JOHN GOODWIN TOWER CENTER ——————— POLITICAL STUDIES

Dennis Ippolito: The Tax Wars

March 6, 2013

Deficits, Debt, and the New Politics of Tax Policy

Money is with propriety considered as the vital principle of the body politic; as that which sustains its life and motion, and enables it to perform its most essential functions. A complete power therefore to procure a regular and adequate supply of it, as far as the resources of the community will permit, may be regarded as an indispensable ingredient in every constitution.

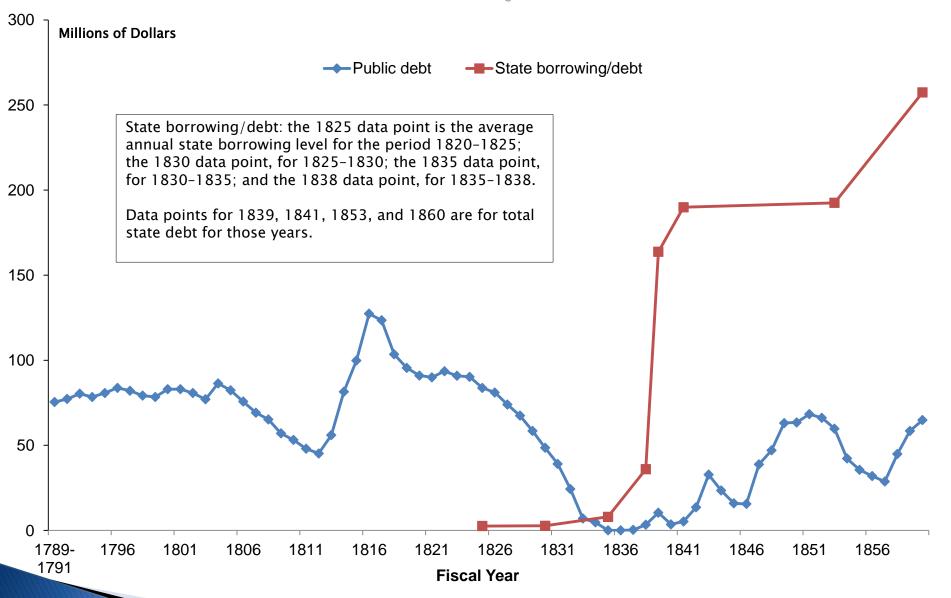
Alexander Hamilton, *Federalist* No. 30

The Power to Tax

- Creating the Modern Tax System
- The Stable Tax Era—World War II to the 1960s

Destabilizing Tax Policy—the Tax Wars

Public Debt and State Debt, Fiscal Years 1789-1860



World War II Individual Income Tax Changes

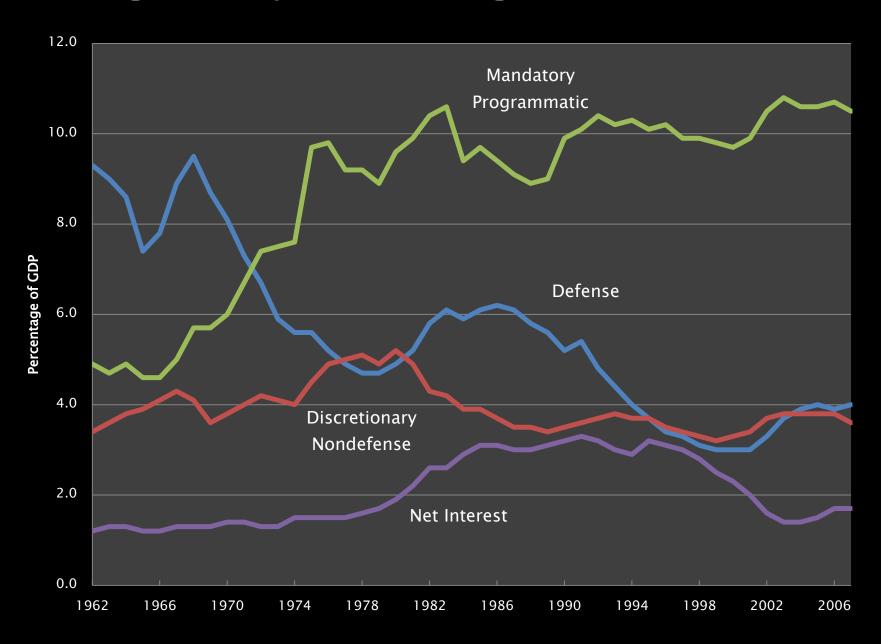
	Income Year				
	1940	1941	1942-43	1944-45	
Personal Exemptions (Married Couple)	\$2,000	\$1,500	\$1,200	\$1,000	
Requirements for Filing (Gross Income, Married Couple)	\$2,000	\$1,500	\$1,200	\$500 ^a	
Tax Rates (Taxable Income)					
First Bracket (up to)	\$4,000	\$2,000	\$2,000	\$2,000	
Rate	4.4% ^b	10% ^b	19% ^b	23%	
Top Bracket (more than)	\$5,000,000	\$5,000,000	\$200,000	\$200,000 ^c	
Rate	81.1%	81%	88%	94%	
Total Brackets	31	32	24	24	
Number of Taxable Returns (millions)	7.5	17.6	27.7/40.3	42.4/42.7	

a. For each spouse.

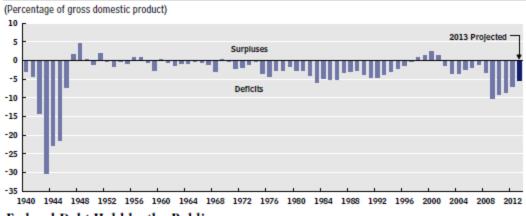
b. Earned income credit equal to 10 percent of earned net income as a deduction.

c. Subject to maximum effective rate of 90 percent.

Budget Outlays as Percentage of GDP, 1962-2007

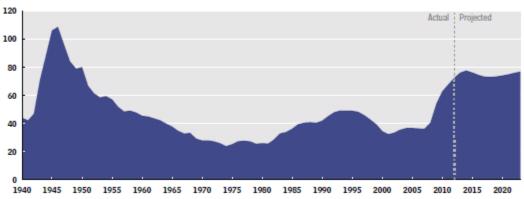


Total Deficits or Surpluses



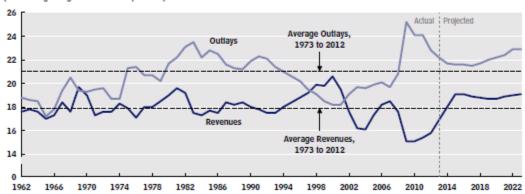
Federal Debt Held by the Public





Total Revenues and Outlays

(Percentage of gross domestic product)



Source: CBO.

Revenues, Spending, and Deficit Reduction, Fiscal Years 1990-2000 (in billions of dollars and percentage of GDP)

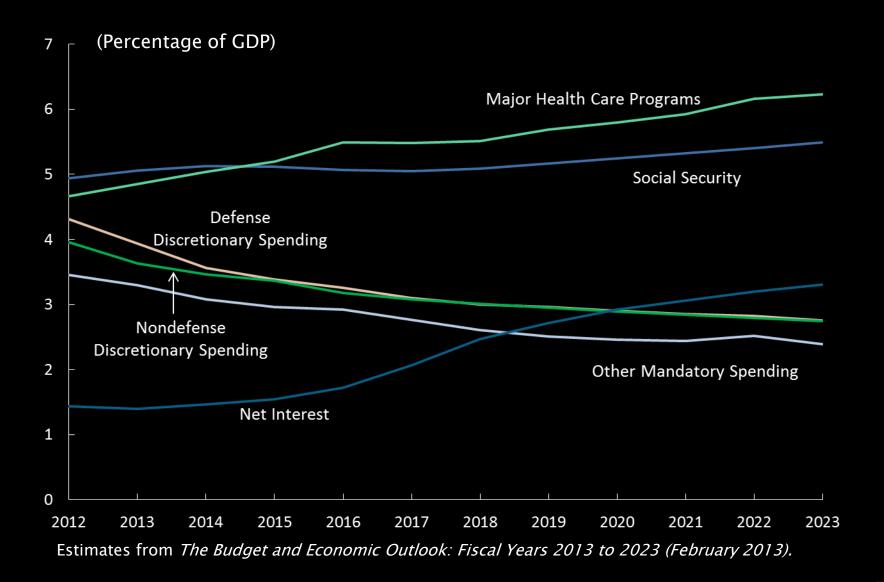
Revenues, Spending, and Surplus/Deficit, Fiscal Years 2001-2009 (in billions of dollars and percentage of GDP)

	FY 1990	FY 2000	Change
Total Revenues	18.0%	20.6%	+2.6%
Total Outlays	21.9	18.2	-3.7
Total Deficit/Surplus	-3.9	+2.4	+6.3
	(-\$221)	(+\$236)	(+\$457)
Revenues	18.0%	20.6%	+2.6%
Individual income	(8.1)	(10.2)	(+2.1)
Corporate income	(1.6)	(2.1)	(+0.5)
Social insurance	(6.6)	(6.6)	(0.0)
Other	(1.6)	(1.6)	(0.0)
Outlays	21.9%	18.2%	-3.7%
Disc. defense	(5.2)	(3.0)	(-2.2)
Disc. nondefense	(3.5)	(3.3)	(-0.2)
Mand. programmatic*	(9.0)	(9.7)	(+0.7)
Deposit insurance	(1.0)	(0.0)	(-1.0)
Net interest	(3.2)	(2.3)	(-0.9)

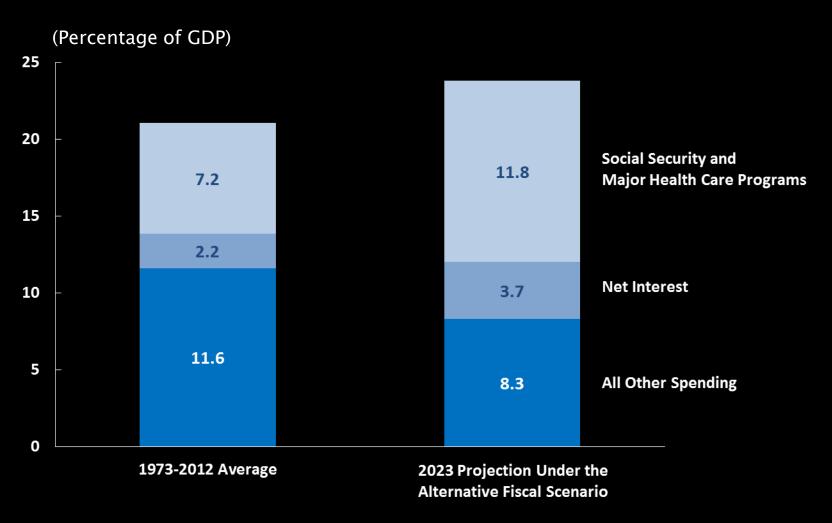
	FY 2001	FY 2005	FY 2009
Total Revenues	19.5%	17.3%	14.9%
Total Outlays	18.2	19.9	25.0
Total Surplus/Deficit	+1.3	-2.6	-10.0
	(+\$128)	(-\$318)	(-\$1413)
Revenues	19.5%	17.3%	14.9%
Individual income	(9.7)	(7.5)	(6.5)
Corporate income	(1.5)	(2.2)	(1.0)
Social insurance	(6.8)	(6.4)	(6.3)
Other	(1.4)	(1.3)	(1.2)
Outlays	18.2%	19.9%	25.0%
Disc. defense	(3.0)	(4.0)	(4.7)
Disc. domestic	(3.1)	(3.5)	(3.8)
Disc. other	(0.2)	(0.3)	(0.3)
Mand. programmatic	(9.9)	(10.6)	(14.8)
Net interest	(2.0)	(1.5)	(1.3)

^{*} Excluding deposit insurance.

Projected Growth in Major Federal Spending Categories



Components of Federal Spending



Estimates from The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).

As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible . . . but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it. . . . The execution of these maxims belongs to your representatives, but it is necessary that public opinion should co-operate. To facilitate to them the performance of their duty, it is essential that you should practically bear in mind that towards the payment of debts there must be revenue; that to have revenue there must be taxes; that no taxes can be devised which are not more or les's inconvenient and unpleasant; that the intrinsic embarrassment, inseparable from the selection of the proper objects (which is always a choice of difficulties), ought to be a decisive motive for a candid construction of the conduct of the government in making it, and for a spirit of acquiescence in the measures for obtaining revenue, which the public exigencies may at any time dictate.

George Washington's Farewell Address, 1796

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