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Testimony

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Worker and Family Support
Committee on Ways and Means**
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Chairman Davis, Ranking Member Walorski, and members of the subcommittee, thank you for inviting me to submit comments on this important topic.

My name is Douglas Besharov, and I am a professor at the University of Maryland School of Public Policy, where I teach courses on poverty alleviation and program evaluation. I also direct our Welfare Reform Academy (WRA) and our Center for International Policy Exchanges (CIPE). I am also a Senior Fellow at the Atlantic Council, where I conduct research on international competitiveness and comparative domestic policy.

I had the honor of testifying before the National Academy's Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 Years as it was preparing its report, *A Roadmap to Reducing Child Poverty*. I have known some of its members for many years, and I hold them in high regard. And, I think that they prepared an impressive document. However, I think that they were given an overly narrow charge and required to use the wrong measure of poverty reduction. Let me explain.

The committee's charge was:

to provide an *evidence-based*, nonpartisan analysis of the macroeconomic, health, and crime/social costs of child poverty, to study current efforts aimed at reducing poverty, and to propose recommendations with the goal of reducing the number of children living in poverty in the United States by one-half in 10 years.¹

As I read the report, the term evidence-based was interpreted as there being substantial (and largely uncontradicted) research evidence establishing a program's effectiveness. As the committee report states, it was charged with conducting "objective analyses of the *existing research* on the poverty-reducing effects of major assistance programs directed at children and families and specific policy and program recommendations for accomplishing this goal."²

When I testified before the NAS committee, I became convinced that this standard was too narrow, and would push the committee's recommendations toward programs that provide cash benefits rather than toward workforce or social service programs—the former are easy to measure in research studies because their effects are direct and often immediate. (Although the committee concludes that the effect on child well-being of such programs is established, I think that is an overgenerous assessment of limited research.)

Using the Supplemental Poverty Measure (SPM) as the measure of poverty reduction aggravates this tendency, as it is much more sensitive to increases in benefits than to increases in earnings. An example of this effect is apparent when one compares the 2018 poverty rates for children under the official poverty measure and the SPM (16.2 percent vs. 13.7 percent, or about 15 percent lower); for the elderly (9.7 percent vs. 13.6 percent, or about 40 percent higher); for whites (8.1 percent vs. 8.7 percent, or about 7.4 percent higher); for African Americans (20.8 percent vs. 20.4 percent, or essentially unchanged); and for Hispanics (the Census Bureau term) (17.6 percent vs. 20.3 percent, or about 15.3 percent higher)—largely because of their lower use of means-tested benefits.

Additionally, the result of the committee's approach was to exclude from its recommendations new or promising ideas that either had not been tested or, at least in their initial iterations, had not been found successful in formal evaluations. In some important respects, that makes sense. But that limitation stymies fresh thinking and innovation. It is the equivalent of asking Silicon Valley to solve the problems of 2030, ten years from now—with current technologies.

In the limited space that I have, I will limit my discussion to two examples of how this truncates the recommendations available to the NAS committee: single parenthood and racial and ethnic discrimination.

Single parenthood. Many experts believe that a major cause of child poverty is single parenthood (although causation is partially two-way). The committee recognized this reality but concluded that there was insufficient evidence to recommend action in this area.

Although increasing the proportion of children living with married or cohabiting parents, as opposed to single parents, would almost certainly reduce child poverty, the impacts of

existing social programs designed to promote such a change are uncertain. Evidence from these programs is inconclusive and points to neither strong positive nor negative effects. In the early 2000s, an ambitious attempt to develop programs that would improve couple-relationship skills, promote marriage, and improve child well-being failed to boost marriage rates and achieve most of their other longer-run goals.³

It is true that, up to now, at least according to careful evaluations, programs to strengthen family relationships have not met with real success. But even though we do not have “proven” and workable solutions to single parenthood, it is simply wrong to reject further work on one of the most important underlying causes of child poverty. The committee’s charge seems too narrow. Surely such efforts should be pursued—for nuclear, multi-generational, and extended families.

Racial and ethnic discrimination. The same is true for the failure to propose action on the impact of historical—and current—racial and ethnic discrimination. The committee recognizes that “past and current racial/ethnic discrimination have contributed to substantial disparities in access to employment and housing.”⁴

The effects of discrimination, however, are much wider than the foregoing suggests, and it is disappointing that the committee apparently felt that it could not go further—at least to propose a broader research agenda. Highlighting such issues can often slide into blaming the victim, but the failure to do so sharply limits the remedial tools that might be developed to reduce child poverty.

The foregoing are two examples of topics I think are insufficiently addressed in the committee’s report—and which may reasonably be attributed to its specific and narrow charge (although committees have been known to work around a charge with which they disagree). I am puzzled, however, by its treatment of the anti-work and anti-marriage effects high benefit-reduction rates inherent in means-tested programs—which will almost certainly be aggravated if its recommendations are adopted.

High marginal benefit-reduction rates discourage work. For decades, critics of the US welfare system have expressed frustration at the fact that the combination of benefits from various means-tested programs could easily exceed the earnings of low-skilled adults, especially if leisure time or the ability to work off the books are taken into account. The numbers are surprising to those unacquainted with the scope of the contemporary safety-net, and I was frankly surprised by the committee’s treatment of the issue.⁵<https://www.nap.edu/read/25246/chapter/15#431>

As far as I can tell, in its analysis, the committee considered the effects of individual programs and adopted the most favorable interpretation of the literature. More important, it seems to have analyzed the issue program-by-program, even though these phaseouts and cliffs really take their toll *by their cumulative effect*. According to Gizem Kosar and Robert Moffitt:

Going back at least to Milton Friedman and his proposals for a negative income tax, economists have generally emphasized the importance of keeping tax rates modest in size

to preserve work incentives. One part of the issue that Friedman emphasized even in his earliest writings was what is now called the problem of “cumulative” marginal tax rates facing families who participate in multiple programs. Even if rates are relatively low in individual programs, cumulative rates can be considerably higher when summed across multiple programs in which a family participates.⁶

For many years, Eugene Steuerle and other researchers at the Urban Institute have studied this problem. In 2015, Steuerle testified before the House Ways and Means Committee that, in that year, if a household’s income increased from \$15,000 to \$55,000, the average marginal tax rate would be as high as 76 percent if the household received benefits from all the programs for which it was eligible. Although not all households may receive all benefits, Steuerle also adds: “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. . . . Add these factors in, and the rate can exceed 100 percent.”⁷

This is not the place to estimate the size and consequences of the high (cumulative) marginal benefit-reduction rates on work. We should note, however, that they can be a real factor encouraging or discouraging (additional) work. Steuerle, in 2013 testimonies to the Subcommittee on Economic Growth, Job Creation and Regulatory Affairs of the House Committee on Oversight and Government Reform, stated:

Although there is some disagreement over how these systems affect work efforts, there is almost no disagreement that they are designed in piecemeal fashion, leading to various unfair, inefficient, and somewhat strange effects.⁸

I wish the committee had spent more time assessing the dynamics of cumulative benefit-reduction rates and, then, explored how the inherent disincentives to work could be minimized—without unduly undermining the core purpose of the program. For example, the US Department of Health and Human Services (ASPE) has a Marginal Tax Rate Series that they are doing with the Urban Institute. From one of their briefs, there is this somewhat nonspecific paragraph about dealing with marginal tax rates:

Marginal tax rates can be a problem for low-income families trying to reach self-sufficiency. Several approaches are available to policymakers to ease the burden of marginal tax rates and encourage, rather than discourage, additional work and earnings. For example, program offices could adjust program phase-out schedules to make benefit reductions more gradual. Alternatively, program offices could extend recertification periods, or when earnings increase, allow a grace period before eligibility is reassessed.⁹

High marginal benefit-reduction rates penalize marriage. A byproduct of the high benefit-reduction rates in means-tested programs is the way they penalize unmarried couples (especially cohabitators) when they marry.¹⁰

Marriage rates in the US have been dropping for decades, as indeed, they have throughout most of the developed world. There are many causes, and among them low income

seems implicated. As Adam Looney and Michael Greenstone note: “the U.S. decline is far more pronounced between middle- and lower-income groups.”¹¹

For men ages 30-50 in the top 10 percent of annual earnings—a group that saw really earnings increases over time—83 percent are married today, down modestly from about 95 percent in 1970. For the median male *worker* (who experienced a decline in earnings of roughly 28 percent), only 64 percent are married today, down from 91 percent 40 years ago. And at the bottom 25th percentile of earnings, where earnings have fallen by 60 percent, half of the men are married, compared with 86 percent in 1970.¹²

The decline is also larger among minority groups. Between 1960 and 2011, the proportion of black adults aged 18 and older who were married fell by 50 percent and the proportion of married Hispanic adults declined by 35 percent, compared to a 25 percent decline for whites.¹³

Seeing such statistics, many assume that the stress of financial hardship contributes to the decline of marriage. Another factor, however, may be that both disadvantaged minorities and low-income groups, generally, also receive disproportionately more income from means-tested benefits and face significant penalties for marriage. The question is: Does that not play a role?

For years, analysts criticized the marriage penalties embedded in US income tax rules. After a number of ameliorative adjustments in the 1990s, early 2000s, and, more recently, in 2018, marriage penalties in tax code have been mostly removed or reduced to the extent that they are almost imperceptible.

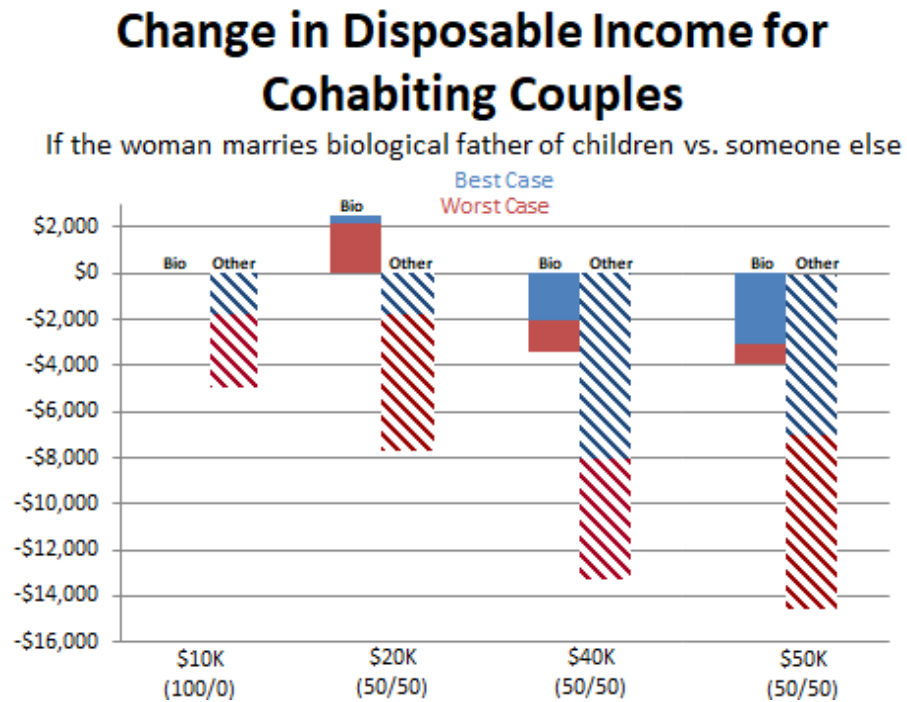
Despite the attention given to the tax code’s marriage penalties (presumably because they affected middle-class couples), surprisingly little attention has been paid to the marriage penalties (or bonuses) embedded in means-tested, social-welfare benefits (perhaps because they hit less advantaged couples). And yet, the penalties are often more onerous and their reach has grown.

The table at the end of my testimony, based on data supplied by the Urban Institute,¹⁴ depicts the financial bonuses or penalties that hypothetical cohabiting couples face if they decide to marry. The table identifies six scenarios at four levels of earnings and with specified variations in the split of earnings between the partners. Because local taxation and the rules governing means-tested benefits vary from state to state (for example, in child-care assistance), the table also presents the marriage penalties and bonuses for states at the 10th, 50th and 90th percentiles of the distribution as well as the percent change in earnings.

If the cohabitor is not a biological parent of all the children or if parental status is not either known or ignored by the authorities, the financial cost of marriage can be quite high. For example, cohabiting couples with earnings of \$40,000¹⁵ who are not both parents of the children or who do not tell the authorities face marriage penalties that range from a low about 13 percent to a high of about 32 percent of disposable income (between \$5,544 and \$13,248) and couples with earnings of \$50,000¹⁶ face marriage penalties that range from about 15 percent to about 25

percent of disposable income (between \$6,960 and \$14,148), depending on the state and the division of earnings.

The following figure depicts the best and worst case financial scenarios for cohabiting couples who decide to marry, divided by income levels and if the woman marries the biological father of the children or another man.



Thank you again for inviting me to submit my comments on this important topic.

* * *

Penalties and Bonuses for Cohabitors Who Marry

Earnings		Rule-following biological parents						Non-biological cohabiters					
Total (\$)	Split (%)	10 th		Median		90 th		10 th		Median		90 th	
		(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)
10,000	100/0	0	0	0	0	0	0	-5,016	-17.9	-3,396	-12.1	-1,824	-7.1
20,000	80/20	-108	-0.4	48	0.2	60	0.2	-8,902	-24.2	-6,699	-18.5	-4,152	-12.6
20,000	50/50	2,184	8.7	2,220	9.0	2,532	10.9	-7,733	-22.7	-3,842	-11	-1,784	7.2
40,000	80/20	-1,128	-3.0	-840	-2.2	-588	-1.6	-11,364	-22.7	-8,208	-18.8	-5,544	-13.3
40,000	50/50	-3,408	-8.8	-2,244	-6.5	-2,004	-6.3	-13,248	-31.6	-10,140	-24.5	-8,004	-17.4
50,000	80/20	-1,032	-2.5	-624	-1.5	-252	-0.6	-14,148	-25.1	-11,400	-21.6	-6,960	-14.5
50,000	50/50	-4,896	-11.9	-3,348	-8.2	-3,072	-7.7	-14,504	-28.7	-11,124	-23.3	-6,960	-16.4
Note: Total household income includes means-tested benefits													

Endnotes

1. National Academics of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty* (Washington, DC: The National Academies Press, 2019), ix, <https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty> (accessed February 29, 2020) (emphasis added).
2. Ibid., 21.
3. National Academics of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty* (Washington, DC: The National Academies Press, 2019), 203, <https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty> (accessed February 29, 2020).
4. Ibid., 239.
5. Ibid., Appendix D.
6. Gizem Kosar and Robert A. Moffitt, *Trends in Cumulative Marginal Tax Rates Facing Low-Income Families, 1997-2007* (Cambridge, MA: National Bureau of Economic Research, October 2016, 3, <http://www.econ2.jhu.edu/people/Moffitt/TrendsMarginalTax.pdf> (accessed October 18, 2019); emphasis added.
7. C. Eugene Steuerle, “Marginal Tax Rates and 21st Century Social Welfare,” (testimony, joint hearing, US House of Representatives, Committee on Ways and Means and Committee on Agriculture, Washington, DC, June 25, 2015), <https://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000275-Marginal-Tax-Rates-and-21st-Century-Social-Welfare-Reform.pdf> (accessed October 2, 2019).
8. C. Eugene Steuerle, “Labor Force Participation, Taxes, and the Nation’s Social Welfare System,” (testimony, US House of Representatives, Committee on Oversight and Government Reform, Washington, DC, February 14, 2013), <https://www.urban.org/sites/default/files/publication/24336/901554-Labor-Force-Participation-Taxes-and-the-Nation-s-Social-Welfare-System.PDF> (accessed October 2, 2019).
9. Suzanne Macartney and Nina Chien, *Marginal Tax Rates: A Quick Overview* (Washington, DC: US Department of Health and Human Services, 2019), 3, <https://aspe.hhs.gov/system/files/aspe-files/260661/brief1-intromtrs.pdf> (accessed October 18, 2019).

10. Douglas J. Besharov and Neil Gilbert, *Marriage Penalties in the Modern Social-Welfare State* (Washington, DC: R Street, 2015), http://www.welfareacademy.org/pubs/family/Marriage_Penalties_in_the_Modern_Social-Welfare_State.pdf (accessed February 28, 2020).

11. Adam Looney and Michael Greenstone, *The Marriage Gap: The Impact of Economic and Technological Change on Marriage Rates* (Washington, DC: Hamilton Project, February 2012), 3, http://www.hamiltonproject.org/files/downloads_and_links/020312_jobs_greenstone_looney.pdf (accessed Aug. 18, 2014).

12. Ibid., 3.

13. Pew Research Center, *King's Dream Remains an Elusive Goal; Many Americans See Racial Disparities* (Washington, DC: Pew Research Center, August 2013), <https://www.pewsocialtrends.org/2013/08/22/kings-dream-remains-an-elusive-goal-many-americans-see-racial-disparities/> (accessed October 2, 2019).

14. Elaine Maag and Gregory Acs, “The Financial Consequences of Marriage for Cohabiting Couples with Children” (Washington, DC: Urban Institute, May 2015).

15. Counting taxes and means-tested benefits, the combined disposable *income* of these couples ranges from \$35,376 to \$45,972, depending on the state and how earnings are divided among the couple.

16. Counting taxes and means-tested benefits, the combined disposable *income* of these couples ranges from \$47,892 to \$56,460, depending on the state and how earnings are divided among the couple.