

Table 5
Benefits of Government Expenditures as a Percentage of Total Income
For All Families by Income Class — 1961

EXPENDITURE	Income class (a)									TOTAL
	Under \$2,000	\$2,000 to 2,999	\$3,000 to 3,999	\$4,000 to 4,999	\$5,000 to 5,999	\$6,000 to 7,499	\$7,500 to 9,999	\$10,000 to 14,999	\$15,000 and over	
Federal:										
General benefit expenditures ^{b,c}	37.9	22.0	17.5	14.8	13.1	11.7	10.5	9.4	7.7	12.8
National defense and international affairs	32.1	18.6	14.8	12.5	11.1	9.9	8.9	7.9	6.5	10.8
Other	5.8	3.4	2.7	2.3	2.0	1.8	1.6	1.5	1.2	2.0
Total excluding general benefit items	40.8	25.0	15.7	7.9	6.4	5.1	4.3	4.3	4.2	7.8
Total, standard assumption ^c	78.7	47.0	33.2	22.7	19.5	16.8	14.8	13.7	11.9	20.6
Total, general benefits all allocated on number of families	103.6	56.0	37.7	24.5	19.8	15.8	12.6	10.2	7.0	20.6
State and Local:^d										
General benefit expenditures ^{b,c}	11.0	6.4	5.1	4.3	3.8	3.4	3.1	2.8	2.2	3.8
Total excluding general benefit items	23.0	15.0	10.5	8.5	7.6	6.5	5.2	4.5	2.9	7.0
Total, standard assumption ^c	34.0	21.4	15.6	12.8	11.4	9.9	8.3	7.3	5.1	10.8
Total, general benefits all allocated on number of families	41.3	24.0	16.9	13.3	11.5	9.6	7.6	6.3	3.7	10.8
All Governments:										
Total, standard assumption ^c	112.7	68.4	48.9	35.5	30.9	26.6	23.1	20.9	17.1	31.4
Total, general benefits all allocated on number of families	144.9	80.1	54.6	37.8	31.3	25.3	20.2	16.5	10.7	31.4
Total excluding general benefit items	63.8	40.0	26.3	16.4	14.0	11.6	9.5	8.7	7.2	14.8
Total excluding social insurance	84.3	51.5	39.0	31.7	28.0	24.7	21.7	19.8	16.8	27.5

a. The income class limits are expressed in money income after personal taxes. "Personal taxes" consists mainly of Federal, state and local income taxes. The total income on which the percentages are based is a broad income concept equivalent in the aggregate to net national product.

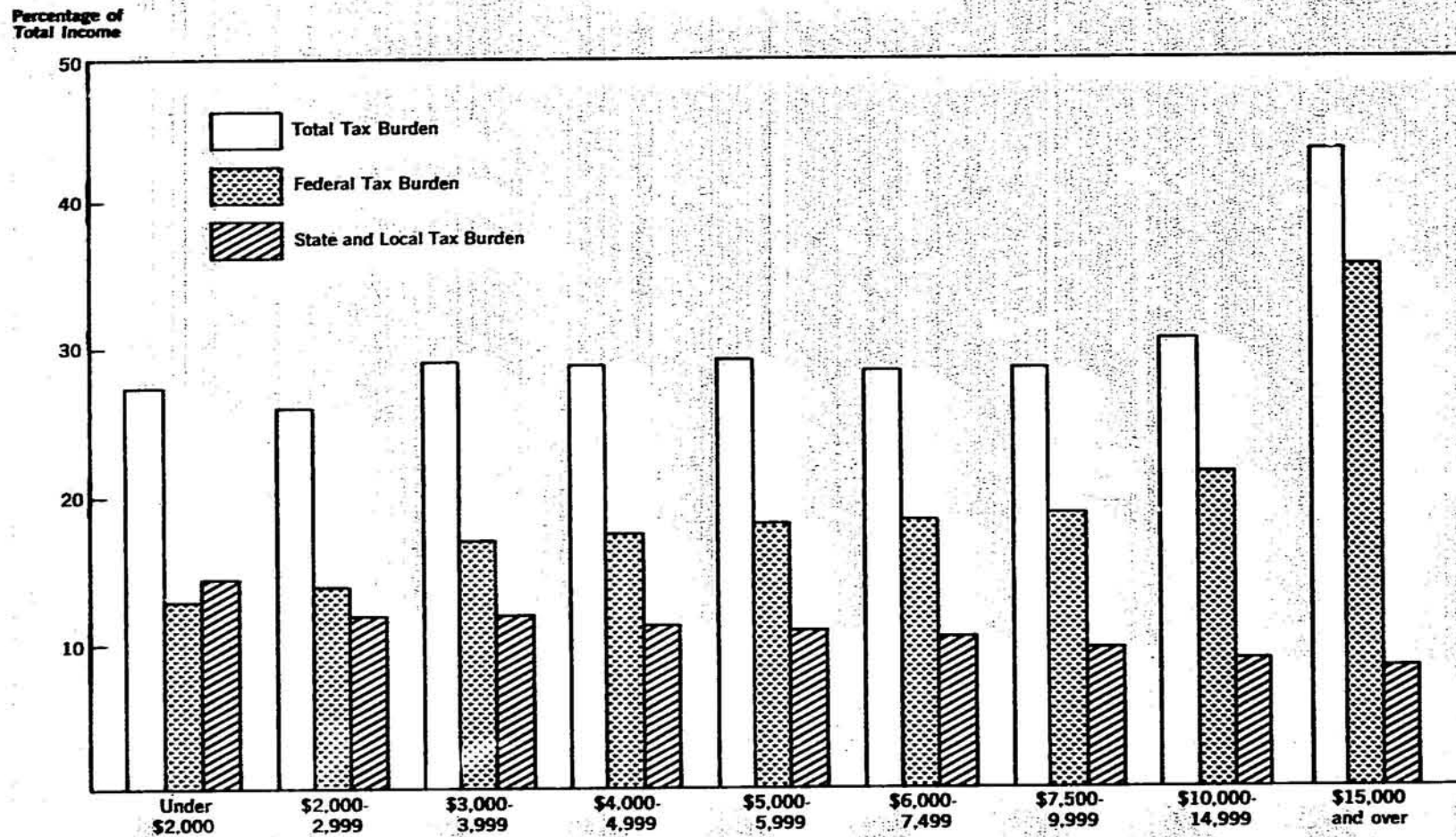
b. Consists of general government (excluding interest), transportation (excluding highways), commerce and finance, housing and community development, health and sanitation, civilian safety, and miscellaneous.

c. General benefit items allocated half on the basis of number of families and half on family money income.

d. After deduction of Federal grants-in-aid.

Source: Appendix Tables B-10 and B-11.

Chart 2
FEDERAL, STATE AND LOCAL TAX BURDEN AS A PERCENTAGE OF TOTAL INCOME
 By Income Class* — 1961



* The income class limits are expressed in money income after personal taxes. The total income on which the percentages in the body of the chart are based is a broad income concept equivalent to net national product.

Source: Table 3.

ate items of family expenditure or income, is also markedly regressive. The same applies to most of the categories making up this total. Even net interest paid by government, which might be expected to have a progressive distribution, shows some regressivity from low to middle income levels. This result, of course, reflects the distribution of interest receipts reported by families in the BLS survey and used here to allocate government interest payments.¹⁴ (Table 13, p. 30.)

Net Balance of Burdens and Benefits
As shown by Chart 1, the total effect of government taxing and spending is a substantial redistribution of income in favor of low income groups. Benefits ex-

ceeded the tax burden by a ratio of more than 4 to 1 for families in the under \$2,000 income class. On the other hand, for families in the \$15,000 and over class estimated total taxes exceeded the benefits of government expenditures by about 1.60 percent. Benefits exceeded burdens up to an income level of about \$6,000.

Taxes and Benefits Related to an Alternative Income Base. If we take as the base for measuring effective rates, not total income-before-taxes, but total income-less-taxes-plus-government-expenditure-benefits, the distribution of the tax burden becomes much more progressive. On this alternative base, the total tax burden rose from 15 percent for

14. For an allocation of interest on the basis of estimated debt holdings, see Gillespie, *loc. cit.*, pp. 157, 158, 178.

Table 6
Total Tax Burden as a Percentage of the Income
and Product Side of Net National Product^a
By Income Class - 1961

Income class (Money income after personal taxes)	Expenditures as a percentage of NNP		Total taxes as a percentage of NNP	
	Income side	Product side	Income side	Product side
Under \$2,000	112.7	62.6	27.3	15.1
\$ 2,000 - \$ 2,999	68.4	50.5	26.3	19.5
3,000 - 3,999	48.9	39.9	29.4	24.0
4,000 - 4,999	35.5	31.9	29.1	26.1
5,000 - 5,999	30.9	29.2	29.4	27.7
6,000 - 7,499	26.6	27.1	28.6	29.1
7,500 - 9,999	23.1	25.1	28.7	31.1
10,000 - 14,999	20.9	24.5	30.9	36.1
15,000 and over	17.1	25.6	44.1	66.1
Total	31.4	31.4	30.5	30.5

a. The income base was derived on the "product side" by allocating to each income class appropriate shares of net national product by major expenditure groups, i.e., consumer expenditures, net private investment, and government purchases of goods and services. On the "income side," net national product was allocated by major type of income including transfer payments; the allocation by income class is proportional to "personal income," rather than to "national income." (See Appendix B.)

Source: Appendix Tables B-9, B-10, and B-11.

Table 7
Federal, State, and Local Taxes as a Percentage of Total Income
for all Families by Income Class — 1965^a

TAX	Income class (b)									TOTAL
	Under \$2,000	\$2,000 to 2,999	\$3,000 to 3,999	\$4,000 to 4,999	\$5,000 to 5,999	\$6,000 to 7,499	\$7,500 to 9,999	\$10,000 to 14,999	\$15,000 and over	
Federal:										
Individual income	1.9	3.1	4.5	6.4	6.9	7.7	8.8	10.0	16.1	8.3
Corporate income	4.5	4.3	5.5	3.6	3.9	3.4	3.4	5.3	10.9	4.6
Excises and customs	3.3	3.1	3.3	3.1	3.0	2.8	2.6	2.4	1.5	2.7
Estate and gift	—	—	—	—	—	—	—	—	4.6	.5
Social insurance	3.2	3.4	3.8	4.1	4.0	3.8	3.5	3.3	1.7	3.5
Total	13.0	14.0	17.1	17.3	17.9	17.8	18.4	21.1	34.9	19.6
Total excluding social insurance	9.8	10.6	13.3	13.2	13.9	14.0	14.9	17.8	33.2	16.1
State and Local:										
Individual & corporate	.6	.6	.8	.9	.9	.9	1.1	1.2	2.2	1.1
Sales, excise, etc.	6.1	5.5	5.6	5.3	5.1	4.8	4.4	4.0	2.6	4.6
Property	6.9	5.2	4.7	4.2	4.2	3.8	3.5	3.3	2.4	3.8
Death and gift	—	—	—	—	—	—	—	—	1.3	.1
Social insurance	1.5	1.4	1.4	1.4	1.3	1.3	1.2	1.1	.7	1.2
Total	15.1	12.7	12.6	11.8	11.5	10.8	10.1	9.6	9.1	10.8
Total excluding social insurance	13.6	11.3	11.2	10.4	10.2	9.5	8.9	8.5	8.4	9.6
Total All Taxes	28.1	26.7	29.7	29.1	29.4	28.5	28.5	30.6	44.0	30.4

a. The 1965 estimates are based on total taxes and income shown in the national income accounts for 1965. However, they take no account of the shift in the distribution of income from 1961 to 1965.

b. The income class limits are expressed in money income after personal taxes. "Personal taxes" consist mainly of Federal, state and local income taxes. The total income on which the percentages in the body of the table are based is a broad income concept equivalent in the aggregate to net national product.

Source: Appendix Tables B-4, B-6, and B-8.

Table 8
Benefits of Government Expenditures as a Percentage of Total Income
for all Families by Income Class — 1965

EXPENDITURE	Income class (a)									TOTAL
	Under \$2,000	\$2,000 to 2,999	\$3,000 to 3,999	\$4,000 to 4,999	\$5,000 to 5,999	\$6,000 to 7,499	\$7,500 to 9,999	\$10,000 to 14,999	\$15,000 and over	
Federal:										
General benefit expenditures ^{b,c}	34.5	19.9	15.8	13.3	11.9	10.7	9.5	8.4	7.0	11.6
National defense and international affairs	26.2	15.1	12.0	10.1	9.0	8.1	7.2	6.1	5.3	8.8
Other	8.3	4.8	3.8	3.2	2.9	2.6	2.3	2.0	1.7	2.8
Total excluding general benefit items	44.8	26.1	15.8	7.9	6.3	4.9	4.3	4.3	4.0	7.9
Total, standard assumption	79.3	46.0	31.6	21.2	18.2	15.6	13.8	12.7	11.0	19.5
Total, general benefits all allocated on number of families	102.0	54.2	35.7	22.9	18.5	14.7	11.7	9.6	6.6	19.5
State and Local:^d										
General benefit expenditures ^{b,c}	11.7	6.8	5.4	4.6	4.1	3.6	3.3	2.9	2.3	4.0
Total excluding general benefit items	18.0	12.2	9.0	7.9	7.1	6.2	5.0	4.4	2.9	6.4
Total, standard assumption ^c	29.7	19.0	14.4	12.5	11.2	9.8	8.3	7.3	5.2	10.4
Total, general benefits all allocated on number of families	37.4	21.8	15.8	13.1	11.3	9.5	7.6	6.3	3.7	10.4
All Governments:										
Total, standard assumption ^c	109.0	65.0	46.0	33.7	29.5	25.4	22.1	20.0	16.3	29.9
Total, general benefits all allocated on number of families	139.5	76.0	51.5	35.9	29.8	24.2	19.3	15.9	10.3	29.9
Total excluding general benefit items	62.8	38.3	24.8	15.8	13.5	11.1	9.3	8.7	7.0	14.3
Total excluding social insurance	82.7	49.4	36.9	30.2	26.8	23.6	20.8	18.9	16.0	26.4

a. The income class limits are expressed in money income after personal taxes. "Personal taxes" consist mainly of Federal, state and local income taxes. The total income on which the percentages are based is a broad income concept equivalent in the aggregate to net national product.

b. Consists of general government (excluding interest), transportation (excluding highways), commerce and finance, housing and community development, health and sanitation, civilian safety, and miscellaneous.

c. General benefits allocated half on the basis of number of families and half on family money income.

d. After deduction of Federal grants-in-aid.

Source: Appendix Tables B-4, B-7, and B-8.

families in the under \$2,000 class to 66 percent for families in the \$15,000 and over class (Table 6). The reason for this sharp difference in the rate of progression is the large excess of the benefits of government expenditures over the tax burden for families at low income levels and the excess of the tax burden over the benefits of government expenditures at high income levels.

As an indicator of economic welfare, the alternative income base is preferable to the income-before-tax base because the economic position of families is indicated more accurately by including in income the benefits of government expenditures received, rather than the taxes paid. The problems of measurement, however, limit the value of income - after - taxes - plus - government - expenditures base.

It should be noted again that the assumption in these estimates is that the benefits of government operations are measured by expenditures, and that the burden of taxes is measured by tax payments; in fact, however, burdens and benefits may in some cases fall short of, or exceed, the actual payments involved.

Estimates for 1965. Estimated tax burdens as a percentage of income showed very little change from 1961 to 1965. (Tables 3 and 7.) This was to be expected since the ratio of total taxes to net national product changed little, and the 1965 estimates take no account of shifts in the distribution of income (before tax) over this four-year period.

The changes in the over-all tax burden for each income class were insignificant. The total Federal tax burden declined by less than one percentage point in the aggregate and for each income class. A decline in the individual income tax and in excises was partially offset by an increase in social insurance taxes.

The total state and local tax burden increased by less than one percentage point for each income class. This increase was spread among individual and corporate income taxes, sales, and excise taxes. No significant changes occurred in property taxes or in state social insurance taxes as a percentage of total income.

Total government expenditures as a percentage of total income were slightly lower in 1965 than in 1961. In relation to net national product, total defense expenditures had fallen (defense expenditures in 1965 had scarcely begun to show the effects of the Vietnam escalation), while other general expenditure benefits at the Federal level increased substantially.

General benefit expenditures at the state and local level also increased in relation to net national product from 1961 to 1965. Expenditures other than general benefit items decreased from 14.8 percent of net national product in 1961 to 14.3 percent in 1965. The noticeable declines (relative to national product) were in highway expenditures and veterans benefits.

II.

The Tax Burden by Major Type of Tax

The total tax structure may be divided into three elements: (1) a progressive element consisting mainly of the Federal individual income tax, (2) a regressive element consisting mainly of state and local property taxes, (3) an element which is progressive over a small range of low incomes and regressive above middle income levels.

The purpose of this chapter is simply to describe these elements of the tax structure. To *evaluate* any particular tax or tax structure requires much more than an estimate of progressivity or regressivity. Among the facts needed for such an evaluation is some knowledge of the nature and distribution of the benefits of government expenditures financed by taxation. Conversely, part of the facts necessary to evaluate expenditure programs consist of the nature and distribution of the tax burdens involved.

The Progressive Elements

The Federal individual income tax is, of course, the major progressive portion of the total tax structure (Table 9). It accounted for almost half of the total Federal tax burden in 1961. State and local individual income taxes, on the other hand, accounted for less than one-tenth of total 1961 state and local taxes, and had little effect on the distribution of the state and local tax burden for the country as a whole. (In some states, e.g., New York, Wisconsin, the individual income tax is a very important part of the tax structure, and consequently the dis-

tribution of the national state-local tax burden is not representative of such states.)

The estate and gift tax, assumed here to fall entirely on families in the \$15,000 and over class, accounted for a considerable part of the difference between the total effective tax rate in that class and the effective rate in the \$10,000 to \$15,000 class. The net difference in effective rates, of course, reflects the various progressive and regressive elements in the structure.

The corporate income tax burden appears, on the bases of allocation used here, to be lowest on families in the income range from \$4,000 to \$10,000. At higher income levels the concentration of dividend income makes the burden progressive on the assumption that a substantial part of the tax (half in Table 9) falls on shareholders. BLS survey data also indicate that dividend income is a significant source of income in the income classes from \$2,000 to \$4,000, thus tending to raise the estimated burden of corporation tax here.

The Regressive Elements

On the estimates shown here, the property tax is the most important regressive element in the tax structure. Roughly half of this tax consists of the property taxes levied on business and is allocated here on the basis of total consumption expenditures. The degree of regression of this portion of the tax is thus the same

Table 9
Federal, State, and Local Taxes as a Percentage of Total Income
For all Families by Income Class — 1961

TAX	Income class (a)									TOTAL
	Under \$2,000	\$2,000 to 2,999	\$3,000 to 3,999	\$4,000 to 4,999	\$5,000 to 5,999	\$6,000 to 7,499	\$7,500 to 9,999	\$10,000 to 14,999	\$15,000 and over	
Federal:										
Individual income	2.0	3.4	4.9	7.0	7.5	8.4	9.6	10.9	17.6	9.0
Corporate income ^b	4.4	4.3	5.3	3.6	3.9	3.3	3.4	5.2	10.7	4.6
Excises, customs, and other	3.4	3.2	3.6	3.4	3.2	3.1	2.8	2.6	1.6	2.9
Alcoholic beverages	.6	.6	.8	.7	.6	.7	.7	.7	.5	.7
Tobacco	.7	.7	.6	.6	.5	.4	.4	.3	.2	.4
Auto purchase	.2	.3	.4	.5	.5	.4	.4	.4	.2	.4
Auto operation	.3	.5	.6	.6	.6	.6	.5	.4	.2	.5
Other taxes	1.5	1.1	1.1	.9	.9	.8	.8	.7	.5	.8
Nontax receipts	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Estate and gift	—	—	—	—	—	—	—	—	4.2	.4
Social insurance	3.0	3.2	3.5	3.9	3.8	3.6	3.4	3.1	1.7	3.3
Personal contributions	.5	1.2	1.6	2.1	2.1	2.0	1.9	1.7	.7	1.7
Employer contributions	2.5	2.0	1.9	1.8	1.7	1.6	1.5	1.4	1.0	1.6
Total	12.8	14.1	17.4	17.8	18.4	18.4	19.1	21.8	35.7	20.2
State and Local:										
Individual income	.1	.2	.3	.4	.5	.5	.6	.7	1.1	.6
Corporate income ^b	.3	.3	.4	.3	.3	.2	.2	.3	.7	.3
Sales, excises, and other	5.7	5.3	5.3	4.9	4.9	4.5	4.2	3.8	2.5	4.3
Liquor and tobacco	.5	.5	.5	.4	.4	.4	.4	.3	.2	.4
Auto operation	.7	1.1	1.3	1.3	1.3	1.2	1.1	.9	.5	1.1
General sales	1.5	1.2	1.2	1.1	1.1	1.0	1.0	.9	.6	1.0
Other taxes ^c	1.8	1.4	1.3	1.2	1.2	1.1	1.0	1.0	.7	1.1
Nontax receipts	1.3	1.0	1.0	.9	.9	.8	.8	.7	.5	.8
Death and gift	—	—	—	—	—	—	—	—	1.1	.1
Property	6.7	5.1	4.7	4.2	4.0	3.8	3.5	3.1	2.4	3.8
Social insurance	1.5	1.4	1.4	1.4	1.3	1.2	1.2	1.1	.7	1.2
Personal contributions	.1	.2	.3	.4	.4	.3	.3	.3	.1	.3
Employer contributions	1.5	1.2	1.1	1.0	1.0	.9	.9	.8	.6	.9
Total	14.4	12.2	12.0	11.3	11.0	10.3	9.7	9.1	8.4	10.3
Total All Taxes	27.3	26.3	29.4	29.1	29.4	28.6	28.7	30.9	44.1	30.5

a. The income class limits are expressed in money income after personal taxes. "Personal taxes" consist mainly of Federal, state and local income taxes. The total income on which the percentages in the body of the table are based is a broad income concept equivalent in the aggregate to net national product. See text for discussion and Table 4 for average incomes by income class. For number of families by income class see Table B-8.

b. The corporate income tax was allocated half on the basis of dividend income and half on total family consumption expenditures.

c. Includes various business franchise taxes.

Source: Appendix Tables B-9 and B-11.

as that of the portions of excises, sales, and social insurance taxes which are also assumed to be shifted forward and allocated on the basis of consumption expenditures.

The portion of the property tax falling on residential housing, and distributed in proportion to housing expenditures of all families, is also regressive. However, such an allocation may exaggerate the degree of regression in this portion of the property tax. The BLS data on the property taxes of home owners show considerable regression on home owners at income levels below \$4,000, but a roughly proportional burden over the

income range from \$4,000 to \$10,000 (Table 10).

Internal Revenue Service data on property taxes deducted on individual income tax returns with itemized deductions show a slight degree of progressivity in the residential property tax up to the \$15,000 income level.

The Humped Elements In the Tax Structure

In total, taxes on sales, excises, and social insurance contributions showed a degree of progression at low income levels up to about \$4,000. In the case of sales and excise taxes, the effective rate

Table 10

**Non-Business State-Local Property Taxes and Average Property
Tax on Homeowners in Relation to Income Compared With
Federal Income Tax Data on Property Tax Deductions
1961**

Income class (Money income after personal taxes)	Non-business property tax (a) as a percent of total income (b)	Average property tax on homeowners as a percent of average money income (d)	IRS	
			Income class (AGI (c))	Deducted property tax as a percent of AGI (c) on returns with itemized deductions
Under \$ 2,000	3.7	5.1	Under \$ 2,000	2.2
\$ 2,000 - 2,999	2.7	3.4	\$ 2,000 - 3,000	2.3
3,000 - 3,999	2.4	2.7	3,000 - 4,000	2.3
4,000 - 4,999	2.1	2.5	4,000 - 5,000	2.2
5,000 - 5,999	2.0	2.6	5,000 - 6,000	2.3
6,000 - 7,499	1.9	2.5	6,000 - 8,000	2.5
7,500 - 9,999	1.7	2.3	8,000 - 10,000	2.5
10,000 - 14,999	1.5	2.1	10,000 - 15,000	2.5
15,000 and over	1.2	1.7	15,000 and over	1.9
Total	1.9	2.7	Total	2.3

a. The portion of the property tax distributed on the basis of housing expenditures. (See Appendix Table B-9.)

b. The "total income" base is net national product.

c. Adjusted gross income.

d. Average money income for all families in each class. Income of homeowners not available separately.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Survey of Consumer Expenditures 1960-61, and Treasury Department, Statistics of Income, Individual Returns, 1961.

Table 11
Cumulative Percentage Distribution of the
Tax Burden for all Families by Income Class
1961

	Income class (Money income after personal taxes ^(a))			Total
	Under \$3,000	Under \$6,000	Under \$10,000	
Taxes:				
Individual income	1.6	16.7	43.6	100
Corporate income	6.9	32.4	61.0	100
Property	11.3	43.4	81.2	100
Federal excise and customs	8.1	37.6	76.5	100
State and local sales and excise	9.7	54.0	85.6	100
Federal social insurance	7.0	39.5	80.8	100
State and local social insurance	8.9	41.1	80.9	100
Total tax burden	7.2	35.0	71.8	100
Families	25.2	61.9	90.8	100
Two or more person families	17.8	57.2	90.8	100
Total income (NNP income side)	7.4	35.9	75.4	100

a. For definition of money income, see Table 4.

Source: Appendix Tables B-8, B-9, B-11.

increased over this range of income in part because of the substantially greater use of automobiles going from the lowest income levels up to the \$5,000 income level (Table 9).

The portion of sales and excise taxes allocated on total consumption expenditures here probably overstates the degree of regression because no account is taken of those states where the sales tax exemptions include food and other items relatively important in the budgets of low income families.

Social insurance taxes (Federal) rise over the lower range of income in part because of the increased number of earners per family. However, the burden on single persons as a percent of money income also tends to rise from low to

middle income levels. In 1961 the effective rate reached a peak in the \$5,000 to \$6,000 range.¹

Cumulative Tax Distributions

About one-third of the total tax burden, Federal, state and local, was borne in 1961 by families with incomes under \$6,000. Only about 7 percent was borne by those with incomes under \$3,000. About 28 percent of total taxes was borne by families with incomes over \$10,000 (Table 11).

Approximately four-fifths of all major taxes except income taxes came from those with incomes after personal taxes of less than \$10,000. Approximately two-fifths of these taxes were borne by families with incomes under \$6,000 (Table 11).

1. Tax Foundation, *Economic Aspects of the Social Security Tax*, (New York: 1966), p. 45.

The similarity of the relative distribution of all these taxes is due in part to the underlying basis of allocation; a portion of each tax was distributed on a consumption basis.

Families in the higher income range bear a large relative share of income taxes than they do of any of the other major taxes. The 9.2 percent of families with incomes over \$10,000 in 1961 paid about 56 percent of total individual income taxes and about 39 percent of the corporate tax burden (on the standard assumption concerning incidence) as compared with about one-fifth of the other major taxes.

The share of total revenues of each tax paid by those with incomes below \$3,000 varied from less than 2 percent of individual income taxes to more than 11 percent of property taxes. The proportion of Federal revenues coming from this group is less than in the case of state and local revenues. Eight percent of Federal excise and customs taxes fell on families with incomes under \$3,000 compared with nearly 10 percent of state and local sales and excise taxes.

For all taxes, the cumulative distribution closely resembles the distribution of income, reflecting the essential proportionality of the total tax burden up to the \$10,000 income level.

III.

Allocation of the Benefits of Government Expenditures

The general pattern of distribution of all major expenditure benefits is significantly "regressive," — "pro poor" — on any reasonable assumptions concerning the incidence of benefits. Appendix E summarizes the assumptions on incidence of expenditure benefits that have been used in past studies of this kind. The assumptions used here are generally similar to those of other studies.

The purpose here is not to provide a detailed set of estimates, such as might be used if the study were focused on the benefits of particular programs, but rather to present a general picture of the distribution of benefits to complement the analysis of the tax burden. One purpose is to suggest the extent of redistribution through government finance.

General Benefit Expenditures

Expenditures which primarily benefit all citizens rather than some particular group or category of people were allocated in two ways. One was in proportion to the number of families in each income class. This, of course, gives a very regressive distribution in relation to total income by income class. The other method was to allocate half of these expenditures in proportion to the number of families and half in proportion to family money income. This alternative shows the result of assuming that a substantial portion of general benefits accrue to families in some relation to the size of their income. The larger a per-

son's income, the more benefit he may be presumed to get from general government functions that help to maintain the rules, regulations, and environment for producing or earning income. General government services to business, which reduce costs of production, may be assumed to benefit families in proportion to consumption or income.

Either of these alternative allocations, as shown by Table 13, result in a distribution of benefits very favorable to low income groups.

Specific Benefit Expenditures

The various expenditure benefits allocated on the basis of appropriate items of family income or expenditure in the BLS survey also show a regressive pattern. Indeed, the total of these benefits differs little in its general pattern of distribution from that of general benefits (on the standard assumption).

The two major categories of expenditures accounting for this pattern of benefits are (a) public assistance and other welfare and (b) social insurance benefits. However, even net interest shows a regressive distribution up to an income level of \$6,000; this pattern, of course, reflects the distribution of interest receipts in the BLS survey. Elementary and secondary education (allocated on the basis of the number of children under 18 in each income class) shows a pattern of benefits ranging from 6 percent of income for families in the under

\$2,000 class to 0.7 percent in the \$15,000 and over class.

Benefits of highway expenditures show a roughly proportional distribution below the \$7,500 income level, but regressive above that level. Veterans benefits relative to income are concentrated in the income classes below \$4,000.

Consequently, the total benefits of government expenditures substantially exceeds the total burden of taxes for low income families. On the other hand, for families with incomes above \$6,000 the total tax burden, on the standard assumptions used here, exceeds the benefits of government expenditures for both 1961 and 1965.

Cumulative Distributions

The cumulative distributions shown in Table 12 indicate that families shared in the total benefits of government expenditures roughly in proportion to their numbers at different income levels. As to be expected, the low income groups received large shares of social insurance and welfare benefits. On the other hand, they received relatively small shares in expenditures for highways, interest, and elementary and secondary education. The low income groups include a large portion of single person units which accounts for their relatively low share of education benefits (see Appendix Table A-2).

Table 12
Cumulative Percentage Distribution of
Expenditure Benefits for all Families
By Income Class — 1961

	Income class (Money income after personal taxes ^(a))			TOTAL
	Under \$3,000	Under \$6,000	Under \$10,000	
Expenditures:				
All government expenditures ^b	20.3	53.6	84.7	100
All government expenditures less general benefits	24.6	58.5	85.4	100
All general benefit expenditures ^b	16.3	49.1	83.2	100
Elementary and secondary education	13.0	52.6	90.0	100
Social insurance	41.4	77.5	94.7	100
Welfare	74.6	93.1	97.7	100
Veterans	20.7	59.3	88.2	100
Highways	8.4	41.7	81.7	100
Agriculture	14.2	49.5	79.1	100
Interest	14.8	42.0	70.0	100
Families	25.2	61.9	90.8	100
Two or more person families	17.8	57.2	89.6	100
Family money income	7.5	36.3	75.5	100

a. For definition of money income, see Table 4.

b. General benefit expenditures allocated half in proportion to number of families and half in proportion to family money income.

Source: Appendix Tables B-8 and B-10.

Table 13
Benefits of Government Expenditures by Type as a Percentage of Total Income
For All Families by Income Class — 1961

EXPENDITURE	Income class (a)									TOTAL
	Under \$2,000	\$2,000 to 2,999	\$3,000 to 3,999	\$4,000 to 4,999	\$5,000 to 5,999	\$6,000 to 7,499	\$7,500 to 9,999	\$10,000 to 14,999	\$15,000 and over	
Federal:										
General benefit expenditures ^{b,c}										
National defense and international affairs	32.1	18.6	14.8	12.5	11.1	9.9	8.9	7.9	6.5	10.8
Other	5.8	3.4	2.7	2.3	2.0	1.8	1.6	1.5	1.2	1.0
Elementary & secondary education	.1	.1	.1	.1	.1	.1	.1	(d)	(d)	.1
Higher education	(d)	(d)	(d)	(d)	(d)	(d)	(d)	.1	.1	(d)
Public assistance & other welfare	10.4	3.3	.7	.3	.3	.1	(d)	.1	(d)	.6
Labor	(d)	.1	.1	.1	.1	.1	.1	.1	.1	.1
Veterans benefits	4.1	3.3	3.0	1.6	1.2	1.1	.8	.7	.4	1.3
Highways	.7	.7	.8	.7	.6	.6	.6	.5	.4	.6
Agriculture	1.6	1.6	1.5	1.0	.9	.7	.6	.6	.9	.8
Net interest	2.2	3.0	2.0	1.2	.9	.9	1.0	1.3	2.2	1.3
Social insurance benefits ^e	21.7	13.0	7.6	2.9	2.2	1.5	1.1	.9	.2	2.9
Total, standard assumption ^e	78.8	47.0	33.2	22.7	19.5	16.8	14.8	13.7	11.9	20.6
Total, all general benefits allocated on number of families	103.6	56.0	37.0	24.5	19.8	15.8	12.6	10.2	7.0	20.6
Total excluding general benefits	40.9	25.0	15.7	7.9	6.4	5.1	4.3	6.3	4.2	8.8
Total excluding social insurance	56.9	34.0	25.7	19.8	17.3	15.3	13.8	12.8	11.7	17.7

(Continued)

Table 13 (continued)

EXPENDITURE	Income class (a)									TOTAL
	Under \$2,000	\$2,000 to 2,999	\$3,000 to 3,999	\$4,000 to 4,999	\$5,000 to 5,999	\$6,000 to 7,499	\$7,500 to 9,999	\$10,000 to 14,999	\$15,000 and over	
State and Local:^f										
General benefit expenditures ^{b,c}	11.0	6.4	5.1	4.3	3.8	3.4	3.1	2.8	2.5	3.8
Elementary & secondary education	6.0	6.1	5.2	5.0	4.4	3.8	2.8	1.8	.7	3.4
Higher education	.3	.3	.3	.4	.5	.5	.6	1.0	1.0	.6
Public assistance and other welfare	8.0	2.6	.6	.3	.2	.1	(d)	.1	(d)	.5
Streets and highways	1.5	1.5	1.6	1.5	1.5	1.4	1.3	1.2	.7	1.4
Agriculture	.2	.2	.2	.1	.1	.1	.1	.1	.1	.1
Net interest	.3	.4	.2	.1	.1	.1	.1	.2	.3	.2
Social insurance benefits ^e	6.5	3.9	2.3	.9	.7	.5	.3	.3	.1	.9
Total, standard assumption ^c	34.0	21.4	15.6	12.8	11.4	9.9	8.3	7.3	5.1	10.8
Total, all general benefits allocated on number of families	41.3	24.0	16.9	13.3	11.5	9.6	7.6	6.3	3.7	10.8
Total excluding general benefits	30.3	17.6	11.8	9.0	7.7	6.2	4.5	3.5	1.2	7.0
Total excluding social insurance	27.4	17.5	13.3	11.9	10.7	9.4	8.0	7.0	5.1	9.9
All Governments:										
Total, standard assumption ^c	112.7	68.4	48.9	35.5	30.9	26.6	23.1	20.9	17.1	31.4
Total, all general benefits allocated on number of families	144.9	80.1	54.6	37.8	31.3	25.3	20.2	16.5	10.7	31.4
Total excluding general benefits	63.8	40.0	26.3	16.4	14.0	11.5	9.5	10.7	6.9	15.8
Total excluding social insurance	84.3	51.5	39.0	31.7	28.0	24.7	21.7	19.8	16.8	27.5

a. The income class limits are expressed in money income after personal taxes. "Personal taxes" consist mainly of Federal, state and local income taxes. The total income on which the percentages are based is a broad income concept equivalent in the aggregate to net national product.

b. Consists of general government (excluding interest), transportation (excluding highways), commerce and finance, housing and community development, health and sanitation, civilian safety, and miscellaneous.

c. General benefits allocated half on the basis of number of families and half on family money income.

d. Less than .05 percent.

e. Unemployment insurance classified as a state-local program.

f. After deduction of Federal grants-in-aid.

Source: Appendix Tables B-10 and B-11.

IV.

The Redistribution of Income

Total Taxes and Expenditures

When total government expenditure benefits on each level of government are expressed as a proportion of the tax burden by income class (Table 14), all the resulting distributions showed a redistribution of income in favor of the lower income groups. Those with income under \$3,000 received benefits equal to two or more times their total tax burden. At income levels above \$6,000, tax burdens exceeded benefits.

The redistribution of income on the Federal level is greater than on the state and local level. On the basis of the standard assumption concerning general expenditure benefits (half allocated on number of families and half on family money income), families in the lowest income category received Federal benefits equal to about six times their Federal tax burden as compared with state and local benefits of only 2.3 times their state and local tax burden. A similar comparison in the highest income class shows Federal benefits of only three-tenths of the tax burden and state and local benefits of only six-tenths of the tax burden.

Specific Expenditure Allocations

Excluding general benefit expenditures from the total had little effect on the pattern of redistribution over most of the income range. It was only in the low-

est income class that a considerable increase in the ratio of benefits to taxes resulted from exclusion of general benefit items.

Social Insurance Programs

Social insurance programs are designed to redistribute income from the income-earning population to the aged and from the employed to the unemployed. The effect of such programs in 1961 in redistributing income by income class was relatively greater than the redistribution caused by total government finances. It was only in the income classes under \$4,000 that benefits exceeded contributions; in these low income classes benefits were more than twice the amount of contributions. In the under \$2,000 income group, which included 14 percent of all families in 1961, benefits were almost seven and one half times as large as contributions.

If the redistribution were estimated for only those who paid social insurance taxes and for those who received social insurance benefits (rather than for all families), those in the lower income groups would be favored to a larger degree. As shown by Table 15, a relatively small proportion of families in the lowest income classes pay direct social insurance taxes,¹ while a much larger proportion receive benefits.

1. In addition, these families pay, in their expenditures for consumption, a share of employer contributions shifted forward in the prices of goods and services.