

MONTHLY TAX FEATURES



Tax Foundation, Incorporated

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Public Debt to Exceed \$1 Trillion Mark; Interest Will Pass \$100 Billion in 1982

While there are uncertainties and varying opinions as to the probable size of the budget deficit over the next few years, at least two things about the budget—not entirely unrelated to deficits—seem clear. The public debt during fiscal 1982 will top the \$1 trillion level for the first time, and interest payments on that debt will pierce the \$100 billion mark, according to Tax Foundation economists.

Officials at the Treasury Department appeared before a Senate panel in mid-September to ask Congress,

for the 25th time in the last decade, to raise the “temporary” debt ceiling. They sought to hike the ceiling from the \$985 billion level approved last February to \$1.0798 trillion before the fiscal year ends on September 30. (The House had already approved a similar measure.)

The permanent debt limit, established in 1971, stands at \$400 billion; and in the absence of new legislation, the ceiling would automatically revert to that figure on October 1.

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30 States Hike Taxes For Net \$2.5 Billion, Hitting 10-Year High

Tax action in 30 states will raise revenues by a net \$2.5 billion a year, Tax Foundation economists report. This is the highest annual statutory increase in state taxes in ten years.

The 1981 tax hike compares with an increase of \$420 million in 1980 and substantial reductions in the two preceding years, according to researchers at the Foundation. The \$5 billion annual tax boost legislated by 30 states in 1971 remains the largest on record.

Higher general sales taxes will account for a significant portion (\$860 million) of this year's tax increase. Sales tax rates were raised on a permanent basis by West Virginia and temporarily by Ohio, Minnesota, and Nevada. (New Mexico reduced its sales tax rate slightly.)

Reacting to a continuing squeeze on highway funds brought on by rising costs and declining gasoline usage, 24 states and the District of Columbia approved increases in motor fuel tax rates. This will bring in about \$750 million a year, according to calculations by Tax Foundation economists.

To finance mass transit operations, New York approved a five-tax package to raise \$793 million annually.

Action on the state income tax front was much lighter. New Mexico lowered its personal income tax rates, and Montana repealed a 10 percent surtax on personal income tax.

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Course of the Federal Debt As of Selected Dates 1917-1981

Period and date	Public debt outstanding		Interest on debt	
	Amount (billions)	Per capita ^a	Payments for fiscal year (millions)	Computed annual rate (percent)
World War I:				
Prewar debt, March 31, 1917	\$ 1.3	\$ 12	\$ 25	2.40
Highest war debt, August 31, 1919	26.6	250	1,020	4.20
Post World War I low debt, December 31, 1930	16.0	130	612	3.75
World War II:				
Debt preceding defense program, June 30, 1940	48.5	367	1,041	2.58
Highest war debt, February 28, 1946	279.8	1,990	4,722	1.97
Post World War II:				
Lowest postwar debt, April 30, 1949	251.6	1,690	5,339	2.24
Debt, June 30, 1960	286.5	1,587	9,180	3.30
June 30, 1970	371.5	1,812	19,304	5.56
June 30, 1975	533.2	2,469	32,665	6.35
September 30, 1978	771.5	3,456	48,695	7.13
September 30, 1979	826.5	3,661	59,837	8.06
September 30, 1980	907.7	3,976	74,781	9.03
September 1, 1981	983.9	4,273	96,500 ^b	10.99 ^c

^aBased on population estimates including armed forces overseas.

^bMid-year review Budget estimate.

^cAs of July 31, 1981.

Source: Treasury Department; Office of Management and Budget; Bureau of the Census, Department of Commerce; and Tax Foundation computations.

The Front Burner

By Robert C. Brown

Executive Vice President
Tax Foundation, Incorporated

"Hold! Enough!"

The tax cut enacted by the Congress and signed into law by the President last month is easily the biggest dollar reduction in history. Its implications will not be known, much less absorbed into the economy, overnight. Consequently, it is imperative that the taxpayer, the business community and the Federal government have sufficient time to live with what has been wrought before any further reductions are attempted.

The changes already enacted into law will strain the resources of the IRS, the individual taxpayer, tax attorneys and accountants. The ultimate impact of the Economic Recovery Tax Act in terms of corporate planning and investment and also as regards any feedback effects are so uncertain at this stage of affairs that funneling any additional changes into the pipeline now might overload the system, creating a monumental backup. This is a risk we cannot afford to take.

However, a number of tax matters put into a holding pattern while the tax package was being wrestled with this summer are beginning to surface once again, issues such as tuition tax credits and free enterprise zones. In the wake of revised deficit projections, the Treasury and the tax writing committees will undoubtedly want to look at some revenue raising proposals such as tightening up on industrial development bonds and deductibility of fringe benefits.

All of these issues deserve to be debated. Some will eventually find their way into law. Now is not the time, however. There will undoubtedly be charges that those who are benefiting from the new law are taking an attitude of, "We got ours, the heck with everyone else." This is not at all the case, although the beneficiaries, particularly the business community, will have to back words with actions to demonstrate that they



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can do the job now that the tools have been placed in their hands.

The need to refrain from further tax action, no matter how worthwhile it may be, is much deeper than the alleged shortsightedness of those whose self-interest was served by the first bill. It is simply a case of the need to allow the system to adapt to the massive change that has been visited upon it. Having acquired the biggest tax cut in history, we are well advised to digest it and watch what happens. If we don't, we will wind up with the biggest case of fiscal indigestion anyone has ever seen.

Public Debt

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Those concerned about the size of the debt per se can take some comfort in the fact that the debt has declined relative to the size of the nation's total output. During the peak years of World War II, for instance, the debt was equal to more than 133 percent of gross national product (GNP). As recently as 1964, the debt totaled more than one-half of the GNP. Today, the public debt is "only" about 35 percent of GNP.

The growth of interest payments on the rising debt and the resulting effects on the Federal budget are scarcely grounds for comfort. Interest on the public debt is estimated at \$96.5 billion for fiscal year 1981 and at \$108.6 billion for 1982. If interest rates continue at current levels, that amount will go even higher.

Less than a year ago, in December 1980, the debt ceiling was raised to \$935.1 billion. Immediately following this year's change in Administra-

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MARK YOUR CALENDAR

Tax Foundation's 33rd National Conference and 44th Annual Dinner will be held this year on Wednesday, December 2nd at the Plaza Hotel in New York City. Details will follow in future issues of *Monthly Tax Features*.

U.S. Family Saves \$825 in 1984 Despite Bite of Inflation and FICA

The new Federal tax law will reduce Federal taxes by 16 percent in 1984 for the prototypical family whose salary rises in step with projected inflation, according to economists at the Tax Foundation. A savings of \$825 will result from the cuts contained in the Economic Recovery Tax Act of 1981.

In fact, this family's real income—in terms of 1980 dollars—will be \$15 higher in 1984, after Federal income and social security taxes have taken their bite, than it was in 1980, reversing the steady decline in the family's purchasing power which has occurred in recent years.

Tax Foundation economists describe the "prototypical" family as one which earns the median amount of income for all families with one earner employed full-time year-round and which consists of a married couple with two children. In 1980, the median income of this family was \$20,586. If its earnings rise in step with projected inflation, the family will earn \$26,926 in 1984, about 31 percent more than in 1980.

Under the old law, the family's Federal income and social security taxes in 1984 would have totaled \$5,306, leaving an after-tax income of \$21,620. After adjusting that income for the 31 percent rise in consumer prices, the family would be \$616 poorer (constant 1980 dollars) in 1984, a 4 percent drop in real income.

This year's revisions in the tax law make that picture somewhat rosier. Now the family's income and social security taxes will total \$4,481 in 1984, leaving an after-tax income of \$22,445. In constant 1980 dollars, that amounts to \$17,160, as compared to \$17,145 in 1980. While this is no big gain—less than one-tenth of one percent in real after-tax income—it is a marked improvement over the \$616, or 4 percent, decline which would have taken place had there been no tax cut this year.

Social security taxes were not affected by the 1981 legislation and will remain the same under the old and new laws. FICA will rise from 6.13 percent of the median family's income in 1980 to 6.7 percent in 1984, or from \$1,262 to \$1,804—a rise of about 43 percent.

The saving in income tax, however, is substantial. In 1980, the family paid \$2,179 in Federal income taxes, an amount equal to 10.6 percent of its income. Under previous law, this income tax bite—by 1984—would have increased almost 61 percent—to \$3,502, consuming 13.0 percent of the family's income. Under the 1981 tax law, the Federal income tax for this family will drop to \$2,677 by 1984, only about 23 percent more than it paid in 1980, and to 9.9 percent of its total income. For the four-year period (1981-1984) the cumulative savings in income taxes due to the new law is \$1,771.

Put in other terms, the family's direct Federal taxes (social security and income) under pre-1981 law would have risen from 16.7 percent of income in 1980 to 19.7 percent by 1984.

The accompanying table shows the effect of direct Federal taxes and inflation on this family's income between 1980 and 1984.

State-Local Pay Grew 149% in Last Decade; Employees up 30%

Paychecks for the nation's state and local government workers have shot up 149 percent in the last ten years, despite a much more modest 30 percent increase in the number of workers employed, Tax Foundation researchers indicate. In October 1980, latest data available, the monthly state-local payroll totaled \$14.7 billion, compared with \$5.9 billion a decade earlier and \$2.2 billion 20 years ago.

For the same ten-year period, the gross national product (GNP) grew at 165 percent, the Tax Index climbed 174 percent, and inflation chalked up a 94 percent increase.

Last fall, 11 million full-time equivalent employees received paychecks from states or localities, whereas 8.5 million held public jobs at those levels in October 1970 and 5.6 million in 1960. The ratio of public employees to the public they serve has registered a 16 percent increase over the decade, from 420 per 10,000 of population in 1970 to 488 per 10,000 ten years later.

California employs the most public sector workers, 1.1 million last October, followed by New York, with 946,000. Ten years earlier, their relative positions were reversed. New

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Effect of Direct Federal Taxes and Inflation on Purchasing Power of Median Income Family, 1980-1984

Item	1980	1981	1982	1983	1984
Median family income ^a	\$20,586	\$22,624 ^b	\$24,209 ^b	\$25,588 ^b	\$26,926 ^b
Under prior law					
Direct Federal taxes:					
Total	3,441	4,102	4,536	4,885	5,306
Income tax ^c	2,179	2,598	2,914	3,171	3,502
Social security	1,262	1,504	1,622	1,714	1,804
After tax income:					
Current dollars	17,145	18,522	19,673	20,703	21,620
1980 dollars	17,145	16,853 ^b	16,729 ^b	16,656 ^b	16,529 ^b
Direct Federal taxes:					
Total	—	4,069	4,230	4,278	4,481
Income tax ^c	—	2,565	2,608	2,564	2,677
Social security	—	1,504	1,622	1,714	1,804
After tax income:					
Current dollars	—	18,555	19,979	21,310	22,445
1980 dollars	—	16,883 ^b	16,989 ^b	17,144 ^b	17,160 ^b

^aMedian income of all families with one earner, employed full-time year-round.

^bAdjusted by the Consumer Price Index as forecast by the Administration in the Mid-Session Review of the Budget. The increases are 9.9% in 1981, 7.0% in 1982, 5.7% in 1983, and 5.2% in 1984.

^cMarried, filing joint return, with two dependent children.

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State-Local Workers

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York had 935,000 state-local workers then, compared with 892,000 in the Golden Gate State. Vermont employed the fewest public workers in October 1980 (25,000), while Alaska held that distinction a decade earlier, with 16,000.

State and local government employment rose by 0.9 percent in 1980, compared to a 1.1 percent increase in U.S. population. This represents a continuation in the slowing of state-local employment growth of the late 1970s, but it marks the first time in postwar history that state-local employment increases have fallen behind U.S. population.

In comparison, state-local public employment averaged 2.6 percent annual growth during the 1970s and 4.4 percent during the 1960s.

Public Debt

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tion, the limit was raised to \$985 billion, due to revert to \$400 billion on September 30, 1981. As of September 1, the debt stood just a hairline under the \$985 billion limit, in effect, signaling yet a third ceiling hike in one fiscal year period. At current levels, the debt amounts to a burden of \$4,273 per man, woman, and child in the United States, according to Tax Foundation calculations.

State and Local Government Employment and Payrolls

Month of October, 1970 and 1980

State	Employees ^a		October payroll		Employees ^a per 10,000 population	
	Number (000)	Percent increase	1970	1980	Number	Percent
TOTAL	8,528	11,047	30	\$5,906	\$14,730	149
Alabama	136	196	44	70	214	206
Alaska	16	32	100	16	69	331
Arizona	77	137	78	56	198	254
Arkansas	73	106	45	34	105	209
California	892	1,108	24	784	1,864	138
Colorado	107	149	39	69	206	199
Connecticut	113	138	22	87	193	122
Delaware	26	31	19	17	39	129
Florida	295	459	56	186	546	195
Georgia	198	308	56	105	321	206
Hawaii	38	49	29	30	68	127
Idaho	32	45	41	17	54	218
Illinois	440	509	16	336	745	122
Indiana	199	248	25	125	295	136
Iowa	122	148	21	76	188	147
Kansas	106	127	20	61	146	139
Kentucky	115	155	35	65	177	172
Louisiana	160	224	40	88	240	173
Maine	41	51	24	22	59	168
Maryland	161	231	43	117	319	173
Massachusetts	228	287	26	162	395	144
Michigan	359	435	21	291	695	139
Minnesota	162	203	25	120	292	143
Mississippi	94	130	37	42	122	190
Missouri	184	229	24	111	261	135
Montana	33	44	33	20	54	170
Nebraska	74	93	26	43	109	153
Nevada	25	40	60	19	57	200
New Hampshire	27	41	52	17	47	176
New Jersey	268	370	38	200	518	159
New Mexico	49	77	57	29	91	214
New York	935	946	1	754	1,393	85
North Carolina	189	298	58	112	342	205
North Dakota	28	33	18	17	43	153
Ohio	390	473	21	256	614	140
Oklahoma	107	158	48	59	171	190
Oregon	97	135	39	67	189	182
Pennsylvania	414	475	15	282	635	125
Rhode Island	36	45	25	25	62	148
South Carolina	103	161	56	53	172	225
South Dakota	32	34	6	18	37	106
Tennessee	162	225	39	85	248	192
Texas	454	695	53	265	826	212
Utah	48	68	42	30	88	193
Vermont	19	25	32	12	28	133
Virginia	184	269	46	115	321	179
Washington	160	204	28	120	314	162
West Virginia	72	100	39	39	108	177
Wisconsin	183	226	23	135	325	141
Wyoming	20	30	50	12	40	233
Dist. of Columbia	49	49	(b)	37	86	132

^aFull-time equivalent employees.

^bLess than .5%.

Source: Bureau of the Census, U.S. Department of Commerce; and Tax Foundation computations.

The table on page 1 shows the course of the Federal debt for selected years since 1917.

The 21st biennial edition of *Facts and Figures on Government Finance* is now available.

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State Tax Action

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Connecticut enacted a new 5 percent tax on unincorporated business income, and New Hampshire approved a 13.5 percent surtax on its business profits tax. Pennsylvania extended higher individual and corporate income tax rates which had been scheduled to terminate.

Details on state tax action to date for 1981 are given in the September issue of *Tax Review* available at no cost from the Foundation.