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Lighter Tax Load Possible As Work Force Increases?

The load may be lighter for tomorrow's taxpayers, if Tax Foundation analysis of population projections works out. A slow-down in the birth rate and a decrease in the growth rate of the elderly population are foreseen at about the same time as the majority of the post-World War II baby boom move through the work force. This translates into more workers supporting non-workers than at any time in recent history.

This relief is embodied in a statistical concept known as the "societal dependency ratio," the ratio between those aged 18 to 64 and those above or below this age group. While not all persons in the 18-to-64 age group are in the labor force, and some persons younger or older do work, nevertheless, the years 18 through 64 can be considered fairly accurate boundaries of the population of potential working age.

In 1950, the ratio of the number of persons aged 65 years or older per hundred persons aged 18 through 64 was 13.3. By 1978, this ratio had risen to 18.3. By 1995, there will be 20.5 persons aged 65 and over for every 100 persons between 18 and 64. There will be growth in this part of the dependency ratio, Tax Foundation economists say, but it will be slower; and this will help the taxpayer.

In addition, the burden will be eased somewhat by slower growth in

another "dependent" age group—children through age 17, who make up the majority of public school enrollees, and younger children who demand care in the home. The post-war baby boom increased this group by more than 50 percent during the decade of the fifties. In the sixties, however, the rise was only 8 percent; and the seventies are expected to show a decline of 11 percent.

**Persons in "Dependency" Age Groups
per 100 Persons Aged 18-64 Years**

Year	"Dependency" ratio*		
	Total	Age 17 and under	Age 65 and over
Actual:			
1950	64.4	51.1	13.3
1955	73.4	58.3	15.2
1960	81.6	64.9	16.8
1965	83.1	65.7	17.4
1970	78.0	60.6	17.5
1975	71.0	53.1	17.9
1978	68.0	49.7	18.3
Projected:			
1980	64.3	45.8	18.4
1985	62.5	43.5	19.1
1990	63.5	43.5	20.0
1995	65.2	44.7	20.5
2000	63.2	43.2	19.9

*Age groups indicated per 100 persons aged 18 through 64, generally the potential working age group.

Source: U.S. Department of Commerce and Tax Foundation computations.

Granted that any projections based on fertility rates are chancy, medium-range projections suggest that the number of persons aged 17 and under will grow somewhat less rapidly than the population of potential working age. This "dependency ratio"—in-

(Continued on page 4)

Gov't Programs Reflect Changes In Population

As the Department of Commerce gears up to launch its careful 1980 scrutiny of the population of the United States and its diverse characteristics, Tax Foundation analysts were prompted to reflect on past population trends and some of their implications for government programs.

Government has grown relative to the private sector over the past three decades, and the causes of much of that growth are numerous and complex. Not to be ignored among these forces, however, are changes in the age distribution of the population.

To wit: from 1950 to 1978 the number of persons aged 65 and over, together with the number of persons of school and college age (5 to 24 years) increased by more than 42 million, or 72 percent. Population in the remaining ages rose by only 24 million, or 26 percent.

The 65-and-over age group gained 12 million persons, or a 94 percent increase. For the school-age group, the rise was 31 million, or 66 percent.

These two age groups traditionally are major beneficiaries of government programs, and the record reveals that U.S. government units have apparently responded generously to the perceived needs of the elderly and school-age groups.

(Continued on page 3)

“The Front Burner”

By **Robert C. Brown**
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“VAT—A Large Container”

A new arrival on the front burner is the VAT, Value-Added Tax. The chairmen of the House Ways and Means and Senate Finance Committees have both publicly espoused the VAT. Why this surge of interest in a newcomer to the American tax scene?

A VAT is a tax on goods and services which taxes the value added at each step of the production process. It is widely used in Europe. Those who favor a VAT for the U.S. claim:

- VAT is basically a tax on consumption, which would help redress the bias in our income tax system against savings and investment.

- VAT is harder to evade than the income tax, which could help deal with the enormous amounts of money (estimates range from \$26 to \$104 billion) now diverted into the underground economy.

- Depending on what taxes it replaces, VAT could favorably affect the U.S. balance of payments, “marking down” exports while increasing the cost of imports.

- VAT would take the strain off our existing tax structure by enabling dollar-for-dollar replacement of income and payroll taxes.

Opponents of VAT argue:

- VAT is a “money tree,” producing, according to Tax Foundation estimates, at least \$11 billion for every percentage point of VAT.

- How can Congress be forced to accept—and stick to—the dollar-for-dollar tax replacement concept?

- VAT violates the progressivity of the U.S. tax system.

Counterarguments to each of these “pros” and “cons” exist, many of them summarized in “A Value-Added Tax for The United States? Selected Viewpoints,” available for \$2.00 from the Tax Foundation. Space does not permit us to weigh each of them here.

Spending on “Elderly” Programs Reaches \$153 Billion in FY 1978

In fiscal 1978, expenditures under major government programs for the elderly amounted to \$153 billion, compared to a little over \$3 billion in 1950. These programs include: old age and survivors insurance cash benefits (\$78.5 billion), railroad retirement (\$4.0 billion), Federal and state-local employee retirement benefits (\$31.9 billion), supplemental security income (\$6.6 billion), hospital

and medical insurance (\$24.9 billion) and Medicaid (\$6.8 billion).

The 1978 spending for these major programs for the elderly was equivalent to \$6,350 per individual in the U.S. population aged 65 and over, up from \$1,222 in 1965 (before Medicare and Medicaid became effective) and \$263 in 1950. (In constant 1978 dollars the amounts were \$2,525 in 1965 and \$713 in 1950.)

One point should be made, however: By definition, a vat is a large container. Capitalizing the three letters doesn't change that.

The Tax Foundation has always supported the government's right to tax citizens. It has also maintained, sometimes as a voice crying in the wilderness, that the power to tax should be a limited one.

Before imposing a new tax, our leaders must be urged to recognize that the power to tax is, indeed, the power to destroy. They must be convinced that a VAT, if adopted, must not add to the overall tax burden.

One aspect of the flight into the underground economy which many ignore is that people can be driven there by taxes that they consider unconscionably high. If the VAT adds to that burden, in their ingenuity American taxpayers will find new ways to “vote with their feet” against excessive taxation.

Not included in these totals are amounts received by the elderly from programs also serving other age groups, e.g., food stamps, veterans programs, housing assistance, disability insurance, and many others.

The major programs included in this analysis are shown separately in the table on top of page 3.

Spending Slows For Education

The decline in the number of potential public school and college students since the mid-seventies has already been reflected in trends in educational spending. The 1980s will probably see more of the same, according to Tax Foundation analysis.

Traditionally the largest component of public spending, other than for defense purposes, is educational expenditures, which grew at rates exceeding 10 percent a year from 1950 to 1970. At the same time, the school-age population rose by 2.5 percent annually. From 1970 to 1980, the population of potential school age is projected to decline by 1.8 million persons, or slightly over 2 percent.

These trends in school-age population have been accompanied by slower growth in public spending for education. From 1970 to 1978, the inflation-adjusted annual rate of increase was 2.6 percent, down from 7.9 percent in the decade of the 1960s, and 8.0 percent in the 1950s.

The Bureau of the Census projects a further decline of almost 5 million (6.5 percent) in the school-age group

(Continued on page 3)

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**Expenditures under Major Government Programs
for the Elderly and School-Age Population**
(Millions)

Program	1950	1960	1970	1978
Major programs for the elderly, total	\$3,263	\$15,435	\$48,062	\$152,743
Old age and survivors insurance (OASI)	727	10,270	26,267	78,524
Railroad retirement ^a	298	942	1,756	4,021
Public employee retirement				
Federal civil service	184	804	2,797	10,899
Other	600	1,793	6,369	21,027 ^b
Supplemental security income	—	—	—	6,552
Old age assistance (cash payments)	1,454	1,626	1,866	—
Hospital and medical insurance	—	—	7,099	24,940
Medicaid	—	—	1,908 ^c	6,780 ^b
Public education, total^d	\$7,013	\$18,368	\$50,385	\$103,100 ^b
Local schools	5,906	15,166	37,461	74,900 ^b
Higher education	1,107	3,202	12,924	28,200 ^b

^aIncludes disability payments.

^bEstimated by Tax Foundation.

^cLocal public schools and institutions of higher education only.

Source: U.S. Department of Health, Education, and Welfare; U.S. Department of Commerce; and Tax Foundation estimates.

Population

(Continued from page 1)

Special programs for these two groups have accounted for over 40 percent of the 11-fold rise in total Federal (nondefense), state, and local spending since 1950. Expenditures under major programs for the elderly were 47 times as large in 1978 as in 1950, and spending for local schools and higher education was 15 times as high. For all other nondefense programs combined, outlays were only 8.5 times their 1950 level.

Viewed in another way, spending for major programs for the elderly comprised 5.7 percent of all government spending for nondefense purposes in 1950 (when the population aged 65 and over represented 8.1 percent of the total), and 23.3 percent of spending in 1978 (when the population aged 65 and over had increased to 11 percent of the total).

Adjusted for inflation, the costs of the programs for the elderly rose by annual rates of 14.7 percent in the fifties, 9.3 percent in the sixties, and 8.8 percent in the seventies to date.

The largest increases in educational costs came in the fifties, when the inflation-adjusted annual rate of increase was 8.0 percent. From 1970 to 1978 the annual increase, on this basis, was 2.6 percent.

Total government spending for all other (nondefense) government programs rose far less rapidly than the costs of programs for the elderly or public education from 1950 to 1970. However, these costs have risen faster than educational outlays since 1970.

Accompanying articles and tables in this issue provide more details concerning these trends.

Education

(Continued from page 2)

during the 1980s, although the last decade of the century is projected to see a rise of about the same amount.

While not all members of the population in the ages 5 to 24 attend public schools and especially colleges, educational spending in 1978 was the equivalent of \$1,326 per member of the population in this age group, up from \$396 in 1965 and \$149 in 1950. (Constant 1978-dollar equivalents were \$818 in 1965 and \$404 in 1950.)

In 1950, public spending for local schools and colleges constituted 12 percent of all nondefense spending by all the nation's government units. By 1970, educational spending consumed almost 20 percent of the total. With the leveling off of the school-age population beginning in the mid-1970s, growth in educational outlays subsided; and the total fell to less than 16 percent of all nondefense spending in 1978.

If the parity between school populations and education budgets holds in the next ten years, the U.S. may be able to roll back school funding without lowering the quality of schooling available to American youngsters.

Population Trends and Projections, by Selected Age Groups Selected Years, 1950 - 2000

Year	Primarily working age (18-64)	"Dependency" ages			School age ^a (5-24)
		Total	17 and under	65 and over	
Number (millions)					
Actual:					
1950	92.6	59.7	47.3	12.4	46.9
1955	95.7	70.3	55.7	14.5	52.1
1960	99.5	81.2	64.5	16.7	60.3
1965	106.1	88.2	69.7	18.5	70.2
1970	115.1	89.8	69.7	20.1	77.2
1975	124.9	88.7	66.3	22.4	78.0
1978	131.1	89.7	65.2	24.1	77.7
Projected:					
1980	135.3	86.9	62.0	24.9	75.4
1985	143.3	89.6	62.3	27.3	71.3
1990	148.9	94.6	64.8	29.8	70.5
1995	153.0	99.8	68.4	31.4	72.8
2000	159.6	100.8	69.0	31.8	75.8
Percent change over previous period					
1950-1960	+7.5	+36.0	+52.5	+34.7	+28.6
1960-1970	+15.7	+10.6	+8.1	+20.4	+28.0
1970-1980	+17.5	-3.2	-11.0	+23.9	-2.3
1980-1990	+10.1	+8.9	+4.5	+19.7	-6.5
1990-2000	+7.2	+6.6	+6.5	+6.7	+7.5

Note: Details may not add to totals shown because of rounding.

^aElementary and secondary school and college age population.

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

Per-Worker Costs Soar NTC Says, Limit Spending

If the total cost of services delivered by all governmental units in the United States was met by employed persons, the amount chargeable to each worker would have been \$7,873 in 1978, the Tax Foundation reports. One-third of this amount—\$2,652—went to support major programs for the elderly and school ages.

The per-worker costs of these programs today are over 15 times as much in current dollars as they were in 1950, and almost 6 times as much in inflation-adjusted dollars. In 1950, only 15 percent of all government spending represented the costs of supporting public education and special programs for the elderly. In 1978, these expenditures claimed 33 percent of public outlays.

In the 1970s, government spending under the "elderly" programs exceeded those for public education for the first time. In 1978 the "elderly" programs cost the equivalent of \$1,583 for every working person; public education spending costs were the equivalent of \$1,069 for every employed person.

From 1950 to 1978, employment in the United States rose from 60.6 million to 96.5 million, or by 59 percent. At the same time, the elderly and school-age populations increased by 42 million, or 72 percent. Fewer workers were paying more to support increased outlays for a larger number of recipients.

The National Taxpayers Conference (NTC), in a recently released policy statement, called for early enactment of a statutory limit on Federal spending growth. Such a limit, says the NTC, could lead to a balanced Federal budget in the near future without resort to "widespread elimination or cut-backs in existing federal programs."

The National Taxpayers Confer-

Dependency Ages

(Continued from page 1)

volving those younger than the 18 through 64 age group—peaked at 65.7 per 100 persons in the middle 1960s. By 1978, the ratio had dropped to 49.7. The Census Bureau's mid-range projections show a further decline to 43.5 in 1985 and 1990.

The over-all dependency ratio—children age 17 and under plus persons aged 65 and over per 100 of "working age" population—will decline somewhat from a 1978 level of 68.0 (83.1 in 1965) to between 62.5 and 65.2, according to projections for the next twenty years.

All of this spells possible relief for tomorrow's taxpayer.

The tables on page 1 and page 3 give detailed data for "dependent" and "working" populations for selected years.

ence is an alliance of 29 state taxpayer organizations which seeks to facilitate the exchange of information and coordination of problems of common concern. The proposal was contained in a policy statement prepared by an NTC committee set up last April to review major pending taxing/spending limitation proposals and their implications.

In an analysis of Federal fiscal trends over the past 20 years, the report points out that: "The federal budget has been in balance only twice during the past two decades." An accumulated national debt approaching the one trillion dollar mark is projected by fiscal year 1982.

The statement reviews various approaches to limiting Federal spending, including a study of existing budgetary processes, a tax limitation, a balanced budget amendment, a spending limitation amendment, and a statutory limitation. The committee concludes that "a statutory spending limitation appears preferable" and further outlines the components which should characterize an effective spending limit.

"Too often in the past," the NTC statement says, "both the Congress and the President have advocated spending restraint but have not practiced it. If the growth in federal spending is to be controlled, therefore, a formal legal restraint is needed."

The NTC policy statement advocates adoption of an amendment to the Congressional Budget Act of 1974 to tie annual Federal outlays to a percentage of the Gross National Product (GNP). The proposal would reduce Federal outlays from 21 percent of GNP in fiscal year 1980 to 19.5 percent in fiscal 1983, which would then become the permanent mandated limit on spending by the Federal government.

The committee stated that its proposal, if adopted, could produce surpluses by 1981 or 1982. These could be used, the policy statement notes, to reduce the national debt or to underwrite tax reductions.

Government Expenditures under Major Programs for the Elderly and School-Age Population in Relation to Total Employment

Fiscal year	Expenditures per employed person			
	Programs for the elderly	Programs for school-ages	Programs for elderly and school-ages	All government programs
In current dollars				
1950	\$ 54	\$ 116	\$ 170	\$1,161
1960	226	269	495	2,215
1970	587	616	1,203	4,070
1978	1,583	1,069	2,652	7,873
In constant 1978 dollars				
1950	\$ 146	\$ 314	\$ 460	\$3,146
1960	498	593	1,090	4,879
1970	987	1,035	2,022	6,840
1978	1,583	1,069	2,652	7,873

Source: Basic data from accompanying tables; U.S. Department of Labor, Bureau of Labor Statistics; and Tax Foundation publications.