
The Earned Income Tax Credit, Welfare Reform, and the Employment of Low Skill Single Mothers

Strategies for Improving Economic Mobility Of Workers

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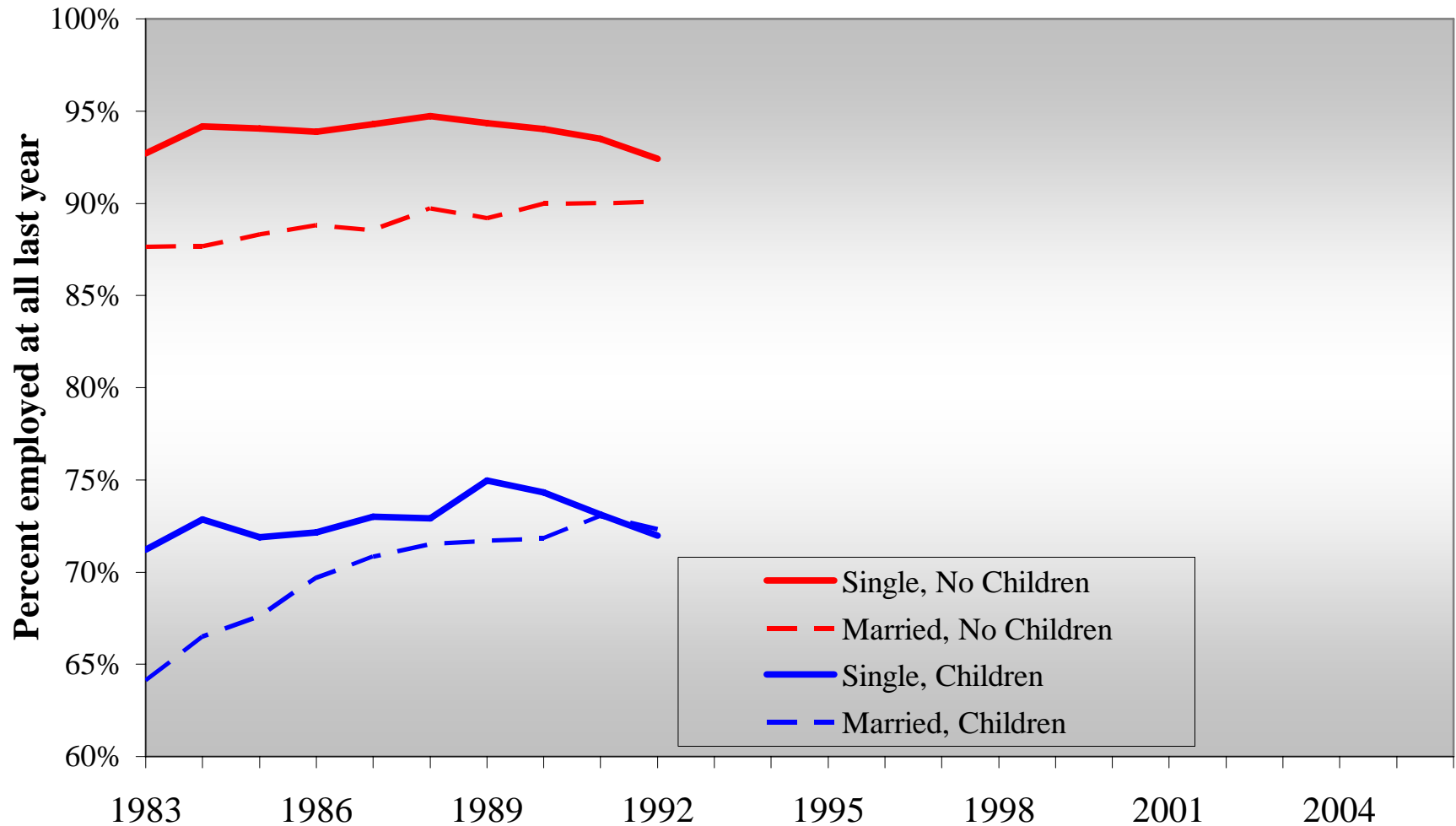
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Overview

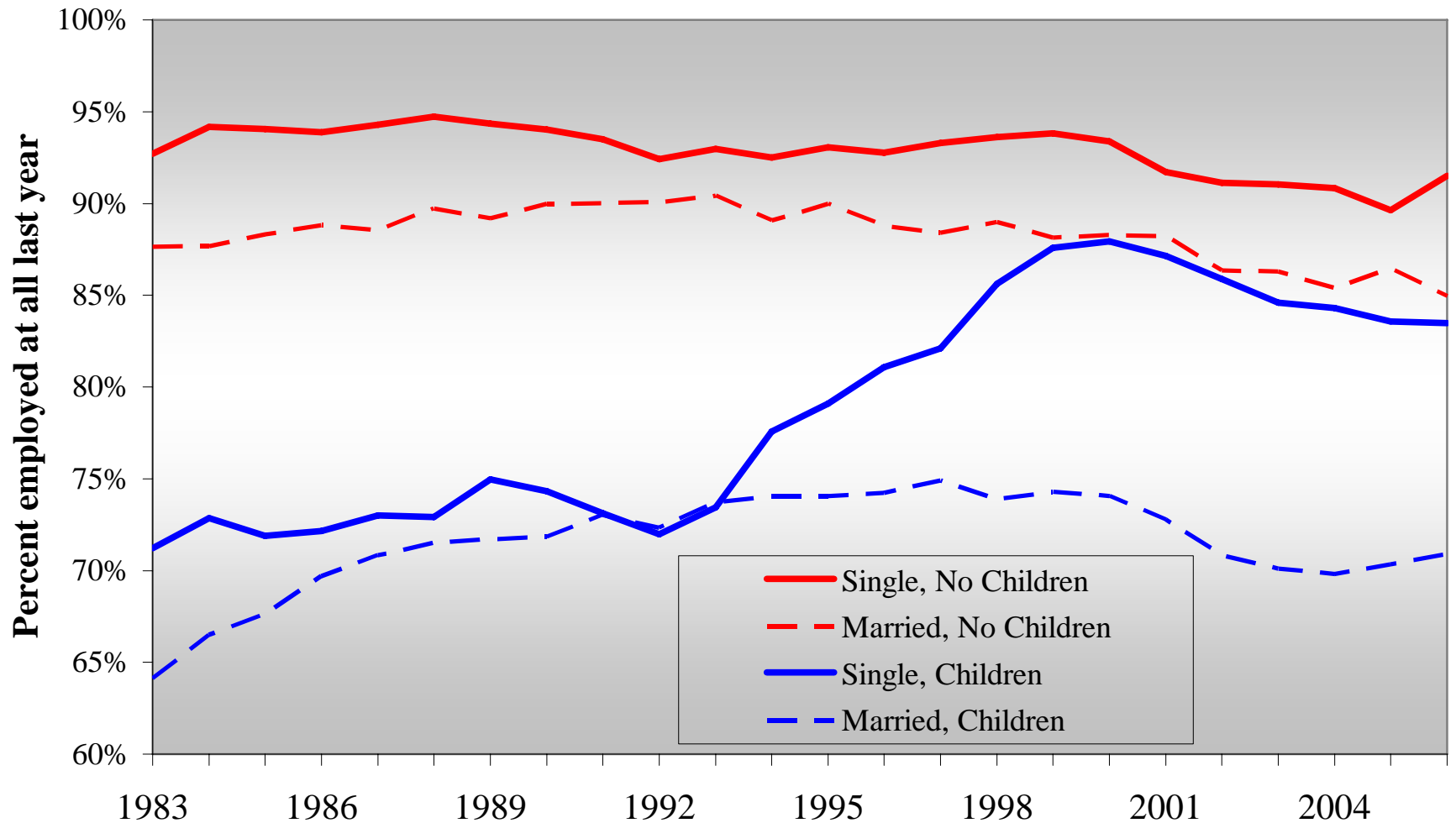
- Employment of single mothers with children increased dramatically in the 1990s
- Incentives to work increased substantially during this period:
 - *Push factor*: welfare reform
 - *Pull factor 1*: EITC expansion
 - *Pull factor 2*: strong labor market, rising wages
- How did these forces contribute to the increase in the employment of single mothers with children?

Percent of Women Working (by Marital Status and Children)



On the eve of these policy changes, much attention is given to low employment rates of single mothers.

Percent of Women Working (by Marital Status and Children)



Beginning in 1992—dramatic increases in employment for single mothers, with little change for other women

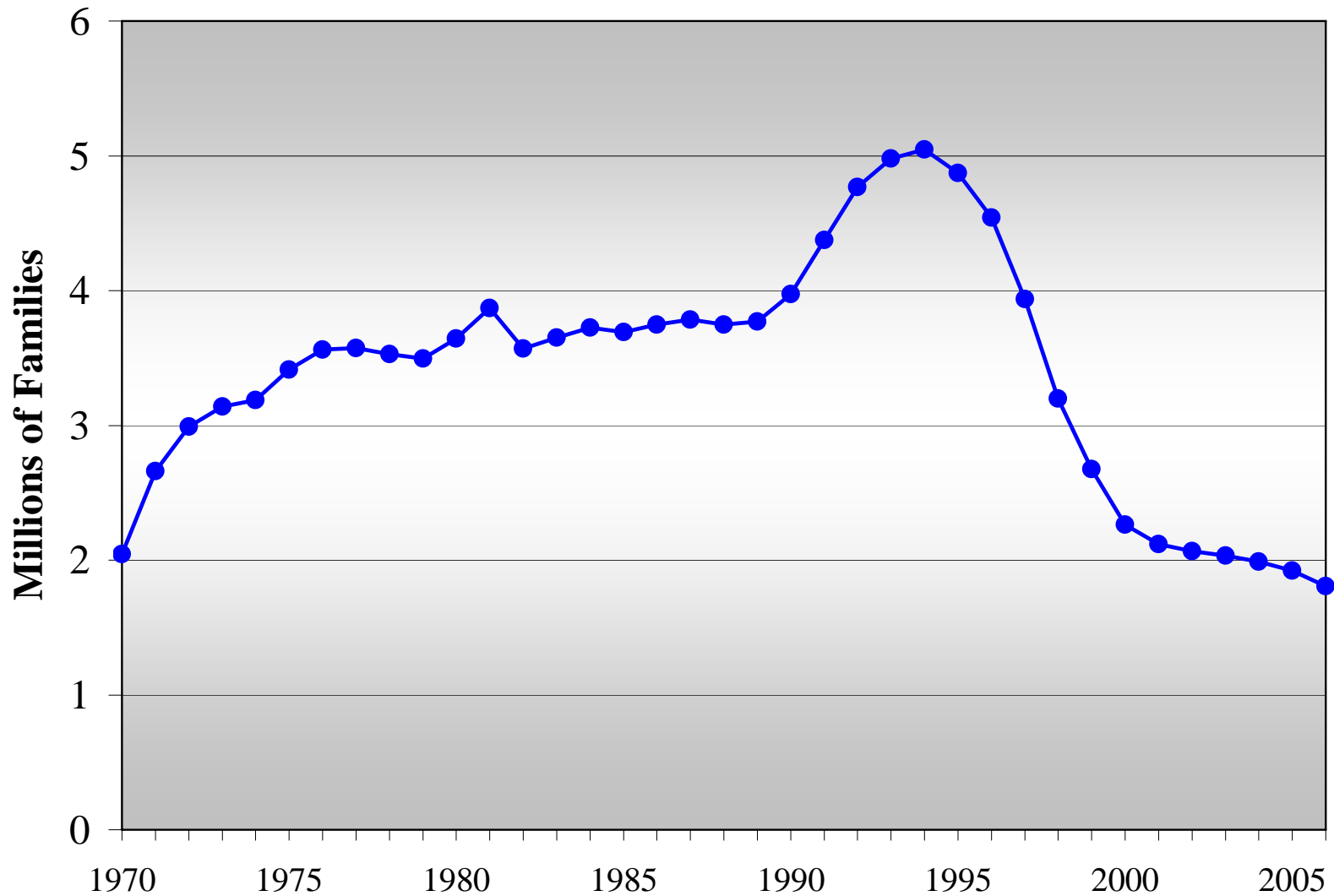
Brief description of policy changes

- 1) Welfare reform
- 2) Expansion in the Earned Income Tax Credit

Welfare Reform

- Long standing concern of AFDC: high benefit reduction rate creates disincentives to work.
- Two periods of change
 - State waivers (1992-1996): voluntary changes to AFDC
 - Federal reform (1996): Mandates elimination of AFDC, replacement with TANF
- Emphasis in reform on increasing employment and reducing welfare caseloads through:
 - Time limits
 - Work requirements
 - Increasing financial returns to work

AFDC/TANF Caseloads

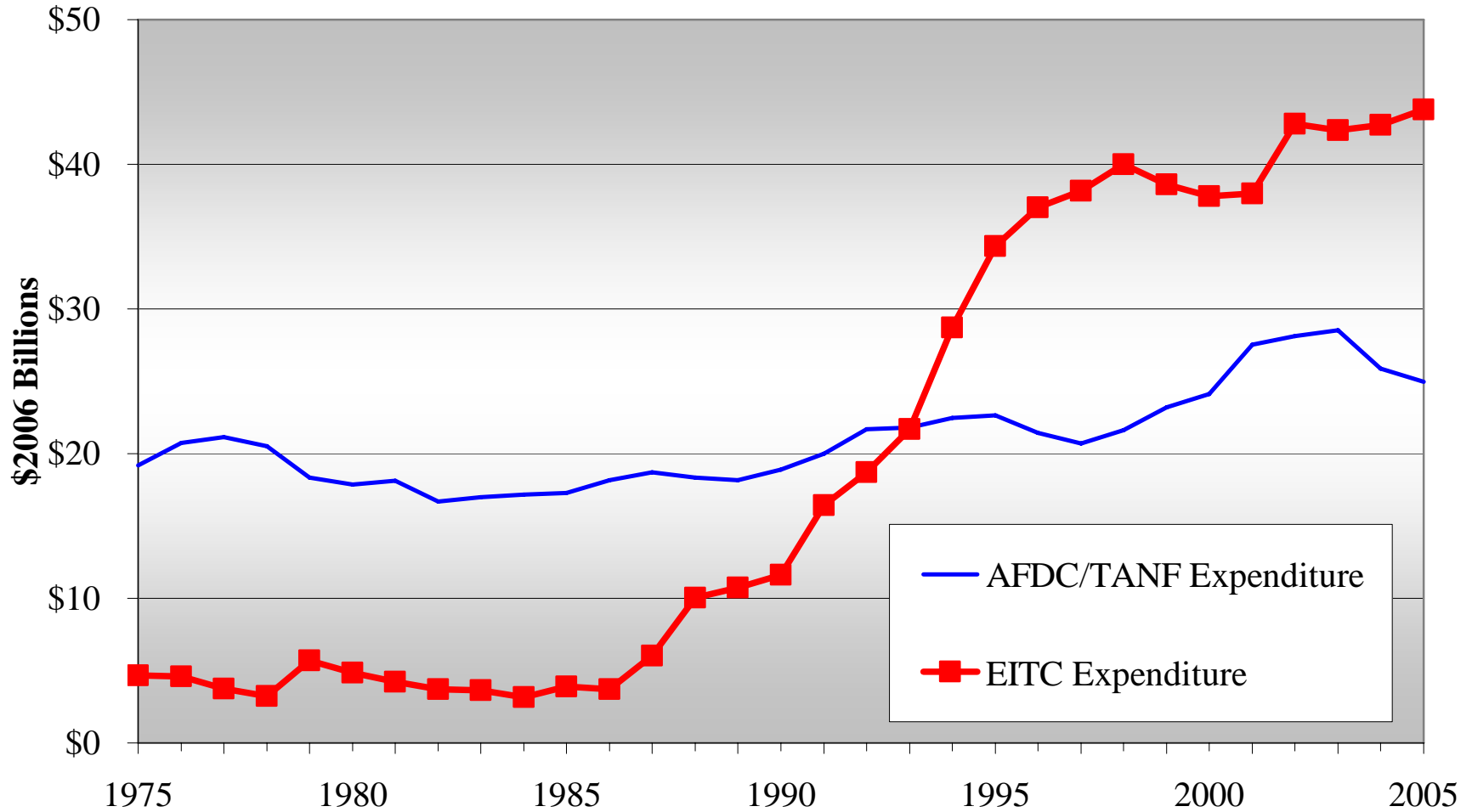


The Rise of the Earned Income Tax Credit

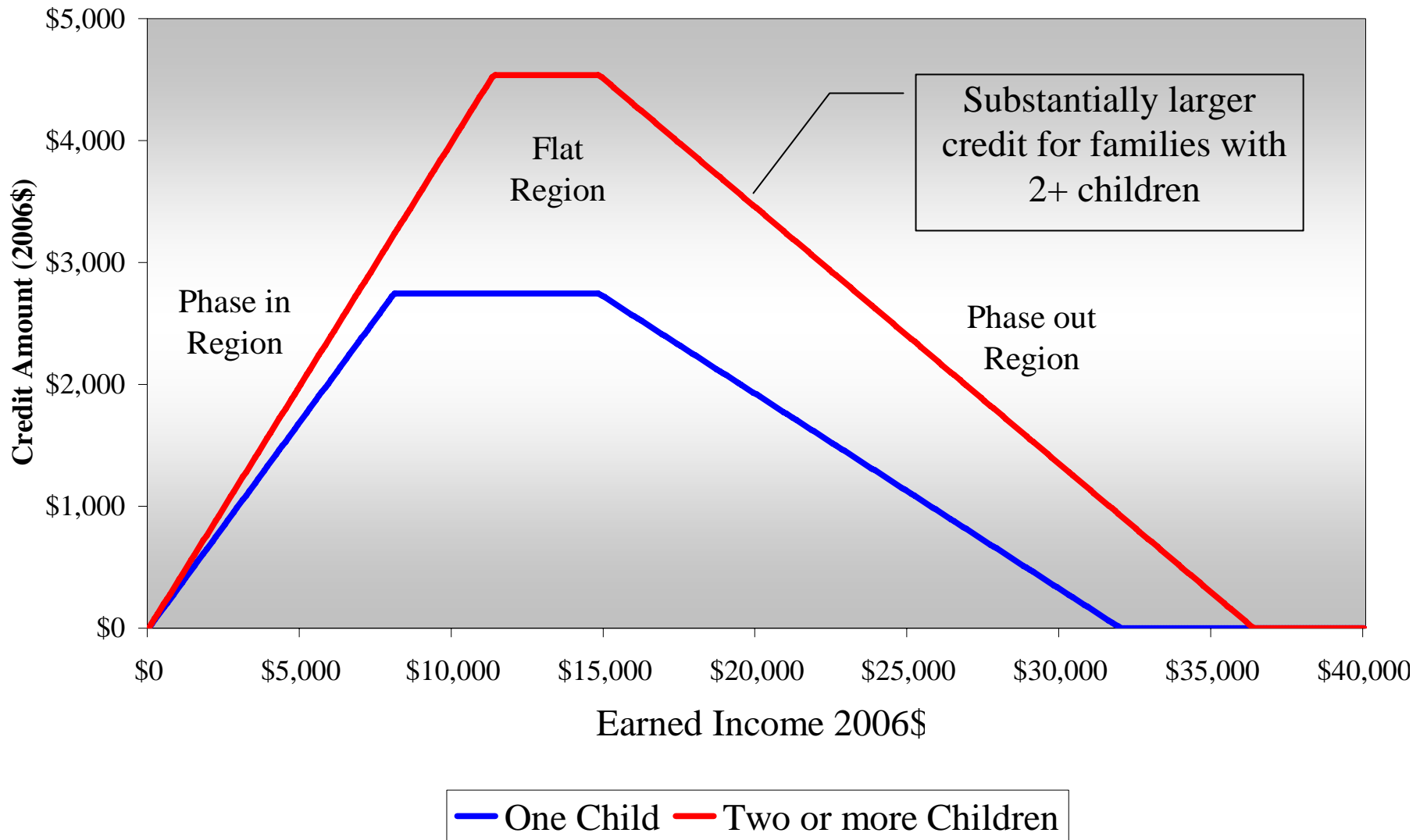
- The EITC is an earnings subsidy that is provided through the federal tax system
- Refundable tax credit for working low income families with children
- The EITC has increased in importance through policy expansions in 1986, 1990, and 1993
- Redistributes income to disadvantaged families while subsidizing work

2007 EITC for Single Parents		
	Maximum Credit	Eligible at incomes up to
1 child	\$2,853	\$33,241
2+ children	\$4,716	\$37,783

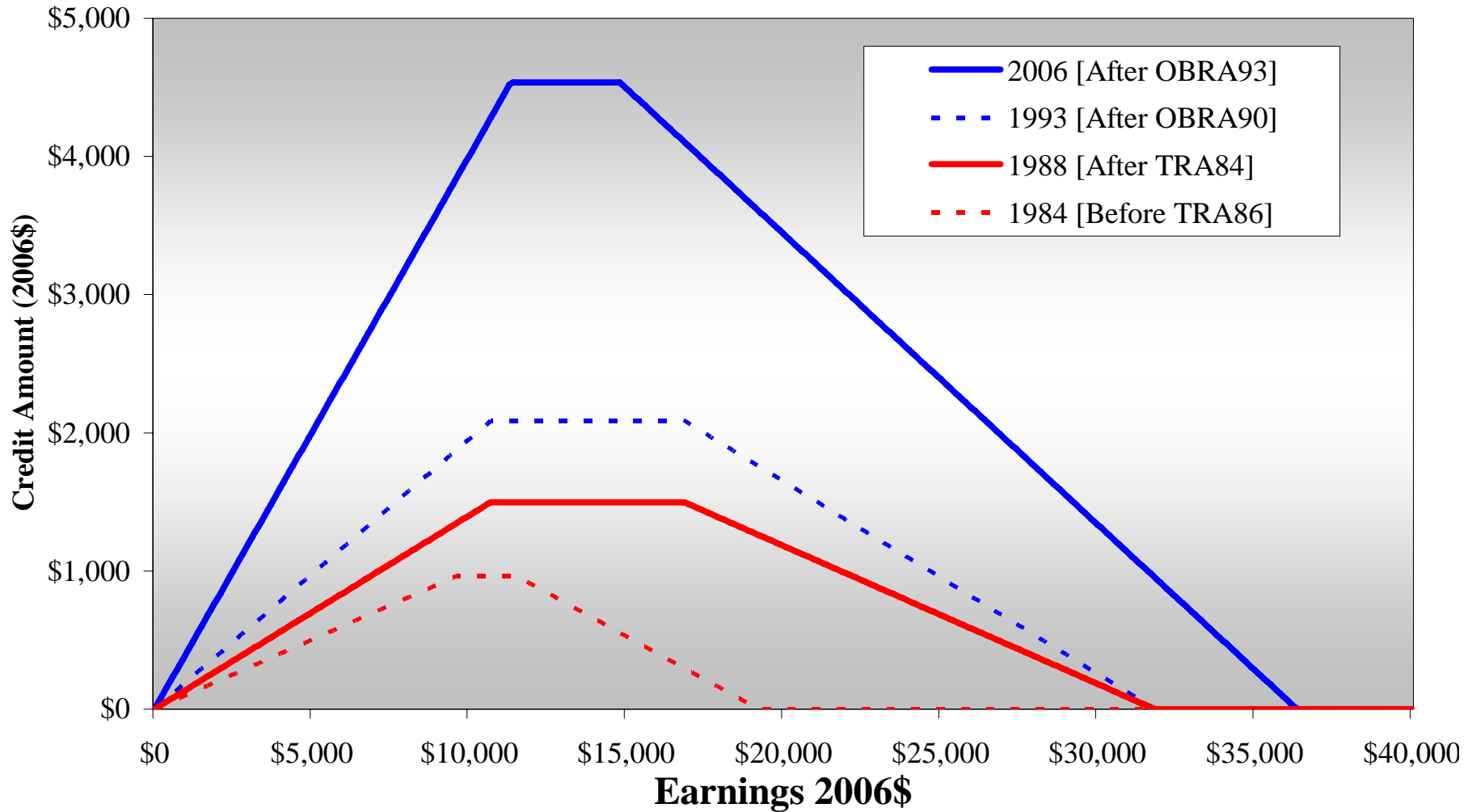
EITC Costs now exceed AFDC/TANF



EITC Benefit Structure, Single mothers in 2007

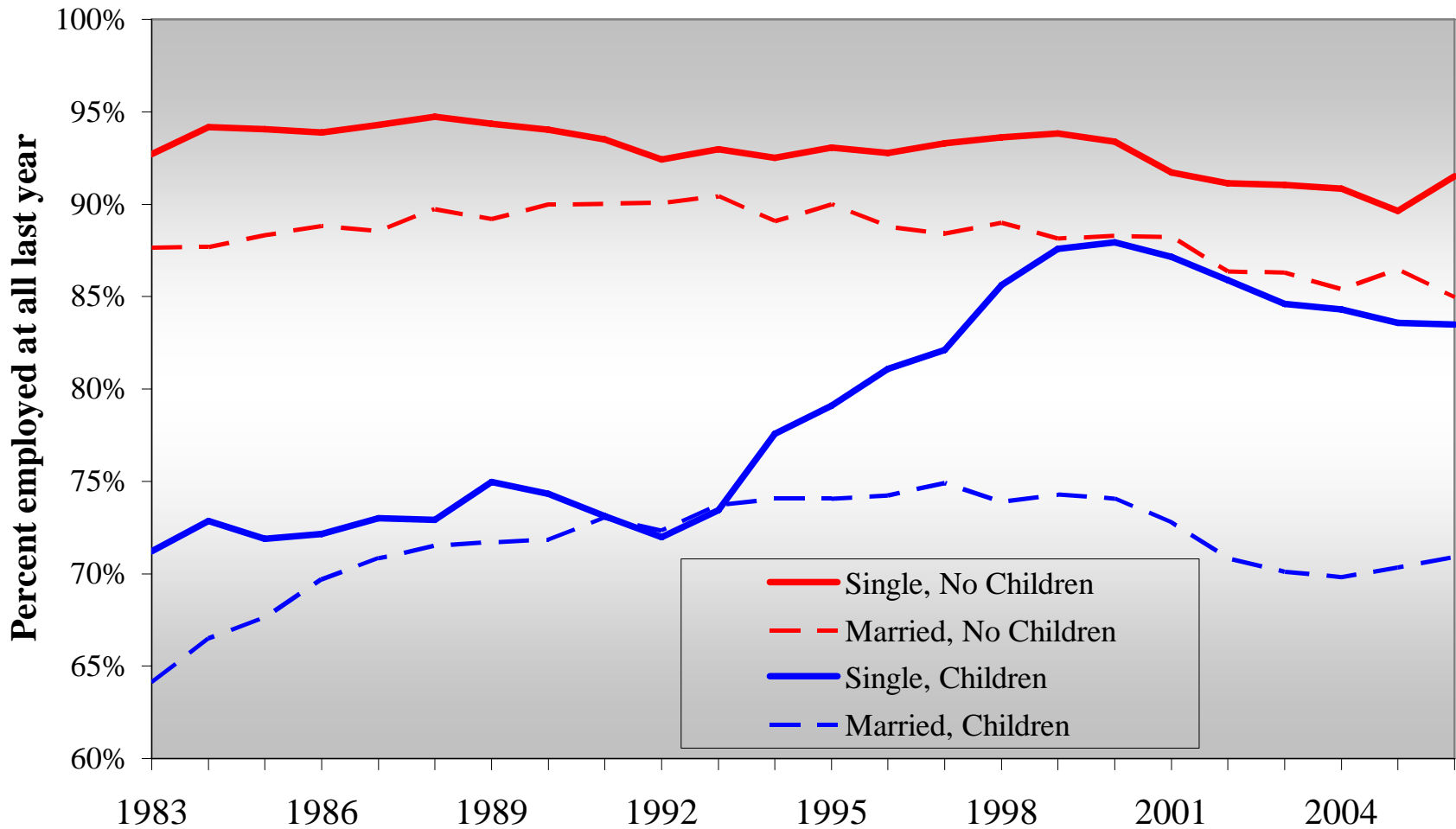


Real EITC Benefits Increasing over Time



Now back to the employment figure ...

Percent of Women Working (by Marital Status and Children)



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- These increases are large: 16 percentage point increase in employment rates between 1992 and 1999.
 - The increases are even larger—20 percentage points—if you look at single mothers with a high school education or less (who are more likely to be affected by the EITC and welfare reform)
 - No other group (male or female) experienced a change like this.

Explanations for increasing employment of single mothers

- Difficult to decompose influences of: EITC expansion, welfare reform and strong labor market
 - Each are expected to increase employment
 - They occurred at (largely) the same time
- Overwhelming evidence that all three factors matter
- Very consistent results across studies using different methodologies
- Work by Meyer and Rosenbaum (2001) shows that
 - 1992–1996 employment gains: 35% due to EITC, 20% due to welfare reform
 - 1984–1996 employment gains: 60% due to EITC, 15% due to welfare reform

Conclusions

- The last decade has seen major shifts in government assistance for single mothers
 - Decline in cash welfare benefits for non-workers
 - Rise in tax-based benefits for workers
- Employment rates of single mothers increased dramatically during this period
- The research uniformly shows that welfare reform and the expansion of the EITC contributed to this increase in employment