

THE BROOKINGS INSTITUTION

THE EARNED INCOME TAX CREDIT (EITC) JUST GOT BIGGER:
SHOULD IT STAY THAT WAY?

Washington, D.C.
Wednesday, April 22, 2021

Welcome and Introduction:

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Remarks and Q&A:

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Fireside Chat:

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PROCEEDINGS

MR. REEVES: Good afternoon. Good morning. Good evening. Good whatever it is wherever you are and welcome to this virtual event that is cohosted by the Brookings Institution and our neighbors at least in the physical world, the American Enterprise Institute. On the question of the earned income tax credit and whether the recent changes that have been made to expand that credit should be left in place?

If you've been paying attention, you'll have noticed there have been some pretty big changes in tax credits and in welfare generally in the U.S. following the change in administration and control of Congress. And some with bipartisan support.

The real question I think is whether these temporary measures that have been introduced is whether they'll remain permanent. And if so, which? And why? And today's session does focus just on the one of the changes which is to the earned income tax credit or the changes that have been made to the EITC including broadening the eligible age range for the credit down from 25 to 19 and taking the age cap at the top away all together as well as increasing the salary cap and amount for workers without children. So as I said, the question before us is should we keep these changes for good or not?

We have a very, very packed and exciting schedule in front of us. First, you're going to hear from Senator Michael Bennet. A senator from Colorado who has been a real leader on tax reform and welfare reform generally. And then after those brief remarks, the senator has agreed to a light grilling from our friend as well as from AI, Angela Rachidi.

Then there will be a conversation between myself and Javier Martinez who is a representative from New Mexico who just recently expanded their own state BITC. Following that there is a panel who can only be described as a galaxy of gurus on this question moderated by my colleague, Bell Sawhill. And last but not least, we have Speaker Paul Ryan to close out our event.

So we're going to be covering some of the politics and the policy and the details about federal and state levels. So again, thank you for joining us. Watch this space. And with that I'll hand over to, with a huge welcome, to the virtual Brookings stage to Senator Bennet and then to Angela.

SENATOR BENNET: Thank you, Richard. I was asked -- can you hear me?

MR. REEVES: Yeah. Coming through loud and clear.

SENATOR BENNET: I've been warned a year of Zoom I thought by saying --

MR. REEVES: Better to ask.

SENATOR BENNET: Well, it's wonderful to see you again. And I want to thank Brookings and the other panelist for everything. When I leave, I've really got leave because I have an airplane to catch back at Colorado. So I apologize for running out on a topic that I care a lot about.

I care a lot about it because before I was in the senate, I was the superintendent of the Denver public schools. Having spent time in business and government before that. And what I knew about the parents in the Denver public schools was most of our kids were kids of color. Most of the kids were kids living in poverty. A lot of their parents were working two and three jobs. And no matter what they did, they couldn't get their children out of poverty.

And now, I've been in the senate for 11 years and traveled the state of Colorado broadly. One of the most dynamic economics in America. And if I had to summarize this townhalls, it's very easy to do. It's people coming and saying, Michael, we're working really hard, but no matter what we do we can't afford some combination of housing, healthcare, higher education, early childhood education, even assuming it's available, childcare, even assuming it's available.

We can't say anything. We feel like our kids are going to live a more diminished life than the life we live. And we already feel like we're living a more diminished life than our parents lived. And what I'm reporting to you is I think in a very honest antidotal reflection of an economy that for 50 years has worked really well for the top 10% of Americans as Rich Reeves captures this in a book of his that I once read and we once discussed. And has not worked for 90% of the American people.

And I believe strongly that it's a threat to our democracy. We've got some of the lowest rates of economic mobility and economic security in the industrialized world. Too many young Americans enter the labor market in low paying, low opportunity jobs and really struggle to climb up from there. This disproportionately effects young workers of color.

And decades later some are still working low paid jobs into their golden years because they never had a chance to build economic security. And I can't think of anything more at war with the American dream than someone working full time their entire life and never being in a position to retire and

unable to leave something behind for their kids.

But that's the economy we have for millions of Americans. I would say even most Americans. There's so many things we need to do that builds an economy that works for everyone. You know, because in the ideal world what we need is an economy that when it grows, it grows for everybody, not just the people at the very top. And no longer acts as a recession for middle class people and working people when we see GDP growth.

But I think in the meantime one of the most important steps is expanding the earned income tax credit for the low income workers without kids. And that's why along with the -- well, we actually had two bills. One was Bennet-Brown and the other one is Brown-Bennet.

Bennet-Brown was the expansion of the child tax credit which I know is not the subject for today, but that also has passed as part of this, the American Rescue Plan. Will cut childhood poverty almost in half this year by among other things making that credit fully refundable for the first time.

The other bill was Brown Bennet which was the ITC bill, which we wrote several years ago to dramatically expand the year income tax credit including for workers without children. And which we fought, as I said, to have in the president's Rescue Plan. The president's plan triple the credit as our proposal did from roughly \$500 to \$1,500 per year per workers without children.

Believe it or not until now, Washington was actually taxing these workers into -- who are deeper into poverty. Now, with the expanded credit that's not going to happen at least for a year. And as Richard mentioned, at the same time we lowered eligibility for the credit from age 25 to 19 so that young workers who are just getting their foot in the labor market can start to build economic security. We also eliminated the age limit for eligibility to benefit older workers who are still on the job.

Those changes are going to help 17 million workers in this country including 300,000 workers in Colorado. It's going to give them an extra cushion to cover expenses like rent and groceries and utilities and maybe give them a little bit to put aside from retirement. And another way to think about that is we're giving people a margin for error so they aren't, one, emergency expense away from going over the edge.

And, you know, I have become very interested in the literature that suggests that when you've got efforts like the expansion to the EITC and the child tax credit, you actually see higher

workforce participation rates rather than lower ones. My antidotal understanding of this from Colorado is that will absolutely be the case as people find it easier to hold onto jobs because they've got some incremental cashflow to deal with on unexpected expenses or things like childcare.

So I'm very hopeful that we're going to be able to extend the expanded EITC beyond one year. This has historically been a bipartisan idea because it reflects the common-sense notion that our taxes should reward work and it should help people build economic security. Not push them deeper into poverty. And in my view, this is exactly the kind of legislature that can start to bind our country together and earn the confidence of the American people by responding to their needs.

We have an incredible opportunity in front of us to strengthen our democracy and build an economy that works for everyone. And it's our job to seize that opportunity to finally make the investments in working people that we've put off for too long. So let me stop there and I'm happy to take anybody's questions or criticisms or ideas.

MS. RACHIDI: Well, thank you so much, Senator Bennet. Well, thank you for being here and for your remarks. It's really a pleasure to join you this afternoon for this discussion.

I am going to jump right in with some follow up questions if that's okay with you? Then I want to maybe touch on a couple just more controversial maybe aspects of your proposal. I think just first kind of from a broad perspective, and you touched on this a little bit in your opening remarks, but I mean I studied poverty and I'm particularly interested in child poverty and how to reduce child poverty.

So what we're talking about today is an expansion of the childless EITC. So this is the earned income tax credit for people without dependent children. So I'm just curious from your perspective kind of how do you see the childless EITC kind of fitting into a broader anti-poverty agenda? And are you concerned at all that it might actually distract from policies and efforts that might be more targeted towards reducing child poverty?

SENATOR BENNET: My view on child poverty is that it is an absolute embarrassment that we have among the highest childhood poverty rates in the country and that the population that is poorest in our country is children. It just is I mean an embarrassment. It's a travesty. And I think expanding the ITC for struggling childless workers actually is a key for our fight against poverty including child poverty.

First, there are a lot of childless workers who do have children. Many are parents who are supporting noncustodial children and others are nonparental caregivers who are supporting children. So even if they're not eligible to claim those kids on the tax return, the increase to the childless EITC will help them.

Second, many beneficiaries of the expanded EITC such young, low paid workers just starting out in the labor market -- well, those are tomorrow's parents, you know? And giving those workers the chance to build financial security today will ensure our next generation of children grows up in more financially secure homes.

And I'd say finally that I mentioned earlier, this expansion to the EITC passed as a pair of bills. The other was a dramatic increase to the child tax credit that I wrote in 2015 that's going to cut childhood poverty in America almost in half and interestingly 90% of America's children are going to benefit from the changes we made in the child tax credit.

So when you take those things together, I think they are both essential elements of reducing childhood poverty in the country. They're not sufficient, but I think they are quite a good start.

MS. RACHIDI: Great. Thank you for that. Kind of staying a little bit on the theme of children. So research is pretty clear that children do better in terms of child outcomes when they're in a two parent married household.

And it is also fairly well known that the earned income tax credit penalizes marriage in the sense that, you know, parents can get a few extra thousand dollars in their earned income tax credit if they remained unmarried. But if they marry sometimes they can lose that earned income tax credit. So we generally think of it as penalizing marriage.

So expanding the childless EITC actually would make the problem worse. So I guess my question for you is kind of what are your views on that marriage penalty? Are you concerned about the marriage penalty? And are there things from a policy perspective that you might do to address that marriage penalty?

SENATOR BENNET: Well, I know you know better than I do, Angela, that it's incredibly challenging to design a tax system that achieves marriage neutrality and (inaudible) marriage penalties entail tradeoffs of course. But I'm not aware of any evidence that taxes have much effect at all on

people's decisions to marry.

What the evidence does show is that many young people today want to be financially secure before they marry and start a family. And the extra income from expanding the ITC will for younger workers is going help them improve their economic security and I think put them in a better position to make those life decisions.

So I'm open to your ideas and others to further strengthening the ITC including in ways that may relieve marriage penalties, but I think it's essential to make these historic expansions permanent.

MS. RACHIDI: Great. So the other issue that kind of always comes up when we talk about the earned income tax credit is program integrity. And by that I mean kind of making sure that the program is free from errors and that funds being used for it are being spent properly.

So another well-known problem with the earned income tax credit is it has relatively high rates of what we call improper payments. And I think the most recent rate is about \$1 of every \$4 paid out from the IRS and the earned income tax credit is improper. And some of that, as you probably know, is due to just mistakes that families make because it's a fairly complicated tax credit.

But kind of putting aside concerns about tax compliance amongst higher income households, which is also a concern. But are you concerned that the expansion that we're talking about with the childless EITC is going to make that problem with the improper payments even worse? And I'm mostly thinking about kind of this interaction with expanding the age down. So it's going to cover young adults who might be in school and then having added also the full-time exclusion, I believe, which maybe you can explain that a little bit. But I guess just broadly are you concerned at all about kind of program integrity?

SENATOR BENNET: Well, first of all, the broader question here, Angela, I think is that you call our attention to is incredibly important. We now have the IRS commissioner saying the numbers are a trillion dollars. That ought to create in terms of the lack of compliance, not for the agency but for everything.

And I hope that that's going to lead to bipartisan efforts in the Congress and with the administration to collect those taxes because we certainly need to put them to work. And while you're

totally right that we should make efforts to further reduce overpayments to the EITC program, I also think discussions of overpayments often miss several important points.

First, IRS studies show what you just said and that is the majority of EITC's errors are unintentional. They're driven by the complexity of the EITC's rules and the complexity of many family arrangements. In other words, they're mistakes. They're not broad.

Second, overpayment estimates are based on the 2015 audit data and that means they missed recent action by Congress and the IRS to reduce overpayments and improve program integrity for the EITC as an example. Starting in tax year 2017, the IRS improved its matching process for earning statements and the IRS also increased its penalty on paid tax preparers who engage in woeful or reckless conduct and I think we need to continue to look at those kinds of things.

And finally, returns filed by paid tax preparers account for the majority of the EITC overpayments. In other words, it's often paid preparers not individual taxpayers who are responsible for erroneous claims. And Congress has simply failed to give the IRS the authority to regulate paid preparers despite recommendations from JAL and others. And I think we should start this by passing a bipartisan bill to regulate paid preparers like the one written by my colleague, Senators Rob Portman and Ben Cardin.

But ultimately, while I believe strongly that we should work in reducing the overpayment rate, I don't believe that should stop us from reducing incomes for our nation's workers.

MS. RACHIDI: And can you just explain because I guess part of my concern around the improper payments was kind of lowering the age to cover maybe more students or it would be even less well targeted. But can you just explain the thinking behind both lowering the age and increasing the age at the top end?

SENATOR BENNET: Yeah, I mean it is -- lowering the age is to get -- is to be able to, you know, get people going sooner with a higher income on the theory that that will put them on a better trajectory for the rest of their lives, which is true. And, you know, give them the flexibility.

I mean if you talk to anybody, a young worker in this country. They don't have a whole lot of hope that the American dream is still available to them. I mean I want to see their workforce participation rate increase too. I think this will help do that. And again, begin to build lifetime earnings

earlier which is going to help everybody.

The flipside of it is people, you know, aren't able to retire the way they were historically and I think that lifting the cap is an appropriate way of recognizing that there are a lot of people on the other end who want to keep working. They ought to have the benefit of the credit.

MS. RACHIDI: Okay. Great. That makes sense. So I feel like I need to ask this question and it kind of is related to how various policy proposals that have come from the Democrats kind of interact and where the prioritization comes?

So I'm thinking about the minimum wage. So there have been proposals from the Democrats in Congress to increase the minimum wage to \$15. And I think just some calculations if there was a national \$15 an hour minimum wage and somebody worked full time that would put them out of the income eligibility range for the childless EITC.

So I'm just kind of curious to your thinking behind the childless EITC expansion, the minimum wage. Do we need both? Do you see one -- if we have one, do we maybe not need the other? Just kind of what's your thinking around those two policies?

SENATOR BENNET: Yeah, one thing I want to say is that I'm not for every single Democratic policy proposal that's made in this space. And I ran a virtually unnoticed lonely campaign for president on the idea that we could cut childhood poverty in half by making this change to child tax credit. And I'm really glad that we're doing that.

I think it's the right thing to do. I think it's essential for us to do it and to increase the EITC at the same time. And my answer on the minimum wage is, yes, workers need both. And the minimum wage hasn't been increased in more than a decade. By 2025, there won't literally -- that's just four years from now. There won't be a single county in the United States where a worker can afford to live on less than \$15 an hour.

And research shows that a higher minimum wage with a stronger EITC that they are complements not substitutes. Low paid workers need a strong wage floor so their EITC isn't captured by their employer's ability to pay them lower wages. And my colleague, Sharon Brown and I believe that struggling workers should be eligible for the EITC at higher earnings than under previous law, which is, as you say, why our bill also increase the maximum earning's thresholds and the American Rescue Plan

followed that increasing the earning's threshold for childless workers from about \$16,000 to \$21,000 a year.

And while some workers in the highest minimum wage states may earn too much to be eligible as you said, others will remain eligible because they aren't going to get enough hours at their job or they might go through a spell of unemployment. And fortunately, part of the EITC's bipartisan appeal is that it's a pretty well-designed program.

Benefits phase out gradually as workers earn more. So workers will always be better off with a higher wage when they receive one including from a minimum wage increase. So that was the logic.

MS. RACHIDI: Okay. Great. Yeah, I can see how that works. Yeah, it definitely would then -- if the \$15 an hour minimum wage became the federal minimum wage, it certainly would kind of shift the composition of who would benefit then from the EITC. Like you said, it would go much more to part-time workers or workers that don't work full time.

SENATOR BENNET: Right.

MS. RACHIDI: So there was a couple of questions -- no, go ahead.

SENATOR BENNET: I was just going to say, by the way, I think and so doing probably better reflects the complexity of the workforce that we have and anyway. I hope they'll work well together.

MS. RACHIDI: Yeah. So there were a couple of questions that came in from audience members who had registered. And one, I thought was pretty interesting given what's happening on the child tax credit side, but the question was around the advanced payment. I mean the EITC is still offered as a lump sum payment at tax time.

So is there any thought given to making the EITC more of a periodic payment? Like either monthly or quarterly?

SENATOR BENNET: I certainly would be very interested in doing that. On the child tax credit, we say periodic in the law. What we're intending is for that to be monthly and when I surveyed people at home and asked them what would make the biggest difference?

Every now and then somebody says, well, I'd like to still get it in one lump sum. People actually, you know, would like to have it when their rent is due. And, you know, and when their other bills

are due. And that's probably true for the ITC too. So for years and years and years, the pushback on this was the IRS can't possible administer such a program. They can't do it. It won't work.

And we've been very clear both at the House and the Senate that we want this to be done as periodic payments. Monthly payments is what we said to them. The secretary of the Treasury has committed to get that done. The head of the IRS is now committed to get it done by July.

So I'm optimistic that we're going to be able to -- I'm sure there will be mistakes along the way, but that we'll have the structure in place and then hopefully, we can turn to the EITC and have a similar arrangement.

MS. RACHIDI: Well, that's something and we certainly can agree on. I've always been a big proponent of trying to figure out how to make that tax credits offer to families and individuals on a more regular basis.

One other question that came in from the audience and if you could speak to this is kind of this idea of the increased labor force participation which is one goal of this policy. But your thoughts on kind of how that fits into broader strategies to try to increase labor force participation particularly among men as like my colleague at AEI.

And (inaudible) has written extensively about we do have a declining labor force participation among prime age men. So if this is a piece of that do you see it as a piece of a larger picture? And what would that be? Or just kind of how does it fit into your thinking along that broader issue?

SENATOR BENNET: Yeah, thank you for the question. First of all, I sort of think of this the same. I mean I know there are a lot of people on this call that know a lot more about this than I do, but, you know, to me it is utterly unacceptable that we've got among the lowest economic mobility rates of any country in the industrialized world and one of the highest, you know, poverty rates.

I mean I don't believe we can accept that as a permanent feature of our economy. Either of those things. We can't, you know. And as I said earlier, ideally what we would want is the economy that when it grew everybody benefited, which it's been a long time since that's been true and that's really demoralizing.

And I think it's terribly destabilizing for a democracy and I think it's the fundamental

reason why our labor force participation rates are as low as they are. And we should not accept that as a fundamental aspect of our economy, which is why, I'm sure, all of you guys are doing the work that you're doing because you want to get that figured out too.

And I think it just makes sense that, you know, if you can make work pay enough to be rewarding that that will have the effect of improving our workforce participation rates and if people can have just a little bit of help with their expenses in the time when they need it most to pay for a car repair that they otherwise, you know, would prevent them from going to work or just pay for some childcare so that they can stay on the job.

We saw that in the pandemic, you know, in spades. If we could do that I think it just makes a logical sense that people are going to want to work. And I think people do want to work. They just don't earn enough in America to stay at work because we have made it so difficult to be poor and to work.

So we should be thinking about strategies beyond this that -- you know, I think for example paid family leave is something that is a procedure-work policy, in my view, that ought to be part of what we do for the same reason. Because if people have a rationale and reasonable expectation that they're going to be able to take leave if they need to take care of a loved one and the job will be waiting for them on the other end, that's going to do good things for workforce participation rates not bad things.

MS. RACHIDI: Yep. Great. And it is true. All these policies kind of all interact and --

SENATOR BENNET: Right.

MS. RACHIDI: -- all focus on the same thing. So in our last minute or so. And thank you again for your time and being so willing to answer all of my questions.

But kind of crystal ball here. So what really do you think are the prospects of this and even some of the other tax provisions in the American Rescue Plan of becoming permanent?

SENATOR BENNET: We are, you know, I believe very strongly that obviously we should make both the ITC changes permanent and the child tax credit permanent. And I think the spirit in the White House wants to do it whether in the end they're going to be able to do it? I don't know.

I think at a minimum, we're going to get a very substantially, you know, extension and the full refundability, I think is certainly going to become permanent which that is a major policy advance in

my view. Since the poorest families and the poorest kids haven't been able to benefit from the tax credit and that's where the biggest difference will be made. But I think this is a once in a lifetime opportunity for us to say, again, we're not going to accept these kind of poverty rates in the country. And if we don't have to. And if these are pro-work policies that we have designed very intentionally with that in mind. And that therefore, we should make them permanent.

If we don't at this point, I'm quite confident that we will in the future. I mean, I think there's bipartisan support. My friend, Mitt Romney, introduced the first -- well, he and I wrote the first bill that a Republican signed onto which created full refundability for the child tax credit. And he, obviously, wrote his own version of that with a very strong interest in the earned income tax credit on their side as well. So I think one way or another we're going to, you know, imagine an America where we're doing something about childhood poverty and we're doing something about economic mobility as part -- as you said, of a much, a bigger approach because what we've learned essentially since China entered the WTO is that what we've been doing all these years actually isn't working very well for the American worker and for American families. And I think it's time for us to put aside the playbooks from 20 or 30 or 40 or 50 years ago and figure out what the playbook needs to look like in the 21st century. These two tax credit advances, I think are part that vision.

MS. RACHIDI: Well, I think I will leave it there. Senator Michael Bennet, thank you again so much for your time.

SENATOR BENNET: Thank you everybody for your interest. And, Angela, thank you for your questions and I'm now going to go to Colorado. Please give my best to your (inaudible).

MS. RACHIDI: Enjoy your trip. Thanks again.

SENATOR BENNET: Bye.

MS. RACHIDI: And, Richard Reeves, I'm going to turn it back to you.

MR. REEVES: Thank you. Thank you, Angela. Thank you so much for that, Angela. And Senator Bennet, I think now running to the airport.

Actually, as I was listening Senator Bennet, I realized that we had the other senator from Colorado on a Brookings' panel recently talking about apprenticeship so both very clear policy thinkers. I don't know. Must be something about the mountain air or maybe the marijuana, but no coincidence

maybe. But now we're going to switch our attention to New Mexico. I'm delighted to welcome Javier Martinez. He represents the 11th District in the House of Representatives in New Mexico. He's also a community organizer, social activities, I think. I hope you'll accept that term, Javier.

He actually runs a very important nonprofit in New Mexico. And so, while he sits on boring sounding groups like the Housing and Taxation Committee, he also is working kind of actively in the community.

And, Javier, welcome. Thank you. And one of the reasons we're so pleased to have you is because New Mexico has very recently introduced its own expanded earned income tax credit at the state level. And as Senator Bennet was just saying, these systems all interact with each other. So I think it's important to think about federal and state.

And so, for those people who don't necessarily know about this how does a state EITC interact with a federal EITC without undermining it in some way? Can you just talk a bit about how they fit together? And then we'll get into kind of how it happened and why it matters so much to you.

SENATOR MARTINEZ: Yeah. Thank you, Richard. And thank you for your team for inviting me. It's quite an honor to be share the Zoom screen with all of you.

You know, back in 2007, 2008, New Mexico passed the working families tax credit, which is what we call our credit. And the way it interacts with the federal in a very simple way. You take a percentage of what the family receives from a federal and that's what they receive in addition here at the state level. So in its original version, it was 10% of the EITC. In 2019, we increased that to 17%. Don't ask me how we got to 17%. It's how the sausage making happens in the legislature. That was the compromise. But this last session, we actually increased that to 25%. So now, families who receive the EITC will get an additional 25% of that through the state.

MR. REEVES: Right. So it's effectively a kind of a top up to a top up, right? So you get the --

SENATOR MARTINEZ: Right.

MR. REEVES: But then you add to that without any way diminishing it. So it stacks one on top of the other. And, obviously, there are other states that are doing this too and you've just expanded it.

So one of the things that you've done also at the same time is to similarly to the temporary changes at a federal level to expand downwards in terms of age.

SENATOR MARTINEZ: Right.

MR. REEVES: And improve young adults in that too. I'd just like to hear a little bit about how did that come to be a priority for you? Because I think it would be fair to say you've led this kind of charge on this. And what impact do you think might have on the communities that you work with?

SENATOR MARTINEZ: Sure. Well, you know, a lot of the work to expand the working family tax credit upward in terms of the percentage, but also as to who could get it comes from the community. There's a very strong community of foster youth, youth who have aged out of the foster care system who are very active in state policymaking. And it was actually them who brought the idea up a few years ago.

We've attempted a few times without success in the past until this year. But now we are finally are able to expand that credit downwards as you say to young workers without children, ages 18 to 25, so that they too can access the credit. And that's extremely important because New Mexico has a pretty high, relatively speaking, a high number of young people in foster care.

And so, as they're aging out many times, they don't have the support of their families, you know, those first few years when they're out in the workforce. So it's important for them to be able to access this as a poverty alleviation measure.

The other group that we've expanded it to as well are workers who are undocumented and filed their taxes with a tax I.D. number as opposed to a Social Security number. I believe we're only the second or third state to extend the credit to those families.

MR. REEVES: Right. And that's obviously bringing in a whole different group of people as well who otherwise wouldn't be able to be helped.

But I want to come back to this young worker piece. I wasn't aware of the involvement of a particular group. Those who kind of aged out of foster care. And even if you have relatively high numbers by national standards, it can still only be a relatively small percentage of the labor force. And so, was that really -- talk about the politics of that, I guess. Was it really just because it highlighted the struggles that many young adults do have getting onto the labor market and earning a decent wage from

the beginning?

Was it just that their case helps to make a broader case? Because you didn't just have an aged out of foster care working family type of credit, right? So how did that work out?

SENATOR MARTINEZ: Well, you know, I think when you look at the EITC in its original form, you know, over the last, you know, 20, 30 years. I think, you know, politicians often times make an assumption, right, that young people have the support of their parents. Maybe they're living at home while they go to college. And that's a very one-dimensional perspective, right?

The reality is, you know, a lot of young people, you know, don't necessarily are able to live at home for those first few years that they're out in the labor force. Often times, they're competing for those minimum wage jobs with established workers, right? Because we've sort of credit a minimum wage economy, unfortunately, across country.

And so, you know, for young people I think they -- the way that they'll be left out arbitrarily out of something that, quite frankly, is not going to break our bank, right? Because we still don't have that many young workers necessarily who would make use of this credit. But at the end of the day, for those who do get it, it is an important poverty alleviation measure.

And for me, really, it's about equity, right? Making sure that we treat people the same without regard to these arbitrary prerequisites. Whether it's young workers or, you know, folks without a Social Security number.

MR. REEVES: Yeah. Well, on the age one it does seem slightly odd to draw a line, you know, at somewhere in the mid-20s. It's not as if --

SENATOR MARTINEZ: Right.

MR. REEVES: I have sons they go to sign up for the draft once they've turned 18. So it's weird where the lines get drawn. And so, it does feel as if you're being treated as an adult in other ways by the state, it might be appropriate to do that.

But in terms of the workers that you've talked about that can come in as a result of not having a Social Security number. Where did the pressure for that come from? And do you have any sense of about how many people that might bring in? So I'm asking about the demand like where, you know, the politics of that, I guess. How did that need become apparent?

And then do you have any sense of what the numbers are likely to be? Presuming it's very difficult to know.

SENATOR MARTINEZ: Yeah. It's very difficult to know with certainty of the actual number. I mean, we estimate anywhere between, you know, 30 and 40,000 people, families. Because often times, you can get a family. And if one filer doesn't have the Social Security number, they don't qualify for the credit. Even if one is a U.S. citizen with a Social Security number. So that makes the number a little bit bigger, but we estimate between 30 and 40,000 families will make use of it.

Where the pressure comes from? I think really again as with the younger workers example, it comes from the community women. And I say, congratulations, we increased the credit. And all of these women have young children at home. And they said, that's great. But you know we don't qualify for it, right?

And I said, what do you mean? We don't qualify for it. You have to have a Social Security number. And so, you know, that kind of got me thinking about how do we make this credit accessible to those families? And really over the course of two years, a lot of public pressure to make it happen. And as you know, you know, we ended up passing this particular legislation with bipartisan support at the end of the day.

MR. REEVES: Yes. I did notice that which is -- I was going to my next question actually. Javier, your internet I think dropped on us just for a little moment there. So if it happens again I might ask you just to turn your camera off and keep the audio.

SENATOR MARTINEZ: Okay.

MR. REEVES: But it's probably just a passing thing. But we did get everything you said, however. It just cracked a little bit of a loss there.

Because I can imagine how -- like if you earned an income tax credit, in your case the working family tax credit, can get bipartisan support in the sense that in some ways what we just heard the Senator and Angela talking about, which is, you know, I'll be crude. Liberals wanted relieve poverty and Conservatives like work. So here's the thing that promotes work and relieves poverty.

But then when you extend it to other groups, particularly perhaps the groups you're talking about, who don't have a Social Security number, my instinct would be that would make it harder to

get bipartisan support. Was that your experience at all? How did the politics of that particular change play out?

SENATOR MARTINEZ: You know, not this year. This year that was not an issue. In fact, the issue with the original version of the bill was that we had some tax increases on the top earners in order to be able to pay for the expanded credit. That was the fight.

Once we compromised that part of the bill, there was no commentary or opposition to these two groups of people receiving the credit. And that's a huge win for the community because as recently as 10 years ago, you know, we've had politicians here running for office on anti-immigrant platforms. You know, 100%, right?

And much to my pleasant surprise, we did not hear that type of opposition on this issue. I think in our state, Republicans and Democrats both recognize that this particular tax credit not only it's one of the most effective, you know, tax credits we have in our books from a return-on-investment perspective but really, it's a great poverty alleviation tool, right?

It helps uplift families out of poverty and it rewards people working, right? Which is something that, you know, folks who abide by the philosophy of, you know, pulling yourself up by your bootstraps and working hard for what you get, there's no better example than this credit. It rewards people who are working for their wages.

MR. REEVES: Yes. And you wonder. Obviously, there's two different things going on there. One is, on the one hand, if we do have people in the country, documented or undocumented, it's better that they're working, right? And so, you know, you can attract support in the way that you've just described in terms of the kind of politics of it.

But I'm interested in who you think will benefit the most from some of these extensions in terms of age? So come back to the kind of age point. You've worked a lot. You're a community organizer by background. I think it's fair to say that.

And so, how do you think it will affect? I'm not suggesting for a moment that any tax policy however amazing can change the world. But can you play forward a little bit how you think this change might influence some of the young people kind of in the communities that you've got? You can probably think of particular people through your work and how that might play out in terms of their lives?

What difference would it make at that level do you think? Say, if you're a 20-year-old, 21-year-old in a job that someone is going to get more help. What difference is it going to make to me if I'm that person?

SENATOR MARTINEZ: Well, you know, for a young worker without children, you know, who's working for a living. The amount of the credit could help pay for a community college, for example. You know, it could help pay for, you know, for rent. You know, which during the pandemic rents have far exceeded what people are able to pay here in our state.

You know, there's a very practical benefit to it. I'm very intrigued by the idea. And Senator Bennet mentioned this. I'm very intrigued by the idea of this credit taking sort of a monthly installment approach to it as opposed to a bulk sum at the beginning of the year or whatnot when you file taxes because I think it helps people budget it differently. Now, from an advocacy and policy perspective, I think for the young people who made this happen in the state. I mean you're talking about 20-year-old children aging out of foster care who played a key role in a major public policy shift in New Mexico. And that is almost unmeasurable, right?

Imagine being that young person who testified in committee. Who met with legislators and who told their story and got what tends to be a pretty rigid legislative institution here in New Mexico to really change in its approach and come up with policies that those young people conceived. You know, that they designed. That they came up with out of their own experience. So that's a tremendous, tremendous impact both on the practical, but also on that aspirational side. You know, we can't lose sight of that. I think that's an important win for them as well.

MR. REEVES: I think that's one of the things that's intriguing about a New Mexico story. The way you've just described it is this sense of grassroots, advocacy, young people themselves organizing around something as arcane and dull as a tax credit reform. I mean not wishing to offend anybody else from this core, but everybody we're about to hear from effectively. It's like this is real dull stuff, right?

And given all the other social issues that are around right now. Given all the other issues that you would come typically associate young people's activism with, right? At the risk of stereotyping, I think it would be fair to say that, you know, getting -- testifying in front of your taxation committee and getting into the details which is clear from looking at it. Because a lot of these young people became

basically mini thinkers, right --

SENATOR MARTINEZ: Yes.

MR. REEVES: -- around this. Any sense of how that -- was that your role? How do you get a bunch of young people to care so much about something so dull and yet so important?

SENATOR MARTINEZ: You know, I cannot take credit at all for that. I mean we've got amazing organizations on the ground here in New Mexico and we have philanthropic organizations that are investing in the leadership of young people across the state. People that are diverse in every sense, race, gender, ethnicity, geographic location, right?

New Mexico has got this urban/rural divide as well like we've seen in the rest of the country. Most of us in Albuquerque often times don't get out to the rural communities as much and vice versa. So all the credit goes to them, to that organizing work that's happening in the community and to the young people who put themselves in front of this.

You know, you mentioned a tax policy can be boring and I agree. You know, when I came into the legislature, I didn't come to the legislature from a tax background. I'm a lawyer by training and an organizer by trade. And I kind of forced myself into the tax discussion because I realized that in order to improve the lives of people, yes, you need to do everything that, you know, generally we think about when it comes to social justice. But often times, people forget about the tax code as a source to achieve equity in this country.

And I'm very proud that the tax justice movement in New Mexico has been led by young people, has been led by immigrants, has been led by single moms, has been led by working people. And I think that we can offer a great model, I think, for other states who wish to pursue more equitable tax policies in their tax code.

MR. REEVES: In some ways, of course, the tax code is so powerful, so important that it's politics at its kind of most powerful in some ways. And so, to kind of avoid the political implications of the tax reform is a huge mistake. I agree with you about that.

We only have a couple of minutes left and I just like to invite you to look forward now given the achievement you've just made. Obviously, very, very early days. And you've described some of the things you hope you will see as a result of the changes you've just made.

What's next on the agenda assuming this reform seems to be working well? And it right now seems to be quite likely interacting with complementary reforms at the federal level. What would be next on your agenda in terms of tax reforms specifically or more generally? And again, I really want you to focus on this group of young adults, right? Because we're very worried that, you know, you start pouring state pour. How do we kind of create these ladders upwards? So what's on your next agenda?

SENATOR MARTINEZ: You know, for me there's a pre-COVID world and a post-COVID world. And what I saw during this pandemic is to the extent that young people are working and stocking shelves and taking care of our elderly and nursing homes. So many of them are essential workers and they've been down to front lines.

What's next for us here is really broad-based tax reform with regard to our sales tax. And we can have a whole hour on this, but it's very regressive, right? And that's a place where Republicans and Democrats agree. We need to reform it because it's not working.

Bigger picture. Again, I want to explore the idea of these credits becoming monthly installments akin to a guaranteed basic income, right? This could be a source to provide people with a monthly income based on their, you know, tax bracket based on qualifying for a tax credit of this sort that can help them pay for childcare, pay for the education, pay for their rent. And not force people into having to take that second or third job just to put food on the table. So I think that's what's coming next. And I think New Mexico hopefully will be at the forefront of that effort.

MR. REEVES: Well, it's very interesting you raise that because the whole issue of monthly payments is one that some controllers including Michael Strain from AI who's on the panel and who we're coming up to now. It's a feature rather than a bug. But it's a feature that some people can take a different view on whether that's a good thing or not. But congratulations again on this recent success for you personally and your leadership in the community. Thank you for joining us, Javier.

SENATOR MARTINEZ: Thank you, Richard. My pleasure.

MR. REEVES: Right. And with that we're going to transition to the next stage of our agenda which is a panel discussion I describe as a galaxy of gurus before. And I will now say having just said how boring tax policy can be that if there is a group of economists and experts who can help us make tax policy much less boring it is the group that you're about to hear from.

My colleague is Isabel Sawhill, senior fellow here at the Brookings Institution, will be moderating this discussion. She's the author most recently of "Forgotten Americans." She's also the coauthor with myself of "A New Contract with the Middle Class" and has been working in the Future of the Middle-Class Initiative here at the Brookings institution with me for the last three or four years. And in a sense, this contract is a crowning achievement of that project.

And Bell is a longstanding expert in tax reform generally. Took a lead role in many of the tax credit debates in earlier years. And indeed, strongly advocates a workers' tax credit in the contract I just mentioned as well as in her own book.

And so, Bell is going to introduce our panel of experts on this question and then run the rest of our session. So, Bell, I'll hand it over to you.

MS. SAWHILL: Thank you very much, Richard. What a fascinating discussion this has been. And now, I'm going to date myself and say that as Richard indicated my understanding this goes back to the Carter eras when Carter, famously or infamously, reformed welfare. He said welfare should be a way station and not a way of life, which he meant temporarily being on welfare was fine. But more permanently, you should earn your living through work.

And the other thing that he said that's less well known is he said that if you work you should not be poor. That was a phrase he picked up from David Elwood who was also in our administration. And we, indeed, made one of the early and biggest jumps in expanding the earned income tax credit for exactly that reason. Because the president wanted to be able to say, if you worked you wouldn't be poor.

So with that as background, we now have a new expansion of the EITC to childless workers. And just as a reminder for our audience or help to our audience, my colleague, Morgan Welch has put together a nice slide that shows what the EITC looks like right now and what changes the current American rescue package is proposing.

This is just to help all of us since these tax policies are as Richard just said, an extraordinarily complex, very hard to remember what the current rules are much less what the changes that are being proposed are. So this is just to give us a little help here.

With that I am really delighted to welcome this panel. This is a group of people that I

overwhelmingly respect for the work that they've done on this set of issues. And I'm just really pleased they could join us today.

I'm not going to go through their very impressive and extensive backgrounds or resumes. I'll just very quickly introduce them in the order in which they are going to speak. And then they're each going to speak very briefly. And after that we will open it up for Q&A amongst ourselves and with the larger audience.

So with us we have Christopher Faricy. Chris, I don't know if I pronounced your last name correctly so I apologize if I'm not. He is a professor of political science at the Maxwell School at Syracuse University. Welcome, Chris.

We then have Elaine Maag. Elaine's work on the child tax credit on the EITC and so forth have been a huge influence on my own thinking about this. And she is at the Urban Institute, which along with Brookings is responsible for something they call Tax Policy Center and they have done all of the great work on what we know about the distribution of aspects and also the costs of various tax credits and changes in them.

We then have Diane Schanzenbach. And Diane has also been at Brookings and is a huge well-known name in all of the research on what's happening to children in America. She's currently the director of the Institute for Policy Research at Northwestern University. And, Diane, it's fabulous to have you.

And last but not definitely not least is my friend, Michael Strain from AEI. And I should have said right from the beginning or we also said that we're really, really pleased that we are cosponsoring this event with AEI. And have people like Michael and Angela with us.

So what that let me turn it over and start with you, Chris, on any opening thoughts on these reforms to the EITC.

MR. FARICY: Well, thank you so much, Isabel, for having me. And thank you, Richard, also for the invitation and for Brookings. I'm really excited to be on the panel and hear what the panels have to say about the future of the EITC. So we heard from Senator Bennet and from Representative Martinez about why the EITC is popular among policymakers.

I'm going to talk a little bit in my time here about why it's popular with voters. So recently,

I conducted a nationwide study along with my coauthor, Chris Ellis, on public opinion towards federal tax expenditures including the EITC. And one thing to note, and by the way, this is in book if you're interested called "The Other Side of the Coin."

And the EITC is widely popular. It enjoys majority support from the American public and I think importantly for this discussion, it enjoys support among groups that normally are antagonistic towards government spending. So we found that it enjoys plurality support among Conservatives, among people with low trust in government, and people who score high in racial animosity. So those groups supported the EITC along with Democrats. Helps kind of float this program to be widely popular among the American public.

In addition, we ran survey experiments where we presented respondents in our national survey a description of the EITC without naming it. And then we asked them to qualify how deserving the recipient was of benefits. And what we found is that people find the recipients of the EITC deserving, if for nothing else, of the basic description of the program. And they're able to deduct that this is a benefit that goes towards workers and tax payers and people's perception of recipients as workers and tax payers are the biggest factors into why they favor some government programs over others. So any efforts to scale back the EITC are going to face the headwinds of public opinion.

I would also say that the changing electoral party coalitions among Democrats and Republicans might protect the EITC going forward. Since 1992, working class whites have left the Democratic party in large numbers and voted more for the republican party. And now, you have working class constituencies both within the Democratic and Republican parties. So you have beneficiaries of this new expanded tax credit in the Republican camp and the Democratic camp.

And the last thing I'd say was a point that was mentioned by Senator Bennet and that is the importance of the EITC for democracy. Wages for low-income workers, as we know, have been stagnant for decades. And what we're seeing in national public opinion polls are more and more citizens don't feel invested in the nation's economy.

And if citizens don't feel invested in the economy, if a rising tide does not lift all boats, they are more likely to turn to conspiracy theories to explain their economy insecurity and more likely to be attracted to candidates who promise wildly and extreme policy positions that promise more money for

them in a period of economy distress. So there really needs to be an effort to retether the American worker to the performance of the nation economy not only for the sake of these households but also for democracy itself. Thank you.

MS. SAWHILL: Thank you, Chris. I'm so glad you made the connection to democracy and to our politics and especially to where it's been headed in recent years.

Elaine, over to you.

MS. MAAG: Thanks. I also wanted to extend my thanks to you and Richard for hosting this. This is exciting.

What I'd thought I would do is put a little bit of that first slide you showed into context to what those changes mean and a little bit of what I think needs to happen next stage.

The first is I think it's pretty clear that the childless part of the EITC has always been somewhat as an afterthought. It's sort of wedged into this credit that is a really powerful tool for low- and middle-income families with children. And in fact, it wasn't until, you know, the program had been running for 20 years that we even gave any credit at all to workers who are jobless on their tax returns.

And interestingly enough, there's been a string of proposals and they were coming from both the left and right. Perhaps most famously from Representative Ryan and President Obama to expand this piece of the credit and despite near identical proposals, it didn't get enacted.

And so, then the next opportunity came along in the Tax Cuts and Jobs Act. We have this big tax reform happening and surely this is the moment when this credit will get expanded and it doesn't which is a little bit of a surprise. And so, I think I was despite, you know, everything Chris was saying about how popular it was, almost surprised that it again popped its head up in the American Rescue Plan.

And I think the changes were important but I think it still should be thought of as a support for families with children and here's why. It used to be that about 25% of all claimants of the EITC were childless workers, but they got just 3% of the benefits so a really small slice of the total.

And now, those numbers have changed so childless workers will be about 45% of the claimants and they're going to get about 17% of the benefits. So it's still a small amount of pie is going to this group of people though it is more balanced. I think the expansion is really interesting at this moment

because it was almost made for this moment.

I did work with Laura Wheaton and Kevin Werner where we modeled a very similar expansion of childless EITC and the top three industries of workers that would benefit are those in retail, accommodations and healthcare. And those, of course, are the industries that have been slammed in this pandemic so it was a good policy for this moment.

But one oversight in the legislation that I think is worth bringing up is that a lot of dependent students will be left out of the credit so it's widely available if you're 19 now instead of age 25. But if you're a student even if you're only in school half time for five months of the year, you're excluded from this expansion.

And I think that's shortsighted and it doesn't really guarantee what we know so there's a lot of low-income people attending college right now. About half of students are actually working. It's generally recognized that for low-income people, the benefit formula for getting your college age both overstates how much money have to pay for college and understates the needs of a lot of young students.

Half the students are getting by on incomes that are less than twice poverty so they're pretty low income. And lack of money is the number one reason they're saying they're leaving college. And so, my thought is if you're independent and you're going to school and you're working, why not get the boost. Leaving struggling students out introduces sort of, in my mind, needless complexity. It's hard for the IRS to administer this provision anyway and adding additional rules that they don't get data on is not going to help it.

The final I'll make is that there are important links between federal and state EITCs and when the federal EITC increases, we know that 28 states plus the District of Columbia will automatically see their EITCs increase as well. So there are state implications that are pretty important to this policy as well.

MS. SAWHILL: Thank you, Elaine. Diane, over to you.

MS. SCHANZENBACH: Thank you. And it's great to be here with you. So I wanted to briefly start with sort of a lap around all the great things that we've learned about the earned income tax credit. Of course, Michael Strain and I have a recent paper that documents that the expansion of the

earned income tax credit have really increased employment especially among single mothers. And then there are all these spillovers on a range of other outcomes.

Children are born healthier. They're more likely, you know, their test scores go up. They're more likely to go to college. There's just this range of really good outcomes. And so, of course, you know, now we're talking about expanding this for childless adults and a question is, you know, will we see similar impacts?

Now, fortunately, MDRC recently did a randomized trial of what's called, Paycheck Plus, which is sort of targeted after, you know, what it would look like to have a large EITC expansion for childless individuals. And the results, I would say, you know, were quite impressive.

They reduced severe poverty and so therefore I would expect this EITC expansion to do the same. It expanded employment rates and it really primarily did those after a year and it was aided when people really understood what this extra payment would do for them if they were employed.

Something that was surprising to me is that those employment rates went up the most among childless woman and also the most disadvantaged men. And so, this expansion is a policy, it's really going to reach some of the most disadvantaged workers that we have.

Another important finding from the Paycheck Plus work is that more child support was paid, you know, because these noncustodial parents had more resources. So I think, you know, there's a lot to be excited about here.

And, you know, as we're experiencing a lot of shifts in our social safety net, you know, with the big expanded child tax credit which I hope they will make permanent. I do think that there's, you know, it's maybe worth having some, you know, broader thought conversations about, you know, how much should we be tying our pro-work incentives to the presence of children in your house?

And I think most economists would say, you know, we've bundled those two together too much. And, you know, it might actually make sense to, you know, provide more assistance for children through a different program and then, you know, turn our employment, you know, incentivizing work. You know, potentially even, you know, regardless of whether one has kids. Thanks.

MS. SAWHILL: Terrific. And I want to commend all of you for being brief and concise and interesting at the same time, which is always hard. Michael?

MR. STRAIN: Well, I will continue the tradition of being brief. Thank you, Bell. One of the advantages of going last is that you can comment on what everybody has said before you. And I agree with basically everything that has been said. I think all these points are correct, valid, and important.

MS. SAWHILL: Your thoughts after that.

MR. STRAIN: I'm sorry? No, there's no but --

MS. SAWHILL: There's no but that comes after that.

MR. STRAIN: I have no but. I think we should expect to see this tripling really of the EITC for childless workers to pull through the workforce and the reason why it would do that is very straightforward. It increases the financial rewards from working.

And so, some people who are on the margin between working and not working will join the workforce as a consequence of it being a better deal for them. There's been some dispute about whether or not we should expect the EITC actually to increase employment.

I would direct anybody who's interested in that debate to read the paper I wrote with Diane. I think we do a pretty convincing job of demonstrating that we should expect the EITC to increase employment. Of course, that's for other people to judge and not me.

I think this should be a bipartisan policy. And one of the great disappointments I had with the 2017 tax law was that it didn't do this. It didn't expand the earned income tax credit for childless workers and I think we should commend President Biden and the Congress for including it in the American Rescue Plan.

This should appeal to Republican's sense that personal responsibility is important, that work is important, and that the role of government policy isn't to give handouts, but is instead to give a hand up and that's exactly what the EITC does. You only get it if you're working and it goes to low-income workers to help them make ends meet, to help make work attractive with the idea that when you get your foot on the first rung of the employment ladder than it's much easier to pull yourself up. And the real hurdle might be actually getting on that ladder in the first place.

It should appeal to Democrats because it is one of the most effective antipoverty policies that the United States has come up with. And so hopefully, there will be a robust and significant

bipartisan coalition for making this permanent because the ARP did this for one year and one year is better than no years.

But if we really want to see the positive effects of this program than we want to make this a part of permanent law. I hope that the policy community can turn its attention to helping to inform and achieve that objective.

MS. SAWHILL: Thank you. Let me ask all of you one simple question. Are any of you against making this particular temporary provision permanent? Okay.

Let me ask another question that's come up from the people watching the event. And it came up a little bit earlier and that is the whole idea of a universal basic income. And some people have said, oh, well, this is the camel's nose under the tent. This is an opening salvo in getting some kind of a guaranteed income for everyone because as the senator said, we've had a lot of growth, but it hasn't been very broadly distributed. And we're a wealthy country and doesn't everybody need a minimum of, you know, take your pick, \$10,000 a year.

Andrew Yang is running for mayor of New York now and he's gotten a lot of attention for this set of ideas when he was running for president.

Does any of you see this as just a first step towards something like a UBI, a universal basic income?

SPEAKER: Really, it's a step away from a universal basic income. You know, we have a challenge in the United States which is that a large portion of our workforce can only command wages in the labor market that we think of as low and one solution to that is UBI. Which is to say, well, you know, those lower wage jobs are bad jobs. People shouldn't work in those jobs. We don't need those jobs and let's extend everybody a universal basic income so they can finance their lives without having to work.

I think the EITC has the exact opposite answer to that problem. The EITC says, okay, well, if we're going to have people who are only for the minimum wages and therefore the cost of income is low then let's subsidize their earnings. And let's make sure they're still working because work is important for society. Work is an important source of dignity for individuals. Work is, you know, much more than just the size of a paycheck. But, of course, the size of the paycheck matters.

And so, we will have a societal covenant that if you work full time and head of household,

you won't live in poverty. And if, what you can pull in from the labor market is, you know, 20, 25, 30 grand a year or something like that then society has a responsibility to subsidize your earnings provided that you are working.

And so, you know, I strongly support the underlying vision that the EITC advances of society. And one way to characterize that is in direct contrast to the underlying societal vision that UBI puts forward, which I think would be bad for many, many reasons.

MS. SAWHILL: Well, I like that argument. Does anybody on this panel have any sort of major as opposed to minor disagreement with it?

MS. SCHANZENBACH: Well, I think I'd like to weigh in -- go ahead.

MR. FARICY: Go ahead, Diane.

MS. SCHANZENBACH: Okay. And then we'll turn I'll turn it over to Chris.

I do think that sort of our best employment promoting strategy is to provide more incentives to work and, you know, that means an extended income tax credit. You know, a robust like growing economy.

You know, one little caveat that I would add is that, you know, over the last 25 years we've shifted so much to trying to incentivize work that, you know, we discovered during recessions is, you know, this pandemic and previous recession. The workers are underinsured when they lose their jobs and, you know, so I would just sort of want to weigh in with that, you know, one little sort of net that, you know, this is a policy that works well especially when the economy is growing.

And we all want to see the economy, you know, growing, you know, quickly again soon. You know, it's growing now. But we need to know that we can't just put all of our eggs in that basket. And we need to make sure to have out-of-work supports available, you know, whatever those look like.

MS. SAWHILL: Chris, if you want to come in on this particular issue or not necessarily like --

MR. FARICY: Sure. No. Yeah, so I mean I think the EITC expansion is a start, but it's just a start for restructuring the economy so it works for everyone. I mean, you know, I have students who are coming out with college debt. They're having a hard time buying a home. They're looking at the expense of having a child, right?

And unless there are changes to the economy that not only makes it work for low-income workers, but for middle income workers too then I think there will be a growing support for a UBI. I mean, I don't think the EITC with this one-year expansion will do it, but what was mentioned by Representative Martinez with the child tax credit expansion, you know, if you think about a person's bank statement, right?

They open it to check it and if they have two working incomes, they get four green numbers a month and then a whole sea of black numbers. All of a sudden now if they have children, they're going to get a green number in there that says, IRS or U.S. Treasury, right? So then there might be a question of, well, why can't we deliver benefits this month?

MS. SAWHILL: No. Actually, I'm glad you brought that up because a person --

SPEAKER: (inaudible) already gets doing a monthly child allowance.

MS. SAWHILL: Yeah. I mean what I was going to say is if you have three children, you are getting the equivalent of a \$10,000 UBI. So it's a UBI for families with children who have incomes under say, \$150,000 a year if this CTC -- if the child tax credit is permanent along with those advances of the EITC. We are basically back in the arena of a semi-UBI.

But I'll leave that there for the moment because I want to go back to an issue that Elaine brought up to get her back into the conversation. And, Elaine, the thought was like you said about students that's interesting. And I think when we talk about expanding the age eligibility down to 19, people do think immediately about people who are in college.

And I guess the current provision says, unless you are in a close to full time or more than half time approval, you can get equity if you are more than that time or you can't, right?

MS. MAAG: That's right.

MS. SAWHILL: And you're saying why shouldn't it just be whether you're independent or not? But do we do a good job of measuring whether somebody is economically independent from their parents or not? That's genuine question.

MS. MAAG: Well, I think the bigger question is are we willing to be afraid of the, you know, improper claim by a high-income kid who's in college. But we haven't, you know, attached them to their parents' tax return at the expense of the low-income kid who's really struggling to get through school

and working? And so, that me is where you make the value call of whether you include students.

And then does the IRS do a good job of administering the provision and dependency?

It's not clear to me. They don't have all of the information they needed reported on information returns so that's sort of slots it into the group of provisions that the IRS is not as good at administering.

We do have financial aid records for a lot of people that indicate whether their parents are contributing to their, you know, finances which gives you some sense of kids who should qualify because they're supporting themselves.

MS. SAWHILL: Okay. I want to go back to the question of the marriage policy that came up in the conversation with Senator Bennet. You know, some of our friends and colleagues often raise this issue of marriage penalties and if you are in favor of bringing back two parent marriage families who worry about this.

As the senator said, it's very complicated because under current law there can be marriage penalties but also marriage bonuses. Is anybody worried about this? Would your answer be very similar to what the senator was which is we don't think it's going to affect behavior so let's not worry about it? And fixing it is very expensive or just anybody have another view of that?

SPEAKER: I do think that there's not a lot of evidence that the marriage tax penalties especially at this part of the distribution are sort of a serious impediment to marriage formation.

I think if we want to, you know, take a serious swipe at that issue, you know, we should do it more systematically throughout the tax system. But, you know, sort of flagging it for just, you know, this very modest amount of money for childless workers. It doesn't make a lot of sense to me. It doesn't even seem like it's -- it's hard to imagine that that will be a big barrier.

MS. SAWHILL: Right. Right.

SPEAKER: First of all, I have an issue with the framing. I mean, you know, we could call it a marriage penalty or we can call it a recognition that we have a household-based tax system and, you know, if -- I mean eventually the kind of, you know, cartoonish example where, you know, one person earns 100 grand a year and his spouse doesn't work and the spouse doesn't get the job, you know, for one afternoon a week or something like that. And then the spouse gets the EITC. I mean that doesn't make much sense either.

And so, you know, I think we have a household-based tax system. There are good reasons for that as long as we have one then I'm not sure why we think of this in terms of a penalty rather than just a recognition of the reality that people who live in the household can fool resources.

MS. SAWHILL: Okay. So let me now bring up another issue which, Diane, you very much alluded to this. And that is here we have three temporary tax credits that are in the new bill, rescue bill. One is child tax credit, one is the earned income tax credit, and the third is the child and dependent care tax credit, which is also expanded to a much more generous level and will also help low-income families and middle-income families who are earning a living and have childcare expenses that they must undertake for that reason.

Now, it occurs to me, and I'm sure it has occurred to a number of you as well. Elaine, I think you in particular may have written about this that this is getting pretty complicated to have three different basic tax credits that overlap, and what they intend to achieve and who they serve. You know, the earned income tax credit is really focused on work, rewarding people who work. Although, it also helps to reduce poverty.

And the child tax credit is really focused on children and no so much on poverty because it goes way up the income scale. And as someone said earlier, it actually helps 90% of all American families. All of them except those at the very top and we have not wanted to reign it in from there.

I think we can all agree that making the existing child tax credit fully refundable at the bottom is a good thing to do, but if you spend enough money on the child tax credit all the way up the income scale, you're going to have big reductions in after tax income and that's a different goal.

And then finally, there's this issue of simply what's the best way to reduce poverty at the very bottom. So work poverty reduction and helping children and complexity. Can you imagine or is it just politically infeasible to completely reimagine these tax credits in a way that would achieve some balance of these goals but without some family having to figure out three different tax credits with three different sets of eligibility criteria, three sets of benefits, etc. Three different application processes. Anybody worried about that especially if we're going to make these things permanent?

MS. MAAG: So I do worry about the complexity a lot. The childcare credit, first of all, goes to very few families and it's not going to go to that many more families given in its new incarnation

because very low-income families, as you know, don't have childcare expenses that they can wait a year to get reimbursed for. You know, they intend to rely on informal care or --

MS. SAWHILL: But the law makes it refundable, Elaine.

MS. MAAG: Right. But it still doesn't come at the right time. And when we modeled the credits, we just don't see that huge of benefits to very low-income families just because they don't have the expenses there. And they get, you know, other subsidies that are more efficient.

We should, in my view, move to separating these work and child credits. I think you proposed the same thing. It makes it so people know what the incentive is for. What is the tax system wanting to do? And, you know, if we had a uniformed definition of child and one child benefit then people would understand it and hopefully react to it in better ways.

Interestingly, the expansion of EITC, in my view, to childless folks actually makes that transition easier because you can pull out more of the EITC that goes to everyone now and call that your worker credit. And then you have less left over in the piece that only families with children get of the EITC to figure out how to merge that into the child tax credit.

MS. SAWHILL: Elaine, more thoughts on that? I'm sorry, Diane, more thoughts on that?

MS. SCHANZENBACH: Yeah. I was going to agree with, you know, a lot of those points. And I think, you know, as we're thinking about, you know, making the child tax credit permanent and, you know, maybe switching to sort of, you know, some sort of a basic income for children and then a worker credit, I think that makes a lot of sense. But of course, we can't make any of these changes until we know, you know, what's permanent and what's not permanent.

And so, a concern that I've got is that, you know, maybe that will not make some of these things permanent even though I think they'll be good. But then if we respond by changing other policies too quickly, you know, we might be back in a situation where there's not enough support for children especially for out-of-work parents.

MS. SAWHILL: Okay. Let's move for a moment. We're waiting, by the way, for Speaker Ryan to join us. And I'm going to -- let me see if I'm getting any message whether he's come or not. Good. He is here. All right. I am therefore going to close this off so we can hear from him.

And I really, really want to thank all of you for taking the time to do this. It was a great

discussion and I look forward to more conversation about all of this.

Okay. Let me then say that we're really honored today. I am especially honored to get to introduce the former speaker of the House, Paul Ryan. And he has left, as we all know, public service.

But he's still very active and I'm pleased to note that he hasn't given up some of his intellectual energy. He's spending it now partly at AI and partly as a professor at Notre Dame. And he's doing many other things as well.

But I just wanted to tick off the fact that as someone who has always been a private guru on policy especially policy to improve opportunity and reduce poverty and policies to reign in deficits and other things that I care about. I've always been a fan of his intellect and I also have a warm spot for him in my heart because although he and I disagree on an awful lot, I've always appreciated the fact that he's willing to have a discussion with almost anyone about almost anything.

So with that, Speaker Ryan, welcome and thank you so much for joining us. And I should have mentioned the most important thing of all, he has been a major advocate for extending the EITC to childless workers. And I think he's the one we have to thank amongst a number of others for keeping this issue alive and it must be gratifying to him to see it now hopefully coming to fruition. So over to you.

MR. RYAN: Right. Bell, it's nice to see you again. It's been a little while. I enjoy my time over at Brookings and I've enjoyed -- I used to call Alice my Jewish mother. So I'm going to need a new mom at Brookings so I think I've just adopted you.

MS. SAWHILL: Well, I'm eligible by age.

MR. RYAN: All right. Awesome. So it's really nice to see you again. I'll tack on. So I unfortunately didn't get to participate in the earlier parts of this so I'll just give a few thoughts on the EITC and some policy fights that maybe in the future, but thank you very much for that introduction. I still spent a good deal of time on this. I see a lot of familiar faces on this.

I think personally you just asked me. I spent a lot of time in this space when I was in government. I do now. If you had to ask me what is the one thing that government does that's the most effective at fighting poverty? I would say it is the EITC. Just no two ways about it.

If I had to pick one shred, it would be one thing. I think it's the most effective poverty tool we have. It accomplishes its intended effect and it does so without reducing labor force participation. So

I've always spent my time on EITC.

The American Recovery Plan did what? Three things off the top of my head here. It tripled the maximum credit up to \$1,500 I think. It reduced the minimum age down from 25 to 19 and it increased the amount of childless adults by doubling the phase and the phase out ranges.

All three of those are things that I was pushing for back when I was budget chairman in 2014. So sometimes, it takes a while for policies to actually occur. This is one of those things that I think has had a long bipartisan appeal, and I'm glad that this has happened. So having said that when we proposed these things and we always had paid for.

So we always found ways of creating fiscal space to pay for it. This is temporary. It was done in emergency legislation. So I think we're going to have a pretty good debate about whether this gets extended or not. I think it's good policy. Therefore, I think it should, but I do think we have to be mindful of our fiscal situation.

And there are less important things that can be cut to pay for this. So I do believe that we're going to have to have a pretty good conversation about how to pay for the extension of these policies when we go from emergency relief and we take into account our debt and our deficits which are coming back with a vengeance. They have come back with a vengeance. And how we make these things permanent.

A couple of other points, I guess, I'd say, Bell. And that is there's a bit of a debate on our side of the transom on family policy versus labor. And I see this as actually a good debate. You know, I have opinions about the debate, but I would basically say the hot topic in Conservative circles these days is we have a number of competing proposals some of which make more sense and some that make less sense in my own opinion.

But at the core of these proposals, there is a perceived conflict. And there's this belief that, you know, support for families and family formation comes at odds with policies that promote labor force participation.

You've got Conservative work around welfare that, you know, Ron Haskins and I and many people back in the day worked on this in the '90s and in the 2000's. And we really spent a lot of time working at promoting labor force participation. The EITC is a labor force promoter.

The idea from our side of the aisle came from Uncle Milton, Milton Friedman who proposed a negative income tax. So there's a long history on our side of promoting labor force participation and the tools like EITC that do that.

But we've got some new proposals from folks who I would say they're not hostile labor force participation, but they just want to focus on family formation. And Senator Romney, a very close personal friend of mine, is a child allowance. Child allowance is more broadly. There are a number of people who are pushing these. They would help support families with kids. On the positive side, they would reduce poverty by a lot.

But it's also possible that they could have negative effects on labor force participation, I think. So my one concern in this we're being forced in this debate of choosing. And if we look at child allowances, my concern if we do this federally across the board it's a pretty new program. We're not sure all the effects of this.

I would much rather see a state take the lead and play with the child allowance and beta test that and see what the drawbacks are. What are the unintended consequences? Does it actually reduce labor force participation? Because I think this is something that you just wouldn't want to put nationwide right away.

Frankly, I think there is some other tools that are already in place that kind of give us what we need, the CTC, the child tax credit. It's been around for a long time. I expanded it when I was, you know, running tax law. It's refundable now. It just got expanded in this last emergency bill and the EITC. So frankly, I think we're better off in this battle of ideas, and it's a good thing to have, with what we know. And with what we know kind of works and then figuring out ways of finding the fiscal space to pay for those things.

So I think it's sort of preferable to work with the child tax credit, the EITC because we have a pretty good understanding of their effects. And I think if we're going to spend money in this area that's where we should be looking first.

I don't think the overall goals between family stability and labor force participation need to be intention. I think one of the things that we can look at is ways of reducing their penalties in the EITC. A lot of people on our side of the aisle are looking at just doing that, building on the current program and

generally know the effects of it.

The one thing that I would say that bothered me a lot when I was in government, and I just kept having these arguments with Treasury people, is I really think the EITC should be basically embedded in the paycheck. It should be monthly. You should see it on top of your wage every time you receive your wage, not at the end of the year.

And it got to the point where the antiquated systems at Treasury just could not do this. So it got to the point where we looked at this just converting it over to a Social Security program through the W-2 system because those systems can do a monthly benefit. And we ended up not doing it because you basically have to end the EITC and add Social Security and that was just too big of hill to climb.

So my hope is that policymakers and more importantly technologists can finally figure this out. There is a decent amount of fraud. I think the last score I saw when I ran it by joint text and CDO on fraud in the EITC was about a \$26 billion price tag. I'm sure that number is much higher. That's what I wanted to use, you know, requiring things like Social Security numbers and tax I.D. numbers.

Little small things that honestly, I don't think should be controversial, that bring program integrity to the EITC are good ways to getting the fiscal space to pay for these expansions that I think are worthy. But we've got to get technologists to figure out how to fix the darn systems that our government has so we can actually have better tools.

So we can embed the EITC inside the paycheck at the pay period so that you really do see that work does pay every time you do it. So I think there are things like that that are really important reforms that there's really no reason why we shouldn't have these things other than ridiculous technology excuses in my opinion.

With that I'll say, I'm excited about the energy in this space. I'm excited Mitt Romney has a proposal on child allowance. Marco Rubio plays a lot in this space. Tim Scott. So I'm talking about people on our side of the aisle.

What I see is we've got finally Conservatives in a decent critical mass who are putting out interesting, innovative proposals to reduce poverty. And we're going to end up in a much better place for policymaking because policymakers tend to go for where the action is. And if we're spending a lot of intellectual capital here, we're going to see a lot of political capital following.

So frankly, you know, when you're a speaker, you're basically running, you know, a crazy place. And you're spending all your time on things that are not policy. I've really enjoyed these last two years focusing more on discrete policy things. And I do see -- and this is my think thing pitch -- I do see a shortage of connective tissue between Capitol Hill, legislatures and think tanks. Between Democrats and Brookings and Republicans and AEI and Republicans and Brookings and Democrats at AEI or Heritage or whoever.

When I started in politics, there was not a day where I was not over at one of these think tanks, Brookings included, or one of these people were in our office giving us feedback, giving us ideas, helping us prepare solutions and ideas. There is so, so much less of that these days.

So one of the things that I want to do in my post-, you know, elected career is start reconnecting this tissue so that these people, these bright ideas. You just had (inaudible), I saw. I want get these bright people connecting with policymakers who just, you know, didn't come up in the '80s and the '90s when the think tanks were the thing.

They're getting so besieged by new media. By all these platforms, these digital platforms, that they don't think about think tanks. They don't have time for it. So I think there's some reconnective tissue that has to occur. There are some policy leaders spending their time in this space. So I'm actually pretty optimistic that we're going to crack the code on some of these things.

We've got new tools. We have new data and new analytics and new technologies that I really think are going help us hone these skills that economists have been dreaming about for years that will really move the needle on poverty and not make us have to make these choices between laudable goals like family support, family forced participation.

So that's my two cents. They told me to go for about 10 minutes. That's what I just tried to do. I'm a House person so I stick to my allotted time. I'm not a senator. I don't go off way past my allotted time so that's my piece, Bell.

MS. SAWHILL: I think it was terrific and I loved the way you talked about the sort of (inaudible) tension or alleged tension between family policy and work or labor policy. I have seen that tension as well. And I (inaudible) if the thing that's sort of glossing over or tapering over that tension right now is the fact that we're spending a lot of money.

MR. RYAN: Yes.

MS. SAWHILL: And we're spending a lot of money because we're in a pandemic and, you know, a recession. And when you're spending \$2 trillion or whatever, it's not hard to achieve multiple goals.

But if you get into the world where we're trying to make these policies permanent and we're spending this much money every single year and not just on a one-time basis and not just as part of an emergency then the whole issue of pay for is going to come up and as the issue of tradeoffs between are we going to do this policy or that policy? Where are our priorities?

So I think those tensions are going to come back into play and also the issues that you spent so much of your life working on into fiscal issues are going to come back into play.

Do you want to say anything about your sort of future guesses about where a second and more permanent package might be going? And how in the world, we are going to pay for it?

MR. RYAN: Yeah.

MS. SAWHILL: And whether there's any room for bipartisan in that context?

MR. RYAN: Look, I don't want to pan the Biden infrastructure (inaudible). I could but there is no point in that right now in this thing. I think they picked the wrong attack policy. I, obviously, as a person who coauthored the current tax bill, I don't like what they're doing in the business taxation. I think it's going to lower growth, lower wages, create inversions.

I think on that they should -- I believe in user fee system. User fees for infrastructure. I think they'd be better off. First of all, if they scoop up these papers, if they actually pass this, which I think is questionable, then that's going to this infrastructure spending. It's not going to go for these other things.

So why don't we do an infrastructure bill with user fees? And frankly, gas taxes are a losing revenue source. It's a bad model with mileage standards and electric vehicles so go to a VMT. I can tell you if you just did an infrastructure package and you went to a vehicle miles traveled, you'll get 50 or 60 Republicans. And they could -- it won't be a \$2 trillion bill, but you'll have a substantial package. I know you can get the votes for that.

So the reason I've mentioned this, Bell, is because let's take this current debate and

scale it spinning down to the actual infrastructure and make it a user fee system and do some acid recycling and have a nice infrastructure package which truly could be bipartisan. Then when we're dealing with pay-fors on these expiring provisions that came in with an emergency, you know, there at least is a space for debate on how to pay for those things.

Because right now if you're going to stand on the Hill right now for new spending and you're going to take what I think the other side of the aisle thinks are the best pay-fors, we don't think that's true. You're not going to have any room for this stuff.

So I would argue infrastructure with user fee. I think base broadening is better. I thought salt reduction or elimination was a smart policy that's why we put it in the tax code in the first place. I want to get rid of it completely. I couldn't. I didn't have the votes to raise it to 10,000, passed it. If they repeal that then you're really far backwards.

So look, I also still believe in the motor adjustment that Kevin Brady and I were pushing around. Now, we got killed by the consumer sector, by big box retailers. And the senators, from those big box retailers states, basically Georgia and Arkansas and, you know, a few in between.

But at the end of the day, we have a pretty good tax system right now. It's very competitive. If they take this current tax system and increase its goal of minimum tax, it's going to hurt us. I think at the end of the day -- and I don't see that happening this session. The majorities are just too narrow.

I think a tax base like what Kevin Brady and I tried to do with the motor adjustment tax which is basically a subtraction method that with wages as a deductible because you want to prefer wages. You want to be pro-labor, I think WTO will take it. I don't buy this argument that they won't. I think it's (inaudible) wash this stuff out. And I think it's a far, far smaller better revenue system for our country that can do a better job of raising revenue for things that we think are important without doing damage to our economy, without slowing down our labor force participation or making American businesses less competitive.

So that's a big macro statement, I guess I'd say. In the meantime, I think there's a lot of program integrity in these programs that you can get at to save money to extend these policies.

And the last point, I guess I'd say is more data in analytics. The programmability of

money, which is coming. We will have, I assume, and hope a digital dollar eventually. We're going to be able to program money more intelligently. I spent time now on Crypto and digital currency issues. So it's just technology (inaudible) I'm just enamored with. I believe this technology, permission ledgers and the rest, is going to give us the ability to do a lot of programming meaning clean out waste and fraud and target exactly to whom and for what we want to target for.

This isn't Big Brother. This is just making sure the spending that we do goes to the place we want it to go for the things we want it to go to. And I really, really believe there's a tremendous amount of savings that can be done there. And using data analytics and good macroeconomics, we can actually, you know, move people out of poverty. Make a big difference. And do it cheaper than we're doing it right now.

So these things, I think are going to be -- take a while to do, but that to me is the exciting future of poverty policy in America today with a better understanding of economics and technology and the fusions of those things in our government.

MS. SAWHILL: Great. Well, all right. I'm being told that our time is coming to end. I'm so glad we got this bonus statement from you on these bigger macro questions. And questions that are really going to loom large and are going to affect actually the prospects for the EITC and other antipoverty programs. So thank you for that, but most of all thank you so much for taking the time to do this today.

I am so glad that you still think think tanks are relevant and that you think we can all work together and have more conversation back and forth between those of us who are interested in intellectual issues and policy and helping improve people's lives. And those of us who are in a position to actually make it happen.

So thank you again. And thank you everyone for joining us today. On the behalf of Brookings and AEI and all of my colleagues in both organizations who helped to put this together.

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