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By Richard W. Rahn

ADDING UP THE GORE TAX BURDEN

Vice President Gore keeps telling us how proud he is that he voted against the Reagan tax rate reductions in 1981. This is a curious boast for a politician to make since, a year after the tax cuts went into effect, inflation and unemployment fell sharply and the economy began to grow very rapidly. Most observers credit the Reagan tax cuts as the action that began the 18 years of economic growth that we still enjoy today (with the exception of two slightly down quarters in 1991). Has Al Gore forgotten history or does he think everyone else has?

If Al Gore had gotten his way, and we had not had tax cuts in 1981, what would our tax burden be today? Senator Connie Mack (FL) posed this question to the non-partisan Joint Committee on Taxation of the Congress. They concluded that individual tax liability would be approximately 50% higher than it is under present law.

In 1980, individual tax rates ranged from a bottom statutory marginal tax rate of 14% on income beginning at \$2,300, to a top rate of 70% on income over \$108,300. In 1984, when the Reagan tax cuts were fully phased in, the rates had been reduced to a range of 11% to 50%. Under present law, statutory rates run from 15% to a high of 39.6% on incomes above \$278,450. As the following table shows, taxpayers in every income tax bracket would be paying substantially more if the 1980 code had remained in place. Even those with the lowest incomes would be paying approximately 20% more.

Income Category	Effective Tax Rate	
	Present Law	1980 Law
Less than \$10,000	8.3%	10.5%
\$10,000 to \$20,000	7.2%	10.0%
\$20,000 to \$30,000	12.6%	17.8%
\$30,000 to \$40,000	16.3%	23.6%
\$40,000 to \$50,000	17.7%	26.3%
\$50,000 to \$75,000	20.2%	31.3%
\$75,000 to \$100,000	22.7%	36.3%
\$100,000 to \$200,000	25.0%	40.0%
\$200,000 and over	28.2%	43.7%
Total, All Taxpayers	21.4%	33.2%

Data from the Joint Committee on Taxation. The effective tax rate is equal to Federal taxes divided by: taxable and certain non-taxable income.

Former senior Treasury tax official, Stephen Entin, who is now President of the Institute for Research in the Economics of Taxation (IRET), calculated that the average American family who made \$46,737 in 1998 would be paying \$7,077 more per year in income taxes (a whopping 264% increase) if the 1980 law had remained in effect. Under current law they face a marginal tax rate of 15%. Under the 1980 law that Gore apparently favored, they would face a marginal tax rate of 43%.

No serious economist believes that the economy could have performed nearly as well as it has for the past 18 years without the Reagan tax cuts, which set in motion the supply-side revolution. The irony is that, despite the Clinton-Gore rhetoric against the supply-siders and the large scale opposition of the Democrats to the Reagan tax cuts in 1981, virtually no one now is pushing for higher marginal tax rates, let alone the 70% rate that was in effect when Reagan took office.

The supply-siders clearly won the intellectual argument. The federal government is running huge surpluses and marginal tax rates are approximately half of what they were in 1980. Their opponents have only been able to avoid admitting defeat by attempting to reinvent history.

Vice President Gore and his supporters might argue that tax revenues might even be greater if the Reagan tax cuts had not occurred. Indeed the Joint Tax Committee did estimate that the federal tax take would be \$871 billion higher on a static basis if the 1980 law had remained in effect. Static basis calculations mean that the behavioral effect to a change in tax rates is not considered. However, the Joint Tax Committee was explicit in saying: “The response of taxpayers in terms of tax avoidance, compliance, and changes in work effort and saving behavior to such a change (returning to the 1980 code) would be significant and unprecedented.” That is, the economy would be far smaller and economic misery far greater, and hence total federal revenues might well be smaller even with higher rates.

Finally, Vice President Gore will probably respond that he favored some other tax cut, but that was not his choice. Most members of Congress probably wanted a bigger or smaller tax cut. As the Reagan tax cut proposals wove their way through the Congressional tax writing process, they were changed in a number of ways, as members voted on proposed modifications. Remember the House of Representatives was controlled by the Democrats at that time. The ultimate decision the members of Congress had to make was whether they believed that the modified Reagan tax proposal they developed would make things better or worse. Al Gore made his choice, and he was clearly wrong, but that can be forgiven. However, to deny he was wrong and misrepresent the objective evidence says much about the man who seeks to be our next President.

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