



EITC Expansion for Childless Workers Would Save Billions—and Take a Bite Out of Crime

By Rachel West

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A comprehensive agenda to address the nation's legacy of mass incarceration and over-criminalization must not only remove barriers to employment for people with criminal records, but also ensure that jobs pay a fair, livable wage. A recent report from the White House Council of Economic Advisers, or CEA, demonstrated that raising the federal minimum wage would significantly reduce criminal activity and enhance public safety, saving American communities billions of dollars each year. This issue brief finds that a second policy to boost income for low-paid workers—expanding the Earned Income Tax Credit, or EITC, for workers without dependent children—would generate an additional \$1.7 billion to \$3.3 billion in societal benefit each year from reduced crime and improved public safety.

The minimum wage and the EITC are highly complementary policies, and both receive strong support from conservative and progressive voters alike. Pairing a minimum wage increase with an EITC expansion would bring annual public safety benefits of \$10 billion to \$20 billion to American communities—particularly those most affected by mass incarceration and over-criminalization—while also giving a tremendous boost to struggling workers and their families.

How higher minimum wages increase public safety

Clearing the pathway to work for people with criminal records is critical to tackling the onerous national legacies of mass incarceration and over-criminalization. An estimated 70 million to 100 million Americans—about one in every three adults—have a criminal record of some kind, and nearly half of all children have a parent with a criminal record.¹

Having a criminal record, no matter how old or inconsequential—such as an arrest that never led to conviction—can make securing employment nearly impossible. In many states, having a criminal record can unnecessarily bar workers from a host of trades and professions through discriminatory occupational licensing practices and also prevent them from obtaining the training, education, and support they need to succeed in the workforce.² Furthermore, because barriers to employment and income can damage economic security and family stability, a parent’s criminal record can have long-lasting negative consequences for children’s well-being and outcomes.³

A new report released by the CEA highlights a critical—but often overlooked—role for public policy at the intersection of criminal justice policy and the labor market.⁴ A comprehensive agenda to address the history of over-criminalization must not only remove barriers to employment but also ensure that jobs pay a fair, livable wage. Even when individuals with criminal records are able to overcome obstacles to finding employment, they are disproportionately likely to work in low-paying jobs. The quality of local employment opportunities—a large part of which involves adequate pay—is a strong driver of the level of crime in communities. Access to well-paying jobs is a key factor in supporting successful reentry, reducing recidivism among individuals who have been involved in the criminal justice system, and preventing new acts of crime.⁵ By enabling workers to earn enough to make ends meet, policies that raise wages—particularly for lower-educated men—can both prevent re-offense and lower the rate of first-time offenses. Research shows that a 10 percent increase in wages for lower-educated men leads to a 10 percent to 20 percent decrease in crime.⁶

For this reason, higher minimum wages have strong anti-crime effects. According to the CEA’s new analysis, the Raise the Wage Act—which would increase the federal minimum wage to \$12 by 2020—would reduce criminal activity by 3 percent to 5 percent.⁷ Economists estimate that crime costs American communities hundreds of billions of dollars each year, including through property damage, lost and reduced quality of life, medical costs, pain and suffering, and criminal justice system costs.⁸ Thus, while greater public safety and lower crime rates will ultimately increase the quality of life, particularly for the most disadvantaged communities, a 3 percent to 5 percent reduction in crime translates into an annual societal benefit of \$8 billion to \$17 billion. This represents substantial savings for American families and the economy alike.⁹

As of 2016, 29 states and the District of Columbia—as well as a growing number of local areas—have raised their minimum wages above the federal level of \$7.25 per hour.¹⁰ But residents of the remaining 21 states have been stuck at \$7.25 for seven years and counting. These low-minimum-wage states disproportionately contribute to the nation’s mass incarceration problem: In \$7.25 states, 1 in every 102 adults was incarcerated in jail or prison in 2013, compared to 1 in every 137 in higher-wage states.¹¹ In fact, while it by no means proves that higher minimum wages have been the cause of lower incarceration

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rates, every 10 percent increase in a state's minimum wage was associated with a more than 15 percent decrease in the adult incarceration rate.¹² Put another way, a \$1 minimum wage increase in low-wage states was associated with 208 fewer incarcerated individuals per 100,000 adults in the state in 2013.

Expanding the EITC would boost economic security and reduce crime

Raising the minimum wage is not the only policy that would boost incomes for individuals with criminal records as they seek to enter or return to the workforce. Policymakers from both sides of the aisle—including House Speaker Paul Ryan (R-WI) and President Barack Obama—have called for expanding the EITC for low-paid workers without qualifying dependent children, as these workers are the only group taxed further into poverty by the U.S. federal tax code.¹³ Since individuals who have criminal records are more likely to work in low-wage jobs—and many support noncustodial children using their earnings—an EITC expansion would have an outsized positive effect on these individuals and their children.¹⁴

Using the same parameters and approach as the CEA, the Center for American Progress calculates that the EITC expansion proposed by President Obama would result in an annual societal benefit of \$1.7 billion to \$3.3 billion by decreasing offenses 0.52 percent to 1.04 percent each year.¹⁵ (see Methodology section) Thus, the benefits from reduced crime and enhanced public safety alone—including less property damage, fewer lives lost, lower medical costs, and so on—would add up to as much as half the cost of expanding the EITC, which is expected to be \$6.1 billion per year.¹⁶ The EITC's other strong positive benefits—such as improved health, increased employment, and better school performance for children—would make the proposed EITC expansion well worth its costs, in addition to bringing huge benefits to the communities that are most affected by mass incarceration and over-criminalization.¹⁷

When it comes to helping low-income workers and their families, research demonstrates that the minimum wage and the EITC are strong complements.¹⁸ CAP estimates that the ideal policy choice—implementing an EITC expansion in tandem with a minimum-wage increase—would result in a societal benefit of \$10 billion to \$20 billion each year from lower crime and greater public safety alone.¹⁹

Of course, boosting the incomes of individuals with criminal records and enhancing public safety are just two of many reasons to embrace policies that raise wages for low-paid workers. Raising the minimum wage to \$12 by 2020 would reduce financial hardship and increase economic security for more than 35 million hard-working Americans.²⁰ And enhancing the EITC for workers without qualifying children would benefit more than 13 million workers across the nation, about 1.5 million of whom are

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noncustodial parents.²¹ Moreover, by ensuring that workers can earn enough to make ends meet—and enabling them to cover work-related costs, such as transportation and child care—both the EITC and the minimum wage proposals could newly bring millions more Americans into the workforce.²²

Furthermore, the benefits of boosting wages go beyond the working families receiving a raise and the communities experiencing less crime: These twin policy changes would also benefit employers by increasing worker productivity and reducing costly turnover. And by putting extra dollars in the hands of cash-strapped workers who will spend much of it immediately at businesses in their communities, the combination of a minimum wage increase and an enhanced EITC would give a strong boost to the nation's economy.²³

Conclusion

Good job opportunities and fair wages are two sides of the same coin when it comes to removing economic barriers for individuals with criminal records and their families. Fortunately, efforts to address barriers to employment have been rapidly gaining momentum at the local, state, and federal levels. For example, more than half of Americans now live in areas covered by fair-chance hiring policies, such as ban the box, which require employers to consider job applicants' qualifications for work prior to conducting a background check for a criminal record.²⁴ And in April 2016, Pennsylvania became the first state to introduce bipartisan Clean Slate legislation, allowing individuals with minor nonviolent records to have their records automatically sealed by staying crime-free for a set period of time.²⁵

It is critical that policymakers, advocates, and the public continue fighting to remove obstacles to employment for the millions of Americans with criminal records. But a comprehensive agenda to address the nation's legacy of over-criminalization and mass incarceration should not stop there. An integral part of this agenda requires boosting wages for America's lowest-paid workers—including by raising the minimum wage and expanding the EITC, policies that receive strong support from conservative and progressive voters alike.²⁶ These measures will not only benefit individuals with criminal records and struggling working families, but also generate billions in savings each year across the nation.

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Methodology

CAP estimated the reduction in incarceration rates associated with a 10 percent increase in the minimum wage using a linear regression of the natural logarithm of states' 2013 incarceration rates—measured per 100,000 adults—on the natural logarithms of their 2013 minimum wages and 2013 populations, and a constant term.²⁷

CAP also estimated the effect on criminal activity of the EITC expansion proposal introduced by President Obama, which would double the value of the maximum EITC for workers without qualifying children to about \$1,000 per year. The plan would also lower the minimum age of eligibility from 25 years old to 21 years old and broaden the credit's schedule, making it available to a greater share of so-called childless workers. A very similar proposal has been introduced by House Speaker Paul Ryan (R-WI).

Like the CEA report, CAP began with a 2002 study by Gould, Weinberg, and Mustard, which found that a 10 percent increase in hourly wages for non-college-educated men results in a 10 percent to 20 percent reduction in crime.²⁸ To estimate the average percentage increase in hourly wages that would be experienced by non-college-educated men under the EITC expansion proposal, CAP turned to the Tax Policy Center's analysis of the expected change in federal change tax burdens, which is given by income quintile and filing status—either joint, single, or head of household.²⁹ From these tax burden changes, CAP calculated the average percentage increase in after-tax income that would result for each income quintile and filing status group. The breaks between income quintiles were given by the Tax Policy Center.³⁰

Using data from the 2014 March Current Population Survey, CAP computed the share of individuals in each income quintile and filing status group who are non-college-educated males.³¹ CAP used these shares to calculate the weighted average percent increase in after-tax income, wherein weights are the number of non-college-educated males in each quintile and filing status cell.³² CAP presumed that average hourly wages would increase proportionately to after-tax income.

Using this approach, CAP estimated that the president's EITC proposal would increase average wages for non-college-educated males 0.52 percent. Applying the range of crime elasticities used in the CEA report—which are -1 to -2—a wage increase of this size would reduce crime by 0.52 percent to 1.04 percent. Based on the CEA analysis, which concluded that a 3 percent wage increase would lead to 254,967 to 509,933 fewer offenses each year, CAP inferred that the 0.52 percent wage increase brought about by the EITC expansion would reduce annual criminal activity by about 50,508 to 101,015 offenses. To translate this into societal benefit, CAP applied the average social cost of crime used by CEA: \$32,729 per offense. Unlike some economists, the CEA does not include criminal justice system costs—such as costs associated with enforcement,

incarceration, and the judicial system—as part of the social cost of crime. If these costs were included, the estimated social cost of crime would be greater, and thus the societal benefits from a given reduction in crime—such as those stemming from an EITC expansion—would also be greater. Research suggests that criminal justice system costs range from less than one-quarter of the total cost of crime for violent crime, to up to half of the total cost of crime for property crime.³³

For several reasons, this approach is likely to underestimate the benefits of an EITC expansion for childless workers. If, for example, a greater EITC induces more individuals to join the workforce—as past EITC increases have done—wages for lower-skilled men would increase further, resulting in additional crime reduction.³⁴ Furthermore, about half of states have their own supplemental state EITCs, the value of which is typically linked to the federal EITC. These supplements would increase if the federal EITC expanded, which would further boost wages for EITC-eligible workers.

Endnotes

- 1 Rebecca Vallas and Sharon Dietrich, "One Strike and You're Out: How We Can Eliminate Barriers to Economic Security and Mobility for People with Criminal Records" (Washington: Center for American Progress, 2014), available at <https://www.americanprogress.org/issues/criminal-justice/report/2014/12/02/102308/one-strike-and-youre-out/>; Rebecca Vallas and others, "Removing Barriers to Opportunity for Parents With Criminal Records and Their Children: A Two-Generation Approach" (Washington: Center for American Progress, 2015), available at <https://www.americanprogress.org/issues/criminal-justice/report/2015/12/10/126902/removing-barriers-to-opportunity-for-parents-with-criminal-records-and-their-children/>.
- 2 Michelle Natividad Rodriguez and Beth Avery, "The Consideration of Criminal Records in Occupational Licensing" (New York: National Employment Law Project, 2015), available at <http://www.nelp.org/publication/the-consideration-of-criminal-records-in-occupational-licensing/>; Vallas and Dietrich, "One Strike and You're Out."
- 3 Vallas and others, "Removing Barriers to Opportunity for Parents With Criminal Records and Their Children."
- 4 White House Council of Economic Advisers, *Economic Perspectives on Incarceration and the Criminal Justice System* (2016), available at https://www.whitehouse.gov/sites/default/files/page/files/20160423_cea_incarceration_criminal_justice.pdf.
- 5 Christy Visher, Sara Debus-Sherrill, and Jennifer Yahner, "Employment after Prison: A Longitudinal Study of Releases in Three States" (Washington: Urban Institute, 2008), available at <http://www.urban.org/research/publication/employment-after-prison-longitudinal-study-releesees-three-states>.
- 6 Eric D. Gould, Bruce A. Weinberg, and David B. Mustard, "Crime Rates and Local Labor Market Opportunities in the United States: 1979-1997," *The Review of Economics and Statistics* 84 (1) (2002): 45-61.
- 7 *Raise the Wage Act*, S. 1150, 114th Cong., 1 sess. (April 30, 2015), available at <https://www.congress.gov/bills/114th-congress/senate-bill/1150>; White House Council of Economic Advisers, *Economic Perspectives on Incarceration and the Criminal Justice System*.
- 8 See White House Council of Economic Advisers, *Economic Perspectives on Incarceration and Criminal Justice System*, Table 1 for information on the social cost of crime. As noted in the Methodology section, the CEA does not include criminal justice system costs—such as costs associated with enforcement, incarceration, and the judicial system—in its estimate of the social cost of crime, but instead considers these to be policy costs.
- 9 Poor and low-income Americans are disproportionately likely to be the victims of crime, and economically disadvantaged communities are disproportionately affected by mass incarceration. See, for example, Melissa S. Kearney, Benjamin H. Harris, Elisa Jácome, and Lucie Parker, "Ten Economic Facts about Crime and Incarceration in the United States" (Washington: Brookings Institution, 2014), available at http://www.brookings.edu/~media/research/files/papers/2014/05/01-crime-facts/v8_thp_10crimefacts.pdf.
- 10 U.S. Department of Labor, "Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2016," available at <https://www.dol.gov/whd/state/stateMinWageHis.htm> (last accessed May 2016).
- 11 Author's calculations of population-weighted averages using 2016 minimum-wage data from U.S. Department of Labor, "Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2016"; 2013 data on incarceration rates from Lauren E. Glaze and Danielle Kaeble, "Correctional Populations in the United States, 2013" (U.S. Department of Justice, 2014), available at <http://www.bjs.gov/content/pub/pdf/cpus13.pdf>; 2013 state population data from U.S. Census Bureau, "National, State, and Puerto Rico Commonwealth Totals Datasets: Population, population change, and estimated components of population change: April 1, 2010 to July 1, 2013," available at <http://www.census.gov/popest/data/national/totals/2013/NST-EST2013-alldata.html> (last accessed May 2016).
- 12 For more information, see Methodology section of this issue brief.
- 13 Chuck Marr and others, "Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty: Improvement Targeted at Lone Group Taxed into Poverty" (Washington: Center on Budget and Policy Priorities, 2016), available at <http://www.cbpp.org/research/federal-tax/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce>.
- 14 John Schmitt and Kris Warner, "Ex-offenders and the Labor Market" (Washington: Center for Economic and Policy Research, 2010), available at <http://cepr.net/documents/publications/ex-offenders-2010-11.pdf>; Vallas and Dietrich, "One Strike and You're Out."
- 15 As noted in the Methodology section, the CEA does not include criminal justice system costs as part of the social cost of crime. If these costs were included, the total societal benefit from the proposed EITC expansion would be substantially greater than CAP estimates. Another EITC expansion proposal introduced by Sen. Sherrod Brown (D-OH) and Rep. Richard Neal (D-MA) would further increase the maximum credit and expand the share of childless workers who qualify. This bill would raise low-paid workers' wages further, bringing about even greater societal benefits from reduced crime than the Obama and Ryan proposals. See Marr and others, "Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty."
- 16 The benefits from reduced crime would accrue to society as a whole rather than directly offsetting this fiscal cost.
- 17 Chuck Marr and others, "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds" (Washington: Center on Budget and Policy Priorities, 2015), available at <http://www.cbpp.org/sites/default/files/atoms/files/6-26-12tax.pdf>.
- 18 Arindrajit Dube, Testimony before U.S. Senate Committee on Health, Education, Labor & Pensions, "Keeping up with a Changing Economy: Indexing the Minimum Wage," March 14, 2013, available at <http://www.help.senate.gov/imo/media/doc/Dube1.pdf>.
- 19 This calculation assumes that if an EITC expansion and minimum-wage increase were introduced simultaneously, the wage increases experienced under each—estimated by CAP and the CEA, respectively—would be roughly additive. That would mean, in turn, that the societal benefits would also be roughly additive. See the Methodology section for further detail.

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- 21 Marr and others, "Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty."
- 22 Nada Eissa and Hilary Hoynes, "Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply." Working Paper 11729 (National Bureau of Economic Research, 2005), available at <http://www.nber.org/papers/w11729>.
- 23 Cooper, "Raising the Minimum Wage to \$12 by 2020 Would Lift Wages for 35 Million American Workers."
- 24 Michelle Natividad Rodriguez and Beth Avery, "Ban the Box U.S. Cities, Counties, and States Adopt Fair-Hiring Policies" (New York: National Employment Law Project, 2016), available at <http://www.nelp.org/publication/ban-the-box-fair-chance-hiring-state-and-local-guide/>.
- 25 Cherri Gregg, "Bi-partisan 'Clean Slate' Bill To Be Introduced In PA Today," April 12, 2016, CBS Philly, available at <http://philadelphia.cbslocal.com/2016/04/12/bi-partisan-clean-slate-bill-to-be-introduced-in-pa-friday/>.
- 26 Raise the Minimum Wage, "Polling," available at <http://www.raisetheminimumwage.com/pages/polling> (last accessed May 2016); Chuck Marr, "Commentary: One Anti-Poverty Initiative Both Sides Can Agree On," Center on Budget and Policy Priorities, January 24, 2014, available at <http://www.cbpp.org/commentary-one-anti-poverty-initiative-both-sides-can-agree-on>.
- 27 Author's calculations from U.S. Department of Labor, "Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2016"; Glaze and Kaeble, "Correctional Populations In The United States, 2013"; and U.S. Census Bureau, "National, State, and Puerto Rico Commonwealth Totals Datasets: Population, population change, and estimated components of population change: April 1, 2010 to July 1, 2013."
- 28 Gould, Weinberg, and Mustard, "Crime Rates and Local Labor Market Opportunities in the United States: 1979-1997."
- 29 Tax Policy Center, "(June 11, 2014) – T14-0039 – The President's Proposal to Expand the EITC, Baseline: Current Law, Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2020" (2014), available at <http://tpcprod.urban.org/numbers/displayatab.cfm?Docid=4092&DocTypeID=2>.
- 30 Tax Policy Center, "T13-0189 – Income Breaks for the 2013 Tax Model (0613 Series), 2004-2024" (2013), available at <http://www.taxpolicycenter.org/model-estimates/current-law-baseline-tables-microsimulation-tax-model-0613-1/income-breaks-2013-tax>.
- 31 The CEA does not specify whether men who started but did not complete college—or who earned an associate's degree—are counted among this group; for purposes of this analysis, CAP counts these men among the college-educated because they tend to be higher skilled and higher earning. Sarah Flood and others, "Integrated Public Use Microdata Series, Current Population Survey: Version 4.0. [Machine-readable database]" (Minneapolis: University of Minnesota, 2015), available at <https://cps.ipums.org/cps/>.
- 32 For married couples filing jointly, CAP assumes males contribute half of the average income increase.
- 33 Aaron Chalfin, "The Economic Cost of Crime," The Encyclopedia of Crime and Punishment (2015), available at <http://onlinelibrary.wiley.com/doi/10.1002/9781118519639.wbcepx193/full>.
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