

**REVIEWING HOW TODAY'S FRAGMENTED
WELFARE SYSTEM FAILS TO LIFT
UP POOR FAMILIES**

HEARING
BEFORE THE
SUBCOMMITTEE ON HUMAN RESOURCES
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRTEENTH CONGRESS
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**REVIEWING HOW TODAY'S FRAGMENTED
WELFARE SYSTEM FAILS TO LIFT UP POOR
FAMILIES**

TUESDAY, JUNE 18, 2013

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:02 p.m., in room 1100, Longworth House Office Building, the Honorable Dave Reichert [Chairman of the Subcommittee] presiding.
[The advisory of the hearing follows:]

HEARING ADVISORY

Chairman Reichert Announces Hearing Reviewing How Today's Fragmented Welfare System Fails to Lift Up Poor Families

Washington, June 11, 2013

Congressman Dave Reichert (R-WA), Chairman of the Subcommittee on Human Resources of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing titled, "More Spending, Less Real Help: Reviewing How Today's Fragmented Welfare System Fails to Lift Up Poor Families." The hearing will review programs designed to assist low-income individuals and families, how the programs can create disincentives to increasing earnings, and how they often fail to address factors that caused individuals to seek assistance in the first place. **The hearing will take place at 2:00 pm on Tuesday, June 18, 2013, in room 1100 of the Longworth House Office Building.** This hearing will be the first in a three-part series of hearings on welfare reform issues.

In view of the limited time available to hear from witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include experts on current Federal welfare programs, researchers who have studied the effects of the current system, and professionals working with low-income families to help them escape poverty. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

According to the *Congressional Budget Office* (CBO), "[t]he Federal Government devotes roughly one-sixth of its spending to 10 major means tested programs and tax credits, which provide cash payments or assistance in obtaining health care, food, housing, or education to people with relatively low income or few assets." Those programs include the Temporary Assistance for Needy Families and Supplemental Security Income programs under the jurisdiction of the Subcommittee on Human Resources, as well as the low-income subsidy for Part D of Medicare and the refundable portions of the earned income tax credit (EITC) and child tax credit (CTC), under the Committee on Ways and Means' health and tax jurisdictions. Further, CBO notes that "[t]otal Federal spending on those 10 programs (adjusted to exclude the effects of inflation) rose more than tenfold—or by an average of about 6 percent a year—in the four decades since 1972 (when only half of the programs existed)."

A recent calculation by the *Congressional Research Service* indicated that there are at least 83 different Federal programs focused on helping the low-income population, and these programs are spread across more than a dozen Federal agencies. This broader list includes additional Human Resources programs such as the Child Support Enforcement program, Foster Care and Adoption Assistance, the John H. Chafee Foster Care Independence program, the Social Services Block Grant program, and the Child Care and Development Fund.

While often individually and collectively called "work supports," research has demonstrated how low-income individuals collecting such benefits may receive little economic reward from increasing their earnings, especially if they receive benefits from multiple welfare programs. Those with incomes at or near the poverty line may be especially prone to losing more in benefits and tax credits than they gain from additional work and increased earnings. *Recent research* suggests that this effect may be exacerbated by certain policy changes that will further lower individuals' real financial gains from increasing their work and earnings.

In addition to creating work disincentives, key Federal welfare programs provide assistance to low-income families and individuals without addressing factors that caused individuals to seek help in the first place. More broadly, of the 83 programs

highlighted in the Congressional Research Service report, few Federal welfare programs require benefit recipients to participate in activities that help them find work or work more, escape poverty, and move up the economic ladder. Some programs provide assistance for indefinite periods, often without reviewing why the individual needs ongoing help. In some cases, benefits are provided without a representative of the program ever meeting the recipient in person.

In announcing the hearing, Chairman Reichert stated, **“Our nation’s welfare system should help people overcome their challenges and move up the economic ladder. Unfortunately, the current maze of programs not only fails to lift up many poor families in need, but it too often punishes those who work hard and do the right thing. It’s time to highlight how this increasingly expensive system fails to address the real needs of low-income individuals and families, so we can determine how to craft reforms that provide the actual help families need to escape poverty.”**

FOCUS OF THE HEARING:

The hearing will review current programs designed to assist low-income individuals and families, how they can create disincentives to increasing earnings, and how they often fail to address factors that caused individuals to seek assistance in the first place.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select “Hearings.” Select the hearing for which you would like to submit, and click on the link entitled, “Please click here to submit a statement or letter for the record.” Once you have followed the online instructions, submit all requested information. Attach your submission as a Word document, in compliance with the formatting requirements listed below, **by Tuesday, July 2, 2013**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including avail-

ability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available online at <http://www.waysandmeans.house.gov/>.

Chairman REICHERT. I call the subcommittee to order.

Today is the first hearing in a series on what government does to help low-income families get ahead, whether that is effective, and how that can be made to work better. We will start with a review of our current system and how much we spend, but, more importantly, whether that spending is effective in encouraging work and higher earnings by low-income individuals.

So let's consider two facts. Fact one: We are spending more than ever to assist low-income individuals and families. According to the nonpartisan Congressional Budget Office, last year the Federal Government spent about \$600 billion on just the 10 largest programs, which is over 10 times the \$55 billion we spent in 1972 when half of these programs did not even exist.

Fact number two: Despite all that spending, it is not clear that these programs are offering real help. For example, despite record spending, this is the slowest economic recovery in recorded history, with far too many families unemployed and living in poverty.

Together, these facts make it hard for defenders of the status quo to say all is well, especially across the 83 programs the Congressional Research Service has identified as assisting low-income families. And these facts make it even harder still for the millions of American families without stable work and reliable incomes as we now enter the 4th year after the recession has officially ended.

Today, we will ask whether there are features of today's low-income programs that lead to little success in helping adults go to work and increase their earnings.

As we proceed, I note we are intentionally taking a broader view than just those programs within our Subcommittee's specific jurisdiction. Our programs are key benefits for low-income families, but they do not represent all that taxpayers do to help low-income families. To really understand what is going on, you have to look at the big picture. So that is what we are going to do today, and that is what we are going to do in subsequent hearings.

We are pleased to have a number of experts on these programs with us today, including someone who can provide a firsthand explanation—and this is something I insist upon. I always like to hear from those folks who have received help or have been seeking help and didn't receive help. We all can learn a lot from that kind of witness. And so we welcome Sada Randolph, a former client of America Works here in DC., to tell her important story. We are looking forward to that.

Given the broadness of our topics, one hearing couldn't possibly do them justice. So our next hearing will build on what we learn today by exploring what really helps families and whether that knowledge drives what we spend our taxpayer money on.

Finally, we will consider options for reform, including how we can work with our State partners to better coordinate the current maze of government programs to better serve families in need.

Our goal is to help more low-income families leave poverty and achieve the American dream. That is not the Republican goal, it is not the Democrat goal; it is the goal of every one of us on this dais and every one of us in this room, I am sure. And the fact that too many of our fellow citizens have seen that goal slip from their grasp in recent years is our call to action.

The status quo is simply not good enough. Spending more money on current programs is not good enough. Reforming programs so they spend smarter to achieve better outcomes is what we all should be working for. That is the challenge ahead of us.

And I thank you.

Mr. Doggett, you are recognized for your opening statement.

Mr. DOGGETT. Thank you, Mr. Chairman.

We are all committed to making every government program work as effectively and efficiently as possible for both the beneficiaries and taxpayers. But any attempt to label programs that are designed to promote economic opportunity or help struggling Americans as “welfare” doesn’t move us toward that goal.

I don’t think that most folks across America believe that nursing care for seniors, Pell grants to assure that young people can achieve their full God-given potential, tax relief for working families, the school breakfast program, Head Start, and foster care, to which we devoted considerable bipartisan attention in this Committee, that they characterize those as “welfare.” But there are some among our colleagues who do and did during the last Congress in a call for reducing welfare spending.

What I think we need to be focused on is a very specific conversation about how to make those programs under our jurisdiction, specifically the TANF program, actually move more people with existing resources from welfare to work. And I am committed to trying to do that.

The Congressional Research Service report that was referenced in the announcement for today’s hearing was put together at the request of Senator Jeff Sessions last October at the height of the Presidential campaign. He used that report to support the false claim that the United States spends more on Federal welfare than on any other program in the Federal budget. Now that the campaign is over with, I think we can probably leave that kind of rhetoric behind. It does not help us resolve these problems.

I asked the Congressional Research Service very recently, in anticipation of this hearing, to do a further analysis of the spending in the top 10 programs that some Republicans have classified as welfare. Forty-nine percent of that spending goes to our senior citizens, the people that have built this country, and the disabled; 28 percent supports working families and individuals; 8 percent is for education; 14 percent is primarily for medical and food assistance.

And, of course, we know there are efforts under way this week to cut five times as much from food security as the Senate did in its farm bill.

Of the entire total, only about 1 percent is direct cash assistance to the needy in the form of the Temporary Assistance for Needy Families program.

The written testimony submitted by some of our witnesses here today suggests that helping Americans during tough times will stop

them from finding a job. One witness once even suggested that, if we just would have allowed more people to fall into poverty during the recession, they would be more likely to work.

To me, that fundamentally misreads the character of the American people. I believe they want to work. They want to set an example for their kids and do right by their kids. And they want to engage in the struggle each and every day to do just that. We don't need to push more Americans into poverty for them to want to work.

This also ignores the many programs within the jurisdiction of our Full Committee, such as the earned income tax credit and the Child Tax Credit, increase the value of work for anyone moving into a job that pays low or moderate wages. These Tax Credits increase the take-home pay of a minimum-wage worker. That is not only a major work incentive, but it also lifts millions of Americans out of poverty, including over a million Texans. Furthermore, research indicates that the efforts to make work pay, like the earned income tax credit, also help reduce generational poverty by boosting school achievement as well as future earnings.

While the earned income tax credit and other programs designed to promote economic opportunity help Americans of every race and in every region, I am particularly pleased that Eric Rodriguez is here today from the National Council of La Raza to talk with us about how critical these programs are in supporting many Latino families as they achieve and maintain economic independence.

And in terms of recent effort to assist people dealing with the severity of the recession, it is worth remembering that much of that assistance is already being reduced. The temporary tax assistance, the Medicaid expansion, the duration of unemployment benefits has also been significantly reduced. And, of course, the sequestration across-the-board cuts are cutting into many programs in a significant way.

We can do more to promote and reward work, and we should, including reviewing and perhaps improving the phaseout points for some of these programs. But we need to do it together with a realistic view of the difference between these opportunity programs and what has traditionally been called "welfare."

I yield back.

Chairman REICHERT. Thank you, Mr. Doggett.

Chairman REICHERT. And as you can see from the opening statements, there is agreement that we want to move people from welfare to work and we want to help people become successful, and there is also agreement that we need to be more efficient in our programs and maybe measure them a little bit more accurately, but some disagreement, maybe, on how we get there. We will work on that.

Thank you, Mr. Doggett.

So, without objection, each Member will have the opportunity to submit a written statement and have it included in the record.

Chairman REICHERT. I want to remind our witnesses to limit their oral statements, please, to 5 minutes.

And I will also let you know a little bit of a secret. At about 2:45, 2:50, you are going to hear some buzzers and bells go off. That means we will have to vote. So be ready for that.

But, without objection, all the written testimony that you have will be made a part of our permanent record.

And on our panel this afternoon, we will be hearing from Dr. Jeffrey Kling, Associate Director for Economic Analysis, Congressional Budget Office; Dr. Larry Mead, professor, Department of Politics, New York University; Jennifer Tiller, DC director, America Works; and Sada Randolph, former America Works client; Dr. Casey Mulligan, professor, Department of Economics, University of Chicago; and Eric Rodriguez, vice president, Office of Research, Advocacy, and Legislation, National Council of La Raza.

Mr. Kling, you are recognized for 5 minutes.

STATEMENT OF JEFFREY KLING, PH.D., ASSOCIATE DIRECTOR FOR ECONOMIC ANALYSIS, CONGRESSIONAL BUDGET OFFICE

Mr. KLING. Mr. Chairman, Ranking Member Doggett, Members of the Subcommittee, thanks for inviting me to testify.

I am going to do a review of what the spending has been on some of the major means-tested programs and tax credits, how it has grown over time, and what the Congressional Budget Office projects it is going to be into the next decade.

The Federal Government devotes about one-sixth of its spending to 10 major means-tested programs and tax credits. They provide assistance for health care, cash payments and help obtaining food, housing, and education to people with relatively low incomes and assets.

In 2012, Federal spending on those programs and tax credits totaled \$588 billion. Medicaid accounted for more than 40 percent of that spending, followed in size by the Supplemental Nutrition Assistance Program, or SNAP.

Total Federal spending on those 10 programs rose 6 percent per year faster than the rate of inflation, or about a tenfold increase in the 4 decades since 1972, when half of those programs existed. As a share of the economy, Federal spending on those programs grew from 1 percent to almost 4 percent of gross domestic product over the period.

Roughly half of that growth came from increases in spending for healthcare programs, Medicaid, and, to a far lesser extent, subsidies to help low-income people pay for prescription drugs under Part D of Medicare. That spending grew about fifteen-fold over the 1972 to 2011 period, from \$20 billion to \$305 billion. People who were elderly or disabled accounted for about two-thirds of the Medicaid spending and all the Medicare spending in 2011.

The primary reason for the growth in healthcare spending, which averaged about 7 percent a year above the rate of inflation, was increased spending per participant. General growth in healthcare costs, shifts in the composition of beneficiaries, changes in the services covered by the program, and the availability of supplemental payments to healthcare providers all contributed to that growth.

Had the amount of spending per participant in Medicaid remain unchanged over those 40 years, total spending on healthcare programs discussed here would have been about \$88 billion in 2011, or less than a third the actual amount.

In addition to the increases in spending per participant, the number of participants increased from 17 million in 1972 to 53 mil-

lion in 2011 because of population growth and policy changes that increased eligibility for Medicaid.

Growth in programs that provide cash assistance and programs that help people obtain food, housing, and education were about equally responsible for the other half of the total increase in spending over that period for those programs.

Spending on cash assistance programs and tax credits, the largest of which is the refundable portion of the Earned Income Tax Credit, rose from \$18 billion in 1972 to \$151 billion in 2011, nearly 6 percent a year above the rate of inflation.

Spending on programs that help people afford food, housing, or education, the largest of which is SNAP, rose from \$17 billion to \$172 billion, also about 6 percent a year above the rate of inflation in their growth. Unlike growth in spending on Medicaid, which stemmed primarily from greater spending per participant, growth in those programs resulted primarily from increases in the number of participants.

If current laws don't change, total spending on these programs will grow faster than inflation over the next decade. But the differences between programs are pretty large.

Spending on means-tested healthcare programs are projected to more than double, an average annual increase of 8 percent above the rate of inflation. That rise reflects expected growth in the cost of providing medical care. It also reflects expanded eligibility for assistance and new types of assistance to be provided under the Affordable Care Act. That law will not only make more people eligible for Medicaid but will also allow many low- and moderate-income people who do not qualify for Medicaid to purchase Federally subsidized health insurance.

In contrast to spending on healthcare programs, total spending on the cash assistance programs and tax credits I have discussed is projected to fall over the next decade. That expected decline mainly stems from changes in the earned income tax credit and Child Tax Credit, which have changes that are scheduled to occur under current law.

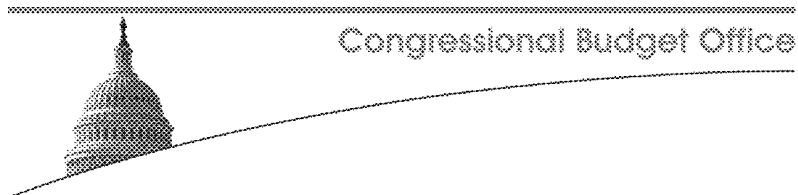
CBO also estimates that spending on nutrition and education programs will decline in the next 10 years, partly because spending on SNAP is projected to drop substantially as the economy continues to recover.

There are additional details on these programs in a report that we issued in February of 2013, and I would be happy to answer any questions that you have about it.

Thank you.

Chairman REICHERT. Thank you, Mr. Kling.

[The prepared statement of Mr. Kling follows:]



Testimony

Means-Tested Programs and Tax Credits for Low-Income Households

Jeffrey Kling

Associate Director for Economic Analysis

Before the

Subcommittee on Human Resources

Committee on Ways and Means

U.S. House of Representatives

June 18, 2013

This document is embargoed until it is delivered at 2:00 p.m. (EDT) on Tuesday, June 18, 2013. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.



Chairman Reichert, Ranking Member Doggett, and Members of the Subcommittee, thank you for inviting me to testify this afternoon. As you know, the federal government devotes roughly one-sixth of its spending to 10 major means-tested programs and tax credits, which provide cash payments or assistance in obtaining health care, food, housing, or education to people with relatively low income or few assets. Those programs and credits consist of the following:

- Medicaid,
- The low-income subsidy for Part D of Medicare (the part of Medicare that provides prescription drug benefits),
- The refundable portion of the earned income tax credit (EITC),
- The refundable portion of the child tax credit,
- Supplemental Security Income,
- Temporary Assistance for Needy Families,
- The Supplemental Nutrition Assistance Program (SNAP; formerly called the Food Stamp program),
- Child nutrition programs,
- Housing assistance programs, and
- The Federal Pell Grant Program.

In 2012, federal spending on those programs and tax credits totaled \$588 billion. (Certain larger federal benefit programs, such as Social Security and Medicare, are not considered means-tested programs because they are not limited to people with specific amounts of income or assets.)

Total federal spending on those 10 programs (adjusted to exclude the effects of inflation) rose more than tenfold—or by an average of about 6 percent a year—in the four decades since 1972 (when only half of the programs existed).¹ As a share of the economy, federal spending on those programs grew from 1 percent to almost 4 percent

of gross domestic product over that period (see Figure 1 on page 4).

Medicaid accounted for more than 40 percent of the federal spending on those programs in 2012, followed in size by SNAP (see Figure 2 on page 5). A decade from now, Medicaid will account for an even larger share of spending on those programs, the Congressional Budget Office (CBO) projects. A new means-tested program—federal subsidies to help low- and moderate-income people buy health insurance through insurance exchanges, which will begin in 2014—will be the second-largest means-tested program in 2023, CBO estimates.

The projections of federal spending in this testimony are based on CBO's current-law baseline published in February 2013.² CBO updated those baseline budget projections in May 2013.³ Incorporating the May revisions into the numbers presented here would not change the basic findings of CBO's analysis.

What Caused Total Spending on Means-Tested Programs and Tax Credits to Rise Over the Past 40 Years?

Two broad factors were responsible for the growth of spending on means-tested programs and tax credits between 1972 and 2011: increases in the number of people participating in those programs and increases in spending per participant. (This discussion focuses on the 40-year period ending in 2011 because that was the most recent year for which data on the number of participants were available for those programs.) Both of those increases were themselves the result of multiple factors. For example, the rise in participation stemmed from three important causes:

- Population growth (the U.S. population increased by almost 50 percent during that period),
- Changes in economic conditions (particularly the recession that occurred from 2007 to 2009 and the weak recovery that followed it), and

2. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023* (February 2013), www.cbo.gov/publication/43907.

3. See Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023* (May 2013), www.cbo.gov/publication/44172.

1. For ease of presentation, this testimony uses the term "programs" to encompass both the spending programs and the tax credits.

- Actions by lawmakers to create new means-tested programs and tax credits and to expand eligibility for some existing ones.

Increases in spending per participant resulted mainly from two factors:

- Growth in the cost of providing assistance (such as rising costs for medical care), and
- Actions by lawmakers to provide more generous benefits (such as increases in SNAP benefits).

What Caused the Growth of Specific Categories of Means-Tested Programs and Tax Credits?

Roughly half of the total growth in spending between 1972 and 2011 on the means-tested programs and tax credits examined in this testimony came from increases in spending for health care programs—Medicaid and, to a far lesser extent, subsidies to help low-income people pay for prescription drugs under Part D of Medicare. Spending for such programs grew about 15-fold over the 1972–2011 period: from \$20 billion to \$305 billion (see Figure 3 on page 6). (Those and other dollar amounts for program spending in this testimony are presented in 2012 dollars to remove the effects of inflation.) The main reason for that growth—which averaged about 7 percent a year above the rate of inflation—was increased spending per participant. Had the amount of spending per participant in Medicaid remained unchanged between 1972 and 2011, total spending on the health care programs examined here would have been about \$88 billion in 2011, or less than one-third of the actual amount.

Growth in each of two other broad categories of means-tested programs and tax credits—programs that provide cash assistance and programs that help people obtain food, housing, or education—was about equally responsible for the other half of the total increase in spending over the 1972–2011 period on the programs included in this testimony:

- Spending on cash assistance programs and tax credits (the largest of which is the refundable portion of the EITC) rose from \$18 billion in 1972 to \$151 billion in 2011—that is, by nearly 6 percent a year above the rate of inflation (see Figure 4 on page 7).

- Spending on programs that help people afford food, housing, or education (the largest of which is SNAP) rose from \$17 billion to \$172 billion—that is, by about 6 percent per year above the rate of inflation (see Figure 5 on page 8).

Unlike growth in spending for health care programs (primarily Medicaid), which stemmed mainly from greater spending per participant, growth in spending for those other programs resulted primarily from increases in the number of participants.

How Much Will Means-Tested Programs and Tax Credits Cost Over the Next Decade?

If current laws that govern the means-tested programs and tax credits examined in this testimony do not change, total spending on those programs will grow faster than inflation over the next decade, CBO projects. However, changes in spending will vary among programs (see Figure 6 on page 9).

Spending on means-tested health care programs is projected to more than double, from \$272 billion in 2012 to \$624 billion in 2023 (adjusted for inflation), an average annual increase of 8 percent above the rate of inflation. That rise reflects expected growth in the cost of providing medical care; it also reflects expanded eligibility for assistance and new types of assistance to be provided under the Affordable Care Act (ACA).⁴ The ACA will not only make more people eligible for Medicaid but also allow many low- and moderate-income people who do not qualify for Medicaid to purchase federally subsidized health care coverage. Subsidizing that non-Medicaid coverage through cost-sharing subsidies and the refundable portion of a new premium assistance tax credit is projected to cost \$109 billion (in 2012 dollars) in 2023.

In contrast to spending on health care programs, total spending on the cash assistance programs and tax credits examined here is projected to fall over the next decade—from \$148 billion in 2012 to \$137 billion in 2023 (adjusted for inflation). That expected decline mainly

4. The Affordable Care Act comprises the Patient Protection and Affordable Care Act and the health care provisions of the Health Care and Education Reconciliation Act of 2010.

stems from changes to the earned income and child tax credits that are scheduled to occur under current law.

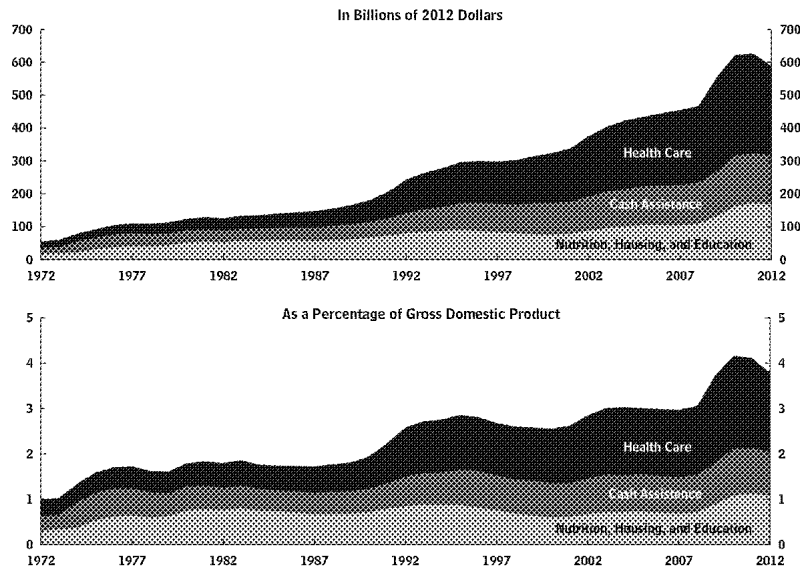
CBO also estimates that spending on the nutrition and education programs discussed here will decline in the next 10 years, partly because spending on SNAP is projected to drop substantially as the economy continues to recover. (Unlike the other programs included here, the housing assistance programs rely on annual appropriations for all of their funding. In this testimony, CBO has not projected the size of those appropriations, which will depend on future actions by lawmakers.)⁵

5. For another recent analysis of means-tested programs and tax credits, see Gene Falk, *Low-Income Assistance Programs: Trends in Federal Spending*, Report for Congress R41823 (Congressional Research Service, June 13, 2012).

This testimony reproduces the summary and figures from *Growth in Means-Tested Programs and Tax Credits for Low-Income Households*, a report written by William Carrington, Molly Dahl, and Justin Falk that the Congressional Budget Office (CBO) released in February 2013. In keeping with CBO's mandate to provide objective, impartial analysis, the testimony and report contain no recommendations.

Nabeel Alsalam, Linda Bilheimer, Kirstin Blom, Chad Chirico, Kathleen FitzGerald, Holly Harvey, Jean Hearne, Janet Holtzblatt, Justin Humphrey, Sarah Masi, Noah Meyerson, Jonathan Morancy (formerly of CBO), Vi Nguyen, Sam Papenfuss, Kevin Perese, David Raftery, Kurt Seibert, Emily Stern, Rob Stewart, David Weiner, and Rebecca Yip contributed to the analysis on which this testimony is based. Joseph Kile and Chad Shirley supervised that work.

Christian Howlett edited the testimony, and Jeanine Rees prepared it for publication. The testimony is available on CBO's website (www.cbo.gov).

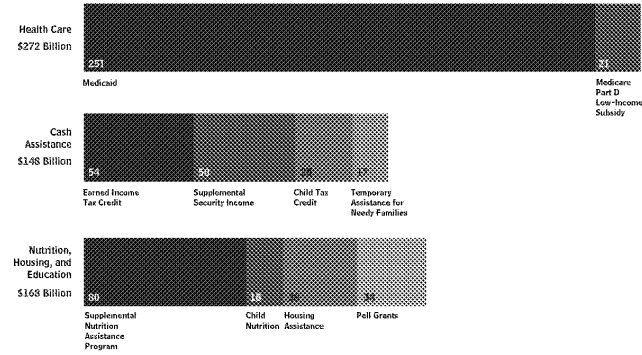
Figure 1.**Federal Spending on Various Categories of Means-Tested Programs and Tax Credits, 1972 to 2012**

Source: Congressional Budget Office.

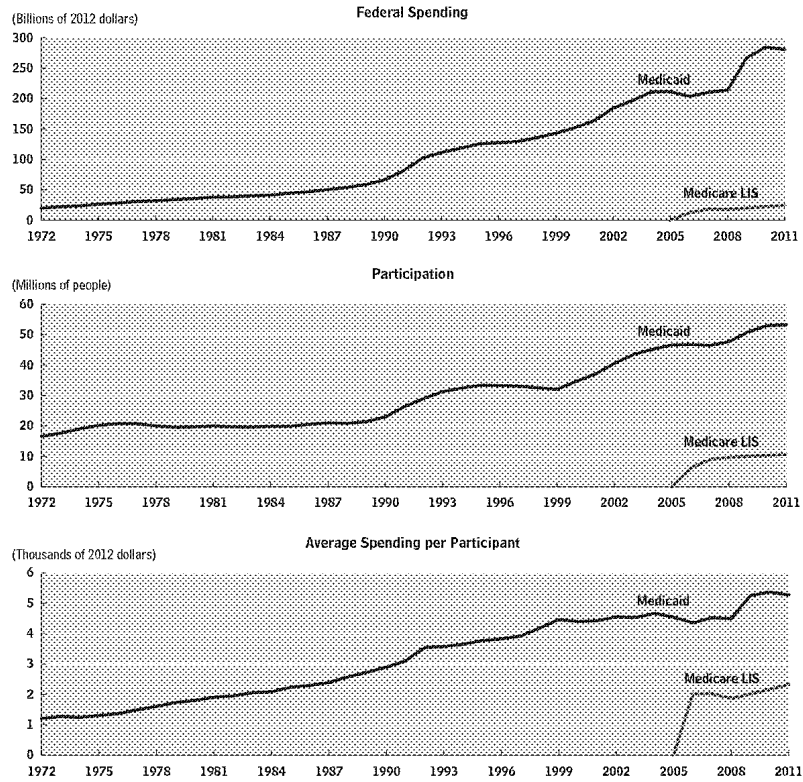
Note: The health care category consists of Medicaid and the low-income subsidy for Part D of Medicare. The cash assistance category consists of the refundable portions of the earned income tax credit and the child tax credit; Supplemental Security Income; and Temporary Assistance for Needy Families (as well as its predecessor, Aid to Families with Dependent Children). The nutrition, housing, and education category comprises the Supplemental Nutrition Assistance Program; child nutrition programs; a collection of housing programs, including Section 8 housing vouchers, public housing, and several smaller programs; and the Federal Pell Grant Program. Smaller means-tested programs that provide benefits similar to those of the programs in these categories are excluded because of their size.

Figure 2.
Federal Spending on Selected Means-Tested Programs and Tax Credits, 2012

(Billions of dollars)

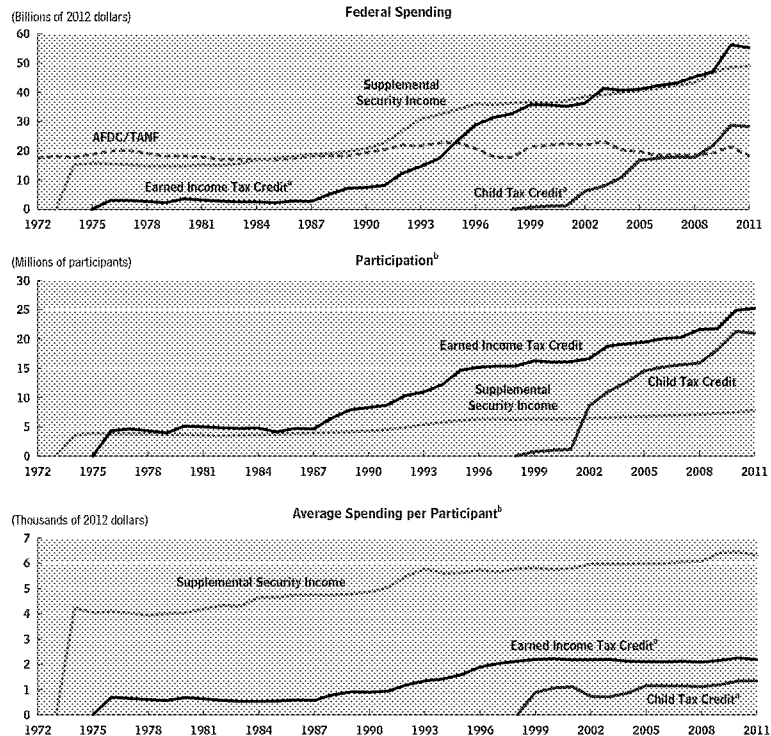


Source: Congressional Budget Office.

Figure 3.**Growth in Selected Means-Tested Programs That Provide Health Care, 1972 to 2011**

Source: Congressional Budget Office.

Note: Medicare LIS = low-income subsidy for Part D of Medicare.

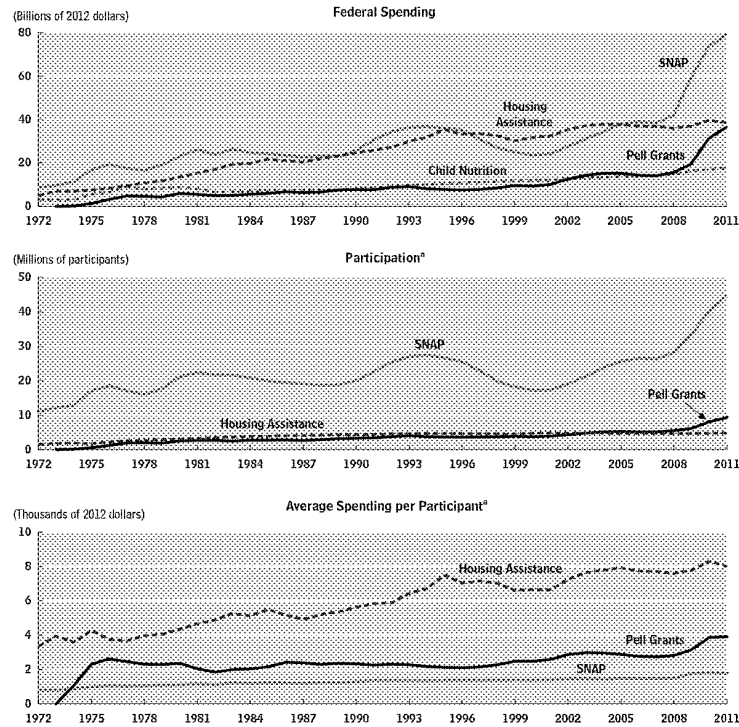
Figure 4.**Growth in Selected Means-Tested Programs and Tax Credits That Provide Cash Assistance, 1972 to 2011**

Source: Congressional Budget Office.

Note: AFDC = Aid to Families With Dependent Children; TANF = Temporary Assistance for Needy Families.

a. Numbers for the tax credits consist only of amounts that are paid to tax filers because they exceed filers' tax liabilities.

b. For the Supplemental Security Income program, participation is measured as the number of people who receive benefits. For the tax credits, participation is measured as the number of tax-filing units that receive refundable credits. (Such units can contain more than one person.) Comprehensive data on participation and spending per participant are not available for TANF.

Figure 5.**Growth in Selected Means-Tested Programs That Assist With Nutrition, Housing, and Education, 1972 to 2011**

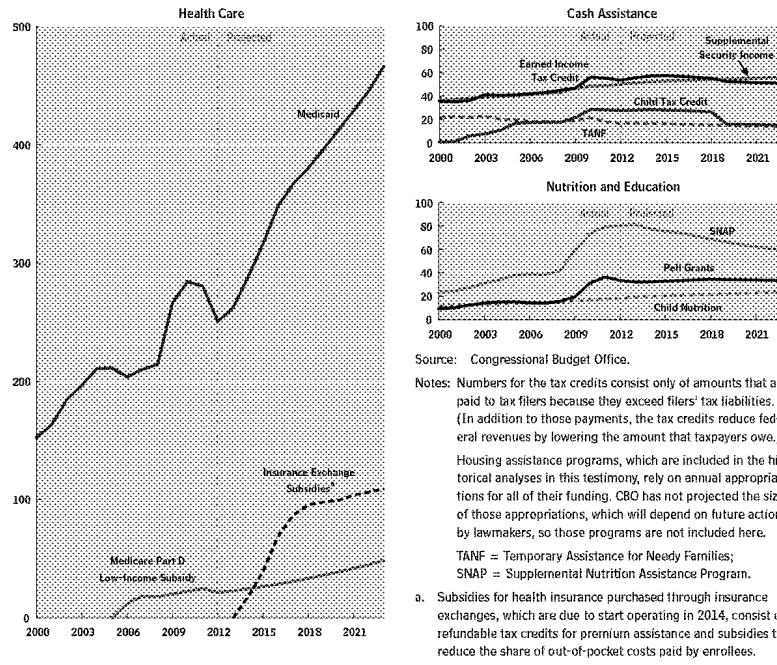
Source: Congressional Budget Office.

Note: SNAP = Supplemental Nutrition Assistance Program.

a. For SNAP and Pell grants, participation is measured as the number of people who receive benefits. For housing assistance programs, participation is measured as the number of households that receive benefits. (Households can contain more than one person.) Comprehensive data on participation and spending per participant are not available for the child nutrition programs.

Figure 6.**Federal Spending on Selected Means-Tested Programs and Tax Credits, 2000 to 2023**

(Billions of 2012 dollars)



Chairman REICHERT. Mr. Mead, you are recognized for 5 minutes.

**STATEMENT OF LAWRENCE M. MEAD, PH.D., PROFESSOR,
DEPARTMENT OF POLITICS, NEW YORK UNIVERSITY**

Mr. MEAD. Thank you, Mr. Chairman. I appreciate this opportunity to testify about Federal welfare programs.

And the question we are asking is what we can do to make these programs more effective in moving low-income Americans ahead. I think that largely means what can we do to promote work in welfare, because it is through employment that most Americans get ahead.

I think the welfare reform of the nineties showed essentially how to do that. In the Personal Responsibility Act, we enforced work more firmly than before, but at the same time we provided new benefits in the form of wage subsidies and child care to make it possible for people to go to work. So we combined help and hassle. We enforced work; we also promoted work.

Equally important, the politics of reform was quite constructive. It was strongly bipartisan. Both parties contributed to the outcome. And the upshot was really not to downsize welfare but, rather, to change its nature so that it did indeed promote work.

And I think my central message today is that we need another welfare reform that will do the same thing in some other programs. I recommend three steps, primarily.

One is that we need to strengthen the work test in TANF. It does have some weaknesses, and especially the fact that States can sanction families that don't comply only partially and allow the mothers who are not working to keep most of their benefits. I think that is a mistake. We should require that the case be closed in those instances, and I think we would have higher work participation if we did.

We ought to have a firmer work test in the SNAP program, or food stamps. Food stamps has some requirements on the books, but they are not very strong and they are not well-implemented. We need to be more serious about that and require that States achieve certain activity levels, as they have to do in TANF. I would certainly require one parent in a food stamp family, if it is a two-parent family, to be employed.

We should also consider similar requirements in housing and even in EITC, where we commonly think that the credit produces higher work levels. Actually, I don't see persuasive evidence for that. EITC creates incentives both for and against work. I think we should consider an hours threshold, as we do in TANF. We should require, for people who get the EITC credit, they should have to work 20 or 30 hours a week rather than just whatever hours they choose. And if we did that, I think we would see more impact on work levels.

The second thing we should do is institute a work test for men. Well, how do you do that when the men are not usually on welfare? Well, what we can do first of all is have a higher wage subsidy for single workers without children, most of whom are men. They should get a better subsidy.

But, at the same time, we should enforce work for groups that are supposed to be working. And I am thinking particularly men who owe child support and aren't paying and also men leaving prison on parole. These groups are supposed to work; they often don't do so. And States have begun to institute work programs to enforce work for those groups. So, again, the combination of help and hassle, of benefits with requirements.

The single best thing this Committee could do to promote that development is to allow the funding for child support work programs to be reimbursable under Title IV-D. This is, I think, an essential change which I hope you will consider.

The third thing that we should do is rein in the disability programs. They are growing too rapidly. We have too many people on both Social Security Disability and especially SSI. We need to reconsider the idea that disability is open and shut, that either you are disabled or you are not. It would be better for the recipients and for society if we had partial disability, partial benefits, coupled with some activity requirements, where we expect people to work to a certain extent or engage in community service.

We can't simply create a massive disincentive to work by giving people a pension where they never have to work for the rest of their lives; indeed, they can't work. We have to get away from that and both tighten up the rules for eligibility but also have some kind of activity requirement for those on these benefits. The Europeans, by the way, are ahead of us in this. They are starting to do this, and we need to do it, as well.

Another thing they have done in the Netherlands is to require employers to be the initial funders of benefits for disabled people. So they don't have an incentive, as they do now, to shift their workers onto SSI rather than unemployment insurance because they don't pay anything for SSI and they do for UI. We need to consider requiring the employers to get some skin in the game.

So I think disability programs are also important.

In my written testimony, I consider a number of other impediments to people working that are often cited, disincentives lack of jobs inequality, a couple of others. And I want to emphasize that I think none of these are really very important, and we shouldn't be distracted by them. We can talk further about disincentives. You are going to hear from Professor Mulligan about that. I don't think it is very important. And we should focus instead on building an administrative work test where we actively tell people, you have to work, and we oversee to make sure they do it.

Thank you.

Chairman REICHERT. Thank you, Mr. Mead.

[The prepared statement of Mr. Mead follows:]

Making Welfare Work

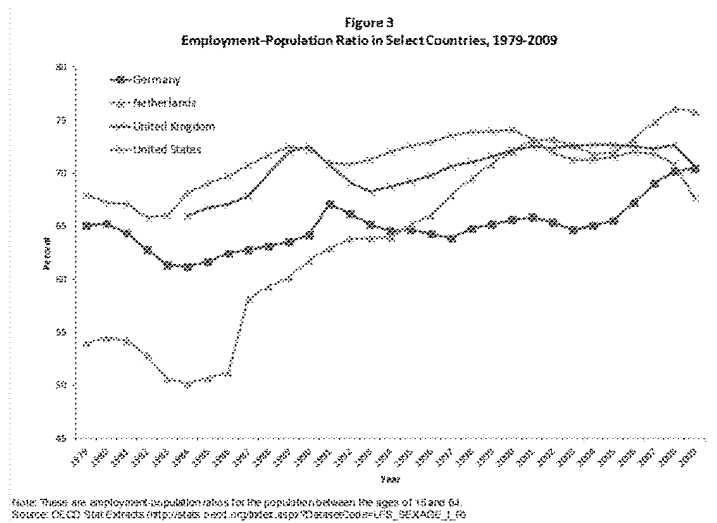
Testimony before the
Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives
113th Congress, 1st session

18 June 2013

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I am a Professor of Politics and Public Policy at New York University and a longtime scholar of poverty and welfare reform.¹ I appreciate this chance to testify about federal welfare programs.

How can these programs do more to help lower-income Americans get ahead in life? That chiefly means: How can they do more to promote work, as it is chiefly through employment that adults of all ages make their way in the world. Americans think of themselves as hard-working, but the share of our population that is employed has recently fallen sharply compared to several European countries, as this figure shows. As a society, we are not working as hard as we used to do, and the problem is worst among lower-income Americans.



Welfare has failed to stem the decline, I think, for three main reasons: (1) work tests in the major income programs are still limited, (2) we have neglected the problems of poor men, and (3) the disability programs are diverting too many Americans from labor force entirely. Some other impediments often cited today—disincentives, lack of jobs, inequality, or welfare itself seem to me much less important.

⁴ Lawrence M. Mead, *Beyond Entitlement: The Social Obligations of Citizenship* (New York: Free Press, 1986); idem, *The New Politics of Poverty: The Nonworking Poor in America* (New York: Basic Books, 1992); idem, ed., *The New Paternalism: Supervisory Approaches to Poverty* (Washington, DC: Brookings, 1997); idem, *Government Matters: Welfare Reform in Wisconsin* (Princeton: Princeton University Press, 2004).

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Welfare Reform

In improving our programs, we can have no better model than the welfare reform of the 1990s. That epic change tied cash aid for families more closely to employment than ever before. The message to needy families was that society would help them, but in return the adult recipients must work alongside the taxpayers. Congress began to add work tests to family cash welfare (Aid to Families with Dependent Children) in the 1960s and 1970s, but the process culminated in the radical Personal Responsibility and Work Opportunity Reconciliation Act of 1996. Under PRWORA, the new Temporary Assistance for Needy Families (TANF) program required that states put half their cases in "work activities" by 2002, a much higher level than before. And work activities were defined to emphasize actual employment rather than education and training.²

These rules plus other benefits (wage subsidies, child care) and superb economic conditions revolutionized welfare in the later 1990s.³ The share of welfare mothers engaged in work activities doubled to about a third, and work levels also rose sharply for poor single mothers outside welfare. The AFDC/TANF rolls plummeted by more than two-thirds, with most of the leavers entering jobs. Less sharply, incomes rose and poverty fell. Fears that children would be harmed proved groundless, with some studies even showing positive effects.⁴

Some of the employment gains were lost when economy conditions worsened in the 2000's, but not all. Reform had limitations. It did not assure that poor mothers could support themselves off welfare; nor did it assure that they would move up to better-paying jobs over time. Nevertheless, reform was still an enormous step forward for many low-income Americans. By requiring and promoting work, it integrated them into mainstream American life as never before.⁵

The politics of reform also set an example. Although PRWORA was radical, it marked a maturing of the nation's debate about poverty. When the welfare controversy first erupted in the 1960s, it was strongly partisan. Typically, liberals and Democrats wanted to spend more on helping the needy, while conservatives and Republicans wanted to spend less. But over time, the argument shifted to center on work rather than the scale of effort. Debate centered on how best to promote work and child support on welfare, rather than on the principle of aid. Even in the 1990s, when the

² Ron Haskins, *Work Over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Washington, DC: Brookings, 2006).

³ The Deficit Reduction Act (DFA) of 2005, which reauthorized TANF in 2006, tightened up the administration of work tests, but the fundamentals of PRWORA were little changed.

⁴ P. Lindsay Chase-Lansdale, Robert A. Moffitt, Brenda J. Lohman, Andrew J. Cherlin, Rebekah Levine Coley, Laura D. Pittman, Jennifer Roff, and Elizabeth Votruba-Drzal, "Mothers' Transitions from Welfare to Work and the Well-Being of Preschoolers and Adolescents," *Science* 299 (March 7, 2003): 1548-52; Amalia R. Miller, and Lei Zhang, "The Effects of Welfare Reform on the Academic Performance of Children in Low-Income Households," *Journal of Policy Analysis and Management* 28, no. 4 (Fall 2009): 577-99.

⁵ Lawrence M. Mead, "Why Welfare Reform Succeeded," *Journal of Policy Analysis and Management* 26, no. 2 (Spring 2007): 370-4.

general division between the parties deepened, this problem-solving style dominated in hearings on PRWORA.⁶ That is the same, practical approach that a new welfare reform should take today.

Limited Work Tests

Welfare reform led to progress because most recipients were better off working than they had been on AFDC/TANF. Most wanted to work, but many needed the spur of a work requirement actually to go out and get a job. Congress's willingness to enforce work thus was central to change.

However, the work tests in TANF are in some ways still limited. Among the states, various exemptions mean that the average share of recipients in work activities is only about 30 percent, well short of the 50 percent specified in PRWORA. Also, states are allowed to sanction recipients only partially if they fail to comply with work expectations; the noncooperating adult is excluded from the grant, but benefits continue for the children. In liberal states like California and New York, partial sanctions have allowed thousands of mothers to defy the work test and still get money for their families. Congress should require that cases that violate the work test are simply closed, as they are for other breaches of welfare rules.

The Obama administration has invited states to replace the standard TANF work rules with alternatives that would focus more directly on work outcomes. That approach might be easier to administer than the established system, which demands the documentation of recipients' activities. But experience has shown that specific activity demands were essential to mobilizing poor mothers to work, and any attempt to replace them is likely to weaken the work requirement.

The work tests in other welfare programs are far weaker. SNAP has grown prodigiously, from 17 million recipients in 2000 to 47 million in 2012. Localities typically run it as an entitlement, distributing benefits on the basis of economic need and with little concern for employment by the recipients. SNAP has work requirements on the books, but they are too limited to have much impact. Able-bodied adults without dependents are restricted to three months of benefits unless they are working, and mothers must register with a work program once their youngest child turns 6. These requirements resemble the limited work rules that prevailed in AFDC before PRWORA. Recipients can satisfy them without reorganizing their lives to work. The SNAP rules do not clearly demand activity by the recipients, and they do not define participation levels that states must achieve in order to avoid cuts in federal funding, as in TANF. Congress should set clearer activity standards for SNAP work programs, backed up by fiscal sanctions, and at least one parent in two-parent families should be required to work as a condition of eligibility.

Still another work frontier should be public housing. HUD has so far merely experimented with expecting housing tenants to work or help out around their projects, but there is no general work requirement for housing benefits. Many of these families resemble the poor single-parent families that profited from welfare reform. The Jobs Plus evaluation showed that work can be

⁶ Lawrence M. Mead, "Welfare Politics in Congress," *PS: Political Science & Politics* 44, no. 2 (April 2011): 345-56.

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promoted in low-income housing projects.⁷ Stronger work stipulations should be attached to units in public projects or to Section 8 vouchers. As in cash welfare, aid should consist of more than a benefit. It should also require movement toward greater self-reliance.

Even EITC could raise work levels more than it does. While the benefit is conditioned on work, whether it actually raises work levels is unclear. The subsidy raises effective wages and thus generates an incentive for nonworkers to take jobs, but it also permits those already working to work less and still make the same income. The receipt of EITC should be conditioned on working 20 or 30 hours a week, similar to TANF. This would require a new administrative system to track working hours, as EITC does not now do, but the pro-work effects of the subsidy would be stronger.⁸

Putting Poor Men to Work

Welfare reform put many more poor mothers to work, but it left largely untouched the fathers of their children.⁹ There is only so much poor mothers can do to move their families ahead without a working spouse. Government has found no ready way to promote stronger families among the poor. But one force that clearly drives fathers away from their families is their failure to work and earn regularly. Mothers give up on them and raise their children alone.¹⁰ If the men worked more reliably, family incomes would be higher and marriages would be stronger as well.

Even in the 1990s—the same years when poor women’s work levels soared due to welfare reform and a fine economy—the share of less educated men who were working or seeking work drifted downward. The trends were worst for younger black and Hispanic men, often because of child support obligations or past incarceration, which can deter employment.¹¹ But work levels are also falling among less educated white men. The traditional working class is fraying.¹²

Unfortunately, programs aimed at improved employment among men have usually evaluated worse than the work programs that underpinned welfare reform. Voluntary training or employment programs have little impact on adult men’s employment or earnings. Even creating jobs for them has

⁷ Howard S. Bloom, James A. Riccio, and Naudita Verma, with Johanna Walter, *Promoting Work in Public Housing: The Effectiveness of JOBS-Plus: Final Report* (New York: MDRC, March 2005).

⁸ Charles Michalopoulos and Gordon Berlin, “Financial Work Incentives for Low-Wage Workers,” in *The New World of Welfare: An Agenda for Reauthorization and Beyond*, ed. Rebecca M. Blank and Ron Haskins, (Washington, DC: Brookings, 2001), chap. 10.

⁹ The following is based on Lawrence M. Mead, *Expanding Work Programs for Poor Men* (Washington, DC: AEI Press, 2011).

¹⁰ Kathryn Edin and Maria Kefalas, *Promises I Can Keep: Why Poor Women Put Motherhood Before Marriage* (Berkeley: University of California, 2005); Kathryn Edin and Timothy J. Nelson, *Doing the Best I Can: Fatherhood in the Inner City* (Berkeley: University of California Press, 2013).

¹¹ Harry J. Holzer, Paul Offner, and Elaine Sorensen, “Declining Employment Among Young Black Less-Educated Men: The Role of Incarceration and Child Support,” *Journal of Policy Analysis and Management* 24, no. 2 (Spring 2005): 329–50.

¹² Charles Murray, *Coming Apart: The State of White America, 1960–2010* (New York: Crown Forum, 2012), chap. 9.

little effect. Recent work programs run by the child support and criminal justice systems, however, show greater promise. These programs are aimed at low-income men owing child support or out of prison on parole. They offer the men help to work, but they also enforce employment because these groups are required to work, on pain of going to jail or returning to prison. Enforcement coupled with close supervision by case managers has allowed these programs to raise work levels and reduce recidivism, at least somewhat, compared to earlier programs. With further development, these efforts could provide a basis for “welfare reform for men.”¹³

The work subsidy given by Earned Income Tax Credit is currently much larger—as much as 40 percent—for a single mother with children than for the noncustodial father. Several experts recommend that the fathers get a larger subsidy.¹⁴ That incentive should be conditional on the father working full-time and paying his child support judgment, if any. Much of the subsidy, then, would go through the father to their families, but it would depend on the father working and paying as TANF benefits do not. This would raise family income while also strengthening the father’s tie to his family, to everyone’s benefit.

To get ahead in life, poor fathers—like poor mothers—need a regime that combines “help and hassle”—new benefits to raise earnings coupled with oversight to be sure that the men actually work steadily as they are supposed to do.

The Growth in Disability

A third force that discourages work on welfare is the siren song of disability. Federal programs to support the incapacitated are growing rapidly. Disability Insurance, which is part of Social Security, grew from under 7 million beneficiaries in 2000 to nearly 11 million in 2011. Here we focus on Supplemental Security Income, the welfare program for the aged, blind, and disabled, where the rolls grew from 6 to 8 million people between 2000 and 2012.

The force behind growth is the withdrawal of many American men from employment. In the population, actual disability has declined, but the proportion of the labor force claiming federal disability benefits rose from 0.7% in 1960 to 5.3% in 2010.¹⁵ The trend is strongest among low-skilled men. As of 2011, only 44 percent of the heads of poor families worked at all in the year, only 15 percent full-time and full-year, a dramatic fall from figures of 68 and 31 percent in 1959.¹⁶ But withdrawal is attracting higher-skilled men as well. *The Economist* reports that nearly half of the 1.6

¹³ Lawrence M. Mead, “And Now, ‘Welfare Reform’ for Men,” *Washington Post*, March 20, 2007, p. A19.

¹⁴ Gordon L. Berlin, “Rewarding the Work of Individuals: A Counterintuitive Approach to Reducing Poverty and Strengthening Families,” in *The Future of Children* 17, no. 2 (Fall 2007): 17-42; Wendell Primus, “Improving Public Policies to Increase the Income and Employment of Low-Income Nonresident Fathers,” in *Black Males Left Behind*, ed. Ronald B. Mincy (Washington, DC: Urban Institute Press, 2006), chap. 9.

¹⁵ Munay, *Coming Apart*, pp. 170-1.

¹⁶ Data from the Current Population Survey, series, P-60, covering these years. Much of the work decline among the poor in the 1960s and 1970s was due simply to higher wages, which lifted most of the former working poor above the poverty line. After that, fewer poor men have worked even as employment by poor women has grown.

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million soldiers who have served in Iraq and Afghanistan have requested disability benefits from the Defense Department.¹⁷

SSI has helped to finance the slide. While welfare reform did raise work levels among poor mothers, many also escaped the work tests by shifting to SSI, even though earlier they were not classified as disabled. Employers have incentives for workers leaving jobs to go on SSI rather than Unemployment Insurance, as they pay for UI in payroll taxes while SSI costs them nothing. Equally, state and local governments have incentives to shift welfare recipients, for which they partly pay, to SSI, where the funding is all-federal. Low-skilled men who quit work can often get support from SSI that they could not get from TANF or UI. SSI's eligibility determination is also irresolute, encouraging claimants to appeal denials until they are accepted.¹⁸

PRWORA took some steps to tighten up eligibility standards for SSI, but another review is needed. Currently, a large majority of cases obtain benefits by claiming mental conditions or physical problems such as lower back pain whose severity is judgmental. The Social Security Administration has offered beneficiaries incentives to return to work, but these have had next to no effect.

A better approach would be activity requirements. It may sound paradoxical to expect anything of people who are disabled, but disability is a matter of degree. We should ask what claimants can do, not what they cannot. Rather than award claimants a full pension provided they do not work, SSI might award partial benefits conditional on some degree of work or community service, depending on capability. This would be better for many cases than a life of idleness, and it would also protect against fraud.

In the reform of disability, the Europeans are ahead of us. The Dutch sharply reduced their rolls by requiring that employers be the initial funders for own workers claiming disability. The British are reassessing their caseload, finding many claimants employable and conditioning benefits on work effort. America needs to do the same. The idea that claiming disability is a legitimate way to opt out of working sounds humane, but it must be questioned.

Other Impediments

As these comments suggest, raising work levels on welfare is primarily an *administrative* problem. If our programs seriously demand work from recipients, they will get it. Others who might be eligible will choose work over welfare if work clearly is the norm. Some other impediments are commonly thought to impede working, especially by the low-skilled, but the evidence for all of them is weak. They do not deserve the attention they receive, at least in designing welfare policy.

¹⁷ "The waiting wounded," *The Economist*, March 23, 2013, p. 33.

¹⁸ Jeffrey B. Liebman and Jack A. Smalligan, "An Evidence-Based Path to Disability Insurance Reform" (Cambridge, MA: Harvard University, Kennedy School of Government, September 2012).

Disincentives

Many believe that recipients on welfare are discouraged from working because of the benefits they would lose if they raised their earnings. They might emerge little if any better off than if they did not work. The usual advice is to strengthen work incentives—to allow working recipients to keep more welfare for longer as their earnings rise.

However, there has never been strong evidence that whether recipients enter jobs is much affected by incentives, either for or against work. That is partly because work incentives have offsetting effects. They make it more worthwhile for a nonworking recipient to take a job, but they also allow a recipient who is already working to cut back working hours and still cover the family budget, producing little change in work levels overall.¹⁹ It is also doubtful that many low-skilled workers understand the payoffs of work incentives well enough even to respond to them.

No experimental trial of work incentives in welfare has ever shown any notable effect on work levels.²⁰ For decades, work effort by AFDC mothers never responded to the work incentives in that program.²¹ In the 1990s, some statistical studies suggest that increased benefits in EITC helped to motivate the rising work levels seen during welfare reform.²² But at the local level, there is almost no sign of this. Local and state officials whom I interviewed in Wisconsin in 1995, when the rolls were plummeting, never mentioned wage subsidies as a cause; rather, they cited rising work requirements, a good economy, and support services.²³

Among the better-off population, the response to incentives is stronger. Therefore, disincentives to work are likely to be a more serious problem in Unemployment Insurance, where benefits have recently increased. In welfare, however, analysts should focus on strengthening administrative work tests.

Lack of jobs

Another common belief is that jobs may be unavailable to the poor, so there is little point in expecting them to work. Many conclude simply from the high unemployment rates of recent years that jobs must be insufficient for those seeking them. But the jobless rate shows only what percent of the labor force is looking for work without accepting a job, not whether jobs are available. Even the

¹⁹ In economists' lingo, the income effect offsets the substitution effect.

²⁰ The most important case was the income maintenance experiments of the 1960s-80s. See Gary Burtless, "The Work Response to a Guaranteed Income: A Survey of Experimental Evidence," in *Lessons from the Income Maintenance Experiments: Proceedings of a Conference Held in September 1986*, ed. Alicia H. Munnell (Boston: Federal Reserve Bank of Boston, n.d.), pp. 22-52.

²¹ Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature* 30, no. 1 (March 1992): 1-61.

²² Bruce D. Meyer and Dan T. Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers," *Quarterly Journal of Economics* 116, no. 3 (August 2001): 1063-1114.

²³ Mead, *Government Matters*, pp. 178-81.

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multiple of job seekers to job openings tells us little, for job availability depends on how quickly the jobs turn over, with new openings replacing those filled.²⁴

For several reasons, at least low-paid, low-skilled jobs appear to be readily available, notwithstanding our still-high jobless rates. Although the flow has diminished, many illegal immigrants still seek to come to America to do jobs that, apparently, the native-born do not seek. In ethnographic studies, poor adults rarely suggest that they cannot find work; rather, they chastise one another for failing to take and hold the jobs available.²⁵ I asked local child support and criminal justice officials in six states in 2008-9, when the Great Recession was at its worst, whether low-skilled men could find work; they nearly all said yes, although jobs were less available than in better times.

In 2007, when asked why they are not working, only 5 percent of jobless poor adults blamed inability to find a job. That rate rose only to 12 percent in the next four years, right through the recession. Impediments in private life—illness, retirement, or family obligations—were always more important.²⁶ Very few of the nonworking poor are blocked from jobs by the economy. Rather, they must organize themselves to work, and then must hold the jobs they are able to get.

In TANF, the vast majority of recipients who satisfy current work participation standards do so through actual employment. If jobs were unavailable during the recession, one would expect this proportion to have fallen in favor of other activities that also count toward participation, such as job search or training. But the share who met the standards by working remained over 60 percent right through 2007 to 2009, while job search was only 10-20 percent.²⁷ Clearly, most welfare mothers who wanted to work were able to do so.

Inequality

Overwhelmingly, the problem the poor have with the labor market is not lack of jobs but low wages. It is simply a fact that people with low skills find it very difficult to find a job paying a middle-class income, and this has been true for decades. Some will connect this to the growing inequality of incomes. Some commentators suggest that a new redistribution of wealth or opportunity is needed before one can expect lower-income Americans to get ahead on their own.

Nevertheless, the worst economic problem the poor have is still failure to work steadily at any job, not working at low wages. In 2011, a third of poor adults were working yet still poor, but two-thirds of them did not work at all. It would certainly help low-income Americans if they had more education and could command higher wages, but nothing can substitute for their simply putting in more working hours.²⁸ The public is not unsympathetic. It endorses limited redistribution as

²⁴ John C. Weicker, "The Labor Market Movie," *American Outlook*, Winter 1999, pp. 51-3.

²⁵ Edin and Kefalas, *Promises I can Keep*; Edin and Nelson, *Doing the Best I Can*.

²⁶ March Current Population Survey, table POV 24, for the indicated years.

²⁷ Data from the U.S. Administration for Children and Families.

²⁸ Isabel Sawhill, and Quentin Karpilow, "Strategies for Assisting Low-Income Families" (Washington, DC: Brookings, May 15, 2013).

practiced by social programs, including costly social insurance programs. It strongly supports the EITC and other “work supports.” But this whole structure presumes that the needy will first of all get ahead through their own efforts. They must “play by the rules.” They must take the first step by working, and then government will help them.

Some see welfare reform as a poor substitute for more serious redistribution. Actually, welfare must be reformed before inequality can be addressed. Equality can be pursued only among citizens in full standing, which means that they must fulfill the work ethic and other social norms. By enforcing work, welfare reform took a long step in that direction. Reform was the doing largely of conservatives, yet it moved social politics to the left. As the welfare rolls shrank, Congress enacted the State Child Health Insurance Program (SCHIP)—to be sure that children leaving welfare would have health coverage—and then expanded Medicare to cover prescription drugs. And in 2010, the Affordable Care Act greatly expanded health coverage for adults. These steps would have been unimaginable if 14 million Americans still lived on cash welfare, as they did prior to reform.²⁹

Those who want to reverse growing inequality must first reverse the work decline among less privileged Americans. The best way to do that is another welfare reform to promote employment.

Welfare itself

Despite welfare reform, many conservatives still believe that the fundamental evil is welfare itself. Any program that pays benefits to families in trouble seems to place a bounty on those problems. But it is implausible that the mere existence of welfare explains the difficulties that bring families onto the rolls. Wide swings in the availability of welfare in fact have only a limited effect on the problems of the poor. When AFDC was at its most generous, in the late 1960s, nonwork, unwed pregnancy, and other social problems escalated in low-income neighborhoods, seeming to conform the anti-welfare view. But when millions left the rolls due to welfare reform in the 1990s, those problems mostly continued with little change.³⁰

Even if welfare were totally abolished, there would still be a class of poor Americans absorbed in the struggles of private life, engaged in surviving from day to day, and not “getting ahead” in the conventional sense. And society has only limited influence over that lifestyle. America is rich, affording many sources of income. Poor families typically get by not only with public benefits but with sporadic earnings, on or off the books, as well as child support, charity, help from friends, and other sources.³¹ They have many ways to survive, even if they do not progress over time. Government has no general power to prevent families living unproductive lives.

The purpose of welfare, then, is not primarily to support people in need, important though that is. Sheer destitution is uncommon in America today, either on or off welfare. Rather, welfare should

²⁹ Mead, *Beyond Entitlement*, idem, *New Politics of Poverty*.

³⁰ The one favorable change that some connect to welfare reform is the recent fall in teen pregnancy. The majority of statistical studies, although not all, suggest that there is little connection between the generosity of welfare and unwed pregnancy or other social problems.

³¹ Kathryn Edin and Laura Lein, *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work* (New York: Russell Sage Foundation, 1997).

10 Mead testimony

direct the poor toward more productive lives where possible—lives they themselves seek. Those who are expected to work—men or women—should indeed do so. The one thing welfare reform clearly changed about the poverty lifestyle was to raise poor mothers' work levels. That was not an accident. The poor respond to what society clearly expects of them. The purpose of a new welfare reform must be to implement the TANF reform more consistently, and then extend work stipulations to other welfare programs, and to men. Society must clearly will that change, and then the poor will respond.

We think of welfare as helping the poor fend off adversities, and so it does. In that sense it makes the dependent more free. But it must also make them less free—more committed to the organized life needed to achieve their own goals. Freedom is more than an abstraction. It is a way of life. It requires discipline. Those who would be free must shoulder the burdens of freedom. That above all can empower them to move forward.³²

³² Lawrence M. Mead, "Dependency and Democracy," *National Affairs*, no. 2 (Winter 2010): 92-104.

Chairman REICHERT. Ms. Tiller and Ms. Randolph, you are recognized for 5 minutes.

STATEMENT OF JENNIFER TILLER, SITE DIRECTOR, AMERICA WORKS OF WASHINGTON, DC.; ACCOMPANIED BY SADA RANDOLPH, FORMER AMERICA WORKS CLIENT

Ms. TILLER. Good afternoon, Mr. Chairman and Members of the Subcommittee.

America Works started in 1984 as the first for-profit welfare-to-work company in the United States. Operating for 12 years before welfare reform, America Works placed welfare recipients into private-sector jobs.

Armed with knowledge and data, we lobbied Congress for nationwide welfare reform. After almost 30 years, America Works has broadened beyond welfare recipients to include returning prisoners, food stamp recipients, noncustodial parents, homeless individuals and families, veterans, those with HIV-AIDS, and the disabled on Social Security Disability Insurance.

Over the years, we have worked to get 350,000 people working in different States and cities throughout the country. As you can see from the document that was submitted on Friday, in New York City we are measured against all competitors and are consistently ranked as the number-one performer. We know that following is essential to our success.

Over the years, America Works has taken on tough social problems which cost the taxpayers billions of dollars, with the belief that if a job is provided, dependency on the government diminishes and disappears.

To that end, we have rapidly attached ex-offenders to work, therefore reducing recidivism to crime. We have taken people with a lifelong benefit of SSDI and gotten them employed and independent. America Works has taken people out of homeless shelters and showed that by providing jobs we vastly decrease the cost of homelessness. If work were the central social policy through which each problem is examined, we could create productive citizens and lower our expenses.

America Works pioneered the work-first model. This has been critical to erasing years in which welfare recipients spent in and out of education and training programs which seldom led to jobs. When the regulations were being written for welfare reform, States were limited to a very small percent of people allowed to be in education and training programs. This forced employment first and training later for upgrading and improving prospects.

America Works pioneered performance contracting, meaning you only get paid when and if you get someone a job and they actually keep the job. This technique forces greater productivity and outcomes. Unfortunately, most efforts still reimburse employment activities based upon line-item budgets, not job outcomes. Again, in the attached document submitted on Friday, you can see comparisons between America Works and various States' one-stop centers.

America Works has operated with voluntary and mandated programs. When we began, everyone was voluntary. In 1996, with the Welfare Reform Act, all of that changed for welfare recipients. Productivity and outcomes vastly increased. Over the years, in New York City we have seen an expansion into mandatory requirements not just for welfare recipients but also for noncustodial parents, food stamp recipients, and homeless shelter residents.

America Works recommends the Committee to undertake an expansion of work requirements for the growing group of people who receive transfer payments and public subsidies.

Thank you for your time and consideration.

And I introduce Sada Randolph.

Ms. RANDOLPH. Good afternoon.

I attended America Works last year, May of 2012. During that time, it was the same time that I had a terminally ill dad and also was a single parent with a son.

When I attended America Works, the staff members really helped me in so many ways, as far as interview skills, resume building, the way to properly fill out an application for a job.

And in doing so, with their efforts and also my own determination, I became employed with Jemsek Specialty Clinic as a medical records clerk. I have been there for a year, and also I have purchased my first brand-new car.

So I am forever grateful to America Works.

Chairman REICHERT. Thank you both for your testimony.

And congratulations on your first brand-new car.

[The prepared statement of Ms. Tiller follows:]



America Works of Washington, D.C.

Statement for the Record

By

Jennifer Tiller

Site Director

America Works of Washington, D.C.

June 18, 2013

United States House Committee on Ways and Means

Subcommittee on Human Resources



America Works started in 1984 as the first for profit welfare to work company in the United States. Operating for twelve years before welfare reform, America Works placed welfare recipients in private sector jobs. Armed with knowledge and data, we lobbied Congress for nation-wide welfare reform. After almost 30 years, America Works has broadened beyond welfare recipients to include returning prisoners, food stamp recipients, non-custodial parents, homeless individuals and families, Veterans, those with HIV/AIDS and the disabled on Social Security Disability Insurance (SSDI). Over the years, we have worked to get 350,000 people working in different states and cities throughout the country. As you can see from the attached document, in New York City, we are measured against all competitors and are consistently ranked as the number one performer. We know that following is essential to our success.

Work is the Central Social Policy

Over the years, America Works has taken on tough social problems which cost the taxpayers billions of dollars with the belief that – if a job is provided – dependency on the government diminishes and disappears. To that end, we have rapidly attached ex-offenders to work therefore reducing recidivism to crime. We have taken people with a life-long benefit of SSDI and gotten them employed and independent. America Works has taken people out of homeless shelters and showed that by providing jobs we vastly decreased the cost of homelessness. If work were the central social policy through which each problem is examined we could create productive citizens and lower expenses.

Work First

America Works pioneered the “work first” model. This has been critical to erasing years in which welfare recipients spent in and out of education and training programs which seldom lead to jobs. When the regulations were being written for welfare reform, states were limited to a very small percent of people allowed to be in education and training. This forced employment first and training later for upgrading and improving prospects.

Performance Contracting

America Works pioneered performance contracting. This means you only get paid when and if you get someone a job and they keep the job for a period of time. This technique forces greater productivity and outcomes. Unfortunately most efforts still reimburse employment activities base upon line item budgets, not job outcomes. In the attached document, please review the differences in New York City between the welfare pay job placement system and the Labor Department’s “One Stops”, which are reimbursement based.

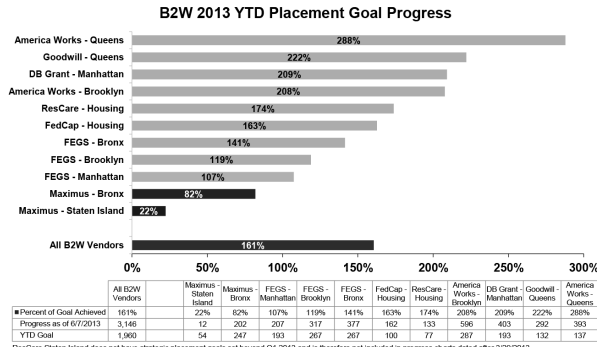
**Mandated Participation**

America Works has operated with voluntary and mandated programs. When we began, everyone was voluntary. In 1996, with the Welfare Reform Act, all of that changed for welfare recipients. Productivity and outcomes vastly increased. Over the years, in New York City we have seen an expansion into mandatory requirements not just for welfare but also for non-custodial parents, food stamps and homeless shelter residents.

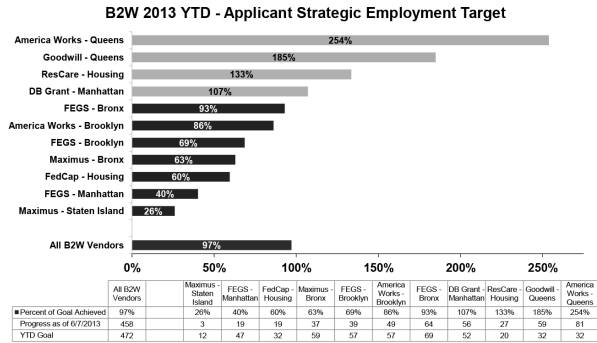
America Works recommends the committee to undertake an expansion of work requirements for the growing group of people who receive transfer payments and public subsidies.

Thank you for your time and consideration.

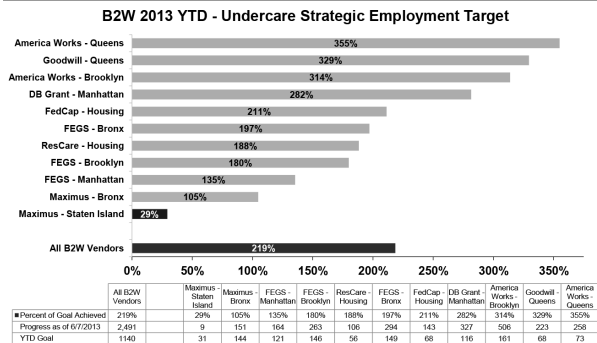
B2W Placement Performance YTD



B2W Placement Applicant Q2TD



B2W Placement Undercare Q2TD



Chairman REICHERT. Mr. Mulligan, you are recognized for 5 minutes.

**STATEMENT OF CASEY B. MULLIGAN, PH.D., PROFESSOR,
DEPARTMENT OF ECONOMICS, UNIVERSITY OF CHICAGO**

Mr. MULLIGAN. Chairman Reichert, Ranking Member Doggett, Members of the Committee, thank you for the opportunity and honor to discuss with you today how public policy has changed the reward to work.

A basic economic principle is that the monetary reward to working has important effects on how many people are employed and how much they work. People without jobs or otherwise with low incomes sometimes receive benefits from social safety net programs. The benefits are rarely called "taxes" by laymen, but economists understand the benefits to have many of the characteristics of tax rates because a program beneficiary loses some or all of her benefits as a consequence of accepting a new job.

I have illustrated the reward idea in Figure 1. The left bar measures the resources available when working, and the right bar measures the resources the same person would have if not working, including subsidies received net of taxes paid. The difference between the two bars is the monetary reward to working.

Now, consider adding a new safety net program or expanding an old one. Exactly because it gives more help when not working, the new program reduces the reward to working. The combined effect of taxes and subsidies on the reward to accepting a new job can be summarized as a penalty—the effective amount that is lost from paying taxes and replacing benefits associated with not working.

I like to express the penalty as marginal tax rate, namely as a percentage of employee compensation. If there were no penalty, then the marginal tax rate would be zero. Thanks to a labyrinth of tax and subsidy programs, the marginal tax rate can sometimes equal or exceed 100 percent, which means that at least as many resources are available when not working as when working. In such cases, a person might have more resources available to use or save as a consequence of working less.

Legislation that cuts or credits taxes can nonetheless reduce the reward to working and increase the marginal tax rate if it cuts taxes more for those who work less than it cuts taxes for those who work more. High marginal tax rates are associated with small incentives to seek, create, and retain jobs. The consequences of high marginal tax rates are felt all over the economy, even by persons whose individual rates might not be all that high.

At the same time the safety net programs implicitly tax job acceptance, they also implicitly subsidize layoffs, because the programs absorb some of the income and production an employer and employee together lose when an employee stops working. Layoff subsidies give employers and employees less incentives to take steps that might avoid or delay layoffs.

America absolutely must have taxes and safety net programs even though they reduce the reward to working and even though they subsidize layoffs. But if this Congress wants to understand what is happening in the labor market or to the budgets of social programs, it would be counterproductive to approximate marginal

tax rates as zero or to assume them to be eternally constant regardless of what incentives are embodied in new legislation.

Of course, unemployment insurance program benefits are now available longer into unemployment spells than they were 6 years ago, but also don't forget the new modernization provisions now provide unemployment benefits in a variety of circumstances, when they were formally unavailable. The food stamp program expanded in a variety of dimensions. The Recovery Act helped unemployed people pay for their health insurance.

Figure 2 shows my estimates of 10 years of marginal tax rates coming from tax and subsidy programs, taking into account that some of the poor and unemployed do not participate in all or sometimes even any of the safety net programs. The combined effect of these and other changes through 2013 was to reduce the reward to work—that is, increase marginal tax rates for most of the non-elderly population.

The reward to work will be further eroded beginning in January, when several significant provisions of the Affordable Care Act take effect. The new work disincentive provisions include: the sliding scale that sets premiums for people who buy health insurance under new marketplaces, a scheme for premium assistance that essentially resurrects the Recovery Act's COBRA subsidy in a more comprehensive form, employer penalties, and hardship relief from the individual mandate. The cumulative effect of all of this legislation is to increase average marginal labor income tax rates by 10 percentage points over what they were in 2007.

A presumably unintended consequence of the recent safety net expansions has and will be to reduce the reward to working and thereby keep unemployment and poverty rates high and keep national spending low longer than they would have been if safety net rules had remained unchanged.

Thank you.

Chairman REICHERT. Thank you.

[The prepared statement of Mr. Mulligan follows:]

Work Incentives, Accumulated Legislation, and the Economy

Testimony for the
Committee on Ways and Means, U.S. House of Representatives
Subcommittee on Human Resources

Hearing on “More Spending, Less Real Help:
How Today’s Fragmented Welfare System Fails to Lift Up Poor Families”

1100 Longworth House Office Building

June 18, 2013

by

Casey B. Mulligan

University of Chicago

Chairman Reichert, Ranking Member Doggett, members of the committee: thank you for the opportunity and honor to discuss with you today how public policy has changed the reward to work. A multitude of programs have accumulated to affect that reward, and thereby affect who is employed and who is living near or below the poverty line.

Overview

A basic economic principle is that the monetary reward to working has important effects on how many people are employed, and how much they work.

People without jobs or otherwise with low incomes sometimes receive benefits from social safety net programs. The benefits are rarely called taxes by laymen, but economists understand the benefits to have many of the characteristics of tax rates because a program beneficiary loses some or all of her benefits as a consequence of accepting a new job. The more income that a person receives when *not* working, the less is the reward to working.

I have illustrated the reward idea in Figure 1. The left bar measures the resources available when working, and the right bar measures the resources the same person would have if not working, including subsidies received net of taxes paid. The difference between the two bars is the monetary reward to working.

The combined effect of taxes and subsidies on the reward to accepting a new job can be summarized as a penalty: the effective amount that is lost from paying taxes and replacing benefits associated with not working. I like to express the penalty as a marginal tax rate: namely, as a percentage of employee compensation.

If there were no penalty, then the marginal tax rate would be zero. Thanks to a labyrinth of tax and subsidy programs, the marginal tax rate can equal or exceed 100 percent, which means that at least as many resources are available when not working as when working. In such cases, a person might have *more* resources available to use or save as a consequence of working *less*.

Legislation that “cuts” or “credits” taxes can nonetheless reduce the reward to working, and increase the marginal tax rate, if it cuts taxes more for those who work less than it cuts taxes for those who work more.

The reward to working affects behavior. High marginal tax rates are associated with small incentives to seek, create, and retain jobs. The consequences of high marginal tax rates are felt all over the economy, even by persons whose individual rates might not be all that high.

At the same time that safety net programs implicitly tax job acceptance, they also implicitly subsidize layoffs because the programs absorb some of the income and production that employer and employee together lose when an employee stops working. Layoff subsidies give employers and employees less incentive to take steps that might avoid or delay layoffs.

America absolutely must have taxes and safety net programs, even though they reduce the reward to working and subsidize layoffs. But if this Congress wants to understand what is happening in the labor market or to the budgets of social programs, it would be counter-productive to approximate marginal tax rates as zero, or to assume them to be eternally constant regardless of what incentives are embodied in new legislation.

Of course, unemployment insurance program benefits are now available longer into unemployment spells than they were six years ago. But also don't forget that new modernization provisions now provide unemployment benefits in a variety of circumstances when benefits were formerly unavailable. The food stamp program expanded in a variety of dimensions. While it lasted, the 2009 American Recovery and Reinvestment Act (hereafter, ARRA or "Recovery Act") helped unemployed people pay for their health insurance, and the Affordable Care Act will make premium assistance permanent, and do so on a grander scale.

Figure 2 shows my estimates of ten years' marginal tax rates coming from tax and subsidy programs, taking into account that some of the poor and unemployed do not participate in all, or any, of the safety net programs.

The combined effect of these and other changes through 2013 was to reduce the reward to work – that is, increase marginal tax rates – for most of the non-elderly population. The reward to work will be further eroded beginning in January when several significant provisions of the Affordable Care Act take effect.

The new work-disincentive provisions include (i) the sliding scale that sets premiums for people who buy health insurance on the new marketplaces, (ii) a scheme for premium assistance that essentially resurrects the Recovery Act's COBRA subsidy in a more comprehensive form, (iii) employer penalties, and (iv) hardship relief from the individual mandate.

The cumulative effect of all of this legislation is to increase average marginal labor income tax rates by 10 percentage points over what they were in 2007. As early as next year, the average marginal rates will exceed 50 percent of employee compensation, which means a decision to work or prevent a layoff will deliver more resources to the government than it will deliver to the employers and employees making the decisions.

We shouldn't have been surprised to see layoffs surge during the recession at the same time that new laws were adding to the layoff subsidies or to see unemployment durations lengthen as new rules added to marginal tax rates. A presumably unintended consequence of the recent safety net expansions has been to reduce the reward to working and thereby keep employment rates low, keep unemployment and poverty rates high, and keep national spending low, longer than they would have been if safety net program rules had remained unchanged.

The remainder of my testimony offers more detail as to penalty and subsidy rate changes in recent years, and how they relate to the government safety net. The testimony is my own and does not necessarily reflect the views of the University of Chicago.

A Labyrinth of Public Policies Combine to Reduce the Reward to Working

The monetary reward to working is the difference between the resources a person has available to use or save if she works and what she has available when she does not work. Federal, state, and local governments deal in massive amounts of resources, and affect the reward to working both in the process of obtaining revenue and in the process of distributing revenue to beneficiaries.

The Bureau of Economic Analysis estimates that income, payroll, sales, and excise taxes amounted to about 23 percent of national income and over 30 percent of the nation's labor income, on average between 2000 and 2010. Even if none of that revenue had been spent on safety net programs, the tax collections by themselves would have reduced the reward to working.

Safety net program spending is also significant, especially during the last several years. Federal, state, and local spending on non-elderly beneficiaries of unemployment insurance, nutrition assistance, Medicaid, and other means-tested subsidies occurred at a combined rate of more than \$400 billion per year in 2009 and 2010, measured in fiscal year 2010 dollars (Mulligan 2012). Even if governments had somehow been able to fund these programs without any taxes, the process of distributing the program benefits would have reduced the reward to working.

The effects of public policy on the reward to working and thereby poverty rates, the labor market, and the economy can be summarized in terms of various measures of marginal tax rates. My testimony primarily discusses one of those measures: the difference between taxes paid net of subsidies received when working and net taxes paid when not working, sometimes expressed as a fraction of the total compensation to be earned on the job.

This difference is a marginal tax rate concept related to the decision margins of when to accept a new job and when to experience a layoff. Among the variety of measures that economists use to study the reward to working, this concept of the marginal tax rate has the advantages that (a) it readily captures important combined incentive effects of a multitude of tax and subsidy programs and (b) it relates to decisions to exit and reenter employment (Grtuber and Wise 1999).

Thanks to the labyrinth of relevant programs moving large amounts of resources, marginal tax rates can equal or exceed 100 percent in some cases, which means that the reward to working is zero or negative. In such cases, a person might have *more* resources available to use or save as a consequence of working *less*.

The reward to working affects behavior. High marginal tax rates mean small incentives to seek, create, and retain jobs, and to make the sacrifices of time, hassle, etc., naturally required by employers, customers, and clients in exchange for a paycheck. The consequences of a low reward to working are felt all over the economy, even by persons whose individual reward to working might not be all that low.

The economic distortions created by marginal tax rates are not proportional: an increase from 90 percent to 100 percent has a greater effect on incentives than an increase from 40 to 50 percent, which itself has a greater effect on incentives than an increase from 0 to 10 percent. A rate increase from 0 to 10, for example, still leaves a worker with 90 percent of her reward from working, whereas a rate increase from 90 to 100 leaves her with no reward.

Because disincentives accumulate in this way, taxes and safety net programs need to be examined as a whole. A new tax has a different effect when it is added to an assortment of pre-existing programs than it would if the new tax were to be the only program contributing to the reward to work.

Recent Changes in Government Safety Net Rules Related to the Reward to Work

More than a dozen new and important federal and state safety net benefit rules have collectively changed the reward to working, especially for groups whose employment rates are particularly sensitive to safety net benefits.

Before the recession, an unemployed person in a typical state without high unemployment would often have his UI benefits limited to a maximum of twenty-six weeks (United States Department of Labor 2007). The federal law in place before the recession included some local labor market "Extended Benefit" triggers that, based on the statewide unemployment rate, would automatically lengthen the maximum benefit period, and thereby increase marginal tax rates faced by

the affected persons. These automatic triggers began to extend the duration of benefits around the nation in the middle of 2008 (United States Department of Labor 2011a). New “Emergency Unemployment Compensation” (EUC) legislation extended maximum benefit periods, so that unemployment insurance benefits could be paid up to 99 weeks (United States Department of Labor 2011b), which continued until 2012.

The ARRA further expanded eligibility by encouraging states to “modernize” (and relax) their UI eligibility requirements by processing earnings histories through an “alternative base period.” include persons who quit their job for compelling family reasons, adding 26 weeks of eligibility for persons enrolled in training programs, and/or pay benefits to persons who search only for part-time work (United States Department of Labor 2009). The modernization provisions raised marginal tax rates for people who would have found it difficult or impossible to qualify for UI under the previous rules.

The ARRA also raised marginal tax rates by exempting the first \$2,400 of unemployment benefits received by an unemployed person from 2009 federal income tax (United States Department of Labor 2011b) and by adding \$25 per week to unemployment compensation checks.

For laid off workers who wanted to remain on their former employer’s health plan, the ARRA’s COBRA subsidy offered to pay 65 percent of the cost: a subsidy worth more than \$700 per month in many cases (Mulligan 2012).

The rules for SNAP eligibility were relaxed in and around the 2008-9 recession as states were eliminating the “asset test,” as the 2002 Farm Bill permitted them to do. The asset test elimination increased marginal tax rates on labor income because households could receive SNAP benefits based solely on their net income, and not based on the value of their assets. For persons in the few states that retained asset tests, federal asset eligibility rules were relaxed by the 2008 Farm Bill (Eslami, Filion and Strayer 2011, 6).

Both the 2008 Farm Bill and the 2009 ARRA increased the amount of the SNAP benefits paid to eligible households, and thereby increased marginal tax rates.

Prior to the recession, able-bodied adults without dependents who were not working or participating in a work program had their receipt of SNAP benefits limited to three months in a three year period (United States Department of Agriculture, Food and Nutrition Service 2012).¹ Entire states could obtain waivers from the work requirement whenever the Department of Labor indicated that the state was eligible for extended unemployment benefits (United States Department of Agriculture, Food and Nutrition Service 2009). The ARRA waived all states through October 2010. Since then, almost all states have obtained waivers pursuant to the Department of Labor triggers (United States Department of Agriculture, Food and Nutrition Service 2011). Altogether, the state-wide waivers and ARRA changed eligibility requirements in the direction of making SNAP eligibility more inclusive than it would have been if able-bodied adults without dependents were required to work (or have their benefits limited), as they typically were before the recession began.

The 2009 ARRA created a refundable personal income tax credit for calendar years 2009 and 2010 called the “Making Work Pay Tax Credit” (hereafter, MWPTC). For most people, the MWPTC had no effect on the reward to working because they or their household would have received the same amount of the credit regardless of an individual’s work decision. A few persons saw their reward to working increase from the MWPTC (by itself), a few others saw it reduced.

In contrast to the many provisions cited above, the employee portion of the federal payroll tax was cut – effective between January 2011 and December 2012 – and thereby reduced marginal tax rates during that time frame.

Mulligan (2012) summarizes the work incentive effects of all of these rule changes, and more, with a statutory marginal tax rate index time series for the average non-elderly household head or spouse with median earnings potential. Each value in the series reflects, on the basis of the rules in place at the time, the causal effect of a work decision of about two months duration on the resources available to the worker and his family, expressed as a percentage of the total compensation (including fringes) that would be earned during that period. The index accounts for the fact that many people do not participate in safety net programs even when they are not working.² By construction, the index changes when and only when new safety net program rules come into effect.

Figure 2 displays the index, updated through the end of 2016. The cumulative effect of the many rule changes was marginal tax rates that were five percentage points greater in early 2013 than they were in 2007. Marginal tax rates have increased even more for less-skilled people and for unmarried people (Mulligan 2013).

Imminent Changes in Government Safety Net Rules Related to the Reward to Work

The Patient Protection and Affordable Care Act (hereafter, ACA) was passed in March 2010. It contains numerous provisions affecting the reward to work, with the net result of sharply reducing the reward beginning in January of next year.

A commonly recognized incentive-related provision is the sliding scale for the cost-sharing and premium subsidies (hereafter, jointly referenced as “exchange subsidies”) for households between 100 and 400 percent of the poverty line that purchase non-group insurance on the health insurance marketplaces established by the ACA. Households will have a choice of plans – one of which will be the plan that their Congressman purchases for himself – and the sliding scale will determine what they pay in premiums and out-of-pocket costs.

Figure 3 displays a sliding scale for the year 2014 based on a family of two with a \$13,000 annual actuarial value plan.³ The horizontal axis measures calendar year household income as a ratio to the federal poverty line. The vertical axis measures the combination of the required premium (net of premium assistance tax credits) and the average amount households will pay for out-of-pocket expenses as they participate in the plan. The schedule has various jumps, but for our purposes the important point is that it slopes up: households with more income pay more for the same plan than households with less income.

If one of the household members were to spend more of the calendar year not working – perhaps because it took additional time to find a new job or because his employer laid him off earlier in the year – the household would have less calendar year income and thereby be required to pay less for its health insurance. The amount of the payment reduction is about 20 percent of the lost income, which is why the sliding scale by itself adds about 20 percentage points to the marginal tax rates of those eligible for the exchange subsidies. The sliding scale’s implicit assistance with health payments adds to the various assistance programs that pre-dated the ACA: unemployment benefits, reduced tax obligations, perhaps access to food stamps for part of the year, etc.

A majority of the workforce will obtain health insurance through their employer, and thereby typically not be on the sliding scale while they are working.⁴ Nevertheless, their opportunity for exchange subsidies when not employed reduces the costs of eliminating their job, temporarily suspending it, or failing to create the job in the first place. Employees with affordable health insurance are deemed ineligible for exchange subsidies until the moment they leave employment. People without jobs who receive the exchange subsidies will find that their eligibility ceases the moment they start a job and can be enrolled in affordable health insurance from the employer. From

this perspective, the ACA's exchange subsidies have many of the economic characteristics of the ARRA's COBRA subsidies and of unemployment benefits.

In effect, workers with employer health insurance under the ACA do not "slide" down the scale in Figure 3 when they work less – they *jump* down from paying (together with their employer) essentially full price to the point on the scale commensurate with their household income.³ They remain on the scale as long as they are out of work. Tens of millions of workers will have their reward to work significantly eroded through this mechanism.

There's more. Under the ACA, uninsured individuals are expected to pay a penalty for failing to have insurance, except during periods of hardship. If unemployment is deemed "hardship," then the ACA offers a new form of assistance to uninsured people when they lose their jobs: relief from the individual mandate.

Regardless if more taxes are collected from workers or more subsidies are provided to people without jobs, or both, an essential consequence is the same: a reduction in the reward to work. For the purposes of analyzing the quantity of labor, it also does not matter whether new taxes are collected from employees or whether they are collected from employers on the basis of how many employees they have, which is why the ACA's employer shared responsibility penalties also reduce the reward to work.

Large employers that do not offer affordable health insurance to their employees in 2014 will owe a \$2,000 shared responsibility penalty per full-time employee-year if at least one of them receives an exchange subsidy (Congressional Budget Office 2010b). The penalty applies to all full-time employees beyond thirty, regardless of whether the employee obtained health insurance through a family member or through Medicare, and regardless of whether the employee's household was between 100 and 400 percent of the federal poverty line. The penalty on an employee is pro-rated by month: it begins as soon as he is added to the payroll and ceases as soon as he is removed.

Small employers are exempt from the penalty, but an employer with 49 full-time employees, and not offering affordable health insurance, will find the penalty to be about \$40,000 (also not business tax deductible) for hiring just one more full-time employee. Thus, while the small-employer exemption is better than none from the perspective of small employers, the labor-market-wide effects of the penalty on the reward to work are much the same as they would be without a small-employer exemption. In effect, tens of millions of workers will be paying a penalty equal to \$3,000 of their annual wages that non-workers do not pay.

The ACA also expands Medicaid for able-bodied adults by raising the household income limit, although it remains to be seen how many states opt out of that provision. The quantitative effect of the Medicaid expansion on the nationwide reward to work is likely small and depends on a number of factors.⁶ The ACA does replace or claw back some of the pre-ACA assistance program benefits, especially those from uncompensated care (Goolsbee 2011, oral testimony at 77:45) and unemployment insurance.⁷ The employer shared responsibility penalty also indirectly reduces employer personal income and payroll tax bills by depressing employee salaries.

Accounting for (i) all of the above ACA provisions, (ii) the fact that many people will not participate in subsidy programs for which they are eligible, (iii) that multiple significant population segments will not be eligible for any of the above subsidies or penalties, and (iv) that the households that do participate have heterogeneous family and health situations, I find that the ACA adds about five percentage points to the average marginal labor income tax rate among non-elderly household heads and spouses whose monthly compensation would be between \$3,800 and \$4,600 if and when they are working full-time.⁸ Five percentage points is the amount of the 2014 jump up in Figure 2's marginal tax rate series.⁹

The ACA adds more percentage points to the marginal tax rates faced by less-skilled household heads and spouses (i.e., those whose monthly compensation would be less than \$3,800 when working full-time), and adds fewer percentage points to the marginal tax rates faced by more-skilled household heads and spouses.

My findings of large marginal tax rates, despite an accounting for imperfect take-up, are not the result of “cliffs” or “notches” in transfer program formulas in which many dollars of benefits are lost for earning a single marginal dollar (Yelowitz 1995) because I look at the consequence of more “discrete” decisions of accepting a job, or initiating a layoff, that change calendar year income by thousands of dollars. Instead, my large rates reflect the *combination* of tax and subsidy rules from the assortment of safety net programs in which millions of Americans have been and will be participating.

It might seem that the ACA has little direct effect on work incentives for the poor because the exchange subsidies are only available to households above the poverty line (and below four times the poverty line). However, exchange subsidy eligibility is determined by calendar year income, and households can live much of the year below the poverty line but nonetheless have a calendar year income above it. Just as important, the employer shared responsibility penalties apply to all employees (beyond 30) of an assessable employer, even if many of those employees live at or below the poverty line.

Wage Garnishment and Related Private Sector Activities Raising Marginal Tax Rates

The Internal Revenue Service, Department of Agriculture, and state unemployment agencies are not the only institutions looking at a person’s employment status and federal individual income tax return to determine how much she should pay or receive. My own employer, the University of Chicago, and thousands of other universities, colleges, and schools look at federal income tax returns through their financial aid programs to determine how much a parent should pay for her child’s education. While we welcome the opportunity to help students from disadvantaged families, economists have long recognized that financial aid practices affect incentives for students’ parents to work and save (Dick and Edlin 1997).

Workers sometimes have their wages garnished by creditors and/or child support agencies. Garnishments may be a necessary part of a well-functioning credit market and necessary to properly support children, but they also serve to reduce the reward to working by the person whose wages would be garnished (Holzer, Offner and Sorensen 2005).

Even if these private sector actions affecting the reward to work had been constant over time, they still interact with the safety net expansions cited above because the economic distortions resulting from marginal tax rates depend on the sum total of all taxes, subsidies and garnishments that derive from a person’s wages.

Moreover, it does not appear that the private sector’s influence on marginal tax rates has been constant over time. A new federal bankruptcy law went into effect in late 2005. Perhaps the most dramatic single increase in marginal tax rates has been associated with the federal guidelines for the settlement of “under-water” home mortgages. Mortgage modification initiatives have been one of the main ways the federal government has sought to reduce home mortgage foreclosures, especially when those foreclosures are motivated by negative home equity (Congressional Oversight Panel 2009, 4).

These programs often recommend a new mortgage payment amount that is lower than the payment specified in the original mortgage contract. More important in terms of marginal tax rates, the new payment is set in proportion to the borrower's income at the time of the modification. The more the borrower is earning, the more she will be required to pay her lender over the next five to seven years, or more. The marginal tax rate on income earned at the time of modification can easily exceed one hundred percent and sometimes exceed two hundred percent as a result of the federal modification guidelines, not to mention the many other taxes and subsidies that also reduce the reward to working (Herkenhoff and Ohanian 2011; Mulligan 2012).

The Income Maximization Fallacy

It is sometimes claimed, by non-economists at least, that the safety net does not prevent anyone from working because everyone strives to have more income rather than less, and would gladly take any available job that paid them more than the safety net did. This "income maximization" hypothesis is contradicted by the most basic labor market observations, not to mention decades of labor market research.

Before the recession began, over 80 million American adults were not working. To be sure, some of them could find no reward in the labor market and would be stuck without gainful employment no matter how lean the safety net got. But many others were not working by choice. You probably know skilled stay-at-home mothers or fathers who could readily find a job but believe that the net pay from that job would not justify the personal sacrifices required. They are examples of people who deliberately do not maximize their income. Other examples are people who turn down an out-of-town promotion in order to avoid relocating their families, and workers who eschew higher paying but less safe occupations. Earning income requires sacrifices, and people evaluate whether the net income earned is enough to justify the sacrifices.

When the food stamp or unemployment programs pay more, the sacrifices that jobs require do not disappear. The commuting hassle is still there, the possibility for injury on the job is still there, and jobs still take time away from family, schooling, hobbies, and sleep. But the reward to working declines, because some of the money earned on the job is now available even when not working.

A related fallacy is that employees would do absolutely anything to avoid a layoff, regardless of the layoff subsidy rate. It is true that employers sometimes experience reductions in demand from their customers, as auto manufacturers and home builders did early in the recession. But layoffs are not always the inevitable result. Employers and employees could adapt to less demand by work sharing (D. Baker 2011), reducing prices charged to customers, reducing wages, or have pursued a less cyclical line of business in the first place. Heavy layoff subsidies give them less reason to pursue the alternatives to layoffs (Topel and Welch 1980).

Decades of empirical economic research show that the reward to working, as determined by the safety net and other factors, affects how many people work and how many hours they work. To name a small fraction of the many studies: Hoynes and Schanzenbach (2012) show how potential participants stopped working or reduced their work hours when the food stamp program was introduced. Studies of unemployment insurance find that program rules have a statistically significant effect on how many people are employed, and how long unemployment lasts. Yelowitz' (2000) research shows how a number of single mothers found employment exactly when, and where, state-level Medicaid reforms increased their reward from working. Gruber and Wise (1999) and collaborators show how the safety net for the elderly results in less employment among elderly people. Autor and Duggan (2006) and the Congressional Budget Office (2010a) explain how the

number of disabled people who switch from work to employment-tested disability subsidies depends on the amount of the subsidy relative to the earnings from work. Murphy and Topel (1997) show how poor wage growth among less-skilled men helps explain their declining employment rates during the 1970s and 1980s.

Programs assisting the poor and unemployed interact with private-sector demand shocks in determining the number unemployed. An adverse demand shock increased unemployment more under the ARRA than it would if the same demand shock had been experienced under 2007 tax and subsidy rules because each dollar that wages are reduced is a bigger proportion of the reward to work for someone whose reward has been largely whittled away by tax and subsidy programs than it is for someone who keeps a large fraction of what she earns.

Other Misconceptions about the Reward to Working

I previously cited at least a dozen changes in subsidy rules that served to raise marginal tax rates. Any one of them may appear insignificant by itself, especially for the purpose of aggregate labor market analysis. But that does not mean that the combination of a dozen or more potentially small marginal tax rate increases is itself small.

Focusing on just one of any of the safety net expansions is also misleading as to the magnitude of the overall increase in marginal tax rates and therefore potentially misleading as to the sources of the major changes in the labor market since 2007. It is even possible that attention to one program in isolation of the wider safety net could motivate backwards public policy responses.

To see this, imagine that UI rules became more generous, and that added to the number of households who were unemployed and with less income than they have when working. A number of the added unemployed people apply for food stamps, which from the food stamp program's point of view makes it look like "the economy is getting worse," so food stamp officials recommend enhancing food stamp benefits, which further increases the marginal tax rate. But, in this example, the added food stamp applications come from higher marginal tax rates created by UI, and the right food stamp policy response may be to reduce benefits in order to stabilize the overall marginal tax rate. The point of this example is not that the actual safety net expansions were excessive but rather that the economics of the safety net can be different when the safety net is viewed as a whole rather than on a program-by-program basis. The distinction is more than academic: contemporary events involve expansions of the safety net in many dimensions, and all of that occurs on top of an assortment of other safety net programs.

Among the hundreds of labor market studies, two of them – Rothstein (2011) and Ben-Shalom, Moffitt and Scholz (2011) – have been misrepresented as showing that recent safety net expansions had no visible effect on employment. Ben-Shalom et al. (2011) looks at the pre-recession safety net, and thereby does not consider the safety net expansions that have occurred since then. Rothstein (2011) looks at the allowable duration of unemployment benefits, finding that benefit durations have a statistically significant effect on unemployment exits, but otherwise does not examine a single one of the safety net program parameters that are included in Figure 2's marginal tax rate series. Neither study considers layoff subsidies or what happens when marginal tax rates approach one hundred percent.

The number of job openings per unemployed person fell sharply during the recession (U.S. Bureau of Labor Statistics 2013). This fact has been misinterpreted by journalists as proving that unemployment subsidies are not a significant factor depressing the labor market. To the contrary, expanding unemployment subsidies can by themselves, or in conjunction with other factors, reduce

job openings per unemployed person (Pissarides 2000). If you want to understand what caused and prolonged the recession, you have to look beyond the ratio of job openings to people unemployed.

It is sometimes thought that safety net transactions only affect the people who participate in the programs. To the contrary, the safety net is funded by taxpayers, lenders, owners of government debt, beneficiaries of government programs other than the safety net, or some combination thereof. As a portion of the beneficiaries opt to earn less, they also opt to spend and save less, as their household budget constraint frequently requires. They lawfully pay less tax. Businesses anticipate having fewer employees and invest less. These behavioral changes are bad news for employers in general, for people who produce the consumer and investment goods that beneficiaries would be buying if they were back at work (and goods the program funders would be buying if they were not funding the expansions), and for people who live in places like Michigan whose economies are especially intensive in the production of such goods (Gali, Gertler and Lopez-Salido 2007).

Research has shown that the poor and unemployed tend to quickly spend what they have on basic needs, which is why helping them is intrinsically valuable (Gruber 1997), but “stimulus” advocates sometimes further assert that spending patterns of the poor are why redistribution serves as a great boost in total spending and thereby total employment. Even if redistribution did not depress the reward to working, the stimulus assertions would be wrong because they ignore the spending of the people who fund the programs. Redistributing resources to the poor from everyone else changes the composition of spending and employment in the direction of industries like discount groceries that disproportionately serve poor customers and away from industries like high-end restaurants serving relatively few poor customers, but redistribution by itself has little effect on *aggregate* spending.¹⁰

When redistribution is combined with increases in marginal tax rates – as a number of recent policies have done – it significantly reduces aggregate spending because people typically spend less when they are not working.¹¹

Conclusions

The bottom line is that helping the poor and economically vulnerable has a price in terms of labor market inefficiency. In recent years, we have been paying progressively more: American public policies moved significantly in the direction of less labor market efficiency.

As long as marginal tax rates remain far above what they were six or seven years ago, we cannot reasonably expect the labor market to return to where it was back then. We cannot expect the poverty rate to fall back to its pre-recession levels. We cannot expect employment per capita to go back to where it was.

Nobel laureate James Tobin was a leading Keynesian economist and key adviser to President Kennedy, and pointedly described high implicit tax situations. He said that they “caus[e] needless waste and demoralization.... It is almost as if our present programs of public assistance had been consciously contrived to perpetuate the conditions they are supposed to alleviate.” (Tobin 1965, 890)

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Endnotes

¹ States could exempt up to 15 percent of such persons from the work requirement, or request a waiver for people in areas with an unemployment rate over 10 percent.

² The index combines incentives to work full-time relative to unemployment, out of the labor force, and part-time work.

³ Schedules for smaller and larger families would look similar when plotted in Figure 3 because the axes are relative to the federal poverty line. For comparison, note that the population-weighted average of actuarial values for various family situations is \$14,643, assuming a \$19,000 AV for families of 3 or more and a \$7,000 AV for a family of one, and limited to households with heads aged 26-64 and calendar year incomes between 100 and 400 percent FPL.

⁴ The earnings of any person with employer-provided health insurance are included in his household income, and he may have family members who obtain subsidized insurance on the ACA's marketplaces.

⁵ Employer-provided insurance is implicitly subsidized because the premiums are excluded from the payroll and personal income tax bases. This implicit subsidy remains under the ACA, which means that the subsidy is irrelevant for understanding the *impact* of the ACA on the reward to work for people that would have employer-provided insurance while they are working.

⁶ The factors include whether the asset test is relaxed along with the income limit, the number of people who were earning above the pre-ACA threshold, and the relative value that people place on Medicaid versus plans they might obtain in the ACA's health insurance marketplaces.

⁷ Unemployment benefits are part of taxable personal income and thereby increase (at roughly a 20 percent rate) the amount the sliding scale requires a household to pay for the health insurance it purchases from the ACA's marketplaces.

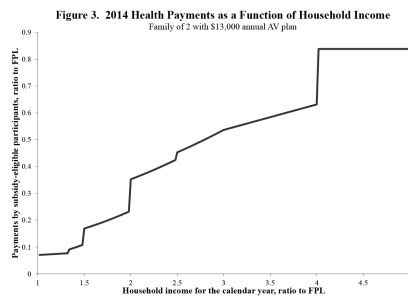
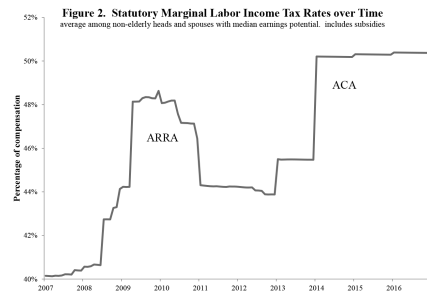
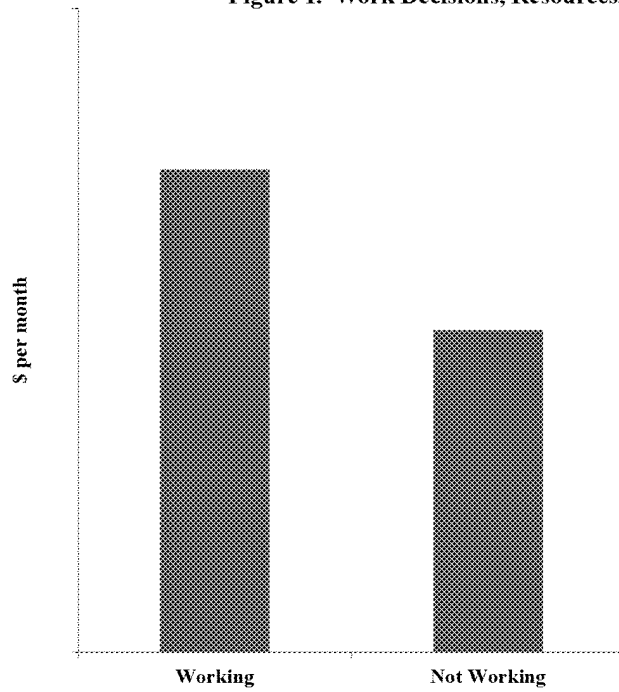
⁸ This is at the middle of the distribution of potential earnings among non-elderly household heads and spouses (Mulligan 2012). Also recall that my marginal tax rates are percentages of employee compensation (including fringe benefits): a 50 percent rate in my units is approximately a 60 percent rate when expressed as a percentage of cash income.

⁹ My estimation of marginal tax rates 2014-16 assumes that the ACA contains all of the changes in safety net program rules during that time. If, for example, Congress reacts to a weak labor market by further expanding unemployment insurance or food stamps at some time during 2014-16, then marginal tax rates would be greater than shown in Figure 2. I also assume that the ACA's formulae for penalties and exchange subsidies are applied in all 50 states.

¹⁰ Redistribution to the poor may reduce aggregate labor demand if the poor tend to purchase goods and services that are less labor intensive in their production than are the rest of the goods and services in the economy. Also note that (a) government transfers are very different from government purchases of goods and services such as military spending or highway construction, which have been shown to significantly increase GDP in many instances (if nothing else, government purchases are automatically considered part of GDP, whereas transfers are not), and (b) aggregate spending is the sum of investment spending, consumer spending, government purchases, and net exports.

¹¹ Aguiar and Hurst (2005). To the extent that it redistributed resources to low-income families, the 2011-12 payroll tax cut is an exception because it achieved its redistribution while increasing the reward to work.

Figure 1. Work Decisions, Resources, and Incentives



Committee on Ways and Means
 Witness Disclosure Requirement – “Truth in Testimony”
 Required by House Rule XI, Clause 2(g)

Your Name: Casey B. Mulligan		
1. Are you testifying on behalf of a Federal, State, or Local Government entity? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
2. Are you testifying on behalf of any non-governmental entity(ies)? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
3. Please list any Federal grants or contracts (including subgrants or subcontracts) which you have received during the current fiscal year or either of the two previous fiscal years. None.		
4. Please list any offices or elected positions you hold. None.		
5. Does the entity(ies) you represent, other than yourself, have parent organizations, subsidiaries, or partnerships you are not representing?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
6. Please list any Federal grants or contracts (including subgrants or subcontracts) which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years, which exceed 10 percent of entity(ies) revenues in the year received. Include the source and amount of each grant or contract. Attach a second page if necessary. N.A.		

Page 2

Committee on Ways and Means
Witness Disclosure Requirement – “Truth in Testimony”
Required by House Rule XI, Clause 2(g)

Name: Casey B. MulliganAddress: 233 E 13th #2105Chicago, IL 60605Signature: Date: June 14, 2013

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Chairman REICHERT. Mr. Rodriguez.

**STATEMENT OF ERIC RODRIGUEZ, VICE PRESIDENT, OFFICE
OF RESEARCH, ADVOCACY, AND LEGISLATION, NATIONAL
COUNCIL OF LA RAZA**

Mr. RODRIGUEZ. Thank you, Mr. Chairman, Ranking Member Doggett, and distinguished Members of the committee. For 20 years I have worked on antipoverty issues. It is a great pleasure to be here just to share our perspective.

I would just like to make a few key points in my testimony.

The first is that many of the Federal programs that we are talking about here that are designed to assist low-income families are doing what we have asked them to do and what was intended, in many ways.

The second is that some of the tax credits that have already been mentioned in particular really stand out in terms of their impact on rewarding work and stand out as a Federal policy to reward work over time. And it is well-documented and there is really substantial research to support that.

Finally, there are a lot of ways that we can lift up families out of poverty through Federal initiatives if we choose to invest more in those key particular areas.

So the great recession has been devastating, I think as we all know. The national unemployment rate now is 7.6 percent, down

from 10 percent in 2009. You have to go back to the early 1980s to see a nationwide rate at that level. Today, there are still more than three unemployed workers for every job available.

At the same time, we have had a housing crisis that took a devastating toll on working families. Substantial declines in household income and wealth, particularly among Latino and African-American families, have eroded financial security for all American working families.

The Federal social safety net includes a range of programs that we have mentioned here that serve nonworking elderly, of course, the disabled, children, but also working families—and increasingly working families. Programs such as SNAP, Medicaid, and TANF are designed to provide basic security and, in the aggregate, help provide broadly shared financial stability during difficult times.

SNAP participation grew, as we have already mentioned, 27 percent between 2007 and 2009, but as a result of the recession. These programs and efforts are not designed to remedy macroeconomic or labor market issues, but rather to help families deal with the fallout from these macro trends.

One of the most valuable and effective responses we have seen comes in the form of tax credits. In 2011, just by way of example, the EITC prevented 6.1 million people, including 3.1 million children, from slipping below the poverty line. The credit has also been proven to have other positive effects for working families. And, again, extensive research is there to support that.

Expansions of credits and programs that assist low-income workers have been a central piece in economic recovery, as you have seen. In fact, the safety net reduced poverty by almost half in 2010 by accounting for the positive effect of programs like SNAP as well as the low-income tax credits.

Yet some argue that these programs discourage work. In general, benefits decrease as earnings rise, and we know this. But, as in the case of the tax credits, policymakers can mitigate those effects through properly designed phaseout rates.

But, by and large, increasing employment, boosting wages, lifting up income and earnings, and improving levels of wealth for families, as we all want, can be best achieved when jobs and economic opportunity are plentiful. Stabilizing families during an economic downturn is certainly a sensible first step, and needed.

The evidence is clear that means-tested antipoverty programs have served as foam on the runway that Main Street needed to soften the harsh effects of our financial crisis. But American businesses are still hesitant to hire. It may take years for the labor market to return to help without further interventions.

Targeted efforts to create jobs, such as funding for infrastructure repairs and rebuilding in low-income neighborhoods, are smart, commonsense solutions. Raising the minimum wage, expanding access to paid leave, affordable child care, are also all important at rewarding work and important during this time.

However, policy does seem to be moving in a different direction, and let me just give you three quick examples.

The Federal budget sequester, of course, has been devastating on complementary programs. An estimated 270,000 people will be cut

from Federal job training programs that serve youth. Latinos will lose about 25,000 slots in Head Start programs.

The recent version of the farm bill also raises great concerns. SNAP has been proven to be highly effective, yet we are seeing \$4 billion in the Senate and possible cuts of \$20 billion in the House version of the farm bill—again, issues that we are really concerned about.

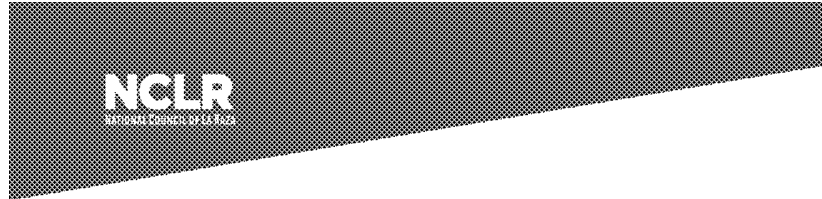
And the Budget Control Act, recently signed, made permanent a lot of the tax credits that were put in place in 2001, but the EITC was only expanded or extended for 5 years and not made permanent, so a major concern.

So, in summary, most of the programs that we are talking about have served the purpose that they were intended to serve. Tax credits remain crucial in this regard. And policy options are in front of us if we can invest in those areas.

Thank you very much.

Chairman REICHERT. Thank you, Mr. Rodriguez.

[The prepared statement of Mr. Rodriguez follows:]



FEDERAL POLICIES TO REWARD AND SUPPORT WORK
IN A DIFFICULT ECONOMY

Submitted to
Subcommittee on Human Resources of the Committee on Ways and Means

Submitted by
Eric Rodriguez
Vice President, Office of Research, Advocacy, and Legislation
National Council of La Raza

June 18, 2013

Paul H. Douglas Building
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Chairman Reichert, Ranking Member Doggett, and other distinguished members of the Subcommittee, thank you for inviting me to testify today. For nearly twenty years I have worked on public policy issues affecting the lives of low-income Americans, and as Vice President at the National Council of La Raza (NCLR), I oversee the Office of Research, Advocacy, and Legislation. NCLR is the largest national Hispanic civil rights and advocacy organization in the United States, an American institution recognized in the book *Forces for Good* as one of the best nonprofits in the nation. We represent a network of nearly 300 Affiliates—community-based organizations in 41 states, the District of Columbia, and Puerto Rico—that provide education, health, housing, workforce development, and other services to millions of Americans and immigrants annually.

I am pleased to provide expert testimony today about current federal programs designed to assist low-income individuals and families. The programs that make up the federal social safety net and tax credits for low-income workers are crucial to all American families and workers, including millions of Latino families.

Today there are over 50 million Latinos in the U.S., 12% of American households, 15%¹ of the workforce, and nearly one-quarter of all children in the U.S. are Hispanic. Latinos have a higher labor force participation rate than either White or Black workers, yet they are overrepresented in low-wage jobs that make up the bulk of the nation's job employment growth since the Great Recession. More than two in five Latinos earn poverty-level wages, which undermines the economic security of Latino families and the communities where they live and work.

For these reasons, policy interventions and programs that aim to protect families from destitution during economic downturns, lift families above poverty, assist workers to become economically mobile, and otherwise support work have been enormously important to Latinos. NCLR's public policy work on these relevant issues spans over decades and includes *Fractures in the Foundation: The Latino Worker's Experience in an Era of Declining Job Quality*—a first of its kind comprehensive analysis of wages, occupational safety and health, and workplace benefits in sectors that depend on Latino workers—and a series of testimony, white papers, fact sheets, and issues briefs on anti-poverty efforts such as the legislative reauthorization of the Temporary Assistance for Needy Families program and the Earned Income Tax Credit.

Our research and policy work over the years have documented good results as well as gaps and limitations in safety-net and work support systems that leave too many workers out. Economic and wealth-building policies, primarily via the U.S. tax code, have also been inequitable, ensuring that the greatest amount of tax benefits accrue to upper income tax payers with the greatest amount of accumulated wealth and assets. Not surprisingly, the nationwide race-ethnic wealth gap is staggering. And recent work since 2008 has documented concerns about the effectiveness of job preservation and creation efforts on Latino workers and families. The breadth and depth of our economic and labor policy work, along with our work with community-based practitioners and social service providers serving low-income families, has helped to shape and inform our perspective on anti-poverty programs and efforts to date.

My testimony today will focus on the status and effectiveness of federal efforts to help low-income workers, highlight some concerns we have about the current policy landscape, and identify key policy priorities for low-income workers and families.

Federal Social Safety Net and Low-Income Tax Credits

The federal social safety net includes a range of programs, including a number of means-tested programs such as the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and the Temporary Assistance for Needy Families (TANF) program. These programs together with low-income, refundable tax credits such as the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) help to lower poverty and make low-wage work rewarding. The tax credits also offset the effect of payroll taxes on low-wage workers. Finally, the EITC and CTC help to address wage stagnation at the low end of the income spectrum. The real weekly wages for workers in the bottom 10% of the income distribution have decreased by 3% since 2000, while those for the top 10% have increased by 9%.² Put another way, if the federal minimum wage had kept pace with average wage growth, it would be \$10.50, instead of \$7.25, where it stands today.³ With the declining value of the minimum wage, the refundable tax credits are even more important.

Moreover, a review of the literature by the National Bureau of Economic Research (NBER) found that the safety net lowers the poverty rate by approximately 14 percentage points⁴ and other studies document that noncash benefits like SNAP have significantly reduced poverty for families during the recession.⁵

Low-Income Programs: Reducing Poverty and Supplementing Income

Overall federal spending on low-income programs (including the tax credits noted above) have made up a larger share of the nation's Gross Domestic Product (GDP) because of the recession and increasing costs throughout the health care system. Spending, however, is projected to return to prerecession levels in the near future if current budgetary policies remain the same and the economy continues to gradually improve. Federal spending on low-income programs is not a significant contributor to the nation's long-term fiscal imbalance. Growth in health care costs, the aging of the population, and relatively low annual tax revenue receipts are bigger contributors to the long-term fiscal problem we face. In fact, growing numbers of young Latino and immigrant workers entering the labor force are helping to improve the overall economic outlook of the nation.

For families, the Great Recession has been devastating. While the national unemployment rate has declined to 7.6% from its high of 10% in October 2009, there are still more than three unemployed workers for every job opening, meaning that the unacceptably high unemployment rate is primarily driven by insufficient demand for workers.⁶ At the same time, the housing crisis and substantial declines in household income and wealth has further deteriorated the financial status of families and increased the need for means-tested income and social safety net assistance. For example, SNAP participation grew 27% between 2007 and 2009.⁷ Sustained high rates of unemployment and slower than expected job growth since 2009 have kept

participation levels in the SNAP program high. That said, SNAP is incredibly important to low-income working families.

For example, like many families who turned to SNAP during the recession, Ricardo, age 29 from East L.A., fell on hard times when he was laid off of work. He lived with his brother, his parents, and his brother's eight- and six-year-old children. Ricardo and his brother had provided the sole support for this extended family of six until first he, and then his brother, were laid off from their jobs with no means to support either his parents or the children. As Ricardo says, "With so many mouths to feed in the family, it gets a little difficult." For them, SNAP was a lifeline, and with careful management, the \$250 per month enabled them to provide basic nutrition for the family. Despite the small amount of SNAP benefits, as Ricardo says, "Any added income is better than none, most of the time you need it just to survive." For Ricardo and his family, this eight-month rough patch would have been unbearable if not for SNAP. Now, even though Ricardo and the family are back on their feet and have found work, providing nutritious foods continues to be a daily struggle for this low-income family.

Programs such as SNAP, Medicaid, and TANF are designed to provide basic security for families in times of economic distress, such as unemployment, and, in the aggregate, help to provide broadly shared financial stability during economic downturns. Overall figures on program spending, participation rates, and household poverty levels reveal that these programs are working as intended. In fact, the safety net reduced poverty by almost half to 15.5% in 2010 after accounting for the positive effect of programs such as SNAP as well as tax credits.⁸

Furthermore, over the last two decades social policy has directed more attention toward families that are working yet still earning too little to lift themselves above poverty. Programs such as SNAP and Medicaid provide vital assistance to low-wage workers, helping to sustain families through difficult periods and reducing poverty. That said, one of the most successful anti-poverty and work support "programs" or policies for low-income working families are received in the form of tax credits.

Refundable Tax Credits

Since the Earned Income Tax Credit's (EITC) enactment in 1976, it is largely considered one of the most successful anti-poverty measures ever put in place. In 2011, for example, the EITC alone prevented 6.1 million people, including 3.1 million children, from slipping below the poverty line. The EITC achieves these dramatic results by indexing and setting a maximum cap on the amount a filer may claim based on earnings and family size. The credit is designed to alleviate the tax burden that low-income families face, largely from payroll taxes, and encourage and support low-wage workers raising children. As enacted initially, the EITC was relatively low, but over time there have been a series of expansions that have dramatically improved the credit's effectiveness at addressing the tax burden, incentivizing work, and reducing after-tax poverty rates. Recent ground-breaking research shows that, over the long term, children of refundable tax credit recipients perform better in school, are likelier to attend college, and earn more as adults.⁹ Because of the high rates of labor force participation, relatively low wages, and presence of children, Latino families are among the major beneficiaries of the credit. Over one-

third of Latino families are eligible, based on income, for the EITC; however, due to restrictions, a smaller number are likely to actually receive this credit.

The EITC has also proven to be an effective tool for policymakers. When confronted with the challenge of how to provide more immediate direct assistance and fast relief to workers and families hit hard by the economic recession, policymakers turned to tax credits such as the EITC. Expansions of the EITC and similar tax credits have been a central piece in economic recovery efforts. Most recently, the credit was enhanced as part of the American Recovery and Reinvestment Act in 2009, along with the CTC. Such improvements to the CTC and the EITC keep 1.6 million working people out of poverty annually and help 26 million children.¹⁰ The expansions to these credits ensure that more money is circulating in communities, which spurs economic growth and job creation, especially because low-income families quickly spend their money on necessities. Every increased dollar received by low- and moderate-income families has a multiplier effect of between 1.5 and 2 times the original amounts, in terms of its impact on the local economy.¹¹

The CTC is similar to the EITC in many respects. Currently, families can claim a credit of up to \$1,000 for each child under the age of 17 (up to a maximum of 15%, minus \$3,000 of their income regardless of the number of children). Congressional action since the CTC's enactment has increased the amount of the credit several times, on occasion as a mechanism to provide tax relief to low- and middle-income families. Increases in the CTC have been particularly important to the children of working parents who earn very low wages as child care workers, preschool staff, home health aides, cashiers at retail stores, waiters or waitresses, dishwashers, grounds maintenance workers, people who clean offices or homes, etc. The average spending per participant was \$1,300 in 2011. In this same year, the bulk of the refundable portion of this credit went to families with income below \$50,000 per year, providing much-needed relief.

Overall, the evidence is clear that means-tested anti-poverty programs have worked as intended. Programs such as SNAP, Medicaid, and the Children's Health Insurance Program have served as an economic backstop for low- and middle-income working families that were devastated by unemployment or the financial debilitation caused by the foreclosure crises. These programs stabilized families economically and served as the "foam on the runway" that "main street" needed to soften the harsh effects of the financial meltdown. Low-income tax credits also worked as intended, lifting millions above the poverty threshold after the effect of taxes are accounted for, supplementing low wages, and providing quick and direct relief during the recession.

Current Landscape: Many Threats and Some Opportunities

The economic recovery has been slower than we would all like. Unemployment remains at unacceptably high levels, especially for minority workers and youth. In April 2013, the unemployment rate for Blacks (13.5%), Latinos (9.1%), and young people (24.5%) was significantly higher than the White unemployment rate (6.7%). Workers are likely to continue to need health, nutrition, housing, and other assistance at above-average levels until the labor market recovers and workers begin to see rising wages and gains in employment. For these

reasons, we are concerned about how policy deliberations on fiscal issues, tax reform, and other entitlement reauthorizations could undercut these critical programs and measures.

With respect to low-income discretionary programs, the federal budget sequester enacted on March 1, 2013, has been damaging and will continue to hamper economic recovery for families in a number of key areas. For example, an estimated 270,000 people will be cut from federal job training programs that serve youth, 30% of whom are Latino. Latinos will also lose about 18,000 rental subsidies and 25,000 slots in Head Start preschool.¹² Indeed, NCLR's recent informal survey found that the vast majority of Latino voters are concerned that federal budget decisions could unduly burden vulnerable families.¹³ Moreover, the sequestration cuts are projected to reduce job creation by 750,000 in 2013, according to the Congressional Budget Office. This is bad news for all those who continue to struggle to find work in a slow-growing economy.

Moreover, means-tested anti-poverty programs as well as the highly successful refundable tax credits continue to face withering criticism that threatens to result in major cutbacks that will hurt recovery efforts. For example, the recent version of the Farm Bill contains budget cuts to the SNAP program, \$4 billion in the Senate version and over \$20 billion in the House version over ten years. These cuts are in addition to further restrictions on eligibility which could impact more than 2.5 million American families.

Refundable tax credits, meanwhile, face criticism, even though the success of these tax credits at incentivizing work and reducing poverty are well documented. However, the recent Budget Control Act made the bulk of low tax rates put in place in 2001 permanent, but only extended the EITC and CTC expansions for five years, leaving the tax credits vulnerable to further attacks and potential cuts.

Rewarding Work

By design, means-tested programs and refundable tax credits contain incentives and disincentives for workers to work and/or to increase their earnings; in general, benefits decrease as earnings rise. The considerable research on this subject finds that the intensity of the work incentive differs by the program design. EITC, for example, has strong incentives for work at the low-income end and then gradually phases out the tax credit benefit in a way that helps to neutralize the disincentive or reduce the marginal tax rate. By contrast, other programs have steeper so-called "cliffs," where the loss of benefits resulting from employment or increased earnings is more dramatic. Policymakers can address intense systemic disincentives to earn more and mitigate any adverse labor effects by properly designing benefit phase-out rates, though, this would add costs to these programs.

That said, no strategy to reduce reliance on means-tested programs can ignore the reality of persistent high unemployment and wage stagnation. A comprehensive strategy to encourage work must include investments to increase the supply of jobs and raise the wage and benefits floor. American businesses are still slow to hire in the wake of the recession: if employment continues to grow at its current pace, it will take more than six years for the unemployment rate to return to its prerecession level.¹⁴ Targeted efforts to create jobs, such as funding for

infrastructure repairs and rebuilding in low-income, high-unemployment neighborhoods, are among the smartest investments toward economic self-sufficiency in the communities with the greatest needs.

Other strategies outside of the tax code to reward work include raising the minimum wage to \$10.10 per hour, a long-overdue increase that many economists agree would ensure workers can meet basic needs and would boost local economies. Expanding access to paid leave and affordable child care, are important priorities for families with children. Finally, reinvesting in federal job training programs and removing barriers to participation for lower-skilled adults would increase their human capital to better meet the needs of employers in high-growth sectors.

Conclusion

Means-tested low-income programs are addressing the main problems that they were created for and designed to tackle; they are providing stopgap assistance to millions of working and nonworking families weathering the recession. As the economy recovers and labor market returns to health, these programs should contract, and spending levels should return to their historical share of the overall GDP. Programs are effectively tackling key areas for low-income families by providing food security, nutrition assistance to children, temporary income assistance to the unemployed, and affordable health insurance to those who have lost private employer-based care. And the low-income tax credits are acting as a wage supplement for low-wage workers raising children, keeping many in the workforce despite high unemployment and low wages.

That said, there are reasons to be concerned about the status and outlook of these programs. The fiscal fight continues to whittle away at complementary low-income discretionary programs. The tax debate continues to offer little new revenue for investment, instead favoring upper income taxpayers over lower income taxpayers for benefits and relief. And low-income entitlement programs continue to come under attack and remain vulnerable to budget cuts.

Unless we can break out of the austerity box policymakers have put us in, increases in employment, wages, income, earnings, and overall levels of wealth for families will remain a distant dream.

Endnotes

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Chairman REICHERT. Well, now we will move into the question-and-answer phase. And I would like to begin by asking Ms. Randolph a couple of questions.

Have you testified before Congress before?

Ms. RANDOLPH. No.

Chairman REICHERT. Isn't this fun?

Ms. RANDOLPH. Yes.

Chairman REICHERT. Well, good. I am glad you are having fun. So we are just going to have a conversation, okay?

Ms. RANDOLPH. Okay.

Chairman REICHERT. We just want to learn from you, because I think it is really important. You have been there, done that. You have been through the system. I mean, all these guys are smart guys and gals that are sitting here, but you are the one with the wisdom and the experience, as far as I am concerned, okay?

Ms. RANDOLPH. Okay.

Chairman REICHERT. So you went to the Department of Human Services in New York, right?

Ms. RANDOLPH. No, in DC.

Chairman REICHERT. In DC.

Ms. RANDOLPH. Yes.

Chairman REICHERT. I am sorry, in DC. And you were provided with some benefits——

Ms. RANDOLPH. Yes.

Chairman REICHERT [continuing]. Right. And then you went to America Works.

Ms. RANDOLPH. Yes.

Chairman REICHERT. What was different? What was your experience? What is the difference in the two? How did you find yourself becoming successful through what America Works does versus the Department of Health?

Ms. RANDOLPH. Basically, the support from America Works, both as far as finding employment but also in personal. Because, at that time, I was going through a personal matter.

They helped me with so much as far as building my confidence, helping me with finding employment and staying determined, staying on track. Even though I had all this going on in my personal life, I had them to come to every day to talk to, also for them to support me in any way possible.

When I got there, it seemed it was just great. I loved it there. I really did.

Chairman REICHERT. What didn't you get at the Department of Human Services in DC.?

Ms. RANDOLPH. Just the benefits.

Chairman REICHERT. Just benefits.

Ms. RANDOLPH. Yes. So what you really were looking for was someone who could tell you, you know what, Sada, you can do this——

Ms. RANDOLPH. Yes. Yes.

Chairman REICHERT [continuing]. To build your self-confidence, you can get a job like this, you can have a dream.

Ms. RANDOLPH. Yes.

Chairman REICHERT. So how did they help you build that confidence? What were some of the things that they did?

Ms. RANDOLPH. Every day I would come in, they would sit down and talk with me. If I had any personal issues as far as transportation or anything that would keep me from getting to America Works, they would help me with that. Also, helping me with my resume, my interview skills, whatever I needed help with. Also, searching jobs with me. One-on-one time was most important to me, and I received that when I got to America Works.

Chairman REICHERT. And when you were working with Human Services, how did you feel? I mean, you were just getting benefits.

Were you frustrated? Were you anxious? Were you looking for work?

Ms. RANDOLPH. I was looking for work, because I know I am a smart girl—

Chairman REICHERT. Yes.

Ms. RANDOLPH.—and I knew that was not where I wanted to be. But I also had a child feed. So, I mean, with them I did become frustrated, but I also was grateful—

Chairman REICHERT. Sure.

Ms. RANDOLPH [continuing]. Because I had a way to feed my son.

Chairman REICHERT. Right.

Ms. RANDOLPH. Yeah, so I just became a little frustrated, but—

Chairman REICHERT. You would rather be where you are today—

Ms. RANDOLPH. Yes.

Chairman REICHERT [continuing]. With a job versus—

Ms. RANDOLPH. Yes.

Chairman REICHERT. Yeah. Good.

Ms. Tiller, what would you say to someone who might look at Ms. Randolph and say she represents a few people who are easy? She is obviously a very bright young lady, someone who may be easy to find work for, as opposed to many other people on benefits who can't be put to work right away without years of education or training or similar services.

Ms. TILLER. Generally, everyone who comes to any of our America Works offices are people who, before they met us, were not believed in. So regardless of the duration on TANF or any types of services before, it is building that confidence that Sada referenced.

It is advocating on their behalf when it comes to their housing situation or additional benefits needed or childcare subsidies. It is making sure that anyone who walks into our office is matched appropriately to a job. You know, work first works best.

So we make sure that any individual—we look at their wrap-around services that are needed. We offer them a comprehensive approach. But, really, it is just building their confidence.

Chairman REICHERT. Yeah. Well, thank you so much for what you do and America Works does.

And congratulations to you, Ms. Randolph.

Ms. RANDOLPH. Thank you.

Chairman REICHERT. You are welcome.

Mr. Doggett, you are recognized.

Mr. DOGGETT. Thank you, Mr. Chairman.

And thanks to all of our witnesses.

Mr. Kling, I know that the CBO has studied a number of times the earned income tax credit, I think most recently in your November 2012 marginal tax rate report.

Does the research indicate that the EITC has helped pull people into the labor market by increasing the value of work?

Mr. KLING. Yes, Congressman, it does. We have a report that was specifically on the refundable tax credits that is even more recent, from January. And that is clearly spelled out there.

Mr. DOGGETT. The report I looked at said it makes work more appealing and that studies have found that expansions of the EITC between 1986 and 1996 significantly increased the movement of single mothers into the work force.

Mr. KLING. Those are our findings, yes, sir.

Mr. DOGGETT. And by boosting the value of work, has the EITC also reduced poverty rates for Americans in low-wage jobs?

Mr. KLING. That is correct.

Mr. DOGGETT. Thank you.

Mr. Rodriguez, what will be the effect on poor families of significantly changing the earned income tax credit?

Mr. RODRIGUEZ. Well, if the changes are meant to lessen the credit in some way or—

Mr. DOGGETT. Yes.

Mr. RODRIGUEZ. —cut back on eligibility in some particular way, I think it would be devastating. I think as many of you know, the effects of the credits, I think, are proven to reduce poverty.

But, also, on an individual level, many families, you know, they go to work. They look forward to their tax refunds at the end of the year. They use it to pay off bills and other basic necessities. The notion that we will be reducing refunds in some way, I think, could have a very, very devastating impact and certainly set us back with respect to the recovery.

Mr. DOGGETT. And, Mr. Kling, on the issue of food security and the SNAP program, I believe that CBO projects that the overall spending on SNAP will drop substantially in real terms over the next decade under existing law, if we just maintain the existing law.

Mr. KLING. That is correct.

Mr. DOGGETT. And this is based on the premise that the program grew when the recession was the deepest, and we think that is changing. And it accounts for the fact that the food stamp benefit levels will drop some this fall because of changes that are already set to take effect in the SNAP law.

Mr. KLING. Yes, sir. We think that the economy is on a path toward recovery. And, over the next decade, that will have a substantial impact on reducing the amount of expenditure in the SNAP program.

Mr. DOGGETT. Thank you.

And, again, Mr. Rodriguez, in terms of what the impact will be on Latino families and other families if the House were to enact the bill that is before us this afternoon—in fact, that is what the bells were ringing about, to bring that up—that involves five times as much of a cut in the SNAP program as that made by the Senate.

Mr. RODRIGUEZ. Yeah, as we discussed, SNAP and the EITC work pretty closely together to assist families who are working. And, as you know, the State and local impacts of the EITC, SNAP payments are tremendous on local economies. You know, in Texas alone, 2.7 million households claim the EITC. That is over a million families that are receiving those benefits. I think SNAP has very similar overlays, and so you are looking at deep impacts in similar places. And I think we should be very concerned about that.

Mr. DOGGETT. We have heard substantial criticism of some of the existing programs today from some of the other witnesses.

What do you believe are some of the strategies that we need to pursue in order to get long-term reductions in poverty?

Mr. RODRIGUEZ. Well, I certainly think, you know, looking at the EITC, for those who may be concerned about some of the work incentives or discouraging, again, I think the phaseout rates offer some, I think, pointers in that direction.

I think further work support investments—transportation subsidies, childcare subsidies—that help workers either stay in the work force or expand their hours seems to me to be a good direction to go in, in addition to some of the job-creation and job-growth elements that I have mentioned before. And they are in my testimony.

Mr. DOGETT. And is early education and avoiding these across-the-board cuts in Head Start a part of that also?

Mr. RODRIGUEZ. Absolutely. Part of the research that we have seen talks about intergenerational poverty and how that affects families. And we certainly have seen research that shows that children of recipients of the tax credits do better in terms of educational outcomes and college attainment. And so I think we would be definitely concerned about the effects on the longer-term implications for families, as well.

Mr. DOGETT. Thank you.

Thank you Mr. Chairman.

Chairman REICHERT. Thank you, Mr. Doggett.

Mr. Young, you are recognized for 5 minutes.

Mr. YOUNG. Thank you, Mr. Chairman, for holding this important hearing.

I thank all of our panelists.

Ms. Randolph, your testimony was incredibly inspiring to me. And I think the idea here is to try and figure out ways to reform the programs at issue today so that our social safety net does not become a cage for many Americans; instead, it becomes what it was intended to be, to my mind: a springboard to go out and realize your capabilities, put those to use, and make a better life for yourself and your family. And you certainly embody that, so thanks for being here today.

Times are tough. Some of the solutions I have already heard put forward today with respect to improving the lives of people on the margins of our society involve greater expenditure. I know that argument can be made, but I would like to invoke the old British saying which is, "Now that the money has run out, we shall have to begin to think." It is time for us to think creatively about how a number of these programs are structured. And to do that, I think in some cases it would be helpful to have more information.

Prior to 1988, it was impossible to determine what percentages of AFDC recipients were actively engaged in workfare, job search, training, or other efforts to reduce dependence. States actually competed with each other in disseminating misleading data, which implied that most of those who made up their caseload were engaged in serious efforts to leave the government rolls.

With the passage of the 1988 welfare reform legislation, States were required to report accurately the activities of their AFDC recipients. It was soon revealed that only a tiny fraction of recipients were actually engaged in job search and training. And that information, garnered through those 1988 reforms, led to the intellec-

tual foundation for later welfare reforms which incorporated a work requirement, to the benefit of people like Ms. Randolph.

So my questions pertain to evidence-based policymaking, and they will be directed toward Mr. Mead and Mr. Mulligan.

In terms of other Federal programs, such as SSI or SNAP, which programs currently require States to report on the activities of government benefit recipients?

Mr. MEAD. To my knowledge, TANF is the only program that has detailed requirements of reporting on what recipients are engaged in. I don't believe we have that in food stamps or SSI.

Mr. YOUNG. Mr. Mulligan, would you agree with that assessment, to your knowledge?

Mr. MULLIGAN. The SNAP program has a quality control sample that I believe comes from each of the States. I don't know exactly the administrative role of the States in that, but each of the States is represented there. The Department of Agriculture makes it available every year. It is a yearly sample of people who are actually on the SNAP program, the type of household they live in, whether they are working—

Mr. YOUNG. Right.

Mr. MULLIGAN [continuing]. Those sort of issues.

Mr. YOUNG. So we have 83, by my last count, what some call welfare programs. Others characterize that as an unfair term, although I think just about every panelist used that term. We will call them means-tested Federal benefit programs.

Just about all of them require no sort of work requirement or even requirement that there be some reporting on the activities related to work or job search of the recipients.

Should the Federal Government extend these reporting requirements to other means-tested government programs, in your estimation? And if we should extend these requirements, should we also apply rigorous evaluations to determine the effectiveness of these programs on benefit recipients?

Mr. Mead.

Mr. MEAD. Well, in principle, I would favor that, but let's remember there are administrative costs associated—

Mr. YOUNG. Sure.

Mr. MEAD [continuing]. With this kind of reporting.

I don't know that all the programs need it. It seems to me that the major programs are those that most of the recipients are likely to be on, including food stamps, TANF, EITC. We should content ourselves with getting good reporting on those programs. And if, in those connections, people are working, fulfilling the requirement, then that is going to take care of the others. So I don't think we need to see this as a general problem—

Mr. YOUNG. I will interject, due to limited time.

And, Mr. Mulligan, I believe we have spoken offline about this issue, and you share that perspective; we should focus more on where most of the money goes, frankly, on reporting requirements for those programs. Is that correct?

Mr. MULLIGAN. Yes, start with the big pieces. And I also recommend that—the Census Bureau runs some surveys of the population, especially the poor population, the SIPP and the Current Population Survey. Those could be cleaned up and improved for the

purpose of measuring program participation more completely. And that would be made administratively more cheap and valuable for research.

Mr. YOUNG. And, finally, based on these findings, this information gathered, should the Federal Government incorporate evidence-based funding criteria into these well-intentioned programs? Yes or no, if you can, because my time has expired.

Mr. MEAD. In principle, yes. But we have to sometimes carry out studies to determine what the effects are.

Mr. MULLIGAN. Yeah, I would say yes.

Mr. YOUNG. Thank you.

Chairman REICHERT. Okay. Thank you, Mr. Young.

Mr. Lewis, you are recognized.

Mr. LEWIS. Well, thank you very much, Mr. Chairman.

I want to thank each and every one of you for being here.

Except for the Associate Director of CBO and Ms. Randolph, have any of you been without a job or known someone without a job after 2007, known someone that didn't have a job or couldn't find a job? Make it brief, please.

Mr. MEAD. Yes. I have friends who have been unemployed.

Mr. LEWIS. Okay.

Ms. TILLER. Yes, I have had friends who have been unemployed.

Mr. LEWIS. Okay.

Yes, sir.

Mr. MULLIGAN. My wife was laid off at the beginning of the year. She is still unemployed.

Mr. LEWIS. Okay.

Mr. RODRIGUEZ. Likewise, yes. Not my wife, but, you know, I have had—

Mr. LEWIS. Thank you. Did any of the people that you know, any of your friends try to take relief or seek relief from any of these Federal programs?

Mr. MEAD. In the cases I know, I don't know, but I don't believe so.

Mr. LEWIS. Okay.

Ms. TILLER. I wouldn't be made aware.

Mr. LEWIS. Okay.

Yes, sir.

Mr. MULLIGAN. I am not sure I understood your question.

Mr. LEWIS. I think my question is, did anyone you know try to seek out benefits of these Federal programs?

Mr. MULLIGAN. Well, my wife looked at unemployment insurance, which is a State program.

Mr. LEWIS. Okay. That is okay. I think some of the resources come from the Federal Government.

Mr. RODRIGUEZ. The answer is yes, but—yes.

Mr. LEWIS. Well, let me—are any of you taking the position that we should just de-fund these programs and get rid of them and let people fend for themselves?

Mr. MEAD. I am not in favor of that. My concern is that we require people to work in return for benefits, but I am not in favor of cutting the benefits. We still need to help people.

Mr. LEWIS. So you are not in favor of abolishing the program, that the Federal Government get out of the business of helping people, throwing people a lifeline.

Mr. MEAD. I don't think the problem in welfare is that we are helping people. The problem is sometimes that we are not expecting people to help themselves.

Mr. LEWIS. Okay.

Mr. Chairman, I would like to yield the balance of my time to Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman.

And thank you, Mr. Lewis.

Chairman REICHERT. If I could just interrupt, Mr. Davis, very quickly. We have 2 minutes to get over to vote.

Mr. DAVIS. All right. Then I will just say that the line of questioning I think that we are seeing pursued in some way is this whole business of, are people likely to not seek work because of the benefit that they might be receiving?

The benefits that I have seen people receive generally were not enough to be the kind of reward that might say to a person, I don't really need to go out and seek work as assiduously as someone thinks because I am receiving a benefit that is rather minimal.

And I will continue to pursue that. Our time is obviously up, and we have to run and vote, but when we return. So thank you, Mr. Chairman.

Chairman REICHERT. Thank you, Mr. Davis.

Thank you, Mr. Lewis.

And I apologize to the witnesses. We are going to disappear for a few minutes. We will be back as soon as we can. If you could please remain, we have just a few more Members to ask questions, so I would ask your patience.

The Committee hearing now will be in recess.

[Recess.]

Chairman REICHERT. The subcommittee will come to order, please.

So thank you for your patience.

We will begin questioning again, and we will recognize Mr. Renacci for 5 minutes.

Mr. RENACCI. Thank you, Mr. Chairman.

I want to thank the witnesses for your testimony.

Ms. Randolph, I want to congratulate you for what you have been able to do. I think that is one of the positives of these programs, and we need to have more of those. So, congratulations.

It is interesting because, in my previous history, I used to always have staff come up to me and say, well, the more money we spend, the better off we will be. And I used to try and tell them that there comes a time when the more money you spend sometimes, you are just wasting it.

And I think what we really need to do is make sure that the programs that we are spending money on, that the return is there and that we are getting people back to work. That has to be the key, just like Ms. Randolph was able to do. Those are the keys to these type of programs.

Mr. Mead, I want to direct a question to you. In December of 2011, approximately 193,000 individuals received TANF benefits in

my home State of Ohio. Although shocking to me at first, this number was small in comparison to the 2 million individuals receiving SNAP benefits.

In your testimony, you mentioned that other programs could benefit from similar work tests used in the TANF program. Can you tell us more about some of the benefits of a work-first approach to our welfare system, just a little more in detail? Because I think that is the direction we should go in.

Mr. MEAD. In order to get welfare recipients to work, you have to have an administrative structure where you say to them that they must work and you arrange it. You help them get it together by arranging child care, finding a job, actually working, staying at the job, et cetera. It has to be mandatory, it has to be a condition of eligibility that they do this.

And it is not as if—I am not suggesting they don't want to work. They do. But, typically, they have to get organized to actually do it. And so you need to have a program structure that brings that about.

We have that structure in TANF, but we don't have it in food stamps. That is the big difference. In food stamps, there are formal requirements on the books, but we don't actually have a program standing behind it. We don't actually have in most localities—there are some exceptions—but we don't have an actual program on the ground where people are faced with an operational requirement to do something. That is the big difference. And we need to move that way in SNAP.

Mr. RENACCI. Sir, do you believe that we are providing the real help necessary to get to that point? Or, do we have to revise the system?

Mr. MEAD. I think we have to revise SNAP to provide a program structure like what we have in TANF. Now, I don't mean the rules would be identically the same. Food stamps covers a wider population, with many different types of families. We have to think seriously about who exactly would have to work and how much and so on. So there are issues there that you wouldn't face in TANF.

But we need to do that, we need to set up a structure. That is what is now missing. And then you can combine practical help, which people need and I am in favor of, like the benefit, with a requirement that people also help themselves. So you have this joint effort where the government and the recipient together work on going to work.

Mr. RENACCI. Ms. Tiller, if you speak to those out of work, most will tell you they want a chance to earn more money, help their family, improve their situation in life. Getting individuals back to work really must remain the goal of the public assistance programs.

You have assisted a variety of individuals in your organization. Do you come across individuals who are not willing to work?

Ms. TILLER. Of course we do, but it is all about rebuilding confidence and making folks more self-aware and then helping them with the tools to get them to a point of employability.

Mr. RENACCI. What are some of the things your organization does to help people realize the benefits that they can gain from working?

Ms. TILLER. We show them mathematically that work pays; it pays more than receiving TANF benefits. We do countless trainings that focus on rebuilding their self-awareness, including talking about family structure. Then, also, pre-employment initiatives: resume building, confidence building, presentation, aesthetic presentation, things of that nature.

Mr. RENACCI. Ms. Randolph, your goal, it sounds like, and I just want to confirm that, was really to get back to work. You wanted to get to work.

Ms. RANDOLPH. Yes.

Mr. RENACCI. So you were just looking really for the tools to help you move in that direction and be able to find a job and find employment for yourself and your child; is that correct?

Ms. RANDOLPH. Yes.

Mr. RENACCI. Very good.

Thank you, Mr. Chairman. I yield back.

Chairman REICHERT. Thank you.

Mr. Reed, you are recognized.

Mr. REED. Thank you, Mr. Chairman.

And thank you to the panel.

I am very interested in having a conversation this afternoon about an issue that is very important to me, and that is to focus on the working poor.

Because, to me—and, Mr. Rodriguez, you kind of talked about it a little bit in the phaseout situation—is that we have policies now, in my opinion, at the Federal level that don't reward the people that are going to work, the ones who we want to stand with that are pulling themselves out of the turmoil that we all agree that we want to address here from Washington.

So, Ms. Tiller, from your experience, what are the barriers to re-employment that you come across on a regular basis?

Ms. TILLER. Some of the barriers include limited experience, limited education, limited knowledge of current events. So we work to work with our participants to make sure that they are trained in pre-employment initiatives to get back to work, and then we address additional education and whatnot.

Mr. REED. So are we talking about, when you say education, are we talking about, like, skill sets—

Ms. TILLER. Uh-huh.

Mr. REED [continuing]. Workforce development—

Ms. TILLER. Soft skills, hard skills, yes.

Mr. REED. Soft skills and hard skills. Now, when you say that—because I have heard that numerous times, and I am interested in getting it on the record—soft skills, what are you referring to?

Ms. TILLER. Presentation, how you articulate. Also, your overall being, your self-awareness. That is what I would consider soft skills. Your communication skills, are you organized.

Mr. REED. And when you say that, have you ever asked anyone that you have come across in your experience in that situation where you are helping them develop those skills why they didn't have those skills to begin with?

Ms. TILLER. Sure.

Mr. REED. And why was that? What was their response?

Ms. TILLER. A variety of reasons. Household composition, limited education.

Mr. REED. Okay, household composition, limited education. That is a nice D.C. term. What do you mean by that?

Ms. TILLER. How they grew up.

Mr. REED. How they grew up, their home environment.

Ms. TILLER. Yup, what their family structure was like.

Mr. REED. Okay. And then have you ever come across folks that maybe have a drug problem or an alcohol problem?

Ms. TILLER. Uh-huh.

Mr. REED. Is that something—if you could verbally state for the record that you have?

Ms. TILLER. Yes, we have.

Mr. REED. And is that something that is a big issue, or is that a relatively small, insignificant issue, in your experience dealing with—

Ms. TILLER. Well, it is an issue. Again, we look at work as the central activity, and then we focus on all of the other barriers that need addressing. And we make sure to warmly refer participants to the appropriate services so that they get complete wraparound services.

Mr. REED. And just so I have a sense for the record, is that something that you occasionally come across or is that something that you regularly come across?

Ms. TILLER. Regularly.

Mr. REED. Regularly.

Ms. TILLER. Uh-huh.

Mr. REED. Because I am finding that, talking to my work force development directors and others in the district and to employers, that that is a real issue to re-employment. And so I am glad to hear that verified by you here today.

Ms. Randolph, I want to talk about—your story is really—you know, we could spend a lot of time with the experts here, but your story is really something I want to explore.

Clearly, you are setting an example. You are out there doing it right. How does what you do impact your son? Could you state that for the record?

Ms. RANDOLPH. It impacts him greatly. I want to set an example for him to show him that the sky is the limit. He can do anything he puts his mind to.

Mr. REED. And have you had a conversation with him along those lines, or is it—

Ms. RANDOLPH. Yeah. Well, not—

Mr. REED [continuing]. Just, not do what I say, but do what I do?

Ms. RANDOLPH[continuing]. Not quite because he is only two.

Mr. REED. Okay.

Ms. RANDOLPH. So we haven't got there yet. We haven't got there yet.

Mr. REED. Well, I would tell you, you know, I am the father of a 12- and 14-year-old, and I can tell you—and I am the youngest of 12, so I have 11 other older brothers and sisters. And I can tell you that I remember the adage, it is only about 2 percent of what

your parents say that you do; it is what they do that you incorporate and become.

And, Ms. Tiller, you talked about it on household composition and being reflected in the next generation that is coming down.

And, Ms. Randolph, could you describe your household composition when you were growing up?

Ms. RANDOLPH. Well, I grew up in a single-parent home with just my mom. I had my dad in my life, but it wasn't a marriage or a two-parent home.

I grew up kind of rough, but I always knew that education, and keep pushing, that I will be okay, I will be fine. So I never let my surroundings discourage me or turn me around from what I wanted to do and the dreams that I wanted to come true.

Mr. REED. And who taught you that education was key?

Ms. RANDOLPH. My mom.

Mr. REED. That is what my mom taught me.

Ms. RANDOLPH. Yes.

Mr. REED. She was a single mother after my father passed when I was 2. And she taught that lesson to me very, very directly. So I appreciate that.

Because that is an issue, I think, that gets lost in our conversation. We talk a lot about the benefits and the cash that we could give to individuals, but we are not talking about the cycle of dependency, the cycle of poverty, and how you break that.

And I am very interested in—and, Ms. Randolph, I applaud you because you are setting an example for that 2-year-old that I can assure you, in my humble opinion, will pay huge dividends not only for him but his kids and your grandkids. So God bless you. Keep up the great work.

And, with that, I yield back.

Ms. RANDOLPH. Thank you.

Chairman REICHERT. Thank you, Mr. Reed.

Mr. Davis, you are recognized.

Mr. DAVIS. Thank you very much, Mr. Chairman.

And I want to thank all of our witnesses for being here this afternoon.

Ms. Randolph, let me congratulate you for the progress that you have made. It seems to me that I know thousands of individuals like yourself. I have lived and worked in the inner city of Chicago all of my adult life, and so I have seen individuals.

Do you have friends and family Members, perhaps, who had similar experiences and are having similar success to yours?

Ms. RANDOLPH. No.

Mr. DAVIS. No?

Ms. RANDOLPH. No.

Mr. DAVIS. Ms. Tiller, let me ask you, do you know other agencies and organizations that are having the kind of success that you are having with your programs?

Ms. TILLER. I can only speak to America Works.

Mr. DAVIS. So you don't check other programs and how effective they are or read literature about what they do?

Ms. TILLER. Sure, I read about them. I know of others in existence. But today I am only speaking to America Works.

Mr. DAVIS. Okay.

Mr. Kling, I note that spending for the kind of programs that we are talking about has increased tremendously over the years. Are there any societal conditions that may have spurred some of this? Or do we see any results, like a difference perhaps in life expectancy since 1972, since much of this has gone to health care?

Mr. KLING. There are some important societal trends. Population growth is a big driver of why the number of participants has gone up in many programs. In the healthcare programs, there is a general rise in healthcare costs per participant that affects the Medicaid program that reflects a societal trend, yes, sir.

Mr. DAVIS. And I note that in some communities, especially where there have been certain kinds of programs, that the infant mortality rates, for example, have been reduced—that is, that people not only live perhaps longer but they live a bit better. And so I am thinking that some of that might be accounted for as a result of the increased expenditures.

Dr. Mulligan, let me thank you for being here. You come from one of my favorite, most favorite institutions. One of the things I bemoan a little bit sometimes is that the University of Chicago is not in my congressional district, although I have a large number of other colleges and universities, but not the University of Chicago.

Let me ask you if you have observed the impact of the availability of work opportunities on whether or not people are employed. Or what does opportunity have to do with unemployment in some settings?

Mr. MULLIGAN. Maybe a good way to answer your question would be the Figure 1 in my testimony, where I view the reward to work as a comparison between what you can get when you are not working and what you get when you are working.

And I think what you meant by “opportunity” is what would happen if you could get more while working, if you could get a better job or a more high-paying job. And that increases the reward. And, on average—not every single individual responds this way, but, on average, when people have a bigger reward, they respond to it by working more. That is fairly clear as an average proposition.

Mr. DAVIS. On the availability of work, in my mind, I am reminded that when I came to Chicago and the community that I live in, there were solidly good-paying manufacturing jobs all over the place. I can name at least 20 major corporations and companies that were located there. And so the individuals in the community where I lived basically had jobs. Hotpoint, Motorola, General Electric, International Harvester, Sears—you name it, they were there.

And so my question really was about the impact of job availability. I see that my time has expired, Mr. Chairman, so—

Chairman REICHERT. Thank you.

Mr. Kelly is recognized.

Mr. KELLY. Thank you, Chairman.

And thank you all for being here.

I think, Ms. Randolph, what you said was probably the most important thing. And I know that you are actually the person doing these things. You have actually been through it, you have been through the programs. Because I think what Ms. Tiller did—when you said, they gave me confidence, I think that is the key to it. I

can't imagine waking up in the morning and having no reason to get out of bed.

Now, I know we come up with programs, and they are well-intentioned. But when you disincentivize people to go after something, when you take away their hopes and dreams, you are kind of reinforcing that we are going to give you enough money to stay where you are.

These programs were not designed to keep people in poverty. They were designed to lift them out of poverty. The skills that you learned, though, gave you the confidence to go in and apply for a job.

The town that I am in now has seen heavy, heavy unemployment. And I have young people coming up to me all the time saying, you know, "Mr. Kelly, are there any jobs that you know about?" I say, "Go to the work force people. Talk to them." "I don't know how to do those jobs that are available."

So you wonder about what are we doing with folks, because if the idea is to help them, give them a bridge from where they are to where they want to be, that works. I mean, that is what worked for you. I can see it in your eyes. You are a confident young lady. You said, "I knew I was a smart girl." And so you had the confidence, but then they helped you build it so you could go when you were seeking a job and speak with confidence and get the job. And that is really—I mean, you are doing it.

How many more people would you say fall in that category but they just don't have that confidence yet to go out and look for a job or to interview for a job? Either one of you, because you are both working with great numbers of people. You created 350,000 jobs, or at least got people jobs, right?

Ms. TILLER. Uh-huh.

Mr. KELLY. Okay.

Ms. TILLER. So, thousands. Thousands per month in offices nationwide.

Mr. KELLY. Okay. All right.

See, I get the confusion, because sometimes we think, well, you know what, our hearts are willing, but sometimes our wallets are weak. And we talk about how we want to help people, but then we say there is only so much we can do. See, I don't believe for 1 minute by disincentivizing people that you are helping them. I don't want to give people enough money to stay where they are. I want to give them an opportunity to dream again.

Mr. Mead, availability of jobs. Are there not enough jobs out there for folks? Or where are we with that?

Mr. MEAD. There is no definitive proof, but I would say jobs of a low-skilled, low-paid variety are widely available in America today. The indications are that low-income people can get jobs quickly. The problem is more keeping the jobs. Their problem is far more obtaining an adequate wage to enter the middle class.

That has been true for decades. This is not a new problem. But the major difficulty, though, for this group is not that they are working at low wages. Two-thirds of the poor didn't work at all in last year. And it isn't because they can't get a job. It is that they are doing other things. Their lives are preoccupied with other concerns.

They are not saying in survey studies that I can't get a job. Only 12 percent of the nonworking poor adults in 2011—or 2012—no, well, but the latest year, anyway—12 percent say that the reason is they can't find a job. Vastly more important are concerns in private life. They are retired or taking care of the family, they are ill, they are in school. Those are much more important.

So people are not saying they can't get a job.

Mr. KELLY. Okay.

Now, going back to Ms. Randolph, okay, you have a little boy?

Ms. RANDOLPH. Yes.

Mr. KELLY. All right. Two years old?

Ms. RANDOLPH. Yes.

Mr. KELLY. See, when I was growing up—I mean, the central part of who we are as a people has always been the family. It has always been centered around the family, the family unit, the ability of the mother and father to work together to provide a future for their children, to provide wellbeing for them.

And I look at some of these programs and I am saying, well, why are we telling people that, you know what, if you are married, we are going to penalize you for being married? It seems to me like we don't reward good behavior, but we make people think about, well, maybe it is better if I am not married, I can benefit more from not being married. I would just say maybe short term but not long term.

Ms. RANDOLPH. Uh-huh.

Mr. KELLY. I heard you talk about your family and the way your family was structured. So, I mean, you all see it every day.

Ms. RANDOLPH. Yes.

Mr. KELLY. We see it in this country. As our families continue to crumble, as we don't have that family nucleus, we lose what it is that is uniquely American, and that is to provide for those coming after us with a great deal of heart and a great deal of passion.

Is that not happening? I can't believe the numbers that we are looking at now of unmarried people with children. It is a tough row to hoe even when you are married, but unmarried? Unless you incentivize it.

Could we change it? Would that help?

Mr. MEAD. I don't believe, as I have said, that incentives are the core problem. The core problem is the lack of a structure that promotes and enforces work connected to these welfare programs. We need to have a program in which there are case managers who make sure that those who want to work actually do it and help them sort out the problems and so on.

It is not going to happen automatically, and it is not going to happen in response to incentives. Incentives are, I believe, a distraction from the main difficulties, which are actually administrative.

We need to do with food stamps and these other programs what we have already done with TANF. Set up a structure where, if you get support, you are reliably required also to work. We have to do that. And when we do that, we will see results.

Mr. KELLY. Getting up with a purpose every morning is the key to it. You have to have that, whether it is that 2-year-old little boy

who is driving you or just wanting to be part of a society that continues to make things better for those coming after us.

I have used up my time. Thank you all for being here, and thank you so much for what you are doing.

Congratulations. Keep up the good work.

Chairman REICHERT. Mr. Crowley.

Mr. CROWLEY. Thank you, Mr. Chairman.

Ms. Randolph, it is a pleasure to have you here before us this afternoon, and congratulations to you on all your success. And I wish you nothing but more success in the years to come for you and your little boy and for your family, your overall family.

I just have a couple of questions for you, though, if I could, just to get a better sense of your situation and how we can apply that to others.

Ms. RANDOLPH. Okay.

Mr. CROWLEY. When you were moving into your position last year, you apparently were aware of the Earned Income Tax Credit; is that correct?

Ms. RANDOLPH. Yes.

Mr. CROWLEY. And how did you find out about that?

Ms. RANDOLPH. For the tax year? I found out about it once, I guess, I applied for my taxes.

Mr. CROWLEY. Okay. So did your accountant tell you or did—

Ms. RANDOLPH. Yes.

Mr. CROWLEY. So they told you. Did you receive any information about continuing medical coverage under Medicaid, if needed?

Ms. RANDOLPH. Did I receive any information?

Mr. CROWLEY. Yeah, that if you needed to continue health care, that you would have access to Medicaid if you needed it?

Ms. RANDOLPH. Yes, I did.

Mr. CROWLEY. And did you receive any explanation about getting any help with daycare expenses for your child?

Ms. RANDOLPH. Yes.

Mr. CROWLEY. Are you now receiving any of these supports like EITC or transitional Medicaid or childcare subsidies?

Ms. RANDOLPH. Yes.

Mr. CROWLEY. You are receiving those subsidies.

Ms. RANDOLPH. Yes.

Mr. CROWLEY. Thank you.

Ms. Tiller, when one of your clients leaves the TANF program for a full-time job but receives assistance with child care or transitional Medicaid or, in fact, gets EITC, do you think of that person as a welfare recipient or as a worker?

Ms. TILLER. As a worker.

Mr. CROWLEY. As a worker.

Ms. TILLER. Uh-huh.

Mr. CROWLEY. I appreciate your response because I think that gets, in part, to the crux of what we are talking about here, those who would imply that EITC or even on transitional Medicaid or receiving even childcare subsidies so that they can work and their child can be in an enriching environment, that that is a form of welfare. Some on this Committee believe that that is another form of welfare.

I don't believe so, Ms. Randolph. I think what you are doing is more than admirable; it is heroic. It is heroic, what you are doing. And I hope that there are millions more like you out in the world. It is what makes America great. So thank you.

Ms. RANDOLPH. Thank you.

Mr. CROWLEY. Mr. Rodriguez, in your testimony, you mentioned some of the benefits of EITC, including long-term gains in education and earnings by recipients.

Can you elaborate a bit more on the broader economic benefits of the EITC program and other tax credits for working families? When families receive these credits, what impact does their resulting spending have on our overall economy?

Mr. RODRIGUEZ. Yeah, sure. Thank you.

I mean, I think there are, as I mentioned, some really good studies out there that really show, not to mention the anecdotal evidence of people who are working directly with families to get tax credits each year, it pumps millions of dollars, billions of dollars into the economy, millions of dollars into local economies; as well, these help families to certainly pay off bills but also do employment-related things like buy cars that take them to work and pay for other transportation, childcare costs, other kinds of things that I think have tremendous employment effects, as well.

And I think the research that we cited around long-term effects on families and kids in families who are receiving the tax credits I think stands for itself.

Mr. CROWLEY. Thank you.

So it seems that we are talking about programs that not only strengthen the individual but strengthen all of us, lift all boats, and also improves the overall economy of our country.

I hope that the benefits of these valuable programs and the very real need for these resources are not overlooked in a rush to claim credit for cutting so-called "welfare." Don't forget, our Constitution has in it to provide for the general welfare. When did the word "welfare" become so maligned? When did it become a negative and a pejorative, as opposed to something positive, as apparently our Founding Fathers had thought so when they included that line in the preamble of our Constitution?

I particularly want to thank Ms. Tiller for your comments when I asked the question about whether you thought that those programs, as applied to Ms. Randolph, were for welfare and you said they were not. And I think that is a very honest answer, and I appreciate that very much. Because I think it goes to the heart of what we are talking about here today, that these programs are not forms of welfare. They are helping lift people up who are struggling, who are working in this country and trying to make ends meet.

That is what Ms. Randolph is doing every day. She is working in this company, this healthcare company. And I applaud her, and I applaud you for your forthright answer.

Thank you. I yield back.

Chairman REICHERT. I thank the gentleman.

Thank all of you for being here today, and thanks for your patience as we left for a few minutes to vote.

I would like to especially thank Ms. Randolph for her appearance here today. Sometimes Congress can be a little intimidating for any of us, but especially for someone who has not been here before.

We are excited about your progress. People have mentioned that. You have been sort of the focal point. You are sitting in the center, and everyone is kind of drawn to you and your smile and your success.

And, the Federal Government, I think we would all agree, does have a role in helping people get back on their feet. We must be there.

And I hope that you continue to receive these benefits and you continue to move on in your life and look for promotions and not only buy your first car but end up buying your first home. And I can see you are already planning that, by nodding your head.

So we are just honored to have you here and appreciate all the work that all of you in the panel have done. We want to get this right. We want to be able to be here as a help to people, but we want to have people like Ms. Randolph, who stand up, too, and take responsibility, who want to move forward with their lives.

And the government is here to help you move forward. And maybe 1 day you might even work for the Federal Government and you can say to people, "I am from the Federal Government, and I am here to help." Maybe not.

Thank you all very much.

The hearing is adjourned.

[Whereupon, at 3:56 p.m., the subcommittee was adjourned.]

[Submissions for the Record follow:]

Family Equality Council



June 17, 2013

Chairman Dave Reichert
Subcommittee on Human Resources
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Ranking Member Lloyd Doggett
Subcommittee on Human Resources
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

RE: June 18 Hearing Reviewing How Today's Fragmented Welfare System Fails to Lift Up Poor Families

Dear Chairman Reichert and Ranking Member Doggett:

Family Equality Council is the national organization that supports and represents the three million parents who are lesbian, gay, bisexual, and transgender (LGBT) and their six million children across the United States. We embody a community that works hard and strives in every way to create a safe, stable, and loving environment for our families. When children are living in poverty, the root causes need to be addressed. Our organization works in many areas to help decrease poverty among our community's families, including advocacy in foster care, adoption, employment discrimination, health care, immigration, and public benefits. We are pleased to have the opportunity to submit testimony for this subcommittee hearing on today's welfare system.

According to a recent Williams Institute report, LGBT individuals, families, and their children endure higher levels of poverty than their heterosexual counterparts.¹ This report incorporated data from four separate studies comparing poverty rates between heterosexual and LGBT people individually and as couples.² Children in same-sex couple households are almost twice as likely to be poor. Children in male same-sex couple households have a 23.4% poverty rate and 19.2% of children in female same-sex couple households live in poverty. This is compared to the 12.1% of children in married, different-sex households. Children in a same-sex couple family are also more likely to live with incomes below 200% of the Federal Poverty Line (FPL).³

There are a variety of reasons why LGBT people are more vulnerable to poverty. The community is more susceptible to employment discrimination, exclusion from tax benefits, healthcare obstacles, and difficulty accessing government financial assistance programs. LGBT people are working to provide for themselves and their families but may need some financial assistance to make ends meet. Data in the Williams Institute report indicates that LGBT people are receiving government aid in slightly higher percentages as a result of these hurdles that they face to sufficiently support themselves.⁴ That is not to say that being approved for welfare services is not alone a challenge, especially for same-sex couples with children. The focus of this testimony will be on the challenges many LGBT families face when attempting to access welfare safety net programs such as Temporary Assistance to Needy Families (TANF), Supplemental Security Income (SSI), Children's Health Insurance Program (CHIP), and Child Care and Early Child Education Assistance programs.

Qualification for government benefits tends to be tied to marital status. Children fall through the cracks when government programs refuse to recognize their families. These programs, providing monetary assistance, food, health insurance, and childcare assistance, use a narrow definition of family to determine eligibility.⁵ As a result, actual household size may not be taken into account when assessing the means of support available to the family.

¹ M.V. Lee Badgett, Laura E. Durso, & Alyssa Schneebaum, "New Patterns of Poverty in the Lesbian, Gay, and Bisexual Community," The Williams Institute, UCLA School of Law, June 2013, *available at* <http://williamsinstitute.law.ucla.edu/wp-content/uploads/LGB-Poverty-Update-Jun-2013.pdf>.

² The report includes data derived from 2010 American Community Survey, 2006-2010 National Survey of Family Growth, 2007-2009 California Health Interview Survey and a 2012 Gallup Daily Tracking Poll.

³ M.V. Lee Badgett, Laura E. Durso, & Alyssa Schneebaum, "New Patterns of Poverty in the Lesbian, Gay, and Bisexual Community," The Williams Institute, UCLA School of Law, June 2013, *available at* <http://williamsinstitute.law.ucla.edu/wp-content/uploads/LGB-Poverty-Update-Jun-2013.pdf>.

⁴ M.V. Lee Badgett, Laura E. Durso, & Alyssa Schneebaum, "New Patterns of Poverty in the Lesbian, Gay, and Bisexual Community," The Williams Institute, UCLA School of Law, June 2013, *available at* <http://williamsinstitute.law.ucla.edu/wp-content/uploads/LGB-Poverty-Update-Jun-2013.pdf>.

⁵ Movement Advancement Project, Family Equality Council and Center for American Progress, "All Children Matter: How Legal and Social Inequities Hurt LGBT Families (Full Report)," October 2011, p. 52, *condensed version available at* www.lgbtmap.org/lgbt-families.

Take, for example, a same-sex household consisting of two parents and two children. This would appear to be a four-person household for the calculation of assistance needed. The government, however, does not recognize the couple as married even if they have a legally recognized relationship in their state.⁶ Thus, the household size is reduced to three, lowering the amount of vital aid for which the family would qualify.

Parent-child relationships are also defined narrowly. A parent without a legal or biological relationship with his or her child may not be able to count that child as part of his or her family to receive vital benefits. Most welfare programs would only count the biological or adoptive parent and the children in their assessments. As a result, the family may not receive the amount of assistance needed to support the family as a whole. This means-testing format is used for TANF, CHIP, Medicaid, and Childcare Assistance.⁷

These financial assistance challenges create a vicious cycle for LGBT families. Both parents may want to work full time but cannot because they cannot earn enough to afford the child care costs associated with being out of the home and do not qualify for childcare assistance. Suppose a same-sex couple used reproductive assistance to conceive their child and then arrived at a point in their lives when they needed to apply for TANF assistance. TANF procedures call for location of a second biological parent in order to determine benefits. Penalties can be applied to these parents for not being able to identify the second biological parent as well as delays in processing while helping a caseworker understand their situation. Perhaps only the non-legal parent has healthcare through his/her employer and therefore cannot cover the children but the family does not qualify for CHIP because of the aforementioned means test. The family must pay for private insurance or pay exorbitant medical bills for their uninsured children. Either way, their modest income is now stretched even farther.

Some strides are being made to combat the challenges faced by LGBT people in need of assistance. Food assistance programs use a broader definition of household size. For the purposes of free and reduced lunches, WIC, and SNAP, there is no requirement that applicants be legally or biologically related to be included in the household.⁸ Also, the Free Application for Federal Student Aid (FAFSA) is being revised to request Parent 1 and Parent 2 rather than the

⁶ The Supreme Court will soon rule on the constitutionality of the Defense of Marriage Act (DOMA) (*United States v. Windsor*, No. 12-307, ____ U.S. ____ (2013)). While the repeal of DOMA may allow the federal government to recognize same-sex marriages, other same-sex relationships, legally recognized at the state level, may not be eligible for federal recognition. Issues of relationship recognition will still remain for these families.

⁷ *Id.* See Goal 2: *Ensuring Economic Security for Children* for a detailed explanation of each program and the definitions employed.

⁸ *Id.*

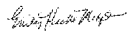
previous mother/father language. This change will make applications for financial aid less complicated for the applicant and the processors. Additionally, clarifications to the Family Medical Leave Act have made it clear that a biological relationship is not required to qualify for leave to care for an individual when acting in loco parentis.⁹

Changes to the narrow definitions of family for the purpose of applying for welfare assistance will help break the vicious cycle. Timely processing of applications and accurate assessment of need could shorten the time a family needs to receive these forms of assistance. The solution to many of these shortcomings is to create consistent, broad definitions of family for all federal programs. For TANF, the definition would expand the "assistance unit." For CHIP, the definition would include same-sex partners and children for whom an adult is standing *in loco parentis*. For Medicaid and SSI, the definition would include *de facto* parents.¹⁰ Family Equality is working on these projects and would be happy to share our work and family stories with you.

The American family comes in various forms. The one thing we all have in common is a desire to provide a secure and stable home for our children. No matter how hard we work to accomplish this goal, times can get rough. The welfare system exists to assist families during these rough times. Together we can ensure the best outcomes for these children and families, while making sure that finite government aid is distributed as efficiently as possible.

Thank you again for the opportunity to testify on this important issue. If you have any questions about our testimony, please email me at ehcht@familyequality.org or contact me by phone at 202-496-1285.

Thank you,



Emily Hecht-McGowan
Director of Public Policy
Family Equality Council

⁹Lepnick, Nancy J. Deputy Administrator, Administrator's Interpretation 2010-3, U.S. Department of Labor, Wage and Hour Division, http://www.dol.gov/WHDOpinion/admininterp/FMLA/2010/FMLAAI2010_3.pdf

¹⁰ Movement Advancement Project, Family Equality Council and Center for American Progress, "All Children Matter: How Legal and Social Inequities Hurt LGBT Families (Full Report)," October 2011, pp. 11-104, *condensed version available at* www.lgbtmap.org/lgbt-families.

First Focus



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Statement for the Record:

June 18, 2013 Ways and Means Human Resources Subcommittee Hearing:

“MORE SPENDING, LESS REAL HELP: REVIEWING HOW TODAY’S FRAGMENTED
WELFARE SYSTEM FAILS TO LIFT UP POOR FAMILIES”

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FIRST FOCUS CAMPAIGN FOR CHILDREN STATEMENT FOR THE RECORD
HEARING ON WELFARE SPENDING, JUNE 18, 2013

**FIRST FOCUS CAMPAIGN FOR CHILDREN
STATEMENT FOR THE RECORD**

By Megan Curran, Vice President, Family Economics

**WAYS AND MEANS SUBCOMMITTEE ON HUMAN RESOURCES HEARING:
“MORE SPENDING, LESS REAL HELP: REVIEWING HOW TODAY’S
FRAGMENTED WELFARE SYSTEM FAILS TO LIFT UP POOR FAMILIES”**

JUNE 18, 2013

Chairman Reichart, Ranking Member Doggett, and Members of the House Ways and Means Subcommittee on Human Resources, thank you for the opportunity to submit this statement on public welfare spending trends, safety net program effectiveness, and outcomes for low-income families.

The First Focus Campaign for Children is a bipartisan children’s advocacy organization dedicated to making children and families a priority in federal policy and budget decisions. Our organization is also committed to ensuring that our nation’s safety net promotes both the economic security and well-being of our nation’s children and families.

Public safety net programs and work supports – such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and the Earned Income Tax Credit (EITC) – reach tens of millions of children and families each year. Because many of these supports are administered separately, however, it can be difficult to document their collective reach. While the interaction of current rules and regulations among various means-tested programs can affect the ability of families to transition seamlessly into employment only, research indicates that children can be more effectively served, and public resources used more efficiently, if action is taken to close three gaps in current policy and implementation: the eligibility gap, the coverage gap, and the hardships gap.

This statement focuses on why safety net and work support programs are important for child well-being and outlines suggestions on addressing the gaps described above to improve outcomes for our public investments and for our children.

Why Safety Net Investments Matter for Children

While ideally, quality employment is the first path to a family’s economic security and well-being, there are times when work alone does not generate enough income, jobs become scarce, or employment is not an option. In these instances, families require additional support to meet their basic needs.

Economic data shows that the U.S. continues to face an employment crisis. And this crisis has taken a significant toll on our nation’s children. In 2012, more than 1 in 6 children – 12.1 million kids – were affected by parental

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unemployment or underemployment.¹ The recession hit low-earning families particularly hard. While worker productivity continues to grow, wages have not kept pace. As a result, 40 percent of all children – 30 million kids – grow up in households with incomes less than 200 percent of the federal poverty level² and for 1 in 3 families in the U.S., a job does not guarantee a decent standard of living³. The reduced income levels in families affected by unemployment, underemployment, or low wages mean that it is more difficult for parents to meet their children's basic needs, such as housing, clothing, food, or education-related costs.

By increasing the material resources available to these families, safety net and work support programs improve living conditions for families in the short-term, while also improving the health, education, and development outcomes for children in recipient families in the long-term.

As of 2011, more than 1 in 5 children lived below the official poverty line (in households with annual incomes of roughly \$22,000 or less for a family of 4). According to the U.S. Census Bureau and the U.S. Department of Agriculture's Food and Nutrition Service, if SNAP benefits were included in the poverty measure along with traditional income, SNAP would be responsible for lifting 3.9 million Americans – including 1.7 million children – above the poverty line in 2011 alone.⁴ The Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) together lifted nearly 9.5 million people out of poverty in 2011, of which close to 5 million were children.⁵ According to the Brookings Institution and the U.S. Census Bureau's Supplemental Poverty Measure, if these results were accounted for within the official poverty measure, the child poverty rate would be 6.3 percent lower.

Research indicates that the effects of these investments last well beyond the anti-poverty impact at the time of receipt. Family tax credits – the EITC in particular – are linked to healthier births, improved educational attainment and a higher likelihood of attending higher education, and increased earnings when the children become adults themselves.⁶ It is also now known that there are direct, positive correlations between child well-being and the levels of public investments in children at the state level, specifically in the areas of education, health (Medicaid), and the level of Temporary Assistance for Needy Families (TANF) benefits.⁷

However, policymakers must also be aware of the fact that means-tested public benefits often fall well below the levels of investment needed to effectively support the number of the children in poverty in the U.S. today. With regard to TANF, for example, even the maximum benefit level currently in place is not enough to raise the annual

¹ Isaacs, Julia. (2013) *Unemployment from a Child's Perspective*. Urban Institute and First Focus; Washington D.C.

<http://www.firstfocus.net/library/reports/unemployment-from-a-childs-perspective>

² Hernandez, Donald. (2011) *Declining Fortunes of Children in Middle Class Families*. Foundation for Child Development; New York. http://fcd-us.org/sites/default/files/2011%20Declining%20Fortunes_0.pdf

³ Randy Albelda and Heather Boushey. (2007) *Bridging the Gaps: A Picture of How Work Supports Work in Ten States*. Center for Economic and Policy Research; Washington D.C. <http://www.bridgingthegaps.org/publications/nationalreport.pdf>

⁴ <http://fnsae.org/reports-and-resources/snapfood-stamp-monthly-participation-data/#000>

⁵ Marr, Chuck, Jimmy Charite, and Chye-Ching Huang (2013) *Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds* Center on Budget and Policy Priorities, Washington D.C. http://www.cbpp.org/cms/?tax=view&id=37934_00039

⁶ Marr, Chuck, et al. (2013) *Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds* Center on Budget and Policy Priorities, Washington D.C. http://www.cbpp.org/cms/?tax=view&id=37934_00039

⁷ O'Hare, William, Mark Mather, and Genevieve Dupuis. (2012) *Investing in Public Programs Matters: How State Policies Impact Children's Lives*. Foundation for Child Development; New York. <http://fcd-us.org/sites/default/files/STATE%20CWI%20Report.pdf>

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income of a family of 3 over 50 percent of the federal poverty level (\$9,062 in 2011). And TANF recipient families in 29 states receive less than an amount equivalent to just 30 percent of the federal poverty level (\$5,437 in 2011).⁸

Public Investments in Children, including Safety Net Spending, in Decline

In announcing this hearing, the subcommittee noted in the advisory that according to the Congressional Budget Office (CBO), the spending on 10 major means-tested programs and tax credits “(adjusted to exclude the effects of inflation) rose more than tenfold – or by an average of about 6 percent a year – in the four decades since 1972 (when only half the programs existed).”⁹

According to the Urban Institute, however, federal expenditures on children as a percent of the domestic budget (including tax expenditures and outlays and excluding defense and international affairs spending), have fallen by 23 percent since 1960.¹⁰

At the federal level, it is often said that our nation’s federal budget and spending decisions are a reflection of our national priorities. If so, however, our children are faring poorly. According to a First Focus analysis in our upcoming *Children’s Budget 2013* (to be released late July 2013), children now receive less than 8 percent of the federal budget and since a peak in 2010, total spending on children has fallen by \$35 billion after adjusting for inflation – a 16 percent drop. And total spending on children has now declined for 3 years in a row. The share of the federal budget invested in children, which includes safety net programs, is also down 8 percent from 2010. And in efforts to reduce federal spending to combat the federal deficit, children have borne a disproportionate share of the cuts.

In 2013, it is estimated that sequestration will cut a total of \$4.2 billion out of funding for children, particularly in the areas of education, early childhood, and children’s housing. The major source of child care assistance for low-income working families, the Child Care and Development Block Grant, already reaches only 1 out of 6 children eligible to receive it. The federal government’s housing voucher program, Section 8, struggled to keep pace with need even before the recession resulted in an unprecedented number of children affected by foreclosure. As a result, there is a significant gap between available supply and demand for assistance among lower-income households – exacerbated by the fact that in 2012, the U.S. Department of Housing and Urban Development “Fair Market Rent” required at income of at least \$18.25 per hour, or more than two times a full-time minimum wage job in most states.¹¹ And also due to sequestration, states are making cuts emergency unemployment compensation – by at least 10 percent in some states, substantially more in others.

Even programs designed to serve children that are exempt from the sequester are losing funding. Though already far smaller than the tax credit and nutrition programs that more effectively reach children in need, the federal cash

⁸ Finch, Ite and Liz Schott. (2013) *The Value of TANF Cash Benefits Continued to Erode in 2012*. Center on Budget and Policy Priorities; Washington D.C. <http://www.cbpp.org/files/3-28-13tanf.pdf>

⁹ <http://waysandmeans.house.gov/news/documentingle.aspx?DocumentID=337514>

¹⁰ Isaacs, Julia, Katherine Toran, Heather Hahn, Karina Fortuny, and C. Eugene Steuerle. *Kids’ Share 2012: Report on Federal Expenditures on Children Through 2011*. Urban Institute; Washington D.C. <http://www.firstfocus.net/sites/default/files/KidsShare2012.pdf>

¹¹ *America’s Report Card 2012: Children in the U.S.* First Focus and Save the Children; Washington D.C.

<http://www.firstfocus.net/sites/default/files/America’s%20Report%20Card%202012%20-%20Children%20in%20the%20U.S..0.pdf>

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assistance program for low-income families with children, TANF, has sharply reduced its reach in recent years. It currently serves fewer than 1 in 3 poor families. It also barely responded to the sharp increase in family need during the recession, is highly variable by state, and the percentage of families eligible for, but not receiving income assistance, has increased steadily.

As the subcommittee continues its examination of spending on public programs, it is critical to note the unique trends for investments in children.

Improving the Effectiveness of Safety Net Investments

In light of the declining share of federal investments in children, it is important to ensure that the public resources that are available for children are used as effectively as possible. A recent paper released by First Focus, *A Stronger Safety Net for America's Children*, identified 3 gaps in current safety net policy and implementation where there are opportunities for improvement: the eligibility gap, the coverage gap, and the hardships gap.¹²

The eligibility gap is related to the means-testing criteria that establishes who qualifies for a certain program. Many low-income working families may earn just above the income threshold for a certain program, such as SNAP which is set at 130 percent of the federal poverty level, but still earn too little to sustainably support their families and make ends meet every month. A 2007 study indicates that over 20 percent of low-income households were ineligible for a set of 6 common safety net and work support programs.¹³

The coverage gap emerges when families are eligible, but do not receive assistance – such as the case with the child care assistance funds mentioned earlier. Because each program operates under a different set of funding structures, coverage gaps can vary widely across states.

Finally, the hardships gap is the difference between the amount of resources available to a household and the living standard for the area in which the family lives. The TANF data example mentioned earlier where in no state will the maximum TANF benefit raise a family's level of income above 50 percent of the federal poverty level reflects this type of gap. Even combined with other supports, such as tax credits or SNAP, a family accessing public assistance will often still fall short in meeting monthly family expenses.

Streamline and Simplify

Promoting efficiency and effectiveness across the existing set of means-tested public programs through improved coordination can help address these gaps. Many families miss out on claiming and retaining safety net supports due to complex eligibility and renewal processes. As a result, children's access to critical services, such as health care or nutrition assistance, is disrupted – with long-term developmental implications. Cumbersome paperwork requirements also result in higher administrative costs and place added burdens on administrative staff time.

Simplification of these processes is a feasible option now, thanks to improvements in technology. As a result, and with guidance from the federal government, a number of states have adopted streamlined eligibility and renewal

¹² Quinterno, John. (2013) *A Stronger Safety Net for America's Children*. First Focus; Washington D.C.
<http://www.firstfocus.net/library/reports/a-stronger-safety-net-for-america%E2%80%99s-children>

¹³ Albeida (2007) *Bridging the Gaps: A Picture of How Work Supports Work in Ten States*.

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procedures to use a single data submission to automatically confirm and enroll children and their family members in multiple programs. Louisiana and South Carolina are two states with successful models of such deemed eligibility – with Louisiana making connections between SNAP and Medicaid programs and the children who are eligible for both in the state, and South Carolina employing a recertification model for children in Medicaid that was estimated to effectively serve tens of thousands of children in its first few months of operation and was on track to “yield \$1 million in administrative savings during its first year of operation”.¹⁴

Other states have coordinated safety net program applications. Colorado consolidated the applications for SNAP, Medicaid, TANF, and some state initiatives and in doing so, reduced the application length from 26 down to 8 pages. States such as Pennsylvania and Maryland are using ‘no wrong door’ strategies to ensure children and families are connected to all the services for which they are eligible, no matter which specific program they applied for initially. And still other states have worked to align renewal/recertification dates during the year to better coordinate the use of administrative time and resources.

Recommendations for Federal Policymakers

As *A Stronger Safety Net for America's Children* concludes, “decisions reached in Washington D.C. have the potential to advance or impede state efforts to improve safety net and work support initiatives”.

Given the current and projected trends in federal spending on children, it is first important to maintain investments in children, particularly on safety net programs that are critical to protecting young children from poverty’s detrimental effects. Moving forward, reducing family need on the safety net and work support system can be done through policies that reduce the prevalence of low-wage work – particularly work that even done full-time does not enable a family to access housing at “Fair Market Rent” levels or provide health insurance or opportunities for skills improvement or career advancement.

Federal policymakers also have the ability to improve program funding structures to mitigate issues related to the coverage gap – such as taking steps to ensure that funding is available to cover all children in services such as child care or cash assistance who are eligible. Finally, the federal government has an important role to play in terms of encouraging and supporting state-level innovations and reforms, such as the streamlining efforts described above.

Tracking Child Poverty Reduction and Holding Public Programs Accountable

As outlined by recent work from the Congressional Research Service, there already exists in the U.S. a set of economic supports for children and families – from tax credits to SNAP, to Medicaid and the Children’s Health Insurance Program (CHIP), and more, that keep millions of children from falling into poverty each year and help millions more gain a stronghold into the middle class.

What is absent is an overall target that sets a public goal of what we seek to accomplish with these investments and a coordination of their efforts.

¹⁴ Quinterno (2013) pg. 16 and Mills, Gregory, Jessica Compton, and Olivia Golden, *Assessing the Evidence about Work Support Benefits and Low-Income Families*. Urban Institute; Washington D.C. <http://www.urban.org/UploadedPDF/412303-Work-Support-Benefits.pdf>

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To this end, the First Focus Campaign for Children has been a strong supporter of establishing a national target to end child poverty in the United States. Poverty targets have a history of success. In 1999, the United Kingdom established a national target to reduce child poverty, after which followed a successful decade-long campaign to reduce child poverty by half in absolute terms. A similar effort here in the US would aim to cut child poverty in half within 10 years and eradicate it within a generation.

Establishing such a target is an opportunity to coordinate our current efforts and array of safety net and work support programs, track their accomplishments, and provide an accessible accounting of where progress still needs to be made. In an era of deficit reduction, a national target also will establish a public commitment to protecting and investing in children.

Conclusion

Our nation's set of safety net programs and work supports is a complex one that has developed and evolved over time. Undoubtedly, there are areas for improvement and coordination. In seeking to make these changes, however, it is important to keep in mind why the supports were created in the first place.

Children are the most likely of all Americans to live in poverty and are the most susceptible to its long-term effects. Slipping into poverty even temporarily as a child can result in a range of negative consequences and place children at a greater risk of a lifetime of lower earnings, lower educational attainment, and increased rates of incarceration. In addition to this lost potential, it is estimated that child poverty costs our nation \$500 billion annually in lost revenue and increased spending on healthcare, criminal justice, and more.

Safety net spending on children is an investment to guard against these negative outcomes. Indeed, it is an investment in the future.

The First Focus Campaign for Children looks forward to working with you on these issues. If you have any questions, please contact Megan Curran, Vice President for family economics policy, at 202-657-0684.

