The Rise of the *In-Work* Safety Net: Implications for Income Inequality and Family Health and Well-being

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*The Welfare State And The Fight Against Inequality*
November 8–9, 2015
Columbia University
Overview

• The U.S. social safety net for lower income families has shifted to one based on *in–work* assistance (welfare reform, EITC expansion)

• Here I provide a brief summary of how these changes affect families:

  1. Motivating context: falling wages and incomes
  2. Policy Setting: The rise of the *in–work* safety net
  3. Research: What are the impacts of the EITC?
  4. Holes in the Safety Net
1. Motivating Context: Falling Wages and Declines in Labor Force Participation

- Since the mid 1970s, there has been little gain in wages for less skilled workers, especially for men.
- Additionally, labor force participation rates are declining for prime age men, and more recently, prime age women.
- The implication is stagnant family incomes for the bottom of the distribution.
Wages declines, or lack of gains for less skilled workers

Changes in real wage levels of full-time U.S. workers by sex and education, 1963–2012

Real weekly earnings relative to 1963 (men)  

Real weekly earnings relative to 1963 (women)

Fig. 6. Change in real wage levels of full-time workers by education, 1963–2012. (A) Male workers, (B) female workers. Data and sample construction are as in Fig. 3.
Labor force participation rate declines in the U.S.
The result: Little gain in family incomes below median.

Broadly Shared Prosperity Ended in the Early 1970s, and a Generation of Widening Inequality Began

- Bottom Fifth: 117.4% (1947 to 1973), -5.6% (1973 to 2009)
- Second Fifth: 97.9% (1947 to 1973), 5.6% (1973 to 2009)
- Middle Fifth: 103.5% (1947 to 1973), 16.3% (1973 to 2009)
- Fourth Fifth: 104.7% (1947 to 1973), 29.2% (1973 to 2009)
- Top Fifth: 88.7% (1947 to 1973), 56.8% (1973 to 2009)
- Top 5 Percent: 74.9% (1947 to 1973), 78.3% (1973 to 2009)

Source: Economic Policy Institute
• The implication is an increasing need to supplement earnings with social safety net to maintain family income levels.
• The Earned Income Tax Credit (and SNAP) are central here
• More generally, the EITC is the main post-market policy that affects the twin concerns of low employment and stagnant income
2. Policy Setting: Changes in the Social Safety Net

The U.S. has experienced a tremendous change in the social safety net for low income families with children:

- Decline in the *out-of-work* safety net (1996 welfare reform)
- Rise of the *in-work* safety net (the EITC)
  - The EITC is received by 28 million tax filing units, almost 20 percent of all tax filers and 44 percent of filers with children receive the EITC.
Earned Income Tax Credit

- In-work, tax based assistance
- Refundable tax credit for low income families
- Credit varies by number of children (small credit for childless), earnings (and AGI)
EITC in the broader (European) policy context

- Over the past decades many other countries have adopted EITC-type in work credit
- However, not all are created alike -- the design of an in-work credit will reflect a country’s value on the tradeoffs between universality, work incentives and income supplementation
- More targeted (high withdrawal, high credit) [US, IRL, UK, BEL, NZ]
- Low withdrawal, low credit [CAN, FR, ESP]
- Low withdrawal, higher credit [DEN, SWE, NLD]
Figure 2.7. Targeting of in-work credits in OECD countries (for single parent with two children), 2010.

Targeted in-work credits

No phase-out or low phase-out


Source: OECD (2011), *Taxation and Employment*, OECD Tax Policy Studies, No. 21,
3. How does the EITC affect family well-being?
Much of the research takes advantage of the large changes in the generosity of the EITC by family size, particularly as part of the 1993 expansion of the EITC.

**Maximum EITC by number of children (2012 $)**
FINDING 1: A more generous EITC leads to substantial increases in employment

Estimates of the Effects of OBRA1993 on Employment

FINDING 2: The EITC is the largest anti-poverty program for children

Children Kept out of Poverty (2014, In Millions)

- EITC & credits: 5.2
- SNAP: 2.1
- Social Sec & DI: 1.6
- Housing Subsidy: 0.9
- School Lunch: 0.8
- SSI: 0.7
- UI: 0.3
- TANF & GA: 0.4
- WIC: 0.2
- LIHEAP: 0.1
- Workers Comp.: 0.1

The effects of the EITC on the distribution of income

Effects of the 1993 expansion on the share of families above income-to-poverty levels.
Concentrated between 75% and 200% of poverty

The anti-poverty effects are even higher when you take into account the *credit effect* and *induced earnings* effect.

Ignoring the behavioral response leads to an underestimate of the anti-poverty effects by 50 percent.

FINDING 3: The increased income leads to improvements in family wellbeing

- The EITC leads to an improvement in maternal and infant health (Evans and Garthwaite 2011, Hoynes et al 2015)
- The EITC leads to improvement in educational outcomes (Dahl and Lochner 2011, Michelmore 2013, Manoli and Turner 2014)
4. Holes in the Safety Net

- *In–work safety nets do not work well if in times of no work;* evidence from the Great Recession (Bitler and Hoynes 2015, Bitler, Hoynes and Kuka 2015)
- *The U.S. lacks an adequate safety net for extreme poverty* (SNAP and disability)
- *Limits to in–work subsidies?* Some evidence that part of the benefit of the subsidy is captured by employers (in lower wages). Strengthening the minimum wage can help counter this incidence pathway.
SNAP expanded with need in the Great Recession. For the largest group of EITC recipients (single parents) the program is **pro-cyclical**

• The share of families falling below 50% poverty (extreme poverty) was more affected in the Great Recession that we would have predicted from prior cycles.

• Most likely explanation → welfare reform and the loss of the “out of work” safety net.

Summary

- The U.S. social safety net for lower income families is now primarily an in-work safety net.
- The EITC is the largest anti-poverty program for children in the U.S. and leads to higher employment levels for single parents.
- Looking forward, we need to think about how to strengthen support when “in-work” isn’t possible.