TAX FOUNDATION

TAX FEATURES

www.taxfoundation.org *September 1998 Volume 42, Number 8*

"Price of Civilized Society" Approaches $10,000 Per Person in the U.S.

The "Price of Civilized Society" is nearly $10,000 for every man, woman and child in the United States, according to a new Tax Foundation *Special Report* by staff economists Patrick Fleenor and Scott Moody.

At a press conference on September 2, the Tax Foundation's chief economist and executive director, Dr. J.D. Foster, presented the new research. He began by quoting the famous definition of taxes Justice Oliver Wendell Holmes, Jr. gave in 1904: "Taxes are what we pay for civilized society."

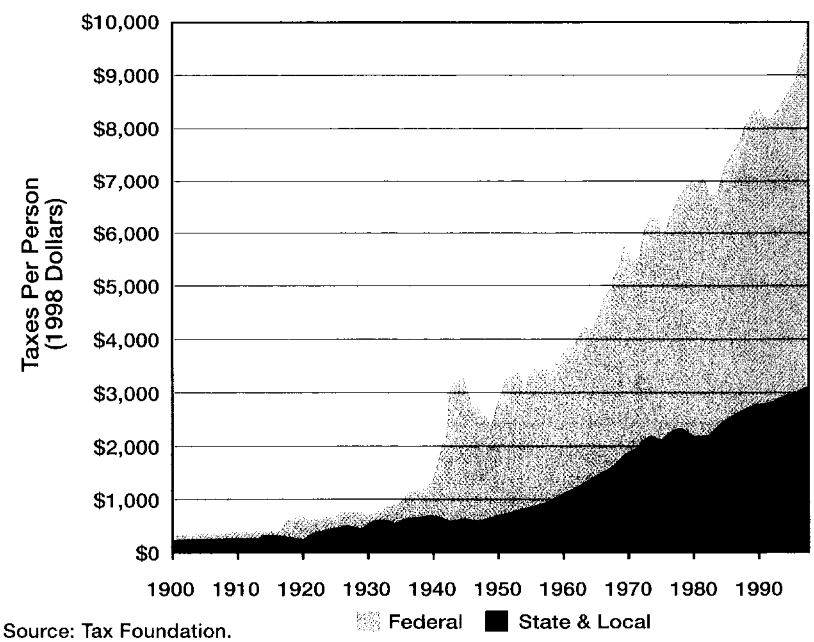
Foster then presented data (all in 1998 dollars to allow fair comparison over time) showing that between 1900 and 1917 federal, state and local governments combined only collected an average of $366 per person per year. State and local taxes, at $247, were actually higher than the mere $119 that the federal government collected. "Society was civilized. Taxes were local and low," said Foster.

By contrast, during 1998, governments in the United States will collect $9,939 in tax revenue for every man, woman and child in the country. Of this sum, $6,810 is the federal government's take while state and local governments collect $3,129.

Surprisingly, much of the increase is recent. "From 1981 to 1998, the federal government increased what it collects per person more than 40 percent," said Foster, "and

Civilized Society *continued on p. 2*

Figure 1
Total Taxes Collected Per Person, 1900 – 1998
Constant 1998 Dollars



Source: Tax Foundation.

FRONT & CENTER

We Must Save Social Security ... *And* Cut Taxes

Representative Nancy Johnson (R-CT)

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Civilized Society *from p. 1*

half of that increase has come in the last five years."

"Since 1900, government has multiplied 29 times over the amount it needs per person to provide Justice Holmes's civilized society," Foster pointed out. "In some respects we may have a more civil society. In some respects it may be less civil. That is for others to judge, but the price for what we're getting has grown dramatically."

Commenting on the methodology of determining the Price of Civilized Society, Foster said, "The per capita calculation is in this case superior to the more common measurement of taxation, the ratio of taxes to Gross Domestic Product (GDP). That's because when a growing economy produces growing tax revenues, the ratio of taxes to GDP rises, but far more slowly, leaving the false impression that the growth of government has been nearly arrested."

Authors Patrick Fleenor and Scott Moody then gave details from the study.

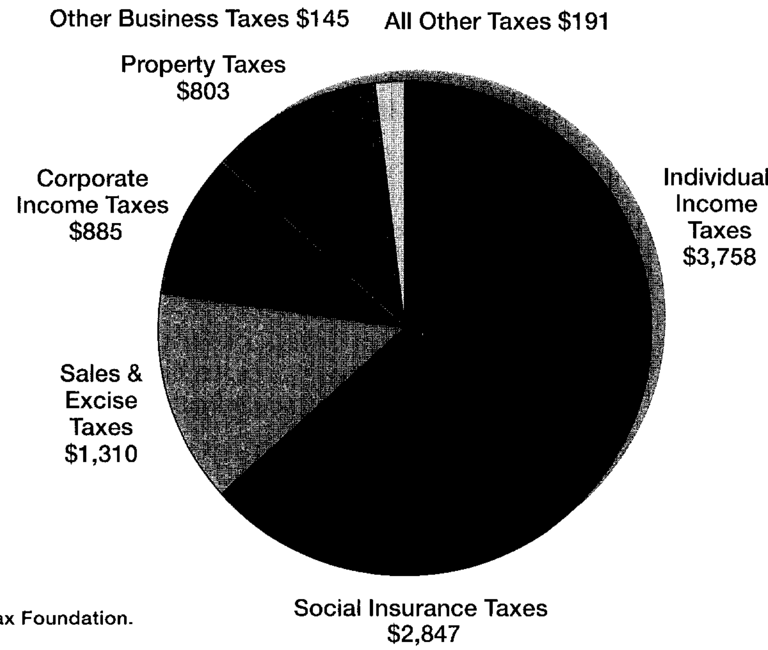
Moody broke down 1998's taxes by type. "Of the $9,939 per person that government will collect this year, individual income taxes are the biggest slice at $3,758 per person," said Moody, "yet they make up less than half the total." Of this $3,758, approximately five out of every six dollars were federal.

The second largest slice is called "social insurance taxes." They are almost all collected by the federal government and used for what is known as entitlements: Social Security, Medicare, etc., accounting for 28.6 percent of the tax burden in 1998, or $2,847 per person.

Sales and excise taxes will add an additional $1,310 to the per capita tax burden in 1998. These are mostly state and local funds.

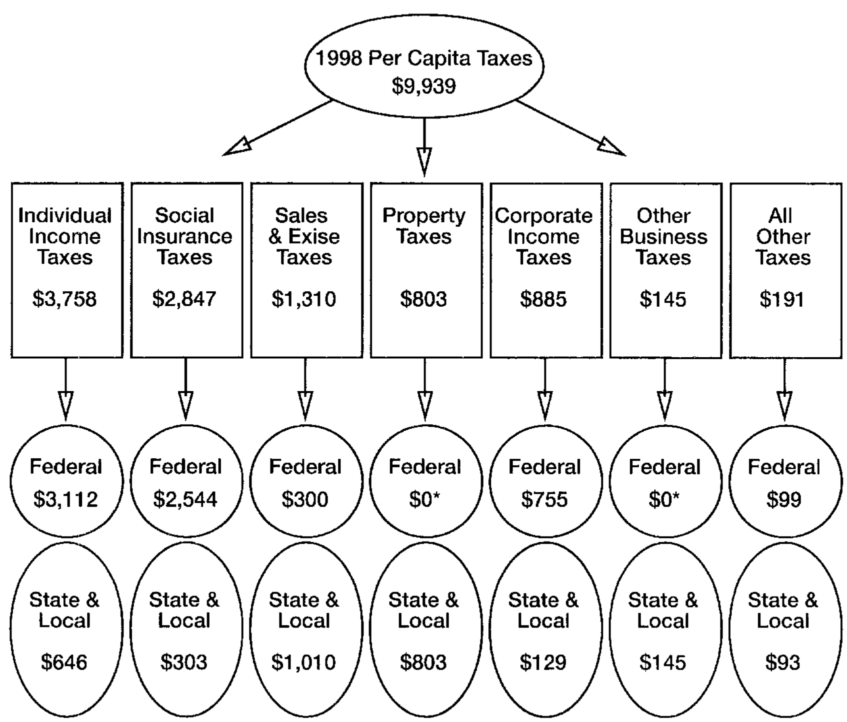
Corporate income taxes will account for 8.9 percent of the per capita tax bill in 1998, or $885. While it's difficult to determine accurately who pays corporate income taxes, economists are in agreement that the costs are passed on to corporate shareholders (in the form of lower dividends), employees (in the form of lower wages) or consumers (in the form of higher prices). These are mostly

Figure 2
Per Capita Taxes By Type of Tax
1998e



Source: Tax Foundation.

Figure 3
Per Capita Taxes By Type of Tax and Level of Government
1998e



*less than 50 cents

Source: Tax Foundation.

collected by the federal government.

Property taxes will account for 8.1 percent of the total 1998 per capita tax burden. Americans are projected to pay an average of $803 each in this category, virtually all of which will be collected at the state and local levels.

Fleenor then compared the price of civilized society to the price of other major categories of consumer expense.

"While the price of civilized society in 1998 is $9,939 per person," said Fleenor, "Americans will spend less than that on food, clothing and shelter combined."

"In fact," he continued, "Americans will spend more on federal taxes alone than on any other major budget item."

Housing and household operations will cost $5,623 per person; health and medical care $3,705; food $2,637; transportation $2,475; recreation $1,828; and clothing $1,360.

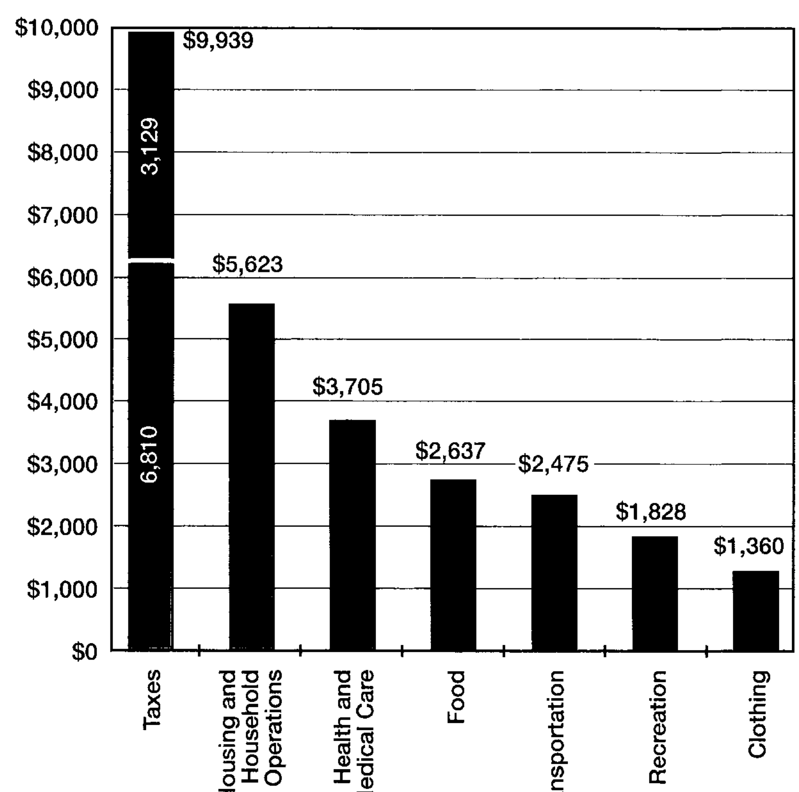
"The Price of Civilized Society" is *Special Report* No. 82 and is available from the Foundation for $5.

Per Capita Taxes By Level of Government, 1900-1998e

	Total	Federal	State & Local
1900	$349	$138	$212
1901	$354	$140	$215
1902	340	134	206
1903	344	129	215
1904	342	120	222
1905	345	116	229
1906	$357	$122	$235
1907	361	128	233
1908	361	116	245
1909	350	108	241
1910	362	117	245
1911	$372	$120	$252
1912	365	113	252
1913	374	116	259
1914	405	114	291
1915	411	101	310
1916	$410	$100	$310
1917	387	114	273
1918	595	329	266
1919	652	401	251
1920	684	449	235
1921	$626	$375	$251
1922	657	313	343
1923	655	293	363
1924	676	288	389
1925	677	265	412
1926	$725	$278	$446
1927	770	289	481
1928	743	275	468
1929	742	274	468
1930	$710	$212	$498
1931	$708	$171	$537
1932	755	157	598
1933	834	262	571
1934	862	308	554
1935	897	333	564
1936	$1,036	$424	$611
1937	1,172	558	615
1938	1,184	538	646
1939	1,237	565	673
1940	1,361	692	668
1941	$1,822	$1,154	$667
1942	2,176	1,565	611
1943	3,106	2,524	582
1944	3,100	2,520	581
1945	3,103	2,513	590
1946	$2,718	$2,132	$586
1947	2,645	2,049	596
1948	2,525	1,891	635
1949	2,333	1,663	670
1950	2,783	2,060	722
1951	$3,172	$2,435	$736
1952	3,236	2,462	773
1953	3,299	2,494	805
1954	3,039	2,209	831
1955	3,303	2,424	879
1956	$3,382	$2,463	$920
1957	3,408	2,464	944
1958	3,246	2,284	962
1959	3,559	2,524	1,035
1960	3,733	2,631	1,102
1961	$3,771	$2,616	$1,155
1962	3,959	2,750	1,209
1963	4,154	2,891	1,263
1964	4,140	2,810	1,330
1965	4,342	2,944	1,398
1966	$4,701	$3,230	$1,472
1967	4,847	3,298	1,549
1968	5,303	3,628	1,675
1969	5,668	3,881	1,788
1970	5,403	3,553	1,850
1971	$5,405	$3,472	$1,933
1972	5,874	3,782	2,092
1973	6,164	4,019	2,145
1974	6,187	4,080	2,107
1975	5,807	3,726	2,082
1976	$6,211	$4,018	$2,193
1977	6,512	4,242	2,270
1978	6,746	4,483	2,264
1979	6,886	4,671	2,215
1980	6,831	4,649	2,181
1981	$7,045	$4,858	$2,187
1982	6,673	4,491	2,182
1983	6,709	4,438	2,271
1984	7,136	4,716	2,420
1985	7,397	4,904	2,494
1986	$7,559	$4,977	$2,582
1987	7,928	5,270	2,657
1988	8,065	5,371	2,694
1989	8,291	5,521	2,771
1990	8,260	5,477	2,784
1991	$8,068	$5,282	$2,786
1992	8,140	5,297	2,843
1993	8,335	5,441	2,894
1994	8,632	5,676	2,956
1995	8,824	5,838	2,986
1996	$9,163	$6,126	$3,037
1997	9,578	6,485	3,093
1998	9,939	6,810	3,129

Source: Tax Foundation.

Figure 4
Per Capita Cost of Taxes vs. Consumer Expenditures
1998e



Source: Tax Foundation.

We Must Save Social Security ... *And* Cut Taxes

FRONT & CENTER

By Rep. Nancy Johnson (R-CT)

In 1997, Congress passed the first broad-based tax cut in 16 years. Enactment of this legislation was truly an historic event because it signified a fundamental change in the way Washington goes about tax cuts.

For years, Congress has used tax bills as vehicles for special interest tax breaks and corporate loopholes. But last year's $152 billion tax reduction was aimed almost entirely at helping working families and small businesses. It put in place a $500 per child tax credit, expanded Individual Retirement Accounts, provided tax credits for college education, and lowered and simplified taxes for small businesses.

What is even more remarkable is that Congress passed this tax cut while balancing the budget. For the first time since the Nixon Administration, we're actually talking about budget surpluses instead of deficits. The non-partisan Congressional Budget Office expects a budget surplus of at least $63 billion this year, soaring to a cumulative $1.6 trillion over the next ten years.

These huge surpluses are evidence of both strong economic growth and the heaviest tax burden Americans have ever shouldered. Today, the average American family spends nearly 40 percent of its income on paying taxes — that's more than they spend on food, shelter and clothing combined. A modest tax cut will encourage personal saving and the investment needed to create jobs and sustain a strong economy, while enabling us to reduce the National Debt and strengthen Social Security. More importantly, a modest tax cut is the only guarantee that some of this surplus will be returned to the American people and not devoted to new government spending.

In his State of the Union address, the President insisted that no portion of the budget surplus — not one dime — should go towards relieving the middle-class tax burden. We must "save Social Security first," demanded the President.

The President is right about Social Security. We must keep it strong for the next generation, and that's a goal we believe must get top priority. But unlike the President, I don't think saving Social Security means we have to take an "all or nothing" approach to tax policy. I believe there is a middle ground — a middle ground that's reasonable, fair and makes good economic sense. We can save Social Security, and we can give the American worker a break from a tax burden that is unnecessarily heavy. Social Security can be secured through higher earnings on some of its surplus dollars and other modest reforms. We should not simply tax more.

On September 11, Rep. Sam Johnson (R-TX) and I introduced a plan, called the Johnson & Johnson bill, to cut taxes by $78 billion, leaving over $500 billion during the next five years to save Social Security. Put simply, 87 cents of every dollar of the budget surplus would go to Social Security, with 13 cents devoted to tax cuts. This leaves plenty of room to both shore up Social Security and reduce the debt.

What's more, over 80 percent of the tax cuts in the Johnson & Johnson plan would go directly to working Americans. For example, under current tax law, 21 million married couples are hit each year with the so-called "marriage penalty." That means they pay more in taxes than couples living together outside of marriage. The Johnson & Johnson plan would change this by giving married couples a standard deduction that is twice the deduction available to singles.

The Johnson & Johnson plan would also provide for the fair treatment of workers whose employers don't provide health insurance by making their premiums tax deductible. Workers who are covered through their employers already get this benefit. We all have a stake in making health insurance more affordable so that all Americans can get the health care they need.

In addition, the Johnson & Johnson plan would raise the Social Security earnings limit so that seniors who need to work after age 65 and earn less than $30,000 a year won't have the government take back some of their hard-earned Social Security income. The plan would also renew a number of pro-growth tax incentives, such as the research and development tax credit, which is so important to America's inventive economy, and the work opportunity tax credit, which helps welfare recipients find jobs. The continuation of these incentives is critical to keeping the American economy strong and to creating jobs in our nation's inner cities.

The politics of the budget surplus have thrown Washington into a veritable budgetary tailspin. But amid all the loose rhetoric and bumper sticker politicking, there is a rational and practical common ground that we can all reach. The key is to remember that the best prescription for saving Social Security and increasing retirement investment is a vibrant, booming American economy. With a sound federal tax policy, we can balance working families' checkbooks and protect their retirement too.

The Tax Foundation invites a national leader to provide a "Front and Center" column each month in Tax Features. *The views expressed are not necessarily those of the Tax Foundation.*

House Passes Tax Cut of $80 Billion Over Five Years

On September 26, the House passed H.R. 4579, the Taxpayer Relief Act of 1998.

Of the $1.6 trillion surplus that the Congressional Budget Office predicts will accrue over the next ten years, this bill proposes to return $80 billion over five years to the taxpayers.

Two provisions of the bill promise to have the most potential impact. One addresses the so-called marriage penalty, increasing the standard deduction for married couples filing jointly to exactly double the standard deduction for single taxpayers.

The second provides a more generous treatment of interest and dividend income, excluding the first $200 of interest or dividend income for single taxpayers, and excluding $400 on joint returns.

The first two columns in the table at right represent the Tax Foundation's analysis of how the bill overall would affect taxpayers in each of the 50 states and the District of Columbia. In addition, the third and fourth columns list the number of individuals affected by the provisions affecting married returns and interest/dividend income.

Due to the way the data is reported, all these figures apply to individual people. Therefore, a couple filing jointly in Alabama, for example, could look forward to two times $562, or $1,124 in tax relief over five years.

People in high-income, high-tax states would save the most, as is the case in most any federal tax cut. Taxpayers in New York, Connecticut, Delaware, and Florida would save more than $700 per filer. Rounding out the top five is California where taxpayers will save $689 each.

However, the range of savings is fairly narrow, with the lowest savings being $499 per filer in Alaska. Mississippi, South Carolina, Louisiana, and Tennessee are the other states in the bottom five, where savings range from $510 per filer in Mississippi to $554 per filer in Tennessee.

H.R. 4579 Taxpayer Relief Act of 1998
Tax Relief by State, FY 1999 - 2003

	Tax Relief Over 5 Years		Memo:	Memo:
	Total ($Millions)	Per Filer*	Individuals Receiving Marriage Penalty Relief*	Individuals Receiving Interest and Dividend Income Relief*
Total	$80,069	$633	48,000,000	68,000,000
Alabama	$1,098	$562	741,456	835,798
Alaska	196	499	149,039	183,086
Arizona	1,140	589	734,517	938,943
Arkansas	624	561	422,528	482,245
California	9,912	689	5,461,469	7,475,104
Colorado	$1,148	$603	722,598	1,077,567
Connecticut	1,259	740	645,719	1,151,189
Delaware	264	715	140,347	202,409
Florida	4,902	701	2,653,781	3,507,438
Georgia	1,946	573	1,289,384	1,466,392
Hawaii	$410	$675	230,430	400,993
Idaho	325	614	200,896	277,355
Illinois	3,877	661	2,225,431	3,390,562
Indiana	1,623	569	1,082,702	1,548,583
Iowa	842	605	528,133	877,806
Kansas	$792	$646	465,400	711,746
Kentucky	1,035	599	656,708	820,230
Louisiana	1,037	549	716,633	783,953
Maine	369	609	230,089	360,367
Maryland	1,689	661	970,023	1,493,146
Massachusetts	$2,042	$663	1,169,515	2,011,730
Michigan	2,686	582	1,753,223	2,621,703
Minnesota	1,444	627	874,607	1,407,371
Mississippi	603	510	449,407	412,942
Missouri	1,624	638	966,131	1,358,798
Montana	$261	$616	160,560	250,332
Nebraska	546	662	313,332	497,919
Nevada	465	592	298,434	349,624
New Hampshire	375	624	228,376	379,842
New Jersey	2,615	632	1,570,600	2,577,221
New Mexico	$441	$560	298,955	358,037
New York	6,633	771	3,265,140	5,247,892
North Carolina	2,037	577	1,341,296	1,691,949
North Dakota	188	596	120,070	194,494
Ohio	3,399	598	2,157,989	3,107,644
Oklahoma	$880	$598	558,020	694,706
Oregon	958	628	578,718	867,776
Pennsylvania	3,753	634	2,248,608	3,601,914
Rhode Island	323	658	186,529	292,420
South Carolina	927	528	667,231	749,346
South Dakota	$222	$618	136,408	203,347
Tennessee	1,404	554	961,897	1,138,771
Texas	5,134	597	3,262,893	3,704,445
Utah	488	570	325,047	476,355
Vermont	189	644	111,616	183,723
Virginia	$2,015	$617	1,239,140	1,751,870
Washington	1,585	592	1,016,322	1,555,196
West Virginia	436	565	293,200	391,722
Wisconsin	1,557	608	971,833	1,661,057
Wyoming	145	606	90,601	133,600
District of Columbia	$205	$664	117,020	141,340

* A couple that filed a joint return last year counts as two individuals in this column.

Source: Tax Foundation calculations using IRS and Joint Committee on Taxation forecasts.

The Tax Foundation's 61st National Conference and Annual Dinner

Conference and Dinner Schedule

National Conference

11:30 a.m. Registration

12 noon Buffet Lunch

12:30 p.m. Welcome
Dr. J.D. Foster
Executive Director and Chief Economist
Tax Foundation

12:40 p.m. Keynote Address: A Federal Legislative Perspective on Electronic Commerce

1:30 p.m. Introductory Speaker: What Is Electronic Commerce?
Mr. Harris Miller
President, Information Technology Association of America

2:10 p.m. Break

2:30 p.m. Panel One: Taxation of Electronic Commerce—A Governmental Perspective
Mr. Jeffrey Owens
Directorate for Financial, Fiscal and Enterprise Affairs
Organization for Economic Cooperation and Development
Dr. Joann Weiner
Office of Tax Analysis
Department of the Treasury
Mr. Harley Duncan
Executive Director
Federation of Tax Administrators

3:45 p.m. Panel Two: Taxation of Electronic Commerce—A Business Perspective
Ms. Dina S. Shapiro
Vice President, Citicorp
Ms. Brigitta Pari
Tax Counsel
Senate Finance Committee
Mr. John Harrington
Tax Counsel
House Ways & Means Committee
Ms. Carla Howard
Tax Counsel
Electronic Data Systems
Mr. Pat Nugent
Director of Tax Legislative Affairs
MCI Worldcom

5:00 p.m. Closing Remarks

Annual Dinner

6:00 p.m. Reception

7:00 p.m. Dinner

10:00 p.m. After-Dinner Reception

How to Attend

Please return the registration form below with payment to:

Tax Foundation
1250 H Street, NW, #750
Washington, DC 20005
Attn: Renée A. Nowland

Conference fee:
TF Donors: $250; non-donors: $300

Reception/Dinner fee:
$500 per person; $ 4,000 per table

Make checks for either the conference or dinner payable to "Tax Foundation," or pay by Visa or MasterCard.

The Tax Foundation must receive your conference and dinner reservations by November 13, 1998. Written cancellation for refunds accepted through this date only.

Dinner Attire:
Black Tie

Where and when:
Thursday, November 19, 1998
The Four Seasons Hotel
Corcoran Ballroom
2800 Pennsylvania Avenue, NW
Washington, DC 20007

For hotel reservations, call the Four Seasons Hotel directly: 1-800-332-3442

Please direct any questions to:

Renée A. Nowland
202-661-4223
202-783-6899 fax

Registration Form

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FOUNDATION MESSAGE

First Things First

The House Ways and Means Committee recently passed a bill cutting taxes by $80 billion over the next five years. Opponents cried we must save Social Security first. While Social Security is, indeed, in trouble and demands attention, these lamentations are nevertheless astounding.

To review quickly, Social Security suffers from two fatal problems. The first is that it is going broke. While Social Security receipts currently exceed benefits paid, in a few years this will flip and Social Security will run a deficit indefinitely. Some years later still the "Trust Funds" will run dry and Social Security will be bankrupt.

The second problem is that Social Security offers its beneficiaries a terrible return on their payroll tax contributions. While estimates vary, the clear consensus is that the investment return on Social Security contributions is somewhere between minus 2 percent and plus 3 percent, depending on a number of factors. Opponents have seized upon the recent decline in the stock market to argue that Social Security is the safe bet, but the fact remains that private pensions have always offered rates of return at least three times higher than offered by Social Security.

Recognizing the pending bankruptcy in his State of the Union speech last February, President Clinton called on Congress to reform Social Security before cutting taxes. Given the magnitude of projected surpluses at that time and the magnitude of Social Security's problems, that was a welcome position.

Having seen the President elevate Social Security's problems to the top of the stack, one would expect him to follow up with his proposed solutions; and, if not solutions, then directions to study the issue leading to solutions; and, if not a study, then at least a hint as to where he sees a direction. Nothing. Since issuing his clarion call the Administration has done nothing but repeat the call, which now seems more like a busy signal.

J.D. Foster, Ph.D.
Executive Director & Chief Economist
Tax Foundation

Many Members of Congress from both parties were relieved that the President took the initiative with respect to Social Security. They have long recognized the problems, but were afraid to raise them because Social Security had been the well-known "third rail" of American politics, fatal to anyone who dared touch it. By getting in front, the President made it much safer to talk about the problems.

Unfortunately, most Members who now actively oppose the Ways and Means Committee's tax cut have also been inactive on Social Security reform. Their lack of attention to Social Security when, as they have insisted, it is such a large and important issue, raises a cynical question. Do they really want to address Social Security, or lacking better arguments are they just using the Social Security crises to derail tax cuts.

There is another odd aspect of this debate. The Congressional Budget Office has projected the cumulative budget surplus over the next ten years to be about $1.6 trillion. It is, of course, always risky to put too much confidence in short-term forecasts, to speak nothing of long-term projections. Nevertheless, any policy change, or no change at all, must be based on some figures and these are the best we have.

The odd aspect of the debate, however, is not this forecast, but why a tax cut of $80 billion over five years would in any way threaten or jeopardize our subsequent ability to reform Social Security. Even without a plan, does the Save-Social-Security-First crowd really believe that the "cost" of saving Social Security will approach $1.6 trillion? If they do, then they are irresponsible not to say so immediately.

There seems to be a consensus, however, that reforming Social Security is likely to cost far less than the projected $1.6 trillion budget surplus. Unless the tax cut's opponents truly believe otherwise, then using Social Security reform as the basis for opposing a tax cut averaging about $16 billion a year is baloney.

Opponents of tax cuts have one last use for Social Security. They argue that we only have a budget surplus because the consolidated budget includes the Social Security surplus, implying that Social Security really ought to be kept separate. If Social Security were separate, the reported budget surplus for 1998 would vanish and the whole surplus-based argument favoring tax cuts would vanish along with it. This is a curious argument, indeed, and it will be interesting to see if their desire to exclude Social Security from the consolidated budget is sustained once Social Security goes into deficit in a few years.

More to the point, however, it is a spurious argument. There is no more reason to exclude Social Security from the calculation of the budget surplus or deficit than any other program. While differing in important details, fiscally, Social Security is like any other program receiving taxpayer monies and distributing them. Separating Social Security from the rest of the budget would merely reinforce the illusion that it is unique.

By any measure — Tax Freedom Day, the per capita tax burden, taxes as a percent of Gross Domestic Product — the national tax burden has risen consistently and rapidly in recent years. It has risen so fast that we are now expecting sizable budget surpluses. Unless there are compelling and well defined reasons for withholding these monies from the taxpayers, then it follows that sizable tax cuts are in order, at least for those years and until we see a serious effort at Social Security reform. After all, as Chairman Archer has said, it's the taxpayers' money.

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Tax Foundation
(202) 783-2760 Tel
(202) 783-6868 Fax
www.taxfoundation.org
tf@taxfoundation.org

Annual Conference Investigates "Taxation of Electronic Commerce"

Students Join Tax Professionals in "College Classroom Project"

The subject of the Tax Foundation's 61st National Conference is "Taxation of Electronic Commerce," and the speakers will examine the issue from a federal legislative perspective, a governmental perspective, and a business perspective. (See page 6.)

The conference will begin with an overview of electronic commerce—broadly defined as the use of computer networks to advertise, sell and distribute goods and services.

The keynote address will focus on federal legislative issues in the taxation of electronic commerce and telecommunications, including the Internet Tax Freedom Act (H.R. 4105). Mr. Harris Miller of the Information Technology Association of American will follow with an overview of the development and future growth of global electronic commerce.

By its very nature electronic commerce often causes goods and services to cross national and state boundaries. Therefore, national, state and local governments are struggling to apportion the income among taxing jurisdictions in a way that avoids smothering electronic commerce under multiple layers of taxation. This will be the subject of the afternoon's first panel.

The second panel will feature congressional staff and representatives from firms that are pioneering e-commerce. They will discuss the evolving tax treatment of e-commerce, especially the difficulties of complying with laws written for conventional commerce.

"Next Generation" Tax Professionals

As part of the Tax Foundation's "College Classroom Project," professors from local colleges are able to bring a select group of students to attend the conference. If you are interested in bringing students or sponsoring their attendance, please call Renée Nowland at 202-661-4223.

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