



Rewarding the Work of Single Adults and Second-Earners

An Approach to Reducing Poverty and Strengthening Families

Gordon Berlin
President, MDRC

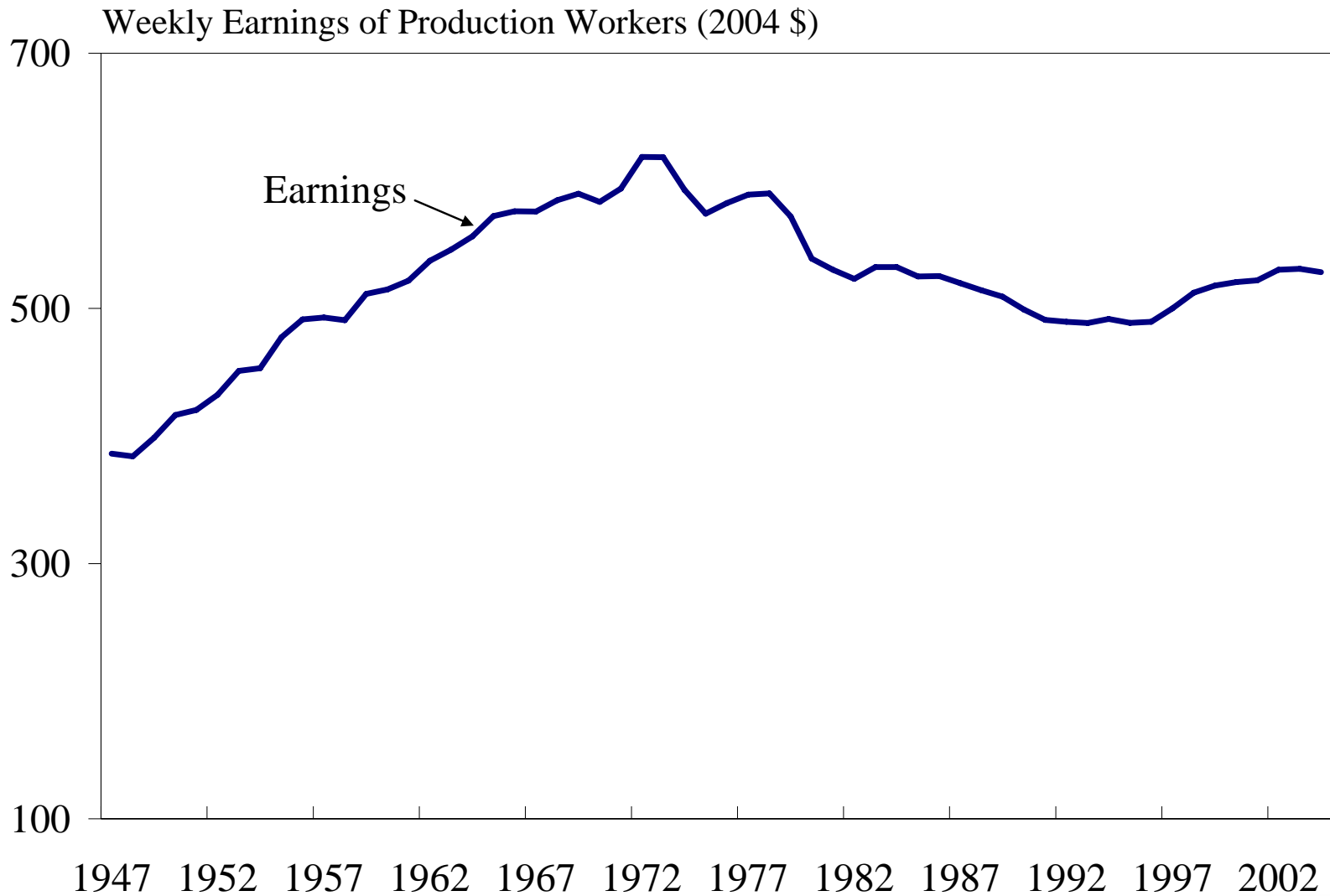
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If you could do one thing to reduce poverty...

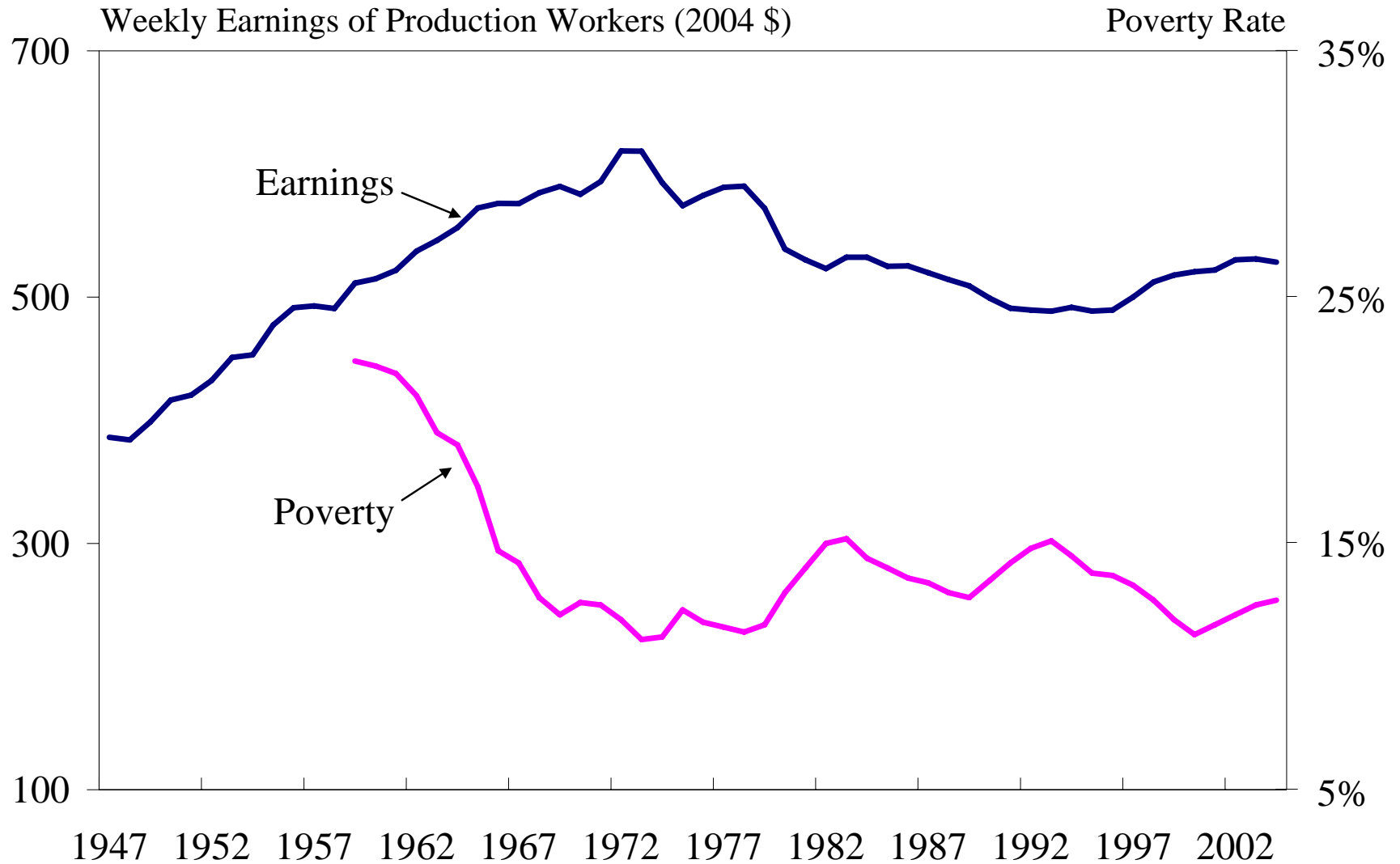
- The Problem:
 - Declining real wages, increasing single-parenting, a tax and transfer system that distorts incentives
- The Evidence:
 - Work-based earnings supplements are effective
- The Proposal:
 - Enhanced EITC for singles and second-earners
- The Payoff:
 - Immediate increase in income, reduction in poverty; potential secondary effects on employment, child support, and possibly marriage, crime

Tracking Earnings, Poverty, and GDP, 1947-2004



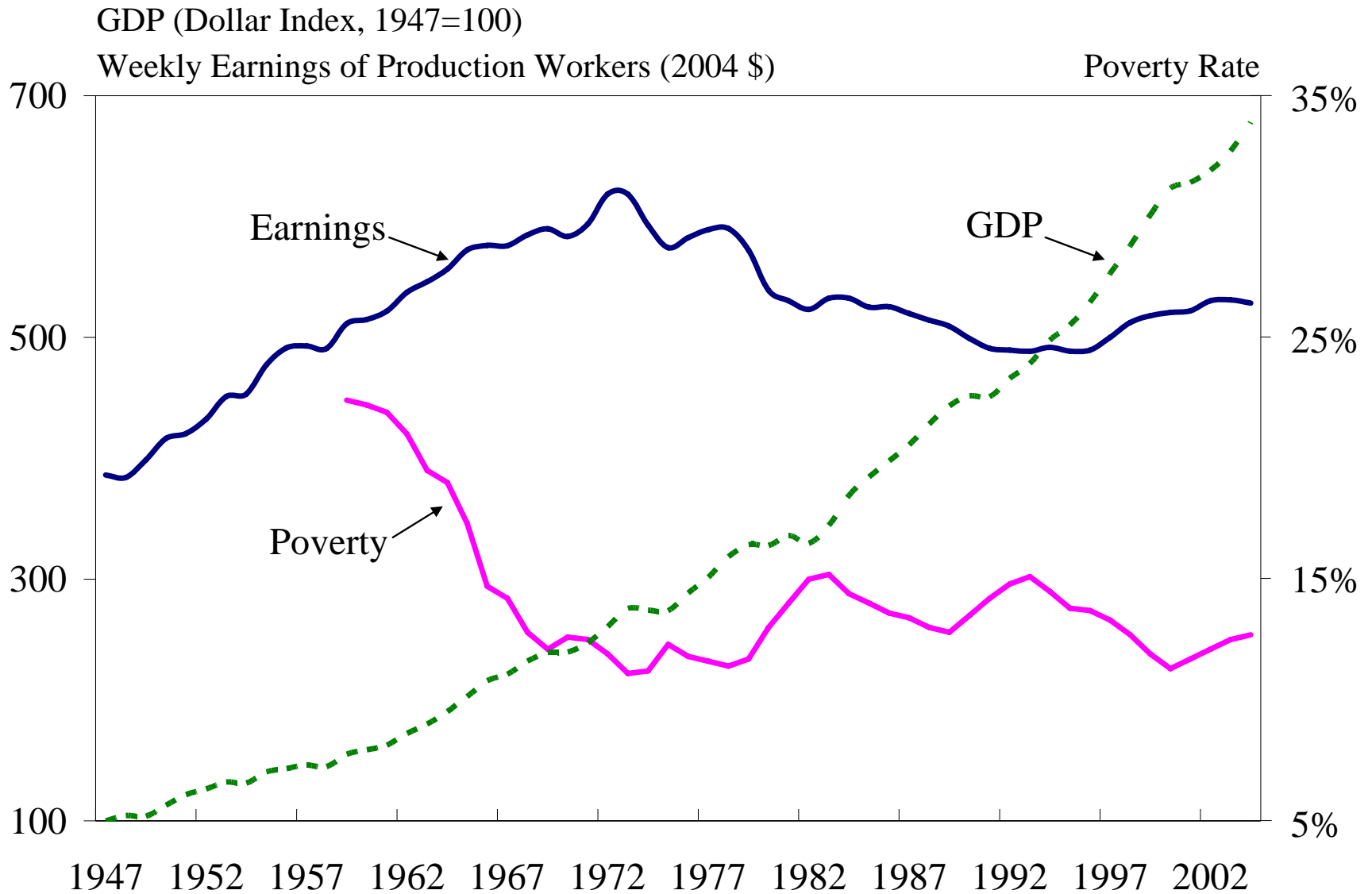
Sources: Bureau of Labor Statistics, U.S. Census Bureau, U.S. Dept of Commerce

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Consequences

- In '73, hs dropout could support a family of 3 above poverty line; not the case today
- To cope, families postponed marriage, had fewer children, sent both parents to work
- War on Poverty predicated on assumption that 60's earnings growth would continue
- As earnings fell, employment declined (Katz, Grogger), crime rose (Western, Raphael), marriage declined (Lichter, Carlson, Edin), and poverty rose (Danziger)



The Evidence

- The “Make Work Pay” experiments:
 - New Hope, SSP, MFIP: increased employment, earnings and income, reduced poverty/ pov. gap
 - Served mostly women; pos. effects for men in NH
 - 30 hour rule limits work cutbacks
- EITC
 - Increases work, income; reduces family poverty
 - Principal beneficiaries families with children
- Roaring 90’s economy (1992 to 2000)
 - Increased men’s employment, including AA men



Change in the Employment Rates of Young Black Men by Age and Educational Status, During the Boom Years of 1992-2000

	1992	2000	Absolute Change
Enrolled in School, Ages 16-24			
Ages 16-24	22.5	29.4	6.9
Ages 16-19	17.4	22.8	5.4
Ages 20-24	35.8	46.7	10.9
Not Enrolled in School, Ages 20-24			
All levels of education	62.2	66.2	4.0
Less than H.S. diploma	41.6	48.4	6.8
H.S. diploma, no college	64.2	66.7	2.5
Some college, less than bachelor's degree	73.8	79.6	5.8
College graduates	85.7	88.1	2.4

SOURCE: Analyses by the Center for Labor Market Studies, Northeastern University.



The Proposal

- Keep existing child-based EITC system
- Add enhanced EITC for singles, second-earners
 - Target FT workers (30 hours/week); age 21 to 54
 - 25% subsidy rate; maximum \$1,950; 16% tax back rate
 - \$6.55/hr job becomes \$8/hr job
- Radical tax twist: payment based on individual income not joint income
 - Single man earning \$14K receives \$1,950 supplement
 - Couple w/children (earn \$14K each) get \$6.5K in supplements
- Index minimum wage to inflation
- Cost: roughly \$33 billion/year



The Benefits

- Impact on poverty among existing full-time workers: certain, large, and immediate
 - 34 million FT workers would benefit immediately
- Incentives to work, support children, cohabit, and marry would improve; opportunity cost of crime would rise
- Possible secondary effects?
 - Employment rates would rise (by 4% to 20%) among part-time and non-workers
 - Cohabiting/marriage, child support payments might rise as men become more attractive partners and fathers gain economic wherewithal; criminal activity might decline as earnings rise
 - Size of these second order effects unknown



Next Steps

- Ambitious proposal with unanswered questions
- Other models to consider: Primus, Holzer, Bloomberg
- Start with several-city demonstration and rigorous evaluation...
 - But, 34 million low-wage, FT workers will remain on hold