NCCP National Center for Children in Poverty
Columbia University
MAILMAN SCHOOL OF PUBLIC HEALTH

IMPROVING CHILDREN'S ECONOMIC SECURITY
Research Findings About Increasing Family Income Through Employment

POLICY BRIEF No. 2

Earned Income Tax Credits

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NCCP National Center for Children *in* Poverty

Columbia University
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The **National Center for Children in Poverty** (NCCP) was established in 1989 at the School of Public Health, Columbia University, with core support from the Ford Foundation and the Carnegie Corporation of New York. The Center's mission is to identify and promote strategies that prevent child poverty in the United States and that improve the lives of low-income children and their families.

NCCP:

- Places a special emphasis on preventing or alleviating poverty among children under age six because young child poverty poses particularly serious risks to children's healthy growth and development.
- Conducts and synthesizes relevant research to meet the needs of key audiences that work on issues affecting low-income families.
- Uses sound research to identify and promote wise investments in low-income families that have important long-term benefits for children, families, their communities, their states, and the nation as a whole.
- Employs a multi-disciplinary approach to build bridges between academic research, field-based knowledge of the experiences of low-income families raising children, attitudinal research, and the development of public and private sector initiatives for low-income families with children.
- Works to accurately, effectively, clearly, and broadly communicate its research in compelling ways.
- Emphasizes providing useful information to state and local policymakers as they establish goals and objectives and allocate resources for efforts to prevent or alleviate child poverty.
- Helps key stakeholders and the general public understand and effectively respond to the constantly changing face of child poverty. NCCP does this by assessing and tracking: the definition and measurement of child poverty; the impact of child poverty on various sub-populations; the effects of particular policies on low-income families and children; and public attitudes and awareness regarding child poverty, low-income families, and related issues.

Improving Children's Economic Security: Research Findings About Increasing Family Income Through Employment

Series Introduction

This important policy brief series focuses on state policy options that have the potential to improve children's economic security by increasing family income. More specifically, the series examines policies that seek to increase family income by encouraging, supporting, and rewarding work. These include: (1) earned income tax credits, (2) financial work incentives, (3) minimum wage standards, (4) unemployment insurance, (5) child care subsidies, (6) housing assistance, (7) public health insurance, and (8) food stamps.

The purpose of this series is to synthesize what is known from research about the effectiveness of each of these policies in increasing parental employment—either by increasing incentives to work or decreasing work disincentives—and increasing family income. Although income is only one component of family economic security, it is arguably the most basic. And research shows that income has critical implications for children's development. The series seeks to identify promising policy options for state-level policymakers and those who seek to influence them.

Each policy-specific brief provides: (1) an introduction to the policy, (2) a synthesis of what is known from research about the policy's effects on family income and employment, and (3) a discussion of research questions that remain.

The Author

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This policy brief is the second in a series that synthesizes research findings about public policies that have the potential to improve children's economic security. More specifically, the series provides research findings about the ability of each of eight policies to increase family income by encouraging, supporting, and rewarding parental employment. Policies examined in the series include:

- Earned income tax credits
- Financial work incentives
- Minimum wage standards
- Unemployment insurance
- Child care subsidies
- Housing assistance
- Public health insurance
- Food stamps.

Defining Economic Security for Children

Children achieve economic security by living in families that are economically secure. The National Center for Children in Poverty (NCCP) uses the term "family economic security" to refer to a family's ability to meet its financial needs in a way that promotes the health and well-being of parents and their children in both the short and long term. Family economic security has several interrelated components, including:

- Income
- Savings, assets, and other forms of wealth
- Human and social capital

Why Policies that Improve Family Income Matter for Children[1]

A large and expanding body of research documents the associations between "income poverty" and a wide-ranging set of negative child development outcomes.[2] Poverty can impede children's cognitive development and their ability to learn. It can contribute to behavioral, social, and emotional problems. And poverty can contribute to poor health among children as well.[3] Research also indicates that the strength of the effects of poverty on children's health and development depends in part on the timing, duration, and intensity of poverty in childhood. The risks posed by poverty appear to be greatest among children who experience poverty when they are young and among children who experience persistent and deep poverty.[4]

Recent experimental findings offer the strongest evidence to date that raising the incomes of low-income families can positively affect child development, especially for younger children. Studies of experimental welfare programs that *increase family income through employment and earnings supplements* have shown positive effects on children. The most consistent finding is improvement in school achievement among elementary school-age children. Although the effects on children's behavior and children's health are not uniform across experimental programs that increase family income, observed effects have been either positive or neutral. In contrast, experimental welfare programs that *increase employment but not income* have shown few effects on children, and observed effects tend to be mixed (i.e., not uniformly positive or negative).[5] Moreover, findings from welfare-to-work experiments show that when programs *reduce income*, outcomes for children are sometimes, although not always, negative.[6]

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[1] This section is drawn from Cauthen, N. K. (2002). *Policies that improve family income matter for children* (Improving Children's Economic Security: Research Findings About Increasing Family Income Through Employment, Policy Brief No. 1). New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health <http://cpmcnet.columbia.edu/dept/nccp/improving_security_series.html>.

[2] For a concise summary of this literature, see Gershoff, E. T.; Aber, J. L.; & Raver, C. C. (Forthcoming). Child poverty in the U.S.: An evidence-based conceptual framework for programs and policies. In Lerner, R.; Jacobs, F.; & Wertlieb, D. (Eds.), *Promoting positive child, adolescent, and family development: A handbook of program and policy innovations*. Thousand Oaks, CA: Sage Publications.

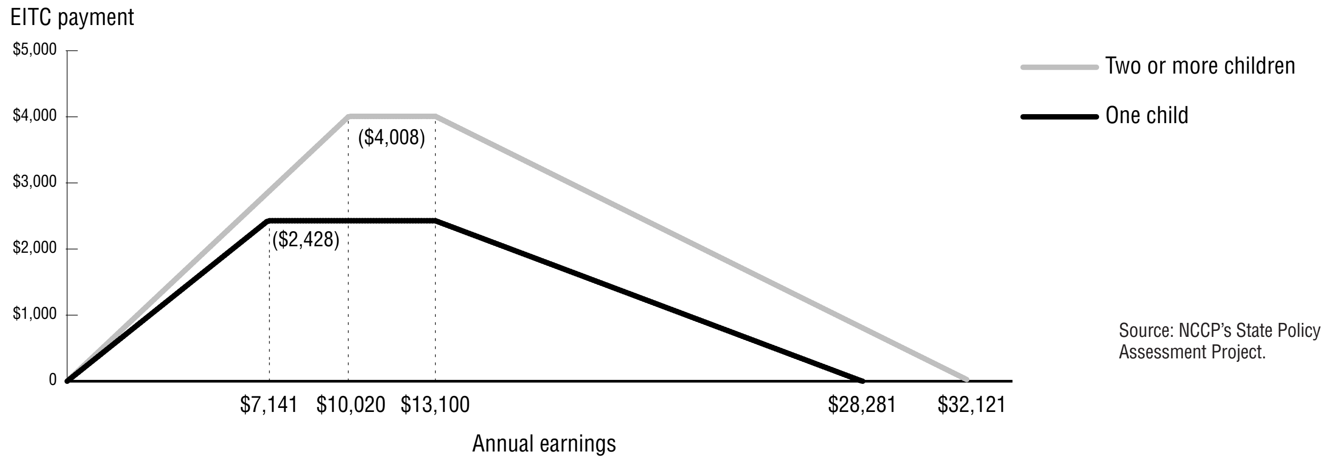
[3] Most of these findings are correlational, not causal—i.e., the research shows that children living in poverty are at much greater risk for negative outcomes but does not establish that poverty *causes* these outcomes.

[4] Duncan, G. J.; Yeung, J.; Brooks-Dunn, J.; & Smith, J. (1998). How much does childhood poverty affect the life chances of children? *American Sociological Review*, 63(3), pp. 406–423; and Brooks-Gunn, J. & Duncan, G. J. (1997). The effects of poverty on children. *The Future of Children*, 7(2), pp. 55–71.

[5] Morris, P. A.; Huston, A. C.; Duncan, G. J.; Crosby, D. A.; & Bos, J. M. (2001). *How welfare and work policies affect children: A synthesis of research*. New York, NY: Manpower Demonstration Research Corporation (MDRC).

[6] Zaslow, M. J.; Moore, K. A.; Brooks, J. L.; Morris, P. A.; Tout, K.; Redd, Z. A.; & Emig, C. A. (2002). Experimental studies of welfare reform and children. *The Future of Children*, 12(1), pp. 79–95; and Sherman, A. (2001.) *How children fare in welfare experiments appears to hinge on income*. Washington, DC: Children's Defense Fund.

Federal EITC Payment Structure, Tax Year 2001



Although further research is needed to fully ascertain the conditions under which increased employment and income provide the maximum benefit to children,[7] findings from welfare-to work experiments strongly indicate that *in programs that do not increase income, positive gains for children are uncommon, and in some cases, the results for children are unfavorable.* In light of research findings about the importance of family income for child development, this policy brief series seeks to provide concise and accessible syntheses of research about policies that have the potential to increase low family incomes. The focus of Policy Brief 2 is earned income tax credits (EICs).

Earned Income Tax Credits in Brief

The federal Earned Income Tax Credit (EITC) is the nation's largest cash or near-cash program directed at low-income families. It reduces the income tax liabilities of low- to moderate-income working families (with annual incomes of up to $32,000) and provides a wage supplement to some families. One of the most important features of the federal EITC is that it is refundable, meaning that a family receives, as a cash payment, any amount of the credit that exceeds its tax liability. One purpose of the EITC is to offset the federal payroll taxes that fund Social Security and Medicare, which low-wage earners pay on every dollar earned (only high-wage earners have a portion of their wages exempt from payroll taxes). By definition, only families with earnings are eligible for the EITC. State-level EICs are typically based on the federal EITC, although not all of them are refundable.

In 2001, the maximum federal EITC for families with two or more children was about $4,000. For such families, the credit phases in at a rate of 40 percent, meaning that every dollar of earnings yields a 40 cent credit. The EITC reaches the maximum benefit level once families have about $10,000 in earnings. At this point, additional earnings do not increase the amount of the credit. At about $13,100, the credit begins to phase out, meaning that the benefit level decreases. It declines at a rate of about 21 cents per dollar of earnings, until the benefit reaches $0 for families with incomes of $32,121 or more. These figures refer to benefits for families with at least two children. The structure of the credit is similar for families with one child, but the income limits and benefit levels are lower (see figure).[8] A much smaller credit is available to low-income workers without children.

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[7] For example, small, negative effects on school achievement and school progress have been observed for adolescents across different types of welfare-to-work programs, including those that improve income. See Gennetian, L. A.; Duncan, G. J.; Know, V. W.; Vargas, W. G.; Clark-Kauffman, E.; & London, A. S. (2002). *How welfare and work policies for parents affect adolescents: A synthesis of research* (The Next Generation). New York, NY: Manpower Demonstration Research Corporation (MDRC).

[8] In an effort to minimize marriage penalties in the EITC, beginning in tax year 2002, the earnings levels at which benefits begin to phase out will be higher for married couples than for single parents. In addition, since the phase-out rate will remain the same for all families, a higher earnings limit will apply to married couples. See Greenstein, R. (2001). *The changes the new tax law makes in refundable tax credits for low-income working families.* Washington, DC: Center on Budget and Policy Priorities.

One of the most important features of the federal EITC is that it is refundable, meaning that a family receives, as a cash payment, any amount of the credit that exceeds its tax liability.

Currently 10 states plus the District of Columbia offer refundable EICs that are based on the federal credit and five states offer nonrefundable EICs. Most of these are structured as a percentage of the EITC (see table).[9] Nonrefundable credits offset the state income tax burden for some families but provide no benefits to families whose incomes are so low that they have no income tax liability. Most of the states with refundable EICs have set them at a minimum level of 10 percent of the federal EITC, and some are considerably higher. For instance, New York's credit is 25 percent of the EITC, Vermont's is 32 percent, and Minnesota's credit, which varies by earnings, averages about 33 percent.[10]

About 16 million households with children claimed the federal EITC for tax year 1999, with benefits totaling over $31 billion.[11] Less that 15 percent of these benefits went to offset federal income tax liabilities; the remainder was paid to families to supplement low wages.[12] In addition, 2.5 million households across nine states claimed refundable state EICs for tax year 1999, with benefits totaling approximately $676 million. Over half of these benefits—$361 million—were claimed by households in New York State.[13]

The General Accounting Office estimates that about 86 percent of eligible households with children claim the federal EITC, with participation surpassing 90 percent among families with one or two children and falling well below 86 percent among larger families

State Earned Income Tax Credits Based on the Federal EITC

State	Percentage of Federal EITC, Tax Year 2001	Scheduled Changes in Percentage of Federal EITC
Refundable credits:		
Colorado[1]	10%	
District of Columbia	25%	
Kansas	10%	
Maryland[2]	16%	20% (by 2003)
Massachusetts	15%	
Minnesota[3]	Average: 33%	
New Jersey[4]	15%	20% (by 2003)
New York[5]	25%	30% (by 2003)
Oklahoma	—	5% (by 2002)
Vermont	32%	
Wisconsin	4% – one child 14% – two children 43% – three children	
Nonrefundable credits:		
Illinois	5%	
Iowa	6.5%	
Maine	5%	
Oregon	5%	
Rhode Island	25.5%	25% (by 2002)

Source: Adapted from Johnson, N. (2001). *A hand up: How state earned income tax credits help working families escape poverty in 2001.* Washington, DC: Center on Budget and Policy Priorities, Table 4, p.18.

1 The Colorado credit is suspended automatically if state revenues fall below a certain level.

2 In Maryland, taxpayers may claim either the refundable credit or a nonrefundable credit of 50 percent of the federal EITC.

3 Minnesota's credit for families with children ranges from 25 to 45 percent of the federal EITC, depending on income level.

4 The New Jersey credit is available only to families with annual incomes below $20,000.

5 The New York credit will be reduced automatically to the 1999 level of 20 percent if the state's federal TANF allocation is reduced.

9 Johnson, N. (2001). *A hand up: How state earned income tax credits help working families escape poverty in 2001*. Washington, DC: Center on Budget and Policy Priorities. In addition, Indiana offers a refundable tax credit that is called an "earned income tax credit," but its income eligibility rules and benefit structure differ substantially from the federal EITC and from the other state credits. The Indiana credit is available only to families with annual incomes below $12,000, and the benefit level declines as earnings increase.

10 Ibid.

11 Campbell, D. & Parisi, M. (2000). Individual income tax returns, 1999. *Statistics of Income (SOI) Bulletin*, Fall, pp. 9–47 <http://www.irs.gov/pub/irs-soi/99indtr.pdf>. An additional 3.2 million households without a qualifying child also claimed the credit, for $645 million in benefits.

12 Ibid.

13 Johnson in note 9. These figures do not include refundable credits in the District of Columbia and Indiana. Figures for New Jersey are based on preliminary data for 2000.

(and lower still among households without a qualifying child).[14] Some evidence suggests that filing rates may be particularly low among former welfare recipients, in part because of a lack of knowledge about the EITC.[15]

Although advanced EITC payments can be received on a monthly basis, over 99 percent of claimants receive their benefits in a lump sum after filing their taxes at the end of the year. Thus, in practice, the federal EITC does not add to families' monthly resources but functions as a savings mechanism. Nonetheless, over half of recipients use their refunds to cover regular expenses such as paying bills.[16]

What We Know from Research

Existing research addresses two main questions about the effects of federal and state EICs on income and employment:

1. What are the effects of EICs on poverty?
2. What are the effects of EICs on labor force participation and hours worked?

Effects on Poverty

Research on the federal EITC shows that it lifts more children out of poverty than any other government program.[17] In 1999, the EITC lifted 4.7 million people—including 2.6 million children—out of poverty.[18] Simulating the effects of state-level refundable EICs set at 50 percent of the federal credit, NCCP calculates that an additional 1.1 million children could be lifted out of poverty if such credits were adopted by all states.[19]

Cautionary Notes About Interpreting Policy Research on Family Income

To assess whether a specific policy is likely to increase family income, research typically addresses one or more of three questions.

1) Does the policy affect parental employment?
2) Does the policy reduce poverty?
3) Does the policy change family income?

Here are some things to keep in mind when interpreting the research findings.

- *Research that assesses whether a policy affects parental employment does not necessarily shed light on how the policy will affect family income.* Increases in employment and earnings cannot be equated with increases in family income because additional earnings may lead to a loss of public benefits. Therefore, information on total family resources is needed to ascertain whether increased employment results in families being better off financially.
- *Research that assesses only whether families are above or below the poverty line does not reveal the magnitude of policy changes on family income.* A family that moves from 50 to 75 percent of the poverty line experiences a much greater improvement in income than a family that moves from 99 to 101 percent of the poverty line, yet only the latter family would be counted in a study assessing changes in the poverty rate. For this reason, some researchers measure changes in the distance between family income and the poverty line (referred to as the "poverty gap"), or changes in income as a percentage of the poverty line (referred to as the "income-to-needs" ratio).
- *Research that assesses policy effects on family income is much more likely to measure changes in total income rather than net income.* Due to data and methodological constraints, very little research actually measures the *net* impact of a policy on family income—that is, whether families are better off financially *after* changes in earnings, other benefits, and taxes are taken into consideration. And almost all of the research assesses only short-term income effects.

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[14] Letter from the General Accounting Office. (2001). Earned Income Tax Credit eligibility and participation (GAO-02-290R). Washington, DC: GAO <http://www.gao.gov/new.items/d02290r.pdf>. The low participation rate among larger families may be in part an artifact of the data. However, the 86 percent participation estimate for households with children is consistent with an earlier study using 1990 data: Burman, L. E. & Kobes, D. (2002). *Analysis of GAO study of EITC eligibility and participation*. Washington, DC: The Urban Institute.

[15] Hill, C. J.; Hotz, J.; Mullin, C. H.; & Scholz, J. K. (1999). *EITC eligibility, participation, and compliance rates for AFDC households: Evidence from the California caseload*. Report prepared for the State of California; and Maximus. (2002). *Awareness and use of the Earned Income Tax Credit among current and former TANF recipients*. Reston, VA: Maximus, Center for Policy Studies and Surveys.

[16] Smeeding, T. M.; Phillips, K. R.; & O'Connor, M. (2000). The EITC: Expectation, knowledge, use, and economic and social mobility. *National Tax Journal*, 53(4), part 2, pp. 1187–1209.

[17] Greenstein, R. & Shapiro, I. (1998). *New research findings on the effects of the Earned Income Tax Credit*. Washington, DC: Center on Budget and Policy Priorities. The official poverty measure does not take EITC benefits into account. Thus, these figures are based on an alternative measure that does.

[18] Johnson in note 9.

[19] Bennett, N. G. & Lu, H. (2001). *Untapped potential* (Child Poverty Research Brief No. 3). New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health <http://cpmcnet.columbia.edu/dept/nccp/cprb3.html>.

More than half of the decline in the child poverty rate between 1993 and 1997 has been attributed to changes in taxes, primarily the EITC.[20] In 1998, the EITC reduced the poverty rate for children under age six by nearly a quarter, from 23 to 18.7 percent.[21]

The federal EITC is effective in reducing the number of families below the poverty line because of how it is structured: maximum benefits are paid to working families with incomes below—but near—the poverty line (e.g., a family with one full-time worker earning close to the minimum wage). For such families, EITC benefits are large enough to push their incomes above the poverty line. Working families that are extremely poor (as well as those with incomes already above the poverty line) receive smaller benefits. Although the EITC does not lift extremely poor families above the poverty line, it helps reduce the "poverty gap," that is, the distance between family income and the poverty line. Over 60 percent of EITC payments go to taxpayers with incomes below the poverty line.[22]

The research cited above assesses the effects of EICs on family income after taking the credit itself into account. Other researchers have conducted more conservative tests of the impact of EICs on family income, attempting to ascertain if EIC benefits lead families to reduce their work effort. In other words, for families that receive EIC benefits, it is possible for them to reduce their earnings yet still increase their total income. The authors of a study that examines the effects of EICs on *pre-tax* income conclude that a conservative interpretation of their findings "suggest[s] that increasing the generosity of the EITC does not have adverse effects on the earnings of low-income families that would offset the increased transfers entailed by a higher EITC." Some of their results suggest that EIC benefits lead families to increase their earnings, meaning that the positive effects of EICs on income are due to higher earnings in addition to the wage supplement provided by EICs (see below).[23]

The federal EITC lifts more children out of poverty than any other government program. It also has moderated the income gap between the richest and poorest families.

Not only has the EITC been shown to reduce poverty, it also has moderated the income gap between the richest and poorest families. Beginning in the mid-1970s, the share of national income received by the poorest fifth of households with children declined while the share received by the richest fifth rose considerably. But the EITC has been shown to have offset about 29 percent of the decline in the share of income received by the poorest fifth of households with children between 1976 and 1996.[24]

Effects on Labor Force Participation and Hours Worked

Research on the effects of the federal EITC on labor force participation—that is, whether or not someone is employed—as well as hours worked has proliferated in recent years. Although the specifics vary from study to study, the overall findings are generally consistent: the EITC has sizable positive effects on the labor force participation of single mothers but slight negative effects on the labor force participation of married mothers. For those already in the labor force, the EITC appears to reduce hours of work slightly overall, but the effect varies by income level.[25]

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[20] Council of Economic Advisors. (1998). *Good news for low-income families: Expansions in the Earned Income Tax Credit and the minimum wage*. Washington, DC: Council of Economic Advisors.

[21] Sawhill, I. & Thomas, A. (2001). *A hand up for the bottom third: Toward a new agenda for low-income working families*. Washington, DC: The Brookings Institution.

[22] Hotz, V. J. & Scholz, J. K. (Forthcoming). The Earned Income Tax Credit. In Moffit, R. (Ed.), *Means-tested transfer programs in the U.S.* Chicago, IL: University of Chicago Press.

[23] Neumark, D. & Wascher, W. (2001). Using the EITC to help poor families: New evidence and a comparison with the minimum wage. *National Tax Journal*, 54(2), pp. 281–317 (quote on p. 314).

[24] Liebman, J. B. (1998). The Impact of the Earned Income Tax Credit on incentives and income distribution. In Poterba, J. M. (Ed.), *Tax Policy and the Economy, Vol. 12.* Cambridge, MA: The MIT Press.

[25] See Hotz & Scholz in note 22 for a review of this literature and a discussion of methodological issues (and compare with Neumark & Wascher for example in note 23). On the issue of methodology, also see Ellwood, D. T. (2000). The impact of the Earned Income Tax Credit and social policy reforms on work, marriage, and living arrangements. *National Tax Journal*, 53(4), part 2, pp. 1063–1106.

The most striking employment findings are for single mothers. In 1984, about 73 percent of single mothers worked some time during the year compared with nearly 82 percent in 1996—a difference of nearly 9 percentage points. Over 60 percent of this increase has been attributed to expansions in the federal EITC. The largest increases in the employment of single mothers occurred after 1992. The EITC is credited with a smaller portion of these changes—35 percent or less—because changes in other policies, especially waivers from the Aid to Families with Dependent Children program (the precursor to Temporary Assistance for Needy Families, TANF), contributed to employment increases.[26] These general trends are supported by numerous studies.[27] Research also finds that the federal EITC has had strong employment incentive effects among cash assistance recipients.[28] In short, the research shows that the federal EITC contributed significantly to the substantial increase in employment rates observed among single mothers over the last decade and a half. In addition, some evidence suggests that state EICs also may have contributed to the increases in employment observed among single mothers.[29]

The EITC has sizable positive effects on the labor force participation of single mothers but slight negative effects on the labor force participation of married mothers.

In contrast to the employment of single mothers, the effects of the federal EITC on the employment of married couples have been far less studied. But existing work suggests that the EITC has small, *negative* effects on the labor force participation of married mothers. Married couples are more likely than single claimants to be in the phase-out range of the credit, where benefits are reduced for every additional dollar earned. Researchers believe that this feature of the EITC makes work less attractive to the secondary wage-earner in two-income families, and at least one study confirms this. Looking at the period from 1984 to 1996, the study finds that EITC expansions increased men's labor force participation very slightly but reduced the likelihood of married women's labor force participation by a small amount. Analysis by income level revealed that the work disincentive effect is largest for married mothers at the higher end of EITC income eligibility.[30]

In addition to labor force participation, research on the EITC examines whether the credit affects hours of work. The findings suggest that the EITC leads to small or negligible reductions in hours worked by those already in the labor force.[31] A study focusing on married couples finds that the effect depends on taxpayers' incomes, with an increase in hours worked likely for married mothers with incomes in the phase-in range of the credit, little change for those in the flat range, and a decrease in hours for those in the phase-out range; these effects are masked if one looks only at the overall effect on hours worked across income levels.[32] Overall, studies indicate that the aggregate effect of the EITC on hours worked—taking into account both increases in hours among those newly in the labor force as well as slight reductions by those already working—is positive.[33]

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[26] Meyer, B. D. & Rosenbaum, D. T. (2001). Welfare, the Earned Income Tax Credit, and the labor supply of single mothers. *Quarterly Journal of Economics*, 116(3), pp. 1063–1114.

[27] Ellwood in note 25; also Keane, M. & Moffitt, R. (1998). A structural model of multiple welfare program participation and labor supply. *International Economic Review*, 39(3), pp. 553–589; Keane, M. (1995). A new idea for welfare reform. *Federal Reserve Bank of Minneapolis Quarterly Review*, 19(2), pp. 2–28; Eissa, N. & Liebman, J. B. (1996). Labor supply response to the Earned Income Tax Credit. *Quarterly Journal of Economics*, 112(2), pp. 605–637; and Dickert, S.; Houser, S.; & Scholz, J. K. (1995). The Earned Income Tax Credit and transfer programs: A study of labor market and program participation. In Poterba, J. M. (Ed.), *Tax Policy and the Economy*, Vol. 9. Cambridge, MA: The MIT Press, pp. 1–50.

[28] Hotz, V. J.; Mullin, C. H.; & Scholz, J. K. (2001). *The Earned Income Tax Credit and labor market participation of families on welfare* (Working Paper No. 214). Chicago, IL: Joint Center for Children in Poverty.

[29] Meyer, B. D. & Rosebaum, D. T. (2000). Making single mothers work: Recent tax and welfare policies and its effects. *National Tax Journal*, 53(4) part 2, pp. 1027–1061.

[30] Eissa, N. & Hoynes, H. W. (1999). *The Earned Income Tax Credit and the labor supply of married couples* (IRP Discussion Paper No. 1194-99). Madison, WI: Institute for Research on Poverty. The data include only married-couple families in which the wife had fewer than 12 years of education.

[31] Dickert, Houser, & Scholz and Eissa & Liebman in note 27.

[32] Eissa & Hoynes in note 30.

[33] Hotz & Scholz in note 22.

What We Don't Know

The huge increases in employment among single mothers in the 1990s and expansions of the federal EITC occurred along with other policy changes—the work emphasis in cash assistance and expansions of child care subsidies as well as health insurance coverage for children—and a strong economy that included job growth for low-wage workers. From a research perspective, it is difficult to untangle the effects of these different factors as well as their interactions.[34] So although the research is clear that the federal EITC has been an important contributor to employment increases among single mothers, the precise effect of the EITC is difficult to pin down. Current research is less clear about the impact of state EICs.

Further, it is difficult to know what the effects of the federal EITC would have been absent changes in other policies and in the economy. In other words, a whirlwind of forces propelled large numbers of low-income single mothers into the labor force in the 1990s: how might the effects of each have differed had they occurred in isolation?

Another unanswered question has to do with limits on the ability of the EITC (and similar incentives) to induce employment among individuals who are currently not working. Can EICs continue to contribute to growth in employment among single mothers, or is there a ceiling on this effect? And will the labor participation effects change given recent changes in the health of the economy?

Most of the research findings about EICs come from studies of the federal credit. More research on state-level EICs is needed, as well as research on the combined effects of federal and state credits. Given that state EICs are generally set at a percentage of the federal EITC and thus received by claimants of the federal credit, are employment and income effects enhanced by the addition of a state EIC?

The aggregate effect of the EITC on hours worked—taking into account both increases in hours among those newly in the labor force as well as slight reductions by those already working—is positive.

Conclusion

Despite these unknowns, the federal EITC has been studied more than most other policies examined in this series, and the research evidence for its employment incentive and income supplement effects is stronger and more consistent than for any of the other policies.

In addition to strong research evidence for their effectiveness, EICs enjoy bipartisan political support, largely because EICs reduce poverty by encouraging and rewarding employment.

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[34] Blank, R. M. & Schmidt, L. (2001). *Work, wages, and welfare*. In Blank, R. M. & Haskins, R. (Eds.), *The new world of welfare*. Washington, DC: The Brookings Institution, pp. 70–96; also Ellwood in note 25.