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President's $394 Billion 1977 Budget Analyzed

Growth of Federal spending over the longer range is identified in a Tax Foundation study as the most important of three "over-riding issues" in the President's $394 billion budget for fiscal 1977.

Second is the problem of how to create "productive" jobs. And third is the "startling shift" in spending priorities and patterns in which "social" programs have come to dominate the budget while defense has steadily declined as a percent of total spending.

Just published, the report, entitled "The Federal Budget for Fiscal Year 1977—Focus and Perspectives," explores five areas of urgent interest. These are the areas that will be at issue in coming months as Congress works its way through the new procedures established under the Congressional Budget and Impoundment Act of 1974:

Budget receipts and the President's proposed tax changes,

Budget outlays and outlay trends,

Controllability of budget outlays,

Federal aids to state and local governments, and

Federal personnel costs.

Contrary to the impression often given in the debate and publicity characterizing the budget as "austere," actual total spending will rise significantly again in 1977. The increase is almost $21 billion over the revised estimate for the current year and nearly $70 billion more than the actual 1975 outlays.

The estimated deficit is $43 billion.

The intent stated in the President's budget message is to cut the *rate of growth* in Federal spending, year to year, to 5.5 percent. This compares to an average increase in the past decade of 13.5 percent annually. Yet it is virtually certain that the budget totals will be significantly changed by Congress. Spending in fiscal 1977 might be as much as $20 billion higher than projected in the budget, Tax Foundation believes.

Estimates of budget receipts are placed at $351 billion. That's assuming an increase of 6 percent in gross national product accompanied by a slowing in consumer price

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Summary of Federal Fiscal Operations
Fiscal Years 1957-1977
Amount (Millions)

Fiscal Year	Receipts	Outlays	Surplus or Deficit (—)	Gross Federal Debt — Yearend
1957	$ 79,990	$ 76,741	$ 3,249	$270,527
1958	79,636	82,575	− 2,939	279,147
1959	79,249	92,104	−12,855	286,666
1960	92,492	92,223	269	290,862
1961	94,389	97,795	− 3,406	292,895
1962	99,676	106,813	− 7,137	303,291
1963	106,560	111,311	− 4,751	310,807
1964	112,662	118,584	− 5,922	316,763
1965	116,833	118,430	− 1,596	323,154
1966	130,856	134,652	− 3,796	329,474
1967	149,552	158,254	− 8,702	341,348
1968	153,671	178,833	−25,161	369,769
1969	187,784	184,548	− 3,236	367,144
1970	198,743	196,588	− 2,845	382,603
1971	188,392	211,425	−23,033	409,467
1972	208,649	231,876	−23,227	437,329
1973	232,225	246,526	−14,301	468,426
1974	264,932	268,392	− 3,460	486,247
1975	280,997	324,601	−43,604	544,131
1976[1]	297,534	373,535	−76,001	633,931
TQ 1976[2]	81,894	97,971	−16,007	652,799
1977[3]	351,262	394,237	−42,975	719,511

[1] Fiscal Year '76 (July 1, 1975 to June 30, 1976), estimate.
[2] Transitional Quarter (July 1, 1976 to September 30, 1976), estimate.
[3] Fiscal Year '77 (October 1, 1976 to September 30, 1977), estimate.
Sources: Treasury Department, Office of Management and Budget, and Tax Foundation, Inc.

Can Social Security Fill the Capital Gap?

An upward adjustment of four percentage points in the social security tax rate would perform these functions of the utmost significance to the nation:

It would still public alarm over the impending bankruptcy of the system.

It would provide a predictable stimulus to savings.

It would provide a high reward for current sacrifice in a short period of time.

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Federal Tax Burden Up Again in Fiscal '77

The burden of the Federal budget on U.S. taxpayers will be up again in 1977—by a wide margin.

The estimated Federal tax burden per capita is $1,565—up from $1,330 in 1976. That's a rise of 17.7 percent. Figures for 1976 are revised estimates.

Connecticut Leads

The per capita Federal tax burden by state shows Connecticut in the lead with an estimated burden of $2,073 placed on the average resident. Residents of the District of Columbia bear the second-highest Federal tax burden for 1977 at $2,033, and Alaska is third with a per capita burden of $2,003.

Estimated Federal Tax Burden
Fiscal Year 1977

State	Per Capita	Amount (millions)	Percent of Total
ALL U.S.	$1,565	$339,392	100.00%
Alabama	1,145	4,208	1.24
Alaska	2,003	747	.22
Arizona	1,332	3,224	.95
Arkansas	1,069	2,342	.69
California	1,711	37,096	10.93
Colorado	1,500	4,005	1.18
Connecticut	2,073	6,448	1.90
Delaware	1,956	1,154	.34
Florida	1,490	13,508	3.98
Georgia	1,321	6,686	1.97
Hawaii	1,693	1,527	.45
Idaho	1,258	1,086	.32
Illinois	1,907	21,246	6.26
Indiana	1,497	8,010	2.36
Iowa	1,447	4,175	1.23
Kansas	1,538	3,496	1.03
Kentucky	1,177	4,073	1.20
Louisiana	1,200	4,616	1.36
Maine	1,252	1,358	.40
Maryland	1,803	7,501	2.21
Massachusetts	1,711	10,046	2.96
Michigan	1,701	15,748	4.64
Minnesota	1,479	5,871	1.73
Mississippi	964	2,308	.68
Missouri	1,439	6,890	2.03
Montana	1,326	1,018	.30
Nebraska	1,470	2,308	.68
Nevada	1,761	1,120	.33
New Hampshire	1,478	1,256	.37
New Jersey	1,957	14,390	4.24
New Mexico	1,103	1,324	.39
New York	1,850	33,294	9.81
North Carolina	1,260	7,059	2.08
North Dakota	1,325	848	.25
Ohio	1,629	17,581	5.18
Oklahoma	1,262	3,496	1.03
Oregon	1,508	3,564	1.05
Pennsylvania	1,602	18,938	5.58
Rhode Island	1,669	1,527	.45
South Carolina	1,179	3,428	1.01
South Dakota	1,185	815	.24
Tennessee	1,291	5,532	1.63
Texas	1,393	17,614	5.19
Utah	1,178	1,493	.44
Vermont	1,338	645	.19
Virginia	1,499	7,636	2.25
Washington	1,660	5,973	1.76
West Virginia	1,191	2,172	.64
Wisconsin	1,488	6,958	2.05
Wyoming	1,567	611	.18
District of Columbia	2,033	1,425	.42

Following Alaska, the tabulation shows New Jersey carrying a burden of $1,957 per capita, Delaware with $1,956, and Illinois with $1,907. New York is seventh at $1,850.

All of the above were in the top seven in the revised 1976 fiscal year estimates.

At the other end of the scale, Mississippi residents are taxed an average $964 each in the 1977 Federal budget. Moving up the ladder, Arkansas will pay $1,069 per capita, New Mexico $1,103, Alabama $1,145, Kentucky $1,177, Utah $1,178, and South Carolina $1,191. These states were all among the least burdened in 1976.

The 1977 fiscal year covers the twelve months from October 1, 1976 to September 30, 1977. The estimated 1977 Federal budget submitted by the Administration in January totals $339.4 billion.

Fiscal year 1976 ends June 30, 1976. The "Transitional Quarter," July through September, is covered by a separate budget of $79.2 billion. The national per capita burden for this three-month period is $368.

California, the nation's most populous state, carries the largest share of the total 1977 Federal tax burden at 10.93 percent. New York is next at 9.81 percent of the total. Connecticut, with the highest per capita burden, is far down the list with only 1.9 percent of the total burden. California's per capita tax burden is $1,711, a tie with Massachusetts for tenth place.

Worse News Ahead

"The figures in the President's January budget message are only estimates," cautions Tax Foundation's Bob Brown. "When Congress gets through with its appropriations, the bill will be higher."

The Administration's estimates of budget receipts are based on the short-term economic forecasts of the general economy through calendar year 1977, as well as on the President's proposals for tax changes submitted in the budget. The budget proposes permanent income tax reductions effective July 1, 1976. Tied to recommended spending reductions and constraints, these would reduce 1977 receipts by about $28 billion.

"The huge budget deficit, adding substantially to the total public debt, creates an additional burden, the hidden tax burden of inflation," Mr. Brown commented.

The state-by-state figures are based on a Foundation allocation formula which takes into account personal income, consumption, and various other economic factors.

Wm. McChesney Martin To Counsel N.Y. State

William McChesney Martin Jr., Tax Foundation trustee and former chairman of the Federal Reserve Board, is one of three "top fiscal brains" appointed by New York State Comptroller Arthur Levitt to a special advisory committee on short-term state borrowings.

The committee, headed by William H. Morton, an investment banker and retired president of American Express, will include a third illustrious member, Eugene R. Black, former president of the World Bank.

The primary function of the panel will be to assist Comptroller Levitt "in arranging the sale of short-term state notes, by which the state customarily finances regular state operations and its annual aid to local governments." These notes are expected to total about $3 billion.

The three-man panel is described by Mr. Levitt's office as having "enormous talent and integrity . . . unparalleled experience and public spirit." As well-known and respected personalities in the investment community, says Mr. Levitt, "I am sure their aid and counsel will be invaluable."

President's 1977 Budget

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increases to 6 percent and a drop in unemployment to 6.9 percent, and assuming passage of the President's tax proposals. Individual income tax receipts are estimated at $154 billion, up 17 percent, while corporate income taxes are $49 billion, up 23 percent. Social insurance taxes and contributions are to rise 22 percent, from $93 billion in 1976 to $113 billion in 1977.

The budget proposes permanent income tax reductions effective July 1 and tied to spending reductions and constraints. This would reduce 1977 receipts by about $28 billion. Other changes propose an increase in personal exemptions, a flat standard deduction and a reduction in tax rates. For corporations the budget proposes the 10 percent investment credit be made permanent, a reduction in the maximum rate from 48 percent to 46 percent, and some tax relief for electric utilities.

Other tax changes are designed to stimulate employment, to integrate corporate and personal income taxes and to encourage broader ownership of common stock. Partially offsetting the reductions, payroll taxes would be increased .3 percent each on employer and employee.

The 1977 budget proposes outlays of $394 billion, an increase of $21 billion over fiscal 1976. The accompanying table shows where the outlays go and reveals the startling shift in spending priorities and patterns in recent years.

Social Programs 52% of Budget

As recently as 1970 outlays for national defense exceeded total spending for human resources—the so-called "social" programs. Between 1970 and 1976 defense outlays steadily declined as a percentage of total spending, to less than 25 percent. At the same time outlays for human resources programs have advanced to over 53 percent of total Federal spending. Dollar outlays for these programs—education, training, employment, and social services; health; income security; and veterans benefits and services—rose by over 173 percent at an average rate of $21 billion a year.

In the 1977 budget the figure for defense is $101.1 billion, 26 percent of total budget outlays, while human resources spending is $205.3 billion, 52 percent of the total budget—more than twice the national defense total, the Tax Foundation study notes.

All other categories during the period remained relatively stable in terms of percentages of the total budgets.

More than 77 percent of the budget outlays are relatively uncontrollable, that is, they cannot be changed by Executive decision without changes in existing law. The total is $304-billion. In 1970 uncontrollables totaled $126 billion. Most of this increase has been for programs providing payments to individuals.

Personnel costs for Federal employees (including the Postal Service) are estimated at $90.6 billion, up from the 1976 estimate of $82.1 billion and the actual 1975 outlays of $76.9 billion. The figure for 1970 was $50.2 billion.

$75 Billion Deficit Possible

It is probably unrealistic to expect that the final 1977 spending total can be held to the level proposed in the budget," the study concludes.

"If Congress should embrace all of the increases, add some of its own, and ignore or reject the major share of the President's reform and constraint package, then a 1977 spending total of $420 billion—and another $75 billion deficit—is not an impossibility."

In addition to the issues of defense vs. "social" spending and the question of how to create "productive" jobs, Tax Foundation identifies a third and most important issue. It is the growth of Federal spending over the longer range.

"Unless some constraints are applied now, unless Congress and the

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Budget Outlay Trends
(Selected Fiscal Year, 1970-1972; Dollar Amounts in Billions)

Year	Total budget outlays	National defense[1]		Human resources[2]		Net interest[3]		All other	
		Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
1960	$ 92.2	$ 45.2	49.0	$ 25.5	27.6	$ 6.9	7.5	$14.6	15.8
1965	118.4	48.6	41.0	35.4	29.9	8.6	7.2	25.9	21.9
1970	196.6	79.3	40.3	72.7	37.0	14.4	7.3	30.2	15.4
1972	231.9	77.4	33.4	103.8	44.8	15.5	6.7	35.2	15.2
1974	268.4	78.6	29.3	131.5	49.0	21.5	8.0	36.8	13.7
1975	324.6	86.6	26.7	168.1	51.8	23.3	7.2	46.6	14.3
1976 est.	373.5	92.7	24.8	198.6	53.2	26.8	7.2	55.4	14.8
1977 est.	394.2	101.1	25.7	205.3	52.1	32.9	8.4	54.9	13.8

[1] National defense functional budget classification includes military activities of the Department of Defense, foreign military assistance, atomic energy defense activities, and other defense-related activities.

[2] Includes outlays under the following functional budget classifications: education, training, employment, and social services; health; income security; and veterans benefits and services.

[3] Interest on the public debt less interest received by the government and interest paid on debt securities held by social security and other trust funds.

Source: **The Budget of the United States Government**, Fiscal Year 1977.

CUNY Squeezes Independents

An anomaly in the New York City financial crisis, the century-old policy of free tuition at the City University of New York, is under attack as a major cause of the city's budgetary crisis.

In a statement which appears in the *City Almanac*, published by the New School for Social Research, C. Lowell Harriss, Professor of Economics at Columbia University and consultant to the non-partisan Tax Foundation, makes these points:

- In the five year period 1969-1974, the 19 public colleges comprising C.U.N.Y. posted a 61.4% gain in undergraduate degree credit

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CUNY

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enrollments, while the 37 private institutions of higher learning in the city lost 5.3 percent of their students.

• The 1970 private undergraduate tuition and fees averaged $1,881—and were considered excessive; but by 1975 they had risen to $2,566, an increase of 36.4%.

• While it is difficult to make cost or effectiveness comparisons, estimates indicate that it costs less to educate the average student in a private university.

C.U.N.Y. is practically bursting at the seams, Professor Harriss notes, while the independent institutions have excess capacity. Because of empty private classrooms, 13,000 extra undergraduates and 4,000 additional graduate students could be educated in the private sector with virtually no increase in costs: "Use of the excess capacity of the independents should take precedence over new construction or additional renting for C.U.N.Y."

However bad the situation of higher education is now, things will get worse. Demographics alone will ensure this. We must therefore begin to think the unthinkable, says the report, and consider the imposition of modest tuition at C.U.N.Y., coupled with increased scholarship aid for those unable to pay. Otherwise, according to Harriss, the decline of the once-healthy private colleges will continue, and state supported students will view free education as costless—and worth only what it costs them personally.

Can Social Security Fill the Capital Gap?

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It would be a powerful remedy for America's inadequate rate of capital accumulation.

The case for this approach is vigorously presented by Martin Feldstein in Tax Foundation's current *Tax Review*. His article brings new perspectives to bear on current policy discussions of capital formation and tax policy.

Real Need: More Saving

Professor Feldstein holds that the cries of alarm about the capital shortage overstate its magnitude and overlook the main point—the real need for more saving. An increase in the social security tax now would yield an investible surplus of nearly $30 billion in the first year. That might be enough, he points out, to do away with the need for any future payroll tax increases.

Because of the method of adjusting benefits for inflation, "inadvertently" enacted in 1972, both the benefits and the tax rate are hypersensitive to the rate of inflation. The result is "double indexing." Under the present formula, the typical retired person in coming generations will be receiving $25,000 a year in 1974 prices.

The social security tax rate to support such a burden of payments would have to exceed 22 percent of payrolls, says Professor Feldstein.

On the other hand, proposed changes to integrate corporate taxes would not predictably increase the rate of capital accumulation. The changes should be made anyway, the professor holds, in order to increase the efficiency of the capital market and raise real national income.

Problem: Capital Growth Rate

"The real problem," he says, "is not that there will be a gap between available saving and desired investment, but that the U.S. rate of capital accumulation is too low now and can be predicted to remain too low in the future.

"A dollar invested today would yield society two dollars of consumption, measured in 1975 prices, after only 5 or 6 years. This high reward for current sacrifice is the reason to increase our national saving rate."

The inability of our tax system to provide a predictable stimulus to savings should lead to a search for some new approach, Professor Feldstein suggests.

TF Sets Series of Membership Meetings

A schedule of six Tax Foundation membership meetings in principal cities is set for early 1976, according to Willard F. Rockwell, Jr., Chairman of the Board of Trustees. The luncheon meetings, each chaired by a member or trustee of the Foundation, will be held, beginning in April, in Chicago, Dallas, New York, Detroit, Kansas City and Minneapolis-St. Paul.

"The purpose of the meetings is to keep our membership informed on current and impending developments in government fiscal affairs as they effect business," Mr. Rockwell said. "It is also to encourage broader business participation in the Foundation programs."

Mr. Rockwell is chairman of Rockwell International.

Chairman of the Chicago meeting scheduled for April 20, is Arthur M. Wood, chairman of Sears Roebuck & Co. Principal speaker will be David M. Roderick, president, U.S. Steel Corp.

Chairman of the Dallas meeting is John V. Jones, chairman of Dresser Industries. The speaker will be James H. Evans, president of the Union Pacific Corp.

The remaining meetings will take place during May and June. Programs and speakers will be announced shortly.

President's 1977 Budget

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President can begin to 'get a handle' on uncontrollable spending programs, and unless there is a realization that new or expanded spending programs must be considered with some concern for their future costs, then tax increases, continued huge deficits, and a resurgence of inflationary pressures are inevitable," the report warns.