

Making Work Pay

For Men, Too

by *Katie McMinn Campbell and Will Marshall*

After falling sharply in the late 1990s, poverty has risen in this decade. Although the upward trend has been modest, the trajectory is all wrong—especially considering that the U.S. economy has grown steadily since the “dot com” bust of 2001. What makes this decade different from the previous one? One answer is the absence of creative public policy.

For all his talk of “compassionate conservatism,” President Bush’s efforts to empower America’s poor have been marginal at best. Over the past seven years, he has done little to build on his predecessor’s most important social legacy—the decision to “end welfare as we know it” and make work the organizing principle of U.S. social policy.

The Democratic presidential candidates, however, seem determined to put poverty and social mobility back on the nation’s agenda. This welcome development gives progressives a chance to pick up where President Clinton left off. But where reformers in the 1990s focused on moving welfare recipients—mostly single mothers with children—to work, we must now add a new emphasis on the plight of poor men.

Cutting poverty among low-income men must begin by drawing them back into the labor market. If policy makers want to affirm the necessity and dignity of work, however, they cannot ignore the reality that many entry-

level jobs do not pay enough to help families obtain what most Americans would consider a minimally decent living standard. Public policy, therefore, must remedy the defects of markets by subsidizing low-wage work.

The key policy tool for making work pay is the Earned Income Tax Credit (EITC), a refundable tax credit that supplements the wages of workers in minimum wage and low-paying jobs. Only people who work receive the EITC. As their earnings increase, their EITC benefits increase up to a maximum benefit level that is linked to family size.

Currently, the maximum federal EITC benefit is \$4,536 for families with two or more children and \$2,747 for families with a single child. Low-income workers who are not raising children get far less—an annual maximum benefit of only \$412.¹ Fathers who do not have custody of their children fall into this category, because in order for a parent to receive the credit, his children must live with him for more than half a year.²

“One person with a belief is a social power equal to ninety-nine who have only interests.”

—John Stuart Mill

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In short, the EITC’s work incentive is much less powerful for low-income fathers than for mothers. Moreover, the credit imposes an unintentional but substantial penalty on marriage because a woman stands to lose thousands of dollars in tax benefits if she marries a man with earned income. These flaws must be corrected if the EITC is to reach its full potential for rewarding work and reducing poverty in America.

The Progressive Policy Institute debuted in 1989 by calling for a dramatic expansion of the EITC.³ Today the credit has become a key pillar of America’s post-welfare social policy, which PPI believes should be guided by a simple, morally compelling proposition: No American family with a full-time worker should live in poverty. By making low-income men eligible for a more generous work credit and eliminating the EITC marriage penalty, we can move America closer to that progressive goal. To underscore the vital link between opportunity and responsibility, we must also insist that, to qualify for the more generous credit, men work full-time and pay their child support.

There is no shortage of proposals to expand the EITC. This paper, however, offers

a novel twist: combine EITC expansion with tax simplification. Building on a previous PPI idea,⁴ we propose to fold three similar provisions—an EITC expanded and targeted at men, the Child Credit, and the Child and Dependent Care Credit—into a single, unified Family Tax Credit (FTC). Qualifying families would receive \$1 in a refundable credit for every \$2 earned, with a maximum credit of \$3,500 for a family with one child, \$5,200 for two children, and \$7,000 for three children.

In addition to providing more tax relief for working mothers with dependent children, the FTC would include work supports of up to \$1,236 for childless workers and non-custodial dads who meet their child support obligations. We estimate that the FTC would create a net cost of \$28 billion a year, and later offer specific suggestions for paying for it.

Gordon Berlin, president of MDRC, nicely summarizes the case for making work pay for men:

A strategy that used the federal EITC to supplement the earnings of *all* low-wage workers age 21 to 54 who work full-time—whether they have children or not and whether marry or not—would

counter three decades of wage stagnation and persistent poverty, with significant corollary effects on employment and parental support. By conditioning the benefit of full-time work, by targeting individual income rather than joint income for tax filing purposes ... this earnings-based supplement would restore equity to the American social compact while distorting incentives to work, marry and bear children as little as possible. Although it might seem counterintuitive to reduce poverty and strengthen families by rewarding individuals, a focus on individuals may have substantial advantages over traditional strategies to reduce poverty: it rewards work in the formal economy, it reduces the disincentive to marry while restoring the incentive for parents to live (and co-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.⁵

A Bonus for Work

The EITC was conceived in the 1970s by Sen. Russell Long, a Louisiana Democrat, as an alternative to traditional welfare programs that made people dependent on public assistance. He called the new credit a “work bonus” that would be paid directly to workers, bypassing social-service bureaucracies. The idea caught on among conservatives, who saw it as an alternative to the minimum wage. In fact, Ronald Reagan once called the tax credit “the best anti-poverty, the best pro-family, the best job-creation measure to come out of Congress.” Over time, many liberals also grew to

appreciate the EITC as a way of offsetting the growing payroll-tax burden on low-wage workers.⁶

In 1993, President Clinton redeemed a campaign pledge to “put work first” by winning approval of a dramatic EITC expansion. This reform provided tax relief for 15 million families and increased the maximum credit by more than \$1,500. Today, at \$41.5 billion a year—almost twice the size of federal welfare spending—the EITC has become America’s biggest and most effective anti-poverty program. The credit supplements the wages of 22 million low-income Americans and lifts 4 million people out of poverty every year. Studies show that the tax credit has decreased family poverty by one-tenth and childhood poverty by one-quarter.⁷ The EITC also has greatly increased labor-market participation, accounting for as much as a third of the increase in females working between 1980 and 1990.⁸

The expanded EITC, along with a robust economy and the 1996 law “ending welfare as we know it,” combined to produce big cuts in welfare dependency and child poverty. As shown in Figure 1, between 1996 and 2000, the number of Americans on welfare was cut in half, from 12.5 million to 6.1 million. The poverty rate, presented in Figure 2, was fairly stable since the 1960s, but fell from 15 percent in 1993 to 11.3 percent in 2000. Child poverty went down even more, from 22 percent to 16 percent.

At the same time, workforce participation among single mothers increased dramatically. Between 1995 and 1999, for example, labor-participation rates for single women with children under six jumped from 53 percent to 68 percent. Single mothers with children aged 6 to 17 increased their rates from 67 percent to 83 percent. Among welfare recipients as a whole, work rates leapt from 9 percent to 28 percent.⁹

In this decade, however, the momentum behind these social advances has either slowed or stalled. The number of families on welfare—after plunging from 4.6 million in 1996 to 2.4 million in 2000—stood at 2.01 million by 2005.¹⁰ On President Bush’s watch, the poverty rate has climbed back to 12.3 percent overall and 17.4 percent for children. Despite these regressions, however, female work-participation rates have held steady during this decade.

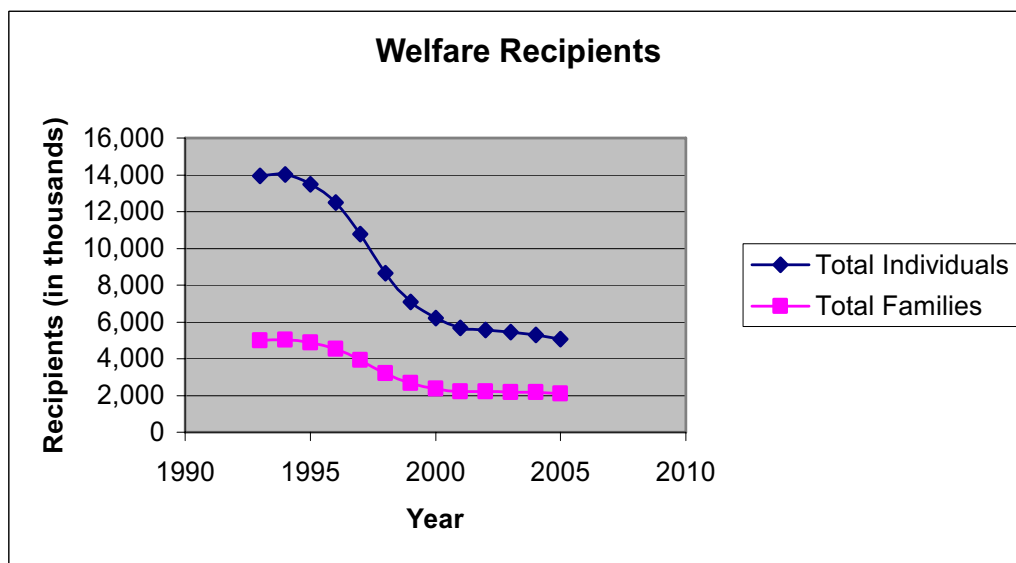
A renewed national push to reduce poverty, therefore, must do two things: First, it must keep pressure on the states to move more welfare mothers into work and to help them get the child care and skills training they need to climb the job ladder. Second, it must focus as well on the other side of the poverty equation—the millions of low-income men who are not working steadily; lack the skills to get well-paid jobs; are mostly absent from their children’s lives; and all too often drift into drugs, street crime, and prison.

The Social Costs of Male Unemployment

When it comes to work, low-income men and women are headed in opposite directions. As noted, women’s work rates soared in the last decade. But research by Lawrence Mead, professor of politics at New York University, shows that only 42 percent of working-age men living in poverty worked at all in 2005. Furthermore, only 16 percent of this group reported working full-time year-round. The employment rates for minority men are even more extreme. Mead found that only 6 percent of poor African-American men work full-time.¹¹ In contrast, the employment rate for young, less-educated African-American females rose significantly, from below 40 percent in the 1980s to well over 50 percent today.¹²

As Peter Edelman, Harry Holzer, and Paul Offner wrote in *Reconnecting Disadvantaged*

Figure 1

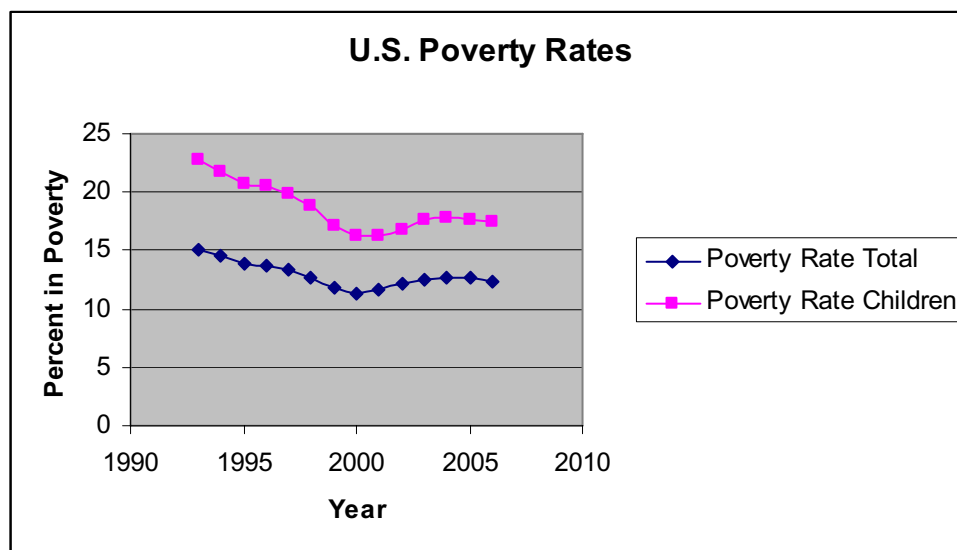


Source: Based on Indicators of Welfare Dependence Annual Report to Congress 2007

Young Men, the two-decade trend of increased unemployment and decreased school enrollment among low-income men, particularly in African-American and Latino

models. Chronic joblessness is strongly associated with lower child-support payments, higher crime, and the need for increased public spending on police,

Figure 2



Source: Based on Indicators of Welfare Dependence Annual Report to Congress 2007

communities, is staggering. One out of every six young African-American men and one out of eight Hispanic men “experience long-term idleness without any major childrearing responsibilities.”¹³ Post-secondary education enrollment rates are higher among women than men in every racial group, creating a gender gap in educational attainment and a drought of marriageable males in low-income communities.

Low employment rates hurt not only these men, but also the children they bring into the world—to say nothing of society as a whole. The lack of responsible, bread-winning fathers in low-income neighborhoods not only leaves single, female-headed households strapped for cash, but it also weakens family structure, creates more unsupervised time for children, and leaves a void of positive male role

prisons, drug treatment, and other social services. Among non-custodial fathers living in poverty, only 8 percent maintain a full-time job for a full year. Of this same group, more than one-half are disabled or in poor health, and 85 percent have only a high-school education or less.¹⁴ Children who grow up without a stable father figure have worse educational outcomes, decreased emotional stability, greater developmental problems, and more behavioral issues than their counterparts with an active father.¹⁵

Another Reason Not to Marry

The collapse of marriage in impoverished communities, particularly among minorities, is by now an old, if enduringly tragic, story. As if the barriers to marriage were not already

high enough, the EITC unwittingly imposes a financial penalty on low-income couples who deviate from prevailing norms and decide to marry. To understand this “marriage penalty,” we need to take a closer look at how the EITC works.

Families with children, including more than 6 million households headed by single women, receive the bulk of federal EITC payments.¹⁶ In 2002, only 2 percent of all EITC benefits went to non-custodial fathers and childless workers.¹⁷ In 2007, a single working mother with two children receives 40 cents for every dollar she earns up to \$11,340, for a maximum benefit of \$4,536. Once her income exceeds \$15,390, her EITC benefits begin declining until they disappear altogether when her income reaches the EITC ceiling of \$37,783.¹⁸

Under current law, if this single, working mother of two marries an employed man, their combined income could push them into or even beyond the “phase-out” range, reducing or completely ending their EITC payments. Married couples with two children have a maximum eligibility level of \$38,348, just \$2,000 more than a family with a single parent or only one worker.¹⁹ For low-income families living on the economic margin, a loss of even a couple thousand dollars could be devastating. Compounding the perversity of the marriage penalty, EITC rules reward low-income couples who live together but do not marry because their incomes are counted separately. Yet social research confirms what common sense suggests: Cohabiting households provide a less stable environment for adults and children than married households.²⁰

The 2001 and 2003 tax cuts tried to mitigate the marriage penalties embedded in the federal tax code. Yet the tax bite on low-income couples who marry is still more

severe than on middle-class couples. A simulation by analyst Jason Furman shows that even after the decrease in the marriage penalty, if a mother making \$15,000 a year marries a man who makes \$25,000, the family will face a 7 percent reduction in after-tax income compared to what they would have kept if they had never walked down the aisle.²¹

Whether government can or should encourage marriage is a hotly debated subject beyond the scope of this paper. But it is hard to disagree with the proposition that government should do nothing to discourage marriage. Studies show that married adults are both physically and emotionally healthier than their unmarried peers. They tend to be more economically secure than unmarried adults, and their children perform better on a multitude of developmental indicators when compared to children in other living arrangements.²²

Marriage is strongly correlated with economic well-being. According to the 2000 Census Report, the overwhelming majority of U.S. families that were not poor—81 percent were headed by married couples. But only a minority of poor families, 39.5 percent, were headed by married couples.²³ In their policy brief, *Work and Marriage: The Way to End Poverty and Welfare*, Ron Haskins and Isabel Sawhill note that this difference “in part reflects higher marriage rates among the better educated or more skilled and in part it reflects the fact that such families increasingly have two earners, lifting them out of poverty whatever the size of their paychecks.”²⁴

Sawhill and Haskins also performed a simulation using census data and statistical modeling to see how the poverty rate would change based on different assumptions. They concluded that raising levels of full-time employment matters most in reducing poverty,

followed by boosting the percentage of children who grow up in married households.²⁵

Making the EITC Work for Men

The EITC's power to reduce poverty and reward work without enlarging public bureaucracy has made it the policy tool of choice for today's anti-poverty warriors. What follows are brief descriptions of leading proposals for expanding the credit to supplement low-wage pay for men as well as women.

Gordon Berlin has outlined a comprehensive plan to expand EITC benefits for workers without children—typically noncustodial dads. Single, working adults earning less than \$14,400 a year would be eligible for a maximum credit of \$1,900, a big raise over the meager \$412 annual benefit they qualify for now. All workers' credits would be based on their personal income, not joint family income, thereby avoiding a marriage penalty. A family of four in which each parent earns \$14,000 a year could receive \$6,350 in EITC benefits. Currently, this same family would receive only \$2,170 as a married couple, filing jointly. This plan would serve 21 million low-wage married adults and nearly 16 million single non-custodial individuals.²⁶

Evidence from work-support experiments suggests that increases of this magnitude would not only lift more families out of poverty, but would also draw more men into labor markets. By one estimate, the Berlin plan would increase employment rates by at least 4 percent and as much as 20 percent.²⁷ But none of this would come cheap; Berlin estimates his plan would cost the federal government about \$29 billion annually.²⁸

In another plan targeting men, Jason Furman, writing for the Center on Budget and Policy

Priorities, proposed doubling the tax credit for non-custodial fathers and childless workers to 15.3 percent and raising the earnings threshold (the point at which EITC benefits start phasing out) to the same level as families with one child. His plan also would reduce the marriage penalty by raising the point at which benefits phase out by \$2,000. "In total, the maximum EITC would triple to \$1,236—an amount that appears large enough to lead to a meaningful increase in participation," wrote Furman. About 4 million people would get a tax cut averaging \$750—for a total annual cost of \$3 billion.²⁹ Noting that 55 percent of impoverished children live in households with three or more children, he also would make the EITC more generous for large families.³⁰

Leading Democratic presidential candidates also advocate some kind of EITC expansion as part of their poverty-reduction platforms. Former Sen. John Edwards has called for reducing the marriage penalty and tripling the EITC for adults without children, which by itself would give 4 million low-income workers a tax cut averaging \$750.³¹ Sen. Barack Obama proposes increasing EITC benefits for non-custodial fathers and childless minimum-wage workers to \$555 and doubling that benefit for workers who fulfill their child-support responsibilities.³² Sen. Hillary Rodham Clinton also calls for an expanded EITC as part of her "shared prosperity" plan, and seeks to reduce the qualifying age from 25 to 21.³³

New York City Mayor Michael Bloomberg, sometimes rumored to be eyeing a third-party run for president, unveiled a comprehensive EITC reform plan in Washington late this summer. His proposal would lower the qualifying age for workers without children to 21; increase the tax credit to 15.3 percent from the current 7.65 percent; increase the maximum benefit to \$1,236 (from \$412); and raise the maximum qualifying income to \$18,040 (from \$12,120). To strengthen incentives for work

and personal responsibility, his plan would require beneficiaries to work 30 hours a week for at least 26 weeks per year, and would bar benefits to fathers who do not pay child support.³⁴

PPI's Plan: A Family Tax Credit

All of these plans have merit, but share a common flaw: They would add complexity to our already Byzantine federal tax code. It is this very complexity, of course, that has given rise to the marriage penalty and the perverse “cohabitation bonus” discussed earlier. Can we expand the EITC while also simplifying the tax code, especially for working families that cannot afford accountants? We believe so.

Our proposal for strengthening the EITC fits within the framework of what we call Family Friendly Tax Reform. As developed by PPI's Paul Weinstein, this progressive blueprint for tax reform entails three basic steps: 1) Consolidate many similar provisions into a handful of powerful tax incentives; 2) Concentrate these incentives on the building blocks of middle-class life, such as child-rearing, college, work, home ownership, and retirement; and 3) Pay for reform by closing tax loopholes and ending corporate welfare as we know it.

To simplify tax provisions intended to help families with children, Weinstein calls for folding the EITC, the Child Credit, and the Child and Dependent Care Credit into the new, unified FTC. Qualifying families would receive one dollar in a refundable credit for every two dollars earned, with a maximum credit of \$3,500 for a family with one child, \$5,200 for two children, and \$7,000 for three children.

The FTC is therefore more generous than the current EITC and better addresses the needs of families with three or more children.³⁵ Additionally, the FTC mitigates some of the marriage-penalty bite that hits

EITC eligible couples by greatly increasing income eligibility. Families with two children and incomes up to \$120,000 would be eligible for the \$3,500 credit. This proposal has been incorporated in tax-reform legislation introduced by Rep. Rahm Emanuel (D-Ill.). The net cost of the FTC is estimated at \$250 billion over 10 years.

We would modify the Weinstein FTC proposal to include an additional refundable tax credit for low-income, non-custodial fathers and childless men and women who work full-time. And we would buttress parental responsibility by awarding the new credit only to those fathers who faithfully pay their child support. This provision could save money by reducing the number of absent fathers who fraudulently claim the EITC for kids not in their custody.

The expanded FTC would provide non-custodial fathers and childless workers a 15.3 percent tax credit on earnings up to \$8,080, with a maximum benefit of \$1,236. Four million additional single, childless or non-custodial, low-income Americans would benefit from this new credit. This specific addition to the FTC would cost \$3 billion each year. Therefore, we estimate that this modified FTC would cost, in total, an additional \$28 billion per year over the next decade.³⁶

This is no small chunk of change, but America can afford it if our leaders are willing to do what they are elected to do: make hard choices among competing priorities. We have identified specific tax reforms that would cover the costs of our plan. For example, by instituting third-party reporting of capital gains, the federal government could collect \$250 billion over the next 10 years. Similarly, clarifying and restricting the definition of offshore tax shelters could raise \$130 billion in 10 years. These two tax reforms alone could increase government revenues by \$380 billion over a decade—more than enough to cover the cost

of the amended FTC.³⁷ These costs, moreover, must be weighed against the economic and social benefits of connecting millions of low-income men to labor markets; encouraging them to work full-time and meet their child-support obligations; and making marriage a more attractive proposition.

Conclusion

The 1990s brought a dramatic shift in how Americans think and talk about fighting poverty. President Clinton's big expansion of the EITC in 1993 laid the groundwork for the landmark 1996 welfare-reform law.

It converted the old welfare entitlement into a new bargain of mutual responsibility in which public assistance is temporary and conditioned on work. The combined effect of these measures is to shift the focus of U.S. social policy from the dependent poor to the working poor. If we are to demand that all able-bodied benefit recipients enter the workforce to support themselves and their families, our society has a clear moral and economic responsibility to make work pay. It is time now to extend this logic to poor men as part of a renewed national commitment to help all Americans lift themselves from poverty.

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