HOW MUCH DOES THE FEDERAL GOVERNMENT SPEND TO PROMOTE ECONOMIC MOBILITY AND FOR WHOM?

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ECONOMIC MOBILITY PROJECT
An Initiative of The Pew Charitable Trusts

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CONTENTS

By forging a broad and nonpartisan agreement on the facts, figures and trends related to mobility, the Economic Mobility Project seeks to focus public attention on this critically important issue and generate an active policy debate about how best to ensure that the American Dream is kept alive for generations that follow.

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EXECUTIVE SUMMARY

In an economically mobile market economy, individuals and families are able to raise their private incomes, wealth, and ability (sometimes referred to as human capital) over time and across generations. In the United States, many associate economic mobility with the pursuit of the American Dream. Education, work experience, and saving enhance the opportunity for upward economic mobility. To this end, many federal spending and tax expenditure or tax subsidy programs aim to enhance economic mobility. But exactly how much does the federal government encourage economic mobility? What form does this encouragement take? And who benefits from these efforts?

To begin answering these questions, we trace federal expenditures and tax subsidies through an array of spending and tax programs that can be broadly classified as aimed at enhancing economic mobility. We show these expenditures in 1980, 2006, and projected to 2012 under the type of budget baseline developed by the Congressional Budget Office. Within the federal mobility budget, we classify several hundred programs into 10 broad budget categories:

1. Employer-related work subsidies (e.g., 401(k) plans and exclusion of employer contributions for medical insurance premiums and medical care);
2. Homeownership (e.g., capital gains exclusion on home sales and exclusion of net imputed rental income on owner-occupied homes);
3. Savings and investment incentives (e.g., dividend exclusion and expensing of certain small investments);
4. Education and training (e.g., Title I Education for the Disadvantaged, higher education, and Job Corps);
5. Child health and nutrition (e.g., Medicaid and child nutrition);
6. Work supports (e.g., earned income tax credit [EITC] and child care entitlement to states);
7. Other child well-being (e.g., foster care and children's welfare services);
8. Business incentives and development (e.g., Economic Development Administration and Small Business Administration);
9. Citizenship services (e.g., refugee and entrant assistance); and
10. Equal opportunity services (e.g., minority business development and Equal Employment Opportunity Commission).

IN THE UNITED STATES, MANY ASSOCIATE ECONOMIC MOBILITY WITH THE PURSUIT OF THE AMERICAN DREAM.

We separate expenditures and subsidies in the remainder of the budget into other assistance largely aimed at maintaining income and increasing consumption (e.g., Social Security, Medicare, cash welfare, or SSI), or other spending largely

EXECUTIVE SUMMARY

for public goods (e.g., public infrastructure and research). The distinctions between mobility versus consumption and individual versus public goods are, like all budgetary classifications, somewhat blurred. For instance, programs that target a defined group, such as homeowners or renters, are usually counted in mobility or in consumption, respectively. Programs with geographic targets, such as the Appalachian region or areas affected by Hurricane Katrina, without identifying corporate or individual beneficiaries, are classified as public goods even though individuals or the firms that employ them are receiving the funds at some point. Thus, budget classifications are not meant to value alternative uses of public funds but to help sort out and account for the nation's established priorities. Here we attempt to tease out through a budgetary exercise how much of the federal budget is directed toward improving individual economic mobility.

Our findings are as follows:

- A considerable slice of federal funds has been aimed toward programs promoting mobility at some level. In 2006 alone, about $212 billion or 1.6 percent of gross domestic product (GDP) in direct spending and another $534 billion or 4.1 percent of GDP in tax subsidies went to programs aimed at promoting mobility, for a rough total of $746 billion. (The measure itself is rough because of the inevitable issues of categorization, and because one cannot strictly sum tax expenditures together.)
- Roughly 72 percent of this $746 billion in mobility expenditures, or $540 billion, is delivered mainly through employer-provided work subsidies, aids in asset accumulation, and savings incentives. This spending *flows mainly to middle- and higher-income households and often excludes lower-income households* or provides them comparably little in benefits.
- The remaining 28 percent, or $205 billion, of the mobility budget is channeled through programs that favor lower- to moderate-income individuals.
- Even when the tax and spending incentives directed at middle-income households provide them with greater (relative) benefits than the rich receive, the effect may be to inflate key asset prices (e.g., higher prices for homes than would otherwise be the case). Such inflation places these assets further out of reach for the excluded poor and lower middle-income classes. Consequently, the absolute and relative mobility of lower-rung groups is undercut.
- From 1980 to 2006, the mobility budget as measured here has risen from 5.2 to 5.7 percent of GDP. During this same period, income maintenance programs rose slightly less, from 9.3 to 9.9 percent (with non-child Social Security growing substantially while the rest of income maintenance fell).

THE ABSOLUTE AND RELATIVE MOBILITY OF LOWER-RUNG GROUPS IS UNDERCUT.

EXECUTIVE SUMMARY

- Income maintenance programs tend to be moderately more directed toward those with lower incomes. At times, however, these programs may impede economic mobility by discouraging work and saving, especially for those with the fewest resources. (We do not assess whether these programs help in achieving greater equalization of consumption, which is a different objective than mobility, as measured by independent economic status.)

Finally, much of the spending that falls into our residual budget category includes public goods that may also promote absolute mobility for the population as a whole. We do not examine that possibility here. At the same time, most of these programs are not directed toward promoting relative mobility.

The net result is a budget of direct spending and tax subsidies that attempts to promote absolute economic mobility for some but, in many areas stymies relative and intergenerational mobility in the acquisition of private assets, income, education, and ability. Trend lines into the future show a likely deterioration, not improvement, in these conditions.

Income maintenance programs tend to be moderately more directed toward those with lower incomes.

INTRODUCTION

Government spending and tax policies attempt to serve various worthy purposes, but few may be more related to the way the nation defines itself than economic mobility. Upward economic mobility is associated with such national aspirations as "the American Dream" and "opportunity for all," while Horatio Alger stories play to the myth, whether accurate or not, that all children have a chance to succeed, no matter what their circumstances at birth. At an aggregate level, a society with greater individual mobility is likely to be one with higher overall rates of growth and more entrepreneurship. Despite this societal curtsy to mobility, however, we can find no budget assessment that attempts, even crudely, to determine how well federal programs taken together actually promote mobility. While related research by Cushing-Daniels and Zedlewski (forthcoming) will survey the literature on types of government programs and their estimated effects on mobility, this study represents a first effort toward rectifying that lapse.

Upward economic mobility can take several forms that are useful to distinguish. Mobility can be divided, based on time frame, into *intragenerational* and *intergenerational*. The former considers economic rung climbing achieved by individuals over a period of years within their own lifetimes, while the latter focuses on the ability of subsequent generations to improve their circumstances relative to their parents. Most federal mobility spending is aimed at intra-generational mobility—for example, direct outlays or tax subsidies for homeownership, retirement saving, various employer-provided fringe benefits, and low-income work supports like the earned income tax credit (EITC). Mobility spending aimed at children—education, health care, nutrition, and the like—is more intergenerationally focused (although any wealth and income gains stemming from almost any type of spending can also be transmitted to some degree to one's children). Neither of these terms is mutually exclusive, and each is useful for different purposes.

Economic mobility can also be classified as *absolute*, in which case one's income or assets rises over time, or *relative*, in which case one's income or assets rises compared to others. Much of the concern over absolute mobility centers on those who start out with less-than-average income or wealth or who lack education or other indicators of economic well-being. Similarly, when people express a desire for a mobile society in a relative sense, they usually focus on whether the disadvantaged move up rather than whether the advantaged move down in status, even though in a relative sense the two go hand in hand and can have a similar impact on a society's overall income inequality. One reason for this greater concern for people below median economic status is that those above the median are usually considered to have significant opportunities, at least relative to those with less income, education, or assets.

Federal lawmakers have the task of crafting a government for all seasons. In addition to the many public good functions of government, a large fraction of federal spending on both the outlay and tax expenditure fronts takes the form of direct benefits to individuals. Congress justifies such federal spending on diverse grounds specific to each program. It often claims to be enhancing well-being, but without clarity about whether mobility or higher levels of consumption is sought, or any examination of whether one goal may work against the other. Because only limited resources are available and lawmakers are buffeted by a litany of social needs, the federal role in promoting mobility (effectively or not), while not fully accidental or unconscious, is far from systematic.

Also, needless to say, politicians claim and usually believe that they have good reason to support any program for which they vote. Neither good intentions nor success in meeting some particular objective, however, necessarily implies increased mobility. Special interest programs for the richer members of a congressional district are obvious examples; less obvious is that programs that increase the consumption levels of the poor do not necessarily promote their mobility. In fact, many consumption-enhancing programs contain little or no incentive to promote mobility and one or more provisions that discourage it.

Even programs that target economic mobility may be—and often are from the standpoint of each federal dollar spent—poorly aimed. If the benefits tend to be concentrated in higher-income groups, they could reduce relative mobility intergenerationally and sometimes intragenerationally. If housing policy encourages homeownership only for higher-income individuals, then it can be identified as a part of the budget aimed at mobility, although it is unlikely to promote relative mobility of wealth ownership either within or across generations. Indeed, if that policy raises housing and land prices for moderate-income households, it can even reduce their absolute and relative mobility.

Note that this paper analyzes only the federal portion of public expenditures. State and local expenditures—which encompass 90 percent of total public expenditure on education, for example—ought to have a significant impact on economic mobility as well. We briefly comment on this below.

BACKGROUND AND METHODOLOGY

To perform any empirical study of mobility as reflected in the federal budget, numerous distinctions are required to classify the programs. We used the following guidelines, which are crucial to understanding the reach and limits of the study:

- *First, we focus on determining how many budget expenditures and tax subsidies can be said to be aimed at promoting mobility. We do NOT assess the ultimate success of government at actually promoting mobility, a task that for the most part can only be achieved through program-by-program analysis of thousands of programs.*
- *Second, we focus on mobility in the acquisition of private income and assets, including human capital and education, but not on improvements in consumption levels, either absolute or relative.*

In effect, we look at whether programs aim to enhance the ability of households to increase their *pre-transfer, pre-tax* household income or assets, including human capital and educational attainment. Put another way, we focus on government programs that deal with what many agree are drivers of economic mobility, including one's education, work experience, private saving and asset ownership, and, in some cases (although these programs are small in size), social and family skills. Although not always stated, most social science studies of mobility have a similar focus on private resources and exclude items like higher Social Security benefits as an indicator of greater mobility.

To put the mobility budget into context, we define the rest of the budget as falling into two categories: *income maintenance* and a residual category, largely *public goods*.

The biggest programs straddling the line between mobility and income maintenance are in the health field. We count programs geared toward child health and well-being and programs subsidizing health insurance for workers as mobility enhancing. Other health programs are categorized as income maintenance, however socially beneficial they may be. This bifurcation of health spending may be the least clean of the dividing lines we use. Nonetheless, almost all the health expenditures in the income maintenance category are associated with programs that tend to penalize work and saving at any level, and sometimes penalize marriage as well. The vast majority of these expenditures go to those who are not in the workforce. At the same time, it should be noted that moving some portion of adult health, other than for retirees, to the mobility budget would not significantly change the conclusions of this study. (If we counted all our adult health category programs, for example, in the mobility budget, that would add another $69.7 billion to our total of $746 billion, for a new total of $815 billion, or 6.2 percent of GDP.)

This categorization means that we do *not* automatically define transfer programs as mobility enhancing simply because they transfer benefits to lower-income individuals. Most income maintenance programs enable additional consumption (for the recipient, not the taxpayer) and may achieve greater relative distribution of consumption. However, most are not aimed at increasing the private ownership of assets, the acquisition of additional ability or education, or additional work or saving. We do include certain income maintenance programs in the mobility budget if they at least attempt to increase work or saving. Thus, the earned income tax credit is included since it provides a positive work incentive for those with little or no earnings, even though a later reduction of benefits as income increases may act as a disincentive for additional work effort.

On the other hand, the promise of Social Security benefits at retirement is generally not aimed at increasing either absolute or relative mobility in the acquisition of private assets or ability. The program may even discourage work and saving (through earlier retirement or reduced years of saving), though, as already noted, we are not classifying programs according to actual outcomes. For the sake of comparison and to communicate a more complete "world view" of federal spending, we tally all expenditures in income transfer programs that are not aimed at increasing private ownership of human, financial, or physical capital.

This is not to dispute the value of research projects that take an alternative focus. Because we track the size of income maintenance programs that are not mobility related, other researchers can easily use those data to examine how much the budget attempts to improve the after-transfer consumption of those with modest or average means. The result would probably not differ much from a study that just asks how the budget attempts redistribution. Such an alternative focus would shift emphasis toward greater equality of final consumption, which may be a worthwhile—but separate—endeavor.

We recognize up front that any particular dividing line may not simply be technically controversial, but politically controversial as well. If a label such as "mobility" is perceived as good, then since some will want to classify all programs they believe to be good as "mobility enhancing." There are two fallacies to this logic: (1) assuming that all mobility programs are good because some mobility

BACKGROUND AND METHODOLOGY

programs may be good (proof by example), and (2) assuming that goodness implies mobility if mobility is good (affirming the consequent).

Finally, we separate a residual category, largely consisting of *public goods* that attempt to provide benefits generally to the population. Defense, mass transit, space science, and high-energy physics are some examples. We do not count these in the mobility budget because they do not provide help to individuals or well-defined groups directly or relatively—even though basic science and transportation infrastructure expenditures, for example, likely enhance the absolute mobility of everyone in society. This residual category also includes several business subsidies not easily classified elsewhere, perhaps having public good characteristics, if successful. We grant that some public goods and business subsidies may add to absolute mobility, if they are well designed, but generally they do not aim at specific individuals or groups or address relative mobility.

We classify federal programs into a mobility budget if they provide benefits that:

1. Aim to develop human capabilities, raise work effort or encourage saving and asset formation; and
2. Go to individuals or well-defined groups.

Some types of programs, such as health supports, are more difficult to classify. They are generally included in the mobility budget if they are directed at children or at workers.

In effect, this study tries to identify programs that attempt to help individuals improve their *independent* status. This distinction does not mean that other federal programs, largely income maintenance or public goods programs, are not beneficial to individuals. Mobility-directed federal expenditures and tax subsidies are more exclusively defined here as those that attempt to assist individuals to raise their *private* incomes and asset holdings, while reducing their debts and possible dependence on society.

Tax Rates

Programs must be funded. Taxes represent a cost of government or, as former Supreme Court justice Oliver Wendell Holmes Jr. stated, the price we pay for

BACKGROUND AND METHODOLOGY

civilized society. Kopczuk and Saez (2004) and Lampman (1962) both credit the progressive income tax and estate tax as major drivers of income and wealth redistribution. The large fortunes of the wealthy held at the beginning of the 20th century were accumulated during a time with little progressive taxation and, these fortunes could be transmitted to heirs tax free. Kopczuk and Saez maintain that beginning in 1933 with Roosevelt and continuing through the Reagan administrations of the 1980s, very high marginal tax rates on both income and estates either directly tapped into the fortune-making potential of the top 0.1 and 0.01 percent or encouraged its dispersal to charity.

Regardless of the progressivity of tax systems, all expenditures and subsidies are financed by someone. Ignoring their incentive effects, the net income added by government equals zero. Every dollar received is matched by a dollar paid. Thus, any attempt to assess the overall effect of government on absolute mobility requires taking taxes into account, as well as the expenditures financed by those taxes. If government is ineffective in what it finances, of course, the taxes and expenditures together could reduce absolute mobility for the population as a whole. If the allocation of those disincentives discourages both rich and poor, but the rich more than the poor, it could enhance relative mobility, but in a negative way. For our purpose here, however, we take the tax rate structure as a given. That is, we examine only the mobility status of direct expenditures and tax subsidies that the tax rates finance, even while fully recognizing that any full assessment of the ultimate mobility effect of government activity must take tax rates into account.

Despite this last limitation, we are still able to assess a rich set of data and pass some judgment on how far hundreds of federal programs take aim at enhancing economic mobility—given a tax rate structure in place. This project makes much more explicit than any we have found what mobility choices are inherent in the budget, such as the balance achieved between programs like education, which usually aims to enhance mobility, and early retirement provisions, which do not.

In addition to the direct tax rate structure already noted, many federal programs identified within the mobility budget contain implicit tax rates in the ways that they phase out benefits. For instance, if an employee earns a little more money, he may lose State Children's Health Insurance Program (SCHIP) benefits altogether or he may receive a reduced amount of EITC. This implies that our list of programs *aimed* at enhancing economic mobility (even ignoring the formal tax rate structure) is likely an outer bound for the amount of spending on programs that actually enhance mobility. Again, only a full analysis of effectiveness would allow one to assess whether each program actually succeeds in enhancing economic

BACKGROUND AND METHODOLOGY

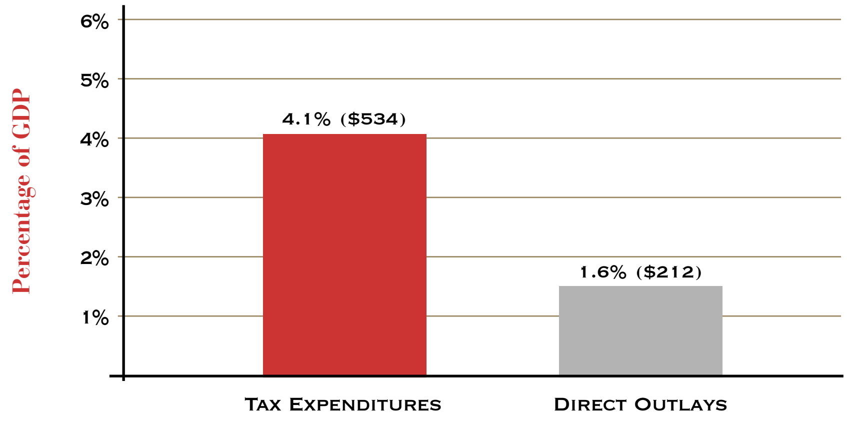
mobility—in this case, after taking into account the potential disincentive and incentive effects of all the subsidies, implicit tax rates, and higher direct tax rates needed to finance the program. Such effectiveness studies would also need to account for the incidence of benefits: who ultimately bears the burden and reaps the benefits.

Major Categories of Mobility-Related Spending and Subsidies

In 2006, the federal government expended $212 billion, or 1.6 percent of GDP, across several hundred programs aimed at advancing economic mobility. Yet, the major source of expenditure on mobility was through the tax code: $534 billion, or 4.1 percent of GDP. (See Figure 1.) We classify several hundred mobility-related federal programs and tax subsidies into 10 broad budget categories: employer-related work subsidies, homeownership, savings and investment incentives, education and training, child health and nutrition, work supports, other child well-being, business incentives and development, citizenship services, and equal opportunity services.

We include both direct outlays and tax expenditures in the mobility budget and so "spending" refers to either type. With the exception of the refundable portion of the earned income tax credit, all tax programs included are considered tax expenditures—that is, tax preferences that reduce tax liabilities. While tax

FIGURE 1 **Federal Spending on Mobility, 2006 (%GDP and billions of 2006 $)**



Source: The Urban Institute, 2007. Estimates developed using the *Budget of the United States Government FY2008*, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and *Health Care Financing Review 2005*.

Notes: Spending on mobility includes programs aimed at least partially at increasing the acquisition of private income and assets, including human capital and education. Mobility spending and income maintenance spending include tax expenditures (tax provisions that increase net income by reducing tax liability). As tax expenditures are not strictly additive, all totals should be regarded as approximate only.

expenditures are not strictly additive—repealing one tax expenditure may shift taxpayers into different tax rate brackets, hence changing the value of remaining deductions and exclusions—we sum them for ease of analysis and explication. We do not believe that this approach materially affects our conclusions.

We draw most of our historical data for analysis from current and previous versions of the *Budget of the United States Government* and its supporting publications, specifically its appendices, historical tables, and special analyses. Our projections draw on data from the Congressional *Budget Office's Budget and Economic Outlook, FY 2008-17*, as well as from a few of our own assumptions. In some cases, we wanted to separately categorize the portion of such programs as Medicaid and food stamps that are directed toward children only. For those programs, we relied on two of our past analyses, "Kids' Share 2007: How Children Fare in the Federal Budget" and "Investing in Children."

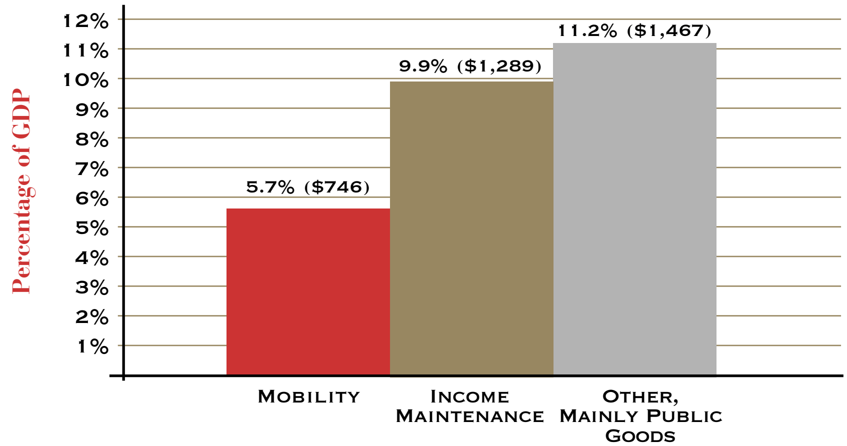
We look at how overall spending has fared compared with other budget functions, how spending has shifted within categories of the mobility budget, and, to the extent we are able to find the data, how the mobility budget is distributed across households and income levels. Budget expenditures reported are in fiscal years, and adjusted to 2006 dollars, unless stated otherwise. In addition, we report spending as a share of GDP or as a share of total federal outlays and tax expenditures, combined, to place the mobility budget in context with other budget and economic priorities.

THE MOBILITY BUDGET

Placing the mobility budget in context, the federal government spends more on economic mobility (5.7 percent of GDP) than on defense (4.0 percent of GDP) but only slightly more than half as much as on income maintenance programs (9.9 percent of GDP), as indicated in Figure 2. Non-child Social Security, Medicare, and Medicaid (7.6 percent of GDP) make up the bulk of these other income maintenance programs, which facilitate consumption over relative mobility. Programs that arguably address and advance economic mobility seem to play a significant role in the overall federal budget, yet still are smaller than programs aimed at achieving minimum consumption levels, even sometimes at the cost of reducing private sources of income.

THE MOBILITY BUDGET

FIGURE 2 **The Mobility Budget and Other Major Items, 2006 (%GDP and billions of 2006 $)**



Source: The Urban Institute, 2007. Estimates developed using the *Budget of the United States Government FY2008*, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and *Health Care Financing Review 2005*.

Note: Income maintenance is largely composed of the non-child portions of Social Security, Medicare, and Medicaid, 7.6% of GDP. Other, mainly public goods, is largely composed of defense, 4.0% of GDP. See also note to Figure 1.

Below, we present more details on the specific federal programs that fall within each of our major mobility categories, along with spending figures that combine direct outlays and tax expenditures. (There are hundreds of programs included under the mobility budget; while we note a few of the prominent ones below, Appendix Table B provides a complete listing). We list the major mobility categories by order of largest expenditure. Since these sums are not truly additive, the "totals" given below—and listed in descending order in Figure 3—should be regarded as approximate and intended more for illustrative purposes.

Employer-related work subsidies deliver $242.4 billion in support of work and savings through pensions, health, life insurance, and other subsidized fringe benefits. Within the mobility budget, these turn out to be the primary federal benefits offered to working Americans to keep them in the labor force, help them save, and help them insure against risks. Also, almost all the benefits are delivered through the tax code in the form of tax exclusions and deferrals. Pension and saving programs include employer defined benefit plans and 401(k)s and 403(b)s, traditional and Roth IRAs, and Keogh plans at $106.4 billion. Health benefits include the exclusions for employer and self-employed health insurance contributions and medical savings accounts, totaling $129.3 billion. Other fringe benefits include exclusions for premiums on group term life insurance, premiums on accident and disability insurance, reimbursed employee parking, and the like, for a total of $6.8 billion. (Even these estimates are understated since the government estimates only income tax revenue losses, not subsidies provided through the Social Security tax system.)

The distribution of these tax benefits is skewed toward the well off because upper-income households are much more likely to participate in employer pension and health care plans and the tax exclusions are worth more to those in higher tax brackets than poorer households. In fact, households that either owe no tax or are not covered by such plans would receive zero benefits. Table 1 provides information, when available, on the distribution of benefits (primarily through the tax code) for sample mobility programs. It suggests that around three-quarters of tax benefits for employer-related work subsidies go to households in the top income quintile.

Homeownership programs spent $157.5 billion in 2006 in support of wealth building. There are two main components. The first, and much smaller, component is an array of mortgage financing programs, in the form of mortgage loan funds (positive outlays for mortgages lent) and financing accounts (negative outlays for mortgage loan payments received) so families have access to home mortgage loans. Roughly $3 billion was spent on direct outlay programs that subsidize mortgage payments and provide home repair grants to low-income or rural tenants.

The second, and much larger, component is made up of the various tax subsidy programs that support homeownership, such as the mortgage interest deduction, the real estate property tax deduction, the exclusion of net imputed rental income on owner-occupied housing, and the capital gains exclusion on home sales. These tax subsidies total $154.8 billion. Again, Table 1 shows that more than 80 percent of the benefits from the home mortgage interest deduction accrue to families in the top fifth of the income scale—families that would likely purchase a home in any case—while those in the bottom fifth that generally do not owe taxes receive zero. Among the best examples of inflated asset prices, economists strongly suspect that much of the government subsidies to homeowners actually pass through in the form of higher housing prices (including land) than would otherwise be the case. Supporting this point, economists (e.g., Gale et al. 2007) look to homeownership rates in countries like England and Australia that track very closely with the U.S. homeownership rate, even though neither country subsidizes homeownership. While a program with labels like "Moving to Opportunity" might show greater promise as mobility enhancers for moderate-income individuals, to date, the sums spent are little more than a rounding error compared to the overall amounts spent on housing.

Savings and investment incentives encourage capital investments through $104.3 billion in tax expenditures, such as the capital gains and dividend

THE MOBILITY BUDGET

exclusion, step-up in basis of capital gains at death, and expensing of certain small investments. As shown in Table 1, nearly 98 percent of the tax benefits from the capital gains and dividend exclusion flow to top quintile households, while the bottom quintile receives zero. What is more, these tax benefits subsidize deposits and not actual accumulations, allowing particularly higher-income households to shift savings out of non-tax-advantaged accounts to the tax-advantaged ones simply to reap the tax benefit. For example, regarding retirement savings, Bell, Carasso, and Steuerle (2004) note that the total amount of federal retirement subsidy exceeds all private saving, suggesting that federal dollars are substituting for private contributions rather than encouraging new private saving.

TABLE 1 **Share of Select Federal Tax Expenditures by Cash Income Percentile, 2006**[1]

Cash Income Percentile*	Hope Credit	Lifetime Learning Credit	Student Loan Interest Deduction	Home Mortgage Interest Deduction	State and Local Property Tax Deduction	Self-Employed Health Insurance Deduction	Earned Income Tax Credit	Child and Dependent Care Credit	Preferential Rates on Capital Gains and Dividends	Tax Benefits of the Partial Exclusion for Social Security Benefits	Exclusions and Deductions for Retirement Savings**	All Select Federal Tax Expenditures Combined
Lowest Quintile	0.8	1.1	0.4	0.0	0.0	0.2	27.7	0.0	0.0	1.1	0.1	**3.4**
Second Quintile	13.6	12.7	4.9	0.4	0.6	1.7	52.0	4.1	0.1	14.1	2.4	**8.0**
Middle Quintile	24.7	25.0	22.8	3.1	3.4	6.5	19.4	23.7	0.4	29.7	8.1	**7.7**
Fourth Quintile	34.1	35.5	29.7	14.9	17.6	15.0	0.6	30.8	2.0	36.1	17.2	**12.3**
Top Quintile	26.8	25.8	42.3	81.5	78.4	76.6	0.1	41.4	97.6	19.0	72.2	**68.6**
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	**100.0**
Addendum												
Top 10 Percent	1.8	1.8	10.2	60.4	54.9	63.9	0.0	19.9	95.0	10.5	52.2	**55.9**
Top 5 Percent	0.4	0.2	0.1	40.2	32.7	50.9	0.0	8.6	91.8	6.1	33.6	**44.4**
Top 1 Percent	0.0	0.0	0.0	11.7	11.8	20.1	0.0	1.0	80.1	1.6	8.8	**27.0**
Top 0.5 Percent	0.0	0.0	0.0	6.5	9.1	11.5	0.0	0.4	74.0	0.8	4.7	**22.8**
Top 0.1 Percent	0.0	0.0	0.0	1.6	3.2	2.6	0.0	0.1	58.2	0.2	1.1	**16.1**

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).

Note1: Calendar year.

* Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.

** Includes IRAs, Keogh plans, and defined contribution plans (e.g., 401(k)s and employer plans).

*** Alternative repeals the Hope and Lifetime Learning credits, the student loan interest deduction, the home mortgage interest deduction, the state and local property tax deduction, the self-employed health insurance deduction, the earned income tax credit, the child and dependent care credit, the preferential rates on capital gains and dividends, the partial exclusion for Social Security benefits, and the exclusions and deductions for IRAs, Keogh plans, and defined contribution retirement savings plans.

THE MOBILITY BUDGET

The ***education and training*** category includes more than 100 programs. These programs, at least in theory, aim to enhance earning potential by building human capital. The $87.3 billion spent on these programs in 2006 were split among programs in (1) primary and secondary education ($39.8 billion) like education for the disadvantaged, (2) higher education ($23.5 billion) like Pell grants and the Hope tax credit, and (3) other education programs ($24.0 billion) like unemployment training and related social services.

The benefit programs geared toward higher education—including the Hope and Lifetime Learning tax credits, tuition and fees tax deduction, and student loan interest deduction on the tax side and the Pell grants on the spending side—are distributed fairly progressively, with the bulk (Pell grants) going to households making below $30,000 (see Maag et al. 2007)—although many of the tax benefits still accrue mainly to middle-income families that have enough income to be taxable. Additionally, it is likely that some portion of such federal subsidies inflate tuition costs. Virtually all the federal prekindergarten, primary, and secondary education programs go to low-income or disabled children (see Carasso, Steuerle, and Reynolds 2007). Unemployment training goes mainly to middle- and lower-income individuals. Yet overall, federal education and training benefits can be argued to be distributed fairly progressively. Of course, states and localities provide the lion's share of K-12 education funding, whereas federal contributions tend to be of the social safety net sort, with most sums backstopping educational programs for the disabled or low income.

Child health and nutrition includes $72.7 billion in basic needs for children, which we interpret as enhancing mobility by aiming to help build human capital. The major federal programs that dispense this funding are the children's portion of Medicaid and Food Stamps, SCHIP, the Maternal and Child Health Block Grant, Child Nutrition, Special Milk, and the like. Virtually all this expenditure is aimed at those in lower income classes, by way of income testing.

Work supports promote labor force attachment among low-income households through $57.6 billion in job opportunities, earnings subsidies, and child care services. The major programs covered here include the earned income tax credit, the child and dependent care tax credit, child care and development fund and child care entitlement to states, welfare-to-work, and the work support portion of expenditures from Temporary Assistance for Needy Families (e.g., child care and transportation to work). Again, virtually all these programs target families in the lower quintiles. While they reward initial labor force attachment, most of these programs have phaseout rates that penalize additional work or marriage at moderate income levels.

THE MOBILITY BUDGET

The bulk of work supports—$49 billion, composed mainly of the EITC—is credited with raising the work efforts of many poor, single-parent families, although increased labor supply of workers could partially lower their pre-tax wages. The minimum wage, however, may prevent the credit from passing through entirely to employers (Eissa and Nichols 2005).

The child care component, contributing $9.1 billion of the total, was expanded in recent welfare reform as a way to help foster and maintain the labor force attachment of low-income families. While these child care programs help many parents maintain jobs, the targeting and the coverage of these overlapping programs can limit their impact. For example, the child care block grant fund programs often have long waiting lists and low participation rates among eligible families, and the dependent care tax credit is nonrefundable and so pays larger benefits to higher-income families. Further, since many families may otherwise rely on informal child care arrangements, it is not always clear whether recipients of child care subsidies would work in any case or that those families that truly need child care subsidies are able to obtain them because of waiting lists or insufficient tax liabilities (one must owe tax to claim any credit).

Other child well-being programs supply $15.4 billion in social services related primarily to child development. The major programs here are foster care, adoption assistance, the Social Services Block Grant, child support enforcement and family support, children and families services programs, and juvenile justice. While these programs can theoretically benefit all of society, they tend to be income conditioned. Foster care and adoption assistance spending and tax programs are credited with removing some financial barriers to adoption; although some argue that, better-off families should not need financial inducements to adopt children, other evidence suggests that current levels of foster care assistance may be insufficient, especially where the adoption of special needs children are concerned (Senate Budget Committee 2006). Child support enforcement can either increase the net incomes of families or simply decrease their welfare payments from programs like TANF. However, we have included it here as at least aimed at child development.

Business incentives and development attempt to enhance earnings by small business owners or workers in less-developed areas by providing $5.5 billion in loans to businesses and enhanced worker subsidies in low-income geographical areas. Programs include the Business Loan Program Account, the Economic Development Administration, the Small Business Administration, the Rural Development Insurance Fund, empowerment zones, and the new markets tax credit. Nearly $3.1 billion dollars of the $5.5 billion total is supplied through

THE MOBILITY BUDGET

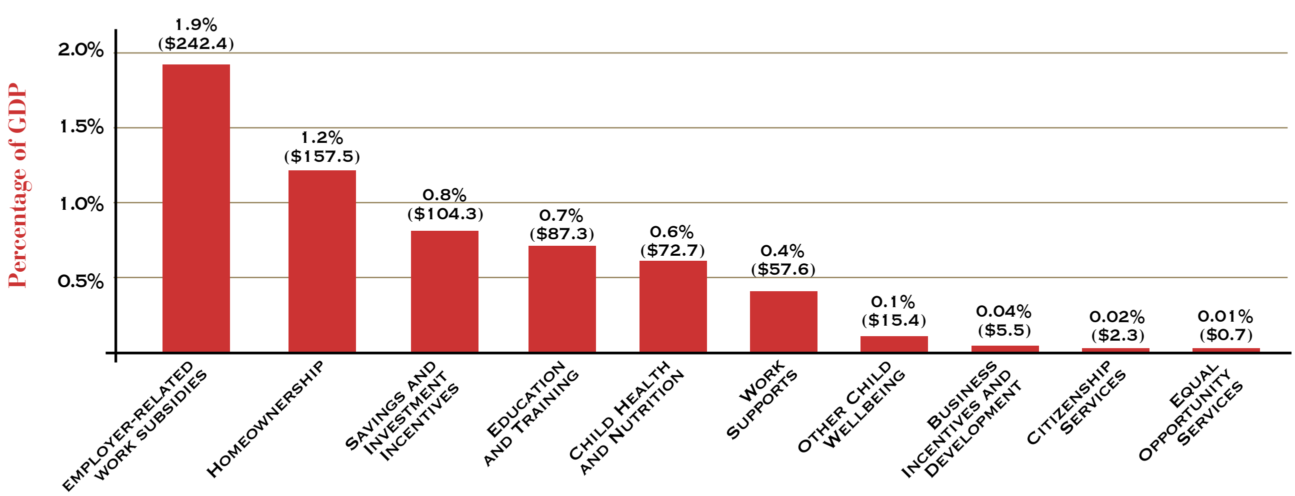
tax incentives. There are many regional or group-specific programs included here, like the Appalachian Regional Commission, the Indian Guaranteed Loan Program Account, and the Agricultural Credit Insurance Fund. The loan programs often have only moderate net outlays, as they are concurrently making loans and receiving loan repayments. The chief value in these programs is the loan itself, usually at preferred and insured terms, although occasionally there may be genuine, but small, subsidy components in the form of outlays. Little distributional data is available on these programs—likely, whatever their mobility intent, business owners sometimes are the net beneficiaries.

Citizenship services programs spent $2.3 billion to encourage the employment of immigrants and refugees by providing aid in the transition and acclimatization to the United States. Programs include refugee and entrant assistance and the United States Citizenship and Immigration Services. A fair amount of this expenditure probably benefits lower-income immigrants, partly because immigrants on average start out with lower incomes, but we do not have the data to really say how much.

Equal opportunity services support the earnings of minorities by expending $661 million fighting discrimination. Major programs include minority business development, the Equal Employment Opportunity Commission, the Office of Civil Rights, and fair housing activities. True, these programs do not provide specific grants to individuals, per se, but these funds are targeted generally to helping specific groups with lower incomes.

FIGURE 3

Mobility Budget by Major Category, 2006
($746 billion total or 5.7% of GDP)



Source: The Urban Institute, 2007. Estimates developed using the *Budget of the United States Government FY2008*, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and *Health Care Financing Review 2005*.

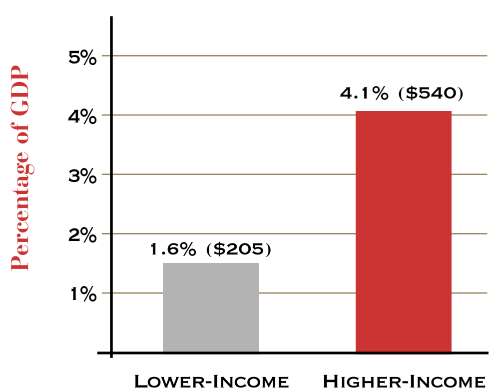
Note: See note to Figure 1.

THE MOBILITY BUDGET

Summaries of the amounts expended by category are shown and compared in Figure 3. To recap, about 80 percent of the $746 billion of mobility expenditures is captured in the *employer-related work subsidies, homeownership, savings and investment incentives, and education and training* categories.

Most of the money spent in these four major categories comes in the form of tax exclusions that do not benefit low- and moderate-income households. The relatively small sum expended on *business incentives* also likely benefits middle- and upper-income entrepreneurs and owners of businesses and capital more than it benefits low-income households. Capital owners tend to be in higher income groups, even when they are in poorer areas or industries. An exception here would be some of the jobs credits that form part of empowerment zones and renewal communities, which we allocated to lower-income households. How much mobility spending can be said to target low-income families or at least give them equal footing? To determine this amount, we would include only mobility spending in the categories of *child health and nutrition, other child well-being, work supports, equal opportunity services, citizenship services*, along with about $53 billion in *education and training*, $3 billion in the *homeownership*, and $0.2 billion in *business incentives and development* (attributable to the jobs credits in empowerment zones). Thus, as shown in Figure 4, roughly $205 billion, or only about 28 percent of the mobility budget, is channeled through programs with significant benefits for lower-income individuals. The estimate is necessarily rough in absence of better government statistics on the allocation of benefits in each of its programs.

FIGURE 4 **A Very Approximate Distribution of Mobility Spending Between Lower-Income and Higher-Income Households, 2006 (%GDP and billions of 2006 $)**



	Lower-Income (Billions of 2006 $)	Higher-Income
Employer-related work subsidies	$ –	$242.4
Homeownership	$3.0	$154.5
Savings & investment incentives	$ –	$104.3
Education & training	$53.3	$34.0
Child health & nutrition	$72.7	$ –
Work supports	$57.6	$ –
Other child well-being	$15.4	$ –
Business incentives & development	$0.2	$5.3
Citizenship services	$2.3	$ –
Equal opportunity services	$0.7	$ –

Source: The Urban Institute, 2007. Estimates developed using the *Budget of the United States Government FY2008*, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and *Health Care Financing Review 2005*.

Note: "Higher-income" includes middle-income, but the lion's share of expenditures go to households in the 4th and 5th income quintiles. See also note to Figure 1.

THE REST OF THE BUDGET

How does the mobility budget compare with the remainder of federal direct outlays and tax expenditures? The $746 billion expended on mobility in 2006 was about one-fifth of all federal spending plus tax subsidies (Table 2), which approximately totaled $3.5 trillion or 26.8 percent of GDP—with the caveat that one cannot strictly sum up tax expenditures and combine them with outlays. According to this rough accounting, the rest of the budget amounted to $2.8 trillion, or 21.1 percent of GDP.

We divide all other federal expenditure into two categories: income maintenance programs (e.g., Social Security, Medicare, most of Medicaid), and other programs, which are mainly public goods (defense, environment, transportation, and the like), but also include some business subsidies (e.g., Commodity Credit Corporation, accelerated depreciation of machinery and equipment). Income maintenance programs and these other programs, primarily public goods programs, each consume about $1.3 to $1.5 billion or roughly 10 to 11 percent of GDP apiece. (As with the mobility budget, there are hundreds of programs included under income maintenance and public goods; the largest, by amount, are listed more completely in Appendix Tables C and D.)

TABLE 2 **Breakdown of Federal Expenditures, 2006**

	Billions of 2006 $		
	Direct Outlays	Tax Expenditures	Total
Mobility	**212**	**534**	**746**
Income maintenance	1,237	52	1,289
Other (mostly public goods)	1,206	261	1,467
Total Federal Expenditures	**2,655**	**847**	**3,502**

	As Percentage of GDP		
	Direct Outlays	Tax Expenditures	Total
Mobility	**1.6%**	**4.1%**	**5.7%**
Income maintenance	9.5%	0.4%	9.9%
Other (mostly public goods)	9.2%	2.0%	11.2%
Total Federal Expenditures	**20.3%**	**6.5%**	**26.8%**

Source: The Urban Institute, 2007. Estimates developed using the *Budget of the United States Government FY2008*, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and *Health Care Financing Review 2005*.

Note: All figures include financing accounts. See also note to Figure 1.

THE REST OF THE BUDGET

The Income Maintenance Budget

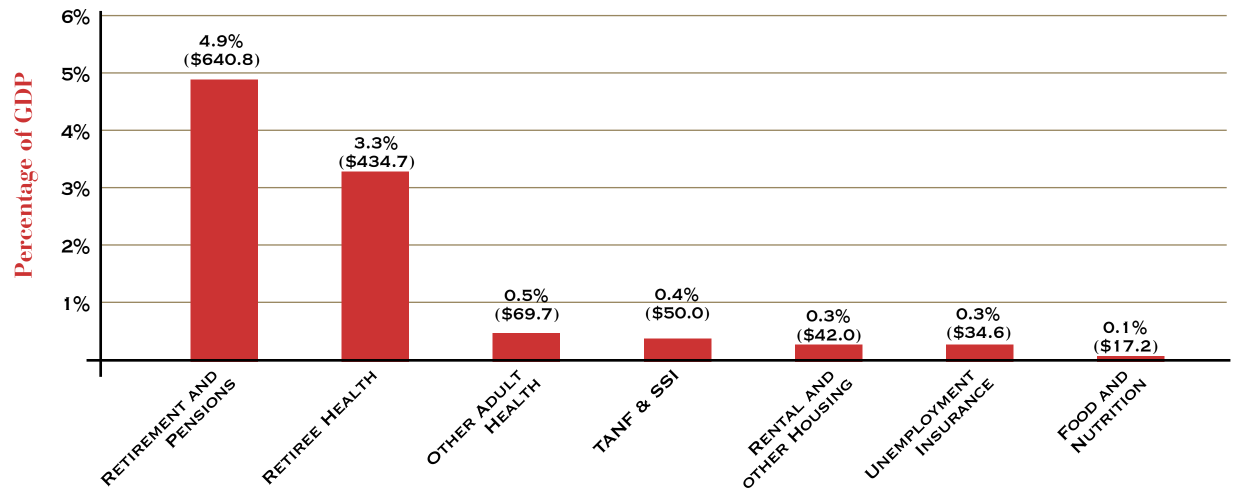
Federal spending on individuals to ensure a minimum level of consumption, without regard for mobility in acquiring human and financial capital, is nearly double what the government spends on programs at least partially aimed at mobility. Below, we break down the "income maintenance" budget to illuminate in what areas and to whom that major spending is directed. As shown in Figure 5, we classify this spending into seven categories: retirement and pensions, retiree health, TANF and SSI, rental and other housing, other adult health, unemployment insurance, and food and nutrition.

Retirement and pensions provide $640.8 billion, primarily through Social Security. (Note that military retirement and disability are counted in Defense as costs for public goods). Since these federal outlays are generally not taxable, the tax expenditures (roughly $38 billion in 2006) associated with these benefit payments capture their enhanced value when nontaxable.

When it comes to mobility, the chief incentive of these programs is to encourage individuals to leave the labor force, not to work longer, seek new skills, acquire additional education, or invest more. Also, since these programs are generally

FIGURE 5

Income Maintenance Budget by Major Category, 2006
($1.3 trillion total or 9.9% of GDP)



Source: The Urban Institute, 2007. Estimates developed using the *Budget of the United States Government FY2008*, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and Health Care Financing Review, 2005.

Note: Income maintenance spending includes $52 billion in tax expenditures. See also note to Figure 1.

THE REST OF THE BUDGET

financed on a pay-as-you-go basis, current payroll taxes are used to pay current beneficiaries, so no private assets are created. The programs are a bit more progressive than most programs in the mobility budget. Higher-income Social Security recipients still receive somewhat more in benefits than those with lower incomes and tend to receive old age benefits for more years because they live longer. However, other features, such as disability insurance, tend to even matters out somewhat, while the "progressive" or "kinked" benefit formula in Social Security and disability insurance provides higher annual benefits relative to lower-income households than to higher-income households.

The ***retiree health*** programs included here—primarily Medicare and the elderly and disabled portion of Medicaid—expended $435 billion in 2006. (Military and civil service health are counted under defense, and so as public goods.) The distribution of these health benefits is more complex than retirement and pensions. This portion of Medicaid provides benefits mainly to lower- or middle-income households (in this case, largely for nursing home care), since other Medicaid for children and adults is classified elsewhere. Medicare spending certainly flows to all elderly households, and there is some evidence that Medicare dollars may flow a bit more to better-off households that live longer and also might have better access to more expensive health care. Again, the availability of generous health benefits in the Medicare and Medicaid programs upon retirement (or, in the case of Medicaid, if one falls out of the labor force) generally discourages mobility-enhancing activities like additional work, skill building, or investment. The efficiency of this spending is another issue not addressed here (see Furman 2007).

The spending within the ***retirement and pensions*** and ***retiree health*** categories covers 83 percent of total federal income maintenance spending.

The ***TANF and SSI*** programs are the mainstays of the federal cash welfare system (only the cash assistance portion of TANF is included here). They expend $50 billion on low-income households, the indigent, and the disabled, in some cases primarily when children are present. As these programs are designed to offer a safety net to those households with few other means, benefits dissipate or disappear entirely when recipients receive meaningful earnings (SSI) or at least earn above the poverty level (TANF) or accrue savings above $2,000 or $3,000 or more. In many cases, these programs include significant disincentives to improve one's economic status. TANF tries to offset this discouragement through work requirements and earnings disregards (often up to the poverty level), but the program is still not thought of as a work-related program since benefits do not generally go up with additional work (as in the case of the EITC),

THE REST OF THE BUDGET

and many qualify by first falling outside the labor force while raising children. Moving it to our mobility budget would have little effect on the conclusions of this study. Also note that we have moved many identifiable child expenditure programs, sometimes available to TANF recipients, into the mobility budget.

Carasso and Steuerle (2005) identify the cumulative disincentive applied by major federal welfare programs (both tax and spending) and conclude that in worst-case scenarios, when families participate in several programs simultaneously (i.e., TANF, Food Stamps, and Medicaid), the effective marginal "tax" or benefit loss rates often exceeds 80 percent or more for every new dollar of earned income a household received.

Rental and other housing includes mainly low-income rental assistance and public housing, at a cost of $42 billion in 2006. (Homeownership programs are included under mobility.) Among the primary outlay programs included here are tenant-based rental assistance, project-based rental assistance, and the Housing Certificate Fund, while tax expenditures include the credit for low-income housing investments. These programs generally target low-income households. Even the tax benefits that accrue to builders of low-income housing are, in theory, supposed to pass through as lower rent payments to the families that live in the units. Just as with cash welfare programs, free or heavily subsidized rental housing—combined with the loss of this benefit as household income climbs or assets are accumulated—tends to discourage housing ownership and upward mobility.

Other adult health programs is somewhat of a catch-all category that includes tax subsidies like deductibility of medical expenses and rural health outreach grants that cater both broadly and to specific groups, for a total of $69.7 billion for 2006. Medicaid for adults (other than the elderly and disabled) is not easily classified, although we include it here. One could argue that health care for working adults is necessary for their continued bread-winning. However, a significant portion of Medicaid for adults goes to those with limited attachment to the labor force. As indicated earlier, one might want to reclassify some of these adult Medicaid expenditures into the mobility budget. We have also included here many health programs for veterans, where they seemed to apply mainly to those outside the labor force. Here again, classification is difficult.

Unemployment insurance provides $34.6 billion to those who have lost their jobs but still remain in the labor force. Virtually all funding flows out of the Unemployment Trust Fund. Benefits vary by state, and, although meager to moderate, they scale somewhat higher as income rises up to a modest maximum amount. Unlike many other federal benefits, unemployment benefits are taxable, so there is no tax expenditure associated with their receipt.

THE REST OF THE BUDGET

Food and nutrition counted here primarily covers the $17.2 billion portion of the Food Stamp program that can be attributed to adults only. While adequate food and nutrition is necessary for anyone to function, we give a greater weight to child nutrition in terms of mobility and suggest that Food Stamps might be better classified as a program to advance consumption—however necessary—rather than mobility, as in the case of the earned income tax credit.

In summary, the income maintenance programs included here generally are not designed to promote mobility in the acquisition of private financial and human capital. At the same time, they tend to be more evenly distributed across the population than are mobility programs, which tend to go to those already well off. Nevertheless, Social Security and Medicare, the largest retirement and health programs, still favor the well off in absolute terms, despite a progressive benefit formula in Social Security that attempts to steer larger sums (relative to lifetime income) to those with lower lifetime earnings.

Public Goods and Everything Else

This major category, receiving $1.5 trillion in spending and tax subsidies, is the residual category in our mammoth budget exercise. These vast sums finance primarily the major public goods programs, such as the general operations of government, defense, international affairs, basic research and science, the space program, law enforcement and our judiciary system, preservation of the environment, stewardship of natural resources, and the construction and maintenance of our transportation and communications infrastructure. This category also includes broadly dispersed public spending devoted to regional development or disaster relief where the beneficiaries are not easily identifiable as a specific group of individuals or firms. We also include here such tax programs as deductions for charitable contributions by individuals and corporations and the nonrefundable child tax credit (since this acts like an enhancement to family allowances). See Appendix Table D for a full list of programs.

We have also placed into this residual category many federal business subsidy programs that appear to do little to advance mobility. Some $140 billion is spent for such direct outlay programs as the Commodity Credit Corporation, federal crop insurance, and funds for strengthening markets, income, and supply, and such tax subsidies as accelerated depreciation of machinery and equipment, deferral of income from controlled foreign corporations, and the deduction for U.S. production activities. Many of these programs go to businesses for activities they already take on (or, in the case of some farm subsidies, for not farming). In the case of tax subsidies, the benefits are not available to businesses that do not already have profits—thus weakening any mobility claim. The benefits from some business subsidies for capital formation are generally believed to be shared across owners of capital, despite being targeted to particular categories of capital.

Plainly, the fruits of many public goods programs—particularly in research and infrastructure—aim to enhance economic well-being for all. Similarly, if the business subsidies enhance production and capital formation, they add to growth. As noted, we have concentrated our attention on mobility programs that are directed both toward enhanced ownership of private assets in the form of human and financial capital and primarily at individuals or small groups. By no means do these distinctions suggest that all other spending, such as for public goods, is an inferior category of the budget in terms of enhancing well-being.

TRENDS IN THE MOBILITY BUDGET

From 1980 to 2006, the mobility budget as measured here has risen from 5.2 of GDP to 5.7 percent of GDP, as indicated in Figure 6. During the same period, income maintenance programs rose slightly less than mobility programs, from 9.3 to 9.9 percent of GDP, but still make up a larger share of federal spending. The bigger story, within income maintenance, is that non-child Social Security, Medicare, and Medicaid grew much more substantially relative to GDP from 5.6 to 7.6 percent of GDP, while the rest of income maintenance fell from 3.7 percent to 2.3 percent of GDP.

Using extrapolations of current law from the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB), we project that the mobility budget would rise slightly to 5.9 percent of GDP by 2012, while income maintenance will grow to 10.3 percent, mainly in non-child Social Security, Medicare, and Medicaid. (These projections do not include any prediction of how lawmakers will actually legislate in the future, only what is implied if we stay the current course.)

Tax expenditure programs often grow automatically over time and are not subject to annual appropriations. Like mandatory direct spending programs, they get their money up front and do not for the scarce resources left in the discretionary budget. While not all tax expenditures grow necessarily, those associated with major work and asset subsidies like health insurance, pensions, and homeownership have mushroomed over time, tracking the growth in health care costs, retirement plan

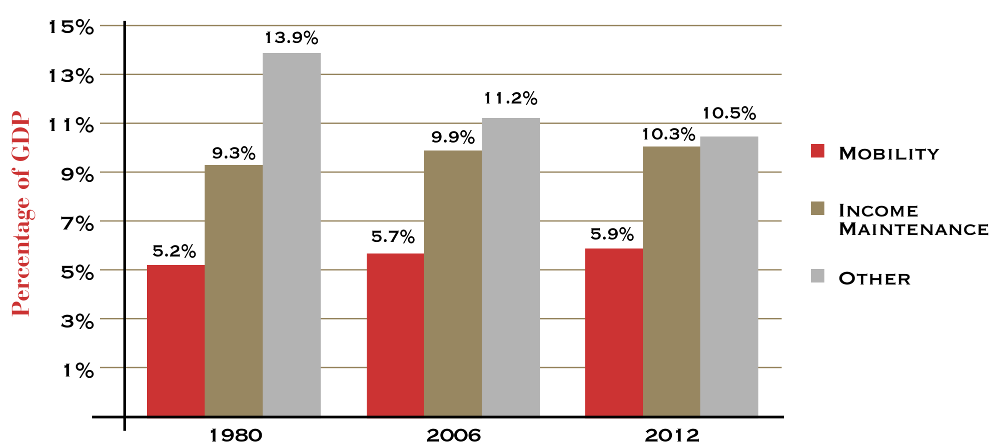
TRENDS IN THE MOBILITY BUDGET

deposits, and housing values respectively. Growth in these tax expenditures has driven growth in the overall mobility budget. Using CBO and OMB data, we project these trends to continue to 2012 (see Figure 7). In the mobility budget, however, the rise of tax expenditures coupled with the descent of direct outlays suggests the poor and lower-middle classes will get an even smaller share of total mobility spending in the future than they do now.

Figures 8A and 8B show federal spending on mobility over time, relative to GDP. Many trends are the consequence of a mobility budget dominated by tax expenditure programs and of a budget process that favors entitlements and tax entitlements over other forms of spending. In Figure 8A, the major categories of mobility-related spending—*employer-related work subsidies* and *homeownership*—grow by nearly 65 percent and 40 percent respectively over the 1980-2012 period. Interestingly, *savings and investment incentives* decline 30 percent over this period.

Education and training meanwhile declines by nearly 50 percent as a fraction of GDP over this period—this is a major source of spending and human capital development for the poor and lower middle class. Child health and nutrition grows 40 percent over the period, propelled by growth in children's Medicaid. This result, however, corresponds to growth in health costs that simultaneously reduces private health coverage. Work supports increased over 200 percent from 1980 to

FIGURE 6 **1980-2012: Federal Spending on Mobility and Other Major Items (%GDP)**



Source: The Urban Institute, 2007. Estimates and projections developed using the Budget of the United States Government FY1982 and FY2008, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and Health Care Financing Review, 2005.

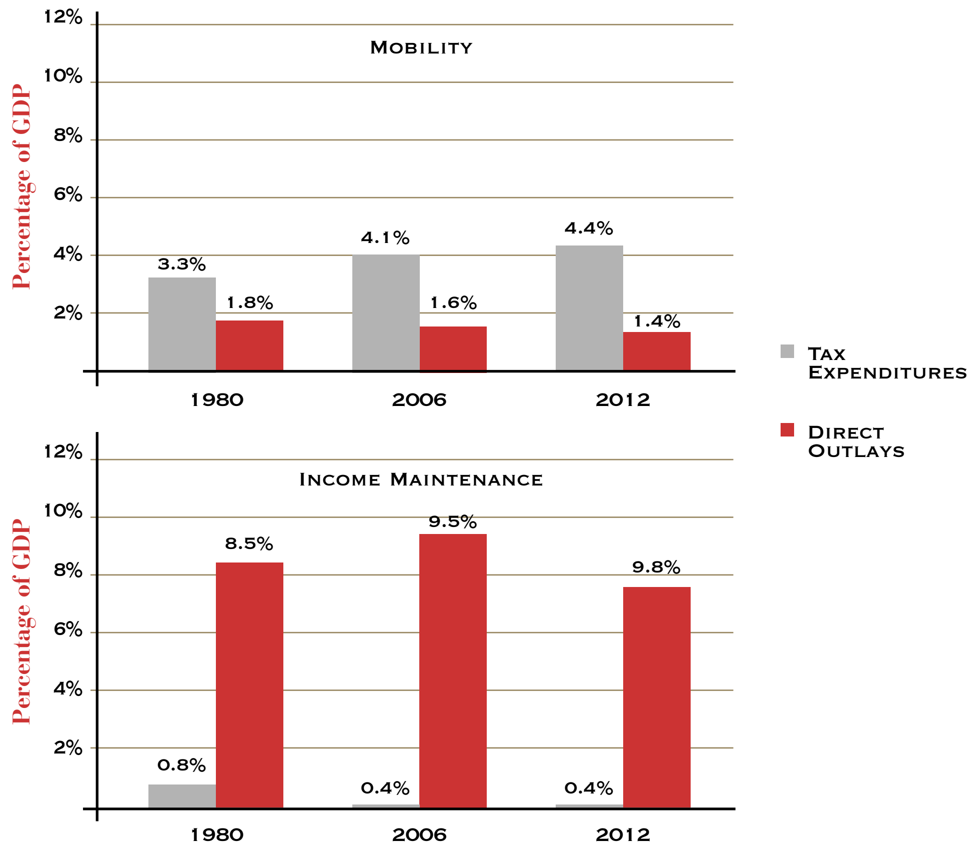
Note: Income maintenance is largely composed of non-child major entitlements, as a percentage of GDP: 5.6% in 1980, 7.6% in 2006, and 8.2% in 2012. Other, mainly public goods, is largely composed of defense, as a percentage of GDP: 4.9% in 1980, 4.0% in 2006, and 3.3% in 2012. See also note to Figure 1.

TRENDS IN THE MOBILITY BUDGET

2006, but then are slated to decline by over 20 percent relative to GDP by 2012 as the current law EITC and related programs typically grow with prices but not the economy.

Marked declines from 1980 and 2006 levels are shown in Figure 8B for the remaining categories: over a15 percent drop from 1980 to 2012 for *other child well-being*, almost 75 percent for *business incentives and development*, nearly 40 percent for *citizenship services*, and over 60 percent for *equal opportunity services*. Of course, it is not clear that any particular set of categories should necessarily grow with GDP, or that failing to grow with GDP is a symptom of a larger problem. Nonetheless, one upshot of the trends shown in Figures 8A and 8B is that the mobility budget has become increasingly directed at higher- rather than lower-income households and is on course to continue this trend.

FIGURE 7 **Trend in Components of Mobility and Income Maintenance (%GDP)**

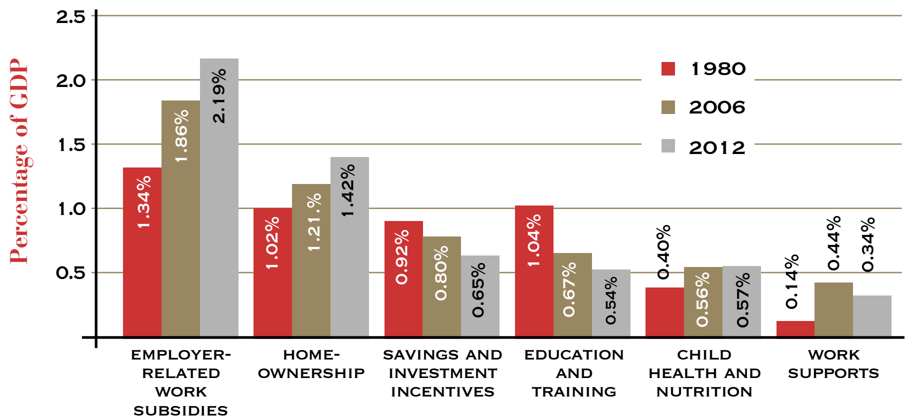


Source: The Urban Institute, 2007. Estimates and projections developed using the *Budget of the United States Government FY2008*, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and *Health Care Financing Review 2005*.

Note: See note to Figure 1.

TRENDS IN THE MOBILITY BUDGET

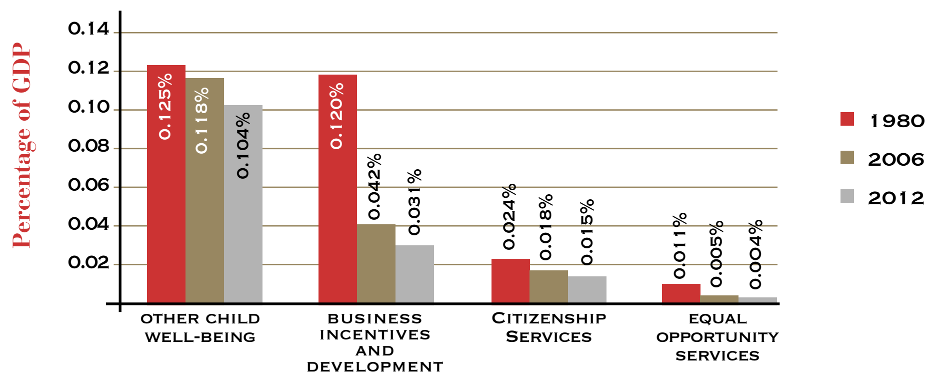
FIGURE 8A 1980-2012: Federal Spending on Mobility by Category (%GDP)



Source: The Urban Institute, 2007. Estimates and projections developed using the Budget of the United States Government FY1982 and FY2008, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and Health Care Financing Review, 2005.

Note: See also note to Figure 1.

FIGURE 8B 1980-2012: Federal Spending on Mobility by Category continued (%GDP)



Source: The Urban Institute, 2007. Estimates and projections developed using the Budget of the United States Government FY1982 and FY2008, CBO's *The Budget and Economic Outlook: Fiscal Years 2008-17*, and Health Care Financing Review, 2005.

Note: See also note to Figure 1.

CONCLUSIONS

The federal government plays the economic mobility game in spades. Or at least, it so appears, absent effectiveness studies by the federal government on its own programs. We estimate that approximately $212 billion in direct spending and $534 billion in tax subsidies, or more than $6,000 per household, was invested in 2006 toward federal programs aimed, at least in part, at promoting mobility. This represents 5.7 percent of GDP, with direct spending on mobility-related programs composing 1.6 percentage points and mobility-related tax subsidies 4.1 percentage points. While alternative estimates are possible—we have tried to indicate which programs most justifiably might be reclassified—our general conclusions would not be affected.

Although the federal government attempts to promote absolute mobility among the middle and upper classes, the poor are often excluded. In addition, those with higher incomes are granted the lion's share of benefits in many programs, including pension subsidies, incentives to acquire employee benefits, and most homeownership subsidies. Of the $746 billion roughly estimated to be spent on programs that, at some level, aim to enhance mobility, well above $500 billion goes to enhancing the mobility of those in the top two quintiles of income—people who already possess substantial private command of financial and human capital. The only major categories of mobility spending that reach or target the poor—those who might benefit most from mobility-enhancing programs—are education programs like Pell grants, child health and well-being programs like SCHIP and children's Medicaid, and the work support portion of TANF.

Not that those with lower incomes are excluded from federal spending in general. In many arenas where they are served, however, we conclude that the federal government's programs are likely not to promote mobility and sometimes decrease it, especially when it comes to relative and intergenerational mobility. The government does serve lower income groups, but by far the largest programs are aimed at enhancing consumption in retirement. Meanwhile, programs aimed at the nonelderly poor are often available in largest quantity only to those who do not work, while benefits are significantly reduced in value if beneficiaries acquire human or financial capital. Finally, we see nothing in budget trends that move toward enhancing either relative or intergenerational mobility. The fastest-growing mobility programs are those that encourage saving and work among higher-income groups, but, in some cases, raise the cost of asset ownership for the nonsubsidized poor. Meanwhile, the fastest-growing income maintenance programs are those that encourage individuals, particularly those with modest means, to work and save less.

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APPENDIX A

Total Expenditures on Economic Mobility

Including major programs, FY2006 in millions of nominal dollars[1]

(Direct outlay programs are non-italicized; tax expenditures are shown in italics.)

	Major Programs	Category Totals
TOTAL FEDERAL OUTLAYS & EXPENDITURES		**3,502,177**
TOTAL OUTLAYS		**2,655,435**
TOTAL TAX EXPENDITURES		*846,742*
MOBILITY OUTLAYS & EXPENDITURES		**745,640**
EMPLOYER-RELATED WORK SUBSIDIES		**242,370**
PENSIONS		**106,360**
Employer Plans	*49,040*	
401(k) Plans	*40,760*	
Keogh Plans	*10,130*	
HEALTH		**129,250**
Exclusion of Employer Contributions for Medical Insurance Premiums and Medical Care	*125,000*	
Self-Employed Insurance Premiums	*3,970*	
Medical Savings Accounts	*280*	
OTHER		**6,760**
Exclusion of Reimbursed Employee Parking Expenses	*2,740*	
Exclusion of Premiums on Group Term Life Insurance	*2,280*	
Exclusion of Employee Meals and Lodging (other than Military)	*890*	
HOMEOWNERSHIP		**157,457**
Federal Housing Administration Mutual Mortgage Insurance Program Account	3,818	
HOME investment Partnerships Program	1,812	
Housing Guaranteed Loan Financing Account	890	
Deductibility of Mortgage Interest on Owner-Occupied Housing	*68,330*	
Capital Gains Exclusion on Home Sales	*35,270*	
Exclusion of Net Imputed Rental Income on Owner-Occupied Homes	*28,780*	
SAVINGS AND INVESTMENT INCENTIVES		**104,300**
Capital gains	*48,610*	
Step-Up in Basis of Capital Gains at Death	*29,600*	
Exclusion of Interest on Life Insurance Savings	*19,380*	
EDUCATION AND TRAINING		**87,329**
PRIMARY & SECONDARY EDUCATION		**39,839**
Education for the Disadvantaged	14,696	
Special Education	11,824	
School Improvement Programs	5,786	
HIGHER EDUCATION		**23,499**
Federal Family Education Loan Program Account	27,132	
Student Financial Assistance	14,710	
Federal Direct Student Loan Program Account	6,842	
Parental Personal Exemptions for Students Aged 19 or Over	*4,030*	
HOPE Tax Credit	*3,900*	
Lifetime Learning Tax Credit	*2,490*	

[1] Department totals include offsetting receipts, whereas individual programs do not take those into account, resulting in some negative residuals.

APPENDIX A

	Major Programs	Category Totals
OTHER		**23,991**
Head Start	6,851	
Training and Employment Services	4,933	
Rehabilitation Services and Disability Research	3,071	
CHILD HEALTH AND NUTRITION		**72,671**
HEALTH		**37,717**
Medicaid (Non-Disabled Children)	30,085	
SCHIP	5,451	
Maternal and Child Health Block Grant	693	
NUTRITION		**34,954**
Food Stamp Program (Children's' Portion Only)	17,435	
Child Nutrition	12,422	
Special Supplemental Food for Women, Infants and Children	5,060	
WORK SUPPORTS		**57,624**
OTHER		**48,517**
EITC (Refundable Portion)	36,166	
Temporary Assistance for Needy Families: Work Support Expenditures	6,488	
Community Service Employment for Older Americans	428	
EITC (Non-Refundable portion)	*5,050*	
Work Opportunity Tax Credit	*210*	
Welfare-to-Work Tax Credit	*80*	
CHILD CARE		**9,107**
Child Care Entitlement to States	3,060	
Child Care and Development Block Grant	2,187	
Dependent Care Credit	*3,190*	
Exclusion of Employer-Provided Child Care	*660*	
Employer Provided Child Care Credit	*10*	
OTHER CHILD WELL-BEING		**15,399**
ADOPTED/FOSTER CHILDREN		**7,509**
Foster Care	4,390	
Adoption Assistance	1,819	
Adoption Credit and Exclusion	*540*	
Exclusion of Certain Foster Care Payments	*440*	
Assistance for Adopted Foster Children	*320*	
SOCIAL SERVICES		**7,890**
Child Support Enforcement and Family Support Programs	3,640	
Social Services Block Grant	1,848	
Children and Families Services Programs	1,492	
Family Preservation and Support/Promoting Safe and Stable Families	418	
BUSINESS INCENTIVES AND DEVELOPMENT		**5,519**
Agricultural Credit Insurance Fund Program Account	534	
Small Business Administration: Salaries and Expenses	604	
Business Loans Program Account	534	
Empowerment Zones and Renewal Communities	*1,210*	
Exclusion of Interest for Airport, Dock, and Similar Bonds	*1,130*	
New Markets Tax Credit	*590*	
CITIZENSHIP SERVICES		**2,310**
United States Citizenship and Immigration Services	1,698	
Refugee and Entrant 2006 Assistance	469	
Migration and Refugee Assistance: U.S. Refugee Admission Program	143	
EQUAL OPPORTUNITIES		**661**
Equal Employment Opportunity Commission: Salaries and Expenses	320	

APPENDIX A

	Major Programs	Category Totals
Office of Civil Rights (Department of Education)	91	
Employment Standards Administration:		
Federal Contractor EEO Standards Enforcement	73	
Tax Expenditures		***533,910***
Direct Outlays		**211,730**
INCOME MAINTENANCE		**1,289,142**
RETIREMENT AND PENSIONS		**640,834**
Social Security: Old Age and Survivors' Trust Fund	461,063	
Social Security: Disability Trust Fund	93,572	
Veterans' Benefits: Disability	26,470	
Exclusion for Social Security Retirement and Dependents & Survivors' Benefits	*21,250*	
Exclusion of Workmen's Compensation Benefits	*5,660*	
Exclusion for Social Security Disability Benefits	*4,730*	
RETIREE HEALTH		**434,701**
Medicare	329,868	
Medicaid (elderly and disabled)	103,454	
Aging Services Programs	1,379	
OTHER ADULT HEALTH		**69,749**
Medical Care (Veterans Administration)	19,054	
Medicaid (Adult Non-Disabled, Non-Elderly)	23,855	
Medical Administration (Veterans Administration)	3,696	
Deductibility of Medical Expenses	*3,770*	
Exclusion of Interest on State and Local Hospital Bonds	*3,420*	
Special Blue Cross/Blue Shield Deduction	*620*	
TANF AND SSI		**50,042**
Supplemental Security Income	40,164	
Temporary Assistance for Needy Families: Administrative and Cash Benefits	10,409	
Exclusion for Public Assistance Benefits	*450*	
RENTAL AND OTHER HOUSING		**42,041**
Tenant-Based Rental Assistance	12,966	
Project-Based Rental Assistance	5,368	
Housing Certificate Fund	5,200	
Credit for Low-Income Housing Investments	*4,420*	
Exclusion of interest on State and local housing bonds for rental housing	*970*	
Exclusion of interest on veterans housing bonds	*40*	
UNEMPLOYMENT INSURANCE		**34,589**
Unemployment Trust Fund	33,942	
Federal Unemployment Benefits and Allowances	528	
States Unemployment Insurance and Employment Service Operations	99	
Income of trusts to finance supplementary unemployment benefits	*20*	
FOOD AND NUTRITION		**17,185**
Food Stamps (Adult Portion)	17,185	
Tax Expenditures		***51,730***
Direct Outlays		**1,237,412**

APPENDIX A

	Major Programs	Category Totals
OTHER, MOSTLY PUBLIC GOODS (by department)		**1,466,935**
LEGISLATIVE BRANCH		**3,670**
House of Representatives: Salaries and Expenses	1,127	
Government Accountability Office: Salaries and Expenses	477	
Senators' Official Personnel and Office Expense Account	342	
THE JUDICIARY		**5,823**
Courts of Appeals, District Courts, and other Judicial Services: Salaries and Expenses	4,273	
Courts of Appeals, District Courts, and other Judicial Services: Defender Services	718	
Courts of Appeals, District Courts, and other Judicial Services: Court Security	350	
DEPARTMENT OF AGRICULTURE		**14,006**
Wildland Fire Management	1,883	
Farm Security and Rural Investment Programs	1,512	
National Forest System	1,402	
DEPARTMENT OF COMMERCE		**5,766**
National Oceanic and Atmospheric Administration: Operations, Research, and Facilities	2,879	
National Oceanic and Atmospheric Administration: Procurement, Acquisition and Construction	1,121	
Bureau of the Census: Periodic Censuses and Programs	601	
DEPARTMENT OF DEFENSE-MILITARY		**499,350**
Army: Operation and Maintenance	60,619	
Army: Military Personnel	40,203	
Air Force: Operation and Maintenance	37,319	
DEPARTMENT OF EDUCATION		**-878** [2]
Reestimation of Student Loans	26,008	
Institute of Education Sciences (Portion)	151	
Office of the Inspector General	47	
DEPARTMENT OF ENERGY		**19,649**
Weapons Activities	6,324	
Defense Environment Cleanup	6,257	
Science	3,602	
DEPARTMENT OF HEALTH AND HUMAN SERVICES		**64,706**
Disease Control, Research, and Training (Portion)	3,850	
Public Health and Social Services Emergency Fund	2,394	
Food and Drug Administration: Salaries and Expenses	1,449	
DEPARTMENT OF HOMELAND SECURITY		**67,388**
Disaster Relief	24,069	
National Flood Insurance Fund	16,582	
Customs and Border Protection: Salaries and Expenses	6,144	
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		**5,076**
Community Development Fund	5,012	
Working Capital Fund	246	
Office of Inspector General	83	

[2] Negative because excludes -144 in interfund transfers and offsetting receipts.

APPENDIX A

	Major Programs	Category Totals
DEPARTMENT OF THE INTERIOR		**8,208**
Mineral Leasing and Associated Payments	2,113	
Operation of the National Park System	1,723	
Fish and Wildlife and Parks: Resource Management	995	
DEPARTMENT OF JUSTICE		**22,880**
Federal Bureau of Investigation: Salaries and Expenses	4,780	
Drug Enforcement Agency: Salaries and Expenses	1,775	
State and Local Law Enforcement Assistance	1,735	
DEPARTMENT OF LABOR		**2,261**
Occupational Safety and Health Administration: Salaries and Expenses	467	
Bureau of Labor Statistics: Salaries and Expenses	451	
Departmental Management	345	
DEPARTMENT OF STATE		**12,399**
Diplomatic and Consular Programs	4,715	
Embassy Security, Construction, and Maintenance	1,652	
Global HIV/AIDS Initiative	1,237	
DEPARTMENT OF TRANSPORTATION		**59,994**
Federal-Aid Highways	32,840	
Trust Fund Share of FAA Activities	5,486	
Grants-in-Aid for Airports	3,841	
DEPARTMENT OF THE TREASURY		**428,546**
Interest on Treasury Debt Securities	405,872	
Child Credit (Refundable Portion)	15,473	
Interest Paid to Credit Financing Accounts	5,200	
DEPARTMENT OF VETERANS AFFAIRS		**-1,646** [3]
General Operating Expenses	1,545	
Information Technology Systems	622	
Medical and Prosthetic Research	406	
CORPS OF ENGINEERS - CIVIL WORKS		**6,944**
Flood Control and Coastal Emergencies	2,456	
Construction	1,559	
Operation and Maintenance	1,274	
OTHER DEFENSE - CIVIL PROGRAMS		**44,436**
Military Retirement Fund	41,145	
Payment to Military Retirement Fund	23,180	
Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund	16,612	
ENVIRONMENTAL PROTECTION AGENCY		**8,321**
State and Tribal Assistance Grants	3,874	
Environmental Programs and Management	2,378	
Hazardous Substance Superfund	1,205	
EXECUTIVE OFFICE OF THE PRESIDENT		**5,379**
Iraq Relief and Reconstruction Fund	5,062	
The White House	168	
Office of Management and Budget	73	
GENERAL SERVICES ADMINISTRATION		**24**
Policy and Operations	85	
Governmentwide Policy	54	
Information Technology Fund	43	
INTERNATIONAL ASSISTANCE PROGRAMS		**13,944**
Foreign Military Sales Trust Fund	13,034	
Foreign Military Financing Program	4,594	
Economic Support Fund	2,842	
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		**15,105**
Science, Aeronautics, and Exploration	7,853	

[3] Negative because excludes -3,766 in interfund transfers and offsetting receipts.

APPENDIX A

	Major Programs	Category Totals
Exploration Capabilities	7,117	
Human Space Flight	75	
NATIONAL SCIENCE FOUNDATION		**4,640**
Research and Related Activities	4,142	
Major Research Equipment and Facilities Construction	181	
Agency Operations and Award Management	242	
OFFICE OF PERSONNEL MANAGEMENT		**62,400**
Civil Service Retirement and Disability Fund	57,983	
Payment to Civil Service Retirement and Disability Fund	28,151	
Government Payment for Annuitants, Employees Health Benefits	8,339	
SMALL BUSINESS ADMINISTRATION		**-194** [4]
Disaster Loans Program Account	799	
Office of Inspector General	13	
Surety Bond Guarantees Revolving Fund	6	
SOCIAL SECURITY ADMINISTRATION		**-9,104** [5]
State Supplemental Fees	119	
Office of the Inspector General	25	
Limitation on Administrative Expenses	-38	
OTHER INDEPENDENT AGENCIES		**-1,507** [6]
Universal Service Fund (Portion)	6,100	
Nuclear Regulatory Commission: Salaries and Expenses	674	
International Broadcasting Operations	620	
FINANCING ACCOUNTS		**-24,071**
UNDISTRIBUTED OFFSETTING RECEIPTS		**-237,548**
TAX EXPENDITURES		**172,802**
Deductibility of Nonbusiness State and Local Taxes other than on Owner-Occupied Homes	*43,120*	
Deductibility of charitable contributions, other than Education and Health	*37,120*	
Child Credit (refundable portion)	*30,377*	
Exclusion of Interest on General Purpose State and Local Debt	*22,980*	
Expensing of Research and Experimentation Expenditures (Normal Tax Method)	*7,920*	
Extraterritorial Income Exclusion	*4,400*	
Deductibility of Charitable Contributions (Education)	*4,200*	
Deductibility of Charitable Contributions (Health)	*4,190*	
Exclusion of Benefits and Allowances to Armed Forces Personnel	*3,100*	
Alternative Fuel Production Credit	*2,980*	
BUSINESS SUBSIDIES (not by department)		**140,024**
Commodity Credit Corporation	26,017	
Commodity Credit Corporation Fund	20,130	
Federal Crop Insurance Corporation Fund	3,372	
Funds for Strengthening Markets, Income, and Supply	1,325	
Commodity Credit Corporation: Salaries and Expenses	937	
Tobacco Trust Fund	891	
Commodity Credit Corporation: Export Loans Program Account	142	

[4] Negative because excludes -1,006 in interfund transfers and offsetting receipts.

[5] Negative because excludes -25,616 in interfund transfers and offsetting receipts.

[6] Negative because excludes -11,955 in interfund transfers and offsetting receipts.

APPENDIX A

	Major Programs	Category Totals
Risk Management Agency: Administrative and Operating Expenses	74	
Emergency Steel Guaranteed Loan Financing Account	66	
Milk Market Orders Assessment Fund	27	
Accelerated Depreciation of Machinery and Equipment (Normal Tax Method)	*36,470*	
Deferral of Income from Controlled Foreign Corporations	*11,160*	
Accelerated Depreciation on Rental Housing (Normal Tax Method)	*10,340*	
Deduction for US Production Activities	*9,950*	
Exception from Passive loss Rules for $25,000 of Rental Loss	*4,050*	
Graduated Corporation Income Tax Rate (Normal Tax Method)	*4,050*	
Deferred Taxes for Financial Firms on Certain Income Earned Overseas	*2,260*	
Inventory Property Sales Source Rules Exception	*1,730*	
Exclusion of Interest Spread of Financial Institutions	*1,350*	
Excess of Percentage over Cost Depletion, Fuels	*760*	
Tax Expenditures		***260,792***
Direct Outlays		**1,206,143** [7]

[7] Direct outlays includes sum of all department with financing accounts, not included in department outlays, subtracted.

APPENDIX B

Mobility Programs Examined in This Study by Category, 2006[8]

(Direct outlay programs are non-italicized; tax expenditures are shown in italics.)

Employer-Related Work Subsidies:

Pensions: *Employer Plans, 401(k) Plans, Keogh Plans, Individual Retirement Accounts, Special ESOP Rules (other than Investment Credit), Low and Moderate Income Savers Credit.*

Health: *Exclusion of Employer Contributions for Medical Insurance Premiums and Medical Care, Self-Employed Insurance Premiums, Medical Savings Accounts.*

Other: *Exclusion of Reimbursed Employee Parking Expenses, Exclusion of Premiums on Group Term Life Insurance, Exclusion of Employee Meals and Lodging (other than Military) Exclusion for Employer-Provided Transit Passes, Exclusion of Premiums on Accident and Disability Insurance.*

Homeownership:

Federal Housing Administration Mutual Mortgage Insurance Program Account, HOME Investment Partnerships Program, Housing Guaranteed Loan Financing Account, Low to Moderate Income Housing Loans & Homeownership Assistance Program, General and Special Risk Program Account, Native Hawaiian Housing Block Grants, Affordable Housing Program, Rural Housing Insurance Fund Direct Loan Financing Account, Very Low-Income Housing Repair Grants/Rural Housing Assistance Grants, General and Special Risk Insurance Funds Liquidating Account, Mutual and Self-Help Housing, Mutual Mortgage and Cooperative Housing Insurance Funds Liquidating Account, Rural Housing and Economic Development, Guarantees of Mortgage-Backed Securities Loan Guarantee Program Account, Native American Veteran Housing Direct Loan Financing Account, Indian Housing Loan Guarantee Fund Program Account, Homeownership Assistance, Self-Help and Assisted Homeownership Opportunity Program, Homeownership and Opportunity for People Everywhere Grants (HOPE Grants), Native American Veteran Housing Loan Program Account, Nehemiah Housing Opportunity Fund, Title VI Indian Federal Guarantees Financing Account, Indian Housing Loan Guarantee Fund Financing Account, Housing Direct Loan Financing Account, Rural Housing Insurance Fund Guaranteed Loan Financing Account, Housing Liquidating Account, Guarantees of Mortgage-Backed Securities Financing Account, General and Special Risk Guaranteed Loan Financing Account, Guarantees of Mortgage-Backed Securities Liquidating Account, Rural Housing Insurance Fund Liquidating Account, Mutual Mortgage Insurance Capital Reserve Account, Mutual Mortgage Insurance Guaranteed Loan Financing Account, *Deductibility of Mortgage Interest on Owner-Occupied Housing, Capital Gains Exclusion on Home Sales, Exclusion of Net Imputed Rental Income on Owner-Occupied Homes, Deductibility of State and Local Property Tax on Owner-Occupied Homes, Exclusion of Interest on Owner-Occupied Mortgage Subsidy Bonds.*

Savings and Investment Incentives:

Capital Gains, Step-Up in Basis of Capital Gains at Death, Exclusion of Interest on Life Insurance Savings, Expensing of Certain Small Investments, Capital Gains Treatment of Certain Income, Carryover Basis of Capital Gains on Gifts, Capital

[8] Programs are divided into broad budget categories and within those categories into subcategories. In each subcategory, federal outlays programs are first, federal tax expenditures programs are second in descending order by level of spending. Some listings are account detail and these lack the detail of programs within account.

APPENDIX B

Gains Exclusion of Small Corporation Stock.

Education and Training:

Primary and Secondary Education: Education for the Disadvantaged, Special Education, School Improvement Programs, Vocational and Adult Education, Hurricane Education Recovery, Impact Aid, Innovation and Improvement, Safe Schools and Citizenship Education, Bureau of Indian Affairs Schools, English Language Acquisition, School Construction (Bureau of Indian Affairs), Indian Education, Federal Payment for School Improvement in D.C., American Printing House for the Blind, Education Reform, Reading Excellence.

Higher Education: Federal Family Education Loan Program Account, Student Financial Assistance, Federal Direct Student Loan Program Account, Higher Education, Howard University, Student Aid Administration, Gallaudet University, National Technical Institute for the Deaf, Academic Competitiveness/SMART Grant Program, Federal Payment for Resident Tuition Support, Federal Student Loan Reserve Fund, Historically Black College and University Capital Financing Program Account, Health Education Assistance Loans Financing Account, Institute of American Indian and Alaska Native Culture and Arts Development, College Housing Grants, Barry Goldwater Scholarship and Excellent in Education Foundation, Harry S. Truman Memorial Scholarship Trust Fund, James Madison Memorial Fellowship Trust Fund, Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation, Christopher Columbus Fellowship Foundation, College Housing and Academic Facilities Loans Program Account, Health Education Assistance Loans Liquidating Account, Federal Family Education Loan Liquidating Account, Federal Direct Student Loan Program Financing Account, Federal Family Education Loan Financing account, *Parental Personal Exemptions for Students Aged 19 or Over, HOPE Tax Credit, Lifetime Learning Tax Credit, Exclusion of Scholarship and Fellowship Income, Deduction for Higher Education Expenses, Deductibility of Student Loan Interest, Deferral of State Prepaid Tuition Plans, Exclusion of Employer-Provided Educational Assistance, Exclusion of Interest on State and Local Student-Loan Bonds, Exclusion of GI Bill Benefits, Special Deduction for Teacher Expenses, Credit for Holders of Zone Academy Bonds, Discharge of Student Loan Indebtedness, Education Individual Retirement Account.*

Other: Children and Families' Services, Training and Employment Services, Rehabilitation Services and Disability Research, Veterans Readjustment Benefits, Universal Service Fund, Unemployment Trust Fund: Training and Employment, National Science Foundation: Education and Human Resources, Cooperative State Research, Education, and Extension Service, Department of Education: Departmental Management/Program Administration, Educational and Cultural Exchange Programs, Smithsonian Institution: Salaries and Expenses, Library of Congress: Salaries and Expenses, Unemployment Insurance: Training and Employment, Institute of Education Sciences, National Science Foundation: Research and Related Activities, Foster Care and Adoption Assistance, National Endowment for the Humanities: Grants and Administration, DOL-ETA Program Administration, National Gallery of Art: Salaries and Expenses, National Endowment for the Arts: Grants and Administration, Library of Congress: Books for the Blind and Physically Handicapped: Salaries and Expenses, Maritime Administration: Operations and Training, Refugee and Entrant Assistance, Holocaust Memorial Museum, Supplemental Security Income Program, Veterans Employment and Training, Appalachian Regional Commission, National Aeronautics and Space Administration: Science, Aeronautics, and Exploration, JFK Center for the

APPENDIX B

Performing Arts: Operations and Maintenance, Payment to Open World Leadership Center Trust Fund, Open World Leadership Center Trust Fund, National Oceanic and Atmospheric Administration: Operations, Research, and Facilities, Office of Museum and Library Services: Grants and Administration, Library of Congress: Gift and Trust Fund Accounts, Woodrow Wilson International Center for Scholars: Salaries and Expenses, National Capital Arts and Cultural Affairs, Promoting Safe and Stable Families, National Security Education Trust Fund, Juvenile Justice Programs, Justice Assistance, Health Education Assistance Loan Program Account, Disease Control, Research , and Training, Disabled Voter Services, National Endowment for the Arts: Gifts and Donations, Post-Vietnam Era Veterans Education Account, Department of Defense (Army): Research, Development, Test and Evaluation, Federal-Aid Highways, United States Interagency Council on the Homelessness, National Commission on Library and Information Science: Salaries and Expenses, National Endowment for the Humanities: Gifts and Donations, Israeli Arab and Eisenhower Exchange Fellowship Programs, National Park Service – Recreation Fee Permanent Appropriations, Library of Congress: Fedlink Program and Federal Research Program.

Child Health and Nutrition:

Health: Medicaid (for nondisabled children under 19), State Children's Health Insurance Program (SCHIP), Maternal and Child Health (Block Grant), Immunization, Children's Graduate Medical Education, Abstinence Education, Lead Hazard Reduction, Healthy Start, Adolescent Family Life, Birth Defects/Developmental Disabilities, Emergency Medical Services for Children, Universal Newborn Hearing.

Nutrition: Food Stamp Program (children's portion), Child Nutrition, Special Supplemental Food for Women, Infants and Children (WIC), Special Milk, Commodity Supplemental Food (children's portion).

Work Supports:

Other: Earned Income Tax Credit (EITC) (refundable portion), Temporary Assistance to Needy Families (work support portion), Community Service Employment for Older Americans, Job Access and Reverse Commute Grants, *EITC (non-refundable portion), Work Opportunity Credit, Welfare-to-Work Tax Credit.*

Child Care: Child Care Entitlement to States, Child Care and Development Block Grant, *Child and Dependent Care Tax Credit, Exclusion of Employer Provided Child Care, Employer-Provided Child Care Credit.*

Other Child Well-Being:

Adopted/Foster Children: Foster Care, Adoption Assistance, *Adoption Credit and Exclusion, Exclusion of Certain Foster Care Payments, Assistance for Adopted Foster Children.*

Social Services: Child Support Enforcement and Family Support Services, Social Services (Block Grant), Children and Family Services Programs, Promoting Safe and Stable Families, Juvenile Justice, Children's Research and Technical Assistance, Missing Children, Violent Crime Reduction Programs.

Business Incentives and Development:

Agricultural Credit Insurance Fund Program Account, Small Business Administration: Salaries and Expenses, Business Loans Program Account, Business Guaranteed Loan Financing Account, Economic Development Assistance Programs, Industrial Technology Services, Agricultural Credit Insurance Fund Guaranteed Loan Financing Account, Agricultural Credit Insurance Fund Direct Loan Financing Account, Appalachian Regional Commission: Area Development

APPENDIX B

and Technical Assistance Program, Farm Storage Facility Direct Loan Financing Account, Empowerment Zones/Enterprise Communities/Renewal Communities, Economic Development Administration: Salaries and Expenses, Rural Cooperative Development Grants, Indian Guaranteed Loan Program Account, Rural Development Loan Fund Program Account, Rural Development Loan Fund Direct Loan Financing Account, Business Direct Loan Financing Account, Rural Economic Development Direct Loans Financing Account, Rural Empowerment Zones and Enterprise Community Grants, Outreach for Socially Disadvantaged Farmers, Rural Economic Development Loans Program Account, Farm Storage Facility Loans Program Account, Apple Loans Program Account, National Veterans Business Development Corporation, Indian Direct Loan Financing Accounts, Economic Development Revolving Fund Liquidating Account, Indian Affairs: Revolving Fund for Loans Liquidating Account, Rural Development Loan Fund Liquidating Account, Rural Business and Industry Direct Loans Financing Account, Rural Business and Industry Guaranteed Loans Financing Account, Indian Guaranteed Loan Financing Account, Business Guaranteed Loan Fund Liquidating Account, Rural Economic Development Grants, Farm Credit System Insurance Fund, Rural Development Insurance Fund Liquidating Account, Agricultural Credit Insurance Fund Liquidating Account, *Empowerment Zones and Renewal Communities, Exclusion of Interest for Airport, Dock, and Similar Bonds, New Markets Tax Credit, Exemption of Certain Mutuals' and Cooperatives' Income, Investment Credit for Rehabilitation of Structures (Other than Historic), Credit to Holders of Gulf Tax Credit Bonds.*

Citizenship Services:

United States Citizenship and Immigration Services, Refugee Entrant Assistance, Migration and Refugee Assistance: U.S. Refugee Admission Program.

Equal Opportunity Services:

Equal Employment Opportunity Commission: Salaries and Expenses, Department of Education: Office of Civil Rights, Employment Standards Administration: Federal Contractor Equal Employer Opportunity Standards Enforcement, Office of Disability Employment Policy, Fair Housing Activities, Minority Business Development, Department of Health and Human Services: Office of Civil Rights, Department of Agriculture: Office of Civil Rights, Commission on Civil Rights: Salaries and Expenses, Committee for Purchase from People Who Are Blind or Severely Disabled, Minority Business Outreach.

APPENDIX C

Income Maintenance Programs by Category, 2006[9]

(Direct outlay programs are non-italicized; tax expenditures are shown in italics)

Retirement and Pensions:

Social Security: Old Age and Survivors' Trust Fund, Social Security: Disability Trust Fund, Veterans' Benefits: Disability, Payments to Social Security Trust Funds, Railroad Social Security Equivalent Benefit Account, Veterans' Benefits: Compensation and Dependent and Indemnity Compensation, Rail Industry Pension Fund, Veterans' Benefits: Non-Service Connected Death (Pensions), Vocational Rehabilitation Loans Program Account, National Service Life Insurance Fund, Black Lung Disability: Part C, National Railroad Retirement Investment Trust, Energy Employees Occupational Illness Compensation Fund, Federal Payments to the Railroad Retirement Accounts, Black Lung Disability: Part B, Administrative Expenses, Energy Employees Occupational Illness Compensation Fund, Special Workers' Compensation Expenses, Federal Programs for Workers' Compensation, United Mine Workers of America Combined Benefit Plan, Dual Benefits Payments Account, Railroad Unemployment Insurance Trust Fund, Federal Employee's Compensation Act/Longshore and Harbor Workers' Compensation Benefits, United Mine Workers of America 1992 Benefit Plan, Veterans Insurance and Indemnities, Veterans Reopened Insurance Fund, Special Benefits for Certain World War II Veterans, United States Government Life Insurance Fund, Panama Canal Commission Compensation Fund, Workers Compensation Programs, Service-Disabled Veterans Insurance Fund, Veterans Special Life Insurance Fund, Pension Benefit Guaranty Corporation Fund, *Exclusion for Social Security Retirement and Dependents and Survivors' Benefits, Exclusion of Workmen's Compensation Benefits, Exclusion of Social Security Disability Benefits, Exclusion of Veterans Death Benefits and Disability Compensation, Additional Deduction for the Elderly, Exclusion of Railroad Retirement Benefits, Exclusion of Special Benefits for Disabled Coal Miners, Additional Deduction for the Blind, Tax Credit for the Elderly and Disabled.*

Retiree Health:

Medicare, Payments to Health Care Trust Funds, Medicaid (for elderly and disabled), Aging Services Programs.

Other Adult Health:

Veterans Administration: Medical Services, Medicaid (for nonelderly, nondisabled adults), Veterans Administration: Medical Administration, Veterans Administration: Medical Facilities, Substance Abuse and Mental Health Services, Indian Health Services, HIV/AIDS, Health Centers, Indian Health Facilities, Family Planning, Other Federal Drug Control Programs, Veterans Administration: Construction of Minor Projects (Medical Programs), Veterans Administration: Construction of Major Projects (Medical Programs), Health Resources & Services: Program Management, Veterans Administration: Grants for Construction of State Extended Care Facilities, National Health Service Corps Recruitment, Vaccine Injury Compensation Program Trust Fund, Rural Health Flexibility Grants, National

[9] Programs are divided into broad budget categories and within those categories into subcategories. In each subcategory, federal outlays programs are first, federal tax expenditures programs are second in descending order by level of spending. Some listings are account detail and these lack the detail of programs within account.

APPENDIX C

Health Service Corps, Rural Health Outreach Grants, Health Centers Tort Claim Fund, Bone Marrow Donor Registry, Organ Transplantation, Rural Health Policy Development, Traumatic Brain Injury, State Offices of Rural Health, Telehealth, Black Lung Clinics, Ricky Ray Hemophilia Relief Fund, Veterans Administration: Canteen Services Revolving Fund, Payment to Hawaii for Treatment of Hansen's Disease, Radiogenic Diseases, Sickle Cell, Rural and Community Access to Emergency Devices, Free Clinics Medical Malpractice, Health Center Guaranteed Loan Financing Account, Vaccine Injury Compensation, *Deductibility of Medical Expenses, Exclusion of Interest on State and Local Hospital Construction Bonds, Special Blue Cross/Blue Shield Deduction, Tax Credit for Orphan Drug Research.*

TANF and SSI:

Supplemental Security Income, Temporary Assistance for Needy Families (TANF): Administrative and Cash Assistance Expenditures, TANF Contingency Fund, Federal Reimbursement from Child Support Enforcement, *Exclusion of Public Assistance Benefits.*

Rental and Other Housing:

Tenant-Based Rental Assistance, Project-Based Rental Assistance, Housing Certificate Fund, Public Housing Operating Fund, Public Housing Capital Fund, Low Income Home Energy Assistance, Homeless Assistance Grants, Housing for the Elderly, Rental Assistance, Revitalization of Severely Distressed Public Housing (HOPE VI), Rental Housing Assistance, Housing Opportunities for Persons with AIDS, Housing for Persons with Disabilities, Rural Rental Housing Loans/Farm Labor Housing Loans, Guaranteed Transitional Housing Loans for Homeless Veterans Program Account, Affordable Housing Program, Prevention of Resident Displacement (Katrina), Rent Supplement, Rural Housing Insurance Fund Direct Loan Financing Account, Farm Labor Program Account, Rental Housing Assistance Fund, Transitional Housing Direct Loan Financing Account, Rural Housing Insurance Fund Guaranteed Loan Financing Account, Low-Rent Public Housing- Loans and Other Expenses, Flexible Subsidy Fund, Rural Housing Insurance Fund Liquidating Account, Housing for the Elderly or Handicapped Fund Liquidating Account, *Credit for Low-Income Housing Investments, Exclusion of Interest on State and Local Housing Bonds for Rental Housing, Exclusion of Interest on Veterans Housing Bonds.*

Food and Nutrition:

Food Stamps (adult portion).

Unemployment Insurance:

Unemployment Trust Fund, Federal Unemployment Benefits and Allowances, States Unemployment Insurance and Employment Service Operations, *Income of Trusts to Finance Supplementary Unemployment Benefits.*

APPENDIX D

Other Programs by Category, 2006

(Direct outlay programs are non-italicized; tax expenditures are shown in italics)

Other (Mostly Public Goods):[10]

Legislative Branch: House of Representatives: Salaries and Expenses, Government Accountability Office: Salaries and Expenses, Senators' Official Personnel and Office Expense Account.

The Judiciary: Courts of Appeals, District Courts, and Other Judicial Services: Salaries and Expenses, Courts of Appeals, District Courts, and Other Judicial Services: Defender Services, Courts of Appeals, District Courts, and Other Judicial Services: Court Security.

Department of Agriculture: Wildland Fire Management, Farm Security and Rural Investment Programs, National Forest System.

Department of Commerce: National Oceanic and Atmospheric Administration: Operations, Research, and Facilities, National Oceanic and Atmospheric Administration: Procurement, Acquisition and Construction, Bureau of the Census: Periodic Censuses and Programs.

Department of Defense–Military: Army: Operation and Maintenance, Army: Military Personnel, Air Force: Operation and Maintenance.

Department of Education: Reestimation of Student Loans, Institute of Education Sciences (portion), Office of the Inspector General.

Department of Energy: Weapons Activities, Defense Environment Cleanup, Science.

Department of Health and Human Services: Disease Control, Research, and Training (portion), Public Health and Social Services Emergency Fund, Food and Drug Administration: Salaries and Expenses.

Department of Homeland Security: Disaster Relief, National Flood Insurance Fund, Customs and Border Protection: Salaries and Expenses.

Department of Housing and Urban Development: Community Development Fund, Working Capital Fund, Office of Inspector General.

Department of the Interior: Mineral Leasing and Associated Payments, Operation of the National Park System, Fish and Wildlife and Parks: Resource Management.

Department of Justice: Federal Bureau of Investigation: Salaries and Expenses, Drug Enforcement Agency: Salaries and Expenses, State and Local Law Enforcement Assistance.

Department of Labor: Occupational Safety and Health Administration: Salaries and Expenses, Bureau of Labor Statistics: Salaries and Expenses, Departmental Management.

Department of State: Diplomatic and Consular Programs, Embassy Security, Construction, and Maintenance, Global HIV/AIDS Initiative.

Department of Transportation: Federal-Aid Highways, Trust Fund Share of FAA Activities, Grants-in-Aid for Airports.

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[10] Because of the sheer number of federal programs, we have listed the top three programs by department. We do list all tax expenditures and business subsidies—direct outlay and tax expenditure programs—below and for these categories, federal outlays programs are first, federal tax expenditures programs are second. All programs are listed in descending order by level of spending. Some listings are account detail and these lack the detail of programs within account.

APPENDIX D

Department of the Treasury: Interest on Treasury Debt Securities, Child Credit (refundable portion), Interest Paid to Credit Financing Accounts.
Department of Veterans Affairs: General Operating Expenses, Information Technology Systems, Medical and Prosthetic Research.
Corps of Engineers–Civil Works: Flood Control and Coastal Emergencies, Construction, Operation and Maintenance.
Other Defense–Civil Programs: Military Retirement Fund, Payment to Military Retirement Fund, Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund.
Environmental Protection Agency: State and Tribal Assistance Grants, Environmental Programs and Management, Hazardous Substance Superfund.
Executive Office of the President: Iraq Relief and Reconstruction Fund, The White House, Office of Management and Budget.
General Services Administration: Policy and Operations, Governmentwide Policy, Information Technology Fund.
International Assistance Programs: Foreign Military Sales Trust Fund, Foreign Military Financing Program, Economic Support Fund.
National Aeronautics and Space Administration: Science, Aeronautics, and Exploration, Exploration Capabilities, Human Space Flight.
National Science Foundation: Research and Related Activities, Major Research Equipment and Facilities Construction, Agency Operations and Award Management.
Office of Personnel Management: Civil Service Retirement and Disability Fund, Payment to Civil Service Retirement and Disability Fund, Government Payment for Annuitants, Employees Health Benefits.
Small Business Administration: Disaster Loans Program Account, Office of Inspector General, Surety Bond Guarantees Revolving Fund.
Social Security Administration: State Supplemental Fees, Office of the Inspector General, Limitation on Administrative Expenses.
Other Independent Agencies: Universal Service Fund (portion), Nuclear Regulatory Commission: Salaries and Expenses, International Broadcasting Operations.
Undistributed Offsetting Receipts:
Tax Expenditures: *Deductibility of Nonbusiness State and Local Taxes other than on Owner-Occupied Homes, Deductibility of Charitable Contribution (other than Education and Health), Child Credit (nonrefundable portion), Exclusion of Interest on General Purpose State and Local Debt, Expensing of Research and Experimentation Expenditures (Normal Tax Method), Extraterritorial Income Exclusion, Deductibility of Charitable Contributions (Education), Deductibility of Charitable Contributions (Health), Exclusion of Benefits and Allowances to Armed Forces Personnel, Alternative Fuel Production Credit, Exclusion of Income Earned Abroad by U.S. Citizens, Credit for Increasing Research Activities, Exemption of Credit Union Income, Deferral of Interest on U.S. Savings Bonds, Deferral of Income from Installment Sales, Exclusion of Certain Allowances for Federal Employees Abroad, New Technology Credit, Exclusion of Interest on Bonds for Water, Sewage, and Hazardous Waste Facilities, Exclusion of Interest on Small Issue Bonds, Exclusion of Parsonage Allowances, Tax Incentives for Preservation of Historic Structures, Credit for Energy Efficiency Improvements to Existing Homes, Tax Credit for Corporations Receiving Income from Doing Business in U.S. Possessions, Expensing of Environmental Remediation Costs, Tax Credit for Certain Expenditures for Maintaining Railroad Tracks, Credit*

APPENDIX D

for Energy Efficient Appliances, Exclusion of Military Disability Pensions, Tax Credit and Deduction for Clean-Fuel Burning Vehicles, Exclusion of Utility Conservation Subsidies, Additional Exemption for Housing Hurricane Katrina Displaced Individuals, Cancellation of Indebtedness, Allowance of Deduction for Certain Energy Efficient Commercial Building Property, Credit for Business Installation of Qualified Fuel Cells and Stationary Microturbine Power Plants, Alcohol Fuel Credits, Exceptions from Imputed Interest Rules, Exclusion of Interest on Bonds for Financing of Highway Projects and Rail-Truck Transfer Facilities, Credit for Holding Clean Renewable Energy Bonds, Excess Bad Debt Reserves of Financial Institutions, Credit for Disabled Access Expenditures, Credit for Construction of New Energy Efficient Homes, 30% Credit for Residential Purchases/Installations of Solar and Fuel Cells, Accelerated Depreciation of Buildings Other than Rental Housing.

Business Subsidies: Commodity Credit Corporation, Commodity Credit Corporation Fund, Federal Crop Insurance Corporation Fund, Funds for Strengthening Markets, Income, and Supply, Commodity Credit Corporation: Salaries and Expenses, Tobacco Trust Fund, Commodity Credit Corporation: Export Loans Program Account, Risk Management Agency: Administrative and Operating Expenses, Emergency Steel Guaranteed Loan Financing Account, Milk Market Orders Assessment Fund, Payments to Wool Manufacturers, Grants to Manufacturers of Worsted Wool Fabrics, Trade Adjustment Assistance for Farmers, Emergency Oil and Gas Guaranteed Loan Financing Account, Commodity Credit Corporation: Guaranteed Loans Liquidating Account, *Exclusion of Gain or Loss on Sale or Exchange of Certain Brownfield Sites, Accelerated Depreciation of Machinery and Equipment, Deferral of Income from Controlled Foreign Corporations, Accelerated Depreciation on Rental Housing, Deduction for U.S. Production Activities, Exception from Passive Loss Rules for $25,000 of Rental Loss, Graduated Corporation Income Tax Rate, Deferred Taxes for Financial Firms on Certain Income Earned Overseas, Inventory Property Sales Source Rules Exception, Exclusion of Interest Spread of Financial Institutions, Excess of Percentage over Cost Depletion (Fuels), Expensing of Exploration and Development Costs (Fuels), Deferral of Gain from Dispositions of Transmission Property to Implement Federal Energy Regulatory Commission Restructuring Policy, Excess of Percentage over Cost Depletion (Nonfuel Minerals), Expensing of Multiperiod Timber Growing Costs, Tax Exemption of Certain Insurance Companies Owned by Tax-Exempt Organizations, Capital Gains Treatment of Royalties on Coal, Capital Gains Treatment of Certain Timber Income, Expensing of Certain Capital Outlays, Special Rules for Certain Film and Television Production, Bio-Diesel and Small Agri-Biodiesel Producer Tax Credits, Expensing of Certain Multiperiod Production Costs, Income Averaging for Farmers, Small Life Insurance Company Deduction, Special Alternative Tax on Small Property and Casualty Insurance Companies, Exclusion of Interest on Energy Facility Bonds, Exception from Passive Loss Limitation for Working Interests in Oil and Gas Properties, Treatment of Loans Forgiven for Solvent Farmers, Deferral of Tax on Shipping Companies, Natural Gas Distribution Pipelines Treated as 15-Year Property, Expensing of Exploration and Development Costs (Nonfuel Minerals), Deferral of Gain on Sale of Farm Refiners, Temporary 50% Expensing for Equipment Used in the Refining of Liquid Fuels, Amortize all Geological and Geophysical Expenditures over 2 Years, Expensing of Capital Costs with Respect to Complying with Environmental Protection Agency Sulfur Regulations.*

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ABOUT THE PROJECT

The Economic Mobility Project is a unique nonpartisan collaborative effort of The Pew Charitable Trusts that seeks to focus attention and debate on the question of economic mobility and the health of the American Dream. It is led by Pew staff and a Principals' Group of individuals from four leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation and The Urban Institute. As individuals, each principal may or may not agree with potential policy solutions or prescriptions for action but all believe that economic mobility plays a central role in defining the American experience and that more attention must be paid to understanding the status of U.S. economic mobility today.

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