

American Social Welfare Policy: A Pluralist Approach

Chapter 9

Tax Policy and Income Distribution

History of U.S. Tax Policy

- All governments levy taxes to meet their legislated obligations
- Progressives & liberals
 - Understood the relationship between taxes and social programs differently
- Tax policy is most visible in the passage of major bills

TABLE 9.1 Federal Tax Rates, 2012

	Individual Income Tax	Payroll Tax	Corporate Income Tax	Estate Tax	All Federal Taxes
Top 0.1 %	18.4	0.7	10.9	0.6	30.6
Top 1 %	18.1	1.7	7.9	0.4	28.1
Top Quintile	14.2	6.1	4.0	0.2	24.4
Fourth Quintile	7.2	10.4	0.7	*	18.3
Middle Quintile	3.3	10.0	0.7	*	14.0
Second Quintile	-2.7	9.4	0.6	*	7.3
Bottom Quintile	-6.0	7.1	0.4	*	1.6

*less than .05 percent

Distribution of Income and Federal Taxes, 2011

	Pre-tax Income		Federal Tax Burden		Average Federal Tax
	Average \$	% Total	Average \$	% Total	%
Top 0.1 %	6,859,873	7.7	2,113,515	15.1	30.8
Top 1 %	1,530,773	16.8	422,727	25.6	27.6
Top Quintile	251,746	54.6	58,040	69.5	23.1
Fourth Quintile	79,524	19.9	13,168	18.2	16.6
Middle Quintile	44,639	13.5	5,592	9.3	12.5
Second Quintile	24,603	8.5	1,420	2.7	5.8
Bottom Quintile	9,187	3.8	77	0.2	0.8

Tax Policy and Special Interests

- Tax policy has always contained provisions that benefit specific interests
- The Great Recession
 - So profound that philanthropic giving actually dropped 13 percent in 2011

Federal Tax Policy

- Federal budget
 - Predicated on a tax base minimal compared to those of other industrialized nations
- Economic growth during the latter decades of the twentieth century
 - Exacerbated income inequality
- Assets

TABLE 9.2 Tax Revenue of OECD Countries as a Percent of GDP, 2009

Rank	Country	Total Tax Rate %
1	Denmark	48.1
2	Sweden	46.7
3	Italy	43.4
4	Belgium	43.2
5	Norway	42.9
6	Finland	42.6
7	France	42.4
8	Hungary	39.9
9	Netherlands	38.2
10	Luxembourg	37.6
11	Slovenia	37.4
12	Germany	37.3
13	Estonia	35.9
14	Czech Republic	34.7

15	United Kingdom	34.3
16	Iceland	33.9
17	Poland	31.8
18	New Zealand	31.5
19	Israel	31.4
20	Portugal	30.6
21	Spain	30.6
22	Greece	30.0
23	Switzerland	29.7
24	Slovak Republic	29.0
25	Ireland	27.8
26	Japan	26.9
27	Australia	25.9
28	Korea	25.5
29	United States	24.8
30	Turkey	24.6
31	Chile	18.4
32	Mexico	17.4

TABLE 9.3 Changes in the Distribution of Income, 1973–2005 (Percent Change)

Quintile	1973	1979	1989	2000	2005	1973–79	1979–89	1989–2000	2000–2005
Highest	41.1	41.4	44.6	47.7	48.1	0.3	3.2	3.1	0.4
Fourth	24.0	24.1	23.7	22.7	22.9	0.1	–0.4	–1.0	0.2
Middle	17.5	17.5	16.5	15.4	15.3	0.0	–1.0	–1.1	–0.1
Second	11.9	11.6	10.6	9.8	9.6	–0.3	–1.0	–0.8	–0.2
Lowest	5.5	5.4	4.6	4.3	4.0	–0.1	–0.8	–0.3	–0.3

State Tax Policy and the Poor

- Federal taxes are important in social welfare policy
- Some states have been more generous with respect to low-income families
 - While others have been downright punitive

The Efficiency of Tax Policy in Reducing Poverty

- Tax policy is one of several strategies that apportion societal resources
- Different strategies vary in terms of their efficiency in poverty reduction over time

Tax Expenditures As Poverty Policy

- The use of federal tax policy to alleviate poverty
 - And the increase in states' use of tax policy to augment the income of poor families
- Tax expenditures in the form of deductions
- Tax credits

TABLE 9.4 State Income Tax at Poverty Line of \$22,314 for Two-Parent Families of Four, 2010

Rank	State	Tax	Rank	State	Tax
1	Alabama	\$ 498	16	Maine	0
2	Hawaii	292	16	North Dakota	0
3	Georgia	238	16	Pennsylvania	0
4	Oregon	234	16	South Carolina	0
5	Montana	232	16	Utah	0
6	Iowa	214	16	Virginia	0
7	Illinois	187	28	North Carolina	(63)
8	Ohio	171	29	Rhode Island	(182)
9	Missouri	102	39	Oklahoma	(243)
10	Arkansas	96	31	Nebraska	(485)
11	Kentucky	90	32	New Mexico	(485)
12	Indiana	84	33	Wisconsin	(521)
13	Mississippi	81	34	Massachusetts	(589)
14	West Virginia	47	35	Kansas	(618)
15	Louisiana	33	36	Michigan	(679)
16	Arizona	0	37	New Jersey	(728)
16	California	0	38	Maryland	(973)
16	Colorado	0	39	District of Columbia	(1445)
16	Connecticut	0	40	Vermont	(1553)
16	Delaware	0	41	Minnesota	(1762)
16	Idaho	0	42	New York	(1903)

TABLE 9.5 Impact of Safety Net on Poverty Reduction, 2006

Category	Individuals, Over 65 (in thousands)	Percent over 65	Children Under 18 (in thousands)	Percent under 18	Persons in Unmarried Households (in thousands)	Percent in Unmarried Households
Number of poor	36,035		73,727		40,749	
Number removed due to:						
Social Insurance	13,042	77.7	1,301	8.9	1,398	8.7
Means-tested cash benefits	349	2.1	545	3.7	728	4.5
Means-tested in-kind	433	2.6	1,626	11.1	1,800	11.2
Federal taxes and refunds	-4	0	1,782	12.1	1,539	9.5
Total removed	13,820	82.3	5,254	35.8	5,465	33.9

TABLE 9.6 Children's Chances of Experiencing Mobility by Parents' Family Income in Percent

Quintile	Upwardly Mobile (Higher Income and Up 1 or More Quintiles)	Riding the Tide (Higher Income and Same Quintile)	Falling Despite the Tide (Higher Income and Down 1 Quintile)	Downwardly Mobile (Lower Income and Lower/Same Quintile)
Top	NA	34	10	57
Fourth	26	32	9	33
Middle	36	23	7	34
Second	52	20	1	26
Bottom	58	24	NA	18
All Families	34	27	5	33

The Anti-Tax Movement

- The obvious question raised by conservatives is, why tax at all?
- Conservative ambitions in domestic policy
 - To reverse liberal dominance of government in the lives of citizens
 - Allow them to do more for themselves

The Debate Over Economic Inequality

- Stagnant wages, growing federal debt, and the emergence of insurgent groups
- Increasing economic inequality
- During a recession, the situation resembles a zero-sum game
 - The benefit to one group subtracts from the well-being of another

TABLE 9.7 Professional Paydays, in 2010 Dollars

	1985	2010	% Increase
All Employed Americans	\$39,044	\$41,919	7
Radiologists	334,400	448,900	34
Urologists	226,200	380,400	43
Harvard University Professors	132,000	193,800	47
University of Chicago Professors	112,100	190,400	70
Attorneys at Wachtell Lipton	1,669,000	4,345,000	160
Attorneys at Kirkland & Ellis	850,000	3,075,000	262
CEO at Union Pacific	3,825,000	23,060,000	502
CEO at Occidental Petroleum	2,440,000	20,130,000	825

TABLE 9.8 Millionaires and Their Taxes, 2010
Dollars

	1972	1985	2010
\$1 Million+ returns	22,887	58,603	236,893
Per 100,000 returns	30	58	162
Share of all income	1.3%	3.0%	9.5%
Average tax paid	47%	37%	25%
Average after-tax income	\$1,159,595	\$1,465,947	\$2,319,236

Conclusion

- Tax policy, often undervalued in discussions of social welfare
 - Serves a vital function: provides the revenues through which public programs operate
- Public welfare
- Tax credits