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Distribution of the Federal Tax Burden, Share of after-Tax Income, And After-Tax Income By Presidential Administration and Household Type, 1981-2000

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DISTRIBUTION OF THE FEDERAL TAX BURDEN, SHARE OF AFTER-TAX INCOME, AND AFTER-TAX INCOME BY PRESIDENTIAL ADMINISTRATION AND HOUSEHOLD TYPE, 1981–2000

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Findings of this study show that the lowest- and middle-income households overall and those with children had lower total effective Federal tax rates during the Clinton administration than during the Reagan and G.H. Bush administrations. Concomitantly, the top one percent and highest income quintile households overall, those with children, and those headed by an elderly person age 65 or older without children had higher total effective Federal tax rates during the Clinton administration. Nearly every category of household type and income level measured in this study had more after-Federal-tax income during the Clinton administration than either the Reagan or G.H. Bush administrations. The study also found that the shares of after-Federal-tax income were equitable across the three presidential administrations for the lowest-income quintile households with children, while the share of after-Federal-tax income for middle-income quintile households with children actually declined during the Clinton administration. The study concludes by noting that where it counts most for individuals and families, namely in the amount of after-tax money available to households, there were no differences by presidential administration during the post-Reagan era among low-income households and where differences were found for middle-income households, they were opposite what more liberal or less centrist-left Democrats would have hoped for.

Key Words: *After-tax income, Federal tax burden, tax policies of Reagan, G.H. Bush, and Clinton administrations*

This paper examined the distribution of the total effective tax rates, the share of after-tax income, and the amount of after-tax income among the bottom, middle, and highest household income quintiles, as well as the top one percent, by presidential administration between 1981 and 2000. It followed an earlier paper (Caputo, 2004) that examined a variety of socioeconomic indicators for productivity, corporate profits, and poverty by presidential administration in the latter part of the twentieth century. The former study indicated that the "great divide" thesis regarding the U.S. economy before and after the Reagan administration depended on which measure of the economy was the focus of attention. In addition, on some measures where before and after differences were detected, the nature of those differences was paradoxical, suggesting that Democratic presidential administrations catered to constituencies thought to be more aligned with Republican administrations. Corporate profits as a share of national income, for example, were highest in Democratic rather than Republican administrations and despite the increased income inequality found for the post-Reagan years, individual and family poverty rates remained relatively constant after edging upward from the 1970s but still below 1960s highs. Further, findings of that study provided some evidence corroborating neoclassic economic theory in regard to incentives and productivity and they presented a challenge to activists who equate poverty as a natural or an inevitable byproduct of the more market-driven fiscal and monetary policies of the 1980s and 1990s.

The purpose of the present study was to determine the extent that those bearing the brunt of the Federal tax burden throughout the economic booms of the mid-to-late 1980s and 1990s differed by presidential administration and household type. At the time of this study, tax-related data comparable to that used here were not available for either the 1961–1979 or post-2000 periods. Did the distribution of the Federal tax burdens among household income groups during the Reagan administration differ from that of the G.H. Bush administration or was it similar? Did the distribution of the Federal tax burdens during the Clinton administration shift from those of either the Reagan or G.H. Bush administration, or from both of them? To what extent did different lower income household types, for example those with children and those headed by seniors, contribute disproportionately more or less shares of the Federal tax burden and after-tax income than comparably structured upper income households under the Reagan, G.H. Bush, or Clinton administrations?

The Reagan and Clinton administrations presided over substantive changes in tax policy. The Economic Recovery Act of 1981 reduced the top marginal income tax rate from 70 percent to 50 percent in 1982, also effectively reducing the top rate paid on capital gains from 28 percent to 20 percent, and cut rates for lower income individuals between 1982 and 1984. The Reagan administration, however, followed the 1981 tax cuts with two tax increases. The Tax Equity and Fiscal Responsibility Act in 1982 targeted corporations and it buttressed the Social Security Trust Funds through the payroll tax, the latter of which disproportionately affected lower income earners because of its regressive nature vis-à-vis the income tax (Hulten & O'Neill, 1982; Krugman, 2004; Steuerle, 1992). The Tax Reform Act of 1986 further reduced marginal rates, this time in stages over 1987 and 1988. The top marginal rate was reduced from 50 percent to 28 percent, while the corporate rate was reduced from 50 percent to 35 percent. The G.H. Bush administration in 1990 and the Clinton administration in 1993 both increased taxes in an effort to reduce Federal budget deficits (Joint Economic Committee, 1995). In 1990, Congress increased the top marginal tax rate to 31 percent. The 1993 tax increase was the more progressive of the two, again targeting more affluent taxpayers, raising the marginal tax rate for high income payers to 38.6 percent, and reversing the 3.86 percent decline of Federal income taxes of the top 10 percent of income earners during the G.H. Bush administration (Hartman, 2002; U.S. Department of the Treasury, 2003). During the second Clinton administration, however, half the tax cuts provided by the 1997 Tax Act went to the best-off 5 percent of taxpayers, while taxpayers in the lowest 40 percent of the income scale got nothing (Center for Tax Justice, 1997).

The current G.W. Bush administration has cut tax rates that favor upper income groups more so than lower and middle income groups and it has consistently pursued a tax-cut or tax-relief agenda since assuming office in 2001 (Citizens for Tax Justice, 2004, 2001). In setting out his administration's tax relief agenda, G.W. Bush noted that Federal income from tax revenue rose throughout the 1990s to its highest peacetime level, topping 20 percent of GDP (Bush, nd). Who bore the brunt of Federal taxes during that period and how did that distribution differ from that of the 1980s? Answers to these questions and those above provide a context within which to judge the distributional merits of G.W. Bush's tax relief proposals that he wants to see made permanent rather than expire in 2011 as authorized by Congress (Bush, 2002). Although much of the rhetoric about tax cuts suggests a positive relationship between tax reduction and economic growth, that is, the more taxes are reduced, especially for more affluent individuals and corporations since they are likely to increase investment expenditures, the greater the economy will expand, this relationship is not addressed in the paper. It is better addressed elsewhere, as are the effects of the tax cuts on the Federal deficit. Suffice it to say here that despite theoretical assertions to the contrary, there is little empirical support linking the level of taxation with either the level or the rate of growth of economic output (Myles, 2000), while the evidence linking tax policies to Federal deficits is more firmly established and widely acknowledged (Rivlin, 1989; Shapiro & Friedman, 2004). Having said that, however, as Myles suggests, the structure of taxation does effect economic growth by providing incentives for investment in human capital, and as Kamin and Shipiro (2004) show, tax cuts that get more money into the hands of lower- and middle-income households also contribute to economic growth by increasing consumer demand since these income groups are more likely than more affluent groups to spend the money quickly. Whether policies enhancing investment are more or less effective than those increasing consumption is a long-standing issue among economists that goes beyond the scope of this study to address (See Galbraith, 1987; Hunt, 2002; Keynes, 1936; Pierson, 1944;).

The distribution of tax burdens which is the focus of this study raises issues of fairness, particularly when the distribution of Federal tax burdens appears to favor higher income earners at the expense of lower income taxpayers. To the extent such burdens also fall disproportionately on low-income households with children and on those headed by seniors, the issue of fairness assumes even greater importance. Low-income children and seniors constitute vulnerable populations. To the extent they have disproportionately shared the Federal tax burden throughout the 1980s and 1990s corrective measures are warranted. In addition, to the extent middle-income households have experienced reduced shares of income vis-à-vis that of upper-income households, democracy in the U.S may be threatened. This is so in light of Barro (1999) whose study of over 100 countries from 1960 to 1995 showed that democracy rises with the middle-class share of income.

Methods

Data

This study relied on CBO data that incorporated a comprehensive array of household income, as noted below, including capital gains, which Census data exclude (Congressional Budget Office, 2003). The CBO report contained related annual income information for all households, for households with children (that is, with at least one member under the age of 18), and for elderly childless households (that is, headed by a person 65 years of age or older with no member under the age of 18) by household income categories. The household income categories used in the analyses for this paper included the bottom, middle, and highest quintiles, as well as the top one percent.

Measures

Effective tax rates are calculated by dividing taxes by comprehensive household income. A household consists of people who shared a housing unit, regardless of their relationship. Households with children have at least one member under age 18. Elderly childless households are those headed by a person age 65 or older with no member under age 18.

Comprehensive household income comprises pretax cash income plus income from other sources. Pretax cash income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, cash transfer payments, and retirement benefits plus taxes paid by businesses (corporate income taxes; the employer's share of Social Security, Medicare, and federal unemployment insurance payroll taxes); and employees' contributions to 401(k) retirement plans. Other sources of income include all in-kind benefits (Medicare, Medicaid, employer-paid health insurance premiums, food stamps, school lunches and breakfasts, housing assistance, and energy assistance).

Income categories are rankings of all people by their comprehensive household income adjusted for household size—that is, divided by the square root of the household's size. Quintiles, or fifths, comprise equal numbers of people. Shares of after-tax income are self-explanatory. After-tax income is adjusted to 2000$s.

Procedures

Analysis of Variance (ANOVA) was used to determine differences in total effective tax rates, share of after-tax income, and amount of after-tax income by presidential term (Reagan, G.H. Bush, and Clinton) for each household income category. When statistically significant differences were found overall on a measure, post hoc analyses were done to determine statistically significant differences between specific pairs of presidential terms. The Scheffe post hoc procedure was used when Levine's test of the null hypothesis for homogeneity of variance was accepted and the Games-Howell procedure was used when Levine's test of the null hypothesis for homogeneity of variance was rejected.

Results

As can be seen in Table 1, total effective tax rates among the highest quintile and top one percent income households were significantly higher during the Clinton administration vis-à-vis those of the Reagan and G.H. Bush administrations regardless of household type (that is, all households, those with children, or elderly childless). For these two income categories, no differences were found between the Reagan and G.H. Bush administrations. The total effective tax rates were significantly lower during the Clinton administration than either the Reagan or G.H. Bush administrations, which were similar, for all middle income households and for middle income households with children. The total effective tax rates were significantly lower during the Clinton administration than either the Reagan or G.H. Bush administrations, which were similar, for the lowest income quintile of all

Table 1

ANOVA Results—Total Effective Tax Rates

Household Type	*Reagan*	*Bush*	*Clinton*	*F-value*	*Post Hoc*
All					
Lowest Quintile	09.05	08.35	06.33	31.31***	Clinton < Bush, Reagan
Middle Quintile	18.03	17.70	17.13	10.80**	Clinton < Bush, Reagan
Highest Quintile	23.51	25.30	27.70	17.49***	Clinton > Bush, Reagan
Top 1%	28.60	29.55	34.66	30.73***	Clinton > Bush, Reagan
With Children					
Lowest Quintile	10.01	08.23	04.84	45.17***	Clinton < Bush < Reagan
Middle Quintile	20.30	19.75	18.93	12.40***	Clinton < Bush, Reagan
Highest Quintile	24.19	25.05	28.10	53.80***	Clinton > Bush, Reagan
Top 1%	27.40	29.10	35.23	51.35***	Clinton > Bush, Reagan
Elderly without children					
Lowest Quintile	12.40	13.20	11.49	19.39	Clinton < Reagan, Bush
Middle Quintile	19.71	19.83	19.70	00.24	
Highest Quintile	25.44	25.86	26.51	21.26***	Clinton > Bush, Reagan
Top 1%	28.54	29.50	34.65	33.05***	Clinton > Bush, Reagan

***$p < .001$, **$p < .01$.

households and for lowest income quintile of households without children. For lowest income households with children, the total effective tax rates were significantly lower during the Clinton administration than the G.H. Bush administration, which in turn were lower than the Reagan administration.

As can be seen in Table 2, the share of after-tax income was significantly higher during the Clinton administration than either the Reagan or G.H. Bush administrations, which were similar, among all households only for those in the highest quintile and among households with children only for those in the highest quintile.

Among households with children, the share of after-tax income was significantly higher during the Clinton administration than that of the Reagan administration for those households in the top one percent. Among households with children, the share of after-tax income for the top one percent during the Clinton administration was similar to that of the G.H. Bush administration, which in turn was higher but nonetheless statistically similar to that of the Reagan administration. Also among households with children, the share of after-tax income for middle quintile households during the Clinton administration was lower than that of either the Reagan or G.H. Bush administrations, which were statistically similar.

Among elderly households without children, the shares of after-tax income for middle quintile households during the Clinton administration and during the G.H. Bush administration were comparable and higher than that of the Reagan administration. Also among elderly households without children, the shares of after-tax income for lowest quintile households during the Clinton and Bush administrations were comparable. During both the Clinton and G.H. Bush administrations the shares of after-tax income for lowest quintile households were lower than that of the Reagan administration.

Finally, as can be seen in Table 3, among all households, after-tax income (adjusted, 2000$s) during the Clinton administration was higher than that of the Bush administration, which in turn was higher than that of the Reagan administration among lowest and middle quintile households. Among the highest quintile and top one percent of all households, after-tax income during

Table 2

ANOVA Results—Shares of After Tax Income

Household Type	*Reagan*	*Bush*	*Clinton*	*F-value*	*Post Hoc*
All					
Lowest Quintile	05.56	05.28	05.25	01.85	
Middle Quintile	15.96	15.90	15.44	03.17	
Highest Quintile	46.15	47.20	48.54	04.45*	Clinton > Bush, Reagan
Top 1%	10.21	10.80	12.21	02.67	
With Children					
Lowest Quintile	07.01	07.20	07.13	00.60	
Middle Quintile	19.75	18.95	17.53	16.18***	Clinton < Bush, Reagan
Highest Quintile	35.80	35.93	39.99	06.96**	Clinton > Bush, Reagan
Top 1%	07.58	07.85	10.19	04.39*	Clinton > Reagan; Clinton, Bush, Reagan
Elderly without children					
Lowest Quintile	07.18	06.38	05.44	06.74**	Clinton, Bush < Reagan
Middle Quintile	16.18	18.40	19.10	16.57***	Clinton, Bush > Reagan
Highest Quintile	44.75	43.45	47.19	03.23	
Top 1%	15.40	13.45	14.91	01.25	

***$p < .001$, **$p < .01$, *$p < .05$.

Table 3

ANOVA Results—After Tax Income (2000$s)

Household Type	*Reagan*	*Bush*	*Clinton*	*F-value*	*Post Hoc*
All					
Lowest Quintile	11,413	12,175	13,350	34.11***	Clinton > Bush > Reagan
Middle Quintile	35,575	37,250	39,800	19.01***	Clinton > Bush > Reagan
Highest Quintile	95,138	104,775	119,850	09.39**	Clinton > Reagan; Clinton, Bush, Reagan
Top 1%	410,875	477,525	613,113	05.66*	Clinton > Reagan; Clinton, Bush, Reagan
With Children					
Lowest Quintile	14,688	15,750	18,150	33.64***	Clinton > Bush > Reagan
Middle Quintile	43,113	45,600	49,250	17.97***	Clinton > Bush > Reagan
Highest Quintile	116,713	127,725	151,138	09.63**	Clinton > Bush, Reagan
Top 1%	529,488	565,100	780,100	04.26*	Clinton > Bush, Reagan
Elderly without children					
Lowest Quintile	9,650	9,700	10,225	04.96*	*ns*
Middle Quintile	31,863	33,875	36,225	22.71***	Clinton > Bush > Reagan
Highest Quintile	102,550	108,200	119,938	04.09*	*ns*
Top 1%	365,800	609,450	818,632	23.79***	Clinton > Bush > Reagan

***$p < .001$, **$p < .01$, *$p < .05$.

the Clinton administration was higher than that of the Reagan administration. Although the dollar amount of after-tax income during the Bush administration exceeded that of the Reagan administration among the highest quintile and top one percent of all households, the differences were statistically not significant.

Among households with children, after-tax income during the Clinton administration was higher than that of the G.H. Bush administration, which in turn was higher than that of the Reagan administration among lowest and middle quintile households. Among the highest quintile and top one percent of households with children, after-tax income during the Clinton administration was higher than that of the Bush administration. Again, although the dollar amount of after-tax income during the Bush administration exceeded that of the Reagan administration among the highest quintile and top one percent of households with children, the differences were statistically not significant.

Among elderly childless households, after-tax income during the Clinton administration was higher than that of the G.H. Bush administration, which in turn was higher than that of the Reagan administration among middle quintile and top one percent households. After-tax income for the lowest and highest quintile elderly households without children was found to be similar across presidential administrations.

Discussion

With exceptions noted below, findings of this study reveal that the distributional effects of Federal tax policies during the Clinton administration differed more often than not than those between the Reagan and G.H. Bush administrations. Differences, however, do not necessarily suggest that economically more vulnerable households, that is, lower-income households, with or without children, headed by a person age 65 or older or not, fared better under the Democratic administration of President Clinton than they did under the Republican administrations of Reagan and G.H. Bush. In some instances they did, such as total effective tax rates among low-income households, but in others such as shares of after-tax income they did not. Further, middle-income households with children appear to have lost ground during the Clinton administration at the expense of lower-income and higher-income households with children in regard to after-tax income shares.

In regard to total effective tax rates, the lowest- and middle-income households overall and those with children were lower during the Clinton administration than both previous presidential administrations. Concomitantly, the top one percent and highest income quintile households overall, with children, and headed by an elderly person age 65 or older without children were higher during the Clinton administration than those comparable households under the Reagan and G.H. Bush administrations. The lowest-income households headed by an elderly person without children also had lower total effective tax rates under the Clinton administration than under either the Reagan or G.H. Bush presidential administrations. Although the Clinton administration moved the Democratic Party to the right of the political spectrum, its tax policies nonetheless shifted the Federal tax burden from less to more affluent households. This shift may in part account for the efforts of the G.W. Bush administration to return the Federal tax burden to levels obtained during the Reagan and G.H. Bush administrations.

The Clinton administration also differed from the Reagan and G.H. Bush administrations in regard to amount of after-tax incomes. Nearly every category of household type and income level had more income to a statistically significant degree under the Clinton administration than during either the Reagan or G.H. Bush administrations. Among all household types, the lowest- and middle-income households had greater levels of income during the Clinton administration than during either of the two previous administrations. Households with children rather than households headed by a person age 65 or older without children account for these findings. It should be noted, however, that the lowest- and middle-income groups of all households and those with children also had greater amounts of after-tax incomes during the G.H. Bush administration than during the Reagan administration. These findings suggest that the Clinton administration continued to advance the plight of lower- and middle-income families with children begun during G.H. Bush administration.

The upper quintile and top one percent of income households with children also had a greater increase in after-tax income during the Clinton administration than they did during either the Reagan or G.H. Bush administrations. In absolute dollar amounts all households with children gained more so under the Clinton administration than under its two predecessors. Such was not the case for elderly households without children. Here the amounts of income of the lowest and highest income quintile households were similar across the three presidential administrations. Only the top one percent and middle-income households fared better in regard to after-tax income during the Clinton administration than either the G.H. Bush or Reagan administrations. These upper-income households invariably benefited from capital gains associated with increased stock prices during the second term of the Clinton administration in the latter part of the 1990s.

This picture of broad gains in regard to after-tax income during the Clinton administration vis-à-vis the G.H. Bush and Reagan administrations changes somewhat in regard to shares of after-tax income. During the Clinton administration the share of after-tax income increased only for highest quintile income households. The shares of after-tax income were similar across the three presidential administrations for the lowest-income quintile households with children, while the share of after-tax income for middle-income quintile households with children actually declined. Hence, despite gains in absolute income and lower total effective tax rates, low-income households with children fared equally as well (or poorly) under the Clinton administration than was the case under the Reagan and G.H. Bush administrations, while middle-income households with children fared worse. Hence, in terms of the share of after-Federal-tax income that went to low-income households with children, the Reagan, G.H. Bush, and Clinton administrations were similar. Among middle-income families with children, the share of after-Federal-tax income was worse than it was under the Reagan and G.H Bush administrations. Rather than holding their own or improving their standing relative to lower or more affluent households during the Clinton administration vis-à-vis its two predecessors, middle class households were relatively worse off, perhaps where it counted most, namely in the share or portion of after-Federal-tax income they had to spend. Liberal Democrats should take note of these findings. They in part explain why the G.W. Bush administration marketed its tax relief agenda, which included tax rate reductions and an expansion of the child tax credit, to families (Bush, nd) and why such an agenda passed Congress. The overall tax cuts of the G.W. Bush administration, however, are nonetheless less progressive than the former tax rates with respect to current income and they disproportionately benefit the top one percent of the income distribution (Gale & Potter, 2002).

The bottom line is that lower income households are slightly better off and that middle income households, especially those with children, are faring no better if not worse in regard to the net effect of the Federal tax burden across presidential administrations throughout the 1980s and 1990s. For purposes of policy, findings suggest that lowered tax rates do not necessarily translate into additional "in-pocket" cash for increasingly vulnerable middle-income households and that a higher rate of taxation on upper-income households does not necessarily result in lower levels of their income, although the level might be lower than it could have been otherwise. For purposes of political economy, findings are more complicated and less clear-cut. On one hand, more after-tax income for all income groups suggests that people had more to spend, thereby enabling lower- and middle-income household demand and upper-income investments to contribute to the economic growth characteristic of the 1980s and 1990s. On the other hand, the decrease in the share of after-tax income for middle-income quintile households with children is nonetheless troubling, given the historical and contemporary importance of a reasonably vibrant and secure middle class to the economic and democratic well-being of the U.S. (Johnston, 2003) and elsewhere around the globe (Barro, 1999). Hence, it is no accident that Congress agreed to extend the "middle-class tax cuts" that were scheduled to expire on December 31, 2004 without provisions to offset related costs. Such action invariably suggests political expediency in a national election year, but it nonetheless reflects, arguably, a potentially corrective action to past policies (Greenstein & Shapiro, 2004).

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