

## Moynihan's Last Senatorial Hurrah?

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Let's face it, a northeastern Irish politician cannot leave office without some sort of farewell gesture—if for no other reason than some expectations would be dashed. But I need not resort to stereotypes to argue that Sen. Daniel Patrick Moynihan, D-N.Y., is a prime candidate for such a hurrah. He has been known at the end of past sessions of Congress to "drop in the hopper" bills that would upset the social appletart—mainly by calling attention to important issues that society has been ignoring.

I briefly saw Senator Moynihan a few days ago at a farewell gathering at the Treasury organized by Secretary Lawrence Summers for him and his distinguished colleague, Rep. Bill Archer, R- Texas, Chairman of the House Ways and Means Committee. Both lawmakers are retiring at the end of this session. I asked Moynihan if he might be thinking, even at this late date, about dropping one last bill to highlight an important social issue. And, while I might be deluding myself, I thought I caught him smiling at some of the possibilities.

Well, Senator, I have a very strong reason for making the suggestion. Federal tax and expenditure policy is in the intellectual doldrums. Put together any set of proposals coming out of the presidential campaign or out of Congress in the past year, and I think one would have a hard time defining those proposals as very large or important. Certainly none, if enacted, is likely to make the history books as expressing some larger vision for where policy should be headed.

So if I may be permitted, Senator, I have a suggestion for a very simple bill with very wide-ranging consequences that I believe could fill the void. It is symbolically simple, yet extremely widespread in its real application. It fits you like a glove because it would redirect federal policy toward meeting a wide variety of objectives and goals you have espoused for several decades. It would unite issues of tax and welfare in a unique blend that would finally break with the current tendency to impose large penalties on low-income individuals simply because they marry or stay married. And it would put to the test those who want to push the supply-side argument that marginal tax rates—the rates paid on the last dollar of income earned—are the ones we must worry about because they are the ones with the largest effect on incentives. The bill simply argues that whatever standard applies to the rich should apply equally to the poor and middle class.

What is the bill? Nothing more than a simple requirement that the poor and middle class should pay no higher tax rate on their next dollar of income earned than do the rich. If they do, then tax and expenditure authorities have the regulatory power to adjust the rates. That's it—nothing more, nothing less.

Senator, you and I first worked on family tax policy in the early 1980s, long before it became fashionable. We noted how changes in tax policy over the postwar period had penalized families with children, and these at-first-ignored observations eventually led over the years to support in both parties for a whole reorientation of the tax system to increase dependent exemptions and child credits.

Today, however, there remains an even bigger anti-family policy, one that derives from a classic liberal-conservative compromise that has held and even grown over the past half-century. That compromise said the nation would provide help to low-income people, but we would quickly eliminate that help as income increased. That compromise has been applied in program after program, tax break after tax break. The motives behind it were not bad—more concentration of benefits at the bottom to please liberals at less cost to please conservatives. But it represented old welfare policy that went too far. It set up extraordinary disincentives in the form of marginal tax rates of 70 percent, 85 percent, 100 percent, or more.

What now happens when a low-income man without children marries a low-income woman with children, or vice-versa? The tax rate on his last dollars of income rises from 30 percent or so to those astronomical tax rates. The combined income of the couple then falls, often by thousands of dollars, simply because of marriage. Even if they are not receiving welfare as defined narrowly by Targeted Assistance for Needy

Families, they still pay other taxes and lose earned income tax credits, food stamps, housing assistance if available, Medicaid, and even special Medicaid assistance for their children. This is a bigger source of marriage penalties than anything addressed by the Congress this year.

The problem is not merely an issue of incentives. These types of policies also breed resentment by low-income families, often married, who see other families getting more than they do simply because of the way the marriage and welfare games are played. Thus, while the discontent may not always be expressed well or fairly, some of it is the result of an unequal justice under the law—what you and I know in tax policy as "horizontal inequity."

These marriage penalties cannot be eliminated until the tax rate faced by the single person marrying the head of household is roughly the same as he faces if he remains unmarried. There is no way around it. This is a technical comment on design, not a political comment.

The bill I'm suggesting thus would force future legislators to take a more comprehensive view of tax and social policies and consider them as a unified whole.

Both presidential candidates want to debate new health and other social benefits. Fine, but let them also think about who gets them and who does not and how extra earnings affect the fairness of the overall tax and social welfare structure.

Many in both parties will continue to give credence to the supply-side argument and worry about high tax rates on additional income received. Fine, but let them apply the same standard to the poor and the middle class.

Many in both political parties will claim to want to eliminate marriage penalties and to be pro-family. Fine, but let them eliminate penalties where they are largest relative to income, not just for some taxpayers.

Senator, I referred to our past work together on tax reform and on family policy as reflected in your book on Family and Nation. I also remember a time when I testified before the Senate Finance Committee. The usual format was followed, and members of Congress and other high government officials preceded our private sector panel of witnesses. When our turn came, all members except you as Chair had left the room; it was 5 minutes before noon, you called us to the table and said that you would like to end the hearing at noon. (Fortunately, you graciously listened to us anyway.)

Well, it's 5 minutes before noon again, for the last time I have only a minute left to advise you in your role as senator, and there aren't many others listening. This is the type of issue you can put on the national agenda, while I can merely get a few thousand Tax Notes wonks to read about it.

Perhaps some other departing members such as Rep. Archer and Sen. Bob Kerrey, D-Neb., would join you. Perhaps your staff will advise you that the regulatory authority I suggest as a shortcut needs refinement if the next Congress gets around to this idea. Perhaps you will want to add other important changes, such as forcing the nation to accept the fact that living longer entails some more responsibility for working longer. But whatever you decide, how about one more long-lasting senatorial hurrah?

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- [C. Eugene Steuerle](#)

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