MONTHLY TAX FEATURES

Volume 23, Number 5, May 1979

Tax Foundation, Inc.

1875 Connecticut Ave., N.W. □ Washington, D. C. 20009 □ 202-328-4500 □

U.S. Indebtedness Profiled

Federal Debt Totals $3,528.28 Per Capita

The United States government owes a great deal of money, and the nation is getting further into debt each year, according to analysis just released by the Tax Foundation. The total Federal debt stood at $771.5 billion as of September 30, 1978, indicates *Facts and Figures on Government Finance, Twentieth Edition,* the Foundation's widely used reference work on public finance. That figure is but a point at the top of a long, mostly ascending growth curve which the Foundation's economists trace back to 1902, in the forthcoming volume.

On the eve of World War I, the Federal debt totaled $1.3 billion. This amounted to $12.36 for each American citizen. The high cost of the Great War had pushed the Federal debt to $26.6 billion by August 31, 1919. Recovery came with the economic boom of the Roaring Twenties, so that money owed by Washington dropped to $16.0 billion on December 31, 1930, an obligation of $129.66 for each man, woman, and child in the United States.

The Depression had ratcheted indebtedness three-fold by the eve of World War II, when the figure hit $48.5 billion on June 30, 1940. World War II skyrocketed the nation's outstanding obligations, leaving the United States government nearly $280 billion in arrears by February 28, 1946.

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Public Indebtedness Passes $1 Trillion

Public debt—gross debt of Federal, state and local governments—in 1978 amounted to $4,811 for each man, woman, and child in the United States, according to estimates by Tax Foundation economists. This was almost twice its size ($2,420) as recently as 1969.

Total public indebtedness, which passed the $1 trillion mark at the end of fiscal year 1978, is one of the many facets of public finance documented in the Foundation's forthcoming *Facts and Figures on Government Finance, Twentieth Edition,* due off press in June.

Of the $1.05 trillion worth of debt incurred over the years by all levels of government, Federal indebtedness claims the lion's share: $771.5 billion, or 73.4 percent of the total. The second largest amount was owed by local government units—$179.9 billion, or 17.1 percent of the total. State government was a not-too-close third, with 9.5 percent of the gross public debt, a total of $99.9 billion.

In the early part of this century, according to the Foundation's analysis, local debt was by far the most significant component of public indebtedness, accounting for 57.1 percent of monies owed in 1902. In 1913, local debt continued to lead the pack, climbing to 72 percent of gross debt—$4.0

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Energy Problem Can Be Solved, GM's Estes Says

U.S. energy problems are mostly self-caused and can be self-cured, Elliott M. Estes told a group of Pittsburgh business leaders, Monday, May 14. Speaking at a luncheon sponsored by the Tax Foundation and hosted by David M. Roderick, Chairman of U.S. Steel and President of the Foundation's Board of Trustees, Estes said, "Since our difficulties are largely of our own making—OPEC notwithstanding—it is fully within our power to unmake them."

Part of the solution, according to the GM president, is that there is "plenty of energy in this country if we're willing to pay its price." He predicted that higher prices would be needed, and said the proceeds should go "to the producers for plow-back into additional production."

In a wide-ranging assessment of American industry's ability to compete at home and abroad, Estes questioned whether international trade was always free or fair, charging that "government policies often give overseas businesses a 'more equal' chance to win the customer's favor than U.S. business."

"Taxes in this country today," he told the corporate executives, "pose a potential double whammy for businesses trying to compete on a global basis."

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Federal Debt

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Some easing in that figure occurred during the immediate postwar years, so that the Federal debt had declined to $251.6 billion by April 30, 1949. From that date on, however, Tax Foundation research records a rise in 27 of the ensuing 29 years. (In the two years following the Korean War, the debt declined slightly.) In 1978 Federal debt was over three times the lowest level of post—World War II debt.

Today, the government owes on behalf of each resident of the United States $3,528.28 (as of September 30, 1978).

The interest on that debt comes to $48.7 billion, contrasted with only $25 million in 1917.

Who owns the debt? Non-bank investors (individuals, insurance companies, mutual savings banks, corporations, state and local governments, foreign and international investors) have the largest claim on the Federal government—$393.0 billion. Of that group of debt-holders, $121.0 billion—or 31 percent—is owed to foreign and international owners of Federal securities.

Banks—Federal Reserve and commercial banks—hold a total of $210.1 billion in Federal obligations. The remaining Federal securities are held by the U.S. government, which has $168.0 billion worth of them in its investment accounts.

The accompanying table, reprinted from *Facts and Figures on Government Finance, Twentieth Edition*, shows the course of the Federal debt for selected years.

Course of the Federal Debt

As of Selected Dates 1917-1978
(Millions, except Per Capita)

	World War I			World War II		Post World War II	
Item	Prewar debt Mar. 31, 1917	Highest war debt Aug. 31, 1919	Post World War I low debt Dec. 31, 1930	Debt preceding defense program June 30, 1940	Highest war debt Feb. 28, 1946	Lowest postwar debt Apr. 30 1949	Debt Sept. 30, 1978
Total debt	$1,282	$26,597	$16,026	$48,497	$279,764	$251,553	$771,544
Direct (gross)	1,282	26,597	16,026	42,968	279,214	251,530	770,923
Guaranteed[a, b]	—	—	—	5,529	551	23	621
Interest-bearing debt, total	1,023	26,349	15,774	47,874	278,451	249,528	767,592
Direct	1,023	26,349	15,774	42,376	277,912	249,509	766,971
Guaranteed[a]	—	—	—	5,498	539	19	621
Per capita total debt[c]	12.36	250.18	129.66	367.08	1,989.75	1,690.29	3,528.28
General fund balance	74	1,118	307	1,891	25,961	3,995	22,444
Computed annual interest rate on interest-bearing debt, total: (percent)	2.40	4.20	3.75	2.51	1.97	2.24	n.a.
Direct	2.40	4.20	3.75	2.58	1.97	2.24	7.13
Guaranteed	—	—	—	1.98	1.35	2.36	n.a.
Federal interest payments for the fiscal year	25	1,020	612	1,041	4,722	5,339	48,695

[a] Excludes obligations owned by the Treasury.
[b] Includes outstanding matured principal of guaranteed debt of U.S. government agencies, cash for payment of which is held by Treasury in the general fund balance.
[c] Based on population including armed forces overseas.

Source: Treasury Department.

IRS Spends 49¢ For $100 Taxes

The U.S. government spends only 49 cents to collect $100 in Federal taxes, according to the 1978 Report of the Commissioner of Internal Revenue. While taxpayers may be happy that tax collecting is so cost-efficient, they may not be aware that costs incurred by those who must file tax forms may be considerably higher, according to the Tax Foundation. This is particularly true of the business sector.

In fiscal 1979, the Tax Foundation estimates that more than 87 cents out of every dollar of Federal taxes will be collected by or from business firms. Gross Federal tax collections (before refunds) in 1979 are estimated at over $469 billion. Of this amount, business will hand over about $410 billion to Uncle Sam, either from taxes levied on business operations—corporate income, employment, unemployment, etc.—or from taxes levied on individuals but withheld or collected by business in the first instance.

Here is a breakdown of these taxes:

Tax	Amount (billions)
Corporate income	$75.9
Individual income (withheld)	185.5
Social security (employee and employer share)	119.7
Unemployment	3.1
Excise	18.7
Customs	7.5

Of these gross tax collections, some $26 billion, a little over 5 percent of the total, will be refunded to taxpayers.

In 1978, the Internal Revenue Service processed 136.7 million tax returns. The large majority—100.8 million—were income tax returns of individuals and businesses. The second largest category—25.5 million returns—was represented by employment taxes. Operating costs of the IRS in 1978 were put at $1.96 million.

While there are no definitive estimates of the value of the time taxpayers spend on their tax returns, various

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State Income Taxes Claiming Larger Share of Income Tax Dollars

For every $100 the Federal government collected in corporate and individual income taxes in 1978, the states gathered in nearly $17, according to Tax Foundation economists.

Ten years earlier, the states got only $9 for every $100 the U.S. received from income taxes.

Corporate and individual income tax payments to Federal and state governments in 1978 totaled $280.8 billion, an increase of 165 percent from 1968. But these state-level levies rose by 357 percent, more than twice the 147 percent increase in Federal income taxes. (Not counted in these comparisons are local revenues from income taxes, now in the neighborhood of $4 to $5 billion annually.)

In part, the disproportionate rise in state and Federal income taxes since 1968 is due to new adoptions of these taxes by additional states (as well as to some statutory reductions in Federal taxes).

From 1968 to 1978 state individual income tax revenues rose from $6.2 billion to $29.1 billion, or by 367 percent, as compared to a rise in Federal individual income taxes of 163 percent. During this ten-year period, six states adopted a new personal income tax levy—Illinois and Maine in 1969; Ohio, Pennsylvania, and Rhode Island in 1971; and New Jersey in 1976.

The disparity between growth in state and Federal corporate levies has been even sharper than for individual income taxes. State corporate income tax revenues rose from $2.5 billion in 1968 to $10.7 billion in 1978, or by 326 percent. At the same time Federal revenues from the same source rose 109 percent, only one-third as much as the state tax. Expressed in another way, state corporate income taxes amounted to 8.8 percent of the corresponding Federal tax in 1968, climbing to 17.9 percent in 1978.

In the past ten years, five states have adopted a corporate income tax for the first time—Illinois and Maine in 1969, New Hampshire in 1970, and Florida and Ohio in 1971. Although no new corporate levies have been enacted since 1971, state corporate income taxes have continued to grow more rapidly than the Federal tax, rising from 12.8 percent of the Federal amount in 1971 to 17.9 percent in 1978.

As of 1979, there were only five states levying neither a personal nor corporate income tax: Nevada, South Dakota, Texas, Washington, and Wyoming. In addition to these states, Florida levied no personal income tax; and Connecticut, New Hampshire, and Tennessee taxed only limited portions of income (e.g., dividends, interest, capital gains).

In 1978, income taxes accounted for 35.2 percent of all state tax receipts, up from 24.0 percent in 1968.

Sales Taxes Furnish Most State Income

General sales taxes continued to be the leading source of state tax revenue in fiscal year 1978 (last reported) for the thirty-fifth consecutive year. But, according to Tax Foundation economists, individual income taxes will overtake sales taxes within a few years if recent trends continue.

These findings are based on historical data appearing in *Facts and Figures on Government Finance, Twentieth Edition*, which the Tax Foundation will publish in June.

This latest edition of the Foundation's widely used reference book shows that general sales taxes first rose to the top spot in state tax structures in 1944. In that year they provided about 18 percent of state general tax revenues. By the late 1960s, sales taxes were furnishing close to 30 percent of the total. In the last decade, however, this portion has risen only slightly—to 31 percent in 1978.

Over the same period, individual income tax yields have climbed from about 8 percent of all state tax collections in 1944, to 17 percent in 1968, and to almost 26 percent in 1978.

In the last five years, while general sales taxes have risen from $19.8 billion to $35.2 billion, or by 78 percent, individual income taxes have increased by 87 percentfrom $15.6 billion in 1973 to $29.1 billion in 1978.

State general sales taxes date back to 1932, when Mississippi became the first state to adopt the levy. By 1940, twenty-three states had followed suit. In the intervening years, the tax has been adopted by all but five of the remaining states (Alaska, Delaware, Montana, New Hampshire, and Oregon).

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State and Federal Income Tax Collections

Fiscal Years 1968-1978

	Individual income tax			Corporate income tax		
	Amount (billions)		State as percent of	Amount (billions)		State as percent of
Fiscal year	State	Federal	Federal	State	Federal	Federal
1968	$ 6.2	$ 68.7	9.1	$ 2.5	$ 28.7	8.8
1969	7.5	87.2	8.6	3.2	36.7	8.7
1970	9.2	90.4	10.2	3.7	32.8	11.4
1971	10.2	86.2	11.8	3.4	26.8	12.8
1972	13.0	94.7	13.7	4.4	32.2	13.7
1973	15.6	103.2	15.1	5.4	36.2	15.0
1974	17.1	119.0	14.4	6.0	38.6	15.6
1975	18.8	122.4	15.4	6.6	40.6	16.4
1976	21.4	131.6	16.3	7.3	41.4	17.6
1977	25.5	157.6	16.2	9.2	54.9	16.7
1978	29.1	181.0	16.1	10.7	60.0	17.9
Percent change 1968-1978	+366.8	+163.3	—	+325.6	+109.1	—

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

Sales Taxes

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Individual income taxes evolved somewhat earlier as a source of state revenue. Hawaii, while still a territory, adopted an income tax in 1901. Wisconsin took that step in 1911. By 1932, when the state general sales tax was first introduced in U.S. state tax structures, 20 states were already levying individual income taxes. As of 1978, only nine states still did not impose a broad-based income tax (Connecticut, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming).

Among other trends in state taxes depicted in the new edition of *Facts and Figures* are:

—In 1902, the earliest year reported, total state tax revenues amounted to $156 million. In 1978 they totaled an estimated $122.6 billion.

—In 1936, total collections, excluding unemployment taxes, hit $2.6 billion. Less than twenty years later, states were collecting that much—and more ($2.64 billion)—in general sales taxes alone.

—At the turn of the century property taxes brought in over half of state tax revenues. The property levy remained the largest single revenue source until the early 1930s, when the states relinquished the lion's share of this tax to localities.

—Following the demise of the property tax as a state levy, motor vehicle fuel sales became the major state tax source, bringing in over 28 percent of revenues in 1934. With the spreading adoption of general sales and income taxes in the states, motor fuels sales as a tax source fell to 17 percent of the total by 1944.

—In 1932, motor-vehicle-related taxes provided nearly 46 percent of all state tax revenues. These represented the total of fuel sales taxes and motor vehicle and operator's licenses.

—In 1978, two-thirds of state taxes came from the levies on general sales, corporate income, and personal income.

Estes

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The "first whammy" Estes described as "high rates, the double taxation of corporate profits and policies which tend to encourage consumption rather than savings," all of which "work to make capital formation more difficult." The "second whammy" comes from the way taxes are spent, he said. "These days, they often buy difficult rules and regulations which can divert much of the capital that is available away from research, development, technology, machinery that will increase productivity."

Calling productivity the "key to our privileged standard of living" and "our ability to succeed in international competition," Estes cited a sharp decline in America's growth in productivity during the last decade. Even if the nation restores productivity growth to the area of 3 percent a year, he said, "we will still trail both Germany and Japan."

Estes characterized bringing inflation under control as our most "important, immediate national goal." Stressing that GM has been supportive of the Administration's wage-price controls, he charged that no such effort can succeed "without monetary and fiscal restraint and responsibility by Washington."

"Washington," the GM chief told his audience, "is where inflation starts. That is where its flames are fanned by continued deficit spending. And that is where we must begin our efforts to end it—by shutting down the printing presses for awhile."

Tax Costs

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estimates indicate that these costs are substantial. A report of the General Accounting Office in 1978, for example, reported that "the IRS estimates that its reporting and recordkeeping requirements result in about 613 million hours of burden annually on businesses and individuals." At a mere $5 an hour, these costs would add up to over $3 billion a year, half again more than the IRS's collection costs, says the Tax Foundation.

Public Debt

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billion. State governments owed 6.8 percent of gross debt ($379 million).

With the passage of time, Federal and local governments have virtually changed places (the Federal percentage for 1976 exactly matched the local percentage for 1913), with the states continuing to owe a relatively modest portion of the total public or government debt (9.8 percent in 1976 and 9.5 percent in 1978).

Like taxes, public debt has followed a generally upward trend during this century. However, the upward trend was briefly reversed in the years immediately following World War II. The biennial pattern for that period was: 1946, $285.3 billion; 1948, $270.9 billion; 1950, $281.4 billion; and 1952, $289.2 billion.

Facts and Figures on Government Finance, Twentieth Edition, is available for $10 from Tax Foundation

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