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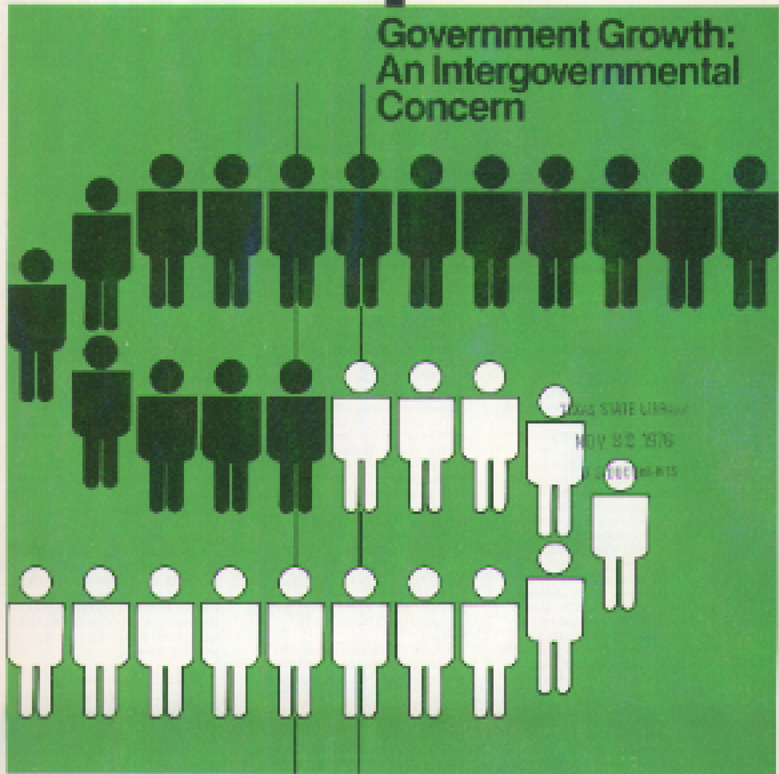
PERSPECTIVE

Government Growth: An Intergovernmental Concern



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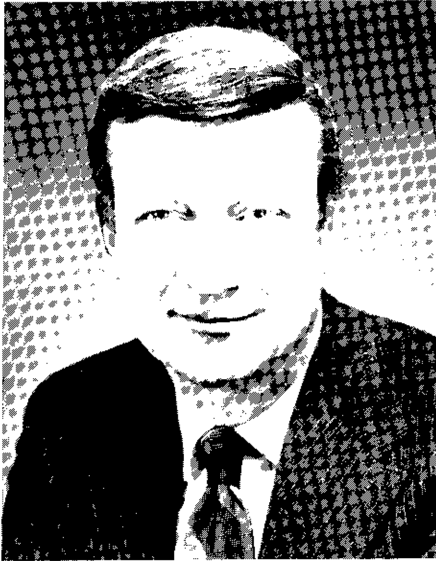
View From The Commission



Dear Reader:

Inflation affects the taxpayer and his government in a multitude of ways. Two of the most significant—especially in terms of intergovernmental relations—are the impact of inflation on the growth of the public sector and on income tax revenues.

Thus, it is entirely fitting—and timely—that these two areas are the object of research at the Advisory Commission on Intergovernmental Relations and the subject of this issue of **Intergovernmental Perspective.**

The proper role and size of government has been the subject of some controversy since the beginning of this country. The debate has traditionally focused on two separate aspects of growth. On one level, there is concern over the extent to which the government—federal, state, or local—directly controls economic resources thereby depriving the private sector of their use. The second—and more philosophically divergent—concern is the increase of governmental activity which some feel erodes our civil liberties—often in the name of economic security. This point is, of course, abstract, and difficult to quantify.

In this publication ACIR deals with the first level of concern: how and in what way government has grown over the past half century, and more importantly, how these changes impact on the federal system as we know it.

The second article in this issue of **Perspective** describes a concept which I have supported for many years: indexation of the personal income tax.

In the past few years, the federal government has relied on inflation to supply the government with a continually growing supply of tax revenues. This "hidden" tax has allowed the Congress to continue spending without facing the political consequences of funding new spending projects through tax increases.

I have consistently initiated efforts to reduce the level of federal spending, but this spending will not be brought under control as long as our tax system is structured so that inflation benefits the government.

In 1975, I introduced a bill calling for a reduction of the federal personal income tax by the rate of inflation by adjusting the tax rates and the personal exemption and standard deductions—a call for indexation.

This year, I introduced an amendment to the *Tax Reform Bill of 1976* calling for annual calculation of the impact of inflation on individual income tax revenues, as recommended by the ACIR. Although passed by the Senate, the amendment was not included in the final version of the tax bill. The House-Senate conference committee did recommend that the President include such a calculation on a voluntary basis in his annual economic report to the Congress.

I am pleased that the ACIR is on record in support of indexation and that the Commission recommendations and findings described in publications such as this one can serve to inform the public and policy-makers alike on this key issue.

Bill Roth

William V. Roth
United States Senator
Delaware

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Washington Watch

GRS Extended For 3-3/4 Years

Congress has passed, and the President has announced he will sign, HR 13367, renewal and reform of general revenue sharing. The bill changes the funding mechanism from a trust fund to guaranteed entitlement financing and extends the program through Fiscal Year 1980.

The House-Senate conference committee had approved authorization levels for fiscal years 1978 to 1980 from $6.65 to $6.85 billion. However, in House action on that conference version, a point of order was sustained on the basis that the increased authorization violated section 303(a) of the budget act (which prohibits floor consideration of budget or entitlement authority before the first concurrent budget resolution has been adopted).

In order to adjust the program to the budget process, the House approved a base authorization level of $6.65 billion for each fiscal year, with the potential of rising to $6.85 billion in fiscal years 1978-1980. The $200 million maximum increase only would occur when revenues from the income tax increase by a like amount. The Senate sustained the House action.

The existing funding formula has been retained. However, the eight "priority" funding categories for operating and maintenance expenses at the local level have been eliminated. In addition, the provision in the current law which prohibits the use of revenue sharing funds as "match" for federal programs has been deleted.

The bill also calls on ACIR to "study and evaluate the American federal fiscal system." The mandate to ACIR includes such elements as "the allocation and coordination of taxing and spending authorities between levels of government," the organization of state and local governments from "both legal and operational viewpoints," citizen participation in governmental fiscal decisions at all levels, and the development of alternative measurements of state and local government economic needs and the potential use of such measurements in allocating federal dollars.

Congress Votes To Renew LEAA

Congress has passed legislation (S 2212) extending the Law Enforcement Assistance Administration for three years. Authorizations were approved at $880 million for Fiscal Year 1977, and at $800 million for Fiscal Years 1978 and 1979.

The President is expected to sign the bill.

An Administration proposal for a "high crime" program was rejected. However, the Congress did approve creation of an office of community anti-crime assistance, authorized at $15 million for each fiscal year. The bill also requires that 19.15 percent of all LEAA appropriations be expended for juvenile justice activities.

The new legislation includes an expanded role for state legislatures and the judiciary. State legislatures will be required to undertake an advisory review of state plans, and any revisions, prior to submission to LEAA for funding. In addition, the state planning agency (SPA) must be created by state law by the end of 1978.

The courts are guaranteed a minimum of three members on the state supervisory board and an "adequate share" of action program funds. The bill also authorizes the establishment of judicial planning committees in each state to prepare an annual judicial plan.

Other major features include:

☐ strengthened mini-block grant process for localities (and combinations of units) of 250,000 or more;

☐ use of action program monies for evaluation and monitoring;

☐ comprehensive reporting requirements for LEAA;

☐ recognition that existing boundaries and organization of regional planning bodies may be used for regional criminal justice planning units.

1976 Tax Reform Bill Goes to President

After more than two years of work, the massive *Tax Reform Bill* of 1976 was passed by Congress on September 16. The President is expected to sign the measure.

Two of the bill's provisions implement ACIR recommendations: mandatory withholding of state income taxes for military personnel; and an easing of current restrictions on the states regarding the use of the Internal Revenue Service to collect state as well as federal income taxes (piggybacking).

A third ACIR recommendations—a Senate-passed provision calling for the inclusion of a report on the effect of inflation on federal individual income tax liability as part of the President's Economic Report—was deleted in conference. However, the conference committee did urge the President to publish such a report voluntarily.

The tax reform bill also directs the ACIR to recommend the rules (if any) that should govern congressional regulation of state and local taxation of interstate water transport (primarily barge traffic).

Ashley Introduces Bill on Intergovernmental Coordination

Rep. Thomas L. Ashley (Ohio) recently introduced legislation which would encourage the use of regional planning bodies to perform federally assisted or required areawide planning.

The bill, HR 14990, is similar to S 3075, a measure introduced earlier this year by Sen. Warren Magnuson (Washington).

Specifically, the Ashley bill, entitled *The Intergovernmental Coordination Act of 1976,* calls for:

☐ eligibility of a single areawide planning agency in each substate region for all federally-

aided areawide planning programs;

☐ melding of all federally-aided areawide planning programs in each region into a single coordinated work program;

☐ consistency of federal aid projects in each region with areawide development planning;

☐ use of state substate districts for administration or coordination of federally-aided areawide planning programs; and,

☐ review of federally-required state plans and proposals for federal land acquisition, disposition and use, by the governor and the state's local governments.

Multistate Tax Compact Upheld in District Court

The U.S. District Court for Southern New York has upheld the validity of the Multistate Tax Compact.

In its ruling on *United States Steel Corp. v. Multistate Tax Commission,* the Court turned down the contentions of 16 multinational corporations that the tax compact required congressional approval. It found that the compact did not violate the Commerce, Compact, Due Process, Equal Protection, or Search and Seizure Clauses of the Constitution.

The Compact, which currently includes 21 states, is designed to facilitate the determination of proper state and local tax liabilities of multistate taxpayers, ease taypayer compliance, promote uniformity among state tax systems, and help minimize the duplicative taxation of multistate taxpayers.

Report Concludes That School Desegregation Works

As a result of a 10-month investigation, the U.S. Commission on Civil Rights has concluded that "desegregation works."

The Commission, in a report entitled *Fulfilling the Letter and the Spirit of the Law—Desegration of the Nation's Public Schools,* found that 82 percent of the school districts which desegregated did so without serious disruption.

Superintendents in districts which have desegregated in the last 10 years report that parents (white and minority) generally support desegregation and that there has been a dramatic positive change in the attitudes of white parents following desegregation.

The report's findings are based on a series of hearings and open meetings, a mail survey of respondents in 1,291 districts, and 900 in-depth interviews.

The Commission also made a series of recommendations to further the progress of desegregation in the schools. It urged that:

☐ Congress rescind its prohibition against the use of federal financial assistance for student transportation for desegregation;

☐ each state receiving federal housing and community development grants be required to establish a metropolitan agency with authority to plan and implement a program for metropolitan housing throughout the metropolitan area and various services to assist minority families secure housing outside central cities;

☐ a special tax incentive be granted to families who select housing in areas where residents are predominantly of another race or ethnic group; and

☐ HUD assign highest priority to the enforcement of fair housing laws, including an expanded Title VIII compliance program to require development of affirmative housing opportunities plans.

National Growth Policy Aired In Recent Report

". . . the fundamental policy question for the nation appears to be whether growth will determine the deployment of natural and fiscal resources, or whether choices on deployment of resources will shape and direct growth." So states the *1976 Report on National Growth and Development* which analyzes existing national growth patterns and trends and examines broad policy alternatives in several areas.

The growth report is a biennial volume required by Title VII, Section 703(a) of the *Housing and Urban Development Act of 1970.*

The report deals with a broad range of concerns including the changing context of availability of capital for future growth needs, the shifting patterns of growth, family needs and resources, fiscal trends in government, growth vs. environmental issues, housing policy, and transportation systems.

ABA Committee Drafts Model Procurement Code

The American Bar Association has released a preliminary draft of a model procurement code which seeks to help state and local governments eliminate waste and save tax money.

The model code is intended to combine the best aspects of state purchasing law along with lessons learned from federal experience in the field. The effort to draft the code is funded by LEAA and assisted by over 200 volunteers.

The first draft code was the subject of a day-long critique during the recent ABA annual meeting. Demand for this draft has exceeded the supply of copies; however, a second draft will be available for distribution in December. A final draft is slated for completion by next spring.

Further information on the code project may be obtained from Herbert H. Ferguson, Project Director, Model Procurement Code Office, 1700 K Street, NW, Suite 601, Washington, D.C., 20006.

State/Local Watch

State-Local Watch, a new feature of Intergovernmental Perspective, *will highlight innovative and noteworthy activities in or information about state and local governments. Any suggestions of items to be included in this column are welcome.*

California Legislature Acts To Preserve State's Coast

The California Legislature has enacted a comprehensive law to protect the state's 1,072 mile coastline against excessive development.

The measure, the most extensive of its kind in the nation, will create a framework for preserving the state's beaches and such scenic areas as Big Sur, the Santa Monica Mountains, and the Mendocino coast.

The plan is noteworthy not only because of the land use and planning implications, but also because of the precedent it establishes for real citizen involvement in the planning process.

The new law permanently establishes a structure that has operated in California for four years, thanks to passage of an initiative (Proposition 20) in 1972.

Proposition 20 created a statewide coastal zone commission and six regional commissions to draw up a "comprehensive plan for the orderly, long-range conservation of the coastal zone" to be submitted to the legislature in December 1975. The proposition required legislative approval of the master plan by December 31, 1976. Had the plan not been approved, all current temporary plans, and the state and regional commissions, would have lost authority to control development.

The regional commissions approve all development, including siting of new power plants, within the permit area (1,000 feet inland from the mean high tide to three miles out to sea). Before permits can be issued, the regional commission must decide that the development will not have any "substantial adverse environmental or ecological effect" and that it is consistent with the general objectives of the coastline legislation.

The adoption of the long-range plan has important, nation-wide implications. It preserves a coastline which is viewed as a major national resource and shows that thousands of citizens, and not just professional planners, may participate in controlling the future of their environment.

Despite the importance of the state plan, local communities retained the right, subject to appeal to a permanent state commission, to issue building permits, thus reaffirming the important role of city and county governments in making decisions about local land use.

And finally, the plan is a workable compromise between conservationist concerns and economic realities: it encourages farming, the development of ports, clustered urbanization, and a viable tourist industry.

States Act to Aid Local Fiscal Management

States are increasingly assuming more responsibility for assuring that their local governments units are financially viable, according to a recent survey conducted by the National Conference of State Legislatures.

State finance chairmen, legislative fiscal analysts, and key legislative staff members questioned in the survey, noted that "a broad spectrum of state guidance, control and financial oversight exists to monitor the economic conditions of cities, towns and counties."

Speaker George Roberts, of New Hampshire, chairman of the Government Operations Task Force which conducted the survey, said that the results refute criticism that the states have turned their backs on the fiscal plight of cities.

"State legislatures have a continuing commitment, both moral and financial, to the viability of local units of government," he said.

Specifically, the NCSL survey found that many state legislatures have addressed the traditionally administrative function of local spending and taxation oversight:

☐ Nine states employ a legislative auditor who receives local government audits and reports back to the general assembly.

☐ Four states (Alaska, Arkansas, Kentucky, and Rhode Island) have recently created divisions of local government under the auspices of the executive branch.

☐ Twenty-five states have enacted or introduced legislation to broaden the duties of offices responsible for monitoring local financing.

Responses from all 50 states demonstrate that there is a statutory basis for supervision of local finances through budgetary procedures and municipal audit requirements. Thirty-four states indicated that their local government units are required by law to submit to a legislative or administrative agent a post audit periodically. Twenty-eight states require their subdivisions to submit financial reports which are certified by an accountant usually contracted by the locality.

Within the last two years, 10 states have enacted legislation to improve and standardize municipal auditing procedures. Within the last year alone, six other state legislatures considered enactment of uniform accounting laws.

Responses to the questionnaire indicated a growing awareness on the part of the states of their role in assuring viable local borrowing:

☐ Nearly half of the states indicated that, in the very least,

all local debt issues must be approved at the state level.

☐ Nine states actually perform the marketing of their subdivisions' bonds in order to insure successful bond sales and lower the costs of borrowing money.

☐ Of the states that require approval of all local debt issues, most perform analyses of prevailing market conditions, size of debt issue, ability of the issuing locality to service its debt, and the program for which the bonds are being provided.

Eleven states have permanent legislation for general financial assistance in the event of a local fiscal crisis. Of these 11, two indicated that the law applies solely to local school boards. Respondents in two other state legislatures noted that their states have appropriated money on the basis of a particular city's need.

This growing state responsibility for the financial viability of local governments is generally taking the form prescribed by ACIR in its 1973 report entitled *City Financial Emergencies.*

Pennsylvania Legislature Seeks More Oversight of Federal Funds

A growing concern of state legislatures has been that they are often left out of decisions concerning the use of federal funds in the state. Many have felt that governors have been able to undermine the priority setting normally found in the state's budgetary process by using federal funds.

In June, the Pennsylvania legislature adopted Senate Bill 1542 which requires more extensive reporting by executive branch agencies regarding the intended use of federal funds and fully places the appropriation of federal funds under the state budget making process.

Specifically, the bill:

☐ requires that, with few very limited exceptions, any money received from the federal government be deposited in the general fund and be appropriated by the legislature as part of the operating budget;

☐ requires that any person, when submitting any requisition to the state treasurer, must indicate whether any of the funds requested were derived from federal funds or whether any requested funds will be used as matching funds;

☐ prohibits the state treasurer from issuing any warrant for requisitioned funds which were derived from federal funds unless those funds have been specifically appropriated by the legislature (nor may he issue a warrant for any money to be used as matching funds unless specifically appropriated);

☐ says that in preparing the budget, the governor, secretary of revenue and budget secretary must estimated revenues and receipts from all sources, and that federal funds must be designated as to whether they are grants, augmentations, credits, or others.

Senate Bill 1542 was followed by a 68-page bill (House Bill 1366) to specifically appropriate all federal funds for the coming fiscal year. To draft the second bill, the legislature had repeat its budget cycle again, looking closely at how federal funds were being used. Both bills were passed over Governor Milton Shapp's veto.

When the executive branch tried to spend federal money in ways not appropriated in the bills, the issue was taken to the state's supreme court. The ruling has not yet been issued.

The recent actions by the Pennsylvania legislature implement an ACIR recommendation that state legislatures take a more active role in state decision-making relating to the receipt and expenditure of federal grants to the states (See ACIR News for further description of this recommendation).

Common Cause Tests Accountability of State Utility Commissions

In a report based on a survey of 50 state public utility commissions, the national public interest lobby, Common Cause, found that 31 states failed to meet basic accountability standards in their procedures for open meetings, lobby disclosures, conflicts of interest, or freedom of information.

The group's accountability test was designed to judge whether the decision-making processes of state PUCs are open and accessible to the citizens and whether adequate precautions are taken to guard against conflicts of interest and special interest lobbying pressures.

The report, entitled *Money, Secrecy, and State Utility Regulation: A Common Cause Report on the Accountability (of lack thereof) of State Public Utility Commissions,* also found:

☐ 21 state PUCs meet in closed session to deliberate and act on requests by utilities for rate increases.

☐ Only 10 states prohibit PUC commissioners from accepting employment with regulated businesses immediately following service on the commission, despite the obvious conflict of interest that can result from job-hunting in public service.

☐ Nineteen state PUCs reported that they had a mechanism for periodic review of compliance with ethics of financial disclosure requirements.

☐ Most states do not require even minimal disclosure of lobbying efforts directed toward the PUCs (e.g., only five states require commissioners to log contacts with representatives of regulated businesses; only eight states require persons who lobby PUCs to report their expenditures).

Government Growth: An Intergovernmental Concern

by Michael Bell and
L. Richard Gabler

As the United States celebrates its 200th birthday, the fundamental issue of the role of government—its size and function —is under intense scrutiny and is the object of considerable debate.

"Big government" has become a campaign issue to those seeking office at all levels. The issue is not only the apparent growth of the public sector but also the impact this growth has had—or may have —on individuals and on our federal system. Public sector growth has become a controversial area partly due to the seemingly contradictory statements and conclusions that have been made about it.

For example, U.S. Treasury Secretary William Simon in an August 1975 speech outlined what he called "the threat to free enterprise in the growing dominance of government spending within our economy. Back in the 1920s, 12 cents out of every dollar spent in the United States was spent by government. Today 33 cents out of every dollar is spent by the government."

"And if these trends continue," he said, "before the end of this century, the government could be spending as much as 60 cents out of every dollar."

An opposite view was expressed by Blechman, Gramlich, and Hartman of the Brookings Institution in *Setting National Priorities: The 1976 Budget.* They concluded, that "although there are many possible ways of measuring the growth of the federal sector, by most measures, there has been relatively little change in the share of total output consumed by the federal government in the past 16 years."

The ACIR study of public sector growth will not resolve philosophical differences as to the role of the public sector. Nor will it take a position as to whether such growth is desirable or undesirable—whether it will lead to excessive government control over our daily lives, or whether growth improves the quality of life. In this article we do, however, assess the impact of public sector growth on the intergovernmental system by focusing on four key areas:

☐ the various measures available to gauge the degree of public sector use of economic resources;

☐ the extent to which public sector growth results in a "centralization" of governmental activities;

☐ the differential growth rates among functional components in federal and state-local budgets; and

☐ the differential growth rates in aggregate expenditures among state and local governments regionally.

Measuring the Size of Government

Analysis of public sector growth is hindered by the absence of a single measure that encompasses all direct and indirect effects of governmental activities. Governmental decisions impact on the economy in many ways including: determining the level of overall expenditures and levels for particular programs, distributing benefits and program costs among specific economic groups, allocating tax burdens among competing economic interests, and issuing regulations affecting individuals and/or businesses. All of these governmental actions affect the allocation of resources that are only approximated by aggregate measures of governmental activity.

We will examine six commonly used measures of growth: total public expenditures; public expenditures as a percent of the gross national product (GNP); public expenditures adjusted for price changes; number of public employees; number of public employees per 1,000 population; and tax burden for

the middle income family. These measures reflect the use—and transfer—of economic resources by the governmental sectors. They are not, however, measures of the full effects—direct and indirect—of governmental decisions on either the individual or the economy as a whole.

Table I illustrates the diverse results of these measures.

Table I
An Elastic Yardstick for Measuring the Growth of Government 1949-76

	1949	1976	Percent Change from 1949 to 1976
Dollar Expenditures (in billions)			
Federal	41.3	390.6	845.7
State-Local	18.0	185.0	927.3
Total	59.3	575.6	870.7
Public Expenditures as a Percent of GNP			
Federal	16.0	23.2	45
State-Local	7.0	11.0	57.1
Total	23.0	34.2	48.7
Public Sector Employees (in millions)			
Federal	2.075	2.850	37.3
State-Local	3.906	12.229	213.1
Total	5.981	15.079	152.1
Public Sector Employees per 1,000 Population			
Federal	13.9	13.2	-5.1
State-Local	26.1	56.8	117.6
Total	40.0	70.0	75.0
Public Expenditures as a Percent of GNP adjusted for price changes[1]			
Federal	17.6	22.8	29.5
State-Local	9.3	10.9	17.2
Total	26.9	33.7	25.3
Tax Burden for the Middle Income Family[2] **as percent of income**	*1953*	*1975*	*From 1953 to 1975*
	11.8	22.7	92.4

[1]Expressed in 1972 dollars.

[2]$5,000 in 1953 and $14,000 in 1975, assuming all income was based on wages and salaries.

Source: ACIR Staff Compilations.

According to the public expenditure measure, the growth in the public sector is almost nine-fold since 1949, (a percentage change of 871 percent). The growth in the public sector relative to the total economy (as a percent of GNP) has been nearly 50 percent over the same period. State and local governments have registered somewhat sharper advances than the federal sector, by both measures.

Public employment trends offer another measure of government growth. The number of public sector employees increased from under 6 million in 1949 to over 15 million in 1976—an increase of 152 percent. Allowing for growth in population, government employment (per 1,000 population) has still increased but at less than half the rate—75 percent. This growth in public sector employment per 1,000 population takes place at the state-local level; indeed, the federal rate shows a slight decline.

To determine more accurately what is happening to the "real" size of the government sector[1] compared to the "real" size of the private sector, it is necessary to deflate the current dollar figures since inflationary pressures have a differential impact on GNP, federal spending, and state-local expenditures. Thus, additional insight into the "true size of government" can be obtained by adjusting both government expenditures and GNP for the differential impact of inflation. After allowing for the differential impact and price changes, the public sector, relative to GNP, has increased by 25.3 percent since 1949—from 26.9 percent of GNP to 33.7 percent. Here, however, the rate of federal government growth outpaces that of the state-local sector.

Still another way of gauging public sector growth is by its impact on the taxpayer. In 1953, the "average" family, with an income of $5,000, paid 11.8 percent of its income in taxes. By 1975, the same average family had a $14,000 income, and paid nearly twice the 1953 level—22.7 percent of its income.[2]

Thus, while the various measures show different rates of growth, they all show an upward trend in the size of the public sector. The growth rates between the federal and state-local sectors are roughly comparable during the post World War II period. The state-local sector advances a bit more rapidly in terms of current dollars and considerably more rapidly in terms of public employment; the federal sector sets the pace when constant dollars are used.

[1]Unless one has information about changes in productivity (which is not available in any useful form for the government sector) one cannot determine changes in real output by simply using deflators. This approach tends to underestimate real growth to the extent that the observed price increases reflect either increased productivity or increased quality of inputs, i.e., does the government sector pay higher wages to attract more educated people (even in theory)? The three series were adjusted by using the implicit price deflators for total gross national product, federal purchases of goods and services, and state-local purchases of goods and services.

[2]This does not necessarily imply, however, that the taxpayer is "worse off." Since the likely result is a level of public service spending higher than what otherwise would have occurred, the taxpayer may prefer this after-tax position of an increased availability of public goods.

International Growth Patterns

Public sector growth is not unique to the United States; in fact, there has been a notable growth in government expenditures in virtually every country. Comparisons among 23 countries show the governmental growth in this country is not particularly rapid.

To compare rates of growth among the nations for the most recent years available, we used two separate indicators: total taxes as a percent of GNP and current expenditures as a percent of Gross Domestic Product (a measure which is roughly equivalent to GNP but differs in the main by excluding the international sector). In both instances, the United States ranked far below the median.

Using total taxes as a percent of the GNP, the United States ranked 15th out of 20 with a 1973 figure of 28 percent (a 12.4 percent increase over 1965 figures.)

Using current governmental expenditures as a percentage of GDP, the U.S. ranked 15th out of 23 with 29.6 percent in 1974—representing a rate of change only 2.4 percent since 1969.

The short time span covered by the international data render long-range projections somewhat risky. However, it does appear that the international trend is toward increased governmental responsibility and that the United States is far from the vanguard of the movement in terms of size and growth.

The Centralization Issue

Once "growth" in the public sector has been acknowledged, a second question arises: Does that growth lead to "centralization" at particular governmental levels or is it spread uniformly among all? A centralization tendency has been chronicled in Great Britain; it was not found, however, in Canada.[3] Has it happened here?

To answer this question, we look at revenues and then at expenditures both in the aggregate and by function.

On the revenue side, there are at least three possible measures to assess centralization: general revenues (which exclude utility, liquor store, and insurance trust revenues); tax revenues (which exclude fees and charges from the general revenue measure); and total revenues.

Table II illustrates how federal revenues rose as a percentage of total spending from 1929 to 1954 and since that time have declined. The federal share of each revenue measure during the years selected here increased from an average of almost 31 percent in 1929 to an average of over 72 percent in 1954 with a gradual fallback to an average of less than 60 percent in 1975. Thus, while the federal share in 1975 is approximately double the 1929 figure, most of the growth occurred prior to 1954 and the trend of the last 20 years is toward decentralization of revenue raising responsibilities away from the federal level.[4]

Understandably, the state-local sector demonstrates the reverse of the federal trend. That is, the state government share of each revenue measure fell from approximately 20 percent in 1929 to around 14 percent in 1954; the local government ratio declined from a 50 percent share to the same 14 percent range. Since 1954, however, both state and local governments have increased their share of the revenue pie—the state share rising almost to the one-quarter mark, the local share approaching the one-fifth figure.

On the expenditure side, there are two measures that can be used to assess the shift in spending among governmental levels: total expenditures and total domestic spending. Because of the importance of intergovernmental grants, each series is presented on a *before* transfers (where grants are included in the originating governmental level spending) and an *after* transfers basis (where grants are included in spending of recipient governments). Expenditures give a broader picture of the centralization of fiscal power than do revenues since the data incorporate expenditures from deficit financing as well as revenues.

Total expenditures (including national defense) were increasingly concentrated at the federal level, certainly in the 1929-1954 period. That is, there is a near tripling of the federal share of total spending between 1929 and 1954. Yet, the federal share of total spending has subsequently declined—both when federal grants are included in federal spending (from 72 percent in 1954 to 68 percent in 1975); and when grants are excluded (from 69 percent to 57.6 percent).

State and local sectors have increased their share of total spending since 1954 and by nearly comparable margins (with grants included in their spending). When federal grants are excluded (that is, the "before transfers" series), the state sector increase is still evident. At the local level, however, there is a slow—but steady—erosion of the local share from its peak of 17 percent in 1971 to 14.5 percent in 1975.

Of the various aggregate revenue and expenditure series considered here, domestic expenditures before transfers exhibit the greatest tendency toward centralization in the past two decades.

This upward movement was modest from 1954 through 1969 but has accelerated during the 1970s. Aside from two jumps in 1972 and 1975 (est.), the tendency toward centralization reflected in this

[3]Alan T. Peacock and Jack Wiseman, *The Growth of Public Expenditure in the United Kingdom* (Princeton, N.J.: Princeton University, 1961) and Richard T. Bird, *The Growth of Government Expenditures in Canada*, (Toronto: Canadian Tax Foundation, 1970).

[4]The federal government can, and does, engage in deficit financing. These deficits do not materially affect the centralization issue as measured by total expenditures (before and after intergovernmental transfers) though centralization does appear in the domestic spending series.

measure has been modest. Indeed, at least part of these large and discontinuous jumps can be attributed to the generally depressed state of the economy during those years and therefore is not necessarily indicative of a long-term trend.

While the states have maintained a relatively constant share of domestic expenditures since 1954, the local before transfers share of domestic expenditures has decreased steadily, from 29 percent in 1954 to 18.5 percent in 1975. Even after transfers, the local share decreased from 38.9 percent in 1954 to 33.5 percent in 1975.

Table II
Expenditure and Revenue Totals by Percent Distribution
1929-1975

	REVENUE			EXPENDITURES			
				Total		Domestic	
	Total Tax Revenue	Total General Revenue	Total Revenue	After Transfers	Before Transfers	After Transfers	Before Transfers
Federal Level							
1929	29.2	32.3	31.1	23.5	25.5	14.3	16.5
1949	70.6	71.4	67.9	65.9	69.6	45.8	51.7
1954	73.9	72.8	70.1	69.0	72.0	39.7	45.5
1959	67.5	65.9	64.2	64.2	69.5	39.3	48.3
1969	65.6	63.1	63.9	58.9	66.0	38.2	48.9
1971	59.1	57.2	59.4	56.3	64.8	40.2	51.9
1972	58.6	56.3	58.7	55.9	66.0	40.6	54.2
1974	58.6	56.8	59.5	56.0	65.6	42.8	55.3
1975*	57.6	55.3	58.7	57.6	68.0	45.8	59.0
State Level							
1929	20.3	19.3	19.2	16.7	20.9	18.7	23.1
1949	14.6	12.8	16.1	31.0	15.0	20.6	23.9
1954	13.1	13.0	14.7	11.9	13.1	21.4	25.5
1959	15.9	15.9	17.2	13.4	14.3	22.6	24.2
1969	18.8	19.2	19.1	15.5	17.4	23.4	26.1
1971	22.2	22.1	21.3	16.7	18.2	22.9	24.9
1972	22.8	22.8	22.0	17.0	17.6	22.8	23.7
1974	23.5	23.2	22.2	16.8	18.7	21.8	24.3
1975*	23.9	24.2	22.8	16.2	17.6	20.7	22.5
Local Level							
1929	50.5	48.4	49.7	59.8	53.6	67.0	60.4
1949	14.7	14.8	16.0	21.1	15.4	33.5	24.4
1954	13.0	14.2	15.2	20.0	14.0	38.9	29.0
1959	16.6	18.2	18.6	22.4	16.2	38.0	27.5
1969	15.6	17.8	17.0	25.6	16.7	38.5	25.0
1971	18.7	20.7	19.3	27.0	17.0	36.9	23.2
1972	18.6	20.8	19.3	27.2	16.4	36.6	22.1
1974	17.9	20.0	18.2	27.2	15.7	35.4	20.4
1975*	18.4	20.6	18.5	26.2	14.5	33.5	18.5

*Estimated.

Source: U.S. Bureau of Census, Department of Commerce, *Governmental Finances*, Selected Years; *1972 Census of Governments*, Vol. 6, No. 4, U.S. Bureau of Census, Department of Commerce.

The movement toward centralization of aggregate domestic expenditures before intergovernmental transfers at the federal level in the postwar period was centered in two areas: social welfare expenditures (including income maintenance, health and medical care, education and related welfare programs) and grants-in-aid.

Total public spending for social welfare rose from $23.5 billion in 1950 to $285.6 billion in 1975; the federal share of this total rose from 29.4 percent to 42.1 percent. Within this total:

- ☐ public sector expenditures for income maintenance rose from $9.5 billion in 1950 to $132.1 billion in 1975, with the federal share increasing from over half (52.3 percent) to more than two thirds (67 percent);

- ☐ total public spending for health and medical care advanced from $3.1 billion to $49.9 billion, with the federal share rising from 11.7 percent to 28.5 percent;

- ☐ spending by federal, state, and local governments for public education increased from $9.4 billion to $82.9 billion while the federal share fell from 26.6 percent to 13.3 percent; and

- ☐ public spending for other welfare related services grew from $1.3 billion in 1950 to $21.6 billion in 1975, with the federal share rising from 30 percent to 67.5 percent.

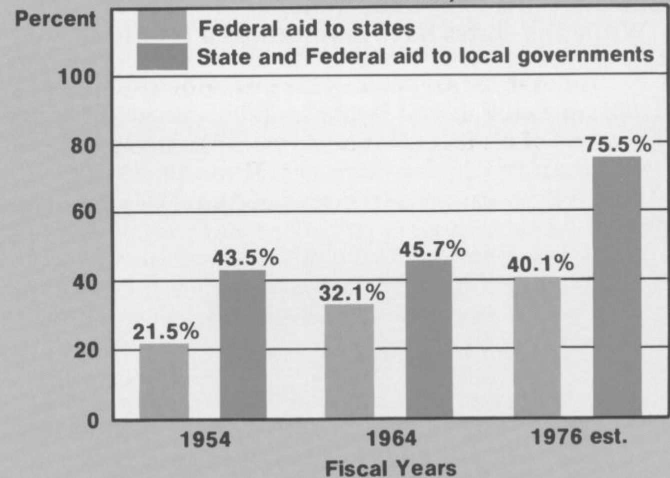
The centralization in intergovernmental fiscal relations has led to local governments becoming increasingly dependent on outside sources of revenue—state and federal aid—to finance total local expenditures. As illustrated in the chart, in 1954, state and federal aid amounted to 43.5 percent of local own source revenue; by 1975, that percentage had increased to over 75.

States, too, have become increasingly dependent on outside revenue sources—federal aid—as a means of financing state expenditures. In 1954, federal aid came to 21.5 percent of state own source revenue; in 1975 it was just over 40 percent.

Although there is little evidence of either revenue or expenditure centralization—in the aggregate—at the federal level, this tendency does show up where more specific bases are used. Local governments are becoming increasingly dependent on state and federal aid; states are becoming more dependent on federal funds; and the federal government has taken over increased responsibility for the social welfare functions.

Compositional Shifts in Government Spending

A functional analysis of federal spending reveals some dramatic compositional shifts over the past 20 years. These shifts are less apparent at the state-local level.



As Table III indicates, the two most rapidly growing components in the federal budget are: payments to individuals[5] (a budgetary aggregate closely corresponding to the social welfare category) and federal grants-in-aid to state and local government.

These shifts in the federal budget emphasis—toward payments to individuals and the state-local sector—are highlighted in yet another way. That is, between 1960 and 1970, payments for individuals and federal grants taken together accounted for 46 percent of the total increase in federal outlays—30 percent for payments to individuals and 16 percent for grants. For the 1970-75 period, similar increases in these categories were evident: 59 percent for payments to individuals and 20 percent of federal grants. Thus, taken together these two classifications account for just under 80 percent of the total increase in federal outlays.

Although the payments to individuals category is a heterogeneous classification, it consists mainly of Social Security, Medicare, unemployment compensation and public assistance programs that account for 75 percent of the total 1975 payments to individuals and over 80 percent of the growth in the category between 1967 and 1975. This growth can be attributed to increases in the number of eligible participants, higher benefit levels and an increase in the level of participation of those eligible. Yet, there is evidence that in spite of the significant growth in dollar expenditures, there has been a steady erosion of real per capita benefits at least since 1972.[6]

[5]Payments for individuals includes, with minor adjustments, payments for Social Security, unemployment compensation, Medicare, Medicaid, Veterans benefits, public assistance, and other categories included under payments for individuals in Table 16 (p. 354) of the *Budget of the United States Government, 1977.*

[6]See "A Fiscal Note," *Intergovernmental Perspective,* Summer 1976, Volume 2, No. 3, page 18.

Thus, despite the relative growth of the payments for individuals category, the fact remains that, at least for recent years, even among the fastest growing programs within this classification, there has been a deterioration in services, when adjusted for population and inflation.

In the early years of the grant system, federal grants to state and local governments were largely concentrated in two areas: in 1940, for example, 71 percent of all federal grants went for income security and community development. By 1960, 80 percent of all grants went to two functional areas—income security and commerce and transportation. The decade of the 1960s saw the federal grant system become much more diverse with education, health, and community development more significant in the total aid picture.

The 1970s have been marked most dramatically, by the emergence of a new form of federal grant—general revenue sharing—which in 1975 represented approximately 12 percent of the grant total. The introduction of this grant program has reduced the relative importance of grants in the more traditional functionally-aided areas but, in general, shifts among these functional components have been milder during the 1970s than they were in the decade of the sixties.

These two shifts highlight a change in the type of activities performed by the federal government: from a purchaser of goods and services (in defense outlays) to redistributor (collecting revenues but transferring these sums to individuals and state-local governments who then make the final purchases). If interest payments are included in the transfer role of the federal sector, this redistribution activity accounts for more than 60 percent of 1975 federal outlays—a figure that is projected to hold for 1980.

In contrast to the compositional shifts in the federal budgets, there were no dramatic shifts in total state-local spending from 1965 to 1974. The changes that have occurred were in reduced highway spending (about one-sixth of state-local spending in 1965; one-tenth in 1974) and increased welfare spending (from about one-twelfth of total expenditures in 1965 to about one-eighth in 1974).

States are assuming a slightly larger share of total state-local spending; from 34.9 percent to 37.2 percent. When federal aid is excluded, the shift is more dramatic: from 47.0 percent to 55.5 percent. Most of this increase can be traced to the welfare area where the state share has jumped from 47.9 percent to 61 percent of the total (including federal aid). In no other area, however, has there been a significant shift.

Table III
Federal Outlays and Percent Distribution by Function

	Total Federal Outlays (in millions)	Percent				
		National Defense	Payments For Individuals	Federal Grants	Interest Paid to Public[1]	Other
1940	9,456	15.8	12.4	9.2	9.2	53.1
1945	92,690	88.3	0.6	0.9	3.4	6.8
1950	42,597	29.1	26.2	5.3	11.3	28.1
1955	68,509	58.2	16.4	4.7	7.1	13.7
1960	92,223	49.0	21.9	7.6	7.5	14.0
1965	118,430	41.0	22.4	9.2	7.2	20.2
1970	196,588	40.3	25.9	12.2	7.3	14.3
1975	324,601	26.7	39.0	15.3	7.2	11.9

[1]Interest paid to public excludes interest received by trust funds. It is expressed as a percent of total federal outlays.

Source: *Federal Government Finances*, January 1976, distributed by the Office of Management and Budget.

Interstate Differences in Public Sector Size and Growth

National totals of public sector size and growth mask certain key differences among the states. Therefore, we look briefly at public sector size, growth, and functional expenditure shifts in the 50 states.

Using per capita direct expenditures as a measure of the public sector, state-local per capita expenditures ranged from $2,501 in Alaska and $1,448 in New York to a low of $609 in Arkansas—a differential of 4 to 1 at the extremes and just under 2½ to 1, excluding Alaska as a basis of comparison.

To gauge the relative rates of public sector growth in individual states, we calculated the percent change for each state in per capita expenditures between 1957 and 1974 and expressed them as a percent of the national average growth rate. With the exceptions of Alaska and Hawaii, all of the states growing at rates exceeding the national average (23) were located in the East—including all 10 of the southern states at the lower end of the spending spectrum in 1957. By way of contrast, only two of the high spending states—Hawaii and New York—had growth rates exceeding the national average.

Indeed, the rate of growth of per capita expenditures between 1957 and 1974 for the top 10 spending states of 1957 was 12.1 percent below the national average compared to a growth rate of 22.7 percent above the national average for the lower spending states of 1957.

Excluding the top and bottom states, the average per capita expenditures of the lowest spending nine states rose from 55.1 percent to 62.3 percent of the average spending for the top nine states between 1957 and 1974. Yet, this narrowing process was only

marginal when comparing the ratio of spending between the second lowest and second highest spending states—from 45.6 percent in 1957 to 47.3 percent in 1974.[7]

Most significant of the interstate narrowing of public sector differences, however, is the fact that 36 states were spending within a range (plus or minus) of 20 percent of the national average in 1974 while only 31 fell in this spectrum in 1957.

[7]Comparisons between the bottom and top nine states (rather than 10) and second lowest to second highest (rather than top and bottom state) were designed to exclude the influence of Alaska, the top spending state in 1974. If Alaska were included, then the gap between top ten and bottom ten states widens as does the gap between top and bottom state. Because Alaska is not a typical state, it was excluded from the comparisons.

There is a clear regional dimension to these figures. For example, in 1957, seven of the 10 "big spenders" were in the West; all 10 of the lowest spending states were in the South. By 1974, the number of western "big spenders" had dropped to five; and three southern states had moved out of the lowest spending category.

A comparison of budget expenditures by function between the "high" and "low" spending states reveals that the latter spend a larger percentage of their budget on three "traditional" state expenditures (education, highways, and welfare). Education makes up 41 percent of the budget in the 10 lowest spending states and only 35.6 percent in higher spending states. Welfare expenditures make up 10.6 percent of outlays in high spending and 9.7 percent in low spending states. Highway expenditures make up 12.8 percent in the lowest spending states' budget; 10.8 percent of the budget in the top 10 states.

The highest spending states also provide a broader range of public goods and services than their lower spending counterparts. Eight of the 10 high spending states fall below the national average in terms of the share—not per capita levels—of state-local spending in the big three areas; while eight of the 10 lowest spending states exceed it.

Table IV
Budget Composition of Highest and Lowest Spending States, 1974

Top Ten Spending States

State	Total Per Capita Expenditures	Percent Education	Percent Welfare	Percent Highways	Percent Total
Alaska	2501	33.1	4.8	13.8	51.7
New York	1448	30.9	14.7	9.2	54.8
Hawaii	1349	29.0	10.0	5.5	44.5
Nevada	1145	32.1	6.2	11.4	49.7
California	1119	35.8	16.9	6.6	59.3
Wyoming	1107	43.2	4.5	18.4	66.1
Vermont	1064	37.6	12.1	15.8	65.6
Massachusetts	1058	35.3	18.7	6.5	60.5
Delaware	1056	41.0	7.9	10.4	59.3
Maryland	1055	38.5	9.9	10.4	58.8
Ten State Average		35.6	10.6	10.8	57.0

Lowest Ten Spending States

State	Total Per Capita Expenditures	Percent Education	Percent Welfare	Percent Highways	Percent Total
Arkansas	609	39.2	13.0	14.0	66.2
North Carolina	685	45.3	8.7	10.7	64.7
Alabama	712	38.2	9.9	13.0	61.1
Kentucky	713	39.6	10.6	15.7	65.9
Indiana	715	47.0	8.5	10.6	66.1
Texas	720	43.6	9.4	11.5	64.5
Missouri	722	41.0	9.8	13.6	64.4
Mississippi	734	37.6	11.5	15.3	64.4
Tennessee	735	42.3	8.9	13.1	58.1
South Carolina	739	42.3	6.8	10.2	59.3
Ten State Average		41.0	9.7	12.8	63.5
U.S. Average		38.2	12.5	10.0	60.7

Source: ACIR staff compilations.

Conclusion

Thus, looking at four key areas of public sector growth as it affects our intergovernmental system, we found:

☐ While the various measures show differing rates of growth, they all show an upward trend in the size of the public sector.

☐ Although there is little evidence of overall centralization in the postwar period, this tendency does show up in the increasing federal role in financing aggregate domestic expenditures, mainly due to social welfare and federal grants-in-aid. Indeed, it is evident in a growing local dependency on state aid and federal aid and on growing state dependency on federal aid.

☐ At the state-local level, there appears to be a slight trend toward "centralization" at the state level when the state's share of total spending includes federal aid. When federal aid is excluded, there appears to be a significant increase in the state share in state-local spending.

☐ There is some narrowing of the differences among states in their spending levels. While these differences remain large, the tendency is for states to become more alike; not more disparate.

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Adjusting Personal Income Taxes for Inflation

by Robert D. Ebel and
Ronald C. Fisher

Consider the case of the married taxpayer with an adjusted gross income (wages only) of $10,000 in 1976.

Filing a joint return with the standard deductions and four personal exemptions, this taxpayer will pay $709, an effective individual income rate of 7.1 percent.

Now assume that the economy experiences an annual 7 percent rate of inflation for the next five years and that the taxpayer's salary rises by the same amount. By 1981, that taxpayer's income is $14,030, a 40.3 percent increase. Yet in federal taxes, he is paying $1,433 —an increase of 102 percent—and the effective rate has increased to 10.2 percent.

Meanwhile, his after-tax income is now $8,981—actually less than it was five years before.[1] Thus, although his nominal income increased, his "real" income—that is, his purchasing power—decreased as his taxes increased.

This example of an automatic increase in real tax burdens is not unusual. It is a result of the interaction of inflation with any progressive individual income tax and occurs because inflation decreases the real value of the tax code provisions which are specified in nominal dollar amounts. As the price level rises, the real value of personal exemptions, standard deductions, and credits is eroded, causing taxable income to rise more rapidly than total income. In addition, since the tax rate brackets are also stated in fixed dollar terms, the increase in taxable income—regardless of whether there is an increase on "real" income—is subject to taxation at higher marginal rates. This is true even if a taxpayer is not actually forced into a higher bracket.

One solution to this problem of inflation-generated increasing income tax burden is "indexation," whereby the fixed dollar tax code provisions are adjusted proportionally to price level increases.[2]

Table I illustrates the difference income tax indexation would make to three families earning an income of $12,000 one year and various amounts the next. Under a progressive income tax, tax burdens (effective tax rates) will increase at a greater rate than family income, regardless of whether the rise in income occurs as a result of real or inflationary changes. Thus, the family whose income rises just enough to offset inflation (no real income gain) finds its tax burden rising. Similarly, a family with no money income gain (a decline in real income) sees its burden remains the same. Finally, the family that does manage a real income gain finds its tax burden also responding to both its inflationary and real gain.

With indexation, however, income tax burdens grow only in response to real income changes. Thus, those families whose incomes just kept pace with inflation would have no change in their tax burden. Families whose real incomes actually fell would experience a reduced tax burden which would soften the decline in real income. And, finally, the family which experienced income growth in excess of inflation would experience an increase in its tax burden—but one resulting only from the change in its real income.

These tax burden distortions are only part of the possible results of the inflation-progressive individual income tax interplay. In addition, questions arise regarding the effects on the distribution of tax burdens among taxpayers, the short run effect on government revenues and budgets, the longer run implications for public sector size, and the resulting intergovernmental (tax coordination) implications. The

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[1]This does not necessarily imply, however, that the taxpayer is "worse off." Since the likely result is a level of public service spending higher than what otherwise would have occurred, the taxpayer may prefer this after-tax position of an increased availability of public goods.

[2]Many nations which employ some form of tax indexation use a consumer price index (as we do here), which has the advantage of familiarity and convenience. However, there are economic reasons why another index might be preferred. For a discussion see Edward F. Dennison, "Price Series for Indexation of the Income Tax System," the Conference on Inflation and the Income Tax, Brookings Institution, October 1975.

remainder of the article will address each of these issues and, in addition, examine the likely effects of indexation at both the federal and state level.[3]

Tax Equity

One tax equity issue—the inflation-generated automatic increase in real tax burdens which occurs regardless of one's income—has already been discussed. However, it is also true that inflation-induced changes in personal income tax rates do not affect all taxpayers equally. Rather, the change in the distribution of the tax burden will vary widely and arbitrarily according to the taxpayer's particular circumstances with respect to the income tax code.

According to figures shown in Table II, families with low incomes (e.g., $6,000, rising to $8,418 in five years) experience the largest percentage decline in after-tax real incomes due to the fact that, as prices rise, the real values of the personal exemptions and credits and standard deductions are eroded. The exemption-deduction-credit effect on taxpayers in this bracket explains nearly all of their inflation-generated real tax increase (Column 6).

As one moves up the income scale, the importance of the exemption-deduction-credit effect declines and the impact of taxpayer movement into higher tax brackets increases. Declines in real after-tax income are more pronounced at the low and high ends of the income scale. Thus, the middle income groups are less harmed by the "inflation tax" than are those families at either end of the income spectrum.

Indexation would eliminate the distortions in income tax burdens and therefore would tend to have a generally progressive effect over the low and middle income ranges, with low income taxpayers having a large number of dependents, the greatest beneficiaries.

The principles outlined in Table II apply to state income taxes as well as the federal tax—with one additional point of clarification: Because most states rely to a modest or low degree on the income tax, the inflation-tax amount is not as significant in terms of the taxpayer's total bill as it is at the federal level.

There is one additional factor that can serve to offset inflation's impact on the taxpayer at both federal and state levels—but is primarily used at the federal level—the legislatively mandated tax reduction. Recent evidence[4] indicates that, at least at the federal level, the four congressionally mandated tax reductions between 1960 and 1975 have more than eliminated the inflationary impact on overall effective personal income tax rates. The evidence also shows that all income classes except those between $25,000

[3]We will not deal with local progressive income taxes since few local governments use them. Important exceptions to this are: local jurisdictions in Maryland where the local individual income tax is a percent of the state income tax, New York City, and the District of Columbia.

[4]Emil M. Sunley, Jr., and Joseph A. Pechman, *"Inflation Adjustment for the Individual Income Tax,"* Conference on Inflation and Income Taxes, Brookings Institution, August 1975.

Table I
Individual Income Taxes for Various Changes in Family Income, Actual and Indexed 1975 Tax Laws

			FEDERAL				STATE[1]			
			Actual 1975 Law		Indexed 1975 Law		Actual 1975 Law		Indexed 1975 Law	
	Nominal Income	Percent Growth of Income	Income Tax[2]	Effective Rate	Income Tax[3]	Effective Rate	Income Tax[2]	Effective Rate	Income Tax[3]	Effective Rate
1975										
Families A, B, and C	$12,000	–	$1089	9.08%	—	—	$305	2.54%	—	—
1976 —After 6% Inflation										
Family A	12,000	0	1089	9.08	$1018	8.48%	$305	2.54	$284	2.37%
Family B	12,720	6	1201	9.44	1155	9.08	341	2.68	323	2.54
Family C	13,440	12	1321	9.83	1265	9.41	379	2.82	359	2.67

[1]New York
[2]Married couple with 2 dependents, all income is wages and salaries of one spouse, joint return claiming the standard deduction.

Source: ACIR staff compilations.

Table II

Impact of Inflation by Income Group

(Change In After-Tax Real Income Assuming An Annual Rate of Inflation Of 7% For Five Years, By Constant Real Income Groups.)

Constant Real Income (AGI)	After Tax Real Income (Base Year Dollars)	Decrease In After Tax Real Income	Year Five Real Income as Percent Base Year	Percent Decrease In Real Income	Percent of Tax Increase Due to Inflation Erosion of Exemption, Credit, Standard Deduction	Tax Brackets
$ 6,000	$ 6,108[a]	449	92.6%	7.4%	99%	01%
8,418	5,659					
8,000	7,574	254	96.6	3.4	88	12
11,224	7,320					
10,000	9,222	227	97.5	2.5	84	16
14,030	8,995					
15,000	13,414	420	96.9	3.1	54	46
21,045	12,994					
20,000	17,455	610	96.5	3.5	44	56
28,060	16,845					
30,000	25,051	1,235	95.1	4.9	28	72
42,090	23,816					

[a] $30 per capita credit and earned income credits result in an increase in taxpayer's real income.

Note: Based on 1975 laws for a hypothetical average family with husband and wife filing jointly. The first and third real income groups have 3.6 exemptions/joint return; the second group has 3.5 exemptions/joint return, and the last three groups have 3.7 exemptions/joint return. The average exemptions overstate the magnitude of the per capita credit for personal income tax exemptions somewhat since this includes the old age and blindness exemptions. Under the provisions of the per capita credit these two exemptions are not included in the tax computation.

Source: ACIR staff computations.

and $200,000 have lower effective rates in 1975 than they would have had if the 1960 law had been indexed and no discretionary changes had been made in the interim.[5]

Budget Effects

Since inflation generates real increases in progressive individual income tax burdens, it also provides automatic increases in public revenues. And, just as indexation eliminates the rise in effective tax rates on individuals due to inflation, it eliminates these "inflation tax" revenues.

What effect would this "loss" of the inflation tax funds have on federal and state budgets?

To examine this question at the federal level, a budget was estimated using revenue projections for 1977 for an indexed personal income tax and Congressional Budget Office (CBO) estimates of the costs of continuing federal programs and activities at 1976 levels, allowing for such factors as inflation and increases in the number of persons entitled to benefits.[6]

This budget involves about $200 billion in non-income tax revenue and a $64.9 billion deficit to finance $424.9 billion outlays. For 10 percent income growth in 1977 with about 6 percent inflation, income tax revenues are projected to be $160.8 billion

[5] The Congressional *ad hoc* and automatic inflation tax comparisons are subject to two limitations. First, one must recognize that *ad hoc* changes are not solely, if at all, intended to eliminate the inflation tax. Thus, *ad hoc* action is not necessarily a substitute for indexation. Second, *ad hoc* tax charges may only be made every few years, rather than annually under indexation. Accordingly, to completely offset the "inflation tax" overtime, effective tax rates resulting from *ad hoc* action would have to be lower than they would be under indexation.

[6] Congressional Budget Office, *"Five Year Budget Projections Fiscal Year 1977-1981,"* Washington, D.C., January 1976. (Path "B" assumptions). Revenue estimates are from Sunley and Pechman, *"Inflation Adjustment."*

without indexation and only $156.5 billion under an indexed 1975 tax law. To meet the CBO projections for funding of current programs if the income tax were indexed, $3 to $4 billion of tax increases or deficit financing would be required.

At the state level, estimates of the "inflation tax" revenues are more difficult to determine since there are 39 different states with broad-based individual income taxes that can be affected by inflation. These states differ substantially in the structure of their individual income taxes, the effective rate of tax, the states' income distribution, and the degree of utilization of individual income taxes as a source of revenue.

Therefore, in order to estimate the total effect of inflation on state individual income taxes, a hypothetical, "average" state was constructed from the 39.[7] Revenue estimates were made assuming an elasticity of the individual income tax of 1.65—the "medium" value reported by ACIR in 1968.[8]

Under these conditions, we estimate that indexation of state income taxes would reduce total state individual income tax revenue by over $900 million in 1977 a reduction of about 3.5 percent. Unless states in aggregate plan to cut taxes by a like amount under any circumstances, indexation would be likely to require states to increase taxes and/or cut expenditures to make up for the reduction in these income tax collections.

In order to consider the diversity among the states, the 39 broad based income tax states were ranked according to the relative intensity with which they rely on progressive income taxation. "Intensity" here refers to both quantitative importance of income tax revenues as a portion of the states' total revenue system and to the degree of tax progressivity.

The results of the ranking are shown in Table III.

States which have a "high" rank on both the quantitative and progressivity measures (such as Colorado) are those in which inflation-generated revenues are greatest and therefore those most likely to experience fiscal strain under indexation. Similarly, those states with a low-medium mix (Illinois) would experience the least revenue impact from indexation.

A key factor which does not show up in the Table III rankings—and one which is crucial to the question of the state budget strain due to tax indexation —is the state-by-state general economic outlook. The major energy producing states may be able to "afford" indexation in the sense of being able to at least maintain existing program structure. The remaining

[7]*These state estimates are based on several assumptions that should be* carefully noted, viz: CBO growth projections are adopted; there are no population or income distribution changes in the state over the period; the assumed individual income tax elasticity with respect to personal income remains constant over the period; there will be no legislated tax code changes during the year. The New Jersey income tax, passed in 1976, is not included in these computations.

[8]ACIR, *Sources of Increased State Tax Collections: Economic Growth vs. Political Choice* (Washington, D.C.: U.S. Government Printing Office, 1968), p. 3.

Table III

The Progressive Income Tax States Ranked According to Degree of Progressivity and Reliance on the Personal Income Tax, 1974

State Personal Income Tax as a Percent of State Tax Revenue[2]	Income Tax Progressivity[1]: HIGH	MEDIUM	LOW
HIGH	Colorado Delaware Hawaii Minnesota New York Oregon Virginia	Alaska Maryland Massachusetts Wisconsin	Iowa *Montana
MEDIUM	*California* Georgia Idaho Michigan Missouri Nebraska North Dakota *Oklahoma South Carolina *Utah	**Alabama* Arizona *Arkansas Kansas North Carolina Rhode Island Vermont	Illinois *Indiana Kentucky *West Virginia
LOW	*Louisiana Maine Mississippi *New Mexico *Ohio		

[1]Progressivity is measured by the ratio of the effective tax rate for a family of four at $25,000 to the effective rate at $7,500. A tax has high progressivity if the ratio is at least 3, medium if from 2 to 3, and low when below 2. As a comparison,the same ratio for the federal personal income tax in 1974 was 2.5 before the tax rebate and 3.2 after the tax reduction.

[2]Low, 0-15 percent; medium, 15-30 percent; high, above 30 percent.

*States which have a per capita energy production above the national average. Source: "Fuel and Energy Data, United States by States and Regions, 1972," U.S. Department of the Interior, Washington, D.C.

Source: ACIR staff computations.

income tax states, particularly those which include recession-prone urban/industrial areas, can probably ill afford further revenue declines.

Public Sector Size

One widespread concern regarding inflation's impact on tax revenues is that it will result in a larger public sector than that which would occur without inflation—or, alternatively, without indexation. This may happen either because individuals do not perceive automatic tax increases as easily as discretionary ones ("fiscal illusion"), and/or because it is more difficult for taxpayers to focus their concern on any specific agent of the public sector thereby weakening effective public political action.

An inflation-enlarged public sector is, however, only a potential concern since government may provide periodic legislated tax reductions which result in elimination of any real income tax increases due to inflation. Indeed, at the federal level, the four reductions passed by the Congress over the past 15 years have resulted in larger cuts in income than would have occurred if the U.S. had introduced indexation in 1960 (and there had been no tax code revisions since then).

Most of these federal tax reductions were made to stabilize the economy—a justification that is likely to be a basis of future income tax cuts. Nevertheless, despite the fact that the post 1960 cuts have not been directly aimed at eliminating the "inflation tax," it is plausible to assert that such large cuts would not have occurred with indexation. Whether Congress will continue its past practice of providing personal income tax reductions during the next few years depends on such factors as the level of unemployment and inflation, the money market effects of borrowing to finance federal deficits, and the political alignment of the nation.

At the state level, the situation in recent years has been entirely different. For example, during the period 1966-1974, state political action served to reduce state income tax collections below what they otherwise would have been only in 1974. For any given year, some individual states may, of course, have reduced individual income taxes by more than enough to offset the effects of inflation. Still, in the recent past, the adoption of a new individual income tax—seven from 1964-1973—or the increase of existing income tax rates—has more generally characterized state experience. State political action, therefore, has probably not offset the effects of inflation on individual income taxes. Rather, state legislated tax increases most likely were made somewhat smaller by inflation-induced growth in income tax receipts.

This state fiscal record is likely to continue at least throughout the rest of the decade. Assuming (as we did for the federal government) that the economic and fiscal forces on state governments (and their local jurisdictions for which they have a financial responsibility) will be about the same as they have been in the recent past, indexation of state income taxes would serve to aggravate an already difficult budget situation in many states. These economic and fiscal forces include the special vulnerability of local expenditures to inflation, the relative lack of automatic real and inflation growth responsiveness of state/local revenue systems, the institutional constraints on deficit spending, and the likelihood that the "budget dividend" arising from projected workload reductions in education and welfare and the moderation of public employee wage demands will be offset by the attempt of many state and local units to "catch up" with the decline in the scope and quality in their proposed structures which have occurred during the 1971 and 1973-75 recessions.

In short, the belief that at least during the next few years income tax indexation will serve as a counter-force to a growing public sector is more plausible at the state and local than at the federal level.

Three intergovernmental tax coordination issues merit attention in the context of indexation and the federal personal income tax:

☐ the deductibility of state and local taxes in computing the federal income tax;

☐ the deductibility of federal taxes paid against some state income taxes; and

☐ state taxes which are computed as a given percentage of a resident taxpayer's federal tax liability ("piggybacking").

Deductibility of State-Local Taxes. Taxpayers who itemize their federal individual income taxes are permitted to deduct most of their state and local taxes paid. The practical effect of the deductibility provision is that it provides an indirect form of revenue sharing. Indeed, on the average, state and local governments are able to effectively "export" nearly a 23 percent of their nominal tax burdens to the U.S. Treasury. This, in turn, reduces the cost of state-local own source revenue raising.

In particular, as inflation pushes taxpayers to higher marginal tax rates, the dollar value of the state-local tax deductibility increases. Accordingly, it can be argued that for a given yield, the net own-cost of taxing state-local revenues is also reduced.

In reality, however, this additional exportability of state and local taxes to the U.S. Treasury generated by inflation is quite small. For example, assuming that the average "write off" remains at about 23 percent and that there is an annual rate of inflation of 7 percent for three years, the average taxpayer would be able to export from 4 to 5 percent of his higher state and local tax burden to the U.S. Treasury. Allowing for indexing of the federal tax would reduce this added exportability, but the change is so small that it is neither likely to affect taxpayer attitudes toward the "burden" of state-local taxes

nor to undercut the argument for the enactment of progressive state personal income taxes in order to take advantage of the ability to shift taxes to the U.S. Treasury.

Deductibility of Federal Taxes. As of 1975, 16 of the 39 income tax states allow the amount of a resident's federal income tax payment as a deduction in computing state income taxes due. This amount increases with inflation and, as a result, the states' income tax productivity is less than it would be without the deduction. The practical effect of this deductibility feature is that these states actually pay some of their residents' federal taxes—in an amount which varies from state to state. Further, since these states have an effective tax rate progression, this indirect state payment of the federal tax will increase as resident incomes grow. What we have here is a "reverse" form of revenue sharing—this time the money is flowing upward from the states to the federal government.

Thus, states which permit the deduction of their residents' federal tax liability in computing the state income tax would experience some increase in their tax productivity under indexation. Compared to the periodic, legislated tax reduction alternative, the automatic timing of indexation would tend to increase the revenue certainty of federal deductibility states.

Federal Tax Liability States. Three states (Nebraska, Rhode Island, and Vermont) now "piggyback" their income tax by having taxpayers compute their state tax as a set percentage of their federal individual income tax payment. As a result, their state income taxes are, by definition, as progressive as the federal tax and, during an inflation, these states are able to "capture" the real inflation tax increases along with the federal government. This piggyback feature also means automatic tax reduction when Congress reduces the federal income tax.

Federal indexing would add a degree of revenue stability to the income tax systems of piggyback income tax states. Of course, these jurisdictions would "lose" tax revenues, along with the federal government, but, as a result of the automatic nature of indexation, they would also be less likely to have to face the uncertainties and (revenue loss) consequences of periodic congressional tax code changes.

ACIR Recommendations

Meeting in Rapid City, South Dakota, August 30-31, the Advisory Commission on Intergovernmental Relations recommended indexation of both federal and state personal income taxes.

It said: "The Commission recognizes that inflation increases real income tax revenue and introduces distortions in interpersonal tax equity. Therefore, the Commission recommends, in the interest of complete public information, that the amount of inflation induced real federal (and state) personal income tax increase be calculated and publicized for each tax year.

"While a full disclosure policy is a desirable first step," the Commission said, "the effective personal income tax rates should only be increased by overt congressional (or state legislative) action and should not be an automatic consequence of inflation. Therefore the Commission recommends that the Congress (or state legislature) give early and favorable consideration to indexation."

The Commission's decision to recommend indexation was based on five major considerations: fiscal accountability, tax equity, fiscal balance, impact on public sector growth, and timeliness. In summary, these are:

☐ From the standpoint of fiscal accountability, indexation is needed to insure that effective income tax rates are increased by overt legislative action, not as the automatic consequence of inflation.

☐ Under a system of indexation, taxation is more equitable since increases in tax liability are based on real rather than nominal changes in income;

☐ Indexation may reduce intergovernmental fiscal imbalance—an imbalance that favors the federal government as inflation spurs income tax revenues;

☐ Indexation reduces the bias in favor of an expanded public sector caused as inflation automatically pushes taxpayers into higher tax brackets with the consequent automatic real increase in governmental revenues;

☐ All four considerations assume increased significance in current times when inflation is well above previous rates.

The Commission's recommendations, along with findings and background information, will appear in a forthcoming report, *Inflation and the Individual Income Tax.*

Robert D. Ebel and Ronald C. Fisher, former ACIR staff members, are co-authors of the forthcoming ACIR report on indexation. Ebel is currently executive director of the District of Columbia Tax Revision Commission; Fisher is assistant professor of economics at Michigan State University.

And Briefly: Books

The first six publications are recent reports of the Advisory Commission on Intergovernmental Relations, 726 Jackson Place, N.W., Washington, D.C., 20575. Single copies are free.

State Actions in 1975. Each year the ACIR surveys state constitutional, legislative, and executive actions during the previous year and compiles selected major institutional and functional policy activities in a volume entitled *State Actions.* This publication describes state action by functional area and highlights innovative actions and nation-wide trends. For the first time, the 1975 volume also includes a comprehensive index.

State Taxation of Military Income and Store Sales. This report examines the issue of legal barriers to state and local taxation of sales on military bases and of compliance with state and local income taxes.

Commission recommendations included in this volume are that federal laws be changed to allow state and local income taxation on military sales and that military pay be taxable under the same jurisdictional rule that applies to other forms of compensation. The Commission also recommended withholding of military pay.

An appendix to this volume contains statements of military and state representatives presented at a Commission hearing on the subject.

Pragmatic Federalism: The Reassignment of Functional Responsibility. In conjunction with the International City Management Association and the State University of New York, ACIR surveyed over 3,000 cities to determine how many functions the cities had shifted to counties or assumed from other sources, why these transfers were made, how the results were perceived, and what plans they might have for future transfers of function. The survey found that one-third of the municipalities had transferred some functional responsibility to the state or county level.

In addition to results from the survey, the report provides legal citations and historical data on the broad issue of shifts in functional responsibility.

Improving Urban America: A Challenge to Federalism. This publication is an update of the Commission's 1969 report entitled *Urban America and the Federal System.* This new volume incorporates the work of this report with ACIR findings and recommendations from 1969 to 1975 and in the process, presents a review of urban America, its governmental capabilities, and an intergovernmental approach to urban problems.

1976 Changing Public Attitudes on Governments and Taxes. For the fifth consecutive year, ACIR has commissioned a nationwide polling organization to gauge public opinion concerning taxes, intergovernmental fiscal relations, and the effectiveness of the levels of government.

Significant Features of Fiscal Federalism—1976 Edition, Vol. 1. This volume is the first in the biennial publication *Significant Features of Fiscal Federalism* and is an updated and expanded version of the 1975 publication entitled *Trends in Fiscal Federalism, 1954-1974.*

Using charts and tables, this report traces the fiscal relationships and responsibilities among the levels of government from the 1950s to the mid-1970s.

Local Government Personnel Administration. International City Management Association, 1140 Connecticut Avenue, N.W., Washington, D.C. 20036. $20. ($19 if payment accompanies order.)

This publication, one of the "Green Books" of ICMA's Municipal Management Series, concerns "the administrative processes involved in selecting, training, motivating, and compensating" municipal government employees.

Individual chapters have been written by experts in the field and cover topics such as administration, manpower planning, the recruitment, selection and training of staff, the conditions and compensation of employment, labor relations, and methods of improving motivation and productivity.

A selected bibliography is included.

The Book of the States, 1976-77. The Council of State Governments, Iron Works Pike, Lexington, Kentucky, 40511. $21.

This biennial publication of the Council of State Governments provides information on the structures, working methods, financing, and functional activities of state governments with charts, tables, and summary articles.

Developments in 1974 and 1975 on the legislative, executive, and judicial branches and on major state services are emphasized. A special section on intergovernmental relations is included and, as the Bicentennial edition, the *Book of the States* presents three articles outlining the role of the states in the history of the federal system.

The volume also lists various officials in each state and basic statistical information.

Property Tax Relief Programs for the Elderly: Final Report. Prepared for the U.S. Department of Housing and Urban Development, Office of Policy Development and Research by Abt Associates. U.S. Government Printing Office, Washington, D.C., 20402. $2.85.

This report summarizes the findings of two earlier reports in the study and from this information develops alternative state policies available and recommendations for federal action.

Transportation Authorities in Federal Human Services Programs. Prepared by the Office of the Regional Director, U.S. Department of Health, Education and Welfare (Atlanta) with the cooperation of the Southeastern Federal Regional Council. Available from the National Technical Information Service, Springfield, Va., 22151, or PROJECT SHARE, P.O. Box 2309, Rockville, Md., 20852. $7.50.

To assist in coordinating transportation services with federal human services programs, the author has listed federal programs which provide funds for primary or supporting transportation services or payments which would help clients use human services.

Programs are arranged by federal agency and are described by grant type, matching requirements, coordination requirements, and transportation services available in the program.

ACIR News

ACIR Urges Stronger Legislative Role in Use of Federal Funds

The Advisory Commission on Intergovernmental Relations meeting August 30-31 in Rapid City, South Dakota, passed a series of recommendations concerning the state's role as provider of aid to local governments and as administrator of federal aid channeled to the state.

The Commission recommended that state legislatures become more involved in determining how federal funds are used and that governors approve state agency actions related to the receipt of federal grants.

Specifically, the Commission recommended that state legislatures:

☐ include federal funds in appropriations bills;

☐ prohibit spending of federal funds over the amount appropriated by the legislature; and

☐ specify spending priorities by establishing sub-program allocations.

In addition, the Commission urged a stronger state legislative role in determining the use of federal funds passed through the state to local governments especially in defining recipient eligibility and conditions of performance.

The Commission urged the gubernatorial role in grant administration be strengthened by requiring state agencies (through executive order or statute) to obtain the approval of the governor or his designee before entering into negotiations with federal grant agencies, applying for or accepting federal grants.

In the area of state aid to local governments, the Commission found that state programs of general local government support, many of which are shared taxes returned to place of origin, are "commonly excessive in number, inadequate to equalize local fiscal capacities, and neglectful of urban needs."

Therefore, the Commission said, state aid programs should provide adequately funded programs of general local government support (revenue sharing), to be distributed by an allocation formula reflecting population, tax effort, and municipal overburden.

States with multiple programs of general support for local governments should consolidate the programs. Aside from education, where there are particular program needs to be met, the ACIR recommended that state functional (categorical) grants be used.

Since many state aid programs have been created through a series of piecemeal and largely *ad hoc* decisions, the Commission recommended that states periodically review their categorical aids in each functional area. As part of this review, the Commission recommended a "sunset" provision, calling for the simultaneous termination of aid programs in each functional area upon a specified review date and at regular intervals thereafter unless such programs are reauthorized by legislative action.

Finally, the Commission urged state legislatures to provide advance funding of state aid, where appropriate, and to prescribe a uniform fiscal year for local governments, geared to the legislative appropriations calendar.

Commission Approves Indexation, Oks "Lids," with Qualifications

At its August 30-31 meeting in Rapid City, the ACIR recommended indexation of federal and state personal income taxes.

The Commission said that "effective personal income tax rates should only be increased by overt congressional and state legislative action and should not be an automatic consequence of inflation."

Under a system of indexation, rate brackets and personal exemptions, credits, and deductions, measured in fixed dollar terms, would be adjusted proportionately with the general price level changes. The effect would be the automatic reduction of the tax burden, particularly on the low and upper income and on large families at all income brackets.

Indexation is the subject of an article beginning on page 15 in this issue of *Perspective*.

In other action, the Commission made a series of recommendations concerning state "lids" or ceilings on revenue from local property taxes.

It said that such "lids" should be imposed only when the locality can use other revenue sources—such as income or sales taxes—or when the state provides additional funds to the local government to meet public demands.

The Commission urged local governments to institute a full disclosure policy whereby all proposed revenue increases are publicized and debated before final tax increase action is taken. It also encouraged states to include "fiscal notes" on major state legislation, setting out the costs of that legislation for local governments before the vote is taken.

ACIR Holds Hearings on Reimbursement for Federal Land

The ACIR held a hearing August 28 in Denver on federal reimbursement to local governments for fiscal burdens caused by the presence of federal lands within their jurisdictions.

The hearing is part of the Commission's examination of the national forest revenue sharing system. Under the current sharing system, a portion of the revenues yielded by each national forest is returned to the county in which it is located. This system does not adequately reimburse the county for fiscal burdens caused by the presence of the national forests.

Testifying before the Commission were a panel representing federal, state, and local governments, including: Assemblyman Barry Keene of California; Nicholas Kirkmire, Executive Vice President, Federal Timber Purchasers Association, Denver, Colorado; John McComb, Sierra Club, Tucson, Arizona; Charles Stephenson, former chief, Government Research Staff, Tennes-

see Valley Authority; Dale Sowards, County Commissioner, Manassas, Colorado; Jim Evans, National Association of Counties; and Thomas Nelson, U.S. Forest Service, Washington, D.C.

The county representatives, Evans and Sowards, described for Commission members the kinds of burdens that existence of national forests places on county services, such as road maintenance, law enforcement, search and rescue, fire protection, health and medical assistance.

Several other witnesses dealt with the options available for federal reimbursement, including a fixed rate per acre, revenue sharing, and local tax equivalent or payment in lieu of taxes.

Nicholas Kirkmire, John McComb, and Charles Stephenson supported the payment in lieu approach. Assemblyman Keene described the California system of yield taxes on timber which apply to private and federally-owned land. The state collects the revenue and distributes it to local agencies according to their need, rather than upon where the timber was harvested.

The Commission will consider final recommendations in this area at its December meeting.

ACIR Testifies on Future of Cities

ACIR Chairman Robert E. Merriam and assistant director F. John Shannon testified in late September before a congressional committee considering "The Recovery of American Cities."

The House Committee on Banking, Currency, and Housing, chaired by Rep. Henry Reuss (Wis.), conducted two weeks of hearings on the broad question of improving cities as well as specific questions concerning various problems of the cities.

Chairman Merriam discussed how federal, state, and local governments should share financial and operational responsibility for major programs. Shannon testified on local taxation reform as an aid to municipal finance.

Other testimony focused on rehabilitation of older housing in the cities, economic development of city neighborhoods, citizen participation, priorities in the allocation of federal funds to aid the cities, and designing cities to reduce waste of land and energy.

Chairman Merriam's testimony focused on elements discussed in the new ACIR volume, *Improving Urban America: A Challenge to Federalism*. This publication compiles all Commission findings, conclusions, and recommendations relating to urban problems and provides an up-to-date summary of federal and state actions that have affected urban areas over the past few years.

The testimony also highlighted ACIR's continuing belief that the basic responsibility for urban needs should be provided by state and local governments themselves —and that the role of the federal government is to facilitate the fuller exercise of state and local responsibilities and to be sensitive to wide variations in state and local needs from one part of the nation to another.

Task Force Report Urges Broadened ACIR

A task force of the Advisory Committee on National Growth Policy Processes proposed in a discussion paper that ACIR's responsibilities be broadened to improve the nation's ability to anticipate and respond to the "territorial and intergovernmental consequences of national policy."

In addition, the task force is considering the establishment of intergovernmental commissions in each of the 10 federal regions, a phased dissolution of many existing regional bodies (including a transfer of their responsibilities to the new regional intergovernmental bodies), and the establishment of a regional economic reporting system as a regular component of the federal government's economic monitoring procedures.

The Advisory Committee was established by the National Commission on Supplies and Shortages to recommend to the Congress ways to integrate the study of supplies and shortages of resources and commodities into the total problem of national growth and development.

The task force report concluded that "a balanced approach to our future national growth requires that we be aware of the implications of each policy choice. . ." The report observed, however, that currently there are no means to adequately assess the potential consequences of federal actions prior to their implementation. Also, with the exception of ACIR, there are no means to adequately monitor the effects of those actions once they are implemented.

In calling for a strengthened ACIR, the task force indicated that ACIR "is the only existing mechanism having a broadly-mandated concern with the operations of the federal system" and described the Commission as "the most important forum available for dealing with intergovernmental issues in the U.S."

Suggested new responsibilities for an expanded ACIR include:

☐ preparation of a biennial report on intergovernmental and territorial problems of national development;

☐ forecasting and assessing the potential impacts of major proposed national policy initiatives, both legislative and administrative;

☐ continuous monitoring and evaluation of intergovernmental and territorial impacts of specific policies and programs and the identification of alternatives;

☐ consultation with the Council on Future Policy Choices as they prepare their annual research agenda; and

☐ consultation with the Executive Office of the President during the compilation of the annual Economic Report.

The task force report will now go to the full Commission for its consideration.

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