




Political Perspectives on Financing Social Benefits

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Social policy and taxation in the US today

- Political logjam on taxation
 - “No new taxes”
 - Opposition to payroll, consumption taxes
- Tax code as social policy

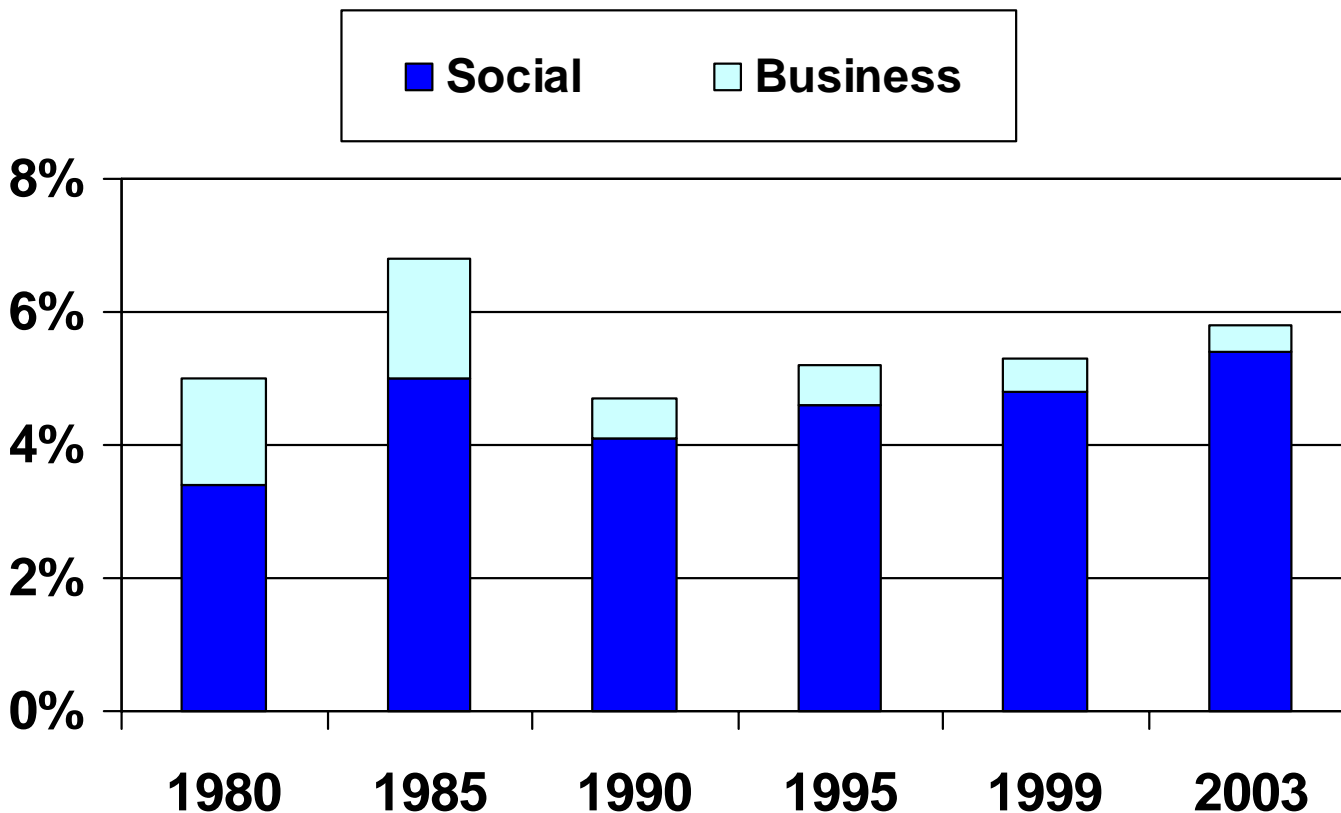


Tax policy as social policy...

- Child tax credits
- Earned Income Tax Credit
- Home Mortgage Interest Deduction
- Cutting tax rates

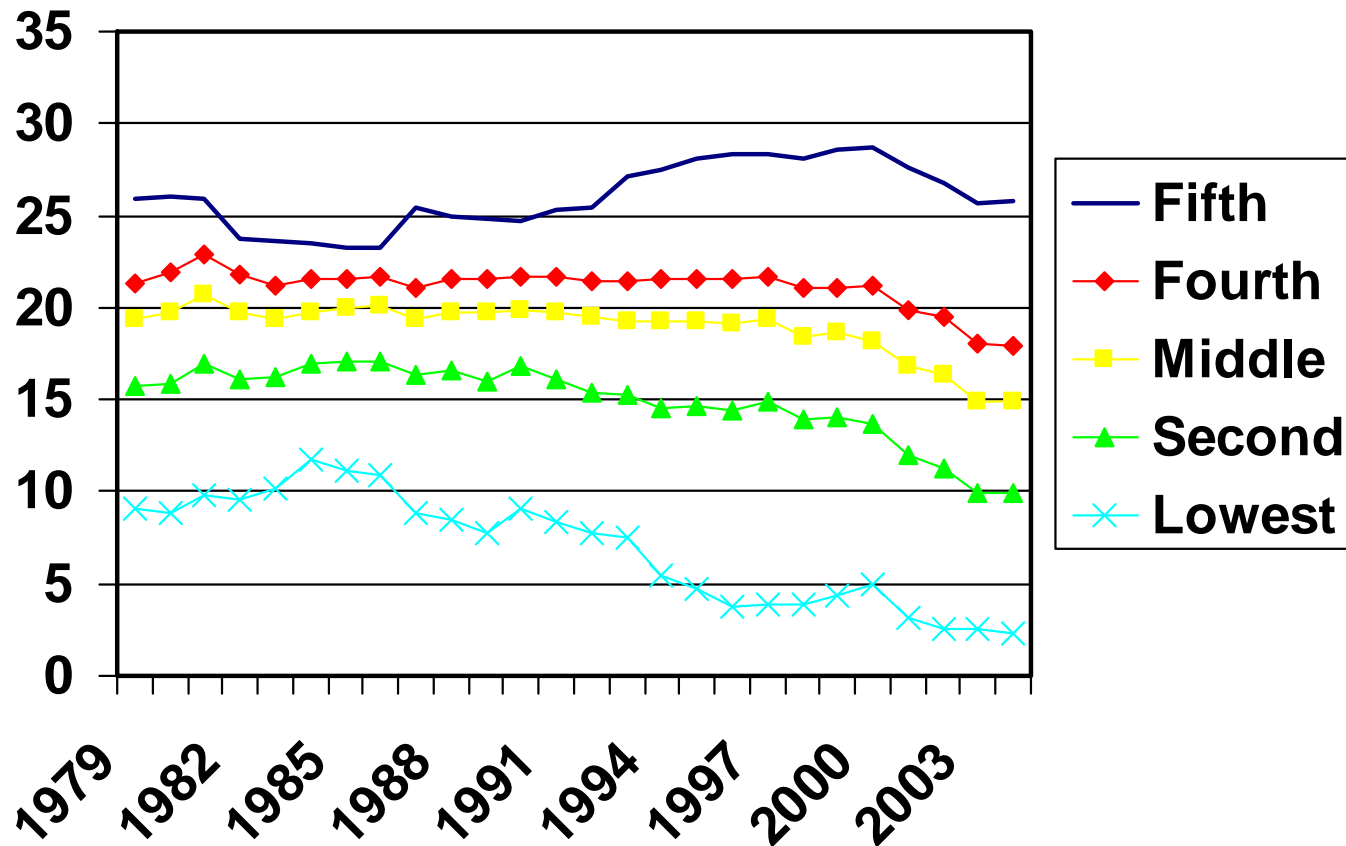
Tax Expenditures, 1980-2003

(percent of GDP)



Source: Eric Toder, "The Changing Composition of Tax Incentives, 1980-99" Urban Institute, Updated by author.

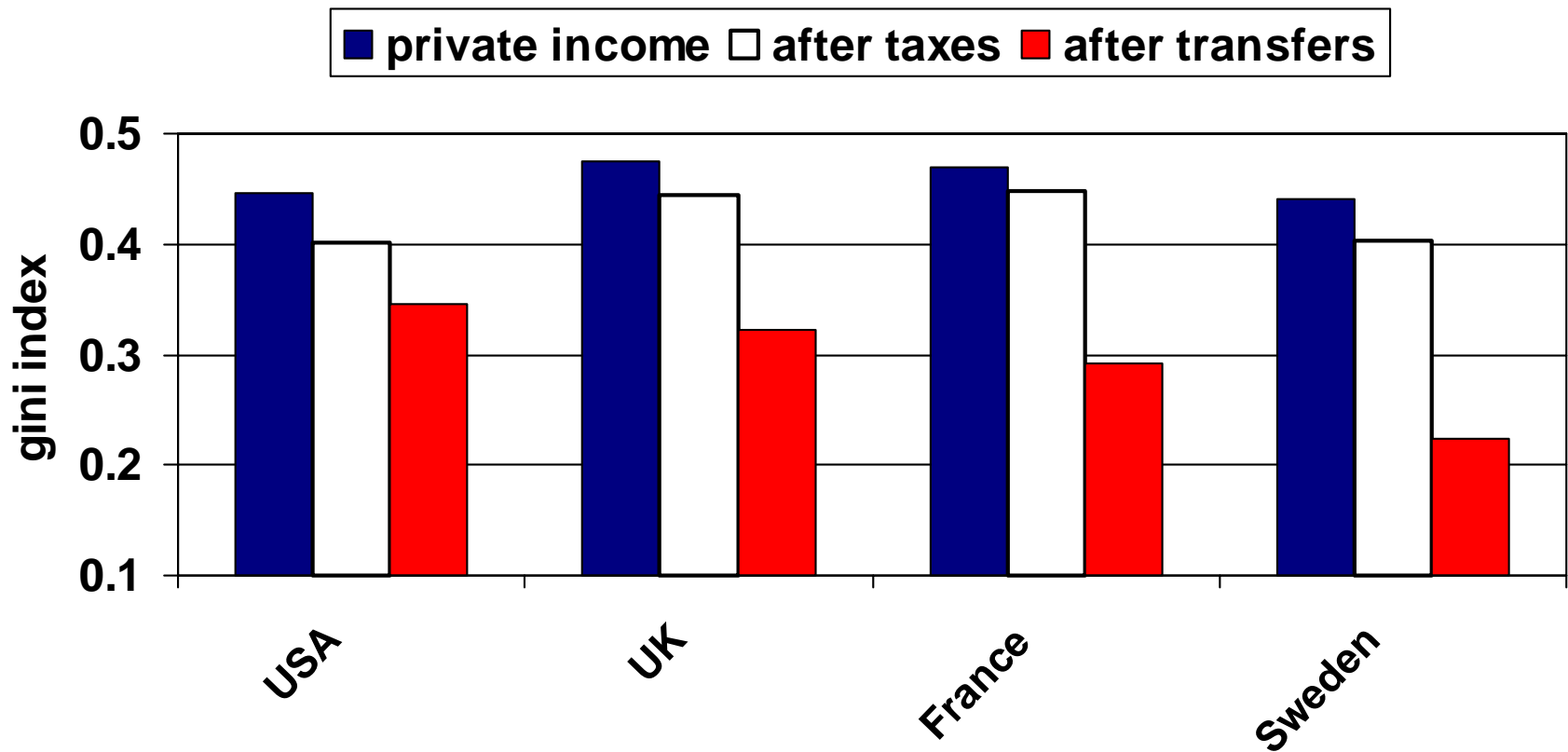
Total Effective Federal Tax Rates by Quintile, 1979-2004



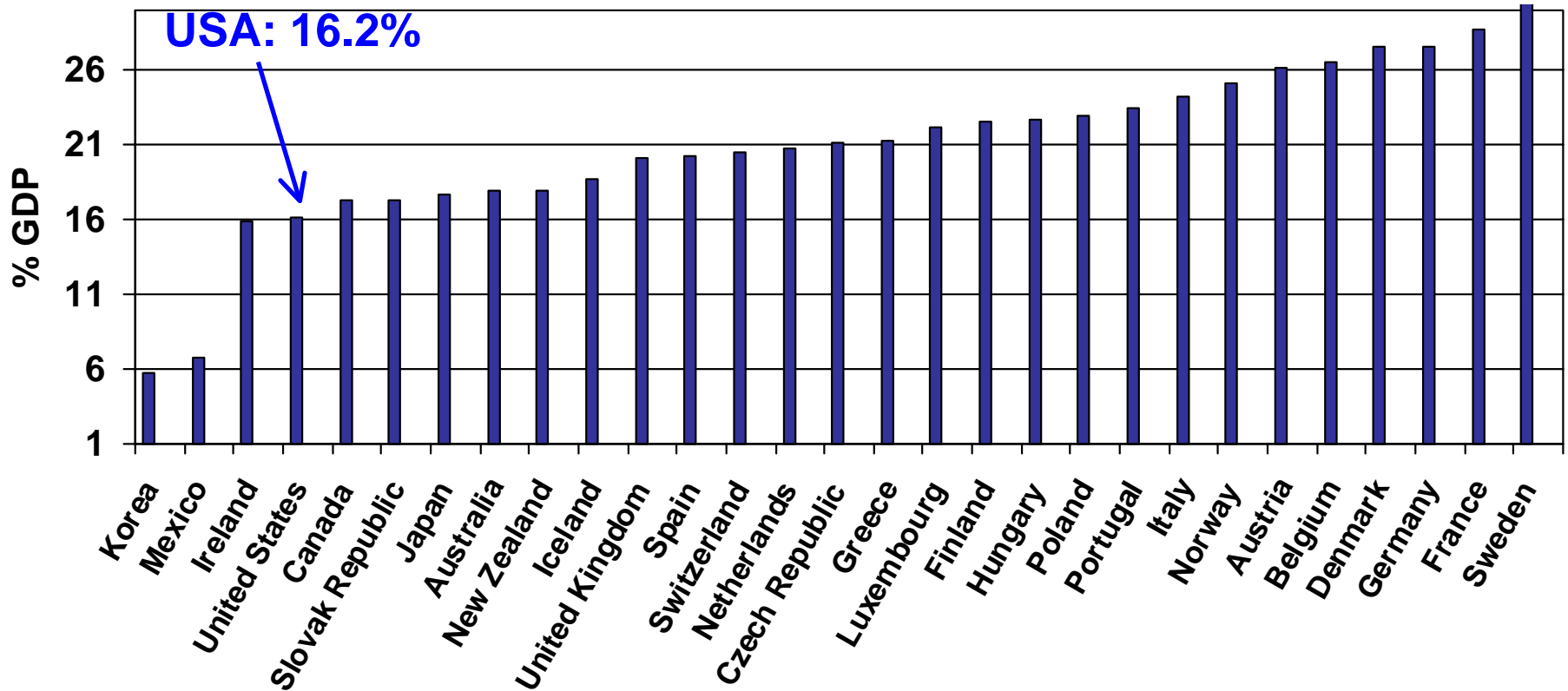
For households with children, includes payroll, excise, corporate income taxes

Source: CBO.

Role of taxes and transfers in reducing inequality



Social spending as a percent of GDP 2003

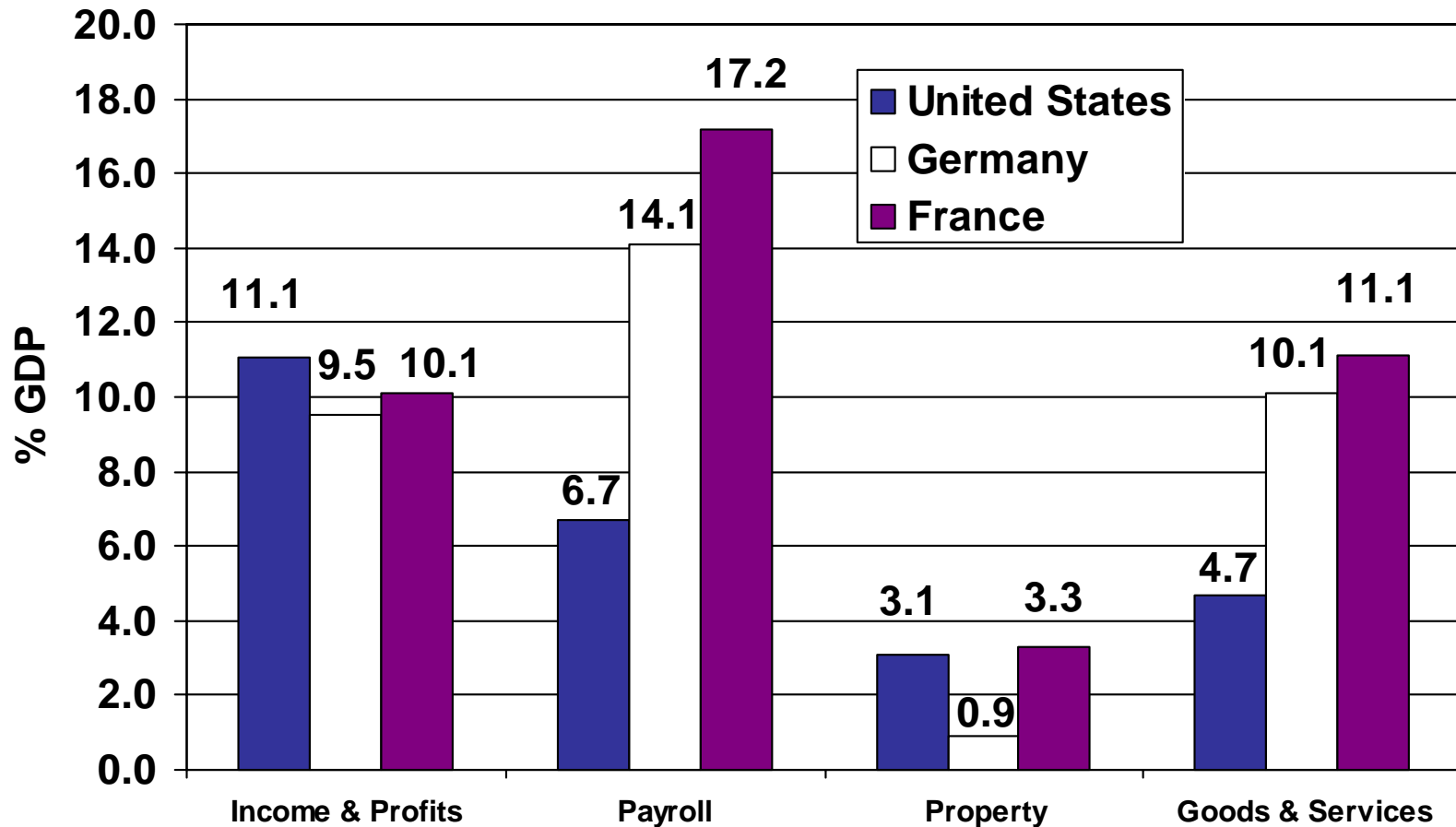




American exceptionalism?

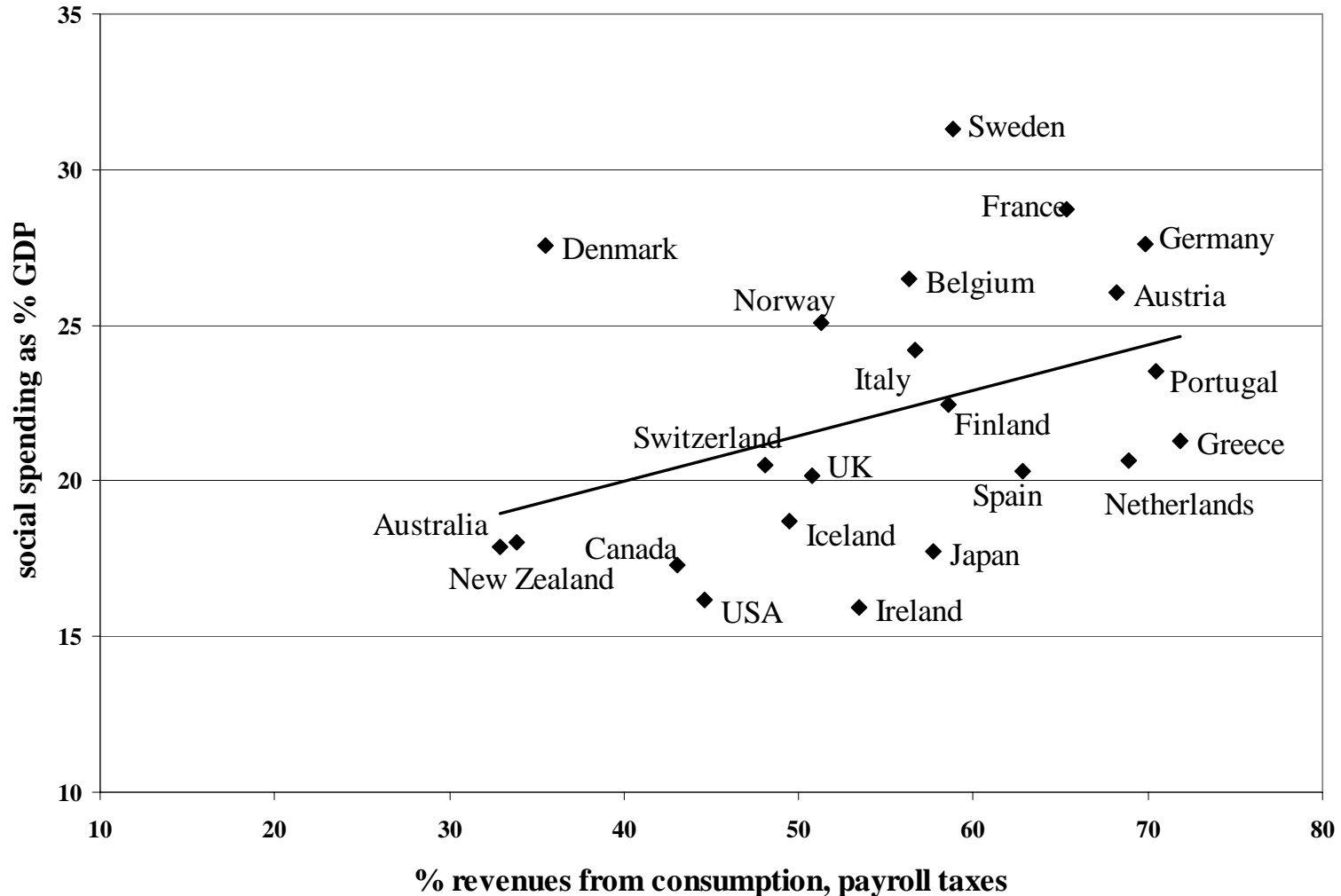
- Everywhere, people hate paying taxes
- People tend to think their taxes are too high, rich don't pay enough
- Yet, people everywhere tend to like social programs

Taxes as a percent of GDP, 2004



Source: OECD, *Revenue Statistics*.

Financing social programs, 2003-04



VAT rates in 2006

Australia	10%
New Zealand	12.5%
Germany	16%
UK	17.5%
France	19.6%
Sweden	25%

Source: OECD.

Why?

- Economic Reasons

- Lindert's "free lunch puzzle."

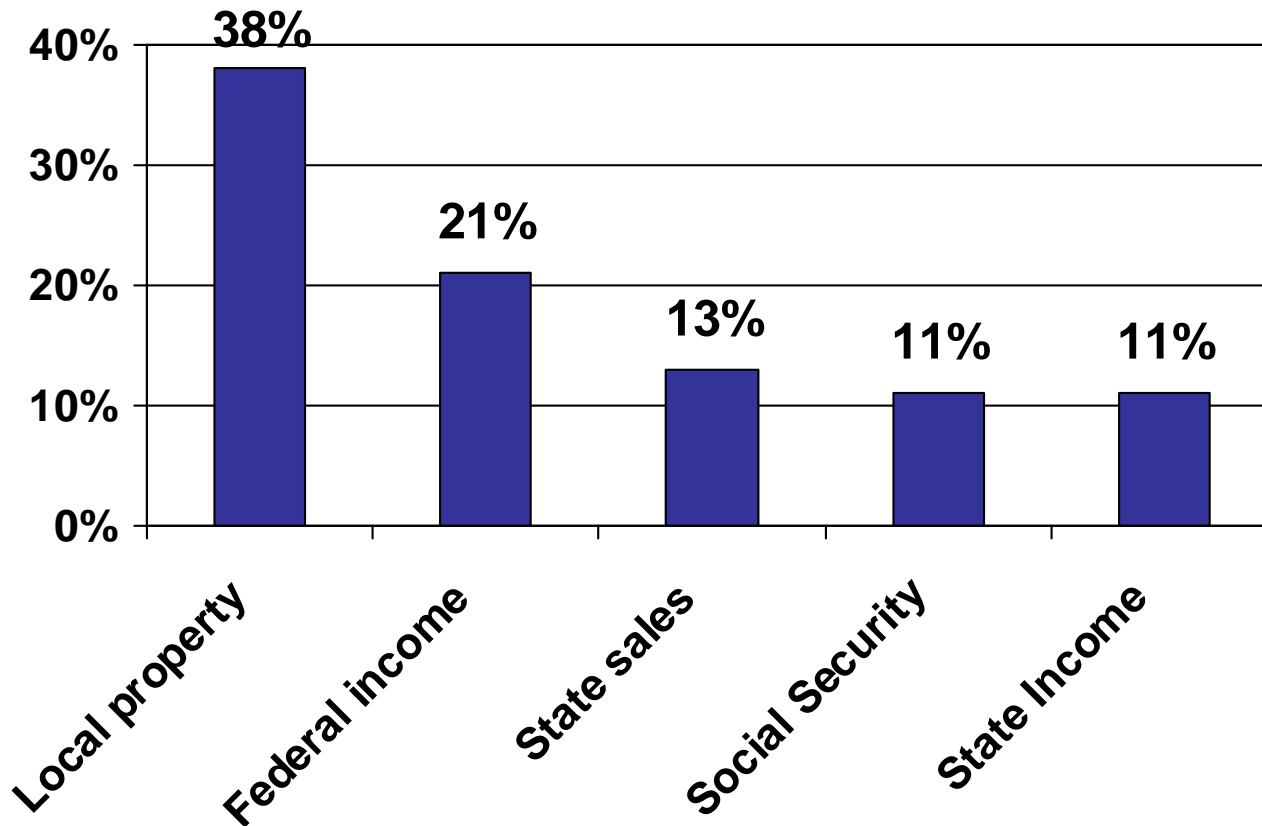
- Political reasons

- Less visible

- More popular

- Political compromise

Which tax is the least fair? American responses in 2003



Sources: Gallup.

Why?

- Economic Reasons

- Lindert's "free lunch puzzle."

- Political reasons

- Less visible

- More popular

- Political compromise



Some tax policy options

- Allow 2001-03 tax cuts to expire.
- Increase payroll tax/raise wage ceiling.
- Adopt national sales tax – tie to social spending.
- Increase gasoline tax/other excises.



Conclusions

- Renewing the social contract will require debate over taxation.
- Most countries rely heavily on payroll and/or consumption taxes to pay for social programs.
- Political factors help explain the reliance on less progressive forms of taxation.
- We should consider full range of taxes to pay for future social initiatives.