

Executive Summary Backgrounder

No. 1912
February 14, 2006



Published by The Heritage Foundation

The Myth of Spending Cuts for the Poor, Tax Cuts for the Rich

Brian M. Riedl

During the 2005 budget reconciliation debate, critics trotted out the tired old myth that Republicans were cutting spending for the poor to pay for tax cuts for the rich. Many commentators accepted this as truth and repeated it, including *Washington Post* columnist E. J. Dionne, who accused the Republicans of passing a “cut-from-the-poor, give-to-the-rich budget.”

However, the facts simply do not support these overheated claims. Rather than reduce entitlement spending, the budget reconciliation bill merely reduced its projected five-year growth rate from 39 percent to 38 percent. Furthermore, the flagship “additional” tax cuts were nearly all extensions of existing tax policies that would soon have expired.

More broadly, the accusation that poor families are shouldering more of the tax burden while receiving less of the spending is empirically false. From 1979 through 2003, the total federal tax burden on the highest-earning quintile (one-fifth or 20 percent) of Americans—who earn 52 percent of all income—rose from 56 percent to 66 percent of all taxes. Their share of individual income taxes jumped from 65 percent to 85 percent. On the spending side, antipoverty spending has leaped from 9.1 percent of all federal spending in 1990 to a record 16.3 percent in 2004.

Misreading the Data

The data clearly show that the tax burden is shifting annually up the income scale while

spending continues to move down the scale. In other words, the people with the highest incomes are paying more of the tax burden while the poor are receiving more of the spending. Yet the misperception that the federal government is doing the opposite persists. This misperception is based on five factors:

1. **The stereotype** that Republican government automatically means less redistribution.
2. **Baseline budgeting**, which guarantees that large, persistent, annual increases in entitlement spending will go unnoticed because they occur automatically. Conversely, any attempt to scale back these automatic increases receives extensive media scrutiny because it requires a separate vote.
3. **Tax cut sunset laws** that require Congress to pass a new tax bill merely to keep the current tax rates at the same level, which allows these bills to be misreported as “new” tax cuts.
4. **The misleading focus** on how tax relief saves wealthy taxpayers the most money while ignoring the mathematical reality that the bottom

This paper, in its entirety, can be found at:
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for Economic Policy Studies

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214 Massachusetts Avenue, NE
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half of taxpayers cannot receive much tax relief because they already pay almost no income tax.

5. **An erroneous belief** that tax cuts for upper-income Americans substantially reduce the amount of tax that they actually pay. Indeed, there is little correlation between tax rates and taxes paid.

Furthermore, the persistent increase in federal antipoverty spending fosters an unhealthy dependence on government. For example, from 1990 to 2005, the Medicaid caseload doubled to 55 million participants, meaning that the government increasingly is taking over the health care system from private companies and from community and charitable organizations, thus eroding self-reliance, independence, and local community responsibilities. The measure of the effectiveness of government antipoverty programs is not how many people are trapped into financial dependence on the government, but how many people succeed in freeing themselves from dependence on the government.

Conclusion

The myth of increased government redistribution from the poor to the wealthy has important consequences for lawmakers. In particular, it clouds the real choices that must be made.

On the tax side, the mathematically impossible principle that income tax relief should be concentrated among families who pay no income tax prevents any consideration of legitimate tax relief or tax reform. Additionally, the misperception that higher tax rates induce substantially higher tax revenues among upper-income taxpayers translates into pressures for tax increases that harm economic growth without substantially increasing tax revenues.

On the spending side, the myth that antipoverty spending is being slashed also matters. In an era of massive, unsustainable spending increases and budget deficits, this erroneous consensus has effectively taken one-fifth of the non-interest federal budget off the table. In fact, anything less than the baseline growth of as much as 8 percent per year is now considered by many to be unconscionable. Given the long-term spending challenges America faces, it is time to analyze realistically which areas of federal spending are increasing, what the legitimate functions of the federal government are, and what is ultimately affordable.

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However, the facts simply do not support these overheated claims. Rather than reduce entitlement spending, the budget reconciliation bill merely reduced its projected five-year growth rate from 39 percent to 38 percent. Furthermore, the “additional” tax cuts were nearly all extensions of existing tax provisions that would soon have expired.

More broadly, the accusation that poor families are shouldering more of the tax burden while receiving less of the spending is empirically false. From 1979 through 2003, the total federal tax burden on the highest-earning quintile (one-fifth or 20 percent) of Americans—who earn 52 percent of all income—rose from 56 percent to 66 percent of all taxes. Their share of individual income taxes jumped from 65 percent to 85 percent.² On the spending side, antipoverty spending has leaped from 9.1 percent of all federal spending in 1990 to a record 16.3 percent in 2004.³

Misreading the Data

The data clearly show that the tax burden is shifting annually up the income scale while spending continues to move down the scale. In other words, the people with the highest incomes are paying more of

Talking Points

- It is a myth that poor families are paying more of the taxes and receiving less of the spending.
- In the past 25 years, the share of all taxes paid by the highest-earning quintile of Americans has leaped from 56 percent to 66 percent while the share paid by the bottom quintile has dropped from 2 percent to 1 percent.
- In 2004, antipoverty spending reached a record 16.3 percent of the federal budget, up from 9.1 percent in 1990.
- Antipoverty spending has increased by 39 percent under President Bush.
- The measure of the effectiveness of government antipoverty programs is not how many people are trapped into financial dependence on the government, but how many people succeed in freeing themselves from dependence on the government.

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the tax burden while the poor are receiving more of the spending. Yet the misperception that the federal government is doing the opposite persists. This misperception is based on five factors:

1. **The stereotype** that Republican government automatically means less redistribution.
2. **Baseline budgeting**, which guarantees that large, persistent, annual increases in entitlement spending will go unnoticed because they occur automatically. Conversely, any attempt to scale back these automatic increases receives extensive media scrutiny because it requires a separate vote.
3. **Tax cut sunset laws** that require Congress to pass a new tax bill merely to keep the current tax rates at the same level, which allows these bills to be misreported as “new” tax cuts.
4. **The misleading focus** on how tax relief saves wealthy taxpayers the most money while ignoring the mathematical reality that the bottom half of taxpayers cannot receive much tax relief because they already pay almost no income tax.
5. **An erroneous belief** that tax cuts for upper-income Americans substantially reduce the amount of tax that they actually pay. Indeed, there is little correlation between tax rates and taxes paid.

Furthermore, the persistent increase in federal antipoverty spending fosters an unhealthy dependence on government. For example, from 1990 to 2005, the Medicaid caseload doubled to 55 million participants, meaning that the government is increasingly taking over the health care system from private companies, community, and charitable organizations, thus eroding self-reliance, independence, and local community responsibilities. The measure of the effectiveness of government antipoverty pro-

grams is not how many people are trapped into financial dependence on the government, but how many people successfully make the transition away from dependence on the government.

The Increasing Tax Burden on the Rich

The often repeated myth that lawmakers are dumping more of the tax burden on low-income families is simply false. From 1979 through 2003, the highest-earning 20 percent of Americans—who earn 52 percent of all income—saw their share of the federal tax burden rise from 56 percent to 66 percent of all taxes. By contrast, the lowest-earning quintile of Americans—who earn 4 percent of all income—saw their share of the federal tax burden drop from 2 percent to 1 percent. (See Chart 1 and Chart 2.) Clearly, the rich are shouldering an increasing share of the tax burden.

The effective tax rate, which measures the actual share of income paid in taxes, is another way of examining the data. In 2003, the highest-earning quintile paid 25 percent of their income in federal taxes. The lowest-earning quintile paid just 4 percent of their income in federal taxes.

Bottom Two Quintiles: No Income Tax. Critics often suggest that poor Americans do not receive enough of the benefits from income tax cuts. Table 1, which also breaks down the tax burden by the type of tax, shows that in 2003, the bottom quintile paid an effective income tax of –5.9 percent of their income and that the second-lowest quintile paid an effective income tax of –1.1 percent. Their income tax burden was negative, meaning that they actually received a subsidy from Washington on April 15. This is due to the refundable Earned Income Tax Credit (EITC) and Child Tax Credit, both of which subtract income taxes dollar for dollar and can reduce income tax liability to below zero.

1. E. J. Dionne Jr., “The New Worn-Out Ideas,” *The Washington Post*, December 16, 2005, p. A35.
2. Unless otherwise noted, all tax data come from Congressional Budget Office, “Historical Effective Federal Tax Rates: 1979 to 2003,” December 2005, at www.cbo.gov/ftpdoc.cfm?index=7000&type=1 (February 4, 2006).
3. Total antipoverty spending is calculated based on data from Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), pp. 55–72, Table 3.2, and pp. 137–142, Table 8.5, at www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf (February 4, 2006). The spending consists of budget functions 604 (housing aid), 605 (food aid), 609 (other income support), and Medicaid and S-CHIP for health care.

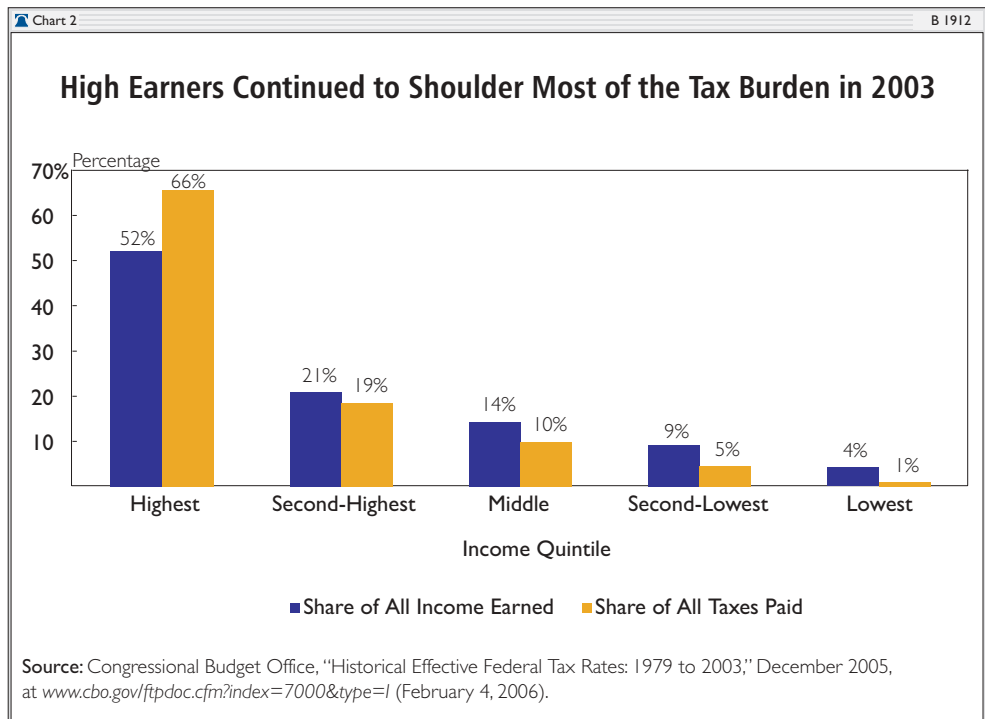
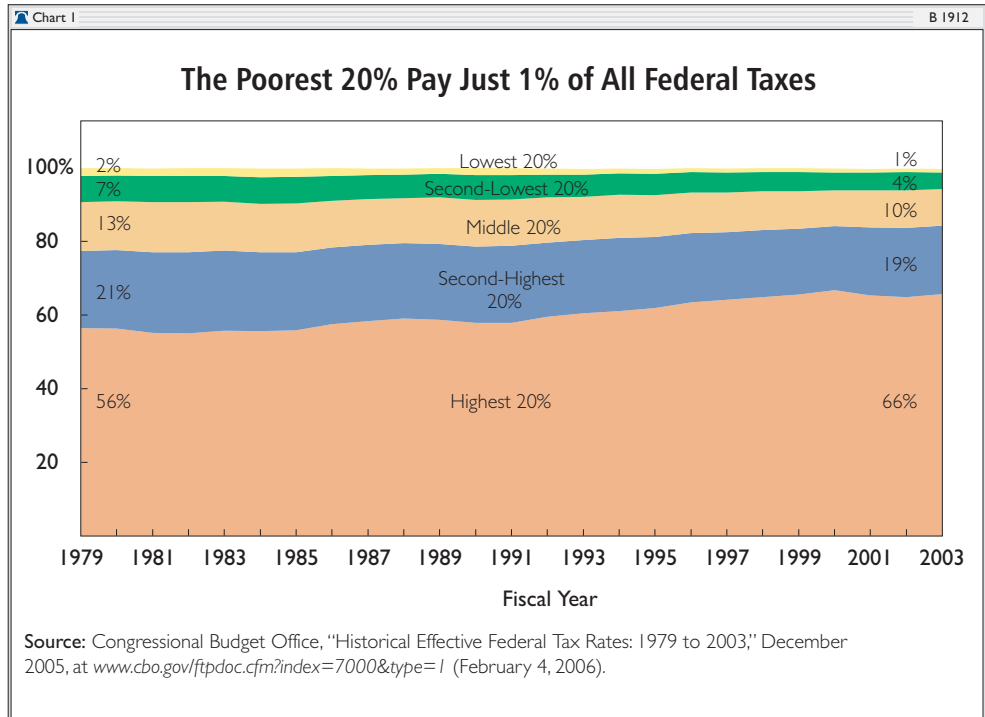
Simply put, the bottom 40 percent of earners collectively pay no income taxes, and many actually receive checks from Washington. The little tax burden that they pay is in social insurance taxes, as well as excise taxes (such as gas and cigarette taxes).

Top Quintile: Lower Tax Rates, Higher Tax Burden. Between 1979 and 2003, the share of income taxes paid by the highest-earning quintile jumped from 65 percent to 85 percent. Their share of *all* taxes paid (including social insurance, corporate, and excise taxes) increased from 56 percent to 66 percent. Upper-income taxpayers are paying more, not less, of the tax burden.

Paradoxically, this shift occurred after federal income tax rates for top earners were reduced dramatically. Between 1979 and 2003, the highest individual income tax rate was cut in half, from 70 percent to 35 percent. Yet the top earners' effective income tax rate dropped only from 15.7 percent to 13.9 percent. (See Chart 3.) The effective tax rate for the highest-earning 1 percent dropped only from 21.8 percent to 20.6 percent.

Halving the highest income tax rate only slightly reduced effective taxes paid, for two reasons.

First, lower tax rates provide greater incentives to work, save, and invest. High-earners respond by creating more wealth, and this additional income is



Income Category	Average Pre-Tax Income	Average All Taxes	Average After-Tax Income	Effective Tax Rate*				
				All	Social			
					Income Tax	Insurance	Corporate	Excise Tax
Quintile								
Lowest	\$14,800	\$700	\$14,100	4.8%	-5.9%	8.1%	0.3%	2.3%
Second-lowest	\$34,100	\$3,300	\$30,800	9.8	-1.1	9.1	0.4	1.4
Middle	\$51,900	\$7,100	\$44,800	13.6	2.7	9.2	0.6	1.1
Second-highest	\$77,300	\$13,700	\$63,600	17.7	5.9	10.3	0.6	0.9
Highest	\$184,500	\$46,000	\$138,500	25.0	13.9	7.2	3.4	0.5
All Quintiles	\$71,900	\$14,200	\$57,700	19.8	8.5	8.4	2.0	0.8
Highest 10%	\$260,000	\$69,600	\$190,400	26.8	16.0	6.0	4.4	0.4
Highest 5%	\$377,300	\$107,100	\$270,200	28.4	17.8	4.7	5.5	0.4
Highest 1%	\$1,022,400	\$320,900	\$701,500	31.4	20.6	2.3	8.2	0.3

*Effective tax rate represents the percent of all income paid in federal taxes.

Source: Congressional Budget Office, "Historical Effective Federal Tax Rates: 1979 to 2003," December 2005, at www.cbo.gov/ftpdocs/cfm?index=7000&type=1 (February 4, 2006).

taxed in the highest tax bracket. In this case, instead of taxing a small amount of income at 70 percent, the IRS taxed greatly expanded incomes at 35 percent. The reverse is also true: Higher tax rates reduce incentives and therefore depress incomes, dropping taxpayers out of the new higher tax brackets.⁴

Second, lower tax rates reduce incentives for tax avoidance and tax evasion. Taxpayers subject to a 70 percent tax rate are much more likely to hide their money in legal tax shelters or even to try illegally to evade taxes altogether. By lowering the top rate to 35 percent, lawmakers substantially reduced the incentive for taxpayers to shield or hide their income from the IRS.

Overall, the share of all taxes paid by the top quintile increased because their effective tax rates have remained steady, in spite of cuts in federal tax rates, while the effective tax rates paid by low-income earners have plummeted to below zero.

Unintended Consequences. However, this narrowing of the tax burden to a small minority of taxpayers undermines democracy, as those voting for government benefits are increasingly separated from those funding the benefits. In addition, because incomes at the top fluctuate much more from year to year, federal tax revenues have become more unstable as this group has assumed more of the tax burden. While most agree that upper-income families should pay more in absolute tax dollars than lower-income Americans, the increasingly overwhelming concentration of federal taxes within one group of Americans is a cause for concern.

The Added Progressivity of the Bush Tax Cuts. Popular mythology also suggests that only wealthy taxpayers benefited from the 2001 and 2003 tax cuts. While high-income households did save more in actual dollars than low-income households, they did so because low-income households pay so little in income taxes in the first place. The same 1 percent tax cut will save more dollars for a millionaire than it

4. For more on this economic phenomenon, see Arthur B. Laffer, "The Laffer Curve: Past, Present, and Future," Heritage Foundation *Background* No. 1765, June 1, 2004, at www.heritage.org/Research/Taxes/bg1765.cfm.

will for a middle-class worker simply because the millionaire paid more taxes before the tax cut.

In 2000, the top 60 percent of taxpayers paid 100 percent of all income taxes. The bottom 40 percent collectively paid no income taxes. Lawmakers writing the 2001 tax cuts faced quite a challenge in giving the bulk of the income tax savings to a population that was already paying no income taxes.

Rather than exclude these Americans, lawmakers used the tax code to subsidize them (some economists would say this made that group's collective tax burden *negative*). First, lawmakers lowered the initial tax brackets from 15 percent to 10 percent and then expanded the refundable child tax credit, which, along with the refundable EITC, reduced the typical low-income tax burden to well below zero. As a result, the U.S. Treasury now mails tax "refunds" to a large proportion of these Americans that exceed the amounts of tax that they actually paid. All in all, the number of tax filers with zero or negative income tax liability rose from 30 million to 40 million.⁵ The remaining tax filers received lower income tax rates, lower investment taxes, and lower estate taxes from the 2001 legislation.

Consequently, from 2000 to 2003, the share of all individual income taxes paid by the bottom 40 percent dropped from zero percent to -2 percent, meaning that the average family in those quintiles received a subsidy from the IRS. By contrast, the share paid by the richest quintile increased from 81

Income Category	Share of All Income Earned		Share of Tax Liabilities				
	Pre-Tax	After-Tax	All	Income Tax	Social Insurance	Corporate	Excise Tax
Quintile							
Lowest	4.2%	5.0%	1.0%	-2.9%	4.1%	0.6%	11.6%
Second-lowest	9.1	10.3	4.5	-1.1	9.9	1.6	15.1
Middle	14.4	15.5	9.9	4.6	15.7	4.3	18.6
Second-highest	20.9	21.4	18.6	14.6	25.4	6.1	21.9
Highest	52.2	48.8	65.7	84.9	44.7	85.8	32.3
All Quintiles	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Highest 10%	37.2	33.9	50.2	69.6	26.5	79.4	19.4
Highest 5%	27.0	24.2	38.7	56.6	15.0	73.2	11.9
Highest 1%	14.3	12.2	22.6	34.6	3.9	57.5	4.4

percent to 85 percent. Clearly, the tax cuts have led to the rich shouldering more of the income tax burden and the poor shouldering less.

Mobility Between Quintiles. Analyzing how a single income quintile fares over time creates the false impression of measuring the same people over time. However, few people remain in the same income quintile for their entire lifetimes. Many Americans begin their working careers in lower-income quintiles. During their working years, they add skills, receive pay raises, and find new jobs, and their income levels peak in the upper quintiles during their fifties and sixties before dropping back down to a lower quintile after retirement. Lifetime incomes are more equal than any one snapshot in time.

The data verify this picture. More than half of all taxpayers change income quintiles within a decade. This is especially true for those in the bottom quintile, two-thirds of whom move up within a decade.⁶ One study analyzed Americans who spent 1979 in the bottom quintile. By 1988, more of them had reached the highest income quintile (14.7 percent) than had remained at the bottom (14.2 percent). "In other words," according to the

5. Stephen Dinan, "Bush's Tax Cuts Add Up to Zero," *The Washington Times*, June 19, 2003.

6. R. Glenn Hubbard, "Measure Tax-Cut 'Fairness' over a Lifetime," *The Wall Street Journal*, January 8, 2003.

Joint Economic Committee, “a member of the bottom income bracket in 1979 would have a better chance of moving to the top income bracket by 1988 than remaining in the bottom bracket.”⁷

By definition, 20 percent of Americans will always be in the bottom quintile, but economic growth can push up the threshold between quintiles so that even those remaining in the same quintile experience healthily rising incomes.

More Spending for the Poor

Just as common as the myth that poor families are paying more of the taxes is the myth that they are receiving less of the spending.

Chart 4 shows that an increasing share of the federal budget is spent on antipoverty programs. From 2.6 percent of the federal budget in 1962, antipoverty spending rose steadily to:

- 4.3 percent in 1970,
- 8.6 percent in 1980,
- 9.1 percent in 1990,
- 14.9 percent in 2000, and
- 16.3 percent (a record) of all federal spending in 2004.

Social Security and Medicare spending has risen by a similar percentage since 1962, from 13 percent to 33 percent of all spending. (See Chart 5.) All of this new spending came out of defense spending, which dropped from 49 percent of the budget in 1962 to 20 percent in 2005. The national security

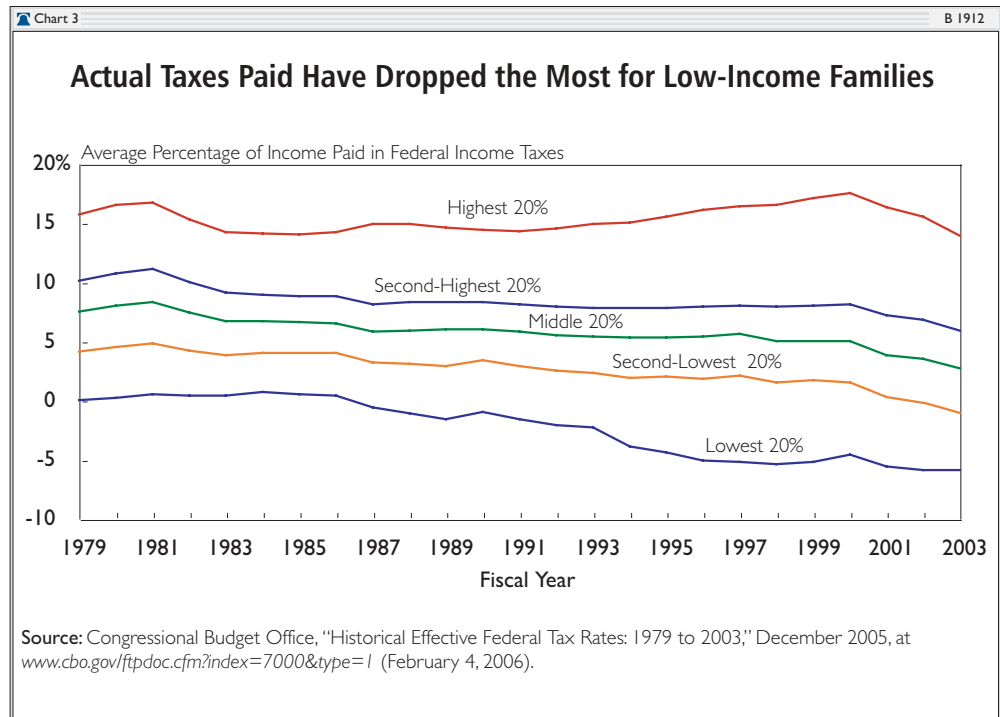
state has been replaced by the welfare/geriatric state.

Contrary to the rhetoric claiming that President George W. Bush has slashed antipoverty spending, its proportion of the budget has actually risen from 15.3 percent to over 16 percent since 2001. Table 3 breaks down the antipoverty budget and its growth since 2001.

All four categories of antipoverty spending have received healthy increases over the past few decades and in recent years.

Health Care. Since 1990, health spending on the poor has more than doubled from 3.3 percent to 7.6 percent of all federal spending. In that time, the Medicaid population has increased from 25 million to 55 million, while the average (inflation-adjusted) payment per beneficiary increased from \$3,839 to \$4,873.⁸

Since 2001, Medicaid has added 10 million participants to its rolls and increased spending by 40 percent to \$182 billion. Spending for the new State



7. Christopher Frenze, "Income Mobility and Economic Opportunity," Joint Economic Committee, U.S. Congress, June 1992, at www.house.gov/jec/middle/mobility/mobility.htm (February 4, 2006).

Children's Health Insurance Program (S-CHIP) has increased by 39 percent while insuring 4.4 million Americans.⁹

Housing. Housing subsidies jumped from virtually zero in 1960 to 1.5 percent of all federal spending by 1993, where it has remained since. During the 2001 through 2005 federal spending spree, housing programs received a 26 percent increase, an average of 5.5 percent annually. The Housing Certificate Fund/Rental Assistance, the largest traditional low-income housing program, has received a 39 percent budget hike since 2001.¹⁰

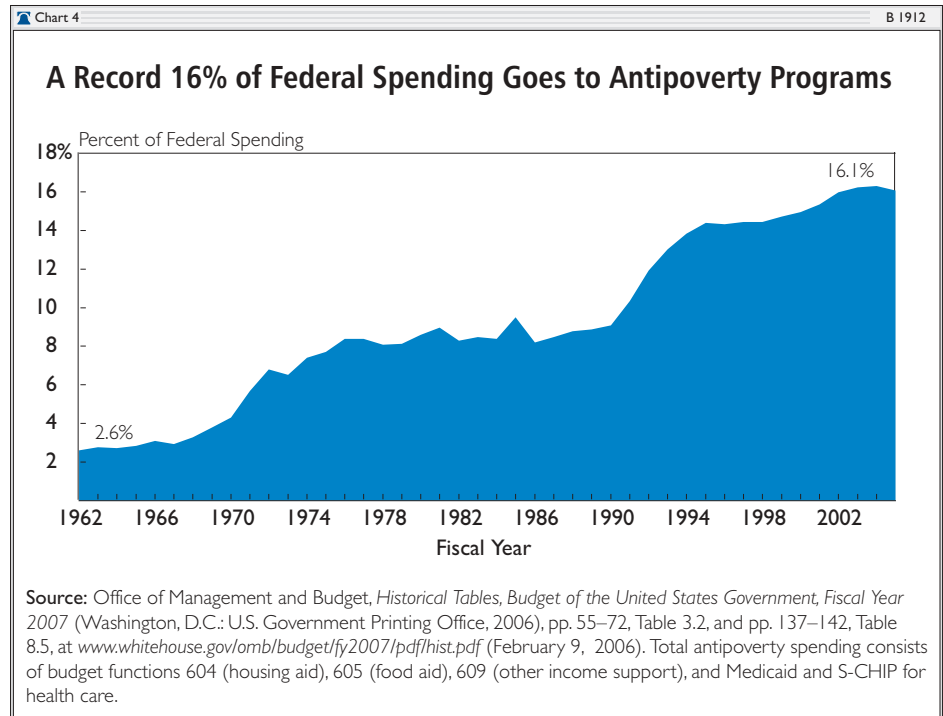
Food Assistance. Since 1969, Food Stamp rolls have expanded from 3 million recipients to nearly 26 million. In that time, the inflation-adjusted average annual benefit per person also increased from \$424 to \$1,112. In the first four years of the Bush Administration, Food Stamp spending surged 71 percent to \$33 billion as 8.4 million new recipients enrolled and the inflation-adjusted average benefit increased by 12 percent.¹¹

Food Stamps are not the only antipoverty food program. Child nutrition programs such as School Breakfasts and School Lunches have experienced a

24 percent budget increase since 2001; funding for Women, Infants, and Children (WIC) is up 22 percent; and the Commodity Assistance Program is up 44 percent. Total food assistance spending increased by 49 percent from 2001 through 2005.¹²

Cash Support. After accounting for 2.2 percent of all federal spending in 1962 and 2.6 percent in 1990, cash-support spending in 2003 reached 5.0 percent of federal spending for the first time. The largest programs include:

- **Supplemental Security Income (SSI).** The caseload for SSI, which provides benefits for the aged, blind, and disabled, has increased



8. Centers for Medicare and Medicaid Services, *Health Care Financing Review: Medicare and Medicaid Statistical Supplement, 2003*, Table 88 and Table 95, at www.cms.hhs.gov/apps/review/supp/2003 (February 2, 2006), updated for 2002 and 2003 by CMS officials and estimated for 2004 and 2005 by The Heritage Foundation. Spending levels adjusted for inflation by The Heritage Foundation.

9. Kaiser Commission on Medicaid and the Uninsured, "SCHIP Enrollment in 50 States: December 2004 Data Update," September 2005, at www.kff.org/medicaid/upload/7348.pdf (February 2, 2006).

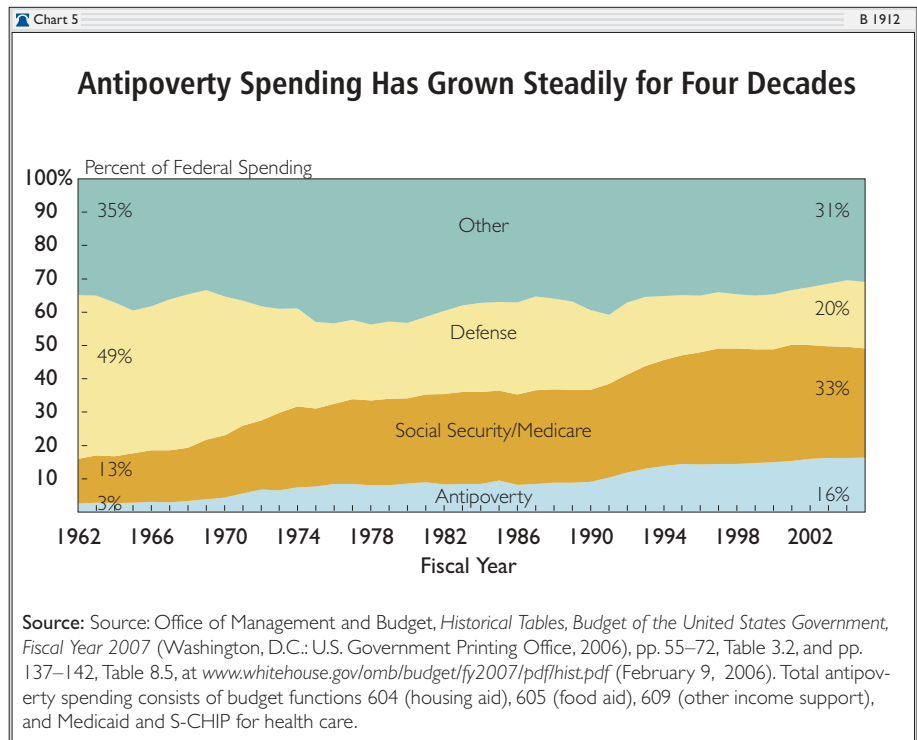
10. Heritage Foundation calculations using data from the Office of Management and Budget.

11. U.S. Department of Agriculture, "Food Stamp Program Participation and Costs," at www.fns.usda.gov/pdf/summary.htm (February 2, 2006). Adjusted for inflation by The Heritage Foundation, and annual benefit calculated by multiplying the average monthly benefit by 12.

12. Heritage Foundation calculations using data from the Office of Management and Budget.

from 3.1 million in 1971 to a record 7.0 million in 2004. The inflation-adjusted average annual benefit also reached a record \$5,324 in 2004.¹³ Since 2001, total SSI spending has increased by 36 percent to \$41 billion.

- **Temporary Assistance for Needy Families (TANF).** TANF, the successor to Aid to Families with Dependent Children (AFDC), is the only major antipoverty program with a declining caseload and budget. After peaking at 14.2 million recipients in 1993, work requirements have brought the caseload down to 4.6 million in 2005. Consequently, since 2001, spending has remained flat at approximately \$18 billion, and the average annual benefit per person has remained around \$2,000 (or \$6,000 for a family of three).¹⁴ This should not be considered a policy failure. As explained below, TANF moved millions of welfare recipients into work, reducing the need for large cash welfare benefits.
- **Earned Income Tax Credit (EITC).** The EITC provides a refundable tax credit to low-income workers. Created in 1975, it has leaped from its original 6 million claimants to 22 million



claimants in 2003. In addition to reduced taxes, the EITC provides a subsidy to millions of low-income taxpayers, which has expanded from an inflation-adjusted average of \$668 per tax return in 1977 to \$1,869 in 2003.¹⁵ Since President Bush took office in 2001, annual EITC outlays (in addition to decreased taxes) have increased from \$26 billion to \$35 billion.

- **Child Tax Credit.** Lawmakers created a \$500 per child refundable tax credit in 1998 and expanded it to \$1,000 in 2001. The tax credit begins phasing out for singles earning over

13. Social Security Administration, "Annual Statistical Supplement, 2005: Supplemental Security Income," at www.ssa.gov/policy/docs/statcomps/supplement/2005/7a.html (February 2, 2006); data provided by the Social Security Administration; and John Karl Scholz and Kara Levine, "The Evolution of Income Support Policy in Recent Decades" University of Wisconsin, Economics Department, pp. 42–43, Table 1, and pp. 44–45, Table 2, at www.ssc.wisc.edu/~scholz/Research/Transfers%20Chapter%209-1-00.pdf (February 2, 2006). Spending totals adjusted for inflation by The Heritage Foundation, and annual benefit calculated by multiplying the monthly benefit by 12.

14. Social Security Administration, "Annual Statistical Supplement, 2004: Other Social Insurance, Veterans' Benefits, and Public Assistance," at www.ssa.gov/policy/docs/statcomps/supplement/2004/9g.html (February 2, 2006), and U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, "Temporary Assistance to Needy Families; Separate State Program-Maintenance of Effort Aid to Families with Dependant Children," at www.acf.hhs.gov/programs/ofa/caseload/caseloadindex.htm (February 2, 2006). Spending totals adjusted for inflation by The Heritage Foundation, and annual benefit calculated by multiplying the monthly benefit by 12.

\$55,000 annually and couples earning over \$110,000 annually. This benefit, which saves a typical working family \$2,000 to \$3,000 annually, has increased from \$1 billion in 2001 to a record \$14.6 billion in 2005 while also reducing the amount of taxes that low-income families pay.

- **Other Programs.** Since 2001, federal child care spending has increased by 32 percent (plus the increasing use of federal TANF dollars for child care), and federal funding for child support enforcement and family support has increased by 21 percent. The Low-Income Home Energy Program (LIHEAP) has maintained a level budget of \$2.1 billion.¹⁶

Spending Versus Effectiveness

This paper shows that data on antipoverty spending refute the myth that these programs are being slashed. Yet more money does not necessarily mean more progress. All too often, lawmakers measure compassion by how much money is spent rather than by whether a program actually improves people's lives.

Historically, people in need could rely on neighbors, mutual-aid organizations, religious organizations, educational organizations, and other community organizations for assistance. Such assistance would often come from locals who knew the family in need and could provide moral support and a plan to help them back on their feet in addition to financial assistance.

Today, families in need of housing, food aid, medical care, or other types of assistance simply walk into a government office, fill out a few forms, and walk out with a guarantee of perpetual govern-

Antipoverty Spending Is Up 39 Percent Under President Bush

	2001	2005	Increase
Health Care Assistance	\$133,073	\$186,849	40%
Housing Assistance	30,091	37,899	26%
Food Assistance	34,053	50,833	49%
Cash and Other Assistance	88,496	121,353	37%
Total Antipoverty Spending	285,713	396,934	39%

Note: Cumulative inflation over this period was 10 percent. All amounts are in millions of dollars. See the Appendix for a breakdown by program.

Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), pp. 55–72, Table 3.2, and pp. 137–142, Table 8.5, at www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf (February 9, 2006).

ment benefits. There is little if any personalization of services or planning to help them achieve self-sufficiency, independence, and personal responsibility. Community organizations and neighbors no longer have a reason to look out for each other because they have been replaced by a Washington bureaucrat with a checkbook. This checkbook compassion, while easy, cannot fix poverty.¹⁷

For years, AFDC spent tens of billions of dollars subsidizing poverty, reducing work incentives, and encouraging illegitimacy. Predictably, welfare rolls skyrocketed, and poverty worsened. The 1996 welfare reforms replaced that failed system with one promoting work and family formation. It succeeded by moving people to work and attacking the root causes of poverty.

Today, the true measure of welfare reform's success is the number of Americans who have left welfare for work. Caseloads have plummeted by 68 percent, black poverty is at the lowest level ever

15. Internal Revenue Service, "SOI Tax Stats—Individual Statistical Tables by Size of Adjusted Gross Income," at www.irs.gov/taxstats/indtaxstats/article/0,,id=96981,00.html (February 2, 2006), and Scholz and Levine, "The Evolution of Income Support Policy in Recent Decades," pp. 42–43, Table 1, and pp. 44–45. Spending totals adjusted for inflation by The Heritage Foundation.

16. Heritage Foundation calculations using data from the Office of Management and Budget.

17. See William W. Beach, "The 2005 Index of Dependency," Heritage Foundation *Center for Data Analysis Report* No. 05–05, June 13, 2005, at www.heritage.org/Research/Budget/cda05-05.cfm.

measured, and even illegitimacy rates have stopped their once steep growth. Thirty years of previous failures prove that this progress could not have happened in the traditional welfare system.¹⁸

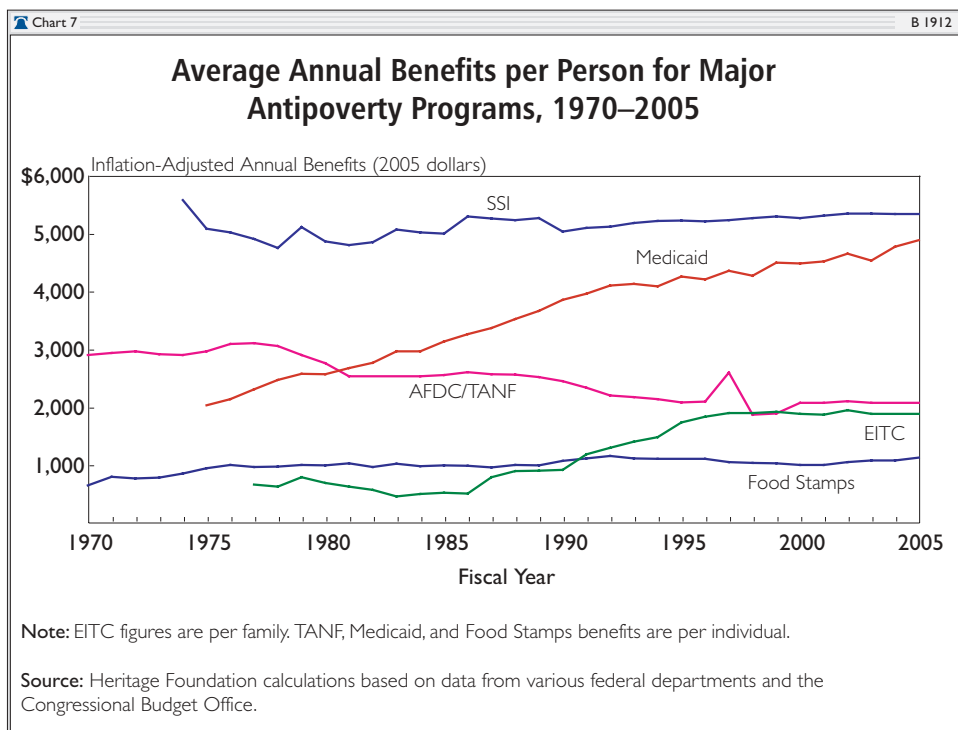
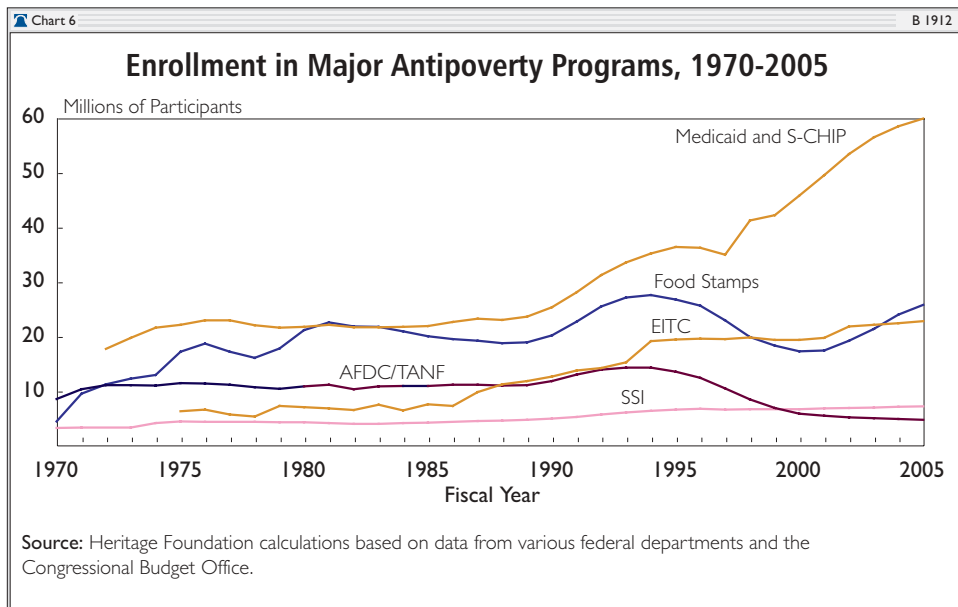
The measure of government effectiveness is not how many people can be trapped into the dependency of an ever-expanding government check, but how many people successfully make the transition out of dependency. Viewed in that way, the increase in Medicaid and Food Stamp rolls should alarm rather than encourage policymakers.

Finally, many antipoverty programs reduce economic growth by reducing incentives to work and be productive. This lower economic growth means fewer jobs, lower incomes, and more difficulties for those trying to escape poverty.¹⁹ Thus, many of the current anti-poverty programs are counterproductive to both a healthy society and a healthy economy.

Conclusion

The myth of increased government redistribution from the poor to the wealthy has important consequences for lawmakers.

In particular, it clouds the real choices that must be made.



18. See Robert Rector and Patrick F. Fagan, "The Continuing Good News About Welfare Reform," Heritage Foundation *Backgrounder* No. 1620, February 6, 2003, at www.heritage.org/Research/Welfare/bg1620.cfm.

19. See Daniel J. Mitchell, Ph.D., "The Impact of Government Spending on Economic Growth" Heritage Foundation *Backgrounder* No. 1831, March 15, 2005, at www.heritage.org/Research/Budget/bg1831.cfm.

On the tax side, the mathematically impossible principle that income tax relief should be concentrated among families who pay no income tax prevents any consideration of legitimate tax relief or tax reform. Additionally, the misperception that higher tax rates induce substantially higher tax revenues among upper-income taxpayers translates into pressures for tax increases that harm economic growth without substantially increasing tax revenues.

On the spending side, the myth that antipoverty spending is being slashed also matters. In an era of massive, unsustainable spending increases and budget deficits, this erroneous consensus has effec-

tively taken one-fifth of the non-interest federal budget off the table. In fact, anything less than the baseline growth of as much as 8 percent per year is now considered by many to be unconscionable. Given the long-term spending challenges that America faces, it is time to analyze realistically which areas of federal spending are increasing, what the legitimate functions of the federal government are, and what is ultimately affordable.

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Appendix		B 1912		
Antipoverty Spending Is Up 39 Percent Under President Bush				
Health Care		2001	2005	Increase
Medicaid Grants to States		\$129,374	\$181,720	40%
State Children's Health Insurance Fund (S-CHIP)		3,699	5,129	39%
Total Health Care		133,073	186,849	40%
Housing Assistance				
Housing Certificate Fund/Rental Assistance		16,720	23,285	39%
Public Housing Operating Fund		3,137	3,572	14%
Public Housing Capital Funds		3,550	3,153	-11%
Home Investment Partnerships Program		1,424	1,718	21%
Homeless Assistance Grants		965	1,282	33%
Housing for Special Populations/Elderly		774	902	17%
Revitalization of Severely Distressed Public Housing Projects (HOPE VI)		487	695	43%
Native American Housing Block Grant		684	688	1%
Other Assisted Housing Programs		672	610	-9%
Rural Housing Service		591	389	-34%
Housing Opportunities for Persons with AIDS		241	280	16%
Drug Elimination Grants for Low-Income Housing		309	6	-98%
Low-Rent Public Housing Loans & Expenses		20	-10	-150%
Other Housing Programs		517	1,329	157%
Total Housing Assistance		30,091	37,899	26%
Food Assistance				
Food Stamps		19,096	32,614	71%
Child Nutrition Programs		9,561	11,899	24%
Women, Infants and Children (WIC)		4,077	4,985	22%
Funds for Strengthening Markets, Income & Supply		798	852	7%
Commodity Assistance Program		132	190	44%
Food Donations Program		134	0	-100%
Other Food Assistance		255	293	15%
Total Food Assistance		34,053	50,833	49%
Cash Assistance				
Supplemental Security Income (SSI)		30,012	40,940	36%
Earned Income Tax Credit (EITC) Payments		26,123	34,559	32%
Temporary Assistance for Needy Families (TANF)		18,583	17,400	-6%
Child Tax Credit Payments		982	14,624	1389%
Child Care Programs		3,717	4,901	32%
Child Support Enforcement & Family Support Programs		3,281	3,983	21%
Low-Income Home Energy Assistance Program (LIHEAP)		2,161	2,095	-3%
Refugee & Entrant Assistance		456	504	11%
Children's Research & Technical Assistance		40	38	-5%
Other Cash Assistance		3,141	2,309	-26%
Total Cash Assistance		88,496	121,353	37%
Total Anti-Poverty Spending		285,713	396,934	39%
Note: Cumulative inflation over this period was 10 percent. All amounts are in millions of dollars.				
Source: Office of Management and Budget, <i>Historical Tables, Budget of the United States Government, Fiscal Year 2007</i> (Washington, D.C.: U.S. Government Printing Office, 2006), pp. 55–72, Table 3.2, and pp. 137–142, Table 8.5, at www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf (February 9, 2006).				