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TAX·FEATURES

Social Welfare Outlays Dominate Federal Government Expenditures

Welfare Reform: Will It Be Different This Time Around?

Welfare reform has much in common with 17-year cicadas. Both hibernate for long periods of time, suddenly appear and make a lot of noise, and then fade away without accomplishing much. Welfare reform was last considered seriously in the early 1970s when Richard Nixon proposed his Family Assistance Plan. Now, about 17 years later, Congress and the White House are again trying to reform the welfare system.

There is a broad consensus that the existing system is costly, does not give low-income people adequate work incentives, and targets its benefits poorly. There is widespread agreement that parental responsibility should be fostered by work and child support requirements. Reformers see welfare as part of a "contract" between the government and its citizens. The welfare recipients' obligations are to acquire work skills, accept an available job, and share in the financial support of their children. The government's obligations are to enable low-income persons to become self-sufficient by providing financial assistance, supporting services, and job training.

Reformers see welfare as part of a "contract" between the government and its citizens.

Translating this consensus into specific legislation is a difficult task. Many congressional liberals want to use welfare reform to create new entitlements and to increase Federal spending. Conservatives believe that enhancing benefits would discourage people from becoming self-supporting and would perpetuate welfare dependency.

What's Wrong with the Existing Welfare System?

Welfare is a costly system that has not eliminated poverty in the United States. Welfare expenditures now amount to more than $100 billion a year, yet more than 30 million Americans remain below the government's official poverty line. The argument that

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Governments in the United States paid out more than $670 billion for social welfare programs in fiscal 1984 (latest officially reported). This represented nearly 53 percent of all Federal, state, and local expenditures, according to economists at the Tax Foundation.

Social welfare outlays in 1984 totaled $672 billion—enough to give every man, woman and child in the United States $2,801, according to data recently compiled by the Social Security Administration. This was 5 percent higher than 1983 and more than 4 1/2 times the amount spent as recently as 1970.

The 5 percent advance in spending reported for 1984 was modest by recent standards. During the 1960s social welfare spending rose at an annual rate of nearly 11 percent a year; during the 1970s the rate jumped to almost 13 percent annually. Since 1980 annual growth has averaged just over 8 percent.

Emerging Federal Role

Financing of social welfare programs has gradually shifted more and more toward the Federal government, as compared to state and local units. In 1984, Federal expenditures represented over 62 percent of the total, up from 48 percent in 1960.

Public social welfare programs, as defined by the Social Security Administration, include social security and public employee retirement, Medicare, Medicaid and cash payments under public assistance, unemployment compensation benefits, health, veterans' services, housing, education, and others.

OASDHI Leads the Pack

The largest single social welfare program—Old Age, Survivors, Disability, and Hospital Insurance (OASDHI)—has grown more rapidly than any other social welfare program. Spending for this program now claims more than a third of all social welfare outlays, Tax Foundation economists say.

OASDHI payments in 1984, totaling $239 billion, were six and one-half times their size in 1970. Under the OASDHI umbrella, social security taxes pay for Federal programs for retirement, survivor benefits, disability, and medical care. (According to the Federal budget for fiscal 1988, OASDHI outlays in fiscal 1988 are estimated at $298 billion, over 24 percent higher than in 1984, the latest year covered in the SSA tabulations.)

Education a Distant Second

Until the 1970s, the largest category of social welfare programs was public education. In 1976 education was shifted to second place, leaving OASDHI as the dominant social program. At $152 billion in fiscal 1984, education outlays amounted to 23 percent of all social welfare costs, down from 35 percent in 1970.

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THIS ISSUE:

(SOCIAL SPENDING, *from page 1*)

Social welfare spending grew much more rapidly than GNP between 1950 and 1976, when social expenditures reached a high of 19.5 percent of GNP, up from 8.2 percent in 1950. Since 1976, this ratio has moved up in some years, down in others, and in 1984 social welfare outlays amounted to 18.2 percent of GNP, down from 19.3 percent in 1983. Since the peak year of 1976, social welfare spending has increased at an annual rate of 9.2 percent a year, as compared to average GNP growth of 10.2 annually. Details in table below.

Social Welfare Expenditures under Public Programs By Source of Funds and Type
Selected Fiscal Years 1960–1984
(millions)

Item[a]	1960	1970	1980	1984[b]
Total expenditures	$52,293	$145,856	$492,796	$671,972
Social insurance	19,307	54,691	229,754	342,264
OASDHI	11,032	36,835	152,110	239,395
Public employee retirement	2,570	8,659	39,490	58,888
Unemployment insurance	2,830	3,820	18,326	16,104
Workmen's compensation	1,308	2,950	13,457	19,683
Public aid	4,101	16,488	71,799	89,871
Public assistance	4,042	14,434	44,888	61,000
Health and medical programs	4,464	9,907	27,919	37,864
Veterans' programs	5,479	9,078	21,466	26,127
Education	17,626	50,846	121,050	152,025
Elementary and secondary	15,109	38,632	87,150	110,018
Higher	2,191	9,907	26,176	32,643
Vocational and adult	298	2,144	7,375	9,118
Housing	177	701	7,210	10,374
Other social welfare[c]	1,139	4,145	13,598	13,447
From Federal funds, total	24,957	77,337	302,616	419,264
Social insurance	14,307	45,246	191,162	289,884
Public aid	2,117	9,649	48,667	57,666
Health and medical programs	1,737	4,775	12,688	16,496
Veterans' programs	5,367	8,952	21,254	25,882
Education	868	5,876	13,452	12,979
Housing	144	582	6,608	9,068
Other social welfare[c]	417	2,259	8,786	7,289
From state and local funds, total[a]	27,337	68,518	190,180	252,707
Social insurance	4,999	9,446	38,592	52,381
Public aid	1,984	6,839	23,133	32,206
Health and medical programs	2,727	5,132	15,231	21,368
Education	16,758	44,970	107,597	139,046
Other social welfare[c]	723	1,886	4,813	7,706
	Percentage Distribution			
Total social welfare expenditures	100.0	100.0	100.0	100.0
Federal	47.7	53.0	61.5	62.4
State-local	52.3	47.0	38.5	37.6
Exhibit: total as a percent of GNP	10.3	14.7	18.5	18.2

[a] Subtotals include items not shown separately. Total financed from state and local funds includes minor amounts for veterans' and housing programs.
[b] Preliminary.
[c] Includes institutional care, child nutrition and welfare, vocational rehabilitation, and other social welfare programs not elsewhere classified.
Sources: *Facts and Figures on Government Finance* and recent data from Social Security Administration, Office of Research and Statistics.

'85 Property Taxes Broke $100 Billion Mark

State and local property tax revenues broke the $100–billion barrier for the first time ever in fiscal year 1985 (latest reported), hitting $103.8 billion, more than twice the $51.2 billion they yielded ten years earlier.

Fiscal 1985 collections topped 1984 by $7.3 billion (7.6 percent), but failed to match property tax gains earlier in the 1980s. In 1985, nonproperty taxes grew by 10.0 percent.

Declining Role at State-Local Level

Property taxes lost their role as the single major tax source for states and localities in 1978, largely in the wake of California's Proposition 13. Before 1978, property taxes had provided more than 35 percent of all state and local government tax revenues. In the first two decades of the 20th century, they provided more than four-fifths of all state-local tax revenues. In 1985, property taxes made up 29.7 percent of these total taxes, the lowest percentage on record.

Much of the decline in the relative importance of property taxes has been filled by rising individual and corporate income taxes. These now make up more than 25 percent of state/local taxes, as compared with less than 20 percent in 1975. Individual income taxes during the decade grew at annual rates exceeding 12 percent; corporate taxes at more than 11 percent a year.

Another view of the declining role of property taxes since 1975 is seen by comparing their annual growth rate for the period (7.3 percent) with the sharply higher rate of increase in nonproperty taxes (10.6 percent). Since 1978, sales and gross receipts taxes have been the leading tax source for subnational governments. These levies provided 36.1 percent annually over the past ten years.

Major Source of Local Revenues

Despite its declining role, the property tax remains the leading tax revenue source for local governments. It provided 74 percent of the total in 1985. Although most states impose some type of property tax, the levies generally apply to a narrow base and furnish under 2 percent of total state tax monies.

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(WELFARE REFORM, *from page 1*)

poverty has persisted because the government has starved programs for the poor is not supported by the facts. Adjusted for inflation, the government is now spending twice as much on programs targeted to low-income persons as it did when Nixon proposed his Family Assistance Plan.

Evidence that welfare is not effective can be gleaned from the following anomalies:

- It *is said that* less than $50 billion *could* raise all poor persons above the poverty line. This is much less than the amount currently spent to aid the poor. *To do so, however, would require termination of assistance to the "near poor," persons already above the poverty level.*
- About two-thirds of the assistance to the poor is in the form of noncash benefits such as food stamps, medicaid, and subsidized housing. If these benefits were "cashed out," the government could give each poor family $8,000 a year, much more than it now gives them;
- The Census Bureau has reported that the current data distort the poverty picture. If noncash benefits were included as income, the poverty rate would fall below 10% and 11 million fewer persons would be identified as poor.
- The Advisory Commission on Intergovernmental Relations has found that for each dollar spent, the poverty gap—the difference between the income of the poor and the poverty level—is reduced by less than 50 cents. One reason for this inefficiency is that many welfare recipients are above the poverty line.

The welfare system was established at a time when poverty was concentrated among elderly Americans. That is no longer the case. Almost 40 percent of the poor are children, many of whom live with only one parent. As the face of poverty has changed, the effectiveness of programs aimed at alleviating financial distress has diminished. When welfare serves employment-age adults and their children, it runs the risk of discouraging work.

The "Welfare to Work" Reform

Welfare reform recognizes this changed composition of poverty by emphasizing that public assistance should be an interim measure until recipients are able to support themselves. Under proposals pending in Congress, welfare mothers with children over the age of three could be required to participate in work or training activities. Some bills would also provide increased child care and transportation assistance to enable low-income persons to get a job. States would be required to enforce child-support laws so that parents would not be able to avoid financial responsibility for their children.

These provisions show that today's welfare reform is far different from earlier versions. It was not long ago that "workfare"—the requirement that able welfare recipients take available jobs—was deemed a dirty word in some quarters. Now it is the centerpiece of efforts to overhaul the outmoded welfare system.

Yet the road to enacting reform is paved with proposals to add billions of dollars to the already massive welfare expenditures. The reform bill sponsored by House Democrats would raise government spending by requiring all states to provide benefits to eligible two-parent families and by setting higher Federal reimbursement rates for states that raise benefits. If a state decides to give more money to welfare clients, the Federal government's costs would automatically rise. Moreover, the House bill would allow recipients to remain on welfare by turning down certain low-paying jobs. Whenever they decide that welfare offered a better deal, recipients could continue on it. That does not sound like a powerful work incentive.

The Congressional Budget Office (CBO) has estimated that this bill would add $5.3 billion to Federal welfare costs over the next five years. This would be the in-

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THE FRONT BURNER

By Robert C. Brown
President, Tax Foundation

"Blame It on Washington"

Even in the heyday of machine-style politics, no big city mayor ever had the temerity to run against his own city: James Michael Curley never went to Brookline to run against Boston. Richard Daley didn't head down to Cicero and run against Cook County.

Only Robert F. Wagner, Jr., came close to such brazen shifting of blame. He campaigned in the primary for his third term as mayor of New York City on a reform ticket.

Washington is different. Here, the connection between reality and rhetoric seems to grow more tenuous by the minute. The latest trend is for politicians of every stripe to wreak havoc on the nation during the legislative year and then run for reelection by blaming what they have wrought on the capital city itself, as if it were some sort of evil abstraction personified — a sort of marble and glass Frankenstein's monster.

The last two Presidents have each successfully campaigned as outsiders, attacking what "Washington" has done. The incumbent ran for reelection by attacking what "Washington" had done during his own first term in office. And he scored the second widest margin ever.

Who did what to whom, of course, is somewhat problematic, since members of Congress from both parties were also busily running against "Washington."

Because of such shenanigans, there are those who are beginning to think that calling our nation's capital "Disneyland on the Potomac" does a severe disservice to the great cartoonist. At least Walt Disney never pretended to be doing anything other than nurturing our childlike fantasies. Our nationally elected officials, arguably, are in another business: fostering the national well-being and promoting the common good.

The Spanish language has a handy, somewhat elliptical way of avoiding acceptance of responsibility. If you oversleep some morning, you don't tell the boss, "I'm late because I didn't get up on time." You say, "The clock made me late."

Public officials in Washington have put a new spin on such linguistic legerdemain. From foreign policy to tax policy, from budget cuts to honest cost projections of appropriations programs, no one wants to accept responsibility. "Washington" — whatever that means — did it. No individual is to blame. Of course, the problem is: If no one is responsible, then is anyone really in charge?

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creased amount of spending, not the full cost of welfare. CBO has cautioned that "these estimates are complex and uncertain," meaning that the added costs might turn out a lot higher. If they do, the Federal government would face additional uncontrollable costs because most of the increased benefits would be in the form of entitlements.

It was not long ago that "workfare"—the requirement that able welfare recipients take available jobs—was deemed a dirty word in some quarters. Now it is the centerpiece of efforts to overhaul the outmoded welfare system.

Will the results be different this time? There is more bipartisan support for reforming the welfare system than ever before. But past reforms were stymied by efforts to expand welfare benefits. It can happen again.

(PROPERTY TAXES, *from page 2*)

Slower Growth Per Capita

While total property taxes have risen by nearly 102 percent over the past decade—from $51.5 billion to $103.8 billion, the percentage growth in per capital property taxes has been less—80 percent, from $242 in 1975 to $435 in 1985.

Moreover, when related to personal income, property taxes have actually declined—from $45 per $1,000 of personal income ten years ago to $34 in 1985, or 24 percent.

Per Capita Trends

On a per capita basis, Wyoming (with collections of $1,101) and Alaska ($1,072) far outdistanced any other state. In third position was the District of Columbia ($727), followed by New Jersey ($717), and Connecticut ($703). States with lowest per capita collections were Alabama ($116), New Mexico ($150), Arkansas ($173), Louisiana ($176), and Kentucky ($182).

In terms of the decade's percentage rate of growth in per capita property taxes, Alaska, Wyoming, and the District of Columbia headed this list also, followed by Texas and South Carolina. Altogether, 22 states and the District of Columbia reported a doubling or more in per capita property taxes. The smallest increases were in California, Nevada, Missouri, Massachusetts, and Arizona. No state reported a decline in per capita property taxes between 1975 and 1985.

Per $1,000 of Personal Income

Property taxes per $1,000 of state personal income were highest in Wyoming ($90), Alaska ($64), Montana ($60), New Hampshire ($54) and Oregon ($53). The lowest property tax burdens by this yardstick were in Alabama ($12), Delaware and New Mexico ($15), Louisiana ($16), and Kentucky and Arkansas ($18). During the decade only three jurisdictions experienced increases in property taxes in relation to personal income—Alaska (up 100 percent), Wyoming (up 64 percent), and the District of Columbia (54 percent). In five states property taxes for the ten-year period remained unchanged as a share of personal income - Florida, Oregon, Pennsylvania, South Carolina, and Utah. The sharpest reduction in the taxes/income ratio occurred in California (down 52 percent), Massachusetts (down 48 percent), Nevada (45 percent), Missouri (44 percent), and New Mexico (37 percent).

State-by-state rankings of property tax revenue along with trends in property taxes for the 1975–1985 period, both per capita and per $1,000 of personal income, appear in a table that is available free of charge. For a copy please write or call: Tax Foundation, One Thomas Circle, N.W., Suite 500, Washington, DC 20005 (202) 822-9050.

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