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83.9 MILLION AMERICANS GETTING GOVERNMENT AID

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The federal income tax system functions as a huge cash transfer payment system for 40 percent of all U.S. households. For the 20 percent of households with the lowest incomes, the federal subsidy averages 10.2 percent of their pretax income. For the next lowest 20 percent (second quintile), the subsidy amounts to 4.1 percent of pretax income. These estimates for 2009 were prepared by the Urban Institute-Brookings Institution's Tax Policy Center.

Using the latest Census Bureau data available, Mayo Research Institute estimates that there are roughly 47 million households, 121 million persons, in the lowest and second quintiles.

According to the TPC, the subsidies come principally through the earned income tax credit, the child tax credit, and the Making Work Pay tax credit. All three of these programs provide *refundable* tax credits. If the tax credit is greater than the taxes owed, the government refunds the difference. Included as a subsidy is the one-time remittance in 2009 to Social Security beneficiaries. The Make Work Pay tax credit is very generous. Couples with incomes up to \$190,000 are eligible for at least a partial credit.

The effective tax rate on income -- federal taxes paid as a percent of cash income -- for households in the middle quintile is 2.3 percent, 5.7 percent for the fourth quintile, and 13.4 percent for the highest quintile. Given the subsidies to households in the lowest and second quintiles, the ETR for all U.S. households averages 7.9 percent.

The subsidies paid to low-income households mean that the federal income tax burden falls entirely on households with higher incomes. The middle quintile pays 4.1 percent of federal income taxes and the fourth quintile pays 14.7 percent. The highest quintile pays 90.5 percent of all federal income taxes. The top one percent of households account for 36.3 percent of all federal income tax revenues.

Enormous federal subsidy programs for low-income households which are paid by high-income households run counter to the dominant American ideology of individualism. To survive, these income redistribution practices require some kind of communitarian ideological alternative. This ideological conflict is one way to characterize the battles gripping Washington over the size and role of the federal government.

Households across the income distribution spectrum are impacted by payroll taxes. For the

lowest quintile, the ETR on payrolls is 8.8 percent. For the highest quintile it's 6.6 percent. Overall, the ETR is higher for the payroll tax than for the income tax: 8.4 percent vs. 7.9 percent. Even so, the lowest quintile pays 3.9 percent of all payroll taxes, while the highest quintile pays 41.6 percent. A combination of a Social Security trust fund which by 2037 will have used up all of its more than \$2.2 trillion assets in U.S. Treasury securities and a rate of return which for millions of SS beneficiaries currently is below 2 percent only heightens the conflict over the size and role of the federal government.

The Census Bureau reported that 39.8 million persons in 2008 were classified as poor. Among these poor persons, 36.0 million were members of households with income below \$35,000. This income level approximates the income threshold below which the TPC classified 40 percent of all households that in addition to paying no income taxes were getting income tax subsidies.

Of the 36.0 million who were members of poor households with income below \$35,000, 16.2 million reported that they did not work at all during the year. Among the 19.8 million who worked at some time in 2008, 2.4 million worked year round, full time, raising a question regarding the work ethic in impoverished households that receive income tax subsidies.

Data for 2007 raise further questions regarding the work ethic of poor persons in low-income households. Specifically, among the 33.7 million impoverished persons in households with income below \$35,000, 15.4 million said they did not work at all during the year. On a percentage basis, 46 percent in 2007 compared to 45 percent in 2008 did no work at all over the year. Also on a percentage basis, 7 percent worked year round full time in 2007 and 2008.

Other data indicate that dependency is a problem that extends well beyond the poverty population. In 2008, 19.5 million persons were living in households that received *means-tested cash* assistance of whom 11.7 million were classified as nonpoor. At the same time, there were 83.9 million persons in households getting *means-tested cash or noncash assistance* (including school lunch) of whom 55.9 million had incomes above the poverty level.

These data reveal how big government has become and how difficult the task for those who would restore the United States to a nation of limited government.

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