

# MONTHLY TAX FEATURES

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**Tax Foundation, Inc.**

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## Tax Index Outpaces GNP in 1st Quarter; Up 11.9% For Year

The Tax Index continued its upward climb in the first quarter of 1980, reaching 360.6 percent of its 1967 base, up by 11.9 percent from the first quarter of last year and by an annual rate of 10.5 percent from the fourth quarter of 1979. According to Tax Foundation economists, both the twelve-month and the latest quarterly gains exceeded the concurrent increases in GNP—9.7 percent for the year and at an annual rate of 10.0 percent for the last quarter.

Over the twelve-month period, the Federal tax index moved up to 360.0, or by 13.8 percent, dwarfing the rise of 8.1 percent in the state-local index. The first quarter 1980 Federal index advanced at an annual rate of 13.0 percent from the fourth quarter of 1979, despite some decline in personal income tax accruals. The state-local tax index, at 361.9 in the first quarter of 1980, rose at an annual rate of only 6.1 percent from the last quarter of 1979.

The accompanying table depicts the Tax Index by level of government and by major type of tax for selected periods since 1965. Although the state-local index has generally been moving ahead faster than the Federal index in the last decade, the steeper rise in the Federal index in the last year brought that index up to a point almost equal to the state-local index, both on the 1967 base.

## TF to Honor Fed's Paul Volcker; McCracken to Address Conference

Tax policy, the budget, and unemployment will comprise the theme of the Tax Foundation's 32nd National Conference, which will be held on December 3 at New York City's Plaza Hotel.

Paul W. McCracken, former Chairman of the President's Council of Economic Advisers and currently Edmund Ezra Day Professor of Business Administration at the University of Michigan, will be featured  
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Paul A. Volcker, Chairman of the Federal Reserve Board, will receive the Tax Foundation's Distinguished Public Service Award for 1980 at the Foundation's Annual Dinner, to be held in the Grand Ballroom of The Plaza Hotel in New York City on December 3. Mr. Volcker will be the featured speaker at the dinner.

The dinner will follow the Tax Foundation's day-long 32nd National Conference. See accompanying story in this issue.

**Tax Index by Level of Government and Type of Tax  
Selected Periods 1965-1980<sup>a</sup>  
Index Numbers, 1967 = 100**

Type of tax	1965	1970	1975	1979	1980 <sup>b</sup>
<b>All governments</b>					
All taxes	82.9	132.2	203.5	335.3	360.6
Personal income	78.6	140.9	202.7	371.0	397.1
Corporate profits	95.1	106.1	153.4	284.8	313.1
Indirect business taxes <sup>c</sup>	89.1	134.5	198.3	267.0	286.3
Social insurance contributions	69.9	135.3	256.2	444.6	475.4
All other <sup>d</sup>	90.4	124.5	172.4	199.9	228.0
<b>Federal government</b>					
All taxes	82.8	127.7	190.2	331.1	360.0
Personal income	79.4	137.4	187.1	348.6	374.2
Corporate profits	96.2	102.6	142.4	260.4	287.1
Indirect business taxes <sup>c</sup>	101.6	119.3	145.9	175.2	210.7
Social insurance contributions	68.8	135.4	258.2	442.0	474.1
All other <sup>d</sup>	91.8	120.1	159.4	182.7	195.8
<b>State and local governments</b>					
All taxes	83.1	141.8	231.0	344.2	361.9
Personal income	70.2	176.6	362.8	600.8	631.0
Corporate profits	80.6	149.3	287.7	582.7	631.6
Indirect business taxes <sup>c</sup>	85.4	138.9	213.6	293.8	308.3
Social insurance contributions	75.3	135.0	246.0	458.3	482.3
All other <sup>d</sup>	89.0	128.6	184.2	248.6	257.6

<sup>a</sup>Data for 1979 and 1980 are preliminary. Most taxes are shown on an accrual basis.

<sup>b</sup>First quarter at seasonally adjusted annual rate.

<sup>c</sup>Includes sales, excise, and customs levies, and real property taxes (including those on owner-occupied homes).

<sup>d</sup>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.

## The Front Burner

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

### “College Classroom Project—Alive and Well”

A major public education activity of the Tax Foundation has once again moved to the “front burner.” Thanks to the generosity of our Trustees and several private foundations, we have been able to broaden the scope of our “College Classroom Education Project in Fiscal and Economic Problems of Government.”

From 1968 to 1974, the “College Classroom Project” furnished classroom quantities of Tax Foundation’s *Tax Review* at no cost to professors of economics and related disciplines. The intent was to reach those who would one day be formulating tax and fiscal policy while their thinking was still being formed, in order to insure that the free-market dimension of the U.S. economic system would be part of their education.

While academics greeted the project with enthusiasm, the Foundation was forced to scale down its effort as funding declined during the recessionary period of the mid-1970s. Our research and public education departments continued the “College Classroom Project” on a reduced and less formal basis during the ensuing years to the extent that our own general budget permitted.

Recently, as economic considerations have come to dominate the national consciousness, the Trustees felt that the time had come again to inject more strongly a free-market voice into the growing public policy debate, especially at the college and university level. They believed that the insights and experience of professional, working economists and tax policy experts would add an important dimension to the formation of those who will one day be making the decisions that shape the nation’s economic health. The Trustees were also convinced that entering the arena of vigorous academic debate

## Inflation-Adjusted Welfare Aids Up by 8-Fold Per Poor Person

If government money can in fact ease the plight of the poor in America, their problems should have been alleviated significantly over the past two decades, according to recent research by Tax Foundation economists. Their analysis of trends in welfare spending from 1960 to 1978 (latest available) reveals that public outlays under welfare programs designed to aid the poor increased while the number of poor people actually declined. Welfare spending also increased far more rapidly than either inflation or the average income of the general population.

Total spending under the major needs-tested welfare programs reached almost \$85 billion in 1978, more than ten times as much as the

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would make the Foundation even less susceptible to the charge of “singing to the choir” by distributing its research principally to the businesses and individuals who sponsor its work.

At this writing, we have obtained the funding to launch the program vigorously and have contacted the 363 educators already on mail to urge them to expand their participation in the “College Classroom Project.” As things solidify, our long-term plan is to reach out to about 2,000 educators—in economics, finance, political science, government, law, accounting, and journalism—and to extend them the opportunity to be included in the project.

Since our origins in 1937, the Tax Foundation’s motto has been: “Toward Better Government Through Citizen Understanding.” The revitalization of the “College Classroom Project” gives heartening evidence that we are still very much committed to that mandate. The enthusiastic response to our appeals for help by Trustees and friends shows that we are not alone in that quest.

\$7.7 billion spent on such programs 18 years earlier. While the 120 percent rise in consumer prices cut the purchasing power of those dollars, reckoned in inflation-adjusted dollars, the 1978 outlays were five times as large as those of 1960.

Even this substantial expansion understates the change in the amount of aid when related to the number of persons presumed to be in need. By official government definitions of the poverty level, the number of people classified as being below that level dropped by more than 9 million, or 23 percent, between 1960 and 1978—from 39.8 million to 24.5 million. (At the same time, the total U.S. population grew by 38 million, or 21 percent.) Thus, welfare expenditures per poor person, adjusted for inflation (i.e., in constant 1978 dollars), rose from \$427 in 1960 to a level eight times as high, \$3,455, in 1978.

Per capita disposable income for the United States as a whole increased from \$4,260 (in 1978 dollars) in 1960 to \$6,672 in 1978, a rise of 57 percent. In 1960, welfare spending per poor person was equal to 10.0 percent of the average U.S. per capita disposable income; by 1978, welfare per poor person, in sharp contrast, was equal to more than half of per capita disposable income.

An accompanying table shows the rise in total needs-tested welfare spending in current and inflation-adjusted dollars for selected years, together with trends in such spending in relation to the low-income population and overall per capita disposable income.

While growth in government spending for the poor took place in all major categories of aid (see table on page 4), much of it has come about under new and/or expanded programs enacted largely in the middle 1960s. The Medicaid program, enacted in 1965 to help the poor and

*(Continued on page 4)*

# Taxing Top \$ at 100% TF Conference Meets Federal Bills For Less Than 1 Week

(Continued from page 1)

Skimming the cream off the nation's income would run the United States for only 6.3 days, Tax Foundation analysis reveals. That is, if all the income on which people now pay income tax rates of more than 50 percent were simply confiscated by the Federal government, the additional revenue would not even keep Washington in business for a week.

Using Treasury Department data for income year 1977, latest available, Foundation economists report that taxpayers above the 50 percent rate filed 1,633,000 returns, 2.4 percent of all taxable returns filed. Income subject to taxation in those top brackets totaled \$18.2 billion, which yielded \$11.2 billion. If that income had simply been confiscated by taxing it at 100 percent, the U.S. Treasury would have gleaned \$6.97 billion in additional revenue.

speaker during the conference. He will address the theme "Reindustrializing America" at a luncheon to be hosted by David M. Roderick, Chairman of the Board and Chief Executive Officer of U.S. Steel Corporation and President of the Tax Foundation, Inc.

The morning session will be chaired by Wallace J. Clarfield, Vice President of the Olin Corporation.

Since Uncle Sam spent \$402.7 billion in 1977, the daily cost of meeting the Federal government's bills was \$1.1 billion. So, skimming the cream off the top income tax brackets would have kept the engine of national government chugging for slightly less than a week.

The table below supplies detailed breakdowns for Federal income tax generated at each tax rate.

Speakers and topics under the general theme of "Tax Policy and the Budget" will be:

- "1981 Economic and Fiscal Policy Outlook—Has 'Supply-Side' Economics Taken Over?" by John M. Albertine, Executive Director, Joint Economic Committee; and Richard W. Rahn, Vice President and Chief Economist, Economic Policy Division, Chamber of Commerce of the United States.

- "The Congressional Budget Process—Can It Work? 'Reconciliation,' 'Sunset,' and Other Stratagems—Implications for Tax and Expenditure Policy in the 1980s" by John J. King, Tax Specialist, Committee on the Budget, U.S. House of Representatives; Allen Schick, Specialist in American Government and Public Administration, Congressional Research Service, Library of Congress; and Paul Craig Roberts, Senior Fellow in Political Economy, Georgetown University Center for Strategic and International Studies.

The afternoon session will be chaired by Ralph R. Adams, Director, Unemployment and Workers Compensation Activity, General Motors Corporation. Speakers and topics under the general theme of "The Unemployment Insurance System—Which Way Ahead?" will be:

- "Financing Problems of the 1970s—What Went Wrong?" by E. H. Kay, Tax Attorney, Sears, Roebuck & Co.

- "Recommendations of the National Commission on Unemployment Compensation": Labor view by Edward T. Sullivan, member of the Commission and Business Manager, Service Employees International Union Local 254; and Industry view by J. Eldred Hill, Jr., member of the Commission and Executive Director, UBA, Inc.

The morning session of the conference will start promptly at 9:00 a.m.; the luncheon, at 12:15 p.m.; and the afternoon session, at 2:15 p.m.

Federal Reserve Chairman Paul A. Volcker will receive Tax Foundation's Distinguished Public Service Award at the Annual Dinner following the Conference. See accompanying story in this issue.

**Federal Individual Income Tax Generated at Each Tax Rate  
Income Year 1977**

Tax rate <sup>a</sup>	Number of returns with any tax at rate <sup>b</sup> (thousands)	Tax base taxed at rate (millions)	Tax generated at rate (millions)	Percent of total returns	Percent of total tax base	Percent of total tax
14	68,647	\$ 54,886	\$ 7,684	100.00	7.52	4.5
15	60,692	48,236	7,235	88.41	6.61	4.2
16	61,593	49,748	7,960	89.72	6.82	4.6
17	54,451	43,535	7,401	79.32	5.97	4.3
19	57,817	161,999	30,717	84.22	22.21	17.9
22	41,558	115,981	25,302	60.54	15.90	14.7
25	36,642	90,787	22,503	53.38	12.45	13.1
28	17,449	46,625	12,976	25.42	6.39	7.5
32	12,550	31,523	9,914	18.28	4.32	5.8
36	6,854	18,261	6,531	9.98	2.50	3.8
39	3,607	10,862	4,225	5.25	1.49	2.5
42	2,610	8,616	3,590	3.80	1.18	2.1
45	1,817	6,655	2,995	2.65	.91	1.7
48	1,193	4,173	2,003	1.74	.57	1.2
50	1,721	19,362	9,681	2.51	2.65	5.6
53	466	3,406	1,804	.68	.47	1.0
55	355	2,486	1,367	.52	.34	0.8
58	188	1,490	864	.27	.20	0.5
60	184	1,348	809	.27	.18	0.5
62	147	1,593	987	.21	.22	0.6
64	97	1,126	720	.14	.15	0.4
66	68	821	542	.10	.11	0.3
68	50	645	438	.07	.09	0.3
69	39	506	349	.06	.07	0.2
70	39	4,755	3,328	.06	.65	1.9
14-70	68,647	729,427	171,914	100.00	100.00	100.0

<sup>a</sup>Data for heads of households at intervening rates are combined with data in brackets for next highest rate.  
<sup>b</sup>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.

# Welfare Spending

(Continued from page 2)

near-poor in meeting their medical needs, served some 22.8 million persons in 1978 at a cost in excess of \$20 billion; in fiscal 1981 Federal and state costs for Medicaid are estimated at \$24 billion.

Similarly, the Food Stamp program, introduced by Federal law in 1964 and financed entirely from Federal funds, served 17.7 million persons in 1978 at a cost of \$5.6 billion; 1981 outlays of an estimated \$9.7 billion will go to approximately 20.4 million persons. In part, the recent expansion is due to 1977 legislation which eliminated the requirement that recipients pay a portion of the value of the food stamps.

While total dollar outlays for government housing programs, at \$5.2 billion in 1978, were relatively small compared to some other categories of welfare spending, housing is an area in which the relative growth of spending in aid of the poor has been sharpest. The 1978 spending for housing was almost 30 times the amount spent in 1960. During the period of fastest growth, 1970 to 1975, government aid under income-tested housing programs almost quintupled.

A final development worth noting, say Tax Foundation economists, is the almost complete turn-about in the relative roles of the Federal and state

## Public Expenditures under Major Needs-Tested Welfare Programs and Population below the Poverty Level Selected Years 1960-1978<sup>a</sup>

Year	Welfare expenditures (millions)		Persons below poverty level (thousands)	Welfare expenditures per person below the poverty level		
	Current dollars	1978 dollars		1978 dollars		Percent of per capita disposable income
				Current dollars	Amount	
1960	\$ 7,733	\$17,033	39,841	\$ 194	\$ 427	10.0
1965	11,576	23,917	33,185	349	721	14.4
1970	25,698	43,190	25,420	1,011	1,699	30.2
1975	59,296	71,873	25,877	2,291	2,777	45.0
1978	84,641	84,641	24,497	3,455	3,455	51.8

<sup>a</sup>Data for 1978 are preliminary.

Source: Tax Foundation computations based on data from Social Security Administration, Bureau of the Census, and Bureau of Labor Statistics.

and local governments. In 1960 the Federal share of financing programs for the poor amounted to 38 percent of the total, with state and local units paying 62 percent. By 1978, the national government paid 64 percent of the costs, with lower levels of government financing only 36 percent.

These tabulations of expenditures under major needs-tested welfare programs do not, of course, reflect the extent to which the poor were aided by programs designed for the general

population, without regard to income. According to data published by the Social Security Administration, social welfare expenditures under public programs, as broadly defined, totaled \$394 billion in fiscal year 1978; and private expenditures for similar purposes came to \$166 billion, for a total (eliminating duplication) of \$549 billion in spending for social welfare. This spending was equivalent to almost 27 percent of gross national product.

## Public Expenditures under Major Needs-Tested Welfare Programs by Type of Program Selected Years 1960-1978<sup>a</sup> (Millions)

Program	1960	1965	1970	1975	1978
Total	\$7,733	\$11,576	\$25,698	\$59,296	\$84,641
Public aid, total	4,101	6,283	16,488	40,706	59,620
Public assistance <sup>b</sup>	4,042	5,875	14,434	26,758	36,984
Vendor medical payments	493	1,367	5,213	12,984	20,095
Social services	—	—	713	2,622	3,688
Supplemental security income	—	—	—	6,091	7,194
Food stamps	—	36	577	4,694	5,590
Other <sup>c</sup>	59	373	1,477	3,162	9,853
Health and medical programs	2,115	2,743	3,985	6,951	8,403
Hospital and medical care—civilian programs	1,973	2,516	3,554	6,405	7,739
Maternal and child health programs	141	227	431	546	664
Veterans programs—welfare and other	219	186	379	934	810
Housing	177	318	701	3,172	5,225
Other social welfare <sup>d</sup>	1,139	2,066	4,145	7,533	10,583

<sup>a</sup>Data for 1978 are preliminary.

<sup>b</sup>Includes payments under state general assistance programs and, beginning in 1970, work incentive activities not shown separately.

<sup>c</sup>Refugee assistance, surplus food for the needy, and work-experience training programs under Economic Opportunity Act and CETA.

<sup>d</sup>Vocational rehabilitation, institutional care, child nutrition, child welfare, special OEO and ACTION programs, and welfare not elsewhere classified.

Source: U.S. Department of Health and Human Services, Social Security Administration.

### 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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