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# HOW OUR WELFARE SYSTEM CAN DISCOURAGE WORK

## JOINT HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON HUMAN RESOURCES

AND THE

COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON OVERSIGHT

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

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# HOW OUR WELFARE SYSTEM CAN DISCOURAGE WORK

**THURSDAY, JUNE 25, 2015**

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
COMMITTEE ON AGRICULTURE,
SUBCOMMITTEE ON OVERSIGHT,
*Washington, DC.*

The subcommittee met, pursuant to call, at 9:30 a.m., in Room 1100, Longworth House Office Building, the Honorable Charles Boustany [Chairman of the Subcommittee] presiding.

[The advisory of the hearing follows:]

# HEARING ADVISORY

## Boustany Announces Joint Hearing on How our Welfare System Can Discourage Work

Congressman Charles Boustany (R-LA), Chairman of the Subcommittee on Human Resources of the Committee on Ways and Means, today announced that the Subcommittee will hold a joint hearing on how certain welfare programs and related benefits can discourage work as a result of the high effective marginal tax rates they impose on certain populations. The hearing will be held jointly with the Subcommittee on Nutrition of the House Committee on Agriculture, which has jurisdiction over food stamps, formally known as the Supplemental Nutrition Assistance Program. **The joint hearing will take place on Thursday, June 25, 2015, in 1100 Longworth House Office Building, beginning at 10:00 A.M.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include experts on how increased earnings may not yield additional income for families due to the complex interaction between earnings, welfare, and related benefits. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

**BACKGROUND:**

Low-income families often receive benefits from multiple welfare programs, such as assistance with food, housing, and day care costs, help with medical costs, or cash payments to supplement or replace earnings from work. While these programs nominally support and encourage employment, program "phase-out rules" – especially when combined across multiple programs – mean certain households may not be significantly better off if they work or increase their earnings from work.

Economists have studied the interaction between earnings and benefits under various programs by focusing on what are called "effective marginal tax rates," which refers to the portion of an additional dollar of earnings effectively lost due to rising taxes and benefit reductions. Due to effective marginal tax rates that can approach or even exceed 100 percent when individuals receive benefits from multiple programs, it is possible that some individuals can be little better off financially—and in some cases even worse off—if their earnings increase.

In announcing the hearing, Chairman Boustany said, **"This hearing will review one of the worst side effects of current anti-poverty programs. The simple fact is that under current**

**welfare program rules, more work doesn't always make families better off. This poverty trap may be unintended, but for those in its grip it is all too real. We will review how we got here and how we should reform benefits to help people go to work and earn more, and thus overcome program features that today discourage work and higher earnings"**

Chairwoman Walorski of the Agriculture Subcommittee on Nutrition said, **"Federally funded welfare programs should serve as a support, not a hindrance, to the employment opportunities that come when one works hard. Yet, the Nutrition Subcommittee has discovered that, in many instances, they deter workers from pursuing employment. Together with the Human Resources Subcommittee, we'll examine the 'cliff' faced by recipients when they attempt to enter, re-enter, and remain in the workforce in order to climb the economic ladder. There is no question that helping recipients move into good paying jobs benefits their families and taxpayers."**

**FOCUS OF THE HEARING:**

This hearing will focus on the interaction between welfare and related benefit programs and how concurrent receipt of benefits from those programs can create perverse incentives that discourage work and higher earnings.

**DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, July 9, 2015**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721 or (202) 225-3625.

**FORMATTING REQUIREMENTS:**

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit materials not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/.

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Chairman BOUSTANY. Welcome to today's hearing. I will ask our witnesses to take their seats.

As chairman of the Ways and Means Human Resources Subcommittee, I am honored to welcome Chairman Conaway of the Agriculture Committee, along with Chairwoman Walorski and our colleagues from the Agriculture Nutrition Subcommittee for today's joint hearing.

In the interest of time and so we can move quickly to our witness testimony, both sides have agreed to limit members' opening statements to 3 minutes apiece.

Since we are accompanied by Chairman Conaway, we will break precedent here, and I will yield time to Chairman Conaway to make his opening statement.

You can go first, since you are set, and we will go to Chairman Ryan afterwards.

Mr. CONAWAY. I want to thank the chairman. I want to thank Chairman Ryan and Chairman Boustany and the Ways and Means Committee for hosting the first joint hearing between our two committees as we explore how our welfare system can discourage work. It is surprising that our committees have not engaged formally before given the overlap in our recipient populations.

According to the most recent SNAP characteristics report, 20 percent of SNAP recipients receive Supplemental Security Income, 24 percent receive some form of Social Security income, 9 percent receive child support enforcement payments, 7 percent receive support from TANF, and 4 percent receive unemployment income.

While today's hearing is about work, the level of overlap suggests this is only the beginning of our efforts to better coordinate programs across the committee jurisdictions. Throughout our top-to-bottom review of the past, present, and future of SNAP, we have had an eye towards strengthening the program so that it doesn't

become a trap, but rather a tool to help individuals move up the economic ladder.

We have included a number of former recipients and front-line, nongovernmental organizations who we now know are succeeding despite our welfare system.

Our hearing series have shown us that SNAP does not operate in a vacuum and that it plays an important role in the lives of nearly 46 million Americans. This is why the hearings like today are important: Recipients don't think in terms of program. But while we do, it is our responsibility to look beyond our programs to understand the experience of the recipients and the potential unintended consequences.

During our last hearing, we heard from practitioners about how they engage individuals to help them succeed in the workforce. We quickly encountered the reality of the "cliff effect" when programs designed to support work do just the opposite.

There is great dignity that comes from being able to provide financially for one's own family, but that feeling can easily be overrun when our welfare system creates a situation where earnings do not necessarily translate into higher income. This is not a problem that can be addressed by SNAP alone. It is going to take a coordinated effort.

Thank you again for hosting this important joint hearing. I look forward to working with Chairman Ryan, Chairman Boustany, and your committee to ensure that our welfare system is prepared to address current and future challenges.

We know that work is the best way to help individuals climb the economic ladder, and we must ensure that our policies reward that work. I look forward to the hearing, and I yield back.

Chairman BOUSTANY. Thank you, Chairman Conaway.

Now I am pleased to yield time to Chairman Ryan, chairman of the Ways and Means Committee.

Chairman RYAN. Well, first of all, thank you. Welcome everybody. It has been a long time since I have sat down here in these seats. The view is a little different, I got to admit.

I want to welcome our colleagues from the Agriculture Committee, including my friend Chairman Conaway and Chairwoman Walorski and Ranking Member McGovern. We are happy to have you, we are happy to host this, but we want to thank you for letting us use your committee room twice when we were renovating this room earlier in the year.

This is an important hearing because for the past 50 years we have been waging this war on poverty, and I don't think you can really call it anything but a stalemate. I am not saying we haven't made any progress. We clearly have. But the Federal Government has spent trillions of dollars on dozens of programs, and yet upward mobility is no better than where it was when we started. Today, if you were raised poor, you are just as likely to stay poor as you were 50 years ago.

Here is the problem. We have created 80 different programs to try and fill 80 different holes in people's budgets, health care, child care, energy, education, and more. You qualify for these programs on income, naturally. If you don't make much, you get a lot of benefits, but as you make more, you start to lose your benefits very

quickly in some cases. Because we have piled these programs right on top of each other, the falloff can be really steep, and the more you make, you can end up losing a ton.

Take a single mom with one child earning the minimum wage, and she gets offered a job paying her $3 more an hour. When you factor in the taxes and the benefit cuts that she will experience, she will only get to take home 10 cents of every extra dollar she makes. What is the point in taking that job?

So you find that we have been filling holes, but we have actually been building a trap, and we are isolating people from the rest of the communities, we are isolating people from getting out of poverty. Right now we have a safety net that is designed to catch people falling into poverty. What we need is a safety net to help lift people out of poverty.

And so the way I see it, we have got three choices. Number one, we either accept the status quo and just do nothing. Number two, we reinforce the status quo and simply just do more of the same. That will only make it harder for people to get from welfare to work. Or number three, we reform the status quo, we try something different, get people in jobs or in training, customize benefits to fit people's needs, make sure that it always pays to work. These are the principles that we want to put into practice. We need another round of welfare reform so that we can actually have a safety net pulling people from poverty, from welfare, into work, into a better life.

You know, Pope Francis recently said: "Where there is no work, there is no dignity." That is the challenge we face, to protect and to promote the dignity of work. I look forward to working with our colleagues in the future to do just that, and I think this hearing is a great start.

Thank you.

Chairman BOUSTANY. Thank you, Chairman Ryan. I would like to amplify that this hearing is a very historic event. Since 1995, the Human Resources Subcommittee has held joint hearings with other committees only twice and never with our colleagues on the Agriculture Committee. It is way overdue that we approach this subject matter in this way. That is despite the wide overlap between the programs we oversee that assist millions of Americans with food stamps and other welfare benefits.

So today's hearing is long overdue and reflects the start of what I hope will be much closer cooperation ahead between our committees. What we will explore today is one of the worst side effects of current welfare program rules, the fact that getting a job or working more does not always make families better off. This poverty trap may be unintended, but for those in its grips, it is all too real.

We need to review how we got here, how real people are affected, and how we can reform the system to help people go to work and earn more instead of making them worse off when they do just that.

Consider how destructive today's anti-work signals are. We have a chart. I will put it up on the screen. This chart shows one thing we know for sure is that work, and especially full-time work, is really the only cure for poverty. Less than 3 percent of people who

work full-time are poor. In contrast, people who don't work are 8 to 10 times more likely to be poor.

So promoting work is the real key to helping people avoid poverty. Benefits can and should serve as a temporary bridge between jobs or to supplement earnings when someone can find only part-time work. But unless we are willing to tolerate more poverty—and I am not—those benefits need to reinforce, not undermine the importance of work. Redesigning welfare benefits to do just that is the challenge before us.

I look forward to all the testimony and to working with Members on both sides of the aisle to find solutions to this problem.

And with that, I am happy to yield to my colleague, Mr. Doggett, the ranking member of the subcommittee, for an opening statement.

Mr. DOGGETT. Thank you for the opportunity to consider these matters.

You know, when Lyndon Johnson declared war on poverty, he got underway programs that have changed the lives of millions of Americans for the better. In 1996, when we approved welfare reform, which I supported, we recognized there was a need to consider some of those programs and make alterations.

When I hear talk this morning of another round of welfare reform, I want to be sure that the reform that is coming achieves more than the 1996 reform, does not simply use Federal resources to permit the States to displace their own commitment and denies so much assistance to individuals compared to where we were in 1996. It needs to be about lifting people up, not just reform that is about cutting and numbers.

There are things that this hearing can focus on that I think can be helpful. If you means test programs, benefits eventually stop after an individual earns a certain amount of money, we can and should mitigate the impact by preventing eligibility cliffs. And we have one model for that, though it is under constant attack in this room, and that is the Affordable Care Act. It did just that for low-income workers by allowing them to earn more and still receive Medicaid in those States that had the good judgment to accept 100 cents of the dollar to finance their Medicaid or to receive private tax credits for private insurance.

But our Republican colleagues have continued to insist that these important steps must be repealed, and many governors, like my own, have refused to fully implement the promise of the Affordable Care Act. We can increase the phaseout range for programs so that benefits decline more gradually when a person goes to work. We can support programs that now actively promote and reward work, like the Earned Income Tax Credit, the Child Tax Credit.

But for some people the solution to every problem—I view it as rather blockheaded—it is to block grant everything. Rather than pursuing these commonsense approaches of supporting work, I hope that this one-size-fits-all answer of block grants is not the only one advanced along with cutting Federal funding.

Mr. Chairman, Americans deserve better than a cut-and-run strategy. We need concrete proposals for helping Americans find, keep, and advance in employment, not a reduction in the Federal commitment to reaching this critical goal. I hope our witnesses will

provide additional insight and recommendations for how we achieve that objective.

And I yield back, and thank you.

Chairman BOUSTANY. I thank the gentleman for his statement.

I now yield time to the chairwoman of the Agriculture subcommittee, Mrs. Walorski, for the purposes of an opening statement.

Mrs. WALORSKI. Thank you, Chairman Boustany, thank you to Chairman Ryan as well, for hosting this historic joint hearing between our two committees as we better explore how our welfare system can discourage work.

As the chair of the Nutrition Subcommittee, we have spent the past 5 months exploring the Supplemental Nutrition Assistance Program, also known as food stamps. Our review of the past, present, and future of SNAP is why we are here today. We will explore real issues with another committee that is having many of the same discussions as we are.

Throughout our review, I have stressed that we cannot just examine SNAP in a vacuum. We have to recognize there are other programs that exist and explore how they work or don't work together. In my home State of Indiana, my fellow Hoosiers aren't concerned about whose jurisdiction of committees this is. They care more about how we as legislators work together. Today is the next step in that process.

During our last hearing, witnesses discussed the importance of case management and how they engage with recipients. We heard stories detailing the barriers they face. For example, workers near the poverty line who are eligible for multiple assistance programs stand to lose financially by increasing their income as their benefits are phased out. This is described by analysts as the welfare cliff.

In the face of such a scenario, many people forego raises or put in fewer hours. Individual programs may attempt to address this, but it still requires a broader view of how programs interact to ensure that we as policymakers are not inadvertently discouraging work.

Welfare programs should support those in need, not deter them from reaching their full potential in the workplace. I do worry that this cliff is a serious obstacle when recipients try to enter, reenter, and remain in the workforce in order to climb the economic ladder. Helping recipients move into better paying jobs not only benefits their families, but also benefits taxpayers.

I am looking forward to hearing about ways to explore how we can improve the operation of these programs in order to help millions of Americans seeking a better future.

Again, I thank Chairman Ryan and Chairman Boustany for hosting, and I look forward to working with them in the future. I also want to thank all of our witnesses for being here today with us and look forward to their testimony.

Chairman BOUSTANY. I thank the gentlelady.

I now yield time to the ranking member of the Agriculture subcommittee, Mr. McGovern.

Mr. MCGOVERN. Thank you.

You know, the hard reality is that we can and we must do a better job in fighting hunger and poverty in America. For 7 years now I have called for a White House conference on food, nutrition, and hunger. Holding a White House conference like this would be a major step forward in our effort to reduce hunger and poverty by better connecting the dots amongst Federal and State agencies, nonprofits, faith-based communities, schools, hospitals, and the business community. Such a conference would help us better understand and meet the needs of the millions of Americans struggling to put food on the table and to help them transition to a better place.

Being poor in America is hard work, and quite frankly, our safety net has some holes in it, and it must be strengthened to meet some of our families' most basic needs. Talk to those who run our food banks. They will tell you that at the end of every month SNAP families are at their doors because they can't afford to purchase any more food.

And while we all want to encourage work, let's state for the record that a majority of those on SNAP are kids, elderly, and the disabled. They are not expected to work. Of those who are expected to work, more than half do. Among those who work, 58 percent work full-time for 6 months or more after receiving SNAP. Remember that the next time you hear someone claim that SNAP recipients don't work. About 60 percent of SNAP recipients who are expected to work do work for 6 months or more after receiving SNAP benefits.

The real problem is that those who work earn so little that they still are eligible for the program. I believe that if you work in this country, you ought not to live in poverty. Where is the outrage over lousy wages? And yes, Pope Francis, and I agree with him, said: "Where there is no work, there is no dignity." But what about the indignity of low wages, of working hard two, three jobs, and still living in poverty?

No doubt this is a complex problem, and I think American families deserve more, but that means talking about raising the minimum wage to a livable wage so that workers can earn enough to support their families, and it means creating a sustainable path to phase out safety net benefits only after they are on solid footing.

Some of my friends have suggested we lower the marginal tax rates. An easy way to accomplish that is to extend phaseout ranges for programs in addition to SNAP, which I am sure some of my friends might not be crazy about because it will cost more. But without that critical investment, any changes in SNAP could hurt the program and actually make poverty worse.

I am all for flexibility too, but if flexibility is code for block grants, I have got a big problem with that. Too often this results in anti-hunger programs like SNAP being underfunded and our most vulnerable families being left behind.

Passing the buck to States, finding more ways to avoid adequate Federal investments in battling poverty solves nothing. Cutting SNAP as we did last year in the farm bill, cutting funding for job training, not permanently extending key features of the EITC or Child Tax Credit, these are dangerous policies that have often been presented by some of my colleagues as solutions.

These ideas make me nervous about what the majority is up to, and everyone at today's hearing should think carefully about the consequences of such reckless approaches to the very programs that are essential to helping America's most vulnerable families get on the path to the middle class.

And I thank the chairman.

Chairman BOUSTANY. I thank the gentleman for his opening statement. Without objection, each member will have the opportunity to submit a written statement and have it included in the record at this point.

Now we will turn to our panel of witnesses. I want to remind our witnesses to limit their oral statements to 5 minutes. However, without objection, all of the written testimony will be made part of the permanent record.

This morning we will hear from Dr. Casey Mulligan, professor, Department of Economics, University of Chicago.

Next—and we are going to accommodate our next witness' schedule when she arrives, she has had a little transportation issue—we will have Chanel McCorkle of Baltimore, Maryland, accompanied by Marsha Netus, director of operations at America Works of Baltimore.

Thirdly, Erik Randolph, senior fellow, Illinois Policy Institute. Fourth, Olivia Golden, executive director, Center for Law and Social Policy. And fifth, Dr. Eugene Steuerle, senior fellow, Urban Institute.

We welcome all of you. Your testimony is going to be very helpful as we carve a path forward on this.

And so with that, Mr. Mulligan, please proceed with your testimony.

**STATEMENT OF CASEY MULLIGAN, PH.D., PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF CHICAGO, CHICAGO, IL**

Mr. MULLIGAN. Chairman Boustany, Chairman Walorski, Ranking Member Doggett, and Ranking Member McGovern, and all the Members of the Subcommittee, thank you for really the opportunity and the honor today to discuss with you about how public policy has affected the reward to working.

A basic economic principle is that the monetary reward to working has important effects on how many people are employed and how much they work. People without jobs or otherwise with low incomes sometimes receive benefits from social safety net programs. The benefits themselves are rarely called taxes by laymen, but economists understand the benefits to have many of the characteristics of tax rates because a program beneficiary loses some or all of her benefits as a consequence of accepting a job.

I have illustrated the reward idea in figure 1 of my testimony. The left bar in that figure measures the resources available when working, and the right bar measures the resources the same person would have if not working, including subsidies net of taxes paid. The difference between the two bars is the monetary reward to working.

Now, consider adding a new safety net program, which I put in green, or expanding an old one. Exactly because it gives more help

when not working, the new program reduces the reward to working. The combined effect of taxes and subsidies on the reward to accepting a job can be summarized as a penalty, the effective amount that is lost from paying taxes and replacing benefits associated with not working. I like to express that penalty as a marginal tax rate, namely as a percentage of employee compensation.

If there were no penalty, then the marginal tax rate would be zero. Thanks to a labyrinth of tax and subsidy programs, the marginal tax rate can equal or exceed 100 percent, which means that at least as many resources are available when not working as when working.

Government tax and spending rules reduce the reward to working for two separate reasons. First, the rules include income contingencies. The more income from work means more taxes and fewer benefits. But second and separate and not unimportant is the rules include employment contingencies. More employment for a family affects its taxes and benefit amounts even if their income is the same.

For unmarried middle-class Americans, SNAP is not a marginal tax on their income, despite the 30 percent benefit-reduction rate, because they are ineligible for the program whenever they are working. But SNAP is a marginal tax on their employment because every month out of work is another month of SNAP eligibility. This is one of the many examples where a program's employment contingencies have different economics from its income contingencies.

Legislation that cuts or credits taxes, so to speak, can nonetheless reduce the reward to working and increase the marginal tax rate if it cuts taxes more for those who work than it cuts taxes for those who work less.

At the same time the safety net programs implicitly tax job acceptance, they also implicitly subsidize layoffs because the programs absorb some of the income and production that employer and employee together lose when an employee stops working. Layoff subsidies give employers and employees less incentive to take the steps that might avoid or delay layoffs.

Let me be clear, America absolutely must have taxes and safety net programs even though they reduce the reward to working and even though they subsidize layoffs. But if you want to understand what is happening in the labor market or to the budgets of social programs, it is counterproductive to approximate marginal tax rates as zero or to assume that they are eternally constant regardless of what comes in new legislation.

The resources provided for people not employed or underemployed have increased in the past decade. SNAP program rules have changed in a variety of ways. Unemployment benefits are now paid in a variety of new circumstances. The Recovery Act and now the Affordable Care Act help unemployed people pay for their health insurance.

Figure 2 shows my estimates of 9 years marginal tax rates coming from tax and subsidy programs, taking into account that some of the poor and unemployed do not participate in all or sometimes none of the safety net programs. The combined effect of these and other changes through this year was to reduce the reward to work,

that is, increase marginal tax rates for most of the nonelderly population.

The cumulative effect of all this legislation is to increase average marginal labor income tax rates by 7 percentage points over what they were in 2007. A presumably unintended consequence of the recent safety net expansions has been to reduce the reward to working and thereby keeping unemployment and poverty rates high, keeping national spending low, longer than they would have been if safety net program rules had remained unchanged.

Thank you.

Chairman BOUSTANY. I thank the gentleman.

[The prepared statement of Mr. Mulligan follows:]

# The New Employment and Earnings Taxes Created by Social Programs

Testimony for the

U.S. House of Representatives,

Ways and Means Subcommittee on Human Resources

and Agriculture Subcommittee on Nutrition

Hearing on "How Welfare Benefits Can Discourage Work"

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by

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Chairman Boustany, Chairman Walorski, Ranking Member Doggett, Ranking Member McGovern, and members of the subcommittees: thank you for the opportunity and honor to discuss with you today how public policy has changed the reward to work. A multitude of programs have accumulated to affect that reward, and thereby affect who is employed and who is living near or below the poverty line.

**Overview**

A basic economic principle is that the monetary reward to working affects the number of people employed, and how much they work.

People without jobs or otherwise with low incomes sometimes receive benefits from social safety net programs. The benefits are rarely called taxes by laymen, but economists understand the benefits to have many of the characteristics of tax rates because a program beneficiary loses some or all of her benefits as a consequence of accepting a new job. The more income that a person receives when *not* working, the less is the reward to working.

I have illustrated the reward idea in Figure 1. The left bar measures the resources available when working, and the right bar measures the resources the same person would have if not working, including subsidies received net of taxes paid. The difference between the two bars is the monetary reward to working.

The combined effect of taxes and subsidies on the reward to accepting a new job can be summarized as a penalty: the effective amount that is lost from paying taxes and replacing benefits associated with not working. I like to express the penalty as a marginal tax rate: namely, as a percentage of employee compensation.

If there were no penalty, then the marginal tax rate would be zero. Thanks to a labyrinth of tax and subsidy programs, the marginal tax rate can equal or exceed 100 percent, which means that at least as many resources are available when not working as when working. In such cases, a person might have *more* resources available to use or save as a consequence of working *less*.

Legislation that "cuts" or "credits" taxes can nonetheless reduce the reward to working, and increase the marginal tax rate, if it cuts taxes more for those who work less than it cuts taxes for those who work more.

The reward to working affects behavior. High marginal tax rates are associated with small incentives to seek, create, and retain jobs. The consequences of high marginal tax rates are felt all over the economy, even by persons whose individual rates might not be all that high.

At the same time that safety net programs implicitly tax job acceptance, they also implicitly subsidize layoffs because the programs absorb some of the income and production that employer and employee together lose when an employee stops working. Layoff subsidies give employers and employees less incentive to take steps that might avoid or delay layoffs.

America absolutely must have taxes and safety net programs, even though they reduce the reward to working and subsidize layoffs. But if this Congress wants to understand what is happening in the labor market or to the budgets of social programs, it would be counter-productive to approximate marginal tax rates as zero, or to assume them to be eternally constant regardless of what incentives are embodied in new legislation.

New unemployment insurance (hereafter, UI) modernization provisions now provide unemployment benefits in a variety of circumstances when benefits were formerly unavailable. The SNAP program expanded in a variety of dimensions. While it lasted, the 2009 American Recovery and

Reinvestment Act (hereafter, ARRA) helped unemployed people pay for their health insurance, and the Patient Protection and Affordable Care Act (hereafter, ACA) makes premium assistance permanent, and does so on a grander scale.

Figure 2 shows my estimates of nine years' marginal tax rates coming from tax and subsidy programs, taking into account that some of the poor and unemployed do not participate in all, or any, of the safety net programs. The combined effect of these and other changes through 2015 was to reduce the reward to work – that is, increase marginal tax rates – for most of the non-elderly population.

The new work-disincentive provisions include (i) the sliding scale that sets premiums for people who buy health insurance on the new marketplaces, (ii) a scheme for premium assistance that essentially resurrects the ARRA's subsidy in a more comprehensive form, (iii) employer penalties, and (iv) hardship relief from the individual mandate.

The cumulative effect of all of this legislation is to increase average marginal labor income tax rates by seven percentage points over what they were in 2007. As early as next year, the marginal rate experienced by much of the non-elderly adult population will exceed 50 percent of employee compensation, which means a decision to work or prevent a layoff will deliver more resources to the government than it will deliver to the employers and employees making the decisions.

We shouldn't have been surprised to see layoffs surge during the recession at the same time that new laws were adding to the layoff subsidies or to see unemployment durations lengthen as new rules added to marginal tax rates. A presumably unintended consequence of the recent safety net expansions has been to reduce the reward to working and thereby keep employment rates low, keep poverty rates high, and keep national spending low, longer than they would have been if safety net program rules had remained unchanged.

The remainder of my testimony offers more detail as to penalty and subsidy rate changes in recent years, and how they relate to the government safety net. The testimony is my own and does not necessarily reflect the views of the University of Chicago.

**A Labyrinth of Public Policies Combine to Reduce the Reward to Working**

The monetary reward to working is the difference between the resources a person has available to use or save if she works and what she has available when she does not work. Federal, state, and local governments deal in massive amounts of resources, and affect the reward to working both in the process of obtaining revenue and in the process of distributing revenue to beneficiaries.

The Bureau of Economic Analysis estimates that income, payroll, sales, and excise taxes amounted to about 23 percent of national income and over 30 percent of the nation's labor income, on average between 2000 and 2010. Even if none of that revenue had been spent on safety net programs, the tax collections by themselves would have reduced the reward to working.

Safety net program spending is also significant, especially during the last several years. Federal, state, and local spending on non-elderly beneficiaries of unemployment insurance, nutrition assistance, Medicaid, and other means-tested subsidies occurred at a combined rate of more than $400 billion per year in 2009 and 2010, measured in fiscal year 2010 dollars (Mulligan 2012). Even if governments had somehow been able to fund these programs without any taxes, the process of distributing the program benefits would have reduced the reward to working.

Government tax and spending rules reduce the reward to working for two separate reasons. First, the rules include income contingencies: more income from work for a family means more taxes and fewer benefits. Second, and sometimes neglected by the experts, the rules include employment contingencies:

more employment for a family affects tax and benefit amounts (usually in the direction of more net taxes), even if their income is the same.

Benefits for the unemployed are employment contingent, and not income contingent. The ACA's employer penalty is (full-time) employment contingent, and not income contingent. Welfare program work requirements are employment contingent. When program rules are *both* employment and income contingent, as with the ACA's premium tax credits, there is a *double tax* on employment: one because employment affects eligibility and a second because employment affects income, which in turn affects benefit amounts. We do not have a full picture of the reward to working without acknowledging the employment contingencies in government tax and spending programs.

The effects of public policy on the reward to working and thereby poverty rates, the labor market, and the economy can be summarized in terms of various measures of marginal tax rates. My testimony primarily discusses one of those measures: the difference between taxes paid net of subsidies received when working and net taxes paid when not working, sometimes expressed as a fraction of the total compensation to be earned on the job.

This difference is a marginal tax rate concept related to the decision margins of when to accept a new job and when to experience a layoff. Among the variety of measures that economists use to study the reward to working, this concept of the marginal tax rate has the advantages that (a) it readily captures important combined incentive effects of a multitude of tax and subsidy programs and (b) it relates to decisions to exit and reenter employment (Gruber and Wise 1999).

Thanks to the labyrinth of relevant programs moving large amounts of resources, marginal tax rates can equal or exceed 100 percent in some cases, which means that the reward to working is zero or negative. In such cases, a person might have *more* resources available to use or save as a consequence of working *less*.

The reward to working affects behavior. High marginal tax rates mean small incentives to seek, create, and retain jobs, and to make the sacrifices of time, hassle, etc., naturally required by employers, customers, and clients in exchange for a paycheck. The consequences of a low reward to working are felt all over the economy, even by persons whose individual reward to working might not be all that low.

It might seem that work disincentives, especially those that come from social program spending rules, are hardly relevant for the 85 percent of the American population that lives above the poverty line in a calendar year (United States Census Bureau 2014). This impression is incorrect for a couple of reasons. A number of programs, such as health and cash assistance for the unemployed and the earned income tax credit, include participants who are well above the poverty line. Much of the health assistance in the ACA is targeted toward households with calendar year income between the poverty line and four times the poverty line, which is about half of the population.[1]

Just as important, a great many of the nonpoor, especially those who are unmarried, can be and are out of work for periods of time less than a calendar year and during those periods would have incomes near or below the poverty line. They would not be counted among the poor by the Census Bureau or the Internal Revenue Service, but would nonetheless, during periods of nonemployment, likely be eligible for SNAP, Medicaid, and other programs that do not test income on a calendar year basis.

For unmarried middle class Americans, a program like SNAP is not a marginal tax on their income, despite the program's roughly 30 percent benefit-reduction rate, because they are ineligible for the program whenever they are working. But SNAP is a lot like a marginal tax on their employment, because every month out of work is another month of SNAP eligibility. This is another example where

[1] In 2012, 47 percent of the U.S. population was in households between 100 and 400 percent of the poverty line (Henry J. Kaiser Family Foundation 2014). If one were to account for the ACA's labor supply effects, presumably an even greater percentage will be in the 100-400 range.

the disincentives picture looks different when employment contingencies are acknowledged in addition to the income contingencies. This also shows why the work disincentives from social programs are visibly reducing the nationwide employment rate, and not just employment among families that are classified as poor by the usual measures.

The economic distortions created by marginal tax rates are not proportional: an increase from 90 percent to 100 percent has a greater effect on incentives than an increase from 40 to 50 percent, which itself has a greater effect on incentives than an increase from 0 to 10 percent. A rate increase from 0 to 10, for example, still leaves a worker with 90 percent of her reward from working, whereas a rate increase from 90 to 100 leaves her with no reward.

Because disincentives accumulate in this way, taxes and safety net programs need to be examined as a whole. A new tax has a different effect when it is added to an assortment of pre-existing programs than it would if the new tax were to be the only program contributing to the reward to work.

**Recent Changes in Government Safety Net Rules Related to the Reward to Work**

Using the term "tax" broadly enough to include implicit taxes, I find that two basic categories of taxes on labor have been increased since 2007: earnings taxes and employment taxes. Earnings taxes refer to schemes that require individuals or families with higher earnings to pay more to, or receive less from, the treasury, regardless of how many weeks or hours they work. Because earnings are a component of personal income, the federal personal income is a tax on earnings and is probably the most well known. But there are others.

The second and more important category is employment taxes: revenues paid to, or benefits withheld by, the treasury on the basis of how many weeks or months that a person is employed, with little regard to the annual income of the worker or her family. Unemployment benefits, which were enhanced by several pieces of legislation in 2008 and 2009, are an implicit employment tax because they are withheld from individuals during the weeks that they are employed.[2] The ACA's employer penalty is a tax on (full-time) employment because it does not accrue during months that persons are absent from an employer's payroll. The health insurance assistance in the ACA and, while it lasted, in the ARRA is an implicit employment tax because most workers were ineligible for the assistance because of their employment status.

In some instances, the work requirements in the SNAP and welfare programs are a kind of employment subsidy because the benefits are withheld for *not working*. It follows that the *removal* of work requirements has many of the same effects of a new implicit employment tax. Prior to 2009, the removal of SNAP work requirements was linked (at the state level) to federal unemployment benefits (Congressional Research Service 2012). The ARRA waived all states through October 2010. As recently as fiscal year 2015, 36 states remained eligible for statewide waivers.[3]

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[2] The enhancements were not limited to the maximum duration for which benefits could be collected, which increased from 26 weeks to (in some states) 99 weeks in 2008 and 2009 and by the end of 2013 had returned to 26 weeks. The ARRA temporarily changed the tax treatment of unemployment benefits and added a weekly cash bonus. The Act also paid states to (perhaps permanently) relax the eligibility criteria for collecting unemployment benefits. Unlike the basic state unemployment benefits, none of these enhancements were charged back to employers according to their former employees' participation in the programs.

[3] United States Department of Agriculture, Food and Nutrition Service (2014). The 36-state count includes the District of Columbia. In fiscal year 2014, 41 states were eligible for SNAP waivers (United States Department of Agriculture, Food and Nutrition Service 2013) and 33 implemented them (United States Department of Agriculture, Food and Nutrition Service 2012). Ten more states were implementing SNAP waivers for part of their state or part of their year. Of the 33 states, only Hawaii, Montana, and North Carolina are losing waiver eligibility effective FY

High levels of household debt spawned new implicit earnings taxes. A number of homeowners owed more on their mortgage than their house was worth, and both private and public sector renegotiations of the mortgage contracts have served as a large implicit tax on earning during the recession because borrowers can expect their earnings to affect the amount that lenders will forgive (Mulligan 2009). Renegotiations of business debts (Jermann and Quadrini 2009), consumer loans (Han and Li 2007), student loans, and tax debts present debtors with similar disincentives. Many of these are expected to return to what they were as households deleverage and gain equity in their homes, although student loan debt may well continue to remain high.

In addition to employment taxes, the ACA introduces two implicit income taxes that apply to households with at least one member that receives premium assistance sometime during the calendar year. One tax is a consequence of the income testing of the premium assistance between the poverty line and four times the poverty line and another tax is a consequence of the ACA's income-tested "reconciliation" provisions for settling end-of-year personal income tax liabilities. Among full-year program participants, the average phase-out rate on the assistance associated with the pricing of exchange plans is more than 20 percent (Mulligan 2014a). Because the health insurance assistance is not taxable, its phase-out rate needs to be added to the disincentives from long-standing personal income and payroll taxes, SNAP phase-outs, housing assistance phase-outs, etc.

Work incentives from SNAP and Medicaid are relevant because the program rules have become more generous and more inclusive since 2007. A wave of state laws permanently expanded SNAP by eliminating asset tests, which put many more (unmarried) households in a position of getting assistance during (potentially unlimited) periods of time that they are out of work. The 2008 Farm Bill increased the amount of the SNAP benefits paid to eligible households, and thereby increased marginal tax rates. The ACA expanded Medicaid eligibility in 29 states (including DC) and encourages states to eliminate asset tests.[4] The value of Medicaid relative to workers' earning ability has increased secularly as healthcare costs have grown more, and low-skill wages less, than average wages.

The asset-test elimination increased marginal tax rates on labor income because households could receive benefits based solely on their net income, and not based on the value of their assets.

Federal officials have worked to make social programs more customer friendly. SNAP moved from paper food stamps to debit cards, and made other enhancements to the program to encourage participation (Eslami, Filion and Strayer 2011, p. 10). The federal and state governments have hired navigators to help people understand the ACA's exchanges and the application process (Bagley 2013). As program-participation barriers fall over time, the decline has many of the effects of rising marginal tax rates because it becomes easier to obtain resources when not working, but no easier to earn income while working.[5]

Few of these new taxes apply to the elderly. However, the ACA's implicit employment taxes on near-elderly workers are quite large (Mulligan 2015).

Mulligan (2012) and Mulligan (2013) summarize the work incentive effects of all of these rule changes, and more, with a statutory marginal tax rate index time series for the average non-elderly household head or spouse with median earnings potential. Each value in the series reflects, on the basis of the rules in place at the time, the causal effect of a work decision of about two months duration on the resources available to the worker and his family, expressed as a percentage of the total compensation (including fringes) that would be earned during that period. The index accounts for the fact that many

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2015. Temporary Assistance for Needy Families also had its work requirements relaxed by the ARRA (Mulligan 2012, p. 53).

[4] Holding Medicaid eligibility fixed, the ACA's premium assistance for households above the poverty line alleviates some of Medicaid's longstanding disincentives to earn above the poverty line (Mulligan 2013).

[5] Due to the difficulty of quantifying accessibility changes, I have not included them in my marginal tax rate estimates. For this reason, my measures show less of an increase than has actually occurred.

people do not participate in safety net programs even when they are not working.[6] By construction, the index changes when and only when new safety net program rules come into effect.

Figure 2 displays the index, updated through the end of 2015.[7] The cumulative effect of the many rule changes was marginal tax rates that were seven percentage points greater in 2015 than they were in 2007.

**Example: The Earned Income Tax Credit and Health Insurance Premium Assistance**

The ACA has created a sliding scale for the cost-sharing and premium subsidies (hereafter, jointly referenced as "exchange subsidies") for households between 100 and 400 percent of the poverty line that purchase non-group insurance on the health insurance marketplaces established by the ACA. Households have a choice of plans – one of which might be the plan that their Congressman would purchase for himself – and the sliding scale will determine what they pay in premiums and out-of-pocket costs.

Figure 3 displays a sliding scale for the year 2014 based on a family of two with a $13,000 annual actuarial value plan.[8] The horizontal axis measures calendar year household income as a ratio to the federal poverty line. The vertical axis measures the combination of the required premium (net of premium assistance tax credits) and the average amount households will pay for out-of-pocket expenses as they participate in the plan. The schedule has various jumps, but for our purposes the important point is that it slopes up: households with more income pay more for the same plan than households with less income.

If one of the household members were to spend more of the calendar year not working – perhaps because it took additional time to find a new job or because his employer laid him off earlier in the year – the household would have less calendar year income and thereby be required to pay less for its health insurance. The amount of the payment reduction is, as a percentage of the lost income, the number of percentage points that the exchange subsidies add to the marginal tax rates of those eligible for them. I estimate that the exchange subsidies' marginal income tax rate averages (among exchange plan participants) more than 20 percent, and that rates of 25-30 percent are common, without even including the extra implicit tax from the reconciliation of advanced premium credits (Mulligan 2014a, Chapter 5).

It is well known that, in some circumstances, families before the ACA could face combined marginal income tax rates close to 50 percent for personal income and payroll taxes, not to mention the implicit taxes associated with the loss of unemployment benefits and means-tested subsidies.[9] For example, even without the ACA, a family between 100 and 200 percent of the poverty line might be in a 10–15 percent normal federal personal income tax bracket, plus another 21 percentage points from the phase-out of its federal earned income tax credit (hereafter, EITC), plus 7.65 percentage points for employee payroll taxes, plus another five points or so for state income taxes.

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[6] The index combines incentives to work full-time relative to unemployment, out of the labor force, and part-time work.

[7] The updated index is from Mulligan (2014b). It reflects both the expiration of the EUC program at the end of 2013 and the delay of the enforcement of the ACA's employer mandate until 2015. It does not reflect partial enforcement in 2015.

[8] Schedules for smaller and larger families would look similar when plotted in Figure 3 because the axes are relative to the federal poverty line. For comparison, note that the population-weighted average of actuarial values for various family situations is $14,643, assuming a $19,000 AV for families of 3 or more and a $7,000 AV for a family of one, and limited to households with heads aged 26-64 and calendar year incomes between 100 and 400 percent FPL.

[9] Recent estimates include Congressional Budget Office (2012), Maag, et al. (2012) and Steuerle (2013).

High marginal tax rate situations are amplified by the rates shown in Figure 3 to the degree that high marginal tax rate families get health insurance on the exchanges. Table 1 illustrates the extreme possibilities by comparing two calendar year scenarios. The first column of the table is a scenario in which the sole earner is employed for 10 months and unemployed the other two. I assume that unemployment benefits replace half of the normal paycheck, so the first scenario yields 11 months' total pay for the year, before expenses, as shown in the top panel of the table. The second scenario yields 12 months' total pay before expenses, all of it from the employer. The final column of the table is the difference between the two scenarios, namely, one month additional total pay from working the two extra months.

The next panel shows the various expenses incurred as a consequence of working 12 months rather than 10. Only one month of additional personal income tax is owed by working 12 months rather than 10 because, as noted above, the extra two months of work generates only one additional month of personal income. The individual income taxes are of four types: normal federal tax at 10 percent, phaseout of the EITC at 21.06 percent, phaseout of exchange subsidies at 28 percent, and state income tax at 5 percent. Payroll taxes and work expenses accrue only for both of the months. Altogether, working the eleventh and twelfth months adds practically as much to expenses as to income, about one month's pay. In other words, the short-term financial reward to working the two extra months is essentially zero—0.006 paychecks to be exact.

Table 1's finding of large marginal tax rates is not the result of "cliffs" or "notches" in transfer program formulas in which many dollars of benefits are lost for earning a single marginal dollar (Yelowitz 1995) because I look at the consequence of more "discrete" decisions of accepting a job, or initiating a layoff, that change calendar year income by thousands of dollars. Instead, my large rates reflect the *combination* of tax and subsidy rules from the assortment of safety net programs in which millions of Americans have been and will be participating.

The findings of Table 1 are not the result of assuming that the family represented participates in all available programs. SNAP, housing assistance, energy assistance, and other programs are not shown in the table, and adding them would likely add to disincentives.[10] Arguably none of the programs featured in the table are optional because taxes are mandatory (EITC is part of the personal income tax return) and the ACA mandates the purchases of health insurance. Taxes, health insurance pricing, and work expenses by themselves create Table 1's bottom line.

Table 1 also shows that the earner in the family represented could, through no fault of her own (more on this below), experience two months of unemployment without losing financial resources for the year. This result is sometimes interpreted as a success of the safety net (Sherman 2011). However, Table 1 illustrates how full insurance against employment and income changes is one in the same with 100 percent taxation, which is why economic analysis suggests that full insurance is excessive.

**The Income Maximization Fallacy**

It is sometimes claimed, by non-economists at least, that the safety net does not prevent anyone from working because everyone strives to have more income rather than less, and would gladly take any available job that paid them more than the safety net did. This "income maximization" hypothesis is contradicted by the most basic labor market observations, not to mention decades of labor market research.

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[10] Using the Survey of Income and Program Participation, Moffitt (2014) finds that 91 percent of SNAP families in 2008 were receiving at least one other major social program benefit (TANF, Subsidized Housing, WIC, the EITC, the CTC, SSI, SSDI, OASI, and UI), especially the EITC. Based on the results of Meyer, Mok, and Sullivan (2009), one could view Moffitt's estimates of multiprogram participation as an underestimates, although the amount of the underestimation is presently unclear.

Before the recession began, over 80 million American adults were not working. To be sure, some of them could find no reward in the labor market and would be stuck without gainful employment no matter how lean the safety net got. But many others were not working by choice. You probably know skilled stay-at-home mothers or fathers who could readily find a job but believe that the net pay from that job would not justify the personal sacrifices required. They are examples of people who deliberately do not maximize their income. Other examples are people who turn down an out-of-town promotion in order to avoid relocating their families, and workers who eschew higher paying but less safe occupations. Earning income requires sacrifices, and people evaluate whether the net income earned is enough to justify the sacrifices.

When the nutrition or unemployment programs pay more, the sacrifices that jobs require do not disappear. The commuting hassle is still there, the possibility for injury on the job is still there, and jobs still take time away from family, schooling, hobbies, and sleep. But the reward to working declines, because some of the money earned on the job is now available even when not working.

A related fallacy is that employees would do absolutely anything to avoid a layoff, regardless of the layoff subsidy rate. It is true that employers sometimes experience reductions in demand from their customers, as auto manufacturers and home builders did early in the recession. But layoffs are not always the inevitable result. Employers and employees could adapt to less demand by work sharing (Baker 2011), reducing prices charged to customers, reducing wages, or have pursued a less cyclical line of business in the first place. Heavy layoff subsidies give them less reason to pursue the alternatives to layoffs (Topel and Welch 1980).

Decades of empirical economic research show that the reward to working, as determined by the safety net and other factors, affects how many people work and how many hours they work. To name a small fraction of the many studies: Hoynes and Schanzenbach (2012) show how potential participants stopped working or reduced their work hours when the food stamp program was introduced. Studies of unemployment insurance find that program rules have a statistically significant effect on how many people are employed, and how long unemployment lasts. Yelowitz' (2000) research shows how a number of single mothers found employment exactly when, and where, state-level Medicaid reforms increased their reward from working. Gruber and Wise (1999) and collaborators show how the safety net for the elderly results in less employment among elderly people. Autor and Duggan (2006) and the Congressional Budget Office (2010) explain how the number of disabled people who switch from work to employment-tested disability subsidies depends on the amount of the subsidy relative to the earnings from work. Murphy and Topel (1997) show how poor wage growth among less-skilled men helps explain their declining employment rates during the 1970s and 1980s.

Programs assisting the poor and unemployed interact with private-sector demand shocks in determining the number unemployed. An adverse demand shock increased unemployment more under the ARRA than it would if the same demand shock had been experienced under 2007 tax and subsidy rules because each dollar that wages are reduced is a bigger proportion of the reward to work for someone whose reward has been largely whittled away by tax and subsidy programs than it is for someone who keeps a large fraction of what she earns.

Recent research has shown that the recent safety net expansions have had effects in line with the historical pattern: less reward to work means fewer jobs. Using the marginal tax rate series above, Mulligan (2014a) estimates that the end-of-2013 expiration of the Emergency Unemployment Compensation (EUC) program would increase employment thereafter. As of the end of 2014, the increase was about 1.6 million jobs.[11] Hagedorn, Manovski, and Mitman (2015) use a different

[11] Mulligan (2014a) shows the effect over a three-year horizon, after which 8 percent of the long-run labor-market adjustment still remains. Over a one-year horizon, that means that 43 percent would remain, or that the one-year impact of EUC's expiration is 57 percent (0.57 = 1–(0.08)^(1/3)) of its long-run impact, which Mulligan (2014a) estimates to be about 2 percent. With 2014 employment of 139 million, that is a one-year impact of about 1.6 million.

methodology – comparing states over the years 2013 and 2014 that were differentially effected by the EUC program – and estimate that the EUC expiration created 1.8 million jobs nationwide.

**Other Misconceptions about the Reward to Working**

I previously cited several changes in subsidy rules that served to raise marginal tax rates. Any one of them may appear insignificant by itself, especially for the purpose of aggregate labor market analysis. But that does not mean that the combination of a dozen or more potentially small marginal tax rate increases is itself small.

Focusing on just one of any of the safety net expansions is also misleading as to the magnitude of the overall increase in marginal tax rates and therefore potentially misleading as to the sources of the major changes in the labor market since 2007. It is even possible that attention to one program in isolation of the wider safety net could motivate backwards public policy responses.

To see this, imagine that UI rules became more generous, and that added to the number of households who were unemployed and with less income than they have when working. A number of the added unemployed people apply for SNAP, which from the SNAP program's point of view makes it look like "the economy is getting worse," so SNAP officials recommend enhancing SNAP benefits, which further increases the marginal tax rate. But, in this example, the added SNAP applications come from higher marginal tax rates created by UI, and the right SNAP policy response may be to reduce benefits in order to stabilize the overall marginal tax rate. The point of this example is not that the actual safety net expansions were excessive but rather that the economics of the safety net can be different when the safety net is viewed as a whole rather than on a program-by-program basis. The distinction is more than academic: contemporary events involve expansions of the safety net in many dimensions, and all of that occurs on top of an assortment of other safety net programs.

Among the hundreds of labor market studies, two of them – Rothstein (2011) and Ben-Shalom, Moffitt and Scholz (2011) – have been misrepresented as showing that recent safety net expansions had no visible effect on employment. Ben-Shalom et al. (2011) looks at the pre-recession safety net, and thereby does not consider the safety net expansions that have occurred since then. Rothstein (2011) looks at the allowable duration of unemployment benefits, finding that benefit durations have a statistically significant effect on unemployment exits, but otherwise does not examine a single one of the safety net program parameters that are included in Figure 2's marginal tax rate series. Neither study considers layoff subsidies or what happens when marginal tax rates approach one hundred percent.

The number of job openings per unemployed person fell sharply during the recession (U.S. Bureau of Labor Statistics 2013). This fact has been misinterpreted by journalists as proving that unemployment subsidies are not a significant factor depressing the labor market. To the contrary, expanding unemployment subsidies can by themselves, or in conjunction with other factors, reduce job openings per unemployed person (Pissarides 2000; Hagedorn, Karahan, et al. 2013). If you want to understand what caused and prolonged the recession, you have to look beyond the ratio of job openings to people unemployed.

It is sometimes thought that safety net transactions only affect the people who participate in the programs. To the contrary, the safety net is funded by taxpayers, lenders, owners of government debt, beneficiaries of government programs other than the safety net, or some combination thereof. As a portion of the beneficiaries opt to earn less, they also opt to spend and save less, as their household budget constraint frequently requires. They lawfully pay less tax. Businesses anticipate having fewer employees and invest less. These behavioral changes are bad news for employers in general, for people who produce the consumer and investment goods that beneficiaries would be buying if they were back at work (and goods the program funders would be buying if they were not funding the expansions), and for people who

live in places like Michigan whose economies are especially intensive in the production of such goods (Galí, Gertler and Lopez-Salido 2007).

Research has shown that the poor and unemployed tend to quickly spend what they have on basic needs, which is why helping them is intrinsically valuable (Gruber 1997), but "stimulus" advocates sometimes further assert that spending patterns of the poor are why redistribution serves as a great boost in total spending and thereby total employment. Even if redistribution did not depress the reward to working, the stimulus assertions would be wrong because they ignore the spending of the people who fund the programs. Redistributing resources to the poor from everyone else changes the composition of spending and employment in the direction of industries like discount groceries that disproportionately serve poor customers and away from industries like high-end restaurants serving relatively few poor customers, but redistribution by itself has little effect on *aggregate* spending.[12]

When redistribution is combined with increases in marginal tax rates – as a number of recent policies have done – it significantly reduces aggregate spending because people typically spend less when they are not working.[13]

It is technically correct to characterize high marginal tax rates as discouraging people from working and earning. However, from an economic perspective, this characterization should not be understood as blaming potential workers for the low employment that results from implicit taxes. One could just as easily say that employers voluntarily decide to keep wages below the level that would compensate employees for the implicit taxes the latter experience. The economics of taxes does not support one of these interpretations over the other. Both employers and potential employees are influenced by the various new taxes that have been created since 2007. The new taxes mean that employees and employers *together* do not always benefit enough to justify continuing their employment relationship and thereby pay the law's new taxes (implicit or explicit). In those cases, the result from their combined decisions is less employment.

**Conclusions**

The bottom line is that helping the poor and economically vulnerable has a price in terms of labor market inefficiency. In recent years, we have been paying progressively more: American public policies moved significantly in the direction of less labor market efficiency.

As long as marginal tax rates remain far above what they were eight or nine years ago, we cannot reasonably expect the labor market to return to where it was back then. We cannot expect the poverty rate to fall back to its pre-recession levels. We cannot expect employment per capita to go back to where it was.

Nobel laureate James Tobin was a leading Keynesian economist and key adviser to President Kennedy, and pointedly described high implicit tax situations. He said that they "caus[e] needless waste and demoralization…. It is almost as if our present programs of public assistance had been consciously contrived to perpetuate the conditions they are supposed to alleviate." (Tobin 1965, p. 890)

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[12] Redistribution to the poor may reduce aggregate labor demand if the poor tend to purchase goods and services that are less labor intensive in their production than are the rest of the goods and services in the economy. Also note that (a) government transfers are very different from government purchases of goods and services such as military spending or highway construction, which have been shown to significantly increase GDP in many instances (if nothing else, government purchases are automatically considered part of GDP, whereas transfers are not), and (b) aggregate spending is the sum of investment spending, consumer spending, government purchases, and net exports.

[13] Aguiar and Hurst (2005). To the extent that it redistributed resources to low-income families, the 2011-12 payroll tax cut is an exception because it achieved its redistribution while increasing the reward to work.

**Figure 1. Work Decisions, Resources, and Incentives**

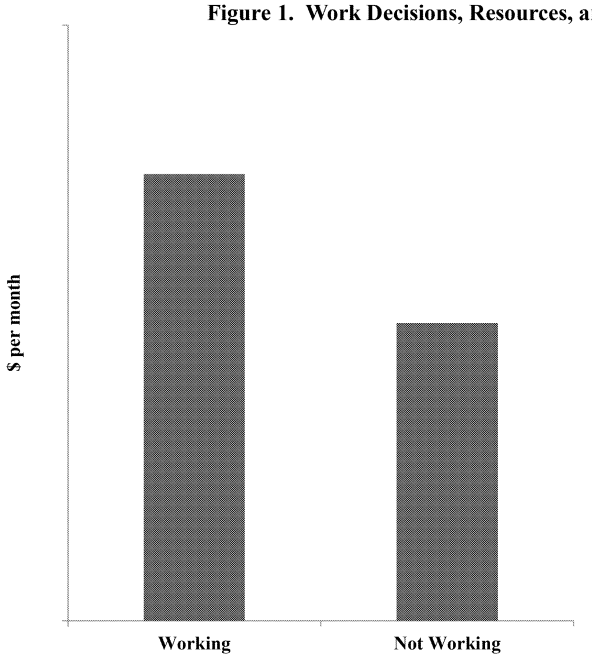


**Figure 2. Statutory Marginal Labor Income Tax Rates over Time**

avg. among non-elderly heads and spouses, includes subsidies and employer penalties

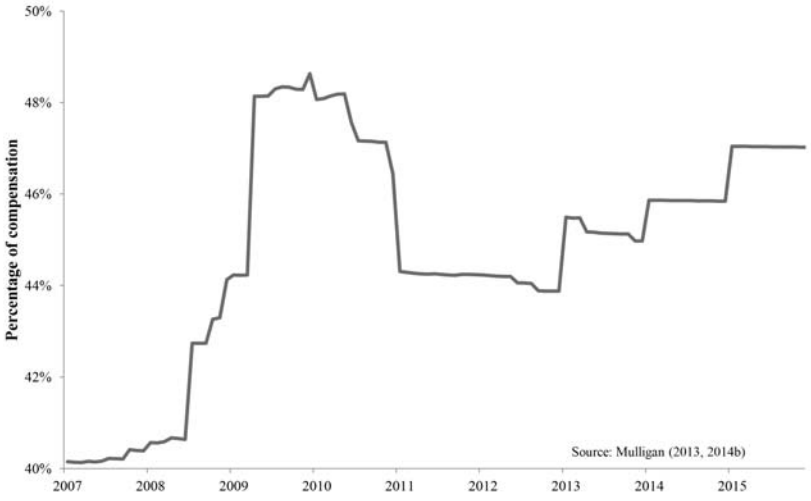

**Figure 3. 2014 Health Payments as a Function of Household Income**

Family of 2 with $13,000 annual AV plan

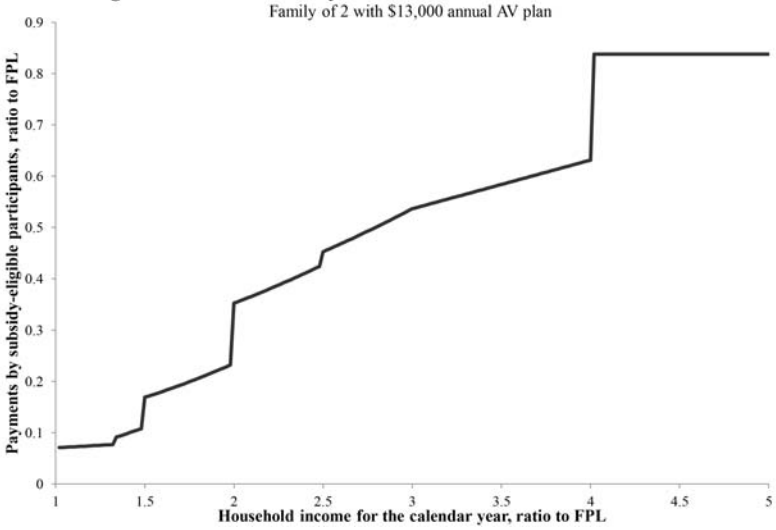


**Table 1. UI and the personal income tax can erase the reward to work for exchange plan participants**

*An example of how unemployment can be almost "free" under the ACA*

| | Scenario for the calendar year | | Difference = consequence of working |
|---|---|---|---|
| | 10 months employed | Employed all year | 12 months rather than 10 |
| *Income sources* | | | |
| Employment | 10 paychecks | 12 paychecks | 2 paychecks |
| UI (only replaces half) | 1 paycheck | 0 paychecks | -1 paycheck |
| All income sources | 11 paychecks | 12 paychecks | 1 paycheck |
| | | | |
| *Incremental work-related expense amounts* | | | |
| Individual Income Tax (IIT) | | | |
| normal federal tax @ 10% * 1 paycheck | | | 0.100 paychecks |
| EITC phase out @ 21.06% * 1 paycheck | | | 0.211 paychecks |
| exchange subsidy phase out @ 28% * 1 paycheck | | | 0.280 paychecks |
| state IIT @ 5% * 1 paycheck | | | 0.050 paychecks |
| | | | |
| Employee payroll @ 7.65% * 2 paychecks | | | 0.153 paychecks |
| | | | |
| Work expense 10% * 2 months | | | 0.200 paychecks |
| All expense categories | | | 0.994 paychecks |
| **Incremental income sources net of work-related expenses** | | | **0.006 paychecks for 2.000 months work** |

*Notes* : A "paycheck" is an amount of money equal to one month's salary from work. UI denotes unemployment insurance benefits. EITC denotes earned income tax credits. To simply illustrate the economics of a 50 percent UI replacement rate, UI is assumed to fully replace employment income for half of the time unemployed rather than replacing half of the income all of the time. UI is taxable by the IIT, but not by the payroll tax.

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We will defer on Ms. McCorkle and Ms. Netus' testimony until she arrives. So next we go to Mr. Randolph.

Mr. Randolph, you are recognized for 5 minutes.

**STATEMENT OF ERIK RANDOLPH, SENIOR FELLOW, ILLINOIS POLICY INSTITUTE, CHICAGO, IL**

Mr. RANDOLPH. I want to sincerely thank the chairwoman, the chairman, and all the Members of the Subcommittees for inviting me to be here today and allowing me to speak.

You have before you a very challenging issue. This is difficult and complex, and I am pleased that you have the courage to undertake it. It is solvable. Let me say it is solvable, and you can succeed, and I think you will succeed, and this Nation will be better because of your efforts.

My name is Eric Randolph, and I am a senior fellow with the Illinois Policy Institute, and I also provide analytical services as an independent consultant. Last year, the institute sponsored me to develop a computational model examining welfare benefits, Federal, State, local, and to determine the impact of economic incentives relative to employment. The results of the study are nothing short of astounding. In some cases, it literally does not pay to climb up that career or opportunity ladder.

Now, just imagine that you are a single parent with two children living in Lake County. It is a suburb of Chicago. You have a job earning $12 an hour. Someone offers you a job for $18 an hour. Should you take the job? Well, under the scenario that we studied, the answer is no, keep your $12 per hour job.

At first glance, this makes no sense. Of course someone would prefer to make $18 as opposed to $12. But as a single parent managing a household with children you want to maximize all your resources. You have children to take care of, yourself to take care of, and it doesn't matter if those resources are earned through work or if it is given to you through benefits.

A single parent in Lake County earning $12 an hour brings home just over $22,000 a year. However, that same single parent is eligible for an array of welfare benefits that we can categorize, the refundable tax credits, the food assistance, housing assistance, subsidized childcare services, and medical assistance. When you add up the value of all the benefits that they can receive from these programs, it comes to an astounding $40,000. Now, that makes the total receivables, when we include the earned income, almost $62,000.

Now, in comparison, suppose this mother would take the job earning $18 an hour, okay? She would lose almost $34,000 in the benefits to gain only $11,000. Now, why would anyone take a job to gain $11,000 but lose $34,000 in benefits?

This is the welfare cliff that we are talking about, and this is what traps people. This is just but one scenario we studied using the computational model. We studied two other counties in Illinois, and we studied two-parent households, and guess what, it is essentially the same.

So the system that we—well, let me just say, we drew a number of conclusions looking at this. The very first one is the magnitude of the potential benefits of the family that they receive is large. It is a general conclusion. $40,000 is not a small sum of money. The second is that the welfare cliff can be significant, and it is cruel. The third is economic disincentives are real, major, and they can indeed trap families. The fourth is the system is inequitable, and

that is, to compare someone who is not receiving these benefits, could be worse off financially than someone receiving these benefits. That is not equitable. Fifth, programs with the steepest cutoffs are the greatest culprits.

Finally, everyone should agree that there ought to be an income ladder such that when someone earns more money, he or she is in fact better off. However, this is not the system we have as a Nation today. It will take the cooperation of many individuals and political courage.

In my opinion, we will not be successful by giving more control to the Federal Government. We can only succeed if we take advantage of the laboratories of democracy, allowing States to innovate and finding the best solutions.

Chairman BOUSTANY. I thank the gentleman.

[The prepared statement of Mr. Randolph follows:]

Testimony before the
Subcommittee on Human Resources of the Ways and Means Committee, and the
Subcommittee on Nutrition of the Agriculture Committee,
U.S. House of Representatives

Erik Randolph, Senior Fellow, Illinois Policy Institute[1]

Room 1100, Longworth House Office Building

Thursday, June 25, 2015

Thank you for inviting me to testify today on the topic of how welfare benefits can interfere with the incentive to work. It is an honor for me to be here today, and I am very pleased to share with you my recent work in this area.

My name is Erik Randolph. I am a senior fellow with the Illinois Policy Institute and also provide analytical services to organizations as an independent consultant.[2] Last year, the Illinois Policy Institute sponsored me to develop a computational model specifically for the state of Illinois. The model examined federal, state and local welfare benefits available to two typical households with children across a range of incomes to determine the impact of those benefits on economic incentives relative to employment. The Illinois Policy Institute published a report on this model on Dec. 29, 2014.[3]

## Astounding results on the welfare cliff

The results of the study are nothing short of astounding. Imagine you are a single parent with two children living in Lake County, Illinois, which is a suburb of Chicago, and you have a full-time job earning $12 an hour. You receive an offer to work a full-time job earning $18 an hour, and the new job is more convenient with a more pleasant work environment.

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[1] Opinions stated within belong to the witness and are not necessarily those of the Illinois Policy Institute.
[2] A biography can be found on erikrandolphconsulting.com.
[3] Erik Randolph, "Modeling Potential Income and Welfare-Assistance Benefits in Illinois: Single Parent with Two Children Household and Two Parents with Two Children Household Scenarios in Cook County, City of Chicago, Lake County and St. Clair County," Illinois Policy Institute, December 2014: https://d2dv7hze646xr.cloudfront.net/wp-content/uploads/2014/12/Welfare_Report_finalfinal.pdf.

Should you accept the offer? Under the scenario studied, you would be crazy to accept the higher-paying job. Instead, you should keep the $12 per hour job.

At first glance this makes no sense. Of course someone would prefer to make $18 per hour instead of $12 per hour. But as a single parent managing a household with children, you are concerned with maximizing all your sources of potential income, whether it is earned through work or given to you in the form of welfare benefits. So as a rational person, you will evaluate your potential loss in welfare benefits against your potential gain in earned income.

A single parent in Lake County who earns $12 per hour brings home just over $22,000 in net pay. However, that same single parent is eligible for an array of welfare benefits as follows:

- Refundable tax credits from the Earned Income Tax Credit, or EITC, the Additional Child Tax Credit, and the Illinois Earned Income Tax Credit
- Food assistance, including the Supplemental Nutrition Assistance Program, or SNAP, food packages for the Women, Infants and Children program, or WIC, and the National School Lunch Program
- Housing assistance from the Housing Choice Voucher Program
- Subsidized child care services
- Medical assistance for both the parent and her children

When you add up the value of those potential benefits, it comes to an astounding $39,534, bringing the total net receivables – in terms of earned income and benefits – to $61,655.

In comparison, suppose you earn $18 per hour, bringing home about $33,000 in net pay. That is a gain of about $11,000 in earned income. However, your potential welfare benefits will drop drastically to $5,236 from $39,534, for a loss of more than $34,000. Why would any sane person voluntarily give up $34,000 in benefits to gain only $11,000? (See Appendix A for a chart demonstrating this scenario.)

Welcome to the American system of welfare benefits. It can trap families in low-income living, which is unfair and wrong. America is about opportunities to get ahead, succeed and improve oneself. This cruel phenomenon of facing a greater loss in benefits than any gain in income from employment is called the welfare cliff.

The Illinois Policy Institute study examined three counties in Illinois – an urban county, a largely suburban county and a county downstate, and the results are essentially the same. Single-parent households and two-parent households are eligible for an array of benefits just previously mentioned, which have varying eligibility rules and ways of determining benefit amounts. These welfare programs are typically uncoordinated, and there is no consideration of the cumulative impact of those programs on economic incentives for recipient individuals and families.

Everyone should agree on the basic point that there ought to be an income ladder such that when someone earns more money, he or she is in fact better off. However, this is not the system we—as a nation—have created, as demonstrated by my computational model.

### Lack of integration and coordination

If you have taken an introductory course in economics, you may remember being taught on the very first day, or perhaps the second day, something called the fallacy of composition. I used to explain it this way: Suppose I discovered that if I left work one hour early, I miss the rush hour driving home. Now if we all left an hour early, we all would miss the rush hour driving home. Students usually would laugh at this example because it was obviously false, but it illustrated the point well. What might be true for one is not necessary true for a larger group.

The same principle applies here. There are dozens of welfare programs all designed to help people. They are all well-meaning. In isolation, they may be helpful. But when they are examined in the aggregate – their impact as a group – they assume a composition that acts differently.

Just look at the number of federal agencies that deal with welfare programs and the congressional committees that oversee them. The EITC is administered by the IRS, food stamps by the Department of Agriculture, child care by the Administration for Children and Families, and Medicaid by the Centers for Medicare and Medicaid Services.

There is no integration and little coordination at the federal level among the various welfare programs. States try to provide some coordination, but the general inflexibility at the federal level prevents them from ever coming close to solving the problem of the welfare cliff.

### Additional background

I began looking at this issue professionally four years ago when I was a special assistant at Pennsylvania's Department of Public Welfare.[4] The secretary at the time was Gary Alexander. There was a lot of discussion about the welfare cliff but I found very little in the way of adequately quantifying the phenomenon, so I used resources available to me at the department to develop a model showing the welfare cliff.

Alexander released preliminary results of a scenario from that model on July 11, 2012, at an American Enterprise Institute event (see Appendix B). It was further circulated on Capitol Hill and in several state capitols, and received media attention.

Alexander commissioned a project-management team, which I headed, that worked on a prototype solution to the welfare-cliff problem. The team included, among others, an eligibility-systems expert, a case-worker supervisor and a manager in charge of all county-office operations. We developed a prototype solution that would be incorporated into the

[4] The Pennsylvania General Assembly renamed this department in 2014. It is now referred to as the Department of Human Services.

eligibility system and would require a series of waivers from the federal government. After a change in leadership in 2013, the project was abandoned.

In 2014, the Illinois Policy Institute sponsored its study on the issue, and the result is a more sophisticated model that maps out the economic disincentives already described. Furthermore, the Illinois report is transparent, laying out the algorithm, eligibility rules and sources, allowing anyone to examine the model and results and offer peer review comments.

### General conclusions

We—at the Illinois Policy Institute—drew five general conclusions from the Illinois computational model.

First, potential welfare benefits are large in magnitude and wide in scope. For example, the scenario examined for Cook County showed that a single parent with two children can gain $47,894 in benefits, or a two-parent household can gain $41,237.

Second, welfare cliffs are significant and it is difficult to recover from a loss of benefits. For example, the scenario of the Cook County single parent with two children showed there is no point in earning more than $12 per hour. At $18 per hour the loss in benefits can be a staggering $35,742. This single parent would have to earn $38 per hour to recover the value of the lost benefits.

Third, the economic disincentives are real, major and trap families. Consider the Cook County scenario. Why would a single parent agree to earn more than $12 if that parent stands to lose as much as $35,000 in benefits? It is unlikely that this single parent could jump from $12 per hour to $38 per hour to preserve her standard of living.

Fourth, the welfare system is inequitable. Consider again the Cook County scenario. A similarly situated single parent earning $18 would be worse off than a single parent earning between $8.25 and $12 per hour. This conclusion also demonstrates a reason why raising the minimum wage can be harmful.

Fifth and finally, the greatest problem areas are those programs that do not taper off benefits. Assistance programs for housing, child care and health-care benefits have the steepest cutoffs, significantly amplifying the welfare-cliff effect. Food-assistance programs are mixed. WIC food packages as well as the National School Lunch Program have hard cutoffs. SNAP benefits, however, do taper off and do not add significantly to the welfare-cliff problem when viewed in isolation.

### Forging a solution

So where do we—as a nation—go from here? First, we must recognize that we cannot continue doing things the same way if we are serious about solving the problem. The welfare-cliff problem exists because the system has been developed in a piecemeal, fragmented and haphazard manner. We cannot expect to derive a solution is we continue down this same path. Therefore, the solution must be derived from a systemic approach.

The systemic approach must integrate and coordinate all welfare programs. Here are two general directions we can take. First, the federal government could attempt to do it all itself and cut out state governments altogether. The second option is the federal government could grant more flexibility to the states allowing them to be innovative. This course of action does not mean the federal government loses accountability. Instead, the federal government can establish goals and broad parameters but still allow states flexibility to meet those goals.

The first direction is a one-size-fits-all approach. The second direction recognizes and respects the laboratories of democracy and benefits from competition among the states as they work to find the best solutions.

Here are a couple of recommendations: Because states are responsible for administering most of the programs, give them flexibility to adopt solutions to solve the welfare-cliff problem. Allow states to combine, integrate and coordinate programs. In the areas where states currently play no role, such as housing, it is crucial to repackage those programs so states can integrate them into their plans to eliminate the welfare cliff. Flexibility can be given to states by incorporating those purposes into the federal rules, creating explicit waivers for those purposes or creating well-designed block grants.

### Expanding opportunity

I had the opportunity to review the document "Expanding Opportunity in America."[5] The Opportunity Grant proposed in Chapter 1 would move things in the right direction and potentially provides one way to solve the welfare-cliff problem. It is good that the proposal encourages innovation among the states and combines many of the welfare programs, especially housing. Here are some preliminary suggestions based upon my experience:

- Add Medicaid and the Children's Health Insurance Program, or CHIP, to the list of programs, or at least have a parallel effort to address reform in Medicaid and CHIP that provides more flexibility to states so that they can integrate them into their overall plans on creating pathways from poverty to self-sufficiency.
- Encourage states to save money by allowing them to keep and utilize for public purposes a portion of the federal money that they save for a limited period of time.
- Specify that state plans adhere to the principle that anyone who earns more money should be better off for it. Any exceptions should be extraordinary and temporary.
- Describe the goals and broad parameters for the states, but steer away from being too prescriptive on how states should meet those goals.
- Pay closer attention to the disabled population and its role within the welfare system. They, too, can become trapped within the system. Also, there is a wide range in severity of disabilities, and case studies have shown how disability income can become a substitute for traditional income-maintenance programs.

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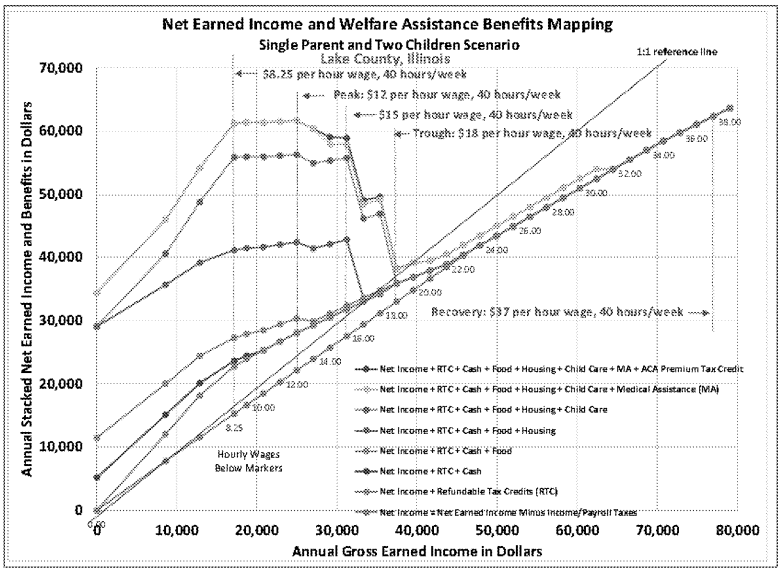
[5] "Expanding Opportunity in America: A Discussion Draft from the House Budget Committee," prepared by the House Budget Committee Majority Staff for Chairman Paul Ryan, July 23, 2014, at

## Questions

Thank you for allowing me to testify today, and I will do my best to answer any questions that you may have.

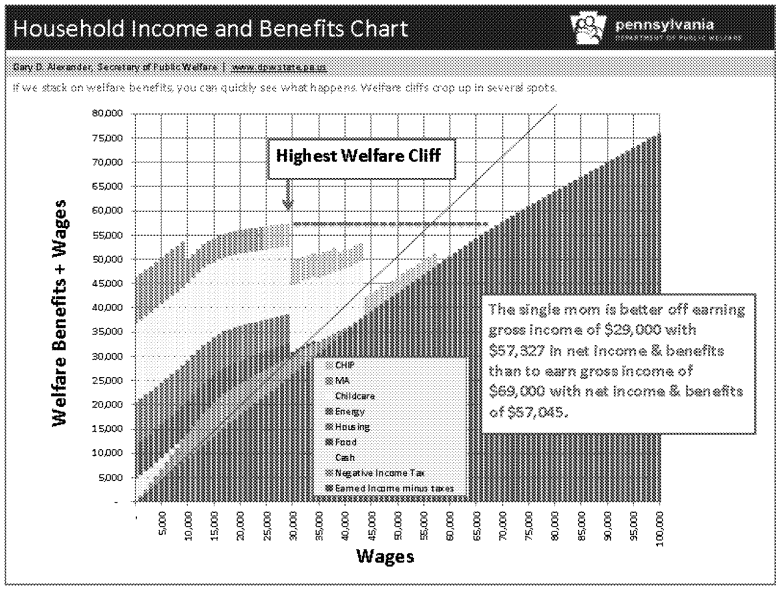
**Appendix A**

Chart 11 from "Modeling Potential Income and Welfare-Assistance Benefits in Illinois …": Net earned income and welfare-benefits mapping for a single parent with two children in Lake County, Illinois.



**Appendix B**

Below is an image of the slide used by Gary Alexander when – on July 11, 2012, at an event sponsored by the American Enterprise Institute – he first released preliminary results of work being done at the Pennsylvania Department of Public Welfare. The author of this testimony was the primary and lead developer of the model used in this slide. Because of variances among the states, the welfare cliff will look somewhat different for each state.






Ms. Golden, you are recognized for your oral testimony.

**STATEMENT OF OLIVIA GOLDEN, EXECUTIVE DIRECTOR, CENTER FOR LAW AND SOCIAL POLICY, WASHINGTON, DC**

Ms. GOLDEN. Good morning, Chairman Boustany, Chairman Walorski, Ranking Member Doggett, Ranking Member McGovern, and Members of the Committees. Thank you so much for the oppor-

tunity to testify. I am Olivia Golden, the executive director of the Center for Law and Social Policy, an anti-poverty organization that promotes effective Federal and State policies.

In addition, I bring to this testimony experience in directly administering safety net programs at the Federal, State, and local levels, as well as studying them as a researcher at the Urban Institute. I will briefly summarize three main points from my written testimony.

First, researchers have demonstrated that the Nation's core safety net programs, programs like the Earned Income Tax Credit, SNAP, childcare assistance, health insurance, sharply reduce poverty. They cut it almost in half. They improve nutrition and health care for millions of children and families. And—and this is really important emerging research—they have positive effects on children's health, work trajectory, and income many years later into adulthood. Just to take one example, SNAP benefits alone kept more than 10 million people, including almost 5 million children, out of poverty in 2012.

Second key point. The research evidence indicates overwhelmingly that the safety net as a whole supports work, particularly for low-income parents. It is not too much support from the safety net but too little, such as the absence of enough help with child care, that typically holds people back from working.

While some individuals encounter barriers to work related to safety net programs, researchers find that these effects are much smaller than the programs' work-promoting effects, and many past barriers have been fixed in recent years. I think Mr. Doggett alluded to the Medicaid improvements. In fact, the majority of people who get help from core safety net programs today are working but earning too little to make ends meet without help.

To take a moment to summarize the research, theories about work disincentives are just not supported by what researchers find about low-income families' actual experiences. Rigorous studies find that when low-income working parents can get and keep the full package of work support programs, they are better able to stabilize their lives, keep a job, move up, and help their children thrive.

For example, studies of parents leaving welfare for work have concluded that families accessing these supports were more likely to be stably employed. Studies of the Earned Income Tax Credit show large effects in increasing labor force participation. And empirical studies of the effects of the safety net taken as a whole confirm that, in practice, these programs' work disincentives are so small as to have, quote, "almost no effect on their anti-poverty effectiveness."

In fact, one of the major success stories of the past two decades is that the safety net has made work pay as a result of specific decisions by Congress and the States to improve work incentives. One striking piece of evidence: Poor and near poor mothers who are eligible for the widest range of safety net benefits have become far more likely to work than they used to be. By contrast, employment has declined among childless adults, the group with least access to the safety net.

Finally, my testimony highlights practical next steps. I urge the Members of the Committees to consider six next steps that build on past success.

First, extend the improvements to the Earned Income Tax Credit and Child Tax Credit that now expire at the end of the 2017.

Second, expand the EITC to childless workers, including young adults, who now don't benefit from this work incentive.

Third, expand funding for childcare assistance whose importance was recognized by a recent bipartisan reauthorization in the Congress.

Fourth, fully fund implementation of another program reauthorized in a bipartisan manner, the Nation's workforce program, so low-income workers can move into family-supporting employment.

Fifth, explore two-generational strategies that help parents move up at work and enhance children's life chances at the same time.

And sixth, avoid counterproductive ideas such as block grants that would turn back the demonstrated successes of the safety net.

In conclusion, as a result of policy improvements over the last two decades, the major national safety net programs combine a strong impact on poverty with positive work incentives for low-income families. I urge you to consider building on this momentum with additional practical steps such as those I have highlighted here.

Thank you very much, and I look forward to your questions.

Chairman BOUSTANY. Thank you, Ms. Golden.

[The prepared statement of Ms. Golden follows:]

**Testimony on Work Incentives and the Safety Net**

**A Joint Hearing of**

**the House Committee on Ways and Means, Human Resources Subcommittee**

**and the House Committee on Agriculture, Nutrition Subcommittee**

**Testimony of Olivia Golden**

**Executive Director, Center for Law and Social Policy (CLASP)**

*CLASP is a national, nonpartisan, anti-poverty organization advancing policy solutions at the federal, state, and local levels that work for low-income people. The organization advocates for public policies and programs that reduce poverty, improve the lives of poor people, and create ladders to economic security for all. For more information, visit http://www.clasp.org and follow @CLASP_DC.*

**June 25, 2015**

Chairman Boustany, Chairman Walorski, Ranking Member Doggett, Ranking Member McGovern and Members of the Committees, thank you so much for the opportunity to testify on work incentives in the welfare system.

I am the Executive Director of the Center on Law and Social Policy (CLASP), an anti-poverty organization that promotes effective federal and state policies for low-income families and individuals. In addition, I bring to this testimony experience in directly administering these programs at the federal, state, and local levels in New York State, Massachusetts, the District of Columbia, and as Assistant Secretary for



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Children and Families in the Clinton administration, as well as experience studying their impact and effectiveness as a researcher at the Urban Institute.

I would like to make four major points in this testimony:

First, researchers have demonstrated that the nation's core safety net programs sharply reduce poverty, improve nutrition and health care for millions of children and families, and have positive effects on children's health, work trajectory, and income many years later.

Second, I will directly address the topic of today's hearing, the relationship between safety net programs and work. The research evidence indicates overwhelmingly that the safety net as a whole supports work, particularly for low-income parents, helping them to stabilize their lives, raise their children, and move up while they are working often long hours for low wages. One of the major success stories of the past decades is that the safety net has made work pay and lifted millions of families out of poverty. Critiques of the safety net that highlight theoretical work disincentives are overstated, and are not supported by what research founds about the actually behaviors of low-income workers.

Third, the challenges that low-wage workers face in today's economy are not about too much support but too little, and above all, about the characteristics of unstable, low-wage jobs and, the barriers to postsecondary education and high-quality career pathways.

Fourth, I will address next steps. Congress and the states have already taken several important steps to promote and support work through effective design and implementation of safety net programs, but there is much left to do. To further support low-income workers and enable them to succeed in the workforce, Congress could take several key steps to encourage work, including improvements to the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), adequate funding for child care, and further steps to support a two-generational approach that helps both parents and their children escape poverty. However, one solution that has sometimes been offered – block grants – would be a step backwards, not forwards: it threatens the effectiveness of the safety net, and is not needed to give states the flexibility to align programs in support of work.

## Benefits of the Safety Net

The key benefits of the safety net, according to a large and growing body of research, are substantial reductions in poverty, improvements in the ability of low-income families and individuals to meet basic needs such as health and nutrition, and lifelong enhancements in children's health and economic success. While there are many ways to define the safety net, in summarizing this research, I will focus on two groups of means-tested programs. The largest and most widely available elements of the safety net for low-income individuals and families are Medicaid (and the closely related CHIP), the Supplemental Nutrition Assistance Program (SNAP), and the Earned Income Tax Credit (EITC). Another group of income- and work-support programs, including cash assistance from the Temporary Assistance for Needy Families (TANF) block grant, housing subsidies, and child care subsidies, provide important supports to those who are able to receive them, but capped spending limits their reach. Other programs do not provide direct income support, but help workers obtain the skills they need to advance in the labor market.



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In 2013, Medicaid served 57.4 million individuals[1], SNAP supported 47.6 million individuals[2], and the Earned Income Tax Credit benefitted 28 million tax units (overwhelmingly families with children).[3] Because these programs are not capped, they are available to all eligible recipients and are able to respond automatically to changing economic conditions, such as the recession. Housing assistance reached over 5 million households[4], while TANF served 1.75 million families (comprising 4.1 million individuals, including a little over a million adults) and child care subsidies through the Child Care and Development Fund reached 1.46 million children in 2013.[5]

When poverty is measured in ways that take safety net programs into account, researchers find that they cut the poverty rate almost in half. Because the official federal poverty rate doesn't count the income that families get from these programs -- including SNAP and the Earned Income Tax Credit -- assessing the reduction in poverty requires estimating an alternative poverty rate. One recent estimate by researchers at Columbia University finds that government tax and transfer policies reduced the share of people who are poor by 13 percentage points or almost half, from 29 percent to 16 percent in 2012. By contrast, in 1967, tax and transfer programs reduced poverty by just 1 percentage point, from 27 percent to 26 percent.[6]

These results translate into millions of people. Correcting for underreporting of benefits in surveys, and using the government's supplemental poverty measure, which treats non-cash benefits and tax credits as income, SNAP benefits alone kept 10.3 million people, including 4.9 million children, out of poverty in 2012. The Earned Income and Child Tax Credits kept 10.3 million people, including 5.3 million children, out of poverty that year. Using a broad definition, including non-means tested programs such as Social Security and Unemployment Insurance, the safety net kept 48 million people, including 12 million children, out of poverty in 2012, cutting poverty by more than half.[7]

The federal safety net programs have also dramatically changed the lives of low-income families, both poor and near-poor, through large improvements in access to health care and nutrition, particularly for children. For example, children's health insurance coverage increased dramatically as a result of bipartisan improvements to the safety net, particularly Medicaid and the Children's Health Insurance Program or CHIP. In 2013, the Census Bureau found that only 7.3% of children under age 18, or 5.4 million children, were uninsured, a reduction of over 2 million uninsured children since 2000.[8]

These improvements are crucial because of the impact of addressing health and nutrition needs in the early years of life on long-term development. Recent rigorous studies of both SNAP and public health insurance have demonstrated striking effects of access as a child to these safety net programs on life outcomes many years later, into adulthood. A recent paper by the National Bureau of Economic Research finds that having access to SNAP in early childhood also has positive effects on adult outcomes years later, including health and economic self-sufficiency.[9] On the health insurance side, studies show that children's and mothers' access to health insurance during pregnancy and in the first months of life is linked to significant reductions in infant mortality, childhood deaths, and the incidence of low birthweight. More broadly, children's access to health insurance is associated with a continuing source of care, at least one well-child visit, access to dental care, and a reduced likelihood of unmet health care needs, as well as improvements in children's school performance that appear to arise from better child health.[10] In addition, expanding health insurance coverage for low-income children has large effects on high school completion, college attendance, and college completion.[11]



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Emerging research is also demonstrating effects of other components of the safety net on children's success years later. While conducting such research takes time – researchers cannot know the effects on young children's later education and work trajectories until years after they benefit —evidence now suggests that the EITC and CTC lead to improved educational outcomes for young children in low-income households. Recent research shows that children who receive larger EITCs tend to have improved test scores, higher high-school graduation rates and higher college attendance rates. These academic benefits extend to children of all ages and racial and ethnic background—with an even larger effect for minority children on high school diploma or GED achievement.[12]

## Effect of the safety net on work

The overwhelming empirical evidence is that the safety net as a whole supports work, particularly for low-income parents. It is not too much support for work but too little -- in particular the absence of help with child care or the instability associated with not being able to afford a stable residence -- that typically holds people back from working. There are some circumstances where individuals or families encounter barriers to work as a result of specific features of safety net programs, or the way those features interact with family circumstances and the demands of the low-wage labor market – but these effects are much smaller than the work-promoting effects.

One example may make this clearer before I go into the research evidence. Child care subsidies overwhelmingly have a pro-work effect, enabling large numbers of mothers to work and work more steadily. However, an individual mother could face a "benefit cliff" where a promotion would take her out of the income range where she can get help based on a particular state's policy decisions, even though she cannot yet pay for the full cost of child care – which ranges from $5,500 to $16,549 for an infant in center based care depending on the state -- higher than the average annual cost for a year's tuition and fees at a four-year public college in 31 states and the District of Columbia.[13] She faces a very tough choice that no parent should have to make, whether to take the promotion and hope that she can somehow find good quality care for her children or to pass up the promotion and hope it is still available when her children are school-age. As I suggest below, there are important next steps Congress could take, in particular, major increases in investment to build on bipartisan action already taken in the recent reauthorization of the Child Care and Development Block Grant (CCDBG) that would prevent mothers with young children from facing this particular benefit cliff.

Now let me explain why the overwhelming research evidence is that the safety net supports and promotes work, rather than hindering it. First, the majority of people who get help from these core safety net programs are in fact working -- but earning too little to make ends meet without help. In some cases, eligibility for these programs is directly tied to employment. Two of the largest income transfer programs today are the EITC and CTC, both of which are only available to families with workers – in fact, both of them increase as earnings increase up to specified limits. These programs dwarf traditional income support programs. Similarly, eligibility for child care is directly linked to employment. Most parents receiving child care subsidies are working; 94 percent are either employed or in education or training programs.[14] But even in other programs, participants have significant work attachment. For example, among all SNAP households with at least one working-age adult not receiving disability benefits, more than half have a member who works while receiving SNAP — and more than 80 percent



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work either in the year prior to or the year after receiving SNAP. The rates are even higher for SNAP households with children.[15]

Second, many different empirical studies that have used rigorous techniques to analyze the effects of the safety net programs, taken as a package or individually, on families' actual level of work find that when low-income working parents can get and keep the full package of work support programs, they are better able to stabilize their lives, keep a job, move up, and help their children thrive. For example, research on child care subsidies has consistently found that they play a key role in improving parents' employment outcomes, including stability of employment and earnings. Studies of parents leaving welfare for work have concluded that families accessing various work supports, including health insurance, SNAP, and child care, were more likely to be stably employed and less likely to return to welfare.[16] Studies of the EITC show that its effects in increasing labor force participation are of far greater magnitude than its effects in reducing the hours of employment for those who are already working.[17] Empirical studies of the effects of the safety net as a whole confirm that, in practice, income support programs' work disincentives are so small as to have "almost no effect" on their anti-poverty effectiveness.[18]

Third, this work-promoting feature of the safety net is not an accident – it reflects deliberate actions by the Congress over the past two decades to increase support for low-income working families who are unable to make ends meet. These reforms included:

- Major expansion of child care subsidies in the late 1990s, including a tripling of combined federal and state spending on child care between 1996 and 2000, leading to approximately 1 million additional children receiving child care assistance. (Unfortunately, as explained below, a lack of investment in recent years has led the number of children benefiting from this help to decrease to a 15-year low in 2013.)
- SNAP policy and practice changes to make benefits more available to working families, including online and phone applications, and more fully reflecting the burden that child care costs can place on family budgets, leading to all-time high participation rates among eligible working families.[19]
- State adoption of higher gross income limits under SNAP using broad-based categorical eligibility, which eliminates the sharp loss of benefits that results when recipients' gross income exceeds 130 percent of poverty.
- Major expansions of the EITC and CTC, so that the combined value of these programs for a single-parent with two children working full-time at the minimum wage has increased more than seven-fold from 1990 to today.[20]
- Expansion of eligibility for health care coverage through Medicaid and CHIP to nearly all children in low-income working families, and some parents, followed by availability to parents and low-income childless adults under the ACA.

It is important to recognize that at the same time the safety net has been greatly expanded and its anti-poverty effectiveness has grown, poor and near-poor mothers – the group who are eligible for the widest range of benefits -- have become far more likely to work, even while their children are very young. In 1975, fewer than half of all mothers were in the labor force, and only about a third of mothers with a child under age 3, compared to more than 70 percent of all mothers and 60 percent of mothers with a child under age 3 in 2012.[21] While married mothers were working more in the 1980s and early



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1990s, since then, single mothers have closed the gap – despite the obstacles they face and, again, even when their children are very young. In 2014, about three-quarters of single mothers were in the labor force compared to 68 percent of married mothers, and 57% of mothers of infants – under age one – whether married or single.[22] Given the many practical and financial challenges involved in working in a low-wage job while caring for a child as a single parent, the employment level for this population is frankly remarkable.

By contrast, employment has declined the most among childless adults, especially men. In 1995, 62.5 of childless men and 50.7 percent of childless women were employed. In 2014, 57.1 percent of childless men and 48.7 percent of childless women were employed.[23] These individuals do not receive the child tax credit and are only eligible for a very modest EITC and limited SNAP benefits. Until the ACA expansion, they were almost never eligible for public health insurance. It is simply not plausible to attribute their declining labor force participation to the existence of the safety net.

There is surprisingly little evidence to support the counter-argument that benefits like SNAP and Medicaid actually discourage work rather than promoting it. One line of argument is that this must be true, regardless of whether the evidence about families' actual experiences supports it, because safety net programs such as TANF, SNAP, and housing subsidies gradually reduce benefits as earnings increase (although it is worth noting that the EITC and CTC *increase* benefits as earnings increase for low-wage workers). So this line of argument concludes that families must be discouraged from working, describing these benefit reductions as "effective tax rates" because they mean that each additional dollar of earnings translates into less than a dollar of additional net family income. However, as noted earlier, empirical research about poor and near-poor individuals and families has not borne out these predictions about workers' behavior.

There are likely several reasons why these predictions do not in fact reflect reality. First, for poor parents moving from unemployment or very part-time employment into greater levels of employment, the reduced value of some benefits is offset by the increased value of others, particularly the EITC and the CTC. In fact, the very poorest families may find that their net income increases by more than a dollar for each dollar of additional earnings. Second, many of the calculations look at families who receive a very extensive package of benefits including health insurance, food assistance, child care subsidies, and housing assistance and conclude that they could face a daunting reduction in benefits if they earned more money. In practice, though, few families receive this full package, because child care subsidies and housing assistance reach such a small share of those eligible. For example, Dr. Steuerle has previously testified regarding the high benefit reduction rate experienced by workers between 100 and 150 percent of poverty.[24] However, this calculation depends on the assumption that a family is receiving a full package of benefits, including SNAP, health insurance, subsidized housing, and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – an assumption that applies to extremely few real-life families. A Census report found that over the four-year period of 2001-2004, out of the tens of millions of families who are low-income, an average of just 571,000 households per year received both WIC and housing subsidies.[25] Similarly, the most recent administrative data for WIC found that only a quarter of families receiving WIC also received both SNAP and Medicaid.[26] A recent study by Robert Moffitt, Director of the Economics Department at Johns Hopkins University, confirms that only a tiny fraction of SNAP recipients are both receiving multiple means-tested benefits and have incomes in the ranges where they experience high implicit marginal tax rates.[27] Third, workers are often



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unaware of the phase-out rates for the programs they receive, and rarely have the ability to control their hours of work, which mean that these rates rarely influence behavior.

At the same time, I agree that policymakers ought to be concerned about sharp "benefit cliffs," in which families would abruptly lose a crucial support if they took a promotion or added hours, even if the majority of families do not experience them. These cliffs are more visible and likely to affect actual work choices, send the wrong signal about our expectations of low-wage workers (for example, requiring parents to choose between good quality child care and economic stability), and can destabilize workers and their families just when they should be on the path to economic security. As noted above, the nation has made great progress toward reducing these cliffs, but some remain.

In general, removing cliffs costs money because it means either making programs universally available, without regard to income, or phasing out eligibility more slowly as income increases. As suggested below, increasing funding for child care subsidies to low-income parents would make it possible to take one or the other of these two approaches to the child care cliff (an issue already taken up by Congress in the bipartisan CCDBG reauthorization passed in 2014).

A particularly important positive example comes from the states that have adopted the Medicaid expansion under the Affordable Care Act, where one of the most damaging of these cliffs is gone. Parents no longer have to take the enormous risk of going without health insurance if they add hours to a low-wage job and exceed a pre-ACA Medicaid eligibility ceiling that in many states was far below the poverty level. Instead, with Medicaid coverage at the lowest income levels and then coverage through the health insurance exchange with a sliding scale of subsidy, a working parent can have peace of mind about health care, regardless of income level. However, if the Supreme Court takes subsidies away from workers in states that use the federal exchange, among the many negative consequences will be a new benefit cliff for workers whose income rises above the Medicaid eligibility threshold. If this happens, I urge Congress to restore subsidies to make health insurance affordable immediately.

In addition, as described more fully below, we should ensure that the administration of benefit programs does not impose additional burdens on working families. That is, even when the policies of safety net programs promote work, delivering the programs ineffectively can make it harder for low-income working families to perform well on the job. For example, families should not have to miss work to stand in line for hours to see a caseworker. Similarly, they should not have to risk losing child care and destabilizing their work arrangements because ineffective verification practices or other administrative complications have derailed their child care subsidy. Later in my testimony, I discuss the actions that several states have undertaken under the Work Support Strategies initiative to remove such burdens.

## The Real Challenges Facing Low Income Workers

Despite this progress in the design of safety net programs, changes in the economy, particularly in the availability of secure, decent-paying jobs and the nature of low-wage work, have created an enormous headwind for public programs. About one in five children remain poor today (20.4 percent by the official poverty rate and 16.4 percent by the supplemental poverty measure), with racial and ethnic minority children disproportionately affected.[28] When you add in near-poor families, struggling to make



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ends meet with incomes just above the poverty line, more than 31 million children or more than 4 in 10 of all children, live in low-income families that are far more likely than better-off families to face difficulty in paying the rent or mortgage and keeping food on the table.[29]

Most of these children live in families where adults work, often long hours. Nearly 70 percent of poor children live in families with at least one worker, and 30 percent in families with at least one worker employed full-time, full-year. When you add in the near-poor children, more than half of poor and near-poor children live with a full-time, year-round worker.[30]

Among those who work less than full-time, many people would like to work more, but can't. According to the Bureau of Labor Statistics, more than 6.5 million people are involuntary part-time workers, meaning that they would like to work full-time, but either can only find a part-time job or have had their hours cut. While this figure is down about 3 million from the peak of the recession, it is still millions above pre-recession levels.[31] An additional 1.9 million people are working two part-time jobs.[32] Much of this is the nature of the jobs, not workers' choice, especially in typical low-wage industries such as retail, food service and health care. For example, one recent study found that almost 60 percent of the retail workforce is hired in part-time, temporary or holiday positions, and only 17 percent of workers surveyed have a set schedule.[33] These unpredictable hours make it very difficult to "stack" part-time jobs because workers often need to hold open availability for their employers even when not scheduled to work, or they can be penalized by loss of hours. Even among those who are counted as "voluntary part-time," some would really like to work more hours but can't get them, or are constrained by lack of affordable child care and can only work when children are in school, or when other family members are available to provide free care.

Widespread child poverty in the United States endangers not only the wellbeing of individual children but the future skills and capacity of our labor force and our economic future. Children who are born poor and are persistently poor are far more likely than their peers to fail to finish high school, become parents as teens, and experience poverty as adults.[34] And parents' low-wage work has the potential to compound children's developmental risk, because unstable and nonstandard work schedules make it difficult to secure stable child care, because parents' own stress affects children's development, and because so many low-wage jobs come without the crucial benefits – such as paid sick days – that support caring for children.

Several key gaps in public policy contribute to this national risk from child poverty. One is the lack of sufficient support for effective workforce development, adult education, and postsecondary programs for low-wage workers. As Congress noted in its bipartisan passage of the Workforce Innovation and Opportunity Act in 2014, increasingly, the difference between being able to obtain work that supports a family and being condemned to low-paying, unstable employment is a postsecondary credential. Research and evaluations of job training programs for adults find that "a postsecondary education, particularly a degree or industry-recognized credential related to jobs in demand, is the most important determinant of differences in workers' lifetime earnings and incomes."[35] Moreover, at times of slack labor demand, workers without a postsecondary credential may be simply unable to find work.

In addition, there is evidence that effective workforce development and adult education programs can pay off not only for today's participants, but also for the next generation. According to one synthesis of the research, "improving the educational and employment prospects for parents in the workforce today



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may also do the same for their children as they enter the workforce tomorrow." Indeed, there is a well-documented connection between parents' level of education and their children's skills, academic outcomes, and health. Forty percent of children whose mothers have not completed high school do not graduate on time themselves, compared to just 2 percent of children whose mothers have a bachelor's degree.[36]

However, federal funding for workforce development and adult education falls well short of the need. For example WIA Title II Adult Basic Education and Literacy program is funded at levels that reach only 1.7 million – less than 5 percent -- of the nation's 36 million adults with the lowest literacy levels as found by a landmark 2013 international assessment of adult skills.[37] Federal funding for WIA has been reduced by 40 percent since 2000.

At the same time, the potential funding sources for workforce development within the safety net programs are rarely used to their full potential. Only a handful of states draw down significant matching funds under the SNAP Employment and Training program.[38] Under the TANF block grant, states use only 6 percent of combined federal-state funds for employment and training services.[39] Moreover, the limited ability to count recipients engaged in education and training activities toward the TANF work participation rate, discourages states from offering recipients training and postsecondary programs that are most fully supported by the research – including exactly the types of job-driven, evidence-based training programs that the Congress emphasized in its bipartisan reauthorization of WIOA last year.

## Next Steps:

### Implementing Significant Recent Improvements

Finally, I would like to turn to practical, doable next steps to enhance further the safety net programs' support of work. It is important to highlight that several major steps have already been taken by Congress and by state innovators; effective implementation of these already-enacted improvements is a key place to start.

CCDBG

Last year, with overwhelming bi-partisan support, Congress reauthorized CCDBG. The new law strengthens CCDBG's dual role as both a major early childhood education program and a work support for low-income families. Key provisions in the new law support these dual goals, including protecting the health and safety of children in care through more consistent standards and monitoring of standards; improving the quality of care, including through increased supports for child care providers; and enabling families to more easily access child care assistance that supports stable and continuous care. For states to achieve the full potential of the CCDBG reauthorization while avoiding tradeoffs that harm children and families—and the child care providers who serve them—thoughtful implementation and new resources will be essential.

In this reauthorization, Congress required all states to adopt policies that reduce sharp cliff effects and provide children with stable care as families' earnings fluctuate, as is common among low-wage workers. All states are now required to offer 12 months of continuous coverage to children receiving child care assistance, which benefits both the families' ability to work and the children's healthy development. At the end of the 12- month eligibility, states must have provisions in place to ease



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families who are no longer income eligible off subsidies over time, to prevent an immediate cliff effect. States' experiences with these policies suggest that they come with additional costs to states, yet no new money is available in most states. Without significant federal investment, states may have to reduce the number of families served. Congress should now take the steps necessary to meet the increased authorizations detailed in the law and required for implementation, and to expand funding for child care assistance so that more families can get the help they need to go to work.

WIOA

Congress also reauthorized with bipartisan support the nation's workforce development programs under the Workforce Innovation and Opportunity Act (WIOA). WIOA emphasizes that low-income workers, including public benefit recipients, should receive priority for training services. It also encourages partnerships between WIOA and TANF and SNAP employment and training programs in order to reduce duplication and leverage the strengths of both workforce and human services programs to ensure that participants programs to ensure that clients have access to high-quality training programs that will enable them to achieve economic security. However, making this goal a reality will require many states and localities to change their outreach and assessment processes, as well as braid and blend several funding streams to provide supportive services that many more disadvantaged workers need to succeed in education and training. As noted below, additional resources will also be crucial to achieving the full pay-off from these positive policies.

SNAP Employment and Training pilots

As part of the Farm Bill, Congress authorized 10 pilot projects to test whether SNAP employment and training (E&T) could more effectively connect unemployed and underemployed recipients to work. The selected pilots, announced in March, include a mix of mandatory and voluntary E&T programs. Several of the pilots target individuals who face significant barriers to employment, including homeless adults, the long-term unemployed, individuals in the correctional system, and individuals with substance addiction illness. Each pilot involves multiple partners to connect workers to resources and services already available in the community. These pilots will help both states and the federal government understand how SNAP E&T can best contribute to recipients building the skills needed to secure good jobs that provide economic security and discontinue the need for support of SNAP.

State activities

States of both parties are seizing opportunities available today to integrate the major safety net programs (for example, Medicaid, SNAP, and child care subsidies) into a coherent package for families, in order to support their stability and success at work and at the same time improve efficiency and program integrity. As noted earlier, even though the policy framework of the work support programs generally encourages work, service delivery that is "siloed," badly coordinated, or bureaucratic can pose major challenges for low-income workers who are not able to stand in line for hours in the local office or make multiple phone calls to sort out problems. Under current federal law and policy, states have many available opportunities to innovate, streamline, and integrate programs in order to solve these challenges, and many have already made important progress. Through the Work Support Strategies initiative, led by CLASP in partnership with the Urban Institute and the Center on Budget and Policy Priorities and supported by the Ford Foundation and other private funders, the states of Colorado,



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Idaho, Illinois, North Carolina, Rhode Island, and South Carolina are designing and implementing twenty-first century strategies to ensure that low-income working families get and keep the full package of work support programs -- while also reducing bureaucracy and the burden on state employees.

The goal articulated by the states is to maximize the capacity of the safety net programs to encourage work by making sure that families can get access smoothly to all they deserve. For example, explaining Idaho's reasons for streamlining access to SNAP, Medicaid, and child care subsidies, Governor C.L. ("Butch") Otter of Idaho emphasized Idaho's goal of "helping families enter and succeed in the workforce." To achieve this goal, Idaho has sought to "identify gaps in the services available to low-income working Idahoans and reduce the impediments to receiving those services for which they are eligible… [with a focus] on improving delivery of SNAP, Medicaid, child care subsidies, and our Temporary Cash Program to the working poor…"[40]

One example among many innovations is the use of new technology to help coordinate eligibility determinations more effectively across Medicaid and human services programs, whether or not states have chosen the Medicaid expansion option. One important focus is reducing "churn" – which occurs when families are bumped off a program for bureaucratic reasons even though they are still eligible. Churn is a big burden on state administrative systems, because it means processing eligible families multiple times, and it can destabilize families' lives, including their work lives – for example, if a parent or child loses Medicaid while still eligible and then has to take extra days off work to solve the bureaucratic snafu and get needed medical care. One example of a solution comes from South Carolina, which implemented an "express lane" redetermination initiative, to ensure that children would not "churn" off Medicaid at review time when the state already had the information it needed to determine them eligible its SNAP case files. Sharing current information about families across programs can also improve program accuracy and integrity.

## Next Steps for Congress

But there is also important unfinished business. Building on the strengths of today's safety net programs and the recent enhancements just described, Congress should take the following next steps to support workers and promote work.

Extend ARRA EITC and CTC improvements

The American Recovery and Reinvestment Act (ARRA) made critical improvements to the EITC and the child tax credit (CTC). These include marriage penalty relief, a modestly larger EITC for families with three or more children, and allowing low-income workers to start qualifying for the refundable CTC starting at $3,000 (rather than the $14,700 that would otherwise be needed to qualify). These changes help ensure that work pays for the lowest income workers, who would otherwise not benefit from the CTC.

However, these provisions are now scheduled to expire at the end of 2017. Congress should not move any tax package this year without including these provisions. CBPP estimates that more than 16 million people in low- and modest-income working families, including 8 million children, would fall into -- or deeper into -- poverty in 2018 if policymakers fail to make permanent the key provisions of two important tax credits. Some 50 million Americans, including 25 million children, would lose part or all of their tax credits.[41]



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Expand EITC for childless workers

Another key step is to expand the EITC for workers without dependent children. Under current law, individuals without dependent children can only receive a very small credit—a maximum of about $500—and begin to lose the benefit even before their earnings reach the poverty threshold. Younger and older workers are at a further disadvantage because, under current law, the EITC is only accessible to eligible individuals without dependent children if the workers are between ages 25 and 65. This leaves out a significant population of low-wage workers struggling to make ends meet – workers who would particularly benefit not only from the amount of benefits but also from the EITC's pro-work structure.

One important benefit of this step would be its effect on young adult workers, many of whom begin their careers in low-wage jobs. In 2013, 19.8 percent of youth age 21-24 lived in poverty compared to 14.5 percent of the overall population.[42] Expanding the EITC would help young adults make ends meet and encourage workforce participation. A White House report estimates that 3.3 million working youth under age 25 would be newly eligible for the EITC under the president's proposal, accounting for over 24 percent of all workers who would benefit from this expansion.[43]

There is bipartisan support for expanding the EITC for workers without qualifying children and making it available to younger workers starting at age 21. President Obama proposed an expansion of the EITC for low-wage, childless workers in his FY 2016 budget, as he has before. Congressman Paul Ryan (R-WI), now chair of the Ways and Means Committee, included such an expansion in last year's Expanding Opportunity in America proposal. Several bills have also been introduced. All of the proposals increase the maximum credit rate for childless workers, doubling it from the current maximum of $503. I urge you to move this proposal without delay.

Provide adequate child care funding

On the child care side, immediately after the passage of welfare reform in the mid-1990s, federal-state funding for child care subsidies increased sharply. Today, however, expenditures on the child care subsidy are at the lowest level in a decade and the number of children served is at the lowest level since 1998 – 1.46 million children in 2013, or a reduction of more than 315,000 children just since 2006. Thirty-two states served fewer children in 2013 than in 2012. While there are many reasons for the decline, these reductions occurred, in part, because the two primary sources for federal child care funding – the CCDBG and the TANF block grant – are capped, leaving states with no good choices when the recession and its aftermath increased need and reduced state revenues. As block grants, their value has eroded over time even though the costs of child care increase each year.

Given the importance of help paying for child care to low-income parents' work success, increased funding for child care should be an urgent priority as part of an agenda to strengthen the work incentives of safety net programs – or, indeed, to strengthen the American economy more broadly. As noted earlier, a virtually unanimous bipartisan majority in the Congress voted for CCDBG reauthorization including provisions that would help low-income families who gain access to child care assistance keep it for at least a year and then avoid being forced to confront a "cliff" as a result of a promotion. The CCDBG Act of 2014 authorizes $15.4 billion in discretionary funding for years 2015-2020. Insufficient



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increases in federal funding will likely require states to make additional commitments as well to cover the costs of the new provisions, at amounts that will depend on individual states' current policies.

While the authorization provides more funding than in previous years, this increase would not be sufficient to increase the share of low-income children whose parents can get help paying for child care and therefore can go to work – or even to reverse the decline in children served. We strongly recommend that Congress commit to child care assistance for all low-income parents with young children, as in the President's budget request; an increase of $3.7 billion in mandatory funding for child care assistance in FY 2016, which is the first installment of investments totaling $82 billion over 10 years, and $370 million increase in discretionary funding all while eliminating the cliff problem by extending help to all low-income (under 200 percent of poverty) parents through CCDBG.

Support WIOA implementation and strengthen delivery of evidence-based workforce and postsecondary programs to low-income workers

As noted above, the WIOA legislation enacted by the Congress in 2014 includes very important steps towards more effective and targeted workforce development programs for low-income workers. Crucial steps forward include a focus on training these workers need, including postsecondary education leading to employment; encouragement for career pathways that allow participants to link training, credentials, and work experience in individualized ways over time; explicit provisions indicating the priority for serving low-income, lower-skilled individuals, including benefit recipients; and increased emphasis on partnerships with benefit programs such as TANF and SNAP.

However, valuable as they are, these provisions will not achieve their full intended effect on low-wage and low-skilled workers' success on the job without additional action. First, states and local workforce boards need additional resources to make the intended shifts to high quality training and to serving workers with more barriers. Congress should fully fund WIOA appropriations at the levels authorized in the law. Second, our experience at CLASP with technical assistance requests from states and localities has indicated that those that are taking seriously the provisions in the law encouraging partnership with TANF have identified the restrictive, attendance-based TANF work participation rate as a major barrier to aligning with WIOA's outcome-based performance measures. We would be delighted to work with the committee to identify potential approaches to this challenge (and have already submitted testimony on the record for an earlier hearing).

Promote and fund two-generational supports

As noted earlier, increasing evidence suggests that the safety net programs can deliver a two-generational opportunity for helping families: enabling parents to work while improving children's health, nutrition, and early development, and leading to a double boost in the long run. A theme of the recent research and policy debate – building on ideas that go back many decades, to the founding of the settlement houses in the nineteenth century and Head Start fifty years ago – is the value of an even more explicit two-generation approach to public policies. Such an approach brings together worlds that are often separated (focusing only on children or only on parents) to modify or create new policies that focus on the needs of parents and children together. Such two-generation policies reflect strong research findings that the well-being of parents is a crucial ingredient in children's social-emotional,



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physical, and economic well-being -- and at the same time, that parents' ability to succeed in school and the workplace is substantially affected by how well their children are doing.

Developing two generational policies is not an easy task, because it requires working across systems and infusing adult- and child-oriented services and approaches across policy areas. However, great opportunities exist—for example, in child care and early education, in workforce development and community colleges, in mental health services, and in home visiting.

We would be delighted to work with the committee on any areas of two-generational policy that are of particular interest, but we want to highlight two immediate opportunities. First, the 2014 reauthorizations of the nation's core child care (CCDBG) and workforce programs (WIOA) offers opportunities to encourage states to link the two so that it is easier for children to receive high-quality early education programs while parents strengthen their own career skills. While a number of local, small-scale initiatives implementing this concept already exist, funding will be key to making this common-sense strategy practical for states on a large scale. The second opportunity lies in targeting parental mental health, with maternal depression a particularly powerful example. When parents have untreated mental health problems, they face major challenges both in succeeding in school and on the job and in being the kind of effective parents that they want to be. Depression, which is highly treatable, is a prime example of a parental mental illness that affects large numbers of families[44], hinders parents from succeeding at work and in school, and poses major and potentially lifelong risks to children's safety and cognitive development when untreated.[45] While depression is highly treatable,[46] many low-income mothers do not receive treatment—even for very severe levels of depression. Today, there are new opportunities to address depression and other parental mental health problems as a result of mental health parity legislation and the expansion of coverage (and other provisions) in the Affordable Care Act. Again, we would be delighted to suggest ways that the Committees might support federal and state policymakers in effectively implementing these provisions in a two-generational manner that would support both parents' work and children's development, such as through technical assistance and demonstration funding.

Avoid counter-productive ideas

The worst thing that Congress could do is undermine the large successes of safety net programs – which include benefits for families and communities, for children's long-run wellbeing, and for low-income adults' work success -- by making misguided changes, such as turning core safety net programs into block grants or giving states waivers that would undercut key protections. Block grants do not respond well to economic downturns like the recent Great Recession, thus leaving families, communities, and states without resources just when they need them most. They are ill-suited to supporting core national goals – such as ensuring that every American starts life healthy and well-nourished – but instead contribute to disparate life chances based on where a child is born. And, since there is no direct link between spending and need, Congressional appropriations for block grants tend to shrink over time.

As the experience of the "Great Recession" illustrates, SNAP and Medicaid provide greater support to states, communities, and families as economic need rises. From 2007 to 2011, SNAP caseloads and federal support to states went up in response to the recession-driven increase in need, leveling off and then beginning to decline as the economy has recovered. States hit hardest by the recession typically saw the largest SNAP caseload increases – for example, Nevada, Idaho, Florida, and Utah, the four states



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with the largest growth in unemployment between 2007 and 2011, leading to the largest growth in SNAP caseloads. Nationally, fewer people participated in SNAP in each of the last 19 months for which data are available (September 2013 through March 2015) than in the same month of the prior year; 2.2 million fewer people participated in SNAP in March 2015 than in December 2012, when participation peaked.[47]

By contrast, block grants like TANF do not respond well to a recession because states are caught between a rising number of families seeking help and declining state tax revenues, without any further federal assistance. Nationally, TANF cash assistance caseloads responded only modestly to the deep recession and in six states caseloads continued to decline from 2007 to 2009 in the face of sharply rising need. From 2009 to 2011, caseloads began to decline again in more than half the states, even though the unemployment rate remained well above the pre-recession levels. Caught in this bind, some states made choices such as shorter time limits, which directly cut families from cash assistance, while others reduced work activities, child care and other supportive services.[48]

The argument for extreme solutions like block grants relies on the idea that nothing else works. However, this testimony has already shown that existing national policies, complemented by state innovations, have succeeded in promoting work by low-income parents and have streamlined and strengthened programs without block grants. One added insight arising from the Work Support Strategies initiative is that many policy obstacles to the more streamlined and effective program designs arise not from federal policy but from historical decisions by state agencies – decisions that the state has full authority to unmake. To take just one example, many states look for detailed verification of work hours and schedules before determining eligibility for child care subsidies[49] – a choice not required anywhere in federal law and one that slows down the process, hinders continuity of care for working families, and sharply increases burden on both families and state workers.

In addition, the argument for block grants or state waivers relies on the idea that flexibility can compensate for inadequate funding, which is simply not true in the face of major gaps in support for low-income families. Taking advantage of flexibility to get rid of extra bureaucratic steps can save modest administrative costs, but it doesn't come close to filling the gaps in seriously underfunded programs. For example, as I've just noted, CCDBG is one of the most flexible of the safety net programs but as a result of capped federal funding, the number of children served is now sharply down, hitting the lowest number in more than a decade.

Besides block grants and expanded waivers, other suggestions that would damage rather than improve the nation's safety net programs include the idea that case managers who work directly with families could improve work incentives if they made major policy decisions, including which families would benefit most from which programs. This idea likely derives from the experience of small, targeted programs that work closely with highly vulnerable, multi-needs families and employ well-trained case managers with small caseloads and the time to build individualized relationships with clients, and adequate funding for supportive services.[50] But the approach is ill-suited to the large safety net programs, which address basic needs like health care that no family should be without, include many families who are already working and do not need intensive help, and are typically administered with extremely high caseloads. Without new funding, caseworkers or states could only provide additional services to some clients if they denied core benefits, such as nutritional assistance, to others.



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Another counter-productive idea is expanding TANF-like work requirements to other programs. While there are some exceptions in individual communities employment programs tied to TANF have often had little to offer clients in the way of services that lead to well-paying jobs. Both the requirements (sometimes driven by the federal participation rate, other times by state choices) and the programs offered under TANF are likely to reflect outdated perspectives about what works, reflecting research from several decades ago, in contrast to the more current, evidence-driven perspective included in Congress's bipartisan reauthorization of WIOA, with its emphasis on an array of approaches including career pathways, effective programs to gain postsecondary credentials, and "earn while you learn" subsidized job strategies. Too often, TANF employment programs do not promote stable and successful work but instead are primarily a barrier to participation, a way to drive needy individuals away from much needed supports, particularly when the same crisis that leads them to apply -- for example, domestic violence, homelessness, or poor physical or mental health -- prevents them from getting through a burdensome application process. Strategies to encourage work across benefit programs should focus on making effective work and training opportunities available, drawing on the lessons of WIOA and of successful local and state initiatives; should never disqualify individuals from benefits when no appropriate training or work experience has been offered to them; and should never be a condition for children's access to benefits or for anyone's – children's or adults' – access to health insurance. Those who need health insurance the most as a result of untreated physical and mental health conditions are often the most likely to be unable to comply with participation requirements without getting the help – so work participation requirements place them in a catch-22, besides being counter-productive to the underlying goal of promoting work.

A final reason that these ideas of adding case management or additional requirements to a broad range of safety net programs are misguided is that the families receiving the major safety net programs represent a much broader cross-section of Americans than TANF recipients. As noted above, the majority of working-age adults receiving benefits are already employed, many working long hours in low-wage jobs while also raising children. What these workers need is not additional burdensome and stigmatizing paperwork requirements to prove their employment, or time-consuming individual appointments with case managers, but easy, straightforward access to health insurance and assistance paying for food and child care.

## Conclusion

As a result of policy improvements made over the last two decades, the major national safety net programs combine a strong impact on poverty and on children's lifelong wellbeing with positive work incentives for low-income families. In fact, the majority of families getting help through these programs are already working, often long hours. What they need is not incentives but additional, practical support.

Congress and a number of state and local innovators have already taken a number of steps to provide them with those supports, but there is important unfinished business. I urge the members of the Committees to consider six next steps:



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1. Extend the improvements to the EITC and CTC made in ARRA.
2. Expand the EITC to childless workers and to young adults.
3. Expand funding for child care assistance, whose importance was recognized by a recent bipartisan reauthorization and which is crucial for parents' work.
4. Fully fund and support effective implementation of the recent bipartisan reauthorization of the nation's workforce programs.
5. Explore two-generational strategies that help parents move up at work and enhance children's development at the same time, for a double boost in opportunity.
6. Avoid counter-productive ideas that would turn back the demonstrated successes of the safety net.

Thank you very much, and I look forward to your questions.

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Next we will go to Dr. Steuerle.
You are recognized, Dr. Steuerle.

**STATEMENT OF EUGENE STEUERLE, PH.D., SENIOR FELLOW, URBAN INSTITUTE, WASHINGTON, DC**

Dr. STEUERLE. Thank you, Chairpersons Boustany and Walorski, Ranking Member Doggett and McGovern, Chairman

Conaway, and Chairman Ryan, if he returns. I thank you for this opportunity to testify before you again. My name is Gene Steuerle, and I have worked with you on many tax, budget, and welfare issues over time, and again, it is an honor to be here again. My remarks reflect my own views and not those of the institutions with which I am associated.

Despite the rhetoric about living in an age of austerity, we live in a time of extraordinary opportunity. On a per-household basis, our income is higher ever than even before the Great Recession, and 60 percent higher, by the way, than when Ronald Reagan was elected President.

The best options, in my view, for the future of a social welfare budget cannot possibly be determined well by the needs and parameters established decades ago in a very different economy and driving the programs we are talking about today. Two examples enlighten us as to how bipartisan efforts actually led to important forward-looking shifts from past policies.

Republicans and Democrats did not always agree on the merits of either AFDC or the Earned Income Tax Credit, yet they did favor a shift from welfare toward wage subsidies. Ditto for moving from public housing to housing vouchers. To me, these give evidence that there are bipartisan ways of getting around the type of problem we are talking about today.

I also sense that both the American public and you, their elected representatives, are united in wanting to create a 21st century social welfare budget. That budget, I believe, should and will place greater focus on opportunity, mobility, work, and investment in human, real, and financial capital. However, for the most part, we have never really had a social welfare budget that is focused on mobility and work.

As I show in "Dead Men Ruling," you hold office at a time unique in our Nation's history, a time when the politically unattractive option of reneging on promises the public feels it has been made has been turned into a requirement. Economic growth, even if modest, always provided new opportunities. It is just that you now operate within a budget where too many choices have already been preempted by dead and retired elected officials who continue to rule.

For instance, projections by the Congressional Budget Office and others imply that government is scheduled to spend in excess of $1 trillion more annually in about 10 years. And by the way, those numbers come about whether you are dealing often with a Republican or a Democratic budget because they are derived from economic growth. Yet all of that money, plus some, has already been absorbed by other commitments that have been made, and the traditional source of flexibility in the budget has been removed.

Now, one important component of the reform that is necessary, if we could reallocate those future resources, increased resources, would be the combined marginal tax rates imposed mainly on lower-income households and their potential negative effects on work, wealth accumulation, and marriage.

To see how many programs combine to reduce the reward to work and marriage, I invite you to look at the first figures in my testimony. There I show that for households with children, combined marginal tax rates from direct taxes and universally avail-

able programs, like the Earned Income Credit, SNAP, and health insurance, average about 66 percent when moving from about $15,000 of income to about $55,000 of income, typically when moving toward full-time work, taking a second job in the household, and particularly facing the very large penalties if you happen to marry another worker.

Those beneficiaries of additional housing and welfare were not even included in this first figure. You add those in, and the rates get up above 75 percent on average.

Now add in items like transportation, consumption, and childcare costs—childcare costs are dealt with quite clearly by the testimony by Ms. McCorkle—and the gains from work fall even more. Sometimes there are no gains at all.

So while there is widespread disagreement on the size of these disincentive effects on work and marriage, there is little doubt that they do exist. One way out of this bind, as I keep trying to emphasize, would be to focus future increased resources more towards an opportunity budget that emphasizes early childhood, quality teachers, work subsidies in lieu of more subsidies just for consumption, decent neighborhood environments, and similar items.

Combined tax rates could also be made more explicit, and work could be made a stronger requirement when they receive some benefits. And by the way, cutting healthcare cost plays a big role here too.

I will be glad to discuss these options further with you as the hearing proceeds. Thank you.

Chairman BOUSTANY. Thank you, Dr. Steuerle.

[The prepared statement of Dr. Steuerle follows:]

**Statement of**

***C. Eugene Steuerle***

On

# Marginal Tax Rates and 21st Century Social Welfare Reform

**Joint Hearing of the**
***Subcommittee on Human Resources***
**Committee on Ways and Means**
And
***Subcommittee on Nutrition***
**Committee on Agriculture**

June 25, 2015

**C. Eugene Steuerle is the Richard B. Fischer chair and an Institute Fellow at the Urban Institute.**
**Portions of this testimony are taken from other work by the author, particularly for *Tax Notes Magazine*, *The Future of Children*, and a previous testimony. Gene is indebted particularly to Adam Carasso, Linda Giannarelli, Elaine Maag, Caleb Quakenbush, Stephanie Rennane, Ellen Steele, and Katherine Toran for both past and current work with him on marginal tax rates and children's programs. All opinions expressed herein are solely the author's and should not be attributed to any of these individuals or organizations with which he is associated.**

**Chairpersons Boustany & Walorski; Ranking Members Doggett and McGovern, & Members of the Subcommittees on Human Resources and Nutrition:**

Thank you for the opportunity to testify before you again today.

Despite the rhetoric about living in an age of austerity, we live in a time of extraordinary opportunity. On a per-household basis, our incomes are roughly five times higher than at the beginning of the 20th century, 60 percent higher than when Ronald Reagan was elected President in 1980, and 4 percent higher than right before the Great Recession. Total federal, state, and local government spending on social welfare alone, including health and retirement, has grown even faster, and now surpasses $35,000 per household.

Social welfare reform can be quite contentious, but it turns out that we don't need to agree on the successes and failures of past social welfare policy (which, in truth, has had both) to agree on future improvements in those policies. The most important long-term question is how to direct the new resources that economic growth makes available. I don't think anyone here, when projecting out a few decades hence, thinks that as the economy doubles in size, we should simply expand existing programs proportionately, or that the best options for the future have been determined by needs and parameters established decades ago in a very different economy. Two examples enlighten us as to how bipartisan support led to important forward-looking shifts from past policies. We didn't have to agree on the past success or failure of either Aid to Families with Dependent Children (AFDC, now Temporary Assistance to Needy Families or TANF) or the Earned Income Tax Credit (EITC) to favor a future relative shift from AFDC to the EITC. Ditto for moving from public housing toward housing vouchers. Both relative shifts have been supported and deemed as successful by many conservatives and liberals, Democratic and Republican members of Congress, and Democratic and Republican presidents alike.

I sense that both the American public and you, their elected representatives, are united in wanting to create a 21st century social welfare budget that is not simply more of the same. That 21st century focus, I firmly believe, will increasingly place greater relative focus on opportunity, mobility, work, and investment in human, real, and financial capital. However, outside of education, we've never really had a social welfare budget that has focused on mobility and opportunity. We've also never placed primary attention on work, in part because the entry of baby boomers and women into the work force for decades led to higher adult employment rates, not the recently declining rates that now threaten what level of social welfare programs can be supported.

Shifting priorities, however, has become extremely hard for reasons not well understood. As I show in *Dead Men Ruling*, you hold office at a unique time in our entire nation's history, a time when the politically unattractive option of reneging on promises to the public has been turned into a requirement. Simple math tells us that to reach budget sustainability, Congress and the President must—I repeat, must—renege on past promises to the public to maintain automatic benefit growth rates and not raise taxes. But even that is not enough. If future budget reform aims at mere sustainability under some current law, and we're far from reaching even that target, this still leaves no leeway to do anything new. It's not that economic growth, even if modest, fails to provide new

opportunities; it's just they've already been pre-determined largely by dead and retired elected officials (largely men) who continue to rule.

Projections by CBO and others imply that government is scheduled to increase spending and tax subsidies by well in excess of $1 trillion annually by 2025, including interest on the debt, and those commitments more than absorb the future additional revenues that traditionally provided flexibility in budget making. Every time you read an article about the inability of Congress to compromise, please understand how much this historically extraordinary set of constraints drives that dynamic.

Now let's turn to an important component of future social welfare reform: the combined marginal tax rates imposed mainly on lower-income households and their potential negative effects on work, wealth accumulation, and marriage.

For households with children, those combined marginal tax rates from universally available programs like EITC, SNAP (food stamps), and government-provided or subsidized health insurance, can easily reach about 60 percent when moving toward full-time work or a second job in the household. These high marginal rates apply mainly when households move from about poverty level income to twice- or even three times poverty level income, something Linda Giannarelli and I have labeled the twice-poverty trap.[1] In this range of income marriage penalties also become particularly high for a couple with two earners. For those getting housing or other assistance, the rate can easily jump to 75 percent or more.

We're not done yet. Add in transportation and child-care expenses, consumption taxes, health exchange rate penalties on employers—when paid indirectly by employees—and the gains from work fall even more. Sometimes there are no gains at all. Similarly, for some on unemployment or disability insurance, returning to work can also lead to few gains, as when one month of work can result in the loss of months or years of benefits.

While there is widespread disagreement in the literature on the aggregate economic effect of these high tax rates and marriage penalties, there is little doubt that they act as disincentives to many households. More importantly, whatever the size of these disincentives, I believe we can create policies that would shift future increased resources more toward work, education, wealth accumulation, and marriage.

How? Several approaches could make a significant difference. An opportunity budget would focus on early childhood, quality teachers, work subsidies in lieu of higher subsidies for consumption, decent neighborhood environments, and similar items. Combined tax rates could be made more explicit rather than hidden in all sorts of phase outs, and a maximum rate could be established. Work can be made a stronger requirement for receipt of various benefits. Letting child benefits go with the child and wage subsidies go with low-income workers, rather than combining the two, could remove many marriage penalties and reduce error rates in the EITC.

Design details matter greatly. For instance, many Democrats and Republicans have favored an expansion of the EITC to cover those individual workers currently left out of the system. Some suggest

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[1] Linda Giannarelli and C. Eugene Steuerle, 1995, "The Twice-Poverty Trap: Tax Rates Faced by AFDC Recipients," Washington, DC: Urban Institute.

merely expanding the existing subsidy to "childless" individuals, but Elaine Maag and I have suggested an alternative approach that would avoid the tendency of the "childless" EITC to raise marriage penalties. Childless individuals aren't the only low earners excluded from a wage subsidy; so also are those many low-wage workers who marry into a low-income family.[2]

Thoughtful design might also increase compliance. Some of my colleagues have shown, for instance, how integration of program data might be used to reduce error rates in the EITC.[3]

**What Causes High Marginal Tax Rates for Low and Moderate Income Households?[4]**

Congress enacted Social Security, AFDC, and various housing programs in 1935; the Food Stamp Act in 1964; Medicare and Medicaid in 1965; the EITC in 1975 (and subsequent expansions of the credit in 1987, 1990, 1993, and 2001, among others); the Child Care Development Block Grant in 1990; welfare reform in 1996 (which replaced AFDC with TANF); the State Children's Health Insurance Program (SCHIP) in 1997; and health exchange rate subsidies (the Affordable Care Act) in 2010. The list could go on.

Each program, as well a subsequent amendments to it, was the product of unique social forces and was designed to address a specific social need. Had they all been enacted as one comprehensive program, lawmakers might have been more inclined to coordinate and focus on the combined tax rates, combined subsidy rate, marriage penalties and subsidies, combined incentive effects, enforcement and administration. They would have likely built a four-tiered health subsidy system that subsidized almost all Americans but in very uneven ways.[5] They unlikely would have phased out so many items that the nation's true tax system remains largely hidden.

The effective or real tax system faced by households includes the combined effect of direct taxes and the many phase-outs that take away benefits as each additional dollar is earned, in much the same way as an income tax. When the phase-outs occur in spending programs, I refer to them as "expenditure taxes" in parallel with the spending-like subsidies in the tax code which we call tax expenditures.

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[2] See Adam Carasso, Harry Holzer, Elaine Maag, and C. Eugene Steuerle, 2008, "The Next Stage for Social Policy: Encouraging Work and Family Formation among Low-Income Men," Washington, DC: Urban Institute; and Elaine Maag, 2015, "Investing in Work by Reforming the Earned Income Tax Credit," Washington, DC: Urban-Brookings Tax Policy Center.

[3] Michael R. Pergamit, Elaine Maag, Devlin Hanson, Caroline Ratcliffe, Sara Edelstein, and Sarah Minton, 2015, "Pilot Project to Assess Validation of EITC Eligibility with State Data," Washington, DC: Urban Institute.

[4] Interested parties may find the Net Income Change Calculator (NICC) to be of interest. The Urban-Brookings Tax Policy Center and the Income and Benefits Policy Center have collaborated with government and foundations to produce this tool, which can be found at http://nicc.urban.org/netincomeCalculator/. The 2012 update will soon be available. It allows individuals to generate a state by state analysis of tax and transfer benefits available to individuals and families as income, weekly hours, wage levels, and program participation varies.

[5] C. Eugene Steuerle, 2010, "Fixing the Nation's Four-Tranche Universal Health System," http://blog.governmentwedeserve.org/2010/10/28/fixing-the-nations-four-tranche-universal-health-system/

Means testing particularly represents a classic liberal-conservative compromise. Conservatives sometimes favor these hidden expenditure taxes because, relative to a direct tax, they make expenditure programs appear smaller and avoid raising the top rate of income tax (the rate often of most concern to supply side economists partly because other rates are less likely to apply at the margin). Liberals often favor expenditure taxes because they allow benefits to be concentrated more on those who are measured as being poorer. Programs with lower expenditure tax rates often extend net benefits to higher levels of income and are less progressive.

Often both conservatives and liberals support their stances by arguing that high tax rates on benefit recipients have little effect on behavior. While this may or may not be true, as discussed below, one really wonders why as a society we worry about 40 percent tax rates on the rich if 50 or 100 percent tax rates on poor and moderate income households have little or no effect. Are the poor really that different?

Note that we are quite inconsistent in how we decide when to means test or not. Public education, Social Security, and Medicare are more universal. Social Security, tax subsidies for employer-provided insurance, higher education benefits, and farm subsidies tend to be larger for those with higher incomes than those with lower incomes, though Social Security also applies a type of lifetime income test that tends to restore some progressivity. Head Start, TANF, and housing vouchers are concentrated on low income and are means tested at moderate levels. Child credits do not phase out until higher income levels. Medicaid provides a cliff effect: earn one more dollar and consequently lose a health insurance package that one dollar before was free. The new health exchange subsidies avoid that cliff and start phasing out at modest income levels but then stretch fairly high into the income distribution. The earned income tax credit phases in and then out.

**How Does It All Add Up to Create the Real Tax System?**

At the Urban-Brookings Tax Policy Center and the Urban Institute's Income and Benefits Policy Center we have done perhaps the most extensive work anywhere on the size of these combined tax rates.

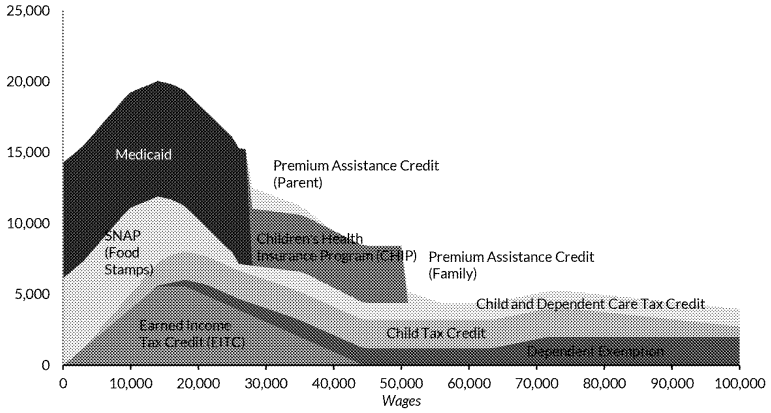
Let's begin by displaying two hypothetical cases for a more-or-less "universal benefit" and then an "expanded benefit" system for households with children. Case 1 (Figure 1a) considers a single parent household with children—the type of household most affected by these high tax rates—and estimates federal income taxes, employer and employee portions of the Social Security tax, dependent exemptions, child credits and dependent care credits, the earned income tax credit, SNAP, Medicaid, SCHIP, and the new health exchange subsidy for 2015. A focus on this set of programs is important because, in theory every household with children is eligible for these programs if its income is low enough. The benefits are generally not restricted by waiting lists and are universally available as long as recipients meet certain eligibility criteria, mainly income level, which can vary by state. In a sense, then, the tax rates levied by these programs apply to all households with children, though they may have moved out of the very high tax rate part of this regime when their annual earned incomes start to exceed $55,000 or higher and they have moved beyond the income cutoffs for several of the transfer programs. Put in terms of Figure 1a, these latter households have moved to the right along the horizontal axis beyond, first the high-benefit and low- or negative-tax rate regime (which applies to earnings of roughly $0 to $15,000), and then, the high-tax-rate regime (which applies to incomes of roughly $15,000 to $55,000).

Case 2 (Figure 1b) includes the same programs as Case 1 but also assumes the single parent with two children is receiving welfare cash assistance (TANF) and housing assistance. Please keep in mind that this is an extreme case, since only a small minority of low-income families receives all these benefits.[6] As a general rule, these additional programs are not universal, in contrast to those in Case 1. Rather, they are parceled out either through time limits for years of eligibility or through queues as to who may participate. Households are much less likely to benefit from the programs in Case 2 than those in Case 1. In Case 1, the family receives the most benefits at about $10,000 to $15,000 of earnings—a range where the EITC is fully phased in and most other benefits are not yet phasing out. In Case 2, where the household is on TANF and receives housing, maximum benefits are still available when earnings are closer to zero. Benefits drop off steeply as earnings start to grow.

FIGURE 1A

**Tax and Transfer Benefits for Universally Available Programs**

*Single adult with two children, 2015*



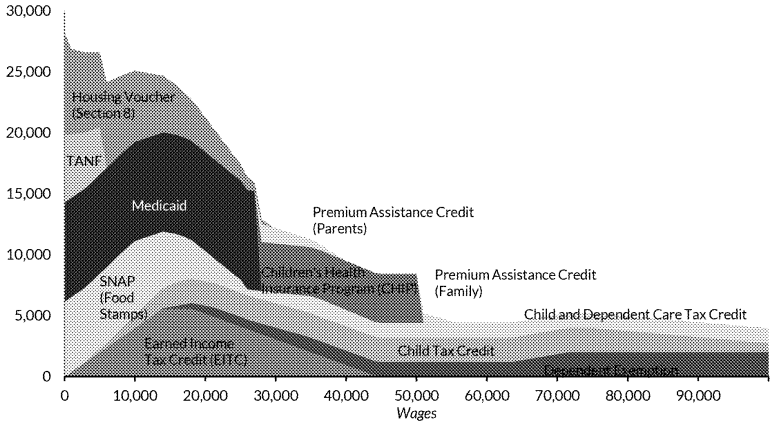

**Source**: Eugene Steuerle and Caleb Quakenbush, 2015. Washington, DC: Urban Institute.
**Notes**: Estimated value of tax and transfer benefits for a single parent with two children living in Colorado. Premium assistance credit excludes the value of penalties paid by employers on the beneficiaries' behalf and the value of additional cost-sharing subsidies. Health coverage and quality of services provided varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

[6] Congressional Budget Office, 2012, "Effective Marginal Tax Rates for Low- and Moderate-Income Workers," Washington, DC: Congressional Budget Office.

FIGURE 1B

Tax and Transfer Benefits for Universally Available and Additional Programs

*Single adult with two children, 2015*




**Source**: Eugene Steuerle and Caleb Quakenbush, 2014. Washington, DC: Urban Institute.
**Notes**: Estimated value of tax and transfer benefits for a single parent with two children living in Colorado. Premium assistance credit excludes the value of penalties paid by employers on the beneficiaries' behalf and the value of additional cost-sharing subsidies. Health coverage and quality of services provided varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

Figure 2 then shows the effective marginal tax rate that derives from the combination of income, Social Security, and state taxes, combined with the phase out of the various benefits shown in Figures 1a and 1b. As can be seen, tax rates bounce around but often reach fairly high rates.

A short summary of what is seen in Figure 2 appears in Figure 3, which measures the effective average marginal tax rate when this household increases its income from $15,000 to $55,000. That is, how much of the additional $40,000 of earnings is lost to government through direct taxes or loss of benefits? The average marginal tax rate in the first bar of Figure 3 equals 26.2 percent, based simply on federal and state direct taxes and payroll taxes, excluding the value of federal tax credits. The rate rises appreciably as the family claims federal tax credits and enrolls in additional transfer programs. For a family enrolled in all the more universal non-waitlisted programs like SNAP, Medicaid, and SCHIP, the average effective marginal tax rate could be 66.2 percent. Enrolling the family in additional waitlisted programs, like housing assistance and TANF, ratchets the rate up above 75 percent.

Put another way, while we might think of the income tax rate schedule as showing rates of 0, 10, 15, and 25 percent respectively at low and moderate income levels, the true rate schedule faced by these families includes rates ranging from minus 40 percent (from the initial phase-in of the EITC) to plus 50 and 75 percent.

The high tax rates especially affect the choice of a household with children to work full-time year round (if at a low wage) or to marry or stay married. I will return to these issues below. However, for those in the universal system, the structure does encourage at least some labor force participation, and those in TANF also face a variety of incentives to keep or take a job.

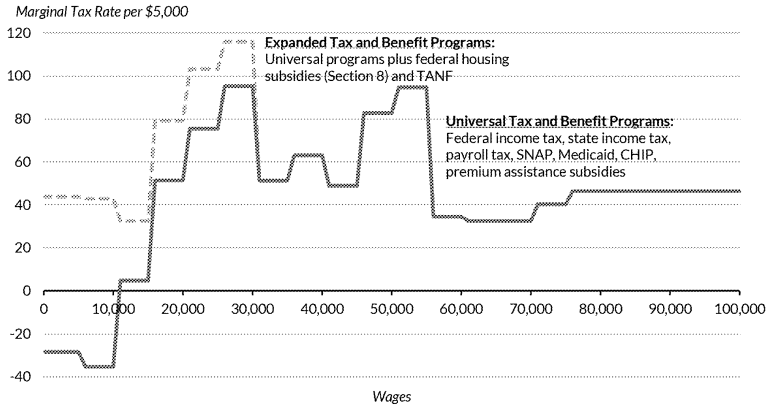
Several caveats are in order. A number of eligible households do not apply for benefits, such as the food subsidies for which they are eligible. Average rates across households will be lower than what you see in the figure because of less than full participation in the programs. Remember also that those who are childless are excluded from many of these programs. Also, child care grants and, for that matter, availability of free public education, can significantly reduce the cost of work.

On the flip side, we have not included a number of other items. Effective tax rates from work would be higher still if we included consumption taxes, transportation and additional clothing expenses, and, particularly, the out-of-pocket costs of child care. For many on unemployment insurance or disability insurance, benefits may be higher than the returns from a job, particularly if the new job pays less than the old one. Here also, taking a job for one month can result in the loss of months or years of benefits. Add these factors in, and the rate can exceed 100 percent.

FIGURE 2

**Effective Marginal Tax Rates**

*Single adult with two children, 2015*

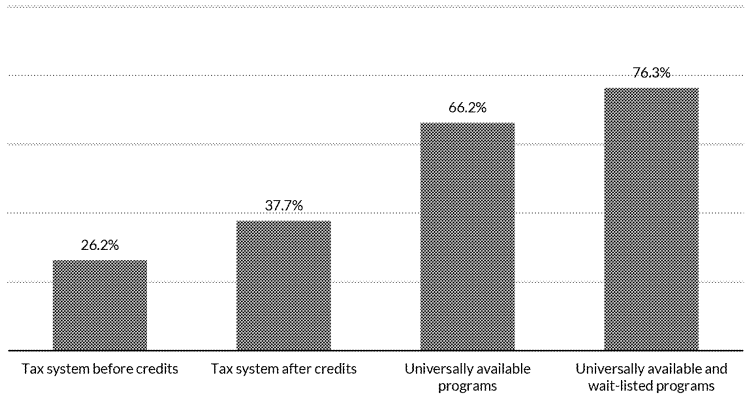



**Source**: C. Eugene Steuerle and Caleb Quakenbush. Urban Institute. 2015.
**Notes**: Average effective marginal tax rates facing a single parent with two children living in Colorado. The effective marginal rate is the marginal tax rate is calculated using changes in net income after taxes and transfers given changes in total compensation, which includes employee wages and the employer share of payroll taxes. The tax rate is then smoothed in $5,000 increments.

FIGURE 3

**Average Marginal Tax Rates Moving from $15,000 to $55,000 under Various "Systems"**

*Single adult with two children, 2015*




**Source**: C. Eugene Steuerle and Caleb Quakenbush. Urban Institute. 2015.
**Notes**: Tax rates calculated using changes in net income after taxes and transfers given changes in total compensation, which includes employee wages and the employer share of payroll taxes. The tax system includes federal and state (Colorado) income taxes and federal payroll taxes (employer and employee shares). Tax credits include the federal EITC, child and dependent care tax credit, and child tax credit. Universally available programs include SNAP (food stamps), Medicaid, the Children's Health Insurance Program, and premium assistance credits under the Affordable Care Act. Wait-listed programs include TANF and housing vouchers (Section 8).

### The Effect on Work

Economic theory tells us that distortions in behavior increase disproportionately with the marginal tax rate. However, these distortions can take different forms: less work, more work, and other behavioral shifts such as avoidance of marriage. Many empirical studies have attempted to isolate the net effect of these rates on work, and the results are mixed. Generally speaking, programs like the EITC and various work-related experiments show that those programs tend to encourage labor force participation. But they tend to discourage work at higher income levels, such as taking a second job in the family. This, of course, is what we might expect, since in a phase-in range the EITC increases rewards from work while providing no income to those who don't work (in economic terms, the substitution effect is positive and there is no income effect). By the time one reaches the phase-out rate, income is higher as well as marginal tax rates, and other programs are also phasing out. Therefore, disincentives are fairly high at this level.

Welfare reform in the mid- to late 1990s also attempted to cut the Gordian knot by making benefits conditional upon work. Generally speaking, work did increase after reform, although there is some dispute on how much was due to recently increased earned income tax credits, welfare reform, or the better economy. My own view is that they often combine in tandem and move some individuals beyond some hurdle level below which it may be better to work off the books or spend time negotiating with family, friends, or partners for monetary or housing support. Additionally, I believe

that one major reason for the increased work effort was that governors started telling their welfare administrators that they were going to be judged by how many people they got off welfare, rather than how many clients they served. Perhaps one of the most important conclusions is that a program that requires work will indeed encourage work more than one that does not. EITC and welfare reform have done better on the work front than did AFDC before them.

Design matters greatly. For instance, Medicaid will discourage work among the disabled more than a subsidy system such as adopted in recent health reform; on the other hand, health reform will probably encourage more people not now on Medicaid to retire early. I believe those numbers are reflected, though indirectly, in CBO's estimates of the effect of recent health reform on the budget and employment. Many workers face discrete choices to work or not work or try to take another job; it is often not easy to vary hours on any one job.

In my view, few of these empirical studies do a good job at telling us the long-term effect on behavior. Looking at the data over time, I conclude that the "income" effect—the consequence of having higher income—often is more important than the tax "rate" effect, which at times can encourage people to work more to make up the difference.

Some evidence on work disincentives comes from other programs. For instance, the availability of Social Security has almost certainly led to retirements of more than a decade longer than when benefits were first paid. No doubt there is a herd or group effect here, which is very hard to tease out by comparing people at a point in time. There are also psychological factors we are only beginning to assess. For instance, once on disability and sometimes unemployment, people develop different life patterns that become more habitual; for some, being out of work for a long time can also add to depression, which then rebounds on ability to work. As already noted, the disabled traditionally were reluctant to give up Medicaid. The signals that government shares with its people can be powerful, such as whether work is of intrinsic value to society; at the same time, government choices may reflect rather than develop such societal values.

Finally, asking whether government benefit programs provide disincentives to work may be the wrong question. Yes, they often do. Any such effects must be contrasted with the good they may do so as to form a judgment of their merit. Here, I think the more important question for the future is how we can create a better social welfare structure that still provides a safety net but with fewer distortions and unintended or undesired consequences. We have done a moderately good job at reducing hunger and poverty, but a mediocre job at promoting mobility, as well as providing opportunity and investment, rather than just adequacy and higher levels of consumption.

**Other Consequences**

**Marriage Penalties**. These high tax rates have also created hundreds of billions of marriage penalties for low and middle income households.

Essentially, when moderate-income couples marry, their marginal tax rate moves up from, say, 25 percent, to the 50 and 75 percent ranges shown above. For instance, a moderate income male marrying a working mother with children can easily cause her to lose EITC, SNAP, Medicaid, and other benefits as well.

Marriage penalties arise because of the combination of variable U.S. tax rates and joint, rather than individual, filing by married couples for benefits and taxes. If graduated taxes were accompanied by individual filing or if all income and transfers were taxed at a flat rate, there would be no marriage penalties. The EITC, by the way, can provide both subsidies and penalties, and Social Security generally provides very large marriage bonuses.

Someone looking at our system from Mars would conclude that we don't want moderate income families with children to marry, since we penalize them, but we do want older households (at ages when children are likely to be gone) to marry, since we subsidize them.

**Games Encouraged by Means Testing**. One thing we have learned in public finance is that taxes have significant effects on portfolio behavior even if there is less certain effect on work and saving. Not getting married is the major tax shelter for low- and moderate-income households with children. In many low-income communities around the nation, marriage is now the exception rather than the rule.

Marriage penalties or subsidies are assessed primarily for taking wedding vows, not for living together with another adult. Those who do not feel morally compelled to swear fidelity in religious or public ceremonies for the most part do not suffer the penalties. Similarly, someone with low earnings can gain all the benefits of living with another, be it parent or friend or lover, as long as there is no marriage. Our tax and welfare system essentially favors those who consider marriage an option—to be avoided when there are penalties and engaged when there are bonuses. The losers tend to be those who consider marriage vows to be sacred.

The games encouraged by high marginal tax rates extend well beyond the marriage patterns of low-income families. Divorced couples allocate child support so as to maximize future college aid. Some couples avoid remarriage to avoid losing Social Security or pension benefits. As noted, the disabled sometimes avoid work so as to keep Medicaid, while some of the unemployed delay going back to work. Both the justice and integrity of our tax and social welfare systems become threatened when such behavior becomes extensive.

**Options for Reform**

Perhaps the best way to think about social welfare reform is to think ahead a few decades. Even if economic growth slows, we likely will be much richer and have an expanded social welfare system regardless of whether that system occupies a larger or smaller part of that overall economy. What do we want that future system to look like?

I believe we are at a major fiscal turning point in our history. At one level, it is forced on us by an unsustainable budget, but at another level it gives us the opportunity to reconsider broader changes to our tax and social welfare structure. In that regard, I believe all of the following deserve strong consideration:

1. **Integrating social welfare programs.** An integrated approach to reform would stop adopting all these tax systems one at a time, with little consideration of how they fit together.

2. **Emphasizing opportunity and education more and adequacy and consumption less**. Long-term reform could also put more emphasis on opportunity, education and work and less on adequacy and increasing consumption levels.

3. **Putting more tax rates directly into the tax code**. A transparent system would replace some implicit taxes with explicit ones, forcing a more explicit recognition of the tax system we have developed. Just as eliminating tax expenditures appears to increase the size of government when it does not, substituting direct for expenditure taxes appears to raise taxes when it may not actually raise them.

4. **Getting health cost growth under control**. Much of the higher tax rates, both direct and through phase-outs, are generated by the ever growing share of the economy and the government budget devoted to health care.

5. **Making work an even stronger requirement for receipt of other types of benefits.** This type of approach need not reduce benefits overall, since some or all of any additional saving could be applied to those who do work.

6. **Adopting a maximum marginal tax rate**. A partial approach at integration would attempt to create some maximum tax rate for several or many programs.

7. **Letting child benefits go with child, work subsidies go with low-wage workers.** The EITC provides wage subsidies to low-income workers raising children, but then leaves out other low-wage workers and usually creates high tax rates when two earners marry. Reform could separate out the subsidy for children from that from low-income workers.

8. **Reducing marriage penalties through various mechanisms.** Allow for individual subsidies to accompany low-income workers even if they marry someone else with earnings; flatten the tax rates for some programs; and in the EITC separate some of child-related benefit from the benefit for additional work. In this regard, there are better ways to provide benefits to those excluded from the current EITC, essentially by providing an individually based worker credit rather than a "childless" worker credit that would penalize low earners who marry.

Innovative approaches need to be tried. Pilot projects could enhance the ability of local officials to combine together existing subsidies and allow them to be spent on other items, e.g., education or even moving closer to a job. A person might qualify for help, but the exact nature would depend on agreement between the case manager and client, allowing them together to reallocate resources for which the client is eligible. That reallocation would likely increase labor force participation, as it would be largely aimed at improving opportunity and addressing issues that cause the poverty in the first place.

**Conclusion**

In summary, we don't need to answer that perennial debate over size of government relative to the economy to come to some agreement that we can create a more robust social welfare policy, one that promotes better both individual and economic growth. With some exception, 20th century social welfare policy has entailed a liberal-conservative compromise that has never had a primary focus on mobility and opportunity, upon work and the gains that come about when individuals or households unite in marriage and other joint efforts. It has also failed for the most part to integrate programs efficiently and equitably, leading to high combined marginal tax rates, a weakened ability to adjust to individual circumstances, a lack of coordination among programs serving the same people, an inadequate targeting of benefits to those who qualify, and—relative to a focus on human capital and work—a lower growth rate for the economy as a whole.



And we now welcome Ms. McCorkle. We are glad you were able to make it. I know transportation can often be treacherous around here. But anyway, we certainly welcome you, and you may proceed with your testimony.

**STATEMENT OF CHANEL MCCORKLE, BALTIMORE, MD, ACCOMPANIED BY MARSHA NETUS, DIRECTOR OF OPERATIONS, AMERICAN WORKS, BALTIMORE, MD**

Ms. MCCORKLE. Hello. How is everyone today? Thank you for allowing me the opportunity to testify before you today. My name is Chanel McCorkle, and I am grateful to share my story.

I moved to Baltimore in April 2011 with my daughter and her father. We were new to Baltimore and had no place to go. I moved in with my two sisters and was told about the City Homes program. I was told it was an organization that would help me find affordable housing for my family and me.

The same day I applied, I was rejected. According to City Homes, I had not worked in the State for at least 18 months and therefore was ineligible for assistance. Forced to remain with my sisters, my next step was to go to the Department of Social Services for additional support. Fortunately, I was granted food stamps and medical assistance.

I found a job at Rite Aid Pharmacy as a cashier making $9 an hour. When I let the Department of Social Service know of this job and my earnings, they dramatically lowered my food stamps. The $200 reduction made it difficult to make ends meet.

One year later, I found a better opportunity as a grill chef at St. Joseph's Hospital. The full-time position required me to find and maintain stable and reliable daycare for my 3-year-old daughter. I again went to the Department of Social Service for help. I applied for daycare vouchers and was turned down. I was informed that $11 per hour was too high of an income to receive vouchers. I was forced to rely on friends, family, and neighbors to babysit while I worked.

I found myself bouncing my daughter around from place to place, from person to person, in order to keep my job. After a while, the holes in my daycare situation became more and more apparent as friends and family were not able to commit full-time due to their own work obligations. I struggled with my attendance every day, and over the course of 2 years, I was calling out weekly due because I had no sitter for my child and I could not afford to pay a childcare center.

In 2012, I became pregnant with my son, and after he was born, I needed additional help with childcare. I added him to my social service case and still was not eligible for daycare vouchers. I was eventually let go from St. Joseph's Hospital for missing too many days of work.

After I lost my job, I applied for temporary cash assistance through the Department of Social Services. Thirty days after I applied, I was granted cash assistance and immediately received daycare vouchers and an increase in food stamp assistance. The daycare vouchers I so desperately needed while I was working were finally granted to me after it cost me my job.

I was also placed with America Works of Maryland, Inc. America Works taught me how to dress professionally, answer interview questions, format a resume, and seek current and worthwhile job opportunities. I feel like I had to lose my job in order for social service to really help me.

I have recently accepted a job working 40 hours per week with excellent benefits. I am really excited to return to work. I know that after the Department of Social Service gets notified, I will lose some, if not all of my benefits, and that is scary. I am sure they will take my daycare vouchers from me or make the copayment too high, my food stamps will be decreased or nonexistent, and my medical benefits may end.

I have tried to make provisions if those things should happen. I have just started to get back on track, and I know I am well on my way, no matter how much of an uphill battle it may be. I am fighting to get back to work to support my family and become independent once again.

Thank you for allowing me this opportunity. I look forward to any questions.

Chairman BOUSTANY. Thank you, Ms. McCorkle, for sharing your story with us.

For the members, we have three votes. There are about 9½ minutes left. We are going to continue for a while longer, and then we will recess for votes when we get down a little further on the clock.

With that, Ms. Netus, you may proceed with your testimony.

Ms. NETUS. Chairman Boustany, Chairman Walorski, thank you for the opportunity to speak before the committee today. I would also like to thank the House Ways and Means Committee Chairman Paul Ryan and the rest of the distinguished committee members. My name is Marsha Netus. I am the vice president and general manager of America Works of Maryland, Inc. It is my pleasure to testify before you today.

America Works was founded in 1984 and was the first for-profit company dedicated to helping individuals become self-sufficient through employment and retention services. Founder Peter Cove and president and CEO Dr. Lee Bowes made it their life mission to improve workforce development programming by connecting socially deemed hard-to-serve job seekers with private sector employment.

In 1997, the Maryland office located in downtown Baltimore was opened with the goal to help long-time welfare recipients find unsubsidized employment. Since then, the Maryland office has expanded its services to assist even harder-to-serve populations, such as violent ex-offenders who have been incarcerated for at least 1 year, long-time SSI or SSDI beneficiaries, disabled veterans, and youth aging out of foster care.

Collectively, we have placed over 10,000 people into stable employment. Our networks of employers rely on us to connect them with qualified individuals eager to work. I have been part of this branch since its inception, witnessing the implementation of the Personal Responsibility and Work Opportunity Act through the transition to the Deficit Reduction Act of 2005.

Through my observation, regardless of the population served, Chanel's testimony demonstrates a true reality for those facing upward mobility. Fear is linked to the reality of the clients we serve. Even when finding clients to testify before you today on their realities of life, fear surfaced among them that retribution could occur, making an already difficult situation worse, like sanctions for choosing to be selective with employment.

Individuals will turn down a job for fear their other support services could be interrupted. Here you have Chanel, a single mother raising two young children, highly motivated to work, but apprehensive of taking full-time employment because although she will earn a livable wage, her daycare copay and the loss of food stamps could keep her in the same socioeconomic status as before employment.

When I met Chanel, she was elated to share she was hired at the new Amazon distribution center in Baltimore, a 40-hour-a-week job with excellent benefits, but gravely concerned that this opportunity could result in a repeat of the past. She had great jobs before, decent wages, good benefits, and chances to create a career path for her family, but lost them because although it sounds like a good situation, the reality is she still needed transitional assistance.

Although she is excited about this new opportunity, she is feeling a bit leery about her outcome. Will this really be the chance to get off the system? Although our retention team will provide her with the guidance and supports needed to succeed, certain supplements are simply out of our control. Clients have declined good jobs for fear it could affect their extended supports, such as housing, child care, medical assistance, and food stamps.

As wages increase, the likelihood of the client contributing more equally increases. Our experience has found that there are others that will just take the opportunity, eager and determined to provide more for their families, only to result in being terminated because the reality is they are still relying on public assistance like daycare vouchers.

Without a true support system, they cannot make it work. Sadly, once their earnings exceed a federally defined hardship amount, they no longer qualify for assistance, and in all likelihood it may be eliminated altogether.

This could be the case for Chanel. Despair enters their world, and my staff and I aggressively work to instill hope back into their lives. This is even more challenging for those who have gone through specialized training programs.

Chairman BOUSTANY. Ms. Netus, because of the vote schedule, can I get you to wrap up on your oral testimony? We have your full written testimony for the record.

Ms. NETUS. Sure.

[The prepared statement of Ms. McCorkle and Ms. Netus follows:]

Statement for the Record

**Chanel McCorkle**

**Candidate**

**America Works of Maryland, Inc.**

June 25, 2015

United States House Committee on Ways and Means

Subcommittee on Human Resources

Subcommittee on Nutrition

*How Our Welfare System Can Discourage Work*

Chairman Charles W. Boustany
Subcommittee on Human Resources
United States House of Representatives
Washington, D.C. 20515

Chairman Jackie Walorski
Subcommittee on Nutrition
United States House of Representatives
Washington, D.C. 20515

June 25, 2015

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I found a job at Rite Aid Pharmacy as a cashier making $9.00 per hour. When I let the Department of Social Services know of this job and my earnings they dramatically lowered my food stamps. The $200 reduction made it difficult to make ends meet.

One year later I found a better opportunity as a grill chef at St. Joseph's Hospital. The full time position required me to find and maintain stable and reliable day care for my three year old daughter. I again went to the Department of Social Service for help. I applied for daycare vouchers and was turned down. I was informed that $11.00 per hour was too high of an income to receive vouchers. I was forced to rely on friends, family, and neighbors to babysit while I worked. I found myself bouncing my daughter around from place to place and from person to person in order to keep my job. After a while the holes in my daycare situation became more and more apparent as friends and family were not able to commit full time due to their own work obligations. I struggled with my attendance every day and over the course of two years I was calling out weekly due because I had no sitter for my child and I could not afford to pay a childcare center.

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Statement for the Record

**Marsha Netus**

**Vice President and General Manager**

**America Works of Maryland, Inc.**

June 25, 2015

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Fear is linked to the reality of the clients we serve. Even when finding clients to testify before you today on their realities of life, fear surfaced among them that retribution could occur making an already difficult situation worst, like sanctions for choosing to be selective with employment. Individuals will turn down a job for fear their other support services could be interrupted. Here you have Chanel, a single mother raising two young children highly motivated to work but apprehensive of taking full time employment because although she will earn a livable wage, her daycare copay and the loss of food stamps could keep her in the same socioeconomic status as before employment. When I met Chanel she was elated to share she was hired at the new Amazon Distribution Center in Baltimore, a 40 our per week job with excellent benefits, but

gravely concerned that this opportunity could result in a repeat of the past. She has had great jobs before - decent wages, good benefits, and chances to create a true career path for her family - but lost them because although it sounds like a good situation, the reality is she still needed transitional assistance. Although she is excited about this new opportunity, she is feeling a bit leery about her outcome. Will this really be the chance to move off the system? Although our retention team will provide her with the guidance and supports needed to succeed, certain supplements are simply out of our reach.

Clients have declined good jobs for fear it could affect their extended supports such as housing, childcare, medical assistance, and food stamps. As wages increase, the likelihood of the client contributing more equally increases. Our experience has found that there are others that will just take the opportunity, eager and determined to provide more for their families, only to result in being terminated because the reality is they are still reliant on public assistance, like daycare vouchers. Without a true support system, they cannot make it work. Sadly, once their earnings exceed a federally defined hardship amount they no longer qualify for assistance, and in all likelihood it may be eliminated altogether. This could be the case for Chanel. Despair enters their world and my staff and I aggressively work to instill hope back into their lives. This is even more challenging for those who have gone through specialized training programs, often at a financial cost to themselves through student loans, never resulting into employment yet alone with earnings initially marketed to them. These trainings or educational programs toy with their drive towards financial independence, often leaving them in more of a hardship then before. America Works has developed several programs where skills development is in direct correlation with private sector needs, providing the individual with not only the theory aspect of the job but realistic experiences of understanding. This method produces a higher probability for success, securing the longevity of a position.

I petition the committee to truly evaluate the transitional process or support systems for helping low income working families leave the welfare system. Unfortunately the priority is aimed at ensuring full participation of work activity, as defined by the law to not accrue penalties, instead of a system designed to guarantee stable employment. Through our experiences, we know people want to work, with proper matching there is a job for everyone, but we need an unmitigated system to ensure longevity of employment which will result in the reduction of the welfare rolls.

Thank you for the opportunity to testify before you today.

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Chairman BOUSTANY. Thank you.

Ms. NETUS. Often at a financial cost to themselves, never resulting in employment, yet alone earnings initially marketed to them.

America Works has developed several programs where skills development is in direct correlation with private sector needs, providing the individual with not only the theory aspect of the job, but the realistic experience of understanding.

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Through our experiences, we know people want to work. With proper matching, there is a job for everyone, but we need an unmitigated system to ensure longevity of employment, which will result in reduction of the welfare rolls.

Thank you for the opportunity to testify before you today.

Chairman BOUSTANY. Thank you, Ms. Netus.

I will inform members that we have just over a minute left on the vote if members do want to break out to vote. There are three votes. And when we do recess for the vote, we will come promptly back and resume the hearing.

So with that, I will begin questioning of our witnesses. We will go through a round of questions.

These programs, we have a myriad of welfare programs that have been created over a course of years. They were individually designed to help families in need. But the collective effect of this, as we have heard in testimony, can discourage people from working and make them actually financially worse off because of cliffs and the things that we have heard about.

Ms. McCorkle, your story is very compelling and very helpful to us, to give us a real-life example of what happens, because our goal is to help individuals like yourself who are trying to do the right thing, working hard day in and day out to do the right thing, taking a job, trying to get ahead, trying to improve, but we want to make sure that these programs work appropriately and don't penalize you when you try to do the right thing.

So in your opinion, how are we doing, based on your experience?

Ms. MCCORKLE. Based on my experience, I feel like you are doing okay. I just feel like you should allow more time, don't just snatch the benefits away from the client because they found a job. Give like a couple of months to get yourself together. If you didn't save money, give you time to save your money, give you time to just get yourself established, and then decide if you are making enough money, you can handle it, then go ahead and take it out. Don't take it all the way away, just knock it down a little bit until they are established enough to actually get off the system.

Chairman BOUSTANY. So as you were looking to go back to work, were you afraid that you might end up worse off? Did you encounter fear or were you concerned? And then once you went back to work, did you feel like, "Well, this is not working out for me, I am worse off"? Is that the case?

Ms. MCCORKLE. When I wasn't working, I felt like everything was okay. I went back to work, I felt like I was worried because of the hours I was working. You couldn't find a daycare open for those hours, and then you couldn't pay the cost, and then you had to find people. But then if the people didn't work out for you, I had to call out, so I was worried.

So I am not working now, but I do start my new job tomorrow. I will be back. I am excited. At the same time I am worried about losing the vouchers or having the copay too high. You just start getting paid, so how are you going to pay your copay, and then you have to pay somebody to watch your kids. So it is actually like a worry. And then they are going to cut your food stamps, so who is to say you made enough to put enough food in your house for your kids?

Chairman BOUSTANY. Did you feel like you were in a trap?

Ms. MCCORKLE. It kind of does, yes.

Chairman BOUSTANY. Okay.

Ms. MCCORKLE. It does.

Chairman BOUSTANY. Thank you. Your story is very strong. It is a very helpful story to us because it is a real-life example of what we are trying to deal with as we coordinate these programs.

Individually the intentions have been good over time to create a good safety net, but the problem is, the way these programs have interacted, I think they are not fair to individuals like yourself. And so the whole purpose of this in coordinating with the other committee is to try to figure out how we can better make these programs work for those that they are intended to help.

Dr. Steuerle, this problem, I assume you would answer yes, that this problem calls for a national answer. This is a national problem. It is Federal policy interacting with State policy. But we need certainly guidance from Congress as we clean this up.

Dr. STEUERLE. I think that is correct, Chairman Boustany. And part of the issue, as you say, this issue has arisen over the years and the decades, and the question is whether there is any quick fix.

Part of what I am trying to lay out in my testimony is, is if we think ahead 15, 20 years when resources in the economy are going to be greater, we can, I think—I think we have an established base to provide people minimum levels of consumption. I think we can start moving on this particular problem.

So, for instance, primary education, we don't think of it, creating marriage penalties and work disincentives. There are a lot of things we do. Visiting nursing programs that a number of people are engaged in.

The other issue, which nobody wants to address a lot, is a lot of this has arisen jurisdictionally when spending used to be determined by the expenditure committees and taxes were basically paying for public goods. Now that we have about $35,000 on average per household in transfers coming from the government, now the tax-writing committees do transfers, the spending committees do taxes.

And so I think there is a jurisdictional issue too that you are trying to address by having this joint committee of how you can make joint decisions about these issues, and I don't think that is resolved at all.

Chairman BOUSTANY. Right. Yeah. Well, I think we are just getting started on that, and hopefully we will be able to clear up a lot of this. But then the other issue is how do you empower those closest to those in need, working with the States and people at the State level to coordinate those efforts? Because we have to do work up here, but we also have work at the State level since these are combined programs.

Dr. STEUERLE. So I have a lot of options in my testimony, but one of them is to think about giving at the State level, there is this debate about whether you actually give grants to the States, but you could give State workers more flexibility to, say, combine some of the programs, provide the same level of benefits, say, to somebody who is getting these benefits, but merge them in a different way. Maybe they need transportation, maybe they are willing to sacrifice something to do education. To create a little more of those types of options I think——

Chairman BOUSTANY. More of a customized casework approach perhaps, with the flexibility built in.

Ms. GOLDEN. Can I comment?

Dr. STEUERLE. In conjunction with the client.

Chairman BOUSTANY. Yeah, Ms. Golden, quickly, because I have to run to vote here.

Ms. GOLDEN. I am just going to comment on Ms. McCorkle's situation and your courage.

First of all, you should be a reassured. Given the numbers in Maryland, you should end up with your income almost doubling, and that is because of one thing that is Federal, just to highlight the committee's jurisdiction, the Earned Income Tax Credit and the Child Tax Credit.

But second, I want to highlight your concern about child care, which again goes to that Federal-State relationship, is an enormous issue for mothers across the country, and the challenge there, I think, is not flexibility but money. The State of Maryland does enable people who leave welfare to stay on child care, but you couldn't get on before when you were working because they have a waiting list, and that is because, flexibility or not, they just need those resources and they can't stretch them far enough. So I think that is a piece of the Federal-State dynamic.

Chairman BOUSTANY. Thank you.

I am going to have to recess the hearing now. We have votes. We have three votes. We will resume immediately upon concluding the last vote. So with that, the committee stands recessed.

[Recess.]

Chairman BOUSTANY. The subcommittee will now resume proceedings. And given that I have concluded my questioning of the witnesses, I will now turn to Mrs. Walorski for questioning.

Mrs. WALORSKI. Thank you, Chairman Boustany. And, again, thank you to the panel for being here.

Ms. McCorkle, I didn't get a chance to say hi when you came here, and we just came back from votes. But thank you so much for being here and testifying, Ms. Netus as well accompanying her. We have all the experts here. We have seen the graphs, so we have studied this. But you are the one that has actually lived through the process. So when we talk about, we have been talking about this cliff, this welfare cliff. And so my question to you is do you think the welfare cliff is real, and if so, can you just talk about the challenges of this whole process of reentering the workforce.

Ms. MCCORKLE. Yes, I believe the cliff is real. It is what I am experiencing. The process of going through work is it is really easy to find the job. It is really easy to get the job. It is just really hard to keep the job if you don't have the support you need to help with child care and child care is being a big issue, then it is kind of hard to keep your job.

Mrs. WALORSKI. And so, Ms. Netus, if you could also kind of fill in here, and with what your organization does, and kind of like tie in this network and web together. So is Ms. McCorkle an exception to the rule? Do you see this pretty much as a—they have a new phenomena of this cliff?

Ms. NETUS. Chanel is actually—she is common. Most of the people coming through the door that have moved on into permanent

employment, as I stated earlier, are very fearful because, not only Chanel, her greatest fear is child care. I have a number of participants whose fear is housing. The moment they start working, their housing expenses start to rise. We also have a number of individuals that deal with just food stamps. As Chanel mentioned as well, too, that once they start working, the month after, their food stamps are more than likely adjusted.

Mrs. WALORSKI. Yes. I need to pause you there.

Ms. NETUS. So it is common.

Mrs. WALORSKI. Mr. Steuerle, I just have a really quick follow-up on something you said as well when you talked governors and changing mind sets, things like that. What can local and State governments do? What kind of role can they play in this whole mobility issue?

Dr. STEUERLE. I don't know what they can do directly. I do sense, as I responded to Chairman Boustany, I think we can give them more options to think about combining or merging programs or giving—say, a recipient is eligible for a given level of benefits, to take that level of benefits and split it some other ways maybe for transportation, education, or something. Maybe they are willing to accept a little bit less food stamps. The complication is a lot of cases, they don't have the jurisdiction. There is a huge jurisdictional splits. It is also an issue that my colleagues have dealt with a lot. There is not one-stop shopping for the client as well. So there is all sorts of coordination. One thing you might try to provide incentives as far as just figure out ways to get these data sets together so we can actually figure out what is going on state local levels.

Mrs. WALORSKI. I appreciate it. My time is up. Mr. Chairman, I yield back my time. Thank you.

Chairman BOUSTANY. Now I yield to the ranking member of the subcommittee, Mr. Doggett.

Mr. DOGGETT. Thank you. And thanks to each of you for your important testimony. I am pleased to note that as you have been testifying, Chief Justice Roberts writing for six members of the United States Supreme Court has upheld the health care security of many of the people that we are talking about right now. As he wrote, quote, "Congress passed the Affordable Care Act to improve health insurance markets, not to destroy them." And he rejected the rejectionist argument that he said would, quote, "likely create the very death spirals that Congress designed the Act to avoid."

So I hope that as we address the issues that you are raising in your important testimony, that we will learn from the Affordable Care Act; we will cease the 60-plus attempts to repeal it, and get about the business of how we improve and strengthen it. And as it relates to this whole question of cliffs, how we can learn from the important legislative changes that were made in the Affordable Care Act.

Let me ask you, Ms. Golden, I appreciate your answer to the last question, to talk a little more about what I refer to as the block-headed approach of giving States like Texas that are rejectionist States, that have rejected the Affordable Care Act, despite the 800,000 Texans that are benefiting already from these marketplaces and the many more who could benefit from the expansion

of Medicare, what the likely effect is of providing Texas and other such States a block grant, and how block granting programs like SNAP are giving the States the option of pushing multiple programs into one block grant program? What will that likely actually do for the working poor, for the people that are out there struggling with two or three jobs but don't really have a living wage?

Ms. GOLDEN. So I think we know——

Mr. DOGGETT. Would you turn your——

Ms. GOLDEN. We know a lot about the disadvantages of block grants, that they risk turning back the successes of the safety net and making the work issues worse. You note the State choice around Medicaid. Ms. McCorkle doesn't have to worry about her health insurance because Maryland made the right choice on Medicaid expansion. In Texas, she would have to worry about it.

So a couple of things about block grants. One is that they, in every case I can think of in the poverty and human services area, they go down over time. TANF is down by 40 percent. Child care, my written testimony says, we are serving, you know, the fewest people we have for a dozen years. And not only do they go down over time, they don't respond to economic trouble.

So during the recession when family need was greatest for those struggling low-income working people, SNAP and Medicaid responded to that need, kept people access to health insurance and food, TANF as a block grant did not.

As you know, they raised the big problem of State—of differences by State. So that the benefits for children that I talked about, depend on where a child is born. And the forth thing, which I think is a very big issue, they don't solve the problem that has been identified today. If the State of Maryland, which we were just hearing about, is not able to provide sufficient child care benefits, to make sure that people are able to keep that for, you know, for the long—a long time, or to get it when they are in low-wage work, that is not about flexibility. It is not that that family needs child care instead of healthcare coverage for their kids, it is about dollars.

And the Congress has come to a bipartisan reauthorization of child care legislation. There is money proposed by the authorizing committee for that. There is a proposal by the President in his budget for expanding dollars. Child care is very flexible. States get to make lots of choices about how to spend it, but flexibility doesn't compensate for not having the resources to meet the needs that you have got.

Mr. DOGGETT. Thank you, so much. I yield back, Mr. Chairman.

Chairman BOUSTANY. Now I go to Mr. McGovern.

Mr. MCGOVERN. Well, thank you. And I appreciate your answer to Mr. Doggett's question, because I think—you know, I think we want to be clear here, that when people are talking about block granting programs, they are not talking about expanding the resources that States have to be able to do more. And, you know, earlier, I think Ms. Netus was talking about Ms. McCorkle's issue with day care. But that was—that was a problem with the day care block grant in Maryland. And my colleague from Illinois, Mr. Davis, when he comes back, might be able to respond with some information about how Illinois is doing a better job with their day

care block grant. But it points out, I think, how States have to make tough choices when it comes to block grants that are—you know, that don't mean that we are expanding resources.

On the issue of the cliff, I understand, because I bumped into people, you know, who have told me their stories. But the challenge is, the problem they talk about is that the benefits earn—end too soon. They would like them to continue. I think that is something—I think we should have that discussion. But let's be honest, that is going to require additional resources, which I think—I don't know where the mind set of the current leadership in this Congress is, but it is probably not in that direction.

But, Ms. Golden, I mentioned in my opening statement that I think if you work in this country, you ought not to have to live in poverty. And it infuriates me that, you know—that there are too many workers in this country who earn such abysmally low wages that we tolerate here, in some cases even encourage by some of our policies here, but these people still qualify for a lot of these benefits, including SNAP.

The American taxpayer is subsidizing low-wage work in this country. Can you talk about how raising the minimum wage to a livable wage might actually help people transition off of SNAP? Because a livable wage is what we want here. It is not just going to get people into the workforce. We are doing that, and people are still so poor. How do we—how could that help here?

Ms. GOLDEN. So, I am glad you raised that, because one of the things I highlight in my testimony is that the problem for low-wage workers is a lot about the labor market. The public safety net programs are doing a lot of what they need to do very successfully, but when you look at, say, kids in poverty, 70 percent of them are living with someone who work, a third of are living with someone who works full-time full year. So the issues are wages that are too low and hours that are insufficient, and jobs that are transient and impermanent.

So addressing the problem of wages essentially offers the opportunity for someone to raise kids and work in a family-sustaining setting. And I want to note that I think it also probably makes it easier for them to above up beyond that. Because we do a lot of work at CLASP also on workforce training, post-secondary education. And if you are trying to balance work, school, and raising kids, having enough income from the work piece so that you can do the whole thing is virtually impossible at the minimum wage. So I think that that is a very important piece.

Mr. RANDOLPH. May I interject, Mr. Chairman, and answer that same question?

Chairman BOUSTANY. Quickly.

Mr. RANDOLPH. When we modelled the welfare cliff in Illinois, actually increasing the minimum wage would not help the family that we looked at. Because if you actually take a look at the charts that are provided in the data, that if a person moves from the minimum wage up to $12 per hour, that it is relatively flat. There is not much advantage at all. If you raise it beyond that, you push them off the cliff so that they are actually harmed.

Mr. MCGOVERN. By the way, I am talking about a livable wage.

Chairman BOUSTANY. The gentleman's time has expired.

Mr. Young, you are recognized.

Mr. YOUNG. Thank you, chairman. You know, I have long been intrigued by what has become a very popular formulation. I think J.F.K. first said it, or at least it first caught fire when he said, a rising tide lifts all boats. And I think that generally is the case. We need to do those macroeconomic things, like reform our Tax Code, reduce the number of burdensome regulations, and so forth so that that tide can rise. But I think it is clear now, when you look at the data, when you visit with enough people, that there are some boats that require patching.

And I see a unique role, not necessarily for the Federal Government, in many cases for State governments to tailor programs to unique needs of, say, the State of Indiana where I hail from as opposed to Massachusetts or California. I also see a real role for what still, to this day, is the most vibrant civil society in human history. Mr. Randolph, perhaps you could speak to some of those interventions we have seen at the State level, the local level, our churches, our not-for-profits, what role do they have ensuring that people get back to work and enter sort of the path to upward mobility?

Mr. RANDOLPH. Yes, thank you.

I think you are right. If we really want to solve the problem and really help people, you want to involve these nonprofit organizations. A number of them are faith-based, and they can be extremely helpful. There are a number of them around the country, that they call pathways, I think what, pathways out of poverty. And they actually provide coaching and a number of things to help individuals come out.

Did I understand your question correctly? Did I answer the question?

Mr. YOUNG. You did indeed.

Mr. RANDOLPH. Okay.

Mr. YOUNG. The purpose of this program—this hearing, rather, is to investigate some of the distortions that are created by our government programs, the disincentives created for someone going back to work. So I was particularly struck by your example. I think the calculations you made work, someone from Lake County Indiana, a single parent, working at $12 an hour, which amounts to $22,000 a year, would rationally say, no, I am not going to take this $18-an-hour job offer, which amounts to $40,000 a year because, you know, it is—I would end up losing money in the whole course of this sort of calculation. And this is—this is an abomination and something we need to solve here.

Mr. RANDOLPH. You are correct again. I mean, just think of it from the point of view of that single parent. I mean, they have children to take care of, and their decision is going to be in the best interest of their family and their children. So if we put them in a position where they have to turn down a higher paying job, then that is wrong. And it happened. I mean, it happened in Maryland, but it happens in other places. It happens in Illinois; it happens in Pennsylvania. I actually helped managed a focus group in Pennsylvania that looked at some of these issues, and we heard a number of different stories that said basically the same thing.

Mr. YOUNG. So two tracks here: Patching the boats and removing the disincentives created by the Federal Government, and I think we will be in a better spot. I yield back.

Chairman BOUSTANY. I thank the gentleman.

Next we will go to Ms. Fudge.

Ms. FUDGE. Thank you very much, Mr. Chairman. I appreciate it.

I am not even sure where I want to begin today. But let me just say this about the historic nature of this hearing today. The only thing that is historic is we have spent about 6 or 7 various hearings on SNAP. We have spent almost that many on child nutrition just as if there is nothing else going on in the world or in this Congress. That is what is historic, that we have spent so much time feeding one issue today.

I sit and I listen to people talk about how people calculate whether they are going to take a job making $18 an hour from one making 11 because they are going to lose it. The average person has no clue what the value of their benefits are. They don't sit and make that kind of a calculation. And there is nothing that you can say to give me any data that they do, other than what you said to them.

There is nothing. There is no proof anywhere that being on public assistance discourages work. There is no proof of it. It is just something that people want to talk about. Absolutely no proof. Maybe what we should be discussing is ways to lift people out of poverty by raising the minimum wage, extending paid sick and family leave for all workers so that their parents don't have to risk losing their jobs to take care of a sick child or a parent, and we need to be talking about enhancing and permanently extending tax credits for working families.

But maybe what we should talk about is corporate welfare. What is their disincentive? They get more money from the Federal Government than all the poor people that you are talking about. Why don't we talk about corporate welfare? These are people who work every day? They are not lazy, but they get corporate welfare. Even in the Tax Code they call it an entitlement. But we never talk about them. We only talk about poor people. And at some point you just have say to yourself, what is the point? What is it that we are trying to do? We are talking about SNAP incentive farm bill. We passed the farm bill. It was a 5-year farm bill. Why are we talking about it? It is done. I don't understand we are wasting this kind of time.

Ms. Golden, could you tell me why you think you are here today really?

Ms. GOLDEN. I think that—so, first of all, may I just support your point that these facts don't make sense to you, because I think we have looked at some of the calculations in Mr. Randolph's report, and the housing calculation. In fact, it doesn't work that way. People don't get pushed off when their income hits. They stay on. They just can't come in new at that level. So I think one of the lessons is many theoretical calculations, in fact, aren't true the way the program happen on the ground.

In terms of the reasons for this hearing, I will tell you my hope. I won't tell you what I would worry about. My hope is that we are

here to talk about the extraordinary successes of the safety net, Like the fact that we have sharply reduced poverty; we have insured that the safety net supports work for the vast majority of low-income people, and that we are getting evidence about how it supports children's life-long effectiveness, and then maybe we will talk about some of the practical next steps that you have highlighted that the committees could take, like extending the earned income tax credit further, like increasing investment in child care. So those would be my hopes for what would come out of it.

Ms. FUDGE. Thank you, Mr. Chairman. I yield back.

Chairman BOUSTANY. I thank the gentlelady.

Next we will go to Mr. Davis. You are recognized.

Mr. RODNEY DAVIS OF ILLINOIS. Thank you, Mr. Chairman, and thank you for letting us, poor Ag Committee members come into such a nice spacious committee room. We know how good you have it here on Ways and Means now.

Chairman BOUSTANY. You only have 3 minutes. Get to your questions.

Mr. RODNEY DAVIS OF ILLINOIS. I am not yielding back. Actually, I just want to welcome my friend, Mr. Randolph, from the great State of Illinois. It was nice, my colleague, Mr. McGovern, was interesting in some of the policies that are being implemented in Illinois, and I can't wait to have that discussion with him in a future hearing.

I appreciate your work and your discussion on the cliff that you are talking about. As somebody who is a supporter of SNAP programs, I want to make sure that those who need benefits get them and that those who are on those benefits have the ability to transition into that workplace and not have to make a decision between getting benefits or getting a higher wage.

You have talked about the cliff, now I want to hear some of your suggestions that we might be able to take into consideration in this institution on how to make it better. What can we do to fix it? So I would ask you that. What can we do to fix some of the problems that you have identified?

Mr. RANDOLPH. Thank you. I mean, we have got to keep in mind that what is important is that we are talking about these single moms, we are talking about the families that want to help their lives. So we shouldn't—we shouldn't get jealous of jurisdiction or Federal control over the States. So I think the important thing is to rise above that and then realize that if we are going to really solve the problem, we have to allow flexibility at the State level for them to address.

And just this past Monday, I was at—did you want to say something?

Mr. RODNEY DAVIS OF ILLINOIS. No. Go ahead.

Mr. RANDOLPH. Just this past Monday I was at a group where there were 20 different secretaries for human services across this country, and they all were telling me the same thing, and that is that if they were given more flexibility, there is more things that they can do to manage these programs better.

Mr. RODNEY DAVIS OF ILLINOIS. What are a couple of examples that you can give as to how they are managing those programs

better? What can we do in a State like Illinois to do exactly what you are talking about?

Mr. RANDOLPH. Right. What I would like to see is I would like to see that, like, for example, in the SNAP program, that there is flexibility that the funds could be fungible with other welfare programs so that when you are at a State level, you look at the person, and you say, okay. You have these various needs. Right now we can't move any of the SNAP money over to child care. We can't move the child care money over here. If you would blend the programs together, similar to the document put together for the opportunities grants, that would be a great way to allow States to have flexibility to better serve the needs of the individuals and the families.

Mr. RODNEY DAVIS OF ILLINOIS. Great. My time has expired. I will yield back my one second. But I look forward to working with you, Mr. Randolph.

Chairman BOUSTANY. I thank the gentleman.

Next we will go to Mr. Ashford.

Mr. ASHFORD. Thank you. And I am not sure who to direct this question to exactly, but maybe to Ms. Golden. Back in Nebraska, I served as an executive director of the Omaha Housing Authority, and one of the—for 3 years. And one of the real tragedies of that appearance was that halfway through my tenure there, the self-sufficiency program at the Housing Authority—at HUD was defunded.

So essentially, what the rule was, is look at, you are a housing agency, you are not an employment agency. You are not a workforce agency. And actually, in Nebraska, we passed welfare reform. It was my bill. It was 1994, one of the early welfare reform bills prior to 1996. And in that bill, we—and as a result of it, we have reduced, as has been the case generally, reduced welfare rules. I thought Chairman Ryan was absolutely correct when he said, I don't know how we structure all of these things, but when we look at—the numbers we are seeing today are the same numbers—not the same numbers, but the same kinds of percentages to a certain degree that I have been seeing since 1986, as long as I have been in public life.

And it is frustrating because it seems to me that the issue and the 80 programs are out there, and there are still a lot of people in poverty. And, clearly, and I will shut up here, clearly, running the Housing Authority, I learned the cliff is dramatic. It is absolutely dramatic. And there are so many young families that stayed in the Housing Authority generationally also, not because they didn't want to work or be part of the workforce, but because they could not get out.

And so I am on the side of anything that will enhance workforce. I also notice in CNBC this morning, they listed the States that were the most viable economic States in the country, and one of the States that had moved up dramatically to number 1, actually, was Minnesota, because of the indicia being workforce investment.

So I guess my question is, no matter how we structure TANF or how we structure food stamps, if we don't figure out a way—the first job is not a job that will make it for these families. So we have got to enhance incomes as fast as possible, and that can only come from job training, and I don't—could you respond to that?

This is the most frustrating issue in my whole professional life I have ever been involved in, because it is not working the way it should be right now.

Ms. GOLDEN. So let me highlight the job. You have raised a lot of issues. Let me start with the job-training one, which I think is really important. So one of the things Congress did in a bipartisan way in 2014 was pass the reauthorization of the Nation's workforce program, but not put additional dollars into it. And so that is another point where there are many positive things in that law. For example, one of the past challenges of that law was that it didn't really focus on, above all, on the low-income, low-skilled people you are talking about. And the Congress changed the incentives in order to make it more.

So I actually think that focusing a lot on that and the Nutrition Subcommittee, of course, and the reauthorization of the farm bill, the TANF training pilots, that is another opportunity to really get that right. And I am—I am sorry. You were going to say something?

Mr. ASHFORD. No. I am not. I am just—I am leaning forward. I am sorry.

Ms. GOLDEN. The other thing that I—I guess, two things I want to say looking forward. One is I do think the workforce legislation and the opportunities there are crucial. Second, I think that—you know, I have spent a lot of my career at the State and local level and worked a lot with States, and I think there are big opportunities for States to seize these moments, but SNAP E&T is an example, they have lots of flexibility; they don't draw it down. So they need to see the importance of doing that.

On the cliffs, I would just note that I think there has been important progress. You described since 1986, and an example is that back then there was essentially no child care resources. But what has happened is that families are working more than ever in struggling low-waged jobs, and so adding the capacity to address the cliffs I think is needed to solve it, too.

Chairman BOUSTANY. The gentleman's time has expired.

We will next go to Mr. Dold. You are recognized.

Mr. DOLD. Thank you, Mr. Chairman.

I want to thank our witnesses for taking the time to come and testify before us today. And I want to thank the chairman for holding this joint hearing, because the topic that we are talking about is very important. We have 80 or so different programs that are out there right now are welfare programs. We want to make sure that these dollars are actually stretching the furthest that they possibly can. And ultimately, our goal is that we want to make sure that people who are on welfare, that they are able to get up and out of welfare and stand on their own two feet, raise their families, and carry out the lives as they choose.

Coming from the great State of Illinois, Mr. Randolph, we certainly appreciate your work at the Illinois Policy Institute. I wanted to follow up on some of the things that you had talked about before.

The study that you had mentioned before was done in Lake County, Illinois. That happens to be an area that I represent. I think the study that you did was talking about a single mother

with two children and the differential between making $12 an hour and the benefits that that family would receive versus what I think most people would think would be a natural evolution to say, okay, I am doing well. I would like to get that raise and get a raise, and $18 an hour. And ultimately, that would be economically a detriment to that family.

Can you kind of talk—in your experience, you know, is that a common thing that we are seeing that cliff?

Mr. RANDOLPH. I think it is common. This is something that people face. I mean, we have a panelist here who has a similar situation that she encountered. You know, we see it—you know, we study three counties in Illinois, and it was true for all three of those counties. So my answer would be, I believe it is common. It is a real issue, and I am very happy that you are holding this hearing to try to solve it.

Mr. DOLD. Well, and that is one of the things that I hope we can get. And obviously, we have got a very short period of time, but we would like to get some solutions. This isn't just an opportunity for us to talk. Hopefully we are highlighting a scenario that is out there that is a problem that we need to fix, and we need your help to come up with some solutions. Because we don't want to discourage that individual from getting the raise, from trying to pull themselves out of poverty to try to better their family.

Ms. Netus, let me just ask you, from your experience working first hand with individuals, do you think that the people are generally aware of the phase out rates for the programs that they receive and are disincentivized to work for advancement?

Ms. NETUS. I think they are very familiar with it. I mean, amongst just talking to each other, they can hear what is going on out there. Often they are finding out these situations a little too late. By the time they take the job, they now get a letter in the mail that says, your benefits are going to expire.

So, yeah, I think they are familiar with it. And I think that once one person goes through it, they tend to share it with the others. And so Chanel is a perfect example of someone who has gone through it, and she is going to talk to her peers. And true enough, you know, they will be able to make decisions based on that.

Mr. DOLD. Well, I certainly appreciate that. And what I will hope, and I do hope, is that we can figure out a way to make sure that our safety net, that our welfare programs, don't disincentivize people from trying to get themselves out. That needs to be all of our goal because we want that social safety net, but when we have created it in such a way where there is disincentive to advance, I think we all lose.

My time has expired, Mr. Chairman.

Chairman BOUSTANY. The gentleman's time has expired.

Next, we will go to Ms. DelBene from Washington State.

Ms. DELBENE. Thank you, Mr. Chair. And thanks to all of you for being with us today and taking the time.

This Congress, the Agriculture Committee has been conducting what has been billed as a top-to-bottom review of programs like SNAP. And the title of today's hearing, How Welfare Benefits Can Discourage Work, makes me think that not enough of us has been

listening. SNAP doesn't discourage work. If anything, we have learned that the benefits aren't adequate enough.

Ms. Golden, your testimony talks about available workforce development funding and SNAP employment and training that is only used by a handful of States. In fact, my home State of Washington is one of the leaders in the E&T programs. I introduced a bill last Congress that was the basis for $200 million in new SNAP E&T pilot programs in the farm bill, and I am definitely proud that these pilots are based, in part, on criteria from Washington State's program that has helped participants achieve self-sufficiency.

As you know, these programs differ widely in participation and success across the States, but even at the height of the recession, 60 percent of those enrolled in Washington's E&T programs found employment, and in one study, less than half remained on government assistance 2 years after starting the program.

So I was wondering, Ms. Golden, can you further explain how E&T programs promote, not discourage work when jobs are available?

Ms. GOLDEN. Sure. I think I would highlight a couple of things you said and then build on them. You have highlighted the way SNAP encourages, not discourages work. And it is a fact in stabilizing people's lives so they can work and move up. And second, the role of employment training programs. There is a big barrier for the low-income person trying to make that jump is typically going to be about getting the promotion, having the skills, in doing bipartisan workforce reauthorization that the Congress did, the Congress, both parties, said really, a post-secondary credential is likely to be crucial for moving up.

So that puts employment and training front and center. And Washington State, as you say, is a leader. What the farm bill includes, in addition to the unlimited matching funds that exist for employment and training in SNAP, as I said, many States are not seriously drawing down, it adds pilots, 10 pilots, which ought to create lessons about doing this really, really well. And one of the things that we are excited about is that there has been a lot of innovation in the employment and training arena, community colleges, workforce programs, but it isn't necessarily known to SNAP agencies. And so building that connection, using those pilots to people can make that leap I think is a very excited next step.

Ms. DELBENE. And in the end, we should be focused on results we are seeing. In our State we have seen strong results strong results from these programs, and hopefully the pilot will give us innovative new ideas that different States are trying that continue to inform everyone in the program going forward.

Ms. GOLDEN. Absolutely. And the issue for States is not the flexibility to do those things. They have that. It is having the ideas and making them work.

Ms. DELBENE. Thank you.

I yield back, Mr. Chair.

Chairman BOUSTANY. The gentlelady's time has expired.

Mr. Meehan.

Mr. MEEHAN. Thank you, Mr. Chairman. And I want to thank all of the panelists for your presence here.

Mr. Randolph, I thank you for your testimony and your submitted testimony as well. I know one of the things that you introduced was a chart that described activity in my own home State of Pennsylvania, in which you had done some work. And curiously, you were able to identify a circumstance in which a single mother who was making—was better off earning an income of—gross income of $29,000 with $57,000 net income and benefits than to be earning $69,000 with a net income and benefits of $57,000.

Could you elaborate what you meant by that in the chart?

Mr. RANDOLPH. Certainly. Now, that chart that you are referring to was an earlier version of the same computational model. The one in Illinois is actually more sophisticated, and that was when I worked at Pennsylvania's Department of, Public Welfare when that was developed. And what was discovered with that model was that it is the same cliff effect. It is essentially, the same thing that it turned out in Illinois, that someone can earn up to a certain point, that they earn some sort of salary, but once they would earn more or have the potential to earn more, they lose benefits. So it is the same track. It is the same cliff effect. It is in Pennsylvania, and it is in Illinois.

Mr. MEEHAN. Well, I thank you for describing, you know, the cliff issue, which is one of the things we are looking at about. How those affected by changing circumstances, and particularly a lot of times, I think some of the times you were looking, the issue of a recession. You know, we have economies that aren't flat; they are cyclical. And during the period of time when I was in Pennsylvania looking at this particular issue, we actually saw an expansion of the activities supporting, in my own Montgomery County, 118 percent increase in the total number of persons receiving SNAP, 173 percent increase in children receiving SNAP.

But these were children, and this was during a period of time in which, notwithstanding the fact that some of them may have been put back into jobs, the nature of the—you know, the nature of the job was that the wages were such that they weren't sufficiently escaping poverty to the point that they were able to also escape the need for the assistance for the food.

Can you give me some insights about how a recession affects things?

Mr. RANDOLPH. Well, yes. I mean, we have a safety net for situations. And certainly, during times of recession, economic recessions, more people are going to need it. Much of what my model was looking at, however, is the ladder that people have to climb, the opportunity ladder or the career ladder, if you will. And what has happened is, there are a whole bunch of rungs kicked out. So they climb up maybe a third way up the ladder, and now they can't reach the next step.

And that is what we are—that is my understanding we are trying to solve. That is what the modeling that we have done has shown. It has shown that the way the current system is designed—and it is a hodgepodge, if you will. It has been designed, you know, haphazardly. You know, no one person is at fault. You know, you have a bunch of programs, and you kind of layer one on top of the other, and the aggregate effect is that you have got rungs kicked out of the ladder and people get stuck on the third way up.

Mr. MEEHAN. Thank you. My time has expired.

Mr. Chairman, I yield back.

Chairman BOUSTANY. I thank the gentleman. We will next go to Ms. Adams.

Ms. ADAMS. Thank you, Mr. Chairman.

And thank you all for your testimony today.

You know, I have talked about this issue for a long time, where some poverty is pretty high in North Carolina. People are working hard every day, two and three jobs. Working hard is not enough if you don't make enough.

You know, according to Feeding America, the 12th District of North Carolina, which is the district I represent, ranks 9th in the Nation for food insecurity with a rate percent of over 26 percent. And I have serious concerns about efforts to block grants, SNAP program, and I am pleased that North Carolina is participating in the work support strategy initiatives to make applying for SNAP and other safety net programs more efficient, both for families that want to work and for State government.

Ms. Golden, can you elaborate on how the work supportive strategies initiatives helps families get back to work in North Carolina, and how it benefits families applying for SNAP while also saving the government money?

Ms. GOLDEN. Sure. I am glad you highlighted that because work support strategies initiative, which is a foundation-funded initiative that we are leading at CLASP with two other national partners, we are working with six States trying to do exactly what you say, deliver Medicaid SNAP, and child care subsidies using the flexibility that is already there, not anything that would need new laws to work well for working families.

As you mentioned, North Carolina, the others are Republican and Democratic governor States, Colorado, Idaho, Illinois, North Carolina, South Carolina, Rhode Island. And what I would highlight is that one of the big things that the States have been doing is getting rid of barriers that are not in policy. They are certainly not in Federal policy, sometimes they are in State policy, that were keeping working families out. Like if you have to, in North Carolina, if you used to have to stand in two separate lines for a whole day to be able to take care of your health care and your nutrition needs, then if you were working a low-wage job where you were going to be fired or miss your paycheck for missing hours, you were not going to be able to get that help, and that was going to destabilize your family.

So what these States are doing is taking advantage of the existing flexibility to deliver it better. They do, as you say, save some administrative dollars because they are able to use information and data they have already got rather than having to process things multiple times over. But it is crucial to them that they have the Medicaid and SNAP structures as they are now, because that is how you can get the benefits to people quickly. So I think that is a great example of flexibility that exists now.

Ms. ADAMS. Thank you. As a follow-up, how is service deliveries designed to not be a hindrance to working families, and how is the program structured to encourage families to work without disproportionately losing benefits?

Ms. GOLDEN. Well, I think both SNAP and health benefits. So starting with SNAP. So, first of all, it is key that it is not a block grant program. It doesn't require somebody to spend hours interviewing you before you get your help with your nutrition. It is a program that responds to recession. I think Mr. Meehan highlighted that.

So when somebody needs the help, it can happen based on a determination of their eligibility that you can do very quickly and in an automated way. SNAP also is important as a work support because of the gradual way that dollars phase out. So it takes into account the fact that you will have more expenses when you—when you work, and that gets taken into account.

A number of States, about half the States have chosen an option that makes it even more—even less likely to have a cliff, which is the categorical eligibility option. So the Federal policy framework allows States to deliver it in a very effective way, and those States that take a hard look at their own delivery systems, their own computers, their own local offices, are able to then live up to that promise.

Ms. ADAMS. Great. Thank you very much.

Mr. Chair, I yield back.

Chairman BOUSTANY. The gentlelady's time has expired.

We will next go to Mr. Thompson.

Mr. THOMPSON. Mr. Chairman, thank you for this hearing. It's very important.

To all the members of the panel, thank you very much for coming, lending your experience, your expertise. I want to start out with Mr. Mulligan.

In SNAP, we expected the program rules to increase with the recession. They did, rising by 81 percent since 2007 before finally peaking in 2013. Since that peak, we have only seen a decline of 3 percent. Can you talk more about what that data says about the situation, or are you at all surprised?

Mr. MULLIGAN. Sure. Yeah. Our data is maybe a year or two out of date. I looked at SNAP before and during the recession through about 2011, and I saw that State by State, the rules had changed. And probably the biggest thing that had happened is the asset tests were eliminated, which eliminated some of the barriers bringing people into the program. So now it is easier to get into the program than it used to be. And so naturally, you have more people on the program. That is natural. The other economic side of it is you have to disincentive. Especially for unmarried people, it is a kind of new unemployment assistance program that can go far beyond 99 weeks.

Mr. THOMPSON. Thank you.

Ms. GOLDEN. Could I just add to that? Because I think the answers that most economists have come up with who have looked into that is that it is now going down. SNAP rose with the recession. It is now going down. You would expect it to be somewhat a delayed effect, because the effect of better income for the bottom end of the labor force has happened last. So most people think it is about the economy, not about the policy changes.

Mr. THOMPSON. I want to talk a little bit about within the process of the resources that are out there, because we talk about

obviously, providing incentives, job training. I co-chair with a good friend of mine from Rhode Island, Jim Langevin, Career and Educational caucus. And so I want to talk about not so much a process, but the pathway in terms of job training. And we are preparing an education and workforce with the Perkins Act, which is all about job training, career and tech ed funding. And I am not sure I am going to have time to get input from someone, but if you have thoughts, I would appreciate you sending those to me in writing.

So my question is I am looking for that response from, in your experiences, what are the key considerations to assure access to effective job training? In other words, job training that actually leads to a job, family-sustaining job and a greater—and a greater opportunity, put folks on that pathway? I do believe that our programs that we have, our safety net programs, SNAP, welfare—the other welfare programs, I think they really need to be defined by—as workforce development.

Dr. STEUERLE. Mr. Thompson, if I could quickly answer. I think there are a lot of efforts in the educational area that are promising. I think apprenticeships are one of them, for instance, where we have done very little. But I would also like to comment, just general course of this hearing, there are these programs that I think namely aimed at mobility, education, training, I would probably include things like the earned income tax credit, and there are other programs that mainly aimed at consumption. It's the programs that are aimed at consumption, providing minimum levels of consumption that provide a lot of these cliffs and issues that we are facing.

If you look at the budget for children, we mainly have been talking about programs for children, they are actually pretty much in decline. The earned income credit is an index. It doesn't grow with the economy. The child credit is an index for inflation. I am guessing SNAP benefits in real terms per person are not going up. They have expanding number of people getting them. TANF has certainly been declining rather than the economy. So those programs, children's programs, are actually well in decline. That is a separate subject, because all of our social welfare budget is going to health and retirement. So that is a different issue. So I think that what has happened to children's budget is it is eventually going to be turned around. I see an opportunity, when that turnaround comes, to start devoting more money to these mobility efforts. I am not saying that every mobility effort works, but these types of things like training and education do not create the types of disincentive effects that we are actually talking about here. Generally speaking, they are all in the positive incentive effect. I am not saying they all work, but I think there are a lot of opportunities about thinking about what a future budget would be if it moves in the direction you are talking about.

Mr. THOMPSON. Thank you.

Chairman BOUSTANY. The gentleman's time has expired. Mr. Davis your are—I am sorry—Mr. Davis, you are recognized.

Mr. DANNY DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman. I want to thank all of the witnesses for having been here.

Dr. Golden, I know that you have done some work in Illinois, and you were here when Ms. McCorkle testified. I think maybe her situation may have been a little bit different in Illinois. Could you comment on that and why it may have been.

Ms. GOLDEN. Sure. So Illinois is one of the 6——

Chairman BOUSTANY. Please use your microphone.

Ms. GOLDEN. Illinois is one of the six States that we are working with. And I would say a couple of things, both similarities and differences to Ms. McCorkle's situation. Illinois and Maryland have both made the choice to expand Medicaid. So they are both States where taking a job—leaving welfare and taking a job isn't going to force a parent to lose their health insurance. So that is very important.

One of the things that Ms. McCorkle highlighted in Maryland was about child care, right? It was about not only your challenges in the co-pay now, but the fact that when you were working before you went on welfare, you couldn't get compiled care, because Maryland has a waiting list. Illinois, by contrast, has a historic commitment to not having a waiting list and to serving family, but the challenge right now is that in terms of dollars, it goes back to that point that what the States need is not flexibility, but resources. They are very stressed trying to be able to keep that commitment. And so additional Federal dollars to address child care needs for low-income working families, I think will be very important in the future as Illinois seeks to keep that commitment.

Mr. RANDOLPH. Can I interject on that? This is an issue that we have studied. We have studied the child care issue specifically in Illinois, and I have also worked with the program in Pennsylvania and a couple of other States. It is true that in Illinois, you do not have a waiting list for child care. However, there are a number of steps that they can take administratively to reduce the cost. The child care program in Illinois is costing approximately $1.2 billion with a State budget general fund of only $34 billion. So it is a significant program, but there is certainly steps they can take administratively to bring the costs down. You do not need to increase Federal dollars to give to the State to solve the problem. A lot of the problem can be solved simply by the States better managing it.

Mr. DANNY DAVIS OF ILLINOIS. Thank you both very much. And by no stretch of imagination would I suggest that Illinois does not have problems and unmet needs. But I did want to point out this difference because of the fact that there was a strong advocacy effort on the part of citizens who made it happen, and I simply wanted to give them an accolade for that.

So thank you very much, Mr. Chairman, and I yield back.

Chairman BOUSTANY. I thank the gentleman.

Next, we will go to Mr. Crowley. You are recognized now for 3 minutes.

Mr. CROWLEY. Thank you, Mr. Chairman. I did miss the Chairman Ryan's opening statement, but I did take note in his printed version of it that he quoted a very popular person to quote these days, Pope Francis. And he said where there is no work, there is no dignity. I think we can all find agreeance in that. I know Mr. McGovern and Ms. Fudge talked about the importance of a living wage. So here is another quote from Pope Francis, and I quote, "A

just wage enables human beings to have adequate access to all the other goods which are destined for our common use." And that is from Joy of the Gospel 192. So I hope this means we can consider legislation to raise the minimum wage since Pope Francis said that as well. We won't quote the climate change; I don't have enough time right now for that. But I do want to thank the chairman. I want to thank our colleagues from the Ag Committee for joining us today as well.

Let me start by saying that I think the majority of us here want to support, and do support work while we strengthen our safety net programs. It is not an either/or situation.

Ms. Golden, you mentioned explicitly in your testimony that there is overwhelming evidence that the safety net supports work. So that is important to recognize. But I do want to make sure we are clear on what it means to support and encourage work. To me that meaning strengthening, not weakening programs like the earned income tax credit and the child tax credit. These are programs that directly and without doubt reward work for lowest income families. It gives them the net effect of earning more, puts more money in their pockets. We need to extend the expiring provisions of these program and ensure they are reaching their full potential for the families that they serve.

Enhancements like linking the amount of the child tax credit through inflation, making permanent the higher credit amount set in the American Recovery and Reinvestment Act, and make the tax credits fully refundable. Another critical part of the encouraging work through the safety net is child care. And I appreciate the discussions before my testimony.

No matter what problem we are looking at, if we want to help people work, we need to help them find and afford child care for their children. If they simply will not work, we will just be piling on to the social ills of a society which the other side of the aisle would decry at the same time.

So otherwise, you can add in as many work requirements, restrictions and other burdens you think of, and all you will end up doing is forcing people off these programs to make those tough choices, and quite frankly, spiraling them further into deeper poverty. We need to make a significant investment in child care to make sure it reaches more people who need it. I will soon be reintroducing my Child First Act to make a greater investment in funding for child care.

President Obama has proposed investing $82 billion over 10 years in mandatory funding for child care, which provide more than an additional 1 million children under age 4 with access to quality child care, not only helps the child, but helps the family, helps society, and helps people work.

And with that, I will yield back to the chairman.

Chairman BOUSTANY. I thank the gentleman.

Next we will go to Ms. Grisham. You are recognized for 3 minutes.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman. In this committee, my arms are barely long enough to actually reach the button for the microphone, so thank you for your patience.

I am also very appreciative for the joint committee hearing. And Mr. Chairman, I appreciate the opportunity to talk about not only basic benefits, but a benefit that in my State is incredibly important, which is the SNAP benefit.

And I really appreciate the remarks of my colleague, Mr. Crowley, because I agree that we have a tendency, as policymakers, to do an all-or-nothing design that we believe potentially, and based on some of the testimony, that welfare or entitlements or government support programs actually create a disincentive to work.

And in my opinion, and in my experience, a disincentive to work is poverty. A disincentive to work is hunger. A disincentive to work is lack of adequate education and support and investment. Environmental barriers, transportation barriers, there are no dearth, and they are all really devastating aspects and barriers to work.

Now in my State, we have one of the worst economic recoveries in the country. We also have the hungriest children in the country. Not something I am very proud of. And I would love to see Congress and my State legislature declare a war on poverty and assure that no child in my home State ever goes hungry ever, ever again. It is devastating.

We also have one of the hungriest adult populations in the country. And while I tell you this, because of this debate, our State is enhancing our work requirements on young families, mothers who are 19 without the education, training, or support even in a productive job market to attain that work requirement.

We don't have jobs. We are the only State in the country where we have a migrating effect where people have to leave the State to get jobs. This only translates to families losing benefits, which means they have no opportunity to have their basic needs met while we, as policymakers, figure out those balances so that we create a safe and effective environmental effort.

With whatever time I have left, can anyone talk about making sure that there are ideas for States like New Mexico where you cannot meet even the basic work requirements but we don't want to minimize that people do want dignity and want effective productive work available to them in a meaningful way.

Ms. GOLDEN. Let me underline—I am sorry.

Mr. RANDOLPH. I can. You are correct that we still have an issue of poverty in this Nation, absolutely. However, I just want to say that if we attempt to solve the problem one piece at a time, we are not going to get the answer. And let me just go to what we talk about, training. I sat in a focus group. I was not the participant. I was helping managing the focus group, where we have had people who received training, but they ran into that ladder, where the rungs are kicked out and they had to give up a better job that offered more because they would lose benefits.

So if we continue to look at this piece, just the SNAP alone or another program over here, and hope that that is somehow going to solve the problem, we will never get at the answer. You have to approach it systemically. You have to look at all the programs together and how do you combine the programs.

Ms. LUJAN GRISHAM. As long as, Mr. Randolph—I am going to reclaim part of my time.

Mr. Chairman, I don't know how much time I have.

Chairman BOUSTANY. You still have time.

Ms. LUJAN GRISHAM. Can I go to Ms. Golden?

Ms. GOLDEN. Yes. So what I would highlight is that, first of all, you are absolutely right about the extent to which poverty itself is a barrier to work. And the research supports that and says that if you are able to eat and your life isn't disrupted, and you are not constantly evicted, that contributes to working and moving up. So I think that is exactly right.

And I do think that the other—with only one moment to say, that job training for adults ought to go hand in hand with investment in kids with children not being hungry. That is an opportunity investment, right? We know that when kids are not hunger and are able to get their health taken care of and in early child care, that in itself is an opportunity investment in their later lives. So we ought to be putting these things together.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman I yield back.

Chairman BOUSTANY. The gentlelady's time has expired.

Ms. Noem.

Mrs. NOEM. Thank you, Mr. Chairman. One of the tenets of the American dream is that no matter what your circumstances are, if you work hard here in America, that you can succeed. In South Dakota, we have a very strong work ethic and many are willing to put in long, hard hours to make life better for their families. It is those values that I try to instill in my own children, and I follow when I am serving the people of South Dakota here in Congress.

But, unfortunately, the Federal Government doesn't always operate that way. Instead of encouraging work and taking home higher pay, the programs can create disincentives to work, and we have heard some of that testimony by all of here today. It might not always make sense economically for a family to work more hours or at higher wages in the current system that we have today with a lot of our programs.

So, Ms. Netus, I wanted to ask you specifically, setting aside the work disincentive effects of these programs, does the shear complexity behind multiple benefit programs and tax programs help or hurt families? Does it promote work and self-sufficiency?

Ms. NETUS. I think it promotes work with limitations. I mean, we have people that are eager to go to work so they want to do so, but it is kind of they are tossed as to whether or not they should take a full-time job versus a part-time job.

Mrs. NOEM. So would it help to streamline the programs in a manner that wouldn't be so complex to help them utilize it in a manner better to allow them to work and potentially have a transitional program?

Ms. NETUS. I think so. I mean, we are looking more so for a longer transitional period. I do know that in Maryland, they do provide that, but, again, it is the timeframe or it is kind of immediate that the transition happens, not often giving the person the time or chance to really be able to build and save. So it would be—you would need a transitional period. A little bit more extended than what they have right now in order for the person to be able to maintain.

Mrs. NOEM. Do you feel that most people need assistance from an organization like yours in order to navigate the programs that are currently available?

Ms. NETUS. They do. They need us because we know how to essentially walk them through the system. Most people who are going through this process, they have no one to tell them how to do it. So when they come to our organization, we can help explain a lot of the changes they are going to undergo. And so a company like ours would definitely be able to help a person like Chanel as we plan to do as she goes through her next transition into employment.

Mrs. NOEM. Well, Ms. McCorkle, I wanted to ask you that. Do the agencies providing you benefits give you clear information about what happens if you work and if you earn more money? Have you ever discussed with live people that are a part of these agencies and departments what the consequences are? Did you need an organization like Ms. Netus is a part of in order to have that kind of clarification?

Ms. MCCORKLE. I actually did need America Works to help it because when you are applying for your benefits, you don't actually speak to anybody. Nobody actually tells you what is going to happen when you get your job. It just happens that they find out you work, the letter comes in the mail telling you this is cut, this is cut, and this is what is happening.

And then you are at the office. You come to the office and you want to talk to somebody. Half the time you don't get your caseworker, you just get a different representative. They don't explain it. They just tell you what happened. They don't actually explain anything. It just comes through the mail.

Mrs. NOEM. Okay. I appreciate that testimony. That is very helpful.

Thank you. I yield back, Mr. Chairman.

Chairman BOUSTANY. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Ms. McCorkle, it is a pleasure to hear your testimony earlier, and I just thought it was very troubling, whenever you look at the journey and the path that you had to take, but it shows that you are a remarkable human being and you are doing an amazing job, and I am extremely proud of you, to see everything.

When I look at your testimony, that it talks about the child care, that you couldn't get the childcare vouchers when you had a job, but when you didn't have a job, you could get the childcare vouchers when you are home. The whole process just isn't working. And I just appreciate you being here before the committee, and I just want to say thank you.

In regards to Mr. Mulligan and Mr. Steuerle, I would like to hear if you both would like to add some additional comments of how you could help incentives that we could try to break this poverty trap to the benefits curve.

Dr. STEUERLE. Mr. Smith, as I said in my testimony, I think the real way around this trap to break the Gordian Knot is to start thinking in the future—because government does gradually grow, and the social welfare budget does grow just because the economy grows, it might be a smaller share of the economy or larger—is to

think about orienting more and more resources towards things that provide mobility. It is education, it is wage subsidies, it is a lot of the other items we have talked about. And I think we have been moving in that direction. If you look at both what welfare reform did, moving away from AFDC, we have sort of been moving in that direction.

When we just try to provide minimum levels of consumption by itself, initially, when people are starving or something, it doesn't look good, but above certain levels it provides a lot of discouragement. But things like primary, secondary education doesn't discourage. So if we start moving the budget towards this mobility front, I think we can go a long way.

And I would just like to clarify one earlier part of this debate between whether these programs do or do not discourage work. The movement we had recently has moved us away from a poverty trap to what one of my colleagues and I nowI call a twice poverty trap or three times poverty trap, it is from about zero to about $15,000 of income.

We have moved our programs in the direction of encouraging work. And if you take most of the examples that people around the table have given, when you get to about $15,000 of income up to about $55,000 of income, now you have got average tax rates of maybe 66 percent in universal programs, 70 or 80 percent in the non-universal, and then you add on child care, and you can get this type of trap.

So I think you have to distinguish where we are talking about these traps encouraging, and right now, it is this trap where if you move, as I say, beyond a part-time job, you marry, you get a second job, that is where we really are discouraging work quite a bit, or moving to a higher-paying job, as several people have mentioned.

Mr. MULLIGAN. I will also speak for something that hasn't been represented, and that is the marketplace, the employers, they are teaching people things. It is not just government programs that teach people things, not even just schools, even though I come from one.

And things like the minimum wage go exactly in the wrong direction. What the minimum wage says is you have to—a job is a mix of things you learn and cash to take home, and the minimum wage says: Look, you have to put it all into cash and very little into learning. And that is only going to make these kind of traps worse.

Human capital is many most important asset in America and in the world, and policies like these discourage the accumulation of human capital and keep people's incomes low.

Chairman BOUSTANY. I thank the gentleman. The gentleman's time has expired.

Before we close this hearing, I want to read two quotes out for the record. One is from Harvard Professor Jeff Liebman, former economic adviser to President Obama, and I quote: "Despite the EITC and child credit, the poverty trap is still very much a reality in the U.S.," end quote.

And then the second quote comes from Congresswoman Gwen Moore, who during a June 2012 Human Resources Subcommittee hearing said, I quote: "I once had a job and begged my supervisor

not to give me a 50-cent-an-hour raise, lest I lose daycare," end quote.

The fact is, we still have poverty, the poverty trap still exists, and the problem is complicated by the fact that we have a myriad of programs that have been created over the course of years without good coordination. And so this hearing, this joint hearing is a start in trying to unravel that Gordian Knot so that we have these programs that will work best for those that they are intended to work for.

And with that, Ms. McCorkle, I think your personal story was very compelling, very helpful to us. I just want to say thank you for your courage in coming forward to present it.

I want to thank all of our witnesses for the tremendous expertise you bring to the table. And as we try to deal with this complex problem of how the program has disincentives to move into the work world, you all did a terrific job to help us shed light on these issues. I think members may have additional questions, which we will submit to you in writing, and we would appreciate your responses for the record within 2 weeks.

Chairman BOUSTANY. I also want to close by thanking our colleagues on the Nutrition Subcommittee, starting with Chairwoman Walorski, Ranking Member McGovern. From my perspective, working together like this can only be helpful in our efforts to provide better, more coordinated services for those in need.

I want to thank Chairman Ryan and Chairman Conaway and the rest of our colleagues also on the Ways and Means Committee. I thank you and your staff for working with us to make this joint hearing a reality. I look forward to working more with everyone concerned in the weeks ahead.

And with that, the subcommittee now stands adjourned.

[Whereupon, at 12:08 p.m., the subcommittees were adjourned.]

[Submission for the Record follow:]

## Feeding Texas

Dear Chairwoman Walorski and Chairman Boustany,

Thank you for the opportunity to submit public comment regarding your upcoming joint hearing on the "Past, Present, and Future of SNAP: How Our Welfare System Can Discourage Work."

I represent Feeding Texas, a statewide network of twenty-one regional food banks that leads a united effort for a hunger-free Texas. We are happy that Congress is so interested in learning about our nation's most critical anti-hunger program.

SNAP is an important tool that strengthens our communities by ensuring that people have to fuel to not just to carry on, but begin the work toward turning their lives around.

We are a generous and caring nation. That's why we created SNAP to ensure no one in America has to be severely hungry and undernourished. But we are also a nation that believes in the value of work, which is why the majority of food stamps recipients who can work already do.

We understand that your hearing intends to focus on a phenomenon known to poverty relief professionals as "benefits cliffs," also referred to as marginal tax rates on the earnings of benefits recipients.

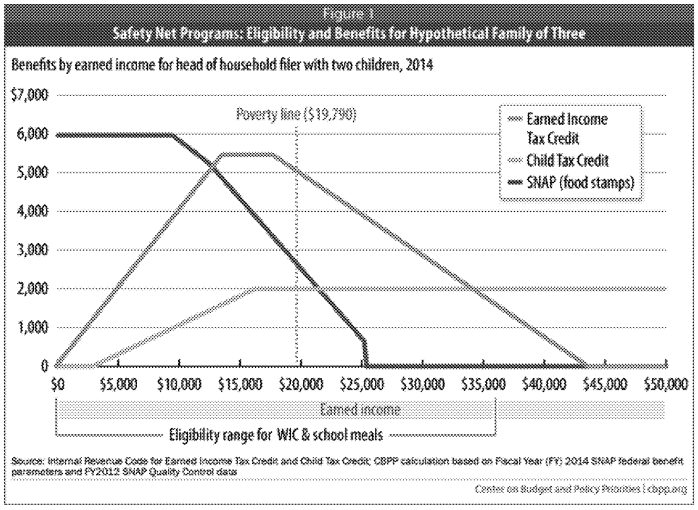
Benefits cliffs can be a serious impediment to families who are trying to get ahead by earning more income, but are unprepared for a sudden decrease in assistance when their income crosses an arbitrary threshold. Many programs aimed at low-income Americans suffer from this problem.

SNAP suffers from this problem less than other federal benefits programs, as it was wisely designed with a "step down" benefits structure. This means that recipients are nearly always better off increasing their earned income until they reach the minimum monthly benefit of fifteen dollars.

Specifically, for every additional dollar of income, a household's SNAP benefits only decrease by 24-36 cents. That means that earned income always increases the total resources available to the household up until the point where the household is receiving the minimum benefit.

As an example, if a household received $100 per month in SNAP benefits, and started earning an additional $100 per month through employment, their SNAP benefits would only decrease between $24 and $36 depending on their income level and applicable deductions. Thus, the total resources of the household would increase from $100 to at least $164 - a clear incentive to work.

We believe this important technical point has been lost in the recent debate on SNAP. A working SNAP family is almost always better off than a non-working SNAP family, and the economic incentive for SNAP recipients to work is already strong.




Ultimately, it's important to remember that the core purpose of SNAP is to help families provide the nutrition their children need for school and the basic fuel they need to be able to work at improving their situation in life.

Over the last few years, SNAP has already seen its share of cuts and benefit reductions. In November of 2013, Congress arbitrarily ended a benefits increase created to help SNAP families weather the recession before it had a chance to "step down" as designed. This created a true benefits cliff of $29/month for a family of three. These are the types of benefits reductions with which we believe Congress should be most concerned.

Thank you for your consideration of our perspective on this important topic.

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