CHAPTER Ea
Government Finance and Employment

Editor: John Joseph Wallis

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One of the most prominent features of modern economies and societies is the significant role played by government. In the United States, government purchases of goods and service (federal, state, and local governments combined) composed 18 percent of gross domestic product (GDP) in 2000 (series Ca79). This chapter traces the growth and changing shape of American government from 1787 to the end of the twentieth century through its most visible and quantifiable aspects: the revenues it collects, the expenditures it makes, the debts it incurs, and the people it employs. Government does much more than is reflected in financial and employment data, of course. Those government records do not reflect laws, regulations, and politics, but they are the framework on which any study of American government must be built.

The History of the Accounts

The United States has not one government but many. Counting all of the governments in the United States is a daunting task. In 1940, when the first complete count was made, there were 155,116 governments: one national government, 48 state governments, 3,050 county governments, 16,220 municipal governments, 18,919 township and town governments, 108,579 school districts, and 8,299 special districts (Table Ea1–9). Over the course of the twentieth century, the number of governments declined with the consolidation of school districts, which shrank to only 14,556 in 1992, but this decrease was offset by an increase in the number of special districts, which rose to 33,131 in 1992. There are no estimates of the number of governments before 1900. Because knowing how many governments there are to count is a prerequisite to knowing that you have counted all of the governments, there are no complete counts of government activity in the United States before the census of governments taken in 1902.

Although the national government and every state published financial records in every year, systematic collection of government financial data by the national government did not begin until the 1850s. The census gathered information on state, county, and other local governments. Initially, their primary area of concern was public debt and the level of taxation, and the results were published in a series of census volumes with various titles, all something close to "Wealth, Debt, and Taxation."[1] Coverage in succeeding censuses improved, but it was not until the Census of 1902 that the census attempted complete coverage of all governments in the United States. The Census of 1902, therefore, is the starting point for the financial statistics on national, state, and local governments presented in this chapter.

The 1902 Census was followed by similar, but less complete, censuses in 1913, 1922, and 1927. These censuses were less complete in their coverage of governments (excluding small local governments) and in their coverage of functions (excluding some types of expenditures and revenues). More complete, but still partial, censuses were conducted in 1932 and 1942. Legislation mandating a complete census every five years was passed in 1952, but funding for the 1952 Census was not forthcoming. The first postwar Census of Governments was conducted in 1957. They have been conducted every five years since.

The tables for the twentieth century begin with the years 1902, 1913, 1922, 1927, and 1932, because those are the years for which data are available. Between 1932 and 1952, accounts are presented for every other year, with intercensal years based on estimates. Since 1952, the Census of Governments has collected extensive samples of government activity every year, including information on every state, all counties, and major municipal governments. Annual estimates of government finance at every level of government are available after 1952.

Readers interested in general histories of government finance in the United States can consult Dewey (1968 [1934]) or Studenski and Kroos (1963); nothing comparable to those books is available for the late twentieth century. All the data on federal, state, and local government finance in Tables Ea1–583 are taken from the Census of Governments. This information is available electronically at the Census of Governments Internet site. A complete description of the current Census of Governments methods can be found in "Federal, State, and Local Governments Government Finance and Employment Classification Manual," *Census of Governments, 1997*. The most complete discussion of all the twentieth-century data can be found in "Historical Statistics on Government Finance and Employment," *Census of Governments, 1982*. The material on federal government finance (Tables Ea584–826) is taken from various federal government sources. As discussed in the next section, the accounting concepts used vary over time, and readers with

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[1] Late nineteenth-century census data can be found in U.S. Department of the Interior (1866, 1872, 1884, and 1895) and U.S. Bureau of Census (1907 and 1915).

specific interest in how these data are created should consult the references in the source notes to the individual tables. Information on government employment (Tables Ea827–965) is limited to the federal government before 1940. After 1940, information on government employment by level of government and type of employment is available through the Census of Governments. Federal government employment statistics are taken from Congressional, Civil Service Commission, and Bureau of Labor Statistics sources. Revisions to the official series made by Johnson and Libecap (1994) have also been included.

Terms and Concepts

Revenues, expenditures, and debt seem like straightforward concepts. Upon examining the tables in this chapter in detail, however, some problems arise. For example, Tables Ea132–159, Ea348–384, and Ea489–518 give total revenues for federal, state, and local governments, respectively. But those three numbers do not add up to the total revenues for all governments combined given in Table Ea24–51 How can that be? To answer that question and to understand something of the nature of the government accounts, we need to consider three problems: time, multiple governments, and governments with multiple budgets.

The first problem stems from the fact that government activity spans long periods of time but that financial accounts must be constructed for arbitrary periods, such as a year. Suppose that a government decides to build a bridge for $1,000,000. It finances construction of the bridge by issuing $1,000,000 in 5 percent bonds in year 1 and builds the bridge in year 1. Then in year 2 it levies $1,050,000 in taxes and pays off the bonds. In the first year, this government had revenues of $1,000,000 from loans and spent $1,000,000 on bridge construction. In the second year, this government had $1,050,000 in tax revenues and expenditures of $1,050,000 in loan repayments. Over the two-year period, this government collected $2,050,000 in revenues from all sources and spent $2,050,000 on expenditures for all functions.

This doesn't make sense. This government built a $1,000,000 bridge, paid $50,000 in interest, and levied $1,050,000 in taxes to pay for the two expenditures. Counting all the money that a government receives in a given year as revenues, or all the money that a government spends in a given year as expenditures, produces double counting. In the case of government borrowing and loan repayment, the problem is dealt with by the following rules: Government revenues do not include revenues from loans, and government expenditures do not include expenditures for the repayment of loan principle.

This accounting convention eliminates double counting, and it produces the concept of a budget deficit (as in series Ea586). If a government borrows money to balance its budget, since loans are not included in revenues, the amount by which expenditures exceed revenues is the current budget deficit. In subsequent years, repayments of the loan principle are not treated as expenditures, although interest payments are. When loans are being repaid, the result is a budget surplus (all else being equal). This can produce a somewhat confusing outcome because the government has a surplus but no extra money (all the surplus is going to repay debt). The concepts of budget deficits and surpluses are net concepts; the government cannot have a deficit and a surplus in the same year. They are the change in "net debt." Over time, the accumulated deficits produce a "government debt," which is the total amount of debt owed in a given year. This is not the same as a government deficit, which refers to the amount borrowed (repaid) in a given year. Accumulated surpluses that are not used for debt repayment produce government assets (in the form of bank deposits, currency holdings, other financial assets, land, public buildings, and so forth).

The second problem introduced by time is how and when to account for revenues and expenditures. This problem is analogous to the record of your household income and expenses kept in your checkbook and the record of your income and expenses kept by the bank. Every day, you record deposits and checks in your checkbook. Every month the bank sends you a statement that lists the deposits and checks they have credited and debited to your account and the dates of the transactions. Even if the amounts in your checkbook agree exactly with the bank numbers, the dates in your checkbook for checks issued will not agree with the bank statement's dates for checks redeemed: the timing of the two accounts will be different.

Governments typically have the following arrangement. The treasurer keeps accounts of the checks written, often called warrants. The treasurer's accounts are like your checkbook. Another government office or official, often called a comptroller or an auditor, does an independent verification of the warrants that have actually been paid. The auditor's accounts are like your bank statement. The two accounts are reconciled by the amount of warrants outstanding. Over time the two accounts give the same results, but in individual years they can look very different. The distinction is important historically because the federal government accounts presented in Tables Ea584–593 and Ea636–643 are based on warrants issued for 1789–1915, daily Treasury statements for 1916–1939, a consolidated cash basis for 1940–1953, and the unified budget concept beginning 1954. These accounting methods are discussed later in this chapter. The differences between them are essentially differences in timing and how interfund transfers are accounted for.

In general, the accounts that follow are organized on the basis of warrants redeemed. That is, they are like your bank statements rather than your checkbook. They record transactions when money is received or warrants are paid, not when warrants are issued. This is a basic concept in the Census of Governments accounts that are used in Tables Ea1–583.

The third major issue arises because there are multiple levels of government in the United States, and, particularly at the local level, these multiple governments are serving the same geographic area. From the very beginning of our history, governments have transferred funds to one another. The most common example is federal government grants to the states. The first grant was embodied in the Northwest Ordinance, which gave public land to states for the support of education. When the federal government gives money to a state, how is that to be treated in the accounts? If grants are counted both as expenditures of the federal government and revenues of the state government, then the total of government expenditures will double count grants. There are four possible ways to control for double counting. Grants can be credited to the granting or to the receiving government, and this can be done for both revenues and expenditures. None of the four ways is more "true" than the others, but two are regularly used in public finance. Typically, when considering revenues, grants are credited to the granting government (grants received are subtracted from the gross revenues of the recipient government). This measure is

called direct revenues because it reflects only revenues raised directly by the recipient government, as opposed to total revenues, which reflect all the nonloan receipts of the government. Expenditures are typically calculated by crediting the grants to the recipient government (grants made are subtracted from the granting government). This is why the sum of total expenditures for federal, state, and local governments exceeds the sum for total expenditures in Table Ea24–51, which gives revenues for all three levels of government combined. In Table Ea24–51, grants have been netted out.

Intergovernmental grants and other transactions occur between state and local governments and, importantly, among the multiple levels of local government. One of the most common forms of local government is the school district, and school districts often receive subsidies from state, county, or municipal governments. This poses a serious obstacle to getting an accurate picture of government activity in the nineteenth century. Not only must information be gathered on thousands of local governments, but the financial relationship between those governments needs to be sorted out to avoid double counting. In Tables Ea1–583, all local government revenues and expenditures are net of grants.

The next major problem is the existence of multiple accounts within governments. The Social Security fund of the federal government provides an example. Individuals pay payroll taxes into the Social Security fund. The amount of taxes paid into the fund usually exceeds the payments made to Social Security recipients. The fund invests its surplus receipts in federal government bonds. This creates a situation where the federal government is borrowing from itself: bonds are issued to the Social Security fund, which holds them, and interest is paid from the general fund of the federal government to the Social Security fund. Should the bonds held by the Social Security fund be counted as part of the national debt? Should interest payments to the Social Security fund be counted as expenditures of the federal government? And if so, should those interest payments be counted as the revenues of the Social Security fund, and thus of the federal government?

In general, interfund transfers within governments are not treated as revenues or expenditures. Over time, the federal government accounts in Tables Ea584–826 have used a variety of different methods to "consolidate" or "unify" the accounts of the different funds within the federal government. The details of those accounting methods can be found in the sources cited in the notes to the tables. Careful students of government should always be aware, however, that different agencies of the federal government (as well as state and local governments) do not all use the same budget concepts. Over the last several decades of the twentieth century, there has been an ongoing debate over the treatment of the Social Security fund surplus (or deficit) in the federal accounts. Because Social Security payroll taxes reflect a claim on future government expenditures, some argue that the "surplus" in the fund is not really a surplus at all, but funds set aside to cover future government liabilities (here the issue of time raises its head again). At times, the Office of Management and Budget in the executive branch and the Congressional Budget Office in the legislative branch have used different methods of accounting for Social Security (and other items), producing two very different versions of the federal accounts. Table Ea726–730 distinguishes between debt held by the public and debt held by federal agencies.

The last complication is publicly owned or operated businesses, which go under a number of names. Many local governments own and operate public utilities such as water and sewer systems, and the federal government owns and operates several large corporations to provide services in the market for home mortgages and student loans. How should the accounts of these business enterprises be incorporated into the government accounts? In the early years of the twentieth century, the receipts of most public enterprises were treated as revenues, and their expenses were treated as expenditures. Since the 1930s, the net earnings of most public enterprises are treated as an item in "other" revenues.

Tables Ea1–583 are taken from the Census of Governments accounts for the twentieth century. In these accounts, every effort has been made to consolidate all intergovernmental and intragovernmental transactions. These accounts reflect all the money paid into and paid out of governments in the United States in a given fiscal year. Tables Ea584–826 reflect the different accounting systems used by the federal government over time.

Government History: The Long View

War Finance

Four prominent historical patterns stand out in these tables. The first is the effect of wars on federal government finance. Tables Ea584–587 and Ea679–682 report federal government revenues, expenditures, and debt from 1787 to 1992. Expenditures have sharp peaks in 1812–1816 (the War of 1812), 1863–1865 (the Civil War), 1918–1919 (World War I), and 1943–1945 (World War II). The expenditure peaks are matched by revenue humps. That is, the sharp increases in wartime expenditures are matched by increases in revenues that continue for several years after the war is over. War finance involves both taxing and borrowing, as can be seen by the rising size of the budget deficit in wartime, as well as the persistently higher levels of federal debt following the wars. Expenditures for defense are reflected in two ways in the accounts. The first is direct expenditures for defense, and the second is interest on federal government debt, both in Tables Ea636–643 and Ea698–703 (this is a good example of why repayment of debt principal should not be included in expenditures). In most years, federal government expenditures on defense and interest are well over 50 percent of federal government expenditures, and in and after wars, they are well over 75 percent. Until the end of the 1930s, federal government finances were dominated by the pattern of expenditures, revenues, and debts required by war finance.

The Era of State Finance

Other patterns in government finance extend back into the nineteenth century. Over the nation's history, government finance has gone through three distinct systems. Each era was characterized by one level of government taking the lead in promoting economic development, and each era was characterized by a dominant source of government revenue. The first financial system lasted from 1790 until about 1842. In this period, state governments took the active lead in promoting economic development through infrastructure investment and legal innovation to promote corporations and banks. Infrastructure investment and land sales offered governments the opportunity to collect "asset income." State governments were uniquely situated to charter corporations and create asset income in the process. Given the national government's unwillingness to participate in transportation improvements, states took the lead in those investments as well.

Complete data are not available for state and local governments in the nineteenth century (see the estimates in Davis and Legler 1966). Tables Ea-A and Ea-B present estimates of federal, state, and local revenues per capita at decade intervals in the nineteenth century, as well as the level of government debt at selected dates.

TABLE Ea–A Government revenues, by level of government – per capita and as a share of gross national product: 1800–1900

Year	Dollars per capita				Total as a percentage of GNP
	Federal	State	Local	Total	
1800	1.96	0.42	—	—	—
1810	1.80	0.36	—	—	—
1820	2.52	0.56	—	—	—
1830	2.07	0.54	—	—	—
1840	1.50	0.88	1.23	3.60	4.0
1850	1.93	0.99	1.23	4.14	4.2
1860	3.32	1.72	2.17	7.20	5.4
1870	9.82	2.34	5.48	17.64	8.4
1880	6.39	1.70	4.98	13.07	5.7
1890	5.74	1.84	5.96	13.55	6.4
1900	6.42	2.43	8.83	17.68	7.2

Sources

Wallis (2000) and Sylla, Legler, and Wallis (1993).

TABLE Ea–B Government debt, by level of government: 1838–1902

Year	Debt (million dollars)			Percentage of total		
	State	Local	National	State	Local	National
1838	172	25	3	86.0	12.5	1.5
1841	190	25	5	86.4	11.4	2.3
1870	352	516	2,436	10.7	15.6	73.7
1880	297	826	2,090	9.2	25.7	65.0
1890	228	905	1,122	10.1	40.1	49.8
1902	230	1,877	1,178	7.0	57.1	35.9

Sources

Wallis (2000) and Sylla, Legler, and Wallis (1993).

The clearest indicator of state government activity in the nineteenth century is government debt. In the early nineteenth century up to 1842, state governments promoted banking through government ownership and assistance, and transportation through the construction and subsidy of turnpikes, canals, and railroads. In the late 1820s and 1830s there was a canal "boom." By 1841, state government borrowing for banks, canals, and railroads had increased state debt to the point that it was roughly eight times that of the national and local governments combined. State investments in transportation and banking, along with taxation of business, enabled many states on the eastern seaboard to eliminate their property taxes by the middle of the 1830s (Sylla and Wallis 1998; Wallis 2001). The high level of debt created serious problems for state governments in the economic depression that began in 1839. By the summer of 1842, eight states and the territory of Florida were in default on their debts. In the 1840s and 1850s, constitutional changes in many states made it more difficult for states to borrow money and make investments in social infrastructure.

In the early nineteenth century, the federal government usually collected more taxes than state governments, and most of those taxes went to direct military expenditures or interest on debt. With the exception of a few years with extraordinary revenues from land sales in the mid-1810s and mid-1830s, customs revenues on imported goods accounted for more than 80 percent of all federal government revenues (Table Ea588–593). Local government revenues are imperfectly estimated and appear to fall between federal revenues and state revenues. The evidence we have suggests that local government relied heavily on the property tax. As the nineteenth century progressed, local governments became larger.

The Era of Local Finance

The second financial system began to unfold in the 1840s (Legler, Sylla, and Wallis 1988). It was dominated by local governments and property taxation. Local governments grew in size and importance and took over most of the important infrastructure investment in education, roads, water systems, sewer systems, and public utilities. Property taxes continued to be the most important source of local and state finance. By 1902, local debt was $1.877 billion, about eight times the amount of total state debt. National debt was $1.178 billion in 1902, consisting primarily of debt from the Civil War (Table Ea125–131). In rough terms, local government revenues were about 40 percent higher than state revenues in 1840; in 1902, they were 4.6 time state revenues (Table Ea10–23). Local government revenues exceeded national government revenues, $858 million to $653 million. By 1900, local governments had clearly become the most active level of government in the United States.

Property taxes came to dominate the state and local revenue structure after 1842 as well. State property taxes were roughly 16 percent of revenues in the years between 1835 and 1841 (Wallis 2000, 2001); by 1902, property taxes accounted for 57 percent of all state revenues (Table Ea348–384). The continued reliance of states on the property tax was, in part, the result of the constitutional changes begun in the 1840s. State debt limitations typically established procedures for new debt issue that effectively required states to raise property taxes to fund debt. The property tax had always been a mainstay of local finance, and in 1902 property taxes were 73 percent of all revenues raised at the local level (Table Ea489–518). Overall, property taxes accounted for 42 percent of all revenues at the national, state, and local levels combined and were the single most important source of government revenue in the country (Table Ea24–51). Customs revenues continued to be the most important source of federal revenues, providing more than half of all federal revenues in most years through the end of the nineteenth century.

The Era of Federal Finance

On the eve of the Great Depression, local governments collected more than half of the tax revenues collected by all governments; they had incurred a debt for their investments equal to the national debt that remained from World War I, and property taxes were more than 40 percent of all government revenues. The Great Depression and New Deal ushered in the third financial system. This system had two expenditure components: a federal system of domestic economic programs (including infrastructure investment), funded by national grants and administered by state and local governments, and a national system of national defense and old-age

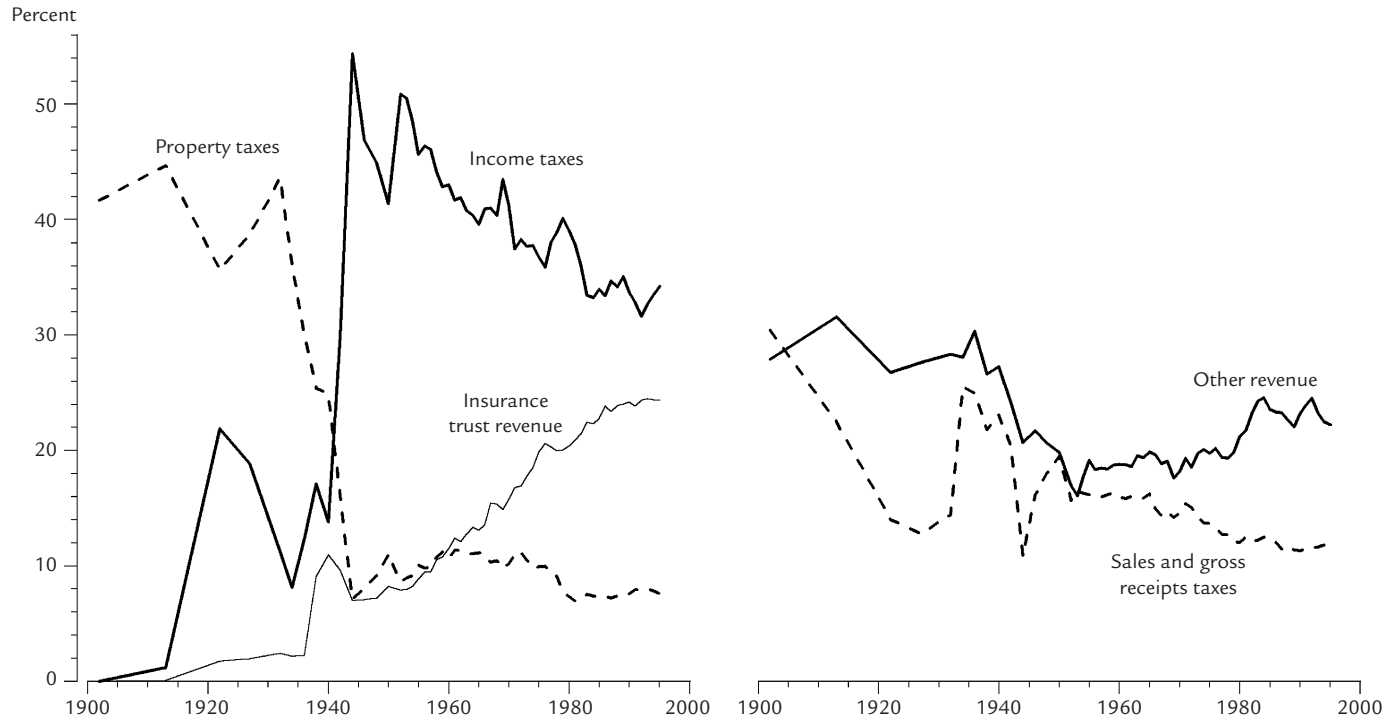

FIGURE Ea-C Total government revenue, by source: 1902–1995

Source

Computed from Table Ea24–51.

Documentation

In this graph, "other revenue" consists of the following: other taxes (series Ea34), charges and miscellaneous revenue (series Ea35), and utility and liquor store revenue (series Ea38).

security. Income and sales taxes became the most important source of government revenue at the national and state levels (see Figure Ea-C). Even though this system has not been static, the basic relationships among national, state, and local governments remained in place for the rest of the twentieth century.

During the 1930s, the relative fiscal importance of national and local governments shifted substantially, and the national government became the largest level of government (Table Ea10–23). This change had two distinct parts: the federal system and the national system. The federal system provided welfare services, agricultural price supports, and public works projects and was financed through intergovernmental grants. Franklin D. Roosevelt and the New Deal Democrats constructed a federal system in which the national government collected revenue and the states administered expenditures. Cooperative federalism became the norm for intergovernmental relationships, and national grants to state and local governments, which had been extremely small before 1933, grew to 9.4 percent of national expenditures in 1940, 15.4 percent in 1977, and 16 percent in 1995 (Tables Ea10–23 and Ea220–246). National grants now account for roughly 16 percent of state and local revenues (Table Ea247–275), and grants from federal and state governments account for more than one third of all local government revenues (Table Ea489–518). A system of central revenue collection and decentralized expenditure and administration became the standard model for administering programs in education, highways, water and sewage systems, and public welfare.

The national system was built around the two responsibilities assumed by the national government during the New Deal and World War II: Social Security and a permanently large military establishment. The national government has always been primarily responsible for the national defense. Yet, even though expenditures for the military services and the expense of servicing and retiring war debt had occupied a large share of the national budget prior to 1940 – usually 40 to 50 percent of all spending even in peacetime – these expenditures exceeded 1 percent of gross national product (GNP) only during the Civil War and World War I. After World War II, military expenditures commanded between 5 and 7 percent of GDP each year until the late 1980s, as the nation fought cold and hot wars and the acceptable level of peacetime military preparedness increased. At the same time, commitments made during the New Deal to Social Security, together with the later commitments to Medicare and Medicaid, steadily required more resources. Outlays for Social Security, Medicaid, and Medicare were 4.5, 1.2, and 2.6 percent of GNP, respectively, in 1997 (Tables Ea171–219 and Ea698–703).

The growing importance of the federal government was associated with the growing importance of income taxes, broadly understood to include individual, corporate, and payroll taxes at both the national and the state level. One effect of the Depression was the adoption of new sales and income taxes between 1929 and 1933. National income tax collections actually fell between 1929 and 1933 and then rose through the rest of the 1930s. Income tax collections jumped during World War II when the income tax was dramatically expanded by the reduction in personal deductions, increases in marginal tax rates, and the beginning of withholding. The country emerged from the war with a completely different revenue

structure, one that has remained largely in place until the present. The importance of the income tax for government revenue overall can be seen in Table Ea24–51 and for the federal government is illustrated in Tables Ea132–159, Ea588–593, and Ea683–697. Details on the federal income tax can be found in Tables Ea594–635 and Ea731–826.

Once income and payroll taxes had risen to prominence, the national government had an advantage in collecting revenues. Through the administration of the Social Security payroll tax, the national government possessed an enormous amount of information on wages and salaries, information critical to the administration of a broad-based income tax, and had experience with the administrative machinery necessary to put an income tax in place. State and local governments could piggyback on the IRS information, but as small jurisdictions they are relatively more constrained by the mobility of business and labor. In 1992, personal and corporate income taxes were $716 billion, of which 80 percent was collected by the national government, 18 percent by state governments, and only 2 percent by local governments. An additional $394 billion in Social Security payroll taxes was collected by the national government. Together, income and payroll taxes accounted for 49 percent of the $2.266 trillion in government revenues in 1992.

In 1902, property taxes were the most important source of state revenues. The ability to tax automobiles and gasoline provided states with an important new source of sales tax revenues, and by taking advantage of the information provided by the federal income tax, states were able to levy their own income taxes. By 1940, property taxes had fallen to less than 10 percent of state revenues, replaced by sales and income taxes. In the 1990s, property taxes were less than 2 percent of all state revenues, while sales taxes were roughly 26 percent and income taxes were 20 percent of state revenues (Table Ea348–384). On the other hand, property taxes continued to be the single most important source of local revenues to the end of the century (Table Ea171–219).

Sources of Government Growth in the Twentieth Century

A simple way to look at the sources of government growth is to calculate the increase in the size of government over time, and then to allocate the increase in government revenues and expenditures among different revenue sources and expenditure functions. This is done in Table Ea-D, using the data in Tables Ea24–51 and Ea61–124.

The first four columns of the top panel show the share of growth in all government revenues attributable to the growth in each revenue source, for three thirty-year periods and for the entire ninety-year period from 1902 to 1992. In the early part of the century, growth in property taxes was the most important source of new government revenue, but over the second half of the century, income taxes and insurance trust revenues (primarily Social Security and unemployment compensation payroll taxes) are the most important sources of new government revenue. The last three columns present the share of total revenue accounted for by each revenue source in 1902 and 1992, and the ratio of those shares. Over the course of the twentieth century, revenue sources where this ratio is less than one fell in relative importance. Because there were no income taxes or insurance trust revenues in 1902, the ratio of their shares cannot be calculated.

The lower panel of Table Ea-D does the same for expenditures. The first four columns show the share in the growth of all government expenditures attributable to each expenditure function. Over the course of the twentieth century, the three largest sources of government expenditure growth were Social Security, defense, and education, with each contributing roughly the same amount to overall expenditure growth. The functions that have grown smaller as a share of government expenditures are the post office, veterans' benefits, and transportation.

Over the course of the twentieth century, government in the United States became much larger. The sources of government

TABLE Ea-D Sources of government growth, by revenue source and expenditure function: 1902–1992

	Percentage of growth explained by each source or function				Percentage of total accounted for by each source or function		
Revenue source or expenditure function	1902–1932	1932–1962	1962–1992	1902–1992	1902	1992	Ratio: 1992 to 1902
Revenue							
Property taxes	44	9	8	8	42	8	0.19
Sales and gross receipts taxes	11	16	11	12	30	12	0.38
Individual income taxes	6	30	26	26	—	26	—
Corporate income taxes	8	13	5	5	—	5	—
Charges and miscellaneous revenue	16	11	20	19	15	19	1.25
Utility and liquor store revenue	5	3	3	3	4	3	0.76
Insurance trust revenue	3	13	25	24	—	24	—
Total explained	**92**	**96**	**97**	**97**	**91**	**97**	—
Expenditure							
Defense	5	33	13	14	10	14	1.42
Education	19	13	14	14	16	14	0.89
Welfare	4	3	9	8	2	8	3.29
Health	5	3	4	4	4	4	1.15
Interest	11	5	11	10	6	10	1.75
Other insurance trust	2	5	5	5	—	5	—
Social Security and medical	0	8	17	16	—	16	—
Total explained	**46**	**70**	**73**	**73**	**38**	**73**	—

Sources

Computed from Tables Ea24–51 and Ea61–124.

revenue changed dramatically. In 1902, there was no income tax, individual or corporate, and no payroll taxes for Social Security and unemployment compensation. In 1992, income and payroll taxes made up 55 percent of all government revenues. On the expenditure side, however, things have not changed nearly as much, with the exception of the growth of the welfare system and the expansion of old-age pensions through Social Security. Defense made up 10 percent of expenditures in 1902 and 14 percent in 1992; education accounted for 16 percent in 1902 and 14 percent in 1992; health was 4 percent in 1902 and 4 percent in 1992; and interest on government debt represented 6 percent in 1902 and 10 percent in 1992. American government has grown enormously, changed radically in some ways, and remained very much the same in others.

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