HAWAII'S GENERAL EXCISE TAX

LEGISLATIVE REFERENCE BUREAU

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STATE OF HAWAII

HAWAII'S GENERAL EXCISE TAX

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FOREWORD

The Legislative Reference Bureau has, over the years, conducted a number of studies and published a number of reports dealing with aspects of public finance. The increasing demands upon government combined with greater knowledge of the potential efficiency of fiscal policies and taxes in achieving economic and social goals have tended to emphasize the importance of examining the components of systems of public finance.

In Hawaii, the general excise has been a cornerstone of the public finance of the state and its counties for three decades. An understanding of how the tax has evolved over the years, what type of tax it is now, what are its identifiable implications today in terms of fiscal and social policies, and what alternative directions may now be taken, is essential to governmental officials and private citizens concerned with matters of public finance in Hawaii and of interest to public finance officials and researchers in Hawaii's sister states. This report, prepared jointly by Professors Kamins and Leong, members of the Economics Department of the University of Hawaii, is designed to contribute to an understanding of a highly unusual tax--Hawaii's general excise.

The Legislative Reference Bureau acknowledges its indebtedness to Earl Fase, President of the Western States Association of Tax Administrators and former Director of Taxation, State of Hawaii, and Fred Bennion, Executive Director, Tax Foundation of Hawaii, who have reviewed and commented upon the manuscript.

George Kagawa assisted in the preparation of statistical materials used in the report.

Tom Dinell
Director

January, 1963

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CHAPTER I

NATURE AND STRUCTURE OF THE GENERAL EXCISE

Since its enactment a generation ago, the general excise tax has been the principal source of revenue for government in Hawaii. It supplies virtually half of the taxes going into the general fund of the state government and more than half of general fund receipts in three of the state's four counties--Maui, Hawaii and Kauai. In a state of about average income, it annually yields more than $100 per capita, a productivity exceeding that of any other levy in the United States, saving only the federal income taxes. Revenue from this one levy exceeds 4 per cent of personal income in Hawaii.

In form, the general excise is a tax on the gross proceeds of sale levied on enterprisers for the privilege of doing business in Hawaii, and so is classified in the family of sales or gross receipts taxes. However, within this family, the Hawaii tax is remarkable for the breadth and depth of its coverage. Whereas state sales taxes, with few exceptions, are limited to retail sales of goods--occasionally including some services but sometimes exempting food, medicines or other categories of merchandise--the Hawaii general excise applies to virtually all goods and services, not merely at the retail level but also as they are sold by the wholesaler, the manufacturer or the producer. Consequently, products passing within the Hawaiian economy are subject to repeated taxation under the general excise. The only important exemptions from the tax are sales to the federal government and sales by firms in certain industries--i.e. banking, public utility, insurance--which are subject to special state taxes in lieu of the general excise.

The price effects of the general excise are pervasive but unequal among industries and groups of taxpayers or taxbearers within the state. Highly competitive vendors of standardized goods, such as retail food stores, probably shift the tax to their customers, whether the tax is shown as a separate item on the cash register receipt or simply included within the shelf price of the merchandise. (Hawaii, along with several states imposing retail sales taxes, permits but does not require the seller to add the tax separately and explicitly to the price.) Other vendors cannot conceivably pass on the tax to their customers because they sell on a national market at a price which is not influenced by the Hawaii supply. Sugar is the clearest example of industries which must either absorb the general excise in reduced profits, or shift the tax backward to the factors of production used by them, in the form of lowered wages, rents or prices of ingredients--that is, lower than they would have been in the absence of the tax. Charges by barbers, shoemakers, lawyers, doctors, morticians, dentists and other purveyors of services may include some or all of the tax; it is difficult to determine how much, so varied and mysterious are the forces which set prices in the service industries.

Economically, then, the general excise is an amalgam of consumption, business and income taxation. The portion of the levy included in retail prices rests on consumers; the remainder is a burden on enterprisers (or their stockholders, employees, landlords or suppliers) which reduces their net income. One aspect of this study is to approximate the relative size of these elements of the general excise and to trace the changing emphasis on one or another element in the recent evolution of the tax.

Supplementary Taxes

Two minor levies supplement the general excise and protect its base. Since the state cannot constitutionally tax imported goods directly, a tax on consumption is instead imposed at a rate equal to that paid on retail sales in intrastate commerce. Goods already subjected to the general excise are exempted from the consumption tax, so equalizing the retail tax burden on locally distributed and imported items. There is, however, no means under the present revenue laws of imposing on imports a tax equivalent to the general excise on the production of goods in Hawaii.

Consumption or use taxes of this nature are standard complements to state sales taxes. More unusual is the Hawaii compensating tax, which is applied to equipment and other items purchased by local firms through sales representatives or other agents of firms not located in this state. Such imports, constitutionally exempt from the general excise, are taxed instead at a compensating tax rate identical with that imposed on wholesaling under the general excise.

Even with the consumption and compensating taxes, however, the general excise does not reach all forms of expenditures.

Services consumed outside the state, for education or while travelling, are not taxable. Nor is income in kind received in Hawaii, such as room and board or other employee perquisites, home-grown and home-used produce, or the rental value of homes occupied by their owners. Viewed as a consumption tax, or as an indirect tax on income, the general excise is by no means uniform or equal in its burden--the same judgment made in appraising the levy as a tax on business.

In defense of the general excise, its very age is a virtue. One of the favorite maxims of public finance states that "an old tax is a good tax". The general excise, continuously imposed in Hawaii over a full generation, must be reckoned an old tax. Business firms and their customers have long taken it into account in making their investments, sales, and purchases; labor unions have considered the impact of the tax on real wages in collective bargaining negotiations. In a word, the general excise has been integrated into the economy of the state, and its disturbance minimized by the passage of time since its original enactment in 1935.

However, as the following chapters develop, the passage of amendments to the general excise law have significantly changed its nature and impact on the Hawaii economy. These changes raise policy questions concerning the effects of the tax which are considered in the last sections of this study, along with the division of general excise proceeds between the state and county governments.

CHAPTER II
EVOLUTION OF THE GENERAL EXCISE

The general excise, like most of the mainland sales taxes, is a product of the Great Depression. Hawaii did not experience nearly as much unemployment and economic distress as did more industrialized areas of the United States, but the territorial government was confronted by a fiscal crisis during the early 'thirties. Falling values stimulated a demand for a major reduction in the real and personal property taxes, then the mainstays of the Hawaii tax structure. A special session of the legislature, convened in March 1932, cut the real property tax rates and repealed the levy on personal property. (It was re-enacted the following year, reduced in scope over the next decade, again repealed in 1947.)

Business Excise

To replace the loss of property tax revenues, the territorial legislature adopted a fiscal novelty, called the "business excise tax", which would now be described as a value-added tax. The base of the business excise was the operating costs of each firm doing business in Hawaii, plus its net income taxable under the territorial income tax, or minus any net losses incurred by the firm attributable to business in Hawaii. Operating costs included in the tax base were comprised of wages and salaries paid, marketing and agency costs, federal and territorial taxes paid, depreciation and amortization on property used in the business, the costs of crops grown by the taxpayer, and all other "ordinary and necessary" expenses incurred in doing business in Hawaii. However, the purchase price of merchandise sold by the taxpayer firm and materials used in its production processes were excluded from the tax base.

The rationale underlying the business excise was to tax the value added in production or distribution by each firm, that is the portion of gross income received by the business which was attributable to its activities. Conceptually, this portion is the difference between total income of the firm and the amount it pays for goods and materials. The taxable "difference", then, consists of the value of the factors of production going into the product sold by the taxpayer firm--represented by wages and salaries, rent and interest paid, plus the profits of the enterpriser, or less his losses. Under this concept, rent and interest should have been taxable items, but the tax law of 1932, for reasons unstated, explicitly excluded them from the tax base.

The rate provisions of the business excise were also unorthodox. Two per cent was set as a maximum rate which should be reduced to the extent permitted by the budgetary needs of the Territory, as determined by the treasurer. In any case, the tax rate was not to be calculated to yield more than $4 million for the ensuing year.

Hawaii's experimental levy seems obviously intended as a tax on business. This is evidenced not only by its name but by the method of collection (in two installments on the previous year's income), by the adoption of income tax concepts and procedures for enforcement of the business excise and by the absence of any provision relating to the stating of the tax to a buyer at any level of distribution. In 1932, neither Hawaii precedents nor mainland practice would have suggested a general tax aimed at consumption. The sweep of retail sales taxes across the nation did not begin until the following year.

General Excise

The business excise remained in force only until January 1, 1936. In 1935, the legislature replaced the levy with one equally unusual in American experience, but with a much broader base and therefore greater revenue potential. The new tax was the general excise, introduced on the initiative of Governor Poindexter as one part of a program of tax reformation, which included the reformation of the personal property tax and the extension of the income tax to dividends.

Gross income replaced value added in production as the basis of the new tax. (Except for locally refined sugar. Refineries are permitted to deduct from their taxable income the cost of raw sugar, as they were under the business excise.) Consequently, the tax became a cumulative one, not merely applied to the value added at each stage of production and distribution as under the business excise, but at each stage taxing again the values added at all earlier stages. For example, in the taxation of Kona coffee, the value created by the work of the farmer, that created by the productivity of the land, the fertilizer applied to it, etc., were taxed as ingredients in the sales price of the coffee as it was milled, roasted, wholesaled and retailed in Hawaii. A hypothetical illustration contrasts the approach of the general excise and its predecessor.

Table 1

TAX BASES UNDER THE GENERAL EXCISE AND BUSINESS EXCISE TAXES
(Coffee, assumed sold to roaster, then wholesaled and retailed in Hawaii)

	General Excise	Business Excise
Price of parchment coffee sold by farmer	$ 1,000	$ 1,000
Price of green coffee sold by miller	1,400	400
Price of roasted coffee sold by roaster	1,800	400
Price of coffee sold by wholesaler	2,000	200
Price of coffee sold by retailer	2,200	200
Aggregate tax base	$ 8,400	$ 2,200

From the illustration (which doesn't reflect the recent telescoping of the productive process in the Kona coffee industry through the formation of cooperatively-owned mills), the cumulative, repetitive nature of the general excise becomes apparent. From this primary characteristic of the tax flows its advantages--high yield, ease of administration--and its disadvantages--heavy burden on industries with an extended production-distribution process, discrimination against local products compared with imports.

The single rate of the business excise, was replaced by a battery of rates under the general excise--1-1/4 per cent on sugar processors and pineapple canners; 1/4 per cent on other manufacturers, producers and wholesalers; 1/2 per cent on professions; 1 per cent on printers; 1-1/4 per cent on retailers, service businesses, contractors, amusement businesses, radio stations, theaters, etc., and on all other businesses not singled out for taxation at a different rate. Temporarily retained from the business excise was the provision authorizing the treasurer, with the written approval of the governor, to reduce the 1-1/4 per cent rates if the territorial budget balance permitted, or to increase them by as much as 1/4 per cent, if necessary to balance the budget. (This provision was repealed in 1945.)

Distribution of the tax burden among the different industries, and their consumers, was thoroughly changed by the substitution of the general excise for the business excise. Estimates prepared for the House Finance Committee indicated that tax relief was given to sugar, ranching and diversified agriculture (which would now be taxed at lower rates).[1] The greatest increase was experienced by retail trade, now subject to taxation on gross proceeds, rather than merely on the mark-up over wholesale prices.

Another basic shift in tax policy was made by the 1935 enactment. The apparent purpose was to change the excise from one designed to be borne by business enterprises to an excise intended to be shouldered in part by the consumer. The report of the Ways and Means Committee to the territorial Senate referred to the pending general excise bill as putting a "burden on the average man", to be balanced with an income tax on dividends.[2]

During the passage of the general excise, amendments were offered to make explicit the legislative intent that the rate on retail sales be shifted to the consumer, by requiring retailers to state and collect the tax separately from the price. By divided vote in the Finance Committee of the House and on the floor of the Senate, these amendments were defeated. However, the new tax law included a provision, retained to this day, which prohibits vendor-taxpayers from advertising or otherwise holding out to the public that the general excise is not an element in their prices. Such provisions are commonly included in the retail sales taxes of mainland states.

Rate Increases

The rate structure of the general excise was repeatedly raised after its enactment in 1935. (See Table 2.) First the rates on printing, publishing and the various professions were increased, in 1939, to bring them into line with other services. In 1945 all taxes on final production or sale--that is, all

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[1]Journal of the House of Representatives, Territory of Hawaii, Regular Session of 1935, p. 1205.

[2]Journal of the Senate, Territory of Hawaii, Regular Session of 1935, p. 403.

Table 2

GENERAL EXCISE, CONSUMPTION AND COMPENSATING TAX RATES

(in percentages, up to January 1, 1963)

Category	1935-39	1939-45	1945-47	1947-57	1957-61	1961-62	1962-
Retailing	1.25*	1.25*	1.50	2.50	3.50	3.50	3.50
Services, retail	1.25*	1.25*	1.50	2.50	3.50	3.50	3.50
Services, intermediate	1.25*	1.25*	1.50	2.50[a]	0.75	0.50	0.50
Contracting	1.25*	1.25*	1.50	2.50	3.50	3.50	3.50
Rentals	1.25*	1.25*	1.50	2.50	3.50	3.50	3.50
Interest	1.25*	1.25*	1.50	2.50	3.50	3.50	3.50
Commissions, general	1.25*	1.25*	1.50	2.50	3.50	3.50	3.50
Commissions, insurance	1.25*	1.25*	1.50	2.50	3.50	1.50[b]	1.50
Theater, amusements, radio	1.25*	1.25*	1.50	2.50	3.50	3.50	3.50
Printing and publishing	1.00	1.25*	1.50	2.50	3.50	3.50	3.50
Professions	0.50	1.25*	1.50	2.50	3.50	3.50	3.50
Airlines[c]	--	--	--	2.50	3.50	3.50	3.50
Sugar and pineapple production	1.25*	1.25*	1.50	2.50	2.50	2.00	1.50-0.50[d]
Other agricultural production	0.25	0.25	0.25	1.50	1.00	0.50	0.50
Other manufacturing	0.25	0.25	0.25	1.50	1.00	0.50	0.50
Wholesaling	0.25	0.25	0.25	1.00	0.75	0.50	0.50
Blind vendors	1.25*	1.25*	1.50	1.00	1.00	0.50	0.50
All others	1.25*	1.25*	1.50	2.50	3.50	3.50	3.50
Consumption	1.25	1.25	1.50	2.50	3.50	3.50	3.50
Compensating[e]	--	--	1.50	1.00	0.75	0.50	0.50

Source: Session Laws of Hawaii, 1935-62

Note: Underlining indicates rate change.

*Could be reduced by treasurer with approval of governor, or increased no more than 0.25%, according to treasury needs.

[a]Reduced to 1.00% in June 1951 with respect to certain services.

[b]Effective July 1, 1960.

[c]Taxed under public utilities tax until January 1, 1954.

[d]To be reduced to 1.00% on July 1, 1963, to 0.50% on July 1, 1964.

[e]Rates shown are in lieu of wholesale rate. In some cases rate equal to that on retailing applies.

categories except producing, manufacturing and wholesaling--were raised by one-fourth per cent. At the same time the tax base was expanded by enactment of the compensating tax, designed to reach sales to local businesses by representatives of firms not established in Hawaii and thus outside the reach of the general excise. This levy, too, was experimental for American use. Executive power to adjust general excise tax rates in accordance with the treasury balance was repealed.

A larger rate increase was enacted in 1947, as shown in Table 2. For most categories, rates were raised to twice their original level; the relative increase was even larger for agricultural production, manufacturing and wholesaling.

For the decade after 1947, the rates of the general excise remained virtually unchanged. A significant reduction in the scope of the levy was accomplished, however, with the exemption of sales to federal instrumentalities in Hawaii, first enacted as a temporary measure in 1951, extended in 1953 and made of indefinite duration by the 1955 legislature. Various industries and activities--cellophane production, oil refining, motion picture and television film production, to name a few[3]--had been exempted over the years in an attempt to stimulate local investment and employment, but none of these exemptions had any serious impact on the base of the tax. However, excluding receipts from the sale of goods and services to the federal government (except on cost-plus contracts) involved a multi-million portion of the Hawaii economy, one of the largest and fastest growing. In the calendar year 1961, for example, such tax-exempt sales approximated $70 million.

Statutory exemption of sales to federal agencies was justified on the grounds that many of these sales would be lost to local suppliers if the general excise were imposed, that is, that the military and civilian offices of the federal government would instead buy from mainland suppliers, so avoiding the tax. This assumption was never tested directly, but the Governor was advised in 1953 and 1955 that the tax losses caused by the exemption were not sufficiently large to embarrass treasury operations.

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[3]There is a more complete listing in Tax Problems and Fiscal Policy in Hawaii, Legislative Reference Bureau, Report No. 1, 1962, pp. 20-21.

Without trying to judge how stimulating to local sales the federal exemption has been, it can be said that the exemption constituted an important change in the overall nature of the tax. The exemption removed the one large area under the retailing levy which might have been a tax on business, where the purchaser--the federal government with its wide network of purchasing offices--was in a favorable position to resist forward shifting of the tax in the form of price increases. After 1951 the retail rate could be regarded essentially as a tax on buyers, primarily consumers, who would bear the tax paid in the first instance by vendors of goods and services.

1957 Rate Revision

In 1957, as part of a comprehensive restyling of the territorial tax system, the legislature revised the general excise rate structure. Two objectives gave direction to the revision: to raise more revenues; to reduce the amount of pyramiding of the repetitive general excise. Rates on retailing of goods and services--and on contracting, rentals, interest, commissions, amusements, professions, etc.--were increased from 2-1/2 to 3-1/2 per cent. At the same time the rate on agricultural production and manufacturing was reduced by one-half per cent, the wholesaling rate by one-quarter. Services intermediary to final sales--such as photo-finishing performed for drug stores which serve as retail outlets--were recognized as being distinct from services sold directly to the ultimate consumer, and were given a low rate as wholesalers. Sugar and pineapple received no rate reduction, but were for the first time excluded from the group of activities taxed at the maximum rate, foreshadowing the reductions that were to come.

The 1957 revision of the general excise had side-effects which influenced the nature of the tax and its distribution within the economy of Hawaii. For several years the Honolulu Chamber of Commerce, the Tax Foundation of Hawaii, and other groups representing businesses had advocated an amendment to the general excise tax law which would have obligated retail merchants to state and collect the tax separately from the amount of sale. (It will be recalled that the legislature was divided on this issue from the original enactment of the law in 1935, but merely prohibited vendors from claiming that they absorbed the tax.) This amendment was again considered by the legislature during the passage of the 1957 tax revision, but was again rejected; the new law merely repeated the injunction against merchants holding out to their customers that the tax was not an element in their prices.

However, the increase in the retail rate from 2-1/2 to 3-1/2 per cent did stimulate organizations of retailers to adopt uniform tables which computed the general excise on retail sales. Such tables had been developed and distributed by the Honolulu Chamber of Commerce eight years before, but were then used by relatively few enterprises, which then dropped the practice of separate tax statements as their competitors continued to "hide" the tax. In 1957 the use of the tax tables by retail merchants became almost universal, particularly in Honolulu.

At the same time the Bureau of Internal Revenue was reversing itself with respect to the deductibility under the income tax of the retail portion of the general excise tax. Until 1957, the Bureau had held that because the tax was legally imposed on the seller, consumers could not claim deduction of the retail levy in making out "long-form" federal income tax returns. Hawaii protested that this ruling discriminated against residents of the Territory, since several mainland sales taxes were allowed as deductions to consumers, even though these levies, like Hawaii's, put the legal incidence of their sales taxes on the seller. In 1957, the Internal Revenue Bureau expanded the number of deductible sales and gross receipts taxes to include Hawaii's.

Rate Reductions

Treasury surpluses enabled the legislature in 1960 to grant additional rate reductions along the pattern established in 1957. Production and middlemen activities were reduced to a uniform rate of one-half of one per cent. Sugar and pineapple were gradually brought down to the one-half per cent level, first by a reduction from 2-1/2 to 2 per cent voted in 1960, then by an installment cut legislated in 1962, providing three successive annual reductions of one-half per cent, ending in 1964.

At that time, sugar and pineapple will be the only industries in Hawaii which will be taxed at rates lower than those set in the original enactment of the general excise in 1935. (Table 2 reminds one that these two industries had been obliged to pay much heavier rates then those levied on other producers.) Over the period since 1935, the rates on agricultural production, manufacturing and wholesaling have doubled, the rates on retailing, contracting, rentals, commissions, etc., almost tripled.

Effect of Amendments on Nature of Tax

The cumulative effect of the amendments since 1957 has been a decided change in the emphasis of the general excise and the distribution of its burden between sellers and consumers. The tax continues to fall upon all important sectors of Hawaii's economy, except sales to the federal government. It still contains elements both of business taxation and consumption taxation.

However, the stress has shifted increasingly toward the latter. This shift may be traced in Table 3, which shows the proportion of general excise tax revenues derived from retail sales and from the consumption tax--judged to be essentially borne by consumers in Hawaii; the proportion borne by business enterprises (that is by their owners, managers, employees, creditors and suppliers, but not by their retail customers) or shifted to buyers outside the state. In this second group are the rates on all production and manufacturing, as well as middlemen activities, interest and commissions.

The classification attempted in Table 3 is based on general analysis, rather than on price studies of the several industries[4]--and is necessarily an approximation. It probably errs towards understatement of the proportion of the general excise borne by final consumers, since it does not try to estimate the amount of production and wholesaling taxes shifted forward to the buyer at retail in Hawaii, nor the extent to which local interest rates and commissions are increased by the imposition of the tax--an impossible task, given the number of factors which may influence these charges. The opposite distortion, caused by the inclusion in retail sales of some goods which are used by farmers and other producers, the tax on which may not be fully passed on in the prices of their output, is only partially offsetting.

Two important tax bases within the general excise straddle the dichotomy. Rentals are taxed alike, at 3-1/2 per cent,

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[4]For an analysis of the shifting and incidence of the general excise, see Robert M. Kamins, The Tax System of Hawaii, University of Hawaii Press, 1952, pp. 39-44.

Table 3

ESTIMATED DISTRIBUTION OF GENERAL EXCISE
COLLECTIONS BETWEEN CONSUMERS AND PRODUCERS

Fiscal years 1957, 1960, 1963

Percentage of collections derived from:	1957		1960		(estimated) 1963	
1. Consumers						
Retail sales of goods	42		45		47	
Retail sales of services	8		10		12	
Consumption tax	2		2		2	
Subtotal		52		57		61
2. Consumers and business enterprises						
Rentals	6		8		10	
Contracting	8		13		12	
Subtotal		14		21		23
3. Business enterprises						
Pineapple and sugar	14		8		5	
Producing	2		1		-- *	
Manufacturing	4		2		1	
Compensating tax	1		-- *		-- *	
Wholesaling of goods and services	7		4		3	
Interest and commissions	3		3		4	
Other	4		3		3	
Subtotal		34		22		16
Total		100		100		100

Source: Derived from annual statistical reports of Hawaii State Tax Department; 1963 estimates made by Tax Department in April 1962.

* Less than 1 per cent.

whether they are received on residential property and then passed along in whole or part to the consumer of housing services, the tenant, or if received from industrial and commercial property. In the latter case, the immediate burden is upon a business enterprise--on the landlord, if he has to absorb the tax,on the tenant, in the more likely event that the amount of rent includes the tax. It is of course possible that some or all of the tax on rentals is then shifted on ultimately to consumers. The same possibilities exist for the tax on contractors, since it is paid with respect to the construction of residences and business properties alike.

On the incomplete evidence of the value of building permits issued, it is estimated that about 60 per cent of rentals and taxable receipts from contracting are borne by consumers.[5] On this assumption, it would appear from Table 3 that in 1957 about three-fifths of general excise tax revenues (52 per cent under the first category, 8 per cent under the second) were borne by consumers in Hawaii. By 1963 this proportion approximated three-fourths (some 61 per cent plus 14 per cent).

It can be anticipated that the consumption tax element within the general excise will continue to increase relative to the business tax element. One reason is the carrying out of the three-step reduction in the rate on sugar and pineapple production, which will not be completed until fiscal year 1965. In 1965, the relative tax share of sugar and pineapple will be about 2 per cent, compared with 14 per cent in 1957. Other reasons are embodied in changes in the pattern of taxable expenditures as Hawaii's economy continues to expand.

Changing Base of the General Excise

Hawaii's economic development over the past 25 years is clearly reflected in the changing base of the general excise

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[5]Over the calendar years 1959, 1960 and 1961, permits for the construction of single and multiple-family dwellings, hotels and other residential buildings comprised 59.4 per cent of the value of all building permits issued in the city and county of Honolulu, according to the annual reports for those years of the Building Department. In the absence of data it is assumed that the same percentage would approximate the portion of total rentals attributable to housing. If the proportions of owner-occupied buildings are about the same for commercial and residential property, the assumption would hold.

tax. A rising level of personal income expanded retail sales of goods and services, especially the latter, and at a faster rate than income itself rose. However, the multiplication of supermarkets in the 1950's with facilities for purchasing directly from mainland sources of supply, and other changes in the channels for distributing goods somewhat reduced the relative importance of wholesaling in Hawaii, and this too affected the general excise tax base.

The value of sugar and pineapple produced in the state increased several-fold during the quarter-century span, but at a much slower rate than the Hawaiian economy as a whole. The output of diversified agriculture roughly kept pace with the overall expansion. On the other hand, the contracting industry experienced an enormous increase, particularly in the past decade when the annual value of construction contracts first reached $100 million[6], then quickly exceeded the $200 million level. Rentals increased with the number and value of buildings, although not as rapidly as the gross proceeds of contractors.

Chart 1 traces the growth of the major components of the general excise tax base between 1939 and 1963. It must be noted that the positions of the several categories are relative to their 1939 levels, showing rate of change over the period, and do not indicate how large a portion of the overall tax base each category comprises. For example, the chart shows a large increase--more than ten-fold--for manufacturing. Nevertheless, in 1962 manufacturing throughout the state amounted to far less than half of the tax base for wholesaling, which showed only a limited growth over the period. (See the statistical appendix for the various components of the general excise tax base, expressed in dollar values.)

The significance of Chart 1 is its implication for further, long-term changes in the base of the general excise tax. Over time, one would expect the relative importance of sugar and pineapple production to become increasingly small, along with wholesaling. Conversely, services will probably continue on a rate of growth well above the average of the state's economy, supplying the demands of more tourists from year to year, as well

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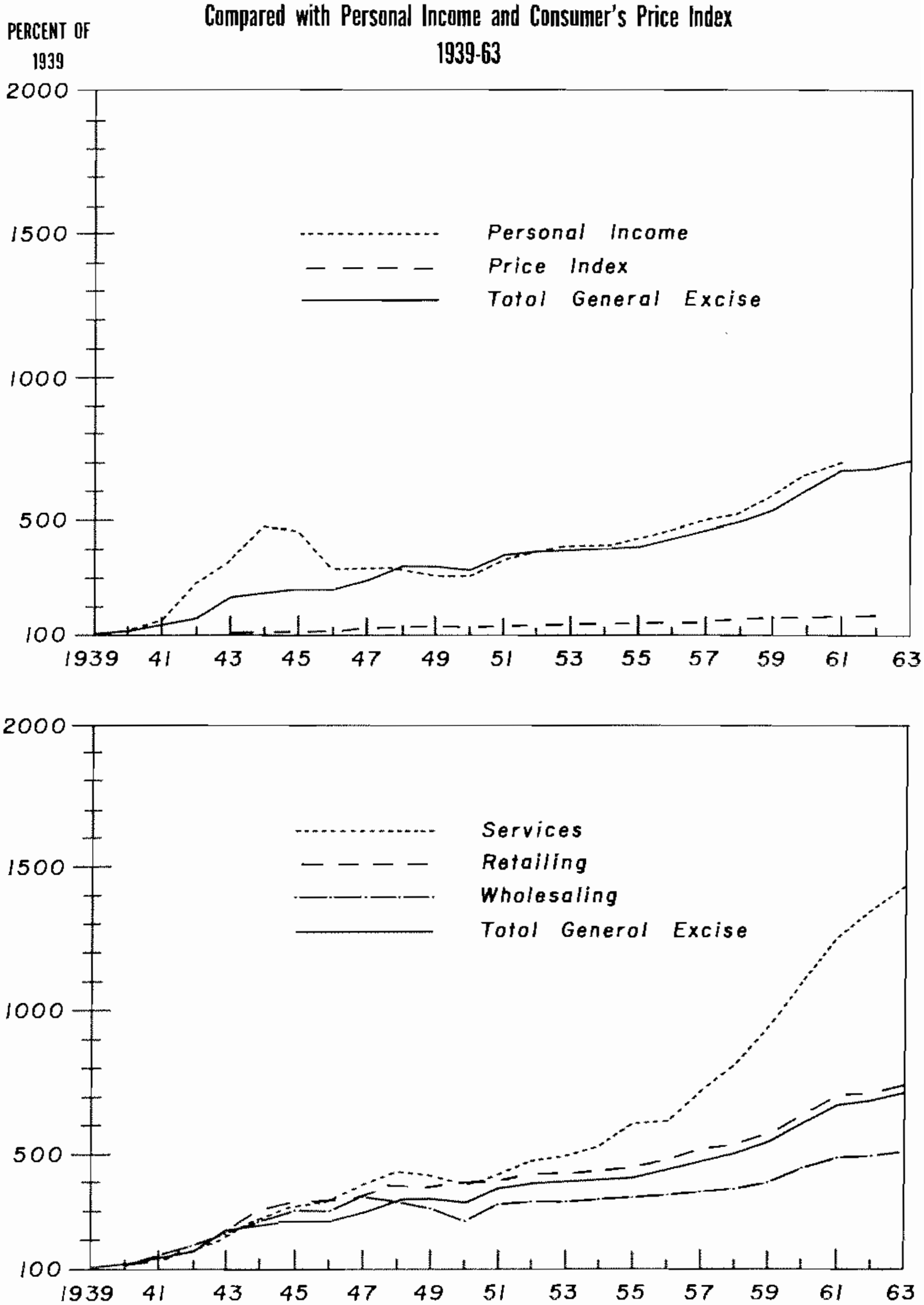
[6]Previously attained only in 1943, a year of accelerated military construction.

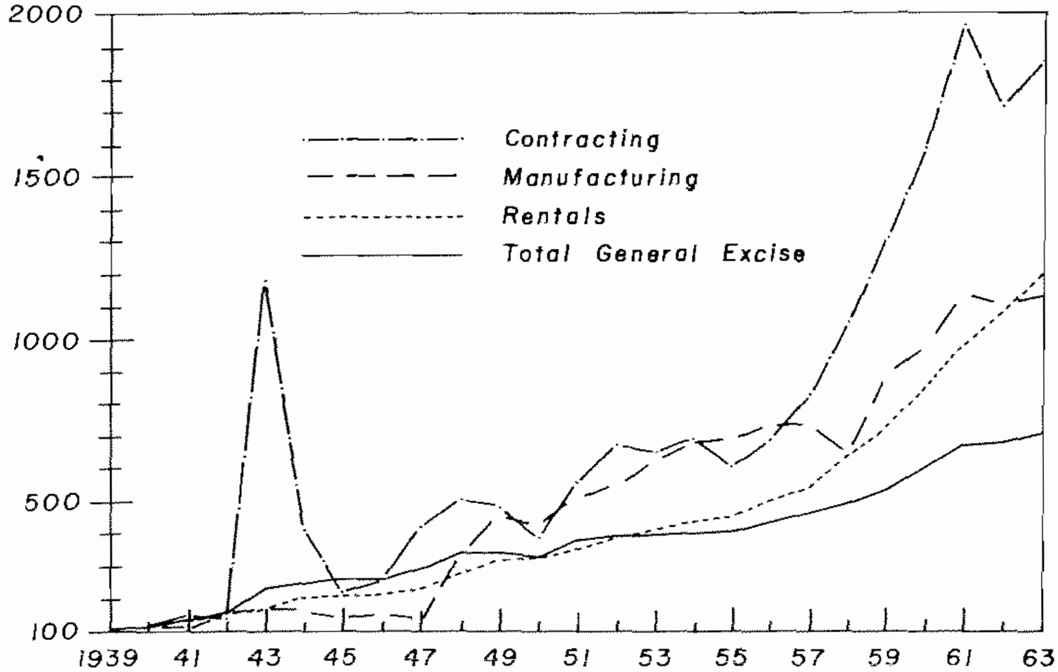
CHART 1

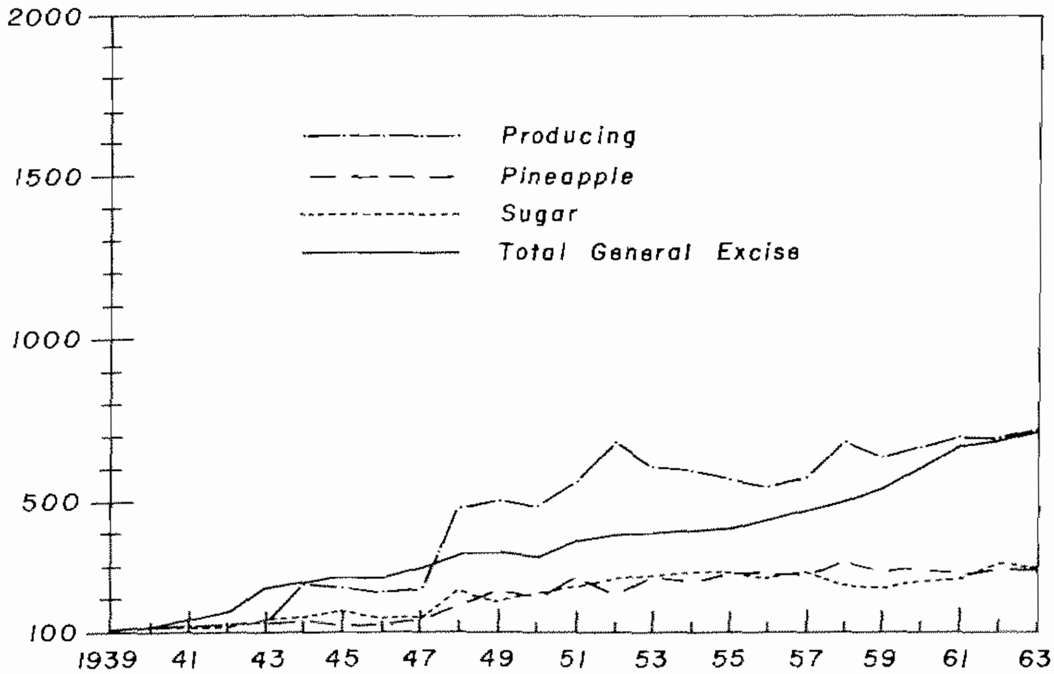
Percentage Changes in Major Components of General Excise Tax Base Compared with Personal Income and Consumer's Price Index 1939-63



Source: Statistical Appendices

Percentage Changes in Major Components of General Excise Tax Base Compared with Personal Income and Consumer's Price Index 1939-63





as those of an expanding local population. Hawaii's recent experience tends to confirm a widely observed pattern of consumption, that as living standards rise the proportion of personal income spent for services increases. This tendency would help maintain the rapid growth curve for services traced in the chart.

The same forces, that is an expanding tourist industry and rising standards of living, should support the construction industry, although perhaps at a level somewhat below the $286 million level reached in the fiscal year 1961. For long-run considerations, a major element of uncertainty is the amount of military construction which will be undertaken by local contractors.

The future rate of increase for manufacturing, which until 1962 had also been conspicuously high, is more difficult to conjecture. The general absence of readily exploitable minerals and other raw materials in the state would seem to set a sharp limit to the rate of growth, but changes in technology or in Hawaii's position in international trade may conceivably overcome this basic handicap. If any of the gleams now in the eyes of persons contemplating with optimism the future of Hawaii's economy should come to pass--the utilization of cheap solar or atomic energy to process minerals in the earth or in the sea, radical reductions in air transportation fares which would cut differential costs for light manufacturing in Hawaii, the development of an international trade complex in Honolulu which would include processing plants, etc.--the portion of the general excise tax base generated by manufacturing could rise even more rapidly than in the recent past.

However, these developments are still below the horizon. From what is presently visible in the development of Hawaii's economy, one would expect the portions of the general excise tax base which are closely related to consumption--retailing, services, the construction and rental of residential housing--to grow faster than the other portions, with the possible exception of manufacturing. As long as this trend, pictured in Chart 1, does continue, the emphasis of the general excise will increasingly be on the taxation of consumption, and the distributional effects of the levy among various income levels will be increasingly important.

CHAPTER III
CONSUMPTION TAX ASPECTS

Hawaii's general excise was described earlier in this study as an amalgam of consumption, business and income taxation, since it affects the cost of living as well as net returns to business enterprises and the factors of production which they employ. No one knows, or is likely to know with precision, how the burden of the tax considered as a levy on businesses and on income is distributed, either among industries or among various income groups.

However, it is possible to discover the pattern of tax burden distribution, considering the general excise as a consumption tax, even without a certain knowledge of how much of the tax is shifted forward in the form of retail price increases. For this purpose it can be assumed with some confidence that the tax on goods sold for consumption in Hawaii is as a general rule borne by the consumer. This confidence is based on several considerations, chiefly: the generality of the tax, which makes it virtually impossible to find tax-free substitutes for the goods included under the general excise, or the consumption tax; second, the existence of varied investment opportunities outside the state for Hawaiian capital, should consumer resistance to forward shifting of the tax temporarily reduce local profit margins; third, the almost universal use of separate billing of the tax to the retail buyer.[7]

There is evidence, although not as comprehensive and up-to-date as one would wish, to support the common sense notion that consumption is a decreasing function of income--that poorer people spend a larger percentage of their income for consumer goods and services than do richer people. Locally, this relationship between income and expenditures was demonstra-

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[7]These analytical reasons for assuming the forward shifting of the tax are weaker when applied to the taxation of services. Sellers of services are probably less mobile than capital and so may absorb a portion of the tax. The "stickiness" of some professional service charges also is a short-term barrier to shifting. However, the presumption remains that the general excise on services is typically passed on to consumers as an element of the price or charge.

ted by the federal Bureau of Labor Statistics in the course of its survey of expenditures by families of office workers in Honolulu during 1951, differentiating between families of different sizes and showing their patterns of expenditure in some detail. (See source note to Table 4, below)

Data from this survey enable the researcher to estimate what portion of family expenditure at each level of income is subject to taxation under the general excise (for food, clothing, recreation, household operation, etc.) and how much of family income, on the average, is not affected by the general excise, either because that money is saved or is spent for purposes not subject to taxation by Hawaii, such as mainland vacations, out-of-state education or remittances to persons overseas. Survey data also show what proportion of family income is spent for goods or services, excluded from the general excise, but taxed under specific excises. These include the taxes on gasoline, tobacco, liquor and public utilities. Again, it is assumed without fear of successful contradiction that as a general practice these taxes are borne by the retail customer, where the tax is shown separately--as in the case of the fuel tax--or whether it is incorporated in the price.

Table 4 shows the average percentage of disposable income (after income taxes) spent by two-person families and four-person families on goods and services subject to the general excise (columns 1 and 2) and subject to either the general excise or the specific excises just listed (columns 5 and 6). The range of income is incomplete, omitting families with incomes below $2,000 and lumping in the top class all family incomes of $10,000 and above.

However, the general pattern is clear. At the lowest extreme virtually all of family income--or all of family income plus borrowing and dissavings, with respect to four-person families--is spent for things taxable by the general excise. The proportion decreases (though not without exception; see the four-person family averages between $4,000 and $7,500) as family income increases. For the group in the top, open-end class, the taxable portion of income is about half.

Comparing the highest and the lowest family income classes, the relative burden of the general excise doubles as one descends the income ladder. For both two-member and four-member families the percentage of income taxable under the general excise is twice as great for families receiving under $3,000 than for families with $10,000 or more.

Table 4

PER CENT OF DISPOSABLE INCOME SPENT ON TAXABLE GOODS AND SERVICES BY OFFICE-WORKER FAMILIES OF TWO PERSONS AND FOUR PERSONS IN HONOLULU, 1951, CLASSIFIED BY INCOME CLASSES

Income Class	Expenditures Taxable under General Excise as percentage of Income		Expenditures Taxable under General Excise with Food Exempt as percentage of Income		Expenditures Taxable under General Excise plus Specific Excises as percentage of Income	
	2-Person Families (1)	4-Person Families (2)	2-Person Families (3)	4-Person Families (4)	2-Person Families (5)	4-Person Families (6)
$ 2,000-2,999	94	106	53	57	120	141
3,000-3,999	73	79	47	42	88	97
4,000-4,999	75	79	46	46	97	103
5,000-5,999	70	69	46	38	90	92
6,000-7,499	67	73	45	46	88	89
7,500-9,999	66	71	46	45	81	89
10,000-Over	47	53	32	34	57	71

Source: Computed from data on income and expenditures of office workers' families in U. S. Bureau of Labor Statistics, "Income and Expenditures of Office Workers' Families", October, 1953.

Note: "Taxable expenditures" in columns 1 and 2 include expenditures for all goods and services that are subject to the general excise (food, housing, household operation, furnishings and equipment, clothing, medical care, personal care, recreation, etc.); in columns 5 and 6, they also include expenditures for motor fuel, public utilities, tobacco and alcoholic beverages, which are exempt from the general excise but subject to specific excises.

Adding expenditures on gasoline, tobacco, liquor and public utility services, as in columns 5 and 6, shows a pattern of consumption taxation of still greater regressivity.[8] This comparison shows a relative tax burden on the lowest income class of two to almost four times the proportionate size of the burden on families with incomes of $10,000 or more. The degree of regressivity is high, comparing lowest and highest income brackets; it is low in the broad band of incomes between $3,000 and $10,000.

Regressivity Compared with Sales Taxes

The pattern is quite similar to those developed for other states taxing retail sales.[9] In fact the degree of similarity contradicts the contention of some writers on the sales tax that exempting services (the usual practice in state sales taxes) makes the tax more regressive, "because" the purchase of services typically constitutes a larger portion of larger incomes than of smaller. However, Chart 2 shows that Hawaii's general excise, which includes services, is no more regressive than the sales taxes of Pennsylvania and Illinois, which exempt all services.[10] The notion that the poor do not buy services may be outdated. In the contemporary American economy even the relatively poor include in their budgets many services, such as rental housing, plumbing, electrical and other household repairs, automobile repairs, etc.

The "market basket" survey for Hawaii on which Table 4 and Chart 2 are based, was limited to the families of persons working in offices in Honolulu. Since about three-fourths of the state's population is urban, and in the absence of any indication that the expenditure patterns of blue-collar workers are different from those of white-collar workers at any given level of income, the data of the U. S. Bureau of Labor Statistics are taken as representative of the entire population of the state within the income brackets surveyed. Furthermore, the data used in computing the table and chart reflect 1951 experience and it

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[8] The reader is reminded that Hawaii imposes a personal income tax which is highly progressive measured against most other states. The distribution of income taxation partly offsets the regressivity of Hawaii's taxes on consumption.

[9] For example, see John Due, Sales Taxation (University of Illinois Press, Urbana, 1957).

[10] Expenditure patterns of 4-person families form the base of Chart 2 because they afford a better comparison with data available for Illinois and Pennsylvania.

has been assumed that families in various income brackets have continued to allocate their incomes between taxable and non-taxable uses in about the same proportions. These suppositions will be partially tested within the next year, when the U. S. Department of Labor publishes the results of its first comprehensive study of the cost of living in Honolulu, a project which necessarily includes a determination of household expenditure patterns.

Effect of Food Exemption

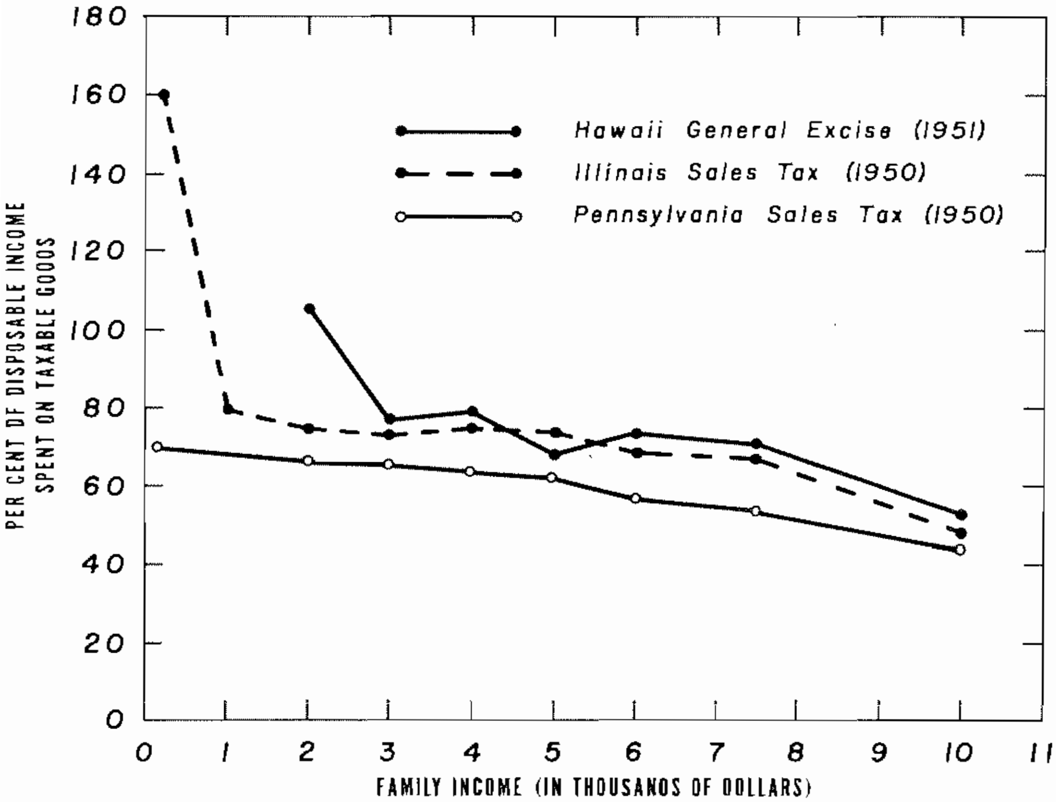
Proposals are regularly made in Hawaii, and in other states with general taxes on the retailing of goods, to lift some of the burden of the tax from low income families by exempting the sale of food. Usually, what is intended is to remove the tax from food purchased for consumption at home, rather than restaurant meals. How would such an exemption affect the distribution of tax burden under the general excise?

Table 4, above, indicates that in Hawaii the exemption would greatly reduce the regressivity of consumption taxation. Taxable purchases of families within the lowest income class studied--$2,000 to $3,000--would be cut by almost half, sharply lowering their tax burden relative to higher income groups. For incomes between $3,000 and $10,000 the distribution of a general excise exempting food would be closely proportional to income (see column 3 of the table) in the case of two-person families and roughly proportional (column 4) in its burden on larger families. Only in the above-$10,000 class does the tax retain a marked degree of regressiveness, but not as great as under the present, exemptionless levy.

There is evidence, then, to indicate that the general excise would be made significantly less regressive if sales of food were to be exempted. The price of the exemption would be a loss of revenue, in the range of $7 million to $9 million per year, at current levels of expenditure. Replacement of the revenue loss might be accomplished by collecting more income taxes measured according to ability to pay, or by taxes, such as the levies on liquor, tobacco and public utilities, which are probably even more regressive in their distribution among various income groups than is the general excise. Whether or not the exemption of food from the general excise would reduce the overall regressiveness of the state tax system would therefore depend on the source of replacement revenue.

CHART II

Distribution of Tax Burden, by Income Classes, of Hawaii General Excise, Illinois Sales Tax, and Pennsylvania Sales Tax 1950 and 1951



Another cautionary note with respect to exempting foodstuffs, of less importance for the state's fiscal policy but of real concern to the administrator, is that the exemption would create tax collection problems which do not exist under the present general excise. The idea of exempting "food" is simple; defining "food" is not, unless the definition is sufficiently broad to include confections and refreshments of the most varied sort. In states affording food exemptions, administrative and court decisions abound with differentiations between ice-cream (exempt) and ice-cream bars (taxable), between peanuts (exempt) and Crackerjack (taxable), and the like.

Furthermore, there would be enforcement difficulties in collecting the tax from stores selling both foodstuffs and other, taxable items. The bulk of food sales are made under these circumstances, presenting an obvious temptation to tax evasion which is lacking from an exemptionless levy.

Administrative considerations are not overriding, however. Nine states currently exempt food and other important consumption goods from their sales taxes without serious strain on the collection process. Given the policy it can be enforced.

The General Excise and the Cost of Living

It is well known in Hawaii that the cost of living in this state is relatively high. How high it is compared with other parts of the United States has not been demonstrated recently, since the last comprehensive survey of consumer expenditures--a necessary ingredient in such comparisons--has not been made since 1943 and is not anticipated until 1964.[11] However, it is generally conceded that local living costs, even after allowing for the light wardrobes, absence of heating expenses, small dry-cleaning bills and other enjoyable consequences of Hawaii's optimal climate, are above those of other areas of the nation, with the conspicuous exception of Alaska. Estimates of the differential by which living costs in Honolulu exceed other large American cities usually range from 10 to 20 per cent. The federal government currently adopts a mid-point, granting to its civil service employees stationed in this state a 15 per cent differential in salaries above those prevailing on the mainland. (The pay differential is not calculated from a thoroughgoing market basket study and gives merely an impressionistic estimate of the difference in consumer price levels between Honolulu and Washington, D. C., and one influenced, moreover, by both budgetary and political considerations.)

Granting that prices to consumers in Hawaii are high, how important a factor is the general excise tax in causing the spread? The answer can only be given in terms of broad approximation. Assuming as before that retail taxes on goods and services are generally passed on to consumers, and mindful of the virtual universality of the general excise, it can first be deduced that most of the 3-1/2 per cent tax on retailing enters into the cost of living. There is less assurance that all of the tax paid by members of the various entrepreneurial professions --doctors, lawyers, accountants, etc.--is shifted forward to their clients. Of greater magnitude, however, is the potential

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[11]When the federal Bureau of Labor Statistics plans to measure the cost of living in Honolulu.

for forward shifting of the general excise taxes on locally produced, manufactured and wholesaled commodities. If even half of the general excises paid with respect to making and wholesaling products ultimately sold locally are reflected in retail sales prices, the cumulative tax element in the consumer price level more closely approximates 4 per cent rather than 3-1/2.

It is perhaps too obvious to need stating that, distributional effects aside, it puts the same "real" overall burden on the private sector of the economy to collect any given amount of tax revenues. Regardless of the way it is raised, a dollar of tax income for the state is a dollar extracted from purchasing power that would otherwise be available to some private person in or out of that state. However, a tax, such as the general excise, which enters into the cost of living has the additional consequence of raising the price level within the state. The price effect would tend to discourage immigration to Hawaii, encourage emigration, and so marginally check the rise in the population and in the labor force of the state. A depressant on the number of workers, in turn, tends to increase wages (so partly compensating employees for the loss of real income caused by the tax) and thereby the costs of doing business. The ultimate effect would be to discourage local investment.

It may be concluded, therefore, that the general excise exerts a force, of indeterminate power, against the economic development of Hawaii. How this force would compare with the effects of a tax which is less likely to enter into retail prices, such as the personal income tax, is a subtle problem outside the scope of this study.

CHAPTER IV
POSSIBLE FUTURE DEVELOPMENTS

On its past record, the general excise will continue to evolve, with further reductions of rates on non-retail activities to be anticipated. Having seen wholesalers, manufacturers, processors, intermediate service businesses, diversified agriculturalists, the pineapple and sugar industries in turn gain tax reductions to a uniform rate of one-half per cent, contractors, landlords, newspapers, radio and television stations, printers, small loan companies and other enterprises not falling within the main category of retail merchants can be expected to seek lower tax rates on their gross receipts.

Two factors may delay acceding to these demands. The more immediate and persuasive is the revenue needs of the state. Decreasing balances in the general fund portend a period of time, perhaps extended, in which the legislature will be hard put to find a budget balance which can be used for tax reduction. Because the bases of the general excise are so broad, it is difficult to reduce its rates significantly without a drastic effect on state revenues. Moving from 3-1/2 per cent rates on these non-retailing activities toward one-half per cent may be more than the treasury can afford.

The second defense against demands for such tax reductions is an appeal to the logic and structure of the general excise. By and large, the tax now differentiates between economic activities which directly compete with out-of-state enterprises and those which do not. The first group--including farmers who compete with mainland producers in Hawaii's markets and to a limited extent in markets overseas from Hawaii, pineapple canneries and sugar mills, local manufacturers and wholesalers--are given a lower rate so as not to handicap them unduly in the market place. The top rate of 3-1/2 per cent is generally applied to goods and services sold on local markets and not subject to tax-free competition.

However, the distinction is not absolute. Mainland printers and publishers do compete on large orders with local companies. Funds may be borrowed from out-of-state lenders--outside Hawaii's taxing jurisdiction--instead of from local finance companies subject to the 3-1/2 per cent rate. Indeed, within Hawaii banks, building and loan associations and trust companies are subject to a tax on their net income, instead of the general excise on gross income paid by small loan companies and other lenders, to the tax advantage of the former.

Potentially, a larger breach was opened by lowering the rate (in 1951 and 1957) on tire recappers, automobile painters, photoprinters, medical and dental technicians, and other vendors rendering services on the order of a retailer of goods or services embodying these "intermediary" services.[12] The purpose behind the reduction was to put these service middlemen on a par with the producers and wholesale distributors of tangible goods, so reducing the pyramiding effects of the general excise. The difficulty lies in distinguishing the situation of the intermediary service activities from other industries, which similarly produce services to be used by retailers, such as printers, publishers, contractors erecting business and rental properties, suppliers of feed, seed and fertilizers to farmers, etc. Until 1957, the law sharply limited the concept of wholesaling (taxable at a low rate) to sales of materials which remained "perceptible to the senses" as they were processed and distributed for final consumption. The line is now broken for intermediary services which combine both tangible materials and intangible work.

One possible line of evolution for the general excise, then, is increasingly to become a levy on retail sales, supplemented by diminishing taxation of other business activities. The half per cent tax on most other receipts may be abolished, or reduced to some nominal rate to maintain the complete reporting which has been so important in the administration of the general excise. Any such reduction in the effective scope of the general excise tax would probably require an offsetting increase in the rate on retail sales, since the state has recently been operating under a tax structure barely able at best to support its expenditure programs.[13] Should the general excise on all activities except the retailing of goods and services (including rentals of residential premises) be reduced to one-half per cent, a retail

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[12] Section 117-16, Revised Laws of Hawaii 1955, as amended.

[13] General fund revenues and expenditures are projected in Tax Problems and Fiscal Policy in Hawaii, Robert M. Kamins, Report No. 1, 1962 of the Legislative Reference Bureau, University of Hawaii, Honolulu.

rate of approximately 5 per cent would be required to maintain revenues.

Alternatively, relief to families with small incomes could be granted by linking the general excise with the personal income tax, utilizing income tax returns to provide credits, and possibly year-end refunds, of general excise taxes paid over the year by consumers--on the assumption that consumers bear the general excise on retail sales of goods and services. A simple form of credit would be to allow each person filing an income tax return a flat amount--for example $5--for himself and for each dependent, to be subtracted from his income tax for the preceding year, or to be refunded if the credit exceeded his income tax liability. Applied to a model constructed from income distribution and consumption patterns in Minnesota, the credit gave a mild degree of progressivity to a comprehensive retail sales tax which would otherwise have been regressive.[14]

A greater degree of progressivity would be given to the device by inversely varying the amount of credit according to taxable income. For example, the entire credit might be granted for each taxpayer (and for his dependents) with adjusted gross incomes below $1,000, 80 per cent of the credit for taxpayers with incomes between $1,000 and $2,000, 70 per cent for the next thousand dollar range, etc. A more rapid decrease in credit going up the income scale would of course add to the progressivity of the income-sales tax burden, and conversely.[15]

Value-Added Tax

A completely different approach to the problem of minimizing tax pyramiding, while retaining a tax broadly based on business revenues, is suggested by Hawaii's fiscal history. It will be recalled from the discussion of Chapter 2 that the present general excise was preceded by the "business excise" tax, a levy

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[14]Alek A. Rozental, "Integration of Sales and Income Taxes at the State Level", National Tax Journal, December 1956, 370 ff. The sales tax used in the model was a research construct, since Minnesota does not impose a sales tax.

[15]Walter Morton, proposing this combination of income and sales taxation for the federal government in "A Progressive Consumption Tax", National Tax Journal, June 1951, 160 ff., constructed a scale which allowed full credit for incomes under $2,000, then progressively reduced the fraction of credit above $3,000, allowing no credit on incomes above $7,000.

based on the value added in production or distribution by each enterprise. The business excise was in force in Hawaii between 1932 and 1935. Since that time of local fiscal experimentation, the value-added approach to taxation has enjoyed something of a vogue. It was recommended for post-war Japan by an eminent group of American economists.[16] It was adopted, in modified form, by Michigan during a recent period of financial crisis.[17] It has been imposed in France since 1954 and reportedly is now being considered as the chief sales tax device to be used by the other nations comprising the European Common Market.

The structure of a value-added tax may be briefly outlined. Whereas a turnover tax like the general excise taxes the full sales price of a commodity as it is repeatedly sold, going through the successive stages of production and distribution, the value-added tax applies only to the increase in sales price over the preceding stage. In computing his tax base, an enterpriser would subtract from his gross proceeds all his expenditures for goods and services purchased from other firms already subject to the tax. The difference, amounting to the sum of his labor costs and gross profits, would be taxable. In terms of national income accounting--and such is the origin of the name of the tax--the tax base of the enterprise is the value it has added in production over the period measured.

The value-added formula has several attractions when compared with the general excise. It completely eliminates multiple taxation of the same tax base. It thereby removes any differential burden on local enterprises and so may enhance their competitive position relative to out-of-state producers. For example, a cotton dress retailing for $30 would bear the same overall tax under a value-added levy, whether locally produced or imported from the mainland. Assuming the price to the wholesaler to be $15, the manufacturer would be taxed on

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[16] A seven-man mission in 1949 recommended a comprehensive plan for reforming the national and local tax structure of Japan, including a value-added tax. The program was adopted by the Diet but several elements of the plan, including the value-added levy, were never implemented and were subsequently repealed. See M. Bronfenbrenner and K. Kogiku, "The Aftermath of the Shoup Tax Reforms", National Tax Journal, September 1957, pp. 236-54; December 1957, pp. 354-60.

[17] See James A. Papke, "Michigan's Value-Added Tax After Seven Years", National Tax Journal, December 1960, pp. 350-63.

that value; if the dress were then sold to the retailer for $20, only the $5 markup would be taxable; similarly the $10 retail markup, setting the final sales price at $30,would constitute the tax base for the retailer. The aggregate tax base on the repeated sale of the locally manufactured dress--$15 plus $5 plus $10--would be identical with the single tax on the sale of a garment imported by a retailer for sale at $30. (Under the general excise, the taxable values established by the local production, wholesaling and retailing of the dress would be $15 plus $20 plus $30, or a total of $65. A similar comparison is made in Table 1, Chapter 2 with respect to coffee production and sale.)

By the same token, the value-added tax would remove the vexatious problem, inherent in the general excise, of how to treat highly integrated industries, such as sugar and pineapple production in Hawaii. Such industries are obviously at an advantage under a gross tax which applies each time a commodity is sold and on the full sales price, since sugar and pineapple are typically grown, harvested, manufactured and prepared for wholesale distribution under the ownership and control of one firm. For such integrated companies, the general excise is a single-stage, "one-shot" levy; for others it is a multiple-stage, recurring tax. Under the value-added format, however, it is a matter of fiscal indifference whether the sugar cane is grown by the plantation which owns the mill or by an independent grower--and so for coffee or any other product. In either case the amount of tax base and the amount of tax imposed is the same. The only difference is that integrated industries pay the entire tax, up to the wholesaling or retailing level, in one lump, while the tax for non-integrated industries is paid in installments, by the agricultural producer, first processor, manufacturer, etc.

The value-added tax seems by its nature more neutral, less arbitrary in its impact on various businesses and industries than the general excise. However, the value-added formula presents policy questions of its own. At what rate would agriculture be taxed? If at a standard rate, applied to all enterprises, a larger part of the tax burden would be directly put on agricultural producers, since their tax base would be approximately the same as under the general excise, whereas the base for wholesalers and retailers of farm products would be greatly reduced under the value-added formula. Low tax rates on producers, higher rates on distributors might maintain the existing balance. However, rate differentiation gets one back in the same kinds of difficulty experienced under the general excise, of making arbitrary decisions as to the relative tax burdens of different industries.

A related question concerns the treatment of manufacturers. The basic principle of the value-added tax would permit local manufacturers to deduct from their tax base the costs of all raw materials and other physical inputs, whether locally produced or, as more frequently would be the case, imported from outside the state. However, if this deduction were permitted, a large portion of the present tax base would disappear. Further, local suppliers of raw materials would again be at a tax disadvantage, since the Hawaii tax would be applied to their production but not that of out-of-state competitors. The same difficulty, larger in volume, applies to sales at wholesale.

A solution would be to permit taxpayers at each stage of the production-distribution process to deduct the costs of material inputs only if those inputs had already been subject to taxation by Hawaii. This rule (assumed in the example of the dress) would maintain the tax base and provide for equal tax treatment of local products and imports. Administration of a value-added tax would be somewhat complicated by this rule, since the taxpayer would have to show not only the costs of his inputs but their origin. However, a check of invoices would provide a ready means of enforcement.

Tax Sharing

The general excise is of such overriding importance in the public finance of Hawaii because it is not only the chief source of revenue for the state government but for the three of the four counties as well.[18] For 15 years, state law has provided the following allocation of general excise receipts: (1) the counties collectively receive a percentage of the base

[18] The city-county of Honolulu in recent years has collected a larger amount of property taxes than it has received from the general excise.

taxed under the highest rates[19]--that is, excluding the base for agricultural production, manufacturing, producing, wholesaling of goods and services, and (since 1962) sugar and pineapple production;[20] (2) this sum, amounting to almost 30 per cent of total general excise revenues, is divided so that Honolulu receives 55 per cent, Hawaii county 20 per cent, Maui county 15 per cent and Kauai county 10 per cent of the aggregate share.

The rationale of tax sharing is readily apparent and seemingly generally accepted: it is to lend the support of the superior taxing power of the state to the counties, so that they may maintain standard services of local governments which are reasonably uniform throughout the state. Given the small size of Hawaii and its long established tendencies toward uniformity (exemplified by a centralized school system, statewide salary schedules for county employees, and centralized property assessments), striking differences in the level or quality of public services, as may be experienced in some of the large mainland states, would probably not be politically acceptable here.

However, there are gross differences in the fiscal resources available to the four counties. Honolulu, with less than 10 per cent of the land area of the state, has 80 per cent of the civilian population. The concentration of military establishments, tourist facilities, shipping and warehousing facilities, financial institutions and other elements of the state's economy on the island of Oahu gives the city-county of Honolulu the lion's share of every tax base. In 1962 it enjoyed 84 per cent of personal income, 85 per cent of sales taxable under the general excise, 86 per cent of taxable property.

Sharing of the general excise is the chief device used in Hawaii for bridging the gap between need and fiscal ability in

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[19] Prior to 1962 the percentage was one. Act 27 of the 1962 Session Laws of Hawaii increased the percentage to 1.125 to compensate--and somewhat overcompensate--for the removal of sugar and pineapple sales from the portion of the tax base used in computing the aggregate county share.

[20] Airline receipts from common carrier operations, while taxed at the maximum rate of 3-1/2 per cent, are also excluded in the sharing formula.

the three neighbor counties. It is an appropriate means, with several virtues. First, it returns to the three, largely rural counties tax revenues which they consider "theirs", but which are actually collected in Honolulu. The point is frequently made by legislators and other spokesmen for the neighbor counties that factors with main offices in Honolulu pay taxes on the gross receipts of plantations which they represent located on other islands; these are credited as Oahu receipts. Similarly, Honolulu firms with branches on other islands may make a single tax return in Honolulu, inclusive of sales in other counties. The amounts of taxes involved have been frequently exaggerated in public discussion, and probably would not nearly approach the respective county shares of the general excise,[21] but the basic point is valid: the relatively high economic levels of Honolulu's urban population are in part based on values generated by the rural population of the rest of the state; a just fiscal policy should redistribute some of the fruits of a centralized economy.

Second, the general excise is a revenue source which expands with population and personal income. As the state continues to grow, and with it demands on the local governments for public service, the general excise has yielded increasing amounts to each county to support its needs, as shown in Table 5. For the neighboring counties, the percentage of total expenditures financed by their share of the state tax has tended to increase, while in Honolulu the total budget has grown at about the same pace as the general excise receipts of the city-county.

Third, the base of the general excise, and therefore the amount of county shares, has not fluctuated widely. From year to year, county governments have been able to anticipate their revenue from this source with reasonable accuracy. Since the sharing device is a continuing one, not requiring legislative action, budgetary uncertainty has been minimized.

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[21] A questionnaire survey by the Legislative Reference Bureau in 1949 of gross receipts returned to Honolulu for businesses carried on in Hawaii county showed no basis for the assumption that the tax on such returns, if combined in the general excise collections in that county, would equal or exceed the county's share.

Table 5

COUNTY SHARES OF THE GENERAL EXCISE

Selected Calendar Years, 1948-61

(Amounts in thousands)

	Honolulu		Hawaii		Maui		Kauai	
	Tax Share	As Per Cent of County Expenditures*	Tax Share	As Per Cent of County Expenditures*	Tax Share	As Per Cent of County Expenditures*	Tax Share	As Per Cent of County Expenditures*
1948	$ 4,847	20.9	$1,677	20.4	$1,230	31.9	$ 884	32.6
1952	5,823	26.6	2,117	31.1	1,583	19.0	1,056	32.8
1957	7,000	23.9	2,572	35.7	1,988	25.4	1,358	35.3
1960	9,782	20.7	3,646	47.1	2,704	43.0	1,756	52.4
1961	10,205	21.7	3,711	35.2	2,783	36.4	1,855	40.5

Sources: County auditor reports for 1948-60; 1961 data from Tax Department report and Public Administration Service, State & Local Government Relations in Hawaii (Chicago, 1962), p. 133.

*Operating expenditures, exclusive of inter-fund transfers.

However, to praise the general excise sharing device is not to hail its formula for tax allocation. The 55-20-15-10 division among the counties was adopted in 1947 as an approximate replacement for the revenues of the then-repealed personal property tax. In the ensuing 15 years it has never been amended, despite important changes in the distribution of population and governmental activities throughout the state. In fact the legislature has not examined the formula, its rationale or effects on county finances. From time to time individual legislators have proposed a larger share for their counties, but no basis for determining a fairer or more defensible allocation has been set forth.

A starting point for the construction of a rational formula for sharing general excise tax revenues among the counties is to consider the elements affecting the purpose of tax sharing--to support and help equalize the quantity and quality of public services locally provided in each county. Two factors of obvious relevance are the need for such services and the ability of each county to pay for them from its own resources. Objective yardsticks can be devised for measuring each factor in the four counties.

Need for public services can be measured by total population, school population alone (as in the grant programs of several mainland states for the support of public education), density of population, the area of each county (either the total area or that sufficiently populated to require a significant amount of county services), mileage of roads, etc. Ability to support local budgets can be calculated by net income received by individuals in each county, or by the relative size of the property tax base in each of the counties, among other yardsticks.

It can be argued that the factors used in a formula for allocating public funds among jurisdictions should be as general and simple as the problem permits. This is the typical approach of the federal grant-in-aid programs. In the present case, since the purpose of the sharing is to support, not only education, but county functions generally, it would seem appropriate to use total population as an indicator of need. (If it demonstrated that area as such had an important effect on the cost of providing government services, not merely potentially but actually, there would be a good case for including this factor in the sharing formula. This demonstration has not been made for government services in Hawaii, to the authors' knowledge.)

There is a question as to whether the military stationed in Hawaii should be included in the measurement of population. A large portion of service families, concentrated on Oahu, are quartered in federal housing areas, not serviced by the county government, but thousands of others live in residential areas around Oahu, receiving the same county services as their civilian neighbors. Children of military personnel add to the school needs of Honolulu city-county, but federal grants reimburse the local government for most of these extra costs. Military police help cope with some of the problems created for Honolulu by its serving as a liberty port. Beaches and other facilities operated by defense agencies only partially serve the recreational needs of visiting and resident military people.

In principle, it should be possible to estimate the relative demands of service personnel on local government, and on the basis of this estimate reach a decision as to whether a quarter, a third, or a half of the military stationed in each county should be included in its population for the purpose of tax share allocation. Actually, the estimate would be difficult to make, inescapably involving arbitrary assumptions and requiring frequent reassessment--the sort of factor that is best excluded from a formula intended to apply over a long period of time. The better part of statistical rigor may be to use civilian population, which includes the dependents of military personnel, so giving some additional support to counties--at the present primarily Honolulu--serving many military families.

Looking at the indicators of ability, there is reason to include either of the factors previously suggested, or both. Net income by county is a useful measure of overall relative ability to support local government. However, the property tax is the chief source of county revenue collections and its base is a more direct indicator of the relative fiscal capacity of the four counties. Furthermore, property tax data are routinely calculated each year, while personal income figures for the counties are not, although they can be estimated.

A rational allocation formula could combine these indicators, that is apportioning the total county share of the general excise among the four counties (i) in proportion to their population, and (ii) inversely with the proportion of taxable property in each county.

If the state government wanted to encourage the counties to make fuller use of their own taxing powers, the allocation formula could include another factor, one measuring fiscal effort. This factor could be introduced by using the property tax rate for each county--the higher the rate relative to other counties, the higher the proportion of general excise share going to the county. Alternatively, the relationship of county tax revenues (perhaps exclusive of fuel taxes, since they are earmarked for road construction and maintenance) to personal net income received in the county could be used as an element in the formula; again, the larger this ratio the larger the share.

A disadvantage of using property tax assessments in an allocation formula is the incentive it would provide for competitive underassessment by the four counties. Low assessments offset by high property tax rates would yield a double advantage, since the amount of grant would vary directly with the rate and inversely with the tax base. Inter-county equalization of assessments would offer one means of checking this abuse, but the problem can be completely avoided by using the alternative measures sketched above--personal income as an indicator of "ability", the ratio of county tax revenues to personal income as an indicator of "effort".

However constructed, any allocation formula must be weighted, that is, state how much consideration will be given the respective factors in computing each county's share. For example, population (need) might be given a weight of 50 per cent, personal income (ability) a weight of 30 per cent, and ratio of county taxes to personal income (effort) a weight of 20 per cent. (Or, amounting to the same thing, half of the total share could be distributed according to relative population; 30 per cent according to relative income, inversely considered; 20 per cent according to relative tax burden.)

The selection of weights is a matter of judgment, not science. Indeed, some degree of arbitrariness is inherent in any geographical division of tax revenues, as the present formula of 55-20-15-10 well illustrates. However, the factors suggested are not arbitrary, but objective indicators of the varying fiscal circumstances of the four counties. If adopted with any reasonable set of weights that receive political acceptance, a formula incorporating these or similar indicators would make for a more rational allocation of the general excise as economic circumstances within the state change over the years.[22]

Post-Script: P.A.S. Proposal

As this study was being completed, Public Administration Service published its report of State and Local Government Relationships in the State of Hawaii.[23] An important recommendation of the report is that the allocation of general excise revenues between the state and the four counties be revised to reflect the reallocation of governmental functions proposed by P.A.S.

Five major elements comprise the suggested reform of state-county financial relationships. One is that the aggregate county share of the general excise be reduced from 1.125 per cent of the base defined by law (that subject to taxation at the rate of 3.5 per cent, exclusive of airline receipts) to 0.50 per cent of the base. Second, the allocation of this share should be changed from the present 55-20-15-10 division to one giving approximately 30 per cent shares to Honolulu and Hawaii, approximately 20 per cent to Maui and to Kauai. Third, the rate on various activities (retailing, services, contracting, etc.), now taxed by the state at 3.5 per cent should be reduced to 3.25 per cent. Four, each county should be authorized to impose either a 0.25 per cent or 0.5 per cent general excise on the above base (now taxed by the state at 3.5 per cent) reported by taxpaying units within its jurisdiction. Five, the state should itself undertake several functions, notably the construction and maintenance of public schools, now the financial responsibilities of the county governments.

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[22] A variety of formulas have been used by states to distribute grants in support of local school districts. For example, Florida applies varying weights to these factors for each county--sales tax returns, employed workers, value of farm products, assessed value of railroad and telegraph property, automobile registration. (Florida Legislative Council, 1959 Report on Financing Public Schools.) Alabama has utilized a similar group of criteria, while New York has used equalized assessed value as a measure of local ability to support education. (See Massachusetts Research Council, Fairness of the State Subsidy Formula for Local School Construction, June 22, 1959.)

[23] Chicago, dated November 20, 1962, 234 pp.

Table 6

PRESENT GENERAL EXCISE SHARES COMPARED WITH COUNTY BENEFITS
UNDER PROPOSALS OF PUBLIC ADMINISTRATION SERVICE
1964 Fiscal Year
(Amounts in Millions)

County	Tax Share Under Present Law (1)	BENEFITS UNDER P.A.S. PROPOSAL: Share of General Excise (2)	Receipts from County Levy (3)	School Expenditures Eliminated (4)	Total Gain (2 + 3 + 4) (5)	Excess of Proposed Gain Over Present Share (5 - 1)
Honolulu	$11.3	$2.8	$4.0	$4.9	$11.7	$0.4
Hawaii	4.1	2.8	0.3	0.9	4.0	- 0.1
Maui	3.1	1.8	0.2	0.6	2.6	- 0.5
Kauai	2.0	1.8	0.1	0.4	2.3	0.3
TOTAL	$20.5	$9.3	$4.6	$6.8	$20.6	$0.1

Sources: Shares under present law (column 1) from Tax Department estimates dated December 6, 1962; shares under P.A.S. proposal (column 2) calculated by applying recommended allocation formula (30% for Honolulu, Hawaii; 20% for Maui, Kauai) to estimated base of 1964; receipts from county general excise levy (column 3) calculated by applying minimum 1/4% rate proposed to estimated 1964 base; school costs (column 4) from P.A.S. report, State and Local Government Relationships in the State of Hawaii, p. 149. Excludes school debt service, about which report (p. 167) is ambivalent in its recommendations.

Table 6 summarizes the overall fiscal effects of the P.A.S. proposals. "Benefits" are not completely shown, since the savings to the counties of shifting to the state government programs other than the provision of schools are not "priced"; however, the school function is far and away the most costly of those recommended for transfer. Tax data in the table are calculated according to estimates of the State Tax Department of general excise collections for the fiscal year ending in 1964.

From the table it may be seen that the overall effect of the fiscal transfers is to leave each county as nearly as can be in the same financial position as it is now. Honolulu and Kauai would seem to make minor gains while Maui stands to lose about a half million dollars. However, a close before-and-after comparison would required estimates of the net costs of district court administration, criminal prosecution, liquor control and other programs, besides education, which Public Administration Service recommends be taken over by the state government.

Each county would improve its present fiscal position if it were to adopt, not only the quarter per cent general excise tax assumed in Table 6 as replacement for the reduced tax share, but the additional quarter per cent proposed by P.A.S. for expansion purposes at the option of each county. The additional tax would yield approximately the following sums on the estimated base for each county in the 1964 fiscal year: Honolulu, $4 million; Hawaii, $300,000; Maui, $200,000; Kauai, $100,000. (These sums are of course identical with the amounts shown in column 3 of the table, which shows county realizations from the "replacement" levy of a fourth per cent.)

The P.A.S. proposal would be at little out-of-pocket cost to the state government. Table 7 shows that the loss of general revenue caused by reduction of the state's maximum general excise tax rate to 3.25 per cent (about $4.6 million per year at current levels of business income) would be more than offset by the saving ($11.2 million) in the reduction of the county share. The net gain of $6.6 million to the state would approximately pay for its costs of undertaking school maintenance, estimated at $6.8 million exclusive of the service of county debts incurred for school construction.

Table 7

ESTIMATED EFFECT ON STATE GENERAL FUND OF PROPOSALS
OF PUBLIC ADMINISTRATION SERVICE
1964 Fiscal Year
(Amounts in Millions)

	Present Law	P.A.S. Proposals
General excise collections	$69.7	$65.1
Less: County share	-20.5	- 9.3
Net to state	$49.2	$55.8
Less: School costs transferred to State	--	-6.8
	$49.2	$49.0

Sources: See Table 6

However, the plan would make it more difficult for the state to make maximum use of the general excise, its chief tax, to raise revenues for its own needs. A county supplement would raise the over-all general excise rate on retailing, services, rentals, etc., toward 4 per cent, perhaps a political ceiling at this time, since no other state sales tax rate exceeds 4 per cent. Some or all of the receipts from an additional county tax may thereby be lost to the state as a revenue resource, at least for some years. It could of course look to other tax sources for new revenues, but on its record the general excise has been a favorite means of relieving such budgetary stringency as the state is now experiencing.[24]

A final comment concerns the proposed formula for sharing the reduced county share of the general excise. The P.A.S. report questions the rationale of the present 55-20-15-10 allocation on the grounds that it bears no demonstrable relationship to the needs or fiscal abilities of the individual counties (page 155). However, the report supplies no rationale for its proposed substitute formula, 30-30-20-20, except, by implication, that it would make for a better distribution to

[24]The Public Administration Service report notes (page 151) that an executive order to reduce appropriated expenditures by $1.2 million was necessary to prevent a general fund deficit by the end of the current fiscal year.

meet present budgetary needs of the four counties. However, Hawaii's experience since 1947, when the county share was established, is evidence that allocation formulas, once put into law, are difficult to change. Conditions within each county, on the other hand, do continue to change. A 30-30-20-20 division might be the best possible for 1962 (despite its suspiciously symmetrical arrangement of round numbers); by 1970 it is highly unlikely that it would still reflect the differing needs and resources of local governments in Hawaii.

For this reason the present study recommends that the state government consider adopting a sharing formula which, by incorporating population, income and other objective data reflecting county needs and resources, would automatically change with the times. This despite the well founded warning of the P.A.S. study that "the formulation of any kind of formula that takes into account relative fiscal needs and abilities of local government units has many potential risks and hazards"--i.e., that it would be difficult to determine and would offer some problems of administration. The risks and hazards seem worth incurring to achieve a rational means of supporting county governments in Hawaii.

Mrs. Karen Asano prepared the manuscript for printing.

STATISTICAL APPENDIX 1

TAXABLE VALUES REPORTED UNDER THE GENERAL EXCISE
Fiscal Years 1939-63
(in thousands of dollars)

Category	1939	1940	1941	1942	1943	1944	1945	1946	1947
Retailing	$123,718	$136,966	$162,206	$216,747	$288,785	$376,688	$414,167	$415,537	$ 442,919
Services	17,007	18,299	22,779	28,717	37,246	46,696	54,118	57,723	66,952
Contracting	14,574	17,822	21,858	20,914	172,977	61,918	33,389	37,463	61,900
Rentals	16,748	19,337	21,424	27,475	29,751	34,987	35,635	36,113	39,496
Interest	3,418	3,227	3,431	3,359	2,772	2,283	2,412	2,035	2,343
Commissions	7,197	7,796	8,309	9,426	10,665	12,855	17,587	16,030	17,545
Theater, radio, amusements	4,300	4,631	5,752	6,757	10,042	15,901	15,591	15,137	13,981
Sugar	41,601	46,821	48,567	50,252	58,614	61,673	67,866	58,854	60,339
Pineapple	35,438	39,284	41,800	43,094	47,363	49,394	42,534	44,752	49,545
Production, agricultural	7,630	8,260	9,071	8,929	10,880	19,113	17,849	17,087	18,113
Manufacturing	14,232	16,183	16,369	23,130	25,022	24,040	20,475	21,701	19,517
Wholesaling	74,544	79,438	108,934	133,354	162,854	198,685	224,766	223,747	262,140
All other[1]	8,500	11,532	10,199	11,675	15,731	16,192	22,458	25,284	21,229
Consumption tax	7,806	11,353	11,193	13,299	10,155	9,515	8,913	11,455	16,059
Compensating tax	--	--	--	--	--	--	--	--	--
Total	$376,714	$420,948	$491,891	$597,127	$882,857	$929,939	$977,760	$982,917	$1,092,080

Statistical Appendix 1 (continued)

Category	1948	1949	1950	1951	1952	1953	1954	1955
Retailing	$ 491,800	$ 481,721	$ 500,630	$ 512,272	$ 530,894	$ 528,133	$ 544,039	$ 560,708
Services	74,129	71,640	66,369	72,143	80,203	83,110	89,466	102,419
Contracting	75,535	70,783	56,643	82,278	99,248	94,918	100,720	87,736
Rentals	47,666	53,972	54,728	59,064	65,308	68,653	73,664	76,868
Interest	2,833	3,491	4,421	4,809	6,032	6,949	8,192	8,036
Commissions	19,700	19,792	18,924	22,664	23,597	24,642	26,477	29,194
Theater, radio, amusements	14,145	11,872	13,265	13,102	13,744	14,047	12,856	15,525
Sugar	92,720	81,367	90,527	99,515	109,040	112,373	116,217	112,981
Pineapple	63,495	80,430	71,724	94,973	73,992	95,024	88,501	96,918
Production, agricultural	36,703	39,298	37,033	43,832	51,929	46,471	45,338	43,118
Manufacturing	48,694	65,617	61,595	73,825	78,322	89,099	97,205	97,553
Wholesaling	252,180	233,591	196,377	245,430	248,122	247,135	248,342	251,428
All other[1]	28,436	22,400	24,379	24,986	24,028	24,250	20,400	17,811
Consumption tax	18,298	18,494	15,097	20,870	20,946	24,801	25,391	24,112
Compensating tax	15,163	24,286	27,615	41,325	40,814	35,099	22,365	18,805
Total	$1,281,489	$1,279,754	$1,238,327	$1,412,089	$1,467,214	$1,493,708	$1,520,566	$1,544,447

Sources: 1939-48 from Tax Foundation of Hawaii; 1949 to 1963 from Hawaii State Tax Department statistical reports.

Statistical Appendix 1 (continued)

Category	1956	1957	1958	1959	1960	1961	1962	(estimated) 1963
Retailing	$ 593,186	$ 640,168	$ 665,954	$ 707,531	$ 792,348	$ 876,089	$ 885,838	$ 920,000
Services	104,198	122,715	138,025	160,488	185,036	213,167	230,370	244,000
Contracting	100,394	121,223	154,303	191,083	231,859	286,022	250,889	269,000
Rentals	84,997	91,892	107,398	121,309	142,380	164,807	182,160	200,000
Interest	9,568	10,156	11,126	12,381	14,807	18,717	21,892	22,000
Commissions	31,951	34,641	34,460	37,756	43,073	46,931	50,789	53,400
Theater, radio, amusements	16,716	25,571	18,148	19,462	22,110	22,354	21,892	23,000
Sugar	108,293	113,911	98,155	93,421	100,395	105,817	126,093	118,000
Pineapple	99,438	96,587	107,629	98,425	102,071	95,629	99,842	100,000
Production, agricultural	41,371	44,242	51,820	48,375	50,587	52,951	52,486	54,000
Manufacturing	104,721	104,945	91,477	127,235	137,877	162,056	157,167	160,000
Wholesaling	267,529	272,866	281,335	298,605	334,317	365,483	367,415	382,000
All Other[1]	24,823	26,490	31,024	27,742	34,701	39,871	41,142	43,600
Consumption tax	29,591	29,047	35,624	32,686	39,416	54,024	33,778	40,000
Compensating tax	21,691	25,831	26,659	27,145	29,978	30,935	33,775	35,000
Total	$1,638,467	$1,760,286	$1,854,138	$2,003,645	$2,260,955	$2,534,854	$2,555,529	$2,664,000

[1] Includes blind vendors, airlines, printing and publishing, and all other categories not listed above.

Note: Items for some years do not add up to total because of rounding.

STATISTICAL APPENDIX 2

GENERAL EXCISE IN RELATION TO PERSONAL INCOME AND POPULATION

Calendar Years 1939-61

	1939	1940	1941	1942	1943	1944	1945	1946
Personal income (in millions)	$218	$246	$341	$ 612	$ 778	$1,028	$1,009	$ 719
Population, total (in thousands)	416	428	459	582	650	859	815	545
Per capita income	$525	$577	$749	$1,087	$1,186	$1,239	$1,328	$1,312
General excise tax collections (in millions)	$4.2	$5.1	$6.6	$ 9.3	$ 10.3	$ 10.2	$ 10.4	$ 11.7
General excise tax collections as percentage of personal income	1.95	2.09	1.96	1.52	1.34	1.00	1.03	1.64
Per capita general excise tax collections	$10.21	$12.00	$14.56	$15.98	$15.99	$11.96	$12.79	$21.64

Statistical Appendix 2 (continued)

	1947	1948	1949	1950	1951	1952	1953
Personal income (in millions)	$ 721	$ 725	$ 685	$ 689	$ 796	$ 864	$ 889
Population, total (in thousands)	526	517	511	491	514	522	523
Per capita income	$1,384	$1,411	$1,354	$1,403	$1,589	$1,745	$1,782
General excise tax collections (in millions)	$ 18.6	$ 26.6	$ 25.6	$ 27.9	$ 31.1	$ 31.2	$ 32.5
General excise tax collections as percentage of personal income	2.59	3.68	3.75	4.06	3.91	3.61	3.66
Per capita general excise tax collections	$35.49	$51.56	$50.27	$57.00	$60.58	$59.79	$62.27

Statistical Appendix 2 (continued)

	1954	1955	1956	1957	1958	1959	1960	1961
Personal income (in millions)	$ 893	$ 952	$1,024	$1,098	$1,158	$1,290	$1,445	$1,545
Population, total (in thousands)	522	560	584	612	632	656	642	657
Per capita income	$1,768	$1,789	$1,862	$1,916	$1,946	$2,118	$2,308	$2,407
General excise tax collections (in millions)	$ 32.3	$ 35.1	$ 36.2	$ 43.4	$ 50.1	$ 58.9	$ 65.8	$ 66.2
General excise tax collections as percentage of personal income	3.62	3.69	3.54	3.95	4.33	4.57	4.56	4.29
Per capita general excise tax collections	$61.94	$62.81	$62.04	$70.92	$79.39	$89.91	$102.63	$100.79

Sources: Income data from U. S. Department of Commerce, Personal Income in Hawaii (Washington, 1953) and Survey of Current Business, August, 1961 and 1962; population data are annual July estimates of the U. S. Census, Current Population Reports, Series P-25.

STATISTICAL APPENDIX 3

HONOLULU CONSUMERS' PRICE INDEX, 1943-62
(March index numbers, 1943 base)

1943	100.0
1944	100.3
1945	103.9
1946	104.4
1947	125.0
1948	132.4
1949	132.9
1950	126.0
1951	134.8
1952	137.5
1953	139.0
1954	141.9
1955	143.6
1956	145.3
1957	147.2
1958	157.2
1959	159.7
1960	163.0
1961	166.3
1962	170.8

Source: Hawaii State Department of Labor and Industrial Relations.