions which have to be answered simultaneously.

1. *What facilities and services are to be provided publicly?*
2. *How much of each of these facilities and services is to be provided.*
3. *What level of government and by what means are the facilities and services to be provided?*
4. *How are the funds to pay for these facilities and services to be made available?*

This does not seem the place to develop lengthy criteria of how to judge what public facilities and services should be provided. The question is relevant, however, for every citizen and every group of citizens. It raises for consideration a decision never irrevocably made and always open to revision.

Assuming less than infinite resources to provide public facilities and services, choices must be made both as to which services and as to how much of each. But even these questions cannot be settled independently of consideration of the governmental level at which the services are to be provided and the means chosen to provide them.

Even after the question of governmental level is settled there is the question of means. For example, education of elementary students can be provided in at least three ways.

1. *The governmental unit can provide the service directly on either a fee or free basis.*
2. *The governmental unit can contract with another governmental unit or with a private firm to provide the education. Financing can come either from taxes or fees.*
3. *The governmental unit can commit itself to provide reimbursement of the cost incurred in providing the education. This reimbursement could take the form of a direct grant to children or their parents.*

The last question with which government has to be concerned is how to obtain funds to pay for public facilities and services. This poses two kinds of duties to government. The first, and the one with which we are most familiar, is how are the necessary taxes to be raised? The second, and least familiar, is how is government at each level to do its part to provide the kind of economic climate in which private citizens have incomes which allow them to pay the necessary taxes.

It is important that the policy questions of what facilities and services, how much facilities and services and by whom, and how financed be answered on a continuing basis. But these are not the issues which can be settled here. This paper will take a more limited view and focus on alternative for organizing to provide public facilities and services.

Governmental Adaptation

Because government is a human creation it is always less than perfect. New needs and situations keep it under stress and there is a constant attempt to change government so that it can effectively play the role demanded of it.

This adaptation can take many forms and a categorization will be useful.¹

- I. Procedural adaptation
 - A. Informal cooperation
 1. Neither authorized nor prohibited by law
 2. Examples
 - a. Sharing of information
 - b. Reciprocal use of fire fighting equipment
(This is also frequently done under contract).

- B. Service contract
 1. Legal agreement to purchase
 2. Examples
 - a. Purchase of water
 - b. Purchase of road maintenance

- C. Parallel action
 1. Two or more governments agree (formally or informally) to pursue a common course
 2. Implementation is made by individual action of each government
 3. Result is common action

¹This categorization is an adaption of the presentation of Roscoe C. Martin in *Metropolis in Transition*, Housing and Home Finance Agency, Washington, D.C., Sept. 1963, pp. 1-12.

- D. Conference approach
 1. Regional groups of officials talking about common problems
 2. Voluntary in nature
 3. Example - The Regional Planning Commissions in Missouri utilize aspects of this approach
 - E. Compact
 1. Formal agreement between two or more governments to undertake certain mutual obligations
 2. Frequently involves crossing state lines but not limited to such
 - F. Transfer of functions
 1. Shifting responsibility to government of more adequate jurisdiction or resources
 2. Example - A transfer of road responsibility from township to county
 - G. Extraterritorial jurisdiction
 1. The granting of power usually to a city to do certain things “beyond its walls”
 2. Example - In many states (not in Missouri) cities through zoning may control land use for some distance beyond the city limits. This decreases the need for early annexation of such areas
 - H. Incorporation
 1. Becoming legally a city in order to have the powers of cities
 2. Sometimes used to avoid annexation by an existing city
- II. Structural Adaptation
- A. Administrative reorganization
 1. The purpose is to attempt to create a structure which is more capable of dealing with current and future demands on government.
 2. Examples
 - a. County administration system
 - (1) Elected administrator (St. Louis County is an example)
 - (2) Appointed administrator
 - b. County home rule charter
- B. City-county separation
 1. In effect makes the city a county
 2. The intent is to separate urban from rural populations.
 3. Rapid metropolitan expansion makes it difficult to know where to draw line between urban and rural and the line, if it exists, keeps moving.
 4. Example - St. Louis
 - C. Geographical consolidation
 1. The merger of two or more governments
 2. Examples - city-county consolidation, school district consolidation, county consolidation
 - D. Functional consolidation
 1. May vary from agreement to take joint action all the way to the creation of a new governmental unit to administer consolidated functions
 2. Example - joint fire fighting, county or larger sewer and water authority
 - E. Special district or authority
 1. Unit of government established to perform one or more designated functions
 2. Considerable variation in whether has power to tax and/or issue bonds and charge fees
 3. Examples - school districts, sewer districts, housing authorities, port authorities
 - F. Metropolitan government
 1. A general government with jurisdiction over the entire metropolitan area
 2. Examples - Baton Rouge, Miami, Nashville
 - G. Regional agency
 1. An organization with interests and powers covering a large area
 2. Example - Interstate Sanitation Commission which deals with pollution problems in the New York City complex.
- It is not possible to explore in depth each of these adaptive alternatives. Our perspective is not how governments adapt but how they can provide public facilities and services. The perspectives are related, but they are not the same. Yet as we explore the latter we may find this modification of Martin’s terminology suggestive of useful alternatives open to government.

Tax System Variables

The citizen does not often feel he is really being asked the simultaneous questions:

1. *What facilities and services are to be provided publicly?*
2. *How much of each of these facilities and services is to be provided?*
3. *What level of government and how are the facilities and services to be provided?*
4. *How are the funds to pay for these facilities and services to be made available?*

Instead, he perceives himself being asked more limited questions. He feels he is asked for direction only after decisions have been made as to what and how much public goods and services are needed. As the question gets to the citizen it seems reduced to how should we raise the money? Answering this question involves at least three concerns.

1. *What kind of tax or tax mixture should be used?*
2. *What should be the rates at which each tax should be levied?*
3. *What should be the governmental level for the taxing?*

A related question, and one not asked often until recently, is should the government raising the revenue also be the one to spend it? Not long ago the question would have elicited first surprise and then a yes.

The possibilities which flow from a consideration of these alternatives are infinite, but it is necessary to consider them. The only reasonable way seems to be to look at some general directions in which decisions could be made.

Revenue Sharing

It is argued that the federal government should collect and share some of its revenues with lower levels of government. The argument is also frequently made that states should impose taxes and collect monies which they should share with cities and counties. The contention is that both federal and state government, because of their easier access to income and sales taxes, are better at collecting revenue. Therefore, they should share with governments less able to raise revenue, but supposedly closer to the people and their problems.

That the federal government has a comparative advantage in raising revenue does not seem to be in doubt. It is also probable that state governments raise revenue more easily than do city and county governments which are more heavily dependent upon property tax.

Today, there is some support for revenue sharing from all shades of the political spectrum. Few dispute the greater ability of federal and state governments to raise revenue, but many are concerned with the means by which this revenue might be shared with lower units of government.

The argument is made that since the federal government is very good in raising revenue it should do so and share with no strings attached. Of course, the same argument is made with respect to state government and local government.

Revenue sharing with no strings attached is very difficult to achieve. Revenue sharing, as we have seen it in this country, has been grant or cost-sharing programs which have had as one of their purposes the encouragement of certain kinds of activity by local governments.

The heart of the issue is the ability of local government to maintain its integrity, and be molded by local wishes and local needs, if it is dependent upon higher levels of government for its financing. This question is as yet unresolved and part of the current political agenda. Also unresolved is whether state and local governments have or can develop the competence to wisely allocate and effectively use the *easy money* which comes with revenue sharing. Is it possible to develop institutions which allow those governments best able to raise money to do so and allow spending by those units best able to provide the facilities and services desired by the populace?

General Governments

The argument is made that dissatisfaction with local governments grows from at least three sources. Cost is certainly one of them. The inability of local government to meet some needs of the people is another. A third is the fragmentation which makes the perspective necessary for handling needs which involve the interests of several governmental units difficult.

These problems are to be expected when local government has severely limited powers and there are many special purpose districts. Some of the problems fall "between the slats" of the fragmented units.

Another criticism leveled at local governments is that their very structure makes it difficult to achieve the resource allocation which the citizens might desire. Under existing structures it's difficult for people to decide that the sheriff should forego two cars and two deputies in order that the schools can develop a better youth recreation program. The

mechanism does not exist to make sure that funds, not used by the sheriff, go to the schools. It might also be noted that all school boards do not concern themselves about youth recreation programs.

Many people have become convinced that the existing structures of local government make it impossible to effectively deal with many kinds of problems. The creation of governments with general powers is sometimes suggested. This means that governments are given the power to do anything they are not specifically prevented by statute from doing. Such proposals usually call for the consolidation of governmental activity under general government at the county level or at the regional level.

Proponents argue that general government would be better able to allocate the community's resources to the many needs and would be better able to respond creatively to the peculiar needs of its people. It is argued further that this would be a more efficient and less costly government. This is debatable, for it seems probable that while this government might be more efficient, it would also take on more tasks and possibly cost more total dollars. It is only fair to remember, however, that this kind of situation could exist and people could still be getting more benefit per dollar of expenditure than under the old system.

This brings to mind the old school consolidation argument. Some folks said consolidation would bring less expensive schools. It never seemed to work out that way. What happened was better education, though it cost more dollars, but still cheaper than the same educational level would have been if provided by smaller units.

Those who oppose the creation of general governments emphasize the efficiency of special purpose districts having only one or two functions to perform. They emphasize that special purpose districts do not have to limit themselves to any particular political jurisdiction. Two more arguments are made. First, many units of government prevent any one unit of government from becoming too powerful. Second, the existence of many governmental units with considerable restrictions upon each insures that particular governmental functions achieve at least a minimum level of support. Those with a vested interest in a particular unit of government appreciate this point although they seldom explicitly state this as a reason for fighting general government. A special district is more easily controlled or influenced by a special interest group and may place heavy cost on general public interest.

There is certainly room for argument as to how far we should go toward more general governments. It does not seem that we are going to go all the way, but it does seem that giving county government more general powers is an alternative worth serious exploration.

More Cooperation

Suggested as an alternative to more general government is the greater use of cooperation between existing units of government and the decrease of duplicate effort. Under present law this alternative is more severely limited than might be imagined. Any governmental unit in Missouri is empowered to cooperate with or contract with any other governmental unit to perform any function legal for both of them to perform.² Many governments in Missouri are limited in their functions. Thus, greater use of cooperative arrangements will require the development of governmental units with more general functional authority.

Sales and Excise Taxes

Sales and excise taxes which are collected when products or services are paid for are a major source of state revenue in this country. In Missouri the sales tax is coming to represent a larger share of city revenue as well. Even at relatively low rates the revenue generated by these taxes is substantial.

A sales tax is regressive in effect. This is especially true where, as in Missouri, services are exempted from the sales tax. One way of making the sales tax less regressive would be to add services to those items for which sales tax is due. The excise tax is in form a special kind of sales tax. If, as is frequently the case, it is levied upon luxuries and services it tends to be less regressive than the usual sales tax.

The excise tax has substantial revenue raising possibilities if the demand for the product or service is highly inelastic, but still far less than a general sales tax.

Suggestions have been made to apply a progressive excise tax. The more expensive items would be taxed at a higher rate than the less expensive items. This probably would increase administrative expense relative to added revenue expected. Whether this would generate more revenue than a flat rate excise tax would depend upon the demand and characteristics of the good or service being taxed. Obviously the greater the opportunity for substitutes the less effective it would be as a revenue generating measure.

Use Taxes

Economically rational men avoid taxes where possible. This tendency exists for sales taxes. Where they are imposed, there is the tendency for business to shift from a jurisdiction where taxes are collected to a jurisdiction where taxes are not collected. This loss of revenue by the taxing jurisdiction causes it to devise means by which tax leakage is reduced. One approach is the imposition of the use tax, a tax in lieu of the sales tax. It is levied upon purchases which are made outside the taxing jurisdiction.

²Counties can cooperate with each other but the Missouri Constitution requires approval by referendum.

Imposing a use tax is very difficult except on items like automobiles which are subject to registration. Thus, it becomes difficult for a municipal or county taxing unit to levy use taxes. It is difficult to imagine a workable use tax below the state level.

“Sin” and Luxury Taxes

One of the popular ways for raising revenue is to impose what are in essence *excise taxes* on such things as fur coats, lipstick, tobacco, alcoholic beverages, and gambling whether on horses, dogs, or other sports. These taxes have support because they are levied on items considered both not necessary and “sinful”. Out of our Puritan background there is a tendency for us to feel that those who enjoy luxury and sin should be made to *really* pay for them.

These taxes are in fact a special category of excise taxes. If the product or service on which the tax is levied has no close substitutes and if the demand is quite inelastic there is considerable revenue generating capacity in these taxes.

As the tax rate increases, the probability of black markets for the products and services becomes greater. For instance, the increase of taxes on alcoholic beverages increases the incentive for bootlegging. So, as with all taxes, the cost of policing becomes a serious concern when deciding what rate is reasonable.

Lottery³

The use of state run lottery is sometimes proposed as a means of generating large amounts of revenue and thus avoiding the painful prospects of more revenue from other sources. It is in the tradition of “sin” taxes and the argument is made that since you can’t stop gambling you might as well create a structure by which the state can profit from it. If we lay aside the moral questions and the political results, we can examine the workability of the lottery as a means of raising revenue. Since lottery proposals are generally for a state-run operation no consideration will be given to the effect of the lottery at less than state level, although the general economic principles would apply at any level.

The experience of the two states running lotteries, New York and New Hampshire, has been disappointing. The revenues generated have not been as large as those anticipated. Administrative expenses are considerable and it appears that a state run lottery usually is an inferior substitute for private enterprise (and usually illegal) gambling operations.

The frequency of the opportunity, favorable odds, opportunity to exercise skill or judgment, degree of personal involvement, opportunity for credit betting, and the association of gambling with some sporting event or entertainment activity seem to be factors affecting consumer demand for a particular kind of gambling activity. An examination of the lottery shows that it does not provide continuous gambling opportunities. The odds offered are frequently less favorable than those offered by private enterprise gamblers. The state, in taking a considerable amount off the top before prizes are given, assures that the odds will be relatively unfavorable. Both New York and New Hampshire give back less than half of what they take in. Many private enterprise gamblers and certainly the office football pool offer better odds than this.

The lottery offers the bettor no opportunity to exercise his skill, knowledge or even to play a hunch. The stock market does better on this. Betting on horses or playing the roulette wheels do offer some personal involvement. The lottery doesn’t.

The state run lottery does not offer credit to its customers and it does not go out to the customers as does private enterprise gambling.

Thus, from the standpoint of the gambler, about the only thing the lottery has to offer over other forms of gambling is that it is legal. Since this does not seem to be a serious determinant to many who gamble, it would appear that the utilization of the lottery as a substantial producer of revenue is likely to be disappointing. If the intent is more revenue and there are no reasons why gambling cannot be legalized and taxed, it would appear that the taxing of private gambling offer considerably greater opportunities for the generation of revenue.

Land Tax

One of the directions which the revenue system of the future might take is a decreased dependence upon the real estate property tax. The fact is that the real estate property tax has almost been abandoned by all but local units of government. A substantial revival of its use by higher levels of government does not seem likely.

The suggestion for real estate property tax reform seems to be constant. The problems of achieving fair assessment and the regressive effect of the real estate property tax seem enough to insure continued criticism. One line of reform suggested for real estate property tax would have the land itself taxed more heavily and improvements taxed less heavily. In its extreme form

³This discussion is based on Frederick D. Stocker, “The Lottery: Fiscal Responsibility or Irresponsibility”. *Proceedings of the Sixteenth Annual Conference of the National Tax Association*, 1970 pp. 505-511.

there would be no taxes whatever on improvements and the entire tax would be based only upon the value of the land. The argument here is more that it will increase the incentive to utilize land than that it will generate more revenue. Proposals of this type are ardently supported by those interested in land utilization and housing.

Another reform line argues that increases in private land values, generated by public action, should be recovered for use by the public treasury. Land values are increased by one or a combination of three things - an act of God, private investment, and public investment. For instance, increased fire or police protection could bring an increase in land values. Because this is publicly generated, the argument is that the resulting increase in land values should be taxed away from the private owner and returned to the treasury of the public whose actions generated the land value increase. This procedure would imply a greater willingness by society to pay damages for public actions which may not even physically touch a property. At the same time it implies a much greater willingness to tax away benefits which stem from public action.

Take the example of a man who has a farm lying along a river with narrow bottoms. Now suppose this river is dammed and the effect is a lake with considerable recreational potential and the creation of lakefront sites of substantial value. Proceeding as we now do, we compensate the owner for the loss of the river bottoms flooded and we essentially ignore that his remaining land is worth more.

Under the revised system that is sometimes suggested, the landowner would be compensated for the land that he lost but he would also be assessed for the increases in land value which were the result of the action of public authority. The rationale is that since the landowner was an innocent bystander he should be made neither better nor worse off by direct public action.

In the years ahead we will be hearing a great deal more about these tax reform proposals. The difficulty with them is that administratively they are difficult to handle. It is not easy to separate the value of the land from the value of improvements, nor is it easy to assess all the values created and damages done by public action. Yet, because of large increases in land values which can be charged neither to acts of God nor private investment, there remains a substantial opportunity for generating revenue if public policy is that publicly created increases in land values will revert to the public treasury.

Personal Property and Inventory Taxes

Personal property and inventory taxes are difficult to enforce. The result is that it is not uncommon to find these taxes either abandoned or else administered by rules of thumb.

While personal property and inventory taxes do raise more than token amounts of revenue they rank far behind the real estate property tax, the sales tax, and the income tax as a revenue generator.

Licensing Taxes

The business license, the automobile license, the hunting and fishing license, the corporation franchise tax and other licensing taxes do generate substantial amounts of income for state and local government. However, important though they may be, they still do not challenge the real estate property tax, the income tax, or the sales tax. Licensing taxes are and will continue to be important, but they are not likely to form the backbone of a revenue generating system for either state or local government. They can be important and certainly are important for special purposes. A case in point might be the motor vehicle tax as a generator or revenue for road expenditures.

Income Taxes

The income tax has the greatest potential for generating revenue. It has demonstrated this both at the federal and state levels. Attempts to levy income taxes at lower than the state level have been somewhat less convincing because of the greater administrative difficulty. This is one of the reasons that revenue sharing from the federal government to the state and local governments and from state government to local governments has been proposed as a means of utilizing the superior revenue generating capacity of the federal and state governments. This revenue generating capacity is due to the ability of state and local governments to utilize the income tax. The income tax certainly meets the ability to pay criterion. Certainly it is a tax, which while not easily administered, can be administered. Further, we know how to administer it at the state and federal levels.

Although the income tax may be modified as exemptions are changed and rates are changed, it would appear to be a tax destined for perhaps growing importance in our total tax structure.

Value Added Taxes

The appearance in the September, 1970, *Reader's Digest* of an article on the value added tax probably makes it one of the best known alternatives to present tax forms. The value added tax is in essence a special form of sales tax. At the end of each stage of production the product is subject to a tax on the value added by the production stage. The implementing procedures may vary but an example of how it might work is in order. A furniture manufacturer buys lumber from a farmer. If the tax were at the 10% rate the furniture manufacturer would owe to the farmer the price of the lumber plus 10%. The farmer would owe that tax to the government. Now the furniture manufacturer would turn the lumber into furniture and sell it to the

wholesaler. From the wholesaler the manufacturer would collect the price of the furniture plus 10%. The furniture manufacturer would owe to the government the 10% he collected minus the tax he had already given to the farmer. The furniture wholesaler in turn would sell it to the retailer and would collect a tax and deduct from it what he had paid to the manufacturer and give the difference to the government. The retailer would sell the furniture, collect the tax and deduct the tax he has already paid and remit the balance to the government. So it would be the final consumer who would be paying the tax. This is a fairly ingenious system because it is self-policing. Each seller doesn't want to get stuck with the tax so he is sure to collect it. The people intermediate in the stages of production really don't care about the taxes because they know they're going to get their money back anyway. It is only the last man who gets stuck, the consumer. It makes things expensive for him but there's really very little that he can do except shift or cease consumption. If things are generally taxed, there's not much option for this.

What makes the value added tax attractive is that it makes exporting easier for countries that allow a refund to exporters who have paid the value added tax on products they sell abroad. International agreements allow this, but they do prevent giving rebates on income taxes paid by corporations and other firms. There seems to be some basis to the argument that our exporters are put at a disadvantage. Buyers of our products have to pay their share of our taxes while buyers of value added tax products are spared having to pay for the social programs of the value added tax country.

Some authorities feel the value added tax is a good middle point between a multiplicity of excise taxes to a more simple system which may not involve the value added tax at all. The value added tax could be used to prevent taxes on taxes, usually called double taxation. It does appear to be worth serious consideration. Its revenue generating capacity could be very large.

Charitable Taxing

There is an issue in this country as to how and to what extent charitable institutions should be taxed. For instance, some property owned by churches and colleges is not subject to the real estate tax. Is that as it should be? Even a number of religious groups are coming to view that separation of church and state demands the tax exempt status be revoked. As a tax source likely to solve the fiscal dilemmas of Missouri or any other state, these properties are not likely to qualify. However, they do represent a source from which substantial sums could be collected if this were public policy. To some jurisdictions this could be very important. Whether or not it should be public policy to collect these taxes is a matter for discussion.

Head Taxes

Poll taxes, perhaps the best known head tax ever used in this country, have come into disfavor as a result of Supreme Court rulings. Head taxes at relatively low levels might be possible, but it seems likely that administration would be too costly to merit it. The money which could be raised by head tax at relatively low levels might be more easily added to the income tax. Those not paying income tax would represent very high cost revenue sources. This is one of the most regressive forms of taxation.

Fees

Government could depend more on fees charged for services rendered but the nature of many services makes it difficult to assess benefit and tax liability. Increased use of fees for services rendered does not seem likely to be an important possibility unless governments are willing to develop public utilities and charge substantially above generally prevailing rates.

Debt Financing

Debt has long been part of the public finance system and is a valuable tool for accomplishing a variety of public purposes. State and local governments are primarily concerned with the provision of facilities and services made possible by debt financing and not with general business cycle stabilization. Therefore, that aspect of debt policy will be largely ignored. However, it should be pointed out that federal debt policy is an intimate part of overall national economic policy and state and local debt activity tends to accentuate rather than dampen economic cycles.

Keeping bonds low risk is important. The tax exempt status of state and local bonds makes their low yield attractive to investors only as long as the risk is low. The use of debt has tended to come in waves as major needs are identified or as fads have emerged. Thus, large increases in bonded indebtedness have occurred. When a slow down in economic activity has affected the ability of local units to repay their obligations or even caused defaulting, the result has been increased interest cost for new issues, increased difficulty in selling bonds, and statutory or constitutional restrictions on debt as followed after the canal building boom of the 1830's. Those restrictions are still part of many state constitutions. Thus debt is to be used with discretion.

Debt is generally considered an alternative for various capital improvements. When used for current expenditures at the state and local level it is generally indicative of a serious financial crisis. Debt used for capital improvements allows government to provide for new services, such as schools, utilities and roads, and pay for them over the life or partial life of the improvement.

Debt may be contracted using the *full faith and credit* of the governmental unit involved. This general obligation debt is attractive to bond buyers since it pledges payment

from all legitimate sources including taxes. This is also the lowest cost form of debt. Another form of debt is the revenue bond which has become widely used, especially by independent authorities and special districts. This debt form is financed by a pledge of revenue from the improvement to be financed. It is somewhat more costly since the improvement must be sound and capable of paying its own way. Utilities, zoos, toll bridges and roads, sewerage and municipal auditoriums are a few of the types of improvements that might be financed with revenue bonds. Often, if debt limits and other statutory provisions allow, a unit of government will bond revenue producing improvements under full faith and credit provisions. This forces it to assume the risk itself, but it makes it possible to obtain interest rates lower than those required by revenue bonds.

Debt can be a most useful means of financing certain public improvements. However, government must preserve its credit rating to prevent high interest costs and potential

over-committment of its future revenues. In an inflationary period debt financing can often save money by taking advantage of both lower money costs and current lower building costs. Sometimes forgotten is the added operational cost that will result when a facility is completed.

Other Alternatives

To argue that the alternatives listed above are exhaustive would be indefensible. However, it's difficult to think of a revenue generating scheme which is not in form a sales tax, an income tax, a property tax or a head tax. Of course, we know that our tax system probably will be none of these taxes in their pure form but instead a mixture. Perhaps this is as it should be, for no tax is without its good points and its bad. A mixture can sometimes be made to better serve society's needs than can a single tax raising equivalent revenue.

Objectives of Taxation

A time honored objective for taxation is that it should raise revenue. There are, however, other important objectives which cannot be ignored when a tax system is developed. A second objective may be regulation or control. Whether it is intended or not every tax does have some aspect of control. A third objective is to contribute to the functioning of the economic system.

Obviously this objective is heavily weighted at the national level. But it is also important at state and local levels. Tax exempt industrial bonds, special assessment treatment of certain industries and business and the provision of some public services attest to the importance of the third objective.

Framework for Decision

Deciding what public facilities and services to produce, where they are to be produced, how much of them to produce, who is to produce them and how they are to be financed is a systems problem. It is a systems problem because everything depends on everything else and one decision cannot be made without ramification on all the other variables.

Yet a systems solution is difficult, for it requires many things:

- A very high level of coordination among governmental units.
- Willingness, ability and legal authority to devise new and creative arrangements.
- Creation of a continuous finely tuned monitoring structure which can find and accept information on the working of the system and make adjustments.

- Clear and more explicit delineation of the specific goals to which government attempts to contribute.
- Communication to the citizens the goals and values to which the government believes it should be committed.
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The tendency has always been to make decisions on a piecemeal basis. This can result in one agency draining swamp lands just before another one covers it with a lake. Or a new school can be placed astride a projected extension of a street. It also results in school outdoor basketball courts which are off limits on weekends to youth having no other athletic facilities available. By and large public servants are honorable, conscientious people but some difficult to explain actions are taken by government. Frequently this results when communications is so poor that the left hand doesn't know what the right hand is doing. The fragmentation of governmental structures and the reluctance to allow governmental units reasonable flexibility results in a bureaucracy which appears poorly designed. The governmental sector has become much larger and as government has more influence upon our lives it becomes increasingly important that government functions well.

Whether we learn to look at things in a comprehensive package or whether we continue to look at things piecemeal, the fact remains that decisions are going to be made. Decisions that are made will reflect the values which we hold and the facts which we have at hand. Most

Americans hold fairness to be an important value and they want government to be fair without concern for power position. We say this and we think we mean it, yet at the same time there seems to be a streak of selfishness in all of us which causes us to sometimes act as if we felt that government should be a little more than fair with respect to us or our particular group. Both these values have to be dealt with and the way this is probably best done is by making a government which is basically fair but is also responsive to individual inquiry and individual concern and thus gives the individual a sense of identity and importance.

There is another set of values which will be reflected in the kind of decisions we make and it revolves around what kind of trust we as a people believe can be put in both people and in government. Critical among the issues is whether man by nature is lazy, shiftless and without ambition, or whether, given reasonable opportunity, he is something more. If you don't think these questions are important review the debates about welfare programs and their reform.

The attitude toward government itself is important in determining what kind of structures we can build for the future. Can we develop sufficient trust in government to give it the freedom to be creative, inventive and better coordinated? Or, because allowing it this kind of opportunity also opens up the opportunity for government to really goof, will we continue with our tendency to impose constitutional restrictions, statutes and bureaucratic rules which assure mediocre government performance?

These issues are important. Structure is related to performance and we have recognized this too seldom.

Facts and Opinions

Even a hasty glance at the financing of public facilities and services in the United States will show that income tax, sales tax, property tax, and motor vehicle and fuel tax account for the largest share of revenues. If you only look at the Missouri state revenues the transfer of money from federal sources becomes a larger single source of state government financing. While in the future there may be shifts in the tax mix, it appears that transfers from the federal government, the sales tax, income tax, property tax and motor vehicle associated taxes will remain the most important generators of revenue in Missouri. The mix is not a matter of indifference because it has impact on who pays the bill, what programs can be financed and the economic growth potential of the state.

The experience of many other industrial nations would lead us to believe that while our taxes are high they are substantially short of an absolute ceiling. Yet today it is equally clear that there is a taxpayer's revolt reflecting considerable concern over the amount and use of funds by the public sector. This seems to imply an increasing need for greater economy in government.

Greater economy in government, however, is not an easy matter. Even a quick look at the spending patterns of both Missouri state and local government will reveal that education, welfare, roads and highways, police and fire protection account for about three-fourths of local expenditures and over four-fifths of state expenditures.

This implies we will have to take serious looks at how to decrease the unit costs of education, roads, and welfare if we are to make a dent in the heavy tax burden which we feel. There may be savings from consolidation of some county offices, consolidation of some counties, decreased duplication of facilities and services through more sharing arrangements, and through modernized procedures. But, because of the small portion of the funds expended here savings will be disappointing.

If we cannot develop ways to have serious impact on the cost of education, roads and welfare, then it seems that our opportunities for savings in government are less than we might wish. This is not to argue that other functions do not cost a lot of money or that they are unimportant. It is simply to argue that savings possible from many of the reforms commonly suggested are of limited potential.

Perspective

We are in a time when American governmental institutions are being called upon to reform themselves. We must remember that this cannot happen in a vacuum. Some changes are possible under existing law. Other changes require new statutes or the repeal of old ones and there are still other changes that would require the revision or rewriting of the Missouri Constitution or the United States Constitution. All these changes are possible if the people feel they should be made. Thus, it becomes important that we, who concern ourselves about the image of the future, do not regard any uninvestigated suggestion as hairbrain and do not respond to suggestions as irrelevant because "the law won't let you do that". Laws and governmental structures are man made. They change at man's behest. They were intended to serve man and it should be so. For many of the considerations which are before us, we each need to unlabel ourselves as Democrats, Republicans, conservatives, liberals, farmers, urban dwellers, youth, senior citizens or whatever category divides us. Then no

There is no easy answer to the questions that have been posed. The answers which do emerge will come from the political process. This political process, if it is to function well, will require that the people have a knowledge of the facts as to what is going on in government. It also requires that the people and the leadership within government have a willingness to explore all alternatives. We must realize that whatever the reforms suggested there will be resistance from taxpayers and some institutions. We all have our vested interests.

It is important to get the people talking about what the issues are. Then we must make sure the educational institutions get the alternatives and their consequences before the people so that the people can make their choices. The people, if given reasonable information and if they understand what the issues are and the consequences of alternative courses of action, make some rather good decisions. And it is the democratic way.

alternative, because of our associations, is rejected prior to serious study.

More than at any time in the last thirty-five years we cannot look at taxation alone. We have to look at the functions of government and deal with the total question of how we as a free people can organize best to decide what public facilities and services we want and then provide them most efficiently. This is a total question. It is a frustrating one; but then that's the ball game we are in. As long as we remain free men these are decisions which we must make. When we cease to make decisions or become unable to make them, then we are no longer free men.

It would be a mistake to argue that there is some perfect system that we can attain. There may be a perfect system, but there will be real disagreement among us as to what this is. What we can do, what we should do and what we must do is to devise a better system for providing the public facilities and services we desire. This much we can do.

This publication is one of six reference documents prepared for the educational program on **Providing Public Services in Missouri—Issues and Alternatives**. The educational program of which this publication is a part was developed by a UMC interdepartmental committee co-chaired by Professors Clarence Klingner and Bryan Phifer. The six publications in the series are:

1. *Stresses on Local Government*
2. *Political Culture of Missouri*
3. *Trends in State and Local Government Finance in Missouri 1960-68*
4. *Basic Principles of Public Financing*
5. *Some Alternatives for Reorganizing County Government*
6. *Alternatives for Providing Public Facilities and Services*

These basic reference documents supplement the study-discussion leaflets prepared for the educational program. They are intended for use by group discussion leaders and for those who want more information than provided in the discussion leaflets.