Independent Women's Forum®

POLICY focus

RECIPES FOR RATIONAL GOVERNMENT

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Public Policies Should Reward Work, Not Compete With It

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IN THIS ISSUE

What You Need To Know

Work is a vital component of fighting poverty. Americans working full time at least half the year are nearly *4 times less likely* to be in poverty than those working part time and Americans overall, **according to the Bureau of Labor Statistics.**

Public policies should therefore incentivize work, not discourage it. Unfortunately, President Joe Biden in February issued an executive order removing work requirements (including searching for employment) to receive Medicaid.

Policymakers should not use COVID-19 emergency tools to create permanent employment disincentives that distort employment markets, are magnets for fraud and risk triggering inflation. Yet Biden supports ongoing, COVID-related enhanced federal jobless benefits, an extra $300 weekly on top of baseline unemployment payments. As the pandemic subsides, this leaves many businesses, particularly restaurants and hotels, struggling to fill openings. Businesses attribute hiring difficulties to extra unemployment payments, leading **half of all states (as of early June)** to end enhanced payments prior to their expiration in early September 2021.

Biden has also pushed to raise the minimum wage, including passing **an executive order mandating $15 minimum wage for federal contractors**. Minimum wage hikes yield job losses and disincentivize hiring, especially among less-educated and lower-skilled people—who need jobs the most.

Biden's support of expanded federal child tax credits due to COVID may also discourage work, perpetuating government dependency during non-emergencies and rampant fraud.

Rather than punish work or reward unemployment, policymakers should embrace tools that encourage work to increase economic mobility for more Americans without triggering unintended consequences that may stall our overall economic rebound.

Why You Should Care

Encouraging and growing the workforce has wide benefits to society generally and historically-disadvantaged groups particularly, including women and racial minorities. Key characteristics about the importance of work include:

- **Work is an equalizer.** Rising income inequality and income racial disparities frequently dominated recent mass media reports. The best antidote to poverty across all racial groups is a full-time job. Pro-growth economic policies have grown income for bottom-percentile Americans faster than top-income earners.
- **Work is a hand up, not a hand out.** Work prevents a host of ills like substance abuse, depression, suicide, and abuse. Work is correlated with positive externalities of happiness and fulfillment. Of course, during emergencies, government assistance is a vital, temporary lifeline, and no one wants fellow Americans in poverty. But we also cannot incentivize poverty through policies that create a permanent sense of hopelessness.
- **Lower-wage work is a stepping stone.** Though critics assail lower-paying jobs, these opportunities allow workers to gain confidence, skills and ability to advance through promotions and new employment roles. Work strengthens families and communities. Workers are more conscientious and invested in their communities and families than able-bodied adults who do not work or parent full-time.

More Information

Work Is the Antidote to Poverty

Employment is the best way to help Americans gain economic freedom and independence. According to the Bureau of Labor Statistics, among people working 27 weeks or more in 2019 (most recent data available), just 2.7 percent of those employed full time were classified as working poor, compared with 9.8 percent of part-time workers and 10.5 percent of the general population.

"Employment is the best way to help Americans gain economic freedom and independence."

The poverty rate overall fell to 10.5 percent in 2019 (compared to 11.8 percent in 2018), a record low, with 4.2 million Americans lifted out of poverty in 2019. This was the largest decrease in poverty since 1966. The poverty rate of 4 percent among those working full or part time was the lowest ever tracked by Census, beginning in 1986.

The drop in poverty was due to employment and wage growth. Census data show median household income increased 9 percent from 2016 to 2019. Census figures show **6.6 million** Americans lifted themselves out of poverty during that period, **"the largest 3-year reduction"** in poverty to start a presidency since 1964.

The income rise during those years was driven by a workforce increase, especially women. There were 2.2 million more people working at some point in 2019 vs. 2018, and 1.2 million more people working full time year-round. The White House reported the net entire 1.2 million increase in full-time year-round workers was attributable to women. Though mothers are empowered to decide whether to stay home or or work outside home, a majority (55 percent) of U.S. mothers with children under 18 are employed full time. This is up from 34 percent 50 years ago, according to a 2019 **Pew Research Center analysis** of Census Bureau data. Eighty-four percent of full-time working mothers say their current employment situation is best for them, **according to Pew**.

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As U.S. incomes grew between 2017 and 2019, American income inequality fell, with the Gini index of income inequality falling from 0.489 to 0.484. Over the same two-year period, the share of income held by the top 20 percent fell 0.4 percentage points.

Policymakers Should Not Use Covid-19 Emergency Tools To Create Permanent Employment Disincentives

The American economy thrived at the beginning of 2020, but the global health crisis and accompanying economic crash due to the COVID-19 pandemic shutdown caused a spike in poverty. Millions of Americans, especially in service industries, lost jobs as their work evaporated overnight due to government-mandated shutdowns.

Even before the pandemic, **the Bureau of Labor Statistics reported** people employed in service occupations had higher poverty rates than those in other occupations. This disproportionately affects women, who are more likely than men to work in service industries. The shutdown was a death blow to exciting momentum seen among working-class Americans, including women and people of color, in the battle against poverty.

Because of the emergency nature of COVID-19, large, bipartisan majorities in both Congressional chambers passed stimulus payments to households and other emergency measures, including extra and expanded unemployment insurance payments to more workers, which President Trump quickly signed into law.

While official government figures aren't released, economists Bruce Meyer at the University of Chicago and James Sullivan of Notre Dame University estimated that the U.S. poverty rate jumped by the sharpest one-year increase since the 1960s. The scholars estimated a poverty rate of 11.8 percent in December 2020, a 1.3 percent increase from the pre-pandemic level of 10.5 percent in 2019.

Meyer and Sullivan estimated poverty would have been much higher without expanded unemployment insurance eligibility and benefits or one-time stimulus payments of up to $1,200 to individuals and $2,400 to married couples without dependents.

However, context is important: the 11.8 percent estimated in December 2020 was the same—not precipitously lower—than the 11.8 percent reported by Census for 2018, an argument for caution against ongoing unemployment benefits.

Unemployment insurance benefits initially increased in the CARES Act by $600 per week, and the law broadened eligibility for unemployment insurance to include the self-employed, those seeking part-time employment, and others who otherwise would not be eligible. The extra weekly $600 benefit ended July 2020, but Congress later revived it at a reduced $300 per week rate on top of baseline unemployment payments.

These generous benefits and stimulus payments are beginning to work against the goal of returning workers to the labor force. As vaccinations increased and COVID-19 subsided, businesses, particularly restaurants and hotels, struggled to find workers to fill job openings and meet rising demand for their services. Despite the economy adding jobs, the unemployment rate ticked up 0.1 percentage point in April 2021 to 6.1 percent. Though it decreased in May 2021 to 5.8 percent, the Bureau of Labor Statistics reported a record high of 8.1 million on the last business day of March (most recent data available). Nearly half of small-business owners reported unfilled job openings in May, according to the National Federation of Independent Business, a record high and 26 points higher than the decades-long average of 22 percent.

Many businesses attributed hiring difficulties to the extra federal unemployment payments. Instead of waiting for them to expire on Labor Day, half of all states (as of early June) have announced plans to cut off enhanced payments.

> “Many businesses attributed hiring difficulties to the extra federal unemployment payments.”

In addition to disenctivizing work, emergency pandemic benefits are fraud magnets, according to a U.S. House Ways and Means Committee minority roundtable titled “$60 Billion and Counting: The Consequences of Unchecked Pandemic Unemployment Fraud.”

“In Indiana, my section experienced a 1,500 percent increase in identity theft fraud reports in 2020,” one witness testified. “We are on track to set a new record for 2021.” Another witness with the Identity Theft Resource Center reported a 4,800 percent increase in identity theft for unemployment fraud.

Public Policies Should Incentivize Work, Not Discourage It

Americans benefit from policies that reward work. Employed workers support our social safety net with their taxes, ensuring that help for the truly needy is available.

The public recognizes that generous benefits are working against this common good. According to May 2021 polling by **Harvard University with HarrisX**, an overwhelming 76 percent of Americans said people are "staying on unemployment because they can make more money." Only 24 percent of Americans say "that is not the case." Fifty-four percent of Americans said extra unemployment benefits should end in July 2021, while just 31 percent said they should continue until Labor Day, and 18 percent said benefits should extend to January 2022.

Yet, the Biden administration is prioritizing policies that will make the return to work less likely. In February 2021, he issued an executive order to remove work requirements (including searching for employment) to receive Medicaid. He also defended extra unemployment benefits saying there was no "measurable" evidence it increased unemployment, but that workers rejected jobs because of COVID-19 school and daycare closures. Even left-leaning economists such as Jason Furman, a Harvard professor who chaired President Obama's Council of Economic Advisers, **disagreed, reporting** "employment declines among parents of young children are not a driver of continuing low employment levels."

A consequence of a reduced supply of workers is upward pressure on wages. Employers nationwide and of all sizes are offering higher wages and bonuses, such as **Amazon offering $1,000 signing bonuses and raising average hourly wages to $17** an hour. While this might sound encouraging for workers, it is difficult for smaller firms to compete with behemoths, who can more easily raise wages.

In turn, the costs are passed on to consumers through higher prices, which hits poorer households hardest. **The *Wall Street Journal* noted the inflationary effects of artificially-high wages**, driven in part by a tight labor market competing with generous unemployment benefits.

Public Policies Encouraging Work Deliver Strong Anti-Poverty Results

Rather than punish work and reward unemployment, policymakers should embrace tools that encourage work, including the Earned Income Tax Credit (EITC), Opportunity Zones and competitive corporate tax rates.

The Biden administration pushed to raise the minimum wage, including **an executive order mandating $15 minimum wage for federal contractors**. Minimum wage hikes yield job losses and disincentivize hiring, especially among those who are less educated and with lower skills—people who need jobs most.

Instead of discentivizing work or hiring workers, lawmakers should find ways to boost income by rewarding employment.

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The EITC remains a better vehicle for fighting poverty than minimum wage increases. Every year, the EITC lifts millions of Americans above poverty by incentivizing work and augmenting wages. It is hardly perfect: it is very complex, invites fraud, and imposes high marginal tax rates and marriage penalties, among other things. Despite these challenges, it is better at boosting income without creating other distortionary impacts on the labor market.

Created under the Tax Cuts and Jobs Act of 2017, Opportunity Zones are an economic development tool that allows people to invest in distressed areas in the United States. They are intended to spur economic growth and job creation in low-income communities (including many racial minority-majority areas) while providing tax benefits to investors. Zones are defined by population census tracts, nominated by states, and certified by the Treasury Department. It is encouraging to see they generally continue to receive bipartisan support.

Conclusion

In closing, the future of America's global competitiveness depends on a thriving workforce. As the world emerges from a post-COVID hibernation, countries that encourage workforce participation through smart labor policies will maintain a competitive edge. Beyond economic metrics, the social benefits of work manifest through stable families, strong mental health and revived communities are vital markers for a bright future.

Impact of Child Tax Credit

Under an enhanced child tax credit (CTC) plan, beginning July 15, 2021, eligible parents will receive $300 monthly for each child under age 6 and $250 for each ages 6 to 17. The Joint Committee on Taxation estimates this temporary, one-year CTC expansion would cost $110 billion, mostly in FY2021 and FY2022. The CTC is fully refundable, which means taxpayers benefit from the credit even if they didn't earn income or don't owe income taxes.

CTC is more broad in supporting spouses who stay home for childcare compared to childcare tax credits, which must be exclusively used for external childcare providers. But unfortunately, the CTC is a popular program for fraud and abuse. An inspector general report for the Treasury Department identified 33 percent of additional CTC payments from tax years 2009 through 2011 were improper.

> **"Emergency CTC programs should be reserved for actual emergencies rather than perpetuating government dependency and contributing inflationary pressures."**

While preventing childhood poverty and assisting low-income families are noble goals, this CTC is not structured to acknowledge that joblessness is the biggest driver of poverty. Emergency CTC programs should be reserved for actual emergencies rather than perpetuating government dependency and contributing inflationary pressures.

What You Can Do

Get Informed

Get Informed: Learn more about public policies that reward work. Visit:

- **Bureau of Labor Statistics**, "A profile of the working poor, 2019"
- **IWF Policy Focus on Earned Income Tax Credit**
- **The Heritage Foundation**, "Biden Plan Ignores the Real Problem With Welfare"

Talk to Your Friends

Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

Become a Leader in the Community

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

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Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

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