

US Redistribution of Wealth

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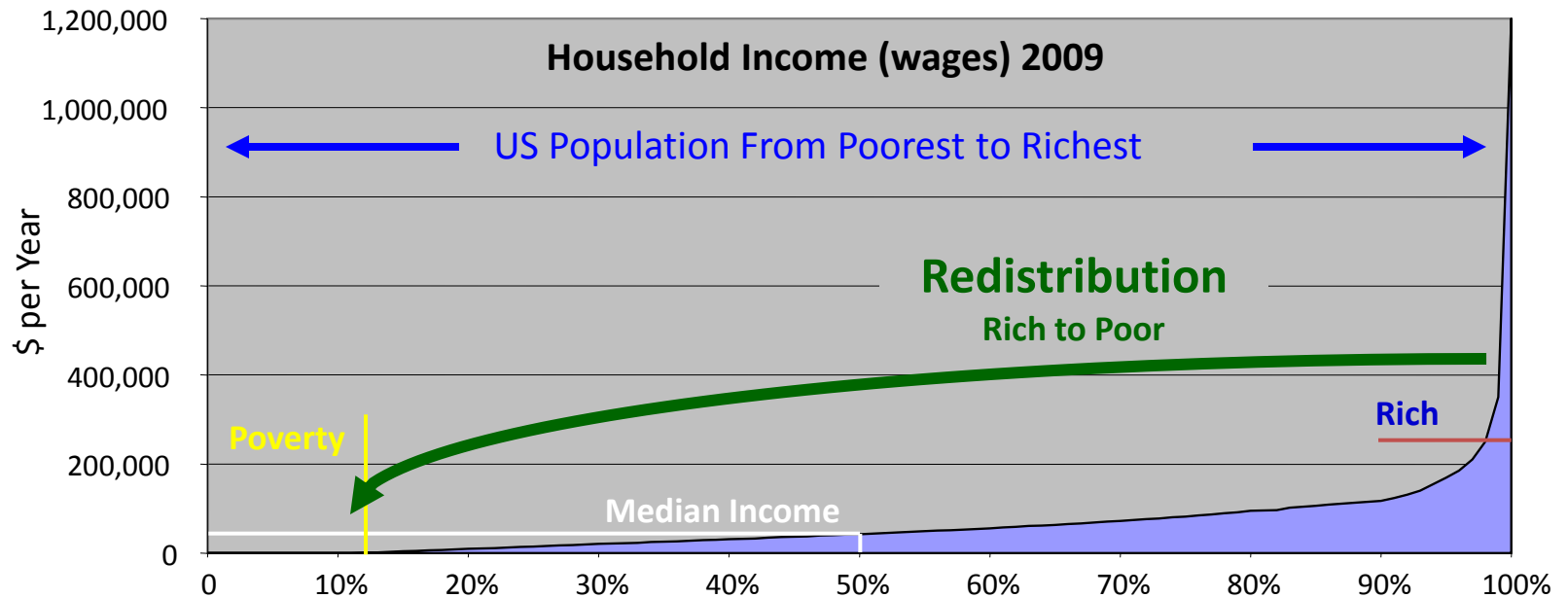
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Version 1.2

Agenda

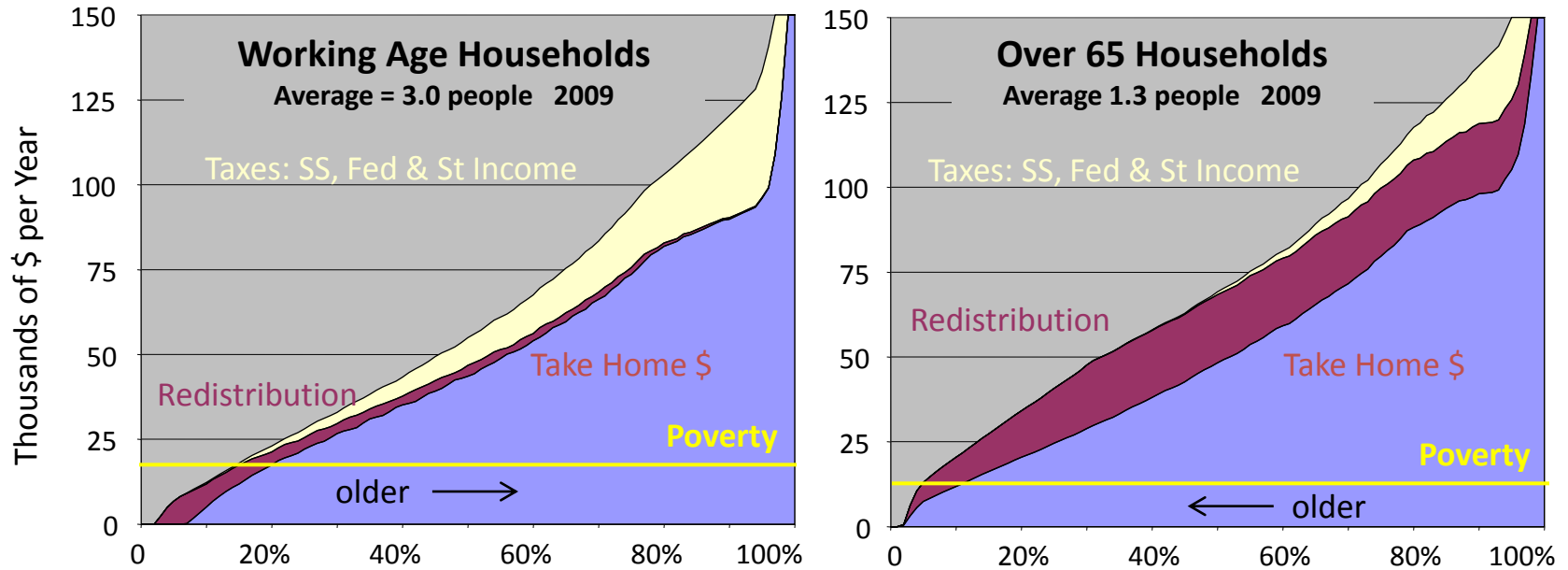
- Today we will explore Wealth Redistribution in the US
- Look mostly at government data
 - In a fun and easy to understand way
 - CBO, GAO, and US Census
 - Focus on 2009, because it has great income data
- Lump Federal, State & Local together for the “Big Picture”
 - Your mileage may vary
 - Include both halves of SS and Medicare taxes
- Look at a wide variety of programs
 - Entitlements, taxes, and other activities
 - Objectives, results and who benefits
 - Total impact on households and the National Debt
- Your job is to post and forward this presentation to others

US Income Distribution



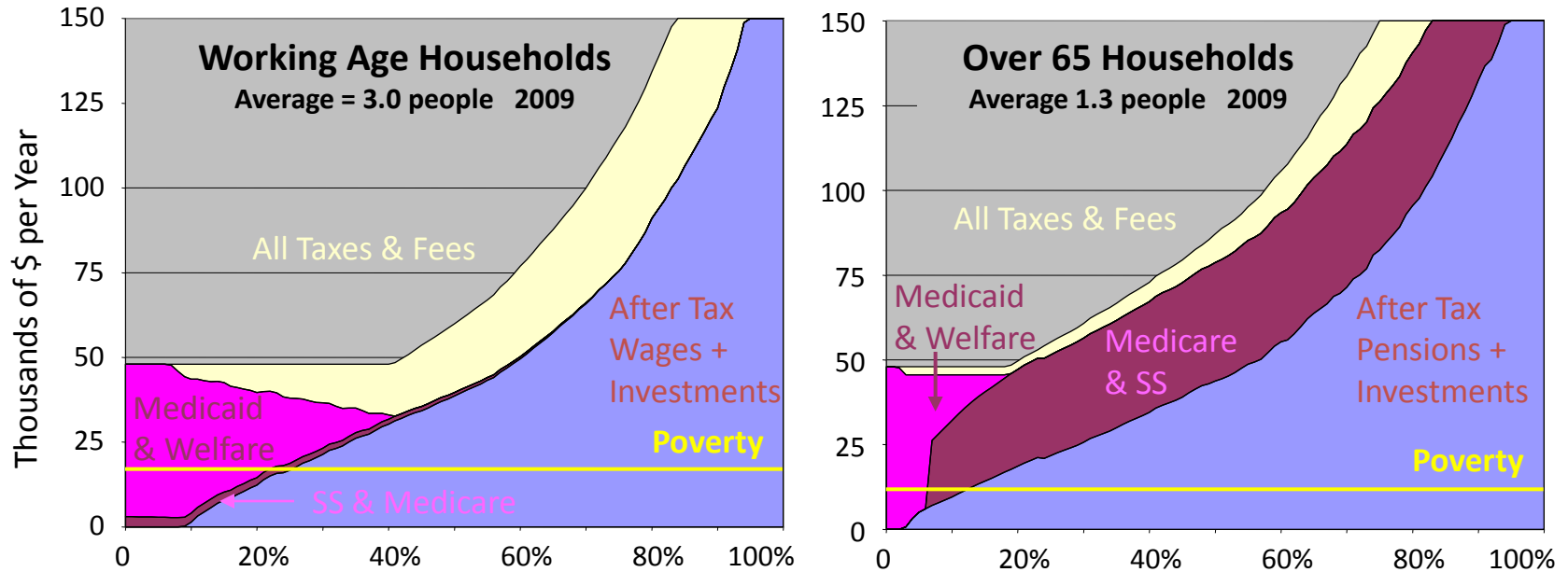
- Median income = \$49,000 for 2009
 - Median is a way to say arrange people in order, then measure the middle one
- Redistribution of wealth:
 - Anything that takes more from one group and/or gives more to another
- Going forward, graphs will be capped at \$150K to detail where the action is
 - Also will split out working age from the retirement age households

Official US Redistribution



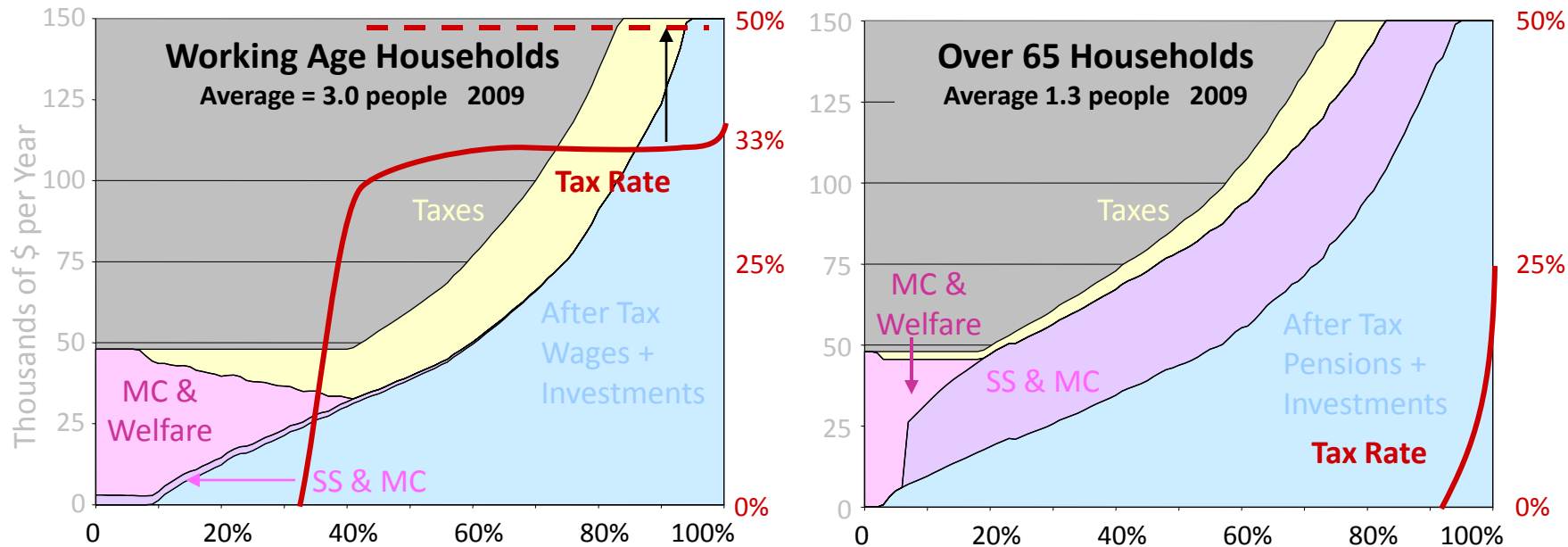
- Poverty line scales with number of people and inflation, for 2009:
 - Working Age (3.0 people) = \$18,310; Over 65 (1.3 people) = \$12,000
 - Perspective: a typical grocery store bagger earns \$20K (Salary.com)
- But how do you reconcile these graphs with the 2005 US EIA report?
 - 99% of people in poverty have TVs, 63% have cable or satellite, 74% have cars
- Answer: Real graphs don't look good
 - So the GOV changed the data to show less income and less redistribution

Realistic Cash Distribution



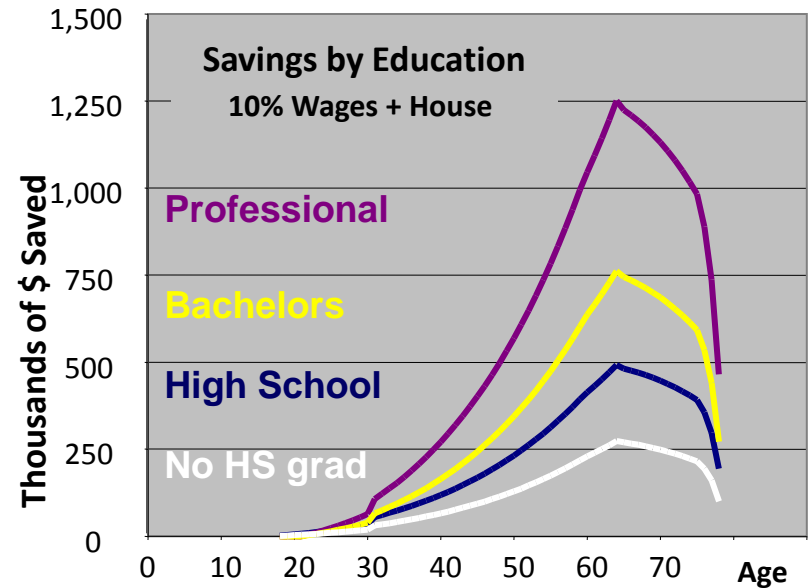
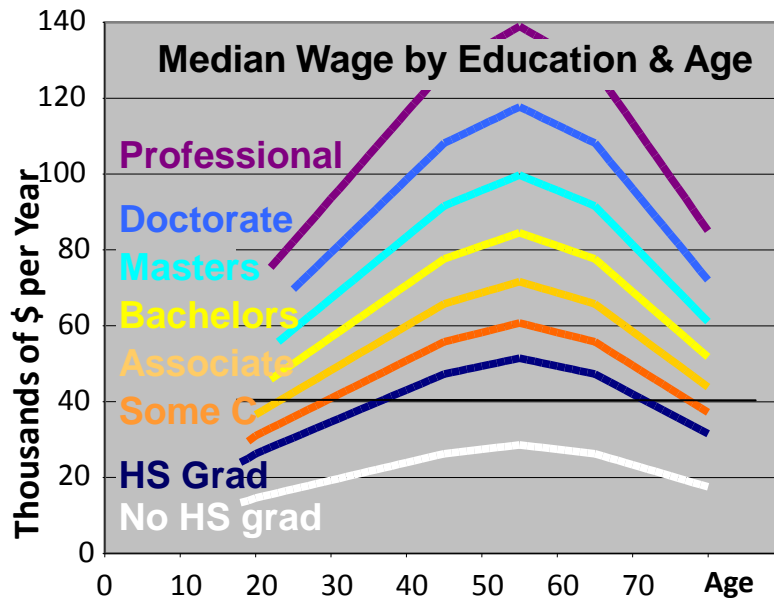
- Actual cash flow graphs should look like this (not unrealized gains)
 - Light and dark purple are redistribution
 - Medicare & Welfare \$ applied to create an even safety net
- Given the \$ redistributed, every US household could be above \$48,000 / yr
 - Does not include \$1 T off-the-books income; or \$1.2 T charity; or personal gifts
 - Elderly households have higher cash flows than working families (on average)
- Anyone who is truly poor or hungry in America either doesn't know how to sign up for benefits, or chooses not to participate

Total Effective Household Tax Rate



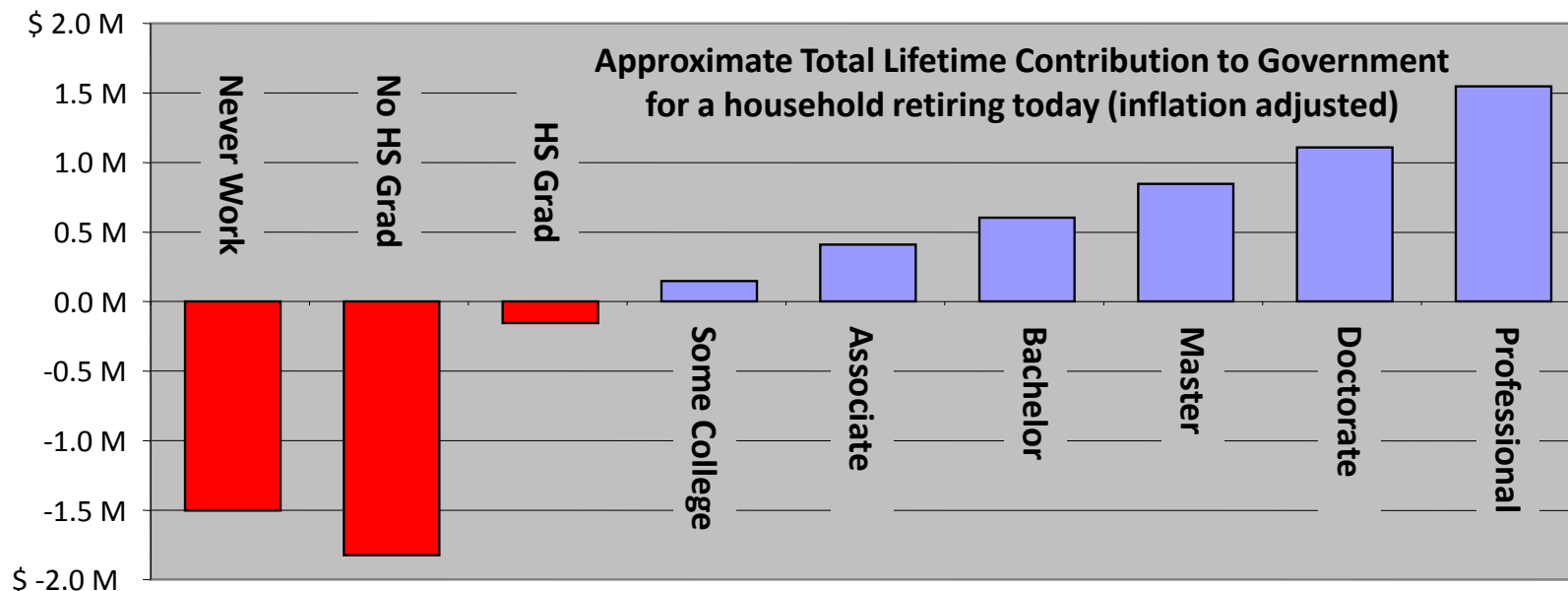
- $\text{Tax Rate} = (\$ \text{ to Gov} - \text{Entitlements}) / (\text{Total Personal Earnings} + \text{Benefits})$
 - Additional redistribution; married w children pay less, others pay more
- Roughly half the households pay less to the Government than they receive
 - 33% of working age; 92% of elderly
 - Social Security cap offsets the increasing (progressive) income tax rates
- To pay the 2009 deficit, taxes would have to increase from 33% to 47%
 - So much for the “Buffet Rule”

Wages & Savings by Education & Age



- Income mostly a function of education and experience (age)
 - Super “Rich” are celebrities, CEOs and/or entrepreneurs
 - Poor are mentally, physically, &/or chemically disabled; or unwilling to bag groceries
- Most can be wealthy if they simply save 10% (house painter follows HS Grad line)
- For the young, looking at their parents, wealth looks like an impossible journey
 - But this relative path is almost unchanged since 1940
 - Easy to support redistribution when young, but not after working hard & saving
 - If you make life too easy for the young, they will never struggle, grow and achieve

Lifetime GOV Contribution by Education



- Progressive redistribution is working (transfer from rich to poor)
 - A household without a High School diploma will cost ~ \$1.8 Million
 - “Fairness” = all populations should graduate 94% from High School
- Trend is for more educational levels to be in the red (and farther) in the future
- Unintended Consequence - Immigration
 - Using the education rates in Mexico, legal immigrants per person cost ~ \$0.5 M
 - Illegal aliens qualify for many programs (varies by state), so they probably cost half that
 - Should not allow anyone to immigrate without an Associates or better
 - If you want more diverse immigrants, then this needs to be fixed

Example: Donna lives in Poverty



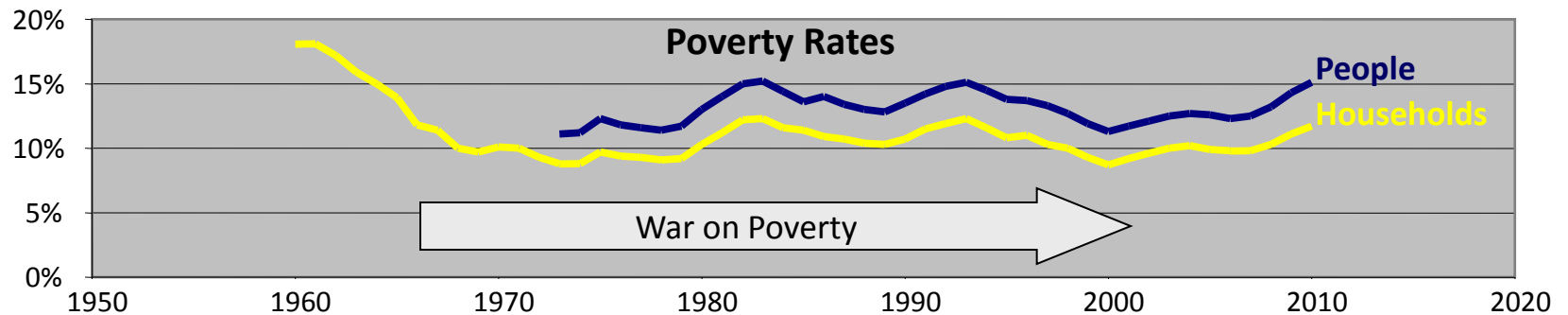
HOUSEHOLD \$	Monthly	Expected Gov Lifetime
"Welfare"	700	344,400
SSDI Child Support	1,600	345,600
SSDI Child Education	1,600	249,600
Medicaid	400	444,000
Medicare	does not qualify	
Social Security	does not qualify	
Charity & Gifts	500	x
Home Repair		100,000
GOV takes House	at death	-126,000
MONTHLY	\$4,800	
YEARLY	\$57,600	
LIFETIME GOV		\$1,357,600

- 36 years old - Deaf
- High School Grad - Never worked
- Child every 4 years to max benefits
- Picks fathers on SSDI to guarantee checks
- Bought a home just like the above for \$126,000
- Says “My job is to get other people to give me stuff for free, and I am good at it”
- When living in a friends 2nd home (rent free) she & her children qualified as “homeless”

As She describes their financial position, today's \$ SSDI garnishes benefits from other SSDI parent, but without child support, she would be getting more Welfare. Does not include COLA growth

Grade Redistribution Objectives 1

- Take care of those who can't **YES**
 - These people deserve our sympathy and 100% support
 - Donna is a perfect example (even though she could)
- Provide safety net for those who can **YES**
 - \$48,000 is a pretty high safety net
- Lift people out of poverty **NO**

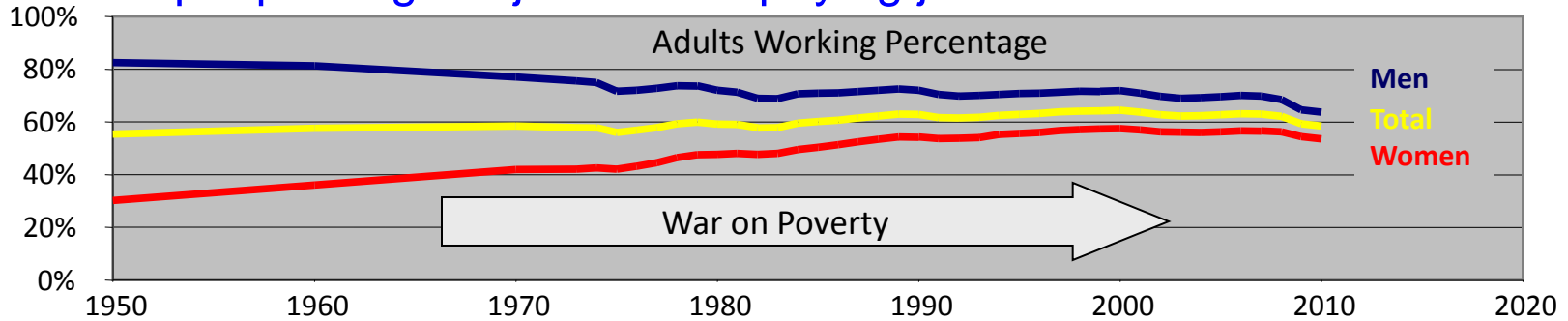


- \$16 T for the “War on Poverty” has left poverty rates unchanged
 - Poverty defined by income (wages) not total \$ (wages + gifts + entitlements)
 - No amount of GOV entitlements can lift people out of poverty, by definition

Grade Redistribution Objectives 2

- Train people to get a job / better paying job

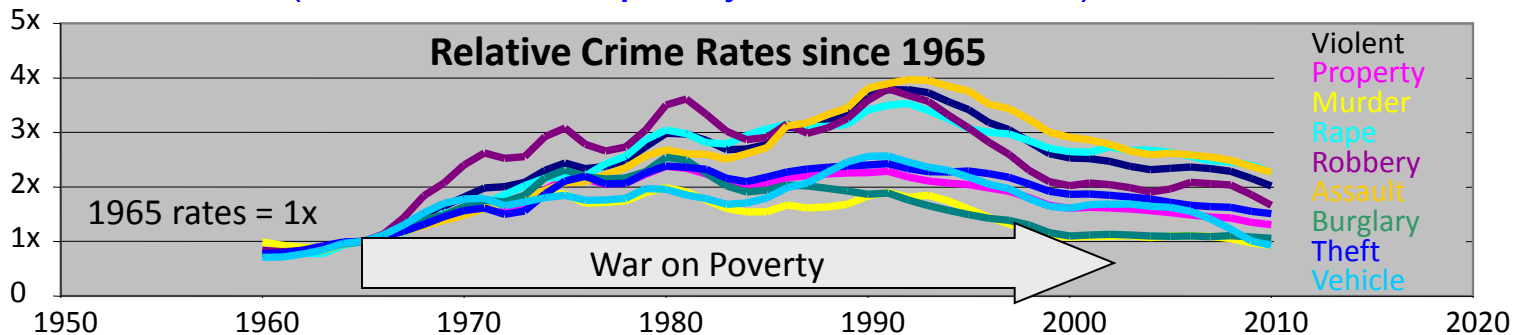
NO



- Men working percentage has declined since “War on Poverty”
- Women and Total population working percentage has declined since 2000
- Percentage not graduating High School seems fixed at 13%

- Reduce crime (economic inequality leads to crime)

NO



- All crime rates increased as “War on Poverty” began, most still higher
 - Might suggest idleness and dependency lead to crime

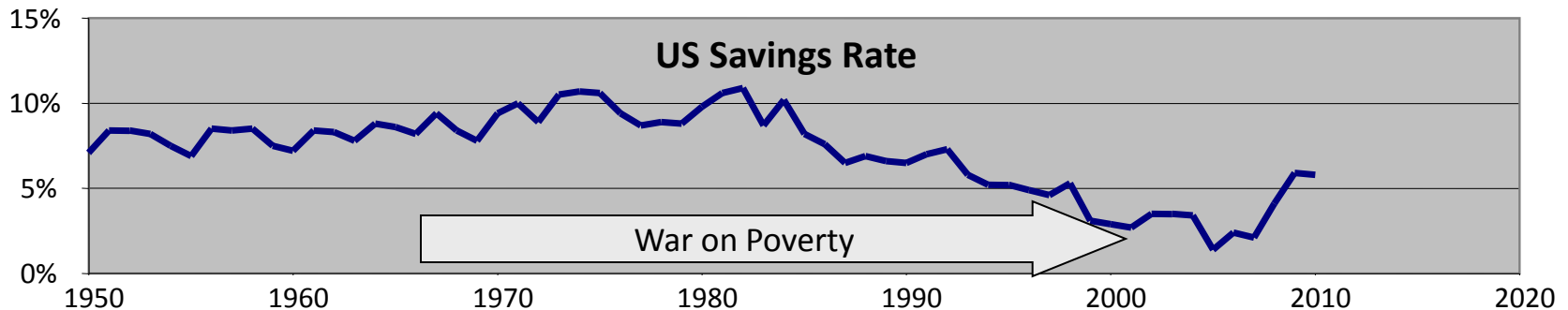
Grade Redistribution Objectives 3

- Spread the wealth more evenly

NO

- Top 1% are increasing their percentage of total wealth

- Short Term – Because housing fell more than Stocks / Bonds (rich lost less)
 - Press would know if they bothered to read the 2009 Wolff report they were quoting
- Long Term – Because the 99% are saving less
 - Anyone receiving Medicaid is prohibited from saving

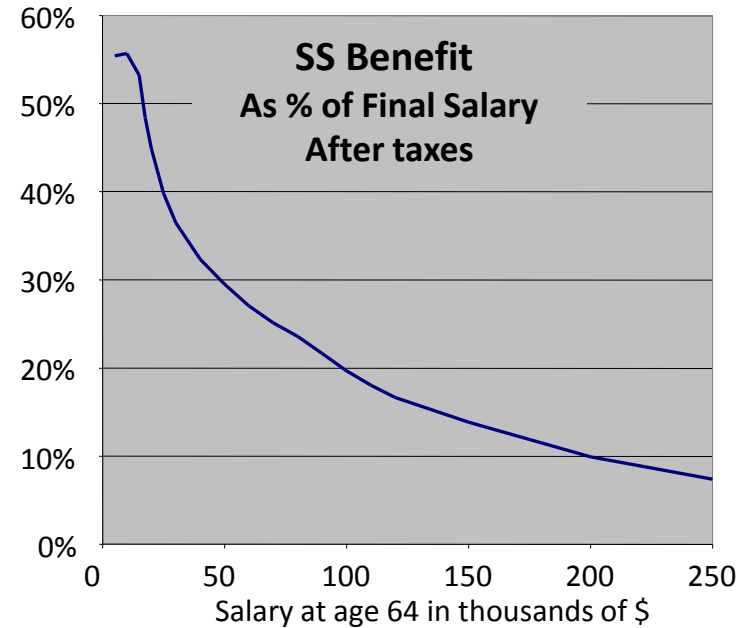
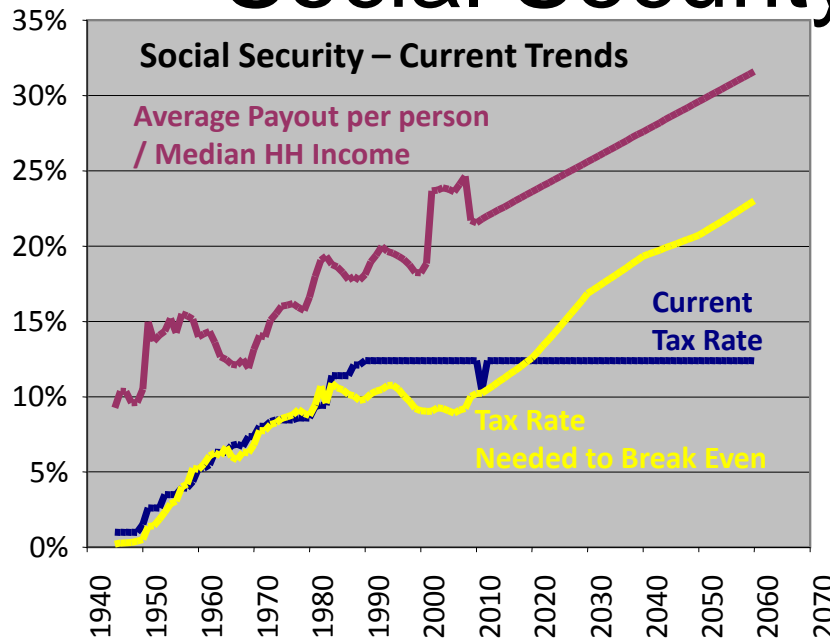


Progressive Argument Cycle:

- 1) Claim dire consequences
- 2) Offer Utopian solution
- 3) Claim it would have worked if we'd spent more (repeat)

Well now we've spent more than enough, and not found Utopia

Social Security Retirement

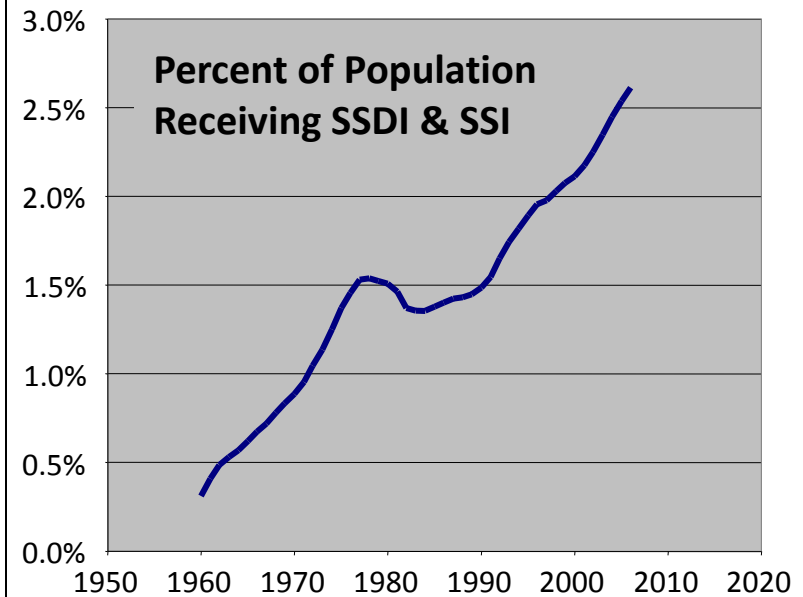


- **Social Security: a pension for US Citizens**
 - Who have worked 10 years, and their spouses, over age 65 (moving to 67)
- **1972, Cost Of Living Adjustment (COLA) so benefits would track inflation**
 - Got the COLA wrong; it is twice inflation; and our cowardly congress won't fix it (purple line)
 - Baby-boomers have paid for ~ 15% retirement, but expect ~ 25% retirement
- **The more you pay in, the smaller percentage you get out (redistribution)**
 - Earning \$10K at 64, gets SS retirement ~ \$5500/year or 55% of income
 - Earning \$100K at 64, gets SS retirement ~ \$19,800/year or 20% after tax

Source: http://www.census.gov/compendia/statab/cats/social_insurance_human_services/social_security_retirement_plans.html
 Source: <http://www.ssa.gov/OACT/quickcalc/index.html>
 Source: <http://www.ssa.gov/OACT/ProgData/>

Social Security Disability Insurance

SSI for disabled people over 65
But that's another program



- GOV defines disabled as not being able to work a minimum wage job
 - I know 8 people on SSDI, all of whom could bag groceries
- SSDI can only be received once in a lifetime
 - Pays for special education of disabled child, or
 - Pays for a disabled working age person (SS Retirement rates including COLAs)
- Changing GOV rules allow a higher percentage of people to qualify (graph)
- Allowed to “try” a new job for up to 9 months, while pulling full SSDI \$
 - Optimum lifestyle comes from working occasionally & getting fired before 9 months

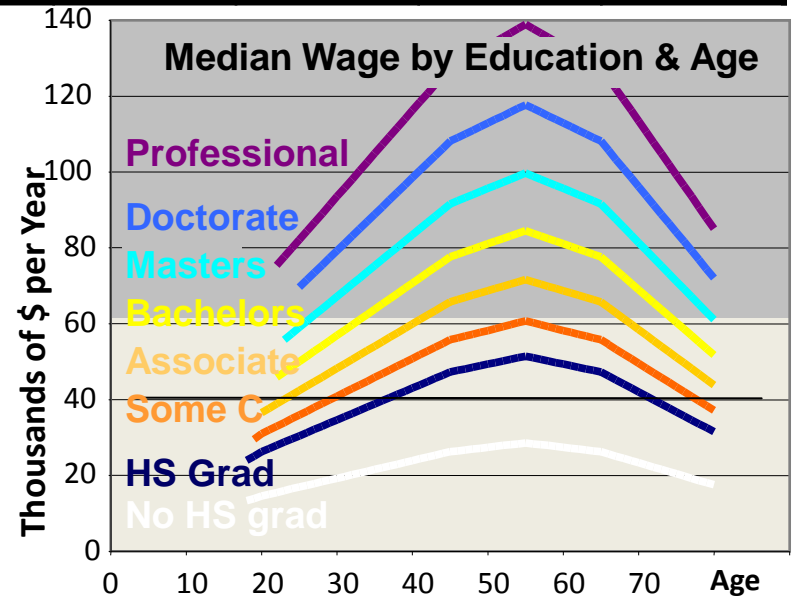
Welfare Trap (family of 4)

Welfare

Scenario	A	B	C	D	E	F	G
Earnings(\$)	0	4,000	8,000	12,000	16,000	20,000	24,000
TANF ("welfare")	9,574	8,810	6,460	4,110	0	0	0
Food Stamps	7,036	6,474	5,346	4,218	3,090	1,962	834
Disability	11,351	9,600	7,250	4,900	2,550	200	0
Sec. 8 Housing	12,690	11,045	9,400	7,755	6,110	4,465	2,820
Federal EITC	0	1,880	3,760	5,053	4,819	3,832	2,845
Medicaid	5,000	5,000	5,000	5,000	2,000	1,000	1,000
FED Payroll Taxes	0	-306	-612	-918	-1,224	-1,530	-1,836
FED Income Tax	0	0	0	0	0	0	-190
Value	45,650	46,809	45,216	43,036	34,569	31,459	31,499

Based on 2004 data from www.econlib.org
- scaled for inflation from 2004 -2010

- Trap: most people at some time can be lured into not working
 - Hard times drive you for help
 - Get more/enough \$ for not working
 - More \$ with more programs
 - Working reduces living standard
 - Work under the table (cheat)
 - Lose experience (years worked)
- Welfare becomes a lifestyle
 - Don't need education

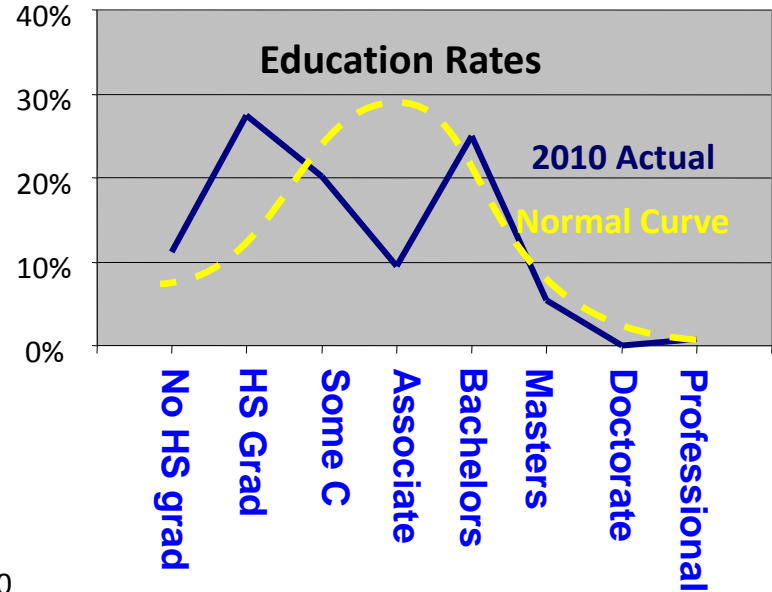
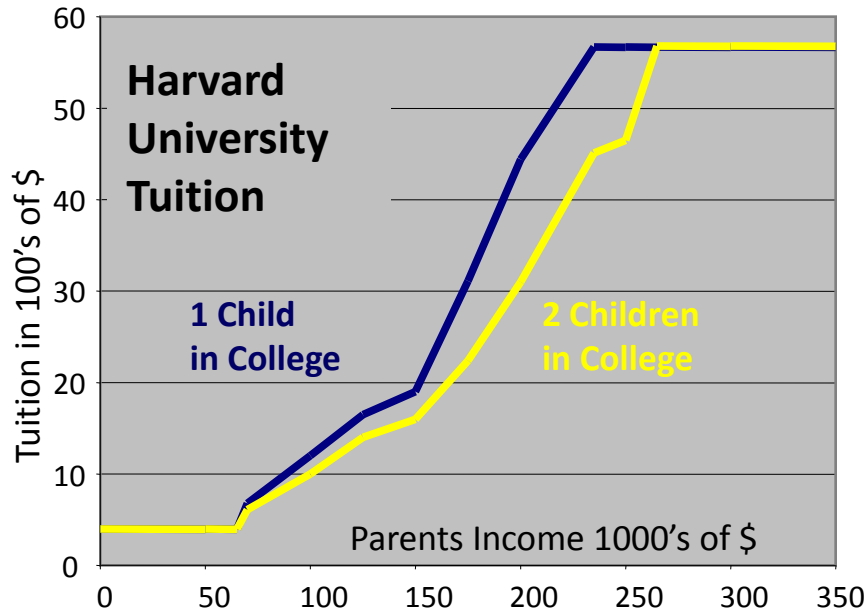


Based on US 2010 Census Data

Medicare & Medicaid

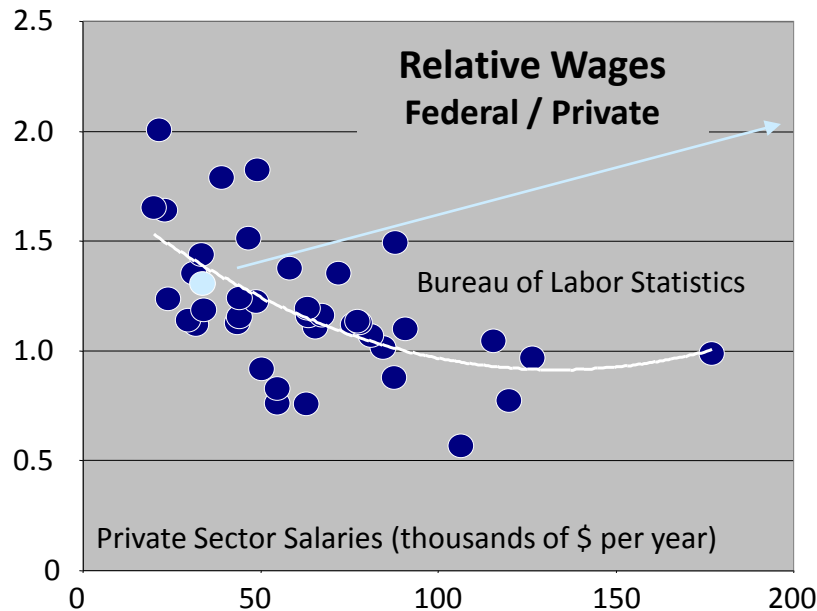
- Medicare is a medical plan for those who qualify for Social Security (or SSDI)
 - Paid for by Payroll taxes and some fees, but ~ 60% comes from general funds
- Medicaid is a medical plan for the poor (some states cover illegal aliens)
 - Poverty income & limits liquid assets to \$4 K single; \$6 K married
 - Federal pays 57% of bills, State 43%, patient 0%
 - Does not cover institutionalized people (prison, asylums)
- Payment rates create redistribution to the elderly and poor
 - Medicare & Medicaid pay doctors ~ 80% of each bill (64% from FED, 16% patient)
 - Hospitals often give discounts for cash (uninsured can pay ~ 70%)
 - Emergency rooms help everyone, regardless of ability to pay (inc. illegal aliens)
 - Doctors recover discounts by charging private insurance more
- Unintended consequences
 - Healthy people w/o healthcare and few assets are better off without insurance
 - If they get really sick, they spend until assets below the cap, then get Medicaid
 - Severely mentally ill patients are on the street so Fed will pay 57% of their care
 - Which is the lesson of the Gabriel Gifford's shooting (we wish her well)

Education



- Harvard tuition increases with income (most schools not as blatant)
 - Imagine paying more for a car based on how much you earn
 - Remember education ~ income, and these people will be the future “rich”
- Free Pell grants to poor, children who have a parent who died or in the military
- Excessive scholarships drive out the average non-diverse students
 - Should expect the Normal Curve but get blue actual education rates
- Under Obamacare, Government controls all student loans
 - Giving the GOV control over who can afford college, and how much they pay

Government Workers



Secretary	Private	GOV
Average Wage	\$33,829	\$44,500
Pension (40yrs)	\$6,000	\$24,440
SS Retirement	\$13,056	\$15,564
Medicare	\$11,000	\$11,000
Student Loans	\$0	Up to \$60,000

- Government transfers wealth to its workers from taxpayers
 - Higher salaries for same job, much better at low end, 22% average (more SS)
 - Pensions much larger than private sector, with a COLA faster than inflation
 - Some jobs pay student loans up to \$60,000 (Obama wants this for all GOV)
 - Secretary gets 31% higher salary, and \$21,000 per year extra in retirement
- Consider Tempe AZ in 2010
 - Tempe government median Income \$87,000; Tempe median income \$48,000
 - From a public meeting on property taxes

GM Bailout

- To understand Obama's involvement, look at what was different from a standard Chapter 11 Bankruptcy
- Typical Chapter 11 Bankruptcy
 - Company walks away from some debts, gets new cash, and continues
 - There is a strict order of who gets paid and who doesn't
 - All employees get squeezed
- Differences suggest Obama got involved to redistribute wealth to the Union
 - \$20 B from bond holders to the Union retirement trusts
 - Bond holders are ordinary people who've saved
 - Invested \$52 B to protect Union wages
 - Those wages will come out of the stockholders value (Government's value)
 - Potentially \$27B from the Government to under funded Union pensions

Obamacare

- Is mostly redistribution, not healthcare
 - As we've seen everyone in the US was covered in one way or another
 - Increases mandatory services, and therefore costs
 - Subsidizes healthcare to “400% of Poverty” (\$88K family of 4)
 - Use control to force political agendas (recent contraception issue)
 - Penalty on “uninsured” not enough to force enrolment
 - Roughly the same choice for uninsured as before
 - And with pre-existing coverage, more people will choose to be uninsured
 - Seems to expand coverage for illegal aliens
 - Only cost containment is the “Death Panel”
 - Cost benefit analysis of service
 - Can deny service even if you have the cash to pay
 - Which means the Government will redistribute services
 - Based on the 1200+ Obamacare waivers, redistribution will be arbitrary

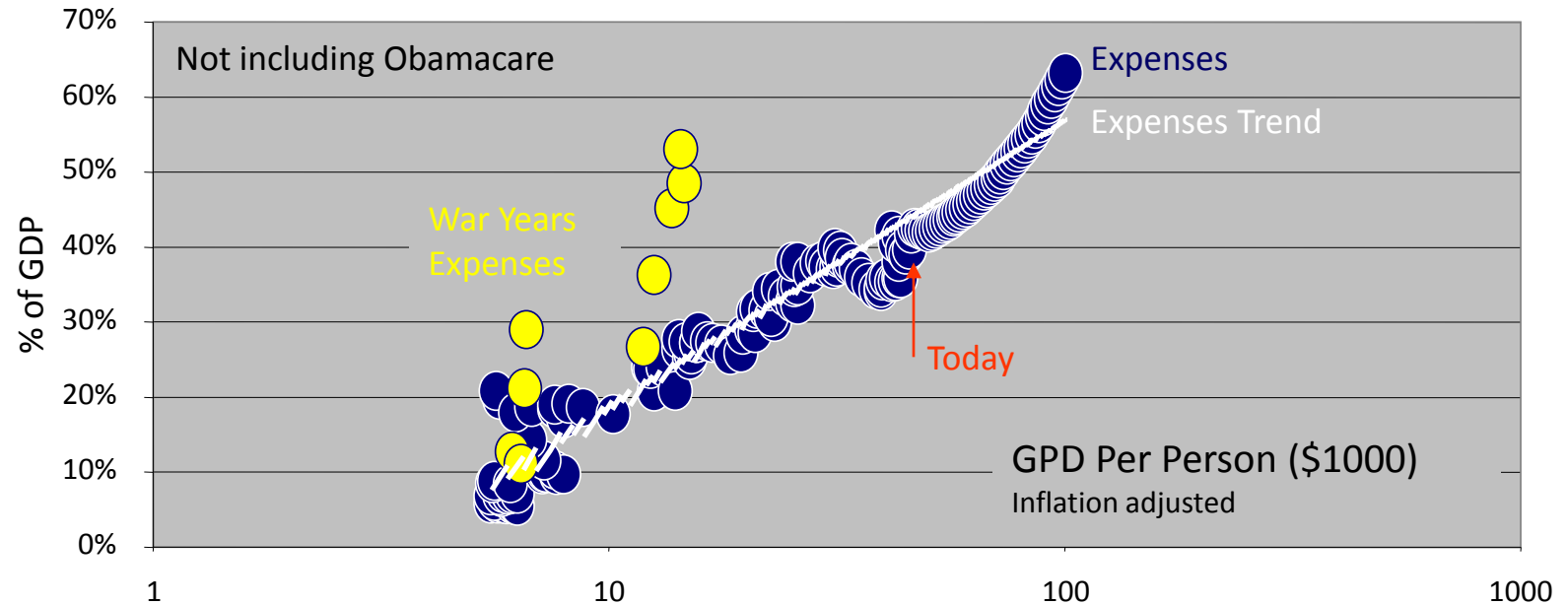
Cap & Trade

- Is a huge national and international redistribution scheme
 - Thought up by Enron and pushed by Al Gore
- Nationally
 - Government hands out carbon burning credits to companies
 - Credits can be sold (from one needing less, to one wanting more)
 - Government can reward industries or friends, while punishing enemies
 - Literally the same as handing out cash, or taxing heavily
- Internationally
 - The UN will do the same for nations – capping the credits a nation can hand out
 - Redistributing from industrialized nations to others
 - Allows UN to punish nations arbitrarily (tyranny)
- Remember, Global Warming is a hoax that supports Cap & Trade
 - Perpetrated by the UN-IPCC and a handful of scientist
 - See D.C. George paper on *Global Warming and Green Energy*

Other Redistribution

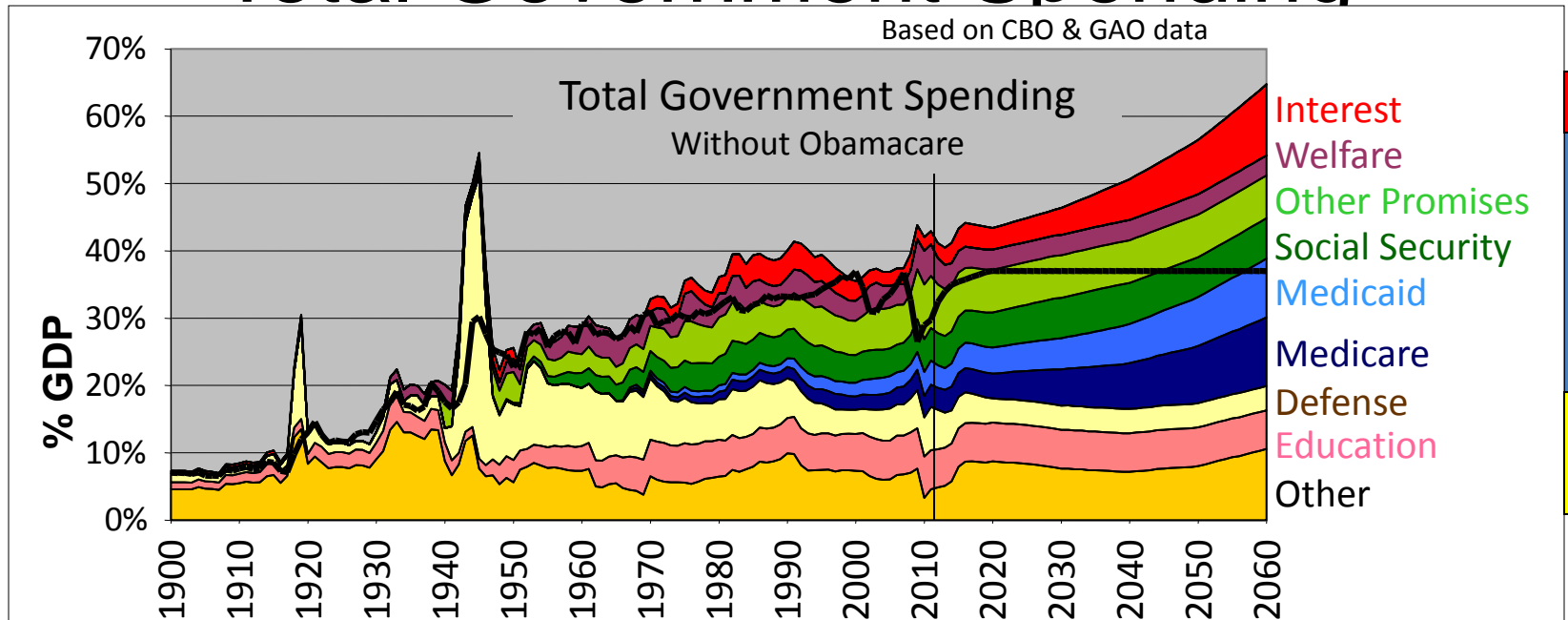
- Most tax breaks have a cut off at ~ \$100,000 income
 - Bush Tax Refund
 - Obama first time home buyer tax credit
 - Roth IRA
- Most GOV agencies practice some form of redistribution
 - Transportation justifies busses, vans, & light rail as for the poor
 - Most funding is from taxing non-riders (businesses & general funds)
 - Free or reduced fares for poor, elderly, and students
 - Free cell phones for the poor (\$1.25 B) from the USAC (FCC)
 - Tax discount; foreigners count relatives living back home as dependents
 - Costs the government just as much as the “Buffet Rule” would collect
 - Congress knows and does nothing (\$4 B)
- These and countless more don’t count as Entitlements, but should

Government Growth



- All governments behave this way
 - As people earn more, governments feel entitled to take a greater %
 - Reduce their size only under extraordinary circumstances
 - Like the end of WWI and WWII
 - Running deficits allows them to get bigger sooner
 - By 2039, by definition the US will become a socialist nation
 - Government greater than 50% of the US economy

Total Government Spending



- Growth in Government is Entitlements and Interest
 - Entitlements + Interest = 58% of Government spending today, 24% GDP
 - Military and other spending is decreasing; Bush wars only ~ 8% of the debt
- Everything above the black revenue line is deficit (borrowed \$)
 - Black line assumes economy returns rapidly (starting last year)
- CBO and GAO have been producing this graph for decades
 - Both parties continue to vote for this future, knowing we will be Greece by 2025

Debt

Debt Source	Amount
Federal Debt	\$16.0 T
State & Local Debt	\$ 2.4 T
Under Funded State Pensions	\$ 2.5 T
SS Retirement Trust Fund IOU	\$ 2.5 T
SS Disability Trust Fund IOU	\$.2 T
Medicare Trust Funds IOU	\$ 0.4 T
Total Government Debt	~ \$ 24.0 T

- Deficits redistribute from the next generation to the current
 - When payment comes due, GOV will punish those who saved, and those who went to College
- Government is cash flow business, and will never repay Trust Fund IOUs
 - Cites are beginning to declare bankruptcy to avoid under funded pensions
 - If the Fed helps States avoid bankruptcy, then prudent States will be bail out the irresponsible
- How far are we going to go, before we start paying our debts?
 - Answer: Current path is to accelerate into the wall ...

US Redistribution Summary

- Redistribution has grown to 58% of Government spending, 24% of GDP
 - If redistribution could bring Utopia, then it would already be here
 - Given the \$ handed out, every household could be above \$48,000/yr
 - Aside from a safety net, none of the other objectives have been realized
 - Encourages people to optimize benefits, not work, and cheat
- Redistribution is now a tool for government growth & power
 - Making the poor and elderly dependent and trapped by entitlements
 - Transferring wealth to Government and Union employees
 - Rewarding their friends and punishing others
 - Spending money they don't have at the expense of future generations
 - Subjugating the US economy to the UN
 - COLAs give the Government more power and control every year (automatically)
 - Obama's vision would trap those earning < \$88 K (rich leave, economy dies)
- Government has known since 1970s that entitlements would explode
 - GAO and CBO keep telling both parties, who knowingly vote for this future
- We must cap total Government spending (Federal, State, & Local)
 - To force them to make appropriate economic decisions
 - To prevent them from becoming the tyranny our ancestors fled

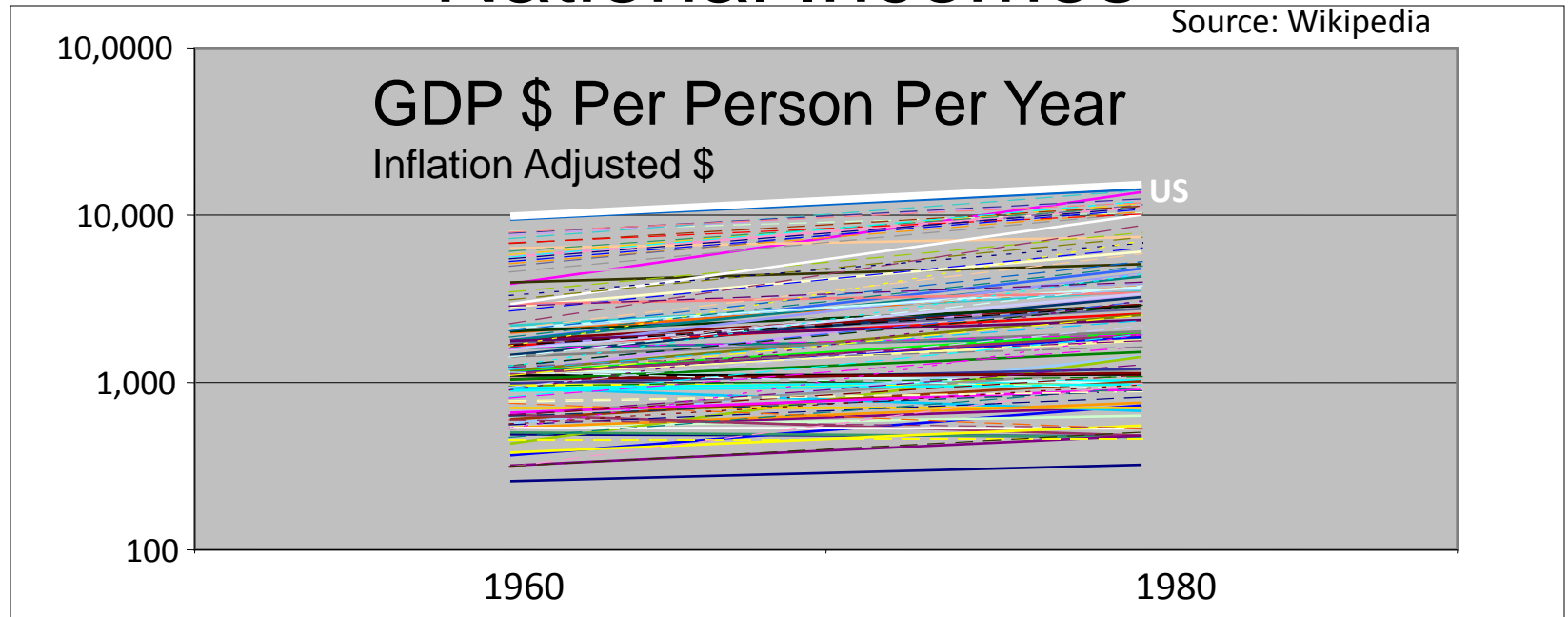
Questions ?

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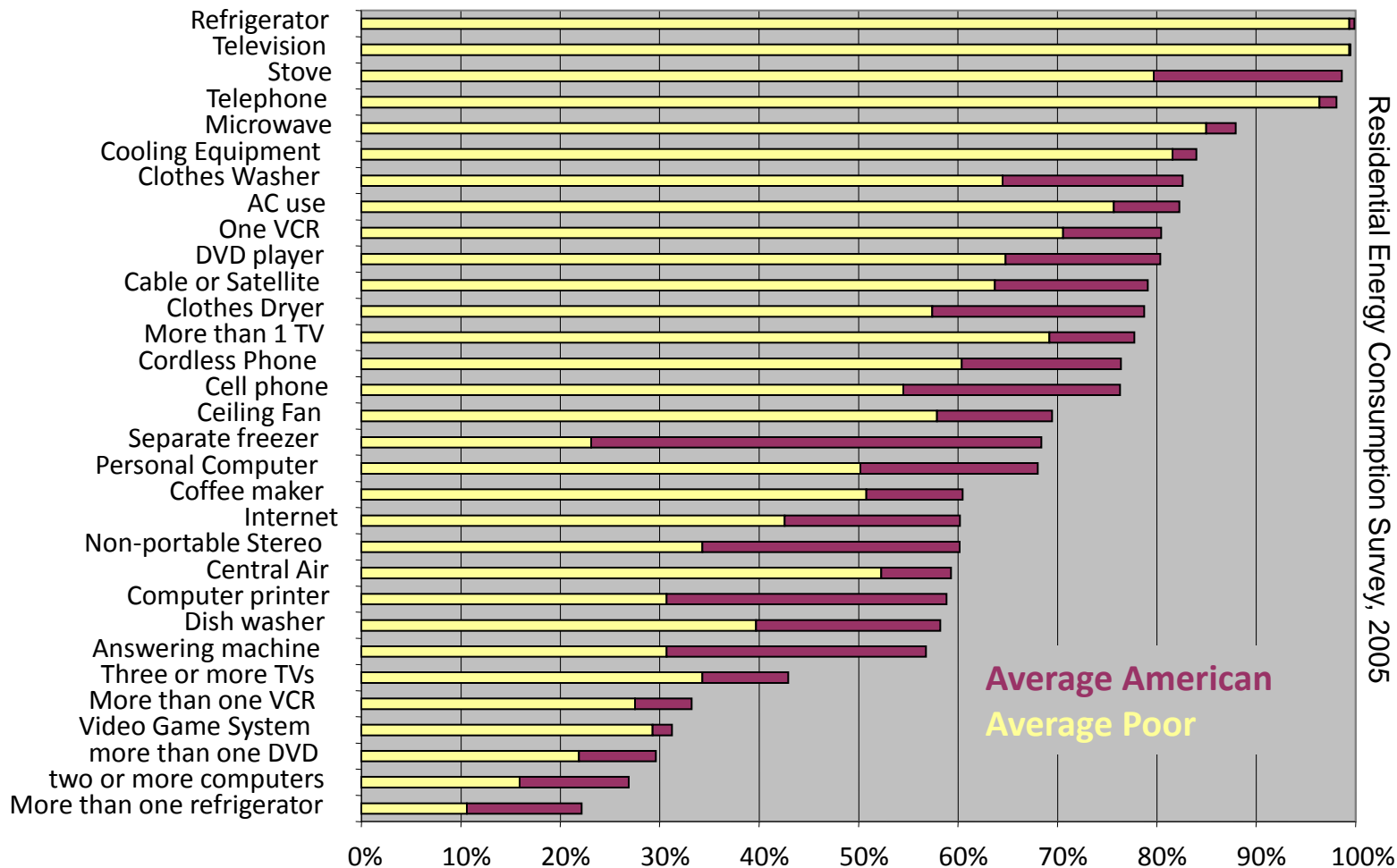
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National Incomes



- Single Pie Theory (Robin Hood)
 - There is a fixed amount of wealth (nationally and internationally), so
 - Rich people took too much from others, so fair to take it and give it back
- Data does not agree: Populations get wealthier together
 - Study from 1960 to 1980, most countries increased real \$ per person
 - Few that did not were tiny and could not have funded the others (ravaged by civil war or drugs)
 - In 1900, most US homes did not have a car, electricity, or plumbing ...
 - In 2005, 74% of **US Poor** had a car, 99% had a TV, 63% had Cable or Satellite, 75% had AC

Lifestyles of the Average "Poor"

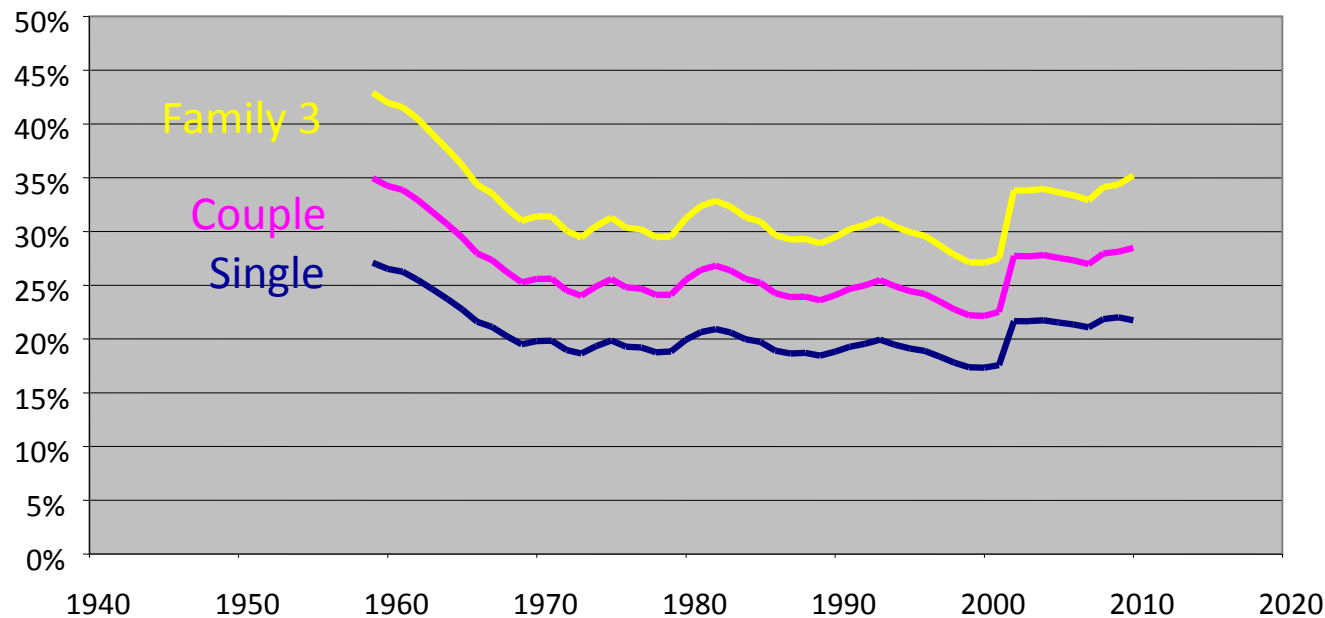


Source: US Energy Information Administration, Residential Energy Consumption Survey, 2005

Average American
Average Poor

Average Poor American has 78% of the things an Average American has
74% of people in Poverty have a car; 30% have two or more cars

Federal Definition of “Poverty”



- Fed arbitrarily sets poverty level to a dollar amount
 - Historically ~ 20% of the median family income for a single person
 - ~ 5% more for each additional person in the family
- Results in ~ 15% “living in poverty” forever
 - News about higher rates of poverty come from defining poverty higher
- Under this definition, the world poverty line would be ~ \$1300