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New "Facts & Figures" Gives Fiscal Profile of American Economy

"To find the right answer, it is first necessary to ask the right question," observes Tax Foundation's Chairman Thomas M. Macioce in his Foreword to *Facts and Figures on Government Finance*, 21st biennial edition. He continues by pointing out that "in matters of public finance and in the tax and fiscal arena, those questions cannot be formulated without mountains of statistical data."

And mountains of data are what the latest major revision of Tax Foundation's widely used handbook on government financial operations contains. There are 250 tabulations in this edition, 40 of them brand new, containing over 51,000 entries. Some of the highlights of the U.S. fiscal profile cited in the new *Facts and Figures* are:

- Since 1960, the portion of personal income taxable under Federal law has risen from 43 percent to nearly 60 percent. At the end of World War II in 1945, only 31 percent was taxable.
- Social security taxes for the median income family in 1980 were about 10 times what they were in 1959. Last year, for every dollar paid out in Federal income taxes, the median income family had to pay another 58 cents in social security taxes.

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First Quarter Tax Index Tops 400 As Size of Federal Tax Bite Climbs

The Tax Index passed another milestone in the first quarter of 1981, topping the 400 mark (1967 = 100) for the first time, according to Tax Foundation economists. The Index rose by 6.8 percent from the fourth quarter of 1980 for a stunning 30.3 percent annual rate of increase. At a level of 408.2 in this year's first quarter, the Tax Index was almost 16 percent higher than in the same period a year earlier.

After dipping slightly during the second quarter of last year in reaction to the brief recession, the Index has climbed in each of the three quarters since.

In the first quarter of this year, the Federal Tax Index reached 412.2, up from the previous quarter by 8.3 percent, or an annual rate of 37.6 percent. At the same time, the State-Local Index rose by 3.8 percent, or 16.3 percent on an annual-rate basis, reaching 400.0.

The major taxes contributing to the latest quarterly upsurge in the Index were Federal social security taxes (both the rate and base increased in January) and the so-called windfall profits tax on oil. The latter, classified as an excise tax, is grouped under indirect business taxes.

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Tax Index and Related Measures

Quarterly, at Seasonally Adjusted Annual Rates, (1967 = 100)

Year and quarter		Tax Index	Output Index[a] Current price	Output Index[a] Constant prices	Price Index[b]
1978	I	278.1	254.2	138.7	183.3
	II	293.0	266.3	141.7	188.0
	III	300.3	274.0	143.0	191.5
	IV	313.2	284.1	144.9	196.0
1979	I	321.1	292.7	146.3	200.1
	II	325.8	297.0	145.7	203.9
	III	336.2	305.7	147.1	207.7
	IV	344.5	312.2	147.4	211.8
1980	I	353.1	321.6	148.5	216.6
	II	349.3	320.8	144.7	221.7
	III	363.4	329.8	145.5	226.6
	IV	382.1	341.5	146.9	232.5
1981	I	408.2	356.9	149.9	238.1

[a] Gross national product.
[b] Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

The Front Burner

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

"Keeping the Numbers Honest"

George Bernard Shaw is supposed to have observed that if all the economists in the world were laid end to end they still would not reach a conclusion. While Shaw may have overstated the case, the tentativeness of the "dismal science" is real enough. To find more than a handful of economists who will agree on present data is difficult. To find any kind of consensus on future trends is well nigh impossible.

Long-range economic forecasting is a very chancy business, indeed, and highly subject to manipulation.

If the projections don't fit the goals, just change assumptions until the desired numbers pop out of the computer. This is a game regularly played by economists of all stripes. In Washington, it has been raised to the level of a fine art.

Looking at the out-year projections for spending and revenues, whether in the Administration's bill or the various alternatives which were debated before the final vote, is enough to give the thoughtful observer the willies. All things being equal, and given the most optimistic assumptions, if everything works out just perfectly, we will reach the economic promised land in 1984. How we will get there and what shape we will be in when we arrive depends on whose projections—and assumptions—you buy.

I do not mean to downgrade the overall thrust of both the budget action and the tax restructuring that have taken place. Government spending had to be reined in. The wealth of the nation should be returned to, or left with, those who created it through productive labor. A strong national defense is clearly mandated.

However, the easy cuts have all been made. We must yet ask difficult policy questions about the size and role of the Federal social welfare structure. We must look again at the dangerous tax expenditure concept and the notion of sunset.

If economic slight-of-hand ever had a place, that time has passed. Out-year projections must be accurate or the coming debate will mean little. This *is* the only economy we've got. If there are problems down the road, let's see them and deal with them. We can only do so if we keep our eyes open—and our numbers honest.

Tax Index

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There was also a significant rise in social insurance contributions at the state-local level. The overall index for social insurance taxes reached 544.9 in the first quarter, on the 1967 base. This represented an enormous jump from the closing quarter of 1980—a rise of 10.0 percent, which is equivalent to 46.4 percent on an annual basis. At the Federal level, the jump was even steeper; social insurance taxes climbed by 11.3 percent for the quarter, a seasonally adjusted annual rate of 53.5 percent.

Measured against the first quarter of 1980, the Federal index for indirect business taxes jumped from 184.4 to 364.9. This represented a 98 percent advance, largely because of revenues from the windfall profits tax which became effective on March 1, 1980, according to Tax Foundation researchers.

The Tax Index is a fiscal yardstick designed by Tax Foundation economists to provide a continuing measure of trends in taxes on a basis comparable to official indexes for other segments of the economy. Data in the table on page 1 depict recent quarterly trends in taxes, output, and prices.

There was a significant rise in the nation's output in the first quarter of this year, but not so great as the rise in taxes. The nominal GNP index rose by 4.5 percent, an annual rate of 19 percent. A comparison of the relative movements in taxes and GNP reveals that for every 1 percent of the GNP rise, there was a rise of 1.5 percent in taxes. In other words, in the first quarter of the year taxes rose 50 percent faster than current dollar GNP.

Such sharp differentials in the rates of change between the two series are not likely to continue in the months ahead, according to Tax Foundation economists, since the higher social security tax provisions introduced in January will stabilize for the current year. Also, the rate of increase in revenues from the windfall profits tax may level off or decline.

Compared with the 408.2 Tax Index, the GNP index stood at 356.9 in the first quarter, the price index at 238.1 and the index of real output (inflation-adjusted GNP) at 149.9.

In absolute terms, first quarter 1981 taxes for all levels of government amounted to an annual equivalent of $895 billion—$611 billion Federal, and $284 billion state and local. These figures compare to a total of $219 billion in 1967—$148 billion in Federal and $71 billion in state and local taxes.

Taxes on income at all levels of government continue to show high rates of growth, as demonstrated by the Tax Index.

The index for state and local personal income taxes eased past the 800 mark in the first quarter of 1981, up by 20.6 percent over the same quarter of last year. The index for personal income tax receipts reached 462.9 in the first quarter—429.8 for Federal and 801.0 for state and local governments. In dollars, this amounted to $327.0 billion—$276.6 billion at the

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About Tax Features

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New *Facts & Figures* Profiles U.S.

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• Residents of the combined New York, Chicago, and Los Angeles metropolitan areas pay about 15 percent of all Federal taxes—over $50 billion to Uncle Sam annually.

• Wyoming received less Federal grant money than any other state in 1980—about $191 million. New York received the most—$9.6 billion, for which it paid only $7.3 billion of the taxes required to fund Federal grants.

• Federal personnel compensation and benefits in 1980 hit $118 billion—$77 billion for civilian employees and $41 billion for the military. In 1975, total personnel costs for both civilian and the military totaled $77 billion.

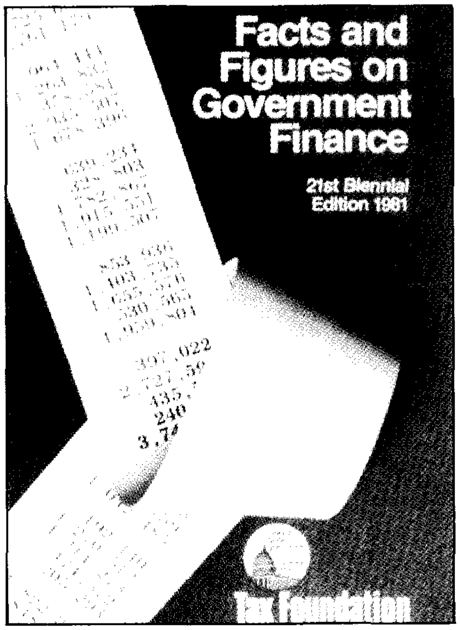
• In 1979, state and local units in Alaska paid more per capita than any other state for education, highways, and financial administration. That same year, the District of Columbia paid more per capita than any state for public welfare, health and hospitals, and police and fire protection. Besides Alaska, the states of Wyoming, the Dakotas, West Virginia, and Montana spend most on highways per capita.

• Indiana has the lowest level of state and local spending per $1,000 of personal income—$146. Missouri, with $155 per $1,000 of personal income is second lowest.

• State and local governments nationwide spend $24 per $1,000 of personal income on public welfare. Arizona spends least, $8 per $1,000 of personal income in 1979, largely because it is the only state in the Union not participating in the $20-odd-billion-a-year Medicaid program.

• Government in Nebraska depends on local financing for 44 percent of its revenues—more than any other state.

• State and local governments depend on the Federal government for 22 percent of their general revenue. In 1979, local governments received $209 billion in general revenue, of which only $117 billion came from local revenue sources; the rest came from Federal and state aid.



The 21st biennial edition of *Facts and Figures on Government Finance* is currently available from the Tax Foundation.

Included in the new edition are 250 tabulations of statistics on Federal, state, and local government and selected economic series, including 40 new tables on key areas; a glossary; an index; and notes. There are over 300 pages, arranged in six sections, each with its own table of contents.

The Foreword was written by Thomas M. Macioce, Chairman of the Tax Foundation.

Copies of *Facts and Figures on Government Finance*—21st edition—can be ordered from Tax Foundation, Incorporated, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009. The cost of the new edition is $15.

• In Hawaii, over 75 percent of government finances are concentrated in state, rather than local government units. This is the highest ratio of state to local government in the nation.

• State and local governments in the United States owed more than $300 billion in outstanding debt at the end of 1979. In 1957, they owed only $53 billion. Also, in 1979, these units issued a record $42 billion in new long-term debt.

• Total medical public assistance —Medicaid—came to $19 billion in 1979, of which California and New York received nearly a third—about $6 billion.

• Public employees covered by state-administered retirement systems contribute about 20 cents per dollar of the funding of pensions. Earnings on investment of the funds account for another 33 cents. The balance of 47¢ per dollar comes from state and local government budgets—in other words, from the taxpayers.

• Cash and security holdings by state-administered public employee retirement systems totaled over $125 billion in 1979.

• The average weekly unemployment check in 1979 came to $89.67, compared to $32.87 in 1960.

• During the 1973-75 recession, unemployment benefits doubled in a single year, jumping from $6 billion to $12 billion, nationwide.

• In 1979, over 105 million weeks of unemployment were compensated. In the 1975 recession year, over 175 million weeks were compensated. The low point in unemployment payouts for the last two decades occurred in 1966, when 47 million weeks were compensated.

• In the 1970s, an average of nearly 350,000 unemployment claims were filed annually.

• Government transfer payments to persons—i.e., payments not matched by current production—almost quadrupled from 1969 to 1979. About three-fourths of the $240 billion so spent in 1979 represented payments under "social insurance" programs, such as social security, Medicare, and unemployment benefits. More than half went for retirement programs, largely OASDI and government employee pensions.

• "Baby Boomers" will dominate the labor force in 1990. At that time, workers between the ages of 25 and 44 will account for about 55 percent of the labor force, up from 44 percent in 1978.

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Facts & Figures

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• The number of persons below the poverty level declined dramatically from 1959 to 1979—from 39.5 million to 25.2 million, or 36 percent. Thus, the incidence of poverty was almost cut in half—from 22 percent of the population in 1959 to about 11 percent in 1979. For heads of families living on farms, the poverty rate fell from 45 percent to 11 percent during the same time span.

• The effective rate of Federal and state income taxes on profits of nonfinancial corporations was fairly constant in most years during the decade of the 1970s, at close to 50 percent—give or take a percentage point or two. The range between the two extreme years, however, was rather large—from 46 percent in 1972 to 66 percent in 1974.

• Of the 14.5 million active firms filing income tax returns for 1976, more than 11 million were single proprietorships. Among them, 8 million had annual receipts below $25,000. In the same year, the 2.1 million active corporations accounted for only 14 percent of the number of firms, but garnered 86 percent of all business receipts.

• Productivity (output per person-hour) of American workers in the private business sector declined in 1980 for the third year in a row. Compensation per hour, however, increased by more than 30 percent in the same period.

• The rate of growth in productivity in the United States has been the slowest among major industrial nations, averaging 2.2 percent a year since 1967. In contrast, productivity in Japan has increased at an annual rate of 7.2 percent.

• Only Italy and the United Kingdom devoted a smaller share of output to fixed capital formation in 1979 than did the United States. The U.S. figure was 19.0 percent, compared to 18.7 for Italy and 17.6 for the United Kingdom. In Japan, the proportion was 31.6 percent.

• Public and private wealth in the United States, as measured by the net stock of fixed reproducible tangible wealth, amounted to some $6.7 trillion at the end of 1979. More than $2.2 trillion of this, about one-third, was in the form of private residential structures. Government wealth was put at about $1.6 trillion, largely in the form of nonresidential buildings.

Facts and Figures on Government Finance, 21st edition, is available from the Tax Foundation. Single copies are $15.

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.

"The Congressional Budget Process at the Crossroads" by Maynard H. Waterfield (Special Report), January 1981, 14 pages, $1.00.

"Tax Policy, The Budget, and Unemployment," Proceedings of Tax Foundation's 32nd National Conference, 64 pages, $5.00.

Tax Index

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Federal level, and $50.4 billion at the state and local level.

Taxes on corporate profits rebounded to an index of 278.3, up from 220.1 in last year's second quarter recession. The state-local component of the corporate profits tax reached 533.8 in first quarter 1981, up from its 1980 recession low of 431.9.

The accompanying tables reveal recent quarterly trends in the overall Tax Index, as compared with output and prices, along with annual data on the components of the Index for selected years since 1960.

Tax Index by Level of Government and Type of Tax
Selected Periods 1960-1981[a]
Index Numbers, 1967 = 100

Type of tax	1960	1970	1975	1980	1981[b]
			All governments		
All taxes	61.9	132.2	204.3	362.1	408.2
Personal income	62.8	141.5	203.3	418.9	462.9
Corporate profits	69.9	105.2	155.9	253.7	278.3
Indirect business taxes[c]	65.4	134.7	199.5	297.1	345.1
Social insurance contributions	48.7	135.0	257.0	475.2	544.9
All other[d]	61.4	123.2	164.4	226.4	231.1
			Federal government		
All taxes	64.3	127.5	191.0	359.6	412.2
Personal income	65.0	138.1	187.7	390.0	429.8
Corporate profits	71.4	102.0	145.1	233.8	257.4
Indirect business taxes[c]	86.0	119.3	145.9	237.6	364.9
Social insurance contributions	48.1	134.3	257.7	475.5	549.1
All other[d]	57.4	120.1	159.4	215.3	208.8
			State and local governments		
All taxes	56.9	142.1	232.1	367.2	400.0
Personal income	40.3	176.6	362.8	713.6	801.0
Corporate profits	50.9	144.5	287.9	497.1	533.8
Indirect business taxes[c]	59.4	139.2	215.1	314.4	339.4
Social insurance contributions	51.6	138.9	252.8	473.3	522.9
All other[d]	65.2	126.0	168.9	236.6	251.6

[a] Most taxes are shown on an accrual basis.
[b] First quarter at seasonally adjusted annual rate.
[c] Includes sales, excise, and customs levies, and real property taxes (including those on owner-occupied homes).
[d] Estate and gift and personal property taxes.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.