



The Next Generation of Antipoverty Policies

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Rewarding the Work of Individuals: A Counterintuitive Approach to Reducing Poverty and Strengthening Families

Gordon L. Berlin

Summary

Gordon Berlin discusses the nation's long struggle to reduce poverty in families with children, and proposes a counterintuitive solution—rewarding the work of individuals. He notes that policymakers' difficulty in reducing family poverty since 1973 is attributable to two intertwined problems—falling wages among low-skilled workers and the striking increase in children living with a lone parent, usually the mother. As the wages of men with a high school education or less began to decline, their employment rates did likewise. The share of men who could support a family above the poverty line thus began to decline—and with it the willingness of low-income women to marry the fathers of their children. Because the U.S. social welfare system is built around the needs of poor families with children—and largely excludes single adults who are poor (and disproportionately male)—it creates disincentives to work and marry for some families, aggravating these larger trends.

Berlin proposes a new policy that would partially overcome the low wages and income of poorly educated males and second earners in two-parent households by using the earned income tax credit (EITC) to supplement the earnings of all low-wage workers aged twenty-one to fifty-four who work full time—regardless of whether they have children or whether they are married. By conditioning the benefit on full-time work and by retaining the existing family-based EITC program while treating EITC payments as individual income rather than as joint income for income tax purposes, the policy would restore equity to the American social compact without distorting incentives to work, marry, and bear children. The largest benefits by far would accrue to two-parent households in which both adults can work full time.

Because the policy would carry a large price tag—nearly \$30 billion a year when fully implemented—Berlin says that a prudent next step would be to test this strategy rigorously in several states over several years, preferably using a random assignment design.

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Between the end of World War II and 1973, the share of Americans living in poverty fell by half. But since 1973 the overall poverty rate has remained largely unchanged. Why didn't poverty continue to decline? Falling wages and increasing rates of lone parenting are the two principal explanations. Economic changes led to stagnant and declining wages at the bottom of the wage distribution, especially among men with a high school diploma or less, and demographic changes saw a near doubling of the fraction of all families with children that were headed by a single parent.¹

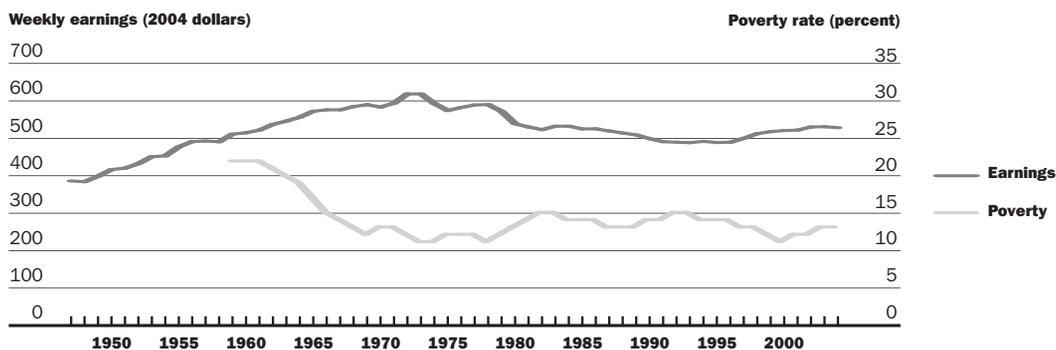
The problems of falling wages and single parenthood are intertwined. As the wages of men with a high school education or less began to tumble, the employment rates of these men also fell, and, in turn, the share who could support a family above the poverty line began to decline—and with it the professed willingness of low-income mothers and fathers to marry.² Because the U.S. social welfare system is built around the needs of poor families with children—and largely excludes single adults who are poor (and disproportionately male)—it creates disincentives to work and marry for some, aggravating these larger trends. Although recent changes have reduced marriage penalties in the tax and transfer system, some do remain, particularly when both spouses in a married-couple family have similar earnings.

A strategy that used the federal earned income tax credit (EITC) to supplement the earnings of all low-wage workers aged twenty-one to fifty-four who work full time—whether they have children or not and whether they marry or not—would counter three decades of wage stagnation and persistent poverty, with significant positive corol-

lary effects on employment and parental child support. By conditioning the benefit on full-time work, by targeting individuals regardless of their family status, by keeping the existing EITC for families with children in place, and by calculating EITC eligibility on the basis of individual income (as Canadians and Europeans do) rather than joint income for tax filing purposes, this earnings-based supplement would restore equity to the American social compact while minimizing the distortion of incentives to work, marry, and bear children.

Although it might seem counterintuitive to reduce poverty and strengthen families by rewarding individuals, focusing on individuals may have substantial advantages over traditional strategies to reduce poverty, especially given the underlying causes of poverty and the investments made to date in supporting families with children. This strategy rewards work in the formal economy, it reduces the disincentive to marry while restoring the incentive for parents to live (and parent) together, it creates social policy parity between poor men and women and between parents and childless individuals, and it helps noncustodial fathers in low-wage jobs meet their child support obligations. Importantly, the largest benefits would accrue to two-parent households when both adults can work full-time. Some 21 million low-wage married individuals and another 16 million single individuals would receive an EITC payment under this plan.

The annual cost of this policy, estimated to be between \$29 billion and \$33 billion, is equal to 4 percent of the \$750 billion in *extra* income received each year by the top 10 percent of earners as a result of the pronounced shift in the nation's income distribution that has occurred since 1975—or about one-third

Figure 1. Trends in Earnings for Production Workers, 1947–2004, and in Poverty, 1959–2004

Source: Bureau of Labor Statistics, U.S. Census Bureau.

of the annual tax reduction for the top 1 percent of the income distribution as a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003. A prudent next step would be to rigorously evaluate a limited demonstration of this idea to determine if the benefits in increased work effort, marriage rates, and child support payments—as well as reduced criminal activity and poverty among low-income men and their families—exceed the costs.

Explaining Several Decades of Persistent Poverty

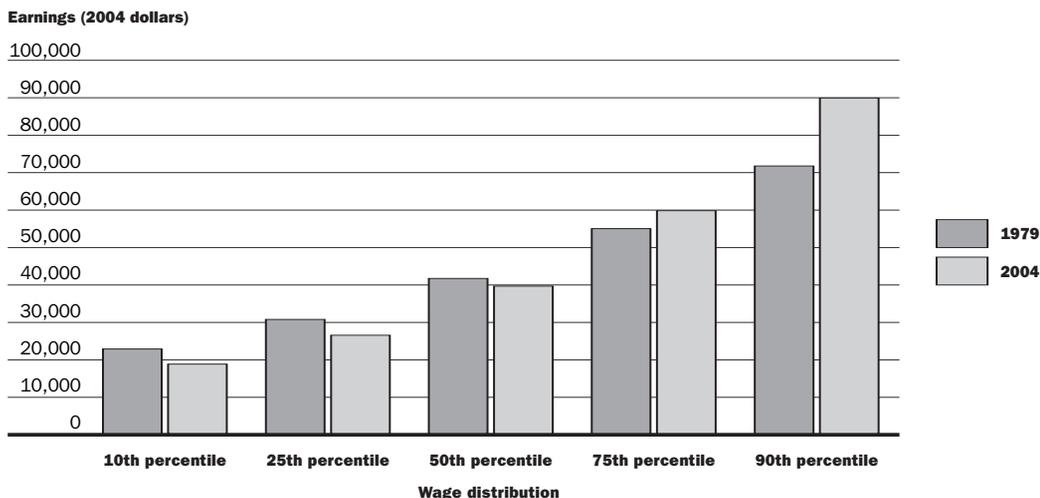
During the 1950s and 1960s, the U.S. economy grew robustly, and poverty rates declined. By contrast, the national poverty rate remained largely unchanged throughout the 1980s and 1990s, despite several sustained periods of economic growth. Why?

Low Wages, High Unemployment: Relentless Recession

The explanation for today's persistent poverty begins with low wages. During the twenty-five years following the end of World War II, earnings marched steadily upward. By 1973, the real weekly earnings of private sector, nonfarm, nonsupervisory production workers stood at \$650, more than 60 percent higher

than in 1947. As earnings rose, the poverty rate plummeted—falling from 22 percent in 1960 to 11 percent by 1973.³ But by 2004, in a startling reversal, the average production worker's weekly earnings had fallen to \$528 (in inflation-adjusted dollars), a nearly 20 percent decline.⁴ As a result, officially measured poverty stopped falling and it has hovered between 11 and 13 percent ever since (see figure 1).

What caused this abrupt shift in fortunes? Until 1973, the postwar economy as measured by gross domestic product grew robustly, as did productivity—what a worker could produce in an hour—and these gains translated into rapidly growing wages, earnings, and incomes. People at the low end of the income distribution experienced the largest proportional gains. Unexpectedly, the up-escalator economy ground to a halt after 1973. Output per worker slowed to less than 1 percent a year, and wages and earnings fell. In the face of these declining economic prospects, two-parent families maintained their standard of living by having fewer children and sending both parents into the workforce. Even as the economy recovered from a steep recession during the early 1980s, job growth resumed, but with little or no wage growth for those at

Figure 2. Real Annual Earnings for Men across the Wage Distribution in 1979 and 2004

Source: Author's tabulations of data on men aged 25 years and older who worked full time from the U.S. Census Bureau's Current Population Surveys (CPS), 2005.

the bottom. In addition, a new skills bias began to dominate the labor market, creating high-paying jobs that required a college degree or better and lots of low-paying jobs that required no more than a high school diploma and often less. As a result, economic inequality—the gap between the richest and poorest Americans—widened during the 1970s and 1980s, as earnings for those with college accelerated, while wages for those at the bottom fell in step with the loss of high-paying blue-collar jobs; figure 2 shows the disparity in earnings gains between 1979 and 2004 for high-wage and low-wage men.⁵

For a brief, shining moment during the “roaring nineties,” increasing wages at the bottom of the wage distribution and declining child poverty appeared to promise that 1960s-like earnings growth would be restored. But that hope was dashed by the 2001 recession. Signaling trouble for all workers, the growth in earnings of college graduates slowed during the 1990s and fell thereafter. The sources of growing inequality changed accordingly—earnings continued to rise at

the very top but fell for middle-earners, even as lower-wage workers held their own.⁶

Further underscoring the stark reality that low-wage work and the relentless recession it signifies are here to stay, the Bureau of Labor Statistics projects that 46 percent of all jobs in 2014 will be filled by workers with a high school diploma or less. The bulk of these jobs—janitor, food service, retail sales, laborer, child care provider, home health aid—are expected to offer either low or very low pay.

The second important part of the poverty story is declining employment rates among men, particularly men of color. Over the same period that wages were falling, employment rates among men were also tumbling—down a startling 20-plus percentage points between 1970 and 2000 for men with a high school education or less and roughly 7 percentage points for those with some college.⁷ By contrast, as a result of economic necessity, changing norms, and the rise of the service sector, women's employment rates rose dra-

Table 1. Change in the Employment Rates of Young Black Men, by Age and Educational Status, 1992–2000

Percent

Age and educational status	Employment rate		Absolute change
	1992	2000	
Enrolled in school			
Ages 16–24	22.5	29.4	6.9
Ages 16–19	17.4	22.8	5.4
Ages 20–24	35.8	46.7	10.9
Not enrolled in school, ages 20–24			
All levels of education	62.2	66.2	4.0
Less than high school diploma	41.6	48.4	6.8
High school diploma only	64.2	66.7	2.5
Some college, no bachelor's degree	73.8	79.6	5.8
College graduate	85.7	88.1	2.4

Source: Analyses by the Center for Labor Market Studies, Northeastern University.

matically as more and more women entered the labor market.

Why have men's employment rates been declining? For some men, employment became less attractive as blue collar jobs evaporated and wages fell.⁸ The strong economy of the 1990s offers a reverse proof: as wages at the bottom rose, the employment rates of white, black, and Hispanic young men stabilized and began to grow. Even the employment rates of black men aged sixteen to thirty-four rose between 1992 and 2000, as did the rates for young black men (sixteen to twenty-four) with a high school diploma or less (see table 1). But once the boom years were over, the employment rates of black men resumed their downward trend; following the 2001 recession they plunged much as they did during the 1991 recession.⁹ While the reasons for the dismal position of young black men in the labor market are complex (and include racial discrimination and inadequate basic skills and education, as well as the behavioral changes documented by Lawrence Mead in

his article in this volume), a key part of the explanation is the interaction among low wages, the rewards of illegal activity, and strict drug laws, which have resulted in as many as 30 percent of all young black men (and 90 percent of black male high school dropouts) becoming entangled with the criminal justice system.¹⁰ Incarceration appears to have its own, independent effect, further worsening and tainting future employment prospects for all ex-prisoners.¹¹

In sum, past success in reducing poverty depended on growing employment and wages for those at the bottom of the earnings distribution. Today, instead, earnings are stagnant. The decline of unions and the power of workers to bargain for higher wages, the reduction in jobs covered by unemployment insurance, and congressional reluctance to increase the minimum wage—thus allowing inflation to erode its value over time—undoubtedly further exacerbated these trends. Without earnings growth, the ability of men without a college education to support a family dimin-

ished, making them, in turn, less attractive as marriage partners, according to many experts.¹² Indeed, among men aged twenty-five to fifty-four with a high school diploma or less in 2003, a quarter of whites, a third of blacks, and two-fifths of Hispanics did not earn enough to support a family of four above the poverty line.¹³

Rising Single Parenthood and Declining Marriage

These tectonic economic shifts coincided with inexorable erosion in the cultural norms associated with marriage and out-of-wedlock childbearing. Today, nearly half of all marriages end in divorce, a phenomenon that knows few class distinctions, and a third of all births occur out of wedlock. As a result, the share of all families headed by a single parent has nearly doubled from 13 percent in 1959 to 26 percent today. As one disheartening consequence, more than half of all American children will likely spend part of their childhood growing up in a single-parent family. Many will be poor; the poverty rate for single-parent, female-headed families with children under age eighteen is about five times higher than the rate for married couples (38 percent as against 7 percent in 2004)—in part because a single mother is more likely to have limited education and skills and thus low wages, and in part because she is trying to support her family on one income rather than two. Although the reasons why this is so are still hotly debated, evidence convincingly demonstrates that, as a group, children who grow up in single-parent families have diminished life prospects, faring worse on a wide range of economic, social, emotional, and cognitive outcomes than similarly situated children who grow up in two-parent families.¹⁴

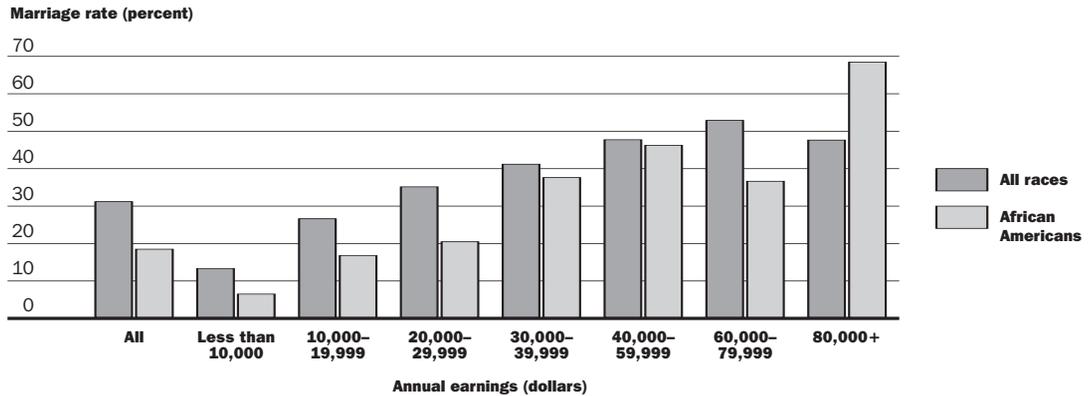
Cohabiting couples, a rapidly growing family type that now accounts for about 40 percent

of all nonmarital births, typically have more resources than single-parent households. But they are still more likely to be poor than married-couple families, and they are often unstable—about a quarter of cohabiters split within a year of the birth of a child.¹⁵ Interviews with so-called “fragile families” near the time of birth suggest that many of these couples expect to marry.¹⁶ Few will do so.

Even though marriage rates in low-income communities are uncommonly low, marriage remains an ideal for the poor and near poor, as for all Americans. In surveys and ethnographic interviews, poor men and women aspire to the emotional and social benefits of marriage. At the same time, they consistently cite economic barriers (unemployment, low wages, involvement with the criminal justice system) and relationship issues (principally infidelity) as primary reasons for not marrying.¹⁷ In their ethnographic account of poor women in Philadelphia, Kathy Edin and Maria Kefalas find keen support for marriage but trepidation that it will add another mouth to feed without a commensurate increase in resources.¹⁸ Lending support to these statements, as shown in figure 3, marriage rates for men (including African American men) generally rise as earnings go up—although this is somewhat less so for Hispanic men (not shown).¹⁹

Moreover, the link between earnings and marriage persists even after controlling for race, ethnicity, age, education, and other variables.²⁰ Indeed, one study of unmarried couples who recently had a child together found that the likelihood of subsequent marriage increased as men’s annual earnings rose.²¹ Nevertheless, the decline in men’s earnings is but one of a complex web of factors, including changing cultural norms and the increasing economic independence of

Figure 3. Marriage Rates of Men Aged 22 to 30 Years, by Annual Earnings, 2004



Source: Tabulations of the 2005 CPS by the Center for Labor Market Studies, Northeastern University.

women, that have altered the now outmoded model of marital specialization that pegged men as breadwinners and women as homemakers. Together, these factors have boosted the number of female-headed households, increasing in turn the number of families living in poverty.

Tax and Transfer Penalties

America's social welfare system was designed almost exclusively to meet the needs of poor families with children—a majority of which are now female-headed, single-parent households. Today, the bulk of these benefits support parents when they work. Outside of food stamps, few comparable work supports are available for childless individuals; indeed, the only public systems that focus predominantly on able-bodied men who are not living with children are criminal justice and child support enforcement. Adding insult to injury, by treating income jointly, the tax system penalizes some couples when they do marry, especially couples who earn like amounts and have combined annual earnings between \$20,000 and \$30,000.²² As they begin to lose eligibility for food stamps and health benefits, such as Medicaid and the State Children's Health Insurance Program,

and cross over to the phase-out range of the earned income tax credit, they can lose as much as a dollar in benefits for every dollar increase in income.²³ In a vicious cycle, once people are married, the same high cumulative marginal tax rates penalize additional work effort.

Policymakers have taken several important steps over the past decade to reduce the disincentive to work and marry—for example, by increasing the generosity of the EITC for married couples, time-limiting welfare receipt, toughening up child support enforcement, and requiring fathers to live with children and jointly report income when claiming the EITC. As a result, some poor families are better off if they marry now, but penalties remain for others. As David Ellwood explains, any program targeted at “low-income working families, where low income is based on the combined income of the family, . . . [will create] incentives for a working single parent to remain single.”²⁴ Nevertheless, available evidence is mixed about exactly how these disincentives have affected work or marriage, with earlier studies finding no effects and more recent studies finding some effects, especially for working, unmarried couples where both

parents earn similar amounts—the group facing the largest penalties.²⁵

Although it is daunting to try to measure precisely the effects of tax and transfer policies on behavioral decisions, in the end a low-income working mother is left to make an unfathomable and discomfiting decision about marriage—weighing the uncertain contribution of a potential spouse against the relative certainty of the benefit package she would lose. Fairness argues at the very least for “do no harm” tax policies that maintain an even playing field for all.

Strategies That Work: Earnings Supplements as a Response to Low Wages

Given these discouraging labor market trends, the changing social norms that led to high rates of single parenting, and the distorted incentives resulting from the briar patch of overlapping benefit programs and cumulative high marginal tax rates, one might reasonably ask: can government successfully intervene to raise incomes and reduce poverty? Encouragingly, a reliable body of evidence demonstrates that work-based earnings supplements—such as the EITC—can be an effective strategy for boosting employment and earnings, and reducing poverty, without distorting work incentives.

The “Make Work Pay” Experiments

Concerned that low-wage work simply did not pay relative to welfare, the State of Minnesota, the New Hope community group in Milwaukee, and two provinces in Canada began to experiment during the 1980s with new approaches designed to increase the payoff from low-wage work. All provided work incentives in the form of monthly cash payments to supplement the earnings of low-wage workers. The payments were made only

when people worked, and the amount of each month’s cash payment depended on the amount of each month’s earnings. Minnesota targeted welfare recipients, relied on the welfare benefit system to make payments, and supplemented both part-time and full-time work, while the Canadian and New Hope programs targeted welfare recipients and all low-income people, respectively, operated as independent entities, and rewarded only full-time work of thirty hours a week or more.

The results were encouraging. The mostly single mothers who were offered earnings supplements in these large-scale, rigorous studies were more likely to work, earned more, had more income, and were less likely to be in poverty than those in control groups who were not offered supplements.²⁶ At their peak, these employment, earnings, and income gains were large—reaching 12 to 14 percentage point increases in employment rates, about \$200–\$300 more per quarter in earnings, and \$300–\$500 more in quarterly income. The earnings supplements also had a secondary benefit for children. Preschool-age children of participating parents did better academically than like children in the control group, in large part because their parents had higher incomes and they were more likely to attend high-quality, center-based child care programs.²⁷ The largest and only persistent effects on adults were found for the most disadvantaged participants, particularly high school dropouts without recent work history and with long spells on welfare. For this group, the employment and earnings effects continued through the end of the follow-up period—six years in the Minnesota project—implying that early work experience could provide a lasting leg up in the labor market for more disadvantaged populations.²⁸ The pattern of results also suggests that income gains—and thus the poverty reduction—

could be sustained by an ongoing program of supplements.

The findings from the programs in Minnesota and Canada speak primarily to the behavior of single mothers, raising the question of whether offering supplements to single men could have similar effects. The New Hope program did achieve modest, statistically significant gains in the number of quarters employed for men overall, as well as for single men, when cumulated over the full eight-year follow-up period—although the small number of men in the study sample (by design) makes these findings suggestive at best.²⁹

Last, both the Minnesota and the New Hope programs also served two-parent families. In Minnesota, the offer of an earnings supplement led to modest reductions in quarterly employment rates and earnings, principally among the second earner, who could work less because the supplement offset the earnings loss. Cutbacks also occurred in the New Hope program initially, but these were trivial, concentrated among people who were working overtime hours that exceeded forty hours a week, and did not persist. Importantly, work reductions in the New Hope program were limited by the program's thirty-hour full-time work requirement, a feature the Minnesota program did not share.³⁰

The Earned Income Tax Credit

Recognizing the contradiction of remaining poor while working in a society that values work, policymakers have used employee subsidies as an integral part of the nation's strategy for reducing poverty since the EITC was first passed in 1975 (to offset payroll taxes paid by the poor). The EITC was substantially expanded in 1986, 1990, and 1993, and today is available to all low-income workers who file tax returns. It is refundable, which

means that its benefits are paid out even when the tax filer does not owe any income taxes. More than 20 million taxpayers take advantage of the EITC each year, at a cost exceeding \$34 billion, making it by far the largest cash benefit program for the poor.³¹ By design, the overwhelming majority of beneficiaries are single parents supporting children.

The EITC's distinguishing feature is its status as a safety net built around work—only people with earnings can claim the credit. The amount varies by both family type and earnings. Families with two or more children can receive a maximum credit of \$4,400; those with one child, \$2,662; and single adults with no children, \$399.³² At its maximum, the credit provides an additional 40 cents for every dollar earned to a family with two children, effectively turning a \$6.00 an hour job into an \$8.40 an hour job. But this is the maximum credit for a family with two or more children, where the parent is able to earn between \$11,000 and \$14,400 a year. The average family receives about half of the theoretical maximum either because it earns too little to get the full credit or because it earns too much and is in the phase-down range.

Based on a comprehensive review of studies of the EITC, Steve Holt reports that it reduces family poverty by a tenth, reduces poverty among children by a fourth, and closes the poverty gap by a fifth.³³ The Census Bureau, by using a measure of disposable income that relies on revised, and still controversial, definitions of income and poverty and includes all government cash transfers (but not Medicaid or Medicare), and by subtracting both taxes paid (but adding back EITC payments) and work expenses (but not child care expenses), estimates that the 2005 poverty rate falls to 10 percent, about 2 per-

centage points lower than the official rate.³⁴ The after-tax value of the EITC probably accounts for about half of this reduction. But even so, someone who works full time (2,000 hours a year) at the 2006–07 minimum wage of \$5.15 and who receives the maximum EITC credit would still have income below the 2005 poverty line of \$15,577 for a family

The EITC can penalize marriage when both partners work—even as it rewards marriage between a nonworking single parent and a working partner.

of three (\$10,300 in wages plus \$4,400 from the EITC, or \$14,700).

Nonexperimental assessments find that the EITC affects work in two ways. First, it encourages job taking, especially among single mothers (a 3 percentage point increase in the labor force participation rate of single women with children).³⁵ Several studies estimate that as much as a third of the increase in female labor force participation rates during the 1980s and 1990s was due to the expansion of the EITC.³⁶ Second, in two-parent families, it might reduce by a small amount the hours that second earners work, but there is scant evidence of a reduction in hours worked among single parents.³⁷

Because the bulk of EITC benefits go to families with children and because both parents' earnings are counted when a couple is married, but only one parent's earnings count when they are not, the EITC can penalize marriage when both partners work—even as

it rewards marriage between a nonworking single parent and a working partner.³⁸ These penalties can be large. According to Saul Hoffman and Lawrence Seidman, a single parent working full time at the minimum wage who marries another minimum-wage earner could stand to lose \$1,600, while two full-time workers (each earning \$14,000), both with two children, could lose as much as \$6,700 in EITC benefits.³⁹ Recently enacted provisions that increase the credit's value for married couples by several hundred dollars a year attempt to offset those penalties. By 2008, when those changes are fully in effect, penalties would be eliminated for most cohabiting families with incomes below 200 percent of the poverty line, but substantial penalties (averaging \$1,742) would still remain for 44 percent of all cohabiting couples, mostly those with incomes between \$20,000 and \$30,000 a year.⁴⁰ Two-earner couples where both workers have similar earnings are especially hard hit by EITC reductions if they marry.

Weighing Alternative Strategies for Reducing Poverty

Although the EITC, as now designed, has helped to ameliorate poverty in families with children, it still leaves behind many poor and near-poor families and individuals. Additional strategies for further reducing poverty include boosting the minimum wage, investing in education and training, and rethinking the generosity, targeting, and structure of the EITC.

Minimum Wage

Both experience and empirical evidence suggest that the minimum wage can play a valuable role in raising wages and reducing poverty without severely distorting labor markets. First passed in 1938 in response to the Great Depression, the minimum wage

placed a floor under the wages of most workers and was pegged at about half the median hourly wage of nonsupervisory workers throughout the 1950s and 1960s. As of early 2007, its value had fallen to less than a third of the nonsupervisory wage, its lowest level in fifty years.⁴¹ Both President Bush and congressional leaders have vowed to increase the minimum wage to \$7.25, although if its value is not indexed to inflation, it will once again gradually erode over time.

Why are political leaders reluctant to keep up the value of the minimum wage, a cornerstone of antipoverty policy since the Great Depression? There are two primary reasons. First, raising the cost of workers reduces the profits of employers, weakens their competitive position relative to global employers, and lowers the number of employees they can hire without raising prices. Second, only one in five minimum-wage workers lives in a family with below-poverty income. Most are between sixteen and twenty-four years old and do not support families, making the minimum wage a relatively inefficient way to reduce family poverty. However, Peter Edelman, Harry Holzer, and Paul Offner, summarizing empirical work by David Card, Alan Krueger, and others, conclude that increasing the minimum wage to \$7 an hour would at most result in trivial job losses in the tight labor market expected as the baby boomers begin to retire.⁴² Moreover, they note that about four-fifths of the increase would accrue to people with incomes in the bottom 40 percent of the income distribution, partly as a result of upward ripple effects on nearby wages.⁴³ Nonetheless, reluctance to raise the minimum wage or to adjust it for inflation and concerns about targeting inefficiencies make the minimum wage alone an unreliable vehicle for addressing poverty.

Postsecondary Education

Given the steep rise in the return to higher education over the past twenty-five years—today a college graduate earns more than twice what a high school graduate earns (about \$23,000 more, annually)—investing in the education and training of low-wage adults is an essential long-run alternative strategy for reducing poverty.⁴⁴ And for workers who have the necessary basic skills to succeed in postsecondary education, community college is a particularly attractive and ubiquitous option. Community colleges enroll nearly half of all college students in the United States—more than 11 million nationwide. But nearly half of all students who begin at community colleges leave before they can receive a credential, including untold thousands of students who are relegated to developmental education classes and never make it to credit-granting courses.⁴⁵ Although community colleges are actively experimenting with curricular reforms, student support services, and new forms of financial aid to address these problems, the fact remains that a large fraction of low-wage workers will not have the necessary skills to take a postsecondary route to higher earnings. And the K–12 reforms that are the subject of the article by Richard Murnane in this volume are at least a decade or two away from making a major difference in the skills of graduating seniors, who in any event constitute only a small fraction of the total workforce in any given year.

Other EITC Reforms

Over the next ten to twenty years, then, it is hard to imagine reducing poverty without finding a way to make low-wage work pay. A compelling body of evidence suggests that the earned income tax credit can be an effective way to supplement low earnings. Policymakers have three choices. They can increase the EITC for families with children, and es-

pecially for large families; increase it for married couples only; or supplement the earnings of individual low-wage workers, exempting the supplement from joint income tax filing requirements.

The first strategy moves more families with children above the poverty line but perpetuates current inequities by doing little to address the companion problems of single parenthood, the low earnings of single men and women, or marriage penalties in two-earner families. The second approach shares several of the shortcomings of the first and while it reduces marriage penalties for some, it creates new ones further up the income stream. It also asks people to marry for the money, running the risk of promoting any marriage over a healthy marriage, which has attendant risks for children and crosses a line that many find objectionable. Moreover, it fails to tackle the problem of the low wages of single adults, and places the burden on a single mother to calculate the value of a possible increase in benefits that would come with a potential marriage partner who at the moment may be underemployed and quite poor. That is asking a lot: to act on incentives, people have to understand them. Yet hardworking but still poor men would have no way of knowing—much less signaling—that their income would be 25 percent higher if they were married. That leaves the third option.

A Counterintuitive Response with a Radical Twist in Tax Policy

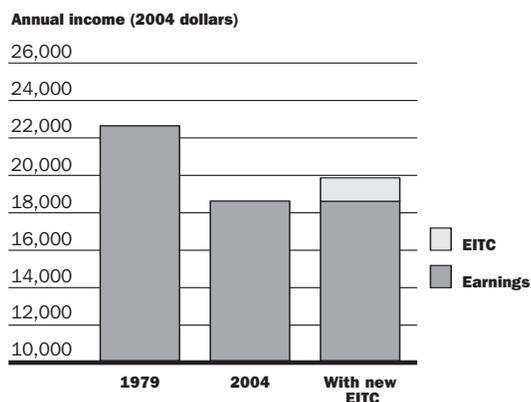
A bold and equitable strategy for reducing poverty would tackle the interrelated problems of men's low wages, single parenthood, and a tax and transfer system that, by giving primacy to families with children, has unintentionally distorted incentives on the margin to work, marry, and have children. An earnings supplement for individuals could accomplish

these goals by providing all low-wage workers aged twenty-one to fifty-four who work full time (thirty hours a week) with a payment approaching that of the current EITC but with a crucial, if radical, twist: payment would be based on an individual's personal income, not joint or family income, and singles would be eligible for the supplement whether or not they have children and whether or not they marry, as would second earners in a married family receiving the existing family EITC.

The credit should fall somewhere between 50 and 100 percent of the current EITC payment for families with one child.⁴⁶ For equity and simplicity, to illustrate the new credit's properties let's assume that the maximum credit is about 75 percent of the current one-child EITC. Thus, instead of the tiny \$400 current annual maximum EITC payment for singles, every dollar of earnings under the new plan would be supplemented by 25 cents until earnings reached \$7,800 (for a maximum credit amount of \$1,950), after which the supplement would remain level until earnings reached \$14,400, and it would then fall by 16 cents for every dollar of earnings until it was phased out entirely at \$26,587. In effect, this policy would turn a \$6 an hour job into a \$7.50 an hour job. For someone who worked 1,500 hours over the course of a year, it would turn a below-poverty annual salary of \$9,000 into an above-poverty salary of \$11,250. Figure 4 offers another example of how this new EITC would benefit a single man working full time in a job that put him in the bottom tenth of earners. The average man in the bottom tenth of the earnings distribution earned just over \$22,000 in 1979 but only around \$18,000 in 2004; the new EITC would raise this to nearly \$20,000.

To avoid penalizing children or couples who marry, the existing benefit structure and gov-

Figure 4. The Effect of the New EITC on the Income of Low-Earning, Single Adult Men



Note: Low-earning adult men are defined as those working full time and in the bottom tenth of the annual earnings distribution.

erning rules for the one- and two-child EITC would remain in place for the primary earner in a family with children. The second earner in a married-couple family would now qualify for the new individual's credit without regard to the primary worker's earnings, essentially giving married couples the option of filing taxes individually, at least with regard to the EITC. In addition, with income treated separately, some married families with joint income that exceeds current cutoffs would now qualify for both the family and this new individual EITC. Emulating the approach to taxation used in Canada and many European countries, this strategy eliminates the marriage penalties now embedded in tax policy (at least for low-income couples claiming these EITC benefits), while also reestablishing social policy parity between men and women, and between parents and childless individuals, by bolstering the earnings position of low-wage individuals.⁴⁷

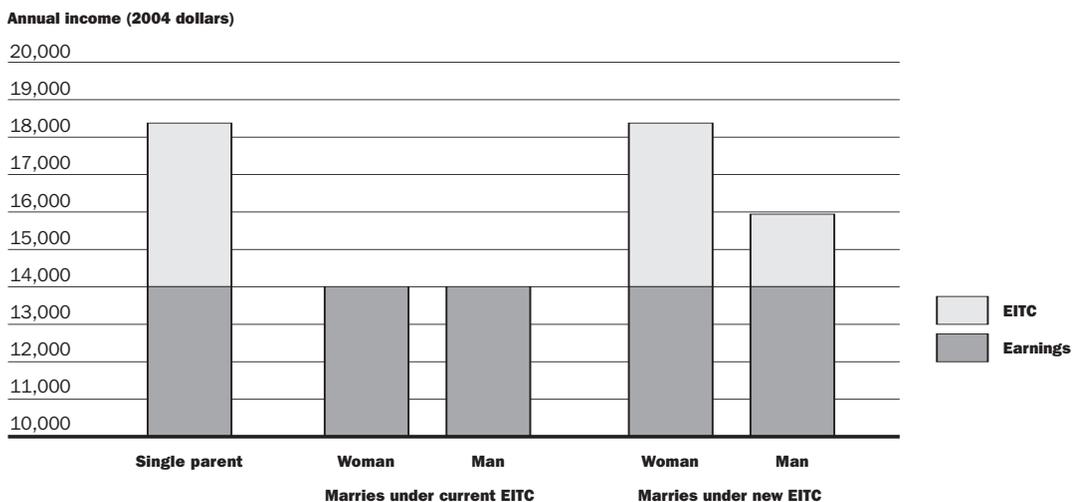
The benefits to second earners in married or cohabiting couples would be substantial. Couples with joint earnings would each be able to receive an EITC payment, with the

principal earner qualifying for the current child benefit and the second earner qualifying for this new individual EITC payment (possibly subject to an income cap of 250 percent of poverty). As figure 5 illustrates, for a two-child family in which each parent earned \$14,000 (\$28,000 together), the total maximum EITC payment could provide an additional \$6,350—\$4,400 for the existing two-child credit due one spouse plus \$1,950 for the other spouse's individual credit. Note that in this example, without an income cap or a lower overall subsidy, the earnings supplement would continue, although at progressively lower amounts, until it was zeroed out when *combined* income reached \$62,000.

At first blush, a subsidy that reached this far into the middle of the family income distribution would likely be politically unacceptable. But unless the earnings of families above the poverty line are subsidized to some degree, it will be very difficult to resolve the work and marriage disincentives imposed by current policy on families with similar earned income in the \$20,000-and-up range that result from high—and behavior-distorting—cumulative marginal tax rates. Moreover, as the example makes clear, adopting this policy would require coordination with, and possibly rethinking, the \$1,000 per child tax credit, which is now partly refundable if income exceeds \$11,000 a year and is not phased out until income reaches \$75,000 for a single parent and \$110,000 for a married couple.⁴⁸

Adult men and women who are not caring for children and who work full time but are still poor—a group that has been largely ignored despite their substantial work effort—would also benefit. Using data from the National Survey of America's Families, Stephen Bell and Jerome Gallagher paint a portrait of

Figure 5. The Effect of the New EITC for a Single Parent with Two or More Children Who Marries Another Low-Wage Worker



Note: Assuming that each adult earns approximately \$7.00 an hour and that the man is the secondary earner.

twenty-five- to forty-nine-year-olds with incomes below 200 percent of the poverty line who are not disabled and who do not have children of their own living with them. More than three-quarters work, mostly full time, but their wages are low (90 percent make less than \$10.30 an hour) and one-third have incomes below the poverty line for their family size, while another 27 percent are near poor. A quarter are noncustodial parents and a quarter live with a spouse. More than half are white men with a high school diploma or less. They receive little in the way of government assistance—only 6 percent get food stamps and only 5 percent, unemployment insurance benefits—yet they too have been hit hard by labor market changes over the past thirty years.⁴⁹

The impact on poverty of an individually based EITC of the size proposed here would be certain, large, and immediate. Individuals who now work more than thirty hours a week and earn less than the threshold amount annually (whether married, cohabiting, or unattached) would receive an immediate supplement to help to restore earnings to pre-1973

levels, when the average high school graduate—or even a dropout—could support a family above the poverty line. Those working less than thirty hours a week, including second earners in two-parent households, would have an incentive to increase their work hours, further boosting income, promoting self-sufficiency, and reducing poverty. Finally, those not in the labor force would have added incentive to find a full-time job, which would substantially boost total income.

Reliable experimental evidence indicates that employment effects could be significant. Economists estimate that increasing the hourly wage of a low-income worker by 10 percent would boost employment between 2 and 10 percent.⁵⁰ Under this proposal, a potential minimum-wage worker, who could earn about \$875 for 170 hours of full-time work per month, would be eligible for a monthly supplement of about \$200. This 20 percent increase in income would be expected to increase employment rates by 4 to 20 percent.⁵¹ Adding credence to these estimates, the make-work-pay experiments de-

scribed above had similar employment, earnings, and income effects, albeit for a population of mostly single mothers. Data from all four years of follow-up from each of these programs (including the period after the supplement programs ended) indicate that employment increases ranged from 8 percent in New Hope to 19 percent among long-term welfare recipients in the Canadian Self-Sufficiency Project (SSP).⁵² Intriguingly, employment effects for the most disadvantaged (those with limited education, little previous work history, and long prior spells of welfare dependency) were very large—up 56 percent in the SSP, 48 percent in Minnesota, and 25 percent in New Hope.

Less reliable observational evidence suggests that an earnings supplement could also have small but significant secondary beneficial effects on crime and marriage. Men's involvement in criminal activity might reasonably be expected to decline as their earnings rise and the opportunity cost of crime goes up. Similarly, higher earnings, together with the elimination of EITC-related tax and transfer penalties on marriage, might also lead to more co-parenting, cohabitation, and marriage. Although these secondary effects are somewhat speculative, an individually based EITC payment at the very least creates the necessary, if not sufficient, conditions to make an increase in marriage feasible when combined with a direct intervention to promote marriage of the kind proposed by Paul Amato and Rebecca Maynard in their article in this volume.⁵³

Finally, by supplementing the earnings of single men in low-wage jobs and increasing their income, this plan would encourage more “on the books” work, while helping men meet their child support obligations. As in current law, single people who are parents

and owe child support would have their EITC payment attached to pay their child support obligations.

Anticipating Unintended Consequences

Even as it addresses important gaps in current policy, this plan, like any tax and transfer policy reform, opens up the possibility of creating unintended consequences. Five such consequences are anticipated below.

What about the principle of “horizontal equity”? An important and long-standing principle of tax policy is horizontal equity: the tax system should treat all married couples with the same total family income similarly, regardless of the source of their income. For some families, this plan violates that principle: a family in which one spouse accounts for most of the household's earnings would receive substantially less in benefits than a family in which the earnings of both spouses are similar. Ironically, current tax policy has the opposite effect, penalizing couples when both parents' earnings are similar. The problem of unequal earners could be partly remedied by following the Canadian example, which allows the high-earning spouse to claim a credit for the not-working or low-earning spouse, a credit that declines in value as the spouse's earnings rise (see note 47).

Would there be an incentive for some people to reduce the number of hours they work? In the EITC and Minnesota programs, second earners in families were likely to reduce their work hours, especially when their earnings were in the phase-down range. Both the New Hope program and the Canadian Self-Sufficiency Project substantially alleviated this problem by conditioning the payment of earnings supplements on full-time work of at least thirty hours a week. As findings from the two projects demonstrate, a full-time

work requirement has important advantages: it lowers total costs, moves people closer to self-sufficiency, and limits reductions in hours worked among those already working. However, applying a full-time “hours rule” to second earners in two-parent households, especially those with young children, would effectively penalize some for making the legitimate decision to spend more time with their children. Several modifications might help al-

A full-time work requirement lowers total costs, moves people closer to self-sufficiency, and limits reductions in hours worked among those already working.

leviate these concerns, including establishing a twenty-hour work minimum for the second earner only, creating a fifty-hour combined minimum per week for both earners, or lowering the minimum hours rule for parents with children under age three. There is also some risk of a cutback in work effort among primary earners receiving the existing EITC for families, which does not include an hours requirement. That risk is minimal, however, and could be reduced further by imposing a combined hours requirement or by making the individual EITC less generous.

*Would it be feasible to administer an hours requirement?*⁹ To facilitate administration of an average thirty-hour-a-week work requirement (using a monthly, quarterly, or annual accounting period), employers would have to report hours worked in at least one of two

ways. The simplest approach would be to require employers to report monthly or quarterly hours worked on the end-of-the-year W-2 forms now given to all employees for tax-filing purposes. Then, individuals would claim the EITC as they do now, when filing their annual tax returns. Alternatively, employers could report hours worked along with the quarterly earnings report they now submit for unemployment insurance purposes on every paid employee. Several states, including Minnesota, New Jersey, Oregon, Washington, and Wyoming, already require employers to report hours worked. The unemployment insurance system would then have to share these employer reports electronically with the IRS to ensure accurate calculation of the EITC. Given that it now takes employers about five months to file wage reports, this process would have to be speeded up. Requiring employers to report hours worked would also make it possible for the government to pay the EITC quarterly instead of annually at tax time and would enable states to use hours rather than earnings to more fairly and accurately determine eligibility for unemployment insurance, a factor in the system’s currently low coverage rates.

*Wouldn’t private employers be less likely to increase wages?*⁹ An increase in public sector wage subsidies would likely make private employers less likely to raise wages. To avoid this problem, policymakers should consider indexing the minimum wage to inflation, so that it provides a floor below which wages cannot fall as the EITC expands. The higher one sets the minimum wage, the lower the cost of an EITC expansion. However, the politics of the minimum wage and its targeting inefficiencies (particularly the problem of teenage workers in affluent households) may make policymakers reluctant to expand the minimum wage much beyond \$7.25 an hour

nationally (although California's minimum wage will reach \$8 an hour by 2008). A minimum wage increase could substantially boost wages at the bottom, but it would not address the problems of persistent poverty or of high marginal tax rates that undermine decisions about parenting and marriage. In addition, the political unpredictability of the minimum wage makes it an unreliable policy lever for supporting low-wage workers.

Wouldn't young people be lured out of school? Young people between eighteen and twenty-five have to make a range of decisions about the present value of work as measured against the future value of additional schooling. The opportunity to get a generous earnings supplement might change that calculus somewhat. Starting the supplement at age twenty-one, however, reinforces the value of postsecondary education, and the thirty-hour work requirement limits the likelihood of making payments to teens and college students who often have other means of support, although it might require the use of a four-month accounting period to avoid paying supplements to college students in the summer. Waiting until age twenty-five, as the current EITC for singles does, may unnecessarily penalize young, non-college-bound workers who are supporting families.

Eligibility and Costs

The plan affects three distinct populations. The first group is single men and women (some have children who do not live with them and others may be cohabiting). The second group is second earners in married two-parent households. The third is married couples without children (some whose children are over age eighteen and others who are just starting life as a couple). According to the eligibility criteria—age twenty-one to fifty-four, thirty hours or more of work a

week for at least twenty-six weeks in the past year (a proxy for a quarterly accounting period), individual income below \$31,030—roughly 35 million *additional* people would be eligible to receive EITC payments (44 million who meet these criteria, minus the 9 million who already receive EITC payments, according to the Current Population Survey).⁵⁴ About 15 million of these newly eligible recipients would be unmarried singles; 11 million, married individuals with children under eighteen (7 million second-earner spouses and 3.8 million primary earners); and 9 million, married individuals without children under eighteen. Another 3 million, mostly single, individuals (some supporting children and some not) who now receive small EITC supplements would be eligible for a threefold increase in their EITC payment.⁵⁵ More than half of the newly eligible group is married. And somewhere between one-third and one-half are supporting children.

Two key questions remain. First, how much would this plan cost? Assuming no change in the work behavior of recipients, a rough cost estimate is \$29 billion a year to supplement the earnings of *existing* full-time workers.⁵⁶ Today 35 million people are not eligible for the existing child-based EITC but work thirty hours a week or more, are struggling economically, and have earnings low enough to make them eligible for this new credit. The expected average earnings supplement of \$1,000 would substantially raise their income and reduce the number of people living in poor families. What about additional costs for people moving from unemployment or part-time work to full-time jobs? Roughly 14 million potentially eligible people now work less than thirty hours a week for twenty-six weeks, and 22 million more are not working at all. Assuming a 15 percent increase in the share

of part-time or part-year workers moving to full-time work, and a 10 percent increase in the number of nonworkers who take a full-time job because of the supplement, benefits would be paid to an additional 4 million people.⁵⁷ With an average supplement of \$1,000, these increases would bring total costs to roughly \$33 billion annually.

Second, can we afford it? Based on the size of the federal budget deficit and the enormity of the Social Security and Medicare obligations that the nation faces, the obvious answer would seem to be no. But it is also true that if the economy had continued growing at 1960s-like rates and if the distribution of income between rich and poor had been the same in 2006 as it was in 1975, then the poverty rate would be about half what it is today.⁵⁸ Instead, growth was decidedly slower during the 1970s and early 1980s and when it began accelerating significantly thereafter, the main beneficiaries were the top 10 percent of the income distribution—especially the top 0.1 percent⁵⁹—who are accumulating unprecedented wealth (roughly an extra \$750 billion annually)⁶⁰ that would, in 1975, have gone disproportionately to the bottom of the income distribution. Assuming, as most economists would, that there is nothing inherently superior, from a national investment and savings perspective, about the distribution of income in 2006 relative to 1975, a \$29 billion to \$33 billion tax on these very high earners that was used to supplement the income of low earners would make no discernible difference in the economic position of the United States. To put this number into perspective, it represents about one-third of the annual tax reduction for the top 1 percent of the income distribution as a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003. In that case, the answer is yes, we can afford it.

Still, \$29 billion to \$33 billion a year is a lot of money. There are less expensive alternatives. Total costs could be halved, to \$15 billion, if the subsidy rate were reduced from 25 percent to 20 percent, and further reduced to \$4 billion if the rate were reduced to 15 percent. But at these lower rates, average per-person subsidy amounts fall from \$1,000 per year (at the 25 percent rate) to \$720 (20 percent) and \$437 (15 percent), significantly reducing the plan's antipoverty benefits.⁶¹

Conclusion

As technological change, globalization, and other forces continue to roil labor markets in what Alan Blinder has referred to as the dawn of the Third Industrial Revolution and Frank Levy and Dick Murnane have called the New Division of Labor, all American workers face a difficult period of transition.⁶² Through no fault of their own, low-wage workers have been especially hard hit over the past thirty years and appear destined to bear an even greater future burden. A decision to simply let global market forces work will likely exacerbate already high rates of inequality. Indeed, the case for growth-promoting free trade is predicated on the pledge that winners will compensate losers from a larger economic pie. Similarly, as baby boomers retire, slowing the rate of growth in the size of the labor force, economic growth may also slow, a development that adds urgency to the need to create strategies that increase labor force participation rates among men.

An earnings supplement for individuals offers a potentially promising alternative to persistent poverty, low wages, and declining employment rates among men. It is a strategy designed to tackle, in whole or in part, three interrelated issues. The first is three decades of stagnant and declining wages at the low end of the economic ladder, which have hit

low-income men especially hard. The second is an enduring crisis in the share of children raised in single-parent, low-income households. And the third is a tax and transfer system that ignores men, while penalizing marriage and work on the margin.

Solid and reliable evidence demonstrates that earnings supplements have encouraged work and reduced poverty among unemployed and underemployed single parents. A strategy that redesigned EITC eligibility to give equivalency to individuals might have a similar effect on second earners and childless, low-income women and men. Indeed, the New Hope program had just such an effect on its tiny sample of single men. And by treating two-parent earnings separately rather than jointly when establishing EITC eligibility and when filing taxes, a new EITC for individuals could also be expected to increase the work effort of second earners in two-parent households, and in turn to raise the income of two-parent, two-earner families. In fact, it would immediately and substantially end poverty among individuals who are now working full time. At issue is how many nonworkers and part-time workers would be induced to find full-time work.

Moreover, if survey data and ethnographic evidence are right in suggesting that the poor share mainstream values about parenting and marriage but that the economics simply do not work for them, then equitably supplementing the earnings of individuals could also affect men's and women's decisions about childbearing, co-parenting, cohabiting, and even whether to marry. Indeed, studies simulating large increases in men's earnings predict small increases in marriage.⁶³

But no matter how promising the idea, questions remain—primarily about cost and

the magnitude of any behavioral changes. Would a work incentive of this size really induce second earners and single men to work more than they do now? Would single men be more likely to live with the mothers of their children, assume co-parenting roles, and even marry? Of special concern would be how an earnings supplement would affect African American men, particularly

Solid and reliable evidence demonstrates that earnings supplements have encouraged work and reduced poverty among unemployed and underemployed single parents.

whether it would increase their employment rates and make them less likely to become involved with the criminal justice system. How would it affect single women's employment, childbearing, and marriage decisions? Would the resulting poverty reductions measurably affect the well-being of children? Would the supplement unintentionally lower college-going among young people or reduce work effort among eligible higher earners who work more than thirty hours a week? What would it really cost to implement? And would the benefits justify the cost?

Because finding answers to these questions is vital, a prudent next step would be to rigorously test this strategy in several states over several years—preferably using a random assignment design and sample recruitment strategies like those used in the New Hope and similar studies.⁶⁴

If you could do one thing to end poverty in America, what would it be? Any serious effort would have to tackle more than thirty years of falling wages, particularly for single men. An enhanced EITC for individuals, predicated on full-time work, would effectively end

poverty for individuals and families who are able to work full time, while at the same time minimizing the distortions in incentives to work, co-parent, and marry that exacerbate poverty and ensure its persistence.

Notes

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41. Sar Levitan, Frank Gallo, and Isaac Shapiro, *Working but Poor: America’s Contradiction* (Johns Hopkins University Press, 1993); Jared Bernstein and Isaac Shapiro, *Nine Years of Neglect: Federal Minimum Wage Remains Unchanged for Ninth Straight Year, Falls to Lowest Level in More than Half a Century* (Washington: Center on Budget and Policy Priorities and Economic Policy Institute, August 2006).
42. Edelman, Holzer, and Offner, *Reconnecting Disadvantaged Young Men* (see note 7); David Card and Alan G. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton University Press, 1995); David Neumark and William Wascher, “Comment on ‘Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania’ by David Card and Alan B. Krueger,” *American Economic Review* 90, no. 5 (1998): 1362–96.
43. Amy Chasanov, “No Longer Getting By: An Increase in the Minimum Wage Is Long Overdue,” Research and Ideas Working Paper (Washington: Economic Policy Institute, 2004).
44. Sheldon Danziger and Cecilia Rouse, “Introduction,” in *The Price of Independence: The Economics of Early Adulthood*, edited by Danziger and Rouse (see note 10).
45. Thomas Brock and Allen LeBlanc, *Promoting Student Success in Community College and Beyond: The Opening Doors Demonstration* (New York: MDRC, 2005).
46. Edelman, Holzer, and Offner propose an EITC for singles with a maximum value of \$1,500; *Reconnecting Disadvantaged Young Men* (see note 7). Primus proposes for fathers who owe child support a credit of half the current EITC for single parents; Wendell Primus, “Improving Public Policies to Increase the Income and Employment of Low-Income Nonresident Fathers,” in *Black Males Left Behind*, edited by Ronald B. Mincy (Washington: Urban Institute Press, 2006), pp. 211–48. The maximum subsidy discussed here of \$2,400, about \$200 a month, would restore low-end wages to closer to their 1973 level.
47. Canadians file taxes as individuals for personal income purposes, with special rules governing some forms of “taxable income” when filers are married (for example, the child care expense deduction can be claimed only by the lower-earning spouse, and refundable tax credits to benefit low-income families, such as the Child Tax Benefit and the Goods and Services Tax Credit, where eligibility is family-income based, can be claimed by either spouse). Because of these features, each tax filer is required to report the name and social insurance number of his or her spouse and the net income reported by that spouse; Revenue Canada then cross-references the two tax returns. In addition, a tax filer who has a dependent (in general, a non-working spouse) can claim a deduction from income that decreases as the spouse’s earnings increase (becoming zero at just over \$8,000 in annual earnings).
48. Adam Carasso, Jeffrey Rohaly, and C. Eugene Steuerle, “Tax Reform for Families: An Earned Income Child Credit,” *Welfare Reform and Beyond Policy Brief 26* (Brookings, 2003); Ellwood, “The Impact of the Earned Income Tax Credit” (see note 24), p. 157.

49. Stephen H. Bell and L. Jerome Gallagher, "Prime-Age Adults without Children or Disabilities: The Least Deserving of the Poor—or Are They?" *New Federalism: National Survey of America's Family*, series B, no. B-26 (Washington: Urban Institute, 2001).
50. Chinhui Juhn, Kevin Murphy, and Robert Topel. "Why Has the Natural Rate of Unemployment Increased through Time?" *Brookings Papers on Economic Activity 1991*, no. 2: 75–142; Lawrence Katz, "Wage Subsidies for the Disadvantaged," in *Generating Jobs: How to Increase Demand for Less-Skilled Workers*, edited by Peter Gottschalk and Richard Freeman (New York: Russell Sage Foundation, 1998); Jeffrey Grogger, "Market Wages and Youth Crime," *Journal of Labor Economics* 16, no. 4 (1998): 756–91; Edelman, Holzer, and Offner, *Reconnecting Disadvantaged Young Men* (see note 7).
51. For a discussion of these effects, see Edelman, Holzer, and Offner, *Reconnecting Disadvantaged Young Men* (see note 7).
52. The Canadian Self-Sufficiency Project increased employment 19 percent, earnings 23 percent, and income 14 percent; the less generous Minnesota program increased employment 13 percent, earnings 5 percent, and income 8 percent; and the New Hope program increased employment 7 percent, earnings 5 percent, and income 5 percent.
53. It could play a similarly necessary but not sufficient role for the employment interventions that Mead proposes in his article in this volume for chronically unemployed men involved in the justice system.
54. Calculations from the 2005 March supplement of the U.S. Census Bureau's Current Population Survey (CPS) by the Center on Labor Market Studies, Northeastern University. The CPS underestimates EITC receipt, suggesting that these eligible population estimates overstate the number of eligibles.
55. Of the 58 million working Americans with income below \$31,030 in 2004, 48 million worked full time (thirty hours a week or more) when they worked (44 million of whom met the thirty hours a week for twenty-six-weeks eligibility requirement), and 10 million worked part time. Twenty-three million did not work at all.
56. This assumes that individuals worked thirty hours a week or more for at least twenty-six weeks out of the year and had total income of less than \$31,030. While the plan proposes a quarterly accounting period—that is, thirty hours of work per week, on average, over three months—the estimates use "worked at least twenty-six weeks in the last year" as a proxy. Current Population Survey estimates of new eligibles, prepared by the Center for Labor Market Studies, are available from the author on request. In short, net costs subtract current EITC payments as reported in the CPS. Recall that new credit parameters are a 25 percent subsidy phase-in rate until income reaches \$7,800 and a 16 percent phase-down beginning at \$14,400 and ending at \$26,587. A 34 percent subsidy rate was used to calculate costs for married family heads, a group whose joint income was too high for the existing family EITC but who would become eligible if income were treated on an individual, not joint, basis. Because most full-time workers work full year, relaxing the "weeks worked" criterion from twenty-six weeks to five weeks only increases the total cost to \$32.5 billion. The assumptions used to derive these estimates most likely result in an overstatement of the potential number of beneficiaries: people receiving disability payments or who were otherwise unable to work were not excluded; the estimates assume that all those who worked thirty hours and twenty-six weeks in the past year would qualify; no savings were calculated for any increase in work effort that might occur; and, as noted earlier, the CPS underestimates EITC receipt.

57. The Canadian Self-Sufficiency Project increased the share of nonworkers who moved to qualifying full-time work by about 7 percent, and a best estimate from both the SSP and New Hope of the effect of moving from part-time to full-time work might be in the 10–15 percent range, if one averages the effects for the applicant and recipient groups in SSP and considers the composition of the sample in New Hope.
58. Danziger and Gottschalk, “Diverging Fortunes” (see note 1).
59. Ian Dew-Becker and Robert J. Gordon, “Where Did the Productivity Growth Go? Inflation Dynamics and the Distribution of Income,” Working Paper 11842 (Cambridge, Mass.: National Bureau of Economic Research, December 2005).
60. See Steven Pearlstein, “Solving Inequality Problem Won’t Take Class Warfare,” *Washington Post*, March 15, 2006, p. D1. Pearlstein estimates that the top 10 percent of the income distribution received an extra \$750 billion as a result of its increased share of national income.
61. By comparison, Edelman, Holzer, and Offner estimate a \$9.8 billion annual cost for a more narrowly targeted credit for singles that includes a maximum payment of \$1,500 and has no full-time work requirement, but includes a plan to reduce marriage penalties by not counting 50 percent of the lower-earning spouse’s wages when eligibility for the current family EITC is calculated. See Edelman, Holzer, and Offner, *Reconnecting Disadvantaged Young Men* (see note 7).
62. Levy and Murnane, *The New Division of Labor: How Computers Are Creating the Next Job Market* (see note 5); Alan S. Blinder, “Offshoring: The Next Industrial Revolution,” *Foreign Affairs* 85, no. 2 (2006): 113–28.
63. Edin and Reed, “Why Don’t They Just Get Married?” (see note 16).
64. Other examples include the SIME/DIME Negative Income Tax Experiments.