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State/Local Spending Soars

Per capita outlays rise by 181% over 10-year period

State and local spending has risen sharply in recent years, according to figures just released by Tax Foundation economists. From 1966 to 1976, the latest year for which complete figures are available, per capita expenditures by state and local governments increased by 181 percent, from \$423 to \$1,190.

The District of Columbia registered the sharpest rise in per capita spending over the decade, 302 percent. Nine other jurisdictions had increases of more than 200 percent: Alaska, Hawaii, Illinois, Maryland, New Jersey, New York, North Carolina, Pennsylvania and South Carolina.

Areas where per capita state and local spending grew least rapidly from 1966 to 1976 were Nevada (with an increase of 115 percent), New Mexico (119 percent), Oklahoma (126 percent) and Utah (125 percent).

When spending increases are measured in relation to personal income growth, a somewhat different pattern emerges among the states. In two states—Oklahoma and North Dakota—the rise in spending exactly paralleled the increase in personal income; in New Mexico and Wyoming, spending per \$1,000 of state personal

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States' spending outpaces expenditures of localities

State and local spending is rising, and rising fast, recent Tax Foundation analysis reveals. General expenditures of state and local governments more than tripled from 1966 to 1976, rising from \$83 billion to \$256 billion. This represented an average rate, compounded, of 11.9 percent.

State direct expenditures rose somewhat more rapidly than spending for local services, but local governments accounted for more than three-fifths of the decade's \$173 billion rise in the combined total for states and localities.

Total expenditures - a somewhat broader measure which includes insurance trust and certain enterprise type operations - rose more rapidly than general expenditures, according to Tax Foundation economists. The rise in capital outlays, 7.6 percent annually, was well below the 13.6 percent annual rise in other types of spending.

State-local employment increased by 3.1 million, for a total of 10.3 million in 1976. The increase in the number of employees, together with salary increases averaging 7 percent annually, raised state and local payments for employee compensation by \$91 billion to \$138 billion in 1976, a 194 percent rise in ten years.

Ullman Named for Foundation Award

Representative Al Ullman, Democrat of Oregon and Chairman of the House Ways and Means Committee, will receive the Tax Foundation's Distinguished Public Service Award for 1978, Willard F. Rockwell, Jr., the Foundation's Board Chairman announced.

Rockwell, Chairman of the Board of Rockwell International, said that the Award would be presented at a dinner to be held at the Plaza Hotel in New York, December 6. The dinner will conclude the Tax Foundation's 30th National Conference, which has as its theme, "Tax Policy for a Healthier Economy." Congressman Ullman will speak at the dinner.

The speakers and topics for the Conference will be announced shortly, Rockwell said.

Growth in general revenues from 1966 to 1976 generally kept pace with the 11.9 percent annual rise in expenditures. State sources accounted for 42 percent of the increment in revenues, local sources for 33 percent, and Federal grants for about 25 percent. Federal aid dollars were by far the fastest rising revenue component; they more than quadrupled, rising from \$13 billion in 1966 to \$56 billion

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Business Execs Say Gains Tax Slows Down High-Risk Investment

"Less is more" was the opinion voiced by Tax Foundation members - sponsors polled regarding capital gains taxes. Three hundred thirty respondents out of a total of 1,845 members surveyed, said that reducing the tax on capital gains would make them more willing to participate in risk investments.

The survey, conducted prior to passage of H.R. 13511 by the House, did not specifically refer to the provisions of that bill. Its principal purpose was to assess broader questions of capital gains tax policy.

The Foundation asked members - a cross-section of businessmen who are in a position to make venture capital decisions - their personal assessments of the constraints capital gains taxation places on "risk" or venture capital investment. In general, their replies tended to support the argument that a substantial reduction in capital gains would encourage risk investment and that the risk investment pattern in the past ten years has suffered as a result of increases in capital gains and other taxes.

Fifty-five percent of those replying said they continue to participate in risk investments above the minimum level despite current tax policy. But 87 percent indicated that their investment strategy has changed since 1969. Most said that they now seek more tax-sheltered or tax-exempt returns and put more emphasis on "inflation-hedge" investments.

The most common factors cited as working against risk investment were:

1) the increase in the top capital gains tax rate on regular income;

2) the penalty of having significant capital gains income reduce the amount of earned income subject to the

Per Capita Outlays Rise

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income was also stable, edging up only one percent. Jurisdictions with the largest rise in expenditures relative to income were the District of Columbia (up 87 percent), New York (62 percent), and New Jersey (52 percent). In more than half the states, the rise in state-local outlays adjusted for per-

sonal income growth was between 10 and 30 percent, according to Tax Foundation researchers.

The table accompanying this article gives complete figures, per capita and per \$1,000 of personal income, for state and local general expenditures by state for fiscal years 1966 and 1976.

**State-Local General Expenditures by State
Per Capita and per \$1,000 of Personal Income
Fiscal Years 1966 and 1976**

State	Per capita expenditures			Expenditures per \$1,000 of personal income				
	Amount	Percent	Rank	Amount	Percent	Rank		
	1966	1976	increase	1966	1976	increase	1976	
U.S. AVERAGE	\$423	\$1,190	181	—	\$156	\$203	30	—
Alabama	342	928	171	47	180	203	13	30
Alaska	923	3,079	234	1	295	354	20	1
Arizona	465	1,150	147	23	202	219	8	17
Arkansas	323	862	167	51	176	186	6	39
California	583	1,428	145	6	184	221	20	15
Colorado	514	1,264	146	13	192	215	12	20
Connecticut	428	1,092	155	31	128	158	23	51
Delaware	579	1,375	137	8	174	205	18	29
Florida	379	1,006	165	39	161	180	12	42
Georgia	333	971	192	40	157	193	23	34
Hawaii	564	1,767	213	3	200	276	38	2
Idaho	422	1,099	160	30	176	216	23	19
Illinois	382	1,176	209	22	117	174	49	47
Indiana	384	906	136	49	136	160	18	50
Iowa	433	1,148	165	24	161	189	17	36
Kansas	403	1,089	170	32	153	184	20	41
Kentucky	341	937	175	45	168	194	15	33
Louisiana	416	1,113	168	28	204	230	13	14
Maine	346	1,012	192	38	152	214	41	22
Maryland	414	1,346	225	11	141	210	49	25
Massachusetts	430	1,258	193	15	142	206	45	28
Michigan	447	1,308	193	12	150	211	41	24
Minnesota	476	1,362	186	9	179	237	32	10
Mississippi	326	962	195	42	204	238	17	8
Missouri	359	905	152	50	135	165	22	49
Montana	492	1,260	156	14	201	234	16	11
Nebraska	391	1,058	171	33	148	175	18	46
Nevada	661	1,423	115	7	209	221	6	16
New Hampshire	377	1,041	176	35	150	197	31	32
New Jersey	376	1,200	219	20	118	179	52	44
New Mexico	510	1,116	119	27	235	238	1	9
New York	530	1,735	227	4	163	264	62	4
North Carolina	301	926	208	48	149	188	26	38
North Dakota	476	1,179	148	21	208	208	0	26
Ohio	366	1,032	182	36	130	176	35	45
Oklahoma	421	951	126	44	185	185	0	40
Oregon	502	1,355	170	10	183	239	31	7
Pennsylvania	361	1,113	208	29	131	188	44	37
Rhode Island	431	1,201	179	19	154	206	34	27
South Carolina	268	966	260	41	147	211	44	23
South Dakota	440	1,134	158	25	196	231	18	12
Tennessee	335	935	179	46	168	192	14	35
Texas	343	960	180	43	149	174	17	48
Utah	496	1,118	125	26	214	231	8	13
Vermont	465	1,249	169	16	202	254	26	6
Virginia	347	1,023	195	37	146	179	23	43
Washington	489	1,212	148	18	169	198	17	31
West Virginia	358	1,044	192	34	174	214	23	21
Wisconsin	467	1,236	165	17	172	218	27	18
Wyoming	697	1,621	133	5	272	276	1	3
District of Columbia	518	2,083	302	2	141	264	87	5

Source: Bureau of the Census, U.S. Department of Commerce, and Tax Foundation computations.

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States Outspend Localities

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in 1976, for an average annual increase of 15.5 percent.

In contrast, revenues raised by localities increased by about 10 percent a year, and state revenues by 12 percent, according to the Tax Foundation.

Outstanding debt of states and localities rose from \$107 billion in 1966 to \$240 billion in 1976. The average annual increase for the decade was 8.4 percent, considerably below the 11.9 percent rise in receipts and outlays. In 1966, indebtedness was about 10 percent higher than total revenues for the year; by 1976, state-local indebtedness was more than 20 percent below annual revenues, in part because of the slow-down in capital spending.

More than half (57 percent) of the rise in general expenditures was associated with increases in general population and in prices. Resident U.S. population grew by about 19 million persons from 1966 to 1976, just under 10 percent (nine-tenths of one percent per year). The general population increase thus explains only a small portion of the growth in expenditures. The effect of price increases, however, was quite substantial. Consumer prices over the decade rose by 75 percent, or 5.8 percent annually. The combined effects of population and price increases amounted to 6.8 percent annually.

Adjustment of expenditures for population and price increases leaves some 43 percent of the rise in spending "unexplained." If it can be assumed that government spending per person rises automatically in step with real increases in living standards (i.e., as measured by per capita increases in personal income in constant dollars), another 18 percent of the total rise in expenditures over the decade can be explained statistically. Per capita personal income, adjusted for the rise in consumer prices, increased by 2.1 percent annually between 1966 and 1976.

	1966	1976	Percent increase	
			Total	Average per year
Direct general expenditure ^a (millions)	\$ 82,843	\$ 255,551	208.5	11.9
State	29,162	95,832	228.6	12.6
Local	53,680	159,720	197.5	11.5
Total expenditure (millions)	\$ 94,906	\$ 305,268	221.7	12.4
Capital outlay	22,330	46,531	108.4	7.6
All other	72,576	258,737	256.5	13.6
Debt outstanding, end of year (millions)	\$107,051	\$ 240,086	124.3	8.4
State-local employment ^b (thousands)	7,249	10,315	42.3	3.6
Total employee compensation (millions)	\$ 47,115	\$ 138,426	193.8	11.4
General revenue (millions)	\$ 83,036	\$ 256,176	208.5	11.9
From state sources	34,511	107,401	211.2	12.0
From local sources	35,404	93,186	163.2	10.1
Federal grants	13,120	55,589	323.7	15.5
Population ^c (thousands)	195,576	214,669	9.8	.9
Consumer prices (index, 1966=100)	100.0	175.4	75.4	5.8
Population and prices combined (index, 1966=100)	100.0	193.1	93.1	6.8
Personal income ^d (millions)	\$532,147	\$1,257,354	136.3	9.0

^a General expenditure includes all spending other than that for utility, liquor stores, and insurance trust operations.
^b Full-time equivalent, calendar years.
^c Resident population as of July 1.
^d Calendar years 1965 and 1975
 Sources: U.S. Department of Commerce — Bureau of the Census and Bureau of Economic Analysis; and Tax Foundation computations.

The combined effect of increases in population, general prices and per capita income growth thus account statistically for about 8.9 percent annually of the 11.9 percent growth in state-local expenditures. In other words, the actual spending rise was about 34 percent greater than can be explained by the increases in these three major demographic and economic factors. This is due, in large part, to increased spending by both Federal and state governments on new programs.

Among the major services provided

by state and local governments, public welfare (including Medicaid) was by far the fastest growing, with an increase of 365 percent (16.6 percent annually) for the decade. Health and hospital expenditures rose 250 percent, and police and fire, 223 percent. Spending for education, up 192 percent, fell slightly below the 208 percent rise for all functions. The slowest growth among the major functions was in spending for highways (87 percent).

The table accompanying this article gives detailed figures on Perspectives in State-Local Finances, 1966-1976.

Average Federal Pay to Hit \$18,300 Execs Favor Gains Cut

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As part of his drive to curtail inflation, President Jimmy Carter has recommended that Federal pay increases this year be held to 5.5 percent. If that recommendation goes through in October, the total annual cost to taxpayers is estimated at \$2.9 billion.

If Congress overturns the 5.5 percent limit, the 8.4 percent comparability pay increase proposed to the Chief Executive on the basis of the findings of the Bureau of Labor Statistics survey would automatically become effective. Pay levels for January 1979 would rise by an estimated \$4.5 billion.

The table given with this article shows the salary levels (at the bottom and top steps) for each of the 18 grades in the General Schedule pay system, the largest of the Federal pay systems, for January 1969, 1974 and 1979. The pay levels for 1979 assume approval of the President's recommendation.

In comparing Federal salary levels for 1969, 1974 and 1979, Tax Foundation researchers report that the pay level in the lowest step in each GS grade in 1974 equalled or exceeded the highest step in each GS grade in 1969. The same pattern will be repeated between 1974 and the proposed 1979 pay scales.

Another way to trace the growth trend of Federal pay, according to the Tax Foundation, is to compare the grade levels at which the \$10,000, \$15,000, and \$20,000 salary levels were attainable in each of the years studied.

In 1969, a Federal employee could reach the \$10,000 pay level in the last step of GS grade 8; by 1974, that salary was attainable by the next-to-last step in grade 5; and in 1979, it would be reachable in the 7th pay step of grade 3.

In 1969, an employee had to be a grade 12 (8th step) to achieve the \$15,000 salary level. In 1974, that pay scale was reached in step 8 of GS grade 9; in 1979, an employee in the top step of grade 6 will reach the \$15,000 level.

To be paid \$20,000 in 1969, a Federal worker had to be in the 7th pay step in grade 14. By 1974, that pay level was reached in step 6, grade 12; and after the October 1978 pay raise, a worker in the 9th step, grade 9, will make \$20,000 a year.

In June 1969, the average salary of a Federal civilian employee was \$9,367. In 1974, that figure had risen to \$13,580. Currently it is \$17,370, and the 5.5 percent increase scheduled to take effect in October will boost the average salary to about \$18,300.

maximum tax of 50 percent (the so-called "poisoning" of the benefit of the maximum tax);

3) the minimum tax as applied to capital gains.

Respondents noted several options which they felt would encourage risk and venture capital enterprise: a return to pre-1969 capital gains tax treatment (top rate of 25 percent on long-term gains; no minimum or maximum tax penalty); a deferral of capital gains tax liability if proceeds are reinvested; or an inflation adjustment to the basis of assets.

While the Tax Foundation survey made no claim to be a precise, scientific measurement of total investor attitudes, the message from the 330 businessmen who responded was clearly an endorsement of the argument that "less" government taxation of capital gains would mean "more" risk investment and a more active involvement in small innovative businesses, the type of firms most often productive of technological development and innovation.

Copies of the survey, together with more detailed analysis and comments by the respondents, are available free of charge from the Tax Foundation.

**Federal Salary Levels, By Grade (Lowest and Highest Steps)
General Schedule (GS) Pay System**

Grade	January 1, 1969		January 1, 1974		January 1, 1979	
	Lowest	Highest	Lowest	Highest	Lowest	Highest
GS-1	\$ 3,889	\$ 5,057	\$ 5,017	\$ 6,520	\$ 6,561	\$ 8,532
GS-2	4,231	5,501	5,682	7,383	7,422	9,645
GS-3	4,600	5,981	6,408	8,334	8,336	10,877
GS-4	5,145	6,684	7,198	9,358	9,391	12,208
GS-5	5,732	7,456	8,055	10,467	10,507	13,657
GS-6	6,321	8,221	8,977	11,668	11,712	15,222
GS-7	6,981	9,078	9,969	12,957	13,014	16,920
GS-8	7,699	10,012	11,029	14,341	14,414	18,734
GS-9	8,462	11,000	12,167	15,821	15,920	20,699
GS-10	9,297	12,087	13,379	17,393	17,532	22,788
GS-11	10,203	13,263	14,671	19,072	19,263	25,041
GS-12	12,174	15,828	17,497	22,744	23,087	30,017
GS-13	14,409	18,729	20,677	26,878	27,453	35,688
GS-14	16,946	22,031	24,247	31,519	32,442	42,171
GS-15	19,780	25,711	28,263	36,000 ^b	38,160	47,500 ^c
GS-16	22,835	28,000 ^a	32,806	36,000 ^b	44,756	47,500 ^c
GS-17	26,264	28,000 ^a	36,000	36,000 ^b	47,500	47,500 ^c
GS-18	28,000	28,000 ^a	36,000	36,000 ^b	47,500	47,500 ^c

^a Pay limit of \$28,000 in effect.

^b Pay limit of \$36,000 in effect.

^c Pay limit of \$47,500 in effect.

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