



The earned income tax credit is Maine’s best anti-poverty program; let’s expand it

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The biggest flaw in most social assistance programs — including TANF, SNAP, Medicaid, and WIC — is that they undermine the very thing that would help their beneficiaries secure long-term financial independence: work. In 2013, an analysis by the Cato Institute revealed that welfare programs in 35 states paid more than a minimum wage job. In Maine, a single mother with two young children could collect nearly \$20,000 in annual welfare benefits.

Welfare recipients who seek entry-level employment typically lose more in government benefits than they earn, reducing their total income. This perverse incentive structure removes any motivation for a rational person to accept low-wage work.

Work requirements and mandated job training activities can help mitigate this problem, but the underlying structure remains deeply misguided.

One solution to this problem, the brainchild of Nobel Prize-winning economist Milton Friedman who called it a “negative income tax,” reverses the incentive structure seen in modern social assistance programs. Friedman’s idea was to supplement the income of poor families by giving them a little extra cash for every dollar they earn. No earnings, no benefits. More work, more benefits.

The modern incarnation of this old idea is the Earned Income Tax Credit (EITC). It was first enacted at the federal level in 1975, and many states — including Maine — have created their own state-level tax credits on top of what the federal government provides. Maine’s EITC is worth 5 percent of the federal benefit and is refundable (meaning that even families with no income tax obligation can benefit from it).

Decades of scholarly work has demonstrated the EITC’s positive real-world effects. A 2015 study by the National Bureau of Economic Research found that among single mothers, a

\$1,000 increase in the EITC led to a 7.3 percent increase in employment for families below the poverty line.

Expanding the EITC would do little to add to Maine's bloated welfare bureaucracy. According to the IRS, administering the EITC costs substantially less than what programs like Medicaid and TANF require — and since Maine's program piggybacks on the federal program, state administrative costs are minimal.

In Maine, 102,000 households benefited from the federal EITC in 2015, reducing their tax liability by an average of more than \$2,000. Since Maine's EITC pays 5 percent of the federal benefit, the average household received an additional \$100 from the state.

Given its proven track-record of success, Maine legislators should consider following the example of many other states and increasing the proportion of the federal credit that Maine matches. Vermont, Massachusetts, and Connecticut, for example, offer EITC payments around 30 percent of the federal level. To offset the increase in government spending, policymakers should explore ways to reduce state expenditures on other, less effective welfare programs.

The EITC is already the most successful anti-poverty program in Maine. By expanding it, policymakers could build on its proud legacy and make its impact even more potent.