EAGLE FORUM

Eagle Forum Report

founded by Phyllis Schlafly

200 W. Third St., Ste. 502 • Alton, IL 62002 • (618) 433-8990 • Eagle@EagleForum.org • EagleForum.org

November 2022 Volume 6/Number 11

How Taxes Punish the Youth

The Marriage Tax

by John Goodman, one of the nation's leading thinkers on health policy. President and CEO of the Goodman Institute.

Young adults with low- or middle-income jobs pay a heavy price if they marry.

Economists, tax specialists and even ordinary people have long known that public policies can make marriage very unattractive. At the lower end of the income spectrum, marriage can lead to a significant loss of entitlement benefits. At the high end, couples who marry may face substantially higher income taxes.

Academic studies find that marriage stabilizes relationships, improves children's outcomes and facilitates the development of labor market skills for the adults. In general, marriage is correlated with economic well-being. One study reports that married couples' average per capita wealth is more than twice that of the never-married.

Until recently, researchers have not had the tools to measure the full extent of government-created marriage penalties. A new study by Boston University economist Laurence Kotlikoff and his colleagues gives us the most accurate estimate to date.

The study includes more than 30 different federal and state entitlement programs — all of which condition benefits on the beneficiaries' incomes. In addition to federal income and payroll taxes, it includes the tax rates in the 50 states and the District of Columbia. And it includes the effects of marriage on such elderly entitlement benefits as Social Security and Medicare. No previous study comes close to this level of careful measurement.

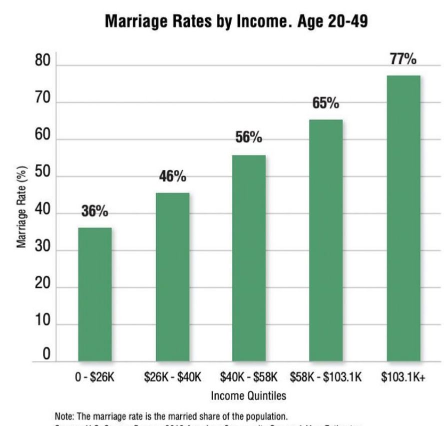
One finding: young adults with low- or middle-income jobs pay a heavy price if they marry. When higher tax rates are combined with a reduction in welfare/entitlement benefits, the economic loss from marriage is equal to between one-and-a-half and two years of income, on average.

Take two people between the ages of 26 and 40:

- If both individuals earn $10 an hour, getting married will lower their lifetime income by more than $70,000, on average.
- If they earn $15 an hour, the lifetime losses will climb to more than $107,000.
- At $20 an hour, their loss will be more than $142,000.

Note that these are only averages. Some couples face marriage burdens that are much higher. In the worst case researchers discovered, getting married has a lifetime cost that is equal to 20 years of income! This occurs when marriage makes a family's income too high to qualify for Medicaid, but too low to qualify for an Obamacare subsidy in states that have not expanded Medicaid.

The marriage tax differs depending on where people live and what entitlement programs they enroll in. Programs such as Medicaid, for example, vary a lot from state to state in terms of eligibility and the generosity of benefits. To take one example, the overall marriage penalty in Hawaii is twice the size of the one in New Mexico.



From a Study by Elias Ilin, Laurence J. Kotlikoff, Melina Pitts

One finding of the study is not very surprising: the marriage penalty affects low-income couples more than high-income couples. Take individuals with incomes between $26,000 and $40,000. On the average, they face a marriage tax rate that is more

(Continued on page 2)

than twice the rate for the 20 percent of families with the highest incomes.

This is certainly part of the reason why only 36 percent of individuals with annual incomes below $26,000 are married, while the marriage rate for those with annual incomes above $103,100 is more than double that, at 77 percent.

For couples who earn $26,000 or less, the biggest components of the marriage tax are the potential loss of Medicaid and food stamps. These losses are partially offset by an actual gain from income tax credits and larger subsidies in the Obamacare health insurance exchanges.

For couples at higher income levels, the potential loss of Medicaid and food stamp benefits becomes less important, and the Obamacare subsidies begin to penalize marriage. For couples who earn more than $100,000, two-thirds of the marriage penalty is created by the tax law alone — because of the couple's inability to file completely separate tax returns.

The same fiscal system that creates a marriage penalty also imposes very high marginal tax rates on labor income, especially on people at the low end of the income spectrum. We are discouraging marriage and productive work at the same time with the same policies.

Is it possible to have a compassionate fiscal system that does not create these perverse incentives?

Replacing our income tax system with a flat tax or a national sales tax or a value added tax would eliminate the income tax part of the marriage penalty. Under such tax regimes, couples would have no tax reason to marry or divorce. At a minimum, couples should have an option of filing completely separate tax returns.

What about health care? Through the years there have been a number of proposals to replace all tax and spending health care subsidies with a fixed-sum tax credit for private insurance, regardless of personal income or marital status. For those who decline the opportunity, the credit amount would be sent to a local safety net and communities receiving these funds would be required to establish and provide safety-net care.

We already make a great deal of food available to children in a way that avoids perverse incentives. Many large city school districts provide lunch and breakfast without charge to all students, regardless of income, and in the 2020-2021 school year, the federal government extended free meals to all students in every district. Housing subsidies might be restructured in ways that do not involve an income or marriage test.

There are reasons not to get married. Government policies should not be among them.

The Work Tax

by Phil Gramm who holds a Ph.D. from the University of Georgia in economics. and John Early, Executive Mathematical Economist & Quality Professional.

The most dramatic and consequential change in the distribution of income in America in the past half-century isn't rising income inequality but the extraordinary growth in income equality among the bottom 60% of household earners.

Real government transfer payments to the bottom 20% of household earners surged by 269% between 1967 and 2017, while middle-income households saw their real earnings after taxes rise by only 154% during the same period. That has largely equalized the income of the bottom 60% of Americans. This government-created equality has caused the labor-force participation rate to collapse among working-age people in low-income households and unleashed a populist realignment that is unraveling the coalition that has dominated American politics since the 1930s.

Income inequality is not growing because the Census Bureau measure of income fails to include two-thirds of all federal, state and local transfer payments as income to the recipients and fails to treat taxes paid as income lost to the taxpayer. The Census Bureau measure overstates current income inequality between the highest and lowest 20% of earners by more than 300% and claims that income inequality has risen by 21% since 1967, when in fact it has fallen by 3%.

Our most significant finding from correcting the census income calculations wasn't the overstated inequality between top and bottom earners. It was the extraordinary equality of income among the bottom 60% of American households, regardless of employment status. In 2017, among working-age households, the bottom 20% earned only $6,941 on average, and only 36% were employed. But after transfer payments and taxes, those households had an average income of $48,806. The average working-age household in the second quintile earned $31,811 and 85% of them were employed. But after transfers and taxes, they had income of $50,492, a mere 3.5% more than the bottom quintile. The middle quintile earned $66,453 and 92% were employed. But after taxes and transfers, they kept only $61,350 — just 26% more than the bottom quintile.

Even these figures don't tell the whole story. In the bottom quintile, there are on average only 1.92 people living in a household. The second and middle quintiles have 2.41 and 2.62

(Continued on page 3)

people respectively. After adjusting income for the number of people living in the household, the bottom-quintile household received $33,653 per capita. The second and middle quintile households had on average $29,497 and $32,574 per capita, respectively. The blockbuster finding is that on a per capita basis the average bottom quintile household received 14% more income than the average second-quintile household and 3.3% more than the average middle-income household.

It should be noted that while per capita comparisons are widely used, they tend to overstate the effects of household size. Two people living together can achieve the same material well-being for less than they could living separately. The Organization for Economic Cooperation and Development has developed a measure widely used internationally to adjust for household size, and the Census Bureau has a similar adjustment it uses in its supplemental poverty measure. Since the results produced by the OECD and the Census Bureau adjustments are so similar, we simply use the average of the two below.

We found that the average bottom-quintile household has $2,401 (or 6.6%) more income than the second quintile and only $3,306 (or 7.8%) less than the middle-income quintile.

The average second-quintile household earned almost five times as much as the average household in the bottom quintile, because it had 2.4 times as many working-age members working and on average each worker worked 80% more hours. The average middle- quintile household earned almost 10 times as much and had 2.6 times the percentage of its working-age people working, each working twice as many hours. Yet the bottom 60% of American households received essentially the same income after accounting for taxes, transfer payments and household size.

Given the surge in transfer payments since the war on poverty, it isn't surprising that the percentage of working-age people in the bottom quintile who actually worked plummeted from 68% in 1967 to 36% in 2017. With transfer payments giving recipients about as much for not working as they could earn working, only a mandatory work requirement as a condition for receiving means-tested benefits will bring them back into the labor market.

While official statistics don't count two-thirds of those transfer payments and don't show the income equality they produce, Americans who work hard to make ends meet are aware of it. Despite Democratic politicians' efforts to provoke resentment against the rich, when was the last time you heard working people complain that some people in America are rich? The hostility of working people is increasingly focused on a system where those who don't break a sweat are about as well off as they are.

This justifiable resentment is the economic source of today's American populism. It is ravaging the increasingly unstable Democratic political alliance between welfare recipients and blue-collar workers. It was already building in the 1980s, with what were then called Reagan Democrats, and it was fully manifested in the Trump blue-collar political base. It is now driving political realignment among Hispanic voters, who are disproportionately middle-income earners.

By eroding self-reliance, worker pride and labor-force participation, government- generated income equality undermines the very foundations of American prosperity. A democratic society won't knowingly tolerate it.

THE POROUS BORDER

by Britt Allen, Social Media Expert for Texas Public Policy Foundation.

Cochise County is a stunning 6,300 square miles with 83 miles of border backed up against Mexico. The mountains are rocky and beautiful, the towns are small and quiet, and the locals are kind and hospitable. It speaks to the unique spirit of small-town America. It has also been dealt a hand it wasn't prepared for, but local law enforcement has stepped up to the plate.

I'm just the social media girl. I'm no policy expert, I don't have my masters or doctorate, the last time I conducted any original research was for influencer marketing. But my time in Cochise County, speaking to local law enforcement and natives, and seeing the border wall myself, has helped me realize you don't have to be an expert to recognize a deadly fact… our southern border is dangerously open.

Day 1 in Cochise County: We kicked off our Border Security Coalition trip in a conference room filled with local law enforcement and Sheriff's departments from 17 different states. Brave men and women who have had to step up when the Biden administration forced the Border Patrol to stand down. When I looked around the room, I saw the faces of husbands and wives, daughters and sons, mothers and fathers, brothers and sisters, who are beaten down, desperately trying to be heard. They are tired, and yet they show up every day to protect their counties.

And they aren't just protecting

(Continued on page 4)

their territory. They are protecting all of us. As I've come to understand by shadowing the Cochise County Sheriff's department for two days, they are increasingly the first line of defense at the U.S. border. These small towns are not the final destination for most migrants. I learned that the migrants who are crossing to work will stay in towns and cities across America. But others cross to do harm — to carry drugs, including the deadly fentanyl, weapons, and victims of human trafficking. And because the border is so porous, every town is a border town now. The danger is real.

The Cochise County sheriff's department drove us up to the border wall. The subject of so much division in our country was staring right down at me, but so was someone else. A cartel lookout station, manned 24/7 for the last 10 years, was eyeing every move we made as a group, no doubt phoning in our activity to coyotes on either side of the wall.

Just behind me, laying abandoned in the scrubland, were miles and miles of unused panels for the border wall — paid for by our taxes, but rotting away.

Our group noticed used water bottles scattered in the brush, discarded carpet shoes that every migrant is given to cover their tracks in the dirt, and we notice dates written in chalk on almost every pillar of the wall. We come to learn that each date is a marker for re-welding where the metal had been cut from below where cameras can track movement. By cutting the bottom of a metal pillar, coyotes can move it over 10-12 inches for migrants to slip through. These markings go on for miles.

The landscape is no stranger to heavy rain; monsoon season causes the border wall to dam up without openings. When the downpour begins, heavy metal gates are opened for the free flowing of water. Here's the kicker: they don't close for months. And there is no security watching these openings.

Day 2 in Cochise County: Our day began at the Sheriff's Office, in a roundtable where we heard about local law enforcement's experiences and statistical findings based on the last few years. Record breaking spikes in crossings, apprehensions, got-aways, drugs, and violence. But what caught me off guard were the individual stories told.

Stories of 12-year-old migrant girls crossing the border with the "morning after pill" because there was a 100% chance she would be raped during her travels. Local kids as young as 14, recruited through social media apps, stealing their parents' cars to drive migrants for the cartel. There have been car accidents and fatalities caused by these teenagers because their directions from the cartel are to run from law enforcement. A mother was killed in one of these accidents while her teenage son waited at a restaurant for her to celebrate her birthday. There are military-aged men crossing in camouflage. It's not just the women and children that the leftist media likes to focus on.

As a conservative, I am disgusted by the policies that have brought this crisis about. As a human being, I am heartbroken and distraught for every single person involved in this mess at our border — law enforcement, citizens, and migrants alike.

We then traveled with the Sheriff's department up the mountains to Montezuma pass, where several migrant hotspots were pointed out to us along the way. At the very top is the beginning of the Arizona trail leading to Utah. Over one side of the mountain, you can see the border wall that we had visited the day before. On the other side, you see only valley. There is no wall. No fence. No line. You can't tell where Arizona ends and Mexico begins.

That is the reality of our Southern border. Dangerously open, deadly, and only getting worse with every passing day.

I knew this trip would be eye opening and emotional, what I didn't expect was walking away with a feeling of being indebted to the brave men and women in local law enforcement of Cochise County — how their bravery, sacrifice, creativity, and tenacity keep me and those I love safe from miles and miles away. An open border means that every town is a border town, but the Cochise County Sheriff's Department and every border county like it is working tirelessly to ensure that our entire nation is safer.

To Cochise County law enforcement, thank you. We owe you a debt we can never repay.

Eagle Forum
President: *Kris Ullman*
Report Editor: *Cathie Adams*
Yearly membership $25.00
Call 618-433-8990 to subscribe
Extra copies available:
1/$1, 50/$20, 100/$30