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## Everyone Is Still on Welfare: The Role of Redistribution in Social Policy

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*Most people have an inaccurate assessment of who is "on welfare." Two decades have passed since *Social Work* published the original version of this article, which applied Titmuss's framework of a three-tiered social welfare system and showed that nearly "everyone is on welfare." Based on new data and a more in-depth analysis, this article re-examines who benefits from and who pays for social, fiscal, and corporate welfare and concludes that all three welfare systems continue to serve and to favor the middle class, wealthy households, and large corporations. Social workers can work to transform the system from one that rewards power and privilege to one that ensures distributive justice for all.*

**Key words:** *corporate welfare; fiscal welfare; public assistance; social welfare; tax redistribution*

Two decades have passed since *Social Work* published the original version of "Everyone Is on Welfare" (Abramovitz, 1983). The article appeared just as Ronald Reagan launched a historic shift in social welfare policy. Marked by massive social program cuts, lower income taxes, and higher military spending, his new conservative agenda replaced postwar liberalism with hostility to social welfare programs. To counter the emerging antipathy to the welfare state, "Everyone Is on Welfare" showed that government spending benefited people from all walks of life as well as major corporations.

Several trends suggest that the time is ripe to revisit this question of who is "on welfare." First, new and improved data is available from think tanks, advocacy groups, and government agencies that regularly report on the flow of government dollars to various sectors of society. Second, if social work students reflect the norm, few people realize that social welfare programs are not limited to serving poor people. Third, heated public debates over tax cuts, devolution, welfare reform, the privatization of social security and Medicare,

and how to spend the federal budget surplus suggest that the policies of Presidents Bill Clinton and George W. Bush also raise fundamental questions about who pays for and who benefits from government spending. Finally, the frequent appearance of the 1983 version of "Everyone Is on Welfare" on course syllabi and in anthologies suggests the importance of this issue to the profession.

### Three Welfare Systems

The 1983 version of this article was based on a framework developed by the well-known British social policy analyst, Richard M. Titmuss. According to Titmuss (1965), our techniques of social diagnosis and our conceptual frameworks have been too narrow. We have, he stated:

compartmentalized social welfare as we have compartmentalized the poor. The analytic model of social policy that has been fashioned on only the phenomena that are clearly visible, direct and immediately measurable is an inadequate one. It fails to tell us about the realities of redistribution which are being generated by the processes of technological and social

change and by the combined effects of social welfare, *fiscal welfare and occupational welfare*. [italics added] (p. 20)

Titmuss saw traditional social programs as the tip of the social welfare iceberg of a three-tiered social welfare system. Beneath the surface he found a "fiscal welfare system" that offers income support to individuals and families through the tax code and an "occupational welfare system" that offers similar aid to workers through fringe benefits.

Table 1 illustrates how each of the three welfare systems in the United States is "concerned with changing the individual and family pattern of current and future claims on resources set by the market, set by the possession of accumulated past rights and set by the allocation made by Government to provide for national defense and other non-market sectors" (Titmuss, 1965, p. 20).

The social welfare system is administered by the Departments of Health and Human Services, Education, Housing and Urban Development; the

fiscal welfare system by the Internal Revenue Service, and the occupational welfare system by individual firms. Despite different administrative auspices, purposes, and levels of support, all three address similar needs. They provide a minimum income; replace income lost as a result of retirement, joblessness, disability, and the absence of a breadwinner; and underwrite the costs of health care, education, child rearing, housing, and other basic services.

### The Upside-Down Welfare State

Titmuss broadened our view of the welfare state and who is on welfare and challenged conventional thinking about who benefits most from government spending. The view of social policy as a way to shift resources from "one set of people who are said to produce and earn the national product to another set of people who may merit compassion and charity but not economic rewards for productive service . . . [is] a very limited and inadequate model of the workings of social

**Table 1**

### The Three "Welfare" Systems Address the Same Basic Needs

Need Addressed	Social Welfare System	Fiscal Welfare System (Federal)	Occupational Welfare
Basic family support	TANF, SSI, food stamps, earned income tax credit, unemployment insurance	Tax deductions for dependents, child tax credit	Annual salary, cost of living adjustment, annual bonuses
Retirement income	Social security pension	Special tax deductions for elderly people	Private pension
Health care	Medicaid, Medicare	Tax deduction for medical expenses that exceed 7.5% of gross income	Tax deduction for employer-provided health insurance
Housing	Rent supplements, public housing, shelters for homeless people	Tax deductions for mortgage interest, state and local property taxes; capital gains on home sales; and no capital gains tax on home sales for people ages 55 or older	Perks such as reimbursement for moving costs and purchase of homes for corporate executives
Child care	Government subsidized child care programs, mostly for poor families	Child care tax credit	Employer-provided vouchers or on-site child care programs
Education	Free primary and secondary schools, subsidized public higher education	Tax exemptions for parents of college students age 19-23; and untaxed scholarships	In-service training, tuition reimbursement

*policy in the second half of the twentieth century*" [italics added] (Titmuss, 1965, p. 15). Instead, Titmuss concluded that all three systems favor the middle and upper classes. Other social policy analysts have reached similar conclusions (Danziger & Gottschalk, 1995; Howe & Longman, 1992; Huff, 1992).

This article analyzes the U.S. social and fiscal welfare systems identified by Titmuss, as well as the corporate welfare system, which he did not discuss. Given its focus on government programs, this article provides no further discussion of the occupational social welfare system. The social, fiscal, and corporate welfare system are each examined on three dimensions: program funding, benefit levels, and vulnerability to budget cuts.

The analysis confirms Titmuss's conclusions that all the systems provide extensive benefits to affluent households and private enterprise as well as to poor people and that the systems generally favor middle- and upper-income groups over low-income groups.

### **Social Welfare: Serving the Middle Class**

The social welfare system—direct public provision of cash and in-kind benefits to individuals and families, free or at below market cost—is popularly regarded as serving only poor people. However, the record shows that social welfare programs serving the middle and upper classes receive more government funding, pay higher benefits, and face fewer budget cuts than programs serving only poor people.

### **Social Welfare Funding**

In 2000 the federal government spent \$1,093 billion on the social welfare components of federal entitlement (mandatory) and discretionary outlays, or 61 percent of the \$1,789 billion in total federal spending that year— but a smaller proportion of the gross domestic product than in 1962 (Congressional Budget Office, 2001). The mandatory outlays were for both means-tested and non means-tested programs: food stamps, Supplemental Security Income, family support, state children's health insurance, veteran's pensions,

child nutrition, earned income tax credit, student loans, foster care, social security, Medicare, other retirement and disability programs, unemployment compensation, veteran's benefits, social services, and farm price supports. The discretionary outlays included spending on defense, education, training, social services, transportation, housing, natural resources, the environment, medical and noncash benefits for veterans, international health, public health research, and the administrative costs of running benefit programs.

The overwhelming majority of these dollars, however, do not go to people who are poor. In 2000 the federal government spent \$235.9 billion for means-tested public assistance programs that

serve the poor but a much larger \$793.9 billion on non-means-tested programs that do not use poverty or need as a criterion for receiving aid. The proportion of means-tested spending on poor people rose from 12 percent of all entitlement spending in 1962 to 23 percent in 2000, yet programs for more advantaged groups still received 77 percent of the entitlement dollars (Congressional Budget Office, 2001). This differential reflects the larger number of people who

are not poor in the overall population, the less restrictive eligibility rules in programs open to the middle- and upper-income classes, and the provision of higher benefits to this group of recipients viewed as more worthy of assistance.

### **Social Welfare Benefit Levels**

Ironically, social insurance programs serving the middle class pay significantly higher benefits than the public assistance programs for poor people (see Table 2). Not only are social security benefits higher, but the value of the grant automatically rises with the cost of living. In contrast, public assistance benefits lack protection against erosion from inflation. The purchasing power of the social security grant rose from 1970 to 1999, yet the real value of the AFDC grant fell 47 percent over the same period (House Committee on Ways and Means (2000).

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**Table 2**

**Average Monthly Cash Benefits per Person in Social Welfare Programs in 1999**

Program	Average Monthly Benefits
Unemployment insurance	\$868 (\$202 /wk x 4.3 weeks per month)
Social security	
Retired worker	\$804
Disabled worker	\$754
Widow	\$776
Widower	\$569
Public assistance	
Supplemental Security Income (individual)	\$500
TANF	
Per family of 3	\$421
Per recipient	\$140

SOURCE: U.S. House Committee on Way and Means. (2000, May 19). *The 2000 green book: Background materials and data on programs within the jurisdiction of the Committee on Ways and Means* (106 Cong., 2nd Sess.). T. 1-10, p. 50; T. 3-3, p. 229; T. 4-1, p. 281; T. 7-10, p. 390.

The differential in social security and public assistance payments both reflects and enforces views of who is “deserving” and “undeserving” of aid. Since colonial times, U.S. public policy has treated as “deserving” people who worked for wages outside the home and who formed “proper” families. Historically, however, it has treated jobless adults (viewed as not wanting to work) and single mothers (viewed as not wanting to marry) as lazy, immoral, “undeserving” of help, and a drain on the public purse (Abramovitz, 1996; Gordon, 1994; Piven & Cloward, 1993).

The differential in payments also reflects and re-enforces the racial and gender divides in the wider society, especially in the labor market. For example, social security benefits are based on wage levels and years spent in the labor force. Therefore, white women and women and men of

color, who predominate in low-wage jobs because of sex and race discrimination and gender division of labor at home and on the job, receive lower social security benefits (see Table 3). These same social forces leave women and people of color more vulnerable to poverty and more likely to turn to the less generous and highly stigmatized public assistance programs (Abramovitz, 1996; Gordon, 1992; Whiteman, 2001).

**Vulnerability to Cuts in Social Welfare**

Congress finds it politically more difficult to cut programs for the middle- and upper-income groups. When assessing President Reagan’s 1981 budget, the Congressional Budget Office (1982) accurately anticipated that two-thirds of the planned \$17 billion in federal savings would come from reductions in programs affecting households

**Table 3**

**Average Monthly Social Security Benefits, by Race and Gender, 1999**

Social Security Benefit Recipient	All	Men	Women	White	Black	Other
Retired worker	\$804	\$904	\$697	\$818	\$688	\$663
Disabled worker	\$754	\$846	\$630	\$775	\$700	\$681
Widow	\$776	—	—	\$794	\$618	\$620
Widower	\$569	—	—	\$577	\$542	\$508

SOURCES: Social Security Administration. (1999, December). *Social Security Bulletin: Annual statistical supplement 2000*, T. 5.A.1. Available: [www.ssa.gov/statistics/supplement/2000/](http://www.ssa.gov/statistics/supplement/2000/)

with incomes below \$20,000; it also correctly predicted that in 1982, households with incomes below \$10,000 would receive greater benefit cuts than households with incomes over \$80,000.

This uneven pattern has changed little since 1982, although recent proposals to privatize some parts of social security and Medicare reflect a new willingness to confront the affluent constituencies of these programs. In fiscal years 1995 through 1997, low-income programs received 23 percent of all mandatory funds but suffered 93 percent of the cuts. The same was true for nondefense discretionary spending. Low-income programs received 21 percent of these dollars but absorbed 34 percent of the cuts (Greenstein, Kogan, & Nichols, 1996). As a result, the antipoverty impact of government spending has fallen sharply. In 1979 safety-net programs lifted 48.1 percent of the people who were poor before receiving government aid out of poverty. By 1996 the proportion had fallen to 46.6 percent. The slightly higher 1998 percentage still fell below the 1979 level (Porter, Primus, Rawlings, & Rosenbaum, 1998).

The states mirror the federal government's willingness to save dollars on the backs of poor people. Despite the booming economy in the late 1990s, most states continued to cut low-income programs and to use their budget savings to reduce taxes for more advantaged groups or for other spending priorities. A recent study found that by September 30, 2000, 46 states and the District of Columbia had accumulated \$8 billion in unspent federal antipoverty funds. Six of these states had already diverted funds from Temporary Assistance to Needy Families (TANF) to tax breaks and other programs that transfer state resources from the most needy families to private firms and wealthy households (National Campaign for Jobs and Income Support, 2001). Tax cuts erode government revenue, making it even more difficult for states to maintain programs in the future for people who are poor (McNichol & Lav, 1996).

### **Fiscal Welfare: Tax Breaks for the Affluent**

Fiscal welfare, administered by the Internal Revenue Service, provides income support to individuals and families indirectly through tax exemptions, deductions, and credits—known in today's budget parlance as "tax expenditures." The Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344) defines tax expenditures as

revenue *losses* attributable to provisions of Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability. [*italics added*] (U.S. Joint Committee on Taxation, 1998, p. 2)

Tax expenditures represent dollars the government chooses **not** to collect. Few people think of the tax code as a social welfare system. The government, however, views tax expenditures as "analogous to direct outlay programs. The two are considered alternative means of accomplishing similar budget policy objectives" (U.S. Joint Committee on Taxation, 1998, p. 2). To some "these explicit breaks in the tax code are the moral and fiscal equivalent of the government's simply mailing a check. To pay for them, other people's taxes have to be raised, other benefits have to be cut or the deficit has to be increased" (Howe & Longman, 1992, p. 90). An examination of funding levels, benefit amounts, and vulnerability to cuts reveals that the fiscal welfare system also favors economically advantaged groups.

### **Fiscal Welfare Funding**

The fiscal welfare system represents considerable amounts of government dollars. Between 1965 and the late 1990s, the number of tax expenditures grew from 50 to 166. Like direct government spending, tax expenditures deplete the U.S. Treasury. The cost to the government in lost revenue rose from \$36.6 billion in 1967 to an estimated \$587 billion in 2000. The \$587 billion for tax expenditures in 2000 was just \$378 billion less than the total of \$966 billion spent on entitlement benefits and \$242 billion more than the \$345 billion spent on nondefense discretionary programs. Tax expenditures in 2000 were \$352 billion *more* than the \$235 billion allocated to means-tested programs for poor people; \$181 billion *more* than the \$406 billion for social security; and \$292 billion *more* than the \$295 billion for the military. Official projections indicate that from 1996 through 2002, taxes not collected will amount to \$3.7 trillion—enough to pay off the \$3.4 trillion national debt in 2000 (Congressional Budget Office, 2001).

### **Fiscal Welfare Benefit Levels**

Tax expenditures favor the middle- and upper-income groups even more than social welfare

spending. With the exception of the earned income tax credit and a few other tax incentives for low- and middle-income workers, the tax system has created a "gilded" welfare state that provides the upper and middle classes with a host of benefits not available to poor people. Tax benefits for the upper-income groups include low-cost government insurance for oceanside homes, tax-free investments, reduced capital gains taxes, and tax deductions for charitable giving, large medical expenses, investment losses, and many other items (McIntyre, 1996).

Moreover, tax spending is regressive in that benefits increase in value as individuals' earnings and tax rates rise. An example is the mortgage interest tax deduction up to \$1 million per home. A hypothetical \$1,000 mortgage interest deduction would save \$396 for a taxpayer in the top 39.6 percent bracket, but only \$150 for a homeowner in the 15 percent bracket (McIntyre, 1996). Even when low-income households qualify for these benefits (which they rarely do), their benefit is smaller relative to their income. On average, mortgage interest deductions are worth almost \$5,000 a year to taxpayers earning more than \$200,000, but only \$903 a year to families earning between \$30,000 and \$75,000. In 2000 tax payers with incomes over \$100,000 received more than \$27 billion, or 52 percent, of this tax break compared with \$1.2 billion, or less than one-half of 1 percent, received by households with incomes below \$30,000 (U.S. Joint Committee on Taxation, 2001). Since only people who earn enough to pay taxes and to itemize deductions can use them, the mortgage interest tax deduction is worth nothing to renters and the majority of taxpayers who cannot itemize deductions. Congress would certainly hesitate to enact such a sizable "upside down" housing subsidy. Yet, it has left the mortgage interest tax deduction on the books for years. After all, this incentive to buy homes gets strong support from the real estate industry as well as homeowners (Dreier & Atlas, 1994). Although the dollar amounts are less, tax breaks for medical expenses, real estate property taxes, and charitable deductions reflect the same class dynamics (U.S. Joint Committee on Taxation, 2001).

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Recent tax reforms have also benefited higher income groups. The Internal Revenue Service reported that from 1995 to 1997, the after-tax income of the 1 percent of tax filers with the highest adjusted gross income jumped 31 percent compared with a 3.4 percent increase for the bottom 90 percent of all tax filers. In other words, the average income of the top 1 percent of tax filers rose nine times faster than the average income of the bottom 90 percent (Shapiro, Greenstein, & Primus, 2000).

Frequently billed by politicians as a way to return hard-earned dollars to the average working family, the 1999 tax reforms provided still more "welfare" for people at the top. The U.S. Treasury Department reported that the 1999 tax reform

plan gave an average tax cut of nearly \$32,000 a year to the wealthiest 1 percent of households compared with a \$166 cut for the bottom 60 percent. Put another way, 78.5 percent of the new tax cuts went to the 20 percent of households with the highest incomes. By contrast, 60 percent of households shared a much smaller 6.5 percent of the gain (Lav & Greenstein, 1999). The Bush administration's subsequent

tax reductions followed the same pattern. The after-tax income of the 1 percent of families with the highest incomes increased by an average of 6.2 percent compared with the 1.9 percent increase for the middle fifth of families and a scant 0.6 percent for the bottom fifth (Shapiro & Sly, 2001). In other words, the top 1 percent of the taxpayers received almost 45 percent of the tax cut with the bottom 60 percent receiving only 13 percent of the reduction (Citizens For Tax Justice, 2001).

The widely used but less visible fiscal welfare system for upper-income individuals typically captures more federal dollars than comparable social programs that serve poor people. For example, the U.S. Joint Committee on Taxation (1998) projected that in 1999 the government would spend some \$72.2 billion in housing subsidies for the middle and upper classes, including tax deductions for mortgage interest payments (\$48.5 billion), property taxes (\$17.8 billion), and capital gains on home sales (\$5.9 billion). In contrast, in 1999 the Department of Housing and

Urban Development spent \$24 billion for low-income housing and rental subsidies for poor people—just over one-half of the \$43 billion allowed for the mortgage interest tax deduction alone. (National Low-Income Housing Coalition, 1999). The pattern of “spending” more on housing through tax expenditures than direct government outlays dates back to at least 1976 when housings outlays equaled \$3.2 billion compared with \$11.2 billion for tax expenditures (see Table 4).

During the 1970s and 1980s, while housing-related tax expenditures climbed, Congress cut low-income housing funds to the bone (Dreier & Atlas, 1994). According to the National Low-Income Housing Coalition (Dolbear, 2000) federal funding (in inflation-adjusted dollars) for low-income housing dropped from \$64.5 billion in 1977 to \$11.1 billion in 1997, a drop of 83 percent. Meanwhile, the real value of housing-related tax expenditures quintupled. Add to this the fact that the United States provides the least housing assistance to people who are poor of any industrialized country.

#### Fiscal Welfare Vulnerability to Budget Cuts

Tax expenditures tend to run on auto-pilot. They require neither annual Congressional appropr-

tions nor reauthorizations, except for those scheduled to expire. Thus, they attract comparatively little public attention and far less Congressional oversight than normally accompanies direct appropriations (Congressional Budget Office, 1988; McIntyre, 1996). Many of the benefits are funneled through obscure “off-budget” devices that further avoid scrutiny (Huff, 1992). Because they create little, if any, new bureaucracy, tax expenditures also win Congressional approval more easily and remain on the books longer than direct spending programs.

Relatively unnoticed by the wider public and less subject to the perils of the budget process, the “welfare state” for the affluent has safeguards not available to the social welfare system that serves mostly poor people. The “welfare” system for people at the top not only pays more, but is more permanent and secure. The discrepancy has grown even larger during the past two decades when both the idea of direct social provision and many welfare state programs have come under intense attack.

#### Corporate Welfare: Aid to Dependent Corporations

Like individuals and families, corporations ask for and receive welfare. Titmuss did not discuss corporate welfare. Yet, when counted government subsidies to business and industry intensify the upward bias of the overall system. Few people think of the use of public dollars to increase private profits as welfare. Except for the sharp dollar differences, it appears that government aid to big business does not differ all that much from government aid to poor families.

#### Corporate Welfare Funding

Countless numbers of business firms, including some of the largest, rely heavily on government subsidies, despite their often open hostility to government spending and regulations. The practice grew so large that the usually conservative magazine *Time* published a special issue on corporate welfare. *Time* editors estimated that the government dispenses about \$125 billion a year to companies to help them advertise their products, build new facilities, train their workers, write off the cost of perks, and otherwise increase their profits (Bartlett & Steel, 1998). In its study of corporate welfare, the libertarian (antitax) Cato Institute concluded that every major government

Table 4

#### Direct Outlays versus Tax Expenditures for Housing (in billions of dollars)

Year	Direct Outlays	Tax Expenditures
1976	\$3.2	\$11.2
1977	3.0	10.2
1978	3.7	14.7
1979	4.4	19.4
1980	5.6	26.5
1981	7.8	33.4
1982	8.7	35.6
1983	10.0	35.1
1984	11.3	37.9
1985	25.3	40.6
1986	12.4	48.5
1987	12.7	53.5
1988	13.9	53.9
1989	15.3	53.2

SOURCE: Center on Budget and Policy Priorities. (1989, April). *A place to call home: The crisis in housing for the poor* (Table III. Federal Spending For Housing 1976–1989, p. 32). Washington, DC: Author.

department was a repository for government funding of private industry (Hershey, 1995). Government aid to business and industry takes several forms, including direct government grants, tax reductions, support for research and development, and discounted user fees for public resources.

Military spending represents one of the largest sources of direct government aid to private corporations. Since 1981 the United States has spent \$450 billion for research and development of arms, which reduced the cost to business of building weapons. In the early 1980s, when international competition threatened U.S. arms sales abroad, Congress waived hundreds of millions of dollars in "recoupment fees" levied on private arms manufactures to reimburse the government for research and development costs (Sennott, 1996).

The federal government also subsidizes private contractors by purchasing large quantities of planes and weapons from Lockheed Martin, Boeing, and a few other major firms. The request for arms procurement in the fiscal year 2001 federal budget included \$60 billion, an 11 percent increase over the 2000 allocations (Executive Office of the President of the United States, 2000). By guaranteeing their sales, these purchases made it virtually unnecessary for the private companies to compete in the open market.

In the mid-1980s the worldwide downturn in defense spending sparked a fierce fight for market share among the world's arms manufacturers. In response, the United States developed a massive federal infrastructure to advertise, promote, and administer weapons sales internationally. From 13 percent of the pre-Cold War global market, the U.S. arms industry's share jumped to 70 percent by 1996. These exports "have become a crucial, government-subsidized profit making venture for an industry in transition" (Sennott, 1996, p. B2). Unfortunately, in 1997, \$8.3 billion in U.S. arms transfers went to undemocratic regimes. In many of the world's conflicts, both sides fight with U.S.-supplied weapons (Berrigan, 2000).

Many jobs promised as a trade-off never materialized. Between 1992 and 1995 the six top defense-industry companies laid off 178,000 U.S. workers, but CEO salaries soared to new heights. Many defense-industry jobs were exported abroad. Military spending is not the most efficient job creation program. During the same three years, for every billion dollars spent by the federal government, 21,000 military jobs were created.

The same amount of money would have led to 40,000 jobs in health care, 35,000 in education, and 26,000 in mass transit (Berrigan, 2000).

Other industries also "depend" on the government to absorb regular business costs and to protect them from competitive market forces. From 1992 through 1998 the Export-Import Bank spent over \$5 billion to help private companies sell goods abroad. About one-third of the jobs promised by the companies that received 40 percent of the bank's largesse—including AT&T, Boeing, General Electric, and McDonnell Douglas—disappeared (Bartlett & Steel, 1998). The Foreign Agricultural Service dispensed about \$100 million a year to help U.S. businesses advertise their products abroad. U.S. taxpayers underwrote the cost of advertising Campbell Soup Company's V-8 Juice and soup in Argentina; The Pet Food Institute's promotion of Friskies in Japan; and the sales efforts of McDonald's, Sunkist, Pillsbury, Tyson's Food, and other giant food companies (Hershey, 1995).

### Corporate Welfare Benefits

Corporations reap generous benefits from the fiscal welfare system (Table 5). Tax expenditures for

Table 5

### Tax Expenditures for Business Investment and Saving

Tax Expenditures	1996 (in billions)	1996-2002 (in billions)
Multinationals	\$9.8	\$78.3
Insurance cost and products	4.9	50.4
Oil, gas, energy	2.4	18.3
Financial institutions (non-insurance)	0.8	6.9
Timber, agriculture, minerals	0.7	6.0
Accelerated depreciation	28.2	188.3
Other business and investment	7.4	59.1
Tax-free bonds, private	4.0	28.4
Business meals and entertainment	3.4	27.6
Research and Development	2.8	18.7
Tax free bonds, public	1.7	13.9
Special ESOP rules	1.3	8.5
Low-income housing credit	0.7	6.8
Capital gains (except homes)	0.5	3.9
Installment sales	0.3	2.6
Empowerment zones	0.1	1.7

SOURCE: McIntyre, R. S. (1996). *The hidden entitlements* [Online]. Washington, DC: Citizens For Tax Justice. Available: [www.ctj.org](http://www.ctj.org), p. 9.

NOTE: ESOP = Employee Stock Ownership Plans.



corporations amounted to \$69 billion in 1996, with a total of \$519 billion projected from 1996 to 2002 (McIntyre, 1996).

One of the largest business tax breaks for many years—accelerated depreciation—amounted to \$22 billion in 2000. This tax loophole cut corporate tax bills sharply by allowing companies to write off the costs of their machinery and buildings faster than they wear out. A second large tax expenditure (\$13,780 billion in 2000) stems from an IRS rule that allows U.S.-owned multinational corporations to avoid paying taxes on profits they earned producing goods and services in other countries (Executive Office of the President, 2001). These tax advantages also encouraged U.S. companies to move their operations to offshore “tax havens.” In 1998 Boeing alone saved \$130 million. In 1999 hundreds of U.S. companies, including Microsoft and General Motors, avoided paying about \$4 billion in federal taxes under this provision. The World Trade Organization recently ordered the United States to end this subsidy on the grounds that it provided U.S. companies with an unfair competitive edge (Kahn, 1999). The subsidy also deprives U.S. workers of jobs.

Insurance companies enjoyed \$4.9 billion in tax breaks in 1996—the third largest that year. The fourth largest of corporate tax expenditures was \$3.4 billion in deductions for business meals and expenses. Corporations also can claim deductions, exemptions, or credits for interest payments, capital gains, research and development costs, tax-free bonds, and a host of write-offs such as those granted to the oil, gas, energy, timber, agriculture, and mineral extraction industries (McIntyre, 1996). In many cases, corporation executives repay their government benefactors with

sizeable campaign donations. Although some of these tax expenditures represent legitimate purposes, others have become large tax shelters for private enterprise (especially big business). They also create unusual incentives and can perpetuate bad business practices (Gup, 1996).

The states also provide corporate welfare in the form of tax deferrals, abatements and credits of property and income taxes, low-interest loans, tax-free enterprise zones, infrastructure subsidies, tax-exempt industrial development bonds, and training subsidies channeled through educational institutions. Local governments absorb the normal costs of doing business to keep a company in town, although in many cases the firms have no intention of moving. The projected community benefits, such as jobs and open spaces, do not always materialize. Studies have shown that good schools, a skilled labor force, community amenities, and clean water do more to attract business than the wide range of tax breaks typically professed (Bartlett & Steel, 1998; Hupp, 1997).

Former Secretary of Labor Robert Reich often used the term “aid to dependent corporations” to draw a parallel between government subsidies to business and the welfare program for single mothers (Hershey, 1995). Yet, leaders of major corporations, having increased their company profits and take-home pay at public expense, rarely hesitate to deplore poor women who rely on meager welfare benefits to survive.

Corporate welfare effectively reduces the share of the taxes paid by corporations. Business and industry do not pay their share of the nation’s operating costs despite their enormous profits, heavy utilization and frequent destruction of basic resources, and the many direct subsidies they receive (Table 6).

**Table 6**

**Federal Revenue by Source as a Percentage of Total Revenue**

Revenue Source by Type of Tax	1962	1965	1970	1975	1980	1985	1990	1995	1998	2000
Individual income tax	45.7	41.7	46.8	43.8	47.2	45.6	45.2	43.7	48.1	49.6
Corporate Income Tax	20.5	21.8	17.0	14.5	12.4	8.4	9.6	11.6	10.9	10.2
Social insurance tax	17.0	19.0	23.0	30.2	30.5	36.1	36.8	35.8	33.0	32.2
Excise tax	12.5	12.5	7.7	5.9	4.7	4.9	3.4	4.3	3.3	3.4
Other (estate, gift, custom, and misc.)	3.9	4.6	4.8	5.3	5.0	5.7	5.4	4.6	4.3	4.5

SOURCE: Congressional Budget Office. (2001, January). *The economic and budget outlook, fiscal years 2002–2111*, p.144. Washington, DC: U.S. Government Printing Office.

NOTE: Percentages are the author’s calculations.

### **Corporate Welfare Invulnerability to Cuts**

The corporate share of federal revenue plummeted from one-third of all federal revenue in 1950 to 20.5 percent in 1962 to a low of 8.4 percent in 1985 (Collins, 1995; Congressional Budget Office, 2001). Tax revenue from corporations rose slightly after the 1986 tax reform closed some of the loopholes. Nonetheless, by 2000 the corporate share had dropped back to about 10 percent of the total. Interestingly, in 1995 the Congressional Budget Office found that Congress often increased tax breaks to corporations after it cut their direct government subsidies (Center on Budget and Policy Priorities, 1995). A front-page *New York Times* article noted that between 1990 and 1997 the personal income tax rose from 13 cents to almost 14 cents of every dollar earned, but that the corporate income tax fell from 26 cents to 20 cents on the dollar (Johnson, 2000). The low corporate income tax contrasts sharply with the growing proportion of revenue derived from social security payroll taxes (which take proportionately more from low than high earners) and the high percentage of federal revenue that comes from personal income taxes.

Corporate America even reaps benefits from social welfare programs that help individuals and families sustain themselves. Although not generally looked at in this way, spending on the more visible social welfare programs that serve the middle class and poor people also helps create the conditions necessary for profitable business activity. By putting cash into people's hands, government benefits provide private enterprise with a steady supply of consumers to purchase the goods and services it produces. By underwriting the cost of family maintenance, the dollars spent on education, public health programs, Medicaid, and cash assistance programs help supply industry with the healthy, properly socialized, and productive workers they need. Social welfare provision also helps to mute social unrest generated by inequality in the wider social order. By forestalling or coopting social movements and other political disruptions, the welfare state contributes to the social peace on which profitable economic activity also depends.

### **Conclusion**

The U.S. welfare state contains a variety of programs that benefit diverse groups. Although a large number of people, as well as U.S. corpora-

tions, benefit from government subsidies, surveys show dramatic differences in public evaluations of the various components of the welfare state and assessments of who is on welfare (Gillens, 1999). Titmuss's (1965) framework helps us understand why. Indeed, with the addition of corporate welfare, the three-tiered social welfare system that he identified in the mid-1960s still accurately depicts the U.S. welfare state. It shows that the singular focus on the social welfare system and the historic exclusion of occupational welfare (not studied here) and the fiscal welfare system from the traditional conceptualization has perpetuated a narrow and compartmentalized view of the welfare state. Looking at the three identified by Titmuss revealed that the social, fiscal, and occupational welfare systems address common human needs faced by many individuals and families. They also raise the disposable income for households (and firms), reduce the dollars in the U.S. treasury, and ensure that everyone is on welfare.

This re-examination of "The Role of Redistribution in Social Policy" also reconfirms that not everyone benefits equally from the three welfare systems. A review of program funding, benefit levels, and vulnerability to budget cuts made it abundantly clear that both the social and fiscal welfare systems continue to favor affluent people over poor people. Analysis of the corporate welfare system, which consists of tax expenditures for wealthy individuals and major corporations, revealed the depth, breadth, and unfairness of the shadow welfare state. It adds to our knowledge of the ways in which cash benefits paid for by the public play an important role in increasing both private wealth and business profits.

Although "nearly everyone is on welfare," programs for poor people and low-income working people are more visible. Indeed, the three welfare systems operate as a shadow welfare state for individuals who are not poor and major corporations. The reduced visibility of this shadow welfare state has protected the more popular social welfare programs and the entire fiscal welfare system from the stigma, hostility, and cuts that have become regular features of programs for poor people. However, the protection is not foolproof. To the extent that more advantaged people remain silent as welfare state opponents cut social programs for poor people, they pave the way for the "reformers" to extend their assault on the entire three-part welfare state. Some programs for

the working and middle classes are already on or near the chopping block.

Now that we know that everyone is on welfare, but that some benefit more than others from government spending, it behooves social workers to expose the gilded welfare state as undemocratic and unfair. Social workers can join others who oppose social welfare and tax reforms that reward power and privilege rather than need and work for a system based on real distributive justice for all. ■

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A7