GOOD NEWS FOR LOW INCOME FAMILIES: EXPANSIONS IN THE EARNED INCOME TAX CREDIT AND THE MINIMUM WAGE

December 1998

A report by
The Council of Economic Advisers

EXECUTIVE SUMMARY

- The strongest labor market in a generation has resulted in particularly large gains among low-wage and disadvantaged workers. From 1979 to 1993, the real wages of low-wage workers fell sharply. Recently, however, low-wage workers have experienced large increases in real wages: For low-wage men, wages are up since 1996 by 5.7 percent after inflation. And for low-wage women, real wages have risen 6.1 percent.

- These strong wage gains have been accompanied by a steep decline in unemployment for low-skilled workers. In 1993, 11.1 percent of workers without a high school degree were unemployed; today that rate has fallen to 7.2 percent. Among high school graduates (with no college), the rate has fallen from 6.6 to 3.9 percent. Low-wage workers are thus gaining both by working more and by earning more for every hour that they work.

- The effects of a strong economy have been reinforced by successful policies designed to make work pay. Expansions in the Earned Income Tax Credit (EITC) since 1993 are supplementing the incomes of low-wage working parents. The EITC is one of our most successful programs for fighting poverty and encouraging work:

  <u>Lifts more than 4 million Americans out of poverty</u>. The EITC lifted 4.3 million Americans out of poverty in 1997 -- more than double the number in 1993.

  <u>Dramatically reduces child poverty</u>. In 1997, the EITC reduced the number of children living in poverty by 2.2 million. This report finds that over half of the decline in child poverty between 1993 and 1997 can be explained by changes in taxes, most importantly the EITC.

  <u>Encourages work among single women with children</u>. In 1992, 73.7 percent of single women with children were in the labor force. In 1997, 84.2 percent of such women were in the labor force. The percentage of single women with children who received welfare and did not work has been cut by more than half -- from 19.3 percent in 1992 to 8.3 percent in 1997. Research studies suggest that the increase in labor force participation among single mothers is strongly linked to the expansion in the EITC.

- Increases in the minimum wage have been important in raising the earnings of low-wage workers. Empirical research suggests that recent minimum wage increases have had little or no adverse effect on employment.

- The combined effects of the minimum wage and the EITC have dramatically increased the returns to work for families with children. Between 1993 and 1997, families with one child and one earner who worked full-time at the minimum wage (i.e., $4.72 in 1993 and $5.15 in 1997, in 1997 dollars) experienced a 14 percent -- $1,402 -- increase in their income, after inflation, just because of these two policies alone. Similar families with two children experienced a 27 percent -- $2,761 -- increase in their income.

Good News for Low Income Families: Expansions in the Earned Income Tax Credit and the Minimum Wage

1. The Labor Market Continues to Perform at a Record Pace

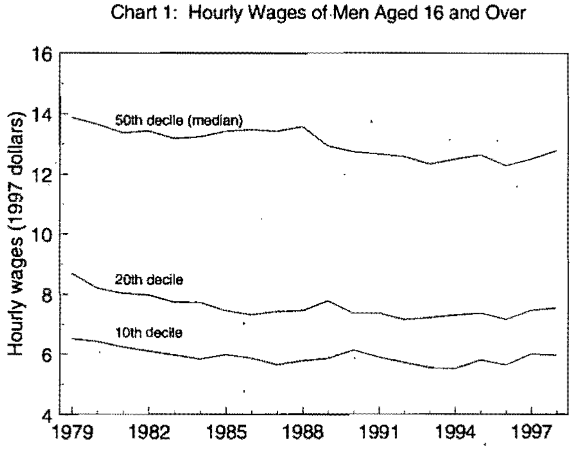
American workers are currently benefiting from the strongest labor market in a generation. Employment is at an all-time high, with 132 million Americans at work in November 1998, up from 119 million in January of 1993. Only 4.4 percent of the labor force is unemployed, having fallen by 2.9 percentage points since this Administration took office; the unemployment rate is now at its lowest level since 1969. Moreover, wages of workers are up sharply in the past several years, with a gain in median wages (after inflation) of 4.4 percent from 1996 through August of this year. As this report indicates, these gains are particularly strong among low-wage and disadvantaged workers, following more than a decade of labor market losses. Administration policies have been important in helping those at the bottom end of the labor market begin to catch up and share in the overall economic growth of the 1990s.

2. Low-Wage and Disadvantaged Workers are Making Particularly Large Gains

Low-wage and disadvantaged workers have experienced substantial gains in wages and employment. The real wages of low-wage male workers have shown large increases in the past few years, in contrast to the period from 1979 to 1993, when they declined by 14.7 percent. (We define low-wage as those workers at the bottom decile of the wage distribution.) Among low-wage women, the decline was 15.8 percent over this period. Charts 1 and 2 show recent significant improvements in real wages among all workers, but with particularly large gains among the lowest paid. Since 1996, men in the bottom decile have increased their earnings by 5.7 percent after inflation (Chart 1), while women have gained 6.1 percent (Chart 2).

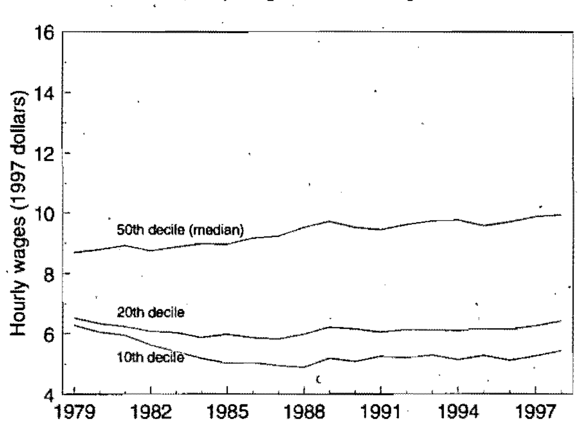
At the same time, unemployment rates among the least skilled have plummeted. When this Administration took office in 1993, 11.1 percent of workers without a high school degree were unemployed; today that rate has fallen to 7.2 percent. Among high school graduates (with no college), the rate has fallen from 6.6 to 3.9 percent. Hence, low-wage workers are working more and earning more for every hour that they work.

Chart 1: Hourly Wages of Men Aged 16 and Over



Note: 1998 figure is the January through August average.

Chart 2: Hourly Wages of Women Aged 16 and Over



Note: 1998 figure is the January through August average.

One group in particular -- single mothers -- has also experienced significant increases in labor force participation during this time period. Labor force participation rates among single mothers began to climb in 1993 after remaining essentially unchanged at 74 percent since 1984. By 1997, 84 percent of single mothers were in the labor force, a marked change for a group that has traditionally had extremely high rates of poverty and welfare usage.

3. Administration Policies Have Played a Key Role in These Gains

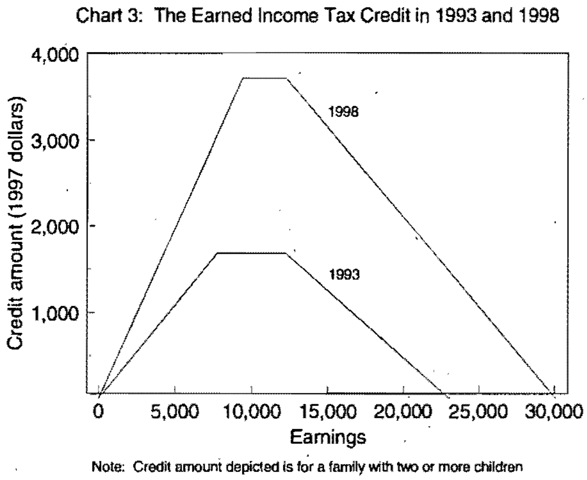
The strong overall economy has been an important factor in increasing the wages and employment of less-skilled workers. Typically, employment among workers with less education is more sensitive to changes in the economy, with larger gains in recoveries and larger losses in downturns. This Administration has worked hard to maintain an environment in which economic growth can flourish and American businesses can compete fairly, both at home and abroad. However, the strong economy is not the only reason for these gains among less skilled workers. Administration policies to "make work pay" by expanding the Earned Income Tax Credit and raising the minimum wage have also been important.

3.1 Expanding the Earned Income Tax Credit

Description of the EITC

The goals of the Earned Income Tax Credit (EITC) are to make work pay, to help ensure that working parents do not have to raise their children in poverty, and to offset the total tax burden of low and moderate income working families. As a result, the EITC eases the transition from welfare to work. To achieve these goals, the EITC consists of a refundable tax credit for working families with low incomes that offsets a family's total tax burden. Because the credit is refundable, individuals can receive the full amount to which they are entitled even if the amount exceeds the individual income taxes they owe. About 80 percent of EITC payments offset individual income, social security, and other Federal taxes borne by families receiving the credit.

Only families that work are eligible for the tax credit, and the amount of the credit depends on a family's labor market earnings. In 1998, for every dollar a low-income worker earns up to an established limit, as much as 40 cents is added to compensation in the form of a tax credit. In particular, the amount of the credit rises with earnings up to a maximum credit of $2,271 for a family with one child and $3,756 for a family with two or more children. The credit is flat for a range of earnings and then is phased out.



The EITC was significantly expanded in the Omnibus Budget Reconciliation Acts (OBRA) of 1990 and 1993. As a consequence of these expansions, the EITC now provides a greater incentive for labor force participation than in 1993. In 1993, very low-income parents receive an additional 19 to 20 cents for each additional dollar earned. In 1998, a very low income parent with one child will receive 34 cents for additional earnings; if he or she has two children, the EITC will add 40 cents to their take-home pay (Chart 3).

OBRA 1993 significantly increased the credit for families with two or more children. The maximum credit was increased by over $1,500 (1998 dollars), while eligibility for the credit was extended to families with incomes up to $30,050 (or about $3,600 above the prior law level). In addition, the 1993 expansion helped lower taxes for 15 million working families in 1996.

About 19.7 million workers are expected to claim the EITC in tax year 1998, receiving an average credit of $1,547. About 16.5 million of these claims will be for workers living with children, who will receive an average credit of $1,807.

The EITC is a non-bureaucratic way to reward work effort. There are no middlemen service providers, no long lines at government offices, and there is no need to take time off from work to apply for the credit. Working families apply directly to the Internal Revenue Service for the EITC and generally receive the credit as part of their tax refund.

Participation in the EITC

While the EITC offers a substantial incentive to work and move out of poverty, the credit is effective if low-income families apply for it. A relatively high fraction of families eligible for the EITC -- 81 to 86 percent in 1990 -- have claimed the credit.[1] The participation rate has been substantially higher than those for other antipoverty programs, including AFDC (62 to 72 percent in 1986/87), and Food Stamps (54 to 66 percent in 1986/87).[2]

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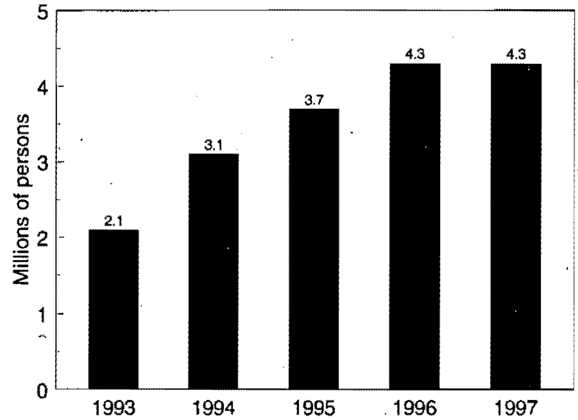
[1]Scholz, J.K. (1994). "The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness." *National Tax Journal,* 59-81.

[2]Blank, R. and P. Ruggles (1996). "When Do Women Use AFDC and Food Stamps? The Dynamics of Eligibility vs. Participation." *Journal of Human Resources*, 57-89.

The EITC has reduced poverty

The EITC is targeted to families living in poverty with the goal of lifting their income above the poverty line. As shown in Chart 4, the latest estimate from the Census Bureau shows that the EITC removed 4.3 million persons from poverty in 1997, which is more than double the number who were removed from poverty in 1993.

Chart 4: Number of People Removed from Poverty by the EITC



Over half of the people removed from poverty by the EITC (2.2 million) were children under the age of 18, and 1.8 million were living in families headed by unmarried women. Updating analyses reported in the 1998 Economic Report of the President, it is found that over half of the decline in child poverty between 1993 and 1997 can be explained by changes in taxes, most importantly the EITC (Table 1). In addition, the EITC removed about 1.1 million African-Americans and nearly 1.2 million persons of Hispanic origin from poverty in 1997. It is clear that the EITC has become a major weapon in our fight against poverty.

The EITC has increased the labor force participation of single mothers

Between 1993 and 1997, the real value of the maximum EITC payment increased by 38 percent for single mothers with one child and by 116 percent for single mothers with two or more children.[3] These increases coincided with the period when the proportion of single mothers in the labor force increased dramatically, from 73.7 percent in 1992 to 84.2 percent in 1997.

In contrast, the labor force participation of single women without children -- who became eligible for a very small credit in 1994 if their earnings were very low -- did not change over this period (Chart 5). As Chart 6 indicates, the difference in the labor force participation rates of single women with and without children has closely tracked the growth in maximum EITC

Chart 5: Labor Force Participation Rates of Single Women With and Without Children

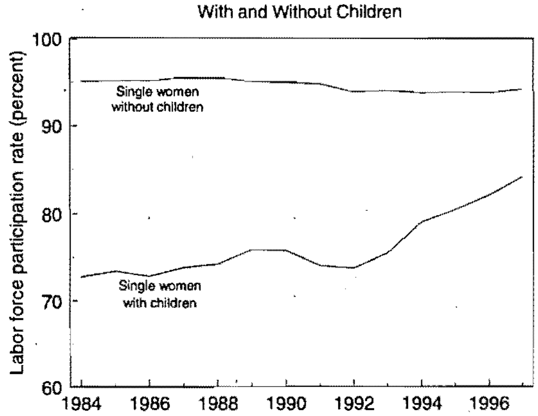
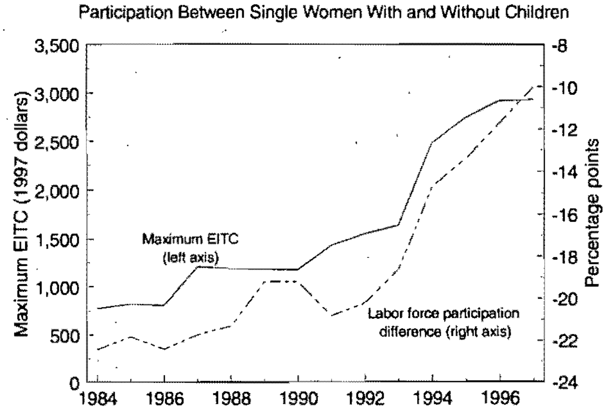


Chart 6: Maximum EITC and Difference in Labor Force Participation Between Single Women With and Without Children



Note: After 1990, the maximum EITC is the average of the maximum for taxpayers with one child and with more than one child.

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[3]The same numbers apply to two-parent families.

benefits.[4]

One recent study concluded that as much as 60 percent of the increase in employment of single mothers since 1984 was attributable to expansions in the EITC.[5] For the period between 1992 and 1996, the EITC explains 33 percent of the increase in annual employment. A second study examined the 1986 EITC expansion, which was more modest than the 1993 expansion, and found that it significantly increased labor force participation among single mothers, especially for less educated women.[6] Yet another study found that the EITC could result in an increase in labor supply of 19.9 million hours in 1996 relative to 1993 law and induce 516,000 families to move from welfare into the workforce.[7]

EITC benefits for married couples are based on the combined earnings of both husband and wife. Hence, married couples are more likely than single parent families to fall in the range of earnings where the EITC is being phased out. This has caused some researchers to predict that the EITC might cause a decrease in hours of work among married couples. However, the limited available evidence suggests that the expansions in 1986, 1990, and 1993 had modest disincentive effects of 1.2 percentage points on labor force participation of wives, and they actually had a small positive effect on married men (of 0.2 percentage points).[8]

How is the extra income from the EITC being used?

Most families receive their EITC dollars at tax payment time, in the form of a larger refund. A recent study interviewed low-income workers who had gone to a volunteer tax preparation office in Chicago for assistance with their tax return. The study asked the workers what they planned to do with the EITC they were expecting to receive and found that 61 percent planned to use at least some of their refund for investment purposes, such as to pay for education (9 percent), repair, buy, or finance a car (10 percent), or to pay for a move (5 percent). Twenty-

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[4]Liebman, J.B. (1998). "The Impact of the Earned Income Tax Credit on Incentives and Income Distribution." *Tax Policy and the Economy*, 12, 83-119.

[5]Meyer, B., and D.T. Rosenbaum (1998). "Welfare, the Earned Income Tax Credit, and the Employment of Single Mothers." Department of Economics, Northwestern University.

[6]Eissa, N. and J.B. Liebman (1996). "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics*, 111(2): 605-637.

[7]Dickert, S., S. Houser, and J.K. Scholz (1995). "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation." *Tax Policy and the Economy*, 9, 1-50.

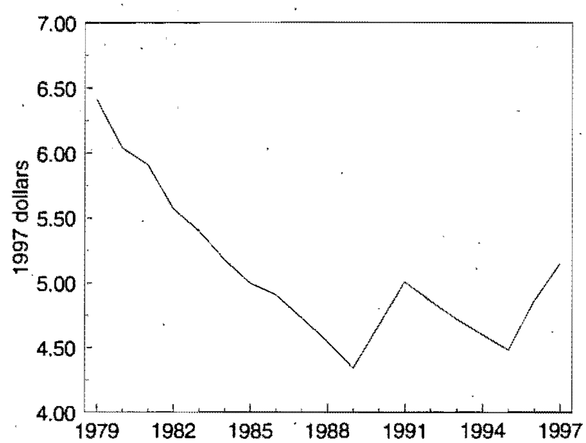
[8]Eissa, N. and H.W. Hoynes (1998). "The Earned Income Tax Credit and the Labor Supply of Married Couples." Department of Economics, University of California, Berkeley.

eight percent said they were saving at least some of the EITC for future use.[9]

3.2 Increasing the Minimum Wage

The Administration has fought for increases in the minimum wage, and on October 1, 1996 the rate was raised from $4.25 to $4.75. The rate was increased again to $5.15 on September 1, 1997. Prior to these increases, it had been five years since the minimum wage was last raised, and its real value had decreased by 15 percent (Chart 7).

Chart 7: The Real Value of the Minimum Wage



As shown in Charts 1 and 2, the wages of low-wage workers increased substantially since 1996, and the recent minimum wage increases are likely to explain much of this rise. It has been estimated that almost 10 million workers benefited from the recent minimum wage hikes.[10]

Most of the workers benefiting from the wage increases are adults from lower income families, and their wages are a major source of their family's earnings. Among workers who were earning between $4.25 and $5.15 just prior to the minimum wage increases, 71 percent were adults (20 or older), 58 percent were women, and one-third were black or Hispanic workers. Almost half of the affected workers (46 percent) worked full-time, and most of the low-wage workers were in low-income households. That is, over half of the benefits from the minimum wage increases were received by households in the bottom 40 percent of the income distribution. And in 1997, the earnings of the average minimum wage worker accounted for 54 percent of their family's total earnings.

One of the potential side effects of increasing the minimum wage is a reduction in employment. That is, with labor more expensive, some firms may hire fewer workers. Many empirical studies have examined this issue, and the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment. In fact, a recent study of the 1996-97 wage increases used several different methods and found that the employment effects were statistically insignificant. Moreover, the unemployment rates of African-American teens and high school dropouts, who are two groups of workers most likely to

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[9]Smeeding, T., K. Ross, M. O'Connor, and M. Simon (1998). "The Economic Impact of the Earned Income Tax Credit (EITC)." Center for Policy Research, Maxwell School of Public Policy, Syracuse University.

[10]This finding, and the subsequent two paragraphs are based on: Bernstein, J., and J. Schmitt (1998). *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase.* Economic Policy Institute, Washington, D.C.

be affected by the wage hike, are lower today than they were just prior to the increases.

4. The Combined Effects of EITC and Minimum Wage Expansions

Increases in the minimum wage and expansions in the EITC reinforce each other. Among low-wage workers, these changes have produced substantial increases in income. Table 2 demonstrates the combined effect of the two policies (after inflation), comparing 1993 and 1997 (as if the minimum wage was in effect the full year). During this period the minimum wage rose by 9 percent, while the maximum EITC credit rose by 38 percent for one-child families (116 percent for two-child families). For families with one earner working full-time at the minimum wage, their combined earnings-plus-tax refund would have risen 14 percent if they had one child (27 percent if they had two or more children). This is a significant gain in real purchasing power among these parents.

As the bottom of Table 2 demonstrates, full-time work at the minimum wage no longer leaves families below the poverty line. As a result of these policy changes, one and two-child families with a single full-time minimum wage worker now earn enough to escape poverty.

5. Conclusion

The past several years have been very good ones for less-skilled workers in the labor market. Wages are up and unemployment is down. Among single mothers, many more are participating in the labor market, while welfare caseloads have declined steeply. The research evidence indicates that these gains partially reflect the strong economy, but that the gains have been reinforced by Administration policies that have increased the financial rewards for low-wage and less skilled persons to work.

Providing the economic incentives to work are an important legacy of this Administration. These gains mesh well with other goals this Administration has pursued, such as adequate child care for the children of working mothers and available training for those workers who want to increase their skills and work opportunities. In the long run, a healthy strong economy must rely on a trained and hard-working labor force, with opportunities for both the more and less educated. There has been real progress toward this goal in recent years.

Table 1. Factors Accounting for Changes in Child Poverty

	1979-97	1979-89	1989-93	1993-97
Changes to official poverty rate attributable to changes in:				
Family structure	2.1%	1.2%	0.8%	0.3%
Earnings and other before-tax-and-after income	1.4%	1.1%	3.5%	-3.6%
Cash social insurance and welfare payments	0.3%	1.0%	-1.1%	0.5%
Total change in official poverty measure	3.8%	3.2%	3.1%	-2.8%
Change in extended poverty rate attributable to changes in:				
Means-tested food and housing transfers	0.4%	0.4%	-0.3%	0.4%
Taxes	-2.3%	0.3%	0.0%	-2.6%
Total change in extended poverty rate	1.9%	4.0%	2.9%	-5.0%

Table 2. The Effects of Changing Minimum Wage and EITC on Earnings of Single Parents
(All numbers in $1997)

	1993	1997	Percent Change
Program Parameters			
Minimum wage	$4.72	$5.15	9
Maximum EITC			
One-child family	$1,602	$2,210	38
Two-child family	$1,689	$3,656	116
Earnings minus taxes*			
One-child family	$10,320	$11,722	14
Two-child family	$10,407	$13,168	27
Ratio of earnings minus taxes to poverty line			
One-child family	0.93	1.06	
Two-child family	0.80	1.02	

*Assumes one earner works full-time/full-year (2000 hours) at minimum wage. Taxes include income taxes (including the EITC) and employee share of social security taxes.

Earned Income Tax Credit:
Rewarding Working Families

Department of the Treasury
October, 1998

Overview

GENERAL DESCRIPTION AND GOALS OF EITC

Earned Income Tax Credit: General Description

- The earned income tax credit (EITC) is a refundable tax credit for working families with low incomes.
- For every dollar a low-income worker earns up to a limit, between 8 and 40 cents are provided as a tax credit. Above a given level, the size of the tax credit is gradually reduced.
- Because the credit is refundable, individuals can receive the full amount to which they are entitled even if the amount exceeds the individual income taxes they owe.
- On 1998 tax returns, the EITC will provide a tax credit averaging nearly $1,550 for nearly 20 million workers and their families. Working families with earnings of up to $30,095 per year may be eligible for the EITC.

Two Goals of the EITC

- **Encourage Families To Move From Welfare to Work** by making work pay.

- **Reward Work for Working Families** so parents who work full-time do not have to raise their children in poverty -- and families with modest means do not suffer from eroding incomes.

  -- By providing an offset against other Federal taxes, the EITC increases disposable income for workers and their families.

Moving Families From Welfare To Work

- Social Security taxes and various means-tested benefits create economic disincentives for welfare recipients to work. For each additional dollar a worker earns, benefits decline and payroll taxes increase.

  -- The EITC offsets these disincentives with a strong incentive to work. About 80 percent of EITC payments offsets the individual income, social security, and other Federal taxes borne by families receiving the credit.

- The EITC encourages families to work two ways.

  -- The EITC is only available to working families. If you don't work, you don't get the credit.

  -- At the lowest income levels, the EITC grows with each dollar of earnings. For people with very little income, more work means more benefits from the EITC.

Rewarding America's Working Families

- People who work hard and play by the rules should be rewarded for their efforts.

  -- Parents who work full-time for an entire year should not have to raise their children in poverty.

  -- Parents with moderate incomes should not see their standards of living decline.

- The condition of low- and moderate-income families has deteriorated since 1979.

  -- Payroll taxes increased five times between 1983 and 1990.

  -- In the early 1970s, most states provided AFDC benefits as a wage supplement to a mother with two children whose earnings equaled 75 percent of the poverty level. By the mid-nineties, only three states provided comparable benefits.

  -- The poverty rate for families with children grew by nearly half from 1979 to 1993. Even after recent declines in the poverty rate, 15.7 percent of families with children still lived in poverty in 1997.

  -- Between 1979 and 1992, the earnings of a male without a high school degree declined by more than 23 percent in real terms. Among male workers with a high school degree, real earnings declined by 17 percent over this period.

- The EITC rewards work. But there is still more to do to ensure that full-time workers do not raise their children in poverty.

Providing the EITC Through the Tax System

- The EITC is a non-bureaucratic way to reward work effort. There are no middlemen or service providers. There are no long lines at government offices. There is no need to take valuable time off from work in order to apply for the credit. The tax refund is provided by the IRS directly to the working families.

- **EITC claimants are taxpayers.** If the EITC did not exist, almost 95 percent of EITC filers would still file an individual income tax return (in addition to paying payroll and excise taxes), and the IRS would still have to process their returns and verify much of the same information regarding their filing status, number of children, and income.

- Participation in the EITC tends to be higher than many other assistance programs targeted to low-income families. In 1990, 80 to 86 percent of those eligible received the credit. This high participation rate is striking when compared to the food stamp participation rate of 59 percent in 1989.[1]

- Because most EITC claimants would be filing a tax return even if the credit did not exist, the direct budgetary costs of administering the EITC are significantly lower than if the credit were provided through another means. In FY 1995, the food stamp program cost $3.7 billion to administer, while AFDC administrative costs were an additional $3.5 billion -- nearly 14 percent of the combined costs of these two programs. By way of comparison, the entire IRS budget in FY 1995 was $7.6 billion, roughly the combined total administrative budgets of the AFDC and food stamp programs.

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[1] Food stamp participation was not studied in 1990. Since 1989, food stamp participation rates have climbed (to 71 percent of eligible individuals in 1994). Comparable data are not available for the EITC.

CURRENT LAW

The EITC After OBRA 1993

- In February 1993, the Clinton Administration made several proposals to expand and simplify the EITC. With certain modifications, Congress enacted these proposals as part of the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993).

- For every dollar a very low-income working parent with one child earns, the EITC was increased from 23 cents to 34 cents.

- For every dollar a very low-income working parent with two or more children earns, the EITC was increased from 25 cents to 40 cents.

  -- The maximum credit was increased by over $1,500.
  -- Eligibility for the credit was extended to families with two or more children that have incomes of up to $30,095 (or about $3,600 above the prior law level).[2]

- A small EITC, designed to help offset the employee portion of payroll taxes, was extended for the first time to very low-wage workers without qualifying children.

- OBRA 1993 eliminated two complex supplemental credits for health insurance coverage and for taxpayers with children under the age of one.

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[2] Some critics of the program have argued that the EITC should not be available to families with incomes of $30,000. But if the income thresholds had not been changed in 1993, the increase in the maximum credit would have resulted in a phase-out rate of 30 percent. By modifying the income thresholds slightly, the EITC phase-out rate for a family with two or more children was increased from 17.86 percent to 21.06 percent. Moreover, the income cut-off is far less than the median income for a family of four. In 1998, the median income for a family of four is estimated to be over $54,000.

OBRA 1993 Achieved Goals of Program

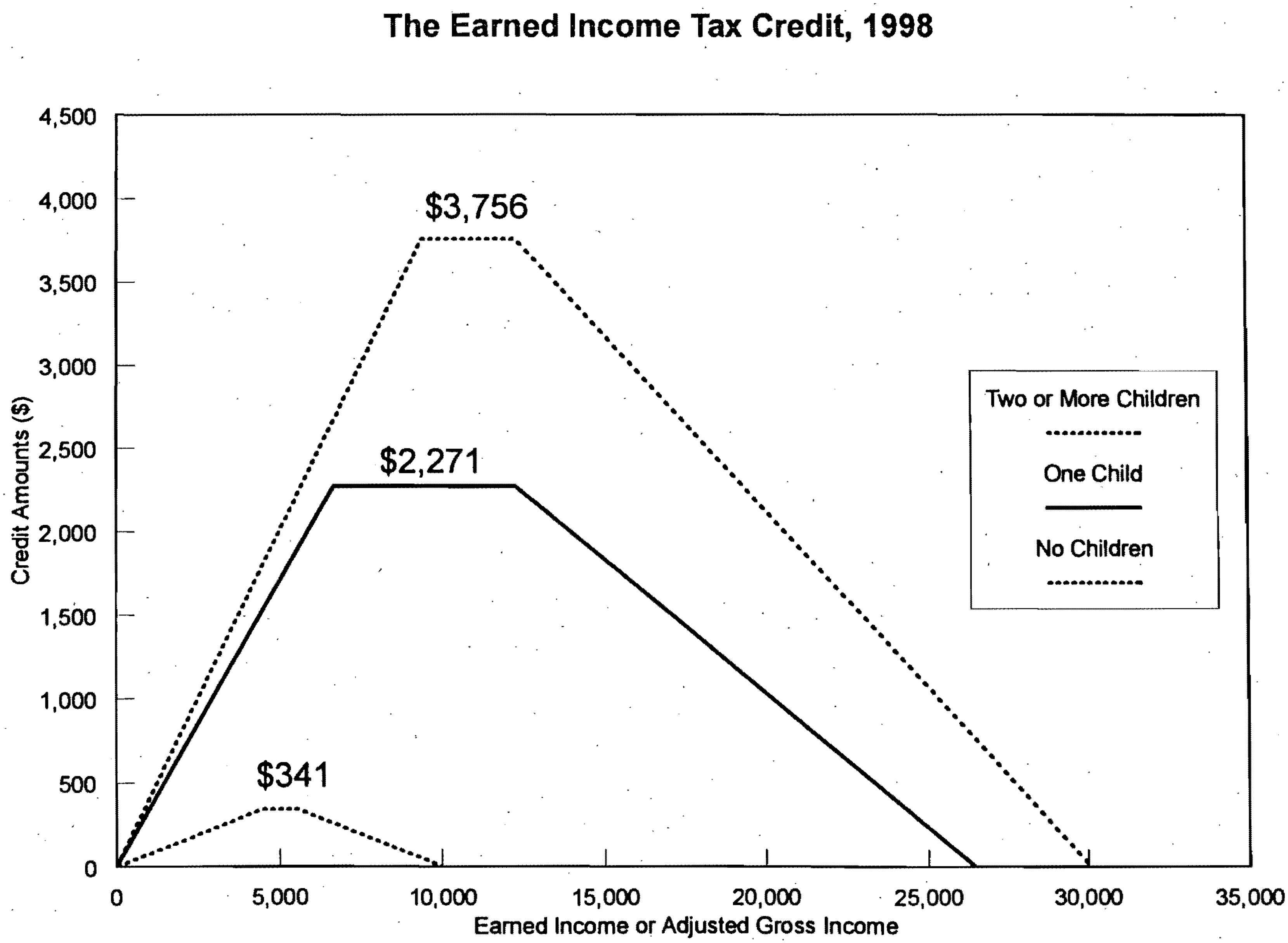
- OBRA 1993 supported welfare over work by bolstering the incomes of families moving from welfare to work.

  -- From every added dollar a low-income family earns, payroll taxes (including the employer's share of payroll taxes) take 15.3 cents while Food Stamp benefits decline by 24 cents. For a low-wage family with two children, the EITC fully offsets these effects by providing a 40 cent credit for every dollar earned.

- OBRA 1993 rewarded work for working families by moving toward the goal that a full-time worker should not live in poverty if he or she works throughout the year.

Extending the EITC to Low-Income Workers Who Do Not Reside with Qualifying Children

- OBRA 1993 extended a small earned income tax credit (EITC) to very low-wage workers who do not reside with children.
  - -- To be eligible for this credit, a worker must have adjusted gross income of less than $10,030 in 1998.
  - -- The credit is equal to 7.65 percent of earned income up to a maximum credit of $341 in 1998. It was designed to help offset the work disincentive effects of the social security tax rate (7.65 percent for employees and employers, each).
  - -- This provision reduces taxes, on average, by $195 for 3.2 million workers in 1998.
- To be eligible for the EITC without children in residence, workers must be over age 24 and below age 65.
- In 1994, nearly half of the claimants for this credit had adjusted gross income of less than $5,000. On average, their wage income was $4,800. Despite their low income, only about 8 percent reported receipt of unemployment benefits -- possibly because many may have worked in jobs that were not covered under FUTA.


The Earned Income Tax Credit, 1998
Credit Amounts ($)
Earned Income or Adjusted Gross Income
$3,756
$2,271
$341
Two or More Children
One Child
No Children
0
500
1,000
1,500
2,000
2,500
3,000
3,500
4,000
4,500
5,000
10,000
15,000
20,000
25,000
30,000
35,000

Earned Income Tax Credit Parameters
1998

	Credit Rate	Plateau Beginning Point	Plateau End Point	Maximum Credit	Phase-out Rate	Income Cut-off
Current Law						
Families with one child	34.0%	$6,680	$12,260	$2,271	15.98%	$26,473
Families with two or more children	40.0%	$9,390	$12,260	$3,756	21.06%	$30,095
Workers without children	7.65%	$4,460	$5,570	$341	7.65%	$10,030

Department of the Treasury
Office of Tax Analysis

October 1, 1998

Disqualified Income Amount: $2,300

EITC INCREASES WORK AND REDUCES POVERTY

Helping to Move Families from Welfare-to-Work

- The EITC helps workers stay in the labor force and off of welfare by increasing their take-home pay. About 19.7 million workers are expected to claim the EITC for tax year 1998. They will receive an average credit of $1,547. About 16.5 million of these claims will be for workers living with children, who will receive an average credit of $1,807.

- Eissa and Liebman (1996) estimate that the EITC expansion and other provisions in the Tax Reform Act of 1986 increased labor force participation among single women with children by 2.8 percentage points -- from 73.0 percent to 75.8 percent. Among women with less than a high school education, they estimate that the 1986 Act increased labor force participation rate by 6.1 percentage points.

- Dickert, Hauser, and Scholz (1995) found that the EITC could result in an increase in labor supply of 19.9 million hours in 1996 relative to 1993 law and induce 516,000 families to move from welfare to the workforce.

- Meyer and Rosenbaum (1997) find that annual labor force participation of single mothers has increased by nearly nine percentage points between 1984 and 1996, and that much of this increase may be explained by the significant expansions of the EITC and other changes in tax policy over this period.

- The number of individuals receiving welfare fell by 20 percent from January 1993 to January 1997 -- the largest decline in over 50 years. According to the Council of Economic Advisers, this dramatic decline is due to the economic expansion, statewide welfare reform waivers, and other policies, including the 1990 and 1993 expansions of the EITC.

EITC Reduces Poverty

- The Census Bureau reports that the EITC lifted 4.3 million persons out of poverty in 1997.

- The EITC moves children and single mothers out of poverty.

  - -- Among the 4.3 million persons lifted out of poverty by the EITC, over half -- 2.2 million -- were children under the age of 18.

  - -- Nearly 1.8 million persons, living in families headed by an unmarried female, were removed from poverty as a consequence of the EITC.

- Minority working families benefit from the EITC.

  - -- The EITC removed about 1.1 million African-Americans and nearly 1.2 million persons of Hispanic origin from poverty in 1997.

Growth of EITC Contribu... to Drop in Child Poverty

- After falling sharply in the 1960s, poverty among children increased between 1969 and 1993.

- Since 1993, the child poverty rate has fallen. Using a measure of poverty that takes into account both taxes and transfers, the child poverty rate declined by 4.7 percentage points between 1993 and 1996.

  -- An analysis by the Council of Economic Advisers shows that about half of this decline is attributable to changes in tax policy, and in particular, the recent expansion of the EITC.

17 ADMINISTRATION MEASURES
TO IMPROVE EITC COMPLIANCE AND TARGETING:
1993 - 1996

Simplicity and Verifiability

- The Clinton Administration is committed to ensuring that deserving and eligible individuals -- and only those individuals -- are able to claim and receive the EITC.

- Two key means to this end are the simplicity and verifiability of EITC claims.

  -- If eligibility rules are simple, taxpayers can more accurately claim the EITC and avoid costly errors.

  -- If eligibility rules are verifiable, the IRS can better ensure that the EITC is paid only to those who are eligible.

- Between 1993 and 1996, the Administration took 17 measures to ensure the simplicity and verifiability of the EITC and to reduce erroneous or undeserved claims.

OBRA 1993

1. The EITC was simplified by repealing the complex supplemental credit for health insurance coverage.

   -- Some taxpayers made mistakes in their claims because they did not understand the complicated eligibility criteria.

2. The EITC was further simplified by repealing the supplemental credit for children under the age of one.

   -- This should also improve EITC compliance, as taxpayers could not understand the eligibility criteria for the young child credit, and the rules were difficult to administer.

Uruguay Round Agreement Act of 1994

3. The EITC was denied to nonresident aliens.

   -- Under prior law, nonresident aliens could receive the EITC based on their earnings in the United States, even though they are not required to report their worldwide income to the IRS.

4. Prisoners will not be eligible for the EITC based on their earnings while incarcerated.

   -- This provision was applied immediately to 1994 tax returns.

5. Taxpayers will be required to provide a taxpayer identification number for each EITC qualifying child, regardless of age.

   -- This will allow the IRS to verify eligibility for each child claimed by the taxpayer.

   -- This provision was phased-in over a three year period. It was fully implemented beginning with 1997 tax returns.

6. The Department of Defense is required to report to both the IRS and military personnel non-taxable earned income paid during the year that is included in computing the EITC.

   -- This will ensure that military personnel receive the benefit for which they are eligible.

7. The IRS is authorized to use the simpler and more efficient "mathematical error" procedures when taxpayers fail to supply valid social security numbers when claiming the EITC or dependent exemptions. This provision took effect at the beginning of the 1997 filing season.

    -- During the 1997 filing season, the IRS protected $1.46 billion by applying mathematical error procedures to returns that did not include valid SSNs for EITC qualifying children or dependent exemptions.

8. Undocumented workers are no longer eligible for the EITC.

9. Using mathematical error procedures, the IRS may assess EITC claimants for any outstanding self-employment tax liability.

    -- This provision reduces incentives to overreport income to obtain a larger EITC.

10. The recent bill extending the health insurance deduction for self-employed individuals included a variation of a Clinton Administration proposal to deny the EITC to taxpayers with large amounts of investment income. As modified by the welfare reform act, the EITC is denied to taxpayers with investment income in excess of $2,250 (1997 threshold, adjusted for inflation).

    -- Many of these taxpayers have significant assets and do not need the EITC.

11. New restrictions are placed on the amount of losses taxpayers can use to reduce their EITC income.

Verifying and Delaying Questionable Refunds

12. The IRS has instituted a series of tough new administrative measures to reduce EITC errors. The IRS now scrutinizes the social security numbers of all EITC qualifying children.

    -- Since 1995, taxpayers are no longer allowed to file an electronic return with missing, invalid, or duplicate social security numbers for EITC qualifying children and dependent exemptions. During the 1995 filing season, the IRS identified 4.1 million social security number problems on electronic submissions, of which 1.3 million involved the EITC. Taxpayers were asked to correct the social security number before resubmitting the return. In 1996, there was a 25 percent reduction in the number of electronic returns rejected because of missing, invalid or duplicate uses of social security numbers.

    -- During the 1995 and 1996 filing seasons, the IRS also intensified verification of social security numbers on paper returns claiming either an EITC qualifying child or a dependent exemption. In FY 1996, these efforts resulted in recommended changes of about $900 million.

    -- As noted above, the Personal Responsibility and Work Opportunity Act of 1996 gave the IRS the authority to use simpler and more efficient procedures when taxpayers fail to supply valid social security numbers. These procedures are now in place.

13. EITC refunds may also be delayed if the IRS has questions regarding the validity of the claim. During the 1995 filing season, the IRS slowed EITC refunds for over four million taxpayers who matched profiles of noncompliant taxpayers.

Intensifying Scrutiny of E. .ronic Return Originators

14. Beginning with the 1995 filing season, the IRS is no longer providing direct deposit indicators (DDIs) to preparers of electronic returns (EROs). The DDIs gave preparers a quick signal from the IRS that a taxpayer was going to receive a refund check. Preparers used this information to advance taxpayers loans on their refund checks within a couple days of filing a return. The taxpayer would receive a loan, and the IRS would pay the refund directly to the ERO. If the return was later determined to be fraudulent, the IRS -- not the preparer -- was left with the bill if the taxpayer disappeared with the refund anticipation loan.

    -- Eliminating the DDI provides EROs with greater incentives to check the eligibility of EITC claimants. Preparers will not find it in their interest to advance refund anticipation loans to filers who may not be receiving a refund from the IRS.

15. In its enforcement activities, the IRS has also found that some EROs have been responsible for refund fraud. The IRS has taken several steps to stop this practice:

    -- Fingerprint and credit checks are conducted on certain new ERO applicants.

    -- IRS is conducting additional compliance checks to ensure that EROs are meeting new, stricter requirements for participation in the program. During the 1995 filing season, the IRS conduced <u>6,500</u> compliance checks.

    -- The IRS is working with the Justice Department to prosecute preparers and EROs who take advantage of the EITC to defraud the Federal government.

Othei ctions

16. The 1994 Schedule EIC was shortened and simplified to make it easier for low-income taxpayers to understand if they are eligible for the credit.

17. The IRS has conducted studies of EITC compliance (in tax years 1993 and 1994) to better understand the magnitude and source of erroneous payments.

IRS STUDY OF EITC COMPLIANCE: TAX YEAR 1994

Enforcement Efforts Improve EITC Compliance

- During the 1995 filing season, the IRS Criminal Investigations Division (CID) conducted a study of compliance among taxpayers who claimed the EITC on their 1994 tax returns.

- Of the $17.2 billion claimed in EITC between January and April 1995, $4.4 billion, or 25.8 percent of total EITC claimed, exceeded the amount to which taxpayers were eligible.

- IRS enforcement practices, which were in place during the 1995 filing season, reduced the estimated net overclaim rate from 25.8 percent to 23.5 percent.

- If the IRS had been able to treat a taxpayer's failure to provide valid social security numbers for EITC qualifying children over the age of one as a mathematical error on 1994 tax returns (as it is currently able to do), the net overclaim rate would have been reduced further, to an estimated 20.7 percent.

The IRS Can Detect any Common Errors

- The most common EITC error was associated with taxpayers who claimed children who did not live with them for over half the year (or a full year if the children were not the taxpayers' sons, daughters, or grandchildren).

  -- Many of these errors are unintentional -- resulting from the ordinary mistakes that taxpayers make on all kinds of tax returns. IRS enforcement tools are also improving at identifying both intentional and unintentional errors.

- A divorced couple share custody of their son. The boy lives with his mother, but often stays at his father's apartment overnight. Both parents claim the EITC on behalf of their son, but only one of them can be eligible -- the parent with whom the child lived for over half the year.

  -- Through matching of social security numbers, the IRS identifies duplicate claims of the same child and can correspond with both taxpayers to determine whose claim is correct.

- On the Schedule EIC, a single man claims that a neighbor's child is his own. But, the man does not live with the child.

  -- The man does not know the SSN of his neighbor's child. Without a valid SSN for the child, the IRS rejects the man's claim using the new mathematical error procedures enacted in the welfare reform act.

  -- The combination of SSN validation and mathematical error procedures (which were not in effect during the 1995 filing season) would have eliminated 30 percent of residency-based errors (nearly half of which were made by unmarried men).

EITC Compliance Imp ed Sharply Since 1980s

- EITC compliance has improved significantly since the eighties.

- The most recent Taxpayer Compliance Measurement Program (TCMP) was conducted in 1988 and found that 35.4 percent of the EITC amount claimed exceeded the amount for which taxpayers were eligible -- 10 to 15 percentage points higher than the error rates found in the 1994 study.

- Compliance has improved, even as the size of the credit has increased. The average EITC has increased from $529 ($663 in 1994 dollars) to $1,100 over the same period.

- Both legislative and administrative initiatives, taken since 1988, have contributed to the improvement in compliance.

1994 Error Rates Do Not Rei t Current EITC Compliance

- The new study does not fully reflect the effects of the IRS enforcement initiatives during the 1995 filing season.

  -- It is likely that the intensified enforcement activities during the 1995 filing season discouraged some taxpayers from claiming the credit at all. The number of EITC claimants with qualifying children dropped by nearly 200,000 between tax years 1993 and 1994, although this population had grown by about one million the previous year and had increased every year since 1986.

- Since the 1995 filing season, other steps have been taken which -- all other things equal -- may have improved EITC compliance. These include:

  -- Beginning with 1997 tax returns, taxpayers will be required to provide a social security number for all EITC qualifying children. In 1994, they were only required to provide an SSN for children over the age of one.

  -- Beginning with 1996 tax returns, the EITC is denied to undocumented workers.

  -- The study could not take into account the full impact of the new mathematical error authority. The 1996 welfare reform act authorized the IRS to deny the EITC to taxpayers who use an invalid social security number for themselves (or their spouses).

MISPERCEPTIONS ABOUT EITC ERROR RATES

Compliance S lies Outdated

- Some in Congress are using the results from the 1994 study to project that between $20 and $30 billion of the EITC will be "wasted" over the next five years -- going to individuals who are not eligible for the credit.

- These statements are incorrect. The results of the 1994 study **do not represent the EITC today**.

- The 1994 study is based on dated information (1994 returns filed between January 1995 and April 1995) and does not take into account all of the 17 aggressive Administration steps to cut the error rate (outlined above) that were enacted between 1993 and 1996.

- The 1994 study is also outdated because it was conducted before Congress enacted the Taxpayer Relief Act of 1997. TRA includes 6 new provisions aimed at reducing EITC noncompliance.

- Since the 1994 study was conducted, Congress has increased IRS appropriations to combat EITC errors.

EITC Noncompliance Is [illegible] Linked to Refundability

- Some also claim that the refundable nature of the credit increases noncompliance. The 1994 study does not support this theory.

- The overclaim rate among those with a positive pre-EITC tax liability is nearly three times larger than the rate among those who did not have a tax liability. The study thus suggests that noncompliant EITC claimants do not enter the tax system merely to claim the credit.

- If the EITC did not exist, <u>almost 95 percent of EITC filers would still file an individual income tax return</u> (in addition to paying payroll and excise taxes), and the IRS would still have to process their returns and verify much of the same information regarding their filing status, number of children, and income.

Tax Noncompliance Hi_ er for Other Provisions

- Some say that no other part of the tax code has as many errors as the EITC.

  -- Last April, the IRS released a study showing that the gross individual income tax gap in 1992 was between $93.2 and $95.3 billion. The overall individual noncompliance rate was estimated to range from 16.9 to 17.3 percent.

- The estimates for 1992 show that other areas of the tax code are a much greater source of the tax gap than the EITC.

  -- Over 40 percent ($39.1 to $39.9 billion) of the gross tax gap for 1992 was attributed to the underreporting of business income (including $16.4 to $16.9 billion from the underreporting of non-farm sole proprietorship income and $12.3 billion from the underreporting of informal supplier income).

  -- That is <u>more than was spent on the entire EITC in 1997</u>.

NEW INITIATIVES TO REDUCE EITC ERROR RATES: 1997 AND BEYOND

New Aggressive Actions to Prevent EITC Noncompliance

- The Clinton Administration recognizes that EITC error rates are a problem and has acted aggressively to reduce them.

- The earlier enforcement efforts were effective in bringing the EITC error rate down to 20 percent from 35 percent. Now, we can build on those earlier efforts to improve EITC compliance even more.

- The Taxpayer Relief Act of 1997 contains six new Administration proposals to combat EITC noncompliance.

- The Balanced Budget Act of 1997 also lifted the discretionary appropriations cap for the next five years by $716 million in order to give the IRS the resources it needs to reduce EITC errors.

  -- The first installment of $138 million was included in the FY 1998 appropriations bill.

- Over the next ten years, the EITC compliance initiatives in TRA will save over $5 billion.

Taxpayer R[illegible] Act of 1997

- The Taxpayer Relief Act of 1997 includes 6 additional compliance provisions that were developed by the Administration:

1. The IRS will have access to an expanded Federal Case Registry of Child Support Orders, which will allow the IRS to better identify erroneous EITC claims by non-custodial parents.

2. Beginning in 1998, SSA is now required to obtain the social security numbers of parents of minor children when they apply for their own social security numbers. The IRS will use this information to identify erroneous EITC claims by taxpayers.

3. In addition to enforcing the current civil and criminal penalties, the IRS may automatically deny for ten years the EITC claims of those who are found to have claimed the credit fraudulently. If an EITC error is due to reckless or intentional disregard, the taxpayer is ineligible for the credit for the next two years.

4. If the IRS denies an EITC claim after examination, the taxpayer would not be automatically eligible for the EITC in the future. Taxpayers must be recertified as eligible by the IRS in order to claim the credit again.

5. The IRS is now able to place liens and execute levies on a portion of unemployment compensation and public assistance in order to collect outstanding tax liabilities and penalties.

6. Under this legislation, preparers who do not fulfill certain due diligence requirements are subject to $100 penalty per return.

EITC Compliance Initiati\ .n FY 1998 Appropriations

- In its FY 1998 appropriations, IRS received $138 million to address EITC noncompliance. This funding is being used to increase both enforcement and taxpayer education.

  -- Returns with missing or invalid social security numbers will be identified and adjusted using math error processing. IRS estimates that 600,000 returns were identified during the 1998 filing season for EITC-related math error conditions. During the 1997 filing season, the IRS protected $1.46 billion by applying math error procedures to returns using invalid SSNs for dependent exemptions and EITC qualifying children. In the 1998 filing season, the IRS extended the use of math error procedures to cases where invalid SSNs are used by primary taxpayers.

  -- During the 1998 filing season, IRS service centers examined over 700,000 EITC claims, including cases where more than one taxpayer claims the same qualifying child. Earlier this year, IRS put taxpayers on warning by sending out 2.3 million notices to taxpayers with duplicate claims last year of dependents and EITC qualifying children.

  -- Staffing for the Questionable Refund Detection Teams (QRDT) in the service centers has been increased to screen additional returns and identify questionable EITC claims, EITC-based refund schemes, and questionable EITC preparers. Over 400 FTEs were devoted to the QRDT to screen over 3 million returns.

  -- 40 new special agents were to be hired and trained to investigate EITC return preparers identified by QRDT.

- -- District Office Examination is dedicating 132 FTEs to EITC returns referred by service centers. These examinations will focus on noncompliant EITC return preparers and fraudulent taxpayers.

- -- IRS is expanding its telephone information number (1-800-TAX-1040) to handle EITC questions. For the first time, taxpayers will be able to call this number 24 hours a day, seven days a week in order to get their EITC questions answered.

- -- A new national informant's hotline has been established to handle, among other things, reports of fraudulent taxpayer and unscrupulous preparer activity.

- -- Saturday walk-in access has been expanded for help on completing forms or responding to EITC-related notices.

    - -- On March 28, 1998, the IRS will hold EITC Awareness Day.

Child Custody Data Will H   Identify Erroneous Claims

- According to the 1994 EITC compliance study, the most common error made by EITC filers was claiming children who did not reside with them.

- In the past, the IRS could not verify residency of children without corresponding with the taxpayer.

- Under TRA, the Federal Child Support Case Registry is being expanded to link data on children with both their custodial and noncustodial parents.

- TRA also gave IRS access to the Federal Child Support Case Registry. The IRS will be able to use this information to better identify questionable claims before EITC refunds are paid out.

Vew Relationship Data Will Help .S Better Target Audit Resources

- Another common error occurs when taxpayers claim children who are not related to them. The 1994 EITC compliance study found over $500 million of EITC overclaims resulted from taxpayers who claim children who did not meet the relationship test.

- In the past, the IRS could not identify these cases without corresponding with the taxpayers because the agency did not have access to independent information regarding the relationship of the filer to the child.

- TRA 1997 requires parents to report their social security numbers when obtaining a social security number for their child. TRA also gives the IRS access to SSA data that will link the social security numbers of parents to the social security numbers of their children.

- The IRS can use this information to better identify questionable claims before refunds are paid out.

Good Preparers C. Make a Difference

- Like many other taxpayers, a large number of EITC claimants -- about half -- turn to tax preparers to help them complete their tax returns.

  -- About half of those who use preparers used an attorney, certified public accountant, enrolled agent, the IRS, or a nationally recognized return preparation firm. The other half appeared to use a neighborhood service or preparer.

- On average, overclaim rates do not differ much among taxpayers who use preparers and those who do not.

- But overclaim rates are significantly different among returns, depending on the type of preparer used by the taxpayer.

  -- The overclaim rate for returns completed by a local or unknown preparer was over 50 percent higher than the overclaim rate for returns prepared by an attorney, CPA, enrolled agent, or nationally known service.

  -- The IRS examiners sometimes found that preparers had not asked the taxpayers the right questions before determining their eligibility for the EITC.

- Good preparers ask clients basic questions before determining whether they are eligible for the EITC. TRA imposes due diligence requirements on all preparers.

Good Preparers Can Help Taxpayers Avoid Unintentional Errors

- Separation and divorce complicate both personal and financial lives. By asking the right questions, a good preparer can make sure that a taxpayer avoids tax problems when marriages are falling apart.

- For example, a taxpayer and children are deserted by her husband. Unable to pay for a lawyer, she does not file for a legal separation. A good preparer can help her determine if she is still eligible for the EITC, even though she is not legally separated or divorced.

  -- The so-called abandoned spouse rules are not widely known and may be difficult to understand. Under these rules, the wife, while married, could claim head of household filing status and be eligible for the EITC if she paid over half the costs of maintaining the home in which she and her children lived during the year, and she and her children lived apart from her husband for the last six months of the year.

  -- Not surprisingly, some taxpayers don't understand how these rules affect them. For example, if the wife moves in with her parents, she will not be considered an "abandoned spouse" for tax purposes if her parents pay for half the costs of maintaining their home. Unable (or unwilling) to locate her husband, she cannot easily file a joint return with him. She must file, instead, a "married filing separately" return, which automatically makes her ineligible for the EITC.

- Life is complicated, and the tax code sometimes must reflect this complexity. But a good paid preparer or a VITA volunteer can help taxpayers avoid unintentional errors on their returns. The EITC compliance initiative improves access to free taxpayer assistance, while TRA ensures that paid preparers will be better able to help taxpayers understand the tax code.

Penalties, Levies, d Recertification

- Taxpayers may be deterred from making intentional or fraudulent errors on their tax returns by the fear that the IRS will impose significant cash penalties.

- Cash penalties may not be an effective deterrent among low-income individuals who intentionally cheat -- because they know that they will not have the cash to pay the penalties.

- Denying eligibility of the EITC in future years or applying levies to other government benefits are alternative ways to impose monetary penalties on taxpayers who may not have much cash on hand.

- Pre-TRA law also imposed significant costs on the IRS. Even if the IRS found that a taxpayer repeatedly engaged in fraud in earlier years, the IRS had to institute a deficiency procedure to investigate a questionable return in a future year.

  -- The newly enacted penalties will reduce IRS enforcement costs, by allowing the IRS to focus examination resources in subsequent years on noncompliant taxpayers other than repeat offenders.

- Taxpayers' rights must be protected and will remained safeguarded under these new provisions. The penalty and recertification provisions would be subject to review by the tax courts. Further, taxpayers would be able to apply for a hardship exemption from the levy provision.

Future Action on EITC Compliance

- The Administration is committed to improving EITC compliance. As new problems arise or are identified, the Administration will respond with new administrative and legislative initiatives.

  -- However, the Administration will oppose proposals that reduce the EITC and raise taxes on workers and their families, who are playing by the rules.

- The FY 1999 budget contains two new proposals in response to issues that have arisen since last summer.

  -- Math error authority would be expanded to allow the IRS to deny EITC claims to taxpayers who do not meet age tests for the credit. (Under current law, able-bodied qualifying children must be under age 19 or 24, if a full-time student. In addition, EITC claimants who do not live with qualifying children must be between the ages of 25 and 64.)

  -- The adjusted gross income tie-breaker test would be clarified to conform to IRS past practices. A recent court decision found that the AGI tie-breaker only applied in cases where more than one taxpayer claimed the same child for EITC purposes. Under the Administration's proposal, if two taxpayers live together and could qualify to claim the same child for EITC purposes, only the taxpayer with the lower AGI would be eligible. This proposal is consistent with past IRS practices and Congressional intent and was enacted in the IRS Restructuring legislation.

- In addition, the FY 1999 budget contains a third proposal to clarify the definition of an EITC foster child.

STATE-BY-STATE DATA

Earned Income Tax Credit Claims by State
for the 1996 Tax Year

State	Total Number of Taxpayers	Total Number of EITC Claims	Percentage of Taxpayers Claiming EITC	Total Claim Amount (thousands of $)	Average Claim Amount ($)
Alabama	1,843,993	455,700	24.7	746,148	1,637
Alaska	349,245	29,163	8.4	35,172	1,206
Arizona	1,909,634	340,744	17.8	512,802	1,505
Arkansas	1,066,104	254,655	23.9	404,698	1,589
California	13,488,180	2,328,577	17.3	3,413,006	1,466
Colorado	1,839,481	238,004	12.9	321,286	1,350
Connecticut	1,581,255	140,434	8.9	174,875	1,245
Delaware	349,682	49,660	14.2	72,037	1,451
Florida	6,748,748	1,266,063	18.8	1,857,110	1,467
Georgia	3,305,276	688,637	20.8	1,076,620	1,563
Hawaii	549,619	61,172	11.1	72,081	1,178
Idaho	507,786	81,449	16.0	116,619	1,432
Illinois	5,488,875	750,567	13.7	1,065,814	1,420
Indiana	2,690,910	373,038	13.9	528,233	1,416
Iowa	1,300,036	155,775	12.0	209,342	1,344
Kansas	1,151,260	150,022	13.0	208,105	1,387
Kentucky	1,636,942	304,952	18.6	431,216	1,414
uisiana	1,795,375	486,498	27.1	813,128	1,671
aine	566,623	82,654	14.6	108,379	1,311
Maryland	2,417,853	342,050	14.1	480,900	1,406
Massachussetts	2,898,823	277,594	9.6	341,731	1,231
Michigan	4,368,021	564,631	12.9	778,139	1,378
Minnesota	2,187,821	219,805	10.0	282,797	1,287
Mississippi	1,121,796	354,459	31.6	608,481	1,717
Missouri	2,416,434	391,513	16.2	567,873	1,450
Montana	400,488	67,001	16.7	91,715	1,369
Nebraska	775,462	98,577	12.7	136,999	1,390
Nevada	800,491	117,550	14.7	161,108	1,371
New Hampshire	572,520	58,305	10.2	75,101	1,288
New Jersey	3,817,966	445,771	11.7	616,860	1,384
New Mexico	747,677	175,797	23.5	257,224	1,463

Earned Income Tax Credit Claims by State
for the 1996 Tax Year

State	Total Number of Taxpayers	Total Number of EITC Claims	Percentage of Taxpayers Claiming EITC	Total Claim Amount (thousands of $)	Average Claim Amount ($)
New York	8,030,653	1,246,779	15.5	1,717,697	1,378
North Carolina	3,394,691	662,627	19.5	995,077	1,502
North Dakota	293,332	38,489	13.1	51,513	1,338
Ohio	5,357,715	690,866	12.9	952,243	1,378
Oklahoma	1,392,280	285,195	20.5	423,082	1,483
Oregon	1,471,788	201,743	13.7	276,548	1,371
Pennsylvania	5,514,958	688,393	12.5	917,428	1,333
Rhode Island	455,645	58,322	12.8	75,951	1,302
South Carolina	1,681,507	378,979	22.5	587,939	1,551
South Dakota	332,842	49,495	14.9	69,489	1,404
Tennessee	2,416,153	484,909	20.1	719,839	1,484
Texas	8,243,456	1,873,158	22.7	3,043,041	1,625
Utah	847,478	109,620	12.9	157,437	1,436
Vermont	277,637	36,913	13.3	46,959	1,272
Virginia	3,056,620	434,177	14.2	627,523	1,445
Washington	2,544,398	301,827	11.9	394,320	1,306
West Virginia	722,094	137,000	19.0	190,989	1,394
Wisconsin	2,427,460	259,276	10.7	352,418	1,359
Wyoming	222,938	33,549	15.0	46,033	1,372
District of Columbia	270,163	53,842	19.9	76,699	1,425
Other	1,138,640	28,605	2.5	30,468	1,065
Total U. S.	120,786,824	19,404,581	16.1	28,318,296	1,459

Department of the Treasury
Office of Tax Analysis

September 29, 1998

Source: Internal Revenue Service, "Statistics of Income Bulletin," Spring, 1998, pgs. 151-203.

Note: The credit amount claimed may be different from the amount actually paid.

January 31, 2000

MEMORANDUM FOR THE PRESIDENT

FROM: GENE B. SPERLING

SUBJECT: BACKGROUND FOR PRESS INTERVIEWS ON LONGEST ECONOMIC EXPANSION

The economic expansion has now gone on for 106 consecutive months – making it tied with the 1961-69 expansion for the longest expansion ever. By the end of February, it will be the longest economic expansion ever. As you have seen, the media has already begun to write extensively about the current expansion and its causes. I believe that we should make a strong case for the role you have played in contributing to this historic achievement. Our tone, however, should not be overreaching. We do not want to be perceived as waging a campaign on this issue. Nor do we want to be seen as claiming total credit. Instead, our goal should be to ensure that the media is fair in reflecting your important contribution to the longest expansion.

Attached you will find some interesting statistics that help elaborate your message. The best four point message for you to hit is the following:

- By 1992, American industry was going through a restructuring and becoming more competitive. But there was a "deficit premium" that kept interest rates high even at a time of low growth. High interest rates, high unemployment, high budget deficits, and shaky confidence about whether or not there would be a double-dip recession were discouraging investment and growth.

- In 1993, the commitment to fiscal discipline eliminated the "deficit premium" at a critical time, fundamentally changing expectations and the investment climate of the American economy.

- The bipartisan 1997 Balanced Budget Act, the commitment to opening markets abroad, commonsense regulatory reform, and respecting the independence of the Federal Reserve have all helped maintain low interest rates and high confidence in the American economy.

- The key to understanding the contribution of the fiscal policy to this expansion is the magic of an investment-led recovery: low interest rates and high investment have built capacity and productivity, enabling the economy to grow strongly without inflation.

Attached also are responses to four different claims about who deserves credit for the longest expansion: (1) President Reagan, (2) President Bush, (3) Chairman Greenspan, and (4) new economy innovators like Steve Case and Bill Gates.

HOW THE CLINTON-GORE ADMINISTRATION'S ECONOMIC STRATEGY HAS CONTRIBUTED TO THE LONGEST ECONOMIC EXPANSION IN HISTORY

I – In 1992, the Nation Was Gripped By Worry About the Future and Continued Economic Distress. President Clinton's Emphasis on Fiscal Discipline Restored Confidence, Lowering Interest Rates and Boosting Investment. By 1992, American industry was going through a restructuring and becoming more competitive. A "deficit premium" kept interest rates high even in a time of low growth. High interest rates, high unemployment, high budget deficits, and shaky confidence about whether or not there would be a double-dip recession were discouraging investment and growth. In 1993, the commitment to fiscal discipline eliminated the "deficit premium" at a critical time, fundamentally changing expectations and the investment climate of the American economy.

- ***"Deficit premium".*** As Secretary Rubin often said, interest rates were high because of the "deficit premium." This reflected not just the substantial debt and deficit, but also the market's lack of confidence that government would do anything to tackle these problems.
  - The debt quadrupled from 1980 to 1992: growing from $712 billion in 1980 to $3.0 trillion in 1992.
  - The deficit was $290 billion in 1992 – the largest deficit in history.
  - In January 1993, CBO predicted that the deficit would grow to $404 billion in 1999. *This is even assuming the deficit reduction from OBRA 1990, including the reductions in military spending.* By turning this projected $404 deficit into a surplus of $124 billion, the President's commitment to fiscal discipline freed up half a trillion dollars for additional investment in one single year.
  - At the end of 1992, the Blue Chip was forecasting that interest rates would rise in 1993 and 1994. In December 1992, the 10-year rate was 6.8 percent. The Blue Chip predicted 6.9 percent in 1993 and 7.2 percent in 1994. [Numbers based on CBO analysis.]

- ***High interest rates.*** In the early 1990s, long-term interest rates were very high despite the fact that the economy was growing slowly:
  - The 30-year Treasury bond averaged 8.2 percent from 1989 to 1992. At the same time, the economy grew only 1.7 percent annually.
  - By contrast, in the last four years long-term rates have averaged 6.2 percent. At the same time, the economy has grown 4.3 percent annually.

- ***Weak investment and productivity.*** The two most important drivers of the economy are investment and productivity. Both of these were weak in the 1980s and early 1990s:
  - Real productive equipment and software investment grew 3.8 percent annually under Bush and 4.7 percent annually under Reagan and Bush. In contrast, real productive investment has grown 12.1 percent annually under President Clinton.
  - Productivity grew only 1.6 percent per year under Presidents Reagan and Bush; compared to 2.7 percent in the last four years.

- ***Rising unemployment.*** Even after the recovery technically began in March 1991, growth remained slow and unemployment was rising:

    - In March 1991, the unemployment rate was 6.8 percent. Though it had declined slightly from its high of 7.8 percent in June 1992, by December it was still at 7.4 percent.

- ***Worry about a double dip recession.*** Financial markets, economists, and American families were worried about the future, and especially worried about the possibility of a double-dip recession.

    - In the second half of 1992 there was widespread concern about a double-dip or triple-dip recession. For instance, Bruce Steinberg of Merrill Lynch was quoted as saying "The economy is comatose and shows only the faintest signs of life right now." [Quoted in the *Washington Post*, 9/26/92]
    - Growth forecasts worsened through 1992. The Blue Chip consensus forecast for 1993 GDP growth consistently worsened throughout 1992. The forecasts for 1993 only started to become more optimistic in December – after the election – and really took off in early 1993.

- ***Greater optimism about the economy – and praise for President Clinton's commitment to fiscal discipline.*** President Clinton's message of fiscal discipline garnered almost immediate praise from financial markets, leading economists, and the American people. The result was a quick turnaround in confidence.

    - The change in confidence was reflected almost immediately in the financial press. Some examples:
        - *Financial Times*, 1/26/93: "The market opened markedly higher as investors and dealers got their first chance to react to Sunday's comments by Mr. Lloyd Bentsen, the new Treasury Secretary, which suggested the White House views cutting the deficit as a top priority."
        - *Wall Street Journal*, 2/24/93: "The spectacular bond market rally accelerated yesterday, with long-term Treasury bond yields plunging to another record low as investors rushed to embrace President Clinton's economic package."
        - Similar stories appeared in the *New York Times, USA Today,* the *Los Angeles Times, the Boston Globe, Fortune,* the *National Journal,* and other leading periodicals.
    - Leading economic forecasters raised their growth predictions. In October 1992, the Blue Chip was predicting growth of 2.7 percent in 1993. Six months later, they had raised their forecast to 3.3 percent growth.

- ***Slashing the "deficit premium" and lowering interest rates.*** By convincing markets that he was serious, the President's emphasis on fiscal discipline translated almost immediately into falling interest rates:

  - In December 1992, the yield on 30-year Treasury bonds was 7.4 percent. In August 1993, when the President signed his economic plan into law, the yield had fallen to 6.3 percent. That is a reduction of over 1 percentage point in just 8 months.

- ***Investment-led recovery.*** Falling interest rates and rising confidence led to an investment boom:

  - Real productive investment grew 11.3 percent in 1993. In comparison, investment growth was only 3.8 percent in the previous 4 years.
  - Since then we have seen seven consecutive years of double digit investment growth – by far the longest and strongest investment boom ever. (The previous record was three consecutive years of double-digit investment growth in 1964-66.)
  - Under President Clinton, investment has accounted for 35 percent of GDP growth. In contrast, it only accounted for 12 percent of GDP growth under Presidents Reagan and Bush.
  - Without low interest rates and strong investment, the new economy could not have taken off. In 1999 our annual investment in information technology was more than 3 times what it was in 1992.

- ***Government spending has declined and deficits have turned into surpluses.*** The President's 1993 deficit reduction justified the confidence of the markets, reducing Federal spending and turning deficits into surpluses.

  - Federal spending as a share of the economy has not been lower since 1966. The spending restraint under President Clinton has brought spending down from 22.2 percent of GDP in 1992 to 18.7 percent of GDP in 1999 – the lowest in over thirty years. In contrast, Federal spending as a share of the economy was unchanged from the beginning to the end of the Reagan-Bush period.
  - Non-defense discretionary spending fell to 3.3 percent of GDP in 1999, the lowest on record (comparable data goes back to 1962).
  - Federal spending was responsible for 7 percent of GDP growth under Presidents Reagan and Bush. Under President Clinton it has actually fallen, and is responsible for -1 percent of GDP growth.
  - The largest deficit in history ($290 billion in 1992) has turned into the largest surplus in history ($124 billion in 1999). The United States has had two consecutive surpluses for the first time since 1956-57. This has paid down more than $140 billion in debt in the last two years. As a result, in 1999 the debt held by the public was $1.7 trillion lower than was predicted in 1993.

II – The Investment-led Expansion has Produced Strong and Sustainable Growth With Low Inflation. The key to understanding the contribution of the fiscal policy to this expansion is the magic of an investment-led recovery: low interest rates and high investment have built capacity and productivity, enabling the economy to grow strongly without inflation. In contrast, by five or six years into the 1960s and 1980s expansions, the United States had rising inflation, rising budget deficits, and slowing productivity. In the current expansion the American economy keeps getting stronger and stronger over time.

- ***Consistently strong economic growth.***

  - The economy has grown at a 4+ percent rate for four consecutive years. This is the longest period of strong, sustained economic growth since the mid-1960s.
  - The economy has expanded 3.9 percent annually under President Clinton – the strongest growth since President Johnson.

- ***Investment, not government spending, has led the expansion.*** The record investment of the past seven years has increased the productivity capacity of America, potentially boosting growth and productivity for years to come.

  - Under President Clinton, investment has accounted for 35 percent of GDP growth. In contrast, it only accounted for 12 percent of GDP growth under Presidents Reagan and Bush.
  - Strong investment has been the key to low inflation. In the 1960s and 1980s, strong growth strained the economy's capacity to produce, leading to rising inflation. In contrast, the strong investment since 1993 has kept industrial capacity growing strongly enough to meet the increased demands of the strong economy. This is shown by the fact that capacity utilization is essentially unchanged since 1993 (capacity utilization was 81.3 in January 1993 and 81.0 in December 1999).

- ***Fiscal policy has been sustainable.*** At the same time, fiscal policy is the soundest and most sustainable it has been in memory.

  - The debt quadrupled between 1980 and 1992.
  - From 1989-1992, the deficit grew. *This is true even if you look at the underlying structural deficit, which excludes the worsening of the deficit that was directly due to the weak economy.*
  - From 1993-1999, there have been seven consecutive years of fiscal improvement for the first time in American history. *This is true even if you look at the underlying structural deficit, which excludes the fiscal improvements that are directly due to the strong economy.*
  - We are on track to pay off the debt by 2013, making America debt free for the first time since 1835.

- ***Inflation has been low and stable.*** Rising inflation was one of the main factors in ending previous expansions. We saw this toward the end of the 1960s and toward the end of the 1980s. In contrast, inflation is now the lowest it has been in over three decades:

    - In 1999, the underlying core rate of inflation was 1.9 percent – the lowest rate since 1965.
    - In 1999, the GDP price index rose 1.4 percent. This follows 1.2 percent growth in 1998, which was the lowest rate since 1963.

- ***Productivity growth is rising.*** During previous expansions – like the 1960s and 1980s – productivity growth slowed down as the expansion continued. In contrast, productivity growth is currently rising:

    - Productivity growth fell to 0.9 percent from 1987-89 – this is less than half of what productivity growth had been earlier.
    - In contrast, productivity growth in the last four years was 2.7 percent – double the rate of productivity growth earlier in the expansion.

III – President Clinton Placed an Emphasis on Policies that Ensure that All Americans Share In the Benefits of This Growth. A key contrast between the economy under President Clinton and the economy in the 1980s is that the dividends of economic growth have been shared widely, instead of going entirely to the best off. Policies like expanding the Earned Income Tax Credit, raising the minimum wage, and investing in people have been important factors in our shared growth.

- ***Rising incomes for all groups under President Clinton.***

    - Between 1981 and 1993, the bottom quintile of the income distribution saw their inflation-adjusted incomes fall by 4.4 percent. From 1993-98, the inflation-adjusted incomes in the bottom quintile rose 10.3 percent.
    - At the same time, from 1981 to 1993, the top quintile of the income distribution saw its income rise by 26.4 percent. From 1993-98, the top quintile saw its income rise by 11.7 percent – virtually the same as the rise for each of the bottom four quintiles.

- ***Stopping the trend of rising inequality.***

    - Between 1981 and 1993, inequality increased sharply.
    - Between 1993 and 1998 inequality was unchanged. This is even true using measures that include both capital gains and taxes and transfers (like the EITC).

- ***Reducing poverty.***

    - From 1981 to 1993, the poverty rate rose from 14.0 percent to 15.1 percent – an additional 7.4 million people in poverty.
    - Since 1993, strong and balanced growth have reduced poverty:
        - 7.7 million people lifted out of poverty since 1993.
        - Poverty rate is the lowest since 1979.
        - African-American poverty is lowest on record.
        - Hispanic poverty is lowest since 1979.
        - Single mother poverty is lowest on record.

- ***Policies to ensure that everyone shares in the growth of the economy.***

    - The 1993 expansion of the EITC provided a tax break for 15 million working families. In 1998, 4.3 million people were lifted out of poverty by the EITC – double the number lifted out in 1993.
    - In 1996, the President signed a law raising the minimum wage from $4.25 to $5.15. This directly increased wages for 10 million workers.
    - Investing in people has helped ensure that the benefits of growth are widely shared.

IV – Opening Markets Abroad, Commonsense Regulatory Reform, and Respecting the Independence of the Federal Reserve Have All Helped Maintain Low Interest Rates and High Confidence. By emphasizing sound economic management – and showing the political courage to implement it – the President helped to spur investment and economic growth.

- ***Opening markets abroad, and willingness to take on Democrats when necessary to do so.*** The President sent a clear message about his pro-growth, pro-opportunity agenda through his strong support for NAFTA and the Uruguay Round which created the World Trade Organization. He showed that he was willing, when necessary, to take on his own party in order to do what was right for the economy and the American people.

  - NAFTA passed with only 102 Democratic votes, with 156 voting against.
  - Leading private-sector economists praised President Clinton's commitment to NAFTA and the GATT. In April 1993, a survey by the Blue Chip of 51 leading economists named it the most important part of President Clinton's economic plan. (The survey found that the second most important part of the President's plan was reducing spending by cutting the Federal workforce).
  - Since 1992, we have negotiated over 275 separate trade agreements, including NAFTA; the Uruguay Round, which created the World Trade Organization; a WTO accession agreement with China; and three recent multilateral agreements in financial services, information technology, and basic telecommunications.

- ***Commonsense Regulatory Reform.*** Regulatory reform in everything from telecommunications to the financial system to the environment has helped unleash the productive potential of the private sector.

- ***Respecting the independence of the Federal Reserve.*** Previous Administrations had undermined the confidence of markets by openly disagreeing with the Federal Reserve. From the very first day, the Clinton Administration adopted a policy of respecting the Federal Reserve's independence.

  - The Administration recognized that by doing its job well – especially fiscal policy – then the Administration would make the Federal Reserve look good. Similarly, by the Federal Reserve doing it's job, it would make the Administration look good.

- ***Appointing leading figures to key economic positions.*** A crucial part of the Clinton Administration's contribution to restoring confidence and producing strong economic growth has been appointing respected figures to key economic positions.

  - Secretary Bensten was one of the most experienced Senators and a bulwark of fiscal discipline.
  - Secretary Rubin's financial background was essential to maintaining the confidence of markets, including bond markets and foreign exchange markets.
  - Chairman Greenspan is widely, and justifiably, acclaimed as one of the most effective Federal Reserve chairman ever. President Clinton re-nominated him Fed Chairman twice.

QUESTIONS AND ANSWERS ON THE LONGEST EXPANSION IN HISTORY

QUESTION: Aren't Reagan's tax cuts and deregulation responsible for the expansion?

ANSWER:

- Of course not. That was a period when the debt quadrupled, creating the conditions for a "deficit premium" – a situation where we had high interest rates even with slow growth. People were writing books with titles like *America: What Went Wrong?* Some of your newspapers were shaky about whether there would be a double dip recession.

    - *Washington Post*, Steven Mufson and **John Berry**, 9/10/92: "Americans have been unable to mount a convincing economic recovery… the economy is crawling forward so slowly that it appears to be standing still… In some statistical categories… there has even been a 'triple dip.'"

- When we came into office, one thing everyone agreed about our economic plan is that it would make a big difference. Some said it would turn around the economy. Others said it would be a job killer. I'm sure my staff can show you what different people were saying in that year. So to come around now and say 1993 was irrelevant, and everything good is due to President Reagan's tax cuts is not reasonable.

- President Reagan's tax cuts and mindless deregulation fueled a decade of unsustainable and unbalanced growth:

    - Reagan's tax cuts led to quadrupling the debt, culminating in the $290 billion deficit in 1992 – the largest deficit in American history.
    - Productivity growth declined over the course of the expansion.
    - The real estate bust and the savings and loan crisis were two of the results of the mindless deregulation under Reagan.

QUESTION: Didn't the expansion start under George Bush?

ANSWER:

- The official beginning of the expansion is March 1991. But 1991 and 1992 were years of weak economic performance and shaky confidence.

- Rising unemployment rate. In March 1991, the unemployment rate was 6.8 percent. Though it had declined slightly from its high of 7.8 percent in June 1992, by December it was still at 7.4 percent.

- No sustained growth. Although the economy grew strongly at the end of 1992, much of this was due to temporary and unsustainable factors. This is evidenced by the fact that the economy contracted 0.7 percent in first quarter of 1993.

- High interest rates. The 30-year Treasury bond averaged 7.67 percent in 1992 – not much lower than it was in 1991.

- Deficit projected to rise. In January 1993 CBO projected the deficit would rise from $290 billion in 1992 to $404 billion in 1999 and $653 billion in 2003. *This is even with the 1990 deficit reduction plan, and the associated military spending reductions, in place.*

- In the second half of 1992 there was widespread concern about a double-dip or triple-dip recession:

  - Bruce Steinberg at Merrill Lynch: "The economy is comatose and shows only the faintest signs of life right now." [Quoted in the *Washington Post*, 9/26/92]
  - Alan Sinai: "There are real signs here that the economy is sliding badly, surprisingly badly." [Quoted in the *Washington Post*, 9/26/92]
  - *Washington Post*, Steven Mufson and **John Berry**, 9/10/92: "Americans have been unable to mount a convincing economic recovery… the economy is crawling forward so slowly that it appears to be standing still… In some statistical categories… there has even been a 'triple dip.'"
  - *USA Today*, Mark Memmot, 7/23/92: "First came the recession, which began in July '90 and seemed to end in early '91. Then there was the disappointing stall the second half of last year – not another recession, but enough of a slowdown in sales and rise in unemployment to get people talking about a double-dip economy. Now there are rumblings about a triple dip."
  - Charles Krauthammer: "The most recent economic news points to the possibility that the country may be heading for a triple-dip recession. Historians may look back on the Bush presidency as the beginning of a Great Recession, a period of prolonged economic stagnation." [*Chicago Sun Times*, 7/12/92]

QUESTION: Isn't Alan Greenspan responsible for the expansion?

ANSWER:

- I think everyone recognizes that you need both good fiscal policy and good monetary policy. Unsound fiscal policy can make monetary policy difficult if not impossible. We have seen how difficult it is for countries around the world use monetary policy to keep growth high and inflation low when the budget deficit is out of control. Fiscal discipline is a *necessary* ingredient to having strong growth and low inflation.

- I've always had the view that the better I do my job, the easier it is for Chairman Greenspan to do his job. And I believe Chairman Greenspan feels the same way.

Background

- When he was re-nominated Federal Reserve Chairman on January 4, 2000, Alan Greenspan said, "My colleagues and I have been very appreciative of your [President Clinton's] support of the Fed over the years, and your commitment to fiscal discipline, which... has been instrumental in achieving what in a few weeks... will be the longest economic expansion in the nation's history."

QUESTION: Isn't the new economy – and people like Steve Case and Bill Gates – responsible for the expansion?

ANSWER:

- I believe for a country to turn around its economic situation, everyone has to do their part. Clearly the information technology revolution – and the people that have made it – are remarkable.

- A lot of good things were going on in the private sector, restructuring to make it more competitive, in the early 1990s. But government was creating an unfavorable climate for innovators to invest and grow. By lowering the deficit, lowering interest rates, and creating conditions for an investment-led recovery, we didn't create the growth, but we did create a better fiscal situation for innovators to invest and grow in.

    - Annual investment in information technology in 1999 was more than 3 times higher than it was in 1992 (adjusting for inflation).

- Just as government investments in research and development in the past have helped lay the foundation for the Internet and the strong economy today, I have been strongly committed to increase support for research and development to ensure that productivity growth is strong for decades to come:

    - The FY 2001 budget includes a nearly $3 billion increase in the "Twenty-First Century Research Fund," including double the largest dollar increase for the National Science Foundation in its 50 year history.

Background

- Information technology only includes 8 percent of our employment, but it accounts for a third of our economic growth.

- Jobs in information technology pay wages 77 percent above the private sector average.

20 MILLION NEW JOBS

THE CLINTON-GORE RECORD ON JOB CREATION

The White House
December 3, 1999

20 MILLION NEW JOBS UNDER THE CLINTON-GORE ADMINISTRATION

December 3, 1999

20 MILLION NEW JOBS UNDER THE CLINTON-GORE ADMINISTRATION. In 1992, when Bill Clinton was elected President, the American economy was barely creating jobs, wages were stagnant, and the unemployment rate was 7.5 percent. His bold, three-part economic strategy focused on three objectives: fiscal discipline to help reduce interest rates and thereby spur business investment; invest in education, health care, science and technology so that America can meet the challenges of the 21st century; and open foreign markets so that American workers have a fair chance to compete abroad.

Seven years later, the results are in.

JOBS ARE UP

- **20.0 Million New Jobs Created Under the Clinton-Gore Administration.** Since 1993, the economy has added 20.0 million new jobs. That's the most jobs ever created under a single Administration – and more new jobs than Presidents Reagan and Bush created during their <u>three</u> terms. Under President Clinton, the economy has added an average of 244,000 jobs per month, the highest of any President on record. This compares to 52,000 per month under President Bush and 167,000 per month under President Reagan.

- **92 Percent – 18.5 Million – of the New Jobs Have Been Created in the Private Sector.** Since President Clinton and Vice President Gore took office, the private sector of the economy has added 18.5 million new jobs. That is 92 percent of the 20.0 million new jobs – the highest percentage since Harry S. Truman was President and presiding over the post-World War II demobilization.

- **Most Rapid Growth in Construction Jobs In 50 Years.** After losing 662,000 jobs in construction during the previous four years, 1.9 million new construction jobs have been added during the Clinton-Gore years – that's a faster annual rate (5.1 percent) than any other Administration since Harry S. Truman was President.

- **Most Rapid Growth in Auto Jobs in More than 30 Years.** After losing 46,000 jobs in the automobile industry during the previous 4 years, 156,000 new auto jobs have been added under President Clinton's leadership – that is a faster annual rate of auto job growth (2.5 percent) than any other Administration since Lyndon B. Johnson was President.

- **Manufacturing Jobs Are Up Under President Clinton After Falling Sharply During the Previous 12 Years.** Although economic troubles in East Asia have dampened U.S. exports and reduced manufacturing jobs over the last 18 months, manufacturing jobs are up 252,000 overall under President Clinton, after declining by 2.1 million under Presidents Bush and Reagan.

WAGES ARE UP

- **Eighty-one Percent of the New Jobs Since 1992 Have Been High-Wage Jobs.** According to a study by the Council of Economic Advisers and the U.S. Department of Labor, 81 percent of all new jobs are located in industry/occupation categories that pay above-median wages.

- **Fastest and Longest Real Wage Growth in Two Decades.** In the last 12 months, average hourly earnings have increased 3.6 percent – faster than the rate of inflation. This marks the fourth consecutive year of real wage growth – the longest consecutive increase since the early 1970s. Under President Clinton, real wages are up 6.5 percent, after *declining* 4.3 percent during the Reagan and Bush years. Real wage growth in 1998 reached 2.6 percent – the largest increase since 1972.

- **Real Wage Gains Across the Income Spectrum.** While real wages fell for the typical worker between 1981 and 1993, the declines for poorer workers were even more severe. Under President Clinton and Vice President Gore, all groups have shared in rising real wages – with some of the largest gains enjoyed by hard-pressed working Americans. According to a study by the Council of Economic Advisers and the U.S. Department of Labor, between 1994 and 1998, workers at the bottom of income distribution (at the 10th percentile) saw a 1.2 percent average annual growth in wages – about the same as the 1.3 percent average annual growth of workers at the top of the income distribution (at the 90th percentile).

UNEMPLOYMENT IS DOWN

- **The Largest Decline in Unemployment of Any Administration in Over 50 Years.** Under President Clinton, the unemployment rate has declined from 7.3 percent in January 1993 to 4.1 percent in November 1999. This 3.2 percentage point decline is the largest under any single Administration since Franklin D. Roosevelt was President.

- **Unemployment at 4.1 Percent in November – the Lowest in Nearly 30 Years.** In November, the unemployment rate fell to 4.1 percent. It has remained below 5 percent for 29 months in a row – that is the lowest unemployment rate since January 1970. For women the unemployment rate was 4.2 percent – staying around the lowest level since 1953.

- **African American and Hispanic Unemployment Rates Reached Record Lows in 1999.** The unemployment rate for African Americans has fallen from 14.2 percent in 1992 to 8.1 percent in November 1999. In the last year, African-American unemployment has fallen to the lowest rate on record. The unemployment rate for Hispanics has fallen from 11.6 percent in 1992 to 6.0 percent in November 1999. In the last year, Hispanic unemployment has fallen to the lowest rate on record.

INFLATION IS DOWN

- **Inflation – Lowest Since the 1960s.** Inflation remains virtually non-existent, with the underlying core rate of inflation at 1.9 percent this year – the lowest rate since 1965. In the last four quarters the GDP price index has risen 1.3 percent – the lowest rate of increase since 1963.

20 MILLION NEW JOBS: JOB GROWTH ACROSS AMERICA					
	Jobs: January 1993 – October 99		Unemployment Rate		
	New Jobs	Job Growth	1992	October 1999	Change
Alabama	232,800	13.7%	7.4%	4.4%	-3.0
Alaska	29,000	11.6%	9.2%	5.7%	-3.5
Arizona	645,800	42.1%	7.6%	4.0%	-3.6
Arkansas	166,000	17.0%	7.3%	4.2%	-3.1
California	1,968,300	16.3%	9.3%	4.8%	-4.5
Colorado	479,600	29.3%	6.0%	3.0%	-3.0
Connecticut	138,500	9.0%	7.6%	3.0%	-4.6
Delaware	70,100	20.3%	5.3%	3.2%	-2.1
District of Columbia	-57,500	-8.5%	8.6%	5.9%	-2.7
Florida	1,546,400	28.3%	8.3%	3.9%	-4.4
Georgia	859,700	28.2%	7.0%	3.6%	-3.4
Hawaii	-8,500	-1.6%	4.6%	5.3%	0.7
Idaho	104,800	24.5%	6.5%	5.1%	-1.4
Illinois	689,100	13.0%	7.6%	4.3%	-3.3
Indiana	362,400	14.0%	6.6%	2.7%	-3.9
Iowa	229,600	18.2%	4.7%	2.2%	-2.5
Kansas	227,300	20.3%	4.3%	3.2%	-1.1
Kentucky	263,900	17.2%	6.9%	4.1%	-2.8
Louisiana	279,400	17.0%	8.2%	5.5%	-2.7
Maine	75,800	14.8%	7.2%	3.9%	-3.3
Maryland	289,600	13.8%	6.7%	3.4%	-3.3
Massachusetts	416,200	14.8%	8.6%	3.2%	-5.4
Michigan	589,800	14.8%	8.9%	3.7%	-5.2
Minnesota	406,200	18.3%	5.2%	2.2%	-3.0
Mississippi	152,800	15.6%	8.2%	5.2%	-3.0
Missouri	351,600	14.9%	5.7%	2.7%	-3.0
Montana	63,400	19.8%	6.9%	4.9%	-2.0
Nebraska	125,300	16.6%	3.0%	2.5%	-0.5
Nevada	337,900	51.8%	6.7%	4.4%	-2.3
New Hampshire	100,700	20.4%	7.5%	2.5%	-5.0
New Jersey	394,100	11.3%	8.5%	4.5%	-4.0
New Mexico	120,400	19.7%	7.0%	6.0%	-1.0
New York	712,100	9.2%	8.6%	5.2%	-3.4
North Carolina	655,000	20.5%	6.0%	3.2%	-2.8
North Dakota	34,500	12.2%	5.1%	2.8%	-2.3
Ohio	640,800	13.1%	7.3%	4.2%	-3.1
Oklahoma	252,800	20.5%	5.7%	3.1%	-2.6
Oregon	311,600	24.3%	7.6%	5.5%	-2.1
Pennsylvania	441,800	8.7%	7.6%	4.2%	-3.4
Rhode Island	42,300	9.9%	9.0%	3.7%	-5.3
South Carolina	293,300	18.9%	6.3%	4.4%	-1.9
South Dakota	52,000	16.6%	3.2%	2.7%	-0.5
Tennessee	380,100	16.6%	6.4%	3.6%	-2.8
Texas	1,884,500	25.5%	7.7%	4.6%	-3.1
Utah	273,500	34.7%	5.0%	3.4%	-1.6
Vermont	37,800	14.9%	6.7%	2.9%	-3.8
Virginia	520,000	18.0%	6.4%	2.8%	-3.6
Washington	431,300	19.3%	7.6%	4.8%	-2.8
West Virginia	77,400	12.0%	11.4%	6.7%	-4.7
Wisconsin	359,500	15.1%	5.2%	2.8%	-2.4
Wyoming	23,400	11.3%	5.7%	4.6%	-1.1
Total*	**20,043,000**	**18.3%**	**7.5%**	**4.1%**	**-3.4**

*Total is for November; latest available state data is for October.

THE CLINTON-GORE ECONOMIC RECORD:
WHAT A DIFFERENCE 7 YEARS MAKES
December 3, 1999

AFTER NEARLY SEVEN YEARS, THE RESULTS OF PRESIDENT CLINTON AND VICE PRESIDENT GORE'S ECONOMIC LEADERSHIP FOR THE AMERICAN PEOPLE ARE CLEAR. In 1992, when Bill Clinton was elected President, the American economy was barely creating jobs, wages were stagnant, and the unemployment rate was 7.5 percent. His bold, three-part economic strategy focused on three objectives: fiscal discipline to help reduce interest rates and thereby spur business investment; invest in education, health care, science and technology so that America can meet the challenges of the 21st century; and open foreign markets so that American workers have a fair chance to compete abroad. Today, many more Americans are sharing in the new economic prosperity and joining the circle of opportunity.

Jobs Are Up: More Than 20 Million Created Since January 1993

- **1988-1992.** The private-sector was barely creating jobs and had experienced one of the worst four-year periods of job growth in history.
- **Today.** The economy has created 20.0 million new jobs since January 1993, with 18.5 million in the private sector alone, a faster annual growth rate than any Republican Administration since the 1920s.

Unemployment Is Down: The Lowest Peacetime Rate in 29 Years

- **1981-1992.** The unemployment rate averaged 7.1 percent and rose to more than 10 percent in 1982 and 1983.
- **Today.** In November, the unemployment rate was 4.1 percent – the lowest level in nearly 30 years. The unemployment rate has been below 5 percent for 29 consecutive months.

Deficit Eliminated: Two Consecutive Budget Surpluses

- **1992.** The deficit was $290 billion – the highest dollar level in history. When President Clinton took office, the Congressional Budge Office projected that the deficit would hit $404 billion in 1999, and head higher.
- **Today.** In 1999, we had a budget surplus of $124 billion – the largest dollar surplus on record (even after adjusting for inflation) and the largest as a share of our economy since 1951. With the President's plan, we are now on track to eliminate the nation's publicly held *debt* by 2015.

Faster Economic Growth: 3.8 Percent Per Year

- **1981-1992.** The economic grew an average 1.7 percent per year under President Bush and 2.8 percent per year during the Reagan-Bush years.
- **Today**. Since President Clinton took office, growth has averaged 3.8 percent per year.

Private-Sector Growth Is Up: 4.3 Percent Per Year

- **1981-1992.** The private sector of the economy grew 2.9 percent annually from 1981-1992.
- **Today.** The private sector of the economy has grown 4.3 percent annually since 1993.

Equipment and Software Investment Is Growing Faster Than Ever

- **1988-1992.** Real equipment and software investment rose just 3.8 percent annually during the previous Administration.
- **Today.** Real equipment and software investment is up 12.5 percent per year – faster than any Administration on record.

Unemployment for African Americans Declined Dramatically

- **1981-1992:** African American unemployment reached 21.2 percent in January 1983– a record high, and never dropped below 10 percent.
- **Today.** The African-American unemployment rate has fallen from 14.2 percent in 1992 to 8.1 percent in November 1999. In the last year, African-American unemployment has fallen to the lowest rate on record.

Unemployment for Hispanics Recovered From Record Highs to Achieve Record Lows

- **1981-1992.** Hispanic unemployment hit a record high of 15.7 percent in 1982.
- **Today.** The Hispanic unemployment rate has dropped from 11.6 percent in 1992 to 6.0 percent in November 1999. In the last year, Hispanic unemployment has fallen to the lowest rate on record.

Real Wages Rising Again: Fastest Growth in Two Decades

- **1981-1992.** Real average hourly earnings *fell* 4.3 percent under Presidents Reagan and Bush.
- **Today.** Real wages have grown 6.5 percent under President Clinton. In 1998, real wages were up 2.7 percent – that's the fastest annual real wage growth in over 20 years.

Real Wages for African Americans Rising Sharply After A Decade of Decline

- **1981-1991.** Median weekly earnings dropped 3 percent, after adjusting for inflation.
- **Today.** Median weekly earnings rose 7.3 percent between 1996 and 1998, after adjusting for inflation.

Real Wages for Hispanics Rising After A Decade of Sharp Decline

- **1981-1991.** Median weekly earnings dropped 8.5 percent , after adjusting for inflation.
- **Today.** Median weekly earnings rose 3.8 percent between 1996 and 1998, after adjusting for inflation.

Poverty For African-Americans Dropped to Lowest On Record

- **1981-1992.** Between 1980-1992, the poverty rate for African American remained at 30 percent or more.
- **Today.** Since 1993, the African-American poverty rate has dropped from 33.1 percent to 26.1 percent in 1998 – that's its lowest level recorded and that's the largest five-year drop in African-American poverty in more than a quarter century (1967-1972).

Poverty For Hispanics Dropped to Lowest Since 1979

- **1981-1992.** Between 1980-1992, the poverty rate for African American increased from 25.7 percent to 29.6 percent.
- **Today.** Since 1993, the Hispanic poverty has dropped to 25.6 percent—the lowest since 1979.

Family Income Up More Than $5,000 Since 1993

- **1988-1992.** Median family income, adjusted for inflation, *fell* by $1,864, dropping from $44,354 in 1988 to $42,490 in 1992.
- **Today.** Since 1993, real median family income has increased by $5,046, rising from $41,691 in 1993 to $46,737 in 1998.

Welfare Rolls Dropped Dramatically: Lowest Since 1969

- **1981-1992.** The number of welfare recipients increased by almost 2.5 million (a 22 percent increase) to 13.6 million people.
- **Today.** The number of welfare recipients dropped by almost 6.8 million (a 48 percent decline) to 7.3 million between January 1993 and March 1999 – the lowest level since 1969.

Homeownership Is Up: The Highest in American History

- **1981-1992.** The homeownership rate *fell* from 65.6 percent in the first quarter of 1981 to 63.7 percent in the first quarter of 1993.
- **Today.** In the third quarter 1999, the homeownership rate was 67.0 – the highest ever recorded.

INDEPENDENT ASSESSMENTS OF THE CLINTON-GORE ECONOMIC RECORD

***Fortune*, 10/3/94:** *"[President Clinton's] economic plan helped bring interest rates down, spurring the recovery."*

Paul Volcker, Former Federal Reserve Board Chairman, *Audacity*, Fall 1994: *"The deficit has come down and I give the Clinton Administration and President Clinton a lot of credit for that....and I think we are seeing some benefits."*

Alan Greenspan, Federal Reserve Board Chairman, 2/20/96: *"The deficit reduction [from 1993]...was an unquestioned factor in contributing to the improvement in economic activity that occurred thereafter."*

David Wyss, DRI/McGraw-Hill, 6/10/96: *"If you look at the economy during the Clinton Administration, you have to say that it's been a success. We have low inflation, full employment, and steady growth. This is really just about the best of all macroeconomic worlds."*

U.S. News and World Report, 6/17/96: *"President Clinton's budget deficit program begun in 1993... [led] to low interest rates, which begat greater investment growth (by double digits since 1993, the highest rate since the Kennedy administration), which begat three-plus years of solid economic growth averaging 2.6 percent annually, 50 percent higher than during the Bush presidency."*

Business Week, 5/19/97: *"Clinton's 1993 budget cuts, which reduced projected red ink by more than $400 billion over five years, sparked a major drop in interest rates that helped boost investment in all the equipment and systems that brought forth the New Age economy of technological innovation and rising productivity."*

Goldman Sachs, March 1998: Calling this *"the best economy ever"*, Goldman Sachs reports that *"trade, fiscal, and monetary policies have been excellent, working in ways that have facilitated growth without inflation. The Clinton Administration has worked to liberalize trade and has used any revenue windfalls to reduce the federal budget deficit."*

Financial Times (London), 5/13/99: *"[The] 1993 deficit reduction plan...put the US on course for its first budget surpluses in almost thirty years. This in turn allowed the lower interest rates that have fuelled the expansion."*

REPUBLICAN NAY-SAYERS PROVED WRONG

***New Yorker*, 6/10/96:** *"With interest rates so low, the economy grew at a rate that made a mockery of the Republicans' dire predictions."*

Representative Newt Gingrich: *"The tax increase **will kill jobs** and lead to a recession, and the recession will force people off of work and onto unemployment and will actually increase the deficit."*
[Atlanta Journal-Constitution, 8/6/93.]

Senator Phil Gramm, 8/5/93: *"We are buying a one-way ticket to a recession."*

Representative John Kasich: *"...We're going to find out whether we have higher deficits, we're going to find out whether we have a slower economy, we're going to find out what's going to happen to interest rates, and it's our bet that this is a **job killer**..."* [Republican Press Conference, 8/3/93.]

*"It's like a snake bite. The venom is going to be injected into the body of this economy, in our judgement and it's going to spread throughout the body and it's going to begin to **kill the jobs that Americans have.**"*
[Congressional Record, 3/18/93.]

Representative Dick Armey: *"The impact on **job creation is going to be devastating.**"* [CNN, 8/2/93.]

*"...will grow the Government and shrink the economy. It **will mean fewer jobs** for ordinary Americans."*
[Congressional Record, 8/5/93.]

Senator Connie Mack: *"This bill **will cost America jobs**, no doubt about it."* [Congressional Record, 8/6/93.]

Representative John Boehner, 3/31/93: *"...we want to do something about reducing the budget deficits in this country and this budget resolution does nothing, absolutely nothing to reduce the huge budget deficits that we have had."*