

**GOLDMAN SCHOOL OF PUBLIC POLICY**

**PP210 MICROECONOMICS OF PUBLIC POLICY**

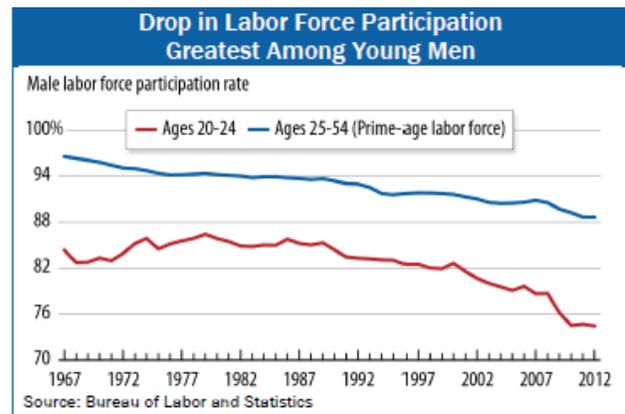
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**EXPANDING EMPLOYMENT TRENDS AMONG LOW SKILLED MEN USING EITC**

Low-skilled men have been experiencing large depressions in employment rates due to declining wages, an increasing proportion of low skilled, non-custodial fathers, and an increased involvement in the criminal justice system. The Earned Income Tax Credit (EITC), which has greatly assisted the employment rates of women in the 1990s, can help address with the first two issues for low-skilled men. Such a policy would narrowly contribute to employment, and would alleviate men who pay a higher effective tax rate than women and families with EITC at the same tax rate. The Hybrid EHO-Berlin proposal, outlined in the Raphael’s Upjohn Institute publication, will produce the most effective outcome at an increased price of \$20 billion. However, an expanded EITC is not enough by itself; additional policies which reverse barriers to employment due to previous incarceration should also be implemented, to increase employment in low-skilled men.

**I. Motivation**

The EITC has contributed to increased employment rates among low-income single mothers, and low income families. Through the EITC, the government pays a percentage increase to taxed households, dependent upon its cumulative wages. The expansion of EITC had very large impacts on the after-tax income and employment of those



**Figure 1. Source: Marr 2013.**

affected; however, very little of the funds went to households with children (Raphael 2013). The wages of childless men and non-custodial fathers have not been influenced by such policy expansions as the EITC, Medicaid expansions, and the State Children’s Health Insurance Program (Raphael 2013). Because these men have been left out of the policy, and the experience increased barriers due to previous incarceration,

these men near or at poverty have been impacted by atrociously negative employment levels, as seen in Figure 1. This raises pressing equity issues. The EITC is not taxed income; thus, households who have children in the same tax bracket, can pay a lower effective government tax percentage than households who have children, and who earn an equal or larger amount in the same tax brackets. As a result, childless workers are the sole group that the federal tax system taxes deeper into poverty (Marr 2013). The EITC should be considered as a supplemental policy to curb decreasing employment rates for low-skilled men.

## **II. Suggested EITC Supplement Plan**

There are many suggested targeted plans which aim to assist poor low-skilled men. The one which makes an effective, and efficient dent in employment rates with minimal tradeoffs, is the Hybrid EHO-Berlin proposal outlined by the Raphael paper published by the Upjohn Institute. The Hybrid Program targets the poorest communities while removing penalty costs through filing while married, which was present in previous iterations of the EITC. The simulated cost of the proposal is \$20 billion, which raises the cost of the full EITC to \$60 billion (Raphael 2013). Men would react to the incentives created by an expanded EITC in a manner similar to the response of women. The EITC is implemented as such:

- For single childless workers, the plan adds a 20 percent wage subsidy to the first \$7,500 in earnings, with a maximum subsidy of \$1,500. Beyond earnings of \$10,000, the subsidy is taxed away at 15 percent until it phases out completely at \$20,000.
- For families with joint filers, the plan adds a 25 percent wage subsidy to the first \$15,600 in combined earnings, with a maximum subsidy of \$3,900. Beyond earnings of \$28,800, the subsidy is taxed away at 16 percent, until their joint earnings reaches \$30,000. Beyond that, the subsidy is taxed at 15 percent until it fully phases out at joint earnings of \$54,720.

## **III. EITC's Projected Impact**

According to classical economics, depending upon which part of the subsidy for which they qualify (the phase-in, maximum disbursement, or the phase-out section), the EITC will have different employment impact on different households. Due to the phase-in rate, the households located here will have more money than before, which will decrease the amount of hours worked. However, work per hour will pay

more than expected, which is likely to increase the hours worked. These two impacts means the total impact on employment has questionable impacts upon increasing employment. Unfortunately, the policy has disadvantages: households whom qualify for the maximum disbursement rate, and households whom qualify for stipends at the phase-out rate, are likely to work less than before. This is because the households will have more money, and the progressively decreasing stipend causes a lower tradeoff of earnings to free time; both of these facts contribute to less work. Though members work less, however, they still will be employed. For households who are not working at all, the phase-in rate effectively increases the pay to work, which will likely bring a few households into the employment market. Economic predictions narrowly suggest the EITC will reduce employment. Barring the most pessimistic estimates for Hispanic men, a decrease of income explains an increase in labor for men with a high school diploma or lower. Thus, increasing effective wages through the EITC low-skilled men is likely to increase employment a small amount (Raphael 2013).

The previous EITC did not work alone; households with children in the 1990s received assistance through the Medicaid expansions, and the State Children's Health Insurance Program (Raphael 2013). Although EITC cannot catalyze such employment change by itself, it is an integral part to enacting a bit of assistance to poor households. Though the impact on increasing employment is minor, the EITC does increase wages for those who qualify, which increases household's capability of living at or near poverty.

#### **IV. Additional Considerations for Bolstering Employment**

Classical economics does make certain assumptions when predicting the EITC's impact on employment. For instance, theories assume that current and potential workers have perfect mobility between working hours and potential jobs. Unfortunately, this isn't the case, when so many low-skilled men are hindered by previous incarceration. Because the EITC's impact is arguably slim, it must be bolstered by other policies to enact demonstrable change on employment for low-skilled men.

In today's economy, previously incarcerated members of society have unfairly difficult times obtaining labor. The proportion of men institutionalized with less than high school education increased from 1980 to 2000 for all men; black men have the largest proportional increase, from 8% to 27% (Raphael 2013).

Additionally, researchers have found lower wages for less educated men are associated with higher crime rates (Marr 2013). From the date of first prison admission to the time of the last release, the incarcerated cannot advance their careers; moreover, institutionalization is usually during prime career or education-building points in their lives. Similarly, the previously incarcerated are stigmatized from employment opportunities by becoming an ex-offender because of the theory of negligent hiring and latent employer fears. Both externalities hinder reformed members of society from obtaining work. Additionally, economically motivated crime increases with unemployment and decreases as average wages rise (Raphael 2013). Though the EITC can help curb more criminal activity for the poorest, more policies must be enacted for progress on employment. A few suggestions for such policies are listed below:

- Disqualification of former inmates from participating in public assistance programs and receiving financial aid for education should be reversed.
- Employment bans, and licensing restrictions, should not be applied in a blanket manner; restrictions should depend upon the convict's criminal record.
- We must invest more into labor market intermediaries which specialize in reentry employment needs of recently released inmates.
- States should incentivize desistance from criminal activity by expunging certain criminal records after a fixed time period.

#### **References:**

Marr, Chuck, Christina Ruffini, and Chye-Ching Huang. "Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty." Center on Budget and Policy Priorities, 15 July 2013. Web. 21 Nov. 2013.

Raphael, Steven. "Boosting the Earnings and Employment of Low-Skilled Workers in the United States: Making Work Pay and Removing Barriers to Employment and Social Mobility." In *A Future of Good Jobs? : America's Challenge in the Global Economy*, Timothy J. Bartik, Susan N. Houseman, editors. Kalamazoo, MI: W.E. Upjohn Institute, pp. 203-304. 2008.