

# REVIEW OF “MAKING WORK PAY ENOUGH”

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Gregory Acs and Margery Turner have written an informative and useful paper that targets one of the more important challenges in today’s economy: the gap between earnings and needs faced by many low-income working families. While I offer several criticisms of their presentation and ideas, I have little doubt that were we to implement their suggestions, the gap between what low-income families earn and what they need would be smaller.

The paper focuses on various extensions to the current system of what is often referred to as work supports, defined in Bernstein (2007) as “any publicly-provided income that either boosts the earnings of low-income workers, or helps offset the cost of a family budget component, including health care, child care, housing, and transportation.” Though Acs and Turner suggest extensions to various subsidies, including the earned income tax credit and the child tax credit, their primary focus, as well as their largest substantive and most expensive idea, is for a new, \$27 billion refundable tax credit for low-income owners or renters.

I offer some critical thoughts of this centerpiece of their paper below, but I first suggest some other thematic issues that deserve closer scrutiny.

## **Broader, Thematic Points**

It is widely appreciated that our system of safety nets and work supports creates highly complex programmatic and tax interactions. Authors such as Hoffman and Seidman (2003), Cherry and Sawicky (2000), and Cauthen (2007) stress these interactions as creating various potential problems. For example, Hoffman and Seidman show seven different marginal tax rates, ranging from -50 percent to 36 percent, faced by a low-income family of four with two children because of these interactions.<sup>1</sup> While it is fair to argue that (1) much microeconomic literature overstates behavioral reactions to changes in marginal tax rates, and (2)

few people recognize that they face this complex schedule, the complexity of the schedule arguably creates more problems than it solves. This is also implicit in Acs and Turner's discussion of their figure 2, especially as regards "cliff effects": the sharp loss of benefits when income exceeds an upper bound program parameter.

Yet, while Acs and Turner generate good ideas regarding improving existing policies and introducing new ones, they fail to provide any insight into how their ideas integrate into the totality of work supports. To the contrary, they note that other essays in this series will deal with "child care and health care." My concern is that this approach threatens to exacerbate the existing balkanization of work supports that they and others are appropriately critical of here. How does the reader know how the policies recommended in the child care paper in this series interact with Acs and Turner's housing tax credit? There may be, for example, new and damaging cliff effects introduced by these interactions.

Cauthen's 2007 paper (<http://www.sharedprosperity.org/bp198.html>) avoids this piecemeal approach by examining the full set of work supports, and Cherry and Sawicky (2000) take aim at precisely this type of problem by deriving a single, "unified" credit. This solution may not be plausible either, but it would have been useful for Acs and Turner to think and comment more thoroughly on the way their ideas fit into the panoply of existing work supports.

Another area that deserves more analysis is the incidence of Acs and Turner's housing tax credit. The incidence of tax credits is in part a function of price elasticities, emanating from both the supply and demand sides of the market. Especially in the many tight urban and suburban low-income housing markets, one can think of realistic elasticities so the benefits of the credit would simply flow to renters or lenders. For example, if housing is inelastically supplied such that housing stock fails to adjust to stronger demand, the tax credit can simply feed into higher housing prices than would otherwise be the case (since supply cannot adjust, prices must rise). Under these conditions, the credit serves not as a transfer from taxpayers to low-income renters or homeowners but as one from taxpayers to home builders and mortgage lenders.

A final thematic point is that the paper would benefit from a more explicit discussion of how policymakers would raise the revenue to implement these programs. The authors are to be commended for "costing out" their ideas, and they do not need a detailed discussion or strategy of how the ideas would be financed, but some thoughts in that regard would bring a welcome dose of fiscal reality to the discussion. Most prominently, they implicitly suggest that some of the revenue lost to the mortgage interest deduction currently benefiting higher-income homeowners could be used to fund Acs and Turner's credit. This would arguably be a useful way to redistribute some housing resources from higher to lower income families. If Acs and Turner agree, they should make such a point explicit.

## Specific Points

I next suggest six specific points that should be clarified or amplified in the paper.

- Acs and Turner devote considerable text to the topic of out-of-reach housing costs. However, such costs, especially in the non-rental market, are falling quickly in the light of the bursting of the housing bubble. I suspect these price declines make little difference to Acs and Turner's analysis (e.g., they would not change the information in figure 1), and readers should understand that recent events in the housing market do not change their analysis or recommendations.
- Regarding figure 1, given the spate of state changes to their own minimum wages, the federal minimum wage is no longer representative—about 60 percent of the workforce resides in states with minimum wages above the federal level. Among the states shown on figure 1, California, Michigan, New Mexico, Oregon, and Washington all have state minimum wages that are higher than the federal minimum wage.

- Acs and Turner note that their sample of interest are those persons “strongly attached to the labor market,” but they fail to specify who is in this group. Specifying who they are thinking of in terms of hours and/or weeks worked would be helpful.<sup>2</sup>
- As noted above, figure 2 presents an incomplete set of work supports, but the omission of the child tax credit (CTC) is notable because Acs and Turner discuss this in their paper.
- The authors recommend periodic inflation adjustments for the minimum wage. Various states have decided to avoid this necessity by indexing the wage. Acs and Turner should either support this smoother and more predictable adjustment or comment on why they do not support the idea.
- Acs and Turner set the amount of their housing credit to the fair-market rent (FMR). This is a very insightful policy innovation that introduces the key principle of geographical variation. The FMR data clearly reveal that such variation is extensive.

Finally, I have two concerns to note regarding the program design of Acs and Turner’s housing tax credit. They argue, sensibly in my view, that the CTC would be a more effective work support if its benefits began at the first dollar of earnings, instead of at \$11,300. However, they suggest that their housing credit should not be available to families with incomes below \$12,060. Although this may be motivated to keep the budgetary costs down, it struck me as arbitrary, especially in light of their CTC argument.

Second, and this is an important concern regarding program design, housing payments, whether rent or mortgage, typically must be paid monthly. Acs and Turner need to provide some analysis and discussion as to how their credit will work given this constraint. One sobering fact to consider here is that despite its availability, very few EITC recipients claim that credit subannually. A once-a-year refundable housing tax credit could be of little use to low-income families struggling monthly, or weekly, to make ends meet.

## Conclusion

Acs and Turner provide us with some very useful thoughts and ideas on how to expand the work support system to close the gap between what working families earn and what they need. I am not sure what is gained by separating the policy discussions of housing from other work supports, and I fear this approach may fail to bring some needed unity and simplicity to the policy structure. Also, under certain realistic elasticity assumptions, a sizable portion of the refundable housing tax credit could simply lead to higher prices and bypass the targeted families.

Finally, while I do not believe Acs and Turner should elaborate how to pay for every dollar they spend here, the piece would be stronger with some discussion of either the needed tax increases or spending cuts. Acs and Turner implicitly cite the mortgage interest deduction as a target in this regard. I recommend making that idea explicit.

## Notes

<sup>1</sup> See Hoffman and Seidman (2003), figure 1.5.

<sup>2</sup> Volume authors’ note: This specification is covered in the introductory essay to the series.

## References

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