

Squeezing Families

How Expanding Government
Undermines the Family

by: Mark Steckbeck, Ph.D.

*The views expressed in this article are the
author's and do not represent official positions of
Campbell University.*



EMBLAZONED ABOVE THE ENTRANCE TO THE INTERNAL REVENUE SERVICE HEADQUARTERS IN WASHINGTON, DC IS THE FOLLOWING QUOTE FROM RENOWNED U.S. SUPREME COURT

JUSTICE OLIVER WENDELL HOLMES: "TAXES ARE THE PRICE WE PAY FOR A CIVILIZED SOCIETY."

THE NATURAL COROLLARY TO SUCH SENTIMENT, AT LEAST FOR SOME, IS THAT MORE TAXES BRING ABOUT A MORE CIVILIZED SOCIETY—LOGIC ANALOGOUS TO BELIEVING THAT CONSUMING MORE LOW-FAT COOKIES CAUSES ONE TO LOSE WEIGHT. SUCH FAITH IN GOVERNMENT AS THE FOUNDATION OF CIVILIZED SOCIETY IGNORES MORE IMPORTANT SOCIAL INSTITUTIONS RESPONSIBLE FOR DEVELOPING AND PROMOTING CIVIL SOCIETY, INCLUDING, BUT NOT LIMITED TO, THE FAMILY, MARKET EXCHANGE, RELIGION, AND VOLUNTARY ASSOCIATIONS.

This article examines increasing federal, state and local government expenditures and the resulting higher tax burdens on North Carolina families to finance this expansion of state power. This increase in the size and scope of federal, state and local governments since the New Deal has undermined the efficacy of the family and other social institutions, both in their structures and missions. These adverse affects result both from government encroaching on activities traditionally undertaken by families, thus weakening the family as a social institution, and from the increasing burden on taxpayers in order to fund the persistently growing state.

Growth of Government

By every conceivable measure, governments at all levels in the United States have expanded substantially in both size and scope since the Great Depression. In 1929, just under 8 percent of total gross domestic product (GDP) was allocated collectively through federal, state and local governments. By 2009, however, that figure increased to nearly 40 percent of GDP. (See *Graph 1* below.) Although most of the growth during this period occurred at the federal level, state and local governments con-

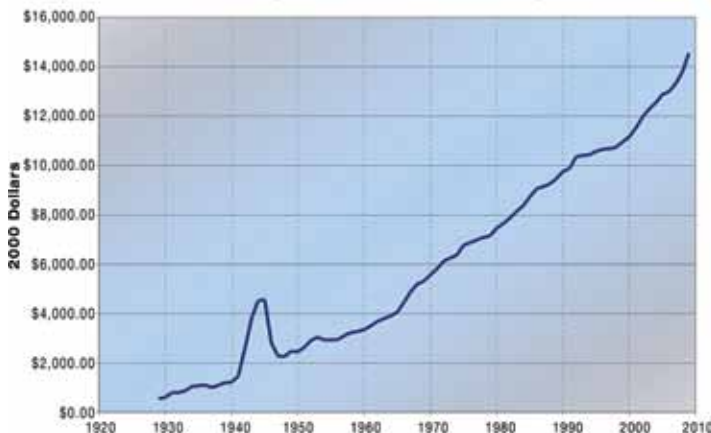
Total Government Spending As A Percentage of GDP



tributed handily to this expansion of government as well, especially in more recent years.

Adjusted for inflation, per capita federal, state and local government expenditures in the United States increased from \$562 in 1929 to an astounding \$14,547 in 2009, a nearly 26-fold increase. (See *Graph 2* below.) Governments at all levels in the U.S. now control nearly \$14,000 more per person of our productive output than they did in 1929. (Figures are in year 2000 dollars.) This means that for a typical family of four, between 1929 and 2009, real government expenditures increased annually from \$2,248 to more than \$58,000. It is not a wonder that families are feeling squeezed, and many now require both parents to work outside the home to make ends meet.

Real Per Capita Total Government Expenditures



The Proper Role of Government

Government plays an important role in supporting civilized society, but that role is largely limited. Government is instituted at various levels to provide both protective and productive services. In its most basic role, government is instituted in a free society to protect the property rights of individuals and enforce their promises as they voluntarily interact with one another within other social institutions, including those listed above. Lacking formal protection of property and assurances that promises will be kept, market activity, including investment and voluntary exchange, is hindered and not likely to evolve much beyond shallow investments and simple spot exchanges. As a consequence, improvements in the human condition are greatly impeded. As Thomas Hobbes noted in *Leviathan*, without government protecting against predatory behavior, life becomes "nasty, poore (sic), brutish and short."

Along with this protective function, governments also provide productive services. There are instances where, for various economic reasons, society desires

some good or service, but that good or service is not likely to be provided privately through voluntary means such as markets, churches or private organizations. In such circumstances, citizens call on government to supply these unique goods and services.

For example, consider the construction of a major interstate highway that would greatly reduce the cost of moving people and goods between two points. The nature of the project requires acquiring wide swaths of land that traverse numerous independent legal jurisdictions. Since any individual property owner along this route has the incentive to hold out for payment well in excess of the market value of his or her land, the cost to private investors of building such a road can make it unprofitable. It might not be economically sound for a private com-

productive function of government allows us to provide collectively goods and services that might not otherwise be supplied privately.


Government spending is most controversial when it undermines otherwise peaceful social relationships and effectively substitutes with command and control what individuals seek to achieve peaceably outside of government. Not only does government intervention undermine private voluntary behavior, consequently weakening other institutions that already exist for dealing with social problems, it also creates perverse incentives that almost always exacerbate these social problems, including those that such interventions were intended to remedy.

It can be surmised, then, that taxpayers are likely to receive net benefits when goods and services provided through government complement goods and services provided privately through other institutional arrangements. This means that citizens are more likely to deem beneficial, and therefore less controversial, government spending on police and firefighting services and highways, whereas government spending to bail out investment banks or to buy failed automobile manufacturers is likely to be met with much resistance.


When government encroaches on areas of citizens' lives that have traditionally been governed through private institutional arrangements, such as through churches and family and markets, the enormous weight and power of government dominates these institutions, and individual choice is sacrificed. Social cooperation based on voluntary association and mutual advantage—what is truly regarded as civilized behavior—is pushed aside to advance outcomes favored by political decision makers. This undermines the very social institutions that bring about the civilized society so apparently revered by Justice Holmes.

Consider briefly just two government programs that have single-handedly undermined the importance of family as a primary social institution—Social Security and Aid to Families with Dependent Children (AFDC). Both of these New Deal era programs had noble intentions, mainly to provide financial assistance to the needy elderly and to widows with dependent children. The consequence of both of these programs, however, was to weaken the traditional family structure and burden future generations with extraordinary debt.

As it was originally conceived, Social Security was not an entitlement program open to everyone. First, participation was restricted, primarily by race and gender, and dependency on the government for the elderly did not begin until the primary worker reached age 65—the average lifespan at that time for someone having reached adulthood. Participation and coverage systematically expanded into what exists today, which is an entitlement program for all elderly citizens of the United States. Consequently, rather than Social Security serving to



Social Security therefore undermines the most important resource elderly citizens formerly relied on for support in their twilight years, which was their families.



pany to build an otherwise economically efficient highway. Consequently, we authorize government and its power to use eminent domain to provide for the construction of highways. (Assuming, of course, the government's adherence to the Fifth Amendment is assured.)

There are other goods and services people desire, such as police or firefighting services, but no efficient means exist for charging beneficiaries when they consume these goods and services. As long as my neighbor pays for the police to patrol our neighborhood, why should I contribute? It is usually more effective and efficient to provide such goods and services collectively through government and charge beneficiaries by taxing them proportionately. Such goods and services have what economists call positive externalities in that they provide benefits to a wide range of people, including those not party to the exchange. Consequently, private means of providing such goods are likely to be undersupplied. We refer to such goods and services as “public goods,” not because they are supplied publicly through government, but because they provide overall benefits to the general public with no means of directly charging for them.

Society looks to government to provide things such as roads and bridges and levees, along with other services such as parks and firefighting. This

complement family as primary caretakers of the elderly, it supplanted them. For those without family, it substituted for other private solutions such as fraternal and faith-based organizations, which were prominent caretakers of the indigent elderly before Social Security drove them out.

Social Security therefore undermines the most important resource elderly citizens formerly relied on for support in their twilight years, which was their families. Adding insult to injury, the increasing tax burden needed to fund the looming retirement of baby boomers also means that younger people now have fewer resources at their disposal to raise and care for their own children, as well as prepare for their own retirement.

Similarly, the intent of AFDC (originally named Aid to Dependent Children or ADC) was to provide limited financial support for widows with dependent children. By the 1960s, the program had attracted such a large number of unwed mothers onto its rolls that “families” was added to its title to quell criticism that the program was responsible for increasing out-of-wedlock childbirths. Again, providing financial support to widows and their dependent children had largely been the responsibility of both immediate and extended family. In some cases, private organizations and churches also stepped in to provide additional support. Unfortunately, AFDC largely undermined the family by subsidizing out-of-wedlock births and substituting government handouts for the care once provided by family members. This became even more prevalent in the 1960s following the expansion of AFDC as part of President Lyndon Johnson’s Great Society programs.

The same is true of government involvement in everything from education to libraries to mass transit to space exploration. In each circumstance, government either unfairly competes against, or totally commandeers, private institutions, or uses resources that would have been used elsewhere to maintain and support failed public ventures.

The Growth of Government Expenditures

In this article, the growth of government is measured in two ways: increasing real government expenditures and increasing real tax burdens imposed on residents. *Graphs 1 and 2* above illustrate the expansion of government expenditures with respect to the percentage of total economic output consumed by federal, state and local governments, as well as the real per capita expenditures by all levels of government in the nation.

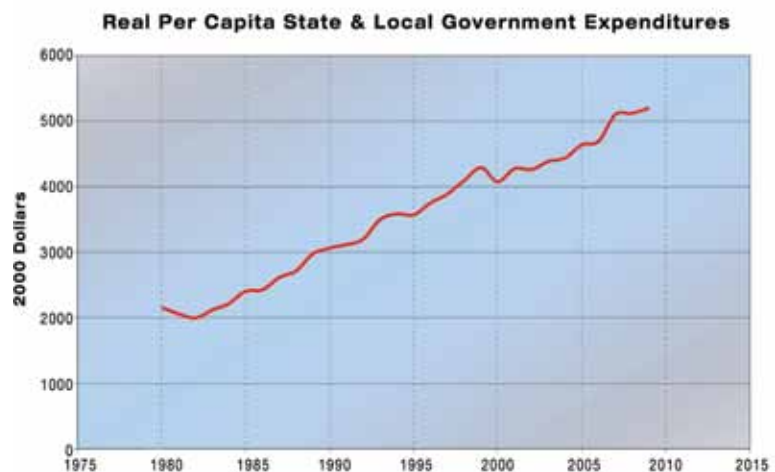
The resources diverted from use by the private sector for use by the public sector is the true cost of government. That is, the best measure of the true cost of government is by looking at what it spends. Building a bridge or manning an army or fighting

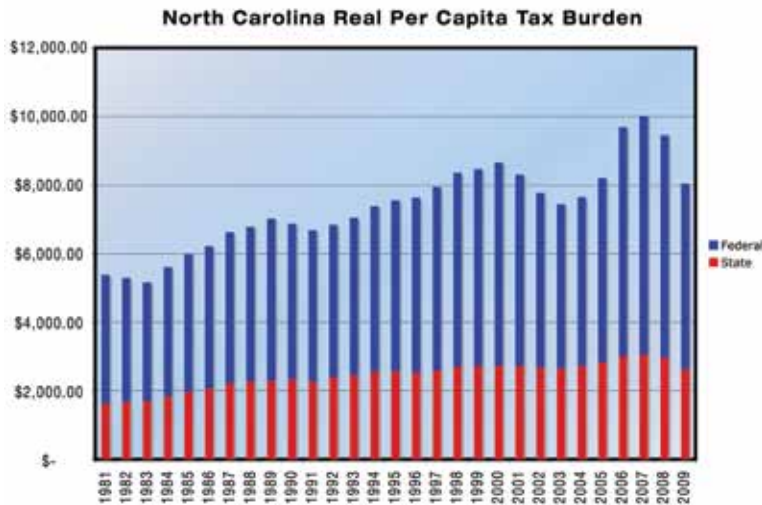


fires require labor, machinery, and a host of other resources. Since these resources are being used to build bridges or fight wars or put out fires, they cannot simultaneously be used to produce other things people desire such as computers, flat-screen televisions, cars, clothing, and airplane flights.

It is irrelevant whether the government hires labor and oversees the building of a bridge itself, or if it pays a private contractor to do the work. The fact is, once diverted to building a bridge, the labor and other resources needed to build the bridge cannot now be put to use elsewhere. Citizens therefore give up additional computers, televisions, cars, clothing, and flights, which they would have had if the government had not commandeered scarce resources for its own use.

North Carolina. For North Carolina residents, spending by state and local governments has increased dramatically over the past 30 years. Data from the Office of State Budget and Management





and the N.C. State Treasurer reveal that, after controlling for inflation, between 1980 and 2009, per capita spending by state and local governments grew more than 141 percent, increasing from \$2,154 per capita to \$5,205, all in 2000 dollars. (See *Graph 3* below.) For a family of four, this amounts to more than a \$12,000 annual increase in real spending by state and local governments. Add to this increase in state and local government expenditures the 91 percent real increase in federal government expenditures during this same period, and it is apparent that North Carolina residents are seeing further erosion of their freedoms to individually determine how the fruits of their labor are allocated.

These data reveal an escalating trend by the federal government and state and local governments in North Carolina of assuming greater control over our productive output. When government consumes a larger share of what individuals produce, it shifts decision making about how resources are allocated from the private sector (individuals and firms who legitimately own the right to decide how resources are used) to the public sector (politicians and bureaucrats allocating resources based on political preferences). Along with eroding freedoms, this shifting of decisions about how our resources and the goods we produce are used from the private to the public sector undermines private institutional means of solving social problems.

The Growing Burden on NC Taxpayers

Government expenditures must be financed, and only two means exist for doing so: taxing and printing money. Governments can certainly borrow money for expenditures today, promising to repay it later, but that simply shifts the day of reckoning from today to some date in the future. Paying off government debt when it comes due requires either increasing taxes, or printing new money. So

deficit spending is only a process of tax shifting, not of tax avoidance.

Since the focus of this article is the current tax burden, it will look only at the taxes paid by North Carolina's residents to fund government at all levels. But it is important to remember that both tax cuts without corresponding spending cuts, or spending increases without corresponding tax increases, still require future tax increases on North Carolina residents.

Increasing expenditures by federal, state and local governments over the past 25 years and more have caused the tax burden faced by North Carolina's residents to increase substantially. As *Graph 4* below illustrates, the real per capita federal, state and local tax burdens imposed on North Carolina's residents increased nearly 86 percent between 1981 and 2007. (It has subsequently decreased due to the recession.) After adjusting for inflation, residents of North Carolina paid more than \$4,600 per capita in additional federal, state and local taxes in 2007 relative to what they paid in 1981, increasing from \$5,386 to just over \$10,000. It has since declined nearly \$2,000 per capita due to the current recession, but just as water flows downhill we can expect the growth rate of taxes to return to their pre-recession levels after it ends. An average family of four now faces an additional \$18,400 real tax burden compared to a family of similar size in 1981.

On a percentage basis, state and local governments were responsible for the lion's share of this 86 percent increase in the total tax burden faced by North Carolinians since 1981. But it was federal government spending that increased most in absolute terms during this time. Real per capita state and local taxes increased more than 88 percent between 1981 and 2007, rising from \$1,623 to just over \$3,000. By comparison, the federal tax burden, which increased 85 percent, accounted for roughly \$3,200 of the nearly \$4,600 increase in per capita federal, state and local taxes. In either case, excluding the temporary decrease in tax revenues due to the recession, in real terms, families in North Carolina today pay an additional 88 cents in taxes for each dollar they or their parents paid in 1981.

Some argue that the correct metric for evaluating taxes paid through time is to compare changes in per capita taxes as a percentage of per capita income. This, it is presumed, is a better measure of the tax burden since it reveals the amount of our incomes consumed by taxes rather than the absolute change in real taxes paid. In other words, if the total taxes paid by the average North Carolina resident increased 50 percent, while during that same period their per capita income increased 60 percent, then on net, the percentage of their income consumed by taxes actually fell and the tax burden is less significant.

Measured in this manner, between 1981 and 2009 the combined federal, state, and local per

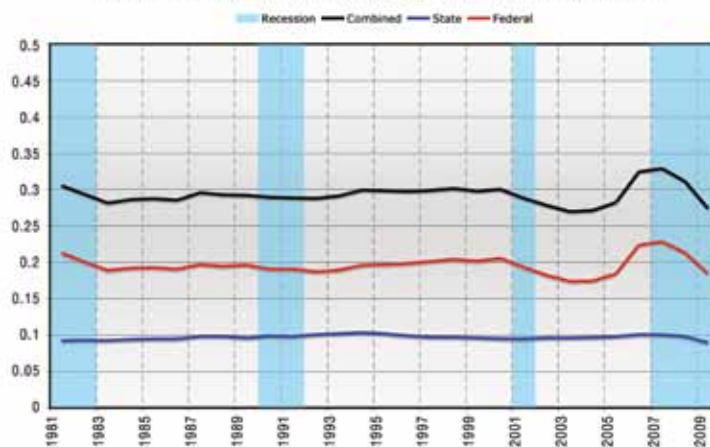
capita tax burdens on North Carolina residents hovered between 27 and 33 percent of per capita income. State and local taxes consistently consumed about 10 percent of this, which means nearly all the variance in the combined federal, state, and local tax burdens resulted from changes in federal taxes alone. (See *Graph 5* below.) This variance is due largely to Congress using tax policy to carry out fiscal stimulus measures during periods of recession. This is evidenced in the graph by the downward trend of the federal tax burden at the onset of each of the four recessions we've experienced since 1981. We also observe taxes increasing after each recession ended. (This has not yet occurred for the most recent recession, which is still in process.)

The opinion that it is more relevant to compare the per capita tax burden as a percentage of per capita income is premised on a number of faulty assumptions. First, it assumes that goods and services supplied by governments are normal goods and services, in that as incomes increase people wish to consume more of them. For example, housing, cars, and food are normal goods; as incomes rise people demand larger homes, nicer cars, and better dining experiences. But does this apply to the demand for government goods and services too? It may certainly be true in some cases, such as the desire for better police and fire protection as America becomes wealthier as a nation. But it is a stretch to say it applies universally to government spending, considering the public's perception of wasteful pork barrel projects, a failing educational system, and expanding public sector employment with workers retiring at age 45 and receiving six-figure pensions.

Second, and more importantly, if goods and services that are supplied by government, or provided by government through private contractors, are indeed normal by taxpayer standards, then should we expect to see more supplied on a voluntary basis? Some goods and services provided either directly or indirectly through government are normal goods and services, but it is inconceivable to believe that all are public goods that could not be provided voluntarily through fees. A person may desire another golf course or a new local park as a result of rising incomes, but the true test of the assumption that such goods or services are normal is that participation is voluntary and not coerced by taxing people who do not golf. Much of what governments today either supply or contract for are not public goods in the sense that beneficiaries of these goods and services could not be excluded for not paying. The supply of such goods and services should be self-sufficient through voluntary contributions. A free society cannot survive when taxpayers are forced to subsidize the desires of others.

What matters to taxpayers is that every dollar paid in taxes decreases by at least one dollar what they would have had to spend on other goods or services, including vacations and other forms of en-

NC Tax Burden as a Percentage of Per Capita Income



tertainment, better housing, cars, clothing, nutrition, better education for their children, and charitable contributions. The true measure of a tax burden is not the percentage of our incomes it consumes, but the opportunity cost imposed on taxpayers—what individuals could have done with their money had it not been taken by governments in too many cases to provide for the whims of politicians. For North Carolinians, in real terms that opportunity cost has been increasing consistently and significantly through time for federal, state and local taxes.



Tax Source	Recipient	Share of State & Local Taxes	Burden on an Average Family of Four
Individual Income	State	32.93%	\$4,638.63
Property Tax	Local	21.66%	\$3,051.43
Sales and Use	State	15.66%	\$2,205.24
Sales and Use	Local	8.21%	\$1,155.71
Corporate Income	State	4.55%	\$640.70
Motor Fuels	State	3.72%	\$523.80
Highway Use	State	1.90%	\$267.09
Franchise	State	1.67%	\$234.59
Total		90.29%	\$12,482.60

Federal, state and local governments collected a total of \$103.9 billion in taxes from North Carolina residents for 2007. This means that for 2007, an average family of four paid a bit more than \$48,000 in various federal, state and local taxes. Of this \$48,000 family tax burden, an estimated \$33,500, or about 70 percent, was sent to Washington, DC to fund federal programs and federally directed programs. Eighty percent of federal tax revenue was derived from individual income (42 percent) and payroll taxes (a little more than 38 percent). The remaining twenty percent was from corporate profits taxes (13.72 percent), excise taxes (3.23 percent), customs duties (1.14 percent), and miscellaneous sources such as gift and estate taxes, user fees, and revenues (1.64 percent).

State and local governments in North Carolina collected more than \$31.9 billion for 2007, imposing a tax burden of \$14,800 on an average family of four. These state and local taxes were collected from more than 40 different sources, though a bit more than 90 percent of the total revenues collected came from just eight. (See Table 1 below.) Individual income taxes paid to the state made up approximately one-third of all state and local taxes collected, with property taxes paid to local governments accounting for 21.66 percent. Both the federal and state governments collect sales and use taxes, with the state portion accounting for 15.66 percent of total taxes paid and the local governments taking 8.2 percent. Corporate income taxes generated \$1.45 billion for the state, or 4.55 percent of the total collected. Rounding out the remaining highest revenue generating sources of state and local governments were motor fuels taxes (3.72 percent), highway use taxes (1.90 percent) and the franchise tax on corporations operating in North Carolina (1.67 percent).

Taxes imposed on businesses, such as the corporate income tax, the franchise tax, and the employer portion of FICA, are borne by individuals and families, not businesses. Despite the fact that businesses actually remit the tax payment to the government, taxes are ultimately paid for by individuals. The revenue generated by businesses to pay these taxes

comes from raising prices to consumers and reducing profits paid to the owners of firms. This means that, notwithstanding who actually remits the money to the government, individuals and families pay these taxes through reduced profits and shareholder value, reduced pension benefits and other retirement savings, higher prices and reduced wages.

Conclusion

Over the past 80 years, government at all levels has expanded considerably in both size and scope. To fund this expansion, families in North Carolina have incurred an increasing tax burden, which has caused two serious problems.

First, where society once relied on families and other social institutions to peaceably solve social problems, there is now more government intervention and control. As a consequence, the social relationships that emerged voluntarily over time to advance the human condition have been increasingly forced to give way to political solutions that progressively erode our freedoms and our most sacred institutions, all too often serving the interests of the politically connected at the expense of everyone else.

Second, this increasing tax burden has made it more difficult for families to meet their financial obligations. Necessities such as housing, food, clothing, retirement, education, charity, and transportation are sacrificed to fund ever-expanding government budgets. Consequently, an increasing number of families are finding it difficult to make ends meet without both parents working outside the home. Additionally, it forces families to sacrifice other higher valued uses of their incomes to fund government programs they value less, with some actually antithetical to their core values and beliefs. ❖

1. Jonathan Sacks, chief rabbi of Britain and the British Commonwealth claims that, "It is through exchange that difference becomes a blessing, not a vice." Sacks, Jonathan. *Dignity of Difference: How to Avoid the Clash of Civilizations*. Continuum, 2003; page 22.
2. Stark, Rodney. *The Victory of Reason: How Christianity Led to Freedom, Capitalism, and Western Success*. Random House, 2006.
3. Beito, David T., Peter Gordon and Alexander Tabarrok. *The Voluntary City: Choice, Community and Civil Society*. The Independent Institute, 2009.
4. Data provided through LINC (Log Into North Carolina) at <http://linc.state.nc.us/>
5. Office of State Budget and Management, "North Carolina Tax Guide, 2009," page 4.

Mark Steckbeck, Ph.D., is an Assistant Professor of Economics at Campbell University. For a footnoted version of this article please visit ncfamily.org