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SLICING THE PIE: CLASSES AND THE DISTRIBUTIVE
EFFECTS OF POST-WWII U.S. GOVERNMENTAL
FISCAL POLICIES

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ABSTRACT

Time series analysis of the relative class income distributional consequences of postwar U.S. fiscal practices reveals that governmental revenue policies have had a pro-capital bias while state expenditures have tended to favor labor. The net impact of these processes has served to leave the market-generated income distribution largely intact, despite the historically unprecedented growth of the public sector during this period. Finally, in light of these findings, the distributive impact of the current administration's fiscal program are considered.

Less than three months into his presidency, Ronald Reagan submitted to Congress the administration's proposed fiscal year 1982 budget (1), a document reflecting in a number of particulars the conservatism of the President, his cabinet officers, Congress, and, apparently, a large segment of the elec-

torate. At the heart of this budget were unprecedented peacetime increases in defense outlays and equally significant, perhaps historic, reductions in a broad range of social service outlays.

Admirers of the administration argued that the slashing of federal entitlements together with the personal and business tax cuts enacted in the 1981 Economic Recovery Act were necessary to control the growth of the federal government and to increase private economic initiative. In short, these measures were a welcome first step along a political path culminating ultimately--at least in the eyes of administrative spokespersons--in a return to "fiscal responsibility". Together with the relaxation of current and proposed federal regulation and a tight monetary policy, this fiscal package was designed to enhance individual incentive and to induce substantial economic growth (Executive Office of the President, 1982a: 3-10).

Critics of budget director David Stockman's "budget ax" and the underlying supply-side prophecies of George Gilder and Arthur Laffer, of course, portray a rather different scenario: that the Reagan administration does not simply wish to reduce federal spending and regulation, but also desires to redistribute wealth and income from the lower and working classes to the (already) enriched segments of American society and to the corporate sector by dismantling the vestiges of Johnson's "Great Society" and by reducing the tax burden on the wealth. (2) In sum, the administration is not simply reducing the growth in federal spending and taxation and hoping to enhance private accumulation but is attempting to engage in an unprecedented regressive redistribution of income.

In an effort to adjudicate between these positions and shed further light on some of

the economic consequences of the Reagan administration's New Economic Program (NEP), it is useful to place these policies in historical perspective. Hence, the present research provides an empirical analysis of the class income distributional effects of governmental spending during the post-Second World War era (3). Through application of a time-series regression analysis (4), the following questions are empirically assessed:

(a) Have governmental expenditure and revenue policies (i.e., fiscal policy) altered the relative shares of national income received by labor and capital?

(b) If so, who benefits--capital or labor-- and through what budgetary mechanisms are these advantages conferred?

Empirical exploration of these questions not only adds to our understanding of the mechanisms by which material resources are distributed in the U.S., but also establishes baselines to appraise the distributive impacts of the Reagan administration's fiscal policies. Before undertaking these analyses, however, it is instructive to obtain an overview of governmental spending patterns and trends in the post-war era.

Post-WWII Trends in Governmental Expenditures

It is an incontrovertible fact that governmental spending has undergone an unprecedented expansion since the end of the Second World War -- regardless of which governmental level or metric of presentation we choose to examine. In Table 1, this growth is chronicled at the aggregate, federal, and state and local levels of government. Data for spending by each of these governmental units are presented in nominal (current), real

(constant), real per capita dollars, as a percent of the gross national product (GNP), percent of total governmental spending, and in terms of mean annual changes for the years 1946-1980.

During this period total governmental expenditures have undergone more than a four-fold increase in constant dollar terms and have risen from approximately a fifth of the gross national product to a third (5). In nominal terms this growth is even more vivid. While state and local governmental expenditures still trail behind federal spending, the ration between them had dropped from approximately 1:2 to 2:3, indicating that an increasing proportion of total governmental spending is undertaken at the sub-national level. Similarly, since the mid-1950's, state and local governmental spending growth has tended to escalate more sharply than federal expenditures. In addition, Table 1 reveals that the federal government has been required to resort to deficit financing at an increasing level. Whereas the average annual federal budget was in surplus during the late 1940's, since that time there has been a tendency towards ever larger budget deficits so that by the late 1970's the mean annual deficit was in excess of \$49 billion.

Additional light is cast on these expenditure trends in Table 2 where sub-national governmental spending in the post-war U.S. is decomposed into its state and local components, the federal budget is divided into its civilian and defense categories, and annual budgetary figures for each of the governmental units and the federal defense-civilian functions are shown for five year intervals for the years 1949 to 1974 and annually for the 1974-1980 period. As disclosed in Table 2, local governmental spending has run consistently higher than state spending throughout the post-WW II era. While

both forms of sub-national spending generally have escalated more sharply than federal expenditures, their patterns of growth have been fairly similar (also see Table 1).

The major spending transformation evidenced in Table 2 concerns the altered composition of federal expenditures during the post-Second World War years. Whereas, defense spending outstripped civilian expenditures until the end of the Vietnam War, this pattern reversed in the early 1970's, so that by 1974 civilian forms of spending were running about fifty percent ahead of, and escalating at a far more dramatic rate, than the parallel defense figures. In terms of the percent of the gross nation product (GNP) devoted to the federal warfare and welfare functions, the following may be observed: In 1949, the defense effort absorbed 8.5% of GNP and civilian spending represented 6.7% of the nation's output. By the end of the Korean War (1954), these figures stood at 12.8% and 5.5% respectively. Thereafter, the defense budget tended to hover at approximately at 10% of GNP until the end of the Vietnam conflict when it began to decline (as a percent of GNP and in real dollar terms). This decline continued until the 1980 fiscal year when President Carter sought to arrest this trend and bolster U.S. and NATO defenses. However, during this same period, civilian spending at the federal level continued to increase from the noted low of 5.5% of GNP in 1954 to a high mark of 12.6% of GNP in 1980. In current dollar figures, civilian federal spending climbed from \$17.2 billion to \$331 billion during this thirty-two year period. After controlling for inflation and population growth, this still represents more than a 350% increase. Clearly, the recent pressures for increased expenditures have been felt primarily on the civilian side of the federal ledger.

Finally, the data presented in Table 2

further suggest that many of the policies of the current administration, namely, the escalation in defense spending, an increased reliance on sub-national governmental expenditures, and a reduction in the growth of civilian spending, albeit in less drastic terms, had already been initiated during the Carter administration. Now, let us turn to an examination of the class distributional consequences of these fiscal patterns.

Class Income Consequences of Governmental Fiscal Policies

Very few researchers have sought to analyze the impact of governmental fiscal policies on the overall distribution of income in the United States. Furthermore, the few studies which have been undertaken have not examined the class consequences of governmental expenditure and revenue policies. Nonetheless, the limited research available is highly pertinent to the present inquiry.

In a longitudinal (i.e., over time) analysis, Reynolds and Smolensky (1977:2) conclude that the American fiscal system serves to reduce inequality significantly. The mechanism for this does not lie in the tax structure, however, since the actual overall impact of taxation in the United States is not particularly progressive (see, Pechman and Okner, 1974). Rather, it is due to the impact of governmental expenditure in general and transfer payments in particular (see also, Plotnick and Skidmore, 1975). Williamson and Lindert (1980) also provide an analysis of the influence of state spending on the "pre-fisc" (6) distribution of income for the post-1929 period and arrive at the same general conclusion.

In sum, the relatively sparse work on the relationship between income inequality and state revenue and expenditure policies suggests that fiscal policy has had a mildly progressive redistributive effect. However, according to Williamson and Lindert (1980), the lion's share of income redistribution which has taken place in the United States occurred before 1947, and it was not due primarily to direct governmental policies. Since that time, the net income distribution has been fairly stable with state fiscal policies serving to offset market-based tendencies toward increasing inequality.

While instructive, it must be recognized that these studies examined an aggregate measure of the U.S. income distribution, the gini index, and, therefore, do not allow one to speak to the question of how classes divide the social product, an issue of central concern in the present research. Moreover, between 1949-1976 (the period investigated in this paper -- see Footnote 3) the gini index did not change appreciably (United States Bureau of the Census, 1980). Hence, without much variation, the gini coefficient provides little opportunity by which to isolate the distributional effects of governmental fiscal policies.

A. Dependent Variable

An alternative measure which is both consistent with the research objectives of this paper and which is subject to greater variation is the labor-capital income ratio. This measure is the ratio of total employee compensation to the sum of profits, dividends, rent, and interest income. (See Appendix I for details on all variable constructions and data sources). During the 1949-1976 period this measure ranges from a minimum of 3.365 in

1950 to a maximum of 4.700 in 1974. The mean (X) for the entire twenty-eight year time series is 3.927 with a standard deviation (S.D.) of .360

The labor-capital income ratio indexes the relative share of national income accruing to labor and capital and thus is employed as the dependent variable in the analyses reported below. As such, this measure allows us to assess the relative class distributional impact of governmental fiscal policies by allowing us to ascertain whether the public sector systematically favors one class or the other through its spending and taxing powers.

In order to empirically assess the class distributional consequences of governmental fiscal policies it is necessary to specify a regression equation of the following general form:

$$Y = a + b_1X_1 + \dots + b_nX_n + e$$

Whereby, "Y" represents the value of the dependent variable (the labor-capital income ratio), "a" symbolizes the regression constant, "b_iX_i" constitutes the slope or magnitude of the linear relationship between independent variable "X_i" and the dependent variable (7), and "e" denotes the residual, or error of the equation estimate.

B. Independent Variables

Initially, two controls for crucial macro-economic fluctuations are included: the rate of inflation ("Inflation") and the rate of aggregate unemployment ("Agg Unemp"). While neither variable is, in actuality, totally independent of state fiscal policy, these variables are included primarily as controls for major market-related influences that are

known to affect the distribution of income. Numerous researchers (e.g., Hibbs, 1977; Hollister and Palmer, 1972; Minarik, 1979; Thurow, 1980) have previously documented that inflation exerts a progressive (i.e., pro-labor) redistributive role vis-a-vis income, while unemployment increases levels of income inequality.

The independent variables of central concern are, of course, the measures that index governmental revenue extraction and spending policies. With respect to the former, a single measure of total governmental revenues ("Revenue") is employed. Inclusion of this variable is necessary so as to assess the net distributive impact of governmental fiscal policies.

The full gamut of governmental spending, that is, the array of public expenditures across functional categories and levels of government, are, in turn, operationalized in accordance with the schema developed in Devine (1983) (8). This treatment yields four distinct but internally consistent types of governmental outlays: 1) military personnel spending ("Military Per"); 2) veteran's benefits ("Veterans"); 3) infrastructural expenditures ("Infrastructure" -- e.g., capital construction, weapons procurement, research and development, communications and transportation) and 4) social spending items ("Social Spending" -- e.g., education, housing, OASDI, AFDC).

Each of the fiscal variables is expressed in "real" (i.e., deflated) per capita terms. This specification is in line with past research on the consequences of state spending (e.g., Wilensky, 1975), but it reflects more than just convention. A deflated per capital specification serves to index a nation's "output" of a particular good or service independent of the size of its population and

temporal changes in the price or cost of providing a service, and thus, affords researchers the opportunity to measure the commitment of "real" resources to the citizenry (9).

Analysis and Discussion

An equation containing the seven above-discussed independent variables is initially specified. Since preliminary estimation techniques revealed significant serial correlation, a generalized least squares, second-order autoregressive transformation (GLS-AR2--see Ostrom, 1978) is used. The results from this model are presented in column 1 to Table 3. These data indicate that neither of the macroeconomic controls are significant (see the reported t-statistics) and only military personnel expenditures and social spending significantly affect the dependent variable (10). Both of these fiscal regressors have positive signs, suggesting that these particular forms of public spending increase labor's income relative to capital's share. As for the other variables in the equation, all are non-significant. Rather than discussing the results now, however, further analyses will be presented before focusing upon the substantive meaning of these relationships.

There are, of course, a number of other influences which could plausibly affect the relationships presented in Column 1. Yet, subsequent efforts (reported elsewhere, see Devine, 1981, 1983) to control for theoretically salient indicators of labor organization and militancy (e.g., levels of unionization, strike activity), the size of the armed forces, the composition of the American occupational structure (e.g., percentage white-collar, blue-collar, etc.), and

the educational attainment of the civilian workforce did not alter the findings presented in Column 1 of Table 3.

However, two additional variables, one indexing changes in the gross national product ("GNP Growth") and the other being a measure of the legal minimum wage ("Min Wage") -- both expressed in constant dollar terms -- are found to exert a significant impact on the previously reported results. A full model that incorporates these two additional variables as well as the previously introduced measures of inflation, unemployment, revenues, military personnel expenditures, veteran's benefits, infra-structural outlays, and social spending is presented in Column 2 of Table 3.

Serial correlation, as indicated by the Durbin-Watson statistic and ρ , is not a problem and the explained variance ("Adj. R. Sq.") is quite high. More importantly, all of the coefficients in Column 2 of Table 3 are statistically significant.

Substantively, the findings reported in Column 2 of Table 3 reveal that:

1) Aggregate unemployment exerts a significant negative influence on the labor-capital ratio. Almost tautologically, increases in unemployment serve to decrease the income of wage earners in the aggregate and depresses the labor-capital income ratio.

2) Similarly, "real" economic growth is found to benefit capital to a greater degree than labor. This supports the findings of Boddy and Crotty (1975) who note that, while economic growth is generally beneficial across the board, it benefits capital to a greater extent and degree than it helps labor.

3) Alternatively, inflation is found to

have a significant equalizing effect on the distribution of income. Again, this particular result is entirely consistent with the previously reported findings of numerous economists who have demonstrated that inflation is far more harmful to property owners than wage earners.

4) The coefficient for the minimum wage variable is also positive suggesting that labor's historical struggle to gain and maintain a legislatively enacted wage "floor" effect has produced a tangible favorable outcome for wage earners.

Turning now to the measures of governmental fiscal policy we find that:

5) Governmental tax policies in the aggregate are not progressive or, perhaps, even proportional. Rather, as evidenced by the significant negative coefficient displayed in Column 2 of Table 3, we see that governmental revenue extraction is regressive, i.e., it erodes labor's position relative to capital's.

6) With respect to the four expenditure measures, these data indicate that governmental spending on social services, veteran's benefits, and even military personnel outlays are all progressive in impact, i.e., benefits labor relative to capital. The coefficient indexing infra-structural expenditures has a negative sign in Column 2 suggesting a pro-capital effect, but inasmuch as this negative sign flips back to positive under alternative specifications reported elsewhere (Devine, 1983), it should probably be considered artifactual (11).

Summary

These analyses, designed to examine the relative class income consequences of governmental fiscal policies, lead to the conclusion that for the period examined:

a) Governmental expenditures--with the possible exception of infrastructural outlays increase the labor-capital income ratio. That is, governmental spending in general, and not just on social security or relief, benefits wage and salary earners relative to property owners.

b) Despite the possibly progressive structure of the federal personal income tax, the aggregate tax extractive power of the state sector significantly reduces the size of the labor-capital income ratio, i.e., favors capital relative to labor.

In short, governmental fiscal policies are contradictory. In class terms, the revenue structure is biased in favor of capital while expenditures are pro-labor. The net result is a complex interplay of extractive inputs and spendings outputs whereby the market system of allocation is modified at both ends of the continuum, but for the most part left intact as taxes and expenditures are shifted backward and forward with relatively little net change.

Conclusion

The 1980 presidential election and subsequent efforts of the Reagan administration to arrest the expansionary trends in state fiscal policy clearly lie outside the direct time-frame of these analyses, but what might the research reported here suggest with respect to the "new economic program"? First, efforts to root out inflation at the expense of employment, that is, the current admini-

stration's explicit policy preference for manipulating the "Phillips curve" tradeoff (see Phillips, 1958) in favor of lower inflation and increased unemployment have a clear pro-capital, anti-labor orientation. Second, spending cuts in non-defense budgetary items, especially real declines in welfare expenditures (broadly conceived) suggest that the living standard of the American working population will be undermined. Inasmuch as state expenditures appear to impact upon the distribution of income in favor of labor and to the relative detriment of capital, the administration's budget cuts should reduce or, perhaps, eradicate the relative advantage labor has historically achieved with respect to the distributional consequences of state spending.

Finally, what effect should changes in tax policy have on the factor share distribution of income? While across the board tax cuts on personal income are universal they are not progressive, but merely proportional. Inasmuch as federal income taxes are the most progressive form of taxation (see Pechman and Okner, 1974), here again, the Reagan administration's policies should operate to the relative advantage of capital. This pro-capital bias will be further enhanced by changed in depreciation allowances which effectively negate the corporate tax (see Thurow, 1981).

In sum, then, while these analyses do not incorporate empirically the post-1976 American fiscal experience, they strongly suggest that if the patterns discovered to operate between 1949 and 1976 hold true, then the current administration's efforts to rebuild the American economy will fall almost exclusively on the backs of the working population. Even if Reaganomics is ultimately successful in engineering return to a growing, healthy economy, these analyses demonstrate that in so

doing it will alter the relative balance of class forces, economically speaking, in favor of capital

NOTES

1. See The Budget of the United States Government, Fiscal Year 1982 and the accompanying appendix.

2. In a widely publicized set of interviews (Greider, 1981: 46-47), David Stockman candidly acknowledged that, "Kemp-Roth was always a Trojan horse to bring down the top [tax] rate" and that supply-side theory was not at all new but simply attempted to recast traditional conservative "trickle down" in novel semantics.

3. Due to the unavailability of certain post-1976 governmental data (e.g., income figures), only the 1949-1976 period can be assessed.

4. Readers unfamiliar with the statistical procedures and properties of time-series analysis should consult Ostrom (1978).

5. During the decade which preceded World War II (1930-1939) the corresponding figure was only 19%, whereas in the 1920-1929 decade it was 12% (U.S. Bureau of the Census, 1975).

6. "Pre-fisc" refers to the pre-governmental tax and transfer (i.e., market) income distribution, while a "post-fisc" distribution reflects governmental spending and taxation. Thus, in order to assess distributional consequences of governmental revenue extraction and spending programs, it is necessary to use a post-fisc measure of the

income distribution. Otherwise, the researcher would be analyzing a "pure" market economy devoid of any direct governmental influences.

7. The regression coefficient ("b") is the average change in the dependent variable associated with each unit of change in independent variable "Xi"

8. See Devine (1983) for a discussion of the theoretical and methodological difficulties involved in the operationalization of governmental expenditures, as well as a means by which to resolve these dilemmas.

9. All of the fiscal variables, except for social spending, are specified with a two-year lag structure (t-2) to allow for adequate diffusion of state spending and extractive capacity. The social spending variable has a stratified lag structure whereby non-transferred expenditure items (e.g., education, housing) are specified at t-2, for the reason noted above, while its transferred components (e.g., OASDI, unemployment insurance) are measured with a contemporaneous specification. The rationale for this exception is that unlike other governmental outlays for goods of services, cash transfers are augmentations to direct disposable income and are not filtered through any governmental or private sector intermediary. Furthermore, numerous cash transfers are designed as "automatic stabilizers" with the intent of immediately reacting and adjusting to fluctuations in the business cycle.

10. Heise (1975) argues that the standard error of the regression coefficient tends to be inflated in analyses with relatively few cases, and, thus, a more "generous" significance level is justified. Therefore, a .10 level of significance is used throughout these analyses since there are so few cases

(N+28).

11. Multicollinearity (i.e., the condition where explanatory variables are highly correlated) frequently plagues time-series data of the sort analyzed here. Collinearity increases the variance of the estimated coefficients and thus yields less stable estimates. The operational schema employed here substantially reduces the collinearity among expenditure variables (see Devine, 1983: Table 2) as the resulting zero-order correlations are:

	Military	Veterans	Infra	Social
Military Per	--			
Veterans	-.138	--		
Infra- structure	-.132	-.782	--	
Social Spending	-.168	-.121	.589	--

Nonetheless, as the correlation matrix indicates, the infrastructural variable continues to exhibit a high level of association with veterans and social spending. This suggests, then, that the noted instability is in fact attributable to collinearity.

APPENDIX I - VARIABLES

Unless otherwise indicated, all variables pertain to the United States, are annual observations, and, when dollar amounts, are measured in current dollars. Federal budgetary items are for fiscal rather than calendar years. The following abbreviations are used in this appendix: HS, The Historical Statistics of the United States (annual); ERP, The Economic Report of the President, 1978 (1978); NIPA, The National Income and Product

Accounts of the United States, 1929-1974 (1977); BEA, U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business" (monthly). All of the above sources are published by the United States Government Printing Office, Washington, D.C.

Dependent Variable

1. Labor-Capital Income Ratio (Employee Compensation/Property Income), whereby property income is the sum of corporate profits with inventory valuation and capital consumption adjustments, rental income, and net interest: ERP; HA; SA (1978).

Independent Variables

2. Mil Per: (defense spending less military procurement and military research and development costs). HS; SA (1971-1977).
3. Veterans: HA; SA (1971-1977).
4. Infrastructure: The sum of military procurement (SA 1957, 1963, 1968, 1972, 1977, 1978), military research and development (HS; SA 1953 1978), total governmental capital spending, highway construction, other communications and transportation expenditures, and federal civilian research and development funds (HS; SA 1953, 1974, 1978).
5. Social Spending: The aggregation of transfer payments (see below) at "t" and collective consumption (see below) at "t-2".
 - a. Transfer Payments are composed of the following expenditure categories: federal-benefits from social insurance

funds (OASDI, hospital and supplementary medical insurance, unemployment insurance, railroad retirement, federal civilian employees retirement, veterans' life insurance, workman's compensation), military retirement, food stamps, black lung, special unemployment benefits, SSI, direct relief and other: plus state and local benefits from social insurance funds (government pensions, cash sickness compensation, workmen's compensation), direct relief (AFDC, other categorical public assistance, general assistance) and other; NIPA; BEA (July, 1976, 1978).

- b. Collective Consumption: Total governmental spending on education, health (elsewhere not included), housing, urban renewal, and non-federal essential services (HS; SA 1974, 1978).
- 6. Total Revenue (Federal minus intergovernmental, plus state and local): HS; SA (1978).
- 7. Inflation (annual percent change in the consumer price index): HS; SA (1977).
- 8. Aggregate Unemployment: ERP.
- 9. Gross National Product (GNP): NIPA; BEA (July, 1977, 1978).
- 10. Minimum Wage: SA (1979).

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TABLE 1 - Trends in Governmental Expenditures
 Annual Means by Five-Year Periods
 1946-1980

	<u>Total</u> <u>Govern</u>	<u>Federal</u>	State and <u>Local</u>
Level of "Nominal" Expenditures (a)			
1946-1950	51779	34618	17161
1951-1955	93917	65969	27949
1956-1960	122943	79598	43345
1961-1965	168290	104521	63768
1966-1970	264487	157366	107121
1971-1975	421182	236479	184704
1976-1980	700693	400879	299815
Level of "Real" Expenditures (b)			
1946-1950	95019	63839	31181
1951-1955	147679	103738	43941
1956-1960	179486	116244	63242
1961-1965	229298	142473	86824
1966-1970	312884	186404	126480
1971-1975	381124	213842	167283
1976-1980	433152	247261	185891
Per Capita "Real" Expenditures (c)			
1946-1950	648	436	212
1951-1955	924	650	275
1956-1960	1028	666	362
1961-1965	1211	753	458
1966-1970	1558	928	629

	<u>Total</u> <u>Government</u>	<u>Federal</u>	<u>State and</u> <u>Local</u>
1971-1975	1811	1016	795
1976-1980	1982	1131	851

Percent of
GNP

1946-1950	20.8	14.0	6.8
1951-1955	26.0	18.3	7.7
1956-1960	26.6	17.3	9.4
1961-1965	28.0	17.5	10.6
1966-1970	30.4	18.1	12.3
1971-1975	32.4	18.2	14.2
1976-1980	32.4	18.5	13.9

Percent of
Total Govern-
mental Spending

1946-1950	67.2	32.8
1951-1955	70.2	29.8
1956-1960	64.8	35.2
1961-1965	62.2	37.8
1966-1970	59.6	40.4
1971-1975	56.1	43.9
1976-1980	57.1	42.9

Federal Surplus(+)/
Deficit(-) (d)

1946-1950	+ 6.359
1951-1955	- 1.184
1956-1960	- 0.005
1961-1965	- 2.123
1966-1970	- 4.878
1971-1975	-25.739
1976-1980	-49.500

	<u>Total</u> <u>Government</u>	<u>Federal</u>	<u>State and</u> <u>Local</u>
Percent Change in Per Capita "Real" Expenditures (e)			
1946-1950	-10.0	-14.4	+11.5
1951-1955	+ 6.2	+ 8.0	+ 3.9
1956-1960	+ 2.9	+ 2.0	+ 4.6
1961-1965	+ 3.8	+ 2.6	+ 5.7
1966-1970	+ 5.1	+ 4.3	+ 6.3
1971-1975	+ 3.3	+ 3.2	+ 3.6
1976-1980	+ 0.5	+ 1.2	- 0.4

* Intergovernmental spending included in final destination only, i.e., state and local (Column 3).

(a) In millions of current dollars

(b) In millions of constant (1972) dollars

(c) In constant (1972) dollars

(d) In billions of current dollars

(e) Mean annual change fro preceding half-decade (not shown)

Source: U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts of the United States, 1929-1974 (1977); National Income and Product Accounts, 1976-1979, Survey of current Business Supplement (1981); "survey of Current Business:", vol. 57 (11) [November, 1977] and vol. 61 (11) [November, 1981], Washington, D.C.: G.P.O.

TABLE 2 - Governmental Expenditures by Unit and Broad Category, Selected Years, 1949-1980

Level of "Nominal" Expenditures (d)	----- Federal -----				Local(a)
	Total Public	Total Defense(b)	Civilian(c)	State(a)	
1949	59.3	21.9	17.2	7.7	12.5
1954	97.0	46.9	20.0	10.7	19.4
1959	131.0	53.2	30.9	17.5	29.4
1964	176.3	63.4	44.4	25.3	43.2
1969	286.8	94.6	73.5	44.9	73.8
1974	459.9	104.0	151.4	77.9	126.6
1975	534.2	112.8	189.2	90.3	141.9
1976	574.9	117.8	205.9	101.7	149.5
1977	624.0	127.2	226.8	107.9	162.1
1978	681.9	138.4	245.0	118.1	180.4
1979	753.2	155.7	273.1	129.2	195.2
1980*	869.0	183.0	331.0	142.9	212.1

	----- Federal -----					Local(a)
	Total Public	Total Defense(b)	Civilian(c)	State(a)		
Per Capita "Real" Expenditures(e)						
1949	695	257	202	90	147	
1954	926	447	190	103	185	
1959	1058	430	249	142	237	
1964	1239	446	312	178	303	
1969	1615	533	413	253	416	
1974	1843	417	606	312	507	
1975	1942	410	688	328	516	
1976	1957	401	700	346	509	
1977	1975	402	717	342	512	
1978	1983	402	713	343	525	
1979	1947	402	705	335	505	
1980*	1956	412	746	322	477	

Percent of GNP	----- Federal -----					Local(a)
	Total Public	Total Defense(b)	Civilian(c)	State(a)		
1949	23.3	8.5	6.7	3.0	4.8	
1954	26.4	12.8	5.5	2.9	5.3	

	Total Public	----- Federal -----			State(a)	Local(a)
		Total	Defense(b)	Civilian(c)		
1959	26.8	17.2	10.9	6.3	3.6	6.0
1964	27.6	16.9	9.9	7.0	4.0	6.8
1969	30.4	17.8	10.0	7.8	4.8	7.8
1974	32.1	17.8	7.3	10.6	5.4	8.8
1975	34.5	19.5	7.3	12.2	5.8	9.2
1976	33.5	18.8	6.9	12.0	5.9	8.7
1977	32.5	18.5	6.6	11.8	5.6	8.5
1978	31.6	17.8	6.4	11.4	5.5	8.4
1979	31.2	17.8	6.5	11.3	5.4	8.1
1980*	33.1	19.6	7.0	12.6	5.4	8.1
% Change in Per Capita "Real" Expendts. From Preceding Figure						
1949(f)	73.3	152.2	634.3	36.5	30.4	-3.4
1954	33.2	38.8	73.9	-5.9	14.4	25.9
1959	14.3	6.6	-3.8	31.1	37.8	28.1
1964	17.1	11.6	3.7	25.3	25.4	27.8
1969	30.4	24.8	19.5	32.4	42.1	37.3
1974	14.1	8.1	-21.8	46.7	23.3	21.9

	Total Public	Total Defense(b)	Federal -----	Civilian(c)	State(a)	Local(a)
1975	5.4	7.3	-1.7	13.5	5.1	1.8
1976	0.7	0.3	-2.2	1.7	5.5	-1.4
1977	1.2	1.6	0.2	2.4	-1.2	0.6
1978	0.4	-0.4	0.0	-0.6	0.3	2.5
1979	-1.8	-0.7	0.0	-1.1	-2.3	-3.8
1980*	0.5	4.6	2.5	5.8	-3.9	-5.5

(a) Intergovernmental spending included in final destination only, i.e., state or local

(b) National defense, international affairs and finance, and space research and technology. Also includes the estimated portion of net interest attributable to each of these functions.

(c) Includes social security (OASDHI)

(d) In billions of current dollars

(e) In constant (1972) dollars

(f) Change from 1939 figure (not shown)

* Preliminary
Source: Adapted from, Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1980-81 Edition (1981: 12-13), Washington, D.C.: G.P.O.

TABLE 3
 Deflated Per Capita Fiscal Variables
 Impact on Labor-Capital Income Ratio,
 1949-1976 (GLS, AR2)

	Equation (1)	Equation (2)
Inflation	.275 (a)	.334**
Agg Unemp	.0169	-.0683**
Revenue	-.000877	-.00058**
Military Per	.00302**	.00132*
Veterans	.00312	.00524**
Infrastructure	.000429	-.00104**
Social Spending	.00147*	.00124**
GNP Growth	---	-.0474**
Min Wage	---	.502**
Adj. R. Sq.	.769	.923
Durbin-Watson	1.97	2.17
rho	.014	-.244

(a) Metric coefficient

* $p \leq .10$ (one-tailed test)

** $p \leq .05$ (one-tailed-test)