MONTHLY TAX FEATURES

Toward better government — Founded 1937

Tax Foundation, Inc.

50 Rockefeller Plaza □ New York, New York 10020 □ 212-582-0880 □ **Volume 20, Number 1, January 1976**

Government Expenditures Are 36% of GNP

Federal, state and local government expenditures for the first three quarters of 1975 stood at an adjusted annual rate of $525.8 billion—36.1 percent of the U.S. gross national product, according to Tax Foundation. GNP was $1,453.7 billion on an adjusted annual rate.

GNP has climbed at a rate close to $100 billion a year since 1970, but in the same period the ratio of government expense has increased from 32 percent to the present level of over 36 percent.

In 1970, as the accompanying table shows, total government expenditures at all levels were $312.7 billion. In 1950 government spent $60.8 billion, 21.3 percent of that year's GNP.

1975 is the first year since World War II in which government costs were more than a third of the total output of the nation's goods and services. The highest percentage on record occurred in 1944, when wartime demands pushed total government spending, largely Federal, to 49 percent of GNP.

Government Expenditures and Gross National Product
Calendar Years 1950-1975

		Government expenditures[a]					
	Gross National Product	Amount[b] (Billions)			As a percentage of gross national product		
Year		Total	Federal	State and local	State and local	Federal	Total
1950	$ 284.8	$ 60.8	$ 40.8	$ 20.0	7.0	14.3	21.3
1951	328.4	79.0	57.8	21.2	6.4	17.6	24.0
1952	345.5	93.7	71.0	22.6	6.5	20.5	27.1
1953	364.6	101.2	77.0	24.2	6.6	21.1	27.8
1954	364.8	96.7	69.7	27.0	7.4	19.1	26.5
1955	398.0	97.6	68.1	29.5	7.4	17.1	24.5
1956	419.2	104.1	71.9	32.2	7.7	17.2	24.8
1957	441.1	114.9	79.6	35.3	8.0	18.0	26.0
1958	447.3	127.2	88.9	38.3	8.6	19.9	28.4
1959	483.7	131.0	91.0	40.0	8.3	18.8	27.1
1960	503.7	136.1	93.0	43.1	8.6	18.4	27.0
1961	520.1	149.0	102.1	46.9	9.0	19.6	28.6
1962	560.3	159.9	110.3	49.6	8.8	19.7	28.5
1963	590.5	167.0	113.9	53.1	9.0	19.3	28.3
1964	631.7	175.6	118.1	57.5	9.1	18.7	27.8
1965	681.2	185.8	123.4	62.5	9.2	18.1	27.3
1966	749.9	212.3	142.8	69.5	9.3	19.0	28.3
1967	793.9	242.9	163.6	79.3	10.0	20.6	30.6
1968	864.2	270.2	181.5	88.7	10.3	21.0	31.3
1969	930.3	287.9	189.2	98.7	10.6	20.3	30.9
1970	977.1	312.7	203.9	108.8	11.1	20.9	32.0
1971	1,054.9	340.1	220.3	119.8	11.4	20.9	32.2
1972	1,158.0	372.1	244.7	127.4	11.0	21.1	32.1
1973	1,294.9	408.1	264.2	143.9	11.1	20.4	31.5
1974	1,397.4	461.3	299.1	162.1	11.6	21.4	33.0
1975[c]	1,453.7	525.8	352.1	173.7	11.9	24.2	36.1

a. Expenditures on income and product account. They are on an accrual basis, include trust account transactions with the public, and exclude capital transactions that do not represent current production.

b. Federal data include expenditures for grants-in-aid to state and local governments. These amounts have been excluded from state and local expenditures to avoid duplication.

c. Seasonally adjusted annual rate, average of first three quarters.

Source: Department of Commerce, Bureau of Economic Analysis.

College Students Will Owe 40% of All Pay in Taxes

Most college students will pay taxes equal to more than 40 percent of what they earn throughout their lives. Those who are especially successful or live in localities with above average government spending may pay more than half of their lifetime incomes in direct and indirect taxes.

"All of us have a vital interest in making the tax system as 'least bad' as possible." This food for thought was served up by Tax Foundation's Economic Consultant C. Lowell Harriss at Hillsdale College, Michigan, to students in the Constructive Alternatives Program.

"And taxes affect our lives in many kinds of ways other than extracting dollars," he added.

Professor Harriss pointed out that government spending per capita in 1975 was $9,409 for a family of four,

(Continued on page 4)

— This issue is printed on 100 percent recycled paper —

Quotes from All Over . . .

Higher Real Wages Suffer

"The retardation in the growth of capital relative to the growth in the labor force has resulted in an erosion of one of the principal dependable sources of higher real wages, the increase in the amount of capital per worker..." David Meiselman in *Tax Review,* January, 1976.

"Business has managed to keep expanding in recent years by adding to debt, but this cannot go on indefinitely for private corporations — or even municipalities, as New York City is finding out. Only the Federal government can borrow forever, and this is a principal cause of inflation . . ." Charles B. Reeder, Chief Economist for DuPont.

"The biggest obstacle to job creation in the U.S. today is Congress . . ." Business Week, December 29.

"The Food and Drug Administration has ruled that saliva may cause stomach cancer . . ." George Carlin on the Flip Wilson Show.

" 'Productivity' is not a dirty word. It is an important part of our daily lives. If our productivity increases at the same rate as our wages, we can avoid rising prices. If wages increase faster than productivity, then the cost per product rises and prices must be increased. The result is inflation . . ." Ted Hutton, labor relations supervisor, Allen-Bradley Co.

. . . more quotes

"Americans in 1776 believed, as we do, that what people create and earn by pooling their resources of money and skills should not be taxed away by government, but should be recognized as the source of whatever economic progress we hope to achieve . . ." Edgar B. Speer, chairman, U.S. Steel.

"I believe that the long-standing bias in the Federal tax system against saving and investment should be corrected . . ." David Meiselman in *Tax Review,* Jan. 1976.

"We draw our 'real time' perceptions of what we are from television and the press, largely, and they influence powerfully our sense of what we ought to do next. We need, value and trust the competent, informed, honest, independent criticism that is implied in the First Amendment —and we have proved its worth over and over again. But today we are drowning in criticism, informed and otherwise. What we need now is a perception of achievement as well . . ." Louis Banks of the Harvard Business School at the John Hancock Awards for Excellence in Business and Financial Journalism.

OPINION—

Eric Sevareid Comments on Cost of Government

(Following is the text of a CBS-TV Network broadcast by Eric Sevaried on the Evening News program of December 29, 1975. © 1975 CBS Inc. All rights reserved.)

The Christmas season, with its spirit of giving, has revived the concern of philosophers and politicians about who gives, who gets, and what it's doing to the United States. This was the first Christmas since the biggest city in the land went broke, and suddenly the old line that in charity there can be no excess sounds like a joke, though nobody is laughing. Suddenly the problem for the American people seems to be not to wrestle with the devil in us but with the angel in us. It is possible to kill with kindness, and various students of the scene now suspect our political system may be killing itself with kindness.

Among the comfortable assumptions for forty years were the notions that some future generation would take care of the bill and that we just owed the money to ourselves, in any case. Now the chilling realization is that we are that generation and we can't pay ourselves. No law of nature or history says that what happened to New York cannot happen to the federal government, even though it owns the printing press.

By some estimates, we are now at the point where the total spent yearly for welfare and the vast complex of social improvement programs—local, state, federal—is reaching toward the four-hundred-billion-dollar mark, around one-fourth of the gross national product of goods and services.

Changing fundamental concepts is a painful business. When all this acquired its head of steam in the Great Depression, the governing concept was that society lived at the expense of the poor. Now, as one philosopher puts it, we have to face the reverse concept: that the poor live at the expense of society.

The governing concept used to be that almost everyone could learn to cope with life if the right improvements were made in his surroundings, his health, education, housing, job opportunities, and so on. Now we have to face the concept of the residue—a great and growing number of people at the bottom who cannot rise because of something in them that neither governmental nor private institutions can do very much about. As the number of strong and competent and bright people has increased, so has the number of the sick, the aged, the crippled, the retarded, the neurotics, the alcoholics, the plain shiftless, and those who deliberately prefer the life of the street.

No matter how one cuts at the problem, there will be no escaping a shift in government spending priorities, as private families are having to do, as private institutions like colleges are having to do. More spending will have to be directed toward enterprises that are productive, of goods and services and jobs—like reviving the railway system and the coal mines, for example—and proportionately less toward individuals directly. This may put Santa at one remove from the chimney stocking, but there seems no way around it.

Monthly Tax Features Introduces New Format to Mark Twentieth Anniversary

With this issue of *Monthly Tax Features* a new and expanded format is introduced to readers.

For twenty years Tax Foundation has published *Monthly Tax Features* as a "clipsheet" service to other publications in order to make available the Foundation's research materials and data in a readily publishable form. The clipsheet format was designed to facilitate making up pages for photo offset printing.

Now that most publications use the offset process seems a good time to evaluate the usefulness of the clipsheet format. A survey of editorial requirements of a substantial number of publications this past fall indicates that, while hundreds use Tax Foundation materials, nearly all rewrite or reset the tax feature articles.

Consequently, and in order to expand its coverage on a cost effective basis, Tax Foundation made the decision to switch to a four-page "newsletter" format with the first issue of 1976.

The decision will double the space available for coverage of government fiscal policy at no more than a modest increase in cost and will allow for further expansion when required. It is also hoped it will permit a more readable presentation of the feature materials.

Beginning with this issue the feature service will be printed on recycled paper. Because of the somewhat lower cost of the paper, printing costs will actually be slightly lower than previously.

Monthly Tax Features is circulated to Tax Foundation members, selected media, government officials, students and libraries.

Permission is unconditionally granted by Tax Foundation, Inc., to reproduce any and all materials in *Monthly Tax Features*. Glossies of illustrations, cartoons and charts when appropriate will be made available upon request by mail or phone.

Tax Foundation invites comments on *Monthly Tax Features* Vol. 20. No. 1, and all subsequent editions, from readers, members and editors.

HONORED— Tax Foundation Trustee William McChesney Martin, right, presents engrossed testimonial to Alger B. Chapman upon his retirement as Chairman of the Executive Committee. The citation expressed trustees' "deep and heartfelt gratitude, affection and appreciation for his long service to the Foundation as vice chairman, 1964-1968, chairman, 1968-1972, and chairman executive committee, 1972 through 1975.

"He provided strong leadership, guidance and inspiration to the members and staff in a time of strong growth. His great gifts during his terms of office, which we hereby acknowledge, raised Tax Foundation to new standards of public service," said the testimonial. Mr. Chapman remains as a trustee.

Testimonials were also presented to W. Allen Wallis upon his retirement as Chairman of the Board of Trustees for "his learning, wit, and great wisdom" during his term of office and as a trustee since 1961; and to W. J. McNeil, who retired as president, for his ". . . understanding of the broad scope of human affairs and his expert knowledge and attention to the everyday problems of the organization he has led . . ." Admiral McNeil served as president from 1967 through 1975. He and Chancellor Wallis continue as trustees.

About Tax Features

Permission is granted to reproduce all materials in this publication in whole or in part.

Members of Tax Foundation are urged to pass their copies along to editors of their house publications for their consideration.

Tax Foundation, Inc. 50 Rockefeller Plaza, New York, N.Y. 10020, is a publicly-supported, non-profit organization, engaged in non-partisan research and public education on the fiscal and management aspects of government. MTF is a news feature and educational service provided to Members and to others including educational institutions and the media.

TF Staff Strengthened to Meet Heavy 1976 Program

Election of Robert C. Brown as executive vice president of Tax Foundation, Inc., by the Board of Trustees was announced by Willard F. Rockwell, Jr., chairman. Mr. Brown has held the title of executive director for the past year. He is also a trustee.

At the same time appointments of three new staff members were announced. They are Dr. Elizabeth Deran, who returns to her post at Tax Foundation as a senior research analyst after an absence of three years; Terry James Mattock, who takes over a newly created assignment as assistant director of Federal affairs; and Harry S. Avila, who becomes administrator, corporate relations.

"These appointments, together with those we made last year, strengthen the Foundation in areas where our program for 1976 will place heavy stress," Mr. Brown explained.

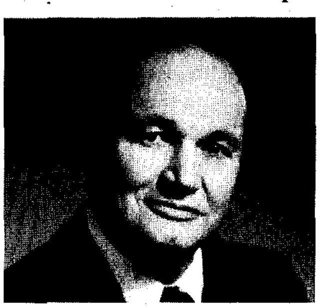
A nationally recognized expert on taxation and government finance, Bob Brown has been executive director of Tax Foundation since January 1975. He served the California Taxpayers Association for 18 years and was executive vice president from 1966. He was chairman of the National Taxpayers Conference for 1974. He served as a member of the special White House committee on revenue sharing, the Treasury Department task force on Federal, state and local fiscal operations and tax policy, and a special State Department task force assigned to evaluate foreign aid programs.

Betty Deran is the author of an impressive list of studies for Tax Foundation from 1963 to 1972. She returns after three years in Oregon, most recently as forest economist for Associated Oregon Industries. Prior to 1963 she had been in the Office of Fiscal Analysis, Secretary of the Treasury. She also served with the Bureau of Economic and Business Research at the University of Illinois, and she taught at the University of California at Santa Barbara. Her Ph.D. is from University of California at Berkeley.

Among Dr. Deran's titles for Tax Foundation are: "Unions and Government Employment," "Pollution Control," "State and Local Employee Pension Systems," "City Income Taxes," and numerous other scholarly articles and monographs.

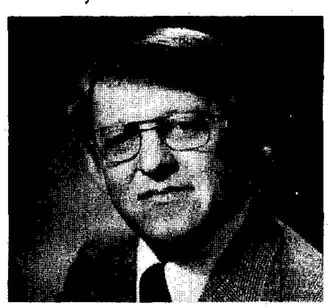
Terry Mattock worked with Bob Brown at California Taxpayers' Association, where, as assistant to the executive vice president and program director, he was responsible for coordinating research, legislative bill analysis, membership information and administration. He is an honors graduate in government of California State University and a commissioner of the Boy Scouts of America. In Washington he will report to Maynard Waterfield, Tax Foundation director of Federal affairs, with responsibility for research, public information and administration.

Also in the Tax Foundation Washington office, Harry Avila will report to Donald J. Blauvelt, director of finance, in New York. He will be active with Mr. Blauvelt in setting up membership meetings throughout the U.S. during 1976. Mr. Avila had been a staff investigator at Rust and Armenis, Sacramento law firm, and was active in the affairs of Cal-Tax. He is a pilot with commercial and instructor ratings and a Captain in the U.S. Army Reserve. He was assistant Sergeant at Arms of the California State Senate.



R. C. Brown

Elizabeth Deran



T. J. Mattock

H. S. Avila

College Students

(Continued from Page 1)

up, in today's dollars, from $1,130 just over 20 years ago. That's an increase during the lifetime of today's college student averaging $244 a year. Students should ask whether they are getting their money's worth, he suggested.

People create their own conditions and the framework within which they are free to use their capacities. If this freedom is "collectivised" by big government to get all the "services" people want, do they really get them?

Certainly there has been improvement accompanying the growth of big government, in some cases a lot of it. But would private deployment of, say, half of the increased tax burden have produced more of what people want? "This question," said Professor Harriss, "I leave with you as a challenge."

Lowell Harriss is professor of economics, Columbia University.