

“50 Years into LBJ’s ‘War on Poverty’: What’s the Role for Tax Policy?”

Jason Furman  
Tax Policy Center  
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*Lightly Edited Transcript*

I’m sure that Thomas Quincy Garvey is sad that he wasn’t here to hear that extended introduction. The extended ones I haven’t heard in a while. Len, thank you so much for inviting me here today, and it’s a little bit intimidating being in a room with so much expertise and knowledge on these topics and so many people that have taught me so much about them. Chief among all of that, among all of those people, is Len himself.

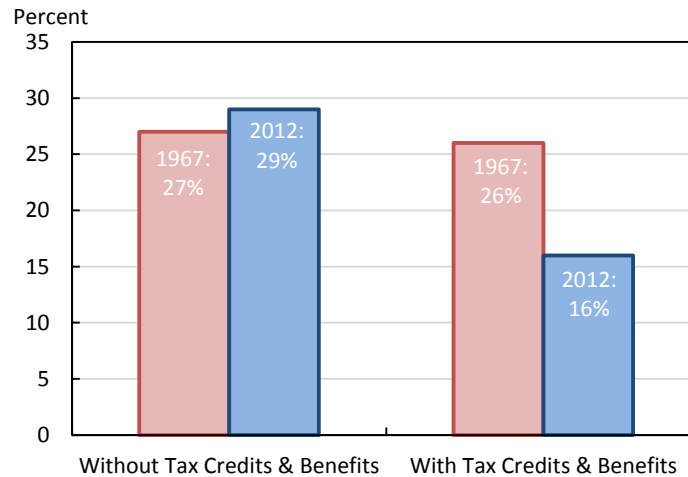
I wanted to talk about tax issues but put them in a little bit of a bigger context to start with and then come back to a bigger set of contexts in the end with a particular focus on the 50<sup>th</sup> anniversary of the War on Poverty. The Council of Economic Advisers released a report a couple of weeks ago entitled “The War on Poverty, 50 Years Later: A Progress Report,” in which we tried to see what we could learn from the experience of the last 50 years and what that would mean for us going forward, and tax policy, as we’ll talk about, plays an important part in that.

**Fundamental Tax Issues**

The first thing in terms of learning, though, is that you need data to draw on. And unfortunately the official poverty measure is woefully inadequate for that purpose. It is not a good measure of pre-tax poverty. It is not a good measure of pre-tax and transfer poverty. It is not a good measure for post-tax and transfer poverty. It includes some things like cash benefits, unemployment insurance, and Social Security, and excludes other things that are cash like the earned income tax credit (EITC) or in-kind like nutrition assistance. It also has issues with the way it uses price indices among a number of other items.

As a result, what we’ve relied on is the concept of the supplemental poverty measure – and I think you had Becky Blank here this morning? Under her leadership at the Commerce Department, they’ve started publishing that. It includes the full set of benefits. It includes the full set of taxes. It subtracts a set of work-related and other medical expenses, and it’s great in every way except that it goes back all the way to the year 2009. So that also leaves it a little bit inadequate for assessing the last 50 years. Fortunately, a team of researchers at Columbia has taken the same concept and extended it back in time. They’ve done that working with us using an anchored measure that keeps the same absolute standard for poverty, and it’s those numbers that I’ll rely on today, although other researchers have done similar exercises and reached similar conclusions using different concepts of poverty like consumption-based poverty, which also tell a similar story over time.

**Figure 1: Poverty Rate With and Without Tax Credits and Cash & In-Kind Benefits**

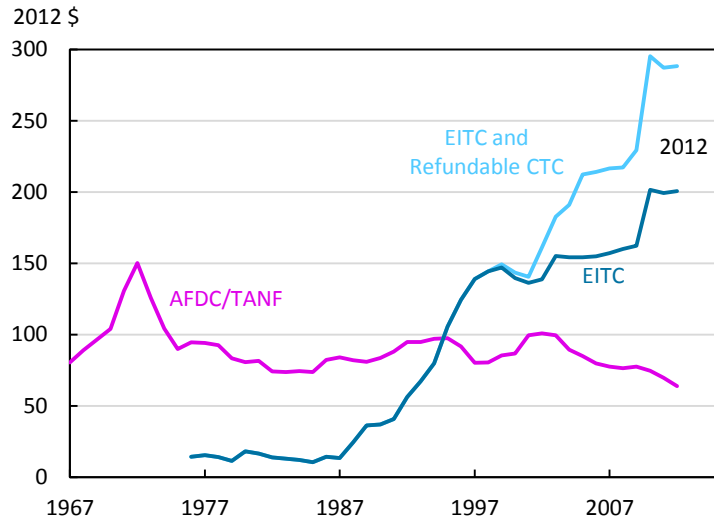


That story, in big picture terms, is that if you look from 1967 through 2012, the poverty rate measured entirely in terms of market incomes actually rose slightly, from 27 percent to 29 percent. There are a lot of reasons for that. One of the important reasons is that the minimum wage, in inflation-adjusted terms, fell by one third over the course of that period and is now the same, adjusted for inflation, as what it was in 1950. While the economy alone over that 45 year period wasn't reducing poverty, we did in fact reduce poverty a lot.

And we reduced poverty a lot because of two things that aren't captured in those official poverty numbers – tax credits, especially the earned income tax credit and the Supplemental Nutrition Assistance Program, or SNAP, also called “food stamps”. All public programs had a negligible impact on poverty in 1967; by 2012 they were cutting poverty nearly in half, and as a result, over this period, we cut the poverty rate overall by nearly 40 percent.

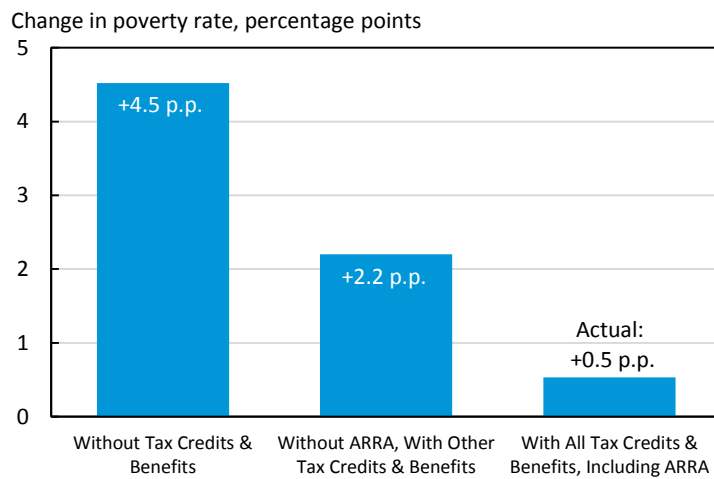
Now we still have 50 million people in poverty, including 13 million children, so there's an enormous amount more work that we need to do, and I want to come back to what some of that work is at the end – but it's important to understand how we've gotten to where we've gotten. All told, public programs including the tax code have lifted an average of 27 million people per year out of poverty for 45 straight years. That is 1.2 billion people-years lifted out of poverty, and the reason that 1.2 billion people-years is an important concept is you'll often hear about the trillion of dollars spent on the War on Poverty – “What is there to show for it?” Well, the next time somebody says that to you, you can confuse them by saying 1.2 billion people-years were lifted out of poverty.

**Figure 2: Real Per Capita Expenditures on Select Programs**



To be clear, when I’ve been saying “War on Poverty,” I don’t just mean the really important set of programs that President Johnson started – things like Medicare, Medicaid, Head Start, food stamps, and a range of other programs, I mean everything that we have continued to do to reform those programs – for example, making welfare more work-oriented – and to add to those programs. The biggest addition, as we see in Figure 2, is refundable tax credits – the earned income tax credit from 1975 and the refundable portion of the child tax credit, which started in 1997. The combination of the two of those was nonexistent when the War on Poverty started. Last year, they were four times larger than Temporary Assistance to Needy Families and are part of a transformation of the support system that’s focused increasingly on rewarding work, facilitating work, and encouraging work.

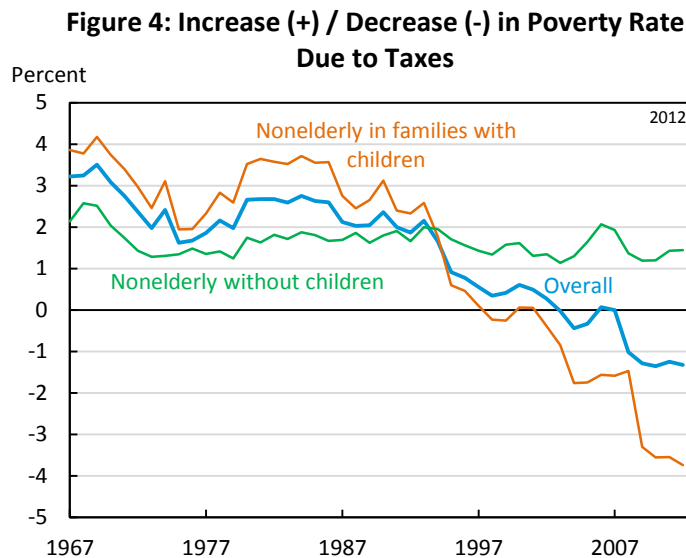
**Figure 3: Change in Poverty Rate From 2007–2010, With and Without Tax Credits and Benefits**



One of the successes of the War on Poverty is not just what it did to the level of poverty but what it’s done to the cyclical nature of the poverty rate. If you look at the “deep poverty” rate –

people who are below 50 percent of poverty – that’s barely cyclical. You wouldn’t know that a recession happened from looking at the data. If you look at the overall poverty rate, up to 100 percent of the poverty line, and look at the Great Recession that we just went through, you see something really striking. We lost over 13 trillion dollars of wealth in the Great Recession, over 8 million people lost their jobs, it was the worst recession that we had since the Great Depression, and if you just looked at people’s market income there would have been an extra 4.5 percentage point increase in the poverty rate from 2007 to 2010. That would be 14 million more people, just based on the economy, who would have fallen into poverty.

Instead, what happened was the poverty rate, taking into account government programs, went up 0.5 percentage point. That’s 1.5 million people. There’s no question that that is lamentable, that anyone in poverty is a tragedy, and that we should be doing our best to avoid that outcome, but there’s a huge difference between the 14 million that would have been in poverty and the 1.5 million that were. That’s over 12 million people that we were able to keep out of poverty. Some of that is because of everything that we’ve built up over those decades, but the majority of those 14 million that we kept from falling into poverty in the wake of the Great Recession were because of new things we did in the American Recovery and Reinvestment Act (ARRA). That includes things we did on the tax side that I’ll be talking a little bit more about - the earned income tax credit and the child tax credit. It also includes a temporary expansion in SNAP and an extension and initially expansion of unemployment insurance benefits as well.



This brings me next to the discussion, which drills down more specifically on the tax system and poverty. Figure 4 is something that the Columbia team kindly did at our request to let you really see what the tax system has done to poverty over time. If you look in 1967 a family at the poverty line paid a little bit over 10 percent of their income in taxes all told, including payroll taxes. As a result, taking that money away from those families raised the poverty rate by 3.2 percentage points overall. It was even worse for families with children, where the tax system raised the poverty rate by 3.9 percentage points overall, and that’s just because for those families the poverty line is somewhat higher to reflect greater needs of larger families.

We've seen an enormous change since in that today the tax system *reduces* the overall poverty rate by 1.3 percentage points. Instead of raising it more for families with children, it actually cuts the poverty rate substantially more, by 3.9 percentage points. However, it's still important to understand that non-elderly families with children, even with all of this, still have a somewhat higher poverty rate than non-elderly families without children. This transformation was the result of a long process that involved creating the EITC in 1975, expanding it in 1986, in 1990, and 1993 creating the child tax credit in 1997, and finally expanding the Child Tax Credit and the EITC in 2001.

It wasn't until you got all the way to 2008 that the tax system overall stopped increasing poverty, and that's because in 2008 you had, as part of that year's stimulus plan, a temporary increase in the refundability of the child tax credit. Then we were able to greatly increase that in 2009 with the two important things we did, one of which was to look at the EITC and say that one of the issues with it is that it imposes a marriage penalty. We have pretty much gotten rid of those for middle class families, but the tax code still has one for many low income families, so we pushed that out in terms of the plateau and reduced that marriage penalty. The other thing was looking at families with three or more children, which was only one of the hundreds of ideas that I sent to Len in the early 2000's that somehow made it through, got itself into the budget, and took a mere eight years to be enacted by Congress. The goal was to deal with the fact that families with three or more children have more expenses than a family with one or two children, but they don't get commensurately more assistance from the EITC. We wanted to at least partially remedy that, and one measure of the success of that endeavor is if you look at what we did in the Recovery Act, with the anti-poverty programs, they are reducing the poverty rate for families with three or more children by 2.6 percentage points as compared to the 1.3 percentage point reduction for families with one or two children. All told, the earned income tax credit and child tax credit policies benefit 16 million families a year by an average of \$900 per family.

This discussion has been entirely about the EITC and the child tax credit as a static point in time, but it's important to not think of these programs as only directed at the chronically poor. They have a very substantial insurance aspect to them and benefit a very large number of people over time. If you look in any given year, 13 percent of people would receive these tax credits, but there's a 42 percent chance that someone will exit the EITC after a year, and a 95 percent that they will exit within 5 years, and a 99 percent chance that they'll exit within 10 years. In part, that's because children age and they are no longer eligible for it, but in a large part, that's also because of fluctuations in income. Because of those income fluctuations, one study found that in a 19 year period, more than half of families with children would benefit from the EITC.

I should say, as an aside, that when you look at other programs, whether its nutrition assistance, SSI, or unemployment insurance, they have a very similar insurance feature whereby they provide people with money that helps them get through bad times, in a bad year, in a way that benefits many more people cumulatively over time than in any given year.

But even this look into these tax credits is still static in the sense that all of the calculations I've shown you for poverty rates take someone's income and add or subtract what they get from public programs. In some cases, like SNAP benefits, this is the right way to look at it. I read it most of the evidence as showing that SNAP has very little disincentive effect on work

and the static estimates probably get you to about the right answer in terms of the effect that SNAP would have on poverty.

When it comes to something like the EITC or the partially-refundable child tax credit, the static estimates will very much understate the impact that these tax changes would have on poverty. I'm sure you discussed this a lot this morning, so I'll only briefly cover all of the evidence of the economic impact that these tax incentives have. The traditional – and by “traditional” I mean by 1990's research on this – started by Eissa, Liebman and others, emphasized the increase the EITC had for the participation rate of single mothers. Meyer and Rosenbaum found that it was not just a matter of the sign being positive; it was quantitatively very important, and the EITC did more to increase the participation rate for single mothers in the 1990s than the reduction of welfare benefits, welfare waivers, child care, and training combined.

The most recent research has stressed that it's not just the participation in the workforce, but that fundamentally the EITC can have very large benefits when it comes to mobility and opportunity. I think that's especially important in light of the research we've had this week which confirms a lot of previous research showing that the United States has a very low level of mobility. When you have low levels of mobility and increasing inequality, the combination of the two of those means that the income of your parents is more important than ever for what your life prospects will be. Thus, the challenge of mobility itself is more important than it has ever been. When you looked at the EITC, you have Dahl, Deleire and Schwabish and Chetty, Friedman and Saez finding a higher path for incomes over time. You have Hoynes, Miller and Simon on the reduction in low birth weight, which we know to have important impacts on opportunity, and Dahl and Lochner on the impacts on reading and math scores. The child tax credit has been less studied, but it has many of the same features – increasing the reward to work and increasing the reward to participation in the labor force.

### **Where do we go from here?**

With all of this history over the last 50 years and then over the last 5 years with the Recovery Act, the question is, “Where do we go from here?”

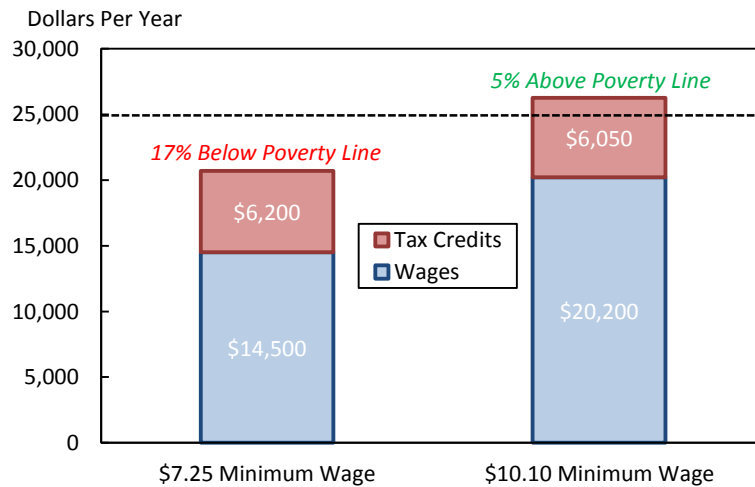
The first lesson is that a lot of what we've done, including the ways we performed it, modified it, added to it, especially on the tax side – really has worked. And what we need to do is make sure that we're defending that. What that means most immediately, in terms of the issues we're facing today, is making sure that we are protecting a robust system for nutrition assistance; that we are taking unemployment insurance, which expired at the end of the year and has now left up to 1.6 million people without unemployment insurance benefits, and making sure that we are extending that; and it means taking the refundable tax credit enhancements that we have been able to extend twice through 2017 and making them permanent.

A second lesson is that we want to build on these successes. I think that's something that's especially true if and when we get around to reforming our tax code. What I'd like to see are debates around our tax reform. Let's not measure the success of a system by how low it can get the top rate, but by what it does for middle class families and also what it does to help people

escape poverty, both in terms of mobility and opportunity and by providing that insurance we've been talking about as well.

The third lesson going forward, and this one comes from that very first graph that we started with, is that we need to do more to raise wages and reduce market income poverty. When a few of you are here 50 years from now to talk about the 100<sup>th</sup> anniversary of the War on Poverty, if they show a graph that looks a lot like Figure 1 – except that it says “2067” and market poverty is still at 29 percent, but they say, “Don't worry, we've made progress on poverty because with taxes and benefits it's come down to 5 or 10 percent” or whatever it's come down to by then – we will have really failed as an economy and as a society. It would be great to, as I said, protect the gains on the right hand side of the graph there, and I think there are some more gains to potentially be had on the right hand side, but as a matter of predicting the place where we potentially could have the most gains in the future as well as saying where I'd most like to see them happen, it would be in that left hand side of the graph with raising incomes.

**Figure 5: Earnings of Full-Time Worker at Minimum Wage Relative to Poverty Line for Family of Four**



With regards to raising incomes, there are a whole bunch of things we could do there. Obviously, the most immediate step to take would be raising the minimum wage, so that you are undoing one of the causes of those trends in market income over the last 45 years. Education – everything from Pre-K to college – plays a role there. Additionally, we should be continuing to strengthen the overall economy and bring the unemployment rate down to have a tighter labor market, as we have seen wages start to rise in the last year and we would like to see more of that. Finally, we would like to see anything that in the long run increases overall growth and helps the economy, whether it's infrastructure, tax reform, including business tax reform, or the trade agreements we are negotiating with worker rights and environmental rights incorporated into them. All of that is in the agenda to both grow the pie and make sure more of that pie is being shared.

## Conclusion

In conclusion, I would like to say that this very much is the agenda that the President is laying out and pushing for. It is very much grounded on the types of research and work that many of you in this room have done, and we look forward to continuing to work with all of you.