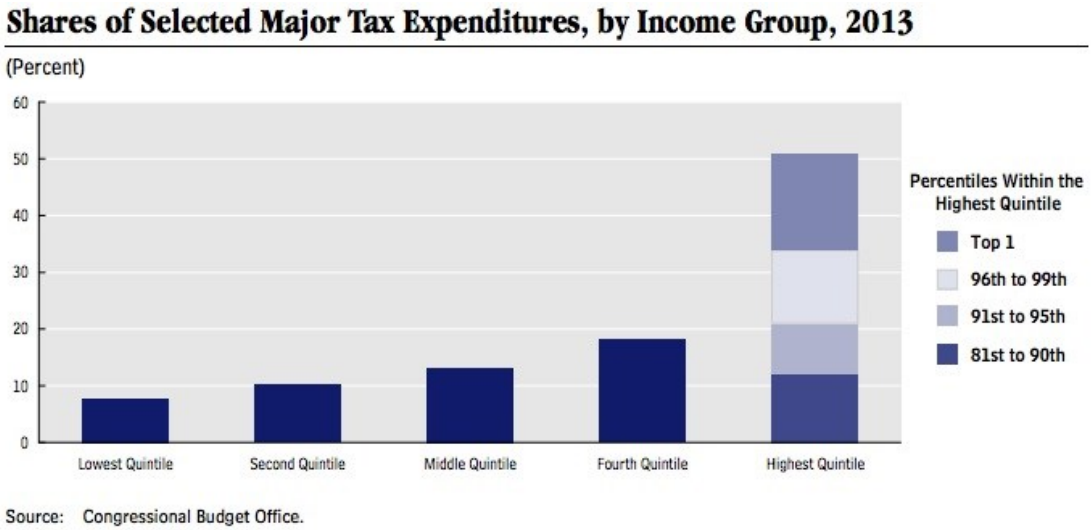
aimed at subsidizing health care costs, you might understandably doubt that it would have chosen to subsidize highly paid employees more generously than lower-paid employees and would have chosen no subsidy at all for the employee whose employer fails to provide health care benefits. But this exactly describes the effect of the § 106 exclusion. Indeed, Jacob Hacker, a political scientist at Yale University, argues that the amount of social spending in the United States is *not* significantly lower than in the so-called welfare states in Europe but that the U.S. does far more of its social spending via tax expenditures, with these resulting upside-down effects.[72]

The extent of these upside-down effects can be seen in the chart below,[73] which shows that 17% of the benefits are absorbed by the top 1%, more than 50% by the top 20%, and only 8% by the lowest 20%.



A direct-spending program equivalent to a tax expenditures may work better than the tax expenditure in achieving the desired behavior because of the impact, once again, of behavioral responses to the two different types of programs. For example, a tax subsidy for child-care costs may increase employment of mothers less than would non-tax direct spending childcare programs. Please click and read the following article:

http://www.nytimes.com/2014/12/18/upshot/nordic-nations-show-that-big-safety-net-can-allow-for-leap-in-employment-rate-.html?_r=0&abt=0002&abg=0

Those interested in reading more about tax expenditures at this point can take a sneak preview of Chapter 17, Part A., and the introduction to Chapter 18.

[72] *See generally* JACOB HACKER, THE DIVIDED WELFARE STATE: THE BATTLE OVER PUBLIC AND PRIVATE SOCIAL BENEFITS IN THE UNITED STATES (2002).

[73] CONGRESSIONAL BUDGET OFFICE, *The Distribution of Major Tax Expenditures in the Individual Income Tax System*, at www.cbo.gov/sites/default/files/cbofiles/attachments/43768_DistributionTaxExpenditures.