THE REPUBLICAN STUDY COMMITTEE
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$16 Trillion Later, Poverty Rate Returns to Pre-War-on-Poverty Levels

This fall, new statistics on the U.S. poverty rate will be released. According to the Associated Press, the consensus forecast of economists is that the U.S. poverty rate for 2011 (when released) will rise to **15.7%**, the highest level since 1965. This means that the United States has made no progress on this measure of the War on Poverty since the effort was launched.

In 1964, President Johnson launched the War on Poverty by signing into law the Economic Opportunity Act. At the bill signing he promised the following:

> *"Every dollar spent will result in savings to the country and especially to the local taxpayers in the cost of crime, welfare, of health and of police protection."*
>
> *"We are not content to accept the endless growth of relief rolls or welfare rolls."*
>
> *"Our American answer to poverty is not to make the poor more secure in their poverty but to reach down and to help them lift themselves out of the ruts of poverty and move with the large majority along the high road of hope and prosperity."*
>
> *"The days of the dole in our country are numbered."*

Quotes of the Week:

"The days of the dole in our country are numbered."

-President Lyndon B. Johnson, 1964

"...the federal government declared war on poverty, and poverty won."

-President Ronald Reagan, 1988

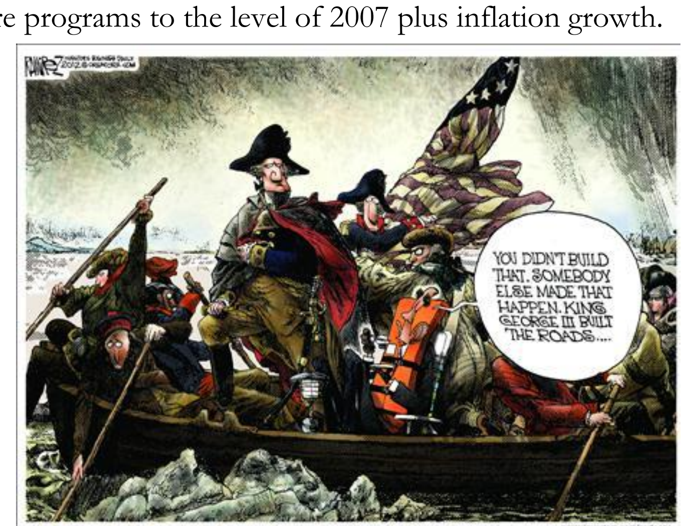
In his 1935 State of the Union Address, President Roosevelt stated his fears about means-tested welfare spending leading to dependence on government even more starkly:

> *"Continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fibre. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit... We must preserve not only the bodies of the unemployed from destitution but also their self-respect, their self-reliance and courage and determination."*

Today, instead of being used to "help them lift themselves out of the ruts of poverty," the welfare state often punishes earned success. Implicit marginal tax rates for the working poor often exceed 100%. See here for an RSC Policy Brief on this issue.

Since President Lyndon Johnson declared a "War on Poverty" in 1964, Americans have spent $16 trillion on means-tested welfare. This, unfortunately, rebuts the 1964 predictions that: "Every dollar spent will result in savings to the country and especially to the local taxpayers in the cost of crime, welfare, of health and of police protection." After 48 years, the cost of means-tested welfare spending continues to grow. In fact, American taxpayers (at all levels of government) now spend $1 trillion a year on means-tested welfare programs intended to fight poverty.

There are 70-plus federal welfare programs. In 1988, when President Reagan pointed out that the federal government lost the War on Poverty, he cited as one example of the failure of Great Society's vision that: *"the Federal Government has 59 major welfare programs and spends more than $100 billion a year on them."* To address the unsustainable spending on these programs, and to force Congress to make choices, the RSC's Welfare Reform Act (H.R. 1167) would limit overall federal spending on means-tested welfare programs to the level of 2007 plus inflation growth.



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THE WALL STREET JOURNAL.

The Tax Cliff Endangers Seniors
By: Lewis Hay III

Most people know that the U.S. government is rapidly approaching the edge of a fiscal cliff that will raise taxes for millions of Americans—at every income level and age. What is less known is that seniors many of whom depend on investment income to fund their retirement, will be hurt the most.

If Congress fails to act, tax rates for investment income will soar beginning Jan. 1, 2013. The top tax rate on capital gains will jump to 23.8% from 15% and the top rate on dividends will nearly triple to 43.4% from 15%. The House of Representatives is considering legislation to extend the current 15% tax rate on investment income for one year. But the Senate plan, scheduled for a vote this Wednesday, would raise the top tax rate on capital gains and dividend income to 23.8% for individuals making more than $200,000 per year and joint filers earning more than $250,000.

Now is not the time to raise tax rates on investment income—even if limited to upper-income taxpayers. Raising taxes on dividends and capital gains will have a devastating, domino-like effect that would hurt the economic security of millions of Americans at every income level.

Given the low rates on interest-bearing investments such as certificates of deposit, many older investors have turned to dividend-paying stocks to supplement their income. And for good reason. Total dividend distributions jumped to about $680 billion in 2011 from $340 billion in 2008, according to a recent study by J.P. Morgan. Another big jump is expected in 2012.

Higher tax rates will encourage upper-income investors to shift to other investments—here and abroad—with lower tax penalties. This could put pressure on dividend-paying companies to reduce the size of their quarterly dividend checks and to find alternative ways to return value to investors.

If this happens, all taxpayers who receive dividend income, but especially seniors, would be hit. For those living on fixed incomes and counting on dividends to help pay their bills, smaller dividend checks could be devastating.

As wealthy investors begin selling their dividend-paying stocks to lower their taxes, the value of those stocks will likely fall. This will be another hit for seniors and the majority of other investors holding dividend-paying stocks directly or indirectly through retirement plans or other mutual funds.

When Congress set the top tax rate on dividend income at 15% in 2003, it established a link between the top dividend rate and the top tax rate paid on long-term capital gains. Parity between dividend and capital gains tax rates is a critical issue—we cannot have our tax code picking winners and losers. Individual investment decisions should be driven by the markets and the performance of the companies themselves.

Discouraging investment in dividend-paying companies also will hurt vital sectors of the economy—including manufacturing, utilities and telecommunications firms—that are critical to economic growth and job creation. Reducing the capital these sectors can raise in equity markets will force them to increase their debt financing. This, in turn, will lead to an even riskier economy with overleveraged companies.

It is important to remember that if a company decides to pay dividends, the earnings already are taxed twice—first at the corporate level when the company pays taxes on its earnings (at a federal statutory rate of up to 35%), then later at the individual level when shareholders receive the dividends.

According to a study prepared this year by Ernst & Young for the Alliance for Savings and Investment, the top U.S. integrated dividend tax rate is currently 50.8% (when both corporate and individual taxes are factored in). If the current rates expire, this rate will rise to 68.6%—the highest level among developed nations.

Congress and the administration have stated their intent to address comprehensive tax reform in the near future—a necessary and overdue undertaking. America has the highest corporate income tax rate in the industrialized world, a dubious distinction that places a further drag on our ability to compete internationally. While elected officials determine the process and the particulars of reform, they cannot dangle taxpayers, investors and businesses over a precipice of uncertainty with respect to investment tax rates.

With the economy still struggling, now is not the time to reduce dividend income through higher taxes. Our grass-roots advocacy campaign, Defend My Dividend (www.DefendMyDividend.org), has a simple message for Congress: Keep tax rates on dividend income low and in line with the tax rates on capital gains. It's good for American businesses, good for the economy, and good for all investors—especially seniors.