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Federal Debt Interest Increases 600% Over Two Decades

Highlights of data contained in the 20th edition of *Facts and Figures on Government Finance* appeared in the last issue of *Monthly Tax Features*. Additional highlights given below help to round out the fiscal portrait of the United States presented in that newly updated reference volume.

• *The more Americans produce, the more Uncle Sam takes—and spends.* Federal spending as a percent of Gross National Product (GNP) has increased steadily over the last two decades, from 18.5 percent ($90.3 billion) of a $497.3 billion GNP in 1960 to an estimated 21.2 percent ($531.6 billion) of a $2.5 trillion national product. An increase of 2.7 percentage points in 20 years may seem small, until it is pointed out that each percentage point of GNP now equals $25 billion. Over the 20-year period, the "small" rise in the ratio of Federal spending to GNP accounts for $68 billion of total 1980 outlays.

• *Federal debt is slowing.* While Federal spending has continued to climb, the year-end Federal debt has actually been declining as a percentage of GNP. In 1960, the Federal government owed $290.9 billion, 58.5 percent of that year's gross output. The 1980 year-end debt of $899.0 billion will represent 35.9 percent of

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Per Capita Outlays Hit $3,783

Federal, state, and local government expenditures will total almost $830 billion in fiscal 1979, up by about 9 percent from 1978, according to Tax Foundation estimates.

This total will be the equivalent of $10,692 for each of the more than 77.5 million households in the nation, or $3,783 for each of the country's 219 million resident men, women, and children.

Federal spending, including grants to state and local governments, will constitute almost two-thirds of total outlays by all levels of governments.

Currently government outlays are over 11 times as large as they were at the middle of the century. Since then, spending by Federal and state-local levels has grown at about the same pace.

However, at certain points during that period, there have been different growth rates for the national and subnational levels. During the 1950s, for example, Federal outlays grew somewhat more rapidly than did state-local outlays while, during the 1960s, this pattern was reversed, with state and local spending growing more rapidly than Federal.

In the last four years, from 1975 to 1979, Federal spending growth has outpaced that of state and local governments by a significant margin. Federal spending has increased at the rate of 11.8 percent annually, 50 percent faster than the 7.9 percent annual growth in state-local spending.

It should be noted that Federal grants-in-aid, which eventually become direct expenditures of states and localities, are included in Federal expenditures in these comparisons, and are excluded from the state and local totals.

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Federal, State, and Local Government Expenditures[a]
Selected Fiscal Years, 1950-1979

Year	Amount (billions): All governments	Federal	State and local	Total expenditures: Per household	Per capita
1979[b]	$829.6	$531.8	$297.8	$10,692	$3,783
1978[b]	759.7	483.3	276.4	9,997	3,493
1977	680.3	430.6	249.7	9,173	3,153
1976	625.1	389.9	235.2	8,615	2,922
1975	560.1	340.5	219.6	7,899	2,639
1970	330.0	208.2	124.8	5,269	1,643
1965	205.7	130.1	75.6	3,595	1,069
1960	151.3	97.3	54.0	2,878	847
1950	70.3	44.8	25.5	1,614	466

[a]Grants-in-aid are counted as expenditures of the first disbursing unit.
[b]Tax Foundation estimates.

Source: Tax Foundation computations based on basic data from Bureau of the Census.

Federal Debt

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that year's GNP. However, the actual amount of the Federal debt has more than tripled from 1960 to 1980. Moreover, the *costs* to the taxpayer of the "slowing" debt are rising sharply. Estimated 1980 interest payments of $57.0 billion will be nearly 600 percent higher than the 1960 interest costs of $8.3 billion. During the same period, GNP rose an estimated 400 percent.

• *Some costly items in Washington's market basket.* All Federal spending, not surprisingly, has grown in the last two decades. But some items have grown more rapidly than others, changing the "mix" of the government's shopping list. National defense was a big-ticket item in 1960 ($45.9 billion) and continues to claim a large portion of Federal revenues ($125.8 billion, estimated, for 1980), a 174 percent increase in 20 years. Income security (social security, public assistance, Federal employee retirement, and similar items) has caught and passed military spending, registering an increase of almost 900 percent—from just under $18 billion in 1960 to just under $180 billion, estimated, for 1980. The budget category covered by education, training, employment, and social services has also seen notable growth, from $1.3 billion in 1960 to $30.2 billion, estimated, in 1980, an increase of nearly 2,250 percent.

• *HEW will claim nearly 40 percent of the Federal budget.* President Carter's 1980 budget allocates $199.4 billion to programs administered by the Department of Health, Education, and Welfare, out of a projected spending total of $531.6 billion. Ten years ago, HEW's budget was $52.2 billion, well under 30 percent of a total $196.6 billion Federal budget. Next in size of share of the Federal budget comes the Defense Department—$125.4 billion, estimated, in 1980 compared with $78.4 billion a decade ago.

• *Social Security Trust Fund balance will rise.* The 1982 balance in the old-age and survivors insurance trust fund—a part of social security—is estimated at $36.2 billion, up from $26.8 billion in 1978. The fund has been declining since 1974 and is projected to fall further until 1981, when sharp payroll tax increases take effect.

Annual contributions (employer and employee taxes) for the OASI fund are projected at $114.9 billion in 1981, or $5.5 billion more than benefit payments in that year. If these projections materialize, 1981 will be the first year since 1974 that annual OASI benefit payments have not exceeded current tax collections.

• *Three-fourths of Federal spending is uncontrollable under current law.* Of the $532 billion the Federal government will lay out in 1980, $404 billion is classified by the Office of Management and Budget as "relatively uncontrollable under present law." At the beginning of this decade, $126 billion, or 64 percent, of a total $197 billion was so categorized. "Uncontrollable" items in the 1980 Federal budget include such categories as: social security and railroad retirement ($120.4 billion); Federal employees retirement and insurance ($25.7 billion); unemployment assistance ($13.2 billion); veterans' benefits ($13.7 billion); Medicare and Medicaid ($46.2 billion); public assistance and related programs ($26.2 billion); and outlays from prior-year contracts and obligations ($87.9 billion).

Facts and Figures on Government Finance, 20th edition, is available from the Tax Foundation. Single copies, $10.

About Tax Features

Tax Foundation, Inc., is a publicly supported, non-profit organization engaged in non-partisan research and public education on the fiscal and management aspects of government. Members of Tax Foundation are urged to pass their copies of *Tax Features* along to editors of their house publications.

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Reminder

November 28th has been set as the date for Tax Foundation's 31st National Conference and 42nd Annual Dinner, which will be held at the Plaza Hotel in New York City, as they were last year.

Because mid-Manhattan hotel occupancy is over 90 percent, with rooms booked well in advance, it is recommended that those planning to attend the Conference or the Dinner reserve hotel accommodations as soon as possible.

The next issue of *Monthly Tax Features* will provide further details about the program and the invited speakers.

Also Available

The following publications are currently available from Tax Foundation:

• "A Value-Added Tax for the United States? Selected Viewpoints." (Special Report), $2.00.

• "Tax Policy for a Healthier Economy." Proceedings of Tax Foundation's 30th National Conference (1978), $5.00.

• "Proposed Federal Budget for Fiscal Year 1980, a three-part analysis:

I. Unified Budget and an Alternative Concept.

II. Payments to Individuals and to State-Local Governments.

III. Federal Employment and Personnel Costs." Single copies of Parts I, II, and III are available free of charge.

• "The Tax Expenditure Budget: An Exercise in Fiscal Impressionism" by Richard E. Wagner. Government Finance Brief No. 29, $2.50.

Wallich Calls U.S. Economy Biased Against Producers

Is the consumer king, as free-market economists have asserted down the years? Very much so, says Federal Reserve Governor Henry C. Wallich in the current issue of Tax Foundation's *Tax Review*.

And because that regal status is conferred not only by market forces, but by government legislation and regulations, our economic system is running into trouble.

"In large part," says Wallich, "the thrust of these laws and regulations is to improve the lot of the consumer at greater or lesser expense to the producer. Today, their ultimate consequence is becoming obvious to all: Producers cease to be efficient, their costs go up, the consumer pays more, and our standard of living has almost ceased to rise."

While conceding the intimate link that connects the consumer and producer, Wallich questions the validity of the notion that the consumer should be protected against the producer. "The fundamental fact," he says, "is that the consumer cannot live without the producer. In fact, most consumers are also producers."

Wallich points out that the law often seems to ignore this fact, and that present regulatory language frequently uses "consumer" as a synonym for people, individuals, men, or women. "The law wants us to be a nation of consumers, in confrontation, it seems, with our enemy the producer," he observes.

The tax system, too, tends to favor the consumer over the producer, according to the Federal Reserve official. Corporate "profits" are taxed which the "Department of Commerce does not classify as true profits." Taxes on such "phantom profits" leave less money for corporate reinvestment and dividends, which means less expansion of the productive side of the economy.

Corporate dividends are taxed twice, "once as income to the corporation, and again as income to the stockholder," which "cuts down a type of income that has a high probability of being reinvested."

A "steeply progressive" income tax works as a disincentive "even for income earners in relatively modest income brackets," Wallich says, while the non-taxation of social security income makes it more attractive to retire.

Wallich calls the capital gains tax "another instance of anti-producer taxation." He points out that it is aimed "directly at the enterprise and risk-taking that is needed in an economy where investment decisions are made by individuals and not by the state." He flatly asserts, "It penalizes the successful producer."

Savings is another area where consumption is favored over production in Wallich's opinion. "Unlike practices in some other countries," he says, "in the United States the saver gets no special tax advantages." In fact, our tax structure favors borrowing rather than saving. "All the forces of inflation and taxation," Wallich notes, "work against those not in debt."

The situation is worst for the small saver, because of Federally mandated interest ceilings. "The plight of the small saver," Wallich says, "has come very much to the forefront in recent weeks and is under intensive study by government agencies. It urgently calls for redress."

Wallich points out in his essay that savers are, in fact, "among the most important producers, since they produce capital."

The proliferation of government regulation has also served to further tilt the balance in favor of consumption, in Dr. Wallich's opinion. Although he concedes that the goal of most regulations is worthy, the Fed official warns of what he calls "the unintended side effects. Sometimes these side effects simply imply higher costs." He notes, "Sometimes, however, there are unintended anti-competitive effects." He also points out that this bias against productivity especially hits small businessmen and small bankers who cannot afford the personal time or in-house legal talent to cope with "the flood of regulation."

"The final result of anti-producer orientation of the U.S. economy," says Wallich, "is to be read in the productivity statistics," which have shown a sharp downturn since the late 1960s.

"The effort to benefit the consumer has turned against itself," he concludes.

As a remedy for this fall-off in productivity of the U.S. economy, Wallich proposes four steps:

• "We need to restore a better balance in the relative role of producer and consumer.

• "We need to review our tax system.

• "The saver must be given a better break, especially the small saver.

• "The institutionalized outpouring of regulation needs to be restrained."

Per Capita Outlays

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Adding the grants-in-aid to state-local spending raises the yearly growth rate of that spending by almost a full percentage point—to 8.8 percent from 1975-1979—and narrows the difference between growth rates. However, it has little effect on the average annual growth in Federal spending during the period (11.7 percent annually, excluding grants), say Tax Foundation economists. In other words, Federal spending for other functions grew almost as rapidly as it did for grants-in-aid.

During the 1970s through 1979, total government spending rose by 151 percent, per capita spending by 130 percent, and per household spending by 103 percent. As households have become smaller (2.82 persons each in 1979 as compared to 3.14 in 1970), and their numbers have grown more rapidly than the total population, government spending per household has increased less rapidly than spending on a per person basis.

Taking 100% of Top Earnings Would Run U.S. for 5.6 Days

Suppose top income recipients were *really* made to pay. Suppose all income on which people now pay rates above 50 percent were simply confiscated by the Federal government. How much revenue would such a move produce? How long would the added funds keep the Federal government in business? A good deal less than one might suspect, say Tax Foundation economists.

How much income must one have to have some of it taxed at rates above 50 percent? The answer, of course, depends upon marital status and existing tax laws. In 1976, rates of 50 percent or more applied to income for different groups as follows: unmarried taxpayers, $32,000 and over; married taxpayers filing joint returns, $44,000 and over; married persons filing separately, $22,000 and over; and heads of households, $38,000 and over.

In 1976, latest figures available, taxpayers above the 50 percent rate filed 1,323,000 returns, 1.9 percent of all taxable returns filed. Income subject to taxation in brackets above 50 percent totaled $14.7 billion. At existing marginal rates, which averaged 61.6 percent in 1976, the tax yield on this income was $9.1 billion.

Tax Foundation research indicates that, if this income had been taxed at 100 percent—in effect, confiscated—the Treasury would have received an additional $5.7 billion. Federal outlays in 1976 totaled $366.4 billion, which means that the Federal government needed $1.0 billion to meet its bills each day. In 1976, the extra amount to be garnered by skimming the cream off the highest taxable income levels would have run the Federal government for 5.6 days.

What if government were only slightly less generous and decided to cut the top marginal Federal income tax to 60 percent? Taxable income in these brackets totaled $7.6 billion, of which the tax collector picked up $5.1 billion. If all this income had been taxed at 100 percent, instead of 60 to 70 percent, the IRS would have been richer by $2.5 billion—enough to run the government for two and a half days.

Salaries and wages comprised 83 percent of adjusted gross income subject to the Federal individual income tax in 1976. The "individual" income tax applies not only to "persons," but also to net profits of businesses and professions; profits of farms, partnerships, and Small Business Corporations; income from rents and royalties; and other investment income. The top marginal rate on "earned" income is 50 percent. The rate on so-called "unearned" income—from investments and the like—goes up to a maximum of 70 percent.

Federal Individual Income Tax Generated at Each Tax Rate
Income Year 1976

Tax rate[a]	Number of returns with any tax at rate[b] (thousands)	Tax base taxed at rate (millions)	Tax generated at rate (millions)	Percent of total returns[c]	Percent of total tax base	Percent of total tax
14	68,717	$ 55,157	$ 7,722	100.00	8.22	5.0
15	60,814	48,450	7,268	88.50	7.22	4.7
16	61,285	49,541	7,927	89.18	7.39	5.2
17	54,110	43,436	7,384	78.74	6.48	4.8
19	56,790	158,026	29,967	82.64	23.56	19.5
22	39,574	107,396	23,434	57.59	16.01	15.3
25	32,043	77,273	19,154	46.63	11.52	12.5
28	14,316	37,640	10,479	20.83	5.61	6.8
32	9,739	24,523	7,722	14.17	3.66	5.0
36	5,284	14,397	5,151	7.69	2.15	3.4
39	2,879	8,657	3,368	4.19	1.29	2.2
42	2,021	6,850	2,855	2.94	1.02	1.9
45	1,467	5,409	2,434	2.13	.81	1.6
48	991	3,462	1,662	1.44	.52	1.1
50	1,274	15,747	7,873	1.85	2.35	5.1
53	381	2,810	1,489	.55	.42	1.0
55	288	2,033	1,118	.42	.30	.7
58	154	1,222	708	.22	.18	.5
60	147	1,091	655	.21	.16	.4
62	119	1,283	795	.17	.19	.5
64	78	902	577	.11	.14	.4
66	54	666	440	.08	.10	.3
68	41	535	363	.06	.08	.2
69	31	407	281	.04	.06	.2
70	30	3,774	2,642	.04	.56	1.7
14-70	68,717	670,687	153,468	100.00	100.00	100.0

[a] Data for heads of households and unmarried persons at some intervening rates are combined with data in brackets for next highest rate.

[b] Most returns have a tax base taxed at more than one rate. For example, a married couple's taxable income (adjusted gross income minus exemptions and deductions) of $3,000 is taxed as follows: first $1,000 is taxed at 14% (=$140), second $1,000 at 15% (=$150), and third $1,000 at 16% (=$160); the total tax is $450.

Source: Treasury Department, Internal Revenue Service. Percentage computations by Tax Foundation.

Correction

A story in the June-July issue of *Monthly Tax Features* incorrectly stated corporate profits of manufacturers. The article should have stated: In 1977, the average manufacturing corporation's after-tax profits were equal to 5.3 cents per $1.00 of sales and 14.2 cents per $1.00 of stockholders' equity.