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The Level of Taxes in the United States, 1940-1997

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Summary

In Fiscal Year (FY) 1997, federal receipts as a percent of Gross Domestic Product (GDP) reached their highest level since World War II. However, the peak is not a dramatic one. Indeed, compared to the size of the U.S. economy or compared to incomes, the overall level of federal taxes has remained relatively stable over the past 45 years, generally hovering at just under 20% of Gross Domestic Product (GDP). At the same time, the composition of federal taxes has changed somewhat, generally shifting away from corporate income taxes and excise taxes towards social security taxes.

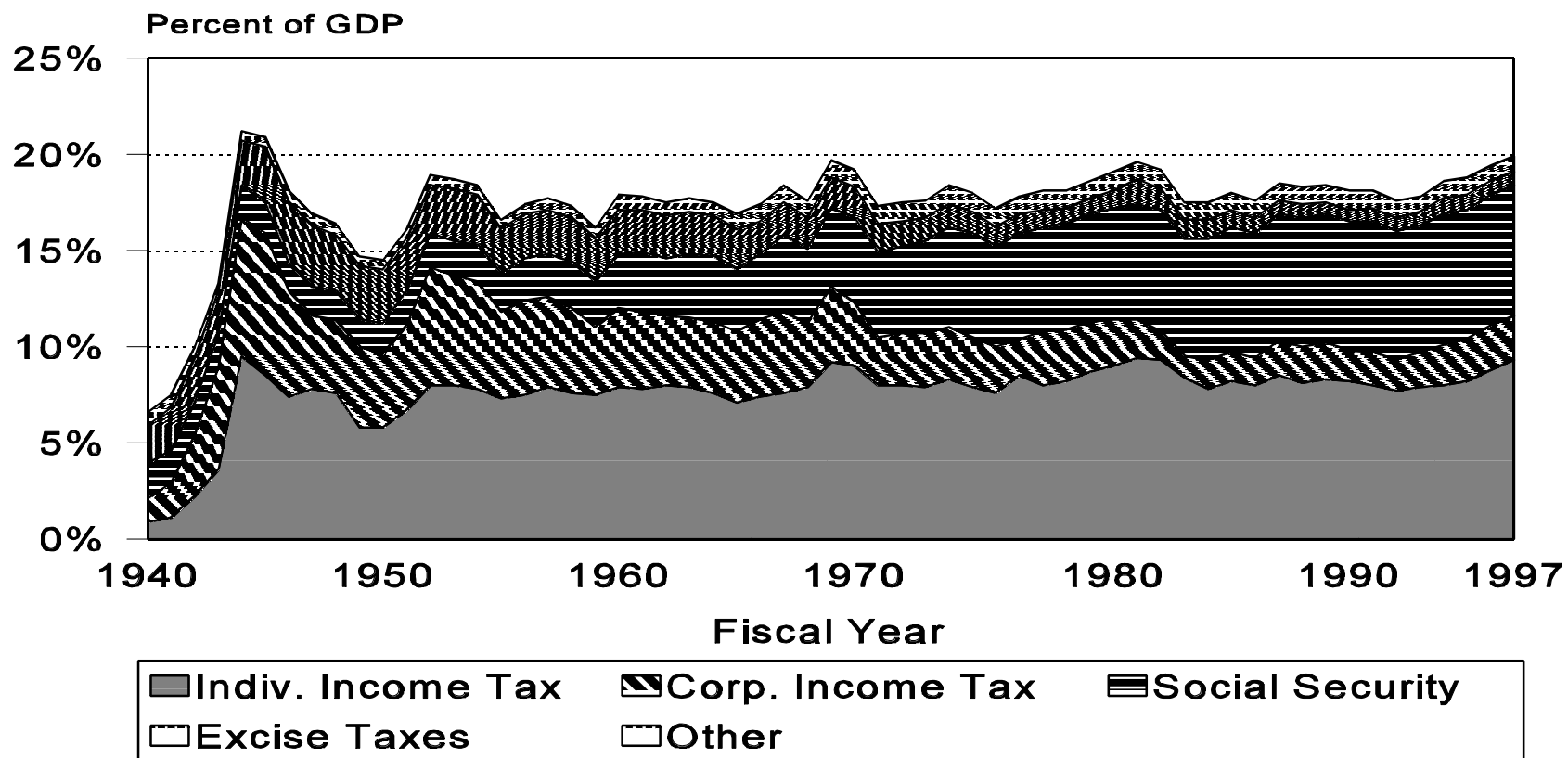
Recent congressional activity has focused on the general level of taxes; H.J.Res. 111 (Representative Barton) proposes a two-thirds majority be required for legislation that would increase taxes. For additional information on tax limitation proposals, see: *A Tax Limitation Amendment: Issues and Options Concerning a Super-majority Requirement*. CRS Report 98-368 GOV, by James V. Saturno. For more information on taxes in general, see: *Major Tax Issues in the 105th Congress*. CRS Issue Brief 98021, by the Taxation and Government Finance Section, Economics Division.

The Level of Taxes Compared to the Size of the Economy

The level of taxes in the United States has recently been a focus of Congressional activity. H.J.Res. 111 (introduced by Representative Barton) proposes an amendment to the U.S. Constitution that would require a two-thirds majority for tax-increase legislation to be approved by either House of Congress.

Compared to the size of the U.S. economy, the overall level of federal taxes has remained relatively stable for the past 45 years. Figure 1, below, shows federal receipts as a percent of Gross Domestic Product (GDP) over the period 1940-1997; table 1

Figure 1. Federal Receipts as a Percent of GDP, Fiscal Years 1940 - 1997



Source: Historical Tables. Budget of the United States Government, FY1999.

Table 1. Federal Receipts as a Percent of GDP, Fiscal Years 1940 - 1997

Fiscal Year	Individual Income Taxes	Corporate Income Taxes	Social Security Taxes	Excise Taxes	Other	Total Receipts
1940	0.9%	1.2%	1.8%	2.0%	0.7%	6.7%
1941	1.1	1.8	1.7	2.2	0.7	7.5
1942	2.2	3.2	1.7	2.3	0.6	10.1
1943	3.6	5.3	1.7	2.3	0.4	13.3
1944	9.5	7.2	1.7	2.3	0.5	21.2
1945	8.5	7.4	1.6	2.9	0.5	20.8
1946	7.4	5.5	1.4	3.2	0.6	18.0
1947	7.8	3.8	1.5	3.2	0.6	16.9
1948	7.6	3.8	1.5	2.9	0.6	16.4
1949	5.8	4.2	1.4	2.8	0.5	14.6
1950	5.8	3.8	1.6	2.8	0.5	14.5
1951	6.7	4.4	1.8	2.7	0.5	16.1
1952	8.0	6.1	1.8	2.5	0.5	18.9
1953	8.0	5.7	1.8	2.7	0.5	18.7
1954	7.8	5.6	1.9	2.6	0.5	18.5
1955	7.3	4.5	2.0	2.3	0.5	16.5
1956	7.5	4.9	2.2	2.3	0.5	17.5
1957	7.9	4.7	2.2	2.3	0.6	17.8
1958	7.6	4.4	2.4	2.3	0.6	17.4
1959	7.5	3.5	2.4	2.2	0.6	16.2
1960	7.9	4.1	2.8	2.3	0.8	17.8
1961	7.8	4.0	3.1	2.2	0.7	17.8
1962	8.0	3.6	3.0	2.2	0.7	17.6
1963	7.9	3.6	3.3	2.2	0.7	17.8
1964	7.6	3.7	3.4	2.1	0.7	17.6
1965	7.1	3.7	3.2	2.1	0.8	17.0
1966	7.4	4.0	3.4	1.7	0.9	17.4
1967	7.6	4.2	4.0	1.7	0.9	18.3
1968	7.9	3.3	3.9	1.6	0.9	17.6
1969	9.2	3.9	4.1	1.6	0.9	19.7
1970	9.0	3.3	4.4	1.6	0.9	19.1
1971	8.0	2.5	4.4	1.5	0.9	17.4
1972	8.0	2.7	4.5	1.3	1.0	17.6
1973	7.9	2.8	4.8	1.2	0.9	17.7
1974	8.3	2.7	5.2	1.2	1.0	18.3
1975	7.9	2.6	5.4	1.1	1.0	18.0
1976	7.6	2.4	5.2	1.0	1.0	17.2
TQ	8.5	1.9	5.5	1.0	0.9	17.9
1977	8.0	2.8	5.4	0.9	1.0	18.0
1978	8.2	2.7	5.5	0.8	0.9	18.1
1979	8.7	2.6	5.6	0.8	0.9	18.6
1980	9.0	2.4	5.8	0.9	1.0	19.0
1981	9.4	2.0	6.0	1.3	0.9	19.7
1982	9.3	1.5	6.3	1.1	1.0	19.2
1983	8.4	1.1	6.1	1.0	0.9	17.6
1984	7.8	1.5	6.3	1.0	0.9	17.5
1985	8.2	1.5	6.5	0.9	0.9	17.9
1986	8.0	1.4	6.5	0.8	0.9	17.6
1987	8.5	1.8	6.6	0.7	0.9	18.6
1988	8.1	1.9	6.7	0.7	0.9	18.4
1989	8.3	1.9	6.7	0.6	0.9	18.5
1990	8.2	1.6	6.7	0.6	1.0	18.2
1991	8.0	1.7	6.8	0.7	0.9	18.0
1992	7.7	1.6	6.7	0.7	0.9	17.8
1993	7.9	1.8	6.6	0.7	0.8	17.8
1994	8.0	2.1	6.8	0.8	0.9	18.4
1995	8.2	2.2	6.7	0.8	0.9	18.8
1996	8.8	2.3	6.8	0.7	0.8	19.4
1997	9.3	2.3	6.8	0.7	0.8	19.8

Source: Office of Management and Budget. *Budget of the United States Government, FY1998. Historical Tables*; U.S. Congressional Budget Office. *Economic and Budget Outlook: Fiscal Years 1999 - 2008*.

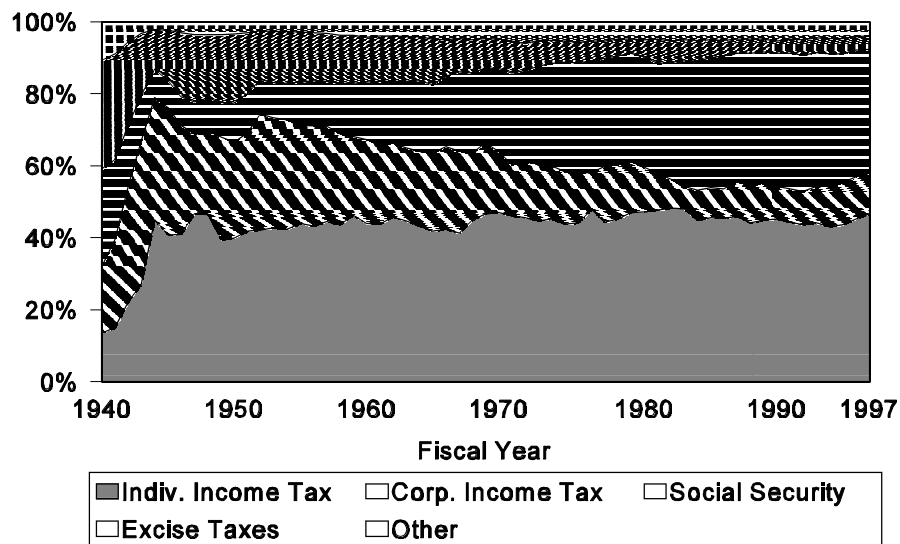
presents the corresponding data.¹ The numbers indicate that during World War II, taxes increased from a pre-war level of about 7% of GDP to slightly over 20%. Taxes fell immediately after the war, but remained substantially above their pre-war level.

For the next 5 decades, the level of taxes remained quite stable. The average for the post-World War II period has been 18.3% of GDP. The lowest level was in 1950, at 14.5%; the highest was in 1997, at 19.8%. However, these are small departures from the average, and most years remained quite close to the norm. On average, each year's level of revenues has varied from the post-war mean by less than 1% of GDP. The narrow range of variation has been a consequence of both economic factors and conscious policy decisions. For example, inflation helped push revenues to a peak in 1981, while the Economic Recovery Tax Act of 1981 subsequently reduced them.

Composition of Federal Receipts

Figure 2, below, shows how the composition of federal receipts has changed since World War II; it presents the percent of federal receipts contributed by each major category of taxes. Over the past 50 years, corporate taxes and excise taxes have declined in importance, while social insurance taxes (chiefly Social Security) have grown substantially. Currently, the individual income tax still produces the most revenue and is followed in size by social insurance taxes.

Figure 2. Composition of Federal Receipts, Fiscal Years 1940 - 1997



Source: Historical Tables. Budget of the United States Government

¹ The receipts reported in figure 1 and table 1 include a small quantity of non-tax items in the "other" category. However, non-tax items comprise such a small portion of the total that given this report's level of generality, we use the terms "taxes" and "receipts" interchangeably.

The supporting data for figure 2 are not provided here, but can be found in table 2.2 of the *Historical Tables* volume of the set of FY1999 budget documents released by the Executive Office of the President in February, 1998.

State and Local Taxes

Figure 3 shows that state and local taxes have doubled, rising from 5.3% of GDP in 1947 to 10.7% in 1997. As a result, total taxes — federal and state taxes combined — have grown by 9 percentage points, or by well over a third of the 1947 level. (As with figure 2, the supporting data for figure 3 can be found in the *Historical Tables* of the FY1999 budget — in this case, table 15.1 on page 268.) Note that the state and local receipts shown in the figure do not include federal grants.

Figure 3. Federal and State and Local Taxes as a Percent of GDP, Fiscal Years 1947 - 1997

