



INDEPENDENT WOMEN'S FORUM
Position Paper

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Taxing Independence: The Price of Feminists' Love Affair with High Taxes

By Carrie L. Lukas, Director of Policy, Independent Women's Forum

Executive Summary

Feminist organizations like the National Organization for Women and the Feminist Majority Foundation regularly oppose reductions in marginal income tax rates. Their rhetoric implies that there is no tax too high for women to bear, and women should prefer government to spend money on their behalf rather than have individuals control their own resources.

In reality, women have much to gain from reductions in tax rates. High income taxes result in women having fewer resources to spend as they see fit. Taxes also distort women's decision-making processes: high marginal tax rates discourage some women from entering the workforce because they keep so little of what they earn, while forcing other women who would prefer to stay home to get a job to make ends meet.

Not only are women particularly sensitive to changes in tax rates, women also face high marginal tax rates due to the tax code's progressivity and its unfair treatment of married couples.

Women should oppose the feminists' implicit assumption that women are better off when government has more and individuals have less. After all, surrendering resources is tantamount to surrendering independence.

Instead of encouraging the government to take and control women's money, feminists should support changes in tax law that will reduce government's burden on women and free women to make choices based on their own preferences. Women would particularly benefit from reductions in income tax rates, and from reform that gives married couples the option of filing as individuals instead of jointly.

This paper focuses on how income tax rates affect women. It is the first in a series of position papers that will explore the high costs of high taxes for women.

Independent
Women's Forum

1726 M Street NW
10th Floor
Washington, DC 20036

(202) 419-1820

info@iwf.org

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Groups that claim to represent women seem to believe that women should fight all tax cuts and consider any proposal to reduce government's take of our paychecks an assault on women.

Introduction

The U.S. tax code is unbelievably complex. There are more than 45,000 pages of federal tax rules.¹ Each year, Americans spend an estimated 6.2 billion hours and \$182 billion complying with these tax laws.² Economists estimate that for every one dollar raised through federal income taxes, nearly 12 cents is wasted on compliance.³

People are fed a great deal of misinformation about taxes. For women, a prime source of misinformation are organizations like the National Organization for Women and the Feminist Majority Foundation. These organizations, which claim to represent women, seem to believe that women should fight all tax cuts and consider any proposal to reduce government's take of our paychecks an assault on women.

Feminists' Pro-Tax Rhetoric

"NOW has argued against ANY tax cuts because of looming federal deficits and the reduced ability of government to fund important human needs programs."

—Jan Erickson, National Organization for Women, 2003⁴

"The economic well-being of women in the United States is severely threatened by President Bush's tax cut proposal. As both taxpayers and recipients of social services, women have little to gain and everything to lose from this plan."

—Feminist Majority Foundation, 2001⁵

"The Administration's priorities are simply wrong. In order to provide even more tax cuts for a tiny handful of the wealthiest Americans, President Bush shortchanges economic security, and hopes for the future, of millions of ordinary Americans—and especially women and families..."

—Nancy Duff Campbell, Co-President, National Women's Law Center⁶

"Our economy is hemorrhaging jobs . . . while the wealthiest Americans are paying about half as much in taxes as they did when Ronald Reagan became president."

—Former U.S. Senator Carol Moseley Braun, presidential candidate endorsed by National Organization for Women and National Women's Political Caucus⁷



What these feminists ignore is that modern women are *taxpayers*, not just passive consumers of government services. Even women who currently do not work have an interest in tax policy because it affects their spouses' take home pay and the kind of job opportunities that will be available if they choose to join the workforce. This paper provides an overview of why women as taxpayers have a great deal at stake in the tax policy debate. Feminists' rhetoric that women should see any tax cut as a danger to important government programs ignores the real impact that high marginal tax rates have on women's lives and careers.

This paper focuses on the income tax system and includes a section addressing some of the most common misconceptions about taxes. It concludes by offering a pro-woman tax agenda that includes lowering income tax rates, simplifying our tax code, and giving married couples the option of filing separately as individuals.

Taxing Work

Efficiently raising revenue is a problem faced by all governments. Ideally, governments should raise necessary revenue without distorting or discouraging the productive activities of citizens. While some tax policies are specifically designed to discourage behavior (such as taxes on cigarettes and alcohol), most tax policies (such as income and property taxes) are simply designed to raise revenue. Certainly, the government's intention is not to discourage work or property ownership through taxation.

To maximize revenue and minimize the distortion caused by tax policies, economists recommend that governments tax "inelastic" behavior—actions that people will take regardless of how much it costs. For example, a tax on apples would be unlikely to raise much revenue since individuals can easily change their behavior in order to avoid paying the tax. People would simply cut back on apples and instead eat substitutes such as pears, oranges or bananas. Goods like apples are known as "elastic" since people can change the amount of apples they buy with relative ease.

Other goods are inelastic. For example, even if the government placed a significant new tax on water, people would be unable to eliminate their use of water. They might be able to change their consumption slightly—by taking shorter showers or letting the lawn go brown—but generally the amount of water we need is more or less fixed. This makes water an inelastic good.

Feminists' suggestion that women should see any tax cut as a danger to important government programs ignores the real impact that high marginal tax rates have on women's lives.



Men and women differ in how sensitive they are to changes in tax rates.

The U.S. federal government has chosen to raise revenue primarily by taxing income. More than 40 percent of federal revenue is raised by taxes levied on personal income—a figure that does not even include payroll taxes that fund Social Security and other retirement programs.⁸ For the vast majority of people, a tax on personal income is a tax on work. In assessing the efficiency of taxation of work, it is important to consider whether work is more like apples or like water: do individuals change the amount of work they perform and the amount of income they receive depending on how much tax they have to pay?

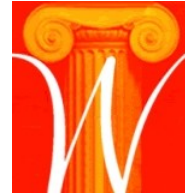
Overall, labor force participation is relatively inelastic since most people need to work in order to earn money to support themselves. However, labor force participation is still affected by tax rates. An increase in the tax rate will lead some to reduce the number of hours they work, and others to opt out of the workforce altogether. This phenomenon is referred to as the “substitution” effect because people will substitute more leisure for work, since work has become less valuable to them, while the value of leisure has stayed the same.

On the other hand, an increase in the tax rate will also have what economists call an “income effect.” Levying a higher tax rate means that people will be poorer since they lose more of their earnings to the government. This may encourage some to increase their work hours to make up for the loss of income. Not surprisingly, men and women differ in how sensitive they are to changes in tax rates, and their relative sensitivity to the “income” and “substitution” effects varies by level of income.

To Work or Not to Work?

The number of women who work outside of the home increased steadily from 46 percent of women over age 16 in 1975 to 57 percent by 1990.⁹ Workforce participation has stayed relatively flat since then with an estimated 60 percent of women working in 2004. But this seemingly stable pattern masks real differences in women’s employment decisions. Women not only decide whether to seek formal employment in the first place, but also if that employment will be full-time or part-time and how many hours they will work.

By examining how specific changes in tax law have affected women, economists have been able to derive an estimate of how responsive women are to tax policy in general. For example, Nada Eissa of the University of Berkeley examined how the Tax Reform Act



of 1986 affected the labor supply of married women. He focused on the highest-income women (who experienced the greatest change in marginal tax rates) and compared their change in work habits to married women with lower incomes. He concluded that “The labor supply of high-income, married women increased due to the Tax Reform Act of 1986. The increase in the total labor supply of married women at the top...implies an elasticity with respect to the after-tax wage of approximately 0.8.” In other words, Eissa found that when marginal taxes rates were lower, more women chose to work, and those women who worked chose to work longer hours. His estimate of “0.8 elasticity” means that a 1 percent reduction in the marginal tax rate led to a 0.8 percent increase in total labor supply.¹⁰

Intuitively, it makes sense that married women would be particularly responsive to changes in tax law. Most married women have spouses who work and the women can therefore be considered “secondary” earners. Often, these women are caring for children and their decision about whether to enter the workforce involves carefully balancing the loss of time caring for their children against their take-home pay—*after* accounting for taxes and any additional childcare expenses. Since many married women do not have to work for their subsistence, their decision is more sensitive to their take-home pay. Overall, studies have estimated that women are about twice as sensitive to changes in tax rates as men.¹¹

Single and lower-income women are less likely to be responsive to changes in tax law since they need their salaries to pay the bills. In fact, while high taxes may discourage some upper-income women from working, the opposite may be true for women with fewer economic resources. Higher marginal tax rates mean less take-home pay for all workers and therefore may force some women to work longer to make up for the income lost due to the bite that high taxes take out of their or their husbands' income. This will be especially true for low-income women who are working to provide basic needs.

Women's High Marginal Tax Rates

Women are not only more sensitive to changes in tax rates when deciding whether to work, women—particularly married women—also face especially high marginal tax rates as a result of peculiarities in the tax code.

The term “marginal tax rate” refers to the portion of the last dollar of income that individuals lose due to government policies. An

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The full marginal tax rate an individual faces consists of far more than just income taxes. Workers must deduct payroll taxes, state and local taxes, and the phasing out of numerous tax deductions and government programs.

individual considering taking a job or working an extra hour will weigh the value of her time against the value of the compensation she will receive for that hour after paying taxes and suffering any reduced government benefits due to her increased income.

The U.S. tax system is structured so that individuals face different marginal tax rates depending on their income. As the following tables show, a single woman whose taxable income¹² is \$10,000 will lose 10 percent of the next dollar she earns to the federal government for income taxes, but will lose 15 percent of each dollar she earns above \$14,300.

Marginal Income Tax Rates, 2004

Joint Returns

Taxable Income:	Marginal Tax Rate
\$0 to \$14,300	10%
\$14,300 to \$58,100	15%
\$58,100 to \$117,250	25%
\$117,250 to \$178,650	28%
\$178,650 to \$319,100	33%
\$319,100 plus	35%

Source: Gregg A. Esenwein, "Individual Income Tax Rates: 2004," Congressional Research Service, Library of Congress, January 20, 2004, p. 28.

Marginal Income Tax Rates, 2004

Individual Returns

Taxable Income:	Marginal Tax Rate
\$0 to \$7,150	10%
\$7,150 to \$29,050	15%
\$29,050 to \$70,350	25%
\$70,350 to \$146,750	28%
\$146,750 to \$319,100	33%
\$319,100 plus	35%

Source: Gregg A. Esenwein, "Individual Income Tax Rates: 2004," Congressional Research Service, Library of Congress, January 20, 2004, p. 28.

Of course, the full marginal cost an individual faces consists of far more than just income taxes. Workers also must deduct payroll taxes for Social Security and Medicare, state and local taxes, and the phasing out of numerous tax deductions and government transfer programs (such as welfare, Medicaid, etc.) as they climb the income ladder.

Economists Jagadeesh Gokhale, Larence Kotlikoff, and Alexi Sluckynsky attempted to account for all of these factors in calculating



the true marginal “tax rates” for a two-earner couple with two children at a range of income levels. They concluded that Americans at the lowest and highest ends of the earning brackets face the highest marginal rates: the high earners face high marginal taxes because of the progressive tax structure, while those at the low end of the income scale face high marginal rates as a result of the loss of government transfer benefits.¹³

While this study considered the total marginal rate faced by the two-earner family, it is important to note that women—who are more likely to be moving in and out of the work force—are really the ones influenced by the high marginal rate when making the decision about whether to work.

Because in the United States married couples must file jointly, the secondary earner’s first dollar is taxed at the rate of his or her spouse’s last dollar. Consider a stay-at-home mother whose husband has a taxable income of \$50,000. His marginal income tax rate is 15 percent. If she decides to go back to work, her salary will be added on top of her husband’s income so that her first dollar earned is taxed at 15 percent. If her taxable income is \$20,000, she will pay 15 percent of the first \$8,100 and another 25 percent of the next \$11,900 for a total income tax bill of \$4,190. In contrast, if she were an individual, her first \$7,150 of taxable income would be taxed at 10 percent and the next \$12,850 at 15 percent, which would mean she would pay \$2,643 or nearly \$1,550 less in income taxes. This “marriage penalty” is considerable for many dual-income couples.

Of course, income taxes are just the beginning of the tax liabilities that this working woman would confront. She would also owe payroll taxes for Social Security and Medicare. State and local income taxes would claim an average of nearly 10 percent more.¹⁴ Quickly, her marginal tax rate can accumulate to more than 50 percent of her take-home-pay. In fact, after accounting for these taxes as well as the loss of numerous government benefits due to an increase in income, Gokhale, Kotlikoff, and Sluckynsky concluded that the “Americans at every income level face a lifetime marginal net tax rate greater than 50 percent.”¹⁵

After accounting for these taxes and lost benefits, Americans at every income level face a lifetime marginal net tax rate greater than 50 percent.



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Why This Matters to Women

Tax policy's impact on a woman's decision whether to seek employment outside the home and how much employment to seek should be of particular concern.

Many women, particularly those with children, would prefer to work less and work primarily because of financial need. The Pew Research Center conducted a survey of mothers to assess their attitudes towards work. They found that most women with children under 18 preferred working part-time:

When mothers of children under 18 are asked if, ideally, they would prefer to work full time, part time, or not at all, the plurality (44%) say they would prefer to work part time. While in reality fully half (51%) of these mothers work full time, only three in ten (30%) say they prefer this option. Full time work is more often the choice of low income working mothers, single moms and minorities.¹⁶

Many of these women—particularly single and low-income women—have no option other than to work full-time to support their families. Because women would be able to keep more of what they earn, lower tax rates would enable some women to *reduce* their work schedules and spend more time with their children.

Further, tax policies that discourage married women—who would otherwise actually prefer to work—from doing so can stall their careers. This makes them more vulnerable in the event of divorce or the death of their spouse since they would not have developed needed skills or gained experience.

Answering the Critics

Critics of tax cuts offer many justifications for their position, but none withstand close scrutiny.

Myth #1: Cutting Taxes Threatens Programs Important for Women

To answer this criticism, it is important to understand the relationship between tax rates and tax revenue. As discussed previously, lower tax rates tend to encourage individuals to work more and earn more money. Therefore, although after a tax cut the government claims less of each dollar earned, individuals tend to earn



more dollars which makes up for at least a portion of government's revenue loss.¹⁷

Instead of focusing on growing the federal budget, women should first ensure that the dollars Washington already takes are being spent wisely. Our federal budget has doubled in real terms during the last 20 years. It has increased by 20 percent since 2000.¹⁸ This budget of more than \$2 trillion includes a great deal of waste. The watchdog nonprofit group Citizens Against Government Waste identified \$22.9 billion of pure waste in fiscal year 2004 that could be eliminated from the budget.¹⁹

Finally, it is important to consider the proper role of the federal government. While feminist organizations tend to assume that the federal government should pay for many programs that are administered by states and localities, women should consider if these problems could be better handled by states and localities that are closer to home, and closer to the problems of the individuals involved.

Myth #2: Tax Cuts Only Help the "Rich"

Fifty percent of tax filers pay almost no federal income taxes at all. Therefore, it is impossible to reduce their income tax burden. But it would be a mistake to suggest that those with lower incomes do not benefit from reductions in income tax rates.

Many taxpayers who reach the highest income tax brackets are not individuals but small businesses. In fact, 62 percent of taxpayers in the top tax bracket have income from a business. These small businesses play a critical role in the economy: more than \$1 trillion of the \$6.6 trillion of income generated by U.S. domestic business came from sole proprietorships and partnerships.²⁰ Reductions in income tax rates have a significant impact on these small businesses, making it more likely that they will hire more workers.

While pro-tax advocates demonize reductions in the top marginal tax rates as a give-away to the very rich, small businesses—and the individuals employed by those small businesses—are among the main beneficiaries of cuts in the top marginal tax rate.

Myth #3: The "Rich" Aren't Paying Their Fair Share of Taxes

Pro-tax advocates falsely argue that tax cuts are allowing the "rich" to get away with paying no taxes. For example, Senator Carol

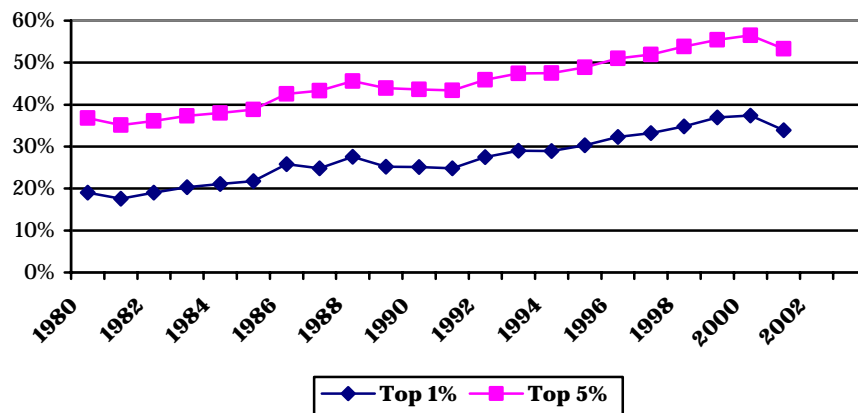
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The share of income taxes that is shouldered by the top 1 percent and top 5 percent of Americans has steadily climbed since 1980.

Moseley Braun's claim that the wealthiest Americans are paying "half as much in taxes" as they did during Reagan's presidency is just plain wrong.²¹ In fact, the share of income taxes that is shouldered by the top 1 percent and top 5 percent of Americans has steadily climbed since 1980. Today, the top 5 percent of Americans pay more than half of all income taxes. The top 50 percent of Americans pay almost all—96 percent—income taxes.

Share of Income Taxes by Income

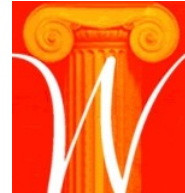


Source: Tax Foundation, Federal Individual Income Taxes by Income Class, available at: www.taxfoundation.org/prtopincometable.html.

Braun may have been referring to the fact that President Reagan reduced the highest income tax bracket from an astonishing 70 percent to 28 percent.²² However, while this top marginal rate was cut by more than half, the share of income paid by the highest income earners climbed during the Reagan presidency. This dynamic perfectly illustrates the point that higher tax rates do not necessarily generate higher revenue; lower rates, which lead to higher earnings, can increase tax collections.

Myth #4: Tax Cuts Lead to Deficits and Higher Interest Rates

The current budget deficit has more to do with an economic downturn and government overspending than with tax cuts. The Congressional Budget Office (CBO) projected a 2002-2011 budget surplus of \$5.6 trillion in January 2001 but projected a \$376 billion dollar deficit by March 2003. A Heritage Foundation analysis of CBO's data revealed that 46 percent of the lost surplus was a result of the



economic downturn and previous forecasting errors;²³ 32 percent of the surplus was lost due to increased government spending and less than one-quarter was the result of tax cuts:

That leaves 22 percent of the decline caused by tax relief provided by President Bush's 2001 tax cut and the 2002 economic stimulus bill—and even that may be an overestimation because it assumes that tax relief did not prevent an even deeper recession.²⁴

Furthermore, there is little evidence to support the claim that federal deficit spending leads to higher interest rates. For example, a study of the G-7 industrialized countries found that the country with the largest surplus during 1998-2000, Canada, had the highest long-term interest rate. Japan had the lowest interest rate in spite of having the largest budget deficit.²⁵ Alan Reynolds, Cato Institute senior fellow, explained:

Interest rates are determined largely by inflation and the expected real rate of return on capital, not by how many bonds the government is selling or buying. ...In conclusion, there is no clear connection between government deficits or surpluses and long-term interest rates.²⁶

Of course, uncontrolled government spending can become a real problem and a drag on economic growth. Women should encourage policymakers to cut wasteful spending and control the size of government, which will reduce the deficit and encourage a dynamic economy.

A Tax Agenda for Women

A reduction in marginal tax rates would benefit women since it would reduce government's interference in women's lives. Women who want to work would be encouraged to do so, since they would be able to keep more of what they earn. At the same time, lower taxes would free other women to reduce their workload. This is true for single mothers who are their families' sole support and for married women who may have joined the workforce believing that their husband's after-tax income was not enough to maintain their family.

Lawmakers should also allow married couples to file as individuals. This would eliminate the marriage penalty, since instead of a woman's first dollar earned being taxed at her husband's tax rate, women's income would be considered and taxed separately.²⁷

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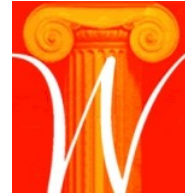
A tax agenda that truly makes women more independent would be one that returns money to taxpayers and reduces government's burden on our economy.

Tax simplification should also be a priority for women. In 2002, the most common tax form filed by individuals, the 1040, took an average of more than 13 hours to complete.²⁸ Women should support tax reform so that they can get that time back for their families. A simplified tax system, such as a flat tax, would make the tax code less confusing and burdensome. This would not only mean more resources for individual families, but also for businesses, making it more likely that we will enjoy a growing economy in which women have greater job opportunities.

Conclusion

Feminists often argue that women have nothing to gain from tax cuts and tax reform. They suggest women should encourage government to raise taxes and spend more of our money on our behalf. In fact, women have a particular interest in lower marginal income tax rates. High rates distort the decisions women make about whether and how much to work.

A tax agenda that truly empowers women is one that returns money to taxpayers and reduces government's burden on the economy. Women should be free to make important life and career decisions, independent of tax considerations.



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TAXING INDEPENDENCE:
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ABOUT IWF

The Independent Women's Forum, founded in 1992, is a nonprofit, nonpartisan, educational organization. IWF provides a voice for women who believe in individual freedom and personal responsibility, and who embrace common sense over divisive ideology.



Independent Women's Forum

1726 M Street NW, Tenth Floor
Washington, D.C. 20036

202-419-1820

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