Analyzing the Reagan Record

by

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EXECUTIVE SUMMARY

The Reagan Administration is criticized as being hostile to the interests of low-income Americans, women, and the elderly, and as being partial to the rich and the well-to-do. Yet recent economic evidence, supplied mainly by economists who are not especially friendly to the Administration, yields some suprising conclusions: In some respects, the biggest gainers from the Administration's policies are low-income workers, working wives, and the elderly.

- Because of the Reagan tax cuts, a taxpayer earning $10,000 in 1979 today enjoys a 25 percent lower marginal tax rate, while a $50,000-a-year taxpayer has a marginal tax rate that is only 4 percent lower.

- If tax-bracket indexing is eliminated, the 1988 taxes of the lowest-income families will rise by 74 percent, while the taxes of a $200,000-a-year family will rise by only 2 percent.

- The top 1.36 percent of taxpayers paid about the same taxes in real terms after the Reagan tax cuts than before, and their share of total taxes rose from 20.4 percent to 21.8 percent.

- While Americans on the average received a 23 percent tax cut, most working wives received a 31 percent tax cut.

- During the Reagan term the real disposable income of elderly families has risen 9.5 percent--nearly 3 times the increase for all families. The real income of elderly people living alone has risen 15 percent.

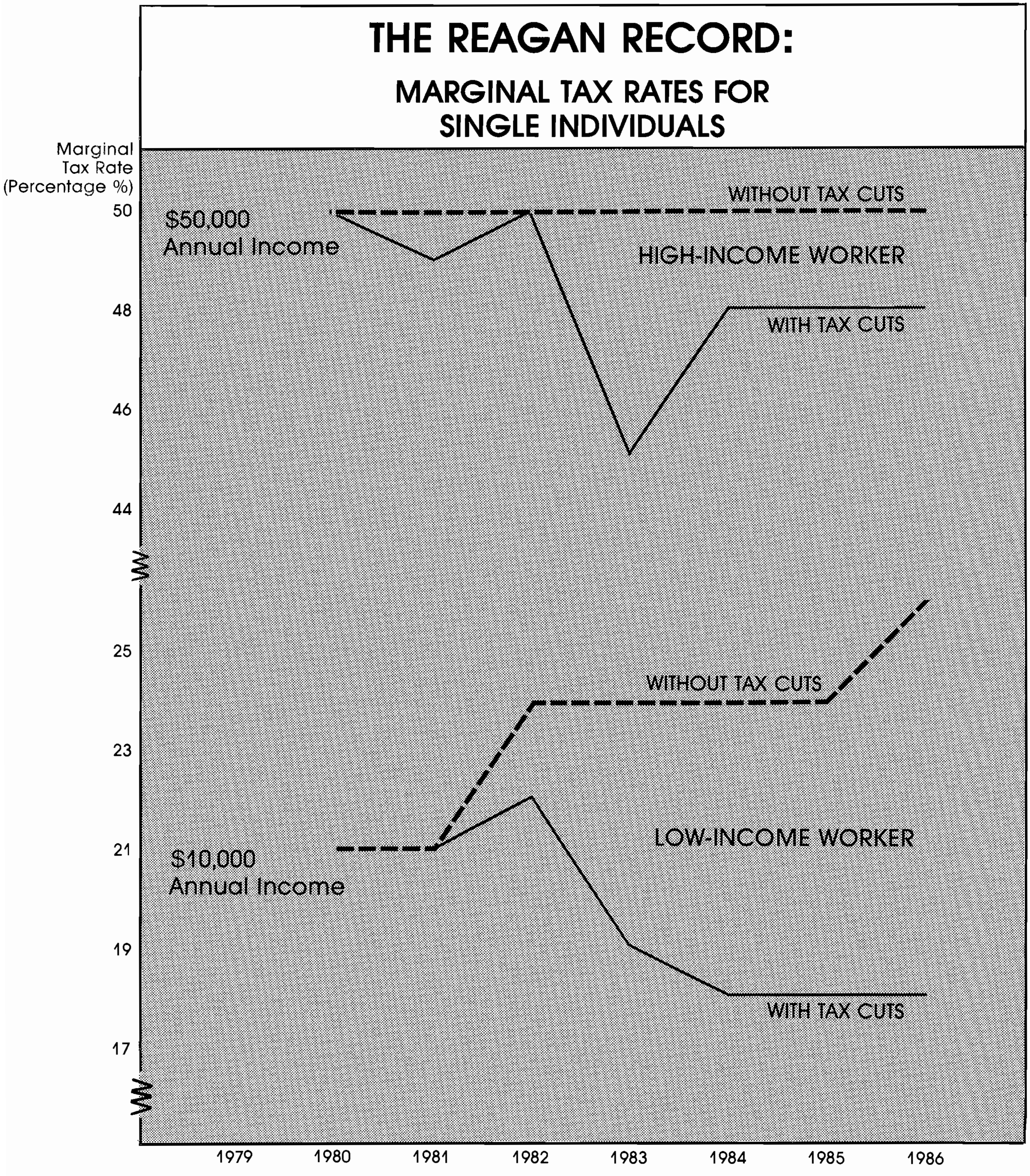
Another surprising conclusion is that the Reagan program of supply-side economics, once derided by critics as "voodoo economics," is working. In fact, the Reagan program is having some remarkable supply-side effects.

- Reagan's tax cuts and budget cuts have increased the labor force by as many as 4.9 million people and created as many as 4.5 million new jobs.

- These new jobs are permanent. They will last as long as Congress does not undo the Reagan tax and spending cuts.

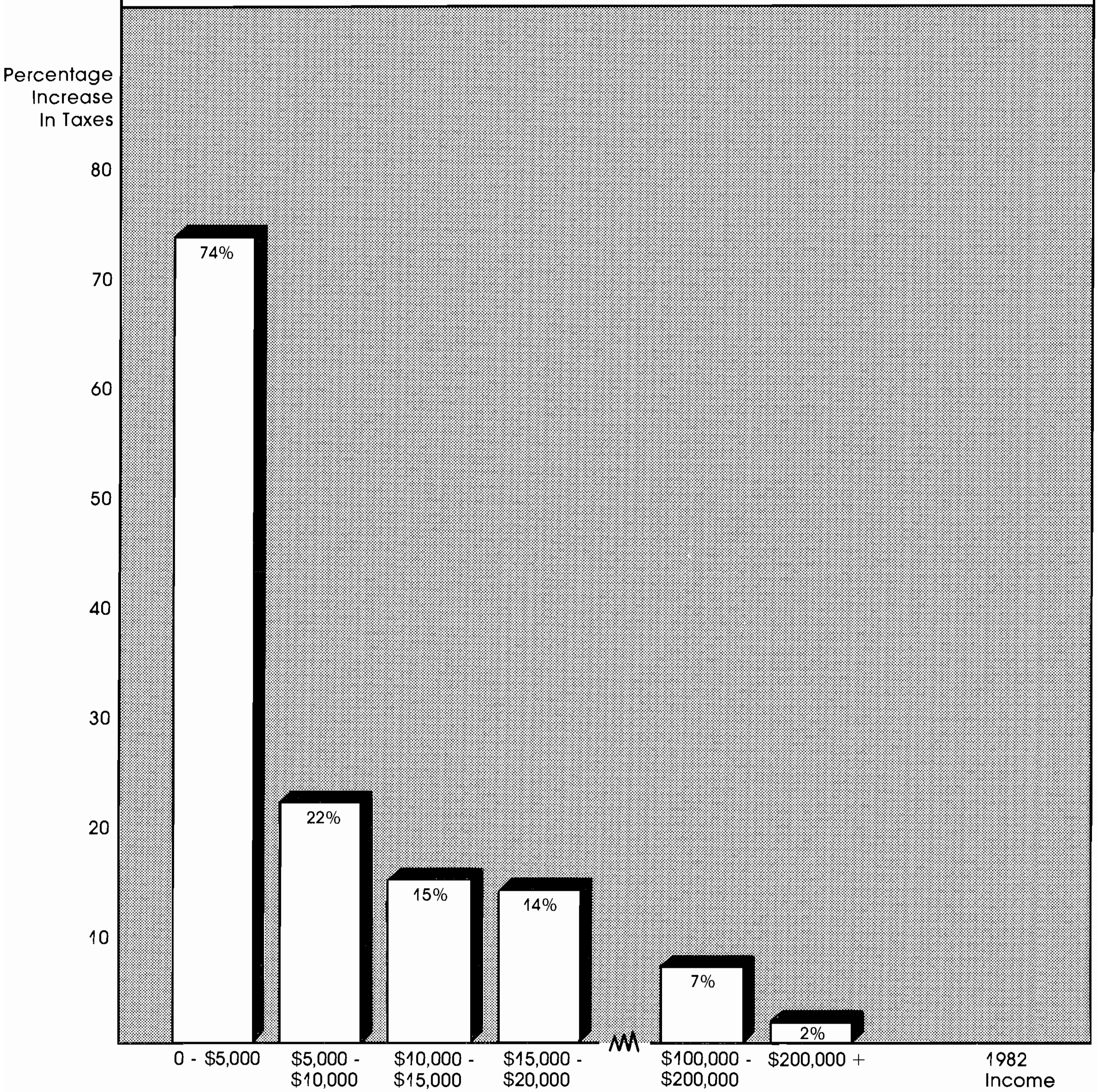
- The largest supply-side effects occurred for working wives. Reagan's tax cuts increased the number of adult women in the labor force by 2 million.

The Administration's only significant failure has been its inability to reduce government spending. But even in this area there has been progress. Reagan's budget cuts have reduced non-defense spending to $66 billion below what it otherwise would have been.

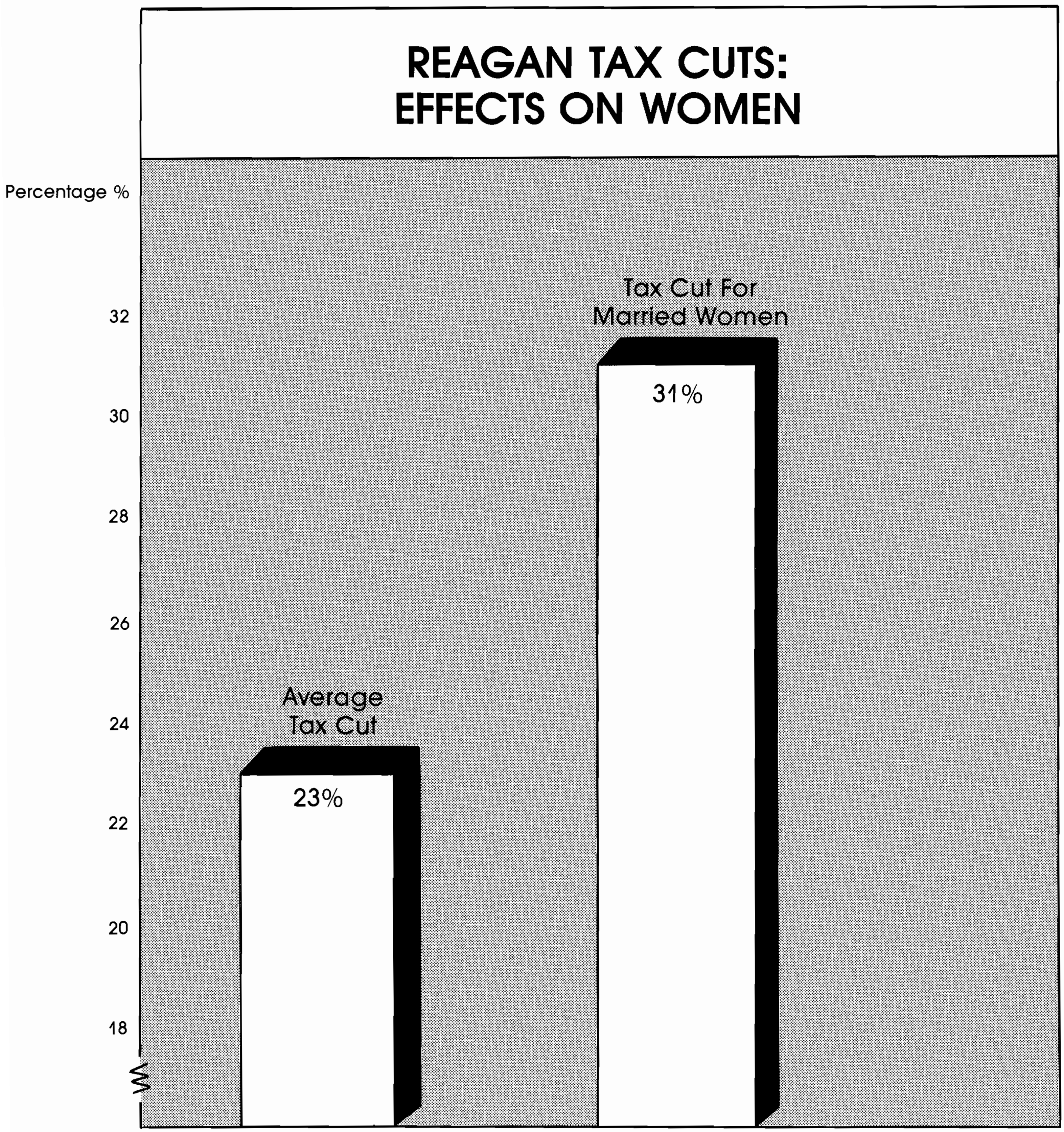


SOURCE: National Center for Policy Analysis
(Income in 1979 Dollars)

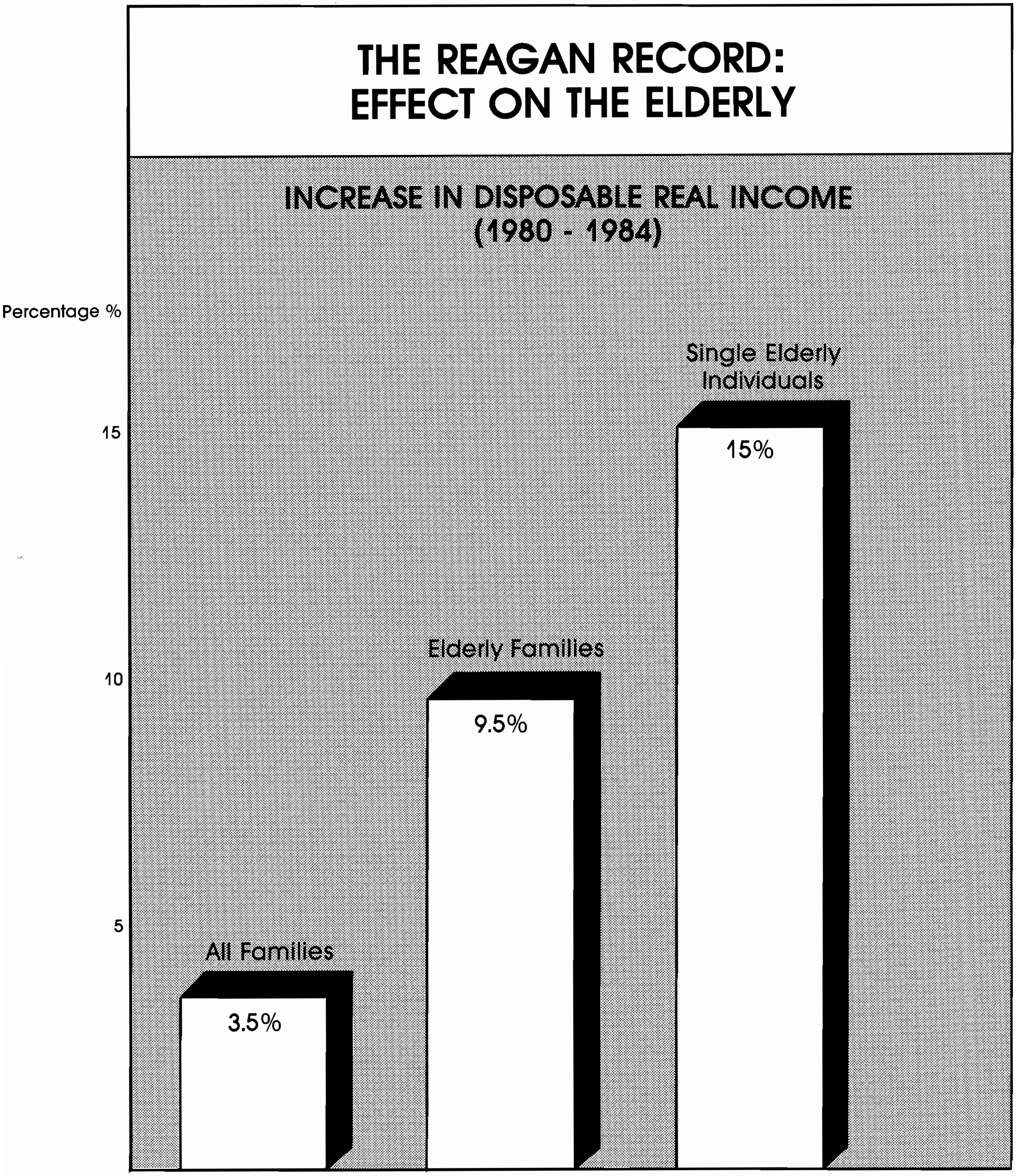
INCREASE IN 1988 TAXES IF THE REAGAN INDEXING PROGRAM IS ELIMINATED



SOURCE: Based on unpublished calculations done by Professor Lawrence Lindsey, Department of Economics, Harvard University.



SOURCE: National Center for Policy Analysis



SOURCE: Marilyn Moon and Isabell Sawhill, "Family Incomes," The Reagan Record (Cambridge, Massachusetts: Ballinger Press, 1984), p. 334.

ANALYZING THE REAGAN RECORD

The Reagan economic program, once derided by opponents as "voodoo economics," is working. The President's program of "supply-side economics" is having some remarkable supply-side effects.

Some of these effects may suprise even the strongest Reagan supporters. Although the Administration is frequently portrayed as being hostile to the interests of low-income Americans, women, and the elderly, in some respects these three groups are gaining the most from the Reagan program.

These conclusions follow from an analysis of available economic evidence, drawing on the work of economists both friendly and hostile to the Administration. Among economists a new consensus seems to be emerging which spans the ideological spectrum. In a nutshell, the consensus is: Supply-side economics works.

POLICY GOALS--INTENDED EFFECTS

When Ronald Reagan assumed the presidency, his position on fundamental economic policies was widely known. The Reagan policy goals were:

- Cut taxes
- Cut government spending.
- Maintain a tight monetary policy.

What Ronald Reagan hoped to achieve by pursuing these policies also was well-known. The Reagan economic program sought to:

- Reduce inflation.
- Stimulate job-producing economic growth.
- Increase the size of the private sector relative to the public sector.

The overall objective of the Reagan program was "to get the economy moving again." By cutting taxes, Reagan sought to increase the incentive to work, save, and invest. Cutting government spending would help cut taxes and put more money back into the private sector. Reducing the growth of the money supply would lead to lower inflation.

Furthermore, architects of the Reagan program hoped to achieve these effects without at the same time creating other serious economic problems, or creating undue hardships for people affected by the policy changes.

ACHIEVING THE POLICY GOALS

The Administration has made substantial progress in achieving its policy goals. Indeed, Ronald Reagan may be the only president in modern times who followed the policies he said he would follow prior to assuming office.

Taxes. Reagan succeeded dramatically in cutting taxes.

- The Reagan program cut personal income tax rates by 23 percent across-the-board, reduced the top tax rate on income from capital from 70 to 50 percent, and cut corporate taxes by liberalizing depreciation allowances through the Accelerated Cost Recovery System.

- As a result, federal taxes took 18.7 percent of the Gross National Product in 1984, down from 20.1 percent of GNP in 1980.[1]

Reagan also cut taxes in another way. He indexed the personal income tax beginning in 1985 so that inflation can never again put people into higher tax brackets.

Tables I and II show the marginal tax rates that families and single taxpayers at various levels of income will pay because of the tax cuts and indexing. They also show the rates people would have paid without the tax cuts or indexing. The tables show that the Reagan tax cuts have had a dramatic effect on marginal tax rates.

- In 1965, an American family with the median income was in the 17 percent tax bracket. Without the Reagan tax cuts that family today would be in the 32 percent tax bracket. But because of the tax cuts, the family is now in the 25 percent tax bracket.

- In 1965, an American family earning one-half of the median income was in the 14 percent bracket. Today that family would be in the 21 percent bracket without the tax cuts. Because of the tax cuts, the family is in the 16 percent bracket.

Moreover, because of tax-bracket indexing, due to take effect next year, these families will stay in their current tax brackets unless their real income increases.

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1. Council of Economic Advisers, Economic Report of the President, February, 1984, p. 32.

TABLE I

MARGINAL INCOME TAX RATES
FOUR-PERSON FAMILIES
(PERCENT)

Family Income	1965	1970	1975	1980	1981	1982	1983	1984
Double the Median Income								
Without Reagan Tax Cuts	22	26	32	43	43	43	49	49
With Reagan Tax Cuts	22	26	32	43	42.5	39	40	38
Median Income								
Without Reagan Tax Cuts	17	20	22	24	28	28	28	32
With Reagan Tax Cuts	17	20	22	24	27.7	25	23	25
One-half of the Median Income								
Without Reagan Tax Cuts	14	15	17	18	18	18	18	21
With Reagan Tax Cuts	14	15	17	18	17.8	16	15	16

Source: Council of Economic Advisers, Economic Report of the President, 1982, Table 5-4, p. 120.

TABLE II

MARGINAL INCOME TAX RATES

Income in 1979 Dollars	1980	1981	1982	1983	1984	1985	1986
Single:							
$10,000							
Without Reagan Tax Cuts	21	21	24	24	24	24	26
With Reagan Tax Cuts	21	21	22	19	18	18	18
$20,000							
Without Reagan Tax Cuts	30	34	34	34	34	39	39
With Reagan Tax Cuts	30	34	31	28	26	26	26
$30,000							
Without Reagan Tax Cuts	39	39	44	44	49	49	49
With Reagan Tax Cuts	39	39	40	36	38	38	34
$50,000							
Without Reagan Tax Cuts	50	50	50	50	50	50	50
With Reagan Tax Cuts	50	49	50	45	48	48	48
Married: 2-Workers							
$10,000							
Without Reagan Tax Cuts	16	18	18	18	18	18	18
With Reagan Tax Cuts	16	18	16	15	14	14	14
$20,000							
Without Reagan Tax Cuts	24	24	24	28	28	28	28
With Reagan Tax Cuts	24	24	22	19	22	18	18
$30,000							
Without Reagan Tax Cuts	32	32	32	37	37	37	43
With Reagan Tax Cuts	32	32	29	26	28	28	28
$50,000							
Without Reagan Tax Cuts	43	43	49	49	49	49	49
With Reagan Tax Cuts	43	42	44	40	38	38	38

Source: Council of Economic Advisers, Economic Report of the President, 1982. Table 5-3, p. 119.

Government Spending. While Ronald Reagan was remarkably successful in cutting taxes, he appears to have made no progress in cutting total government spending.

- When Ronald Reagan entered office he proposed to reduce government spending from a projected 23 percent of GNP in 1984 to 19.3 percent of GNP.[2]

- Yet government spending is currently about 23.3 percent of GNP.[3]

Moreover, progress on cutting non-defense spending, the primary Reagan objective, has been very modest and much less than what was desired.

- Reagan had hoped to reduce domestic spending from 14.9 percent of the GNP it had reached in 1980 to 12 percent of GNP in 1984.[4]

- Yet domestic spending is currently about 14 percent of GNP.[5]

There are several reasons for this failure. First, Reagan did not persuade Congress to cut domestic spending as much as he wanted. Second, the Administration simply did not anticipate the severity of the 1981-1982 recession. As a result, it overestimated gross national product and underestimated unemployment insurance and other expenditures triggered by higher-than-expected unemployment. Finally, because the Administration overestimated GNP and tax revenues and underestimated domestic spending, it underestimated the deficit. The higher deficit increased the federal debt, which increased net interest paid by the federal government. Whereas the Administration had originally estimated that net interest paid by the federal government

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2. Office of Management and Budget, Fiscal Year 1982 Budget Revisions, p. 11.

3. Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 1985, p. 3-3 and p. 9-62.

4. Office of Management and Budget, The Budget of the U.S. Government, Fiscal Year 1982, Budget Revisions, March 1981.

5. Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 1985, February 1984.

would be 1.7 percent of GNP in 1984, it will actually be about 3 percent of GNP.[6] The extra 1.3 percent of GNP paid in interest, plus the extra 2 percent of GNP in domestic spending mainly triggered by the recession, account for almost all of the difference between Reagan's spending goals and his spending performance.

Perhaps a better way of judging Reagan's success in reaching his domestic spending goals is to compare actual 1984 domestic spending to what it would have been had Reagan not made any legislative changes. Viewed in these terms, Reagan's progress toward cutting domestic spending has been substantial.[7]

- Without the Reagan budget cuts, domestic spending in 1984 would have been 15.9 percent of GNP.
- With the cuts Reagan reduced domestic spending by almost 2 percent of GNP, or about $66 billion.

TABLE III

NON-DEFENSE GOVERNMENT SPENDING (as a percent of GNP)

	1980	1984
Without Reagan Budget Cuts	14.9%	15.9%
With Reagan Budget Cuts	14.9%	14.0%

Source: Office of Management and Budget, Major Themes and Additional Budget Details, Fiscal Year 1985, pp. 3-4.

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6. Office of Management and Budget, Budget of the U.S. Government, Fiscal year 1985, February 1984, p. 3-13.

7. Calculated from Office of Management and Budget, Major Themes and Additional Budget Details, Fiscal Year 1985, pp. 3-4.

Reagan has cut spending in a large number of programs. Some highlights of his spending cuts are listed below. These estimates are based on a report by the Urban Institute.[8]

- **A 17 percent reduction in outlays for unemployment insurance.** This was achieved by curtailing benefits for people voluntarily leaving military service, by making it more difficult for states to extend their payment of unemployment benefits beyond the usual 26 weeks at the expense of the federal government, and by charging interest on loans to states whose trust funds were in debt.[9]

- **A 39 percent reduction in guaranteed student loans.** This was accomplished by reducing the interest subsidy on student loans and by tightening the eligibility standards to make it more difficult for students from middle- and upper-income families to qualify.

- **A 13.8 percent reduction in food stamp outlays.** Benefits were reduced slightly, but the main savings was accomplished by tightening eligibility so that only the poor, aged, blind, and disabled could qualify. According to the Urban Institute, "recipients with the greatest income from other sources experienced the largest reductions in benefits."[10]

- **A 100 percent reduction in public service employment.** This was accomplished by totally cutting the public service employment component of the scandal-ridden, waste-laden Comprehensive Employment Training Act (CETA) program.

- **A 14.3 percent reduction in Aid to Families with Dependent Children.** This was accomplished by tightening eligibility so that recipients with outside income had more difficulty staying on AFDC.

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8. John L. Palmer and Isabel V. Sawhill, editors, The Reagan Record (Cambridge, Massachusetts: Ballinger, 1984.)

9. See The Reagan Record, Appendix C.

10. The Reagan Record, p. 368.

Monetary Policy. Ronald Reagan has supported the Federal Reserve Board's policy of restraining the growth of the money supply. After growing an average of 11.2 percent per year between 1975 and 1979, M2 (a common measure of the money supply) grew at an average of 8.3 percent between 1979 and 1983.[11] Paul Volcker announced in October 1979 that he would try to restrain the growth of the money supply and, although he followed an erratic course, the average growth did fall. President Reagan fully supported Volcker's objectives.

ACHIEVING THE INTENDED RESULTS

Even before Ronald Reagan was elected, economists of varied political persuasions believed that government spending and high taxes substantially reduce the number of people working.

For example, government spending on income transfer programs reduces the number of people seeking jobs for two reasons: First, these transfers make it possible for their recipients to survive without working. Second, income transfer programs penalize potential recipients if they choose to work.

Unemployment insurance affects people in both of these ways. Those who receive unemployment insurance have an income that partially replaces their lost wages. In addition, if they choose to work they immediately lose their unemployment benefits. Many other income transfer programs are structured in a similar way.

Taxes reduce the number of people working because taxes reduce the financial reward for working. Taken together income and Social Security taxes substantially reduce the size of the worker's after-tax income. This reduces the incentive to hold a job, causing people to work in the home (especially married women), to work in the underground economy, or not to work at all.

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11. Statistics obtained from the Board of Governors of the Federal Reserve Board.

Economists also have evidence that taxes and government spending on income-transfer programs substantially reduce the number of people in the labor force. Prior to the Reagan program, economic studies estimated that:

- All income transfer programs combined reduce the labor force by 4.8 percent.[12]

- The income tax and the Social Security tax reduce the labor supply of husbands by 8 percent and the labor supply of wives by 30 percent.[13]

The Reagan Administration focused on the effects of high taxes rather than on the effects of spending programs. High inflation rates between 1965 and 1980, averaging 7.3 percent,[14] had pushed middle-income taxpayers into high tax brackets originally intended only for the rich. The average income tax on an additional dollar earned had jumped from 21 cents in 1965 to 30 cents in 1980, an increase of more than 40 percent.[15] Reagan and his economic advisors[16]

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12. Sheldon Danziger, Robert Haveman, and Robert Plotnick, "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review," Journal of Economic Literature, Vol. XIX (September, 1981), p. 996.

13. See Jerry Hausman, "Income and Payroll Tax Policy and Labor Supply," in Laurence H. Meyer, ed., The Supply-Side Effects of Economic Policy, (Boston: Kluwer-Nijohoff Publishing, 1981), p. 175.

14. Statistics obtained from the Department of Labor, Bureau of Labor Statistics.

15. Robert J. Barro and Chaipat Sahasaku, "Measuring the Average Marginal Tax Rate from the Individual Income Tax," Journal of Business, October, 1983.

16. See Economic Report of the President, February 1982, p. 3 and p. 7 for Reagan's statement and pp. 120-122 for the views of the Council of Economic Advisers.

believed that high tax rates discouraged people from entering the labor force and discouraged people already employed from working longer hours. To reverse this trend, he persuaded Congress to pass his tax reduction package.[17] In a speech to Congress on February 18, 1981, Reagan stated that his policies would create 3 million jobs.[18] This prediction turned out to be reasonably accurate.

EFFECTS ON PRICES

The Reagan record on combating inflation is the Administration's best-known success story. The rate of inflation, which averaged 10.7 percent between 1977 and 1981, is now less than 4 percent. It is also widely recognized that in the process of moving toward a lower rate of inflation, the economy went through a recession. This led to the criticism that Reagan had simply traded one evil (inflation) for another (recession). This criticism confuses long-term effects with short-term ones, however.

The short-term drop in employment and real output, characteristic of a recession, was a necessary consequence of Reagan's decision to reduce inflation. Although the recession is no longer with us, we continue to enjoy a low rate of inflation. According to Urban Institute economists Isabel Sawhill and Charles Stone, much of the reduction in inflation achieved by the Reagan program is permanent and not merely a reflection of the downward swing of the business cycle.[19] Reagan could have had lower unemployment during the last four years by accepting a more gradual reduction in inflation, but as the Urban Institute economists point out, the problem with gradualism is that it is "difficult politically to stay the anti-inflation course" because "the costs are short-run and the benefits are long-run."[20]

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17. See Economic Report of the President, February 1982, p. 119.

18. See President Reagan's address to a joint session of Congress on February 18, 1981, as reprinted in Congressional Quarterly, February 21, 1981, p. 361. Reagan did not predict any increase in the labor force as a result of his budget cuts, only as a result of tax cuts.

19. Isabell Sawhill and Charles Stone, "The Economy," in The Reagan Record, p. 81-82.

20. Isabell Sawhill and Charles Stone, "The Economy," in Regan Record, p.88.

EFFECTS ON JOBS

In the short-run, Reagan's monetary policy caused a substantial loss of American jobs. In order to reduce inflation, Reagan supported the Federal Reserve Board's tight money policy. And because of the time it took for people to adjust to this lower inflation rate, employment fell by more than 2 million, and unemployment rose by over 3 million.[21] This impact on employment was short-run and temporary, however.

What is Reagan's permanent impact on employment now that the recession is over?[22]

- According to a study soon to be published by the Urban Institute, Reagan's tax and spending cuts have increased the U.S. labor force by as many as 4.1 million people.

- This implies that the Reagan tax and budget cuts have created as many as 3.8 million new jobs.

- Two-thirds of these new jobs were the direct result of the Reagan tax cuts. One-third was the direct result of the Reagan budget cuts.

University of Wisconsin economist Robert Haveman, author of the study, obtained his estimate by comparing the size of the labor force under Reagan's policies with the size of the labor force under a re-elected Carter, assuming that Carter would not have cut either taxes or spending. Haveman finds that Reagan's policies have increased the labor force between 1.4 million and 4.1 million workers. He attributes approximately two-thirds of the increase to Reagan's tax cuts and one-third to the budget cuts.[23]

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21. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, various issues.

22. Robert H. Haveman, "How Much Have the Reagan Administration's Tax and Spending Policies Increased Work Effort?," in Charles R. Hulten and Isabell V. Sawhill, eds., The Legacy of Reaganomics: Prospects for Long-term Growth (Washington, D.C.: The Urban Institute Press, 1984).

23. Haveman, op. cit.

How does this increase in the labor force (the number of people seeking employment) translate into new jobs? Assuming the employment rate among these additional people is the same as that of the whole labor force (about 92.6 percent), then Reagan's tax cuts and budget cuts have increased employment between 1.3 million and 3.8 million full-time workers. This is in line with Reagan's original statement that his tax cuts would create "nearly 3 million more" new jobs.

Confirming evidence for these estimates comes from Bureau of Labor Statistics data on employment:[24]

- Employment in the first 22 months of this recovery has increased 6.3 percent, 2 percentage points higher than the average for the 7 other post-war recoveries.

- This additional 2 percent amounts to 2 million jobs.

Moreover, this estimate of new jobs does not include the millions of people already holding jobs who may be working longer hours because the tax cuts have increased their incentive to work.

It is also important to note that Haveman's estimates are probably too low. Although he bases his estimates on a previous study done for the Brookings Instituton by Jerry Hausman, a professor of economics at MIT,[25] Haveman uses a lower estimate of the response of married women to tax cuts than Hausman found. In his most recent study,[26] Hausman estimates that a 30 percent tax cut would increase the labor supply of married women by 9.4 percent. Based on this new estimate, I calculated that Reagan's tax cuts added as many as 2 million adult women to the labor force. These and other calculations are depicted in Table IV. The table shows:

- Reagan's tax cuts and budget cuts together may have increased the labor force by as many as 4.9 million people.

- That translates into as many as 4.5 million new jobs.

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24. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, various issues.

25. Jerry A. Hausman, "Labor Supply," in Henry J. Aaron and Joseph A. Pechman, editors, How Taxes Affect Economic Behavior, (Washington, D.C.: Brookings Institution, 1981.)

26. "Income and Payroll Tax Policy and Labor Supply,": in Laurence H. Meyer, editor, The Supply-Side Effects of Economic Policy, (Boston: Kluwer-Nijhoff Publishing, 1981).

TABLE IV

SUPPLY SIDE EFFECTS: INCREASES IN THE LABOR FORCE

Population Group		Upper Bound Estimate: Result of Tax Cuts	Upper Bound Estimate: Result of Budget Cuts	Lower Bound Estimate: Result of Tax Cuts	Lower Bound Estimate: Result of Budget Cuts
1.	Persons Age 62 and over	300,000	100,000	200,000	-0-
2.	Disabled Persons (under 62)	-0-	400,000	-0-	200,000
3.	Persons Age 16-24 (not in category 2)	600,000	150,000	200,000	-0-
4.	Women, Age 25-61 (not in category 2)	2,000,000	200,000	700,000	-0-
5.	Men, Age 25-61 (not in category 2)	1,000,000	100,000	200,000	-0-
	TOTAL	3,900,000	950,000	1,300,000	200,000

Source: Robert H. Haveman, "How Much Have the Reagan Administration's Tax and Spending Policies Increased Work Efforts?," in Charles R. Hulten and Isabel V. Sawhill, eds., The Legacy of Reaganomics: Prospects for Long-Term Growth (Washington, D.C.: The Urban Institute Press, 1984): and author's calculations based on Jerry A. Hausman, "Income and Payroll Tax Policy and Labor Supply," in Laurence H. Meyer, ed., The Supply-Side Effects of Economic Policy, (Boston: Kluever-Nijohoff Publishing, 1981); and data from the Bureau of Labor Statistics and Internal Revenue Service.

These additional millions of jobs are permanent. They are not the result of the swings in the business cycle. They will exist as long as future Congresses and future Administrations do not reverse them. Unfortunately, Congress and the Administration could erode most of these employment gains simply by eliminating the indexing of the personal income tax. If indexing were eliminated, then a decade of just 5 percent inflation would more than eliminate the Administration's 23 percent tax cut[27] and most of the gains in new jobs.

EFFECTS ON THE POOR

Cuts in Spending. Although Reagan cut spending most deeply in programs targeted at lower-income Americans, the truly needy are better off under Reagan than they would have been under Carter, for two reasons. First, the families who had their benefits cut were the families with the highest incomes. For example, Reagan tightened the income eligibility standards for food stamps. He also made welfare less attractive for people who have outside income. Second, Reagan substantially slowed the rate of inflation and thereby dramatically slowed the erosion of welfare benefits that was occurring under the Carter Administration. Inflation fell from 13.5 percent in 1980 to about 4 percent today. Because welfare payments are not indexed for inflation, the purchasing power of welfare recipients fell substantially during the high inflation of the late 1970s.

Although some low-income families may have fewer benefits because of Reagan's budget cuts, the size of these cuts should be put in perspective. A National Journal study,[28] based on data from the Census Bureau and the Congressional Budget Office, estimated how much the federal government spends on welfare programs, Social Security, and pensions for families at various income levels. As the data in Table V shows:

- Although Reagan has cut most the programs targeted at low-income families, he has not substantially altered the relative amounts received by the poorest and richest families in America.

- Low-income families have retained 94 percent of their benefits, while high-income families have retained 96 percent of theirs.

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27. Economic Report of the President, Frebruary 1984, p. 33.

28. "Sharing the Wealth: The Gap Between Rich and Poor Grows Wider," National Journal, No. 43, October 23, 1982, pp. 1788-1795.

TABLE V

ANNUAL INCOME FROM GOVERNMENT TRANSFER PROGRAMS (1981 Values)

	Poorest Fifth of all U.S. Families	Richest Fifth of all U.S. Families
Without Reagan Budget Cuts	$3,200	2,170
With Reagan Budget Cut	$3,020	$2,080
Percent Retained	94%	96%

Source: "Sharing the Wealth: The Gap Between Rich and Poor Grows Wider," National Journal, No. 43, October 23, 1982, pp. 1788-1795.

Cuts in Taxes. Marginal tax rates represent the penalty attached to earning an additional dollar of income. The lowering of marginal tax rates, therefore, is an ideal way to expand an individual's earning capacity and encourage the search for productive work. In the light of these facts it is interesting to note that the reduction in marginal tax rates for low-income families was at least as great or greater than the reduction for high income families.[29]

- Because of the Reagan tax cuts, a taxpayer earning $10,000 in 1979 today enjoys a 25 percent lower marginal tax rate.

- A taxpayer earning $50,000 in 1979 today has a marginal tax rate that is only 4 percent lower.

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29. Calculated from Economics Report of the President, 1982, Table 5-3, p. 119.

In terms of the different effects on income groups, one of the most important components of the Reagan economic program is tax-bracket indexing. For families who already are in the highest tax bracket (50 percent), "bracket creep" has a very small effect on taxes. For families who are in low tax brackets, however, the Reagan indexing scheme turns out to be extremely important. Tax-bracket indexing has its biggest inpact on low-income families.[30]

- If indexing is eliminated, as many Reagan critics propose, the 1988 income taxes of a families earning up to $5,000 would rise by 74 percent.

- Eliminating indexing would increase the 1988 taxes of a $5,000-$10,000 family by 22 percent.

- It would increase the taxes of a $10,000-$15,000 family by 15 percent.

- The elimination of indexing would increase the 1988 taxes of a $200,000-a-year family by only 2 percent.

TABLE VI

REDUCTION IN MARGINAL TAX RATES BY 1986 AS A RESULT OF THE REAGAN TAX CUTS

1979 Income	Reduction
Single Worker:	
$10,000	31%
$20,000	33%
$30,000	31%
$50,000	4%
Married, Two Workers:	
$10,000	22%
$20,000	36%
$30,000	35%
$50,000	22%

Source: Calculated from Table II

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30. Unpublished calculations done by Professor Lawrence B. Lindsey, Department of Economics, Harvard University.

EFFECTS ON THE RICH

Because Reagan cut tax rates by the same percent across-the-board, and because high-income families were paying a larger percent of their income in taxes to begin with, high-income families received a larger tax cut as a percent of their income.[31] This is a necessary consequence of an across-the-board tax cut under our progressive income tax system.

But the most striking aspect of the tax cut for the rich is that it resulted in no revenue loss for the government. According to a recent study based on data from the Internal Revenue Service:[32]

- The top 1.36 percent of taxpayers paid $58 billion in taxes in 1981 and $60.5 billion in 1982.
- This means that the wealthiest families paid more taxes after the Reagan tax cut than they were paying before.
- In real terms, taxes paid by these families was about the same after the Reagan tax cut as they would have been with no tax cut at all.
- In terms of the share of total federal income taxes paid, the top 1.36 percent of taxpayers paid a larger share of total taxes after the tax cut (21.8 percent) than they did before the tax cut (20.4 percent).

Although these findings may be surprising, there is a logical explanation for them. Before Reagan's tax cut, a large fraction of high-income taxpayers were in a tax bracket above 50 percent. In the Tax Reform Act of 1969, Congress intended to impose a maximum tax rate of 50 percent on "earned income." The legislation, however, did not accomplish that. Only 7.5 percent of the more than 2 million taxpayers who were supposed to be affected by this reform were kept at or below the 50 percent rate. The other 92.5 percent were left in brackets ranging from just over 50 percent to over 70 percent.[33] In 1982,

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31. See Marilyn Moon and Isabell V. Sawhill, "Family Incomes," in the Reagan Record, pp. 325-326.

32. James Gwartney, "Tax Rates, Taxable Income and the Distributional Effects of the Economic Recovery Act of 1981," Testimony before the Congressional Joint Economic Committee, June 12, 1984, p. 16.

33. See Lawrence B. Lindsey, "Is the Maximum Tax on Earned Income Effective?," National Tax Journal, Vol. XXXIV, No. 2, June 1981, pp. 249-255.

Reagan succeeded in cutting the top rate on earned income to 50 percent. As a result, many high-income taxpayers immediately saw their marginal tax rate drop by as much as 30 percent. This gave them an added incentive to produce earned income. Provessor Lawrence Lindsey of Harvard speculated in 1981 that a reduction of the top tax "might...increase tax revenues."[34] His speculation was confirmed.

These results indicate that adding a surtax of 10 percent on couples with incomes over $100,000 and on singles with incomes above $70,000, as Walter Mondale advocates,[35] is likely to reduce the revenues obtained from these taxpayers.

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34. See Lawrence B. Lindsey, "Alternatives to the Current Maximum Tax on Earned Income," in Martin Feldstein, ed., Behavioral Simulation Methods in Tax Policy Analysis, (Chicago: University of Chicago Press) pp. 83-108.

35. Wall Street Journal, September 11, 1984, p. 62.

EFFECTS ON WOMEN

Reagan's economic policies have had three notable effects on women. Single mothers who are actually or potentially dependent on government transfer programs have been affected both negatively and positively. Married women who are not candidates for welfare have been affected positively.

The negative effect on low-income single mothers is that they find it harder to qualify for welfare if they earn an outside income. However, there is a positive effect on welfare mothers with no outside income. As noted earlier, because welfare benefits do not rise with inflation, their purchasing power was falling rapidly with the high inflation of the late 1970s. Simply by reducing inflation, Reagan dramatically slowed the erosion of welfare benefits. In addition, as noted earlier, low-income individuals have experienced a high percentage reduction in marginal tax rates, and have the most to gain from the tax-bracket indexing.

The big plus for women in the Reagan economic package is a tax break that benefits mainly married women. The tax break consists of a 10 percent deduction against the first $30,000 earned by the lower-earning spouse. This effectively reduces the tax rate for married women who qualify by an additional 8 percentage points. As a result:

- While Americans on the average received a 23 percent tax reduction, working wives received a 31 percent tax reduction.
- The supply-side effects of this tax cut are larger than for any other group. By one estimate, the Reagan tax cuts have added from 700,000 to 1.2 million full-time women workers to the labor force.[36]
- By another estimate, Reagan's tax cuts increased the number of full-time adult women in the labor force by 2 million.[37]

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36. Based on the estimates of Robert Haveman. See Haveman, "How Much Have the Reagan Administration's Tax and Spending Policies Increased Work Effort?," op. cit.

37. Based on the estimates in Jerry Hausman, "Income and Payroll Tax Policy and Labor Supply," op. cit.

EFFECTS ON THE YOUNG

Three of Reagan's policies increased employment of teenagers in the private sector. The three policies are: (1) his reduction in student aid for students from higher income families, (2) his reduction in funds for training and public service employment, and (3) his decision to keep the minimum wage at $3.35 per hour.

The first policies probably had a minimal impact on employment because almost all teenagers from relatively well-to-do families who did not receive government aid probably went to college anyway. The second may have had a more substantial impact, giving teenagers an incentive to seek jobs in the private sector. Robert Haveman[38] estimates that these cuts increased the labor force by as much as 150,000.

Reagan's decision not to raise the mimimum wage probably had the biggest impact on teenage employment. Because the price level has increased about 20 percent[39] since the minimum wage was last increased on January 1, 1981, the minimum wage adjusted for inflation has actually fallen by about 20 percent. Liberal economists, including James Tobin of Yale[40] and Paul Samuelson of MIT[41], have noted the harmful effect the mimimum wage has on teenagers. By requiring employers to pay more than the value of what many teenagers can produce, the mimimum wage prices them out of the job market. Even President

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38. Based on the estimates of Robert Haveman. See Haveman, "How Much Have the Reagan Administration's Tax and Spending Policies Increased Work Effort?," op. cit.

39. Department of Labor, Bureau of Labor Statistics.

40. James Tobin, "On Improving the Economic Status of the Negro," Daedalus, Vol. 94, No. 4, Fall 1965, reprinted in Edwin Mansfield, ed., Microeconomics: Selected Readings, 2nd. ed., (New York: W.W. Norton, 1975) pp. 562-578.

41. Paul Samuelson Economics, 7th edition, 1967, p. 377.

Carter's Secretary of Labor, Ray Marshall, admitted this.[42] Economists for Carter's Minimum Wage Study Commission[43] found that:

- Every 10 percent increase in the mimimum wage decreases teenage employment by 1 to 1.5 percent.

- This means that by letting inflation reduce the mimimum wage by 20 percent, Reagan has increased teenage employment by 2 to 5 percent, or by 130,000 to 322,000 jobs.

Economists have noted the particularly harmful effect the minimum wage has on employment of black male teenagers.[44] Because the real minimum wage has fallen, many of them are working for the first time and are gaining valuable work skills.

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42. "A Conversation with Ray Marshall," (Washington, D.C.: American Enterprise Institute, 1978), p.18.

43. Report of the Minimum Wage Study Commission, Vol 1, May 24, 1981, p. 38.

44. John F. Cogan, "The Decline in Black Teenage Employment, 1950-1970," American Economic Review, Vol. 72, Number 4, September 1982, pp. 621-638.

EFFECTS ON THE ELDERLY

According to a recent study by economists at the Urban Institute, the income of the elderly has increased substantially since 1980. The study found that:[45]

- Between 1980 and 1984, the real disposable incomes of families headed by a person 65 or older rose by 9.5 percent-- nearly 3 times the increase for all families.

- For older people living alone, the increase was 15 percent.

The authors of the study noted that although older people would have done well under Carter, they did even better under Reagan's policies.

The reasons why the elderly have done so well are straight-forward. One reason is that the 1981-1982 recession did not substantially reduce their employment. A second is that Reagan's reduction in inflation helped preserve their purchasing power. A third is that their interest income rose. A fourth is that they were not greatly affected by Reagan's budget cuts but were helped by his tax cuts.

CONCLUSION

One of the most surprising things about the economic evidence on the effects of the Reagan economic program is the source of the evidence. As the reader may have noticed, the bulk of the evidence I have cited comes from the Urban Institute, the Brookings Institution, the University of Wisconsin's Institute for Research on Poverty and the economics departments of Harvard, MIT and Yale. These institutions are not traditionally regarded as allies of conservative Republican presidents. Indeed, what is most interesting about the current economic research on the Reagan record is that a consensus is forming that spans the ideological spectrum: The supply-side economics popularized by President Reagan describes real economic behavior--behavior that is important to the welfare of the country.

Note: Nothing here should be construed as necessarily representing the views of the National Center of Policy Analysis or as an attempt to aid or hinder the passage of any bill before congress.

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45. Marilyn Moon and Isabell Sawhill, "Family Incomes," The Reagan Record, p. 334.

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