Asking Too Much: How American Governments Impoverish Their Own

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Overview

Our country asks those in poverty to fund government programs even when they can't afford basic needs. People living in poverty pay sales taxes, property taxes, payroll taxes, and sometimes income taxes. Fees for public goods and services, like fire and police response, fall on those at all income levels, including the poor. Processing fees for "crimes of poverty," like sleeping in public, target those living on the margins of society. In all, government charges can impose crushing costs on people living in and near poverty.

Each tax or fee in isolation might seem insubstantial, but when viewed in its entirety the landscape of government charges on poor households is quite dramatic. A childless adult in California who earned poverty-level wages of $13,300 in 2019 paid approximately $2,300 in federal, state, and local taxes. These charges have far-reaching consequences for the households and communities they impoverish. Government debt on credit reports makes it difficult for someone to secure work, housing, and affordable credit. Those who seek private loans to pay the charges face usurious interest rates and predatory borrowing terms. Even small amounts can snowball into long-term debt. This long-term debt lowers income for years into the future.

Government programs sometimes provide cash, vouchers, or other public support to offset the cost of at least some of these charges. Programs like the Earned Income Tax Credit (EITC) and Supplemental Nutrition Assistance Program (SNAP, or food stamps) can protect the poor from falling further into poverty. But too often, and for too many, they fail. Antipoverty programs across the United States tend to be small. They include only those considered the "deserving" poor, such as working families or people with disabilities. They leave out those who fail to reflect traditional notions of worth, including childless adults, the long-term unemployed, and immigrant families. As a result, millions of low-income Americans pay taxes and fees but receive little or no offsetting support, pushing them into—or deeper into—poverty.

This book makes a simple argument: Governments should not impose substantial financial obligations that push people into poverty. It explains why government charges on the poor have proliferated in recent decades, why they often go unnoticed, and how they undermine our governments' fundamental duties to their citizens and residents. In a time of growing inequality, the role of government in impoverishing its own citizens and residents cannot be ignored.

Chapter 1 provides historical context for our current fiscal system. The tax revolt of the 1970s, welfare reform of the 1990s, and the market-centric thinking that came to dominance in the past half century play a large role in this story. Chapters 2-4 describe the most prominent charges that harm low-income households, including taxes and fees, as well as fines. Chapter 5 explores how gaps in the safety net leave millions without public benefits to offset the government charges they face. Chapter 6 details the broader implications of government charges for households and communities, including the long-term consequences of private lending and government debt. Chapter 7 looks to law, economics, and philosophy to make the normative case that the poor should not fund government. Finally, Chapter 8 offers a policy reform playbook for advocates and policymakers.

CHAPTER SUMMARIES

Introduction

The introduction sets up the core argument of the book. It previews both the fiscal policies and normative claims that the book will explore. It opens by describing a family living near the poverty line, detailing their income and expenses in an average month. These figures show how government charges such as sales taxes, payroll taxes, user fees, licensing fees, and the like, make it more difficult for this family to afford basic needs like food and shelter. This real-world example grounds the book's thesis: Governments should not impose substantial financial obligations that push people into poverty or further into poverty.

The introduction then briefly discusses the various charges that U.S. governments impose on low-income households. Although certain taxes or fees may be familiar, viewing the full landscape of government charges exposes the weight of their total burden on people living in poverty. The introduction also explains why antipoverty programs fail to offset these burdens for too many low-income taxpayers. This overview helps orient the reader in advance of the details to be offered in later chapters. The introduction, like the rest of the book, will be written in a style that is equally engaging to nonexpert readers and those with a high-level understanding of law and policy.

Chapter 1: How Did We Get Here?

Chapter 1 situates current fiscal policies within a historical storyline. The 1970s tax revolt and 1990s welfare reform feature prominently. In the 1970s, states across the country enacted laws that dramatically limited state and local governments' freedom to raise revenue. Laws like California's Proposition 13 and Colorado's Taxpayer Bill of Rights capped property tax rates and required voter approval for new taxes. Cash-strapped state and local governments came to rely on a dwindling arsenal of regressive revenue-raising tools. Sales taxes and user fees, both of which impose relatively significant costs on people in poverty, proliferated.

At the federal level, the Personal Responsibility and Work Opportunity Act of 1996 imposed new work requirements and strict time limits on welfare recipients. Although federal safety net programs have left out certain groups since their New Deal beginnings, these reforms heralded a new era of exclusionary welfare policy. The resulting safety net focuses benefits on working families while disadvantaging the unemployed and sporadically employed. At the same time, federal taxes increasingly shifted away from capital income and onto labor income. In particular, regressive Social Security payroll taxes increased steadily. These trends continue.

This chapter also tracks the ascendancy of market-centric thinking. Governments' growing fondness for user fees imported market-based pricing into government services. User fee financing rejects the traditional model of broad-based public services funded by general revenue. Welfare reform channeled fears about economic productivity and work disincentives alongside the American public's longstanding aversion to welfare spending. The economic models and empirical research that underpinned these policy reforms focused attention on aggregate economic patterns. In doing so, it sidelined concerns about human dignity and governments' duties to the most vulnerable members of society. These changes produced a slate of revenue-raising tools that ignore people's ability-to-pay combined with a shrunken safety net that focuses benefits on a select few.

Chapter 2: Taxing the Poor

The U.S. tax system is progressive overall because average tax rates generally increase with income level. Even so, many low-income people face significant local, state, and federal taxes. Chapter 2 describes these various taxes. It also provides estimates, using U.S. Census data, of total tax costs for low-income households across the United States.

Most low-income households owe little or no federal income tax because the tax filing threshold exempts poverty-level earnings from tax. Social Security and Medicare payroll taxes, in contrast, apply to the first dollar of earnings. The EITC and Child Tax Credit offset payroll taxes for many working families, but these programs exclude millions of poor households. Childless workers, although not categorically excluded, receive an EITC too small to offset their payroll taxes.

This chapter focuses much attention on state and local taxes, which impose significant costs on low-income taxpayers. State income and payroll taxes often apply to poverty-level earnings. State sales taxes are the largest tax cost for most low-income households. Research finds that low-income households pay on average 7.1% of their income in sales and excise taxes. For a family of three living in poverty with income of $20,000 per year, on average over $1,400 of their income will go to paying these taxes. Some of them, like gas taxes and property taxes, are passed to low-income households indirectly via higher prices or higher rent. These tax costs stretch already thin resources of households struggling to make ends meet.

Chapter 3: Fee-for-Service Government

Chapter 3 explores the impact of state and local user fees on low-income payors. Fees have become an increasingly important revenue source for state and local governments, climbing from 11% of total revenue in 1977 to 17% of total revenue in 2019. Many fees apply broadly and lack carveouts for low-income households. For instance, fees have recently come to apply to core public services, like fire and police response, and even public schooling. Occupational licensing, and associated fees, has expanded in recent decades to cover more industries and job types, including those dominated by low-wage work like tree trimming or house painting. License holders face fees regardless of their income. Other government fees attach to necessary services from private companies, like telephone and television services. In nearly all cases, fees are levied without any inquiry into one's ability to pay.

Some fees target families living on the margins. When struggling families temporarily lose custody of their children to the foster care system, they often face enormous fees upon their children's return home. Foster care fee debt can burden families for years. All of these fees, whether they apply broadly or target struggling households, impose significant costs on people living in poverty.

Chapter 4: Crime and Fiscal Punishment

Chapter 4 considers the broad array of charges that apply to crimes and infractions. Certain localities increasingly and aggressively pursue criminal fines and fees to raise revenue. Fees in particular build up throughout a person's trial, incarceration, and probation period. They cover costs ranging from prosecutor expenses, through prison room and board, to ankle monitors. They attach to all manner of transgressions, from parking tickets to felonies. And they become substantial as they accumulate, with fee amounts reported around \$2,000 to \$3,000 per infraction.

This chapter pays special attention to the "criminalization of poverty"—the illegalization of certain behaviors more common among the poor. Such actions include truancy of school children (for which parents are held accountable); driving with an expired license; sleeping, eating, and sitting in public spaces; failure to pay child support; and late payment of other fees. Being charged with any of these infractions carries associated fees. Worse, nonpayment can result in incarceration, triggering yet more fees. In nearly all cases, the charges apply independent of a person's ability to pay and place a heavy burden on low-income communities.

Chapter 5: What About Welfare Benefits?

Chapter 5 examines the current state of antipoverty programs in the United States. If someone pays taxes and fees but receives a greater amount of offsetting antipoverty support, she will not be pushed into poverty. What matters here is *net* fiscal burdens.

Antipoverty benefits protect millions of low-income households from fiscal harm. These benefit programs include state and federal disability insurance programs, Social Security retirement and survivor benefits, food and housing vouchers, and cash support for working families such as the EITC and Temporary Aid to Needy Families. However, millions of households are excluded from antipoverty programs or receive only a small amount of benefits. Those who are excluded often fail to hew to traditional notions of deservingness, including childless adults, nonworking individuals and families, immigrant families, and families that rely on extended-kinship and non-kinship childcare arrangements. These groups are among the most vulnerable; they are the most likely to be pushed into poverty by government charges.

In addition to describing the patchwork U.S. welfare system and its limitations, this chapter uses U.S. Census data to estimate the number of impoverished households that pay net positive taxes and fees. These data show that antipoverty programs fail to protect millions of households from fiscal harm.

Chapter 6: Collateral Consequences

This chapter describes the collateral consequences of government fiscal burdens on people living in poverty. Someone in poverty has several options when facing a tax or fee that she can't afford. In many cases—such as with sales taxes or certain fees—she will have no choice but to pay it, leaving her with less income. Less income often means going without basic needs like food, shelter, and medical care.

For certain types of taxes and fees, some may fail to pay the charge and incur government debt. Nonpayment typically triggers additional penalties and fees. Full payment becomes a moving target. Moreover, governments employ aggressive collection tactics, including garnishing wages, levying bank accounts, and diverting tax refunds. Because government debt typically appears on credit reports, debtors are often unable to secure housing or qualify for low-interest credit. And many government debts cannot be discharged in bankruptcy.

Some choose to borrow money from private lenders to pay government charges. Consumer lending for the poor is predatory and destructive. Researchers have found that 80% of payday and auto title loans are followed by additional loans within weeks. The median payday loan borrower continues to owe money for more than 6 months. Many borrowers take out multiple loans per year. Even small amounts can balloon into long-term debt. A never-ending cycle of debt lowers income well into the future.

Chapter 7: Dignity and Duty

Chapter 7 pivots to the book's normative argument: Governments should not impose substantial financial obligations that push people into poverty or deeper into poverty. The chapter marshals legal, economic, and philosophical arguments to make its point. For instance, worsening deprivation violates individual human dignity by exposing people to degradation and social exclusion. Guarding human dignity requires preventing such harms to all individuals. Additionally, governments have a foundational duty to not harm their citizens and residents. It is thus a particularly grave harm for the *government* to make poor people poorer, over and above the social harms attributable to persistent poverty or inequality.

The chapter will also describe how the economic metrics that dominate current policy discussions obfuscate concerns about human dignity and governmental duties. Widely cited government reports on income distribution and poverty, including reports from the Congressional Budget Office and the U.S. Census Bureau, calculate the progressivity of government taxes and transfers. They examine how well U.S. fiscal systems reduce inequality and the poverty rate. Although useful, such metrics are based on aggregate, anonymous measures that simply cannot observe individualized harms. They therefore fall short when it comes to protecting vulnerable households.

Chapter 8: Rethinking Our Fiscal Compact

Chapter 8 turns to policy solutions for the problems the book identifies. It presents fiscal reforms for federal, state, and local governments to reduce charges on poor American households. For instance, legislatures can automatically link income tax filing thresholds to poverty line metrics that are adjusted for inflation and regional cost-of-living. States can offer sales tax rebates for poverty-level consumption. States and localities can ensure that property tax payments do not rise above a certain percentage of household income. All levels and branches of government can require ability-to-pay inquiries for user fees. Governments can also create assistance programs to help offset fees for low-income households.

To prepare for such policies, governments should track the fiscal costs borne by low-income households. State legislatures should require state and local agencies to gather data about the distribution of the costs and benefits of public programs. The U.S. Census Bureau could add targeted questions to its American Community Survey about user fees, parking and traffic tickets, and other charges that are currently absent from the survey. It could also add a measure of "fiscal impoverishment" to its regular poverty estimates. This measure would estimate how many people are pushed into poverty by government charges, taking into account taxes and fees as well as antipoverty public benefits.

State and local governments need more freedom to enact broad-based progressive taxes, like income taxes and progressive property taxes. Such progressive taxes would help to reduce reliance on current piecemeal, regressive funding streams. The chapter will explore the legal and political barriers to these broad-based taxes, as well as opportunities to overcome these barriers.

Conclusion

The conclusion briefly reiterates the book's main contributions. It highlights the significant transfer of resources away from millions of poor households and restates the arguments against this impoverishment. It also calls on policymakers and voters to rethink our obligations to each other as mediated through our government programs. Over the past half century, U.S. citizens and residents have increasingly come to view their governments as service providers: We pay taxes and expect to receive goods and services of equal or greater value in return. Media reports calculate taxpayers' "return on investment" for their tax dollars and thus reinforce this consumeristic view. The necessary consequence of such thinking is that governments treat taxpayers as customers who must pay for the cost of services they receive. This anemic view of government reflects a dangerous fallacy. It ignores individuals' rights against the state as well as our duties to each other as members of a shared society. This book calls for a more generous understanding of our fiscal compact, one that expects all to contribute as we are able, but that shows mercy to all in times of need.