POLICY BACKGROUNDER No. 104
For people with limited time
and a need to know.

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Budget Summit Issue:

HOW TO STIMULATE ECONOMIC GROWTH AND REDUCE THE DEFICIT AT THE SAME TIME

Background. President Bush and congressional leaders have agreed that any new budget package must contain incentives for investment and capital formation. The overriding reason for the budget summit is to reduce the federal deficit, however. This backgrounder addresses ways of achieving *both* goals.

"After taxes, for each $1 of capital income, there are $12 dollars of wage and salary income."

Why Capital Formation Affects Everyone. In general, we cannot make capital accumulation attractive without benefiting people who *already* hold capital. Thus, proposals to create incentives to save and invest are often derided as giveaways to large corporations and wealthy taxpayers. Capital accumulation affects everyone, however. More saving means more investment. More investment means higher productivity and higher wages for workers. Even people who do not save and invest have a stake in policies that encourage capital formation. In general:[1]

- For each $1 of aftertax income to holders of capital, there are $12 of aftertax income in the form of wages and salaries.

- This means that an increase in capital ultimately benefits wage earners far more than the holders of capital.

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"Doubling the U.S. growth rate would double the retirement income of all young workers."

Why Economic Growth Rates Matter. Currently, the U.S. economy is growing at an anemic 2 percent per year in real terms. If we could boost the growth rate to a robust 4 percent, the impact on the economic well-being of American workers would be enormous.

- At a 2 percent rate of growth, our real gross national product (GNP) will *double* in 36 years — about the length of the average worker's career.
- At a 4 percent growth rate, GNP would *quadruple* in 36 years.
- Moving to the higher growth rate would *double* the size of the retirement pensions of today's young workers.

"Lesson of the 1980s: People respond to tax incentives."

Lessons from the 1980s. Economists are accumulating an impressive amount of data about the 1980s. Most of this research is so far unreported. Perhaps the most exciting discovery is the enormous power of incentives to change economic behavior. Harvard economist (and current White House advisor) Lawrence Lindsey explains:[2]

> "Some of the more extreme supply-side hypotheses were proven false. But the core supply-side tenet — that tax rates powerfully affect the willingness of taxpayers to work, save, and invest and thereby also affect the health of the economy — won as stunning a vindication as has been seen in at least a half century of economics."

In what follows, we review some of the economic evidence from the 1980s and apply the lessons to policy prescriptions for the 1990s.

MAINSTREAM PROPOSALS

Each of the following proposals is designed to reduce taxes in order to produce more revenue. Some of the proposals would pay for themselves *immediately*. Others would pay for themselves *eventually* (say, by the end of the decade) as increased economic growth produces additional revenue in future years. All of the proposals would eventually reduce the federal deficit.

Proposal No. 1: Index Capital Gains. Because the tax brackets are indexed, wage earners cannot be pushed into a higher tax bracket by the effects of inflation alone. There is no similar protection for savers, however. People who sell assets are forced to pay taxes on inflation-created profits even if there has been no real profit.[3] [See table.]

"Indexing capital gains would create $60 billion in new federal revenue over the next decade."

Indexing capital gains would *increase*, not *decrease*, federal revenue. A bill passed by the House of Representatives last year would have created a temporary drop in the capital gains tax rate followed by long-term inflation indexing.[4] In a study for the National Center for Policy Analysis, former U.S. Treasury economist Gary Robbins showed that passage of the bill would have increased federal revenue by more than $60 billion over the next decade.[5]

"The Bush capital gains tax cut would produce $185 billion in new revenue over the next decade."

Proposal No. 2: Cut the Capital Gains Tax Rate on Income-producing Assets. Historical experience and the vast majority of academic studies confirm that a reduction in capital gains tax *rates* will produce more revenue in the form of *total* capital gains taxes.[6] Lawrence Lindsey, for example, estimates that government would collect maximum revenue at a rate of about 15 percent.[7] The Bush Administration has proposed lowering the rate to 19.6 percent (without indexing). The NCPA estimates that adoption of this proposal will produce $185 billion in additional federal revenue over the next decade.[8]

"The current system taxes inflation-created profits."

HOW INFLATION AFFECTS CAPITAL GAINS TAXES

	Historical Prices	Real Prices[1]
Asset Sale in 1990	**$3,000**	**$3,000**
Asset Purchase in 1971	**$1,000**	**$3,000**
Profit	**$2,000**	**0**
Taxable Gain Under Current Law	**$2,000**	

[1]Expressed in 1990 prices.

"A capital gains tax cut would help resolve the savings and loan crisis."

"Most of the increased revenue would come from wealthier taxpayers."

"The failure to index interest can be even more harmful than the failure to index capital gains."

Other Advantages of Capital Gains Tax Reform. Capital gains tax reform would also:

- Make stocks more attractive relative to bonds and thus reduce the corporate preference for debt over equity. The 1986 increase in capital gains tax rates encouraged leveraged buy-outs and junk bond sales.[9]

- Help reduce the federal government's liability in the savings and loan crisis, because it would immediately make the assets of defunct S&Ls more valuable to investors.[10]

- Make the middle-income elderly less dependent on the younger population. About one of every three elderly taxpayers has a capital gain each year, and among the middle-income elderly that figure rises to one out of two.[11]

- Increase federal revenue, in a highly *progressive* way. Taxpayers earning $75,000 or more would pay most of the increased tax payments.[12]

Proposal No. 3: Index Interest Income. As in the case of capital gains, there is very little inflation protection for investors who receive fixed-interest income. If the interest rate exactly equals the rate of inflation, investors are no better or worse off in real terms. Yet their interest income is taxed as though it were real income. In fact, the failure to index interest income can be even more damaging to an investor than the failure to index capital gains. If interest rates rise proportionately with the rate of inflation (as is the tendency), the tax on real income rises and destroys the value of the investor's capital investment.[13] [See table.]

Indexing interest income would increase the return on capital and encourage additional savings. Moreover, if indexing were also applied to interest *payments*, the federal government would gain revenue, even in the short run.[14]

"When the inflation rate goes up by 2 percentage points, the tax rate on real interest rises by 28 percentage points."

HOW INFLATION AFFECTS TAXES ON INTEREST INCOME

Market Rate of Interest	Rate of Inflation	Real Rate of Interest	Tax Rate on Real Income[1]
2%	0%	2%	28%
4%	2%	2%	56%
6%	4%	2%	84%
8%	6%	2%	112%
10%	8%	2%	140%
12%	10%	2%	168%

[1]Tax on real interest income. Assumes a 28 percent tax bracket.

Proposal No. 4: Index Depreciation Schedules. The tax code also fails to index the depreciation of productive assets in order to allow their replacement. In a period of no inflation, the tax law is reasonably fair. But if inflation averages 9 percent per year, in order to replace a machine after eight years a company must spend twice as much as it would if there were no inflation. This means the company must earn additional income and pay additional taxes equal to about one-fourth the replacement cost. [See table.]

"The current system penalizes investment in plants and equipment."

To deal with this problem, the 1981 tax law incorporated new investment incentives, of which the Accelerated Cost Recovery System (ACRS) was the most important. The results were dramatic:[15]

- The economic recovery of the early 1980s was the most investment-oriented recovery on record, despite high real interest rates.
- Whereas in a normal recovery, investment usually expands 8 to 9 percent in the first two years, in the Reagan recovery, investment expanded at twice that rate.

To repeat the experience of the early 1980s, we need to remove inflation-created disincentives to invest in plants and equipment. Inflation indexing is a reasonable way and it can also

HOW INFLATION AFFECTS THE REPLACEMENT COST OF A MACHINE
(After Eight Years)

	Rate of Inflation = 0%	Rate of Inflation = 9%
Purchase Price	$10,000	$10,000
Replacement Cost	10,000	20,000
IRS-allowed Depreciation	10,000	10,000
Additional Pretax Profit Needed for Replacement	0	15,151
Additional Taxes	0	5,151

be revenue neutral. As a member of Congress, Jack Kemp proposed the Neutral Cost Recovery System which would have indexed depreciation *and* increased federal revenue in every future year.

"The Social Security benefit tax is a tax on income from savings."

Proposal No. 5: Abolish the Social Security Benefit Tax. The elderly pay income taxes on up to one-half of their Social Security benefits if their *total* income (including benefits) exceeds $25,000 for individuals or $30,000 for couples. They pay taxes on 50 cents of benefits for each $1 of income above these thresholds. As a result, when the elderly receive $1 of income they pay taxes on $1.50 — causing their tax rate to be 50 percent higher than the rate paid by younger people with the same income. Because of the Social Security benefit tax:[16]

- Taxpayers in the 15 percent income tax bracket automatically face an effective income tax rate of 22.5 percent.

- Taxpayers in the 28 percent income tax bracket automatically face an effective income tax rate of 42 percent.

"The Social Security benefit tax is also a tax on the IRAs and pensions of all young workers."

The Social Security benefit tax is nominally a tax on *benefits*. But it is actually a tax on *income*. Since about 60 percent of the income of the elderly is income from investments (including pensions), the tax is predominantly a tax on income from savings. Moreover, although the tax is currently paid by the elderly, its existence automatically reduces the value of pensions, IRAs and all other tax-deferred savings of young people:[17]

- Since the average worker today is in the 15 percent income tax bracket, funds placed in tax-deferred savings avoid a 15 percent tax.

- Yet when many of these workers retire and withdraw their savings, they will face a 42 percent tax rate.

"Abolishing the Social Security benefit tax would increase government revenue by $10 billion in the year 2000."

Unless repealed, the Social Security benefit tax will have a devastating effect on incentives to save. Its long-run effect will be to lower economic growth and make the federal deficit larger, not smaller:[18]

- Currently, the Social Security benefit tax adds about $4.6 billion per year to federal revenue.

- Because of its depressing effect on economic growth, however, the tax will cause federal revenue to be $10 billion lower than it otherwise would be in the year 2000.

Proposal No. 6: Reverse the Timing of Taxes on Tax-Deferred Savings. Because of the Social Security benefit tax, most young workers would be better off if they could pay taxes now (at 15 percent) and make withdrawals tax free (avoiding a tax of 42 percent). Workers should have this option.

"Let people make aftertax deposits and tax-free withdrawals."

In the short run, this proposal is a sure revenue-raiser. To the extent that people decide to pay taxes today, federal revenues will increase today. Moreover, by restoring incentives to save and encouraging economic growth, this proposal would probably increase federal revenue even in future years. If only 40 cents of each $1 deposited represents new savings, this proposal pays for itself in the long run.

"About 80 percent of all IRA deposits represents new savings."

Proposal No. 7: Expand IRAs and/or Create New Savings Vehicles. The IRA program was one of the most successful ever adopted. By 1984, 15.4 million taxpayers were depositing $35.8 billion per year in IRA accounts. Only 20 percent of these deposits came from other sources of saving. Fully 80 percent represented new savings.[19] If we assume that the average depositor was in the 35 percent income tax bracket, for each $1 increase in the federal deficit more than $2 of new savings was added to the credit market. Thus IRAs financed the increase in the deficit they helped create and at the same time made new funds available for private investment.

The IRA option needs to be expanded. If the Social Security benefit tax is repealed, taxpayers should have the opportunity to make larger deposits to existing IRAs. If it is retained, taxpayers should have the opportunity to contribute to reverse IRAs; i.e., make deposits with aftertax dollars and make withdrawals tax free. The reverse IRA concept is incorporated into the Bush Family Savings Account proposal and in Senator Roth's more generous proposal.

Proposal No. 8: Raise the Social Security Earnings Limit. Since 1980, the American economy has expanded by a third in real terms. Evidence suggests that the most important reason for this growth was the expansion of the labor supply. Because people were allowed to keep a greater share of their earnings, more people went to work and they worked longer hours.[20]

"Elderly workers face marginal tax rates as high as 80 percent."

Unfortunately, the supply-side revolution ignored the role of the elderly worker. Above an annual income of $9,360, elderly workers lose $1 of Social Security benefits for each $3 of wages — a 33 percent tax. When the Social Security earnings penalty is combined with the income tax, the FICA tax and the Social Security benefit tax, the marginal tax rate on earnings can reach as high as 80 percent.[21] [See table.] Raising the earnings limit (the amount that can be earned without loss of benefits) would undoubtedly expand the supply of elderly workers and help employers meet their demands for skilled labor over the next decade. This proposal also would increase federal revenue:[22]

"Raising the earnings limit would increase government revenue."

- If the earnings limit were raised from $9,360 to $39,360, the federal government would receive more than $3 billion in work-related taxes over and above the payment of additional Social Security benefits.

- If the earnings limit were completely abolished, the federal government would still make a small profit (about $200 million) as additional work-related taxes more than offset increased benefit payments.

MARGINAL TAX RATES ON THE WAGES OF ELDERLY WORKERS[1]

Tax	15% Bracket	28% Bracket
Income Tax	15.00%	28.00%
FICA Tax	7.65%	7.65%
Social Security Earnings Penalty	33.33%	33.33%
Social Security Benefit Tax[2]	5.62%	10.50%
Total	61.76%	79.48%

[1]Workers are assumed to be below the caps on the FICA tax, the Social Security benefit tax and the Social Security earnings penalty (which becomes zero once all benefits are lost).

[2]The Social Security benefit tax rate is lower in this case because of the loss of benefits due to the earnings penalty.

BOLD PROPOSALS

In addition to the mainstream proposals listed above, Congress and the Administration should consider a bolder approach — one designed to address serious problems this country will face as we move into the 21st century. These proposals are based on the assumption that an increase in the federal deficit is not bad, provided there is an even greater increase in private savings and provided that it leads to greater economic growth.

"The 33 percent tax rate will lower GNP by $337 billion over the next decade."

Bold Proposal No. 1: Eliminate the 33 Percent Tax Rate. The 33 percent tax rate applies to single taxpayers with incomes of about $47,050 to $97,620 and to couples with incomes of about $78,400 to $185,730. The tax is expensive to collect in terms of the economic harm done to the private sector. Between now and 1990, it will add only $15.3 billion to the net revenue of the federal government, when all economic effects are considered. Yet because of its depressing effects on the economy, GNP will be $337 billion lower than otherwise. This means that for every $1 of net revenue collected, the private sector loses about $22 billion of income.[23]

"Employee benefits law discourages private pensions for employees of small firms."

"Employees should be able to self-insure for small medical bills."

Bold Proposal No. 2: Reform Employee Benefits Law. Each year the federal government "spends" about $105 billion in income tax deductions for employee benefits. The benefits of this tax subsidy are not spread evenly, however:[24]

- While 91 percent of employees of large firms have a tax-subsidized retirement pension plan, more than half of the employees in small firms have no pension benefits.

- Employees of large firms can benefit from tax-deductible pension contributions as high as $30,000 per year.

- Employees of small firms with no pension plan can deposit no more than $2,000 in an IRA account, and they receive much less favorable tax treatment.

Currently, 52 million employees have no employer-provided pension. A major reason is complex rules and regulations which discriminate against small firms.

One revenue neutral reform would eliminate the tax deduction for employee benefits and lower everyone's marginal income tax rate 4 percentage points. Another revenue neutral reform would allow *everyone* to deduct expenditures for retirement pensions, health insurance, etc., but limit the deduction to 11 percent of income.[25]

Bold Proposal No. 3: Establish Medical Savings Accounts. Current tax policy toward health insurance contains a major defect. Although there is a generous tax subsidy for employer-provided "third-party insurance," there is no tax subsidy for individual self-insurance — personal savings for unanticipated medical expenses. This encourages people to use third parties to pay any and all medical bills and leads to waste and less prudent buying in the medical marketplace.[26]

We should restrict government subsidies to policies with high deductibles (say, $1,000 or more). People should be able to take the premium savings from the increase in the deductible and make tax-free deposits to individual medical savings accounts. This proposal would encourage savings and promote a more efficient medical marketplace.[27] If restricted to employer-provided health insurance, the proposal would be revenue neutral. If extended to individual and family policies, it would lose revenue — but it might be a bargain anyway.

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"Medical IRAs are needed to meet the expected staggering costs of postretirement health care."

Bold Proposal No. 4: Establish Medical IRAs. Although the tax law encourages health insurance for current medical expenses, there is no subsidy (either for individuals or employers) for postretirement health insurance. As a result, current policy encourages a pay-as-you-go approach to health care in which there is very little saving for future medical expenses. By the year 2050, total medical expenses of the elderly *plus* Social Security payments will equal about 69 percent of workers' payroll. If the elderly continue to pay one-third of their own health care costs, the remaining burden will equal 57 percent of payroll.[28]

To prevent this nightmare in our future, we should create tax deductions or tax credits for contributions to Medical IRA (MIRA) accounts. Funds deposited would grow tax free and could be used to pay for medical expenses after retirement. Medical IRAs have broad bipartisan support in Congress. Under some proposals, MIRA funds would supplement Medicare. Under more radical proposals, they would substitute for and eventually privatize Medicare.

Deductions for deposits to MIRA accounts would increase the federal deficit. But as in the case of IRAs, the expansion of private credit would more than cover any increase in government borrowing.

Bold Proposal No. 5: Reduce the Social Security (FICA) Tax and Begin Privatizing Social Security. Senator Daniel Patrick Moynihan (D-NY) has proposed cutting the Social Security payroll tax by 2.2 percentage points between now and the year 2011. The idea is to return "surplus" Social Security taxes (taxes not needed to pay benefits) to the taxpayers. The proposal would lead to a $60 billion-a-year tax cut by 1992. However:[29]

"The government would get 45 cents back for each $1 cut in the Social Security payroll tax."

- Because the Moynihan proposal would stimulate economic activity, it would add $16 billion to gross national product (GNP) in 1992, rising to $53 billion by the year 2000.

- The proposal would increase the U.S. capital stock by $162 billion and add 930,000 new jobs.

- By the year 2000, additional federal revenue from increased production would return 45 cents for each dollar of tax cut.

"Under the Porter plan, private savings would replace the unfunded promises of politicians."

"Further tax reform could lower income tax rates to 19 percent."

"A 33 percent tax bracket would cost the government $22 billion in revenue over the next decade."

"Taxing more Social Security benefits would ultimately lead to less federal revenue."

An even better idea has been proposed by Representative John Porter (R-IL). Under the Porter proposal, the payroll tax would be cut only for those who transfer the tax savings to an Individual Social Security Retirement Account (ISSRA) and *voluntarily* give up an equivalent amount of Social Security retirement benefits.

The Porter proposal would convert the Social Security surplus into private savings, begin the necessary process of privatizing Social Security and convert the present pay-as-you-go program into a funded program. Because all of the tax cut would be converted into private savings, the long-term economic benefits would be even greater than under the Moynihan proposal.

Bold Proposal No. 6: Create a Flat-Rate 19 Percent Income Tax. Tax reform in the 1980s reduced tax *rates* by eliminating special deductions and expanding the tax *base*. More needs to be done. White House advisor Lawrence Lindsey has proposed establishing a 19 percent rate on all income. To make up for revenue losses, Lindsey would eliminate the personal exemption and standard deduction, greatly limit the deduction for state and local taxes and mortgage interest payments, and extend the income tax to all fringe benefits and all transfer payments. The proposal includes raising the zero tax threshold to give greater tax relief to low-income families.[30]

Lindsey's proposal would build on the supply-side successes of the 1980s and promote vigorous economic growth in the 1990s and beyond.

PROPOSALS TO AVOID

Anti-growth Proposal No. 1: A 33 Percent Tax Bracket for the Wealthy. A 33 percent tax bracket for the wealthy would increase net federal revenue only through 1993. Because it would reduce incentives for saving and investment and slow economic growth, it would cost the federal government about $22 billion in lost revenue through the year 2000.[31]

Anti-growth Proposal No. 2: Extending the Social Security Benefit Tax from 50 to 85 Percent of Benefits. We are paying a high price for the $4.6 billion the tax collects each year, and in the long run the tax reduces net federal revenue. Extending the tax to 85 percent of benefits, as some congressional leaders propose, would reduce federal revenue by $14 billion in the year 2000 and would drastically reduce the value of tax-deferred savings (IRAs, employer pensions, etc.) for young workers.[32]

"An energy tax would raise production costs and make America less competitive."

Anti-growth Proposal No. 3: A Tax on Energy. The Bush Administration is considering a broad-based tax on energy, called a BTU tax (for British thermal unit, the measure of energy). The tax would raise about $20 billion per year and would be applied to gasoline, oil, natural gas and even nuclear power and hydroelectric power.[33] The tax would increase the cost of virtually everything we buy, make America less competitive in international markets, reduce the return on almost every investment and make capital less productive in our economy.

"A stock transaction tax would cut the benefit of a capital gains tax cut in half."

Anti-growth Proposal No. 4: A Tax on Stock Transactions. The Bush Administration also is considering a tax of one-half of 1 percent on the value of stocks and other securities. For example, the tax on a $50 share of stock would be 25 cents each time the share is sold. The administration's proposal is strange in light of its support for a capital gains tax cut, since the proposal would reduce by half the value of the capital gains tax cut.[34]

The tax also would have other adverse consequences. One economist has estimated the proposal would lower the value of stock market prices by 5 percent.[35] Even worse predictions have been made by the Congressional Research Service.[36]

"The Clean Air Act promises large costs in return for small benefits."

Anti-growth Proposal No. 5: The Clean Air Act. The Clean Air Act will cost the private sector somewhere between $22 billion and $100 billion. Whatever the cost, almost all dispassionate analysis suggests it will be many times any benefit. The act will increase the cost of almost everything we buy, lower the take-home pay of workers, make us less competitive in the international marketplace and divert capital away from its most promising investment opportunities.[37]

John C. Goodman
President
National Center for Policy Analysis

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NOTE: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any bill before Congress.

FOOTNOTES

[1]Aldona Robbins and Gary Robbins, "The Bush Savings Plan," National Center for Policy Analysis, NCPA Policy Report No. 152, June 1990, p. 16. Out of each $1 of gross income labor receives 66 cents. After paying about 33 percent in taxes, labor's aftertax income is 44.2 cents. On the 34 cents that goes to capital, 24.8 cents must be deducted for depreciation and about 5.5 cents pays taxes, including corporate income, sales and property taxes. The net return to capital is 3.6 cents — about 1/12th of the net return to labor.

[2]Lawrence Lindsey, *The Growth Experiment* (New York: Basic Books, 1990), p. 10.

[3]See Gary Robbins, "Taxing Capital Gains," National Center for Policy Analysis, NCPA Policy Report No. 143, October 1989.

[4]The Jenkins/Archer proposal was sponsored by Ed Jenkins (D-GA) and Bill Archer (R-TX).

[5]Robbins, "Taxing Capital Gains."

[6]For a summary of the historical experience, see Ronald Utt, "Capital Gains Taxation: The Evidence Calls for a Reduction in Rates," *Heritage Foundation Backgrounder*, No. 704, May 2, 1989; for a survey of the academic studies, see Lawrence B. Lindsey, "Capital Gains Taxes Under the Tax Reform Act of 1986: Revenue Estimates Under Various Assumptions," *National Tax Journal*, Vol. 40, No. 3, September 1987.

[7]Lindsey, "Capital Gains Taxes Under the Tax Reform Act of 1986."

[8]Robbins and Robbins, "The Bush Savings Plan."

[9]Alan Reynolds, "Want More Money, Mr. Bush? Cut Taxes", *Wall Street Journal*, July 5, 1990.

[10]See Aldona Robbins and Gary Robbins, "Adding to the S&L Solution: The Case for a Lower Capital Gains Tax," National Chamber Foundation, forthcoming.

[11]John Goodman, Aldona Robbins and Gary Robbins, "Elderly Taxpayers and the Capital Gains Debate," National Center for Policy Analysis, NCPA Policy Report No. 153, July 1990.

[12]Robbins and Robbins, "The Bush Savings Plan."

[13]Ibid., pp. 24-26.

[14] In general, borrowers are in a higher tax bracket than lenders. Therefore, to the extent that borrowers are allowed a tax reduction for interest payments and lenders are taxed on interest income, the federal government loses money. The proposal made here would reduce the tax deductibility of interest payments and the taxation of interest income by equal amounts.

[15]Lindsey, *The Growth Experiment*, pp. 117-118.

[16]These rates apply to people who are below the maximum tax, where one-half of benefits are fully taxed.

[17]Aldona Robbins and Gary Robbins, "Taxing the Savings of Elderly Americans," National Center for Policy Analysis, NCPA Policy Report No. 141, September 1989.

[18]Ibid., Table XVI. Amounts are in current dollars.

[19]About 45 percent came from reduced consumption and 35 percent came from reduced taxes. See Stephen F. Venti and David A. Wise, "The Determinants of IRA Contributions and the Effects of Limit Changes," in Zvi Bodie, John Shoven and David Wise, ed., *Pensions and the U.S. Economy* (Chicago: University of Chicago Press, 1988).

[20]John P. Judd and Bharat Trehan, "Working Harder," *Federal Reserve Bank of San Francisco Weekly Letter*, June 22, 1990.

[21]John Goodman, "Should 85 Percent of Social Security Benefits Be Taxed?", National Center for Policy Analysis, NCPA Policy Backgrounder No. 101, July 20, 1990.

[22]Aldona Robbins and Gary Robbins, "Paying People Not to Work: The Economic Cost of the Social Security Earnings Limit," National Center for Policy Analysis, NCPA Policy Report No. 142, September 1989.

[23]Aldona Robbins and Gary Robbins, "Will Raising Taxes Reduce the Deficit?" Institute for Policy Innovation, IPI Policy Report No. 105, May 1990.

[24]Aldona Robbins, Gary Robbins and John Goodman, "Employee Benefits Law: The Case for Radical Reform," National Center for Policy Analysis, NCPA Policy Report No. 147, March 1990.

[25]Ibid.

[26]John Goodman and Gerald Musgrave, "The Cost of Low-Deductible Health Insurance," National Center for Policy Analysis, forthcoming.

[27]Task Force Report, "An Agenda for Solving America's Health Care Crisis," National Center for Policy Analysis, NCPA Policy Report No. 151, May 1990.

[28]John Goodman and Gerald Musgrave, "Health Care After Retirement: Who Will Pay the Cost?" National Center for Policy Analysis, NCPA Policy Report No. 139, June 1989.

[29]Aldona Robbins and Gary Robbins, "Cutting Social Security Payroll Taxes," Institute for Policy Innovation, IPI Policy Report No. 103, February 1990.

[30]Lindsey, *The Growth Experiment*. See also, Lawrence Lindsey, "It's Time for Another Cut in Tax Rates," *Forbes*, March 5, 1990, pp. 83-86..

[31] See Robbins and Robbins, "Will Raising Taxes Reduce the Deficit?", July 20, 1990 and John C. Goodman, "Should Taxes on the Wealthy be Increased?", National Center for Policy Analysis, NCPA *Policy Backgrounder* No. 102.

[32]Robbins and Robbins, "Taxing the Savings of Elderly Americans."

[33]Alan Murray and Jeffrey H. Birnbaum, "Tax on Energy is Being Pushed by White House," *Wall Street Journal,* July 6, 1990.

[34]Assuming the pretax return on capital is about 8 percent and the aftertax return is about 4 percent, the Bush capital gains tax cut would lower the cost of capital to 7.84 percent. Assuming a share of stock must be bought and sold to complete an investment, the total transactions tax on the investment would be 1 percent. This will raise the pretax return on capital to 7.92 percent, thus cutting the value of the capital gains tax cut in half.

[35]Floyd J. Gould, "Bush's Worse Tax Idea So Far," *Wall Street Journal*, July 11, 1990.

[36]"A Lead Balloon," *Wall Street Journal*, July 10, 1990.

[37]Susan Lee, "Who Pays for the Clean Air Act?", *New York Times,* July 6, 1990.

ECONOMIC EXPERTS

1. John Goodman (President)
   National Center for Policy Analysis — 214-386-6272
2. Gary Robbins (NCPA Senior Fellow)
   (President) Fiscal Associates — 703-979-1371
3. Aldona Robbins (NCPA Senior Fellow)
   (Vice President) Fiscal Associates — 703-979-1371
4. Lawrence Lindsey (Economist)
   Harvard University; White House Office of Policy Development — 202-456-6402
5. Alan Reynolds (Director of Economic Research)
   Hudson Institute — 317-545-1000
6. Norman Ture (President)
   Institute for Research on the Economics of Taxation — 202-347-9570

ABOUT THE NCPA

The National Center for Policy Analysis is a nonprofit, nonpartisan research institute, funded exclusively by private contributions. The NCPA originated the concept of the Medical IRA (which has bipartisan support in Congress) and merit pay for school districts (adopted in South Carolina and Texas). Many credit NCPA studies of the Medicare surtax as the main factor leading to the the 1989 repeal of the Medicare Catastrophic Coverage Act.

NCPA forecasts show that repeal of the Social Security earnings test would cause no loss of federal revenue, a capital gains tax cut would increase federal revenue, and the federal government gets virtually all the money back from the current child care tax credit. These forecasts are an alternative to the forecasts of the Congressional Budget Office and the Joint Committee on Taxation and are frequently used by Republicans and Democrats in Congress. The NCPA also has produced a first-of-its-kind, pro-free-enterprise health care task force report, representing the views of 40 representatives of think tanks and research institutes.

The NCPA is the source of numerous discoveries that have been reported in the national news. The NCPA discovered that:

- Blacks and other minorities are severely disadvantaged under Social Security, Medicare and other age-based entitlement programs;
- Special taxes on the elderly have destroyed the value of tax-deferred savings (IRAs, employee pensions, etc.) for a large portion of young workers; and
- Man-made food additives, pesticides and airborne pollutants are much less of a health risk than carcinogens that exist naturally in our environment.

"... influencing the national debate with studies, reports and seminars."

Time

"... steadily thrusting such ideas as 'privatization' of social services into the intellectual marketplace."

Christian Science Monitor

"Increasingly influential."

Evans and Novak