No. 1443 May 22, 2001

Lowering Marginal Tax Rates: The Key to Pro-Growth Tax Relief

Daniel J. Mitchell, Ph.D.

The decision to scale back the level of tax relief over the next 10 fiscal years means that less than 25 percent of the projected $5.6 trillion budget surplus will be returned to taxpayers. For this reason, it is more important than ever for lawmakers to craft the best possible package of tax cuts if they want to improve the economy's lagging performance.

One of the best ways to accomplish this goal would be to lower marginal tax rates on income, particularly the top income tax rate. This reform would have both immediate and long-term beneficial effects on entrepreneurship, investment, and small businesses.

By every reasonable measure, the tax burden in the United States is excessive and tax rates are too high. As the following statistics indicate, the time has come for across-the-board reductions in the rate of taxation.

- Federal tax revenues in 2001 are projected to consume 20.5 percent of domestic economic output—the highest level of taxation the United States has ever experienced. It is matched only by the level reached in 1944, at the height of World War II.
- The federal government is expected to collect $2.24 trillion in tax revenue this year—more than $16,500 for every worker in the country. The $2.24 trillion pouring into Washington is nearly double the amount of revenue raised as recently as 1993.
- According to the Washington-based Tax Foundation, taxes at all levels now consume 39 percent of the average dual-earner family's income. Even medieval serfs gave the lord of the manor less than that.
- Indeed, the typical dual-earner family will pay more than $26,750 in taxes to all levels of government and will have to work until May 3 to meet its tax bill. This is more than the family will have to spend on food, clothing, and shelter combined.

Produced by the Thomas A. Roe Institute for Economic Policy Studies

Published by
The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C.
20002–4999
(202) 546-4400
http://www.heritage.org

This paper, in its entirety, can be found at: *www.heritage.org/library/backgrounder/bg1443.html*

There is a distinct pattern throughout U.S. history: Simply stated, when tax rates are reduced, the economy prospers, tax revenues grow, and

lower-income citizens bear a lower share of the tax burden. This experience teaches three lessons.

Lesson #1: Lower tax rates mean faster growth.

- The tax cuts of the 1920s: Spurred in part by lower tax rates, the economy expanded dramatically. In real terms, the economy grew 59 percent between 1921 and 1929, and annual economic growth averaged more than 6 percent.
- The Kennedy tax cuts: The Kennedy tax cuts helped to trigger a record economic expansion. Between 1961 and 1968, the inflation-adjusted economy expanded by more than 42 percent. On a yearly basis, economic growth averaged more than 5 percent.
- The Reagan tax cuts: The economic effects of the Reagan tax cuts were dramatic. The tax cuts helped to pull the economy out of a severe downturn and ushered in a period of record peacetime economic growth. During the seven-year Reagan boom, yearly economic growth averaged 4 percent.

Lesson #2: Lower tax rates do not mean less tax revenue.

- The tax cuts of the 1920s: Personal income tax revenues increased substantially during the 1920s despite the reduction in rates. Revenues rose from $719 million in 1921 to $1.164 billion in 1928, an increase of more than 61 percent (during a period of virtually no inflation).
- The Kennedy tax cuts: Tax revenues climbed from $94 billion in 1961 to $153 billion in 1968, an increase of 62 percent (33 percent after adjusting for inflation).
- The Reagan tax cuts: Total tax revenues climbed by 99.4 percent during the 1980s. The results are even more impressive, however, when one looks at what happened to personal income tax revenues. Once the economy received an unambiguous tax cut in January 1983, personal income tax revenues climbed dramatically, increasing by more than 54 percent by 1989 (28 percent after adjusting for inflation).

Lesson #3: The rich pay more when incentives to hide income are reduced.

- The tax cuts of the 1920s: The share of the tax burden paid by the rich rose dramatically as tax rates fell. The share of the tax burden borne by the rich (those making $50,000 and up in those days) climbed from 44.2 percent in 1921 to 78.4 percent in 1928.
- The Kennedy tax cuts: Just as happened in the 1920s, the share of the income tax burden borne by the rich increased following the tax cuts. Tax collections from those earning more than $50,000 per year climbed by 57 percent between 1963 and 1966, while tax collections from those earning below $50,000 rose 11 percent. As a result, the rich saw their portion of the income tax burden climb from 11.6 percent to 15.1 percent.
- The Reagan tax cuts: The share of income taxes paid by the top 10 percent of earners jumped significantly, from 48.0 percent in 1981 to 57.2 percent in 1988. The top 1 percent of taxpayers saw their share of the income tax bill climb even more dramatically, from 17.6 percent in 1981 to 27.5 percent in 1988.

High rates of taxation and a tax code that punishes working, saving, and investing do not add up to a recipe for long-term prosperity. History shows clearly that lower tax rates are an integral part of a reform package that maximizes freedom and prosperity. Reducing all income tax rates is a responsible way to promote long-term economic growth.

—Daniel J. Mitchell, Ph.D., is McKenna Senior Fellow in Political Economy at The Heritage Foundation.

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LOWERING MARGINAL TAX RATES: THE KEY TO PRO-GROWTH TAX RELIEF

DANIEL J. MITCHELL, PH.D.

The decision to scale back the level of tax relief over the next 10 fiscal years to either $1.25 trillion or $1.35 trillion,[1] substantially less than the $1.6 trillion requested by President George W. Bush, means that less than 25 percent of the projected $5.6 trillion budget surplus will be returned to taxpayers. For this reason, it is more important than ever for lawmakers to craft the best possible package of tax cuts if they want to improve the economy's lagging performance.

One of the best ways to accomplish this goal would be to lower marginal tax rates on income, particularly the top income tax rate. This reform would have both immediate and long-term beneficial effects on entrepreneurship, investment, and small businesses.

Although tax rates in the United States are significantly lower than they were 20 years ago, tax increases in 1990 and 1993 unraveled some of the gains made in the 1980s. This, combined with the fact that a growing number of Americans are being pushed into higher tax brackets by real income growth, means that the ladder of upward mobility is becoming more difficult to climb. And with federal tax revenues consuming more than 20 percent of national output, it should come as no surprise that the economy is sputtering.

Lowering marginal tax rates is the fairest way to reduce today's record tax burden—the highest since World War II. Rate reductions are desirable not only because all taxpayers would get to keep more of their money, but also because lower rates would increase the incentive to work, save, invest, and take risks.

History demonstrates that lower tax rates are good for the economy. The tax rate reductions in the 1920s, 1960s, and 1980s all resulted in faster growth, rising incomes, and more job creation. Moreover, even though critics complained that these tax rate reductions would allow the "rich" to keep too much of their

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1. It is unclear at this time whether Congress will use the $100 billion set aside for "stimulus" in FY 2001 and FY 2002 for tax relief or spend it on rebate checks.

money, upper-income taxpayers actually wound up paying a greater share of the tax burden during all three decades, because lower rates reduced the incentive to hide, shelter, and underreport income.

TAX RATES ARE TOO HIGH

A fundamental precept of all economic theories is that higher prices reduce the amount of a product that is demanded by consumers. Taxes are one of the "prices" that people pay for engaging in productive behavior. After all, when marginal tax rates (the portion of each additional dollar earned that government takes) rise, the price of working, saving, investing, and risk-taking rises as well. This means that some people will forgo the opportunity to earn additional income. They will choose not to work overtime. They will not take a second job. Perhaps most important, they will consume their income instead of saving and investing it, and they will decide that some risks are not worth taking if the government is going to seize so much of the reward.

Public opinion polls indicate that Americans of every background think taxpayers should not have to pay more than one-fourth of their income to government, yet the Internal Revenue Code hardly reflects this perspective. The lowest tax rate is 15 percent, but 30 percent of taxpayers—those who generate more wealth for the economy—are subjected to a series of punitive tax rates.[2] Depending on the level of income, the amount of deductions, and the type of family, their income can be taxed at 28 percent, 31 percent, 36 percent, or 39.6 percent.

When Americans are subjected to higher personal income tax rates, the gap between "gross pay" and "net pay" widens. This "tax wedge" means less take-home pay and therefore less incentive to work, save, and invest. For example, taxpayers in the 15 percent bracket will keep 85 cents of every extra dollar earned.[3] This may not sound overly excessive, but what happens when they earn more money and are taxed at 28 percent? All of a sudden, they get to keep just 72 cents of each additional dollar earned. The "price" of working rises dramatically.

The higher the bracket, the greater the penalty. By the time taxpayers reach the 39.6 percent bracket, they are able to keep only about 60 cents of any added income—and this is counting only the federal individual income tax. This high tax "price" of government has adverse effects on work effort, but most of the economic damage occurs because punitive tax rates discourage saving and investment. Indeed, because upper-bracket taxpayers earn most of their income by supplying capital to the market, and because capital is extremely sensitive to changes in tax rates, this is one of the most important reasons to reduce the top tax rate.

More specifically, high tax rates encourage upper-income taxpayers to alter the location, timing, and composition of their portfolios to protect their income. This misallocation of savings and investment reduces the economy's growth rate and deprives workers of the capital they need to be more productive; and this lower productivity means, of course, that workers will earn less income.

Finally, the tax code also contains hidden tax rate increases. Known as "phase-outs," these provisions withdraw certain tax benefits in the code when income reaches a certain level. Phase-outs have the effect of raising marginal tax rates by reducing the amount of money that can be deducted (or credited or exempted) from taxable income. In other words, a taxpayer might be in the 31 percent tax bracket, but because the taxpayer begins to lose the value of itemized deductions and personal exemptions, the actual marginal tax rate could be close to 35 percent.[4] Besides creating additional disincentives, these phase-outs add enormous complexity to the tax code.

2. Internal Revenue Service, "Individual Income Tax Returns," *Statistics of Income 1997* (Rev. 12/99), Pub. 1304, 1999.

3. This analysis actually understates the burden of taxation since it considers only personal income tax rates. Other taxes, such as payroll taxes, state income taxes, excise taxes, corporate taxes, and sales taxes, all have the effect of further widening the gap between gross pay and net pay.

By every reasonable measure, the tax burden in the United States is excessive and tax rates are too high. As the following statistics indicate, the time has come for across-the-board reductions in the rate of taxation.

- Federal tax revenues in 2001 are projected to consume 20.5 percent of domestic economic output—the highest level of taxation the United States has ever experienced. It is matched only by the level reached in 1944, at the height of World War II.[5]
- The federal government is expected to collect $2.24 trillion in tax revenue this year—more than $16,500 for every worker in the country.[6] The $2.24 trillion pouring into Washington is nearly double the amount of revenue raised as recently as 1993.[7]
- According to the Washington-based Tax Foundation, taxes at all levels now consume 39 percent of the average dual-earner family's income.[8] Even medieval serfs gave the lord of the manor less than that.
- Indeed, the typical dual-earner family will pay more than $26,750 in taxes to all levels of government[9] and will have to work until May 3 to meet its tax bill. This is more than the family will have to spend on food, clothing, and shelter combined.[10]

THE PRESIDENT'S TAX RELIEF PROPOSAL

The President has proposed a rather modest tax agenda in order to attract bipartisan support for his fiscal policy. His budget plan calls for an across-the-board reduction in tax rates to allow all taxpayers to benefit. The current five tax brackets would fall from 15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent to four brackets of 10 percent, 15 percent, 25 percent, and 33 percent.

It is worthwhile to note that the tax rates would not be reduced to where they were at the end of the Reagan Administration. They would not even be reduced to where they were at the beginning of the Clinton Administration.

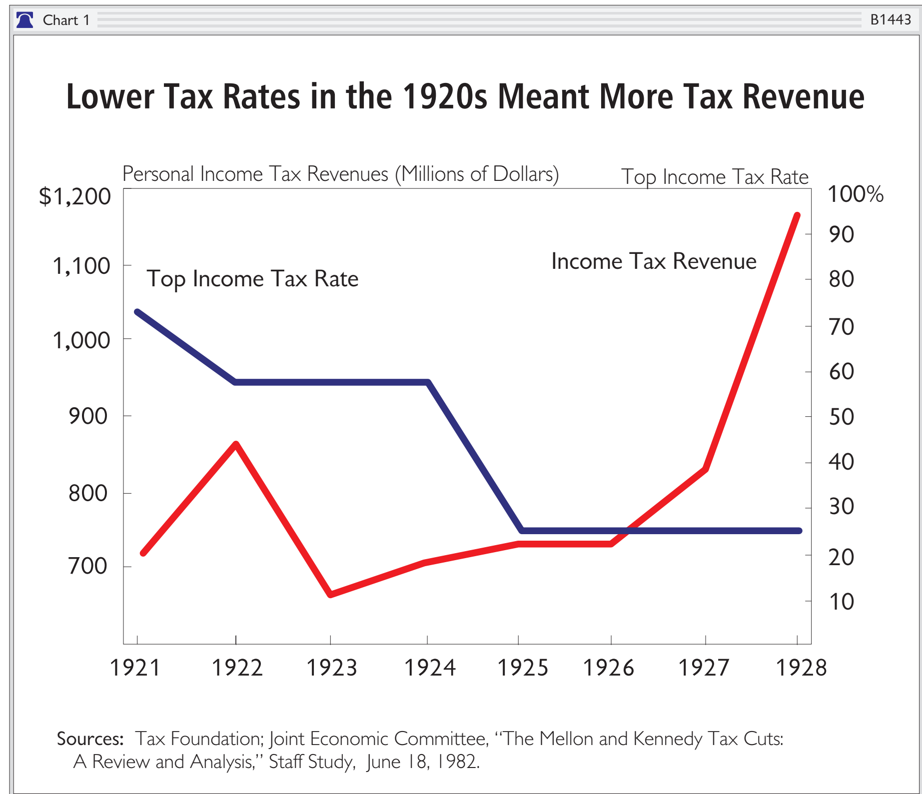
Nonetheless, the Bush tax relief plan would reduce the "price" of productive behavior significantly. The benefits to small business are particularly important, because most businesses are not incorporated and therefore pay taxes using the individual income tax schedule. Indeed, many so-called wealthy taxpayers are really entrepreneurs and small-business owners who have less after-tax profits to hire more workers or expand their businesses because the government is taking so much of the money. All told, 20 million businesses taxed under the individual rates would receive tax relief under the President's plan.[11]

The Bush tax cut, though modest in size, would help boost the economy.[12] Opponents of the plan claim that it provides too much relief for the so-called rich or takes money from Social Security, Medicare, education, and/or the environ-

4. Michael Schuyler, "Phase-Outs Increase Tax Rates and Tax Complexity," Institute for Research on the Economics of Taxation *Policy Bulletin* No. 83, March 12, 2001.
5. Congressional Budget Office, *The Economic and Budget Outlook, FY 2002–2011*, February 2001.
6. See *http://stats.bls.gov/news.release/pdf/empsit.pdf*.
7. *Ibid*.
8. See *http://www.taxfoundation.org/prmedianfamily.html*.
9. *Ibid*.
10. See *http://www.taxfoundation.org/taxfreedomday.html*.
11. See *http://www.house.gov/jec/tax/taxrates/taxrates.pdf*.

ment.[13] They even claim that it will cause higher inflation and higher interest rates.

Fortunately, there is a way to judge the desirability of lower tax rates. The United States has enacted major tax rate reductions three different times—during the 1920s, the 1960s, and the 1980s. By looking at the ways in which the economy performed during these periods, and by examining what happened to the deficit and the degree to which different income classes were affected, it is possible to gain useful evidence about the desirability of tax rate reductions today.



Sources: Tax Foundation; Joint Economic Committee, "The Mellon and Kennedy Tax Cuts: A Review and Analysis," Staff Study, June 18, 1982.

WHAT WE LEARNED FROM PAST TAX RELIEF

The economy can be affected by government's actions in a number of ways, but tax policy stands nearly alone in having a powerful impact on long-run economic performance. Even within the context of tax policy, however, tax rates are not the only critical element. The level of government spending and the type of government spending also influence economic activity. Even looking at tax policy alone, rates are but one piece of the puzzle. If certain types of income are subject to multiple layers of taxation, which is what occurs today, lowering rates will not fully solve the problem. Similarly, a tax system with needless levels of complexity will impose heavy costs on the economy's productive sector.

Keeping all of these caveats in mind, there nevertheless is a distinct pattern throughout U.S. history: Simply stated, when tax rates are reduced, the economy prospers, tax revenues grow, and lower-income citizens bear a lower share of the tax burden. Conversely, periods of higher tax rates are associated with sub-par economic performance and stagnant tax revenues.

The 1920s

Under the leadership of Treasury Secretary Andrew Mellon, tax rates during the Administrations of Presidents Warren Harding and Calvin Coolidge were slashed from the confiscatory levels they had reached during World War I. The Revenue Acts of 1921, 1924, and 1926 reduced the top rate from 73 percent to 25 percent.

Spurred in part by lower tax rates, the economy expanded dramatically. In real terms, the economy grew 59 percent between 1921 and 1929, and

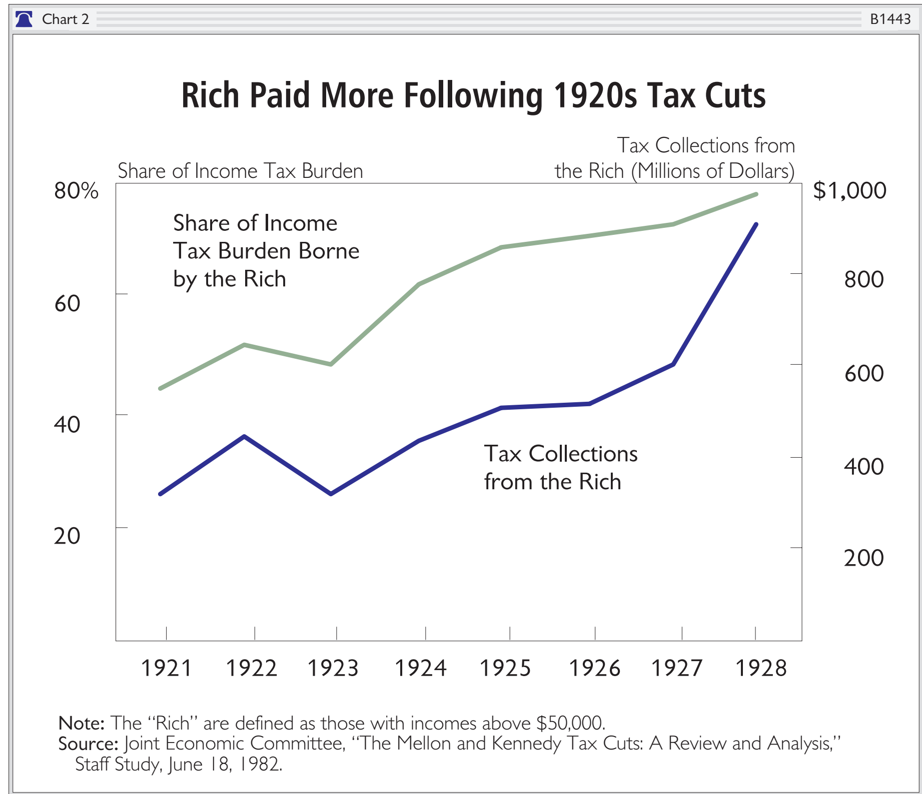
12. See Martin Feldstein, testimony before the Committee on Ways and Means, U.S. House of Representatives, 107th Cong., 1st Sess., February 13, 2001, at *http://waysandmeans.house.gov/fullcomm/107cong/2-13-01/2-13feld.htm*. See also D. Mark Wilson and William W. Beach, "Tax Rate Relief, Not Rebates, Is the Key to a Stronger Economy," Heritage Foundation *Backgrounder* No. 1440, May 15, 2001.

13. Robert E. Moffit and D. Mark Wilson, "Beware of Mediscare: Why Tax Cuts Are No Threat to Medicare," Heritage Foundation *Backgrounder* No. 1442, May 17, 2001.

annual economic growth averaged more than 6 percent.[14]

Notwithstanding (or perhaps because of) the dramatic reduction in tax rates, personal income tax revenues increased substantially during the 1920s, rising from $719 million in 1921 to $1.16 billion in 1928. As Chart 1 shows, the increase was more than 61 percent (during a period of no inflation).[15]

The share of the tax burden borne by the rich rose dramatically. As seen in Chart 2, taxes paid by the rich (those making $50,000 and up in those days) climbed from 44.2 percent of the total tax burden in 1921 to 78.4 percent in 1928.



Note: The "Rich" are defined as those with incomes above $50,000.
Source: Joint Economic Committee, "The Mellon and Kennedy Tax Cuts: A Review and Analysis," Staff Study, June 18, 1982.

This surge in revenue came as no surprise to Secretary Mellon:

> The history of taxation shows that taxes which are inherently excessive are not paid. The high rates inevitably put pressure upon the taxpayer to withdraw his capital from productive business and invest it in tax-exempt securities or to find other lawful methods of avoiding the realization of taxable income. The result is that the sources of taxation are drying up; wealth is failing to carry its share of the tax burden; and capital is being diverted into channels which yield neither revenue to the Government nor profit to the people.[16]

The 1960s

President John F. Kennedy proposed a series of tax rate reductions in 1963; the following year, legislation was passed that brought the top rate down from 91 percent in 1963 to 70 percent by 1965.[17]

The Kennedy tax cuts helped to trigger a record economic expansion. Between 1961 and 1968, the inflation-adjusted economy expanded by more than 42 percent. On a yearly basis, economic growth averaged more than 5 percent.

Tax revenues grew strongly, rising by 62 percent between 1961 and 1968. Adjusted for inflation, they rose by one-third (see Chart 3).

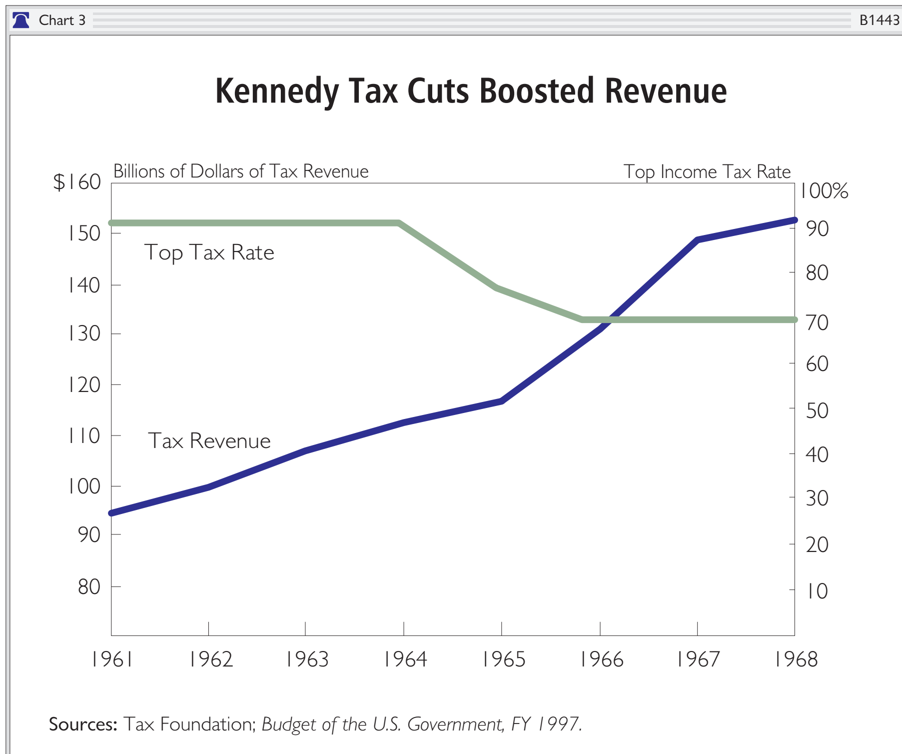
Just as in the 1920s, the share of the income tax burden borne by the rich increased. As Chart 4 shows, tax collections from those making over

14. Joint Economic Committee, "The Mellon and Kennedy Tax Cuts: A Review and Analysis," June 18, 1982.

15. U.S. Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970, Part 1* (Washington, D.C.: U.S. Government Printing Office, 1976).

16. Andrew Mellon, *Taxation: The People's Business* (New York, N.Y.: Macmillan, 1924).

17. The Kennedy boom also was helped by reductions in 1962 in the tax burden on investment and capital gains.

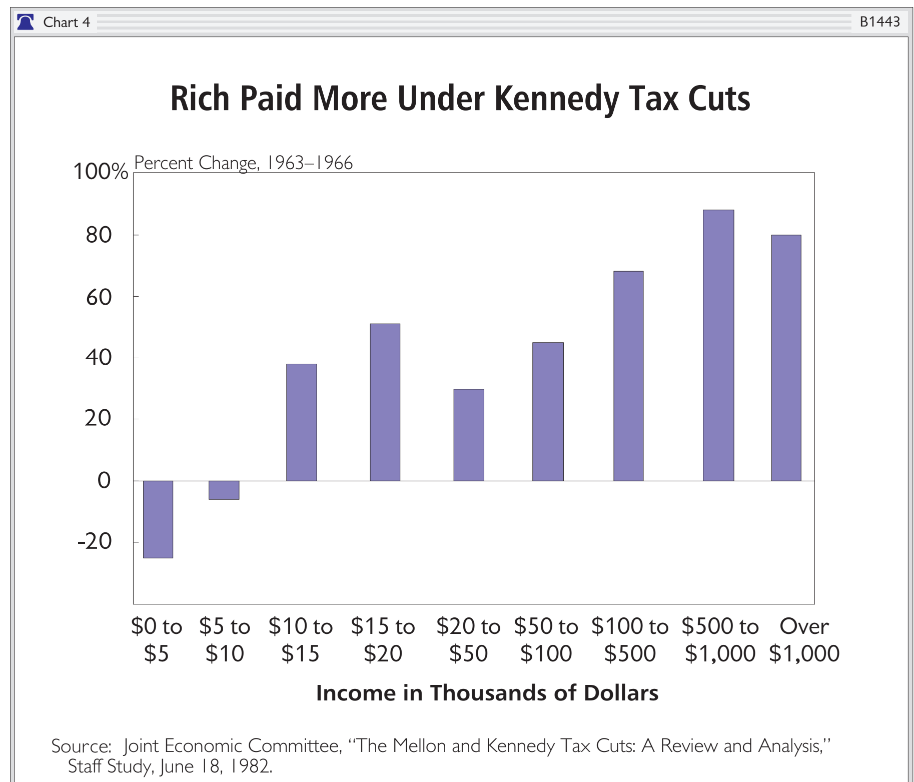


restrictive tax rates will never produce enough revenues to balance our budget just as it will never produce enough jobs or enough profits. Surely the lesson of the last decade is that budget deficits are not caused by wild-eyed spenders but by slow economic growth and periodic recessions and any new recession would break all deficit records. In short, it is a paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now.[19]

$50,000 per year climbed by 57 percent between 1963 and 1966, while tax collections from those earning below $50,000 rose 11 percent. As a result, the rich saw their portion of the income tax burden climb from 11.6 percent to 15.1 percent.[18]

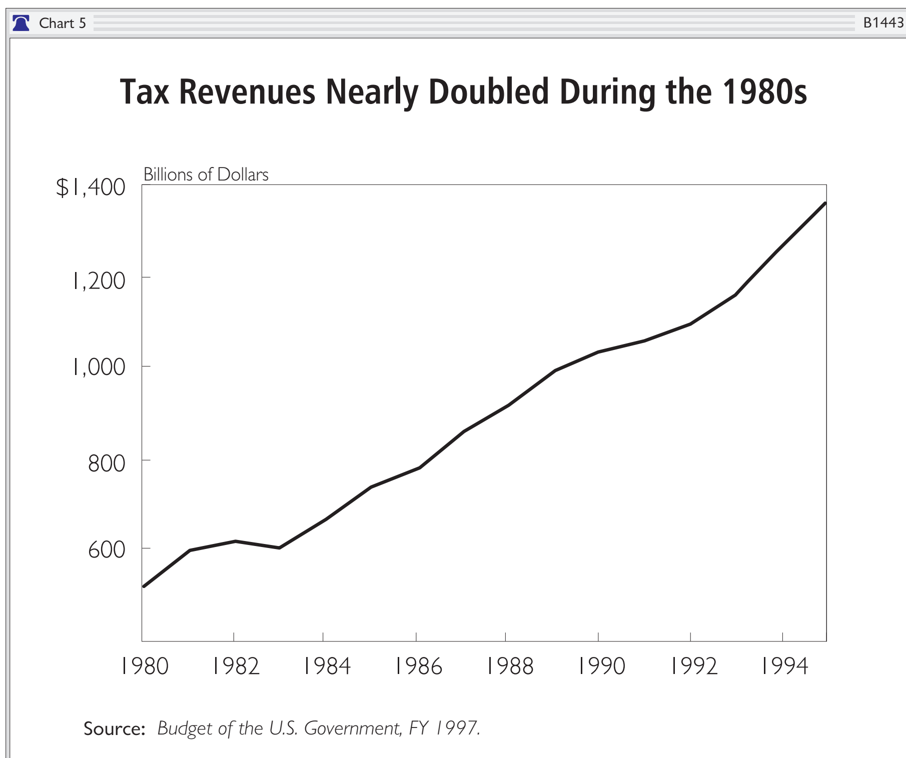
According to President Kennedy,

> Our true choice is not between tax reduction, on the one hand, and the avoidance of large Federal deficits on the other. It is increasingly clear that no matter what party is in power, so long as our national security needs keep rising, an economy hampered by



18. Joint Economic Committee, "The Mellon and Kennedy Tax Cuts."

19. John F. Kennedy, speech to Economic Club of New York, December 14, 1962.



Source: *Budget of the U.S. Government, FY 1997.*

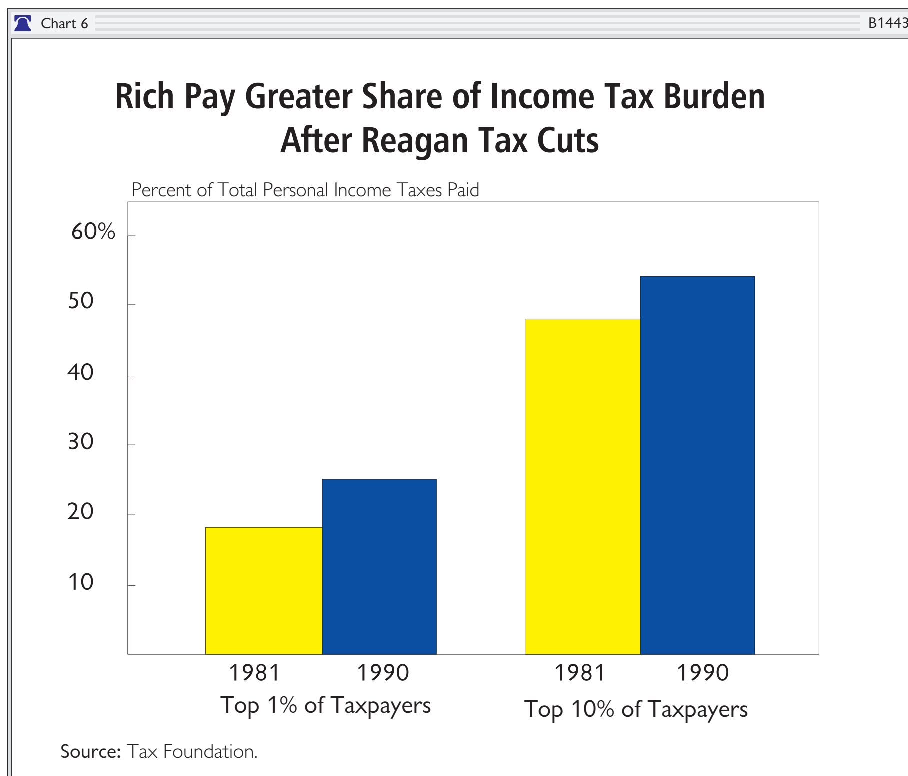
economic growth averaged almost 4 percent.

Critics charge that the tax cuts caused higher deficits, but their argument is based on a misreading of the evidence. The Reagan tax cut, although approved in 1981, was phased in over several years. As a result, bracket creep (indexing was not implemented until 1985) and payroll tax increases completely swamped Reagan's 1.25 percent tax cut in 1981[21] and effectively canceled out the portion of the tax cut that went into effect in 1982. The economy received an unambiguous tax cut only as of January 1983. As Chart 5 shows,

The 1980s

President Ronald Reagan presided over two major pieces of tax legislation that, together, reduced the top tax rate from 70 percent in 1980 to 28 percent by 1988.

The economic effects of the Reagan tax cuts were dramatic. When President Reagan took office in 1981, the economy was being choked by high inflation and was in the middle of the 1980–1982 double-dip recession.[20] The tax cuts helped to pull the economy out of its doldrums and ushered in a period of record peacetime economic growth. During the seven-year Reagan boom,



Source: Tax Foundation.

20. Technically, because there was some growth in 1981, the 1980 and 1982 downturns are counted as two separate recessions, but these slumps often are considered as one event.

21. There was a 5 percent reduction in tax rates that took effect on October 1, 1981, as a result of which the tax cut for the year was only 1.25 percent.

Lessons From Past Tax Cuts

Lesson #1: Lower tax rates do not mean less tax revenue.

- **The tax cuts of the 1920s:** Personal income tax revenues increased substantially during the 1920s despite the reduction in rates. Revenues rose from $719 million in 1921 to $1.164 billion in 1928, an increase of more than 61 percent (during a period of virtually no inflation).
- **The Kennedy tax cuts:** Tax revenues climbed from $94 billion in 1961 to $153 billion in 1968, an increase of 62 percent (33 percent after adjusting for inflation).
- **The Reagan tax cuts:** Total tax revenues climbed by 99.4 percent during the 1980s. The results are even more impressive, however, when one looks at what happened to personal income tax revenues. Once the economy received an unambiguous tax cut in January 1983, personal income tax revenues climbed dramatically, increasing by more than 54 percent by 1989 (28 percent after adjusting for inflation).

Lesson #2: The rich pay more when incentives to hide income are reduced.

- **The tax cuts of the 1920s:** The share of the tax burden paid by the rich rose dramatically as tax rates fell. The share of the tax burden borne by the rich (those making $50,000 and up in those days) climbed from 44.2 percent in 1921 to 78.4 percent in 1928.[1]
- **The Kennedy tax cuts:** Just as happened in the 1920s, the share of the income tax burden borne by the rich increased following the tax cuts. Tax collections from those earning more than $50,000 per year climbed by 57 percent between 1963 and 1966, while tax collections from those earning below $50,000 rose 11 percent. As a result, the rich saw their portion of the income tax burden climb from 11.6 percent to 15.1 percent.[2]
- **The Reagan tax cuts:** The share of income taxes paid by the top 10 percent of earners jumped significantly, climbing from 48.0 percent in 1981 to 57.2 percent in 1988. The top 1 percent of taxpayers saw their share of the income tax bill climb even more dramatically, from 17.6 percent in 1981 to 27.5 percent in 1988.[3]

1. Joint Economic Committee, "The Mellon and Kennedy Tax Cuts: A Review and Analysis," June 18, 1982.
2. *Ibid.*

revenues then climbed dramatically. Personal income tax revenues led the way, increasing by more than 54 percent by 1989 (28 percent after adjusting for inflation).

Contrary to conventional wisdom, it was the "rich" who paid the additional taxes. The share of income taxes paid by the top 10 percent of earners jumped significantly, climbing from 48 percent in 1981 to 57.2 percent in 1988. The top 1 percent saw their share of the income tax bill climb even more dramatically, from 17.6 percent in 1981 to 27.5 percent in 1988 (see Chart 6).[22]

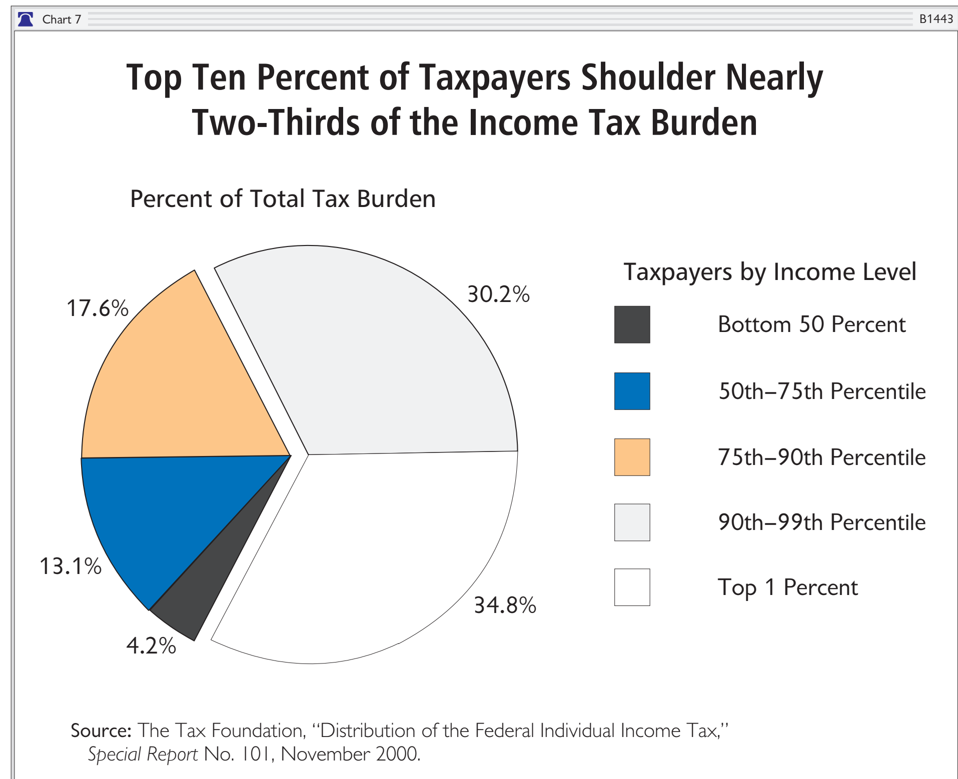
According to former Representative Jack Kemp (R–NY), one of the chief architects of the Reagan tax cuts,

> At some point, additional taxes so discourage the activity being taxed, such as working or investing, that they yield less revenue rather than more. There are, after all, two rates that yield the same amount of revenue: high tax rates on low production, or low rates on high production.[23]

22. Joint Economic Committee, *Annual Report, 1992.*
23. Jack Kemp, *An American Renaissance: A Strategy for the 1980s* (New York, N.Y.: Harper and Row, 1979).

WHY TAX RATE REDUCTIONS ARE FAIR

A major argument against pro-growth tax policies is that the "rich" will benefit disproportionately. This argument is used against across-the-board reductions in the tax rate, as well as capital gains tax relief, and is thrown up against fundamental reforms like a flat tax. No matter the policy, opponents charge that the result will be to make the tax code less "fair."



Source: The Tax Foundation, "Distribution of the Federal Individual Income Tax," *Special Report* No. 101, November 2000.

A key element of this debate is the question of what constitutes fairness. Advocates of tax reduction and reform generally believe that fairness means treating all taxpayers equally before the law; a wealthy person who makes 100 times more than another person, for example, should pay 100 times more in taxes. Others believe in equality of results rather than equality of opportunity; they want government to impose increasingly punitive tax rates on higher-income taxpayers to facilitate income redistribution.

Battles over tax policy, however, involve more than the subjective meaning of fairness. Often, opponents of pro-growth tax policy make assertions that are at odds with easily verifiable numbers. Their arguments, grounded in an appeal to class, frequently rely on three myths.

Myth #1: The rich don't pay their fair share of taxes.

Reality: According to data from the Internal Revenue Service,[24] the top 1 percent of earners pay more than 35 percent of the income tax burden, the top 10 percent pay more than 65 percent, and the top 25 percent pay more than 80 percent. The bottom 50 percent of income earners, on the other hand, pay less than 5 percent of income taxes (see Chart 7).

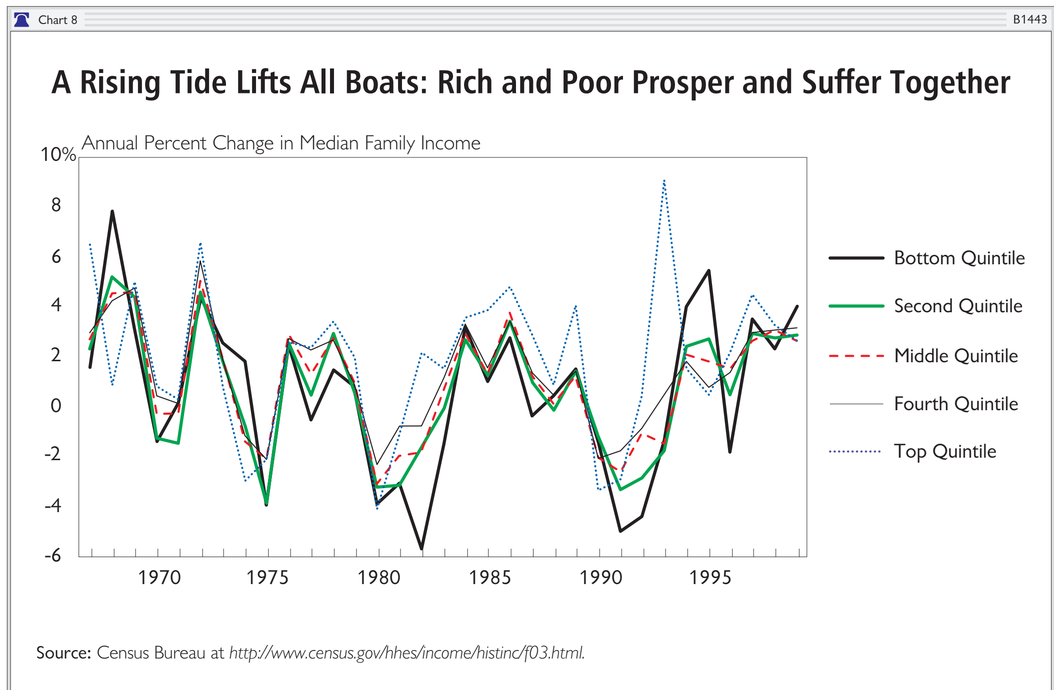
Myth #2: Lower tax rates mean that the rich get richer and the poor get poorer.

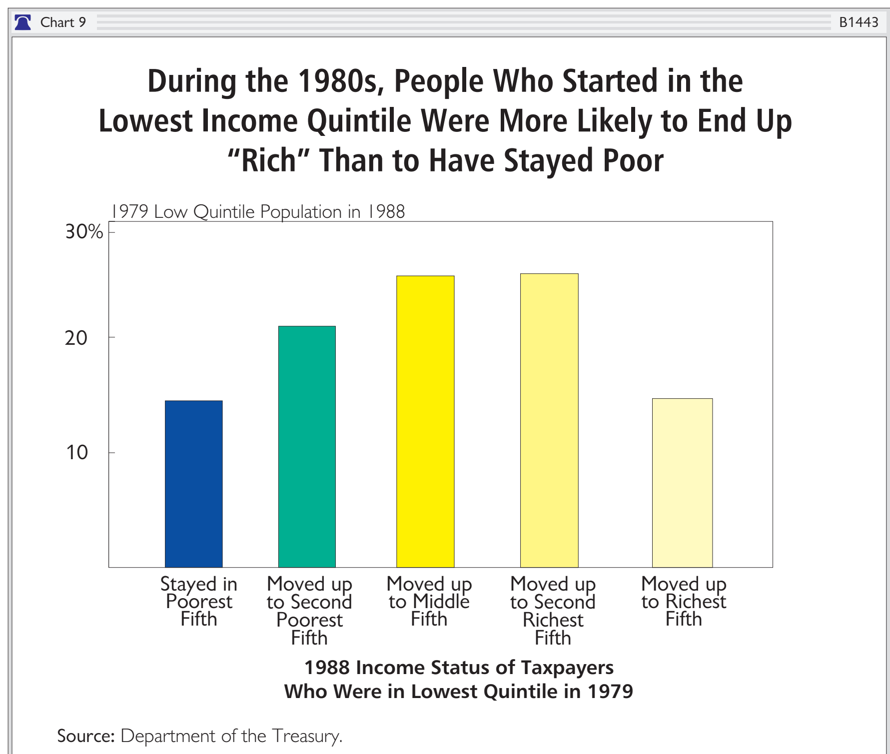
Reality: President Kennedy was right: A rising tide does lift all boats. Data from the U.S. Bureau of the Census show that earnings for all income classes tend to rise and fall in unison. In other words, economic policy either generates positive results, in which case all income classes benefit, or causes stagnation and decline, in which case all groups suffer. As Chart 8 illustrates, the high tax policies of the late 1970s and early 1990s are associated with weak economic performance, while the low tax rates of the 1980s are correlated with rising incomes for all quintiles.

Myth #3: The United States no longer is the land of opportunity. Those who work hard and play by the rules cannot climb the economic ladder.

24. See *http://www.taxfoundation.org/prtopincomechart1.html*.

Reality: President Bill Clinton's Council of Economic Advisers reported that "studies indicate a reasonably high degree of [income] mobility over time" and that "almost two thirds of households change income quintiles over 10 years."[25] A U.S. Department of the Treasury study of those filing tax returns found that, over a 10-year period, the poorest 20 percent were more likely to have climbed to the top 20 percent of taxpayers than to have remained where they were on the economic ladder (see Chart 9).[26]





CONCLUSION

High rates of taxation and a tax code that punishes working, saving, and investing do not add up to a recipe for long-term prosperity. History shows clearly that lower tax rates are an integral part of a reform package that maximizes freedom and prosperity. Reducing all income tax rates is a responsible way to promote long-term economic growth.

—Daniel J. Mitchell, Ph.D., is McKenna Senior Fellow in Political Economy at The Heritage Foundation.

25. *Economic Report of the President* (Washington, D.C.: U.S. Government Printing Office, February 1997).

26. Joint Economic Committee, "Income Mobility and Economic Opportunity," Staff Study, June 1992, at *http://www.house.gov/jec/middle/mobility/mobility.htm.* See also D. Mark Wilson, "Income Mobility and the Fallacy of Class-Warfare Arguments Against Tax Relief," Heritage Foundation *Backgrounder* No. 1418, March 8, 2001.