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**Municipal Finances and Intergovernmental Relations - Address by  
Senator Edmund S. Muskie at the 26th Annual Convention of the  
Maine Municipal Association**

Edmund S. Muskie

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ADDRESS BY SENATOR EDMUND S. MUSKIE (D - MAINE)

AT THE  
26th ANNUAL CONVENTION OF THE MAINE MUNICIPAL  
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NOVEMBER 13, 1962

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MUNICIPAL FINANCES AND INTERGOVERNMENTAL RELATIONS

I am pleased to have this opportunity to meet with you today. It gives me a chance to renew old acquaintances, and it gives me the chance to explore what is being done at the national level to focus on the problems of municipal finances.

The founders of our system of government believed that over concentration of political power could lead to its abuse and create risks for individual liberty.

And so they devised various means for dividing political power. You are all familiar with them.

One means used was the creation of the central government as a government of delegated powers, with the powers not delegated reserved to the states and to the people. This principle has since become known as the doctrine of States' rights.

It is a wise and sound principle. However, its application has generated some of the most explosive controversies of American history.

Incorporation of the principle in the Constitution was the product of two national experiences:

1. The abuse of concentrated power by the British King which sparked the war for independence; and
2. The inadequate authority of the central government under the Articles of Confederation which, in turn almost led to the neglect of national problems to a degree which threatened freedom itself.

The principle which I am discussing, therefore, had two chief purposes:

1. To avoid over-concentration of power in the central government.
2. To give to the central government enough authority to perform essential national chores. This was a delicate balance to strike in the world of 1787.

And, in the light of the incredible changes which have taken place in the world since then, it has been an even more delicate balance to maintain.

In order to maintain it, if our national experience of the past 175 years has any meaning, two points are clear:

1. The division of chores as among the three levels of government - federal, state, and local - cannot and will not remain static.

2. Government at each of the three levels must be vigorous and responsive.

We are all familiar with the maxim that government ought to be kept close to the people. This is an enunciation of the constitutional principle to which I have already referred - that the powers not delegated to the central government are reserved to the States and to the people. It is also a reflection of the fact that freedom will not work unless we work at it.

State and local government create more widespread and more available opportunities for more people to "work at" the chores of government than does the central government in Washington.

Government in Washington, over the years since 1787, has grown for two principal reasons:

1. Increased national responsibilities resulting from the kind of world in which we live. These are unavoidable.

2. The inability, or the failure, of government at the State and local levels to work effectively. This is avoidable.

If State and local government are to discharge their responsibilities, not only must they work at it, but they must also have the necessary resources. Responsibilities which rest upon an inadequate resource base will be neglected responsibilities.

You who struggle with this problem on the level of local government need not be reminded of it. However, its importance must be stressed over and over again for the benefit of all citizens.

There is so much talk about the growth of government in Washington, that there is often too little thought given to the increasing burdens of local government and the means needed to bear them. There is so much talk about the impact of the federal government upon us as individuals, that there is often too little thought given to the impact of local and state government.

Let us consider a few facts:

1. Over one half of all public expenditures on civil, non-military, government in the United States takes place at the local government level -- by the counties, municipalities, towns, and special districts. Municipalities account for over one third of these local government aggregates.

2. The 1960 census found 70 percent of the American people living in urban areas; the likelihood is that the percentage will increase during the '60's. It has become clear that the quality of the environment in which America's millions will be working, living, and raising their families in the

years ahead depends in no small measure on the quality of municipal government and on the boldness, imagination, and courage with which it meets the challenge already on its doorstep.

3. It is important for us to remember that local government is a key factor in the national economy. It accounts for 55 percent of public payrolls; state and local purchases comprise five-sixths of our non-defense governmental outlays for goods and services and represent about one tenth of the nation's output -- the gross national product.

4. The relationship of local taxes to national well-being can be demonstrated by their involvement in business costs and their impact on the competitive position of local firms. They affect price levels, property values, consumer spending, etc., each of which influences the condition of the economy.

5. During the current fiscal year the direct expenditures of local governments for general government will aggregate approximately \$40 billion. Of this, municipalities account for about 35 percent. Ten years ago -- in 1952 -- local governments spent only \$17.4 billion; municipalities, \$6.2 Billion.

The reason municipal government expenditures are increasing at a somewhat slower rate than the total local expenditures is because of the rapid increase in school district expenditures. The share of national resources devoted to local functions has moved upward since World War II and is now near the pre-depression level, just over 7 percent of the gross national product.

These facts, I trust, give some inkling of the resource needs facing local governments.

As these resource or revenue needs continue to expand at a fast rate, the problem of where to obtain the revenues becomes a more and more difficult one. Any consideration of municipal revenue prospects logically begins with the property tax, the mainstay of most local revenue systems. While its demise has been widely predicted by experts for many years, its yearly contribution to local governments' revenues has rocketed from \$5.9 billion in 1948 to \$15.8 billion in 1960. Currently, its annual yield is approaching \$20 billion.

In the State of Maine the tax revenue of State and local governments rose from \$43 million in 1932 to \$188 million in 1960. During this same period property tax income increased from \$29 million to \$103 million. Thus the property tax as a percentage of the total tax revenue has dropped from 67.4 to 54.5.

At the local level, however, there is dramatic evidence that reliance on the property tax remains very great. The latest available data shows that in

1957 local non-property tax revenue in the State of Maine amounted to \$1,205,000; this figure is only 6/10 of 1% total local taxes, as compared with the national average of 12.6%. We can, therefore, say that there is great need for progress on two fronts: One is the improvement of the administration of the property tax itself, and the other is the examination of the advantages of increased use of non-property taxes.

I would like, at this time, to discuss the work of the Advisory Commission on Intergovernmental Relations in this all-important area of municipal finances. The Commission, as you may know, was created by Congress in 1959; Congressman Fountain of North Carolina and I co-sponsored the legislation and conducted the hearings leading to the establishment of the Commission. I am one of three members of the Commission from the Senate.

It is a great source of satisfaction to me that the Commission is not dominated by any one level of Government. Representatives of the cities and counties "sit down as equals" along with representatives of the national and state governments. Of the 26 seats on the Commission, six represent the Executive Branch, six the Congress, and fourteen the state and local governments.

The Commission is dedicated to the proposition of strengthening local and state governments in particular. It aims to point the way for both the federal government and the states to take necessary steps to assist local units of government to meet their great responsibilities.

One area to which the Commission has devoted a great deal of attention is the field of taxation and finances.

With regard to the property tax itself, the Commission is addressing itself to methods of improving it. While the Advisory Commission's own conclusions will not be available before the end of this year, it will doubtless give close attention to the remedies long urged by professional organizations, research bureaus, state tax commissions, and other tax students.

In the area of administration, these include (1) local assessing areas large enough to support full-time assessing staffs; (2) replacement of elected or politically appointed assessors with well-trained professionals; (3) organized training programs for assessing personnel; (4) state assessment of public utility and industrial property extending beyond one local jurisdiction or requiring special appraisal skills; (5) improvement of provisions for administrative review of original assessments; (6) regular and systematic state equalization of local assessments; (7) effective state supervision of local assessment work. Additionally, the commission will be considering the pros and cons of a more provocative proposition, namely, assumption of the assessment function by the

State government and the conduct of the function by state personnel.

The Commission recognizes the growing widespread interest in the potentials of non-property taxes -- in local levies on income, sales and selected commodities and services. As I have already pointed out, these taxes play an infinitesimal role in the Maine situation today.

Tax diversification has great appeal to municipalities suffering from overburdened property tax sources, but diversification leads to tax overlapping and duplicate compliance burdens. Thus tax diversity can be had only at the expense of tax simplicity, placing us on the horns of another dilemma.

One of the major problems involved in the use of non-property taxes is the local governments' limited territorial jurisdiction. They are typically smaller than the trading and economic areas of which they are a part, while taxes tend to affect business relationships within the entire area. You are familiar with the arguments: A city sales tax will drive trade to the suburbs, and vice versa; a tax on wages and salaries will alter competitive relationships between the employment centers within and without the taxing jurisdiction and discriminate between employees living within and outside these centers.

Other problems involved in this area include those related to tax enforcement and the compliance burden and state legislative reluctance to authorize local non-property taxes. Nonetheless, if state and national government have a strong stake in local governments' ability to finance an adequate level of municipal services and if property taxes do not suffice, we must recognize that we have a deep interest in assisting and speeding the development of appropriate local non-property revenue sources.

At its last meeting, held in Seattle a little over a month ago, the Advisory Commission adopted a report which made the following recommendations, among others, with regard to the use of non-property taxes by local units of government:

1. Local governments should be able to use these taxes only when required in the interest of the desired distribution in the combined state-local tax burden among the several bases of taxation, including property, income, consumption, and business activity;
2. The electorate should always have the authority to initiate by petition a vote on proposals for new property taxes;
3. Individual states' tax policy should aim to limit local government to the more productive taxes;
4. Provisions relating to their use should be by statute rather than

frozen in constitutions, and such authorization should be specific; and

5. The states should provide various means of assistance to local governments to enable them to collect revenues, such as pooled administration of separate local taxes by state administrative agencies.

In the State of Maine, the percentage of state and local taxes raised at the local level is 54 percent as compared with the national average of about 50 percent. There are only about ten states in the union where more state and local revenue is raised at the local level than in Maine. It is clear that in our state, we expect more of our local governments and make greater demands of them with regard to providing needed services to our people. Since the local response to these demands has been overwhelmingly at the expense of property, it seems obvious that if we are going to perform the greater tasks that are expected of us in the future, there are strong arguments in favor of the drive to obtain other revenue sources to finance municipal services.

I have talked here today primarily of the possibilities with regard to local non-property taxes, but, of course, there are also other avenues that might be explored in the realm of (1) state grants-in-aid, (2) state shared revenues with local governments, and (3) state assignment of specific revenues to finance various local functions. There is a wide range of state actions that might well ease the financial pressures on local government.

It seems evident that Maine cannot much longer face up to its local financial problems by exclusive reliance on the property tax. In our state, 55 cents of every state and local tax dollar comes from property, as opposed to the national average of 45 cents.

It is obvious that our properties -- our homes, our farms and our businesses are very important to us and we should recognize the excessive pressures we are exerting on them. I hope that during this meeting considerable thought will be given to ways and means of balancing the inequities involved in the various revenue sources available to local government. This is one of the most important ways in which we can make our communities attractive for a wide range of businesses and other economic, social and cultural activities.

Any effort to inventory the things that might be done to facilitate municipal financing certainly adds up to a formidable task. As President Kennedy said to the U. S. Conference of Mayors at its last annual meeting, "in a short two decades, we have moved from a rural to an urban way of life and before long we shall be a nation with a vastly extended population, living in great urban areas in housing that does not now exist, served by communication

facilities that do not now exist, and moved about by means of transportation systems that do not now exist."

To meet this challenge there is a great deal of work yet to be done. I have full confidence that those of you who are present here today are prepared to take whatever steps are necessary to meet that challenge. Much depends on taxpayers' willingness to support essential needs. I know that this organization and your sister organizations in other states, with citizen groups and professional organizations at all levels, will continue and redouble their efforts to carry the message to the people and to their legislative representatives.

The success which we achieve will be important not only to you in your day to day tasks; it will be vital to the survival of our democratic society.

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