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# PATTERNS OF FEDERAL GOVERNMENT OUTLAYS AND REVENUES, 1960-1970

## IN THIS ISSUE

Patterns of Federal  
Government Outlays and  
Revenues, 1960-1970 . . . 3

State and Local Revenues  
and Expenditures,  
1960-1968 . . . . .15

In recent years, Federal Government spending has grown more rapidly than revenues and, therefore, has contributed to sizable deficits as well as to an accelerated rise in the Federal debt. Despite the more rapid growth in spending for defense purchases since 1965, the share of the nation's output (Gross National Product) accounted for by Federal purchases was essentially unchanged from the average for the previous five-year period. This article reviews the changes in the composition of Federal spending and receipts that occurred during the 1960's and discusses some of the key developments that affected expenditures and revenues.

## ECONOMIC REVIEW

Federal Government spending, as indicated in the national income accounts budget, can be divided between expenditures for purchases of goods and services (a component of GNP) and transfer payments (a component of personal income). Transfer payments are excluded from the GNP account "Federal Government purchases" because they represent a redistribution of income rather than a payment for a good or service produced. The Federal Government redistributes income to individuals (for social welfare payments), to business (for subsidies), and to other governments (such as grants-in-aid to states and local governments, and grants to foreign governments). From 1960 to 1969, total Federal spending rose at an average annual rate of 8.3 percent (see Table I). Government purchases of goods and services grew more slowly than total spending, while grants to government units and transfer payments to individuals and business rose more rapidly than overall Federal spending. Consequently, purchases of goods and services declined as a share of total Federal spending during the 1960's, while grants to other government units and transfers to individuals increased as a share of Federal spending.

Of the \$98.3 billion increase in Federal Government spending from 1960 to 1969, 49 percent consisted of purchases of goods and services. Outlays for defense goods and services accounted for nearly 71 percent of the increase in Federal Government purchases in the period, with the balance in nondefense programs, especially for social services, such as education, health, and welfare. Transfer payments to persons made up about 29 percent of the increase in spending, while Federal Government grants-in-aid to state and local governments accounted for 14 percent of the rise. Federal Government grants showed the largest

rate of advance of any type of transfer payment by the Federal Government in recent years. Interest payments on the Federal debt and government subsidies contributed to the balance of the increase in Federal Government spending.

Nearly 60 percent of the rise in Government spending during the decade occurred between 1965 and 1969. Despite the rapid expansion in Federal Government purchases between 1965 and 1969, the share of GNP allocated to the Federal sector was unchanged from the average for the 1960-1964 period. On a year-to-year basis, however, the proportion of total output accounted for by Federal purchases fluctuated (see Table I). Nondefense spending for both social services and physical resources and defense spending rose faster than GNP and, thereby, absorbed a larger share of total output. On the other hand, spending for the space program declined both absolutely and relatively between 1965 and 1969, while the proportion of national output accounted for by the operations of the Federal Government ("General government") was virtually unchanged from the average for 1960-1965.

## GROWTH AND COMPOSITION OF FEDERAL OUTLAYS

The unified budget, which represents the financial plan of the Federal Government, gives a more comprehensive view of the fiscal activities of the Federal Government than the national income accounts budget. The unified budget incorporates an integrated set of accounts that includes the total spending, lending, and financing activities of the Federal Government.<sup>1</sup> The two budgets differ in several respects. For example, the NIA budget

<sup>1</sup>See "The New Federal Budget," *Economic Review*, Federal Reserve Bank of Cleveland, Cleveland, Ohio, March 1968.



## ECONOMIC REVIEW

TABLE II

Budget Receipts, Outlays and Surplus or Deficit  
Unified Budget  
Fiscal Years 1960-1970  
(Bil. of \$)

|   | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> | <u>1968</u> | <u>1969</u> | <u>1970</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Receipts, expenditures,<br>and net lending: |             |             |             |             |             |             |             |             |             |             |             |
| Expenditure Account:                        |             |             |             |             |             |             |             |             |             |             |             |
| Receipts                                    | \$92.5      | \$94.4      | \$ 99.7     | \$106.6     | \$112.7     | \$116.8     | \$130.9     | \$149.6     | \$153.7     | \$187.8     | \$193.8     |
| Expenditures (excludes<br>net lending)      | 90.3        | 96.6        | 104.5       | 111.5       | 118.0       | 117.2       | 130.8       | 153.2       | 172.8       | 183.1       | 195.0       |
| Expenditure account<br>surplus or deficit   | + 2.2       | -2.2        | -4.8        | -4.9        | -5.4        | -0.3        | 0.0         | -3.6        | -19.1       | + 4.7       | -1.1        |
| Loan Account:                               |             |             |             |             |             |             |             |             |             |             |             |
| Loan disbursements                          | 8.3         | 7.9         | 9.6         | 9.6         | 10.2        | 10.9        | 14.6        | 17.7        | 20.3        | 13.2        | 7.9         |
| Loan repayments                             | 6.4         | 6.7         | 7.3         | 9.8         | 9.7         | 9.7         | 10.8        | 12.6        | 14.3        | 11.7        | 6.1         |
| Net lending                                 | + 1.9       | + 1.2       | + 2.4       | -0.1        | + 0.5       | + 1.2       | + 3.8       | + 5.1       | + 6.0       | + 1.5       | + 1.8       |
| Total budget:                               |             |             |             |             |             |             |             |             |             |             |             |
| Receipts                                    | 92.5        | 94.4        | 99.7        | 106.6       | 112.7       | 116.8       | 130.9       | 149.6       | 153.7       | 187.8       | 193.8       |
| Outlays (expenditure<br>plus net lending)   | 92.2        | 97.8        | 106.8       | 111.3       | 118.6       | 118.4       | 134.7       | 158.3       | 178.8       | 184.6       | 196.8       |
| Budget surplus or deficit                   | + 0.3       | -3.4        | -7.1        | -4.8        | -5.9        | -1.6        | -3.8        | -8.7        | -25.2       | + 3.2       | -2.9        |

NOTE: Details may not add to totals because of rounding.

Sources: The Office of Management and Budget and U. S. Department of Treasury

excludes means of financing the budget and net lending activities of the Federal Government. In addition, receipts and expenditures are reported differently in the two budgets. This article reviews, in broad terms, the fiscal activities of the Federal Government as reported in the unified budget.

The "receipts, expenditures, and lending accounts" of the unified budget are shown in Table II. Receipts include all types of tax receipts, trust funds receipts (such as social security trust funds), as well as receipts from the earnings of the Federal Reserve System that are paid to the Treasury Department. Expenditures include outlays, except for loans, and trust funds. The unified budget identifies the lending activity of the Federal Government by recording disbursements for loans and repayments (the difference being net lending) separately from other expenditures. The

loan account includes transactions, such as Federal Government purchases of mortgages (through the Government National Mortgage Association), financing of farm credit, and financing urban renewal programs. Expenditures and net lending are equal to total outlays of the Federal Government. Because the expenditure and loan accounts are separated, the amount of the total Federal surplus or deficit in the expenditure account can be compared with the surplus or deficit in the loan account. Loan disbursements and net lending activity of the Federal Government, which accounted for a relatively small but growing portion of total Federal outlays, rose sharply in 1966, 1967, and 1968 and, thus, contributed importantly to the overall Federal budget deficit (see Table II). On the other hand, Government disbursements for loans fell after 1968 because of



TABLE III

Distribution and Growth of Federal Government Outlays  
Unified Budget  
Selected Fiscal Years

|  | 1960       |                     | 1965       |                     | 1970       |                     | Average Annual<br>Percent Change,<br>Compounded |               |               |
|--|------------|---------------------|------------|---------------------|------------|---------------------|---|---------------|---------------|
|  | Bil. of \$ | Percent<br>of Total | Bil. of \$ | Percent<br>of Total | Bil. of \$ | Percent<br>of Total | 1960-<br>1965                                   | 1965-<br>1970 | 1960-<br>1970 |
| Total Outlays                                      | \$92.2     | 100.0%              | \$118.4    | 100.0%              | \$196.8    | 100.0%              | 5.1%  | 10.7%         | 7.9%          |
| National security                                  | 54.4       | 59.0                | 59.6       | 50.4                | 92.4       | 47.0                | 1.9   | 9.2           | 5.5           |
| National defense                                   | 45.9       | 49.8                | 49.6       | 41.9                | 80.3       | 40.8                | 1.6   | 10.1          | 5.7           |
| International affairs<br>and finance               | 3.1        | 3.3                 | 4.3        | 3.7                 | 3.5        | 1.8                 | 7.3   | -4.4          | 1.4           |
| Veterans benefits<br>and services                  | 5.4        | 5.9                 | 5.7        | 4.8                 | 8.7        | 4.3                 | 1.1   | 8.7           | 4.8           |
| Total Government outlays less<br>national security | 37.8       | 41.0                | 58.8       | 49.6                | 104.4      | 53.0                | 9.2   | 12.1          | 10.7          |
| Social services                                    | 20.0       | 21.7                | 29.7       | 25.1                | 63.9       | 32.5                | 8.2   | 16.6          | 12.3          |
| Education and manpower                             | 1.3        | 1.4                 | 2.5        | 2.1                 | 7.4        | 3.8                 | 14.5  | 24.0          | 19.2          |
| Health   | 0.8        | 0.8                 | 1.7        | 1.5                 | 15.8       | 8.1                 | 18.0  | 56.2          | 35.6          |
| Income security                                    | 18.0       | 19.5                | 25.5       | 21.5                | 40.7       | 20.7                | 7.2   | 9.8           | 8.5           |
| Physical resources                                 | 10.1       | 10.9                | 14.5       | 12.3                | 21.4       | 10.9                | 7.5   | 8.0           | 7.8           |
| Agriculture and rural<br>development               | 3.3        | 3.6                 | 4.8        | 4.1                 | 6.5        | 3.3                 | 7.7   | 6.2           | 6.9           |
| Natural resources                                  | 1.0        | 1.1                 | 2.1        | 1.7                 | 2.5        | 1.3                 | 15.2  | 4.1           | 9.5           |
| Commerce and transportation                        | 4.8        | 5.2                 | 7.4        | 6.2                 | 9.3        | 4.7                 | 9.1   | 4.7           | 6.8           |
| Community development<br>and housing               | 1.0        | 1.1                 | 0.3        | 0.2                 | 3.1        | 1.6                 | -27.5   | 61.0          | 13.0          |
| Interest   | 8.3        | 9.0                 | 10.4       | 8.7                 | 18.3       | 9.3                 | 4.5   | 12.0          | 8.2           |
| General government                                 | 1.3        | 1.4                 | 2.2        | 1.9                 | 3.4        | 1.7                 | 10.7  | 8.7           | 9.7           |
| Space research and technology                      | 0.4        | 0.4                 | 5.1        | 4.3                 | 3.7        | 1.9                 | 66.3  | -6.3          | 25.0          |

NOTE: Details may not add to totals because of rounding. Federal Government contributions to employee retirement and interest received from trust funds are deducted from total outlays but not from individual functions listed above.

Source: The Office of Management and Budget

the transfer of major lending agencies (Federal National Mortgage Association and Farm Credit Administration) to private ownership.

Between fiscal years 1960 and 1970, total Federal outlays (including expenditures and net lending activity) rose by \$104.6 billion (see Table III). Outlays for most major functions showed sizable dollar increases during the decade; however, the largest growth rates were recorded for nondefense activities, especially for health, education and manpower, community development and housing, and for operations of the Government.

Although expenditures for the space program showed the largest growth rates for any single Government function during 1960 to 1970, such spending started from a small base. Moreover, outlays for the space program have been declining in recent years.

**National Security.** Outlays for national defense rose at an average annual rate of 5.7 percent from 1960 to 1970 and constituted the largest single component of the Federal budget. Between 1960 and 1965, defense expenditures rose at an average rate of 1.6 percent annually, but were stepped up

## ECONOMIC REVIEW

sharply following the escalation of military activities in Vietnam by the United States in 1965. At the recent peak in fiscal year 1969, however, defense spending still accounted for a smaller share of total Federal outlays and of GNP than during the Korean War.

National defense spending accounts for the bulk of Federal outlays for national security. Other activities related to national security include programs for veterans services and international affairs. In recent years, outlays for veterans benefits have been stepped up, reflecting the enlarged size of the armed forces and the enactment of a "G. I. Bill" for Vietnam veterans. Finally, expenditures for international affairs (mostly foreign aid programs) rose by only 1.4 percent annually during the 1960's; outlays were at a reduced level in 1969 and 1970, after being held relatively constant from 1962 to 1968.

**Social Services.** The Federal Government's broadened functions, which include providing social services and achieving stabilization goals, added significantly to the acceleration in Federal spending during the 1960's. As shown in Table III, outlays for social services accounted for the largest dollar increase in the Federal budget between 1960 and 1970 (\$43.9 billion) and constituted the second largest and the fastest growing section of the budget.<sup>2</sup> Social service programs, as defined here, include education and manpower programs, health, and income security. For each of these activities, the means of financing, aims, and economic costs and benefits differed. The rapid growth of these activities reflects changing attitudes toward poverty, geographic mobility, and

<sup>2</sup>Outlays for Space Research and Technology showed the fastest growth from 1960 to 1970 (25 percent average annual increase). However, outlays have been declining, in absolute and relative terms, since 1966.

the major demographic changes that occurred in the past decade.

Income security programs make up the bulk of Federal outlays for social services and are largely financed through specific types of payroll taxes. It is estimated that these programs, which include social security, unemployment insurance, and railroad retirement, covered 20 million beneficiaries in 1970. Outlays for income security programs in fiscal year 1970 amounted to \$40.7 billion, with nearly 80 percent financed from trust funds obtained through contributions by employers' and employees' payroll taxes. Between 1960 and 1970, outlays for social security (Old-Age, Survivors, and Disability Insurance), the largest of the income security programs of the Federal Government, more than doubled, as coverage was broadened and benefits improved. As a result of the rapid growth in outlays for income security programs, the relative importance of these programs rose from 19.5 percent of Federal outlays in 1960 to 20.7 percent in 1970.

Certain types of Federal social service outlays are financed from the Federal budget (as distinct from trust funds) and have as their ultimate goal the improvement of the quality of the nation's work force. Although frequently thought of as a Federal welfare measure, spending for education and health is also presumed to result in upgrading the quality of the labor force, which in turn represents a contribution to stabilization and to economic growth.

The Federal Government's assumption of hospital and medical care for the aged and poor during the 1960's also contributed importantly to the rapid growth of total Government expenditures. As shown in Table III, Federal outlays for health rose from \$0.8 billion in 1960 to \$15.8 billion in 1970 (with another large increase



scheduled for fiscal year 1971). New programs, the sharp rise in the cost of medical services, growth in demand for newly available services, and a generally short supply of facilities contributed to the increase in Federal spending for health and medical care.

The fastest growing areas in Federal outlays for personal health care include aid for medical research, Medicare, and Medicaid. Except for Medicare services, which are primarily financed by trust funds, the numerous health programs (including medical research and Medicaid) undertaken by the Federal Government are financed from general revenues. The bulk of the increase in Federal outlays for health has been due to Medicare and Medicaid programs enacted in 1967 that cover physical care, hospitalization, and extended care facilities for the aged. The dramatic rise in Federal outlays for Medicare and Medicaid since 1967 reflects the sharp increase in medical costs as well as the rising number of persons covered under the programs.

Spending for education and manpower training programs rose from \$1.3 billion in 1960 to \$7.4 billion in 1970. Federal spending for education includes a wide range of programs, including aid to disadvantaged children at all levels of education, aid to college students, vocational education, science and research, and manpower training. The bulk of the growth in Federal spending for education has been directed toward elementary and secondary education (primarily for benefit of children from low-income families), higher education (largely in the form of student grants and loans, again for low-income families), and manpower training programs (which cover skill training, job placement, and on-the-job training).

The latter programs are designed to reduce the number of unemployed and underemployed by providing job training and job opportunities.

**Physical Resources.** Federal Government outlays for physical resources constituted the third largest type of spending in the Federal Budget during the 1960's. Physical resources, as defined here, include agricultural and rural development programs, natural resource development, commerce and transportation, and community and housing development. The bulk of Federal expenditures for physical resource development contribute to the nation's productive capacity through programs such as soil conservation, irrigation, dams, and adequate transportation facilities.

Higher outlays for physical resources accounted for \$11.3 billion of the \$104.6 billion increase in total outlays from 1960 to 1970. Since 1965, Federal budget outlays for physical resources represented a declining share of the total, although absolute spending doubled during the 1960's. Programs to modernize highways and airways and to aid community development and housing have contributed to the large increases in spending in recent years. Vast problems of pollution, urban renewal, substandard housing, and traffic congestion on the nation's highways and airways seem to point toward an acceleration of spending for physical resources during the 1970's.

**Miscellaneous.** At least two other aspects of Federal outlays deserve brief comment because of their contribution to the upward trend in expenditures. Interest payments on the Federal debt, which accounted for about 9.3 percent of total Federal outlays in 1970, rose from \$8.3 billion in 1960 to \$18.3 billion in 1970. The steady increase in interest payments reflects the accelerated rise in the Federal debt and higher costs of financing Treasury borrowings.

## ECONOMIC REVIEW

Finally, outlays by the National Aeronautics and Space Administration rose from \$0.4 billion in fiscal year 1960 to a peak of \$5.9 billion in 1966. Because the development phase of the lunar landing program is complete, such outlays have declined since 1966. Outlays for other aspects of the space program, such as space science and space technology, have remained relatively unchanged in recent years, since Federal budgetary constraints have forced suspension and deferments of several programs.

**Per Capita Federal Outlays.** The bulk of the increase in Federal outlays from 1960 to 1970 reflects an expanded number of activities undertaken by the Federal Government. However, some of the rise in Federal spending was associated with the growth in population. In other words, the 13-percent increase in the population of the United States between 1960 to 1970 would in itself add to total Federal spending, even if no additional services were provided. Because services have expanded and prices have risen, there has been a rapid increase in Federal expenditures per person.

From fiscal 1960 to fiscal 1968 (latest year for which data are available) per capita outlays rose from \$426 to \$760, with slightly more than one-half of the increase associated with national defense. The balance is made up largely of grants-in-aid, health, education and welfare, space research and technology, and interest on the Federal debt. Despite the shift in national priorities, per capita outlays for health, education, and welfare in 1968 amounted to \$34.41, compared with \$23.24 for space programs and \$58.08 for interest on the Federal debt.

### GROWTH AND COMPOSITION OF FEDERAL REVENUES

Federal Government revenues are a function of the level of economic activity that determines the

amount of income subject to taxes and of legislation, which affects the base and the tax rate. Changes in the level of economic activity affect income, which in turn affects tax collections. Accordingly, year-to-year fluctuations in personal income tax receipts and corporate tax receipts contribute to instability in Federal revenues. On the other hand, receipts from employment payroll taxes have risen steadily, irrespective of changes in business conditions. Discretionary changes in revenue occur when tax rates and the tax base are adjusted by legislation.

Numerous changes in the tax base and in tax rates influenced the growth of Federal revenues from fiscal 1960 to fiscal 1970. Emphasis in fiscal policy shifted from expenditures to tax policy as a means to achieve changing stabilization goals. In the 1962 *Economic Report of the President*, formal proposals were made to reduce individual tax rates in order to stimulate aggregate demand. In a message on tax reform sent to Congress in January 1963, the President stated that Federal income taxes constituted the "largest single barrier to full employment...and to a higher rate of economic growth..." Based on the Administration's estimates, Federal tax rates were generating a level of revenue that would balance the budget before the economy reached full employment. Thus, Federal Government expenditures could be increased or revenues held down through tax cuts. The budgetary restraint that contributed to the shortfall in aggregate demand was apparent in the high employment surplus, which is an estimate of the Federal budget surplus on a national income accounts basis if the economy were at a high employment level. Against the background of substantial surpluses in the high employment budget, the Administration chose to lessen the restraining effects of the budget by

TABLE IV

Distribution and Growth of Federal Government Receipts  
Unified Budget  
Selected Fiscal Years

|   | 1960       |                     | 1965       |                     | 1970       |                     | Average Annual<br>Percent Change,<br>Compounded |               |               |
|---|------------|---------------------|------------|---------------------|------------|---------------------|---|---------------|---------------|
|   | Bil. of \$ | Percent<br>of Total | Bil. of \$ | Percent<br>of Total | Bil. of \$ | Percent<br>of Total | 1960-<br>1965                                   | 1965-<br>1970 | 1960-<br>1970 |
| Total budget receipts                       | \$92.5     | 100.0%              | \$116.8    | 100.0%              | \$193.8    | 100.0%              | 4.8%  | 10.7%         | 7.7%          |
| Individual income taxes                     | 40.7       | 44.0                | 48.8       | 41.8                | 90.4       | 46.6                | 3.7   | 13.1          | 8.3           |
| Corporation income taxes                    | 21.5       | 23.2                | 25.5       | 21.8                | 32.8       | 16.9                | 3.5   | 5.2           | 4.3           |
| Social insurance taxes<br>and contributions | 14.7       | 15.9                | 22.3       | 19.1                | 45.3       | 23.4                | 8.7   | 15.3          | 11.9          |
| Excise taxes                                | 11.7       | 12.6                | 14.6       | 12.5                | 15.7       | 8.1                 | 4.5   | 1.5           | 3.0           |
| Other receipts                              | 3.9        | 4.2                 | 5.8        | 4.9                 | 9.6        | 5.0                 | 8.1   | 10.9          | 9.5           |

NOTE: Details may not add to totals because of rounding.

Source: The Office of Management and Budget

reducing tax rates rather than by increasing Federal spending.

**Trends in Federal Revenues.** From 1960 to 1970, total Federal Government receipts grew at an average annual rate of 7.7 percent, which was slightly less than the growth in total Federal outlays (see Table IV). However, substantial reductions in rates for personal and corporate income taxes, as well as reduction in certain excise taxes, tended to hold down the growth in revenues during the 1960's. The largest source of Federal revenue is still the individual income tax. From 1960 to 1970, revenues from personal taxes grew by 8.3 percent annually, with the bulk of the growth occurring since 1965. Major tax legislation that affected growth in revenues from individual income taxes included the Revenue Act of 1964 and the Revenue and Expenditure Control Act of 1968. In the Revenue Act of 1964, tax rates on individual incomes were adjusted downward to stimulate consumer spending and thus to boost aggregate demand. An income tax surcharge of 10 percent was imposed on personal incomes in the

Revenue and Expenditure Control Act of 1968 as a means to temper consumer spending and reduce inflationary pressures that were widespread in the economy at that time. The income tax surcharge was extended into 1969, reduced to 5 percent on January 1, 1970, and finally eliminated on June 30, 1970.

The most rapid growth in Federal revenues during 1960 to 1970 took place in social insurance taxes and contributions (including employment taxes, such as social security, unemployment insurance, and retirement contributions of Federal Government employees), which rose at an average annual rate of 11.9 percent from 1960 to 1970. Receipts from old-age and survivors insurance accounted for most of the increase (\$9.7 billion in 1960 to \$29.2 billion in 1970), reflecting the larger number of persons enrolled and contributing to social security and several increases in the taxable earnings base and in payroll tax rates. The inception of Medicare in 1967 boosted Federal receipts from hospital insurance from \$0.9 billion in 1966 to \$4.7 billion in 1970.

## ECONOMIC REVIEW

Numerous changes in tax policy also affected Federal revenues from corporate taxes between 1960 and 1970. For many years, receipts from corporate income taxes were the second largest source of Federal revenues. However, growth in revenues from corporate income taxes averaged 4.3 percent annually, and since 1968, that source of revenue has fallen and now ranks behind social insurance taxes. The Revenue Act of 1964 adjusted the corporate tax rate downward from 52 percent to 48 percent of taxable income. Prior to adjustment in tax rates, the Revenue Act of 1962 provided for a 7 percent tax credit for business investment in plant and equipment (3 percent for utilities), and other legislation provided for more accelerated depreciation of machinery and equipment. These measures were adopted to shift investment spending and hence contribute to more rapid growth in aggregate demand. In response to excess demand and inflationary pressures, the tax credit was temporarily suspended in 1966 and then restored the following year as inflationary pressures abated. The Tax Reform Act of 1969 permanently repealed the investment tax credit.

The second major change that affected revenues from corporate income taxes came in the Revenue and Expenditure Control Act of 1968, which imposed a 10 percent surcharge on corporate taxes from January 1968 through June 1969. However, receipts from corporate income taxes did not slow until 1970, reflecting the combined effects of the business slowdown and the extension of the tax surcharge at 5 percent until June 30, 1970.

The rate of growth in Government revenues from excise taxes during 1960-1970 was less than half the rate of growth for overall Federal revenues. Prior to 1965, excise taxes were imposed on a wide range of products and services.

Legislation in 1965 repealed excise taxes on many manufactured items (such as household appliances, luggage, jewelry, furs) and services (such as telegraph services) and reduced excise taxes on automobiles. On January 1, 1966, the excise tax on autos was cut again and then restored in March 1966 as an anti-inflationary measure. The Tax Reform Act of 1969 postponed reductions in tax rates on automobiles and telephones that were scheduled in tax legislation in 1966.

**Shifts in Distribution of Revenues.** Marked shifts in the relative importance of major sources of Federal revenue occurred during the 1960's, partly reflecting changes in tax legislation. For many years, the two major sources of Federal Government revenue were individual income taxes and corporate income taxes. Both personal income taxes and corporate income taxes declined somewhat in relative importance, while the share of total revenues from employment taxes rose during the 1960's (see Table IV). For example, until 1963, personal and corporate taxes accounted for about 78 to 80 percent of total Federal Government receipts; since 1963, these two sources have accounted for 63 to 67 percent of Federal receipts. The decline in the relative importance of those two revenue sources reflects the sharp rise in social insurance taxes during the 1960's. Since 1968, Federal revenues from social insurance taxes have accounted for the second largest source of total Federal revenues. The rapid growth in social insurance taxes, which averaged 11.9 percent annually from 1960 to 1970, reflects numerous increases in social security tax rates in recent years. The fourth major source of Federal receipts, excise taxes (including taxes such as on tobacco, motor vehicles, and gasoline) also accounted for a diminishing share of total Federal receipts.

## FEDERAL DEFICITS AND FEDERAL DEBT

As shown in Table II, from fiscal years 1960 to 1970, the Federal Government budget was in surplus only in 1960 (\$0.3 billion) and 1969 (\$3.2 billion). The largest deficits during the decade occurred in 1967 (\$8.7 billion) and in 1968 (\$25.2 billion), because of rapid expansion of defense and nondefense outlays. The bulk of the deficits reflect the more rapid increase in expenditures than in receipts. In addition, net lending activity of the Federal Government contributed to the sharp rise in the overall deficits (see Table II). In 1966, net lending activity accounted for nearly all of the Federal deficit.

A deficit in the Federal budget can be planned, reflecting discretionary changes in fiscal policy (such as a reduction in tax rates, an increase in spending, or some combination). A deficit can also be unplanned, reflecting the effects of changes in the level of economic activity on the budget (which contributes to a shortfall in revenues). Therefore, the effects of a deficit on economic activity will be different. In the case of the former, a deficit would tend to stimulate overall economic activity, especially if financed by creation of new money, whereas effects of an unplanned deficit (assuming a constant level of expenditures) would tend to cushion a slowdown in the economy. In particular, both the national income accounts budget and the unified budget reflect the effects of fluctuations in economic activity on the budget.

A more useful indicator of fiscal policy is the high employment budget, which represents an attempt to remove the effects of fluctuations in the pace of economic activity on the Federal budget. Hence, the high employment budget will frequently diverge sharply from the surplus or deficit indicated in the NIA budget. This is

particularly true during economic contractions or business slowdowns, when the NIA budget is in deficit, whereas the high employment budget could remain in surplus. Such was the case during the early 1960's, when the NIA budget showed a sizable deficit, whereas the high employment budget was in surplus. Similarly, in the second and third quarters of 1970, the shortfall in Federal revenues associated with the business slowdown contributed significantly to a deficit (NIA basis) of nearly \$13 billion at an annual rate. In brief, deficits in conventional budgets were associated with slow growth in economic activity and could not be interpreted as stimulative.

Therefore, a deficit in the Federal budget is not necessarily an indication of the thrust of fiscal policy. Deliberate deficits were incurred during the early 1960's to stimulate aggregate demand. Budget policy during the early years of the past decade focused on the high employment budget rather than surpluses or deficits in the conventional budgets. It also appears that the concept of the high employment budget is being used in economic policy planning in the current situation.

**Federal Debt.** Use of budget policy to promote high employment in the economy may require frequent and sizable deficits in the Federal budget. Consequently, the Federal Government is forced to borrow funds (unless new money is created), which adds to the Federal debt. Deficits in the budget have required frequent increases in the statutory ceiling on the debt, which in turn generate concern over the size, the cost, and the burden of the debt.

From 1960 to 1970, the Federal debt rose by nearly \$92 billion to \$383 billion, with most of the growth having occurred since the mid-1960's (see Table V). On a per capita basis, the Federal debt rose moderately during the early 1960's and



## ECONOMIC REVIEW

TABLE V

Federal Debt, Per Capita Debt  
and Gross National Product  
Fiscal Years 1960-1970

| Fiscal Year | Gross Federal Debt<br>(Bil. of \$) | Per Capita Debt | Gross Federal Debt (as Percent of GNP) |
|-------------|------------------------------------|-----------------|--|
| 1960        | \$290.9                            | \$1,616         | 58.7%                                  |
| 1961        | 292.9                              | 1,600           | 57.8                                   |
| 1962        | 303.3                              | 1,631           | 55.9                                   |
| 1963        | 310.8                              | 1,647           | 54.2                                   |
| 1964        | 316.8                              | 1,655           | 51.7                                   |
| 1965        | 323.3                              | 1,668           | 49.4                                   |
| 1966        | 329.5                              | 1,682           | 45.7                                   |
| 1967        | 341.3                              | 1,725           | 44.4                                   |
| 1968        | 369.8                              | 1,850           | 44.7                                   |
| 1969        | 367.1                              | 1,818           | 40.8                                   |
| 1970        | 382.6                              | 1,873           | 40.0                                   |

Sources: U. S. Department of Commerce and The Office of Management and Budget

sputred to about \$1,873 in 1970. The cost of interest payments have also risen sharply because of the enlarged debt and higher interest rates. Interest on the Federal debt accounted for about 9 percent of Federal outlays in fiscal 1970 and represents one of the largest of the so-called "uncontrollable" outlays in the Federal budget.

Nevertheless, the relationship of the debt to GNP, which is a measure of the nation's ability to carry the debt on the basis of current output, suggests no deterioration. In fact, throughout the 1960's, the debt-GNP relationship continued to slide as it had since the peak years of World War II. In other words, during the 1960's because output rose at a faster rate than the buildup of the Federal debt, the nation's capacity to carry the steadily enlarging debt was improved.

### CONCLUDING COMMENTS

Fiscal policy in the 1960's was marked by frequent changes in tax legislation for the purpose of influencing aggregate demand, employment, and prices. However, since 1965, accelerated growth in Federal defense and nondefense outlays, which were not offset by tax changes, has contributed importantly to enlarged deficits and inflation at a time when the economy was at high-employment. The apparent acceptance of the high employment budget concept in the present situation seems to imply willingness to consider incurring enlarged deficits in periods of economic slack.





# STATE AND LOCAL REVENUES AND EXPENDITURES, 1960–1968

During the 1960-1968 period, attention was focused on Federal Government revenues and expenditures. Between 1960 and 1968, total Federal Government revenues increased from \$92 billion to \$154 billion per year, for an average annual rate of growth of 6.6 percent. In the same period, total Federal expenditures increased from \$92 billion to \$179 billion, for an average annual rate of 8.7 percent. However, total state and local revenues for the "mean" state increased from \$990 million in 1960 to \$1,966 million in 1968,<sup>1</sup> for an average annual rate of growth of 9 percent. Expenditures at the state and local levels increased from \$968 million in 1960 for the mean state to \$2,008 million, or an average annual increase of 9.6 percent.

This article examines the growth of state and local revenues and expenditures during fiscal years

1960-1968 (the last year for which complete data are available).<sup>2</sup> Combined state and local revenues and expenditures are used throughout the article, because in those states where per capita expenditures and revenues are relatively low, the lack of financing at one level of government may be made up for, at least in part, at the other level.

## REVENUES

State and local governments increased per capita revenue from their own sources at an average annual rate of 7.2 percent during fiscal years 1960-1968.<sup>3</sup> In 1960, the average per capita revenue of all state and local government units from their own sources amounted to \$234.95, compared with \$408.86 in 1968 (see Table I). This increase in revenues required new and expanded forms of state and local taxation. In the past, state and local governments relied heavily on the property tax as the primary source of revenue. Recently, however, these governmental units have

<sup>1</sup>The primary data sources for this article are: U. S. Department of Commerce, Bureau of the Census, *Governmental Finances* in 1960 to 1969, Series GF 60 to 69, No. 5, (Washington, D. C.: U. S. Government Printing Office), and *Facts and Figures on Government Finance*, 11-14th Editions, (New York: Prentice-Hall, Tax Foundation, Inc.,). Averages were calculated by summing the data for the individual state and dividing by 51 (including the District of Columbia).

<sup>2</sup>Preliminary expenditure data are available for fiscal 1969, however, revenue data are still incomplete.

<sup>3</sup>Revenue from own sources does not include Federal funds allocated to state and local governments.

ECONOMIC REVIEW

TABLE I  
Average Per Capita State and Local Revenues

|   | <u>1960</u> | <u>1968</u> | <u>Average Annual<br/>Rate of Growth<br/>1960-1968</u> |
|---|-------------|-------------|--|
| Total state and local revenue               | \$285.77    | \$516.32    | 7.7%   |
| Total state revenue from<br>own sources     | \$234.95    | \$408.86    | 7.2  |
| Percent of total state and<br>local revenue | 82.21%      | 79.18%      |  |
| Property tax revenue                        | \$ 83.45    | \$127.84    | 5.5  |
| Percent from own sources                    | 35.51%      | 31.26%      |  |
| State income tax revenue                    | \$ 12.67    | \$ 29.14    | 9.7  |
| Percent from own sources                    | 5.39%       | 7.12%       |  |
| State sales tax revenue                     | \$ 25.51    | \$ 49.13    | 8.5  |
| Percent from own sources                    | 10.85%      | 12.01%      |  |
| Other revenue                               | \$113.32    | \$194.93    | 7.0  |
| Percent from own sources                    | 48.23%      | 49.61%      |  |
| Intergovernmental transfers                 | \$ 50.82    | \$107.46    | 9.8  |
| Percent of total state and<br>local revenue | 17.78%      | 20.81%      |  |

Sources: U. S. Department of Commerce, Bureau of the Census, *Governmental Finances and Facts and Figures on Government Finance*, Tax Foundation

been turning to additional methods of taxation, such as income taxes and sales taxes.

**Tax Structure.** The tax structure of an area is set by law and is based on historical, political, and economic considerations. In general, to meet the current rapid expansion of expenditures, state and local governments have placed less reliance on property taxes and have moved toward broad-based taxes, such as income and sales taxes. Although the "goodness" of a given tax structure is a value judgment, many economists working in the area of public finance have accepted the criteria of simplicity, fairness, and minimum effect on economic stability as reasonable attributes of a good tax.<sup>4</sup> If these criteria are accepted, then the current trend is toward more effective taxation, because sales and income taxes, which currently are providing the bulk of additional state and local revenue, are superior to the property tax when all three criteria are considered.<sup>5</sup> In many instances, it would seem that some of the benefits of sales and income taxes are blunted because the older forms of taxation are frequently retained.

For example, sales and income tax bases are much simpler to calculate than the property tax

base. Although exceptions to any tax erode the tax base and do not always improve the tax, they are often necessary for political reasons and usually do not significantly complicate the sales and income taxes to the same extent as the property tax. Exceptions to property taxes are only possible through an adjustment in the valuation or classification of property that requires subjective judgments. On the other hand, specific categories of purchases, such as food or services, can be eliminated from the sales tax, while an income tax can be adjusted by several means, including income exclusions, exemptions, and tax credits.

Another important characteristic of a "good" tax is its fairness. One method of judging whether a tax is fair is on grounds of ability to pay. According to this criteria, the more progressive a tax<sup>6</sup> is the better it is, even though those paying the highest taxes often receive the least benefit from the services provided by the tax revenue. Because property taxes are based on a fixed sum per dollar of assessed valuation, such taxes are, in theory, proportional to the value of property. Even if exact valuation is carried out, the property tax is likely to be regressive with respect to income, since property tax payments will probably account for a smaller share of total income as income rises.<sup>7</sup>

<sup>6</sup>Progressive is used here to describe a tax that levies progressively increasing rates as income increases. A regressive tax levies lower percentage rates as income increases and a proportional tax levies the same percentage rate regardless of income.

<sup>7</sup>Since only property owners pay the property tax directly, it is widely believed that this group is being unduly burdened with taxation and, therefore, the tax is unfair. Renters, however, also participate in sharing the property tax burden since it is shifted forward in the form of increased rent.

<sup>4</sup>John F. Bell, *History of Economic Thought*, (New York: Ronald Press Co., 1967), pp. 168-169; James M. Buchanan, *The Public Finances*, (Homewood, Illinois: Richard D. Irwin, Inc., 1965); John F. Due, *Government Finance: Economics of the Public Sector*, (Homewood, Illinois: Richard D. Irwin, Inc., 1968), pp. 79-83; Richard A. Musgrave, *The Theory of Public Finance*, (New York: McGraw-Hill Book Co., 1959), pp. 42-115; Adam Smith, *The Wealth of Nations*, London: G. Bell & Sons, Ltd., 1921), Vol. II, pp. 351-154; Carl Shoup, *Public Finance*, (Chicago: Aldin Publishing Co., 1969), pp. 21-43.

<sup>5</sup>See Dick Netzer, *Economics of the Property Tax* (Washington, D. C.: The Brookings Institution, 1966), pp. 32-66.

## ECONOMIC REVIEW

The state and local sales tax has a fixed rate of taxation imposed on either all or selected retail sales. The degree of regressiveness of the sales tax depends upon the items excluded from taxation; that is, the more necessities, such as groceries, that are exempt from sales taxation, the less regressive the tax. If all individuals spent the same portion of their incomes on taxable items, the sales tax would be proportional with respect to income. Usually a family with a higher income generally spends a smaller share of its income on taxable items; as a result, the sales tax tends to be regressive.

The income tax is the most progressive of the three primary sources of state and local revenues—property, sales, and income taxes. In its simplest form, only income from wages is taxed and at a fixed rate. Obviously, this form of taxation benefits individuals who have nonwage sources of income—usually those in the higher income brackets. At the state level, income taxes are usually progressive and include income from all sources as part of the tax base, thereby insuring that the tax will at least be proportional. In addition, 31 of the 39 states having an income tax in 1968 had graduated rate scales, theoretically making the income tax progressive with respect to income. In those states having flat rate income taxes, the tax is proportional with respect to income since the absolute tax payment varies directly with income. Although it is difficult to determine exactly what is happening to the degree of progressiveness of some income taxes, in most cases, the taxes tend to become less progressive as exemptions, exclusions, and credits complicate the tax structure.

A third criteria of a “good” tax is its effect on economic growth and stability. This criteria is, however, usually discussed more in connection with Federal taxes than with state and local taxes.

A tax that automatically decreases tax revenue as the economy slows and increases tax revenue as the economy becomes more active will have the most stabilizing effect.<sup>8</sup> The progressive income tax is the best example of a tax that has a stabilizing effect. Not only does the absolute yield of the income tax respond to economic activity, but the income tax rates respond countercyclically as well (i.e., as an individual’s income falls, the applicable tax rate also decreases). With the general sales tax, the rate is constant, but the absolute yield of the tax will be higher or lower depending on the level of economic activity. As an automatic stabilizer, the property tax is the least efficient of the three types of taxes considered. Property taxes are levied on a fixed base and rate, and the absolute tax yield is stable regardless of economic conditions. Moreover, legal action is required to change the rate, and revaluation is necessary to adjust the base, neither of which occurs automatically.

**Property Tax.** Table I shows average per capita revenue derived from property taxes and other selected sources for 1960 and 1968.<sup>9</sup> In 1960, average per capita state and local receipts from property taxes amounted to \$83.45. By 1968, average per capita property tax revenues yielded \$127.84. The property tax provided 35.5 percent of all state and local tax receipts in 1960, in contrast to 31.3 percent in 1968. Although prop-

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<sup>8</sup>For a more detailed discussion and qualification see Henry J. Cassidy, “Is Progressive Income Tax Stabilizing?” *National Tax Journal*, Vol. XXIII, No. 2, June 1970, pp. 194-205 and E. Corry Brown, “The Static Theory of Fiscal Stabilization,” *Journal of Political Economy*, October 1955, pp. 427-440.

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<sup>9</sup>See Appendix A for a breakdown of revenue by state for 1968.

erty tax receipts declined as a proportion of total revenue during the 1960-1968 period, such receipts remained the single most important source of state and local revenue.

**Income Tax.** As the property tax became somewhat less important, state income taxes began to provide a larger share of state and local tax receipts. State income taxes accounted for 5.4 percent of all state and local revenue derived from own sources in 1960, compared with 7.1 percent in 1968. During the period, revenues from state income taxes rose at an average annual rate of 9.7 percent. Thirty-two states had income taxes in 1960. For these states, 8.5 percent of total state and local revenue was raised through this form of taxation.<sup>10</sup> By 1968, 37 states had an income tax, and the proportion of state and local revenue provided by income taxes for these states had increased to 9.3 percent.

**Sales Tax.** The sales tax is also an important source of revenue for the states. The state sales tax was in effect in 33 states in 1960 and in 43 states in 1968. In 1960, the state sales tax yielded 10.9 percent of state and local revenue for all 50 states, and 16.8 percent if only those states using the sales tax are included. In 1968, the state sales tax provided 12.0 percent of state and local revenue of all 50 states, and 14.5 percent if only those states using the tax are considered.

<sup>10</sup>These data should be interpreted with caution since the 1960 figures include New Jersey, which only imposes an income tax on commuters, and the total revenue on which the percentages are based is total state and local revenue, even though the income tax shown only includes state income tax receipts. Any local revenue collected as income or earnings tax is included in the category "other".

Although 10 additional states imposed sales taxes between 1960 and 1968, the relative importance of the sales tax as a source of revenue, among those states imposing the sales tax, diminished slightly during the period. This apparent inconsistency is due to the fact that the 10 additional states that imposed a sales tax received less than 16.8 percent of their total revenues from the sales tax and not because the share of revenue derived by the original 33 states decreased. These figures, however, only include sales tax revenue going into state treasuries.<sup>11</sup>

**Other Revenue.** For all state and local governments the category "other" accounted for nearly 50 percent of all state and local revenue from their own sources in 1968. Most of the revenue in this category is derived from gasoline taxes, cigarette taxes, motor vehicle and operator licenses, and proceeds from state-operated enterprises. This category also includes corporate profit taxes that are levied in some states. Although "other" revenue is the single largest category of tax receipts, it consists of many different sources of revenue, many of which on an individual basis yield a relatively low level of receipts.

At the state level, "other" revenues are equal to total state revenue from their own sources less income tax, property tax, and sales tax receipts. In 1960, 60 percent of all state revenue was derived from "other" sources; by 1968, this share had fallen to 55 percent.

<sup>11</sup>In many states, local governments are permitted to add, at their option, an additional sales tax which filters down to the local government; these funds are included in the category "other" in Table I.



## ECONOMIC REVIEW

At the local level, "other" revenue includes all local sources of revenue other than the property tax. Sales and earnings taxes became more widely used between 1960 and 1968; as a result, the share of local revenue derived from "other" sources increased from 39 percent to 45 percent.

**Intergovernmental Transfers.** The Federal Government is another important source of state and local revenue.<sup>12</sup> The share of total state and local revenue derived through intergovernmental transfers increased from 17.8 percent in 1960 to 20.8 percent in 1968. Although the widely discussed revenue sharing plan has not been enacted,<sup>13</sup> the Federal Government has been providing funds to state and local governments through other programs. If such a revenue sharing plan were adopted, all states would receive funds from the Federal Government according to a formula based on the population of the state, with an adjustment for the state's own tax effort. These funds would not be "tied" to any specific use or program. In addition, the plan provides for funds to be transferred directly to local governments, also based on the local area's population and own tax effort.

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<sup>12</sup>Intergovernmental transfers are not included in "total state and local revenue from own sources," since these funds are from outside of "own sources."

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<sup>13</sup>Federal Revenue Sharing With State and Local Government, Allocations to Major Counties, Cities and Towns, The Department of Treasury, Office of Assistant Secretary for Economic Policy, July 1970; M. L. Weidenbaum, "Alternative Approaches to Revenue Sharing: A Description and Framework for Evaluation," *National Tax Journal*, Vol. XXIII, No. 1, March 1970, pp. 2-22.

## EXPENDITURES

The increased need for state and local revenues has come about from the rapid expansion in the demand for public services and the sharp increases in the cost of these services. Between 1960 and 1968, per capita expenditures of state and local governments increased at an average annual rate of 7.8 percent, from an average of \$290.60 to \$530.40. (Revenues increased at a rate of 7.2 percent per year.) The four major categories of expenditures—education, highways, public welfare, and health and hospitals—rose at a combined average annual rate of 7.9 percent and accounted for more than 70 percent of all state and local expenditures in 1968.

**Education.** Expenditures for education make up the largest expenditure category. These expenditures accounted for 36.0 percent of total state and local spending in 1960 and 40.5 percent in 1968. As shown in Table II, per capita expenditures for education averaged \$105.67 in 1960 and increased to \$214.85 in 1968. During the period, the average annual growth rate of per capita education expenditures was 9.3 percent, the highest growth rate for all categories of expenditures. On a year-to-year basis, the greatest increases in spending for education occurred in 1965, 1966, and 1967, when per capita expenditures increased by 11.75 percent, 13.67 percent, and 11.21 percent, respectively.

Increases in per capita expenditures on education by state and local governments occurred in all states during the 1960 to 1968 period (see Appendix B). In 1960, Wyoming had the highest per capita expenditures for education among the states (\$172), followed by California (\$150). In 1968, the state with the highest per capita expenditure on education was Wyoming (\$348).



TABLE II

Average Per Capita State and Local Expenditures  
1960-1968

|  | <u>Total<br/>Expenditures</u> | <u>Education<br/>Expenditures</u> | <u>Highway<br/>Expenditures</u> | <u>Public<br/>Welfare<br/>Expenditures</u> | <u>Health and<br/>Hospitals<br/>Expenditures</u> |
|--|-------------------------------|-----------------------------------|---------------------------------|--|--|
| 1960   | \$290.60                      | \$105.67                          | \$60.18                         | \$23.78                                    | \$19.58  |
| 1961   | 310.04                        | 113.29                            | 61.69                           | 24.49                                      | 20.96  |
| 1962   | 318.92                        | 119.47                            | 65.29                           | 25.83                                      | 22.23  |
| 1963   | 348.58                        | 130.00                            | 71.49                           | 27.21                                      | 23.21  |
| 1964   | 371.00                        | 140.98                            | 77.40                           | 28.22                                      | 23.75  |
| 1965   | 399.85                        | 152.07                            | 83.55                           | 29.66                                      | 25.81  |
| 1966   | 436.92                        | 173.76                            | 84.92                           | 32.26                                      | 28.50  |
| 1967   | 469.39                        | 202.22                            | 92.61                           | 36.94                                      | 31.39  |
| 1968   | 530.40                        | 214.85                            | 92.53                           | 42.54                                      | 34.70  |
| 1969   | 584.65                        | 238.48                            | 91.92                           | 49.88                                      | 39.11  |
| Average Annual<br>Rate of Growth<br>(1960-1968)  | 7.8%                          | 9.3%                              | 5.5%                            | 7.5%                                       | 7.4%   |
| Average Annual<br>Rate of Growth<br>(1960-1969)* | 8.0%                          | 9.5%                              | 4.8%                            | 8.6%                                       | 8.0%   |

\* Preliminary.

Sources: U. S. Department of Commerce, Bureau of the Census, *Governmental Finances and Facts and Figures on Government Finance*, Tax Foundation

## ECONOMIC REVIEW

TABLE III

Total Expenditures for Highways  
1960-1968  
(mil. of \$)

|      | Direct<br>Federal | State<br>and<br>Local | Total    |
|------|-------------------|-----------------------|----------|
| 1960 | \$137             | \$ 9,402              | \$ 9,539 |
| 1961 | 151               | 9,785                 | 9,936    |
| 1962 | 151               | 10,341                | 10,492   |
| 1963 | 165               | 11,136                | 11,301   |
| 1964 | 164               | 11,664                | 11,828   |
| 1965 | 127               | 12,221                | 12,348   |
| 1966 | 125               | 12,770                | 12,895   |
| 1967 | 100               | 13,956                | 14,056   |
| 1968 | 173               | 14,481                | 14,654   |

Source: U. S. Department of Commerce, Bureau of the Census, *Governmental Finances*

The next highest per capita expenditures for education were \$319 and \$289 by Alaska and Utah, respectively. Of the more populous states, Michigan had the largest expenditures for education in 1968 (\$253).

**Highways.** One indication of a possible shift in priorities at the state and local government level is indicated by the relatively slow rate of growth of average per capita expenditures for highways. Although these expenditures increased in absolute terms during the 1960-1968 period, expenditures for highways had the slowest average annual rate of growth (5.5 percent) among the four major categories of expenditures. In fact, between 1967 and 1968, there was virtually no change in average per capita expenditures for highways. As shown in Table II, average per capita expenditures for highways increased from \$60.18 in 1960 to \$92.61 in 1967 and then decreased slightly to \$92.53 in 1968. In 1960, on average, highway expenditures accounted for about 21 percent of total state and local expenditures, but by 1968, the share had decreased to about 18 percent.

Because the data used in this article are averages of state and local per capita expenditures, some clarification of the highway expenditure data is needed. Although the average state per capita expenditure on highways was virtually unchanged between 1967 and 1968, total spending for highways by all state and local governments, as well as the Federal Government, increased throughout the 1960 to 1968 period (see Table III). Some of the variation in state highway construction is due in part to the lack of uniform construction programs for the interstate highway system, which is nearly complete in some states but at lesser stages of completion in other states.

**Public Welfare.** Average state and local public welfare expenditures made up only 8.2 percent of total expenditures in 1960 and decreased slightly over the period. All of the decrease, however, took place between 1960 and 1965. In absolute terms, per capita expenditures on public welfare increased throughout the 1960-1968 period (see Table II).

Although the average annual rate of increase was 7.5 percent for the entire period, average public welfare expenditures per capita increased by more than 30 percent between 1966 and 1968. As would be expected of welfare expenditures, the variation among the states is large, and toward the end of the period, the most populous states tended to have the largest per capita expenditures. In all states, however, welfare budgets rose. The states having the highest per capita public welfare expenditures in 1960 were Oklahoma (\$55.17), Louisiana (\$49.94), and Colorado (\$48.52). In 1960, per capita expenditures were \$35.05 in California and \$26.71 in New York, placing these states among the 15 states having the highest per capita public welfare expenditures. By 1968, New York's per capita expenditures of \$95.43 were the

largest of all states, followed by California (\$93.02). Oklahoma, however, ranked third in spending in 1968, with \$92.04 per capita expenditures for public welfare. Except for Oklahoma, which earmarks its general retail sales tax for public welfare, those states with the largest per capita expenditures for public welfare have more than one-half of their total budget provided by local governments. For example, in New York and California, local governments provided 92 percent and 68 percent, respectively, of the total state and local public welfare budget.

**Health and Hospitals.** During the 1960-1968 period, state and local expenditures for health and hospitals in all states increased at an average annual rate of 7.4 percent. However, such expenditures decreased from 6.7 percent of total expenditures in 1960 to 6.5 percent in 1968. Although there has been some increase in the quantity and quality of publicly provided health and hospital services, the absolute increases in expenditures were counteracted in large part by increases in the costs of providing these services. For example, the cost of medical care rose by more than 30 percent during the period. As shown in Table II, the mean state per capita expenditure for health and hospitals increased from \$19.58 in 1960 to \$34.70 in 1968, with most of the increase coming after 1965. At the beginning of the period, the District of Columbia (\$50.92), New York (\$36.11), Nevada (\$30.56), and Hawaii (\$30.53) were the only states with health and hospital expenditures exceeding \$30 per person. By 1968, however, average state and local expenditures had increased to \$34.70, and the disparity among the states became greater. Although the mean per capita

expenditure for health and hospitals grew by 77 percent during the period, some states such as New York, the District of Columbia, and Nevada, which already had been above the average of all states, increased their per capita expenditures by nearly 100 percent.

## CONCLUDING COMMENTS

State and local expenditures and revenues increased rapidly during the 1960-1968 period. The increases were not limited to a few areas, but occurred throughout the budgets of all state and local governments. In addition to the increased demand for publicly provided services, rapidly rising costs for services, in general, and a shifting of public priorities toward providing a higher level of service contributed to the rise in expenditures. Education is, perhaps, the best example of the latter, as evidenced by the growth of colleges and universities at the state level and community and junior colleges at the local level. Preliminary data for 1969 indicate that the trend apparent between 1960 and 1968 continued and, in most cases, accelerated in 1969.

To finance the expanded level of state and local government, many states turned to new sources of revenue, such as the sales and income taxes. In general, these changes not only provided the state and local governments with additional broad based taxes, but improved the state and local tax structure in terms of simplicity, stability, and fairness. The Federal Government is an important source of revenue to state and local governments, and if some of the proposals currently under consideration are adopted, more Federal funds will flow into state and local treasuries in the future.



APPENDIX A

Per Capita Revenues by State and Local Governments,  
by Selected Categories

| State                | Property Tax | Percent of State and Local |                  | Percent of State and Local |                 | Percent of State and Local |              | Percent of State and Local |  |
|----------------------|--------------|----------------------------|------------------|----------------------------|-----------------|----------------------------|--------------|----------------------------|--|
|                      |              | Total*                     | State Income Tax | Total*                     | State Sales Tax | Total*                     | Other Taxes* | Total*                     |  |
| Alabama              | \$ 33.90     | 12.07%                     | \$ 17.47         | 6.22%                      | \$ 50.58        | 18.01%                     | \$178.85     | 63.69%                     |  |
| Alaska               | 91.16        | 14.62                      | 81.58            | 13.08                      | ---             | ---                        | 450.65       | 72.29                      |  |
| Arizona              | 150.88       | 35.60                      | 19.69            | 4.64                       | 64.16           | 15.13                      | 189.08       | 44.61                      |  |
| Arkansas             | 52.44        | 20.78                      | 15.67            | 6.20                       | 46.11           | 18.27                      | 138.13       | 54.73                      |  |
| California           | 226.18       | 38.50                      | 49.51            | 8.42                       | 72.37           | 12.31                      | 238.41       | 40.58                      |  |
| Colorado             | 159.49       | 35.14                      | 44.45            | 9.79                       | 52.48           | 11.56                      | 197.40       | 43.49                      |  |
| Connecticut          | 186.46       | 44.28                      | ---              | ---                        | 53.68           | 12.75                      | 180.87       | 42.96                      |  |
| Delaware             | 73.00        | 15.10                      | 102.16           | 21.13                      | ---             | ---                        | 308.24       | 63.76                      |  |
| District of Columbia | 137.01       | 31.60                      | ---              | ---                        | ---             | ---                        | 296.52       | 68.39                      |  |
| Florida              | 114.91       | 29.96                      | ---              | ---                        | 58.07           | 15.14                      | 210.49       | 54.89                      |  |
| Georgia              | 75.58        | 22.78                      | 25.27            | 7.61                       | 59.12           | 17.82                      | 171.68       | 51.76                      |  |
| Hawaii               | 82.33        | 16.00                      | 90.38            | 17.57                      | 146.99          | 28.58                      | 194.55       | 37.83                      |  |
| Idaho                | 119.01       | 29.76                      | 49.10            | 12.28                      | 49.83†          | 12.46                      | 181.87       | 45.48                      |  |
| Illinois             | 151.01       | 38.48                      | ---              | ---                        | 78.52           | 20.01                      | 162.84       | 41.50                      |  |
| Indiana              | 145.96       | 37.80                      | 31.86            | 8.25                       | 63.61           | 16.47                      | 144.67       | 37.46                      |  |
| Iowa                 | 172.17       | 38.29                      | 30.77            | 6.86                       | 58.18           | 12.97                      | 187.30       | 41.76                      |  |
| Kansas               | 166.21       | 40.92                      | 27.28            | 6.71                       | 54.52           | 13.42                      | 158.08       | 38.92                      |  |
| Kentucky             | 60.29        | 19.92                      | 27.69            | 9.15                       | 49.12‡          | 16.23                      | 165.41       | 54.67                      |  |
| Louisiana            | 55.44        | 14.56                      | 10.59            | 2.78                       | 40.79           | 10.71                      | 273.72       | 71.92                      |  |
| Maine                | 128.71       | 39.40                      | ---              | ---                        | 63.64           | 19.48                      | 134.32       | 41.11                      |  |
| Maryland             | 137.00       | 31.44                      | 77.23            | 17.72                      | 38.82           | 8.91                       | 183.13       | 42.03                      |  |
| Massachusetts        | 204.02       | 44.70                      | 56.82            | 12.44                      | 26.69†          | 5.84                       | 168.86       | 36.99                      |  |
| Michigan             | 151.10       | 32.79                      | ---              | ---                        | 82.55           | 17.91                      | 227.09       | 49.28                      |  |
| Minnesota            | 173.13       | 34.95                      | 74.77            | 15.01                      | 31.01§          | 6.22                       | 219.17       | 44.00                      |  |
| Mississippi          | 54.64        | 20.01                      | 4.62             | 1.69                       | 58.05           | 21.26                      | 155.66       | 57.02                      |  |
| Missouri             | 107.54       | 32.04                      | 23.25            | 6.92                       | 58.07           | 17.30                      | 146.74       | 43.72                      |  |
| Montana              | 191.61       | 43.93                      | 42.68            | 9.78                       | ---             | ---                        | 201.68       | 46.23                      |  |
| Nebraska             | 186.49       | 44.76                      | 9.37             | 2.24                       | 45.42§          | 10.90                      | 175.32       | 42.08                      |  |
| Nevada               | 179.62       | 31.53                      | ---              | ---                        | 76.22           | 13.38                      | 313.81       | 55.08                      |  |
| New Hampshire        | 165.19       | 49.62                      | 3.83             | 1.15                       | ---             | ---                        | 163.86       | 49.22                      |  |
| New Jersey           | 199.73       | 48.22                      | 1.83             | 0.44                       | 33.67†          | 8.12                       | 178.97       | 43.20                      |  |
| New Mexico           | 61.64        | 14.76                      | 14.88            | 3.56                       | 70.59           | 16.90                      | 270.39       | 64.76                      |  |
| New York             | 192.25       | 31.93                      | 98.71            | 16.39                      | 38.83†          | 6.45                       | 272.19       | 45.21                      |  |
| North Carolina       | 63.32        | 21.18                      | 42.17            | 14.10                      | 42.10           | 14.08                      | 151.25       | 50.59                      |  |
| North Dakota         | 151.68       | 31.24                      | 21.05            | 4.33                       | 53.28           | 10.97                      | 259.48       | 53.44                      |  |
| Ohio                 | 135.92       | 38.24                      | ---              | ---                        | 48.02           | 13.51                      | 171.32       | 48.21                      |  |
| Oklahoma             | 84.73        | 22.71                      | 16.43            | 4.4                        | 31.59           | 8.46                       | 240.29       | 64.41                      |  |
| Oregon               | 152.10       | 35.46                      | 71.82            | 16.74                      | ---             | ---                        | 204.93       | 47.78                      |  |
| Pennsylvania         | 93.93        | 26.17                      | ---              | ---                        | 54.28           | 15.12                      | 210.61       | 58.69                      |  |
| Rhode Island         | 146.49       | 37.69                      | ---              | ---                        | 73.68           | 18.95                      | 168.49       | 43.35                      |  |
| South Carolina       | 45.00        | 17.09                      | 26.48            | 10.06                      | 45.71           | 17.36                      | 146.00       | 55.47                      |  |
| South Dakota         | 181.78       | 43.42                      | ---              | ---                        | 49.84           | 11.90                      | 187.03       | 44.67                      |  |
| Tennessee            | 63.79        | 22.03                      | 2.56             | 0.88                       | 51.64           | 17.83                      | 171.56       | 59.25                      |  |
| Texas                | 110.80       | 34.32                      | ---              | ---                        | 25.49‡          | 7.89                       | 186.47       | 57.77                      |  |
| Utah                 | 123.59       | 31.16                      | 41.88            | 10.56                      | 56.47           | 14.24                      | 174.57       | 44.02                      |  |
| Vermont              | 138.42       | 32.92                      | 71.28            | 16.95                      | ---             | ---                        | 210.74       | 50.12                      |  |
| Virginia             | 79.61        | 23.81                      | 48.44            | 14.48                      | 25.22†          | 7.54                       | 181.03       | 54.15                      |  |
| Washington           | 121.40       | 24.48                      | ---              | ---                        | 144.44          | 29.12                      | 230.03       | 46.38                      |  |
| West Virginia        | 63.45        | 20.04                      | 15.62            | 4.93                       | 80.07           | 25.29                      | 157.41       | 49.72                      |  |
| Wisconsin            | 160.02       | 34.26                      | 96.86            | 20.74                      | 25.35‡          | 5.42                       | 184.78       | 39.56                      |  |
| Wyoming              | 207.87       | 37.23                      | ---              | ---                        | 76.82           | 13.76                      | 273.57       | 49.00                      |  |
| Average              | 127.84       | 31.26                      | 29.14            | 7.12                       | 49.13           | 12.01                      | 194.93       | 49.61                      |  |

\* Refers to state's total from its own sources.

† Tax begun in 1965.

‡ Tax begun in 1961.

§ Tax begun in 1967.

Sources: U. S. Department of Commerce, Bureau of the Census, *Governmental Finances and Facts and Figures on Government Finance, Tax*



## APPENDIX B

Per Capita Expenditures on Education by State and Local Governments  
1960-1968

|                         | 1960     | 1961     | 1962     | 1963     | 1964     | 1965     | 1966     | 1967     | 1968     |
|-------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Alabama                 | \$ 72.59 | \$ 82.77 | \$ 89.29 | \$ 86.37 | \$ 93.94 | \$107.52 | \$134.49 | \$158.13 | \$161.66 |
| Alaska                  | 142.98   | 175.21   | 174.14   | 209.83   | 273.33   | 247.04   | 275.98   | 322.39   | 319.22   |
| Arizona                 | 135.43   | 138.10   | 151.70   | 161.82   | 170.10   | 185.26   | 210.21   | 239.55   | 248.07   |
| Arkansas                | 71.48    | 76.13    | 80.19    | 87.49    | 95.61    | 98.98    | 122.75   | 136.50   | 140.90   |
| California              | 149.51   | 170.60   | 166.78   | 178.29   | 199.20   | 202.85   | 219.10   | 241.95   | 245.62   |
| Colorado                | 140.96   | 149.41   | 152.23   | 176.66   | 197.68   | 220.90   | 234.37   | 249.43   | 260.46   |
| Connecticut             | 112.28   | 102.10   | 130.68   | 127.26   | 131.02   | 140.26   | 150.87   | 177.75   | 198.43   |
| Delaware                | 142.76   | 133.19   | 136.26   | 160.22   | 180.67   | 199.36   | 228.18   | 236.25   | 261.22   |
| District of<br>Columbia | 73.10    | 75.16    | 74.07    | 83.29    | 88.22    | 103.14   | 120.03   | 147.16   | 154.47   |
| Florida                 | 92.26    | 94.62    | 91.90    | 107.33   | 118.07   | 128.18   | 145.97   | 162.06   | 182.94   |
| Georgia                 | 76.30    | 81.46    | 87.71    | 97.08    | 103.11   | 113.82   | 132.35   | 154.87   | 182.93   |
| Hawaii                  | 107.17   | 124.66   | 132.42   | 146.25   | 147.37   | 158.37   | 187.61   | 242.93   | 233.53   |
| Idaho                   | 95.83    | 103.51   | 108.12   | 128.09   | 130.75   | 147.11   | 162.22   | 184.07   | 188.11   |
| Illinois                | 103.49   | 105.68   | 112.83   | 122.25   | 132.77   | 138.24   | 162.24   | 170.92   | 192.12   |
| Indiana                 | 111.85   | 120.19   | 135.92   | 141.66   | 156.90   | 175.99   | 195.53   | 219.26   | 220.84   |
| Iowa                    | 108.73   | 124.69   | 132.80   | 141.23   | 159.82   | 174.61   | 198.62   | 211.19   | 256.83   |
| Kansas                  | 114.00   | 126.89   | 129.31   | 147.64   | 161.23   | 166.58   | 171.57   | 196.50   | 215.37   |
| Kentucky                | 70.00    | 82.22    | 95.77    | 101.89   | 103.54   | 109.83   | 129.85   | 160.11   | 167.18   |
| Louisiana               | 106.48   | 109.67   | 107.59   | 113.11   | 121.26   | 123.08   | 148.75   | 185.49   | 195.15   |
| Maine                   | 84.19    | 84.48    | 106.21   | 109.97   | 112.44   | 108.10   | 120.99   | 166.67   | 206.44   |
| Maryland                | 98.72    | 110.51   | 119.13   | 127.32   | 131.45   | 146.05   | 172.78   | 197.57   | 219.72   |
| Massachusetts           | 78.09    | 90.31    | 103.84   | 103.00   | 108.79   | 121.80   | 133.32   | 153.97   | 163.19   |
| Michigan                | 122.32   | 134.07   | 138.64   | 151.06   | 171.11   | 178.19   | 206.40   | 241.80   | 253.42   |
| Minnesota               | 121.95   | 137.55   | 144.54   | 149.04   | 169.01   | 178.93   | 197.77   | 242.32   | 254.88   |
| Mississippi             | 84.95    | 84.56    | 87.76    | 87.18    | 96.60    | 104.91   | 117.82   | 132.74   | 143.16   |
| Missouri                | 82.15    | 86.30    | 94.57    | 110.27   | 114.55   | 121.49   | 145.88   | 169.02   | 177.56   |
| Montana                 | 116.67   | 135.48   | 132.06   | 154.56   | 165.95   | 181.95   | 190.50   | 200.30   | 236.16   |
| Nebraska                | 102.12   | 106.22   | 106.42   | 123.70   | 136.41   | 143.55   | 165.43   | 181.05   | 200.05   |
| Nevada                  | 136.46   | 145.15   | 150.44   | 157.93   | 171.83   | 199.97   | 212.98   | 220.00   | 247.92   |
| New Hampshire           | 86.04    | 89.53    | 100.21   | 106.91   | 108.30   | 119.09   | 136.18   | 174.04   | 177.99   |
| New Jersey              | 94.33    | 101.17   | 111.89   | 110.05   | 119.43   | 135.82   | 147.35   | 160.26   | 172.49   |
| New Mexico              | 139.14   | 146.90   | 151.22   | 172.97   | 189.03   | 197.46   | 237.41   | 278.53   | 281.11   |
| New York                | 110.80   | 118.10   | 123.30   | 138.38   | 152.11   | 165.34   | 189.85   | 223.59   | 238.01   |
| North Carolina          | 82.45    | 86.97    | 98.85    | 101.21   | 109.12   | 116.89   | 137.12   | 160.15   | 165.48   |
| North Dakota            | 130.60   | 132.66   | 140.22   | 148.97   | 163.88   | 173.80   | 190.98   | 237.08   | 248.08   |
| Ohio                    | 94.77    | 103.42   | 107.94   | 109.66   | 118.75   | 126.25   | 156.59   | 168.41   | 176.40   |
| Oklahoma                | 105.14   | 109.41   | 107.74   | 121.20   | 140.40   | 143.19   | 168.09   | 187.94   | 192.20   |
| Oregon                  | 136.10   | 144.86   | 156.05   | 170.89   | 198.00   | 203.59   | 223.27   | 246.74   | 272.35   |
| Pennsylvania            | 95.17    | 98.54    | 100.53   | 112.92   | 114.55   | 126.39   | 151.15   | 175.49   | 178.61   |
| Rhode Island            | 73.51    | 93.43    | 96.91    | 100.95   | 107.28   | 128.17   | 152.98   | 172.94   | 187.19   |
| South Carolina          | 70.07    | 77.69    | 83.23    | 88.36    | 91.49    | 103.43   | 118.01   | 142.94   | 160.57   |
| South Dakota            | 106.60   | 113.77   | 118.60   | 144.06   | 144.91   | 161.43   | 188.21   | 219.94   | 259.28   |
| Tennessee               | 76.38    | 76.35    | 78.44    | 84.79    | 92.91    | 97.53    | 121.59   | 149.14   | 160.53   |
| Texas                   | 93.39    | 97.94    | 106.78   | 110.58   | 123.17   | 146.42   | 150.43   | 172.24   | 181.19   |
| Utah                    | 146.87   | 161.57   | 166.25   | 181.49   | 201.25   | 219.37   | 255.67   | 278.15   | 289.36   |
| Vermont                 | 114.83   | 119.49   | 125.40   | 128.01   | 132.54   | 156.95   | 166.47   | 191.03   | 259.52   |
| Virginia                | 88.24    | 90.17    | 93.59    | 107.24   | 119.59   | 126.04   | 146.50   | 165.25   | 187.93   |
| Washington              | 132.97   | 148.00   | 155.72   | 177.62   | 182.12   | 188.53   | 207.43   | 234.42   | 262.54   |
| West Virginia           | 84.11    | 92.65    | 96.36    | 95.83    | 104.57   | 113.36   | 138.83   | 161.25   | 193.77   |
| Wisconsin               | 100.86   | 117.16   | 125.01   | 146.43   | 155.69   | 174.86   | 209.11   | 221.38   | 237.61   |
| Wyoming                 | 171.99   | 167.16   | 175.55   | 179.76   | 178.41   | 205.43   | 275.26   | 319.85   | 347.62   |
| Average                 | 105.67   | 113.29   | 119.47   | 130.00   | 140.98   | 152.07   | 169.95   | 193.19   | 214.85   |

Source: U. S. Department of Commerce, Bureau of the Census, *Governmental Finances*





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