Makers and Takers, An Economic Perspective

CAL DAY panel on “Makers and Takers” April 2013

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Myth 1: What me? I’m not a taker
• Much attention is given to the idea that low income families are “takers”
• Main programs providing cash or cash-like assistance to low income families:
  – Food Stamps (SNAP)
  – The Earned Income Tax Credit (EITC)
  – “Welfare” (TANF)
Federal Spending on Selected Means-Tested Programs and Tax Credits, 2012

(Billions of dollars)

Health Care
$272 Billion

- Medicaid
  - 251
- Medicare Part D
  - 21

Cash Assistance
$148 Billion

- Earned Income Tax Credit
  - 54
- Supplemental Security Income
  - 50
- Child Tax Credit
  - 28
- Temporary Assistance for Needy Families
  - 17

Nutrition, Housing, and Education
$168 Billion

- Supplemental Nutrition Assistance Program
  - 80
- Child Nutrition
  - 18
- Housing Assistance
  - 36
- Pell Grants
  - 34

Source: Congressional Budget Office.
• What other government programs provide benefits to Americans?
  – Social Security
  – Medicare
  – Disability
  – Unemployment

• Virtually all Americans age 65 and over receive Social Security and Medicare. Are we all takers?
Most of Budget Goes Toward Defense, Social Security, and Major Health Programs

- Defense and Security: 21%
- Safety Net Programs: 11%
- Interest on Debt: 8%
- Medicare, Medicaid, and CHIP: 20%
- Social Security: 21%

Program Areas in the Remaining Fifth of the Budget

- Benefits for Federal Retirees and Veterans: 6%
- Scientific and Medical Research: 3%
- Transportation Infrastructure: 3%
- Education: 2%
- Non-security International: 1%
- All Other: 5%

Source: Congressional Budget Office
Note: Percentages may not total 100 due to rounding.
“Hands off my Medicare”

It is little known that payroll taxes account for only 40% of Medicare costs. General taxes pay for most of the rest.
Myth 2: Taker = Dependency
• Welfare reform
• The expansion of the Earned Income Tax Credit

→ Have changed the incentives for low income families on assistance

• Both programs are strongly tied to work and have led to increases in employment
• Disability programs (Social Security Disability, SSI) are an exception to this
  – Participation in these programs tends to be quite long term
Myth 3: The 47 percent are “takers”

There are 47 percent of the people who will vote for the president no matter what. All right, there are 47 percent who are with him, who are dependent upon government, who believe that they are victims, who believe the government has a responsibility to care for them...

Mother Jones Video
Figure 4
Who Doesn’t Pay Federal Income Taxes?

Households who owed no federal income tax in 2011

- Workers who pay payroll taxes: 61%
- Elderly: 22%
- Other, including students, people with disabilities, and jobless: 17%

And while talking about taxes, what about the 1 percent?

Source: Emmanuel Saez, UCB Economics
Myth 4: The “taking” doesn’t help
Government programs reduce poverty

Reduction in poverty rate due to social program

- Social Security: -8.3
- EITC: -2.8
- Food Stamps: -1.5
- Unemp Ins: -1.1
- SSI: -1.1
- Housing Subsidy: -0.9
- School Lunch: -0.3
- TANF: -0.3
Government programs reduce poverty

- Social Security reduces poverty by 8.3 million children.
- EITC removes 4.7 million children from poverty.
- Food stamps removes 2.1 million children from poverty.

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Concluding thoughts

• The point is that the “takers” versus “makers” dichotomy is, at best, wrong. Also not constructive.

• We can have a discussion about whether Americans want to pay for these programs.

• But let’s be clear about what they do and who is affected.