



Cornell University  
ILR School

**ILR Review**

---

Volume 57 | Number 4

Article 84

---

July 2004

# Helping Working Families: The Earned Income Tax Credit

Saul D. Hoffman

Laurence S. Seidman

Follow this and additional works at: <http://digitalcommons.ilr.cornell.edu/ilrreview>

---

---

## Helping Working Families: The Earned Income Tax Credit

the kind of book to flip through, not to read from cover to cover.

Although difficult to follow, *The Future of the American Labor Movement* will help scholars and practitioners who seek a wide-angle lens on the labor movement and a comprehensive menu of options for action. This book might be thought of as a guidebook to today's labor movement, with narrative fragments and nuggets of insight that raise more questions than they answer.

Ian Greer

Ph.D. Candidate  
New York State School of  
Industrial and Labor Relations  
Cornell University

### **Industrial Relations, Politics, and Government**

*Helping Working Families: The Earned Income Tax Credit.* By Saul D. Hoffman and Laurence S. Seidman. Kalamazoo, Mich.: Upjohn Institute, 2003. 245 pp. ISBN 0-88099-254-9, \$36.00 (cloth); 0-88099-253-0, \$18.00 (paper).

In *Helping Working Families*, Saul Hoffman and Laurence Seidman update their 1992 book on the Earned Income Tax Credit (EITC), the largest contemporary program aimed at assisting working poor families in the United States. Like their earlier book, this one speaks to a variety of audiences, providing technical details about the program, intuitive explanations of the important policy issues, and a summary of our current state of knowledge. No doubt it will quickly be considered an indispensable source of information for anyone interested in the EITC.

The principal strength of this book, as of its predecessor, is its comprehensiveness. In general, the authors' approach is to verbally explain conceptual arguments within the chapters and to provide very specialized details in an Appendix. By separating verbal descriptions of the program and the policy issues related to it from more technical information, the authors have done a good job of keeping the discussion accessible to a wide range of audiences, while providing the kind of detail specialists would like to see.

After introducing the program and recounting its history, the authors turn to consideration of major research topics related to the EITC,

treating each distinct area of research in a separate chapter. The first of these chapters begins with the most basic fact regarding the EITC, that it takes the form of a rebate through the tax system. Individuals with low incomes have their taxes reduced under formulas that vary based on family structure and marital status. Since the EITC is deliberately aimed at those with relatively low incomes and its benefit varies with household structure, one would expect it to be fairly effective in assisting working poor families. Hoffman and Seidman review evidence regarding the target effectiveness of the EITC in relation to other policy alternatives such as the minimum wage. They conclude that the EITC delivers the majority of its benefits to poor or near-poor families and is much more effective than the minimum wage in this respect.

Beyond the benefit incidence of the program, perhaps the most interesting analytical issues regarding the EITC relate to its impact on individual behaviors. Under the EITC rules, at low levels of income, taxes are reduced and benefits are phased in for recipients. The benefits then plateau at their maximum. At an upper income threshold, the tax benefits are reduced over a phase-out range. Because the program alters the effective tax rates faced by recipients over these three programmatic ranges (phase in, plateau, and phase out), it would be expected to alter their work decisions. These complex issues are discussed at a verbal level, the appropriate tax rate information is summarized in useful tables for those interested, and appendices contain graphical utility maximization analyses. In addition, the book provides a critical summary of the available evidence on the magnitude of the impact of the EITC on work behavior of eligible individuals.

A decade ago, the benefit incidence of the program and the behavioral issues related to labor supply were the primary areas of research regarding the EITC. At that time, the program was relatively small, and most thought its reach was fairly limited. As the benefits and number of families affected by the EITC have expanded, researchers have become concerned that it may also affect behaviors other than individual labor supply.

Benefit formulas of the EITC vary with family structure, and it can be shown that these rules result in marriage penalties similar to those induced in the standard federal income tax system. The EITC also interacts with other programs such as the Child Tax Credit, which further complicates the impact of the program on labor markets. Finally, the EITC raises effi-

ciency issues, since higher-income individuals are taxed to pay benefits to lower-income families. A separate chapter introduces each of these possible effects of the EITC to the reader, and subsequently examines the current state of the research literature on the issue.

The final chapter provides a set of policy recommendations aimed at reducing some of the deficiencies of what is effectively a tax cut for relatively low-income working families. The recommendations are primarily aimed at refining the target effectiveness of the program and reducing its marriage penalty.

I have only one substantive concern. It has been repeatedly estimated that 20–30% of EITC payments are made in error. Over the past decade, this has been the basis for the damaging criticism that the program is riddled with fraud. While the book summarizes the research on this issue, it surprisingly does not offer strong policy recommendations to increase compliance in order to buttress political support for the EITC.

This book represents an enormous effort on the part of the authors to amass evidence on a wide range of policy issues related to the EITC, to distill them into a form that is accessible to a variety of audiences, and to organize and present them in a clear and coherent form. *Helping Working Families: The Earned Income Tax Credit* will instantly be the standard reference for anyone wanting an overview of the complex issues regarding the EITC and the best available evidence on its effects.

Kenneth A. Couch

Associate Professor  
Department of Economics  
University of Connecticut

### Labor and Employment Law

*Labor Standards in the United States and Canada.* By Richard N. Block, Karen Roberts, and R. Oliver Clarke. Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 2003. 176 pp. ISBN 0-88099-236-0, \$40.00 (cloth); 0-88099-235-2, \$18.00 (paper).

*Labor Standards in the United States and Canada* is an ambitious book that comes out of an ambitious research project. The authors use economic theory to quantitatively measure the strength of labor standards set forth in statutes, regulations, and case law in the United States

and Canada. The reason for tackling such a project, they explain, is to create a scientific basis for distinguishing between labor standards in different countries. By developing a way to measure labor standards, the authors hope to contribute to international policy discussions about whether labor standards should be included in free trade agreements like the WTO and the NAFTA. A secondary purpose of the book is to test the commonly held perception that Canada has stronger labor standards than the United States.

The authors compare ten labor standards that have been (or conceivably could be) legislated in each of the countries. They define labor standards as government mandates designed to affect the workplace—as opposed to standards that result from private activity like collective bargaining agreements or voluntary initiatives by employers. The ten standards are divided into two groups: (1) standards that require employer payments (minimum wage, overtime, paid time off, UI/EI, and workers' compensation); and (2) standards that constrain employer allocation of labor (collective bargaining, workplace discrimination prohibitions, unjust discharge, and advance notice for discharge).

The book is well-written and organized, but I would give it mixed marks for tone and level of discussion. Chapters 1 and 2 provide a well-documented survey of secondary literature about cultural differences between Canada and the United States and policy debates about the appropriateness of including labor provisions in international trade agreements. These chapters are simply written and presented at a basic level, offering a good primer for students new to the field of international labor and trade—if at some cost to readers who are familiar with the subject. The length of these chapters detracts from the main focus of the book, however, which is to explain and discuss an innovative method for comparing the strength of labor and employment provisions in different countries. The level of discussion becomes significantly more challenging in Chapter 3, however. The students who would benefit from the detailed and basic discussion in the first two chapters of the book are likely, at this point, to lose their way.

The authors demand much from readers after Chapter 2, implicitly assuming that they possess a basic knowledge of terminology and current conditions in ten areas of labor and employment law. Basics go unexplained—like the fact that no U.S. states mandate paid days off