TAX FOUNDATION'S VOL. 32, NO. 4 JUNE 1988

TAX•FEATURES

Typical Two-Earner Family Increased Purchasing Power Since '80

Increased earnings, slower inflation and Federal individual tax cuts have boosted the U.S. family's purchasing power since 1980, according to Tax Foundation analysis. Since approximately 60 percent of married-couple families now include a wife in the paid labor force, the Tax Foundation has replaced the one-earner family analysis with the more realistic two-earner household. A typical family—a household with two earners employed full-time, year-round with two dependent children—realized an increase in real income of $3,714 since 1980 after adjusting for direct Federal taxes.

The two-earner median family's nominal income has risen consistently since 1980, averaging approximately a six percent increase each year. The two-earner family making $29,627 in 1980 is now making an estimated $46,848. However, when direct Federal taxes and inflation are taken into account, the $17,221 increase in this family's income between 1980 and 1988 resulted in only a $3,714 net gain. Over 78 percent of increased income has been eroded by direct

(Continued on page 5)

Median Family Income Before and After Direct Federal Taxes and Inflation 1980-1988

Year	Two-Earner Median Family Income[a]	Direct Federal Taxes: Income Tax[b]	Direct Federal Taxes: Social Security	Direct Federal Taxes: Total	After-Tax Income: Current Dollars	After-Tax Income: 1988 Dollars[c]
1980	$29,627	$4,050	$1,816	$5,866	$23,761	$33,993
1981	32,224	4,386	2,143	6,529	25,695	33,327
1982	34,515	4,450	2,313	6,763	27,752	33,927
1983	36,106	4,300	2,419	6,719	29,387	34,778
1984	38,713	4,634	2,710	7,344	31,369	35,606
1985	40,593	4,787	2,862	7,649	32,944	36,083
1986	42,492	5,158	3,038	8,196	34,296	36,877
1987[d]	44,617	5,319	3,190	8,509	36,108	37,456
1988[d]	46,848	5,623	3,518	9,141	37,707	37,707

[a] Median income for household with two earners employed full-time, year round.
[b] Married couple filing joint return, two dependent children.
[c] Adjusted by Consumer Price Index, assumes 3.8% inflation in 1988.
[d] Estimated by Tax Foundation.

Source: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; Treasury Department, Internal Revenue Service.

Top 50 Percent of Earners Pay 93.8 Percent of Federal Individual Income Tax Burden; Top Ten Percent Pays Over Half

The top earning half of the population continues to pay well over 90 percent of the Federal individual income tax bill, according to Tax Foundation analysis of preliminary IRS data for 1986. In fact, despite all the major tax legislation of the past decade, this group's share of the tax burden has varied within the narrow range of 92.6 to 94.0 percent of total taxes paid, and was 93.8 percent in 1986.

The system remains progressive as the top ten percent of earners continue to shoulder a significantly larger share of the tax burden, up from 49.5 percent in 1979 to 55.5 percent in 1986, a six percent increase.

This growth in tax burdens has occurred despite the alleged upper-income bias of the rate reductions and other tax cuts under the Economic Recovery Tax Act of 1981 (ERTA). The Treasury Department reported that for the 1981-1986 period taxpayers with adjusted gross incomes exceeding $100,000 paid $72 billion more in 1986 than in 1981 while persons with adjusted gross incomes under $50,000 received a net tax cut of $18 billion between 1981 and 1986.

Growth in the income base itself has been increasing faster at the upper end of the income scale, resulting in increased tax receipts from top earners. Specifically, the increase in capital gains taxes accounted for the bulk of the tax revenue rise in 1986. The jump in the top tax rate on capital gains from 20 percent to 28 percent beginning January 1, 1987 under the Tax Reform Act of 1986 caused an extraordinary level of capital gains realization before the increase kicked in. Taxable net gains in 1986 rose 99.6 percent to $135 billion, accounting for 25 percent of income to earners in the top income brackets and fueling a 9.4 percent jump in total adjusted gross income to $2.52 trillion.

In 1986, the top five percent of earners paid an average tax of $31,309, up 80 percent from 1979. The

(Continued on page 6)

THIS ISSUE:

Federal Grants Drop 4.5%; FL, TX Pay Highest Aid Premiums

Federal grants-in-aid to state and local governments dropped 4.5 percent in FY87 (latest available) to $102.9 billion, according to Tax Foundation economists. This was their first decline since 1982. They had been averaging six percent increases over the last four years. With FY87's 4.5 percent decline, the pace of Federal grant giving has continued its sharp slowdown since 1981. After growing at annual rates averaging 15 percent during the 1970s, growth in Federal grants has averaged 2.3 percent since 1980.

Federal Grants-in-Aid To State and Local Governments and Estimated Federal Tax Burden for Grants

Fiscal Year 1987

State	Grants[a] ($Millions)	Percent of Total Tax Burden	Tax Burden per Dollar of Aid	Estimated Tax Burden for Grants[b] ($Millions) Amount	Rank
Total	$102,934.5	100.00%	$102,934.5	$1.00	-
Alabama	1,510.3	1.23	1,266.1	.84	32
Alaska	605.4	.29	298.5	.49	50
Arizona	1,172.7	1.23	1,266.1	1.08	12
Arkansas	1,000.8	.68	700.0	.70	38
California	10,909.9	12.59	12,959.5	1.19	10
Colorado	1,105.7	1.36	1,399.9	1.27	6
Connecticut	1,489.0	1.97	2,027.8	1.36	4
Delaware	301.4	.30	308.8	1.02	17
Florida	3,151.0	4.91	5,054.1	1.60	1
Georgia	2,507.2	2.26	2,326.3	.93	27
Hawaii	459.7	.42	432.3	.94	25
Idaho	372.0	.30	308.8	.83	33
Illinois	4,466.8	5.28	5,434.9	1.22	8
Indiana	1,981.6	2.00	2,058.7	1.04	14
Iowa	1,089.6	.99	1,019.1	.94	26
Kansas	845.8	1.00	1,029.3	1.22	7
Kentucky	1,687.0	1.10	1,132.3	.67	41
Louisiana	1,914.1	1.39	1,430.8	.75	37
Maine	688.8	.39	401.4	.58	45
Maryland	2,254.1	2.21	2,274.9	1.01	18
Massachusetts	2,983.3	2.99	3,077.7	1.03	15
Michigan	4,196.2	3.97	4,086.5	.97	21
Minnesota	2,034.9	1.74	1,791.1	.88	29
Mississippi	1,253.3	.64	658.8	.53	48
Missouri	1,923.0	1.96	2,017.5	1.05	13
Montana	496.4	.26	267.6	.54	47
Nebraska	606.2	.57	586.7	.97	22
Nevada	382.2	.43	442.6	1.16	11
New Hampshire	388.1	.49	504.4	1.30	5
New Jersey	3,326.9	4.44	4,570.3	1.37	3
New Mexico	690.8	.46	473.5	.69	39
New York	11,932.0	8.75	9,006.8	.75	36
North Carolina	2,168.3	2.16	2,223.4	1.03	16
North Dakota	404.8	.23	236.7	.58	44
Ohio	4,381.3	4.25	4,374.7	1.00	19
Oklahoma	1,313.2	1.15	1,183.7	.90	28
Oregon	1,032.8	.97	998.5	.97	23
Pennsylvania	5,267.6	4.82	4,961.4	.94	24
Rhode Island	549.9	.41	422.0	.77	35
South Carolina	1,276.7	1.02	1,049.9	.82	34
South Dakota	436.0	.21	216.2	.50	49
Tennessee	1,890.8	1.60	1,647.0	.87	30
Texas	4,846.4	6.65	6,845.1	1.41	2
Utah	748.6	.47	483.8	.65	42
Vermont	313.5	.19	195.6	.62	43
Virginia	2,143.6	2.48	2,552.8	1.19	9
Washington	1,944.5	1.88	1,935.2	1.00	20
West Virginia	1,026.3	.54	555.8	.54	46
Wisconsin	2,154.2	1.82	1,873.4	.87	31
Wyoming	287.7	.19	195.6	.68	40
District of Columbia	1,024.4	.36	370.6	.36	51

[a] Excludes shared revenues and payments in lieu of taxes; includes general revenue sharing and trust fund aid.
[b] The tax burden for grants is assumed to equal grant payments.
Source: Tax Foundation computations based on data from the Treasury Department and U.S. Department of Commerce, Bureau of the Census.

The Big Four

Twenty-five programs account for more than 85 percent of total grant disbursement. Of these, the largest four are medicaid - $27.2 billion, highways - $11.2 billion, Aid to Families with Dependent Children (A.F.D.C.) - $10.5 billion, and housing assistance at $5.8 billion. These four programs alone accounted for over 53 percent of all grants disbursed in fiscal 1987. While highway assistance was reduced sharply by 14.8 percent from FY86 to FY87, A.F.D.C. and housing assistance showed sizeable increases of 12.6 percent and 9.7 percent respectively. In 1987 there were approximately 372 different grant-in-aid programs, but most of the spending was concentrated in a few areas.

Most of FY87s $4.9 billion reduction in Federal grants was the result of elimination or consolidation of smaller programs where the benefits were primarily local rather than national, such as economic development and the construction and operation of local transportation systems.

Winners and Losers

Tax Foundation analysis of the grant-in-aid programs determines where Federal grant revenue is raised and where it is disbursed on a state-by-state basis. In terms of their Federal

(Continued on page 8)

Tax Features

Tax Features (ISSN 0883-1335) is published by the Tax Foundation. Original material is not copyrighted and may be reproduced. Please credit Tax Foundation.

Chairman of the Board .... Hans W. Wanders
President .... Robert C. Brown
Senior Vice President ... Edward A. Sprague
Editor .... William J. Wilson
Contributing Editor .... Allen Schick
Contributing Economist .... Paul G. Merski
Consulting Economist ..... Elsie M. Watters
Publications Specialist ...... William Ahern

Tax Foundation
One Thomas Circle, N.W., Suite 500
Washington, D.C. 20005
(202) 822-9050

Budget Watch By Allen Schick

Tax Expenditures: Myths and Realities

Tax expenditures are among the most controversial and confusing features of the Federal budget. The concept appears to be simple; applying it to the numerous provisions in the tax code is not. The term refers to deviations from the "normal" tax structure that give preferential treatment to particular activities or groups of activities and result in a loss of Federal revenues. The term recognizes that these preferences have the same subsidy effects as direct expenditures: they provide financial benefits to recipients and they cost the Treasury money. Tax expenditures were officially defined in the Congressional Budget Act of 1974. Before then, they were called loopholes; they still are.

The tax code is complex and the concept is often used for political advantage; hence, there are serious misunderstandings about tax expenditures. This article examines four myths about tax expenditures; (1) it is just as easy to define and measure them as direct spending; (2) most tax expenditures go to business; (3) among individuals, high income persons are the main beneficiaries; and (4) the steady rise in the amount of tax expenditures is due to recent legislation establishing new loopholes. None of these claims is warranted by the facts.

Myth No. 1

It is easy to define and measure tax expenditures.

The definition of tax expenditures is inherently ambiguous. A provision of the tax code deemed to be a preference by some experts might be regarded as an essential feature of the tax system by others. The list of tax expenditures published by Congress' Joint Committee on Taxation (JCT) in March 1988 contains 28 items not included in the analysis issued only one month earlier by the President's Office of Management and Budget (OMB).

Some of the confusion results from applying a double standard to tax expenditures. The tax code has provisions which are virtually identical, but some are regarded as part of the normal rate structure while others are labelled as preferences. The tax rates levied on corporate and individual incomes are a case in point. With the implementation of the Tax Reform Act of 1986 (TRA'86), both types of income now have a two-rate structure. Individual income is taxed at 15 percent and 28 percent; corporations pay a reduced rate on the first $75,000 of income, and 34 percent on income above that amount. One can argue either that differential rates are a normal feature of a graduated tax structure or that they provide a preference for low-income persons and firms. However, Congress' tax mavens have decided to treat the lower individual and corporate rates differently. They list the lower corporate rate as a tax expenditure, but treat the lower individual rate as part of the tax structure. This double standard demonstrates how the measurement of tax expenditures is colored by subjectivity.

> ***Before the Budget Act of 1974, tax expenditures were called loopholes; they still are.***

By no means is this the only dubious application of the tax expenditure concept. A brand new one has just entered the official list, thanks to the TRA'86 limitation on the extent to which passive losses can be used to offset other income and thereby lower an investor's tax liability. The concept of a normal tax structure is that all income should be treated alike for purposes of taxation. It would seem that just as a tax structure has some preferences which are classified as tax expenditures, it might also treat some income less favorably, and these instances might be regarded as "negative tax expenditures" because they increase tax liabilities and Federal revenues above normal levels. This situation would seem to apply to taxpayers who have passive losses. Some passive losses (for example, for rehabilitation of structures and low-income housing) are exempted from the special tax rules. As a result, income from these sources is taxed at the normal level. But the JCT tax experts have decided that these exemptions constitute tax expenditures, despite the fact that taxpayers pay the same taxes as they would on active income. This convoluted logic isn't fair, doesn't make sense, and demonstrates the difficulty of defining and measuring tax expenditures.

Myth No. 2

Business gets most tax breaks.

Judging from the newspapers, it would appear that the biggest loopholes benefit big business. The facts prove otherwise, but myths often persist in the face of facts to the contrary.

> ***The list of tax expenditures published by Congress' Joint Committee on Taxation (JCT) in March 1988 contains 28 items not included in the analysis issued only one month earlier by the President's Office of Management and Budget (OMB).***

The official list of tax expenditures distinguishes between those benefit-

(Continued on page 4)

(BUDGET WATCH, *from page 3*)

ting corporations and those provided to individual taxpayers. For various reasons, it is not correct to add up all tax expenditures as if they were independent from one another. Tax expenditures interact with one another and with other provisions of the tax code, so that the total can be either greater or less than the sum of individual preferences. Nevertheless, adding up tax expenditures shows the enormous disparity between the value of the preferences going to individuals and corporations.

JCT estimates that tax expenditures will approach $300 billion in the 1989 fiscal year. But only 12 percent of these benefits, or $37 billion, are provided to corporations; approximately $160 billion goes to individuals. OMB, which has a narrower definition of tax expenditures, reports even fewer preferences going to corporations.

Myth No. 3

Wealthy persons get most tax expenditures.

It is widely taken for granted that most tax breaks go to upper-income persons. In fact, however, the overall bulk of the individual tax breaks go to the middle class. The following five preferences account for more than half of all the tax expenditures projected to benefit individuals in fiscal 1989:

Preference	Billions of Dollars
Exclusion of pension contributions and earnings	$45.6
Deduction of mortgage interest on homes	30.8
Exclusion of employer payments for medical insurance and care	27.6
Deduction of state-local property and income taxes	24.5
Exclusion of social security benefits	18.0

These exemptions and deductions are costly and popular because they benefit many millions of Americans. With the exception of social security payments and medicare, they are the biggest middle class subsidies in the Federal budget.

There is a significant relationship between wealth and income on the one hand and tax expenditures on the other. Tax expenditures are a function of tax liability. The higher a person's tax bracket, the greater the value of the tax preferences that he or she is likely to receive. The millions of persons removed from the tax rolls by TRA'86 have no tax expenditures (except for those who receive the earned income credit) because they do not pay any taxes. Conversely, those who have had high tax liabilities generally also have had high tax expenditures through itemized deductions and other provisions.

JCT estimates that tax expenditures will approach $300 billion in fiscal year 1989. But only 12 percent of these benefits, or $37 billion, are provided to corporations; approximately $160 billion goes to individuals.

However, by reducing marginal tax rates, TRA'86 significantly reduced the value of major tax expenditures for all income groups. According to CBO estimates, the dollar value of the five tax expenditures listed above will be more than $40 billion lower in 1991 than it would have been if marginal tax rates had not been changed by the 1986 law. Both before and after TRA'86 the distribution of tax expenditures has been roughly proportional to taxes paid. A $150,000 income earner is likely to pay substantially more income taxes and at the same time enjoy more tax expenditures than the more typical $35,000 income earner. But because there are so many more of the latter, the overall dollar value of individual tax expenditures is concentrated among the middle-income groups.

Myth No. 4

Tax expenditures have been rising because Congress has enacted new preferences.

The value of tax expenditures has steadily increased over the dozen or so years that comparable data have been available. The usual explanation is that Congress has established new tax expenditures. The real reason is that as tax burdens have escalated, the value of old tax expenditures has also increased. The table below classifies fiscal 1989 tax expenditures by the period in which they were first enacted or recognized by the IRS or other authorities. The list is not complete because the date of origin of a few tax expenditures has not been determined. The pattern, however, is remarkable. Legislation enacted since 1960 accounts for only a small portion of tax preferences. The largest amounts derive from legislation enacted (or rulings issued) about the time the income tax was introduced. Other major expansions occurred during the World War II period when tax rates were substantially increased.

. . . the overall bulk of the individual tax breaks go to the middle class. . . . These exemptions and deductions are costly and popular because they benefit many millions of Americans.

Period During Which Tax Expenditure Was First Enacted or Authorized by Regulation	Estimated Fiscal Year 1989 Value ($billions)
1920 or Earlier	$102
1921 – 1940	56
1941 – 1960	94
1961 – 1980	21
Since 1980	4

To sum up, high tax expenditures are associated with high tax burdens. The best way to significantly lower tax preferences is to reduce rates and liabilities. This isn't myth; it's a fact.

(TYPICAL FAMILY, *from page 1*)

Federal taxes and inflation.

Federal Taxes

Since 1980, Federal income tax on this family has risen 38.8 percent despite two major income tax reduction laws in 1981 and 1986. The bite that Social Security taxes take out of this family's income has increased rapidly, jumping 93.7 percent from $1,816 in 1980 to $3,518 by 1988. Social Security will claim 7.5 percent of this family's 1988 earnings, up from 6.1 percent in 1980. Direct Federal taxes will take 19.5 percent of this family's 1988 income, down slightly from the 1981 peak that claimed 20.3 percent.

Inflation

The most significant reason for the increase in this family's purchasing power since 1980 is the leveling off of inflation. Inflation had increases an averaged 8.9 percent from 1973-1980 and stood at 13.5 percent in 1980. It has averaged a 4.6 percent annual rate since 1981, while the two-earner family's income has grown by an average of 5.9 percent for the same period.

The sizeable 58 percent nominal income gain the two-earner family has made since 1980 has been reduced to only a 10.9 percent gain after direct Federal taxes and inflation are taken into account. Other indirect Federal taxes and state and local tax increases not shown here have further offset the family's increased earnings. However, measured in constant 1988 dollars, the two-earner family managed to obtain an average 1.3 percent yearly increase in real income, after direct Federal taxes, between 1980 and 1988.

THE FRONT BURNER

By Robert C. Brown
President, Tax Foundation

"A State-Managed Industrial Sector"

The 100th Congress has come within a whisker of Europeanizing American industry, saved from its foolishness only by a greatly deserved Presidential veto. The step toward European-style socialism was, of course, the plant closings notification issue grafted onto the trade-bill to make the provision, Congress hoped, veto proof.

As is typical, fairness was the rubric under which the anti-business forces on the Hill mustered the troops. After all, isn't it only reasonable to demand that employers announce closing sufficiently long in advance to enable those affected by the shut-down to make other plans? How easy it is to cloak market-stifling social and economic policy in motherhood-and-apple pie rhetoric.

What the notifications proviso really does, of course, is to attack the market system at its very heart—that the free and open competition for economic resources be dictated by supply and demand. On the front end, it means that companies cannot close superfluous or inefficient plants in response to market conditions. This short-term attempt to prolong the current jobs of employees will have long-term harmful effects on them, their communities and future generations of workers.

Companies will find they cannot quickly shut down operations deemed unnecessary in a given part of the business cycle. Compliance will require a level of accuracy in forecasting that would test the clairvoyant skills of a gypsy fortune teller. Early advance notice will quickly drain companies of talented, motivated and younger workers — traditonally those in greater demand on labor markets — leaving firms at the mercy of workers with less potential for reemployment. Local governments would be given a role in "monitoring" compliance tantamount to putting the fox in charge of the hen coop.

Businessman will cope. They will soon learn that the answer is to be extremely cautious about reopening plants or building new ones during economic rebounds.

What this will do, as has been noted above, is Europeanize American industry. Because any new jobs created will have to be sustained even when market forces dictate otherwise, firms will hold back on creating new jobs. We will have the flat, static employment patterns of Europe, with great numbers of permanently unemployed or underemployed individuals. We will have erosion of the innovation and risk-taking that characterize a vital business sector, as social policy dictates that businessmen continue to keep open factories that are no longer justified by sales forecasts.

Besides squelching the entrepreneurial spirit, advance closing notice will fail to serve the long-term interests of the labor market by drastically slowing the creation of jobs. It will hinder economic growth by increasing the "notch" to be reached before a venture becomes worth pursuing. And it will reduce corporate tax revenues which closely track the levels of job creation and industrial capacity levels.

Addendum: *"The Competitive Burden: Tax Treatment of U.S. Multinationals"* has turned into a Foundation best seller. An interesting sidelight: Representatives of foreign governments in Washington have ordered numerous copies.

(TAX BURDEN, *from page 1*)
top ten percent paid $20,248, 77 percent more than they paid in 1979. While the top 10 percent, or 10.3 million earners, paid well over half the total income tax in 1986, their adjusted gross income ranged down to $48,980, which is not exactly "fat cat" status. It still takes millions of basically middle and upper-middle income taxpayers to pay the bulk of the total income tax bill.

The average tax rate in 1986 ranged from 3.4 percent for the lowest 25 percent to a high of 26.3 percent for the top five percent, indicating the broad progression of the system. Tax data exemplifies that the across-the-board tax rate reductions established by ERTA in 1981 fostered a sharp increase in the tax share paid by upper income individuals. Further changes under the Tax Reform Act of 1986 should make the overall system a little more progressive, particularly by removing approximately six million low-income earners from the rolls.

Figure I

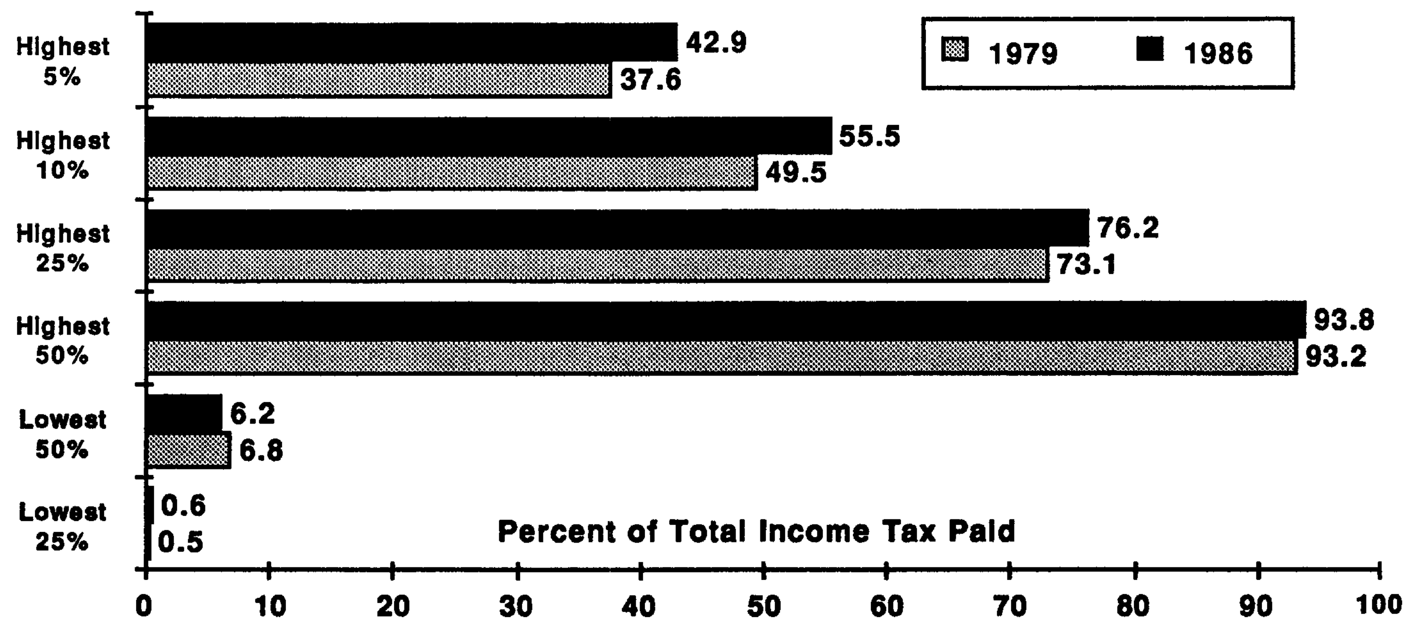

Table I

Federal Income Taxes Paid by High and Low-Income Taxpayers, 1979 and 1986[a]

Adjusted Gross Income Class	Income Level 1979	Income Level 1986	Percent of Tax Paid 1979	Percent of Tax Paid 1986	Average Tax 1979	Average Tax 1986
Highest 5%	$ 39,900 or more	$ 67,000 or more	37.6%	42.9%	$ 17,407	$ 31,309
Highest 10%	32,710 or more	48,980 or more	49.5	55.5	11,456	20,248
Highest 25%	21,760 or more	32,420 or more	73.1	76.2	6,769	11,132
Highest 50%	11,870 or more	17,148 or more	93.2	93.8	4,315	6,845
Lowest 50%	11,869 or less	17,147 or less	6.8	6.2	313	455
Lowest 25%	5,565 or less	7,806 or less	0.5	0.6	46	90
Lowest 10%	2,212 or less	3,123 or less	[b]	[b]	9	27

1986 Income and Tax Data

Adjusted Gross Income Class	Total Individual Returns (thousands)	Total Adjusted Gross Income ($billions)	Percentage of Adjusted Gross Income	Average Tax Rate
Highest 5%	5,165	$ 613.7	24.3%	26.3%
Highest 10%	10,330	909.2	36.0	23.0
Highest 25%	25,825	1,512.7	60.0	19.0
Highest 50%	51,650	2,139.6	84.8	16.5
Lowest 50%	51,650	383.0	15.2	6.1
Lowest 25%	25,825	68.0	2.7	3.4
Lowest 10%	10,330	-16.2	—	—

[a] Data for 1986 are preliminary.
[b] Less than .07 percent.
Source: Tax Foundation computations based on Statistics of Income, Internal Revenue Service, U.S. Department of the Treasury.

"Facts and Figures on Government Finance" Delineates U.S. Economic and Fiscal Profile

The complexity of the U.S. economy is accurately and comprehensively depicted in the new 1988-1989 edition of *Facts and Figures on Government Finance,* which is being released by The Johns Hopkins University Press in early July. Every aspect of federal, state, and local finance is presented in tables that sum up the economic activity of governmental units, then examine in detail their taxation, expenditures, debt, and other relevant subjects.

Published regularly since 1941, *Facts and Figures* combines data from hundreds of sources, including official government documents and private sources, many of them inaccessible or out of print. *Facts and Figures* furnishes the statistical information necessary to any rational and meaningful debate on issues in public finance.

What is the Federal tax burden borne by residents of each state by type of tax? How are governments raising and spending public funds? What are the annual rates of change in major economic indicators since 1950, including real and current dollar GNP, labor force, employment, productivity, and prices?

In 283 tables with more than 60,000 entries, *Facts and Figures on Government Finance* presents:

- combined data for Federal, state, and local government;
- general and selected economic series, including population, employment, gross domestic product, and income;
- Federal receipts, debt, and expenditures, broken down by major programs (social insurance, public employment, health, education). As in previous editions, a detailed glossary and extensive index facilitate use.

Some highlights of the 1988-1989 edition:

✱ Total government spending per person was up 143 percent from $2,886 in 1976 to an estimated $7,012 in 1986. The Federal government spent $4,490 per person, state government $1,424, and local government $1,097.

✱ Total government tax revenues per person were up 131 percent from $2,063 in 1976 to an estimated $4,774 in 1986. The Federal government collected $3,131 in tax revenue per person, state government $1,039, and local government $604.

✱ The 1986 Tax Index for all taxes was at 561.6 (1967=100). The biggest tax increases as measured by the tax index has occurred in social insurance contributions at 828.4 (1967=100).

✱ Estimated Federal, state, and local debt increased 15.4 percent in 1986, reaching $2,765,070 million, a 217 percent increase from 1976.

✱ Of the 23 nations belonging to the Organisation for Economic Cooperation and Development (OECD), the U.S. ranked 20th in tax revenues as a percentage of GDP in 1985 with 29.2 percent. At the high end were Sweden (50.5 percent), and Denmark (49.2 percent). At the low end were Japan (28 percent) and Turkey at 16.1 percent of GDP.

✱ In 1987 there were 98.5 million households, up 1.1 percent from 1986, with each household averaging 2.66 persons.

✱ In 1986 17.8 percent of the U.S. population was 25-34 years of age, numbering 42.8 million. By the year 2030, 21.2 percent of the population will be 65 and older, numbering 64.6 million.

✱ Connecticut had the highest per capita personal income in 1986 at $19,600 — the lowest was Mississippi at $9,716.

✱ The personal savings rate fell from 7.6 percent in 1976 to only 4.3 percent in 1986.

✱ Estimated Federal tax collections increased ten percent from 1986 to 1987 and are projected to rise 9.2 percent in fiscal year 1988.

✱ The average salary of a full-time Federal civilian employee was $27,375 in 1987.

✱ Of the 49 largest cities in 1985, Washington, D.C., had the highest per capita general expenditures at $4,551 — the lowest was El Paso at $391.

Facts and Figures belongs on the reference shelf of every person interested in public finance.

(GRANTS-IN-AID, *from page 2*)
tax costs for grants, 18 states were net "losers" in 1987; i.e., their aggregate Federal tax burden to support grant programs exceeded the amount of grants received by their respective state and local governments. As a whole, the 124 million residents of these "paying" states paid $56 billion in Federal taxes to support such programs while their state and local governments received $45.8 billion in grants — an average Federal tax burden of $1.22 for each dollar of grants received. In the "winners" column were the other 32 states and the District of Columbia, who paid an average of 82 cents in Federal taxes per dollar of aid. These 32 states and D.C. received $57.1 billion in Federal grants while paying only $46.9 billion to the Federal government in order to support these grant programs.

For the second year in a row, residents of Florida paid the highest tax premium per dollar of Federal aid. Floridians paid $1.60 in taxes per dollar of aid, up from $1.50 in FY86. Other states with high tax premiums were Texas ($1.41), New Jersey ($1.37), Connecticut ($1.36), New Hampshire ($1.30), and Colorado ($1.27).

Among the "receiving states," residents of the nation's capital got the best bargain, paying 36 cents per dollar of Federal aid. Other jurisdictions at the low-cost end include Alaska (49 cents), South Dakota (50 cents), Mississippi (53 cents), and Montana and West Virginia at 54 cents.

Tax Foundation's methodology for deriving the Federal tax burdens borne by residents of each state is designed to show where the tax dollars actually originate rather than where they were collected. Grants-in-aid are based on data reported by the Bureau of the Census, with adjustments made for shared revenues and data for outlying territories.

Many Federal grant programs require that the state and local recipients match Federal funds with their own. Tax Foundation economists estimate that state and local governments were required to provide 41 cents for every dollar they received in Federal grants, up from the 37 cents needed in 1980. State and local governments raised an estimated $42.2 billion to match the $102.9 billion received in 1987. Total Federal, state and local costs of the grants programs were $145.1 billion for FY87.

Tax Foundation analysts point out that these comparisons of Federal tax burdens for aid assistance do not reflect the entire cost to state and local governments of obtaining grants. In addition to the estimated $42.2 billion these jurisdictions had to raise to match Federal payments, there are additional costs associated with administering the federal grants programs.

The table on page two provides state-by-state data on Federal grants as compared to Federal tax costs in Fiscal Year 1987. Further details are provided in the "Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1987," available from the Tax Foundation for $4.00 plus $1.00 postage and handling.

Toward better government Founded 1937

TAX FOUNDATION
One Thomas Circle, N.W., Suite 500, Washington, D.C. 20005