MONTHLY TAX FEATURES

Volume 25, Number 5, May 1981

Tax Foundation, Incorporated

1875 Connecticut Avenue, N.W. ☐ Washington, D.C. 20009 ☐ 202-328-4500 ☐

23 States' Tax Bills Topped Grants-in-Aid From U.S. Government

"You get what you pay for." Not necessarily. For 23 "paying" states, Federal grant programs cost more in tax dollars than the citizens of those states received back in the form of grants-in-aid. Tax Foundation economists annually tally up how much each state pays in taxes to the national government, both for all Federal operations and for grant-in-aid programs alone. The latter figure is compared with the various grants-in-aid coming to the states from Uncle Sam. In fiscal 1980, 23 states paid more than they received.

Topping the list of "paying" states was Texas, which sent $1.40 in taxes for a dollar of Federal aid. (Last year, the Lone Star State was second, with a "cost" of $1.36 for each $1 from Washington.) Connecticut was second, with a tax payment of $1.35 per aid dollar, followed by Indiana ($1.34), Ohio ($1.27), and Florida ($1.23).

At the top of the "receiving" list was Vermont, which "paid" only 45 cents for each $1 of Federal aid, followed by: South Dakota (48 cents), Alaska (52 cents), Mississippi (53 cents), and Montana (60 cents).

In working out the comparison of Federal taxes with Federal grants-in-aid, Foundation researchers include general revenue sharing and trust fund aids, but they do not count

(Continued on page 4)

Income Security Costs Consumed 34 Cents of Worker's Tax Dollar

The Federal government will spend $655 billion in fiscal year 1981. In order to make this staggering figure more comprehensible, Tax Foundation economists computed what one worker's tax share of that spending would be and how that tax burden would be divided among the various functions in the Federal budget.

The worker they chose is the sole source of support for a wife and two dependent children. He earns $22,000 a year, close to the median U.S. family's income. His total Federal tax bill for 1981 is $6,339.

The largest single bite from this worker's Federal taxes goes to what is called income security—outlays for retirement, disability, and other social security payments and to welfare. That represents just over 33.6 percent of this worker's tax bill, or a total of $2,127. The nation as a whole spends more than $229 billion for income security.

Second in line is defense spending, which accounts for 23 cents out of every dollar paid—$1,501 per year. In addition, about 11¢ of each tax dollar must go just to pay the interest

(Continued on page 3)

How the Federal Government Will Spend A Worker's Tax Dollars in Fiscal 1981[a]

Function	Worker's share: Amount	Worker's share: Percent of total	Total amount (millions)
Income security	$2,127	33.55	$229,675
National defense	1,501	23.68	162,115
Interest	716	11.29	77,250
Health	618	9.75	66,725
Education, training, employment, and social services	283	4.47	30,565
Transportation	222	3.51	24,047
Veterans' benefits	207	3.27	22,372
Natural resources and environment	127	2.00	13,676
International affairs	105	1.65	11,278
Community and regional development	95	1.50	10,257
Energy	86	1.35	9,250
General purpose fiscal assistance	63	1.00	6,832
General science, space, and technology	58	.91	6,215
General government	47	.74	5,096
Administration of justice	44	.69	4,732
Commerce and housing credit	30	.47	3,233
Agriculture	11	.17	1,161
Total	$6,339	100.00	$655,173[b]

[a]In this example, the worker is the sole source of support for his wife and two dependent children; he earns $22,000 a year.
[b]After deducting from the above $29,305 million in undistributed offsetting receipts, not classified by function.
Source: Total spending as estimated in the revised budget presented in March 1981; worker's share computed by Tax Foundation.

The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Who Owns America?"

On April 2, Alan J. Pifer, President of the Carnegie Corporation of New York, one of the 15 largest foundations in the country, addressed the Federation of Protestant Welfare Agencies in New York. His talk, "The Trends of the 1980's: Where Are They Leading Us?" was reported in the *New York Times* the next day and widely circulated by the FPWA.

Mr. Pifer set up—and then knocked down—what he categorized as "some very large myths about the history of the past two decades." Space does not permit me to examine all six "myths" proposed by Mr. Pifer.

I do wish to address one "myth," however, because I feel it is central to understanding so much that is askew in the current debate of taxing and spending.

The "myth," in Mr. Pifer's words, is "that federal spending is 'out of control.'" He goes on to say, "The facts hardly support such a claim since the federal budget, measured as a proportion of GNP, is less than 5 percentage points larger today—23 percent as opposed to 18.1 percent—than it was twenty years ago."

The Carter Budget for fiscal 1980 puts the Federal budget in 1961 at 18.6 percent of GNP, $94.4 billion out of a total $508.3 billion. The Reagan Budget for fiscal 1981 estimates a Federal budget for 1981 at 23.3 percent of GNP, $662.7 billion out of a total GNP of $2,843.7 billion.

Forget the differences in our figures for 1961. One thing is quite apparent: Not only has the pie been expanding for twenty years, but the Federal government has been taking a progressively larger slice of that growing pie. Mr. Pifer may see nothing wrong with this. I do.

It boils down to, Who owns America? Behind the thinking of those who find acceptable a nearly 5 percent growth in the amount of our national wealth siphoned off by the public sector lies the philosophy that gave birth to the so-called "tax expenditure" concept: The wealth of the nation belongs to the government, except for that portion which the government decides to leave in the hands of individuals. Such is not my understanding of the American economic system.

I hold no brief against Alan J. Pifer. But the economic viewpoint which his speech embodies isn't limited to after-luncheon talks. It has brought us, in addition to the tax expenditure concept, increasing tax bites, the so-called windfall profits tax (really an excise tax on oil at the wellhead), sunsetting, and entitlement programs. And against those notions, and the thinking that spawns them, I do hold a brief—and a very serious one indeed. For I believe that the people own America—and the wealth they have created through productive enterprise.

About Tax Features

Tax Foundation, Incorporated, is a nonprofit organization engaged in nonpartisan research and public education on the fiscal and management aspects of government. It is supported by voluntary contributions from corporate and individual sponsors, nationwide.

For additional information, write to Tax Foundation, Incorporated, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009, or call (202) 328-4500.

Archer Traces Roots of Problems In Social Security Trust Fund

"I have watched the social security system nearly destroyed in the 16 years I have been in Congress," Representative Bill Archer (R-Tex.) recently told the annual meeting of the National Taxpayers Conference. Despite the imperiled state of the system, however, Archer also pointed out that he was "more optimistic about the U.S." than he has been since he came to Washington.

Archer disagreed with those who say that the system is in trouble because of the "inflationary escalator," which automatically gives retirees an increase equal to the C.P.I. and with those who want to change the way in which the C.P.I. is calculated.

"I'm not sure I agree with those who say let's change the formula," he said, "because if we change the formula on the inflationary escalator, it may work to help the program now. But five years from now, all these things may be distorted once again—interest rates may come back down—and all of a sudden you are paying a bigger amount out than you are today." Archer called changing the formula "a two-edged sword" and argued that it was "not the answer to the social security problem."

The Texas Republican traced the roots of the system's current difficulties to 1971 and 1972 when Congress increased "benefits across the board 32 percent when inflation was running 4 percent a year." Without those increases, Archer said, social security "would be viable today," even if there had been an inflationary escalator in the system since its inception. In fact, he said, there would have been "a surplus, a tremendous surplus in the fund," if those hikes had not been voted.

Rooting the problems in political decisions by Congress to "increase the benefits in excess of inflation to get more votes from the elderly," Archer faulted actions by the Congress to increase benefits by 10 percent in 1971, 20 percent in 1972, and 7 percent plus the inflationary escalator in 1973. "In those three years," he said, "we increased social security benefits [allowing for a compounding effect] across the board by 40 percent, and then we added the inflationary escalator. No wonder we have problems today."

Archer claimed that actuarial extrapolations indicate that decisions made in 1971-73 "built into the system a $4 trillion deficit over the next

(Continued on page 3)

Aide Calls "Reagan Federalism" A Major Administration Goal

Calling "Reagan Federalism" one of the President's three major goals, Robert B. Carleson, Special Assistant to the President for Policy Development, explained why and how the President is seeking to "move authority and responsibility from the Federal level to the state and local levels" to a meeting of state tax research association executives on April 27, 1981.

Carleson was one of the principal speakers at the annual meeting of the National Taxpayers Conference, an organization of tax research associations in 33 states joined together to facilitate the exchange of information and coordination on problems of common concern.

President Reagan, he said, believes that his Administration should be doing "almost everything that we can do in almost every subject matter area, across the domestic government, to bring authority and responsibility from the Federal level to the state and local levels." The White House, he said, has put "the burden of proof" on existing programs that they should remain primarily Federal programs.

Conceding that some things, like social security, obviously involve a "heavy Federal role," Carleson charged, "We are, in effect, shifting the burden of proof." This applies to policy-making decisions and allocations of regulatory authority as well as to spending decisions. Carleson categorized the block grant as one of the tools "involved in getting from where we are today to where we want to be in the future."

While he admitted that the block grant approach was being used in part as a way of reducing spending, Carleson asserted that "the block grant and its movement from the Federal to the state and local level would have been done even if the economy were in excellent shape." Given the present state of the economy and the need to "bring inflation under control," Carleson explained that the block grant has become "a process that helps us to ameliorate the cutting that's going on and will permit these limited funds to be used more effectively by decision-makers at the state and local levels."

Under the block grant system, Carleson explained, decision making power will be vested in the governors and state legislators, who "will have to decide how much money they are going to spend on one function and how much on another." This is a rather mixed blessing, he said, since "at the present time, they have the Federal government to blame. . . . Along with this new authority and responsibility comes political heat." In trying to implement the new Federalism, he said, "we have found that there are some state people who have been asking for discretion for a long time, but who are now trying to find almost every reason in the book for delaying or for not getting this kind of authority and this kind of discretion."

Carleson held out little hope for those who complain that the shift to block grants is happening too fast. "Because of the economic situation and the absolute need to get the economy going again, to get inflation down and adopt the package as soon as possible," he said, "everybody is going to have to be in a state of non-business-as-usual."

(Continued on page 4)

Currently Available

"Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1981, 6 pages, single copies free.

"Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977," Government Finance Brief No. 31, 31 pages, $2.50.

"The Reagan Budget for Fiscal 1982—A Summary," A Tax Foundation Special Report, April 1981, 27 pages, $1.00.

Worker's Taxes

(Continued from page 1)

due on the national debt. That will take $716 from the household budget this year.

General government—the cost of running the government which taxes him—costs this American worker slightly more than 0.7 cents of every tax dollar paid to Uncle Sam. That's $47 of his total tax bill.

Most revenues are collected by the Federal government through the Federal income tax system, which claims $2,423 from the worker's annual earnings. Social security taxes take another $1,463. Numerous indirect taxes, such as the employer's share of social security taxes, corporate income taxes, excise taxes on liquor, gasoline, tobacco, and air travel, claim another $2,453.

The table on page 1 gives complete figures on how the Federal government spends the taxes paid by a worker earning $22,000 per year in fiscal 1981.

Rep. Archer

(Continued from page 2)

25 years." He told the tax researchers, "Finally, the Congress has reached a point where there's no easy answer to social security. We can't keep promising and promising and promising. And I am happy to tell you that I see, on a bipartisan basis on the Social Security Subcommittee, a desire to truly try to constructively rectify social security."

One major problem Archer cited was the need to keep the Subcommittee and the Congress as a whole from tapping general Treasury funds. The reason for staying away from general funds to bolster the system, he said, was because "the Treasury has less money than the social security fund does and a bigger deficit."

"But there are those who would like to go into the Treasury," he cautioned, "and say, well, the answer to social security is just take that money out. And there's not a one of them that has yet recommended that we provide a tax to put that money into the Treasury."

Taxes vs. Aid

(Continued from page 1)

"shared revenues," such as payments in lieu of taxes on Federal lands in certain states.

The average "paying" state had to fork over $1.18 for each dollar received back in Federal aid last year. But the Federal tax burden does not end the costs incurred by states benefiting from Uncle Sam's largesse, according to Tax Foundation economists. In order to administer the programs funded by the grants, state and local governments must come up with matching funds, in most cases. These, together with administrative costs, must be allocated from revenues raised locally. In 1980, every $2.50 of Federal aid required about $1 in matching funds from either state or local government units.

Federal grants-in-aid cover a wide range of programs. Of the 100 or so separate areas targeted by such aids, the largest are Medicaid ($14.0 billion), highway construction ($8.8 billion), welfare maintenance assistance ($7.1 billion), general revenue sharing ($6.8 billion), employment and training assistance ($6.2 billion), and wastewater treatment facilities ($4.3 billion).

The 23 paying states sent Washington $58.5 billion in taxes and received back about $49.7 billion. The remaining $8.8 billion went to the District of Columbia and the 27 states who paid less than $1 in taxes for each $1 of Federal aid.

Each state's tax costs for all grant programs are computed by a special formula devised by Tax Foundation economists. The tax costs are then compared to actual dollar amounts of grants received by each state, as reported by the Federal Treasury.

The accompanying table gives details for all the states and the District of Columbia. Individual copies of the full "Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1981," are available free from the Tax Foundation.

Federalism

(Continued from page 3)

Carleson answered the charge that the block grant system would simply create a state and local bureaucracy to replace the eliminated Federal bureaucracy by asserting that the personnel already exist at the state-local levels. "They're there primarily because of having to deal with all of these Federal requirements," he said.

He explained that one of the major challenges the Administration faces is avoiding efforts by special interest groups to keep their programs earmarked or categorized. "One of the battles we're going to have to wage," he said, "is to make sure each of these blockgrants stays as pure as we can make it." Another battle he described was the transfer of control to state-local levels. "People in Washington," he said, "just can't believe that we want to let the states make these kinds of decisions."

Federal Grants-in-Aid to State and Local Governments and Estimated Federal Tax Burden for Federal Grants
Fiscal Year 1980

	Millions		Tax burden per dollar of aid	
State	Grants[a]	Estimated tax burden for grants[b]	Amount	State rank
TOTAL	$88,636.7	$88,636.7	$1.00	—
Alabama	1,556.2	1,134.6	.73	40
Alaska	441.9	230.5	.52	48
Arizona	823.0	930.7	1.13	13
Arkansas	934.7	629.3	.67	42
California	8,723.0	10,450.3	1.20	9
Colorado	965.3	1,161.1	1.20	8
Connecticut	1,156.8	1,560.0	1.35	2
Delaware	275.3	257.0	.93	26
Florida	2,851.1	3,501.2	1.23	5
Georgia	2,370.3	1,701.8	.72	41
Hawaii	463.2	390.0	.84	31
Idaho	369.6	292.5	.79	35
Illinois	4,476.1	5,300.5	1.18	10
Indiana	1,608.1	2,153.9	1.34	3
Iowa	994.4	1,125.7	1.13	12
Kansas	816.7	983.9	1.20	7
Kentucky	1,462.3	1,143.4	.78	36
Louisiana	1,563.3	1,418.2	.91	28
Maine	522.5	328.0	.63	45
Maryland	1,886.2	1,843.6	.98	24
Massachusetts	2,886.5	2,313.4	.80	33
Michigan	3,926.1	4,041.8	1.03	20
Minnesota	1,664.8	1,595.5	.96	25
Mississippi	1,177.8	629.3	.53	47
Missouri	1,698.2	1,852.5	1.09	18
Montana	459.7	274.8	.60	46
Nebraska	545.8	602.7	1.10	15
Nevada	322.0	354.5	1.10	17
New Hampshire	345.4	354.5	1.03	21
New Jersey	2,832.9	3,439.1	1.21	6
New Mexico	563.6	416.6	.74	39
New York	9,569.4	7,277.1	.76	38
North Carolina	1,927.5	1,772.7	.92	27
North Dakota	342.6	230.5	.67	43
Ohio	3,433.3	4,352.1	1.27	4
Oklahoma	1,057.9	1,108.0	1.05	19
Oregon	1,015.1	1,037.1	1.02	22
Pennsylvania	4,514.5	4,609.1	1.02	23
Rhode Island	477.4	363.4	.76	37
South Carolina	1,065.4	877.5	.82	32
South Dakota	439.5	212.7	.48	49
Tennessee	1,623.7	1,453.6	.90	29
Texas	3,961.2	5,539.8	1.40	1
Utah	547.5	434.3	.79	34
Vermont	355.4	159.5	.45	50
Virginia	1,807.9	2,056.4	1.14	11
Washington	1,632.3	1,799.3	1.10	16
West Virginia	949.5	602.7	.63	44
Wisconsin	2,023.4	1,799.3	.89	30
Wyoming	190.8	212.7	1.11	14
District of Columbia	1,019.6	328.0	.32	51

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