Eisenhower Era Income Tax Rates on the Upper 10% of Families Would Immediately Erase the Federal Deficit

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1. Introduction

Though media pundits and political leaders have incessantly claimed that we cannot solve the federal budget deficit simply by taxing the rich so that the middle class "must accept some pain," estimates shown in this paper demonstrate that this is *not* true (see Section 4 below). In fact, as Section 2 below shows, the bottom 90% of families (or everyone except what can only be called the "upper class") have been" accepting pain" for 35 years while the highest income, and especially the very highest income, families have been reaping massive and ever increasing rewards for the same period of time.

As the Chicago Political Economy Group (CPEG) does *not* recommend that new tax revenue be used to immediately reduce the federal deficit and has suggested that (in addition to steeply progressive income and wealth taxes) a financial transactions tax (which by itself could raise up to one trillion in new revenue) be levied as a matter of tax fairness and industrial policy, *the point of this paper is not to promote such a deficit reduction policy but rather to show that revenue raised by restoring the 1973 income distribution and taxes to the top 10% of filers would be sufficient to erase the projected FY 2012 federal budget deficit, if immediately paying off the federal deficit was good policy (which it is not) .* Though CPEG would wholeheartedly support a steeply progressive income tax increase, the revenue raised would be better used to support a federal jobs program. [1]

Some of the most comprehensive and widely used U.S. income distribution data, compiled directly from individual income tax data and inclusive of all sources of reported income, is the Piketty and Saez (P&S) data, that has been updated by Emmanuel Saez of the Economics Department of the University of California at Berkeley to 2008 (the most recent year available).[2] P&S were able to compute the number of "families" (tax payer-units) in the U.S. and their total (pre-tax) reported income in each year from 1973 to 2008 and rank them by income. Figure 1 below shows the reported "family" income (all adjusted for inflation to 2008 dollars) of families that have income that is greater or equal to 90%, 95%, 99.5%, 99.9%, and 99.99%, of families in 1973 and 2008, respectively, and the change in per-family income over this 35 year period for these families. Figure 1 shows the precise income cut-off values for these family percentiles in 1973 and 2008, respectively.

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[1] CPEG has argued that a large scale living wage federal jobs program is a core component of needed radical restructuring and rebalancing of the U.S. and world economies to serve human, rather than investor, needs. As long as the trade deficit persists, without radical structural changes in the economy, reducing the federal deficit (in the short run or the long run) will in the absence of a corresponding increase in business or household deficits, as a certifiable matter of national income accounting, increase unemployment– see (CPEG, 2009), (Baiman, 2010, 2010a), (Barclay, 2010).

[2] See data from Emmanuel Saez, Economics, University of California, Berkeley at : http://www.econ.berkeley.edu/~saez/TabFig2008.xls .

Figure 1: Change in U.S. Real Per-Family (or Tax Payer Unit) Income for High Income Families 1973 to 2008 (2008 dollars)

Family Income Percentile	P90	P95	P99	P99.5	P99.9	P99.99
1973	$89,933	$115,829	$225,401	$307,951	$642,783	$2,136,668
2008	$109,062	$152,726	$368,238	$558,726	$1,695,136	$9,141,190
% Change	21.3%	31.9%	63.4%	81.4%	163.7%	327.8%

Source: CTBA Calculations from Saez data, Table A6.

These data show that among families in the upper 10% of income, the real income of those with the highest incomes grew much faster, roughly 15 times faster (327.8% versus 21.3%) , than those with the lowest incomes in this bracket.

Using the income cut-off points for family income rankings shown in Figure 1, Figure 2 shows that this upward shift of income growth is even more dramatic when one looks at average real incomes for different groups of family incomes: those with incomes less than the P90 cutoff or P0-90, those with incomes greater than P90 but less than P95 cutoff or P90-95, etc. Figure 2 also calculates the share of overall per-family real income growth from 1973 to 2008 that went to each family income group.

Figure 2: Change in U.S. Average Per-Family (or Tax Payer Unit) Real Income and Share of 1973 to 2008 Real Income Growth Across Family Income Groups (2008 dollars)

Family Income Percentile	P0-90	P90-95	P95-99	P99-100	P99.5-100	P99.9-100	P99.99-100	p0-100
2008	$31,244	$127,184	$211,476	$1,137,684	$1,832,265	$5,648,768	$27,342,212	$54,315
1973	$33,369	$100,177	$146,980	$412,745	$567,944	$1,243,347	$4,240,744	$45,047
% Change	-6.4%	27.0%	43.9%	175.6%	222.6%	354.3%	544.8%	20.6%
$ Increase per family	-$2,124	$27,007	$64,496	$724,938	$1,264,321	$4,405,421	$23,101,468	$9,268
Number of Families in 1973 (thousands)	76,898	4,272	3,418	854	427	85	9	85,442
Number of Families in 2008 (thousands)	137,216	7,623	6,098	1,525	762	152	15	152,462
Share of Families	90.0%	5.0%	4.0%	1.0%	0.5%	0.1%	0.01%	1
Weighted $ Increase per family	-$1,911.9	$1,350.4	$2,579.8	$7,249.4	$6,321.6	$4,405.4	$2,310.1	$9,267.7
Share of Family Income Growth from 1973 to 2008	-20.6%	14.6%	27.8%	78.2%	68.2%	47.5%	24.9%	100.0%

Source: CTBA Calculations from Saez data, Tables A0 and A6.

These data show that:

a) While average per-family (taking into account population growth) real income in the U.S. *grew* by 20.6% from 1973 to 2008*, the bottom 90% (137.2 million families with 2008 income less than $109,062) experienced a 6.4% real (inflation adjusted to 2008 dollars) family income loss* over this period. *This suggests that the vast majority of families in the P0-P90 range suffered a decline in income over this period in contrast to the top 10% (15.2 million) of families who mostly experienced very rapid income growth.* [3]
b) *More specifically, most of the real income growth over the period went to the very wealthiest "families":* real family income of the top 90% to 95% (4.7 million families with 2008 incomes of $109,062 to $152,726) rose by 27.0% - faster than the average growth of 20.6%, but the incomes of families in the 95% to 99% (3.4 million families making from $152,726 to $368,238) income bracket rose by 43.9%, those in the top 1% (854,000 families making over $368,238) got a 175.6% increase (more than double) income increase, and the top .01% (the 9,000 families with over $ 9 M income) got a more than 5 fold (544.8%) increase in real income.
c) *In fact, because real income for the bottom 90% declined, the top 10% of families received more than 100% of the overall growth in real income. The top 10% of families received 120.6% of total real family income growth over the period* (14.6% + 27.8% + 78.2%) while families in the bottom 90% experienced a loss of income equal to 20.6% of total 1973 to 2008 real family income growth.

[3] Though the 90% cut-off is somewhat arbitrary, as the 35 year growth of P90-95 income is just a bit faster (27.0%) than average P0-100 real income growth (20.6%) and income growth appears to accelerate rapidly as base incomes increase, it appears likely that at the top of the P0-90 range families may have experienced roughly average or slightly higher than average income growth which rapidly declines to zero and then becomes negative for lower P0-P90 income groups.

2. Restoring 1973 Income Distribution and Tax rates

In order to better get a sense of how much income distribution and tax policy has changed since 1973, it is instructive to calculate the 2008 tax rates that would be necessary to reestablish 1973, pre-tax, and after-tax, income distributions. These calculations are shown in Figure 3 below.

Figure 3: Taxes Necessary to Restore 1973 Income Distribution and Income Tax Rates (2008 dollars)

Family Income Percentile	P0-90	P90-95	P95-99	P99-100	P99.5-100	P99.9-100	P99.99-100	p0-100
2008 Pre-Tax Family Income	$31,244	$127,184	$211,476	$1,137,684	$1,832,265	$5,648,768	$27,342,212	$54,315
Approximate Average 2008 Income Tax Rate (Adjusted to 2008 dollars based on 2008 Income Distribution)	19.0%	27.7%	30.2%	34.1%	34.4%	34.8%	35.0%	24.9%
2008 After-Tax Income with 2008 Income Distribution and Tax Rates	$25,308	$91,986	$147,619	$749,654	$1,201,132	$3,681,859	$17,782,597	$40,778
1973 Pre-Tax Family Income	$33,369	$100,177	$146,980	$412,745	$567,944	$1,243,347	$4,240,744	$45,047
Pre-Tax Family Income in 2008 with 1973 Income Distribution (1973 Incomes Increased by 20.6%)	$40,234	$120,787	$177,219	$497,660	$684,788	$1,499,143	$5,113,199	$54,315
Tax Rate Needed in 2008 to Restore 1973 Pre-Tax Income Distribution	-28.8%	5.0%	16.2%	56.3%	62.6%	73.5%	81.3%	0.0%
Approximate Average 1973 Income Tax Rate (Adjusted to 2008 dollars based on 1973 Income Distribution)	25.0%	36.7%	42.0%	59.9%	63.0%	68.0%	69.6%	31.7%
After-Tax Income in 2008 with 1973 Income Distribution and Tax Rates	$30,175	$76,467	$102,793	$199,512	$253,531	$480,208	$1,555,427	$37,088
Combined Tax Rate Needed in 2008 to Restore 1973 Income Distribution and Apply 1973 Income Tax Rate	3.4%	39.9%	51.4%	82.5%	86.2%	91.5%	94.3%	31.7%
%After-Tax and Distribution Change (From 2008 Distribution and Taxes to 2008 Income with 1973 Distribution and Taxes)	19.2%	-16.9%	-30.4%	-73.4%	-78.9%	-87.0%	-91.3%	-6.8%

Sources: Calculations from data in Figures 1-2 and approximate averaging of marginal tax rates and (CPI inflation adjusted) tax brackets from: http://qntm.org/files/tax/tax.txt .

This analysis shows that:

a) Restoring 2008 pre-tax income distribution to 1973 proportions, so that all families would have received a 20.6% increase in pre-tax real income from 1973 to 2008, would require:
   a. An 81.3% tax on the top 0.01% (15,000) families, reducing their average pre-tax income from $27.3 M to $ 5.1 M (all in 2008 dollars).
   b. Or, with a less targeted tax brackets, a 73.5% tax on the top 0.1% (152,000) families, reducing their average pre-tax income from $ 5.6 M to $1.5 M; or a 62.6% tax on the top 0.5% (762,000) families reducing their pre-tax income from $ 1.8 M to $ 684,788; or a 56.3% tax on the top 1% (854,000) of families reducing their pre-tax income from $ 1.1 M to $ 497,660.
   c. A 16.2% tax on 6.1 M families in P95-99 reducing their average 2008 income from $211,476 to $177,219.
   d. A 5% tax on 7.6 M families in P90-94 reducing their average 2008 income from $127,184 to $120,787.
   e. A -28.8% tax credit for the 137.2 M families in the bottom 90% of the income distribution increasing their average 2008 family income from $31,244 to $40,234.
   f. Note that these taxes would raise no revenue (their overall P0-100 tax rate is 0%), but simply redistribute income from the top 10% of families to the bottom 90%.
b) A similar analysis of tax rates necessary to restore 1973 after-tax income distribution (taxes for redistribution plus application of approximate 1973 tax rates on the redistributed income) results in:
   a. Tax rates of 94.3%, 91.5%, 86.2%, and 82.5% on the highest income P99.99-100, P99.9-100, and P99.5-100, and P99-100 families, respectively; of 51.4% and 39.9% on the next P95-99 and P90-95 families respectively, and only 3.4% on the bottom 90% of families.
   b. In addition to restoring 1973 income distribution, these taxes would raise an approximate 31.7% 1973 tax revenue share, about 6.8% more tax revenue than the approximate 24.9% 2008 tax revenue share with much more progressive (and finely bracketed) rates that in 1973 went from about 25% on P0-90 to 69.6% on P99.99-100, versus 2008 rates that went from about 19% to 35%, respectively for these family income groups.
   c. Redistribution of 2008 after-tax income (with 2008 tax rates) to 1973 income distribution at 1973 tax rates would result in average after-tax income reductions (in 2008 dollars) from: $ 17.7 M to $ 1.5 M, $3.7 M to $ 480,208, $1.2 M to $253,532, $749,654 to $ 199,512, $147,619 to $102,793, $91,986 to $76,467, and $25,308 to $30,175, for P99.99-100 to P0-90 family income groups, respectively.
   d. The bottom line is that if we had 1973 income distribution and tax rates in 2008, the bottom 90% of households would have enjoyed an approximate 19.2% after-tax real income increase, though overall weighted average income would have declined by -6.8% , reflecting the higher overall (in addition to more progressive) tax rates in 1973.

3. Tax Increases on Just the Upper 10% of Families Restoring their Income to 1973 Inflation Adjusted Levels Would Immediately Erase the Federal Deficit

As can be seen in Figure 4, tax rates (calculated in Figure 3) of: 39.9% of P90-95 filers, 51.4% on P95-99 filers, and 82.5% on P99-100 filers, that would restore 1973 income distribution and tax levels to the 15.2 M top 10% of filers, would raise about $1.2 T in additional tax revenue, over and above the income tax revenue that would be raised from 2008 income taxes and income distribution. As FY 2012 federal deficit is projected to be about $ 1.06 T, this additional revenue would be more than enough to pay off the deficit without any program cuts.[4]

Figure 4: Eliminating the Federal Budget Deficit by Restoring 1973 Income and Tax Levels for the Upper 10% of Filers

Family Income Percentile	P0-90	P90-95	P95-99	P99-100	P99.5-100	P99.9-100	P99.99-100	p0-100
2008 Pre-Tax Family Income	$31,244	$127,184	$211,476	$1,137,684	$1,832,265	$5,648,768	$27,342,212	$54,315
Number of Families in 2008 (thousands)	137,216	7,623	6,098	1,525	762	152	15	152,462
Total PreTax Income 2008	$4,287,232,038,109	$969,537,833,234	$1,289,680,749,469	$1,734,535,313,881	$1,396,753,897,605	$861,222,537,208	$416,864,831,952	$8,280,985,934,693
Approximate Average 2008 Income Tax Rate (Adjusted to 2008 dollars based on 2008 Income Distribution)	19.0%	27.7%	30.2%	34.1%	34.4%	34.8%	35.0%	24.9%
Total Tax Liability 2008 Tax Rates	$814,574,087,241	$268,318,390,004	$389,431,876,183	$591,598,263,326	$481,119,315,895	$299,878,978,370	$145,747,800,218	$2,063,922,616,753
Combined Tax Rate Needed in 2008 to Restore 1973 Income Distribution and Apply 1973 Income Tax Rate	3.4%	39.9%	51.4%	82.5%	86.2%	91.5%	94.3%	31.7%
Total tax Liability to Achieve 1973 Distribution and Taxes	$146,699,929,412	$386,619,174,658	$662,799,725,226	$1,430,355,070,032	$1,203,484,762,058	$788,009,054,220	$393,150,484,884	$2,626,473,899,329
Difference Redistribution and 1973 taxes minus 2008 tax revenue	-$667,874,157,829	$118,300,784,655	$273,367,849,043	$838,756,806,706	$722,365,446,163	$488,130,075,850	$247,402,684,666	$562,551,282,575
Additional Tax Revenue From Top 10% of Filers				$1,230,425,440,404				

Source: Calculations from data in Figures 1-3

[4] See National Priorities Project data at: http://nationalpriorities.org/en/publications/2011/presidents-budget-fy2012/revenues/.

A number of points are in order in interpreting the tax revenue estimates in Figures 3 and 4:

a) The tax revenue estimates are high as they are based on estimates of "statutory" tax rates that do not include deductions and credits, rather than actual or "effective" tax rates that take these into account. For example revenue from 2012 individual income tax is estimated to be about \$1.18 T rather than the \$2.1 T estimate for 2008 individual income tax revenue in Figure 4.[5] However, as our estimate of tax rates necessary to redistribute income to back to a 1973 income distribution and our estimates of 1973 statutory tax rates themselves also do not include deductions or exemptions, the \$ 1.2 T *increased* tax revenue estimate should not be greatly impacted by the high 2008 and 1973 statutory tax rate estimates. In other words the magnitude of the *incremental* change should be mostly effected by the changes in the statutory rates, as these changes were likely to be much more important than changes in deductions and credits (after adjusting for inflation).
b) In order to raise \$ 1.2 T from increased taxes on the upper 10%, the bottom 90% would have to forgo an after-tax 19.2% income tax credit that would have raised their real 2008 incomes to what they would have been with 1973 income distribution and tax rates (see Figure 3). Erasing the projected 2012 federal deficit in this way would thus indeed involve considerable "shared sacrifice" from the bottom 90% of filers whose after-tax incomes would remain constant at 2008 levels instead of increasing by almost 20%. This also means that though the 1973 income distribution would be restored for the upper 10%, the bottom 90% of filers would remain 19.2% poorer than they were in 1973 so that income would remain considerably more unequal in 2008 than it was in 1973.
c) Least some think that such high statutory income tax rates on the upper 10% of filers are "unimaginable," and that they would "destroy the economy," it should be noted that for 10 years from 1954 until 1963, during the midst of the post-war "Golden Age" of U.S. and world capitalism (from 1945 until about the mid-70's when rates of growth of output and income, and income equality, with increasing unionization and regulation far surpassed those of the Neo-Liberal post 1980's period – see for example (Marglin and Schor, 1992)), *statutory tax rates on the upper 10% were higher than those proposed in the next to last row of Figure 3 and row 7 of Figure 4.* Marginal tax rates in 1963 (adjusting the tax brackets to 2008 dollars) were roughly: 91% for P 99-100, 85% for P95-99, and 75% for P90-95, considerably higher than the 83%, 51% and 40% rates applied to the top 10% in Figures 3-4, even if these were to transformed back to approximate 1973 marginal rates of 64%, 50% and 41% (and lower marginal rates for income distribution), respectively. [6]

[5] NPP data op. cit.
[6] Op. cit., calculations from : http://qntm.org/files/tax/tax.txt.

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