

## **The Poverty Forum: Making Work Work.**

### **Promoting a Commitment to Employment**

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**Area:** Making Work Work

**Issue:** Those able to work have a moral obligation to work to earn a living. Those who do work full time responsibly ought to receive compensation (wages plus tax credits) that is at least 125% of the federal poverty level.

#### **Problem:**

The vast majority of Americans agree that people that work full time should not be poor and that a job should keep you out of poverty and not keep you in it. However, a trend of stagnant and often declining wages, particularly for lower skilled workers, and diminishing benefits for workers across the spectrum means that work is no longer working for the majority of low-income Americans.

#### **Policy Recommendations:**

**1. Extend the Child and Dependent Care Tax Credit.** Low-income parents with incomes below \$15,000 who work outside the home can claim a maximum tax credit of \$2,100 for two children. People earning more than \$25,000 receive a \$1,800 credit for two children. But this tax credit is *not* refundable.<sup>1</sup> That means that if you owe no federal income taxes, you get no dependent care tax credit. As a result, poor people gain very little. In fact, most of the \$2.7 billion credit claimed in 2001 went to middle-income and high-income families!<sup>2</sup> The obvious solution is to reduce the credit to high-income families and make this tax credit refundable so that poor people who owe no income taxes benefit at least as much as the middle class. That should be done immediately. Many advocates for the poor urge that we should not only make the dependent care credit refundable but also substantially expand it.<sup>3</sup> That would be a good idea, but only if we correct one important problem: Two-parent families get it only if both work. That means that two-parent families who choose to have one parent at home to care for young children lose out completely. In fact, they get taxed to subsidize two-parent families in which both parents work outside the home. That is hardly a pro-family policy. To address these problems and strengthen the tax credit we propose doing three things and linking them:

- a. make this tax credit available to all working families, single-parent and two-parent, including two-parent families where one parent does not work outside the home
- b. make this tax credit refundable at least up to the employee's and the employer's share of the Social Security/Medicare tax
- c. increase the amount of the tax credit by the amount of inflation since it was last raised and from now on index the tax credit to the rate of inflation

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<sup>1</sup> Christine Scott, "Dependent Care: Current Tax Benefits and Legislative Issues" (Congressional Research Service Report, 21 January 2005).

<sup>2</sup> 2004 *Green Book*, 13-44. Only 10 percent of the benefit goes to families with an adjusted gross income of \$20,000 or less.

<sup>3</sup> *Ibid.*, 162-65; Blank, *It Takes a Nation*, 262-63. (Blank does not advocate an increase, but she does urge a program of assured child support, which I discuss and reject in the way she proposes it in my chapter on the family.)

Political Outlook: The Stimulus and Economic Recovery plan provide an opportune moment to institute these changes.

2. Minimum Wage: Increase the minimum wage by at least \$1.00 above the \$7.25 rate (which becomes effective July, 2009) and index the minimum wage going forward to the inflation rate

The Congress passed an increase to the federal minimum wage in 1997 with bipartisan support. Even with these increases phased in over two years the minimum wage is worth considerably less now than it was in 1968, the year Dr. Martin Luther King Jr. was killed in Memphis while fighting for living wages for sanitation workers. The 1966 minimum wage was \$8.46, adjusting for inflation. The decade between the federal minimum wage increase to \$5.15 an hour on Sept. 1, 1997 and the July 24, 2007 increase to \$5.85 was the longest period in history without a raise. Even with the minimum wage increase on July 24, 2008 to \$6.55, workers are still making less than they did in 1997, adjusting for the increased cost of living. About 10% of the workforce will benefit from the next (and last) scheduled raise to \$7.25 on July 24, 2009, along with more than 6 million children. In the states with the highest proportion of workers affected—Alabama, Texas, South Dakota, Arkansas, South Carolina, Mississippi, West Virginia, Louisiana and Kansas—17.5% to 19.1% of workers will receive increases. Yet, the \$7.25 minimum wage is so overdue that by the time it takes effect in 2009, it will likely be lower in inflation-adjusted dollars than where it started when first set at \$5.15 in 1997. And it will be far behind the minimum wage of 1968.

Critics will argue that an increase in the minimum wage will result in employers cutting back on jobs, particularly during a time of recession. However, many studies of raises in the minimum wage show that these raises have caused very little loss of jobs.<sup>4</sup> In 1996, Nobel Prize-winning economist Robert Solow reported a near consensus among economists that “the employment effect of a moderate increase in the minimum wage would be very, very small.”<sup>5</sup> Contrary to what critics predicted when the minimum wage was raised, our economy had unusually low unemployment, high growth, low inflation, and declining poverty rates between 1996 and 2000. The unemployment rate fell from 5.6% in 1995 to 4% in 2000. Unemployment went down across the board across the country—including among people of color, teenagers, high school graduates with no college, and those with less than a high school education.<sup>2</sup> As *Business Week* put it in 2001, “Many economists have backed away from the argument that minimum wage [laws] lead to fewer jobs.” States that raised their minimum wages above the long stagnant \$5.15 federal level experienced better employment and small business trends than states that did not.

*Political Outlook*: President Obama has promised to raise the minimum wage to \$9.50 an hour by 2011 and index it to inflation. The Let Justice Roll campaign is advocating for an increase to \$10 by 2010. The proposed increase to \$8.25 represents a more modest approach that will garner even greater bipartisan support. Indexing the minimum wage to inflation represents a critical, sensible, and just policy.

3. Child Tax Credit: Starting in 1999, parents with children under seventeen could deduct \$500 per

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<sup>4</sup> Danziger and Gottschalk, *America Unequal*, 196, n. 14.

<sup>5</sup> *The New York Times*, 31 March 1996, sect. 4, p. 3.

child from federal income taxes they owe. In 2004 it was raised to \$1000 per child. This is a wonderful pro-family move, but problems still remain. This tax credit is refundable only to the extent that one's income exceeds \$8,500. Therefore, the credit is absolutely useless to the poor who earn less than this amount and of minimal use to all others who earn less than the poverty threshold. This credit is scheduled to lose half its value at the end of 2010. To strengthen the credit we propose:

- a. maintaining its value at \$1,000 post 2010 or increasing it significantly by combining it with an expanded Child and Dependent Care Tax Credit.
- b. making its benefit available to 17 and 18 year olds, or, alternatively, for the same age range the dependent exemption is available.
- c. adjusting the credit annually for inflation, as is done with the dependent exemption
- d. making it refundable at least up to the employee and employer's share of the Social Security/Medicare tax.

*Political Outlook:* The refundability of the child tax credit is currently being debated within the Stimulus and Economic Recovery package. The child tax credit is being debated as a part of the American Recovery and Reinvestment Plan. The current House bill lets all of low-income families'

earnings count towards calculating their Child Tax Credit. The Senate bill is expected to count earnings starting at \$6,000. That means 2.2 million children in families with very low earnings will get

nothing. It also means another 10 million children will get a larger tax credit under the House plan. For example, a family with two children and minimum wage earnings (\$14,500) would receive the full \$2,000 Credit if the House version prevails; they would receive \$1,275 under the Senate bill. While both are better than current law (in which the same family would receive \$900), the House bill would do the most to counter the severe impact of the recession, both by helping families purchase what they need and by pumping money into the economy, which economists say is one of the most effective ways

to save and create jobs.

## **Other Resources**

Berlin, Gordon. "Rewarding the Work of Individuals: A Counterintuitive Approach to Reducing Poverty and Strengthening Families." *Future of Children*. Volume 17 Number 2 Fall 2007.

Carasso, Adam and C. Eugene Steuerle. 2005. "The Hefty Penalty on Marriage facing many Households with Children." *Future of Children*. Volume 15, No. 2.

Edin, Kathryn and Maria Kefalas. 2005. *Promises I Can Keep: Why poor Women put Motherhood before Marriage*. Berkeley, CA: University of California Press.

Eissa, Nada and Hilary Hoynes. 2005. "Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply." National Bureau of Economic Research, Working Paper 11729.

Holt, Stephen D. 2006. *The EITC at 30: What Do We Know?* Brookings Institution, Metropolitan Policy Program.

John Iceland. 2006. *Poverty in America*. Berkeley: University of California Press.

Sampson, Robert J and John H. Laub. 1990. "Crime and Deviance over the Life Course: The Salience of Adult Social Bonds." *American Sociological Review*. 55:609-627.