

rise. Where there has been a very large increase in direct taxes, the gains of consumption may not be as large as they otherwise would be. This will explain, for example, to some extent, why GNP rose by 414 percent from 1938 to 1958 and consumption only rose by 349 percent. In general, the trend has been downward in sales tax receipts and custom duties, yielding 37½ percent in 1902 and 20.8 percent in 1957. The explanation of this fact lies largely in the greater importance of Federal tax receipts and also in the unresponsiveness of sales receipts and custom duties to the large rise of income.

But whereas the contribution of these taxes to its total tax revenue to Federal Government tended to decline greatly, their contribution to State revenue tended to increase, and by 1957 they accounted for 58 percent of all State tax revenue. The explanation of this fact is partly that State governments were reluctant to increase their direct taxes on income and corporations and partly because of the high rates of these taxes imposed by the Federal Government and in part because of the fear of interstate competition. On the whole, the sales tax does not have as serious an impact on the interstate competition as do the direct taxes. Another reason for this change is, of course, the great flexibility of the income and other direct taxes and the great need for additional revenue in the great depression and in war. Sales taxes were an obvious source of additional revenue in a period like the 1930's, and it was particularly in the 1930's that these taxes became a much larger part of the total State tax revenue. But the largest absolute gains of these revenues occurred since 1938.

Now I turn to the property tax. This is a tax that responds very slowly to rising prices and rising incomes. One reason for this is that it is difficult for administrators to increase their assessments as the value of property rises. It requires great political courage to reassess on the basis of changing values. Related is the fact that property values frequently do not respond quickly and adequately to increases in income and prices.

The importance of the general property tax lies largely in its important contribution in financing school education. Under our peculiar institutional setup, the major contribution of finance for the public schools comes from the local government, which even today provides close to 60 percent, whereas State government provides somewhat less than 40 percent, and Federal Government provides only 3 or 4 percent to the total cost of public school education. The local governments depend almost wholly on the property tax, roughly 53 percent in a recent year of the total cost of schools was financed by the property tax.²⁰ Undoubtedly, the property tax could be made into a more flexible tax if assessment and rates were adjusted more quickly, but here the pressure of the local taxpayer becomes a dominant factor. But we note differences in the capacity of tax assessors to make adjustments. For example, it is difficult, on the basis of varying rates of growth, to explain an increase in assessed valuation of real and per-

²⁰ See the National Citizen's Commission for the Public Schools, "Financing Public Education in the Decade Ahead," December 1954, p. 58.