

Race and the Submerged State  
Visibility, Tax Policy, and Racial Politics in the United States

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## Abstract

Over the last several decades, policymakers have used tax policy to expand government social programs. In typical social spending areas such as housing, healthcare, income security, commerce, and education; the federal government has increasingly used tax credits, exemptions, deductions, and exclusions as a means of delivering social benefits. These tax expenditures are a more indirect means of provision than more traditional direct government outlays for agency implemented programs. Scholars have identified these indirect programs as making up a “submerged state” that disproportionately serves high income populations. This paper examines whether there are racial disproportions between indirect and direct program types. By focusing on programs that appear to have similar goals in the areas of housing, healthcare, and income security and using a chi-squared test for significance, I find concentrations of non-whites in direct programs and whites in indirect programs. This finding has important public opinion, civic engagement, and equity implications and indicates an area of necessary further study.

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*“The federal income tax system consists really of two parts: one part comprises the structural provisions necessary to implement the income tax on individual and corporate net income; the second part comprises a system of tax expenditures under which Governmental financial assistance programs are carried out through special tax provisions rather than through direct Government expenditures. This second system is grafted on to the structure of the income tax proper; it has no basic relation to that structure and is not necessary to its operation. Instead, the system of tax expenditures provides a vast subsidy apparatus that uses the mechanics of the income tax as the method of paying the subsidies.”*

Stanley Surrey, Assistant Secretary of the Treasury for Tax Policy, 1967 (Kleinbard, 2008)

"Keep your government hands off my Medicare."

Unknown town hall attendee as recalled by U.S. Rep Rober Inglis (R-SC)<sup>1</sup>

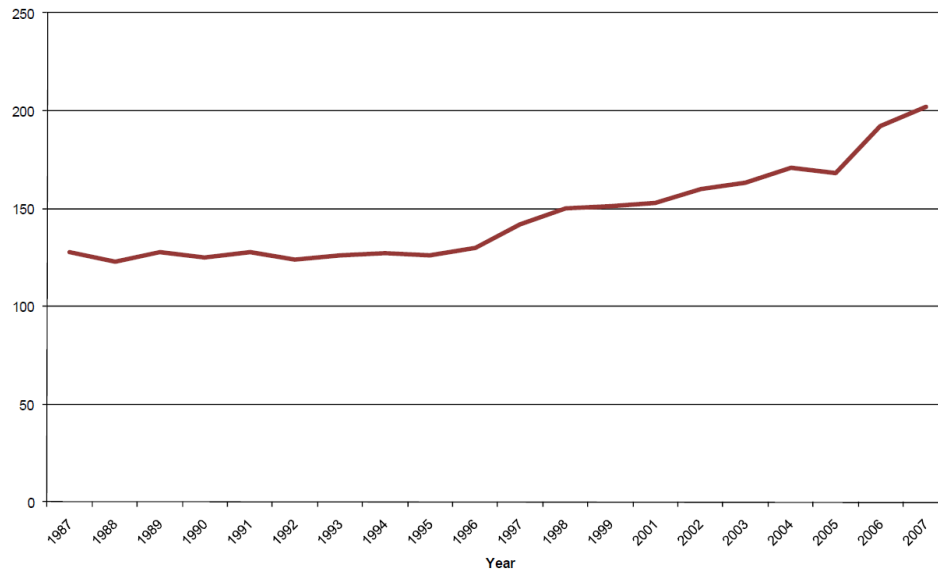
## **I. Introduction**

Over the last several decades, policymakers have used tax policy to expand government social programs. In typical social spending areas such as housing, healthcare, income security, commerce, and education, the federal government has increasingly used tax credits, exemptions, deductions, and exclusions, commonly called “tax expenditures” as a means of delivering benefits rather than more traditional outlays for agency implemented programs. Since 1974 the Joint Committee on Taxation and other federal bodies have tracked the fiscal impact of tax expenditures, and since the mid 1990s there has been a steady increase in the number of these items enacted by Congress (See Figure 1).

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<sup>1</sup> Keep Your Goddamn Government Hands Off My Medicare! (n.d.). *The Huffington Post*. Retrieved April 18, 2014, from [http://www.huffingtonpost.com/bob-cesca/get-your-goddamn-governme\\_b\\_252326.html](http://www.huffingtonpost.com/bob-cesca/get-your-goddamn-governme_b_252326.html)

**Figure 1: Number of Tax Expenditure Items Included in the US Tax Code 1987-2007**



Source: Figure from Joint Committee on Taxation (JCT, 2011)

In this way, the federal government spends by failing to collect revenue through the tax code.

Broadly these tax expenditures are a form of indirect social spending and I will refer to them as such throughout this paper. This indirect spending is focused on areas of traditional social policy but benefit provision is not channeled through or does not require close interaction with an overseeing government agency, other than, in the case of tax-based spending, the Internal Revenue Service. Additionally, the relative lack of visibility that characterizes tax expenditures is important. According to Suzanne Mettler (2011b), visibility of government programs is a function of both their familiarity to the public and whether the public can recognize those programs as government provided. Programs that the public interacts with regularly, or sees policy makers or the media refer to; tend to be the most familiar. Programs like welfare, Medicaid, and Medicare are examples. Whether the public recognizes a program as government provided is different from their familiarity with that program. Recognition can

be affected by the ideological point of view of the public; Mettler noted that more conservative program participants tended to be less likely to identify their use of a government program. For instance, while Medicare is a familiar program for many Americans, more than 25% of Medicare participants primarily interact with a contracted private insurance company. This lack of interaction with a government entity tends to mask the role of government for these participants, perhaps resulting in the kind of quote that opened this paper (Mettler, 2011b). Policy design is the primary means by which tax policy is made invisible, according to Mettler, who uses the term “submerged state” to describe government spending that is concealed by provision through the tax code or subsidies. This invisibility is serious as it results in an American public that cannot determine the size, scope, or beneficiaries of these policies and therefore cannot affect change in the related policy areas (Mettler, 2011b).

This finding highlights the need for the American public to expand their understanding of the mechanisms of social spending, but also begs a question. What do submerged programs have in common with each other? Mettler observes that tax expenditure programs predominantly serve high socioeconomic status Americans, while direct aid programs tend to be reserved for low income populations. This would appear to make sense as itemizing deductions, a key manner by which tax benefits are disbursed, is typically more feasible for higher income tax filers. However, low income status in the U.S. is not proportionally distributed; especially on the basis of race. According to the 2012 Current Population Survey, Asians make up 11.7% of the people in poverty in the U.S. despite making up only 5.2% of the population, while African Americans and those of Hispanic origin (of any race) make up 27.2% and 25.6% of people in poverty, respectively, despite being only 12.8% and 17.0% of the population (U.S. Census Bureau, 2012). Given the correlation between low income status and race in the United States, it seems reasonable to extend this analysis to examine the correlation

between race and submerged social policy. Is there a correlation between the racial composition of program participants and whether an expenditure program is direct or indirect?

The implications of such a finding are important. Scholars have already noted links between public opinion and support for social programs on the basis of perceived racial composition. If social programs that are the most visible are also those that disproportionately serve non-white populations, it is possible that there are effects on the public discourse about these programs<sup>2</sup>. This could result in the public identifying certain racial groups as the predominant beneficiaries of social spending even if benefits are not so starkly distributed. It could be the reason we see discussion of the “welfare queen,” a racial archetype used by Ronald Regan and others to describe those receiving AFDC benefits, and not “welfare corporations” or “welfare millionaires,” even though those groups receive significant social benefits. I wish to first identify whether there are differences in the provision of social benefits along racial lines, and then make some conclusions about how these differences could result in mischaracterization of social program beneficiaries with resulting political implications.

## II. Literature Review

Scholars in comparative analysis of US social spending have focused on issues such as the time period over which social programs were enacted and expanded, the mix of federal and state based programs, the public discourse about social spending, and the universal or targeted nature of the programs. Over the last decade scholars have attempted to provide a more accurate picture of the size and scope of U.S. social policy by looking at the direct *and* indirect ways government spends money on citizens. Rather than focusing on direct transfers to citizens, some scholars over the last decade have called attention government spending through

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<sup>2</sup> Non-white racial and ethnic categories per the U.S. Census including Black or African American, Asian, Native Hawaiian or Pacific Islander, American Indian or Alaska Native, “two or more races”, and “some other race”.

large and growing tax expenditures. Tax expenditures are defined as special tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates; in other words they are spending that the government does by giving up tax revenue in specific ways (GAO, 2012). These expenditures often cover similar areas as direct social spending: health, education, income security and housing, but differ in the indirect form the spending takes. They represent a policy tool, a choice, which has increasingly been used by legislators in the last several decades to accomplish social goals in an indirect manner (Faricy, 2011). For instance, the 2010 Affordable Care Act (ACA), one of the largest pieces of legislation during the decade, was notably linked to the tax code through subsidies administered through a participant's annual tax return. Under the ACA, participants that enroll in health coverage through a health exchange may receive a subsidy to pay for coverage which is reconciled through their tax filing. The "premium tax credit" reduces the participant's tax liability or is refundable if the credit exceeds the liability. The reason that lawmakers may be increasingly using tax expenditures is unclear; it could be for political feasibility or administrative efficiency or for the purpose of obscuring these policies. As we will see, using tax policy as a means of conferring social benefits is not a neutral one; it is not a choice between equal effects and warrants examination.

#### *The Submerged State*

Christopher Howard's 1999 and 2007 works, *The Hidden Welfare State* and *The Welfare State Nobody Knows*, examined the reach of American social programs by counting tax-based programs as welfare. The debate about how to characterize the American welfare state continues, but whether we characterize these programs as welfare or not, tax policies that are targeted at common social issues like economic well being and income security are appropriately grouped, more broadly, into social policy (Faricy 2011). My definition of social

policy is informed by RM Titmuss work on social policy and is comprised of government interventions that deal with specific economic and non-economic needs of citizens in an effort to increase their welfare (Titmuss, 1974).

Contemporaries of Howard have examined the extent to which U.S. tax policy creates government transfers that expand the reach of social policy (Gottschalk 2000, Garfinkel 2006, Hacker 2002). These important early works recognized tax expenditures as generally less transparent and termed them as “hidden” and “shadow” state activities (Gottschalk 2000, Howard 1999). Susanne Mettler brought the term “submerged” into the lexicon to describe the lack of visibility and inertia that typically characterize these indirect expenditures. Mettler examined several indirect programs from their nexus in the 20<sup>th</sup> century in her book *The Submerged State*, providing a basis for how these programs influence political activities. These works lay the groundwork on which to examine the tax- based programs as social programs and provide a background on the submerged state.

One of Mettler’s key findings was that the visibility of government programs appeared to vary based on the design of benefit provision. For instance, one of the key data pieces in her book uses survey data from the 2008 Social and Government Issues and Participation Study. This survey tracks the opinions of Americans on whether or not they have participated in a particular government program and then asks them more specific questions about program participation. In many cases 40-60% of those surveyed stated that they *had not* participated in a government program, initially, and then indicated that they had used tax credits, student loans, tax deferred savings plan and other programs upon further questioning. This phenomenon, people who have used government social program without realizing it, is observed in a greater percentage of respondents for tax expenditure programs than direct aid programs. Mettler then links the lack of public knowledge about the scope and scale of these programs to their



entrenched nature and susceptibility to interest group influence (Mettler 2010). For Mettler these tax expenditure programs favor the wealthiest Americans, promote private actors, and create disparities primarily along income and class lines. She concludes that these types of submerged policies drive inequality and create a “passive” electorate who also mistrust government without recognizing the benefits from the state (Mettler 2011). These scholars have examined the scope and level of tax expenditures across income levels. Given the disproportionate number of minorities in poverty in the U.S., talk of disparities across income and economic inequality often turn to race. Therefore, an examination of the submerged state from this perspective is sure to reveal additional implications.

#### *Race and Social Spending*

Race and social spending have often been linked through the development of the U.S. welfare state. Jeff Manza (2000) identifies three areas in which race and social welfare spending have been examined; historical institutional analyses, the “class/race nexus”, and the impact of racial attitudes on policy preference. In his review of race and social policy, Manza notes that scholars like Theda Skocpol and Robert Lieberman have developed institutional explanations for racial disparities in the welfare state. For instance, the structure of the political process and procedural rules, like the filibuster, alter which social policies are enacted. Additionally, the design of social programs such as federal mandates or state control can create racial differences in experience. The race/class nexus refers to the manner in which researchers have focused on the influence of class groups, like the southern planters class, to understand the direction and universality of social policy. Lastly, and most importantly for this work, scholars have considered public opinion and support for social spending that predominately targets certain racial groups. Identifying a low level of support for programs targeted at African-Americans, researchers have come up with a variety of explanations from self-interest on the part of whites,

to racial attitudes, to the effect of policy goals that focus on either “opportunity” or “outcomes” (Bobo and Klugel, 1993). Manza takes issue with the fact that many scholars do not provide a mechanism by which whites perceive certain welfare programs as predominantly benefiting African Americans even though the majority of beneficiaries are white. In the racial attitude area, scholars like Martin Gilens (1995) use survey data to identify negative attitudes towards African Americans as a potential source of opposition to social programs. Additionally, researchers have found that racial concentration within a state appears to have an impact on policy choices. In their work on the 1996 welfare reforms, Joe Soss, et al (2001) note that states with higher percentages of African-Americans in their Temporary Assistance for Needy Families (TANF) caseloads adopted more restrictive policies. While this study looked at state level programs and doesn’t provide a means by which race affected policy differences, the work reinforces the idea that race matters in policy formation and implementation.

#### *Public Opinion and Social Spending*

Digging in to how race and the submerged state might be linked, political scientists have also begun to examine the connection between indirect spending and public opinion. While prior research has found a link between the amount of direct spending and public opinion, more recent arguments look at the influence of indirect spending on public opinion to provide a more comprehensive view. Christopher Ellis and Christopher Faricy’s 2011 paper in the Journal of Politics find that direct and indirect spending differ not only on their visibility, but on their redistributive effects, the demographics of the populations served, and their impact on the private market. With this in mind, direct and indirect spending should reasonably be expected to have variable impacts on public opinion. Building on existing models of public responsiveness, Ellis and Faricy conduct a statistical analysis of existing survey data to measure the effect of changes in direct (federal spending on budgeted social programs) and indirect

spending (tax expenditures) on the ideologically leanings (liberal or conservative) of aggregate public opinion. They find that an increase in direct spending causes the general public mood to become more conservative while an increase in indirect spending causes the general public mood to become more liberal. This difference in public response is perhaps reflective of differences in the public's perception of the role of government under these spending types. Ellis and Faricy conclude that while indirect programs are less visible to the public, the public still appears to react to changes in spending. What Ellis and Faricy fail to address is whether the public response to indirect spending is proportionate to the benefits conveyed and whether changes in public opinion result in policy action. In a comparative analysis of developed countries, Jane Gingrich (2014) finds that in countries with more visible, direct programs citizens more often include welfare issues as an important voting issue. The key idea is that the public gains information and reacts in different ways to indirect and direct programs. These differences could be as a result of the visibility of these programs as Gingrich seems to contend or on ideological grounds as Ellis and Faricy suggest, but public opinion formation is affected by the indirect or direct provision of program benefits.

#### *An Area for Examination*

Scholars have not yet linked public opinion on social spending and race and made conclusions about what racial concentrations across the constellation of direct and indirect social spending might mean for public opinion. Given the above discussion, public opinion could be an important way submerged state policies, direct policies, and race are connected. While the submerged state renders certain social spending invisible, obstructing public engagement and opinion, it has the opposite impact on direct social spending. To the extent that direct and indirect social spending is targeted at different racial groups the impact on public opinion could occur along racial lines. For instance, if direct spending is directed at

racial concentrations of non-whites, the comparative visibility of direct programs could be the means by which the public perceives that the government confers social benefits predominantly to non-whites. At the same time, if indirect programs are predominantly directed at whites, the comparative lack of visibility in these programs could also contribute to public perception that social benefits are reserved for non-whites. To examine this issue, I first seek to establish an account of racial concentration across direct and indirect social spending. My hypothesis is that there are disproportionate concentrations of whites in indirect social spending programs and disproportionate concentrations of non-whites in direct spending programs. To examine this hypothesis I will look at social programs that appear to address the same social goals but differ in their method of benefit provision. I will then determine the racial composition of beneficiaries which will allow me to make some conclusions about the viability and implications of my hypothesis. Lastly, I will highlight areas in which additional data and research is needed.







### **III. Background: Indirect and Direct Social Programs**

#### *Definitions*

As I have done already, within this work I will refer to tax expenditures in a broad category of indirect programs. These are programs that are designed to not be administered or overseen by a mission specific, dedicated government agency. Tax expenditures are made up of variety benefits that American individuals, families, and businesses can access through additions to or omissions from their tax fillings. The tax code sets up certain rules for what is considered income and what is subject to taxation. Tax expenditures are broadly defined as any items that makes special exception from these normal rules (Surrey and McDaniel, 1978). Figure 2 provides a list of these types of exceptions. Tax filings are made on an individual or family basis and therefore are subject to limited administrative data keeping and limited public

availability. The IRS does not collect more data on filers than is necessary for tax administration. In addition many tax expenditures are not required to be recorded on a tax return or may be aggregated with other items limiting both the visibility to the user and the tracking of their use (GAO, 2013).

**Figure 2: Types of Tax Expenditures**

<p><b>EXCLUSION</b></p> <p>Description: Excludes income that would otherwise constitute part of a taxpayer's gross income.</p> <p>Example: Employees generally pay no income taxes on contributions that employers make on their behalf for medical insurance premiums.</p> 	<p><b>EXEMPTION</b></p> <p>Description: Reduces gross income for taxpayers because of their status or circumstances.</p> <p>Example: Taxpayers may be able to reduce their tax liability if they have a dependent who is a child aged 19 through 23 and is a full-time student for at least 5 months of the year.</p> 	<p><b>DEDUCTION</b></p> <p>Description: Reduces gross income due to expenses taxpayers incur.</p> <p>Example: Taxpayers may be able to deduct mortgage interest for owner-occupied homes.</p> 
<p><b>CREDIT</b></p> <p>Description: Reduces tax liability dollar-for-dollar. Additionally, some credits are refundable meaning that a credit in excess of tax liability results in a cash refund.</p> <p>Example: Taxpayers with children under age 17 potentially can qualify for up to a \$1,000 partially refundable, per child credit, provided their income does not exceed a certain level.</p> 	<p><b>PREFERENTIAL TAX RATE</b></p> <p>Description: Reduces tax rates on some forms of income.</p> <p>Example: Capital gains on certain income are subject to lower tax rates under the individual income tax.</p> 	<p><b>DEFERRAL</b></p> <p>Description: Delays recognition of income or accelerates some deductions otherwise attributable to future years.</p> <p>Example: Taxpayers may defer paying tax on interest earned on certain U.S. savings bonds until the bonds are redeemed.</p> 

Source: GAO, 2012

The primary source for the scope and amount of these expenditures is estimations made by a committee of the US Congress. The Joint Committee on Taxation (JCT), a nonpartisan committee, assists Congress in enacting tax-related legislation. On an almost annual basis, the staff of the committee produces estimates of Federal tax expenditures as a result of legislation passed by Congress. JCT defines tax expenditures as “reductions in income tax liabilities that result from special tax provision or regulations that provide tax benefits to particular taxpayers.” In its definition, JCT notes that these expenditures often seek the same objectives as

direct outlay programs (Joint Committee on Taxation, 2014). This definition shares the view of tax expenditures laid out in 1967 by former Treasury official Stanley Surrey, who was one of the leading proponents measuring their impact. JCT provides estimates of tax expenditures by budget function (i.e. specific credits or amortization provisions) and also groups these items into larger categories (i.e. Defense, Income security, Community Development). These estimates are generally calculated by calculating the tax liability with and without a special tax provision and determining the difference. The JCT may not include estimation of tax expenditure for budget functions determined to be too small (<\$50M) and for those for which data is not available. Based on JCT estimates, 2012 tax expenditures were about \$986 billion. The largest tax expenditures, based on JCT estimations, are included in Figure 3.

**Figure 3: Ten Largest Tax Expenditure Functions, 2012 (in billions)**

Category	Function	Expenditure
<b>Health</b>	Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums	\$117.3
<b>Commerce and Housing</b>	Reduced rates of tax on dividends and long-term capital gains	\$108.4
<b>Commerce and Housing</b>	Deduction for mortgage interest on owner-occupied residences	\$68.5
<b>Income Security</b>	Earned income credit	\$59.0
<b>Education, Training, Employment, and Social Security</b>	Credit for children under age 17	\$56.8
<b>Income Security</b>	Defined contribution plans	\$49.6
<b>General Purpose Fiscal Assistance</b>	Deduction of non business State and local government income taxes, sales taxes, and personal property taxes	\$43.5
<b>Income Security</b>	Defined benefit plans	\$40.9
<b>Commerce and Housing</b>	Exclusion of capital gains at death	\$37.8
<b>Education, Training, Employment, and Social Security</b>	Exclusion of benefits provided under cafeteria plans	\$26.8

Source: Author Created based on JCT Estimates of Federal Tax Expenditures For Fiscal Years 2012-2017

Direct programs as defined within this work are those budget items that represent payments for social programs that are not tied to the tax code. These can be thought of as more traditional government service programs that cover a variety of areas related to the general

welfare of the populace. These programs are often means-tested, meaning that they provide benefits to low income or low asset individuals, but can also serve a broader population (Congressional Budget Office, 2014). Direct outlay items are segregated from the larger budget by the Office of Management and Budget (OMB) and reported on an annual basis. These outlays are reported as “payments for individuals” and comprise cash paid directly to individuals and families, the cost of services provided directly to them, and payments made to state governments by the federal government to support these programs. The ten largest of these outlays are included in Figure 4. For context, other outlays by the federal government that are not considered “payment for individuals” are payments of net interest, nondefense grants to state and local governments, like highway trust funds, and federal loan and foreign assistance funds (The Office of Management and Budget, 2014). Based on OMB calculations for 2012, outlays for individuals add up to about \$2.30 Trillion and are about 65% of federal government outlays.

**Figure 4: Ten Largest Direct Outlay Federal Government Programs, 2012 (in billions)**

Category	Function	Expenditure
<b>Income Security</b>	Social Security: Old Age and Survivors Insurance	\$631.3
<b>Health</b>	Medicare: Supplementary medical insurance	\$288.2
<b>Health</b>	Medicare: Hospital Insurance	\$261.6
<b>Health</b>	Medicaid	\$250.5
<b>Income Security</b>	Social Security: Disability Insurance	\$135.7
<b>Income Security</b>	Unemployment Assistance	\$92.2
<b>Income Security</b>	SNAP (formerly Food Stamps)	\$80.4
<b>Federal Employees</b>	Civil Service Retirement	\$50.5
<b>Commerce and Housing</b>	Earned Income Tax Credit	\$54.9
<b>Military</b>	Veterans service-connected compensation	\$48.8

Source: Office of Management and Budget, 2012.

OMB also includes the Earned Income Tax Credit and the refundable portion of the Child Tax Credit as payments for individuals even though these programs are administered through the tax code. This is likely because these are refundable credits and typically represent

a transfer to individuals and families. For purposes of discussion in this paper, since the Earned Income Credit is included in JCT estimates as a tax expenditure item and requires an individual or family to file a tax return to receive the benefit, it will be classified as an indirect program.

#### **IV. Methodology**

I will examine the racial concentration of government expenditures that appear to have the same social goals but differ in their direct or indirect provision. As such I will choose programs and spending in certain social areas and analyze data on the demographic characteristics of participants. Social spending programs are often designed and administered at a federal level and therefore provide a breadth of programs to study. As an initial investigation in this area, my examination will remain at the federal level. In addition, a portion of social spending is composed of expenditures and programs that exist to address the needs of a specific sub population and have features designed for those needs. For example, spending for the elderly and veterans are available at retirement or through enlisting and serving in the armed services. This social spending is not available to most Americans for the majority of their lives. While the demographic differences in these areas are important to consider, I seek to examine the programs available to non-disabled, working age individuals. This spending, both direct and indirect, are more widely available to the general public and provide a basis for comparison and some generality. In addition, this spending is targeted at groups that that society would normal expect to support themselves through work. This area of investigation recognizes that, given their ability to work, social provision for this group often becomes controversial and contentious; in that contentiousness it attempts to find the effect and influence of race. Lastly, these federally administered programs are those for which data can more feasibly be obtained.



Ideally, I would be able to examine the entire system of federal social provision for the non-disabled and determine direct and indirect program provision and make conclusions about the demographic makeup of participants. Constraints on both resources and available government data (which will be addressed in the recommendations) make this impossible. To provide a picture of the relationship between social provision and race then requires a more selective examination. I have selected social spending in three areas that are most readily available to non-disabled adults: health, income security, and housing. I have chosen two social spending programs in each area, one indirect and one direct to analyze.

Again, the important idea here is that if the social goals of these programs are the same then differences in the type of provision by race of participants is particularly interesting. I summarize participant racial data for each program by major racial and ethnicity groups, as defined in the U.S. Census (i.e. White, Black or African American etc.<sup>3</sup>), and further group into white and non-white groups. To determine whether a racial concentration is present, I look at the program expenditure level and determine whether white and non-white benefits or participation differ significantly in the program based on comparison to a reference point. A reference point is often used in studies of racial disparity as a definition of what is generally expected or normal and it provides a means of determining the size of a disparity. As these expenditure programs are widely available to the US public, I will use the racial composition of the US public as a reference point to determine whether white or non-whites are significantly concentrated within a program (see Figure 5).

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<sup>3</sup> Racial and ethnicity categories included: White alone, not Hispanic or Latino; Black or African American alone, not Hispanic or Latino; Asian alone, not Hispanic or Latino; American Indian and Alaska Native alone, not Hispanic or Latino; Native Hawaiian and Other Pacific Islander alone, not Hispanic or Latino; Some other race, not Hispanic or Latino, Two or more races, not Hispanic or Latino; Hispanic or Latino (of any race).

**Figure 5: Racial composition of the U.S. Population**

Race or ethnicity	White	Non-White					
Percent of U.S. Population	63.75%	Black or African American	Hispanic	Asian	American Indian and Alaska Native	Hawaiian and Other Pacific Islander	Some other race or Two or more
		12.21%	16.35%	4.69%	.73%	.16%	2.13%

Source: U.S. Census, CPS 2012

I use a Chi-squared goodness of fit test to determine the significance of any difference observed (Balakrishnan et al.,2013). A Chi-squared, goodness of fit test allows for the comparison of an observed categorical characteristic in a sample population to a hypothesized underlying distribution. For instance, I expect the race of program participants or dollars of expenditure by participant to mirror the racial composition of the US population, therefore, for a given the racial composition of participants in a program, Chi-squared allows a comparison to total US population. In essence the Chi-squared test allows us to determine if program participants (observed) are pulled randomly from the US racial distribution (expected) or if there is significant concentration by race that indicates that the underlying, program participant distribution differs. Chi-squared is particularly suited in this case given that I am dealing with categorical variables and a large sample size (which in some cases is the entire population of values). The Chi-square statistic has formula:

$$X^2 = \sum_{i=1}^k \frac{(O - E)^2}{E}$$

$$DF = k-1$$

Where  $O$  represents an observed amount,  $E$  is an expected amount, and  $k$  is the number of types of the categorical variable. The resulting Chi-square statistic is compared to a Chi-squared table

which reflects the probability of the test statistic based on degrees of freedom,  $k-1$ . In this study the categorical variable of interest is racial group, white or non-white. To be clear, this does not mean that the racial composition or expenditure in each program *should* be the same as that of the U.S. population; it simply provides a means of determining whether there is a particular racial concentration within program or expenditure area.

The Chi-squared goodness of fit test carried out here is based on the assumption of the Bernoulli Distribution, with probability of the participation of subgroups mirroring the census proportion of whites and non-whites in the nation. If the Bernoulli distribution concentrates on “White” as “success” and “non-whites” as “failure”, as required in the language governing random bivariate outcomes that would be expected in a Bernoulli experiment, then the table below states the hypothesized distribution being tested under the Chi-squared goodness of fit theory:

**Table 1**

Groups	Assumed probability of participation
White (“success”)	0.6375
Non-white (“failure”)	0.3625

When the test is significant, then this particular Bernoulli model is excluded, without excluding other Bernoulli models.

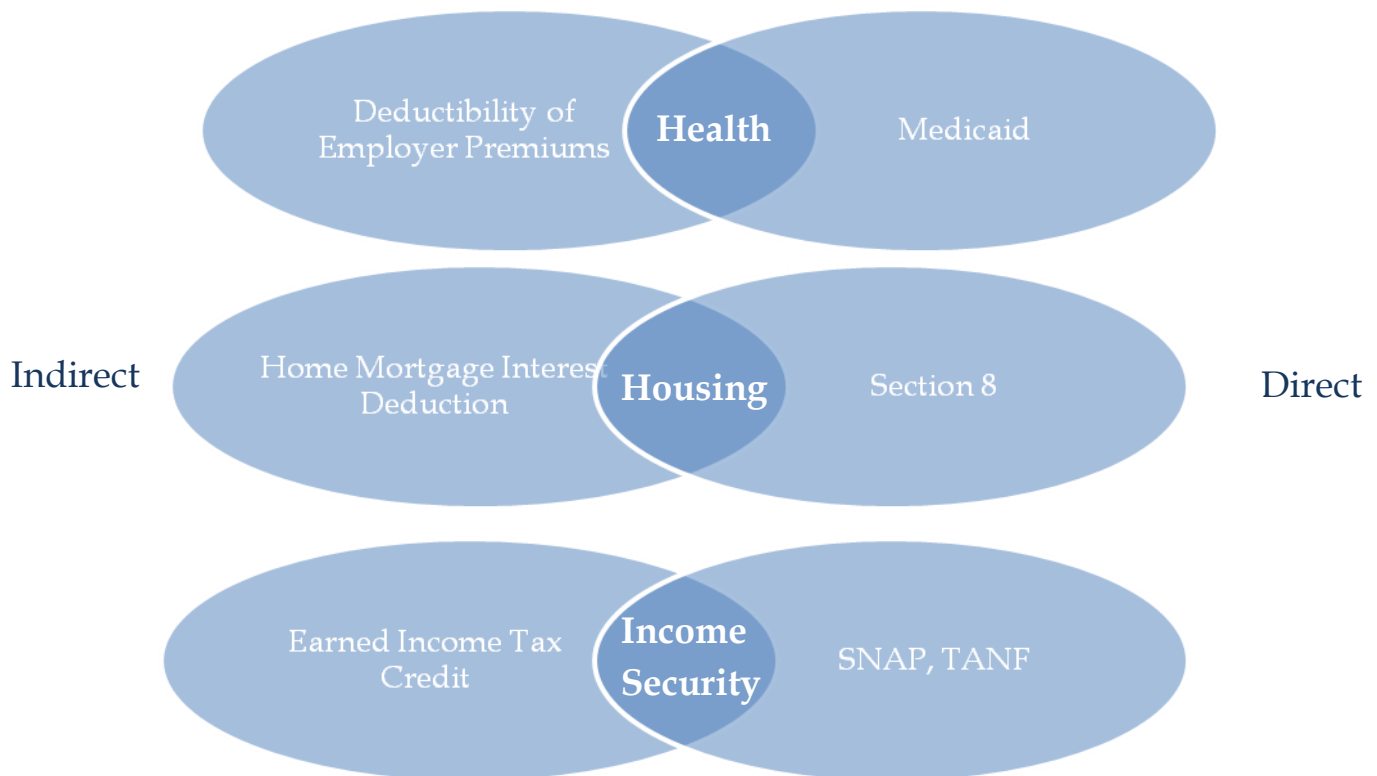
Based on racial concentration identified within expenditure programs areas (health, income security and housing), I make conclusions about the presence of concentrations in either the direct or indirect expenditure type by race.

*Programs Selected*

With these methodological considerations in mind, I selected programs in the three policy areas to examine: housing, health, and income security (See Figure 6). I will examine the Home Mortgage Interest Deduction and major Housing Assistance programs in the housing

policy area. In the healthcare area, I will examine the Medicaid program as well as the tax subsidy for employer sponsored healthcare and. In the income security area, I will consider direct programs TANF and the Supplemental Nutrition Assistance Program (SNAP) and indirect program, the Earned Income Tax Credit(EITC).

**Figure 6: Analysis Framework**



Summarized in Figure 7, the selected programs represent about \$271 billion in tax expenditures and \$391 billion in direct outlays based on 2012 estimates and represent programs predominantly covering able bodied adults.

**Figure 7: Selected Programs and 2012 Expenditures and Outlays**

<b>Program Name or Description</b>	<b>Program Type</b>	<b>Expenditure or Outlay Amount in Billions of Dollars</b>
<b>SNAP</b>	Direct	\$80.4
<b>TANF</b>	Direct	\$20.1
<b>Earned Income Credit</b>	Indirect	\$59.7
<b>Housing Assistance</b>	Direct	\$40.0
<b>Home Mortgage Interest Deduction</b>	Indirect	\$83.7
<b>Medicaid</b>	Direct	\$250.5
<b>Exclusion of employer contributions for health care</b>	Indirect	\$117.3

## V. Data

Several kinds of data are needed to conduct this analysis. Program expenditure data was gathered from JCT and OMB estimates and calculations. Program participant data is then needed in order to determine the racial characteristics of those participants. For each program this information may come from a range of sources, as reporting of racial demographic data may not be mandated under the program provisions (See Figure 8 for a summary of data sources). As such, composite data was created in some cases to link datasets with information on racial composition to those with information on program participation and beneficiaries.

### *Census data*

The U.S. Census Bureau compiles data on program participation in a number of programs. This data is typically at a national level with information reported in numbers of thousands of people in particular programs and racial demographic data included.

Additionally, data on racial composition was utilized from the 2010 U.S. Census.

### *Zip code level data*

As participation in indirect, tax expenditure programs is done through the voluntary claiming of tax benefits on an individual's tax return, there is comparatively little data currently compiled on racial characteristics of program participants. However, as a proxy for racial data, I will examine claim amounts and racial data by zip code. The Internal Revenue Service (IRS)

reports Statistics of Income (SOI) data, which represent the amounts reported and claimed through individual income tax returns by zip code. This represents the smallest geographic region on which this data is available. The Census Bureau reports racial group data for the population by zip code tabulation areas (ZCTAs) which closely match zip codes<sup>4</sup>. By matching SOI data with ZCTA data on the racial composition, I created a database of the amount claimed of selected tax benefits. I was able to use this compiled data, with a line item for each of the more than 27,000 US zip codes, to look for patterns estimated tax benefit by the racial composition of a zip code.

#### *Other Data*

Related agencies sometimes collect demographic information on program participants. As this information comes directly from the agency administering the program, the data can be considered a reliable estimate of racial compositions. While this data is limited for certain programs it provides a reliable source for demographic information. In addition, my analysis will make reference to peer-reviewed studies that have examined or include program participant racial demographic data. These studies serve as additional support for the findings of this paper.

#### *Data Limitations*

There are several key data limitations that impact the analysis completed and inform the items for future study mentioned later in the paper. First, ZCTA and zip codes are approximately the same but may differ in areas. A ZCTA is made up of census blocks that reflect the USPS delivery routes defined as zip codes. In some cases a zip code may not have ZCTA because very few addresses are present in the zip code. For the majority of zip codes the ZCTA is a very close approximation and therefore the impact of missing ZCTAs is not expected

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<sup>4</sup> Census demographic data on race and age was utilized from Table QT-P1 of the Decennial US census from 2010 Census Summary File 1

to have a significant effect on the analysis. As zip codes are the lowest geographic region at which the IRS collects data on certain tax benefits, ZCTAs are the most appropriate level of analysis. Additionally, there are some restrictions on reporting in Census data and IRS data at the zip code level. Both Census and IRS do not report data for persons they believe could be identified through reporting. For instance, if there are few people in certain racial category in an area the Census will not include their information in its compiled data. Accordingly, if a high income person could be identified within a zip code because they make up the vast majority of claimants the IRS will instead group their information in an alternate zip code, typically "99999." As this analysis groups by the large categories of white and non-white, I do not expect omissions in census data to be a large issue. IRS data include in the 99999 zip code represented about 2% of the data obtained and therefore is not expected to have significant impact on the findings of the analysis.

Additionally, census data utilized for demographic information was sourced from the 2010 decennial census, while IRS data was the latest available and reflect all tax returns received between January 2012 and December 2012 and therefore predominantly reflect the 2011 tax year. While the US population is a mobile one, it is not expected that racial concentrations within zip codes would have changed significantly between the 2010 census and the tax year reflected in the data. Lastly, this analysis uses U.S. Census racial reporting. Both the definition of the available racial groups and the self-reporting and data collection methods used by the US Census can lead to some data weakness, such as underreporting in low income areas or certain racial groups (Anderson and Fienberg, 2000). This analysis relies on the underlying accuracy of census racial data.

**Figure 8: Selected Program and Race Data Source**

<b>Program</b>	<b>Data Source</b>
<b>Home Mortgage Interest Deduction</b>	Zip code level data
<b>Housing Assistance</b>	Agency Data
<b>Exclusion of employer contributions for health care</b>	Census Data
<b>Medicaid</b>	Census Data
<b>SNAP</b>	Agency Data
<b>TANF</b>	Agency Data
<b>Earned Income Tax Credit</b>	Zip code level data

## **VI. Analysis**

### *Racial Concentrations in Housing Programs*

Federal and local governments have long been involved in the provision of adequate and affordable housing in the United States. Whether by supporting financing or by regulating the construction and purchase of housing, there has been a government role in the housing market for over a century. In the 1930s, the federal government created the Federal Housing Administration to insure home mortgages in an effort to expand the private market for home loans. This market expansion goal was continued in the 1970s and 1980s when Congress created quasi-governmental entities to serve as a secondary market for home loans (FHFAOIG, 2014). Today, housing assistance spans several federal agencies in addition to state level aid and is comprised of more than 160 programs (including tax-based ones) (GAO, 2012). While homeownership sometimes provides a significant wealth accumulation mechanism for Americans, the overarching goal in these programs appears to be to provide safe, affordable housing. With that in mind, I will look at the largest housing tax expenditure program, the Home Mortgage Interest Deduction (MID), which allows the tax deduction of interest paid on mortgage loans for a main residence or second home, and the three largest direct housing assistance programs administered by the federal Department of Housing and Urban



Development; the Housing Choice Voucher Program, Public Housing, and the Project-based Section 8 program (Internal Revenue Service, 2014; Rental Assistance/U.S. Department of Housing and Urban Development (HUD), 2014). Each of these direct programs provides aid by subsidizing rent or providing dedicated low income housing.

The home mortgage interest deduction is in large part a remnant of the first income tax program enacted by Congress in 1913. Lawmakers allowed the deductibility of all interest at this time and for decades afterwards. Tax reform in the 1980s eliminated the deduction of most types of consumer interest but left deductibility intact for a few types of interest, including home mortgage interest. It is beyond the scope of this paper to examine the reasons for this exception; however, the implications of these provisions are paramount. For homeowners that itemize their deductions, a process that is motivated by the attractiveness of the deductions available, the MID can provide a significant tax relief. Under the MID interest paid on a qualifying mortgage is generally fully deductible.

As noted above, income tax filing data is available on a zip code level. Given that the MID can only be received by homeowners, this tax filing data in combination with census data on the race homeowners in a particular zip code provided the key racial concentration data. As I cannot look at filing data on an individual basis I focus on zip codes that are disproportionately white or non-white, first, to identify trends. I present results for 80% or more white or non-white zip codes in Figure 9. See Appendix A for a sensitivity summary on these amounts reflecting alternate 70% and 90% white or non-white as concentrations. Estimates of the total amount of mortgage interest dollars claimed in a zip code and the average amount per capita in a zip code show racial disproportions. Zip codes that have predominantly white homeownership, 80% or more, represented 60.8% of the dollars of home mortgage interest

reported on tax returns despite those zip codes making up only 55.6% of the total population<sup>5</sup>. In addition, while zip codes that have predominantly non-white homeownership reported 3.3% of the dollars of home mortgage interest while making up 6.7% of the total population. On a per homeowner basis, zip codes that are 80% white reported \$4,497 MID and those that were 80% non-white reported \$3,724 MID.

**Figure 9: Home Mortgage Interest Reported by Race/Ethnicity, 2011**

For zip codes greater than 80%:	White	Non-white
<b>Total MID Reported</b>	\$214.9B	\$11.6B
<b>Per Homeowner MID reported</b>	\$4,497	\$3,724
<b>Percent of total MID Reported<sup>6</sup></b>	60.76%	3.29%
<b>Percent of total population</b>	55.96%	6.67%

Turning to the Chi-squared analysis, we first assume that the racial distribution of MID within a zip code reflects the racial composition of the zip code based on census data. This is a strong assumption but one that must be made to complete the analysis. Given the income distribution by race, it is likely a conservative assumption for most zip codes.

H<sub>0</sub>: distribution follows the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

H<sub>1</sub>: distribution does not follow the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

Chi-Squared Results	
<b>X<sup>2</sup></b>	31.4M
<b>DF</b>	1
<b>P-value</b>	<0.001

<sup>5</sup> Note that this analysis focuses on the amount of home mortgage interest reported rather than the benefit received as it relies on the amount reported on the individual tax return. It appears reasonable that as mortgage interest is fully deductible for qualifying homes, the reported amount should be proportional to the tax benefit received with the largest tax benefit for those in the highest tax brackets.

<sup>6</sup> Total MID reported on all returns per IRS SOI data is \$353,685,194,000

According to this chi-squared analysis, with p-value < 0.001 there is a small chance that the distribution of MID expenditures matches the given proportionate racial distribution in the US. We can, therefore, reject the null hypothesis and conclude that there is some level of racial concentration within the data.

Based on this analysis, it appears that non-white populations receive less proportional benefit from this tax credit program that whites receive. These findings are supported by the work of Beverly Moran of Vanderbilt University and William Whitford of the University Of Wisconsin Law School, whose 1996 paper on tax benefits by race concluded that on a number of home ownership related tax benefits blacks received less benefit even after controlling for income. In the Arizona State Law Journal, Roberta F. Mann completes an analysis of the externalities of the MID including a summary of other scholarship indicating that benefits may be skewed away from non-white populations.

HUD administers major housing programs that demonstrate an inverse racial concentration relationship. The tenant-based and-project based rental assistance programs commonly called "Section 8" are authorized under the U.S. Housing Act of 1937. While Congress has sought to modify these programs over time, the main programmatic elements include a rental subsidy to low income persons. Housing Choice Vouchers provide tenant-based rental subsidies to low income families for apartments found in the private market. Project-based Section 8 provides rental assistance for low income families who live in dedicated housing units or buildings. The third major program is Public Housing. HUD does not own or operate public housing but subsidizes the operating, capital, and some programmatic expenses for local public housing agencies which provide housing in various forms to low income, elderly, and disabled persons (HUD, 2014). The tenant-based and project-based programs budget authority \$16.2B and \$9.1B, respectively, and the public housing programs

cost \$11.1B which add up to about 90% of direct housing assistance outlays for individuals at the federal level.

HUD’s Public Use Microdata Set (PUMS) provides access to administrative data from HUD’s internal automation system for tenant records. It provides demographic data on a sample of head of households weighted for national representativeness. Analysis of this administrative data reveals that for the weighted sample across housing programs minorities collectively are more likely to be served by HUD rental assistance programs than whites. On average 36.6% of those served by these programs are white and 63.37% are non-white. Figure 10 provides a more detailed breakdown by program.

**Figure 10: Major housing assistance programs by race/ethnicity, 2011**

	White	Non-white
<b>Housing Choice Voucher</b>	34.5%	65.5%
<b>Public Housing</b>	28.8%	71.2%
<b>Section 8</b>	46.5%	53.4%

Source: Author’s analysis of HUD Public Use Microdata Sample(PUMS)

The Chi-squared test incorporates the Bernoulli distribution for each programs as above.

H<sub>0</sub>: distribution follows the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

H<sub>1</sub>: distribution does not follow the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1).

Chi-Squared Results	Voucher	Public Housing	Section 8
<b>X<sup>2</sup></b>	5.7M	5.6M	1.1M
<b>DF</b>	1	1	1
<b>P-value</b>	<0.001	<0.001	<0.001

According to this chi-squared analysis with p-value < 0.001 there is a small chance that the distribution of housing assistance expenditures matches the given racial distribution in the US. We can, therefore, reject the null hypothesis and conclude that there is some level of racial concentration within the data.

These findings are supported by other researchers in public housing who find racial concentration of minorities, particularly African Americans, in public housing projects (Carter, et al, 1998; Goering, et al, 1997; Hendrickson, 2002). This analysis demonstrates a disproportionate number of minorities in a direct aid housing program and a greater proportion whites in a tax-based housing program.

#### *Racial Concentration in Healthcare Programs*

The United States system of healthcare is a mixed construction with private, public, regulated, and subsidized provision of health care and health coverage. Government interaction with the health care system has been a large reason behind its current arrangement. Reforms enacted in the Affordable Care Act of 2010 will likely bring this interaction even closer. The ultimate goal across government provided and subsidized healthcare programs and the many experiments in provision of health services that have been enacted and maintained over the last century appears to be to provide affordable, accessible health care or insurance coverage to American citizens. This common goal provides another apt area to examine racial concentrations in provision of social goods.

The system of employer provided healthcare began in the twentieth century and was also largely unintended. After Congress restricted employers ability to increase wages during WWII, private employers used benefit increases to attract and compensate employees. The result was a growth in the provision of employer provided insurance. After a 1954 ruling by

the IRS that these benefits could not be taxed as wages the modern system of deductions for employer provided health insurance premiums was facilitated (Blumenthal, 2006). For employees this means a benefit that covers a great deal of a major expense and access to a group market rather than an individual health insurance market. For the government, this deduction means the loss of tax revenue both in the form of reduced business taxes and the payroll taxes that would have been received through accounting for such benefits as wages. Data on the impact of the deductibility of health insurance premiums comes from Census data on the number of people who receive employer provided health coverage (Figure 11) and JCT estimates of the magnitude of the revenue forgone which will be incorporated into the chi-square estimate.

**Figure 11: Employer provided healthcare by race/ethnicity, 2010**

Program	White	Non-white
<b>Employer Provided</b>	69.7%	30.3%
<b>Percent of U.S. Population</b>	63.8%	36.3%

Source: Author's analysis of US Census Bureau data, Table HIB-1

On the direct side, Medicaid is a joint federal-state program that provides payment and management of health care services for families, seniors, and those with disabilities. Enacted in 1965 as part of President Johnson's War on Poverty, Medicaid was first set up as a grant program for states to provide care to specific populations on a mean-tested or medical need basis. At one time Medicaid eligibility was automatically provided to those qualifying for other cash assisted programs. Additionally, Medicaid moved from reimbursing for the cost of care to a variety of providers to managing the care of participants (Brecher and Rose, 2013). While it started as a relatively small program it is now a major area of health spending for the U.S. and

state governments. According to the Centers for Medicare and Medicaid Services (CMS), the administrating agency, the program now serves 31 million children, 11 million non-disabled adults, 9 million individuals with disabilities and 4 million seniors (Medicaid.gov, 2014). On a quarterly basis CMS releases estimates on the cost of Medicaid for the federal and state governments. Based on these estimates researchers have developed percentage of cost estimates for these major populations. According to these estimates, in 2010, 15% of Medicaid payments were made for non-disabled adults generally aged 18-64 (KFF, 2014). As this is the group of interest in this study, the data analysis incorporates this cost estimate.

**Figure 12: Medicaid health care participants by race/ethnicity, 2010**

Program	White	Non-white
<b>Medicaid</b>	42.5%	57.5%
<b>Percent of U.S. Population</b>	63.0%	37.0%

Source: Author's analysis of US Census Bureau data, Table HIB-1

Looking at a chi-squared analysis and using a Bernoulli distribution, employer provided and the Medicaid program appear to have racial concentrations that can be considered significant. Non-whites disproportionately received Medicaid coverage while whites disproportionately obtain coverage through employment.

H<sub>0</sub>: distribution follows the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

H<sub>1</sub>: distribution does not follow the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

Chi-Squared Results	Employer Provided Healthcare	Medicaid
<b>X<sup>2</sup></b>	199.8K	1.7M
<b>DF</b>	1	1
<b>P-value</b>	<0.001	<0.001

These findings are supported by the work of other researchers who have examined the source of health care coverage in the US population. These studies also highlight some difference across non-white racial and ethnic groups. Their findings include disproportionate coverage for whites in employer sponsored programs and a statistically significant difference in public coverage for non-white populations (Zuvekas & Taliaferro, 2003; Brown, et al, 2000; Carrasquillo, et al., 1999)

#### *Racial Concentrations in Income Security Programs*

Income security is likely the classic way Americans think about social spending and the social safety net. Just as in the housing area, income security programs span several federal agencies and state provision. The overarching goal appears to be to provide a temporary stop-gap of supplemental income to families to pay for essential items like food and other expenses. The three expenditure programs examined, TANF, SNAP, and the Earned Income Credit share this goal.



The Earned Income Tax Credit, which began in 1975, provides a refundable tax credit to working parents (and a small amount to working single persons) based on income earned from wages, salary, and tips within certain income limits. The credit is also increased on the basis of the number of qualifying children claimed by the tax filer, up to three children (EITC, 2014). Proponents of the EITC intended it to assist the working poor and to promote work to receive welfare benefits. Over time, as reforms to traditional welfare programs were enacted, including time limits and work requirements, participation in those programs decreased while EITC used expanded (Ventry, 2000; Grogger, 2003). Contributing often thousands of dollars to the yearly income of families the EITC is credited with pulling some families above the federal poverty guidelines.

As a tax-based program, data is again available by zip code. The program is predominantly used by families with qualifying children. Therefore, I again focus on zip codes that are mostly white or non-white to identify patterns. In Figure 13, I present findings for zip codes 80% or more white or non-white. See Appendix A for sensitivity analysis showing 70% and 90% populations white or non-white. Estimates of the total EITC dollars claims in a zip code predominantly white or non-white appears to show racial disproportions. Zip codes that have mostly white individuals, 80% or more, reported 25.7% of EITC dollars while representing the residence of 37.3% of the total U.S. population. Zip codes that were mostly non-white reported 21.7% of EITC dollars while making up only 11.1% of the total population.

**Figure 13: Earned Income Credit reported by race/ethnicity, 2011**

For zip codes greater than 80%:	White	Non-white
<b>Total EITC Reported</b>	13.8B	\$11.7B
<b>Per Capita EITC Reported</b>	\$119	\$340
<b>Percent of total EITC Reported<sup>7</sup></b>	25.7%	21.7%
<b>Percent of total population</b>	37.3%	11.1%

<sup>7</sup> Total EITC reported on all returns per IRS SOI data is \$53,674,924,000

The Chi-squared analysis confirms that the racial disproportion noted above is significant.

H<sub>0</sub>: distribution follows the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

H<sub>1</sub>: distribution does not follow the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

Chi-Squared Results	
<b>X<sup>2</sup></b>	34.3M
<b>DF</b>	1
<b>P-value</b>	<0.001

Non-white populations appear to receive more benefit from the EITC than their proportion of the population, while whites receive less than their proportional benefit. There are few studies that directly focus on racial concentrations in the EITC program though several allude to EITC benefits disproportionately going to non-white households (Noonan, et al., 2007 ; Caputo, 2009).

Direct aid for income security is found in the SNAP and TANF programs. SNAP provides funds earmarked to augment food purchases for families and individuals meeting certain income guidelines. Congress originally created the Food Stamp Program in 1939 and designed it to reallocate surplus food from the agriculture sector to those in need. This origin, along with political considerations, account for inclusion of nutrition assistance legislation in the larger farm bill and administration by the US Department of Agriculture. SNAP eligibility

is based on income, asset, or categorical eligibility. Income guidelines are generally 130% of the Federal Poverty Line though some deductions and adjustments are permitted by law to calculate family income. Additionally, those that receive cash assistance through TANF or other programs are automatically eligible for SNAP through categorical eligibility rules (SNAP, 2013). TANF began in its current form in 1996, when Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act and reformed the prior Aid to Families with Dependent Children program. The U.S. Department of Health and Human Services administers a program of block grants to states who in turn manage programs that meet the goals of TANF legislation. These goals include family structure, work, and income support for families with children.

Administrative data for the SNAP and TANF programs provide some insight into the racial composition of these programs.

**Figure 14: SNAP Participants by Race/Ethnicity, 2011**

Program	White	Non-White	Unknown
SNAP	34.6%	44.8%	20.6%
Percent of U.S. Population	63.8%	36.6%	N/A

Source: USDA Agency Data. *Characteristics of SNAP Program Households, FY 2012*. Supplemental Nutrition Assistance Program, 2014<sup>8</sup>.

**Figure 15: TANF Participants by race/ethnicity, 2010**

	White or Caucasian	Non-white
TANF	30.1%	64.8%
Percent of U.S. Population	63.8%	36.3%

Source: Office of Family Assistance, 2012

<sup>8</sup> Agency data is incomplete as SNAP participants are not required to report race and ethnicity. For 21% of recipients race or ethnicity is unknown. However the author notes that inclusion of this data in any category would not change the noted racial concentration.

Both programs appear to have racial disproportionate non-white racial concentrations. The Chi-squared analysis confirms that the racial disproportions are significant.

H<sub>0</sub>: distribution follows the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

H<sub>1</sub>: distribution does not follow the Bernoulli distribution based on proportionate racial distribution of US (see above Table 1)

Chi-Squared Results	SNAP	TANF
<b>X<sup>2</sup></b>	9.0M	8.6M
<b>DF</b>	1	1
<b>P-value</b>	<0.001	<0.001

Given the greater number of racial minorities in poverty in the U.S. it is unsurprising to find racial concentrations of non-white in these income security programs. These findings are supported by researchers that have examined characteristics are associated with the likelihood of SNAP use and those that have predicted SNAP take-up in the adult population. These studies note higher SNAP use amount non-white racial and ethnic groups (Rank and Hirschl, 2005; Grieger and Danziger, 2011). Researchers have also found race to be a significant predictor of TANF utilization. While not the central finding of these studies, race appears to have an impact on both entry into the program and factors that would contribute to exiting the TANF program like finding stable employment (Gooden, 2000; Allard and Danziger, 2002).

## VII. Results and Implications

I found racial concentrations in each social spending area. The concentration in housing and healthcare programs are in the direction predicted; a disproportionate concentration of whites in indirect programs and non-whites in direct aid programs. In the case of income security

programs, I found a disproportionate concentration of non-whites in both indirect and direct programs. As these programs are aimed specifically at poverty alleviation we should expect these programs to reflect the disproportionate levels of poverty experienced by non-white populations in the US. As such, these results are not unusual, especially as both direct and indirect programs exhibit racial concentrations of non-white persons. In the case of health and housing areas, we are less well able to give explanation for the concentrations of whites in the indirect program and the non-whites in the direct program given that the common program goals are not income related and should not vary on the basis of race.

The relative concentration on non-whites in direct programs and whites in indirect programs has several implications. First, these findings open up questions on how and why programs that cover similar social spending areas came to be this way and to what extent these findings are prevalent throughout social spending. It is unlikely that the causal story is exactly the same for each area, however, investigating the dynamics that create these differences in program provision may be valuable and may help identify other program areas in which this phenomenon occurs.

As I mentioned earlier one of the key implications is for public opinion. Scholars like Gilens and Bobo have already identified decreased support for programs that appear to serve minority groups. This work could identify an important mechanism by which those racial attitudes are formed. Non-whites are disproportionately in direct programs that are more visible to the public and therefore appear to be predominant beneficiaries of government social spending. This reduces public support for direct programs as racial attitudes scholarship would suggest. The visibility of the direct aid programs could serve as “correlational framing” for the general public, much in the way that Gilens noted that portrayals of African-Americans in media stories on poverty created a framework of association for the American public (Bobo and Charles,

2009). At the same time, whites predominantly find themselves in indirect programs that are less visible to either themselves or the general public and therefore are not seen as beneficiaries of government spending. This second effect works together with the racial attitude effect and could serve to amplify it.

There are additional implications in how individuals view themselves and engage with and view government. In Joe Soss' interpretive work on the effects of program participation on the civic engagement of SSDI and TANF recipients, he found that features in the design and delivery of these programs affected participants' feelings of personal agency and orientation towards government. Direct interactions with government agencies serve as a mechanism for political learning that helps to shape participants' views of government and their civic engagement. For instance, through in-depth interviews and analysis, Soss connects TANF recipients' experiences within the caseworker-client system, feelings of stigma, and negative views about other TANF program participants (Soss, 2005). In addition, participants also appeared to form judgments on the responsiveness of government based on their experiences in these programs. The result is that direct program experiences could hamper collective action and civic engagement. It is unlikely that similar negative effects hold for indirect, tax expenditure programs. Given these findings, an important implication of this work is that there could be differential impacts on the political engagement of whites and non-whites. If non-whites are concentrated in programs that work to hamper their political action there could be wider effects on the political system. Additionally, if whites are concentrated in programs that are indirect and less visible it appears possible that they are less likely to see themselves as beneficiaries of government spending and also cannot form judgments on the responsiveness or effectiveness of government despite participating in a government program. This finding is consistent with Mettler's hypothesis of decreased engagement due to indirect policy.

Lastly, achieving similar goals through separate programs, direct and indirect, presents equity implications. The 14<sup>th</sup> Amendment to the U.S. Constitution, as interpreted by the Supreme Court, provides equal protection under the law. This was the means by which “separate but equal” policies of the twentieth century were challenged (Lawrence, 1987). The appearance of disproportions in program type should be of concern for similar reasons. First, “equal” part of “separate but equal” has always been called into question and, given the political engagement implications already noted, the same critique holds. Additionally, the racial concentrations noted by program type could be an indication of underlying structural forces of separation and discrimination that should be addressed.

### **VIII. Conclusion and Recommendation**

This analysis sought to test a hypothesis of racial concentrations in direct and indirect programs. By examining programs in three areas of social provision I found racial concentrations despite shared social goals in each program area. The results presented here have important implications. Scholars previously noted that submerged, indirect programs confer benefits on wealthier citizens while providing less transparency on who receives program benefits. They had also found lower support for programs that appear to be race targeted on non-white populations. I sought to bring race into this discussion of the submerged policies by first demonstrating that program provision in social policy areas is bifurcated between indirect and direct programs on the basis of race. By identifying this distinction we can begin to see a mechanism by which public opinion, civic engagement, and support for social programs could be affected by social spending type. These findings also raise important racial equity concerns. While we know that non-whites are not greater government program participants in absolute terms, they may be more visible participants based on direct programs through which they receive social benefits. Policymakers have increasingly used tax

expenditures as a means to confer social benefits. Further expansion of the tax expenditure system not only reduces the visibility of government spending but could contribute to race related effects in a number of ways.

The analysis conducted in this paper was hindered by a lack of comprehensive data on tax expenditure programs. While information on direct aid program participants is typically readily available from a number of government agency and interest group sources, tax benefit recipients are not subject to the same level of scrutiny. This finding alone is symptomatic of the issue of invisibility that characterizes indirect, tax expenditure programs.

As the Government Accountability Office noted, in its 2013 report on the issue, insufficient data is available to evaluate who claims tax expenditures and the amount claimed<sup>9</sup>. To promote transparency, Congress should instruct government agencies to track the use of tax expenditures to provide useful data on whom and how tax expenditures are used. This will provide valuable data for study. The data available should be increased in both depth and breadth. As currently reported many tax items are aggregated at a level that conceals the underlying policies. For instance, itemized deductions are made up a number of different policies such as medical and dental deductions, charitable contributions, and business expenses. Despite the differing policy goals and implications these items are often reported in lump sum. Disaggregating these amounts will provide clarity on the amount of tax expenditure benefit in these areas. Additionally, information on the identity of specific tax filers is not revealed for obvious privacy related reasons but the current aggregation of information at a zip code level is much too high level for much significant study. There are other options that would provide greater breadth of data to researchers. For instance, the IRS could create a nationally representative sample of tax filers, based on key characteristics, much in the way that HUD

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<sup>9</sup> GAO-13-479, TAX EXPENDITURES: IRS Data Available for Evaluation Are Limited, 2013



creates the annual housing surveys that underlie its' public use data sets. This method of provision provides privacy to tax filers and information to those who seek to study the use of tax expenditures. This information provides a vital way to continue to understand the implications of tax expenditures.

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APPENDIX: Sensitivity of Zip Code Estimates of Tax Benefit

**Home Mortgage Interest Deduction**

White percentage	Amount MID (in 000s)	Percentage of Total MID in zip	Percentage of householders in zip	Percentage of population in zip	Per householder MID	Per zip MID	count of zips
>70%	264,531,871	74.79%	75.71%	68.31%	4,673	12,276	21,549
>80%	214,900,283	60.76%	63.91%	55.96%	4,497	11,008	19,523
>90%	126,457,326	35.75%	42.74%	35.93%	3,958	7,887	16,034

Non - White percentage	Amount MID	Percentage of Total MID in zip	Percentage of householders in zip	Percentage of population in zip	Per capita MID	Per zip MID	count of zips
>70%	19,565,595	5.53%	6.46%	10.05%	4,053	18,167	1,077
>80%	11,634,895	3.29%	4.18%	6.66%	3,724	16,693	697
>90%	5,438,479	1.54%	2.14%	3.60%	3,396	14,426	377

**Earned Income Tax Credit**

White percentage	Amount EITC	Percentage of Total EITC in zip	Percentage of population in zip	Per capita EITC	Per zip EITC	count of zips
>70%	19,495,098	36.32%	51.00%	123	981	19,867
>80%	13,770,245	25.65%	37.34%	119	795	17,329
>90%	7,411,954	13.81%	19.36%	124	542	13,664

Non-white percentage	Amount EITC	Percentage of Total EITC in zip	Percentage of population in zip	Per capita EITC	Per Zip EITC	Count of Zips
>70%	15,763,953	29.37%	15.90%	320	8,544	1,845
>80%	11,661,662	21.73%	11.05%	340	9,606	1,214
>90%	6,785,158	12.64%	5.91%	370	10,296	659