Making Work Pay Better Through an Expanded Earned Income Tax Credit

Hilary Hoynes, Jesse Rothstein, and Krista Ruffini
The Hamilton Project seeks to advance America’s promise of opportunity, prosperity, and growth.

We believe that today’s increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project’s economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation’s first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that “prudent aids and encouragements on the part of government” are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.

NOTE

This policy proposal is a proposal from the authors. As emphasized in The Hamilton Project’s original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project’s broad goals of promoting economic growth, broad-based participation in growth, and economic security. The author(s) are invited to express their own ideas in policy papers, whether or not the Project’s staff or advisory council agrees with the specific proposals. This policy paper is offered in that spirit.
Making Work Pay Better Through an Expanded Earned Income Tax Credit

Hilary Hoynes
University of California at Berkeley

Jesse Rothstein
University of California at Berkeley

Krista Ruffini
University of California at Berkeley

OCTOBER 2017

The U.S. economy will not operate at its full potential unless government and employers remove impediments to full participation by women in the labor market. The failure to address structural problems in labor markets—including tax and employment policy—does more than hold back women's careers and aspirations for a better life. In fact, barriers to participation by women also act as brakes on the national economy, stifling the economy's ability to fully apply the talents of 51 percent of the population. By acting to remove barriers to women's participation, we can realize stronger economic growth that will be more broadly shared by the American people.
The Earned Income Tax Credit (EITC) is a refundable tax credit that promotes work. Research has shown that it also reduces poverty and improves health and education outcomes. The maximum credit for families with two or fewer children has remained flat in inflation-adjusted terms since 1996. Over the same period, earnings prospects have stagnated or diminished for many Americans, and prime-age employment rates have fallen. This paper proposes to build on the successes of the EITC with a ten percent across-the-board increase in the federal credit. This expansion would provide a meaningful offset to stagnating real wages, encourage more people to enter employment, lift approximately 600,000 individuals out of poverty, and improve health and education outcomes for millions of children.
Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td>iv</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>2</td>
</tr>
<tr>
<td>THE CHALLENGE</td>
<td>3</td>
</tr>
<tr>
<td>BACKGROUND</td>
<td>4</td>
</tr>
<tr>
<td>BUILDING ON WHAT WORKS</td>
<td>8</td>
</tr>
<tr>
<td>QUESTIONS AND CONCERNS</td>
<td>11</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>12</td>
</tr>
<tr>
<td>AUTHORS</td>
<td>13</td>
</tr>
<tr>
<td>ENDNOTES</td>
<td>15</td>
</tr>
<tr>
<td>REFERENCES</td>
<td>16</td>
</tr>
</tbody>
</table>
The Earned Income Tax Credit (EITC), a refundable tax credit available to low- and moderate-income households, is an antipoverty program that works. A large and growing body of evidence shows that this credit increases employment, reduces poverty and near-poverty, and improves health and education outcomes. This impressive record has supported repeated bipartisan expansions of the EITC under every presidential administration since its creation in 1975.

Over the past several decades, earnings prospects have stagnated or diminished for lower-skilled workers, and prime-age employment rates have fallen. As a result, an EITC program that was designed to, in President Bill Clinton’s words, “make work pay,” must carry a larger burden (Clinton 1996). But despite the strong evidence for the effectiveness of the EITC and recent bipartisan expansions, the maximum EITC has been frozen in inflation-adjusted terms for most families since 1996, so the 25 million EITC families with fewer than three children haven’t seen a real increase in more than 20 years. Ending this freeze and expanding the credit would help families and children whose living standards have stagnated in recent decades.

An EITC expansion would have broad reach, increasing after-tax income for many low- and moderate-income families, particularly single parents and their children. Importantly, there is no reason to suspect the positive effects of the EITC are exhausted at the program’s current size. Based on the experience of previous expansions, an increased credit would increase earnings and after-tax income, reduce poverty and near-poverty, and encourage work, all of which are goals shared across the political spectrum. In addition, an expanded credit could yield additional long-run benefits through improved health, education, and economic circumstances for low- and moderate-income families.

We propose to expand the credit by 10 percent. An expansion of this magnitude is comparable to the EITC add-ons already implemented in many states. It would meaningfully supplement stagnating wages faced by lower-income workers: for a worker with two children, the expansion would offset 86 percent of the decrease in real earnings for full-time, year-round minimum-wage workers since 2000. Our proposal directs resources to low- and moderate-income households by maintaining the credit’s current structure. Essentially all of the additional benefits would go to families below 300 percent of poverty, and more than 600,000 individuals would be lifted out of poverty. Of course, the proposal could be scaled to be even larger. Importantly, our proposed reform can be a stand-alone change, and does not require a larger tax overhaul. Given bipartisan support for the credit and the relatively modest size of the increase, this proposal might be easier to accomplish than a modification of the program’s structure.
The Challenge

Over the past several decades, employment prospects have deteriorated for many Americans, but especially for low-skilled workers. Between 2000 and 2016, the fraction of individuals ages 25 to 54 working or looking for work has fallen more than 3.0 percentage points for men and 2.4 percentage points for women (Bureau of Labor Statistics [BLS] 2001–16). While this decline represents a continuation of trends in male labor force participation since the 1960s, it stands in stark contrast to the increases in female participation, including among single mothers, observed in the second half of the 20th century.

Perhaps contributing to the decline in participation rates, the earnings prospects of lower- and middle-income workers have stagnated in the past several decades. For the population as a whole, real median income increased only 2 percent between 2000 and 2015 (Bureau of Labor Statistics 2001–16). Workers with less education have fared particularly poorly: real median income for high school graduates declined by 15 percent for men and 5 percent for women between 2000 and 2016. Among workers with some college experience but no degree, real median incomes declined by 13 percent for men and 12 percent for women over this period. These patterns are part of a longer-term trend: median incomes for workers with less than a four-year college degree have stagnated since the 1980s (Autor 2014).

The cause of the deteriorating labor market outcomes for low- and middle-skilled workers is a topic of much academic debate. Likely contributors include weakened worker bargaining power, decreases in the real value of the minimum wage, globalization, weak aggregate productivity growth, and changes in labor demand caused by technological change (Autor 2014; Council of Economic Advisers 2016; Krueger 2017). Regardless of what caused this deterioration, however, it is increasingly difficult for workers in the bottom half of the earnings distribution to support their families. There is thus growing interest in supporting these families either by intervening in market outcomes directly (e.g., by raising the minimum wage or offering paid family leave policies) or by supplementing market earnings via the EITC, SNAP (Supplemental Nutrition Assistance Program, or food stamps), child-care and education subsidies, and other interventions.
Background

The EITC was established in 1975 to increase the incentive for low-skill parents to work by offsetting the burden of payroll taxes and thus increasing their potential take-home pay. The credit was made permanent in 1978, and subsequently expanded in 1986, 1990, 1993, 2001, and 2009. Figure 1 shows the maximum credit following each reform for households with no children, one child, two children, and three or more children. As shown in the figure, the 1986 and 1990 reforms slightly increased the maximum credit. At that time, the EITC was limited to families with children and did not vary based on the number of children in the family. The 1993 reform introduced a small credit for workers without children and increased the credit for families with children, dramatically so for those with multiple children. Since those reforms were implemented, the maximum EITCs for families with zero, one, and two children have each remained unchanged in real terms, though families with three or more children saw an increase in 2009. In addition to these increases in maximum credits, the schedule relating family earnings to credit eligibility was made more generous for married couples in 2001 and 2009.

The cumulative effect of these changes has been to dramatically increase the reach of the credit. At the credit’s creation in 1975, about 6.2 million families received an average credit of about $885 in 2014 dollars (Urban-Brookings Tax Policy Center 2015). By 2014, the EITC was a central part of the tax and transfer system, and 19 percent of all filers—about 28.5 million families—received an average of nearly $2,400 (Internal Revenue Service [IRS] 2016). For households with children, receipt is even higher: 44 percent of these families receive some EITC payment (Hoynes and Rothstein 2017).

EITC expansions, along with other changes in the social safety net such as welfare reform, have modified the tax and transfer system to emphasize work. Refundable credits offset implicit marginal tax rates from the phaseout of other transfer programs, resulting in relatively low marginal tax rates for...
most low-income workers (Shapiro et al. 2016). Prior to the 1993 EITC expansion, a single mother earning the equivalent of the 2015 minimum wage, with two children, would keep less than half of those earnings if she moved from no work to full-time work (after accounting for the reduction in welfare and food stamps); in 2015, due to refundable tax credits, she would face a negative average tax rate—an income subsidy—of 34 percent (Hoynes and Stabile 2017). These refundable tax credits greatly increased the value of work for low-income individuals, particularly single mothers.

**THE EITC EFFECTIVELY REDUCES POVERTY AND INCREASES EMPLOYMENT**

Because the EITC reaches a maximum at relatively low income levels—the largest EITC credits generally go to families whose pre-EITC incomes are between 75 and 150 percent of the poverty line (Hoynes and Patel 2016)—the program is well-targeted to reducing the intensity and incidence of poverty and near-poverty. These antipoverty effects are best illustrated using the Census Bureau’s Supplemental Poverty Measure (SPM), a

---

**BOX 1.**

**The EITC Schedule**

The EITC schedule has three regions, shown in box figure 1. The credit phases in from the first dollar of earned income to the first kink point, whose value ranges from $6,670 in tax year 2017 for families without children to $14,040 for families with multiple children. The phase-in rate depends on the number of children: families without children receive 7.65 cents of EITC credit per dollar earned, families with one child receive 34 cents, families with two children receive 40 cents, and families with three or more children receive 45 cents. From the first until the second kink point—$8,340 in earned income for families without children and $18,340 for families with children, plus an additional $5,595 for married couples—families receive a flat maximum credit. The amount of the maximum credit also varies with the number of eligible children, ranging from $510 for families with no children to $6,318 for families with at least three children. For each dollar earned above the second kink point, the EITC is reduced by 7.65 cents for taxpayers without children, by 15.98 cents for families with one child, and by 21.06 cents for families with multiple children, until it is fully exhausted. Since the credit is refundable, families receive the full credit to which they are entitled, regardless of their tax liability. In 2013, 87 percent of total EITC benefits were received as tax refunds (IRS 2015).

---

**BOX FIGURE 1.**

**EITC Schedule, Tax Year 2017**

The comprehensive measure of poverty that accounts for taxes and transfer payments. By this measure, the EITC lifted 6.5 million people, including 3.3 million children, out of poverty in 2015 (Center on Budget and Policy Priorities 2016). The EITC, along with the refundable component of the Child Tax Credit (a similar program that reaches higher into the income distribution), lifts more children out of poverty than any other federal program. For the entire population, only Social Security has a larger antipoverty effect (Renwick and Fox 2016).

The EITC is unlike most other antipoverty programs in that it is available only to families that work. Therefore, the credit increases family resources both by providing a tax credit and by encouraging individuals to enter the labor market. Indeed, a long literature provides robust evidence that the EITC succeeds in increasing employment, particularly among low-educated women and those workers with multiple children (Eissa and Hoynes 2011; Eissa and Liebman 1996; Hotz and Scholz 2003; Meyer and Rosenbaum 2001; and Nichols and Rothstein 2016, for reviews of the literature). Hoynes and Patel (2016) estimate that the EITC’s employment benefits magnify the above estimates of the program’s antipoverty effects, which do not account for employment changes, by up to 50 percent.

**BOX 2.**

**State EITCs**

States have increasingly implemented their own earned income credits (box figure 2). Rhode Island was the first state to implement a state EITC in 1986; by 2017, 27 states plus the District of Columbia had credits. State credits are typically defined as a fraction of a family’s federal credit and vary in generosity from 3.5 percent in Louisiana to 45 percent for Wisconsin families with at least three children. While most state credits are refundable, similar to the federal credit, four states allow the state credit to count only against state tax liability.

To see how state credits augment the federal structure, consider the following example. Nebraska has a state EITC of 10 percent whereas Missouri does not have a state credit. A single mother earning $20,000 with two children in Missouri would receive a $5,572 EITC—the same as the federal credit—whereas her Nebraskan counterpart would receive $6,129 ($5,572 + [10 percent of $5,572]).

**BOX FIGURE 2.**

**States with State EITCs, 2017**
Alongside this work-promoting effect, economic theory predicts that the EITC could also lead some people—those who would have worked in any case—to cut their hours. However, there is little empirical evidence of this effect, particularly among single mothers (Chetty and Saez 2013; Eissa and Liebman 1996; Saez 2010). The only reductions in hours worked are found among married secondary earners, and in these couples the primary earners’ employment does not change (Eissa and Hoynes 2004). The decision whether to work, rather than how much, appears to be more important for EITC recipients.

Beyond their effect on labor supply, research also shows that EITC payments improve health outcomes. For example, Hoynes, Miller, and Simon (2015) find that low-educated mothers who receive an additional $1,000 EITC during pregnancy are 2 to 3 percent less likely to have a low-birth-weight birth. This improvement does not arise through insurance coverage; rather, it is likely due to greater prenatal care and lower smoking rates during pregnancy. A long literature documents that birth weight is highly predictive of long-term economic and health outcomes into adulthood (Almond and Currie 2011; Currie 2011). In addition to improving the health of children, Evans and Garthwaite (2014) find that greater EITC benefits also improve maternal health, both self-reported and as indicated by physical markers.

The EITC can also improve children’s educational outcomes. Among school-aged children, an additional $1,000 in EITC payments leads to a 0.04 standard deviation increase in standardized test scores (Dahl and Lochner 2017). Since greater educational attainment translates to higher earnings in adulthood, schooling outcomes are a potentially powerful mechanism for the credit to have long-term benefits. Based on the overall association between test scores and adult earnings, a 0.04 standard deviation test score improvement translates into a 0.4 percent increase in earnings at age 28 (Chetty, Friedman, and Rockoff 2011). For older students, an additional $1,000 EITC payment increases college enrollment by 0.5 percentage points (Manoli and Turner 2014; see also Bastian and Michelmore 2016; and Maxfield 2013).
The EITC is a proven, pro-work, antipoverty program, and an expansion would be an improvement over the status quo. We propose a 10 percent across-the-board increase in the EITC. This would directly assist the 19 percent of all tax filers, and 44 percent of families with children, who currently receive the EITC (Hoynes and Rothstein 2017; IRS 2016). As shown in figure 2 and table 1, we would implement this increase by maintaining the current positions of each of the EITC kink points, but increasing the phase-in and phaseout rates by 10 percent. As a result, every current EITC recipient would receive a larger credit; those who do not currently receive the credit would not benefit absent changes in earnings.

The proposal leverages the existing targeting of the program. Table 2 shows it would increase the typical recipient family’s take-home pay by nearly $250, with the largest average benefits going to families earning between $10,000 and $30,000 a year. For example, a single mother working full time, year-round at the federal minimum wage, with two children, would receive an additional $560 under our proposal. This added income would make up for 86 percent of the decline in her real earnings since 2000. Since this proposal is a simple across-the-board expansion, policymakers could easily provide a larger offset to stagnating wages by implementing an even larger expansion.

An across-the-board increase for current recipients would preserve the targeted nature of the current credit and enhance its antipoverty effects. The vast majority—97 percent—of the benefits would go to families living below 300 percent of the SPM poverty line. We estimate that this expansion would lift more than 600,000 people, including 300,000 children, above poverty as measured by the SPM. (Again, this does

**FIGURE 2.**

Current and Proposed EITC


Note: Figure displays credit amounts for single filers and heads of household.
Our proposed expansion maintains the EITC’s existing structure, strengthening the incentives created by the EITC to move from non-work into employment. This feature of the EITC provides additional increases in income and reductions in poverty not captured in our analysis. Moreover, it makes expanding the EITC a particularly appealing policy in light of declining labor force participation rates among prime-aged workers.

No transfer program is without unintended consequences; however, those of the EITC are less of a concern than most. Where many programs induce potential recipients to exit the labor force, the EITC has an opposite, positive effect. Unintended

### Table 1. EITC Schedule under Current Law and Proposal

<table>
<thead>
<tr>
<th>Phaseout range</th>
<th>Credit rate (percent)</th>
<th>Minimum income for maximum credit</th>
<th>Maximum credit</th>
<th>Phaseout rate (percent)</th>
<th>Beginning income</th>
<th>Ending income</th>
</tr>
</thead>
<tbody>
<tr>
<td>No children</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current law</td>
<td>7.65</td>
<td>$6,670</td>
<td>$510</td>
<td>7.65</td>
<td>$8,340</td>
<td>$15,010</td>
</tr>
<tr>
<td>Proposal</td>
<td>8.42</td>
<td>$6,670</td>
<td>$561</td>
<td>8.41</td>
<td>$8,340</td>
<td>$15,010</td>
</tr>
<tr>
<td>1 child</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current law</td>
<td>34</td>
<td>$10,000</td>
<td>$3,400</td>
<td>15.98</td>
<td>$18,340</td>
<td>$39,617</td>
</tr>
<tr>
<td>Proposal</td>
<td>37.4</td>
<td>$10,000</td>
<td>$3,740</td>
<td>17.58</td>
<td>$18,340</td>
<td>$39,617</td>
</tr>
<tr>
<td>2 children</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current law</td>
<td>40</td>
<td>$14,040</td>
<td>$5,616</td>
<td>21.06</td>
<td>$18,340</td>
<td>$45,007</td>
</tr>
<tr>
<td>Proposal</td>
<td>44</td>
<td>$14,040</td>
<td>$6,177</td>
<td>23.17</td>
<td>$18,340</td>
<td>$45,007</td>
</tr>
<tr>
<td>3 or more children</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current law</td>
<td>45</td>
<td>$14,040</td>
<td>$6,318</td>
<td>21.06</td>
<td>$18,340</td>
<td>$48,340</td>
</tr>
<tr>
<td>Proposal</td>
<td>49.5</td>
<td>$14,040</td>
<td>$6,949</td>
<td>23.17</td>
<td>$18,340</td>
<td>$48,340</td>
</tr>
</tbody>
</table>


### Table 2. Distribution of Benefits, by Adjusted Gross Income

<table>
<thead>
<tr>
<th>Adjusted gross income (thousands)</th>
<th>Number of tax units (thousands)</th>
<th>Tax filers with benefit (percent)</th>
<th>Tax filers without benefit (percent)</th>
<th>Share of total benefit (percent)</th>
<th>Average benefit for those with any benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $10</td>
<td>24,087</td>
<td>32</td>
<td>68</td>
<td>13</td>
<td>$124</td>
</tr>
<tr>
<td>$10–$20</td>
<td>23,621</td>
<td>43</td>
<td>57</td>
<td>47</td>
<td>$328</td>
</tr>
<tr>
<td>$20–$30</td>
<td>18,881</td>
<td>29</td>
<td>71</td>
<td>27</td>
<td>$349</td>
</tr>
<tr>
<td>$30–$40</td>
<td>14,600</td>
<td>26</td>
<td>74</td>
<td>10</td>
<td>$187</td>
</tr>
<tr>
<td>$40–$50</td>
<td>11,473</td>
<td>12</td>
<td>88</td>
<td>2</td>
<td>$95</td>
</tr>
<tr>
<td>&gt; $50</td>
<td>55,946</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>$27</td>
</tr>
<tr>
<td>All</td>
<td>148,607</td>
<td>19</td>
<td>81</td>
<td>100</td>
<td>$246</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on IRS 2016 Table 1.1 and 2.5.

Note: Credit dollars adjusted for inflation with the CPI-U to 2017 dollars. Percent of tax filers with AGI greater than $50,000 is 0.1 percent and was rounded to zero.
consequences of the EITC come in the form of reduced (pretax) wages, which are bid down by increased competition among workers seeking jobs (Leigh 2010; Rothstein 2008, 2010). This effect is smaller than the EITC payment itself, so the credit increases recipients’ total post-tax wage and income (Nichols and Rothstein 2016). Moreover, the evidence suggests that this effect is relatively small, and thus that the EITC is more efficient than other options for poverty relief.

The benefits of an EITC expansion extend beyond increased employment and immediate poverty reduction. For example, reducing the incidence of low-birth-weight infants reduces future medical costs and improves later-life outcomes (Almond and Currie 2011; Currie 2009). An increase in the EITC is also expected to improve student performance, which in turn increases college enrollment, educational attainment, and ultimately earnings in adulthood.

Experiences with state credits suggest that a 10 percent increase is a realistic expansion. Of the 27 states and the District of Columbia offering a state add-on EITC in 2017, the typical state credit was about 15 percent of the federal credit (box 2), and 20 of these jurisdictions provided a credit at least as large as the current proposal. Since most state credits are defined as a fraction of the federal credit, claimants living in states with add-ons would receive even larger total EITC (state plus federal) payments under our proposal. Using the example from box 2, a single mother with two children who earns $20,000 a year currently receives a federal credit of $5,572. Under our proposal, she would receive an additional $557 for a total credit of $6,129. If this mother lived in Missouri, which has a state credit of 10 percent, her total EITC (state plus federal) payment would be $6,129 before our increase ($5,572 in federal credit and $557 from the state); under our proposal the payment would rise to $6,741 (a $557 increase in the federal credit and a $55 increase in her state EITC payment).

Our proposed expansion would cost the Treasury approximately $7.0 billion a year, or roughly 10 percent of current expenditures on the EITC. We view this cost as modest relative to the potential benefits. It is most attractive to obtain the needed funds from the highest earners, whose earnings and incomes have increased substantially over the past several decades (Piketty and Saez 2016). There are a number of ways to do this, including raising tax rates or using base-broadening measures such as limits on tax loopholes and deductions that benefit the highest-income families.
Questions and Concerns

1. **Will this proposal benefit firms at the expense of workers?**

   Like any tax or subsidy, the extent to which the EITC is passed through to employers depends on the relative sensitivity of firms’ hiring decisions and workers’ labor supply to the wage (i.e., the relative elasticities of labor supply and labor demand). While the benefits of the EITC might be shared between workers and firms (Eissa and Nichols 2005; Leigh 2010; Rothstein 2008, 2010), coupling this proposal with a robust minimum wage will help ensure that most of the wage benefits accrue to workers.

2. **Will a higher maximum credit and phaseout rate discourage work?**

   Economic theory predicts that individuals in the plateau and phaseout ranges will reduce their number of hours worked, while still engaging in the labor force. For most groups, however, there is no strong empirical support for this prediction. A long literature examining the labor supply of single mothers finds no reduction in hours worked among those already in the labor force. While some secondary earners in married couples could reduce their hours, findings from previous expansions suggest these reductions would be small (Eissa and Hoynes 2004).

3. **How would the proposed expansion be financed?**

   The benefits of our proposed expansion are large relative to the costs to the Treasury and could be financed through a variety of means, including general revenues. A natural choice would be to finance the expansion through increased revenue from higher-income households. For example, this could be accomplished by limiting loopholes and deductions that disproportionately benefit the highest-income taxpayers.
Conclusion

The EITC is a proven antipoverty, pro-work program. Over the past 40 years, the credit has helped many single parents enter the labor force and has reduced poverty for millions of families and children. This proposal builds on these successes and offers the first real EITC increase in more than 20 years for single households with two or fewer children.

The benefits of this expansion would be broadly shared among lower-income families, with the overwhelming majority of benefits accruing to families below 300 percent of the poverty line. As with previous EITC expansions, this proposal also has an important antipoverty effect. We estimate it would lift more than 600,000 individuals out of poverty and improve health and education outcomes for millions of children. Nevertheless, while this expansion would help raise after-tax incomes for millions of families, it is not a panacea for stagnating wages and decreasing labor force participation. Other policies, many of which are discussed in this series, such as affordable child care and paid family leave, are complementary solutions to encourage labor force attachment and to increase incomes for working Americans.
Authors

Hilary Hoynes

Professor of Public Policy and Economics, Haas Distinguished Chair in Economic Disparities, University of California, Berkeley

Hilary Hoynes is a Professor of Economics and Public Policy and holds the Haas Distinguished Chair in Economic Disparities at the University of California Berkeley. From 2011 to 2016 she was the co-editor of the leading journal in economics: the American Economic Review. Hoynes specializes in the study of poverty, inequality, food and nutrition programs, and the impacts of government tax and transfer programs on low income families. Current projects include evaluating the effects of the access to the social safety net in early life on later life health and human capital outcomes, as well as examining the effects of the Great Recession on poverty and the role of the safety net in mitigating income losses.

Hoynes is a member of the American Economic Association’s Executive Committee, the Federal Commission on Evidence-Based Policy Making, and the National Academy of Sciences Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 Years. In 2014 she received the Carolyn Shaw Bell Award from the Committee on the Status of the Economics Profession of the American Economic Association. Previously, she was a member of the Advisory Committee for the National Science Foundation, as well as Directorate for the Social, Behavioral, and Economic Sciences and the National Advisory Committee of the Robert Wood Johnson Foundation Scholars in Health Policy Research Program. Hoynes received her Ph.D. in Economics from Stanford in 1992 and her undergraduate degree in Economics and Mathematics from Colby College in 1983.

Jesse Rothstein

Professor of Public Policy & Economics, Director of the Institute for Research on Labor and Employment & the California Policy Lab, University of California, Berkeley

Jesse Rothstein is a public and labor economist. His research focuses on education and tax policy, and particularly on the way that public institutions ameliorate or reinforce the effects of children’s families on their academic and economic outcomes. Within education, he has conducted studies on teacher evaluation; on the value of school infrastructure spending; on affirmative action in college and graduate school admissions; and on the causes and consequences of racial segregation. He has also written about the effects of unemployment insurance on job search and labor force participation; the role of structural factors in impeding recovery from the Great Recession; and the incidence of the Earned Income Tax Credit.

Rothstein’s work has been published in the American Economic Review, the Quarterly Journal of Economics, the Journal of Public Economics, the Chicago Law Review, and the American Economic Journal: Economic Policy, among other outlets. He has a Ph.D. in economics from the University of California, Berkeley, and an MPP from the Goldman School, and he is a Research Associate of the National Bureau of Economic Research. In 2009–2010 he served as a Senior Economist for the Council of Economic Advisers and then as Chief Economist at the U.S. Department of Labor.
Krista Ruffini
Ph.D. Student, University of California, Berkeley

Krista Ruffini is a Ph.D. student in Public Policy at the University of California, Berkeley. Her research interests include labor and public economics, with a focus on programs targeted to low-income populations.

Prior to beginning her doctoral studies, Ruffini worked as a Research Economist at the Council of Economic Advisers, where her work focused on health, education, and employment issues. She has also worked on budget and fiscal policies with the Center on Budget and Policy Priorities and the UK House of Commons.

Ruffini graduated summa cum laude with a BA in Economics, International Relations, and Political Science from Boston University and holds a MPA in Public and Economic Policy from the London School of Economics.

Acknowledgments

We would like to thank Heather Boushey, Ben Harris, Sara Lalumia, Tazra Mitchell, Ryan Nunn, Diane Schanzenbach, and participants at the authors' conference for helpful input.
Endnotes

1. For example, the 2017 Economic Report of the President states, “Labor force participation, particularly for many workers in their prime working years, has been declining for decades, a key challenge for the U.S. labor market in the years ahead. And while real wage growth has picked up in recent years, more work remains to reverse decades of limited income growth for many middle-class families” (Council of Economic Advisers 2017, 25). The House budget proposal for fiscal year 2017 measured success by “how many more Americans are getting a job, higher wages, and, when government must be involved, better outcomes” (U.S. House of Representatives 2017, 7).

2. Ours is not the first recent proposal to expand the EITC. Other proposals have advocated a relatively larger credit for either families with one child (Hoynes 2015) or childless workers (Office of Management and Budget 2014; Scholz 2007; U.S. House of Representatives 2014). Our proposal is rooted in the recognition that the current structure responds to real differences in needs between families with different numbers of children, and does not modify the relative generosity of the credit for different recipients.

3. Saez (2010) finds some evidence of bunching at the lowest earnings that qualify a family for the maximum credit, a result that is consistent with intensive margin responses. However, his analysis shows that this bunching occurs only among filers with self-employment income, for whom it might simply reflect reporting behavior rather than actual labor supply effects.

4. Whether this finding is cause for concern depends on policymakers’ priorities between increasing employment and incomes. On one hand, if employers receive part of the wage subsidy, the EITC increases labor demand and boosts overall employment. Policymakers concerned with depressed wages, particularly for those ineligible for the credit, should combine an EITC expansion with a minimum wage increase in order to set a floor on pretax wages (Lee and Saez 2012).

5. Wisconsin and California are included in this list. Wisconsin provides at least a 10 percent add-on for families with multiple children. Families with one child receive a 4 percent additional credit. California’s credit is available to families with income below approximately the beginning of the federal EITC schedule plateau.
References


ADVISORY COUNCIL

GEORGE A. AKERLOF
University Professor
Georgetown University

ROGER C. ALTMAN
Founder & Senior Chairman
Evercore

KAREN ANDERSON
Senior Director of Policy, Communications, and External Affairs
Becker Friedman Institute for Research in Economics
The University of Chicago

ALAN S. BLINDER
Gordon S. Rentschler Memorial Professor of Economics & Public Affairs
Princeton University
Nonresident Senior Fellow
The Brookings Institution

ROBERT CUMBY
Professor of Economics
Georgetown University

STEVEN A. DENNING
Chairman
General Atlantic

JOHN DEUTCH
Emeritus Institute Professor
Massachusetts Institute of Technology

CHRISTOPHER EDLEY, JR.
Co-President and Co-Founder
The Opportunity Institute

BLAIR W. EFFRON
Co-Founder
Centerview Partners LLC

DOUGLAS W. ELMENDORF
Dean & Don K. Price Professor of Public Policy
Harvard Kennedy School

JUDY FEDER
Professor & Former Dean
McCourt School of Public Policy
Georgetown University

ROLAND FRYER
Henry Lee Professor of Economics
Harvard University

JASON FURMAN
Professor of Practice
Harvard Kennedy School

MARK T. GALLOGLY
Cofounder & Managing Principal
Centerbridge Partners

TED GAYER
Vice President & Director
Economic Studies
The Brookings Institution

TIMOTHY F. GEITHNER
President
Warburg Pincus

RICHARD GEPHARDT
President & Chief Executive Officer
Gephardt Group Government Affairs

ROBERT GREENSTEIN
Founder & President
Center on Budget and Policy Priorities

MICHAEL GREENSTONE
The Milton Friedman Professor in Economics and the College
Director of the Becker Friedman Institute
Director of the Energy Policy Institute at Chicago
University of Chicago

GLENN H. HUTCHINS
Chairman
North Island

JAMES A. JOHNSON
Chairman
Johnson Capital Partners

LAWRENCE F. KATZ
Elisabeth Allison Professor of Economics
Harvard University

MELISSA S. KEARNEY
Professor of Economics
University of Maryland
Nonresident Senior Fellow
The Brookings Institution

LILI LYNTON
Founding Partner
Boulud Restaurant Group

HOWARD S. MARKS
Co-Chairman
Oaktree Capital Management, L.P.

MARK MCKINNON
Former Advisor to George W. Bush
Co-Founder, No Labels

ERIC MINDICH
Chief Executive Officer & Founder
Eton Park Capital Management

SUZANNE NORA JOHNSON
Former Vice Chairman
Goldman Sachs Group, Inc.

PETER ORSZAG
Managing Director & Vice Chairman of Investment Banking
Lazard
Nonresident Senior Fellow
The Brookings Institution

RICHARD PERRY
Managing Partner & Chief Executive Officer
Perry Capital

PENNY PRITZKER
Chairman
PSP Capital Partners

MEEGHAN PRUNTY
Managing Director
Blue Meridian Partners
Edna McConnell Clark Foundation

ROBERT D. REISCHAUER
Distinguished Institute Fellow & President Emeritus
Urban Institute

ALICE M. RIVLIN
Senior Fellow, Economic Studies
Center for Health Policy
The Brookings Institution

DAVID M. RUBENSTEIN
Co-Founder & Co-Chief Executive Officer
The Carlyle Group

ROBERT E. RUBIN
Former U.S. Treasury Secretary
Co-Chair Emeritus
Council on Foreign Relations

LESLEY B. SAMUELS
Senior Counsel
Cleary Gottlieb Steen & Hamilton LLP

SHERYL SANDBERG
Chief Operating Officer
Facebook

DIANE WHITMORE SCHANZENBACH
Margaret Walker Alexander Professor
Director
The Institute for Policy Research
Northwestern University
Nonresident Senior Fellow
The Brookings Institution

RALPH L. SCHLOSSTEIN
President & Chief Executive Officer
Evercore

ERIC SCHMIDT
Executive Chairman
Alphabet Inc.

ERIC SCHWARTZ
Chairman and CEO
76 West Holdings

THOMAS F. STEYER
Business Leader and Philanthropist

LAWRENCE H. SUMMERS
Charles W. Eliot University Professor
Harvard University

LAURA D’ANDREA TYSON
Professor of Business Administration and Economics
Director
Institute for Business & Social Impact
Berkeley-Haas School of Business

JAY SHAMBAUGH
Director
Highlights

Hilary Hoynes, Jesse Rothstein, and Krista Ruffini of the University of California–Berkeley propose to build on the successes of the EITC with a ten percent across-the-board increase in the federal credit. This expansion would provide a meaningful offset to stagnating real wages, encourage more people to enter employment, lift approximately 600,000 individuals out of poverty, and improve health and education outcomes for millions of children.

The Proposal

Expand the EITC. The authors suggest a 10 percent across-the-board increase in the EITC. The expansion would be implemented without changes to eligibility.

Benefits

An across-the-board increase for current recipients would preserve the targeted nature of the current credit and enhance its antipoverty effects. The vast majority—97 percent—of the benefits would go to families living below 300 percent of the Supplemental Poverty Measure threshold. Hoynes, Rothstein, and Ruffini estimate that this expansion would lift more than 600,000 people out of poverty, including 300,000 children.