Goodman Institute Quarterly
Turning Ideas Into Policy
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In the past quarter, the Goodman Institute produced key advice for candidates and voters during the fall elections, gave an award to Phil Gramm, in part for his pathbreaking new book on inequality in America, exposed the pitfalls in the IRA bill passed by Congress, and produced a stunning new study on retirement.

Making Bad Retirement Decisions

It is one thing to retire; it is another thing to claim Social Security benefits. Every year you don't claim benefits, the amount of your monthly benefit increases. It turns out that allowing your monthly benefit to grow is a riskless investment that beats just about any other investment you can make.

After adjusting for inflation, the monthly benefit payment is 76% higher when started at age 70 than at age 62. So, unless the senior is in poor health and not expecting to live very long, it pays to be patient in claiming benefits.

Goodman Institute economist Laurence Kotlikoff and his colleagues estimate that 90% of Americans are likely to benefit if they wait until age 70 to initiate their retirement benefits. Yet, only 6% do so. Roughly one in three nondisabled retirees starts collecting at age 62 – the earliest age at which benefits are available.

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If you add up the loss of benefits from these decisions over the remainder of a retiree's lifetime, the cost is extraordinarily high. Kotlikoff estimates that the typical retiree is leaving $182,370 (in present value terms) on the table by claiming benefits too soon.

So, why do so many retirees make such bad decisions? One reason is the Social Security Administration itself. What you are reading here ought to be communicated by the government to every potential retiree. Right now, it isn't.

In addition to the issue addressed here, one study estimates that retirees as a whole lose as much as $11 billion a year by making bad decisions in claiming benefits. All too often, bad decisions are made because Social Security personnel give bad advice.

Worse still, if a retiree discovers that she has made a wrong decision (costing thousands of dollars) based on bad government advice, she is not allowed to correct the decision.

Writing at *Forbes*, John Goodman says Social Security should explain the costs and benefits of retirement decisions in clear language to every American once they reach 60 years of age. It should also allow beneficiaries to correct any choices they have made based on bad advice from Social Security personnel.

Goodman Institute Awards Dinner

At its second annual awards dinner in Dallas, the Goodman Institute presented the Antony Fisher Award to former U.S. Sen. Phil Gramm. Sen. Ted Cruz gave a virtual introduction to the 200 guests attending the celebration.

The event occurred on the heels of the publication of Gramm's new book, *The Myth of American Inequality* written with Robert Ekelund and John Early (hereinafter, GEE).

Here are five surprising conclusions:

- The U.S. welfare state has almost eliminated poverty in this country.
- Over the last 75 years, income inequality has actually gone down, not up.
- Since the end of World War II, income has steadily risen for every income group – with the greatest increase among the bottom fifth of the income ladder.
- Over half of the population gains very little from working under the U.S. fiscal system – because taxable income replaces untaxed transfer benefits.
- The U.S. has the most progressive fiscal system among all developed countries.

John Goodman presenting U.S. Sen. Phil Gramm with the Antony Fisher Award

Poverty. In its standard measure of income, the Census Bureau includes only 8 of more than 100 federal transfer programs. Among the benefits it excludes are refundable tax credits, food stamps, Medicare and Medicaid.

Over the past 50 years, the value of taxpayer-funded transfer payments to the poorest 20 percent of American households has risen from an average of $9,677 to $45,389 in real terms. Counting these transfer payments dollar-for-dollar as income, GEE estimate that the true poverty rate in the United States is 2.5 percent.

Inequality. Are the rich getting richer while the well-being of everyone else is stagnating? You might be inclined to think so if you only read Census Bureau press releases. But in measuring inequality, the Bureau leaves out two-thirds of all government transfer payments enjoyed by those at the bottom of the income ladder and also ignores taxes collected from those at the top.

This means the Census Bureau ignores 40 percent of all income that is gained in transfer payments and lost in taxes.

Whereas the Census Bureau tells us the income difference between the top 20 percent of households and the bottom 20 percent is 16.7 to 1, if you throw in transfers and taxes the difference is only 4 to 1. Whereas the Census Bureau tells us that inequality (as technically measured by a Gini coefficient) has been rising over time, GEE find that it has actually fallen by 3 percent since 1947.

Income growth. The U.S. government uses five different price indexes for various purposes. Unfortunately, the ones used to measure such items as hourly earnings and household income are the least accurate and as much as a decade out of date.

GEE show that using the best measure of inflation (and taking account of transfers and taxes), all five income groups have experienced substantial real income growth over the past 75 years – roughly quadrupling, on average. The greatest growth in real income is among the bottom fifth of households (681 percent) – much more than for those in the top fifth (456 percent).

Welfare vs. work. Since the War on Poverty started in 1965, the labor force participation of the bottom one-fifth of households – who now receive more than 90 percent of their income from government – has dropped from 70 percent to 36 percent.

Congressmen Ronny Jackson and Pete Sessions in the Goodman Institute Congressional Roundtable

It's not hard to understand why. *Those with the least earned income had more actual income than those in the next two higher quintiles! That is, the average household in the bottom fifth (based on earned income) received 14 percent more total income than the average second-fifth household and 3.3 percent more than the average middle-income household.*

International comparisons. A common assumption on the left is that the welfare states of Europe are more progressive than the U.S. system. While it is true that a typical European country has more social insurance than we have, those programs are not mainly paid for by taxing the rich. They are paid for by taxing the beneficiaries.

Compared to our country, Europeans (especially northern Europeans) have fewer private goods and more social insurance.

GEE note that the top 10 percent of American households earn about 33 percent of all earned income but pay 45.1 percent of all income and payroll taxes. That progressivity ratio of 1.35 is far higher than in any other country. The ratio is 1.10 in France, 1.07 in Germany, and 1.0 in Sweden.

So, in 2015 the top 10 percent of earners in the U.S. paid 45 percent of all income taxes. That contrasts with 28 percent in France, 31 percent in Germany and 27 percent in Sweden. Conversely, the bottom 90 percent of earners in the U.S. paid just 55 percent of all taxes, compared with 72 percent in France, 69 percent in Germany and 73 percent in Sweden.

Moreover, after the GEE research was completed, a newer study found that the U.S. welfare state is actually larger than the European welfare states. The study concludes that "the U.S. redistributes a greater share of national income to low-income groups than any European country."

Just How Progressive are the Progressives?

Writing in the *Washington Examiner*, John Goodman argues that the most important progressive reform ideas of the last half-century have not come from the left. They have come from right-of-center intellectuals and think tanks.

Tax reform. A common refrain from liberal critics is that Republican tax reform bills inevitably mean tax cuts for the rich. But did you know that the U.S. tax system is the most progressive among all developed countries?

More than any other developed country, we tax the wealthy far more than poor and middle-income families. We are even more progressive than the social welfare states of northern Europe. This fact is not controversial. It is accepted by economists of all political persuasions.

Not only is our tax system more progressive than other countries, our entire fiscal system is more progressive.

So how did all this tax progressivity come about? Answer: Republican tax bills. More than half of all households today pay no income tax at all. That's because every Republican tax bill – going all the way back to Ronald Reagan – threw more and more people off the income tax rolls.

Through this and other provisions, Republicans have been shifting the tax burden to the rich every time they have legislated tax changes. Both private and government analyses confirm that the same is true of the 2017 tax reform bill, which has been routinely attacked by the left ever since its passage.

Negative Income Tax. Not only is our tax system more progressive than other countries, our entire welfare system is more progressive. That is, we distribute more from the top to the bottom than any other country. Other countries may have more social insurance, but we have more redistribution.

One of the most important vehicles for reducing poverty is based on the idea of a negative income tax, proposed by Milton Friedman in 1962. The legislative version, first introduced in 1975, is called the Earned Income Tax Credit. Closely related is the child tax credit, created by a Republican Congress in 1997. Because of these two measures, by 2018 it was virtually impossible for a working mother to be poor (in terms of cash income), even if she earned only the minimum wage!

Under the War on Poverty – originated in the 1960s – health care money goes to doctors and hospitals; housing money goes to landlords and developers; food stamp money goes to agribusiness; education money goes to school bureaucracies, etc.

By contrast, every refundable tax credit dollar is worth a dollar.

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