

**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
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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 some 300 Affiliates—local, 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%ⁱ 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 (EITC).

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, Medicaid, and the Temporary Assistance for Needy Families 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%.ⁱⁱ 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.ⁱⁱⁱ 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 points^{iv} and other studies document that non-cash benefits like SNAP have significantly reduced poverty for families during the recession.^v

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 pre-recession levels of spending 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.^{vi} 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, in the Supplemental Nutrition Assistance Program (SNAP) participation grew 27% between 2007 and 2009^{vii}. 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 LA, fell on hard times when he was laid off of work. He lived with his brother, his parents and his brother's 8 and 6 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 8-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 the Temporary Assistance for Needy Families programs 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 like SNAP as well as tax credits.^{viii}

Furthermore, over the last two decades social policy has directed more attention toward families that are working yet still earning too little to lift their families 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 enactment in 1976, it is largely considered one of the most successful anti-poverty measures ever put in place. In 2011, for example, 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.^{ix} 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 Earned Income Tax Credit (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 policy makers. 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 Child Tax Credit. Such improvements to the Child Tax Credit (CTC) and the EITC keep 1.6 million working people out of poverty annually and help 26 million children.^x 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.^{xi}

The Child Tax Credit (CTC) is similar to the EITC in many respects. Currently families can claim a credit of up to \$1000 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 such 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 and others. The average spending per participant was \$1300 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, provided much needed relief.

Overall, the evidence is clear that means-tested anti-poverty programs have worked as intended. Programs such as SNAP, Medicaid, the Children's Health Insurance Program, have served as an economic back stop 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.^{xii} 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.^{xiii} 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 antipoverty programs as well as the highly successful refundable tax credits continue to face withering criticism that threaten to result in major cut backs that will hurt recovery efforts. For example, the recent version of the Farm Bill contains budget cuts in 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 over 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 permanent the bulk of low tax rates put in place in 2001 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 phase 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 that 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 pre-recession level.^{xiv} 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 childcare, 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 they were created and designed to tackle; they are providing stop-gap assistance to millions of working and non-working 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 overall GDP. Programs are tackling effectively key areas for low-income families providing food security, nutrition assistance to children, and temporary income assistance to the unemployed, 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 result in a whittling 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.

ⁱ U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2011.

ⁱⁱ “Widening Inequality in Wages,” New York Times Online Edition, April 24, 2013.

<http://www.nytimes.com/interactive/2013/04/26/business/Widening-Inequality-In-Wages.html>

ⁱⁱⁱ David Cooper and Doug Hall, *Raising the Federal Minimum Wage to \$10.10 Would Give Working Families, and the Overall Economy, a Much-Needed Boost* (Washington, DC: Economic Policy Institute, 2013), <http://www.epi.org/publication/bp357-federal-minimum-wage-increase/> (accessed April 2013).

^{iv} Yonatan Ben-Shalom, Robert A. Moffitt, and John Karl Scholz “An Assessment of the Effectiveness of Anti-Poverty Programs in the United States,” NBER Working Paper 17042, May 2011.

^v Bob Greenstein, *Commentary: How Effective Is the Safety Net?* (Center on Budget and Policy Priorities: Washington DC, 2013) <http://www.cbpp.org/cms/?fa=view&id=3898>

^{vi} U.S. Bureau of Labor Statistics, “Job Openings and Labor Turnover: April 2013,” <http://www.bls.gov/news.release/jolts.nr0.htm> (accessed June 2013).

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<http://www.fns.usda.gov/pd/SNAPsummary.htm>.
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<http://www.cbpp.org/cms/?fa=view&id=3793>
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http://www.nclr.org/index.php/publications/nclr_survey_of_latino_voters_on_the_federal_budget_may_2013/ (accessed June 2013).
- xiv <http://www.epi.org/press/todays-jobs-report-crystal-clear-evidence/>