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Commentary: One Anti-Poverty Initiative Both Sides Can Agree On

By Chuck Marr

While liberals and conservatives differ sharply in assessing the War on Poverty,¹ they seem to agree that we must do more to help low-income childless workers to succeed in the workplace — most likely by strengthening the Earned Income Tax Credit (EITC), which currently does little for this group.

A number of liberal lawmakers and policy analysts have long advocated for a stronger EITC for childless workers, and support for such a step is now growing among conservatives as well.

- Noting that the EITC “promotes work as it reduces poverty,” former George W. Bush economic advisor Glenn Hubbard wrote recently, “Increasing the credit for childless workers to an amount closer to that for families with children would augment the direct work incentive and help counter poverty among the working poor.”²
- “Don’t forget the poor,” Lori Sanders and Eli Lehrer of the R Street Institute (a conservative think tank), urged *Weekly Standard* readers, explaining that “Properly structured work incentives would build on . . . the Earned Income Tax Credit, which remains decidedly modest. For a single worker without children living at home, the EITC refunds less than \$425 per year. Introducing and expanding similar wage supplements . . . would further encourage a life of work as preferable to welfare or life in the underground economy.”³
- Similarly, the American Enterprise Institute’s (AEI) Michael Strain noted that the EITC “gives very little help to childless workers” and called for amending the EITC “to offer more support to childless workers.”⁴

¹ For an examination of poverty trends, factors affecting poverty, and the impact of the safety net, see Arloc Sherman, Sharon Parrott, and Danilo Trisi, “Chart Book: The War on Poverty at 50,” Center on Budget and Policy Priorities, updated January 7, 2014, <http://www.cbpp.org/cms/index.cfm?fa=view&id=4069>.

² Glen Hubbard, “Tax reform is the best way to tackle income inequality,” *Washington Post*, January 10, 2014, http://www.washingtonpost.com/opinions/tax-reform-is-the-best-way-to-tackle-income-inequality/2014/01/10/112710ea-68ca-11e3-a0b9-249bbb34602c_story.html.

³ Lori Sanders and Eli Lehrer, “Don’t Forget the Poor,” *Weekly Standard*, August 26, 2013, http://www.weeklystandard.com/articles/don-t-forget-poor_748498.html.

⁴ Michael Strain, “More than the Minimum Wage,” *National Review*, December 11, 2013, <http://www.nationalreview.com/article/365999/more-minimum-wage-michael-r-strain>.

- David Neumark, a University of California economist whom conservatives cite often on minimum wage issues, asked “whether we are providing a sufficient income floor for childless low-wage adults, who have to a large extent been left out in the cold by our income-support and safety net programs.”⁵

In addition, Senator Marco Rubio (R-FL) recently highlighted⁶ why the federal government should do more to subsidize the wages of low-income workers, including childless adults (though he proposed replacing the EITC with a new, untested wage subsidy, which would be ill-advised).⁷ While his actual proposals raise significant concerns, the fact that a prominent conservative lawmaker would call for an ambitious wage subsidy for low-income workers who aren’t raising children is another sign of bipartisan concern for this group.

In one sense, conservative support for strengthening the EITC isn’t surprising. This tax credit has enjoyed broad bipartisan support over the years — President Ford signed it into law, and President Reagan lauded the credit and proposed, and signed, a major expansion of it — because the EITC helps low-income people struggling to make ends meet while encouraging work and personal responsibility.

As Richard Burkhauser of Cornell University and AEI said recently, “I’m not exaggerating when I say, look, I’ve been doing public policy since the 1970s, and this program worked.”⁸ Leading conservative economist and Nobel laureate Gary Becker of the University of Chicago has made similar, highly laudatory comments about the EITC, noting that it “increases the labor force participation and employment of people with low wages.”⁹

Next to Social Security, the EITC combined with the refundable portion of the Child Tax Credit constitutes the nation’s most powerful anti-poverty program. These two credits lifted 10.1 million people out of poverty in 2012, including 5.3 million children (see chart). As AEI’s Michael Strain points out, the EITC “is a very effective anti-poverty tool because it supplements earnings *and* incentivizes employment. Expansions of the EITC have been very successful at encouraging work, particularly among single mothers during the 1990s.”

⁵ David Neumark, “The Minimum Wage Ain’t What It Used to Be,” *New York Times*, December 9, 2013, <http://economix.blogs.nytimes.com/2013/12/09/the-minimum-wage-aint-what-it-used-to-be/>.

⁶ Senator Marco Rubio, “Reclaiming the Land of Opportunity: Conservative Reforms for Combatting Poverty,” remarks as prepared for delivery, January 8, 2014, <http://www.rubio.senate.gov/public/index.cfm/2014/1/rubio-delivers-address-on-50th-anniversary-of-the-war-on-poverty>.

⁷ Sharon Parrott, “Rubio Proposal to Replace EITC Would Likely Come at Expense of Working-Poor Families with Children,” *Off the Charts* blog, January 9, 2014, <http://www.offthechartsblog.org/rubio-proposal-to-replace-eitc-would-likely-come-at-expense-of-working-poor-families-with-children/>.

⁸ Richard Burkhauser, “Burkhauser: The earned income tax credit actually works,” American Enterprise Institute, March 15, 2013, <http://www.aei.org/media/society-and-culture/poverty/burkhauser-the-earned-income-tax-credit-actually-works/>.

⁹ Gary Becker, “How to End Welfare ‘As We Know it’ — Fast,” *Business Week*, June 2, 1996, <http://www.businessweek.com/stories/1996-06-02/how-to-end-welfare-as-we-know-it-fast>.

Indeed, a highly regarded study found that these EITC expansions did more to increase employment among single mothers than the 1996 welfare law.¹⁰

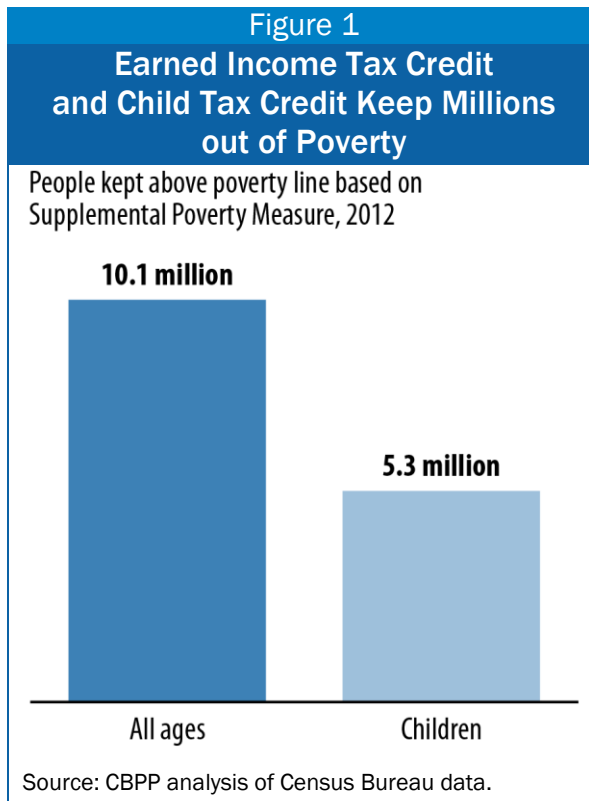
Further research has shown that the EITC has long-term benefits as well, helping children do better in school. In addition, research shows, children with more adequate incomes early in childhood earn more and work more as adults.¹¹

The most glaring hole in the EITC, however, is its almost complete exclusion of childless adults.¹² A childless adult working full time at the minimum wage earns too much to receive the credit. Partly as a result, *childless workers are the sole group of workers that the federal tax system taxes into — and in many cases, deeper into — poverty.*

For childless workers who qualify for the EITC, the credit is very small, averaging just \$270 a year. And the childless workers' EITC is restricted to workers aged 25-64, so all childless workers under age 25 are ineligible for it. This is unfortunate given the low employment rates among less-skilled young workers and the importance of young people gaining a toehold in the economy.

Karl Scholz, a University of Wisconsin economist and former Treasury official who is one of the nation's foremost authorities on the EITC, has strongly recommended a more ample EITC for childless workers to raise their employment rates. “[I]ncreasing the return to work for childless workers will lower unemployment rates and [thereby] achieve the dual social benefits of reducing incarceration rates and increasing marriage rates,” he writes.¹³

Likewise, the Brookings Institution's Ron Haskins, one of the key architects of the 1996 welfare law (as the chief House Republican staff member for welfare reform), argues that an expanded EITC for childless workers would:



¹⁰ Jeffrey Grogger, “The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families,” *Review of Economics and Statistics*, May 2003, <http://www.mitpressjournals.org/doi/abs/10.1162/003465303765299891>.

¹¹ See Chuck Marr, Jimmy Charite, and Chye-Ching Huang, “Earned Income Tax Credit Promotes Work, Encourages Children’s Success at School, Research Finds,” Center on Budget and Policy Priorities, revised April 9, 2013, <http://www.cbpp.org/cms/?fa=view&id=3793>.

¹² See Chuck Marr, Krista Ruffini, and Chye-Ching Huang, “Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty,” Center on Budget and Policy Priorities, July 15, 2013, <http://www.cbpp.org/cms/?fa=view&id=3991>.

¹³ John Karl Scholz, “Employment-Based Tax Credits for Low-Skilled Workers,” The Hamilton Project, December 2007, http://www.hamiltonproject.org/papers/employment-based_tax_credits_for_low-skilled_workers/.

provide the very thing that most analysts agree is most needed — namely, work incentive ... [and] the young man's prospects in the marriage market would receive a nice boost. Studies show clearly that married young males are healthier, happier, less likely to commit crimes and less likely to abuse drugs than single males. Thus, to the extent that additional income increases marriage rates, the new EITC would produce fringe benefits beyond mere economic outcomes.¹⁴

Of course, *how* to expand help for childless adults also matters. Some conservatives would strengthen the EITC as an alternative to any increase in the minimum wage, a position with which we strongly disagree. Both a strong EITC and an adequate minimum wage are needed to ensure that work “pays” for those in low-wage jobs and thereby to bring more people into the labor force, as a recent CBPP analysis explained.¹⁵

But that shouldn't detract from the apparent emerging consensus that a critical next step to alleviate poverty is to better reward the work of low-income childless adults. It's time for policymakers across the political spectrum to begin work on this important task.

¹⁴ Ron Haskins, “Young Men Need incentives,” National Public Radio, August 18, 2006, <http://www.npr.org/templates/story/story.php?storyId=5671350>.

¹⁵ Jared Bernstein and Sharon Parrott, “Proposal to Strengthen Minimum Wage Would Help Low-Wage Workers, With Little Impact on Employment,” Center on Budget and Policy Priorities, January 7, 2014, <http://www.cbpp.org/cms/?fa=view&id=4075>.