

Trade-offs in providing in-work vs. out-of-work assistance

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In-work vs. out-of-work

Out-of-work transfer programs have gone out of favor

Traditional welfare (AFDC/TANF)	\$7.4 bn	2.8m recipients (2016-17)
SSI	\$14.7 bn	2.4m
SNAP (near cash)	\$63.6 bn	42.1m
<i>Medicaid (in-kind)</i>	<i>\$368 bn</i>	<i>82.2m</i>

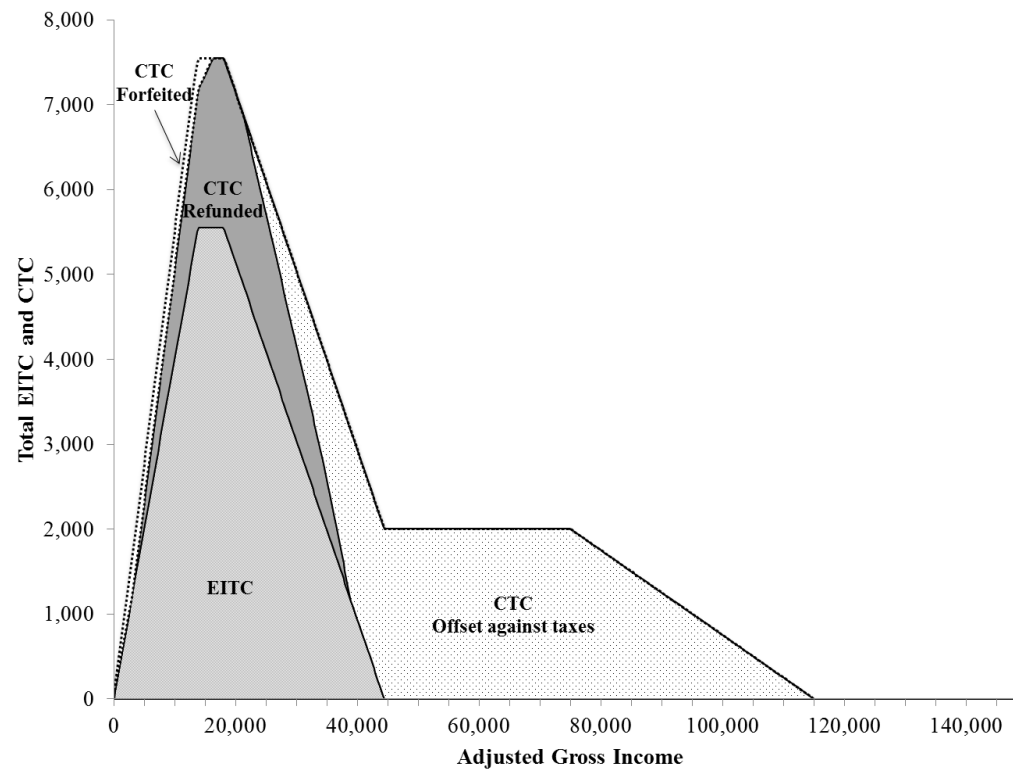
In-work programs have grown

Earned Income Tax Credit	\$69.8 bn	69.7m recipients
Child Tax Credit	\$52.8 bn	105.9m
UK: Working Families Tax Credit (now Universal Tax Credit?)		

Source: Hoynes and Rothstein (2019). "Universal Basic Income in the United States and advanced countries." *Annual Review of Economics*.

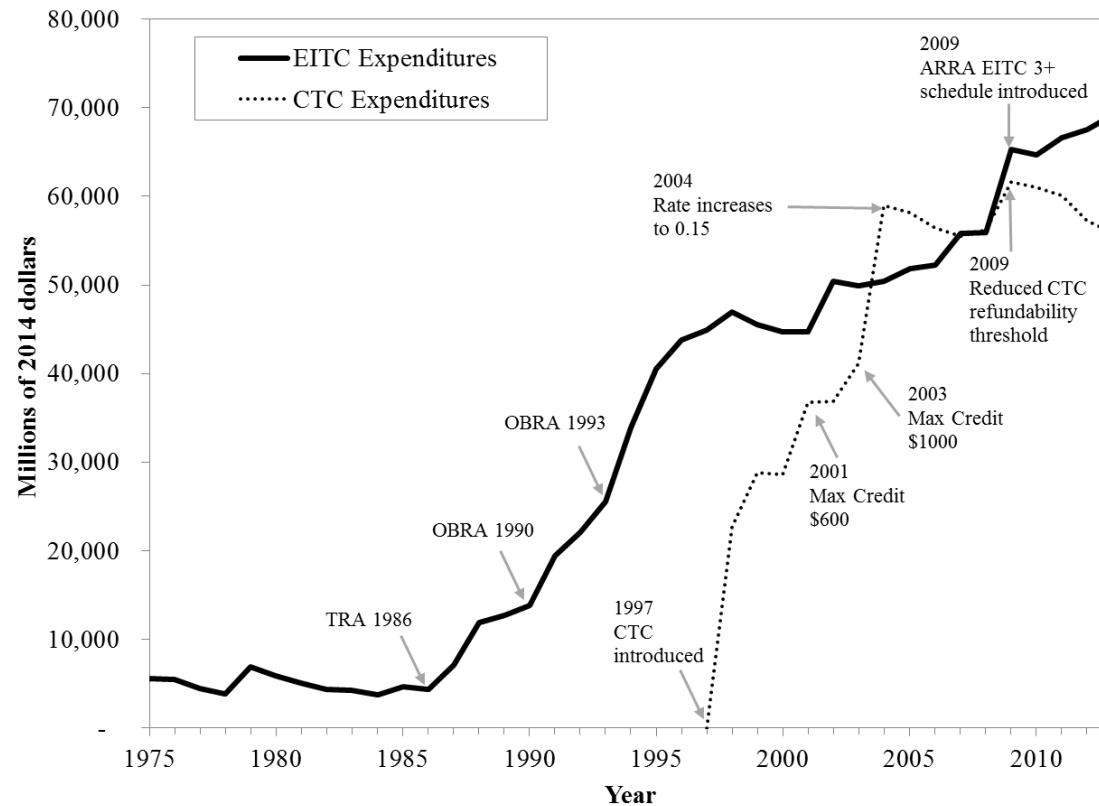
The in-work trapezoid

Figure 3. Combined EITC and CTC schedules for heads of households with 2 children



Source: Hoynes and Rothstein (2017). "Tax policy toward low income families." In *The Economics of Tax Policy*, Oxford.

Figure 4. Annual cost of the EITC and CTC (Millions of 2014 dollars)

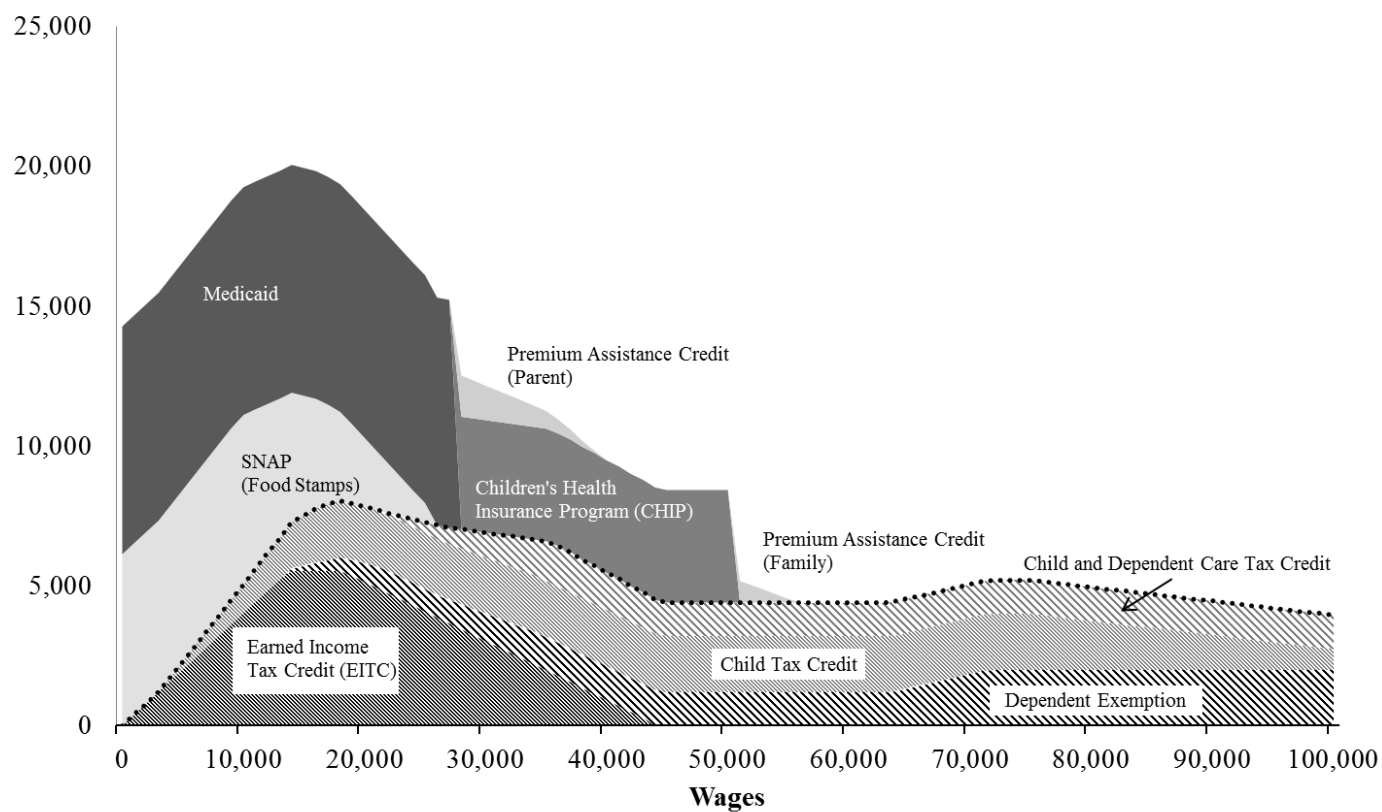


Notes: Each series includes both tax refunds and credits that offset tax liabilities.

Sources: Based on data from Internal Revenue Service (2014d, 2014c, 2015b), Tax Policy Center (2014, 2015a), and U.S. Bureau of Labor Statistics (2014).

Source: Hoynes and Rothstein (2017). "Tax policy toward low income families." In *The Economics of Tax Policy*, Oxford.

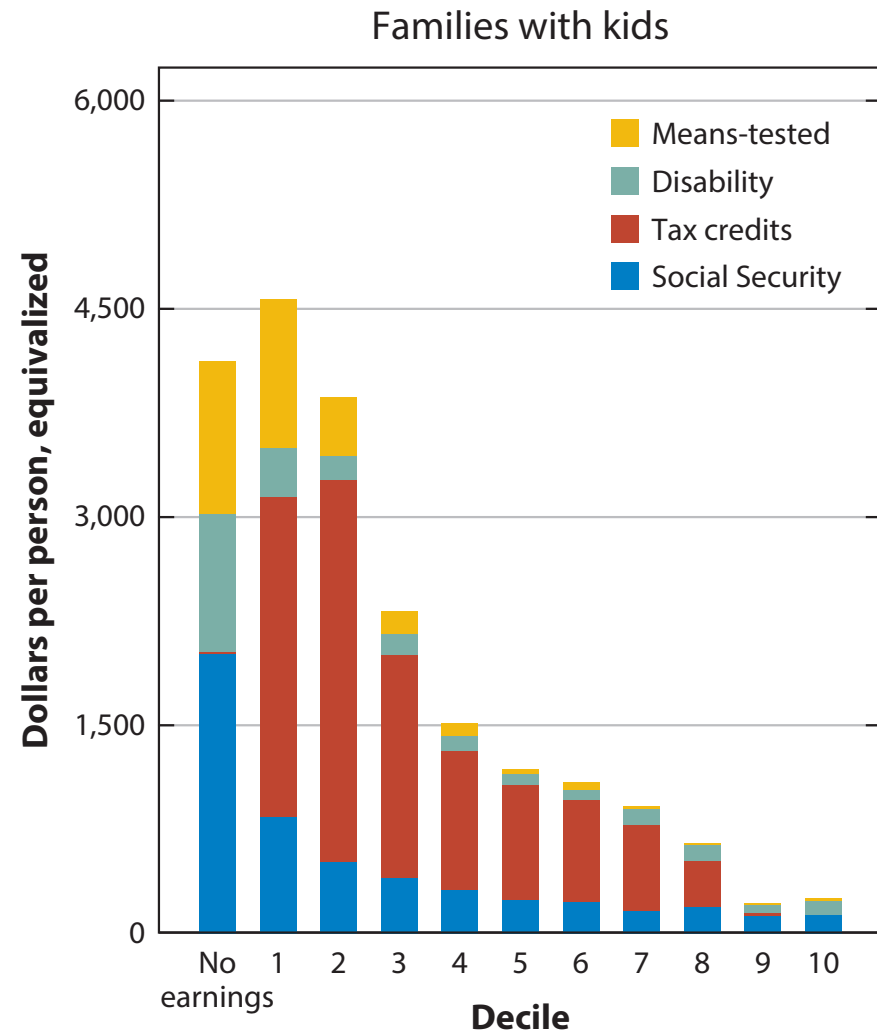
Figure 5. Tax and transfer benefits for universally available programs, by income (single adults with 2 children, 2015)



Source: Hoynes and Rothstein (2017). "Tax policy toward low income families." In *The Economics of Tax Policy*, Oxford.

Average transfers by family earnings

Source: Hoynes and Rothstein (2019). "Universal Basic Income in the United States and advanced countries."
Annual Review of Economics.



Advantages & disadvantages

- Advantages of in-work credits:
 - Create/strengthen incentives to work
 - Reduced cost
 - No “welfare queens”
- Disadvantages:
 - Distort labor supply decision
 - Drive down wages
 - Exclude those who can't work, as well as children of those who won't.

What do we know? Labor supply

- Old-style welfare created disincentives.
- Experiments with slower phase-outs induced more labor supply
- EITC increases labor supply among single mothers.
 - Extensive margin (participation): Elasticity with respect to net-of-tax wage 0.3-0.45; with respect to gross earnings plus EITC 0.7-1.0.
 - Reduced LS among married mothers.
 - Intensive margin: Smaller -- 0--0.14. Some evidence of effects on reported income.
 - Recent debate: Kleven; Schanzenbach & Strain

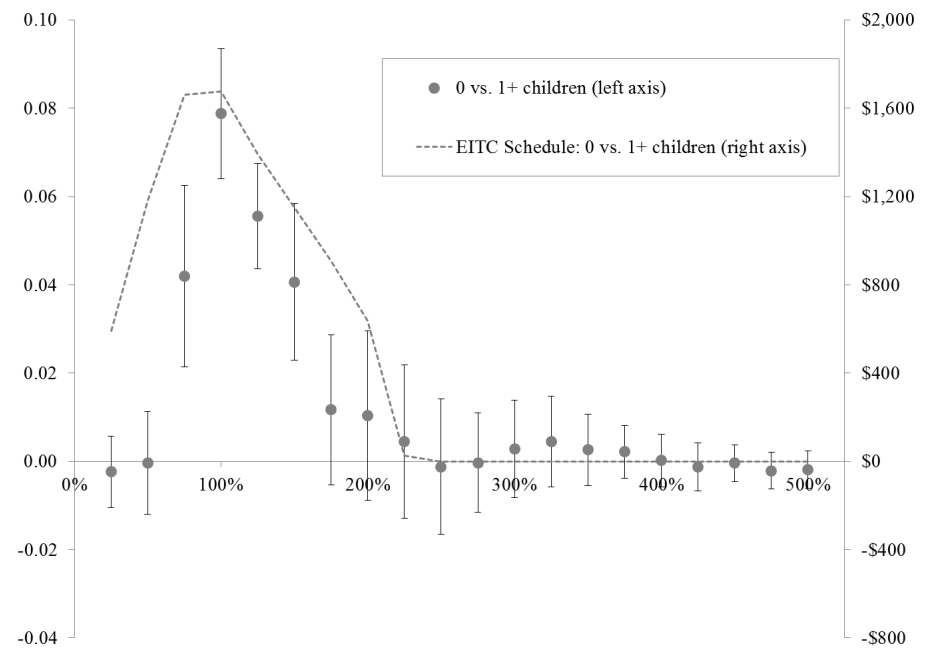
What do we know? Wages

- EITC distorts labor supply.
- Incidence theory says this should reduce wages.
- Very challenging identification problem.
 - Rothstein (2010) simulations: Employers capture around one-third.
 - Leigh (2010) DD estimates: Very large wage effect. Net earnings fall.
 - Azmat (2008): WFTC recipients' wages fell relative to others in the same workplace.
- Literature is dated and inconclusive.

What do we know? Incomes

- Effects on income unambiguously positive, poverty negative
 - Bollinger, Gonzalez, and Ziliak (2009); Grogger (2003); Gunderson and Ziliak (2004); Hoynes and Patel (2015)

Figure 15. Difference-in-difference estimates of the effect of the 1993 EITC expansion on the distribution of after tax and transfer income as a share of the federal poverty threshold



Source: Hoynes and Patel (2018). "Effective policy for reducing poverty and inequality? The Earned Income Tax Credit and the distribution of income." *Journal of Human Resources*.

What do we know: Impacts on children

- Long-term effects of childhood access to the safety net
 - Bailey et al (2020); Hoynes et. al. (2016); Aizer et al. (2016)
- Benefits of EITC for children
 - Infant health (Baker 2008; Baughman 2012; Hoynes, Miller, and Simon 2015; Strully et al. 2010)
 - Test scores (Dahl and Lochner 2012; Chetty, Friedman, and Rockoff 2011)
 - Educational attainment (Michelfiore 2013; Manoli and Turner 2014)
- Keeping the counterfactual straight
- Puzzle: Is OLS effect of parental income really biased downward?

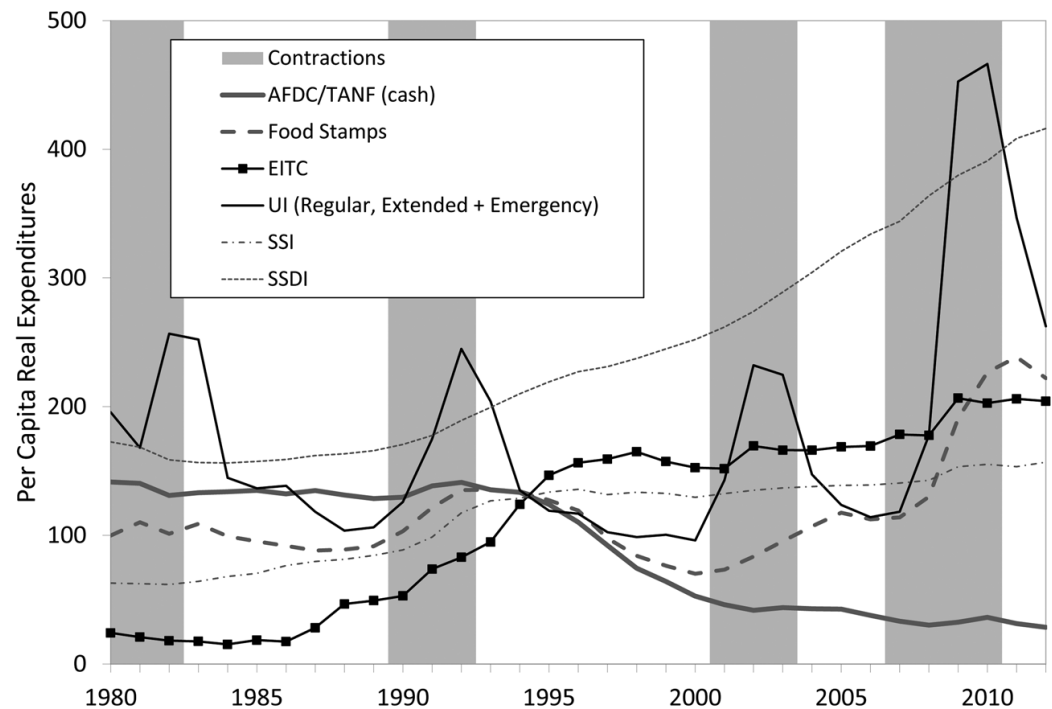
What do we know? Effects on recipients

- Marriage: Inconclusive, small effects
 - Ellwood (2000); Rosenbaum (2000); Herbst (2011); Micheltore (2014)
- Fertility: Little evidence, small effects
 - Baughman and Dickert-Conlin (2009)
- Maternal health
 - Evans and Garthwaite (2014)
- Education

What do we know? Cyclical responsiveness

In recessions:

- Some lose jobs for the whole year, lose EITC eligibility.
- Some have partial-year employment, fall into EITC eligibility.
- Net effect is modest countercyclicality.
- An out-of-work benefit would presumably be more strongly countercyclical, if it weren't being cut.



Source: Bitler and Hoynes (2016). "The more things change, the more they stay the same? The safety net and poverty in the Great Recession." *Journal of Labor Economics*.