

Employment-Based Tax Credits for Low-Skilled Workers

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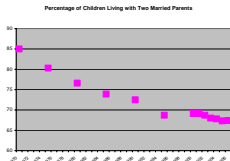
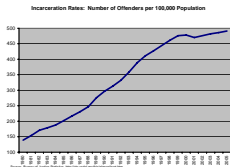
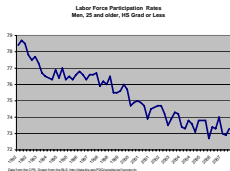
The Brookings Institution

November 2007

Worrisome Trends in Work, Crime and Marriage

These motivate the proposals in my paper

There are Worrisome Trends in Work, Crime, and Marriage



Many Factors Presumably Account for these Trends

But declining (formal) labor market opportunity is among the most important

- My two-part proposal would increase the return to work in the formal labor market.
 - It would expand the EITC for childless taxpayers.
 - It would subsidize earnings by half the difference between market wages and a target wage, which, in my proposal, would be \$11.30 a hour.
- Other factors, of course, also contribute to problems in low-income communities, including...
 - Schools in some communities are dreadful.
 - Crime, gangs, and drugs are endemic in some neighborhoods.
 - Children raised in single-parent households start life at a disadvantage.

The Proposals in a Little More Detail

- Part 1: Increase the EITC available to childless taxpayers.
 - The EITC is an earnings subsidy: it increases with earnings, then reaches a maximum, and then phases out. The maximum credit available to childless taxpayers in 2007 is \$428.
 - Under my proposal, the maximum for a married childless couple would be \$1,728 (it would be \$864 for singles).
 - It includes an early-career employment incentive and is designed to keep "marriage penalties" small.
- Part 2: Implement a targeted wage subsidy to workers in federally designated ECs, EZs, and RCs.
 - The policy would pay workers directly the difference between their market wage and \$11.30 an hour.
 - There is a 40+ year history of support for this idea – among other features, it has desirable incentives on hours of work.
 - Targeting to ECS, EZs, and RCs would limit cost, allow careful evaluation, and focus scarce federal resources on economically distressed areas.

Why Should Presidential Candidates and Congress Support This Proposal?

Increasing the return to work for childless low-skilled workers will lower unemployment rates and achieve the dual social benefits of reducing incarceration rates and increasing marriage rates, thus reducing the number of children being raised in single-parent households.

- As suggested by the trends on work, crime, and marriage, the problems facing low-skilled workers are severe. The problems threaten social cohesion and jeopardize the life chances of children in poor communities. There are no "silver bullet" solutions. Progress will only be made by adopting policies with strong evidence for beneficial effects and minimal adverse consequences.
- The two pieces of the proposal could be implemented together or separately.

More Detail on the Benefits of These Ideas

- The expansion of the childless EITC would cost \$7.3 billion (in 2007 dollars).
 - Based on estimates from the social science literature, this would be expected to increase employment by more than 700,000; reduce crimes by 918,000 incidents, increase marriage, and deliver substantial resources to low-skill individuals working in the formal labor market. The social benefit of crime reduction could range from \$722 million to more than the cost of the proposal.
- The wage subsidy would cost \$3.1 billion.
 - This would be expected to increase employment by 146,000; reduce crimes by 159,000 to 443,000 incidents, increase marriage, and deliver substantial resources to low-skill individuals working in the formal labor market.

It is difficult to design policies that redistribute a substantial amount of resources yet, at the same time, do not have important, undesirable behavioral consequences.

The policies I briefly discussed would enhance the incomes of low-skilled individuals working in the formal, paid labor market while providing beneficial labor market and family formation incentives.