

# **Tax Fairness: Myths and Reality**

by

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## Executive Summary

During 1990, Americans were bombarded by reports that the U.S. tax system had become increasingly unfair. The critics seized upon two or three facts about the income tax system, repackaged those facts in misleading ways in dozens of “studies,” and skillfully marketed the “findings” to the national news media.

**Myth: During the 1980s, the rich got richer and the poor got poorer.**

Over the past decade, the real per capita income of Americans grew by 21.2 percent. Every income class posted a substantial increase in real aftertax income.

**Myth: The top 10 percent of income earners gained from the Reagan tax cuts, while the bottom 90 percent lost.**

Total taxes as a percent of gross national product today are slightly higher than they were in 1980. The nation’s total tax burden, therefore, did not go down — in large part because of Social Security (FICA) payroll tax increases that took effect in the 1980s but were legislated during the Carter Administration. The Reagan income tax cuts, however, lowered the personal income tax burden for every income class.

**Myth: The Reagan tax cuts were a giveaway to the rich.**

The tax rate on the highest income earners was reduced sharply during the 1980s in order to encourage wealthy taxpayers to earn more income and pay more taxes. The experiment was a spectacular success. The tax cuts benefitted the non-rich, as wealthy taxpayers increased their *total* tax payments and their *share* of tax payments. For example, the share of income tax payments made by the top 1 percent of taxpayers grew from 18 percent in 1981 to more than 27 percent in 1988.

**Myth: Reagan tax reform was unfair to low-income families.**

For the vast majority of Americans, the greatest benefit from Reagan tax reform is not that tax payments are lower but that taxes are lower than they *would otherwise have been*. For example:

- A family earning \$10,000 a year would pay 134 percent more in income taxes if the Carter Administration’s tax policies were in effect today.
- Including the increases in Social Security taxes, this family would pay 42 percent more in total taxes if the 1980 tax law were in effect.

The very lowest-income taxpayers realized an additional gain. As many as four million low-income taxpayers no longer pay income taxes. The personal exemption was doubled from \$1,000 in

1980 to \$2,000 by 1989, and the standard deduction was increased by over 50 percent for most taxpayers.

**Myth: The income tax system became less progressive during the 1980s.**

The U.S. tax system became *more* progressive, not less so.

- Between 1979 and 1988, the share of income taxes paid by the top 5 percent of income earners rose from 37.6 percent to 45.9 percent.
- Between 1981 and 1988, the share of Social Security payroll taxes paid by the top 5 percent of income earners rose from 10.9 percent to 12.3 percent.
- By contrast, the bottom half of income earners now pay only 5.5 percent of federal income taxes and only 17 percent of Social Security payroll taxes.

**Myth: During the 1980s, income of the wealthy grew faster than that of any other group.**

No one really knows if this statement is true. It is certainly true of income *subject to taxes*. But there is no hard evidence that the *total* income of the wealthy grew faster than that of other taxpayers. We do not know how much of the growth in taxable income was due to a shift from nontaxable to taxable income and how much to the fact that the wealthy worked harder or invested more to produce more income.

**Myth: The rich pay a smaller percent of their income in taxes today than they did in 1980, although most taxpayers pay a higher percent.**

No one knows exactly what the “income” of the rich was in 1980. Official records show only income subject to the income tax. Taxpayers were not required to report income from tax-exempt securities or other forms of tax-sheltered income. Because of Reagan tax reform, much more of the income of the wealthy today is taxable and much less is sheltered. By any reasonable estimate of *total* income in 1980 and 1990, taxes as a percent of income have gone up, not down, for the wealthiest taxpayers.

**Myth: The tax system can be made more progressive by raising the tax rates paid by the rich.**

For most of the history of the income tax, the opposite has been true. That is, whenever the highest tax rate has been increased, the total tax payments and share of tax payments made by the rich have gone down. Whenever the highest tax rate has been lowered, the share of taxes paid by the rich has gone up. The experience of the 1980s replicated this historical relationship.

## Introduction

The American income tax system is highly progressive. By some measures, it is even more progressive than that of Sweden — a country dedicated to wholesale redistribution of income.<sup>1</sup> As Figure I shows:

- The top 10 percent of income earners currently pay more than half of all U.S. income taxes.
- The top half of income earners pay more than 90 percent of all income taxes.
- The bottom half of the income distribution pays only 5.5 percent of income taxes.

Despite this incredible progressivity, the tax system has recently been attacked on the grounds that it is “unfair” because taxes paid by the wealthy are too low relative to taxes paid by low- and moderate-income families. During 1990, Americans were bombarded by reports that the U.S. tax system had become increasingly unfair. This claim was based on studies produced by liberal think tanks (Citizens for Tax Justice, the Center on Budget Priorities and the Economic Policy Institute), studies produced by government agencies responsive to the wishes of the Democratic leadership in Congress (the Congressional Budget Office, the House Ways and Means Committee, the Joint Economic Committee and the Joint Committee on Taxation) and the opinions of numerous popularizers of the message, including writers Kevin Phillips and Alexander Cockburn.

To the degree that there is any unfairness in the tax system, it was created by the increases in Social Security payroll taxes — legislated during the Carter Administration but put into effect during the 1980s. Yet the “tax fairness” critics did not protest those increases, which channeled more money from working Americans to the federal government. Instead, they became vocal when the Reagan income tax cuts allowed people to keep more of their earnings. Moreover, their “solution” was not to cut taxes paid by working families but to increase revenues to the federal government.

Because of the complexity of the tax system, seemingly contradictory statements about it are actually true. Critics of Reagan tax reform, seizing upon this confusion, have made inaccurate claims. All too often, think tanks

*"The top half of income earners pay 94.5 percent of all income taxes and 83 percent of all Social Security taxes."*

*"The tax system became increasingly progressive in the 1980s."*

and congressional agencies publish facts which are packaged in a highly misleading way. Writers who are less than careful use those facts to support generalizations which are wrong.

Almost all of the confusion about increasing inequity relates to two features of the system: Reagan tax reform and the Social Security payroll tax.

**Reagan Tax Reform: Marginal Tax Rates.** During the Reagan Administration, the marginal tax rate on the highest income earners was reduced from 70 percent to 28 percent. The strongest argument for the reduction was that high tax rates encourage income tax avoidance (such as the use of tax shelters), wasting resources and encouraging unproductive investments. For example, when the tax rate is 70 percent, people have an incentive to spend up to 70 cents to convert a dollar of taxed income into a dollar of untaxed income. At lower tax rates, people are encouraged to realize more taxable income, base their investments on economic considerations rather than tax considerations and spend less on wasteful tax avoidance.

Lower tax rates are good for the economy. They encourage productive investments, job creation and economic growth.<sup>2</sup> This is why Reagan tax reform has been emulated to some degree by virtually every other country in the world.<sup>3</sup>

Aside from benefits for the economy, lower tax rates have an additional benefit that is not well understood. By selectively lowering tax rates, governments can actually collect *more* total revenue because wealthier taxpayers realize so much additional income at the lower rates that their total tax payments are higher. This “have-your-cake-and-eat-it-too” result has always been true for the highest marginal tax rate in the U.S. tax system. Every time the highest rate has been lowered, tax payments made by the wealthiest taxpayers have increased. The converse is also true.<sup>4</sup>

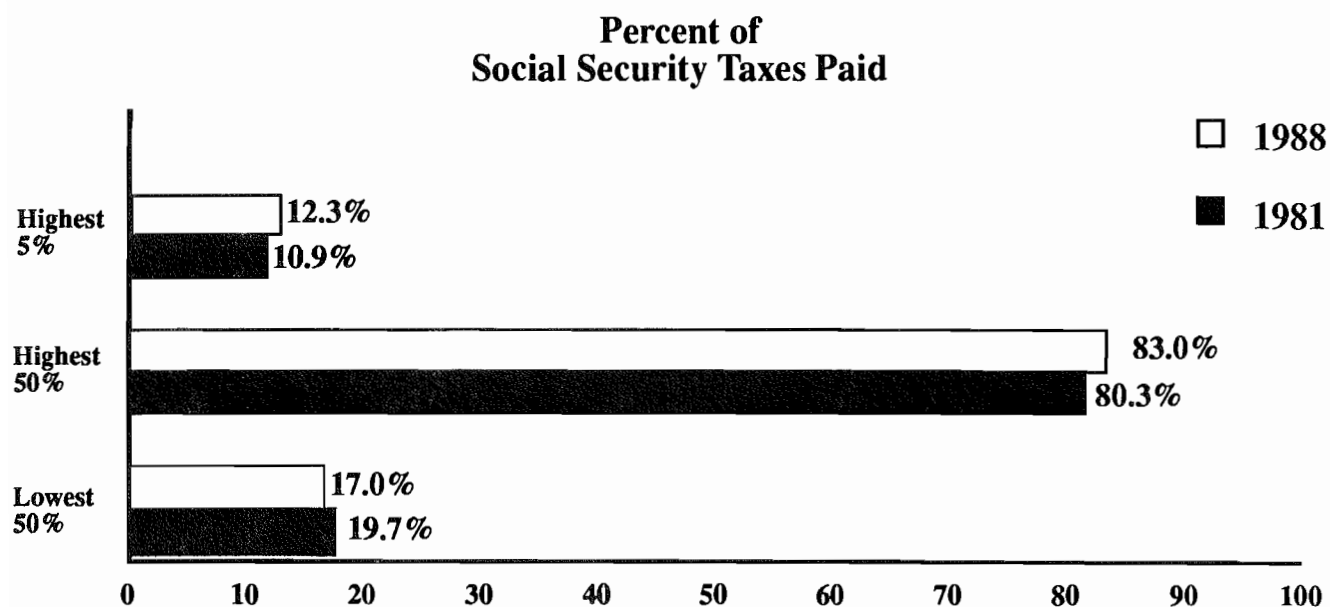
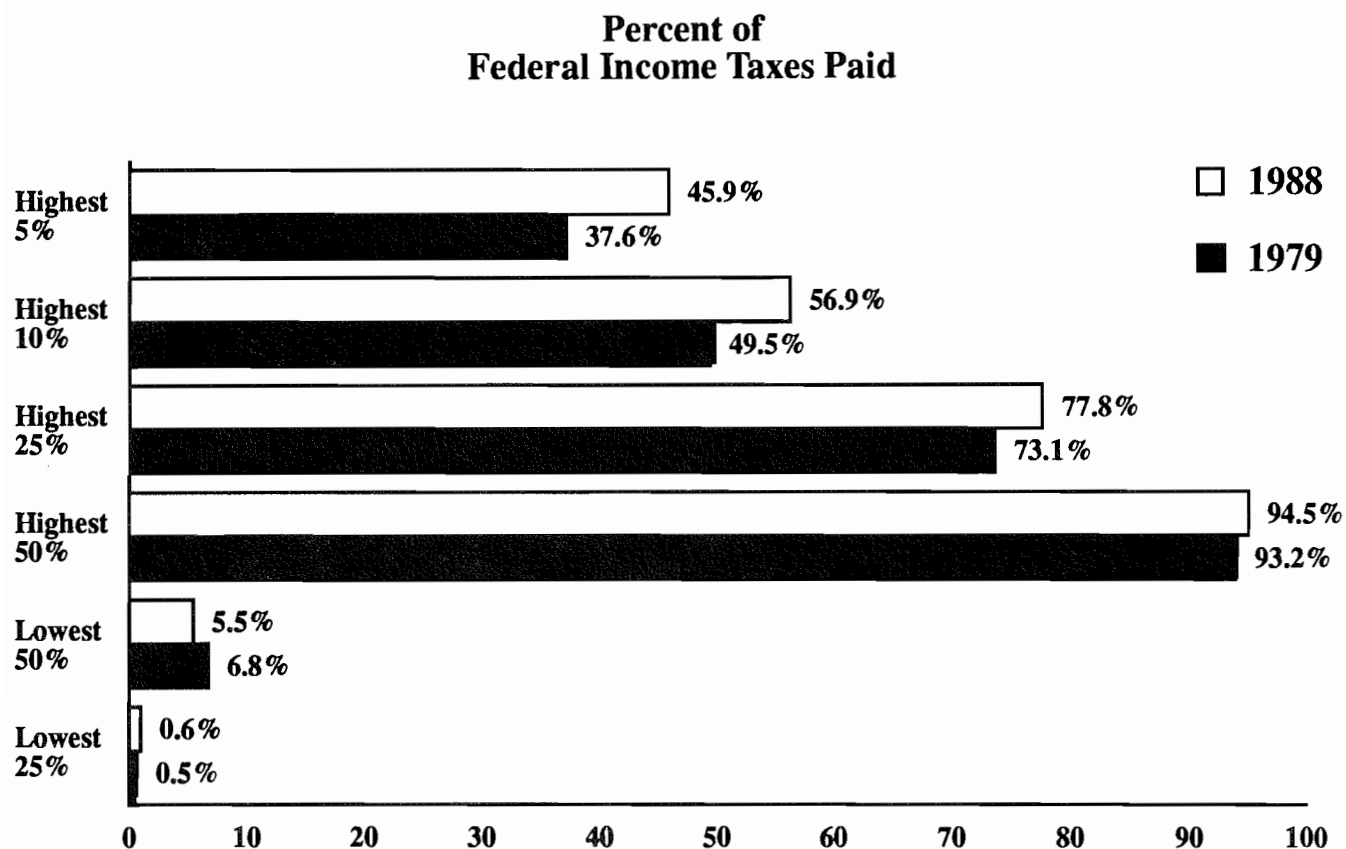
Reagan tax reform was no exception. The wealthiest taxpayers pay *more* in total taxes and a larger *share* of total income taxes today than they did in 1981. For example:

*"As the highest income tax rate went down, taxes paid by the wealthy went up."*

*"The highest-income taxpayers shoulder a greater share of the nation's tax burden."*

FIGURE I

## Increasing Progressivity of U.S. Taxes



*"In 1988, the wealthiest 1 percent of taxpayers paid 27 percent of all income taxes — up from 18 percent in 1981."*

- In 1981, when the highest marginal tax rate was 70 percent, the wealthiest 1 percent of taxpayers paid 18 percent of total income taxes.
- In 1988, at a tax rate of 28 percent, their tax share had increased to 27 percent.<sup>5</sup>

This phenomenon is not restricted to the very wealthy. As Figure I shows, every above-average income class increased its share of income tax payments in the 1980s.<sup>6</sup> Even more surprising, the same pattern exists for Social Security taxes as well.

Confusion arises only if we fail to recognize that two things have happened at once: 1) lower tax rates have made the wealthy better off, and 2) they also have made government and other taxpayers better off. The "unfairness" rhetoric focuses on the first effect and denies the second. People accustomed to thinking of the tax system as a zero-sum game are misled into believing that the gains of the wealthy are at the expense of all others.

**Reagan Tax Reform: Average Tax Rates.** In 1988 the average rate of individual income tax was 13.4 percent, compared to 15.5 percent in 1980.<sup>7</sup> Despite substantial reductions in marginal rates, the level of income taxes paid at the end of the decade was reduced little in comparison with its 1980 level.

In evaluating the fairness of the changes made in the 1980s, the most important comparison is not between taxes actually paid at the beginning and end of the decade. It is between taxes paid in 1990 and taxes that *would have been paid* had the Reagan tax revolution not occurred.

The tax fairness critics almost never mention what tax rates would have been had the 1980 tax law never been changed. In so doing, they overlook one of the most important ways in which the tax system was made more fair.

**Reagan Tax Reform: Changing Taxpayer Incentives.** A taxpayer's income is composed of two parts: that which is taxed and that which is not. The most obvious forms of untaxed income are derived from tax-exempt securities and tax-sheltered income. But taxpayers realize untaxed income in less obvious ways as well. For example, a taxpayer who owns stock or some other asset that increases in value has experienced an increase in income. But

*"There is no evidence that the total income of the rich rose faster than that of any other income group."*

*"As tax rates went down in the 1980s, high-income taxpayers got out of tax shelters and realized more taxable income."*

unless the owner sells the asset, the increased income is not taxed. The holder of a government savings bond which pays interest at maturity experiences annual increases in income (the value of the bond rises) which are not taxed until maturity or until the bond is sold. This contrasts to a bond which promises an identical amount of income but pays (taxable) interest annually.<sup>8</sup>

There is a great deal of statistical information about income subject to the income tax because taxpayers are required to report it. However, very little is known about nontaxed income — how much there is, who receives it and in what form. What we do know is that wealthy taxpayers have the greatest discretion about how and when they receive income. As a result, they are far more likely to receive a substantial portion of their total income in nontaxable form.

The reduction in marginal tax rates and tax reform in the 1980s caused a dramatic shift from nontaxable to taxable income, especially among wealthy taxpayers. This was one of the goals of tax reform. Yet these critics have ignored this achievement and reached misleading conclusions.

Several studies have claimed that, during the 1980s, the income of the wealthy grew faster than that of any other income group and that the wealthy pay a smaller portion of their income in taxes today than in 1980 — while most other taxpayers pay a larger share of income in taxes (when Social Security payroll taxes are included). Without exception, the critics define "income" as the amount subject to income tax. They make no attempt to estimate total income and may not even mention that in 1980 untaxed income was a large share of the total income of the rich.

*"Despite claims of the tax fairness critics, the wealthiest taxpayers pay a higher percentage of their total income in taxes today than they did in 1980."*

Did the *total* income of the wealthy grow faster than of other income groups? We know that their taxed income grew considerably. We do *not* know how much of this growth was due to a shift from untaxed to taxed income and how much to the fact that they worked harder and invested more to produce more income. Yet based on any plausible assumption, the percent of income paid in taxes by the wealthy went *up* during the 1980s.<sup>9</sup>

**Reagan Tax Reform: Incentives for Married Women.** Evidence suggests that the most important reason for the economic expansion of the 1980s was an increase in the labor supply.<sup>10</sup> Large numbers of people entered the labor market, found jobs and began producing — thus increasing the nation's total income and the average income per person. The most important



*"The economic expansion of the 1980s was stimulated by the entry of women into the labor market."*

source of this increase in the labor supply was women workers.<sup>11</sup>

Although the reduction in marginal tax rates in the 1980s affected all workers, its greatest effect was on married women. Under previous tax policy, if a married woman entered the labor market and earned a modest salary, the marginal tax rate was determined by the couple's total income. For example, if the husband was already in the 50 percent income tax bracket, the wife's marginal tax rate was 50 percent (plus the Social Security payroll tax rate), even if she earned only the minimum wage. As a result, many low-wage married women faced very high marginal tax rates.

The reduction in marginal tax rates created new incentives and new opportunities for married women. While the 1981 tax cuts lowered tax rates by 23 percent on the average, for married women the tax rate was lowered by 31 percent. The supply-side effects of the tax cut were greater for married women than for any other segment of the population.<sup>12</sup>

The entry of women into the labor market, however, has an ironic side effect. It almost always makes the distribution of family income less equal. If the husband was previously a middle-income earner, the two-income couple likely will become high-income earners — thus increasing the number of "rich" families and shrinking the "middle-class." If the couple divorces, the husband is not counted as a family and the wife (with a child present) may well become a low-income family — thus increasing the number of "poor" families and shrinking the middle-class.

*"The Reagan tax cuts benefitted working wives more than any other group."*

These changes, considered more fully below, are the result of *expanded opportunities* for middle-income families. Yet without careful analysis they seem to suggest that the middle class has shrunk and income is less equal because of lack of opportunity!

**Social Security Payroll Taxes.** Unlike the income tax, the Social Security (FICA) payroll tax is regressive, if we ignore its connection to Social Security benefits. The current total (employer and employee) rate of 15.3 percent is applied up to a maximum of \$53,400 in wages and salaries.<sup>13</sup> Over this range, the tax is proportional to income. But because there is a cap, and because it applies only to wages, the tax declines as a percent of total income as income rises.

The U.S. system is not unique. Most countries have social security systems funded by payroll taxes. As the social security system grows, a larger payroll tax is needed to fund it. The larger the payroll tax relative to income taxes, the more regressive the tax system appears. The system is not necessarily regressive when benefits are considered, however. The same income on which taxes are paid is used to determine benefits. And, in virtually all countries, benefits as a percent of income fall as income rises. In the United States, for example:<sup>14</sup>

- A worker earning close to one-half of the average wage will receive 57 percent of his preretirement income in the form of Social Security benefits.
- A worker earning the average wage will receive a benefit equal to 42 percent of preretirement income.
- The benefit for a worker earning close to two-and-one-half times the average wage will be only 24 percent of income.

*"The Social Security payroll tax increases in the 1980s were largely legislated during the Carter Administration."*

The increase in the U.S. Social Security payroll tax from 12.26 percent in 1980 to 15.3 percent in 1990 was legislated in 1977, during the Carter Administration. Because of this increase, some low- and moderate-income families pay more in total taxes than they did in 1980. This is not the result of Reagan tax reform, which focused on income taxes and left Social Security taxes virtually untouched.

In principle, there is nothing wrong with debating today tax changes legislated in 1977. Nor is there anything wrong with debating the need for fundamental reform of Social Security — such as converting the system into a welfare program or allowing private pensions to substitute for participation in Social Security. This has not been the tack of tax policy critics.

With few exceptions, the critics have scrupulously avoided any discussion of fundamental reform of the Social Security system itself. Instead, they have lumped payroll taxes with income taxes in making broad pronouncements about changes in the total tax burden in the 1980s. This has given less careful commentators the opportunity to substitute "Ronald Reagan" for "1980s" in an attempt to discredit the highly beneficial income tax reforms the Reagan Administration initiated.

## Income Tax Changes in the 1980s

One way to evaluate the changes in income tax law in the 1980s is to compare the tax liability in 1990 with the liability taxpayers would have faced had the 1980 tax code not been changed.<sup>15</sup> Table 1 contrasts taxes paid as a percent of total family income. As the table shows:

- For a family with a \$10,000 income, income taxes would have been 8.6 percent of income under 1980 tax law compared to 3.7 percent under current law.
- For a family with a \$30,000 income, income taxes would have been 17.2 percent of income under 1980 tax law compared to 9.6 percent under current law.
- For a family with a \$45,000 income, income taxes would have been 21.3 percent of income under 1980 tax law compared to 11.3 percent under current law.

TABLE 1

### Income Taxes as a Percent Of Family Income in 1990<sup>1</sup>

<u>1990 Income</u>	<u>1980 Tax Law Applied Today<sup>2</sup></u>	<u>1990 Tax Law<sup>3</sup></u>
\$ 10,000	8.6%	3.7%
20,000	14.7%	8.0%
30,000	17.2%	9.6%
45,000	21.3%	11.3%
60,000	23.6%	12.7%
85,000	27.0%	15.1%
175,000	34.5%	20.3%
375,000	41.0%	22.8%
1,700,000	37.4%	23.1%

*"Every income group would pay substantially more in income taxes if Carter's tax policies were in effect today."*

<sup>1</sup>The income taxes paid are those of a composite taxpayer. The composite is a weighted average of the tax that would be paid by joint, single and other returns for each level of income. The weights are the share of each schedule in total returns.

<sup>2</sup>Taxes that would be paid if the 1980 tax law applied today.

<sup>3</sup>Actual tax liability under 1990 tax law.

Table 2 compares the level of income taxes that would have been paid under 1980 law with income taxes actually paid under 1990 law. As the table shows:

- Income taxes for a family with \$10,000 in income would be 134 percent higher under 1980 tax law than under current law.
- Income taxes for middle-income taxpayers would be between 79 percent and 88 percent higher under 1980 tax law than under current law.
- Income taxes for the highest income group (\$1,700,000) would be 62 percent higher under 1980 tax law than under current law.

In terms of relative income tax burden, the highest-income families gained the least from Reagan tax reform. Low-income families gained the most.

TABLE 2

### Income Taxes in 1990<sup>1</sup>

<u>1990 Income</u>	<u>1980 Tax Law Applied Today<sup>2</sup></u>	<u>1990 Tax Law<sup>3</sup></u>	<u>Increase if 1980 Tax Law Applied Today</u>
\$10,000	\$863	\$369	+ 134 %
20,000	2,935	1,600	+ 83 %
30,000	5,149	2,884	+ 79 %
45,000	9,596	5,106	+ 88 %
60,000	14,150	7,632	+ 85 %
85,000	22,939	12,857	+ 78 %
175,000	60,407	35,588	+ 70 %
375,000	153,584	85,576	+ 80 %
1,700,000	635,515	391,900	+ 62 %

*"A return to the 1980 tax law would penalize low-income families the most."*

<sup>1</sup>The income taxes paid are those of a composite taxpayer. The composite is a weighted average of the tax that would be paid by joint, single and other returns for each level of income. The weights are the share of each schedule in total returns.

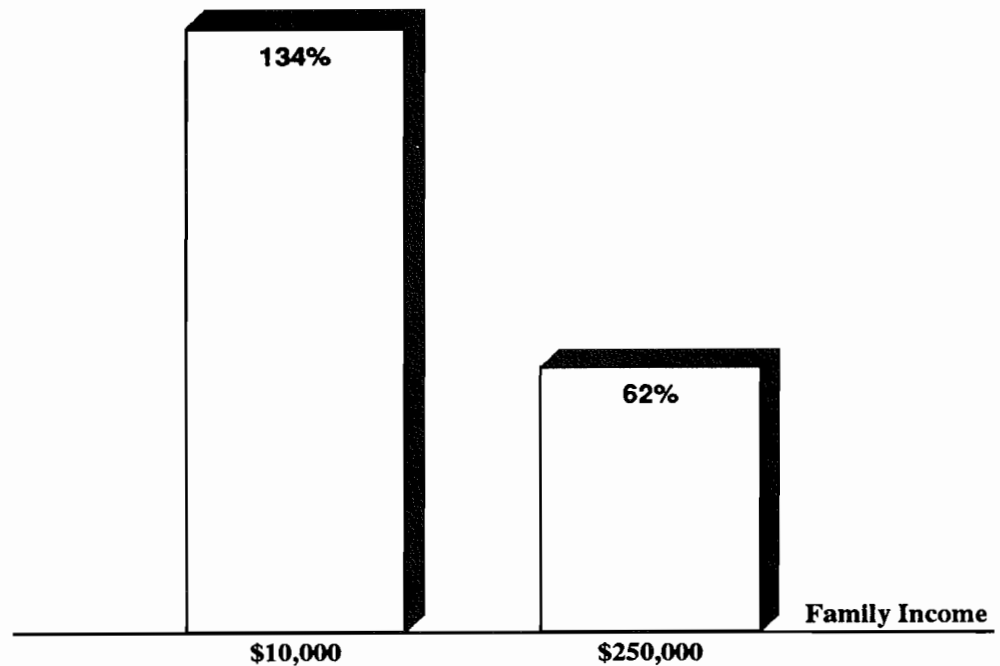
<sup>2</sup>Taxes that would be paid if the 1980 tax law applied today.

<sup>3</sup>Actual tax liability under 1990 tax law.

*"In percentage terms, taxes would increase more than twice as much for low-income families as for high-income families if we returned to the 1980 tax law."*

FIGURE II

### Increase in Income Taxes if Carter's Tax Policies Applied Today



### The Effect of Social Security Taxes

Ever-increasing Social Security taxes, not the income tax changes of the 1980s, have added to the middle-class tax burden. Payroll taxes were not part of the income tax changes that reduced marginal rates. Rather, higher payroll taxes were needed to pay for Social Security benefits that continue to increase in real terms.<sup>16</sup>

By October 1982, the Old-Age Survivors Insurance (OASI) trust fund, which pays retirement benefits, had cashed in all of its government debt. Something had to be done or Social Security benefit payments would have stopped. The change recommended by the bipartisan Greenspan Commission resulted in the 1983 Social Security Amendments.

Some argue that the 1983 amendments, enacted in the third year of the Reagan Administration, represented the largest tax increase in history. Actu-

*"Today's payroll tax rate of 15.3 percent was chosen during the Carter Administration."*

ally, most of the increase was part of the 1977 Social Security Amendments, which warded off impending financial disaster brought about by mistakes in the way the 1972 Social Security Amendments determined benefits. As Table 3 shows, the 1983 amendments accounted for only a 0.3 percentage point increase in 1984 and a 0.72 percentage point increase in 1988 over what had already been scheduled by 1977 law.<sup>17</sup>

The tax increase resulting from the 1977 amendments amounted to \$252.8 billion over the 1980s, while the increase attributable to the 1983 amendments totaled \$36.1 billion. In other words, 86 percent of the increase was due to changes enacted in 1977. Moreover, by 1990 the payroll tax rate stood at 15.3 percent — exactly where it would have been under legislation passed during the Carter Administration.

TABLE 3

### Social Security Payroll Tax

<u>1977 Amendments</u>			<u>1983 Amendments</u>	
<u>Year</u>	<u>Rate</u>	<u>Revenue Increase<sup>1</sup> (\$ billions)</u>	<u>Rate</u>	<u>Revenue Increase<sup>2</sup> (\$ billions)</u>
1980	12.26%	\$1.8	—	—
1981	13.30%	8.9	—	—
1982	13.40%	10.3	—	—
1983	13.40%	10.8	—	—
1984	13.40%	12.1	13.70% <sup>3</sup>	\$4.5
1985	14.10%	24.3	14.10%	0.0
1986	14.30%	24.4	14.30%	0.0
1987	14.30%	25.9	14.30%	0.0
1988	14.30%	27.6	15.02%	14.2
1989	14.30%	33.7	15.02%	17.3
1990	15.30%	73.0	15.30%	0.0
Total		\$252.8		\$36.0

*"About 86 percent of the increase in FICA taxes during the 1980s was due to changes legislated in 1977."*

<sup>1</sup> Uses the 1973 act as the basis of comparison. Excludes self-employed taxes and income taxes from the taxation of Social Security benefits.

<sup>2</sup> Estimates use the 1977 act as the basis of comparison.

<sup>3</sup> The stated tax rate was 7 percent for employer and employee for a total of 14 percent to the trust funds. The 0.3 percentage point increase in the employee portion of the tax was offset by an income tax credit.

Even taking Social Security taxes into account, families at all income levels are better off under 1990 tax law. Table 4 shows income and Social Security taxes as a percent of family income under 1980 and 1990 tax law, and Table 5 compares the levels of income and Social Security tax liability. As the tables show:

- For a family with \$10,000 in income, income and Social Security taxes would have been \$1,296 under 1980 law compared with \$910 under 1990 law, a difference of 42 percent.
- For a family with \$20,000 in income, income and Social Security taxes would have been \$3,864 under 1980 law compared with \$2,759 under 1990 law, a difference of 40 percent.

A comparison of Tables 2 and 5 illustrates how rising Social Security taxes have lessened the benefit of income tax rate cuts made during the 1980s.

TABLE 4

### Income and Social Security Taxes As a Percent of Family Income in 1990<sup>1</sup>

<u>1990 Income</u>	<u>1980 Tax Law Applied Today<sup>2</sup></u>	<u>1990 Tax Law<sup>3</sup></u>
\$ 10,000	13.0%	9.1%
20,000	19.3%	13.8%
30,000	22.2%	15.9%
45,000	25.5%	17.9%
60,000	27.1%	19.3%
85,000	29.7%	20.4%
175,000	35.8%	23.4%
375,000	41.6%	23.4%
1,700,000	37.5%	24.3%

*"Even taking Social Security taxes into account, every income group gained from Reagan's tax policies."*

<sup>1</sup>Includes only the employee portion of the FICA tax. The income taxes paid are those of a composite taxpayer. The composite is a weighted average of the tax that would be paid by joint, single and other returns for each level of income. The weights are the share of each schedule in total returns.

<sup>2</sup>Taxes that would be paid if the 1980 tax law (with legislated future FICA tax increases) applied today.

<sup>3</sup>Actual tax liability under 1990 tax law.

TABLE 5

## Income and Social Security Taxes in 1990<sup>1</sup>

<u>1990 Income</u>	<u>1980 Tax Law Applied Today<sup>2</sup></u>	<u>1990 Tax Law<sup>3</sup></u>	<u>Tax Increase if 1980 Tax Law Applied Today</u>
\$10,000	\$1,296	\$910	+ 42 %
20,000	3,864	2,759	+ 40 %
30,000	6,662	4,772	+ 40 %
45,000	11,476	8,071	+ 42 %
60,000	16,280	11,562	+ 41 %
85,000	25,237	17,325	+ 46 %
175,000	62,689	40,928	+ 53 %
375,000	155,814	91,102	+ 71 %
1,700,000	637,786	397,539	+ 60 %

<sup>1</sup>Includes only the employee portion of the FICA tax. The income taxes paid are those of a composite taxpayer. The composite is a weighted average of the tax that would be paid by joint, single and other returns for each level of income. The weights are the share of each schedule in total returns.

<sup>2</sup>Taxes that would be paid if the 1980 tax law applied today.

<sup>3</sup>Actual tax liability under 1990 tax law.

*"Every income group would pay at least 40 percent more in total taxes if Carter's tax policies were in effect today."*

- For a family with \$10,000 in income, the Reagan tax revolution prevented a 134 percent increase in income taxes. Taking into account Social Security taxes, the Reagan tax cuts prevented a 42 percent increase.
- For a family with \$30,000 in income, current income tax law has prevented a 79 percent increase in taxes. Taking into account Social Security taxes, the family avoids a 40 percent increase.
- For a family with \$45,000 in income, current income tax law prevented an 88 percent increase in taxes. Taking into account Social Security taxes, the family avoids a 42 percent increase.

The percentage tax reductions with and without Social Security vary far less at the upper end of the income tax distribution because a maximum wage ceiling of \$51,300 applied to the Social Security tax rate in 1990. The ceiling, coupled with the fact that the payroll tax applies only to wage income, has caused some to characterize Social Security as regressive.



Offsetting the so-called regressiveness, however, is the progressiveness of Social Security benefits. Lower-wage workers receive in benefits a higher proportion of their taxed wages than do higher-wage workers.

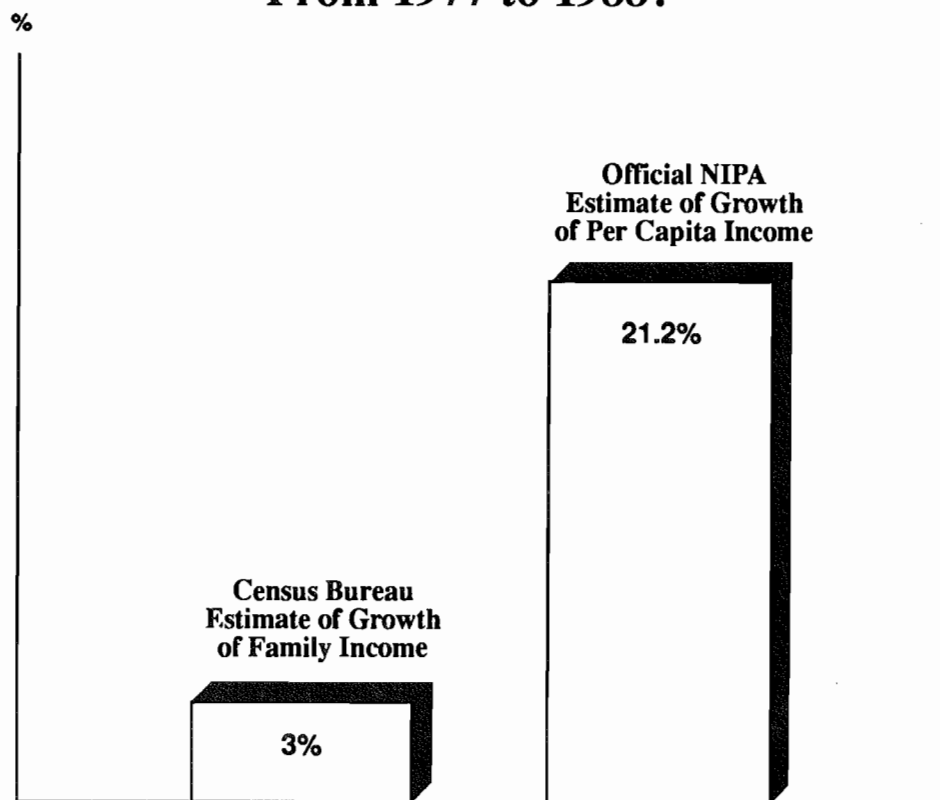
## Are the Rich Getting Richer While the Poor Get Poorer?

The claim that "the rich got richer and the poor got poorer" during the 1980s is based on estimates of the Congressional Budget Office (CBO) and others. These estimates rely on annual Census income data and compare "average family income" in 1977 with that in a recent year. For example, according to the Census, real average U.S. family income grew only 3 percent between 1977 and 1988. Furthermore, except for the upper 10 percent of families, real income *declined*.<sup>18</sup>

*"Newspaper reports about family income are very misleading."*

FIGURE III

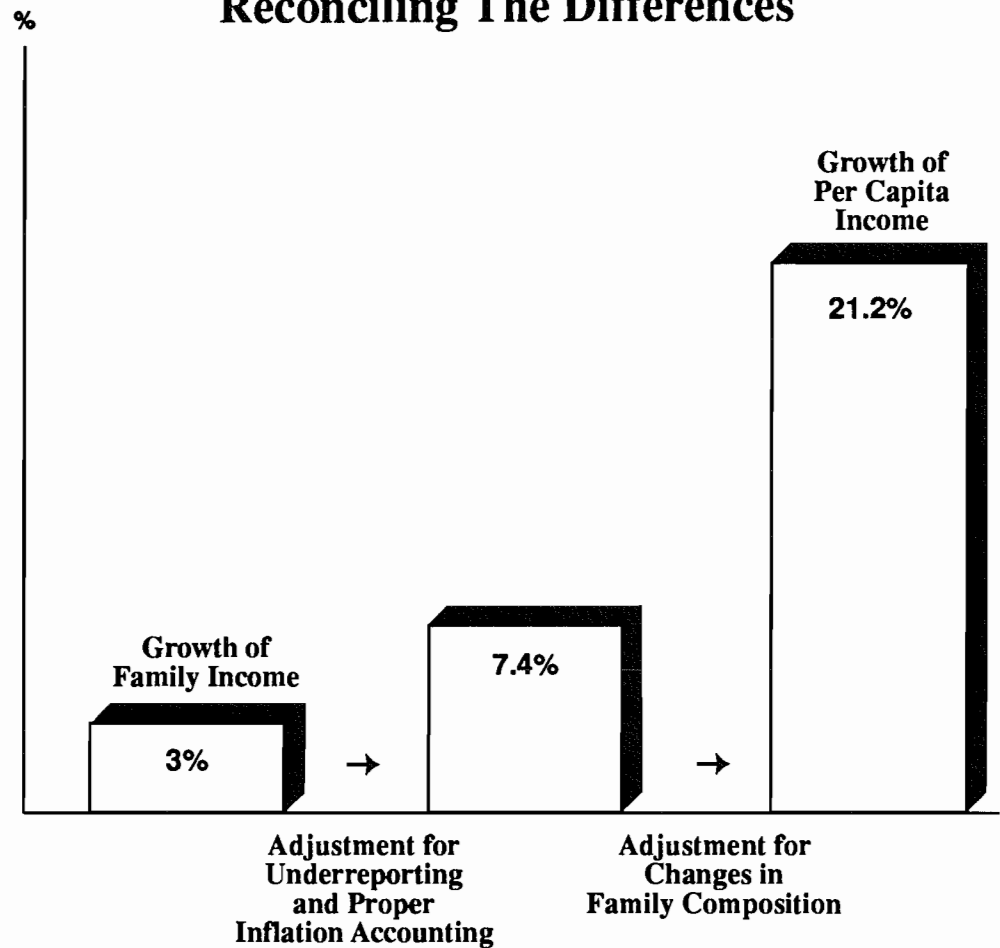
### How Much Did Income Grow From 1977 to 1988?



*"How could family income have grown by only 3 percent while the income of the average individual grew by 21.2 percent?"*

FIGURE IV

## Reconciling The Differences



*"When a couple divorces, the husband no longer counts as a family."*

*"A divorced husband's income is not included in family income statistics."*

Yet, according to the National Income and Product Accounts (the official economy-wide scorecard), real per capita income in the U.S. actually grew by 21.2 percent between 1977 and 1988.<sup>19</sup> How can we reconcile the fact that the average *family* income grew only 3 percent (based upon Census survey data) with the fact that average income for every man, woman, and child grew by 21.2 percent? Three adjustments must be made to Census income data to make it consistent with aggregate U.S. figures. [See Fig. IV.]

**Family composition.** Because of rising divorce rates, the rising proportion of single-parent households and the changing age distribution of the population, "average family income" is not meaningful over long periods of time. Two common changes experienced by families illustrate the effect on aggregate family income distribution: women's entry into the labor market and divorce (which is sometimes associated with that entry).

*"Newspaper reports about changes in family income ignore one-fifth of the population."*

Suppose that in 1977 there were two married couples with children, in which the husband was the sole earner, receiving the average family income.

**Couple 1.** Wife reenters the job market at two-thirds the average wage. In the 1988 income distribution, this family would have moved from the middle to an upper decile, increasing the average income of the upper decile relative to that of the lower deciles.

**Couple 2.** After a divorce, the wife, who receives custody of the children, reenters the job market at two-thirds the average wage. The husband, who continues his average-wage job, now maintains a separate household. As a single person, living alone, *he is not counted* in the family income distribution. In the 1988 income distribution, this now-female-headed family drops from the middle decile to a lower one. The husband's average income disappears from the distribution altogether. These events lower the average income of other deciles relative to that of the upper deciles.

The effect of both cases is seemingly to "shrink" the middle class. In reality, the income distribution results are due to demographic rather than economic factors. [See Figure V.] The Census Bureau acknowledges that part of the growing inequality in family income is due to the changing composition of families and households.<sup>20</sup> Families today do not look like those of 10 or 20 years ago.<sup>21</sup> For example:

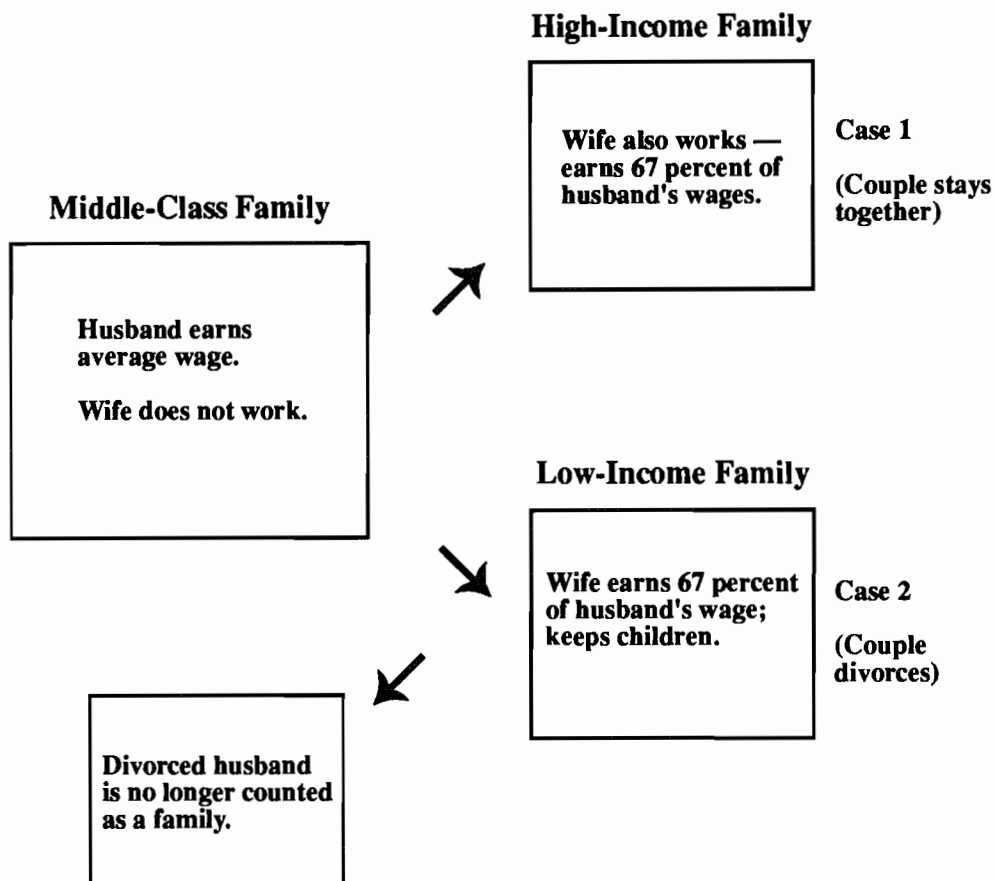
- Average family size decreased from 3.42 persons in 1975 to 3.17 in 1988, an 8 percent decline.
- The number of single persons, never married, grew from 17.6 percent of the population in 1975 to 22 percent in 1988.
- Between 1975 and 1987, the number of families grew by 17 percent while the number of unrelated individuals — not counted as families — grew by 73 percent.<sup>22</sup>
- About one-half of all families with a female head are in the lowest 20 percent of family incomes.
- Female-headed families increased from 10.8 percent of all families in 1970 to 16.5 percent by 1990.<sup>23</sup>

*"Between 1975 and 1987, the number of families grew by only 17 percent, while the number of single people grew by 73 percent."*

FIGURE V

## The Shrinking Middle Class?

*"When wives enter the labor market, the distribution of 'family income' becomes more unequal."*



*"The middle class appears to be shrinking although the total income of middle-class families has gone up by 67 percent."*

**Underreporting.** For various reasons, people tend to underreport income on household surveys such as those conducted by the Census. Underreporting tends to be greater for non-wage income. Census income figures also report "money wages" and, therefore, exclude fringe benefits such as health insurance and pension plans.<sup>24</sup>

**Inflation adjustment.** The Consumer Price Index (CPI) is widely used to measure inflation in the United States. Yet for purposes of calculating the change in real income over long periods, the CPI has defects well known to economists. For this reason, measures such as the GNP deflator are used to calculate nationwide changes in real income in the United States and in other countries.

As Table 6 shows, once the adjustments are made for changes in family composition, underreporting and the proper treatment of inflation, the real growth in family income over the period 1977 to 1988 is 21.2 percent, reflecting the real per capita income growth for the U.S. economy as a whole.

TABLE 6

### Reconciliation of Census and Bureau of Economic Analysis Measures of Income Growth, 1977 to 1988

<u>Percentage Change</u>	<u>Description</u>
3.0%	Reported growth in Family Income 1977 to 1988 by Census
- 0.6%	Adjustment needed to correct for underreporting
+ 4.9%	Adjustment needed to correct for changing consumption patterns, i.e. fixed weight CPI to chain-indexed deflator
+ 12.8%	Adjustment needed to correct for changing family composition
= 21.2%	Real per capita income from NIPA

*"The real increase in income for Americans was seven times greater than the widely reported increase in family income."*

### Has the Total Tax System Become More Regressive?

Another claim of tax fairness critics is that the entire federal tax system has become more regressive. Table 7, prepared by the Congressional Budget Office, shows that between 1977 and 1988 the average total federal tax rate rose for every income class except the second-from-lowest and the highest. Some use these results to assert that the rich received tax breaks at the expense of the poor.

Because the total tax burden for all U.S. taxpayers rose over the decade, it is not surprising that the average tax rate has risen for most income classes. Moreover, as noted above, the estimate for the highest income class is surely wrong — because of the large shift from untaxed to taxed income on the part of the wealthy. It is almost certainly true that the average tax rate for

the wealthy rose over the decade — maybe more so than for any other income group.

Furthermore, the table shows that average individual *income* tax rates have *fallen* for every income class. The culprit in a rising total federal tax burden is not the income tax but increasing payroll taxes needed to pay expanded Social Security and Medicare benefits.

TABLE 7

### Misleading Table: The CBO's Calculation of Changing Effective Federal Tax Rates (Taxes as a Percent of Income)

<u>Decile<sup>1</sup></u>	<u>Income Taxes</u>		<u>Payroll Taxes</u>		<u>All Taxes</u>	
	<u>1977</u>	<u>1988</u>	<u>1977</u>	<u>1988</u>	<u>1977</u>	<u>1988</u>
First	-0.5	-0.8	3.6	5.0	8.3	9.7
Second	0.0	-0.4	1.6	5.9	9.1	8.6
Third	1.8	1.7	6.2	8.6	12.3	13.3
Fourth	4.3	4.1	7.4	9.4	16.1	16.5
Fifth	6.3	5.9	8.0	9.8	18.2	18.5
Sixth	7.8	7.2	8.1	10.4	19.6	20.2
Seventh	9.2	8.3	8.4	10.5	20.9	21.4
Eighth	10.5	9.0	8.1	10.9	21.7	22.3
Ninth	11.7	10.4	7.5	10.6	22.6	23.4
Tenth	17.0	15.5	4.2	6.0	29.5	26.6

<sup>1</sup>From lower to higher income.

Source: Congressional Budget Office, "The Changing Distribution of Federal Taxes: 1975-1990," Washington, DC, October, 1987, Table 7. The "All Taxes" category includes CBO imputations for corporate and excise taxes paid by individuals.

*"Focusing on faulty family income statistics, the critics charge that the recent tax changes benefitted only the wealthy."*

*"Misleading statistics about family income are published by federal agencies that ought to know better."*

More important than average tax rates, however, is what happened to real aftertax income. According to the CBO estimates reproduced in Table 8, aftertax family income fell over the decade for every income class except the second-from-lowest and the highest. CBO estimates of changes in family income suffer from all of the defects discussed in the previous section — especially the failure to consider the large increase in unrelated individuals (who disappear from the chart over the ten-year interval).<sup>25</sup> As Table 8 shows, simply adjusting for the misstatement of inflation by the CPI makes the change in aftertax income significantly positive for every income class. Adjusting for family size would make the gains even larger.

Table 8

## Change in Aftertax Family Income 1977 to 1988

*"According to the Congressional Budget Office, between 1977 and 1988 aftertax income went down for all families except the near poor and the very rich."*

<u>Decile<sup>1</sup></u>	<u>CBO Estimate<sup>2</sup></u>	<u>NCPA Estimate After Adjustment for Proper Inflation Accounting</u>
First	- 1.5%	+ 5.9%
Second	+ 0.6%	+ 8.1%
Third	- 4.6%	+ 2.6%
Fourth	- 0.5%	+ 7.0%
Fifth	- 0.4%	+ 7.1%
Sixth	- 0.8%	+ 6.7%
Seventh	- 0.6%	+ 6.8%
Eighth	- 0.8%	+ 6.7%
Ninth	- 1.0%	+ 6.4%
Tenth	+ 4.1%	+ 11.9%

<sup>1</sup>From lower to higher income.

<sup>2</sup>The ratio of 1 minus the effective tax rate in 1988 divided by 1 minus the effective tax rate in 1977.

Using 1977 as the base year further biases the results. As Table 9 shows, including the high-inflation years of 1977 to 1981 masks the real growth in income from 1981 to 1988. Almost 80 percent of real income growth occurred from 1981 to 1988 — despite the negative influence of the 1981-82 recession.

*"After properly adjusting for inflation, we find that families at every income level gained."*

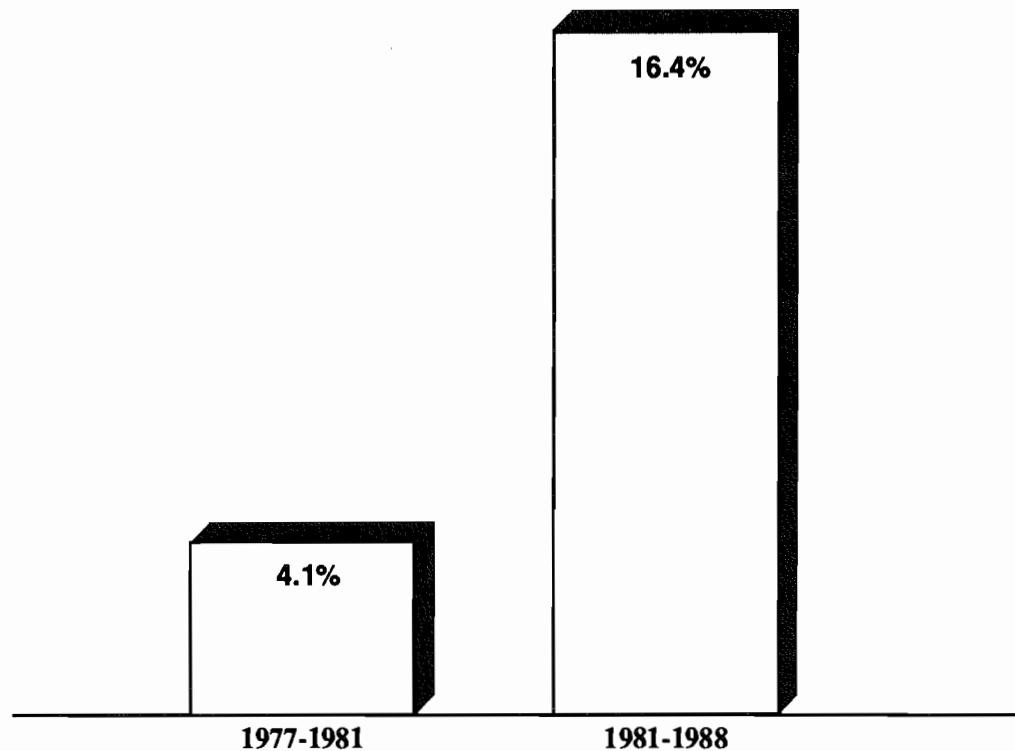
TABLE 9

## U.S. Per Capita Income Growth, 1977-1988 (in percent)

<u>Component</u>	<u>1977-88</u>	<u>1977-81</u>	<u>1981-88</u>
Total change	125.5%	47.7%	52.8%
Due to inflation	86.1%	41.7%	31.3%
Real growth	21.2%	4.1%	16.4%

*"Tax fairness critics like to look back to 1977; but supply-side economic policies started in 1981."*

**FIGURE VI**  
**Growth in Real Income**



## **Conclusion**

In addition to all of the errors analyzed above, those who claim the tax system has become less fair use static analysis to draw conclusions about the effects of tax policy on income. The assumption underlying all the critical family income studies is that income in 1987 or 1988 would have been the same with or without the tax changes of the 1980s. This assumption is wrong. The reasons why will be presented in a forthcoming NCPA report.

**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.



## **Appendix A**

### **Major Tax Changes in the 1980s**

Tax policy of the 1980s was characterized as “the Reagan tax cuts.” The major policy initiatives were the tax cuts of 1981 and tax reform of 1986. There were tax increases as well. Overall, however, the 1980s saw a reduction in federal income taxes on individuals and businesses. Table 1 summarizes important features of the four major income tax bills of the 1980s:

- The Economic Recovery Tax Act of 1981 (ERTA);
- The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA);
- The Deficit Reduction Act of 1984 (DEFRA); and
- The Tax Reform Act of 1986 (Tax Reform).

ERTA was supposed to increase incentives for work, saving and investment by cutting taxes on individuals and businesses. It reduced individual income tax rates and introduced indexing, beginning in 1985, to protect taxpayers from “bracket creep.” It also lowered the tax on capital by revising an out-dated depreciation schedule from 1960. These incentives did, in fact, increase work and saving.

TEFRA was supposed to maintain ERTA incentives but improve the fairness of the tax system by eliminating unintended benefits and obsolete incentives and by improving enforcement and collection. In fact, TEFRA was a tax increase built into the 1982 budget compromise. The Reagan Administration signed on to a partial repeal of the 1981 tax cuts to achieve some spending cuts. The advertised “\$1 in spending cuts for \$3 in tax increases” never materialized, however. The spending cuts were not forthcoming, and the tax increase produced less revenue than expected.<sup>1</sup>

DEFRA was supposed to increase the efficiency of the tax system by curbing tax shelter abuse, limiting unwarranted tax benefits and increasing taxpayer compliance. DEFRA was also a tax increase, albeit a small one.

Tax Reform was a major overhaul of the tax system. It substantially lowered marginal tax rates on both individuals and businesses while broadening the tax base. It was supposed to reduce the tax burden on lower-income individuals and make tax filing easier. It did result in some four million low-income taxpayers no longer paying taxes, but the jury on simplicity is still out. Because of concern over the budget deficit, tax reform had to be “revenue neutral.” The overall package, therefore, raised taxes on business to offset the tax cut to individuals.

TABLE A-1

## Major Tax Bills of the 1980s

### The Economic Recovery Tax Act of 1981 (ERTA)

- An across-the-board reduction in individual income tax rates of approximately 23 percent, phased in over 33 months.
- A reduction in the maximum top rate from 70 percent to 50 percent, beginning in 1982.
- Inflation-indexing for the individual income tax brackets, the zero bracket amount and the personal exemption, beginning in 1985.
- The accelerated cost recovery system (ACRS), which provided depreciation write-off periods ranging from 3 years for equipment to 15 years for structures.
- Reduction of the maximum tax rate on capital gains to 20 percent.

### The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)

- Instituted a half-basis adjustment for investment tax credits in calculating depreciation.
- Repealed the acceleration of depreciation scheduled in 1985 and 1986 by ERTA.
- Raised the federal unemployment tax (FUTA) wage base from \$6,000 to \$7,000 and the FUTA tax rate from 0.7 percent to 0.8 percent.
- Increased airport, airway, cigarette and telephone excise taxes.
- Reduced tax-free contributions to a defined-contribution pension plan from \$45,475 to \$30,000 and reduced limits on benefits from a defined-benefit plan from \$136,425 to \$90,000.

### The Deficit Reduction Act of 1984 (DEFRA)

- A repeal, beginning in 1985, of the provision that allowed an exclusion from income tax of 15 percent of up to \$3,000 in interest income for a single taxpayer (\$6,000 for couples).
- A \$2 per gallon increase in the excise tax on alcohol and a one-year extension of the 3 percent telephone excise tax.

- An increase in the minimum recovery period for real property from 15 to 18 years.
- A reduction in the holding period for long-term capital gains from one year to six months for assets acquired between June 1984 and January 1988.

### **The Tax Reform Act of 1986 (Tax Reform)**

- A reduction in the number of individual income tax brackets to two — 15 percent and 28 percent.
- Increases in the zero bracket amount and personal exemptions.
- Repeal of the two-earner deduction, income averaging, and the state and local sales tax deduction.
- Repeal of the 60 percent capital gains exclusion for individuals.
- Reduction in the maximum corporate income tax rate from 46 percent to 34 percent.
- Broadening of the corporate tax base through repeal of the investment tax credit, limiting depreciation deductions, restricting the use of net operating losses, etc.

<sup>1</sup>The 1982 budget summit agreed to \$98 billion in tax increases and \$31 billion in spending reductions to achieve a fiscal year 1983 deficit of \$104 billion. The actual 1982 deficit was \$208 billion. See Paul G. Merski, "A Decade of Budget Summitry," *Issue Brief*, Tax Foundation, Washington, DC, June 1990 for a comparison of negotiated versus actual deficits.

## Appendix B

### Social Security “Conspiracy”?

Studies claiming that the current tax system is unfair sound two major themes: (1) the federal tax burden became increasing regressive during the 1980s, and (2) the rich got richer while the poor got poorer. Both charges are said to be a direct result of the income tax cuts of the 1980s. Some have assigned responsibility for the increase in Social Security taxes to the Reagan Administration. According to Kevin Phillips:

The second big redistributive spur was Washington’s decision to let Social Security tax rates climb upward from 6.05 percent in 1978 to 6.70 percent in 1982-83, 7.05 percent in 1985 and 7.51 percent in 1988-89 — a schedule originally voted in 1977 under Carter — while income tax rates were coming down. By 1987, however, Maine Democratic Senator George Mitchell complained that “as a result, there has been a shift of about \$80 billion in annual revenue collections from the progressive income tax to the regressive payroll tax.” The Social Security tax increase in 1977 cannot be attributed to the current administration. But the response in the 1980s — to make up for a tax increase disproportionately burdening lower-income households with a tax cut disproportionately benefitting higher-income households — can be laid to the policies of this [Reagan] administration.

According to Phillips, there was a deliberate decision to substitute “regressive” Social Security taxes for “progressive” income taxes by using scheduled increases in payroll taxes to pay for cuts in marginal income tax rates.

It could just as easily be said that the excess payroll taxes are being used to increase government spending on the order of \$80 billion a year. More importantly, the Phillips theory is inconsistent with actual legislative history. At the same time details of what was to become The Economic Recovery Tax Act of 1981 (the initial Reagan tax cuts) were being hashed out, another policy group was addressing the impending bankruptcy in one of the Social Security trust funds. Negative real wage growth and ever-increasing benefits — legacies of the 1970s — had strained the system. In fact, the Old-Age and Survivors Insurance trust fund, which pays benefits to retirees, ran out of money in October 1982. As discussed previously, the bipartisan Greenspan Commission came up with a bailout package that left essentially intact the payroll tax increases enacted in 1977. It was believed that those taxes would be needed to pay benefits during the 1980s.

This belief has turned out to be correct. Table B-1 compares total government receipts and outlays as a percentage of GNP with those for Social Security and the Hospital Insurance portion of

Medicare, programs financed with the 15.3 percent payroll tax. From 1974 until 1985, Social Security and Medicare spent more than was collected in payroll taxes. During that time, benefits were paid by cashing in government debt held by the trust funds. This redemption of government bonds was accomplished by transferring general (primarily income tax) revenues to the trust funds. Since 1985, payroll tax revenues have exceeded benefit payments so that the trust funds are once again accumulating government debt.

Payroll taxes became a larger share of the total federal tax burden because Social Security and Medicare outlays, for which payroll taxes are earmarked, also increased. Absent major reform of the two programs, payroll taxes will continue to be an important, mandatory component of federal taxes.

<sup>1</sup>Phillips, Kevin, *The Politics of Rich and Poor*, (New York: Random House), 1990, p. 80

TABLE B-1

## Federal Receipts and Outlays as a Percent of GNP Compared to Social Security and Medicare, 1947-1989

<u>Year</u>	<u>Total Federal Receipts</u>	<u>Total Federal Outlays</u>	<u>SocSec &amp; HI Payroll Taxes</u>	<u>SocSec &amp; HI<sup>1</sup> Outlays</u>
1947	17.2%	15.4%	0.7%	0.2%
1960	18.3%	18.2%	2.3%	2.3%
1970	19.5%	19.8%	3.9%	3.7%
1971	17.7%	19.9%	3.9%	4.0%
1972	18.0%	20.0%	4.0%	4.1%
1973	18.0%	19.2%	4.6%	4.4%
1974	18.6%	19.0%	4.7%	4.8%
1975	18.3%	21.8%	4.7%	5.1%
1976	17.6%	21.9%	4.7%	5.2%
1977	18.4%	21.2%	4.7%	5.2%
1978	18.4%	21.1%	4.7%	5.1%
1979	18.9%	20.6%	4.9%	5.1%
1980	19.4%	22.1%	5.1%	5.5%
1981	20.1%	22.7%	5.6%	5.7%
1982	19.7%	23.8%	5.7%	6.2%
1983	18.1%	24.3%	5.7%	6.2%
1984	18.1%	23.1%	5.9%	6.0%
1985	18.6%	23.9%	6.0%	6.0%
1986	18.4%	23.7%	6.2%	6.0%
1987	19.3%	22.7%	6.2%	5.7%
1988	19.0%	22.2%	6.4%	5.7%
1989	19.2%	22.2%	6.6%	5.7%

<sup>1</sup>Social Security (SocSec) includes the Old-Age Survivors Insurance and Disability Insurance programs. Hospital Insurance (HI) is Part A of Medicare. These programs are 94 percent financed by a payroll tax which, in 1990, amounted to 15.3% on the first \$51,300 in wages and salaries. Other sources of receipts include interest on trust fund surpluses, which is paid out of general revenues, and, in the case of OASDI, income taxes from the taxation of benefits. This source of revenue, which did not begin until 1985, amounted to \$2.5 billion in 1989.

Source: *Budget of the U.S. Government, 1991*, Tables 15.1 and 15.3  
*Annual Social Security Statistical Supplement*, Tables 4.A.3 and 7.A.1

## Footnotes

<sup>1</sup>Peter Stein, "Sweden: Failure of the Welfare State," *Journal of Economic Growth*, Vol. 2, No. 4, pp. 31-41.

<sup>2</sup>For an in-depth explanation of the effect, see Lawrence B. Lindsey, *The Growth Experiment* (New York: Basic Books, 1990).

<sup>3</sup>Between 1985 and 1989, 55 countries of 86 surveyed cut their highest marginal tax rate by an average of 9 percentage points. Only two raised their top rates. Calculations were made by Bruce Bartlett, based on data compiled from Price Waterhouse and Coopers & Lybrand tax guides.

<sup>4</sup>See John C. Goodman, "Should Income Tax Rates for Wealthy Taxpayers Be Increased?," NCPA Policy Backgrounder No. 102, National Center for Policy Analysis, July 30, 1990.

<sup>5</sup>Internal Revenue Service, *Statistics of Income Bulletin*, Spring 1990, Washington, DC, 1990, pp. 15-25.

<sup>6</sup>*Tax Features*, Vol. 34, No. 8, September 1990, Tax Foundation, Washington, DC.

<sup>7</sup>*Statistics of Income Bulletin*, Spring 1990, p. 137.

<sup>8</sup>This bond-interest example illustrates the effect of changing definitions of income subject to tax. In 1980 the accruing interest on zero coupon bonds was not included in income, but by 1988 it was included.

<sup>9</sup>Consider a taxpayer with \$250,000 in total income consisting of \$225,000 in taxable and \$25,000 in nontaxable income. A simultaneous drop in the average tax rate from 25 percent to 23 percent and a conversion of the untaxed to taxed income would result in an overall increase in the "true" average tax rate from 22.5 percent  $[(250,000 - 25,000) \times 0.25 / 250,000 = 22.5\%]$  to 23 percent  $[250,000 \times 0.23 / 250,000 = 23\%]$ .

<sup>10</sup>John P. Judd and Bharat Trehan, "Working Harder," *Federal Reserve Bank of San Francisco Weekly Letter*, June 22, 1990.

<sup>11</sup>The participation rate of women increased from 51.5 percent in 1980 to 56.6 percent in 1988, while that of men declined slightly from 77.4 percent in 1980 to 76.2 percent in 1988. See U.S. Bureau of the Census, *Statistical Abstract of the United States: 1990* (110th edition), Washington, DC, 1990, Table 625.

<sup>12</sup>David R. Henderson, "Analyzing the Reagan Record," NCPA Policy Report No. 114, National Center for Policy Analysis, October 1984.

<sup>13</sup>As of January 1, 1991, the Medicare component of the FICA tax (2.9 percent) will apply to wages and salaries up to \$125,000.

<sup>14</sup>Based on Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *1988 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, April 1990, Washington, DC, Table F6.

<sup>15</sup>Appendix A discusses the major tax changes of the 1980s.

<sup>16</sup>Appendix B discusses trends in Social Security taxes and outlays.

<sup>17</sup>U.S. Department of Health and Human Services, Social Security Bulletin, *Annual Statistical Supplement, 1988*, Washington, DC: Social Security Administration, December 1988, Table 2.A.2, p. 15.

<sup>18</sup>For examples, see Congressional Budget Office, "The Changing Distribution of Federal Taxes: 1975-1990," Washington, DC, October 1987, Table 6, or Kevin Phillips, *The Politics of Rich and Poor*, (New York: Random House), 1990, Table 1.

<sup>19</sup>The National Income and Product Accounts (NIPA), prepared by the U.S. Bureau of Economic Analysis, are the official tally of gross national product, consumption, personal income, investment and other U.S. economic measures. Any estimate pertaining to some measure of economic activity that is not consistent with NIPA figures is suspect.

<sup>20</sup>U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 162, *Money Income of Households, Families, and Persons in the United States: 1987*, U.S. Government Printing Office, Washington, DC, 1989, p. 5. The Census Bureau states that: "Use of per capita income provides a measure that includes all population segments and that is less affected by changes in living arrangements."

<sup>21</sup>U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 168, *Money Income of Households, Families, and Persons in the United States: 1990* (Advance Data from the March 1990 Current Population Survey), U.S. Government Printing

## Footnotes (continued)

Office, Washington, DC, 1990, p. 5.

<sup>22</sup>U.S. Bureau of the Census, *Statistical Abstract of the United States: 1990 (110th edition)*, Washington, DC, 1990, Tables 13, 52, and 58.

<sup>23</sup>*Current Population Reports*, Series P-60, No. 168, p. 7.

<sup>24</sup>*Current Population Reports*, Series P-60, No. 162, p. 7. The Congressional Budget Office attempts to correct for under-reporting in its estimates by using tax return and NIPA data.

<sup>25</sup>Correcting for changing family composition would require tracking what happened to families of like composition (married couple with children, married couple without children, female-headed family with children) over time.

## About the Authors

**Aldona Robbins**, Vice President of Fiscal Associates and Senior Fellow of the NCPA, has extensive experience with public and private retirement programs. She served as senior economist in the Office of Economic Policy, U.S. Department of the Treasury, from 1979 to 1985 and has developed a model to project Social Security benefits and tax revenues. Recent publications include NCPA Reports entitled “What A Canadian-Style Health Care System Would Cost U.S. Employers and Employees” and “Taxing the Savings of Elderly Americans”; an NCPA and Institute for Policy Innovation Report entitled “Paying People Not To Work: The Economic Cost of the Social Security Retirement Earnings Limit”; a book entitled *The ABCs of Social Security*, published by the Institute for Research on the Economics of Taxation; and an article entitled “Encouraging Private Provision for Long-Term Care” in *Compensation and Benefits Management*. Articles on Individual Retirement Accounts and Medicare have appeared in the *Wall Street Journal*. She received a master’s and a doctorate in economics from the University of Pittsburgh.

**Gary Robbins** is President of Fiscal Associates and Senior Fellow of the NCPA. Mr. Robbins has developed a general equilibrium model of the U.S. economy that specifically incorporates the effects of taxes and government spending. Before joining the private sector, he was Chief of the Applied Econometrics Staff at the U.S. Treasury Department from 1982 to 1985, Assistant to the Under Secretary for Tax and Economic Affairs from 1981 to 1982, and Assistant to the Director of the Office of Tax Analysis from 1976 to 1981. Recent publications include NCPA Reports entitled “A Pro-Growth Budget Strategy: Vision for the 1990s,” “Will the New Budget Package Create a Recession?” and “Elderly Taxpayers and the Capital Gains Tax Debate”; an IPI Report entitled “Will Raising Taxes Reduce the Deficit?”; and a report for the U.S. Chamber of Commerce entitled “Adding to the S&L Solution: A Case for Lower Capital Gains Taxes.” Articles on various tax policy issues have appeared in the *Wall Street Journal*. He received his master’s in economics from Southern Methodist University.



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

- 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.

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