

A REPORT
OF THE HERITAGE CENTER
FOR DATA ANALYSIS

**THE IMPACT OF REMOVING
SOCIAL SECURITY'S TAX
CAP ON WAGES**

by Gareth G. Davis and D. Mark Wilson



THE IMPACT OF REMOVING SOCIAL SECURITY'S TAX CAP ON WAGES

GARETH G. DAVIS AND D. MARK WILSON

The Social Security system is facing a financial crisis of immense proportions. In about 15 years, it will begin taking in less money than it needs to pay benefits to its participants; and within 30 years, it will have sufficient funds to pay only 75 cents for every dollar of benefits it has promised.¹ By 2075, Social Security will run an annual deficit of \$516 billion (in 1998 inflation-adjusted dollars).

To meet the system's looming financial crisis, some policymakers have called for an increase in Social Security taxes. Congress can increase payroll taxes by raising the Social Security tax rate and/or by raising the maximum amount of wages subject to the tax.² Most commentators believe that increasing the payroll tax rate has been ruled out by President Bill Clinton and Kenneth Apfel, the Commissioner of the Social Security Administration (SSA).³

The option of raising or eliminating the maximum amount of labor income subject to the tax, however, is still open for debate. In fact, some lawmakers proposed an increase in the tax cap in the last session of Congress,⁴ while other analysts have called for its complete elimination.⁵

To answer the question of whether it is possible to save the Social Security system by changing the maximum amount of wages subject to Social Security taxes, Heritage analysts relied on government data and a leading econometric model of the U.S. economy.⁶ Specifically, they chose to examine the impact of a change in the cap that would raise the largest amount of revenue and thus have the best likelihood of restoring the system to full solvency. That change involves eliminating the wage cap and subjecting all labor income to the Social Security tax.⁷

1. Heritage Foundation calculations based on the *1998 Annual Report of the Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Baltimore, MD: Social Security Administration, 1998).
2. In 1998, the Social Security payroll tax was levied on the first \$68,400 of labor income. Any income earned over this amount is not subject to the 12.4 percent payroll tax. The tax cap amount is increased every year by the rate of growth in average wages. In 1999, the maximum amount of wages subject to Social Security Old-Age and Survivors and Disability Insurance (OASDI) taxes will be \$72,600 (in nominal dollars).
3. Bureau of National Affairs, "Social Security: Private Market Investment Edges Toward Clinton Endorsement, Sperling Says," *Daily Report for Executives*, December 10, 1998.
4. In the 105th Congress, Senators Daniel Moynihan (D-NY) and Bob Kerrey (D-NE) introduced the Social Security Solvency Act of 1998 (S. 1792), which would raise the tax cap on wages from \$82,800 in 2003 to \$97,500.
5. Alvin Rabushka, "Flatten the Payroll Tax, Too," *The Wall Street Journal*, December 4, 1998, p. A18.
6. The Center for Data Analysis used the Mark 11 U.S. Macro Model of WEFA, Inc., formerly Wharton Econometric Forecasting Associates, to conduct this analysis.

The Heritage analysis, based on the SSA's own projections, shows that eliminating the cap on wages subject to the Social Security tax would generate only enough revenue to push back the date of the system's bankruptcy a few years. It would be the largest tax increase in U.S. history,⁸ subjecting millions of American families to a massive hike in payroll taxes. And it would harm their economic prospects by slowing economic growth and reducing their employment opportunities.

Specifically, eliminating the cap on taxable wages would:

- **Result in the largest tax increase in the history of the United States**—\$425.2 billion in nominal dollars over five years.⁹
- **Fail to save Social Security from bankruptcy**; it would push back the system's insolvency date by only six years, from 2013 to 2019.¹⁰
- **Increase the top federal marginal effective tax rate** on labor income to 54.9 percent,¹¹ its highest level since the 1970s.
- **Reduce the family budgets of 23.4 million Americans** by an average of \$9,147 in the first year alone after the tax cap is removed.¹²
- **Weaken the economy** by reducing the number of job opportunities by 219,000 in 2004

and the amount of personal savings by \$34.4 billion that year as well.¹³

SOCIAL SECURITY'S CAP ON TAXABLE WAGES

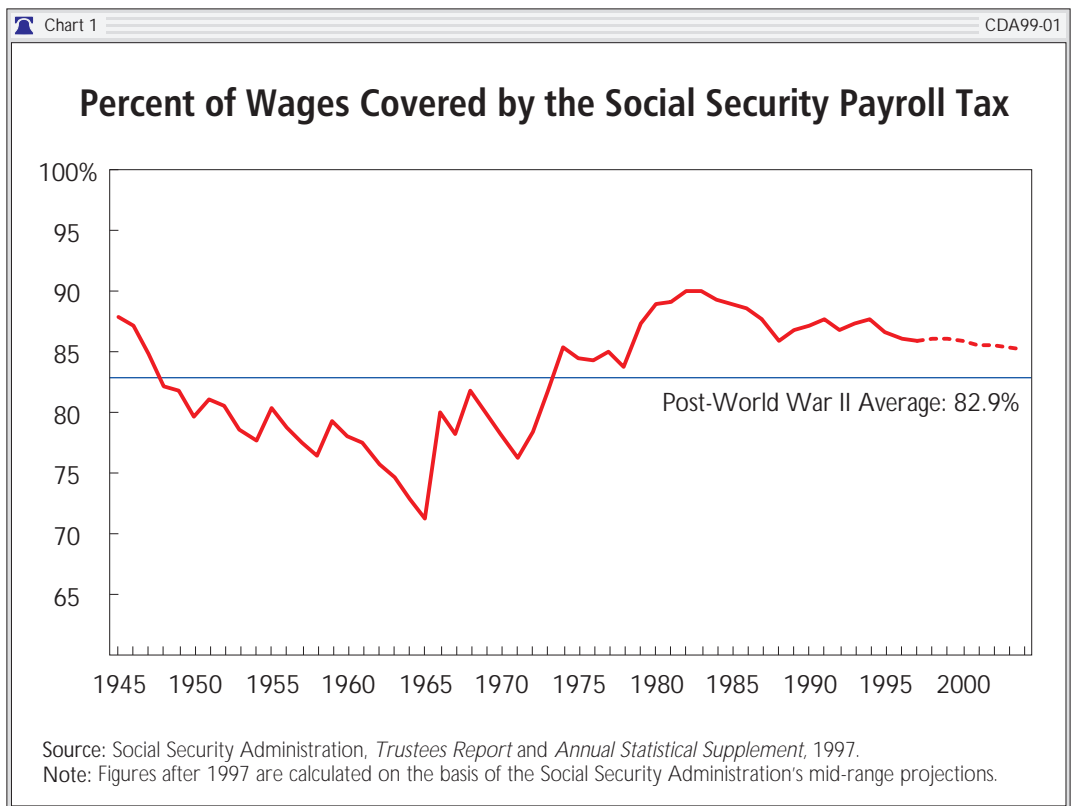
As it currently exists, the Social Security Old-Age and Survivors Insurance and Disability Insurance (OASDI) program is funded by a payroll tax of 12.4 percent on labor income (wages, salaries, and self-employment income).¹⁴ However, earnings greater than a maximum taxable amount are not subject to the OASDI tax. In 1998, the maximum taxable amount (the tax cap) was \$68,400. The amount is indexed to change annually by the rate of growth in the average wage.¹⁵

Social Security benefits are calculated on the basis of a worker's earnings over his or her career. However, only the worker's earnings subject, under the maximum taxable amount, to the payroll tax are used to compute his or her benefits. A cap on taxable earnings has existed since the inception of the Social Security system in 1937.

The maximum taxable amount reflects the original purpose of the Old-Age and Survivors Insurance Program: to provide workers with a "safety net" of retirement income. Social Security was created as a pay-related contributory pension system rather than as a welfare program that would

7. Increasing the taxable wage cap or eliminating it would affect the same number (and type) of workers and their families. The only difference in impact between increasing the cap and eliminating it would be the size of the tax increase it would provoke and its effect on family budgets and the economy.
8. Heritage Foundation calculation based on 1998 data from the Social Security Administration.
9. Heritage Foundation calculation based on data from the Social Security Administration. This is a purely "static" estimate and differs slightly from the semi-dynamic estimates made by the Social Security Administration (see Appendix A).
10. Social Security Administration, Office of the Chief Actuary, unpublished tables.
11. Heritage Foundation calculation based on a top federal income tax rate in 1998 of 39.6 percent, the Social Security OASDI rate of 12.4 percent, and the Medicare Hospital Insurance (HI) tax rate of 1.45 percent. Rates include both the employee's share and the portion paid by the employer on behalf of the employee, but they do not include state and local taxes.
12. Heritage Foundation calculation based on data from the U.S. Census Bureau's March 1998 Current Population Survey. The \$9,147 includes the portion of the tax increase employers pay on behalf of their workers and is based on a static analysis that does not assume any change in economic activity.
13. Heritage Foundation calculation based on WEFA model simulation.
14. Throughout this paper, the term "Social Security" refers to the combined *Social Security Old-Age and Survivors Insurance and Disability Insurance* program. This analysis does not include any change in the HI program (commonly referred to as a portion of the Medicare program). The HI program is currently funded by a 2.9 percent tax on all labor income, including income above the maximum taxable wage base that applies to OASDI taxes.
15. The maximum amount of wages subject to Social Security OASDI taxes in 1999 will be \$72,600 (in nominal dollars).

redistribute money from workers to those in need, regardless of whether or not its recipients had paid into the system. The benefits that retirees received were linked to the taxes they had paid when they were in the work force. Social Security was intended also to supplement, rather than replace, private sources of retirement income by providing only a basic, government-guaranteed source of income.



Within this context, Congress determined that it was appropriate to set an upper limit on the amount of income Americans would receive from Social Security. A limit on benefits, combined with the principle that workers' benefits should relate to the amount of money they paid into the system, made an upper limit on the taxes that workers would pay appropriate as well.

In 1939, Congress set the maximum Social Security benefit at \$494 per year (\$5,789 in 1998 dollars); the cap on taxable labor income was set at \$3,000 (\$35,158 in 1998 dollars).¹⁶ In 1998, the maximum benefit payable to a single participant who was retiring at age 65 totaled \$16,124, while the maximum taxable amount of labor income subject to the Social Security payroll tax was set at \$68,400.¹⁷

The Maximum Taxable Amount. Since 1939, Congress has raised both the maximum taxable amount and the Social Security payroll tax rate on many occasions, exposing an ever-higher percentage of workers' income to taxation. Contrary to the assertions made by a number of commentators today, the proportion of covered earnings below the maximum taxable amount is not now at an historic low. In fact, it is well above the average for the entire post-1945 period (see Chart 1).

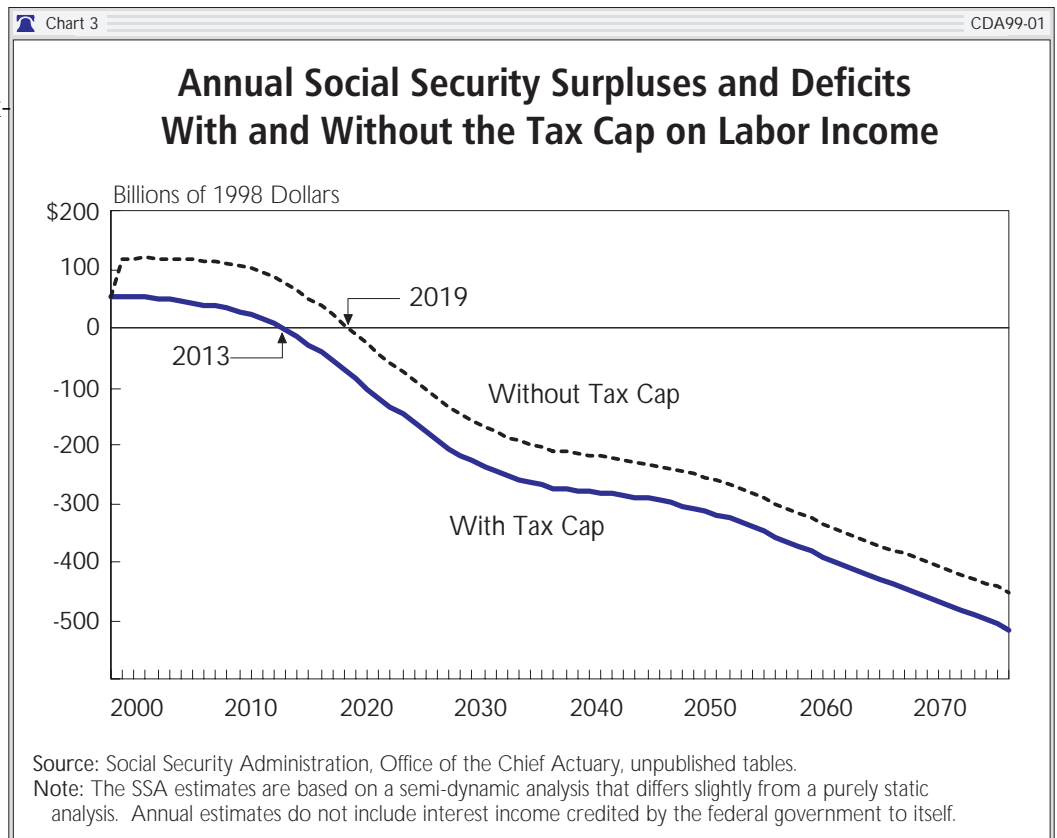
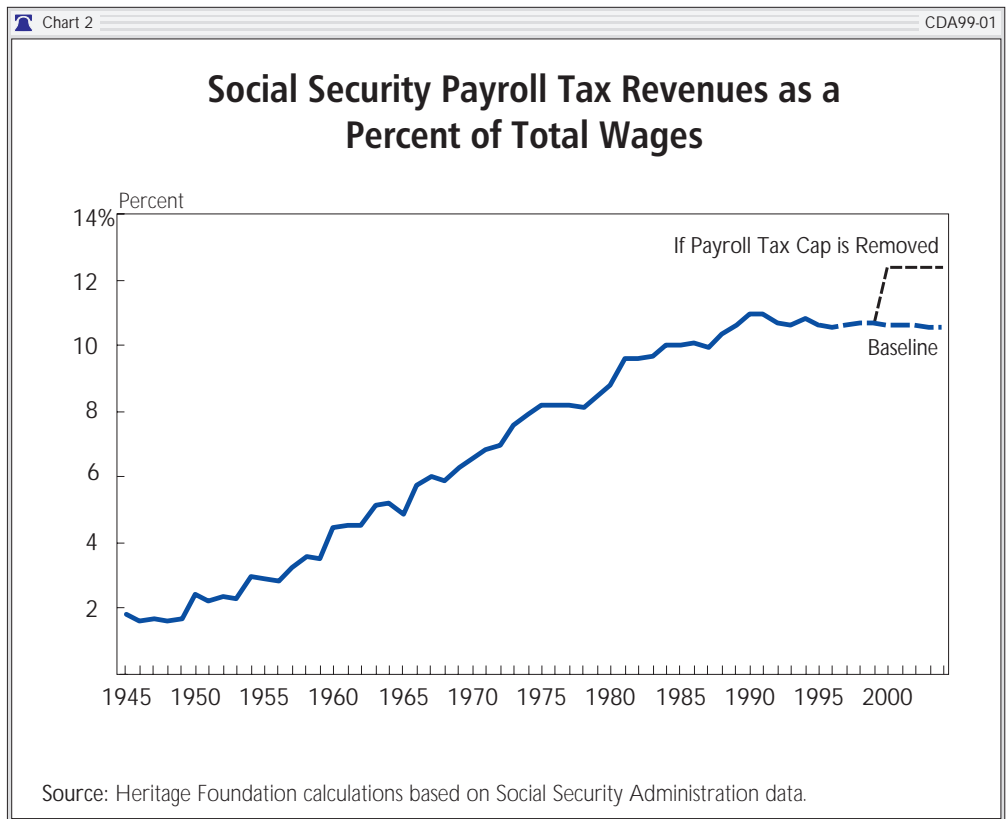
From 1945 to 1965, the proportion of wages subject to the Social Security payroll tax declined from 87.9 percent to 71.3 percent. From 1965 to 1983, this trend reversed as additional revenue was needed to pay for the Great Society's expansion of benefits, climbing to an all-time high of 90 percent. Since then, the percentage of total payroll subject to Social Security taxes has declined slowly to 86.1 percent. This proportion is projected to fall

16. Although the Social Security Act was passed in 1935, benefit payments were not supposed to begin until 1942. In 1939, Congress amended the Act to provide benefits to the dependents of retired and deceased workers and begin paying benefits in 1940. See Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin*, December 1997, p. 71.

17. Heritage Foundation calculation based on a worker earning the maximum taxable amount during each year of his or her working life.

slightly to just over 85.1 percent of total earnings by 2004—still above the post-World War II average of 82.9 percent.¹⁸

The Tax Rate. Not only is the total proportion of covered payroll subject to Social Security taxes above historic levels, but the successive increases in the tax rate mean that the proportion of total labor income consumed by payroll taxes is close to an all-time high. As Chart 2 shows, the proportion of all covered wages (including those that lie above the maximum taxable amount) consumed by Social Security taxes has increased to 10.7 percent. Removing the maximum cap on taxable payroll would increase this tax burden to 12.4 percent of all covered labor income. This would boost payroll taxes as a share of all covered wages, salaries, and self-employment income to their highest level ever.



18. Heritage Foundation calculation based on the *Annual Statistical Supplement to the Social Security Bulletin, 1997*, and the *1998 Annual Report of the Trustees*.

WHY ELIMINATING THE CAP ON MAXIMUM TAXABLE WAGES WILL NOT SAVE SOCIAL SECURITY

Eliminating the cap on the maximum amount of wages subject to the Social Security payroll tax would not avert Social Security's looming bankruptcy. According to an analysis by the Office of the Chief Actuary of the Social Security Administration,¹ completely removing the maximum taxable amount beginning in 1999 only extends Social Security's financial lifetime from 2013 to 2019 (see Chart 3).

For a young worker aged 19 today who will retire at age 67 in 2046, eliminating the maximum taxable wage cap would enable Social Security to pay him or her just 79 cents for every dollar of promised benefits, compared with 73 cents if the tax cap is not removed. Moreover, Social Security would still be running an annual deficit of \$240 billion (in 1998 dollars) when the worker retires in 2046, compared with \$300 billion under current law.

1. Social Security Administration, Office of the Chief Actuary, unpublished tables, December 1998. Available from the authors on request.

THE BIGGEST TAX INCREASE IN U.S. HISTORY

Eliminating the Social Security taxable wage cap would result in the largest tax increase in U.S. history—\$425.2 billion over five years, or \$367 billion in 1998 inflation-adjusted dollars. The increase would dwarf the size of the last three tax increases, which were passed in 1993, 1990, and

1982, regardless of whether they are measured in nominal or inflation-adjusted dollars (see Chart 4).¹⁹ Removing the cap on taxable wages also would result in a massive 12.4 percentage point hike in the top marginal tax rate for millions of workers—bringing the top rate to 54.9 percent, the highest rate since the 1970s (see Chart 5).²⁰ Should Social Security's tax cap be removed, many workers will immediately find that federal taxes alone consume almost 55 cents of every additional dollar they earn from employment.

An increase in the marginal tax rate on labor income would damage the economy by reducing the incentive to work. Over the long run, it would also reduce the incentive to make the sorts of investment in skills and education that would raise a worker's future wage and salary income. The fact that the Social Security tax increase would fall on wage, salary, and self-employment income would lead many workers (especially the self-employed and small business owners) to find ways to avoid this tax, perhaps by taking employment income in the form of non-taxable "profits" or fringe benefits.

Who Would Pay the Tax Increase?

Heritage analysts, using data from the U.S. Bureau of the Census, estimate that eliminating the Social Security taxable wage cap would subject 6.9 million families to the \$425.2 billion tax increase.²¹ Over 23.4 million people living in these families would be directly affected: 7.8 million workers; 6.4 million spouses, many of whom are also working; and 7.9 million children. Another 1.4 million workers who are single also would see their paychecks decline. On average, these 8.3 million households would see their taxes increase by \$9,147 in the first year after the tax cap is removed.²²

19. The last three tax increases were passed in the Tax Equity and Fiscal Responsibility Act of 1982, the Omnibus Budget Reconciliation Act of 1990, and the Omnibus Reconciliation Act of 1993. Based on calculations provided by the Tax Foundation and available on request.

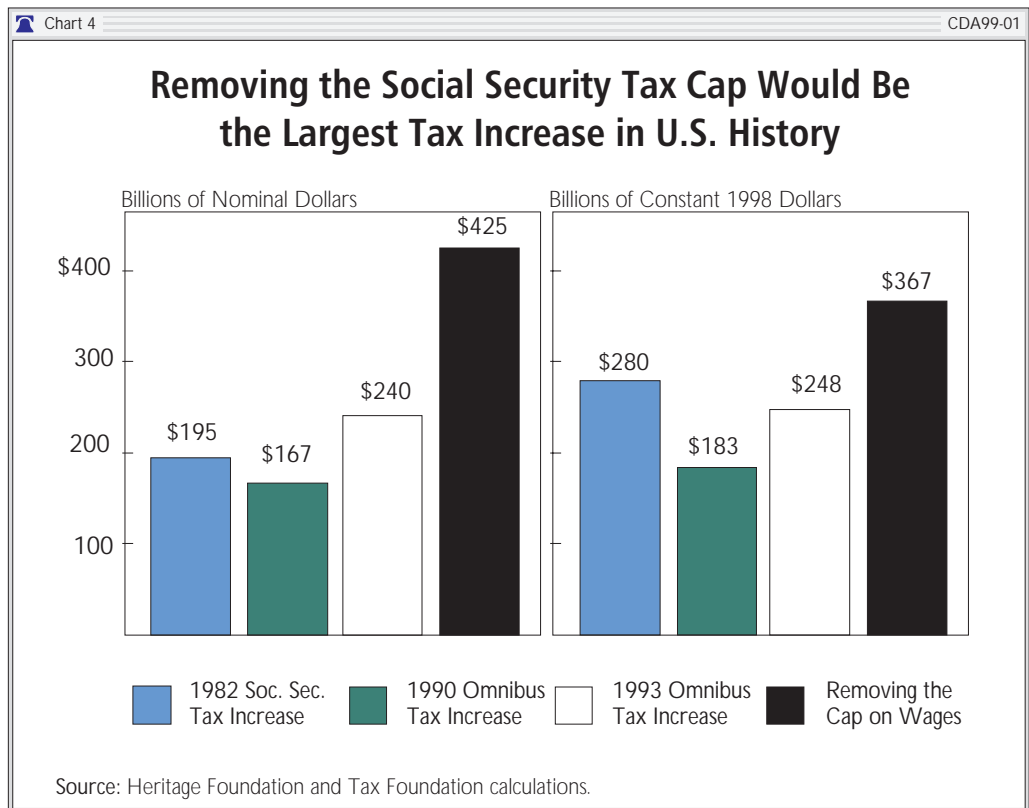
20. Heritage Foundation calculation based on Internal Revenue Service and Social Security Administration data.

21. All data in this section come from Heritage Foundation tabulations of the U.S. Bureau of the Census March 1998 *Current Population Survey* unless otherwise noted.

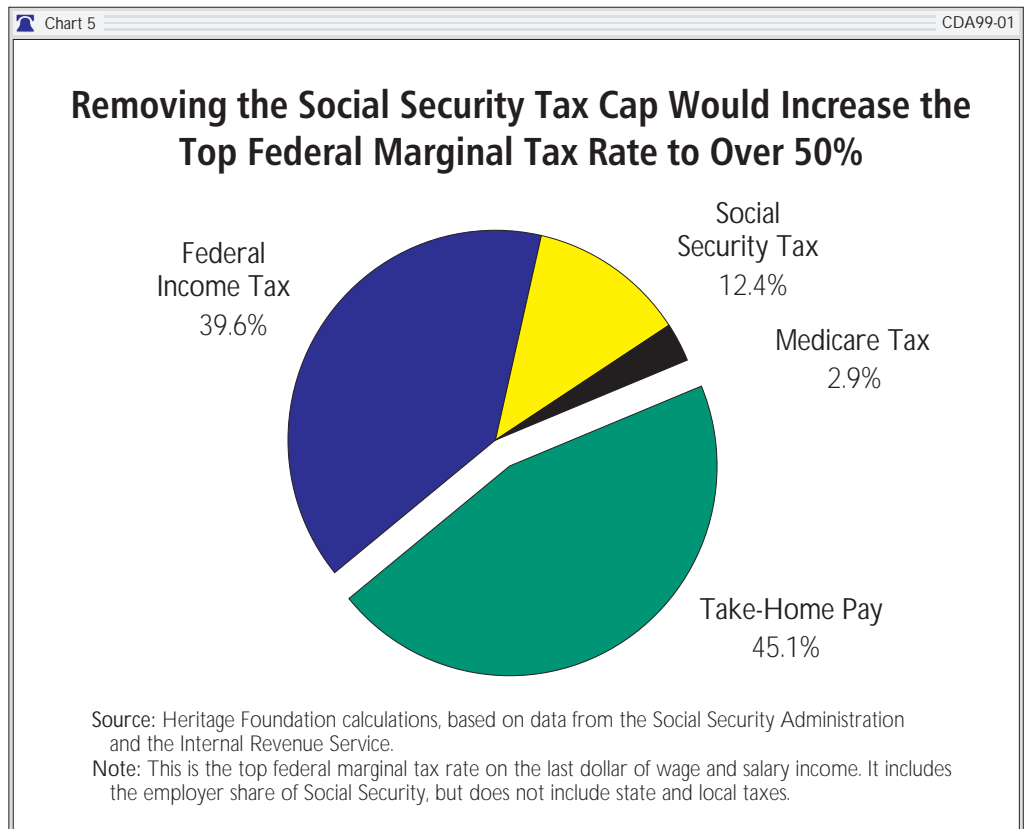
22. This number includes the increase in Social Security taxes that employers would have to pay on behalf of the workers in these families.

Of the 9.2 million workers that are directly affected,

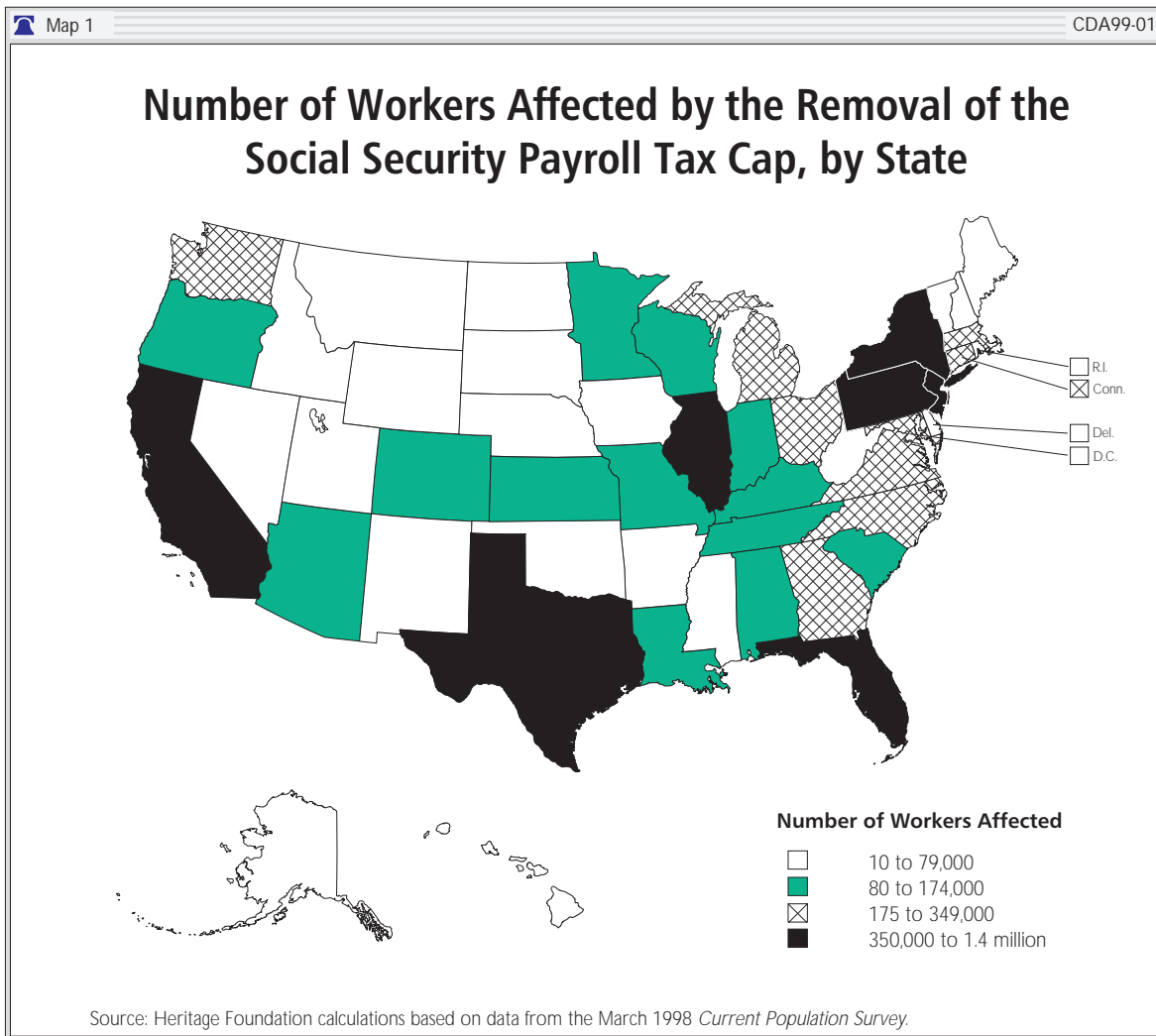
- **7.6 million (83 percent) are men.** Over two-thirds, or 6.2 million, of these men are aged 35 to 54; another 1.5 million are over the age of 54 and nearing or eligible for retirement.
- **7.3 million (79.6 percent) are married.**
- **4.3 million (46.5 percent) are married with children.**



- **6.8 million (74.3 percent) have college degrees;** 1.2 million (13.3 percent) are high school graduates or less.
- **Nearly half (4.5 million workers) live in seven states:** California (1.4 million), Florida (414,000), Illinois (498,000), New Jersey (431,000), New York (729,000), Pennsylvania (386,000), and Texas (615,000). Most (5.3 million, or 57.9 percent) live in the suburbs. Another 2.1 million (22.9 percent) live in central cities.



- **Over two-thirds (6.5 million) are private-sector wage and salary workers;** 2.1 million (22.4 percent) are self-employed.



- Nearly one in ten (797,000) is a union member.
- Two-thirds (6.1 million) work in six major industries: manufacturing (1.9 million); finance, insurance, and real estate (1.1 million); other professional services (1.1 million); business and repair services (719,000); medical services (681,000); and retail trade (618,000).
- While over two-thirds (6.2 million) are in executive, managerial, and professional specialty occupations, not all of the workers affected are doctors, lawyers, or chief executive officers. One million of the 9.2 million affected

workers are teachers, nurses, truck drivers, computer analysts, farmers, police officers, mechanics, and repairers.

These Americans all work long and hard to provide for their families and save for their retirement years. The record size of the tax increase and its focused impact may induce many of the 465,000 workers aged 62 and above to retire early rather than pay additional taxes. Others may decide to shift some of their compensation from wages and salaries to benefits that are not subject to payroll taxes. Still others may reduce spending and/or saving as their disposable income declines. The most likely impact would be a combination of these three responses to an increase in payroll taxes.

INCREASING MAXIMUM TAXABLE WAGES WILL REDUCE RETIREMENT SAVINGS AND CHARITABLE CONTRIBUTIONS

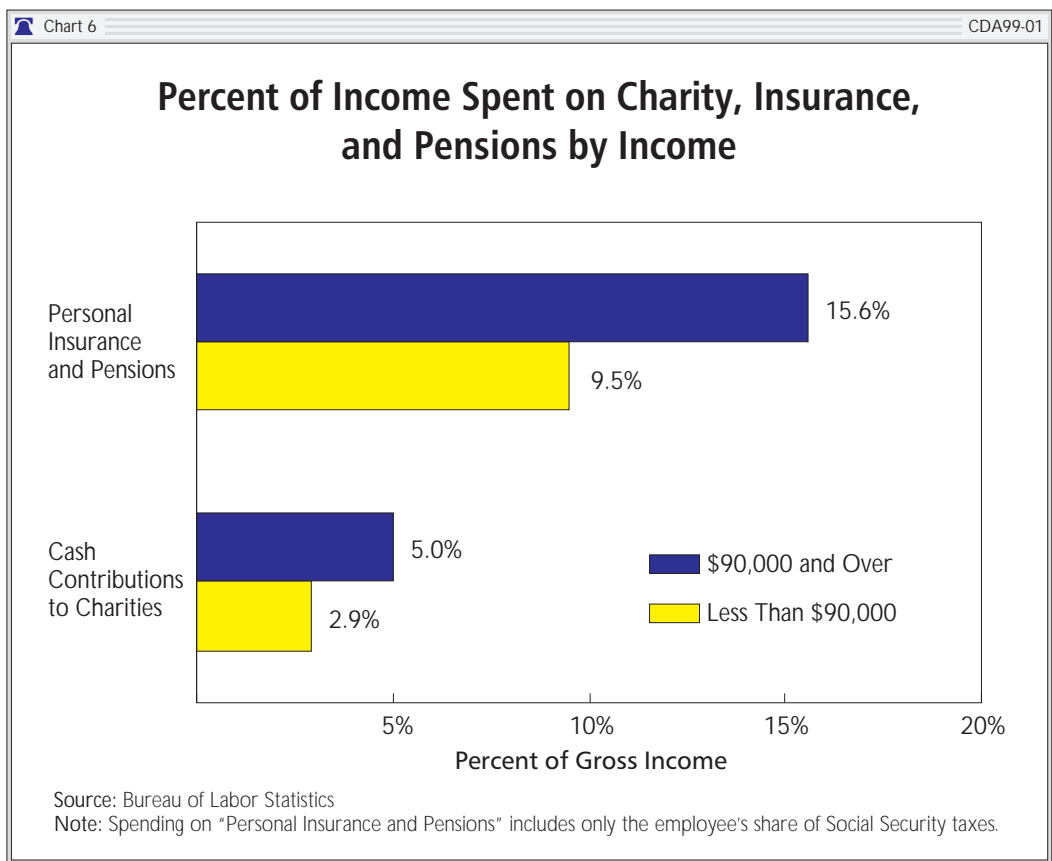
By cutting into a household's disposable income, the elimination of Social Security's taxable wage cap would undermine two crucial activities of American families: saving for retirement and contributing to private charities, churches, and other organizations.

Data from the U.S. Department of Labor (see Chart 6) show that families earning more than \$90,000 a year (many of the same families affected by the tax increase) use a disproportionate share of their income to purchase insurance, invest in pension funds, and make charitable contributions.²³ This spending is often made with discretionary income that is left over after purchasing such necessities as food and clothing. Eliminating the Social Security tax cap on labor income

would reduce the discretionary income these families have for those activities, and likely would lead to a decrease in private retirement savings.

This effect also would be amplified by an expectation of slightly higher Social Security benefits in the future; these families therefore would have a lowered incentive to set aside funds for their own retirement. In 1994–1995, these families devoted more than \$1 of every \$7 in their budgets to pensions and private insurance.²⁴ A significant decline in their family budget is likely to mean a reduction in the amount saved for retirement rather than in the amount spent on food and shelter.

In 1994–1995, these families spent 5 percent of their income on cash contributions to charities,



individuals outside the family, churches, and other organizations. These contributions are often made after other necessities have been purchased. Even

23. U.S. Department of Labor, Bureau of Labor Statistics, "Spending Patterns of High-Income Households," *Summary 98-10*, November 1998.

24. *Ibid.* The "Personal Insurance and Pensions" category includes Social Security taxes paid. Currently, Social Security taxes are calculated based on a fixed share of labor income up to a maximum threshold. Given that the wages of upper-income households are more likely to exceed this threshold and contain a higher proportion of non-labor income, we can expect the inclusion of Social Security taxes in these figures to underestimate the differential between low-income and upper-income earners in the proportion of income that is devoted to retirement savings.

optimistic estimates suggest that removing the maximum taxable wage cap would reduce charitable contributions by \$15.5 billion (\$12.4 billion in 1998 inflation-adjusted dollars) from 2000 to 2004, or 1.9 percent of all charitable giving over the same period.²⁵

REMOVING THE TAXABLE WAGE CAP WOULD HARM THE ECONOMY

Removing the Social Security taxable wage cap would reduce job creation and economic growth while substantially increasing payroll taxes on American workers. A slowdown in the growth of compensation and a significant decrease in the savings rate would further squeeze family budgets.

To analyze the economic effects that removing the taxable wage cap would have on jobs and economic growth, Heritage analysts used the August 1998 U.S. Macro Model of the WEFA Group.²⁶ WEFA economists reconstructed their August model for The Heritage Foundation to embody the economic and budgetary assumptions published by the Congressional Budget Office (CBO) last August. Thus, it is fair to say that simulations of policy changes using this specifically adapted model produce dynamic results based on CBO assumptions. (See Appendix A for a description of how removing the taxable wage cap was incorporated into this version of the WEFA U.S. Macro Model.)

The Heritage analysis using the WEFA model indicates that removing the taxable wage cap would harm families and decrease job opportunities over the five-year period between fiscal years (FY) 2000 and 2004 (see Appendix B). Specifically,

the Heritage analysis suggests that removing the taxable wage cap would:

- **Decrease disposable family income** in FY 2004 by \$62.7 billion in 1992 inflation-adjusted dollars. In response to this significant decline in family budgets, consumer spending would fall by \$35.1 billion in 1992 dollars by FY 2004.
- **Decrease household savings.** Personal savings would decrease by \$34.4 billion, and the already low savings rate would decline by 0.4 percentage points to just 2.5 percent.
- **Decrease job creation.** Removing the cap would eliminate 219,000 job opportunities in FY 2004 and increase the unemployment rate by 0.1 percentage points to 5.8 percent.
- **Produce negative economic “feedback.”** “Static” estimates that do not account for the tax increase’s influence on the economy’s performance suggest that removal of the cap would increase revenues to the federal Treasury by \$425.2 billion over five years. However, a more “dynamic” analysis using the WEFA model suggests that, because the tax increase reduces economic growth, the tax base would generate less than half (or \$225.9 billion) of the expected aggregate revenue to the Treasury estimated under the static analysis. This is because eliminating the cap reduces the real gross domestic product (by \$13.9 billion in FY 2001 and \$8.5 billion in FY 2004). As a result, increased Social Security revenues are partly offset by reductions in other federal taxes. In other words, when the tax increase’s effect on economic performance is taken into account, the actual “gain” in the Treasury is

25. Based on income elasticity of charitable contributions of 1.0 that is estimated on the basis of a relationship between total income and charitable contributions over 1965–1995. Data are taken from *Giving USA 1996: The Annual Report on Philanthropy for the Year 1995* (New York, NY: AAFRC Trust for Philanthropy, Inc., 1996) and are extrapolated on the basis of a forecast increase in gross domestic product. For a further discussion of research on factors influencing charitable giving, see John S. Barry, “How a Flat Tax Would Affect Charitable Contributions,” Heritage Foundation *Backgrounder* No. 1093, December 16, 1996.

26. WEFA’s Mark 11 U.S. Macro Model was developed in the late 1960s by Nobel Prize–winning economist Lawrence Klein and several of his colleagues at the Wharton Business School of the University of Pennsylvania. It is widely used by *Fortune* 500 companies, prominent federal agencies, and economic forecasting departments. The methodologies, assumptions, conclusions, and opinions herein are entirely the work of Heritage Foundation analysts. They have not been endorsed by, nor do they necessarily reflect the views of, the owners of the model.

only 46.9 percent of the purely static increase in tax revenues over five years.

Eliminating the Social Security tax cap would increase the CBO's forecast of a \$594 billion surplus over the FY 2000 to FY 2004 period to \$941.9 billion. Most of this increase is reflected in the off-budget (Social Security) surplus, but the CBO's \$100 billion on-budget deficit forecast from FY 2000 to FY 2004 would be cut in half, to a deficit of \$50.1 billion, as interest payments on the national debt declined.

CONCLUSION

Since the inception of the Social Security program in 1937, Social Security taxes have been raised at least 24 times, an average of once every two years.²⁷ Yet the system continues to slide toward bankruptcy. Although the Tax Equity and Fiscal Responsibility Act of 1982 was supposed to restore the Social Security system to permanent solvency, a mere 16 years later the system is once again confronted with the specter of bankruptcy.

Eliminating the maximum taxable amount of labor income subject to Social Security taxes would represent the largest tax increase in the

history of the United States. It would raise taxes on millions of hard-working Americans and their families, reduce savings, slow economic growth, and eliminate employment opportunities. It likely would also have the unintended consequence of undermining two of the most vital activities that American families undertake: privately saving for retirement and making charitable contributions.

Despite the massive hike in the tax burden, eliminating the cap on taxable earnings would not save the Social Security system; it would only extend its solvency by a mere six years. Even after implementing this tax increase, the Social Security system in 2042 would have enough revenue on hand to pay only 79 cents on every promised dollar in benefits. Either payroll tax rates would have to be raised or promised benefits would have to be cut. In short, eliminating the Social Security maximum taxable wage cap will do little good and too much economic harm.

—*Gareth G. Davis is a Policy Analyst in The Center for Data Analysis at The Heritage Foundation.*
D. Mark Wilson is a Labor Economist in The Center for Data Analysis at The Heritage Foundation.

27. 1997 Annual Statistical Supplement to the Social Security Bulletin, p. 34. This does not include annual indexing of maximum taxable earnings.

APPENDIX A: METHODOLOGY

Heritage Foundation economists follow a two-step procedure in analyzing the revenue and economic effects of proposed policy changes.

First, using published and unpublished forecasts of total earnings and taxable earnings from the Social Security Administration (SSA), estimates are prepared of revenue changes that stem from eliminating the Social Security payroll tax cap absent any change in the economy.

Heritage estimates differ from those made by the Office of the Chief Actuary of the Social Security Administration primarily because SSA's estimates are "semi-dynamic." That is, while workers are not assumed to change their work, consumption, or investment behavior, they are assumed to react to the tax increase by having a portion of their labor income shifted into compensation that is not subject to Old-Age and Survivors Insurance and Disability Insurance (OASDI) taxes.

By contrast, Heritage's "static" estimates are fully static and assume there is no change in the behavior of workers. (These static estimates are later used as the basis for the fully "dynamic" forecasts made using the WEFA U.S. Macro Model that take all behavioral responses into account.) The semi-dynamic assumptions used by the SSA reduce the amount of revenue collected during the first five years by 9.4 percent below the static estimates made by The Heritage Foundation.²⁸

Second, these static revenue changes are introduced into the WEFA U.S. Macro Model. The WEFA model has been designed in part to estimate how the general economy is reshaped by policy reforms. The results of simulation performed in the WEFA model produce the "dynamic responses" to policy changes.

The following sections of this appendix describe how Heritage economists prepared the static

estimates described in the paper, and how these results and other assumptions were introduced into the WEFA model.

Change In Tax Policy

The WEFA model contains a variable that measures total Social Security tax revenue. Heritage analysts increased this tax revenue variable for each forecast year by the amount of the static revenue estimates they developed in the first step.

Labor Force Participation

A small adjustment—an average decrease of 0.035 index points per year—was made in the model's labor force participation rate to account for the dynamic effects of eliminating the Social Security tax cap. This adjustment in the labor force participation rate is based on previous research by Heritage economists and the Congressional Budget Office study, *Labor Supply and Taxes*, dated January 1996.

Personal Interest Income

Due to the technical specification of the WEFA model, a change was made in the personal interest income variable to reflect the fact that Treasury bonds issued to the Social Security Trust Fund are not negotiable and do not pay interest to the public.

Monetary Policy

The model assumes that the Federal Reserve Board will react to this policy change as they have historically. This assumption was embodied in the Heritage model simulation by including the stochastic equation in the WEFA model for monetary reserves.

28. Social Security Administration, Office of the Chief Actuary, unpublished tables, December 1998. Available from the authors on request.

Appendix B

How Removing the Social Security Tax Cap Would Affect Selected Economic Indicators

| | 2000 | Fiscal Year End | | | 2004 | Average 2000–2004 |
|-----------------------------------|---------|---------------------------------------|---------|---------|---------|----------------------|
| | | 2001 | 2002 | 2003 | | |
| Gross Domestic Product | | | | | | |
| | | In Billions of 1992 Dollars | | | | |
| Forecast (Tax Cap Removed) | 7,833.9 | 7,973.5 | 8,172.4 | 8,380.7 | 8,580.4 | 8,188.2 |
| Baseline | 7,845.6 | 7,987.4 | 8,184.2 | 8,389.7 | 8,589.0 | 8,199.2 |
| Difference | -11.7 | -13.9 | -11.8 | -9.0 | -8.6 | -11.0 |
| Total Employment | | | | | | |
| | | In Thousands of Jobs | | | | |
| Forecast (Tax Cap Removed) | 129,163 | 130,259 | 131,821 | 133,478 | 134,724 | 131,889 |
| Baseline | 129,341 | 130,496 | 132,045 | 133,691 | 134,943 | 132,103 |
| Difference | -178 | -237 | -224 | -213 | -219 | -214 |
| Unemployment Rate | | | | | | |
| | | Percent of Civilian Labor Force | | | | |
| Forecast (Tax Cap Removed) | 5.3 | 5.7 | 5.8 | 5.8 | 5.8 | 5.7 |
| Baseline | 5.2 | 5.5 | 5.7 | 5.7 | 5.7 | 5.6 |
| Difference | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Disposable Personal Income | | | | | | |
| | | In Billions of 1992 Dollars | | | | |
| Forecast (Tax Cap Removed) | 5,543.4 | 5,691.8 | 5,839.3 | 6,032.9 | 6,189.8 | 5,859.4 |
| Baseline | 5,580.1 | 5,733.3 | 5,882.6 | 6,083.2 | 6,252.5 | 5,906.3 |
| Difference | -36.7 | -41.5 | -43.3 | -50.3 | -62.7 | -46.9 |
| Consumption Expenditures | | | | | | |
| | | In Billions of 1992 Dollars | | | | |
| Forecast (Tax Cap Removed) | 5,380.0 | 5,464.7 | 5,585.5 | 5,708.5 | 5,843.1 | 5,596.4 |
| Baseline | 5,394.2 | 5,487.1 | 5,611.7 | 5,737.9 | 5,878.2 | 5,621.8 |
| Difference | -14.2 | -22.4 | -26.2 | -29.4 | -35.1 | -25.5 |
| Personal Savings | | | | | | |
| | | In Billions of 1992 Dollars | | | | |
| Forecast (Tax Cap Removed) | -18.1 | 50.6 | 77.7 | 165.9 | 197.1 | 94.6 |
| Baseline | 7.1 | 72.2 | 97.3 | 191.2 | 231.5 | 119.9 |
| Difference | -25.2 | -21.6 | -19.6 | -25.3 | -34.4 | -25.2 |
| Personal Savings Rate | | | | | | |
| | | Percent of Disposable Personal Income | | | | |
| Forecast (Tax Cap Removed) | -0.3 | 0.7 | 1.1 | 2.2 | 2.5 | 1.2 |
| Baseline | 0.1 | 1.0 | 1.3 | 2.5 | 2.9 | 1.6 |
| Difference | -0.4 | -0.3 | -0.2 | -0.3 | -0.4 | -0.3 |
| Investment | | | | | | |
| | | In Billions of 1992 Dollars | | | | |
| Forecast (Tax Cap Removed) | 1,074.8 | 1,108.4 | 1,151.6 | 1,202.7 | 1,248.3 | 1,157.2 |
| Baseline | 1,076.6 | 1,109.5 | 1,150.9 | 1,199.8 | 1,243.7 | 1,156.1 |
| Difference | -1.8 | -1.1 | 0.7 | 2.9 | 4.6 | 1.1 |
| Federal Funds Rate | | | | | | |
| | | Annualized Percent | | | | |
| Forecast (Tax Cap Removed) | 5.1 | 4.8 | 4.5 | 4.4 | 4.2 | 4.6 |
| Baseline | 5.1 | 4.9 | 4.8 | 4.8 | 4.8 | 4.9 |
| Difference | 0.0 | -0.1 | -0.3 | -0.4 | -0.6 | -0.3 |
| Treasury Bond, 30 Year | | | | | | |
| | | Annualized Percent | | | | |
| Forecast (Tax Cap Removed) | 6.3 | 6.0 | 5.8 | 5.5 | 5.4 | 5.8 |
| Baseline | 6.3 | 6.2 | 6.1 | 5.9 | 6.0 | 6.1 |
| Difference | 0.0 | -0.2 | -0.3 | -0.4 | -0.6 | -0.3 |
| Consumer Price Index | | | | | | |
| | | Annualized Rate of Change | | | | |
| Forecast (Tax Cap Removed) | 2.6 | 2.5 | 2.4 | 2.3 | 2.3 | 2.4 |
| Baseline | 2.7 | 2.6 | 2.5 | 2.5 | 2.5 | 2.6 |
| Difference | -0.1 | -0.1 | -0.1 | -0.2 | -0.2 | -0.1 |

Note: Some differences may not sum due to rounding.

How Removing the Social Security Tax Cap Would Affect Selected Fiscal Indicators

| | 2000 | 2001 | Fiscal Year | | | Total |
|---|--------|--------|---------------------|--------|--------|-----------|
| | | | 2002 | 2003 | 2004 | 2000–2004 |
| Change in Federal Tax Revenue | | | | | | |
| | | | Billions of Dollars | | | |
| Static Change to Tax Revenues | 75.7 | 80.4 | 84.3 | 89.5 | 95.3 | 425.2 |
| Dynamic Change to Tax Revenues | 44.2 | 58.8 | 58.7 | 59.4 | 61.2 | 282.3 |
| Revenue Feedback | -31.5 | -21.6 | -25.6 | -30.1 | -34.1 | -142.9 |
| Feedback Percent | -41.6% | -26.9% | -30.4% | -33.6% | -35.8% | -33.6% |
| Change in Net Federal Surplus/Deficit | | | | | | |
| | | | Billions of Dollars | | | |
| Baseline Forecast (WEFA) | 81.0 | 86.0 | 138.0 | 135.0 | 154.0 | 594.0 |
| Static Forecast | 156.7 | 166.4 | 222.3 | 224.5 | 249.3 | 1,019.2 |
| Dynamic Surplus Forecast | 126.2 | 149.8 | 208.5 | 214.2 | 243.1 | 1,613.2 |
| Economic Feedback | -30.5 | -16.6 | -13.8 | -10.3 | -6.2 | -77.4 |
| Feedback Percent | -19.5% | -10.0% | -6.2% | -4.6% | -2.5% | -8.5% |
| Change in On-Budget Federal Surplus/Deficit | | | | | | |
| | | | Billions of Dollars | | | |
| Baseline Forecast (WEFA) | -44.0 | -45.0 | 0.0 | -11.0 | 0.0 | -100.0 |
| Dynamic Forecast | -40.9 | -39.7 | 8.9 | 2.5 | 19.1 | -50.1 |
| Difference | 3.1 | 5.3 | 8.9 | 13.5 | 19.1 | 49.9 |
| Change in Off-Budget Federal Surplus/Deficit | | | | | | |
| | | | Billions of Dollars | | | |
| Baseline Forecast (WEFA) | 125.0 | 131.0 | 138.0 | 146.0 | 154.0 | 694.0 |
| Dynamic Forecast | 167.0 | 189.5 | 199.6 | 211.7 | 224.1 | 991.9 |
| Difference | 42.0 | 58.5 | 61.6 | 65.7 | 70.1 | 297.9 |

Note: Some differences may not sum due to rounding.