

# MONTHLY TAX FEATURES

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## Tax Foundation, Incorporated

1875 Connecticut Avenue, N.W. □ Washington, D.C. 20009 □ 202-328-4500 □

### HOW FEDERAL, STATE, AND LOCAL GOVERNMENTS SPEND EACH DOLLAR OF PUBLIC FUNDS<sup>a</sup>

Function	Cents per \$1.00 of total spending
Social security programs (OASDHI) .....	15.6
Education .....	15.0
National defense .....	14.2
Social services and income maintenance .....	13.0 <sup>b</sup>
Interest on general debt .....	7.9
Environment and housing .....	4.9
Transportation .....	4.4
Utilities and liquor stores .....	3.8
Government employee retire- ment .....	3.0
Public safety .....	2.3
Government administration ...	2.2
Postal service (Federal) .....	1.9
Sanitation .....	1.4
All other .....	10.4

<sup>a</sup>Based on 1980 distribution of expenditures.

<sup>b</sup>Includes unemployment insurance, public welfare, hospitals, and health.

Sources: Bureau of the Census, U.S. Department of Commerce; Office of Management and Budget; and Tax Foundation computations.

### MARK YOUR CALENDAR

Tax Foundation's 34th National Conference and 45th Annual Dinner will be held this year on Wednesday, December 1st, at the Plaza Hotel in New York City. Details will follow in future issues of *Monthly Tax Features*.

## Tax Index Registers Second Decline As Recession Hits Corporate Profits

The Tax Index slipped to 412.2 (1967 = 100) in the first quarter of 1982 from 417.6 in the final quarter of 1981, Tax Foundation economists report. This was the Index's second consecutive quarterly decline from an all-time high of 421.1 in the third quarter of last year.

The latest Index reflects a reduction of 2.1 percent in taxes since last fall's peak. The decrease matched a 2.1 percent drop in the nation's output (GNP measured in constant prices) for the same period.

The Tax Index is a fiscal yardstick designed by Tax Foundation econo-

mists to provide a continuing measure of trends in taxes, on a basis comparable to official indexes for other segments of the economy.

A decline in the Tax Index was also recorded during the second quarter of 1980, when the economy was, as now, in a period of general economic contraction, Foundation researchers say. Since then, the Tax Index has shown an increase of 18.0 percent (from 349.3 to this first quarter's 412.2 level).

Over the same period, current dollar GNP has risen by 16.8 percent, (Continued on page 4)

**Tax Index and Related Measures**  
Quarterly at Seasonally Adjusted Annual Rates (1967 = 100)

Year and quarter	Tax Index	Output Index <sup>a</sup>			
		Current prices	Constant prices	Price Index <sup>b</sup>	
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 .....	407.0	356.8	149.9	238.0
	II .....	409.3	360.9	149.3	241.7
	III .....	421.1	370.8	149.9	247.4
	IV .....	417.6	375.0	148.2	253.1
1982	I <sup>c</sup> .....	412.2	374.6	146.7	255.4

<sup>a</sup>Gross national product.

<sup>b</sup>Implicit price deflator for gross national product.

<sup>c</sup>Preliminary.

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

The June-July issue of *Monthly Tax Features* carried a "Front Burner" column that mixed two concepts which ought to be very carefully distinguished. Mr. Robert Hengerer of Davenport, Iowa, noted our mixing of terms and explained why the distinction is so important. We are delighted to run Mr. Hengerer's thoughts as a guest column. RCB

**"Congress does have an obligation to raise money to run the country."**

—Robert C. Brown

I collect examples of statements which express the idea that "the country" is something which must be "run"—usually in precisely these terms. For this idea, which is a widely shared article of faith, contains a number of dubious assumptions, and I believe has very sinister consequences, many of which we see today all around us.

The Constitution charges Congress with levying taxes to finance the operations of the federal government (Art. I, Sect. 8). But the government is not the country. The assumptive granting of authority to "run the country" involves far more than the Constitution allows. It holds the implication that the country is a giant organization which must be planned, organized, directed and controlled by a central authority (run) in order to achieve its objectives.

Thus, whereas our founders envisioned the government as an organization charged with the protection of the rights and security of states and individuals, the notion of "running the country" transforms it into a sort of super board of directors. It, in short, demolishes the primacy of individual rights (a free country) and establishes one in which such endlessly flexible notions as "the public good" and "vital national interests" take precedence (authoritarianism).

Under this idea, the will and resources of individuals are assets

# State Taxes Total \$663 Per Capita, A 165% Increase for 10-Year Period

State governments now collect an average of over \$650 in general taxes for every man, woman, and child in the United States, Tax Foundation researchers report. In fiscal 1981 (latest year reported), tax revenues per capita averaged \$663, up by about \$40 from the previous year and by \$413 over the 1971 state tax take.

State tax receipts (excluding unemployment) totaled \$149.7 billion in 1981, say economists at the Foundation. This represented a 9 percent rise over the \$137 billion collected in 1980 and a near tripling of the \$51.5 billion in taxes paid to state governments a decade earlier. On a per capita basis, for the same ten-year period, state taxes rose by 165 percent.

The 1981 state tax total was equivalent to \$69 for every \$1,000 in personal income for the nation as a whole. By comparison, state taxes amounted to \$65 per \$1,000 in 1970 and \$54 per \$1,000 as recently as 1965. Since the latter part of the seventies, however, state taxes have generally risen less rapidly than personal income. The peak level was reached in 1978, when state taxes came to \$75 per \$1,000 of personal income. In 1981, taxes as a share of personal income declined by 3 percent, from \$71 in 1980.

"General" taxes, as reported here, do not include unemployment com-

ensation taxes paid by employers to the states and reserved for unemployment benefits under the Federal-state unemployment insurance program established in the 1930s. In 1981, such payroll taxes reached an estimated \$12.4 billion, bringing the overall total state tax bill to more than \$162 billion.

In the early years of this century, the states collected relatively small amounts in taxes as compared to local units. Until World War I the states took in only 23 cents in taxes for every dollar collected by localities. That proportion has gradually shifted. From the end of World War II until the early 1960s, the subnational tax bill was split about 50-50 between state and

(Continued on page 3)

## About Tax Features

Tax Foundation, Incorporated, is a nonprofit organization engaged in non-partisan research and public education on the fiscal and management aspects of government. It is supported by voluntary contributions from corporate and individual sponsors, nationwide.

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which the directors may dispose of in any way that does not encounter widespread, determined opposition.

Is a free country really anything like an organization? Are citizens anything like employees? Are public servants anything like the directors and management of a corporation, and if so does their authority extend over the shareholders as well as those who have contracted to serve the government?

In what sense is a man or woman whose options are arbitrarily limited, not in the interest of justice (protecting others from violence), but in the interest of such things as subsidizing dairy farmers, intimidating "ene-

mies," coercing and bribing "allies" (i.e.: other governments), manipulating the currency and economy for political advantage, etc., etc. really free?

I believe the idea that the government must be granted or rightfully holds the power to "run the country" is very dangerously wrong. It seems to me to be a tacit abandonment of the American Revolution, and a mistake which has produced an increasingly arrogant and oppressive government, one aspect of which is so well documented by Tax Foundation, Incorporated.

Robert Hengerer  
Davenport, IA

# State Taxes

(Continued from page 2)

local units. Since 1963, the states have generated more than one-half of combined state-local tax revenues, as state tax bills have risen far more rapidly than those of localities. Latest data available (1980) indicate that, for the nation as a whole, the states now raise about \$1.54 in taxes for every \$1.00 raised by local units.

In making comparisons of per capita taxes among the states, Tax Foundation economists warn that there are wide variations in the way tax-raising responsibility is allocated between state and local units. While states on the average collect more than 60 percent of the subnational tax total, this share extends up to 80 percent or more (1980 data) in four states (Alaska, Delaware, Hawaii, and New Mexico) and falls below 50 percent in three states (New Hampshire, New York, and South Dakota).

General sales taxes were the single largest state tax source in 1981. These accounted for 31.0 percent of state revenues nationally and for the largest segment of taxes in 31 states.

Individual income taxes ran a close second, generating 27.3 percent of the total. Sixteen states relied more heavily on income taxes than on any other tax source.

State tax collections in 1981 were highest, on a per capita basis, in Alaska—\$5,792.

Hawaii ranked second-highest, with state government taxes pulling in \$1,128 per resident.

Wyoming stood in third place, according to the 1981 data, at \$996 per capita. Next in line were Delaware (\$926), New Mexico (\$907), California (\$866), Minnesota (\$828), New York (\$793), and Wisconsin (\$771).

New Hampshire ranked lowest among the states in fiscal 1981, collecting \$292 per capita. (The state

## Per Capita Levels, Growth and Sources of State Government Tax Revenue by State<sup>a</sup>

Fiscal Years 1971-1981

State	Per capita state tax collections			Increase 1971 to 1981		Percent distribution of state tax revenues by source, 1981		
	Amount		Rank 1981	Percent	Rank	General sales	Income	Other
	1971	1981						
TOTAL .....	\$250	\$663	—	165	—	31.0	36.7	32.3
Alabama .....	204	552	40	171	16	27.7	28.6	43.7
Alaska .....	326	5,792	1	1,677	1	—	38.9	61.1
Arizona .....	283	675	16	139	35	45.1	27.5	27.4
Arkansas .....	195	520	42	167	18	33.6	33.0	33.4
California .....	281	866	6	208	7	35.4	45.4	19.2
Colorado .....	225	500	45	122	47	36.7	37.5	25.8
Connecticut .....	258	667	19	159	23	44.2	17.7	38.1
Delaware .....	398	926	4	133	40	—	53.5	46.5
Florida .....	225	546	41	143	31	47.9	7.6	44.5
Georgia .....	212	553	39	161	22	33.4	42.7	23.9
Hawaii .....	472	1,128	2	139	33	50.4	35.6	14.0
Idaho .....	256	569	36	122	46	27.0	44.1	28.9
Illinois .....	281	641	23	128	44	31.9	39.2	28.9
Indiana .....	200	512	44	156	25	48.5	28.4	23.1
Iowa .....	223	630	25	183	15	28.0	44.1	27.9
Kansas .....	205	589	30	187	14	32.3	40.6	27.1
Kentucky .....	232	622	26	168	17	27.7	32.0	40.3
Louisiana .....	269	667	18	148	28	30.6	16.1	53.3
Maine .....	228	599	28	163	19	35.0	32.0	33.0
Maryland .....	287	701	13	144	30	25.5	46.1	28.4
Massachusetts ..	260	756	11	191	13	19.8	59.9	20.3
Michigan .....	283	667	17	136	38	29.0	48.1	22.9
Minnesota .....	283	828	7	193	12	20.4	51.2	28.4
Mississippi .....	232	554	38	139	34	51.8	18.3	29.9
Missouri .....	174	436	47	151	27	36.7	37.3	26.0
Montana .....	192	593	29	209	6	—	42.6	57.4
Nebraska .....	195	512	43	163	20	35.0	31.7	33.3
Nevada .....	340	645	21	90	48	39.4	—	60.6
New Hampshire ..	155	292	50	88	49	—	26.0	74.0
New Jersey .....	206	683	15	232	4	25.1	34.2	40.7
New Mexico .....	286	907	5	216	5	43.7	10.5	45.8
New York .....	340	793	8	133	39	21.3	58.5	20.2
North Carolina ..	252	584	32	132	41	21.5	46.2	32.3
North Dakota ...	228	690	14	203	8	28.7	23.0	48.3
Ohio .....	164	485	46	196	11	31.2	31.0	37.8
Oklahoma .....	207	738	12	257	3	17.1	27.9	55.0
Oregon .....	206	611	27	197	10	—	72.2	27.8
Pennsylvania .....	260	640	24	146	29	27.5	35.6	36.9
Rhode Island .....	283	642	22	127	45	29.2	40.0	30.8
South Carolina ..	229	585	31	155	26	33.7	39.7	26.6
South Dakota ...	182	432	48	137	36	53.1	1.2	45.7
Tennessee .....	185	427	49	131	43	53.3	11.8	34.9
Texas .....	191	574	35	201	9	36.6	—	63.3
Utah .....	245	581	33	137	37	41.2	39.5	19.3
Vermont .....	308	576	34	87	50	15.2	41.3	43.5
Virginia .....	221	566	37	156	24	21.3	48.6	30.1
Washington .....	327	757	10	131	42	54.9	—	45.1
West Virginia ...	249	651	20	161	21	49.1	23.6	27.3
Wisconsin .....	318	771	9	142	32	24.8	52.6	22.6
Wyoming .....	274	996	3	264	2	42.0	—	58.0

<sup>a</sup>Per capita figures based on resident population excluding armed forces overseas. Unemployment taxes are excluded; figures shown reflect general taxes only.  
Source: Department of Commerce, Bureau of the Census; and Tax Foundation computations.

government in New Hampshire raises less than 40 percent of combined state-local taxes.)

Washington showed the greatest reliance on general sales taxes, which provided 54.9 percent of total collections. Then came Tennessee at 53.3 percent, and South Dakota at 51.3 percent. (These three states lack a broad-based individual income tax.)

The states most dependent on income taxes (individual and corporate) in 1981 were Oregon (72.2 percent), Massachusetts (59.9 percent),

New York (58.5 percent), and Delaware (53.5 percent). (Oregon and Delaware have no general sales tax.) The table above gives details.

### To Our Readers

Tax Review will not be published in August 1982. Publication will resume with the September issue.

### Postage Charge

Due to increased costs, a \$1.00 postage and handling charge will apply to all Tax Foundation publication orders, effective immediately. This will include both free and chargeable items, but not pre-paid orders.

# Tax Index

(Continued from page 1)

from an index of 320.8 to 374.6. (The latter figure reflects first quarter 1982 index numbers of 146.7 for real output and 255.4 for current prices, based on 1967 as 100.)

The most significant factor accounting for the modest reduction in the Tax Index has been the decline in corporate profits tax accruals. For all levels of government, these declined from a 1980 index of 253.7 to 239.2 in 1981. By first quarter 1982, that index had dropped to 171.5 (from 199.8 in fourth quarter 1981). The fall in the corporate tax index (14 percent) reflected an even deeper slide of 21 percent in before-tax corporate profits in the latest quarter, according to Tax Foundation economists.

Indirect business taxes fell slightly in the first quarter this year, to 349.4 from 357.2 in the previous quarter. This represented a 2.2 percent decline, and reflected contrasting movements of Federal and state-local taxes within this category. At the Federal level, indirect business taxes decreased by 17.4 percent in the first quarter of 1982, dropping for the third consecutive quarter to accumulate a 22.0 percent fall since second quarter 1981. Major elements in the decline were lower collections from the crude oil windfall profits tax and other excises, primarily highway-related levies. For state and local levels of government, indirect business taxes rose without interruption, reaching an index of 365.1 in the latest quarter reported

## Tax Index by Level of Government and Type of Tax Selected Periods 1960-1982<sup>a</sup> Index Numbers, 1967 = 100

Type of tax	1960	1970	1975	1980	1981	1982 <sup>b</sup>
<b>All governments</b>						
All taxes	61.9	132.2	204.3	361.9	413.5	412.2
Personal income	62.8	141.5	203.3	418.9	482.6	489.2
Corporate profits	69.9	105.2	155.9	253.7	239.2	171.5
Indirect business taxes <sup>c</sup>	65.4	134.7	199.5	296.9	352.2	349.4
Social insurance contributions	48.7	135.0	257.0	474.5	556.1	591.4
All other <sup>d</sup>	61.4	123.2	164.4	226.4	245.2	267.0
<b>Federal government</b>						
All taxes	64.3	127.5	191.0	359.4	415.8	404.5
Personal income	65.0	138.1	187.7	390.0	449.1	451.6
Corporate profits	71.4	102.0	145.1	233.8	219.8	151.9
Indirect business taxes <sup>c</sup>	86.0	119.3	145.9	237.6	368.2	295.3
Social insurance contributions	48.1	134.3	257.7	474.7	557.8	592.5
All other <sup>d</sup>	57.4	120.1	159.4	215.3	228.4	257.7
<b>State and local governments</b>						
All taxes	56.9	142.1	232.1	367.1	408.8	428.2
Personal income	40.3	176.6	362.8	713.6	824.9	874.1
Corporate profits	50.9	144.5	287.9	497.1	476.8	411.6
Indirect business taxes <sup>c</sup>	59.4	139.2	215.1	314.2	347.6	365.1
Social insurance contributions	51.6	138.9	252.8	473.3	547.0	586.0
All other <sup>d</sup>	65.2	126.0	168.9	236.6	260.6	275.5

<sup>a</sup>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.

(up 7.8 percent from a year before), according to Tax Foundation researchers.

Social insurance contributions continued to rise the most rapidly of all tax sources, at both Federal and state-local government levels.

For all levels of government, the index for personal income taxes reached a first quarter 1982 level of 489.2, up from 463.2 at the beginning of 1981. For Federal personal income taxes, the index reached 451.6 (up from 430.1 a year before).

### Still Available

*Facts and Figures on Government Finance—1981*, 21st Edition, 329 pages, \$15.00. (Price to Members, \$12.00.)

*Unemployment Insurance: Trends and Issues*, Research Publication No. 35, 88 pages, \$5.00. Summary, 8 pages, free.

Postage and handling on all publication orders is \$1.00.



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