

IRLE/WCEG Conference on
The Causes of Wage Stagnation

Comments on “The Role of Taxes” by
Emmanuel Saez

Hilary Hoynes, UC Berkeley
August 26, 2016

My discussion

1. Short take: Define the problem, definitions
2. [A few] comments on Emmanuel's presentation
3. Elaborating on the *Role of Transfers* (or more generally policies aimed at low income families)

What kind of stagnation are we thinking about?

- Wages: the price of labor
- Earnings = wage x hours, depends on the price of labor as well as labor supply
- Family income
- Before tax or after tax?

What role can taxes (and transfers) play?

- 1) Direct effects: taxes and transfers mechanically affect the post-tax income distribution
- 2) Indirect effects: tax and transfers affect behavior and hence the pre-tax distribution

From Emmanuel's slides

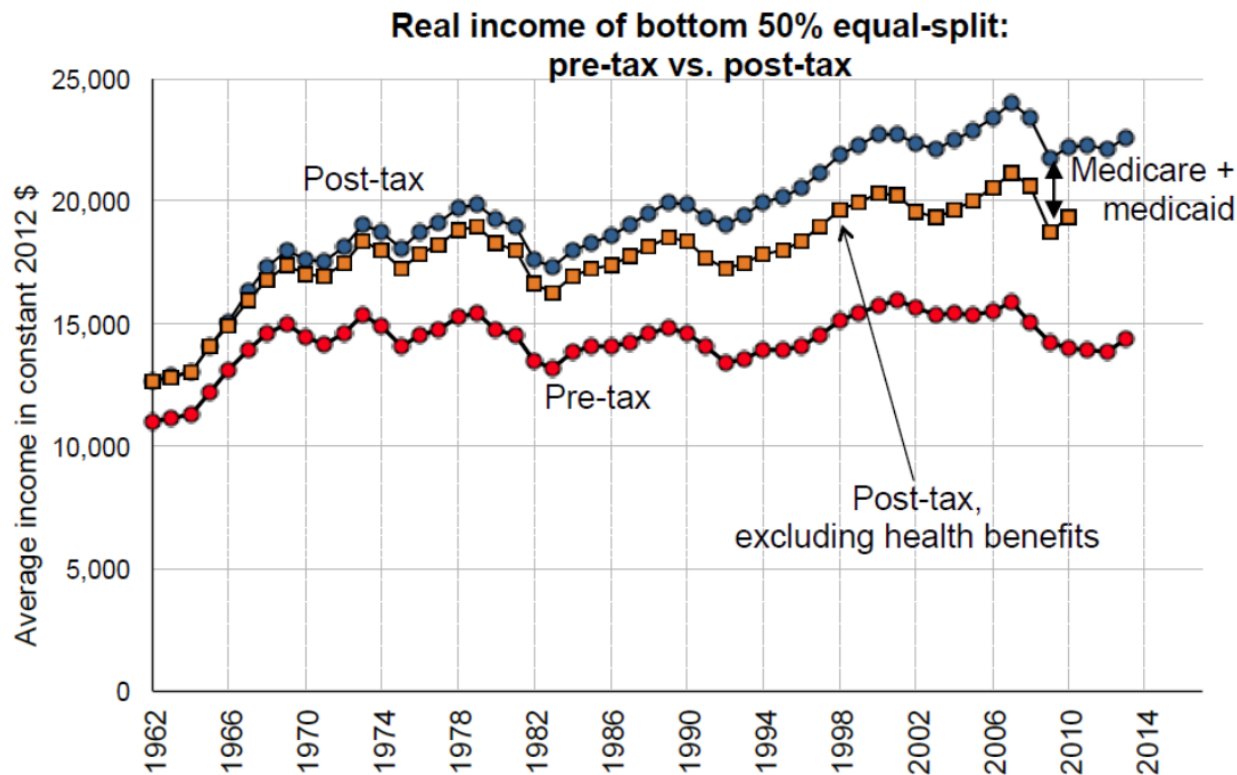
What role can taxes (and transfers) play?

- 1) Direct effects: taxes and transfers mechanically affect the post-tax income distribution
- 2) *Indirect effects I [partial equilibrium]*: taxes and transfers affect behavior and hence the pre-tax distribution
- 3) *Indirect effects II [general equilibrium]*: taxes and transfers affect behavior and hence may affect wages (and hence the pre-tax distribution)

One of Emmanuel's conclusions:

Taxes and transfers have only modestly mitigated income stagnation at the bottom

- One of Emmanuel's conclusions is: Taxes and transfers have only modestly mitigated income stagnation at the bottom



Real values are obtained by using the national income deflator and expressed in 2012.

Source: Piketty-Saez-Zucman: Distributional National Accounts (2016, in progress)

- This may be so for the bottom half of the distribution as a whole. But further down the distribution, the tax and transfer system has made more of a difference.

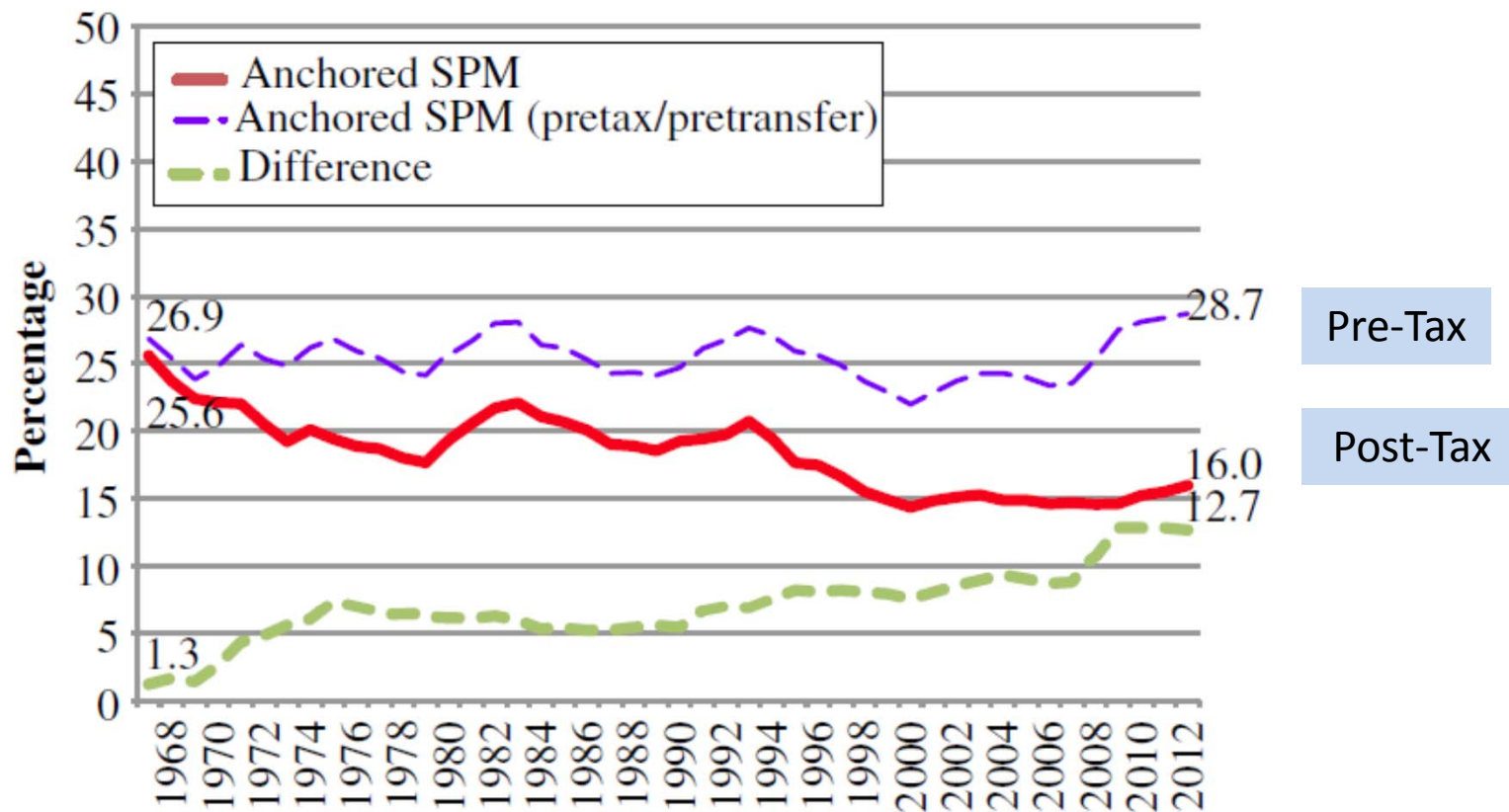
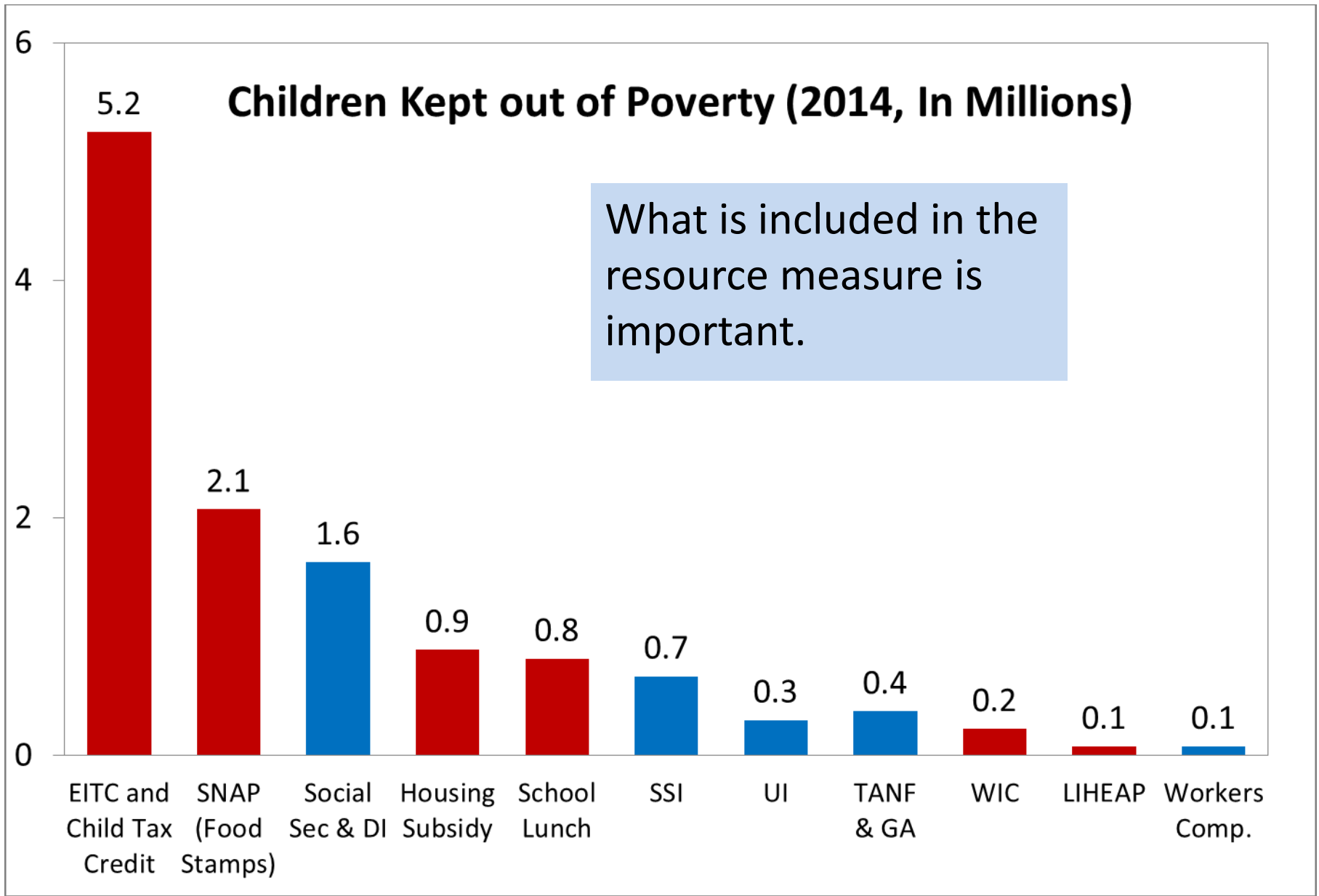


Fig. 5 Effect of taxes and transfers on poverty rates, 1967–2012

The supplemental poverty measure improves on the official poverty measure by (1) expanding resources to include most tax and transfer, (2) updating the poverty threshold and (3) allowing for geographic variation in the poverty threshold

Source: Wimer et al (2016).



Source: Tabulations based on the supplemental poverty measure and Short (2015).

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- 3) Indirect effects II (general equilibrium): taxes and transfers affect behavior and in so doing may affect wages (and hence the pre-tax distribution)

	Cash	In Kind
Public Assistance (Means tested)	AFDC/TANF SSI EITC Child Tax Credit (refundable)	SNAP WIC School Meals Medicaid Housing programs LIHEAP
Social Insurance	Social Security SSDI Unemployment Ins Workers Comp	Medicare

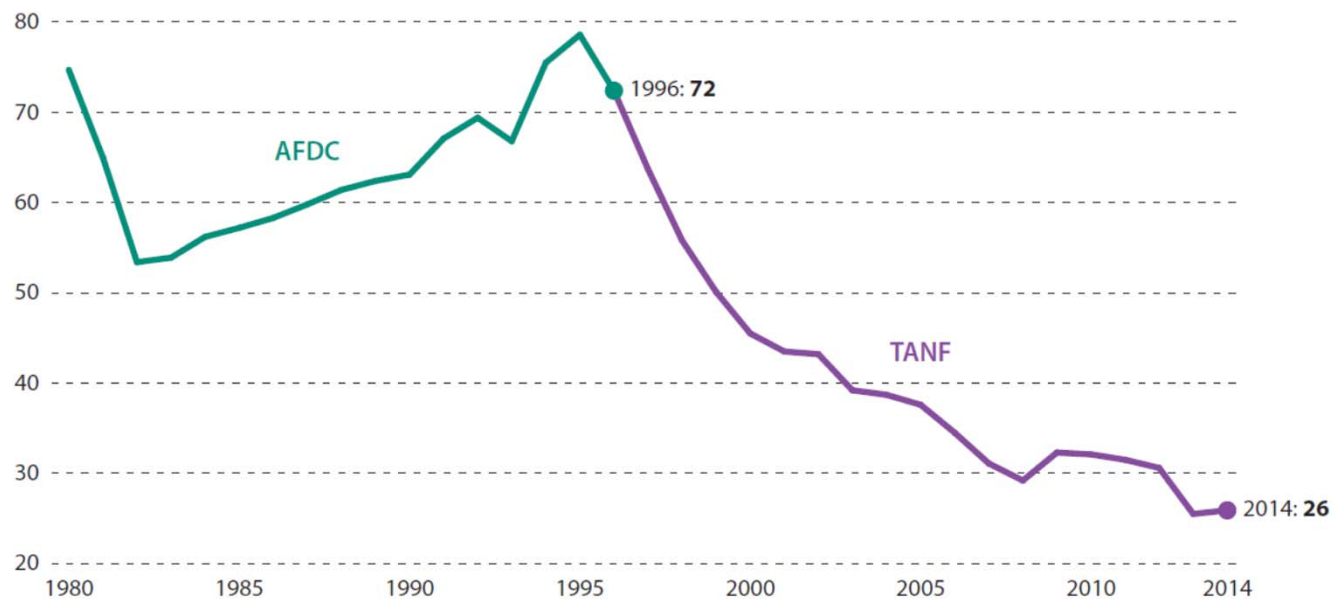
Major change in tax and transfers for the low income population

- Transition from out of work (welfare) to in work benefits.
 - Welfare reform
 - The expansion of the EITC

With TANF, welfare is all but disappeared

FIGURE 7.

Number of Families Receiving AFDC/TANF Benefits for Every 100 Families with Children in Poverty, 1980–2014

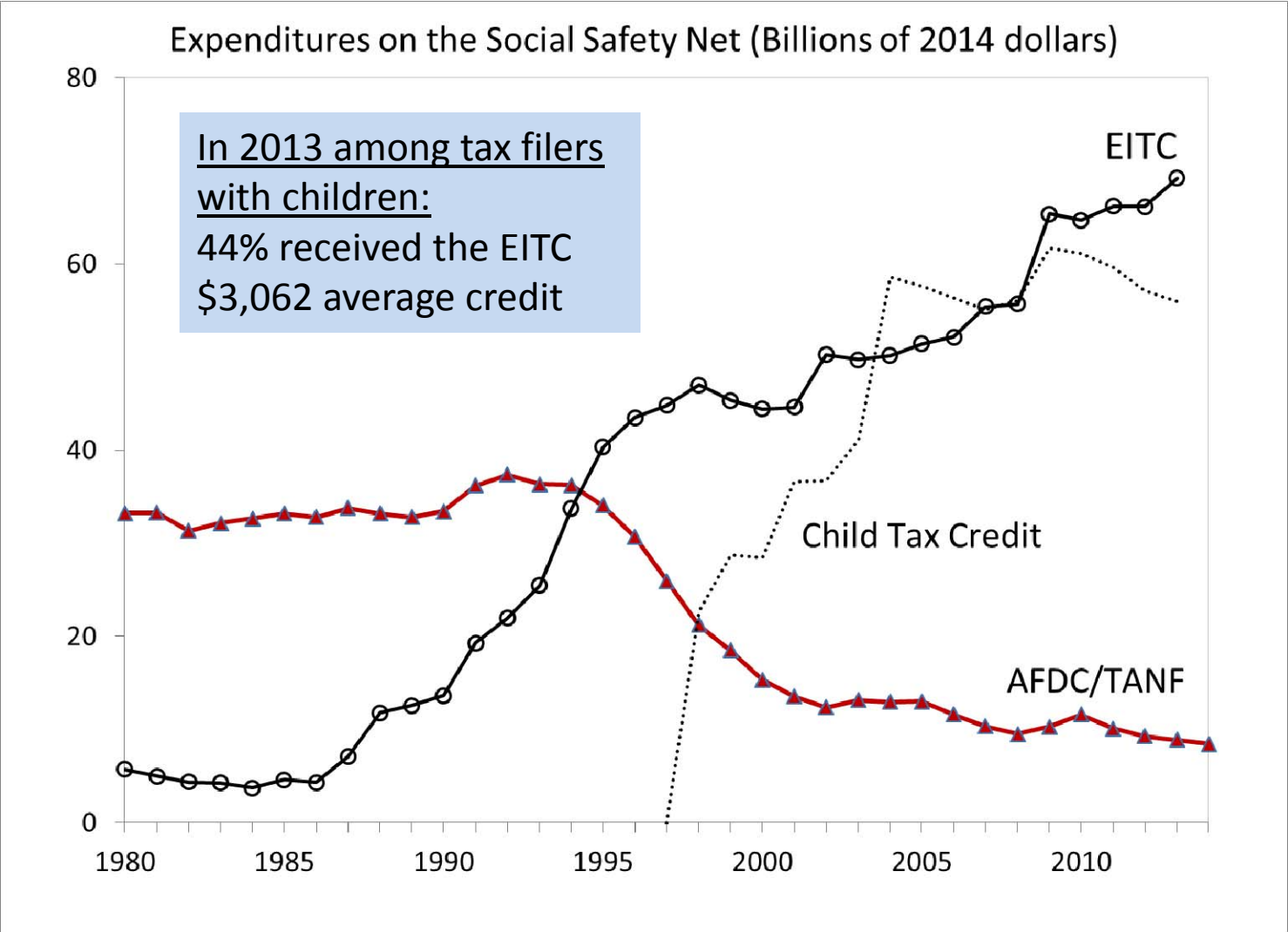


Source: HHS 2016; authors' calculations from the 1981–2015 March CPS.

THE
HAMILTON
PROJECT
BROOKINGS

Source: Bitler and Hoynes, The Hamilton Project (2016).

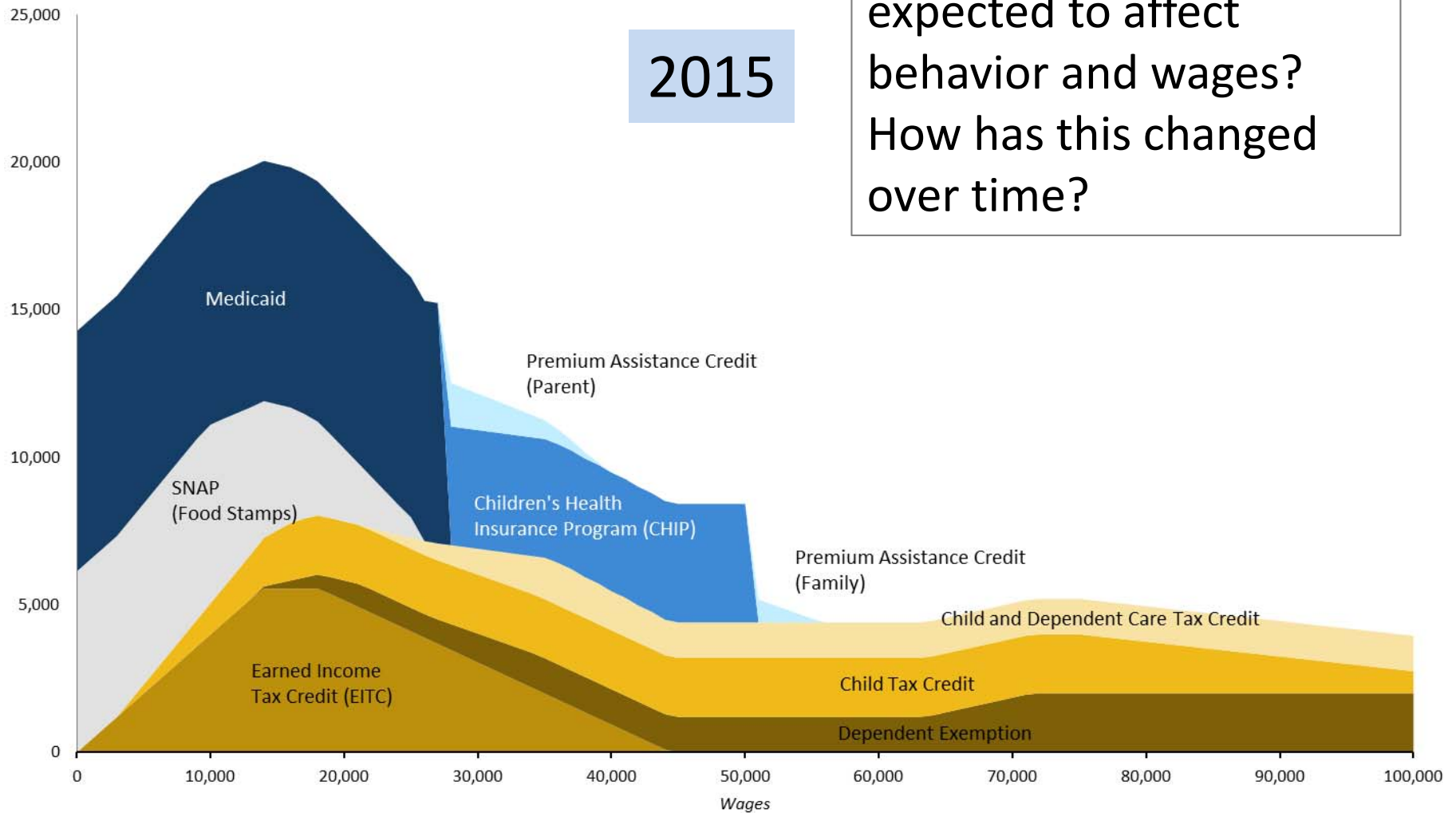
The EITC is the main program to address wage and earnings stagnation



Source: Updated figure from Bitler and Hoynes (2010).

Tax and Transfer Benefits for Universally Available Programs

Single adult with two children, 2015



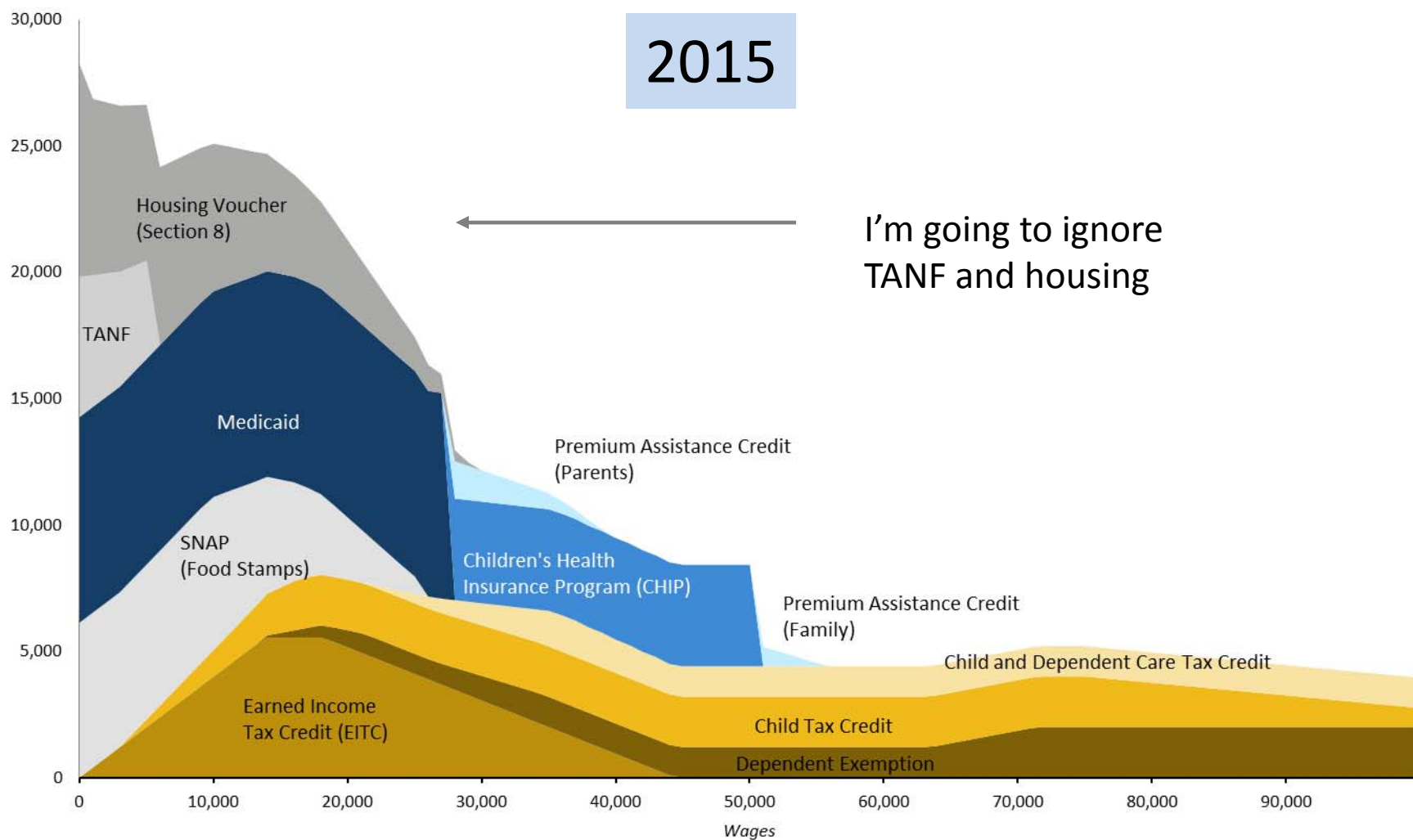
How is the safety net expected to affect behavior and wages?
How has this changed over time?

Source: Eugene Steuerle and Caleb Quakenbush, 2015. Washington, DC: Urban Institute.

Notes: Estimated value of tax and transfer benefits for a single parent with two children living in Colorado. Premium assistance credit excludes the value of penalties paid by employers on the beneficiaries' behalf and the value of additional cost-sharing subsidies. Health coverage and quality of services provided varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

Tax and Transfer Benefits for Universally Available and Additional Programs

Single adult with two children, 2015

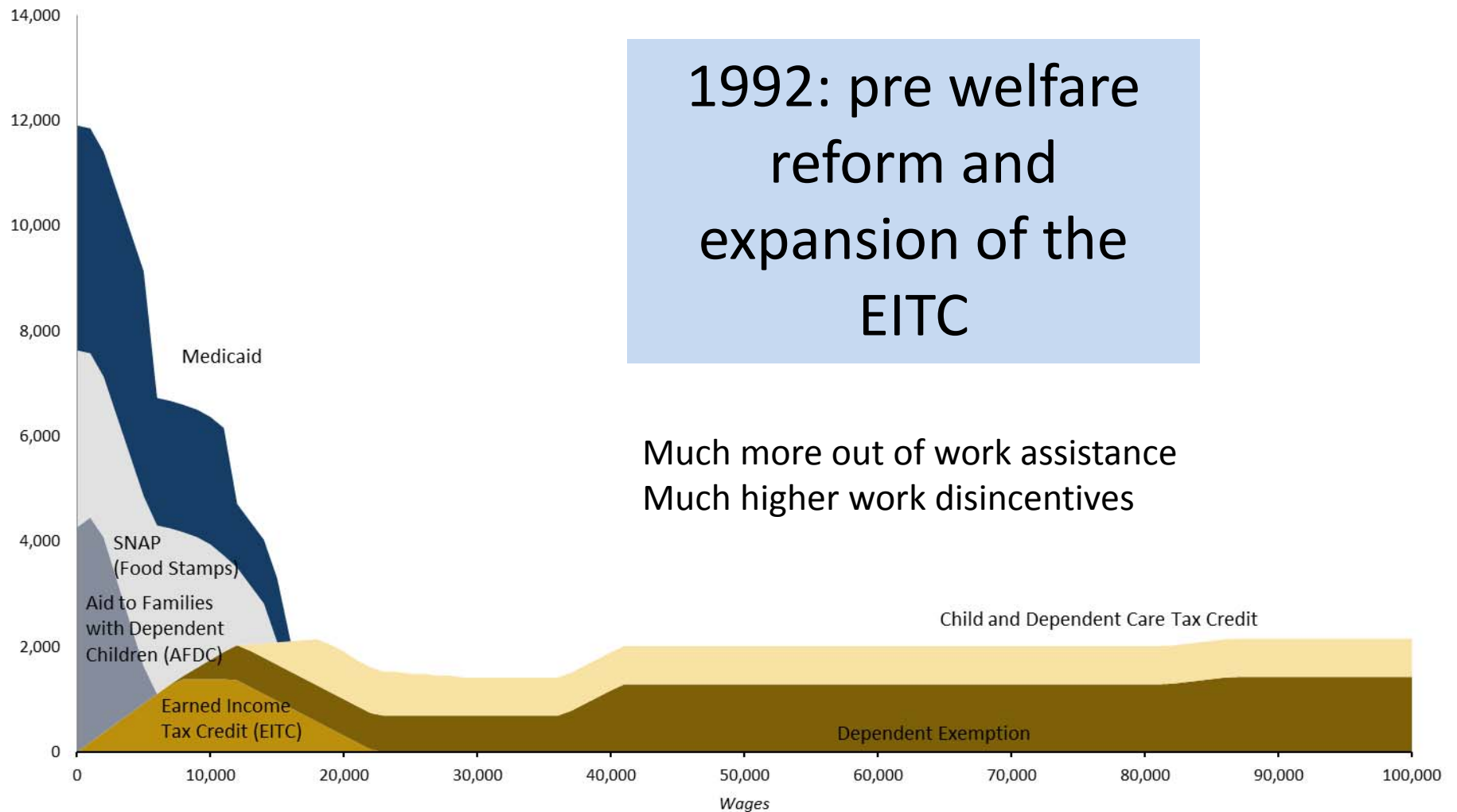


Source: Eugene Steuerle and Caleb Quakenbush, 2014. Washington, DC: Urban Institute.

Notes: Estimated value of tax and transfer benefits for a single parent with two children living in Colorado. Premium assistance credit excludes the value of penalties paid by employers on the beneficiaries' behalf and the value of additional cost-sharing subsidies. Health coverage and quality of services provided varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

Tax and Transfer Benefits for Universally Available Programs

Single adult with two children, 1992



Source: Eugene Steuerle and Caleb Quakenbush, 2015. Washington, DC: Urban Institute.

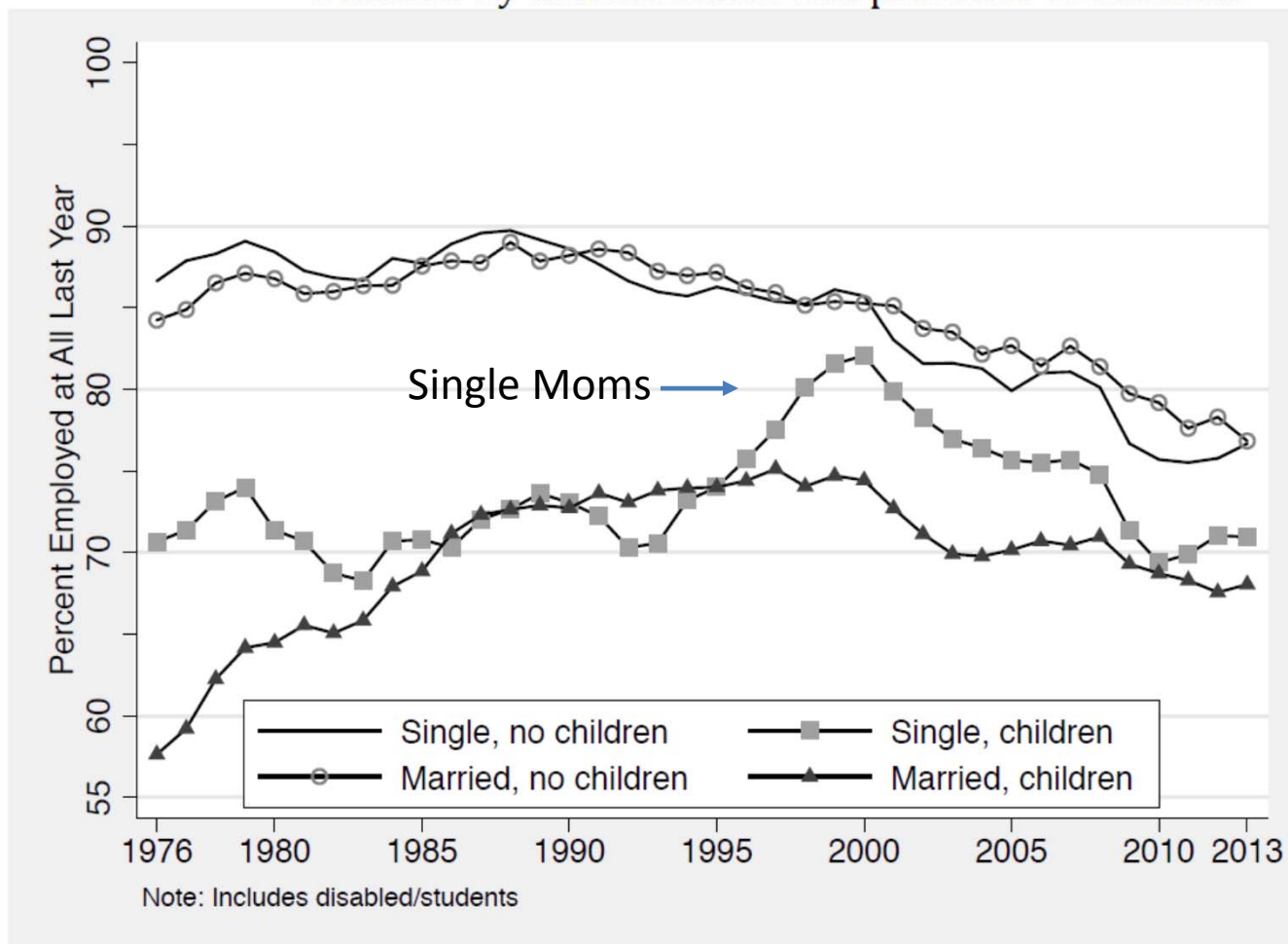
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What does the EITC do for wage and earnings stagnation?

- Direct effect: increase post-tax and transfer income (due to credit amount)
- Indirect effect I partial equilibrium: increase employment (at least for unmarried recipients) and thus increase pre-T&T income
- Indirect effect II general equilibrium: increase in labor supply puts downward pressure on wages
 - Less is known about this compared to large literature on the partial equilibrium effects
 - Rothstein (2010) simulates effects using demand and supply elasticities and finds substantial reductions in pre-tax wages due to federal EITC; overstating transfers to workers by one-third
 - Includes negative spillovers on ineligible low skilled workers (childless)

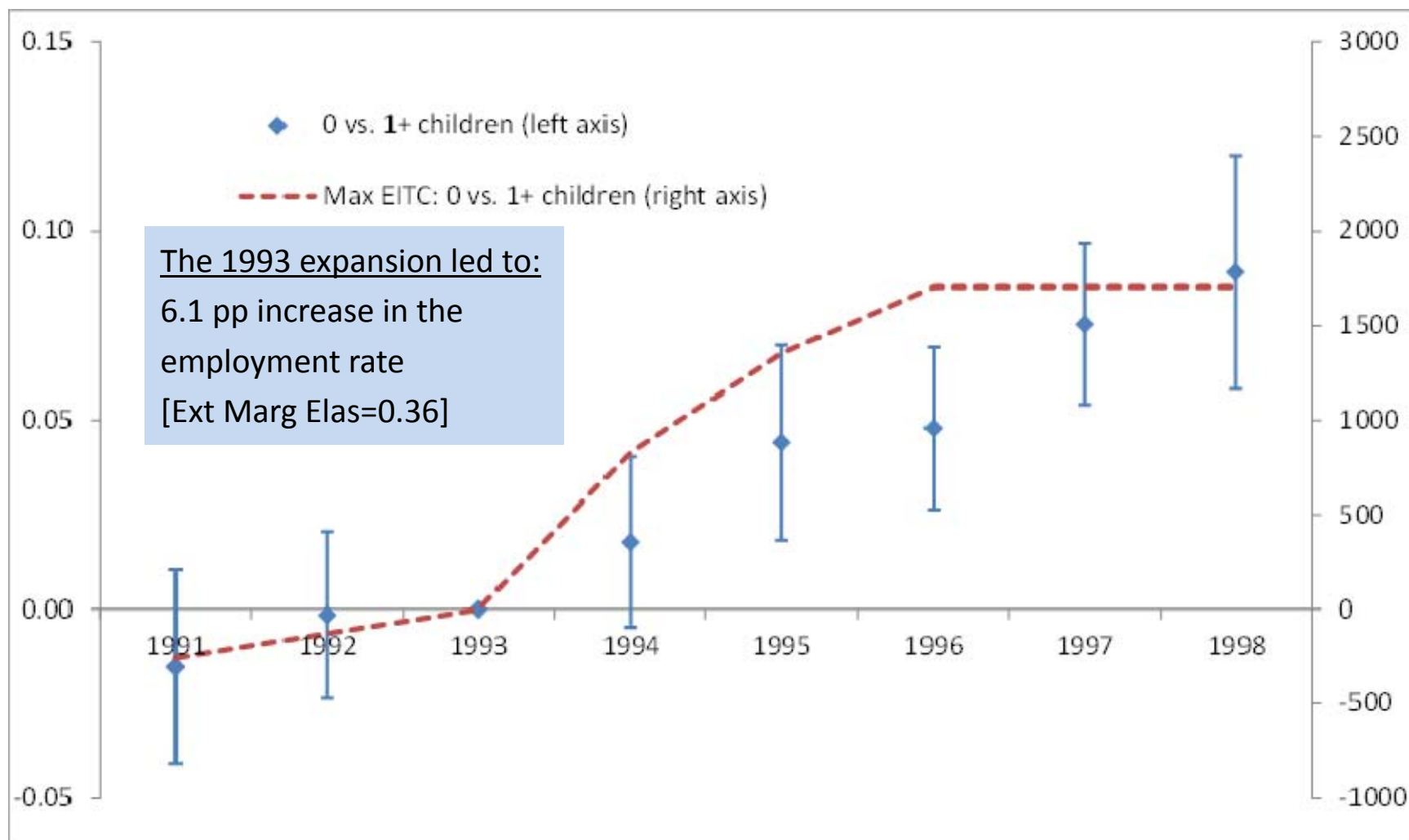
Figure 8. Female employment rates over time

Panel A: By marital status and presence of children



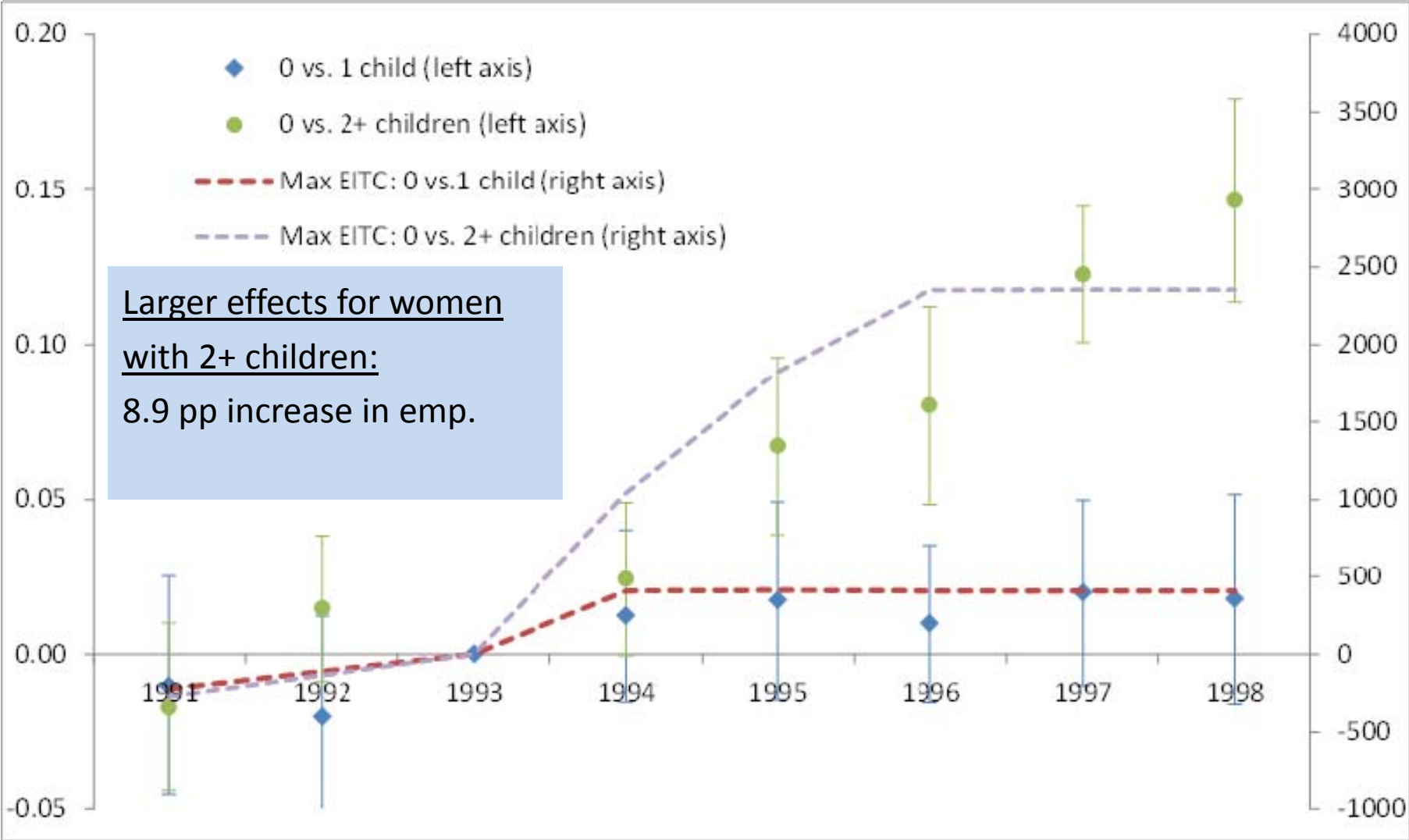
Source: Nichols and Rothstein “The Earned Income Tax Credit,” forthcoming in *Means Tested Transfer Programs in the U.S. Volume 2*, Robert Moffitt ed.

Event Study Estimates of the Effects of OBRA1993 on Employment



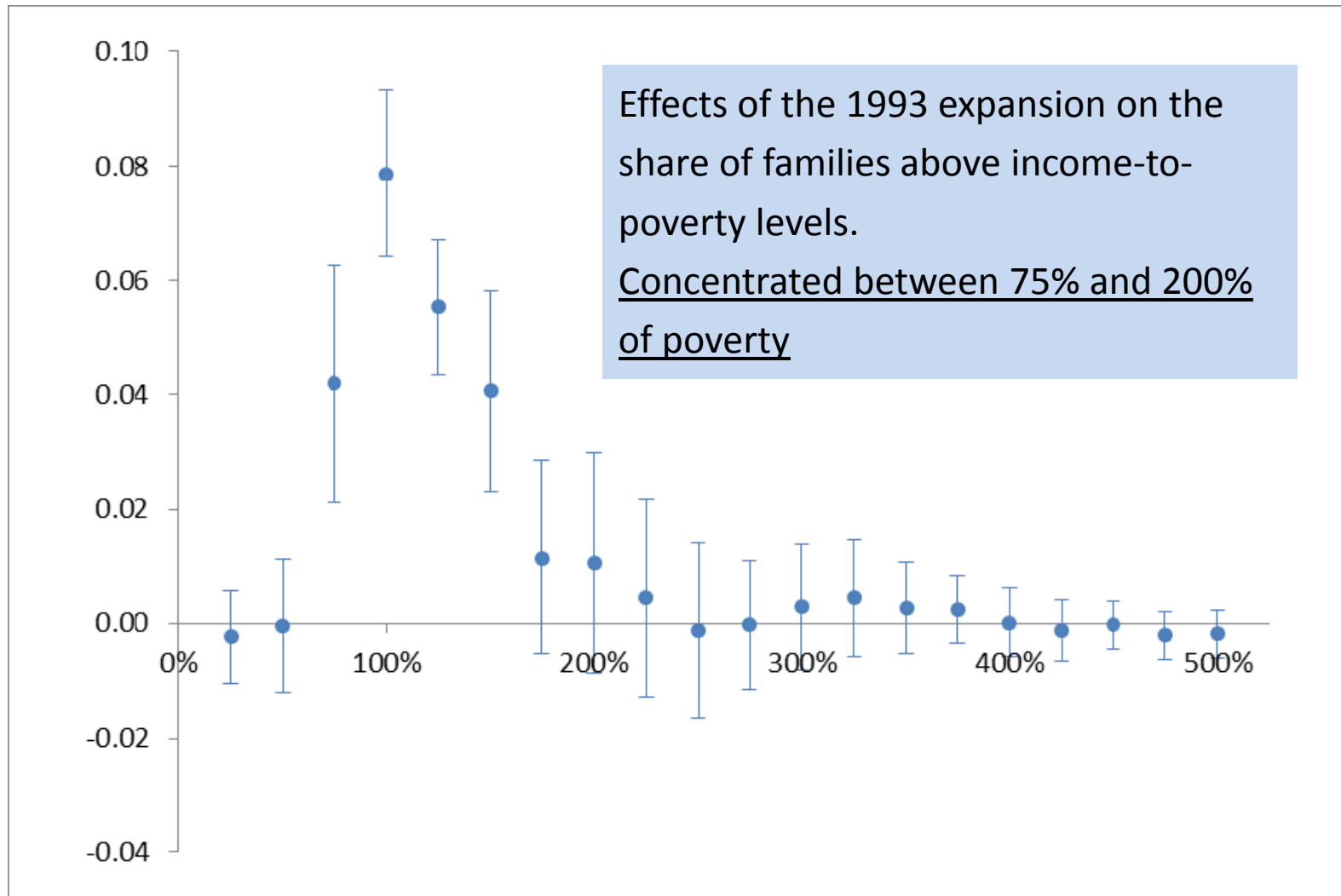
Source: Hoynes and Patel (2015). "Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income"

Event Study Estimates of the Effects of OBRA1993 on Employment



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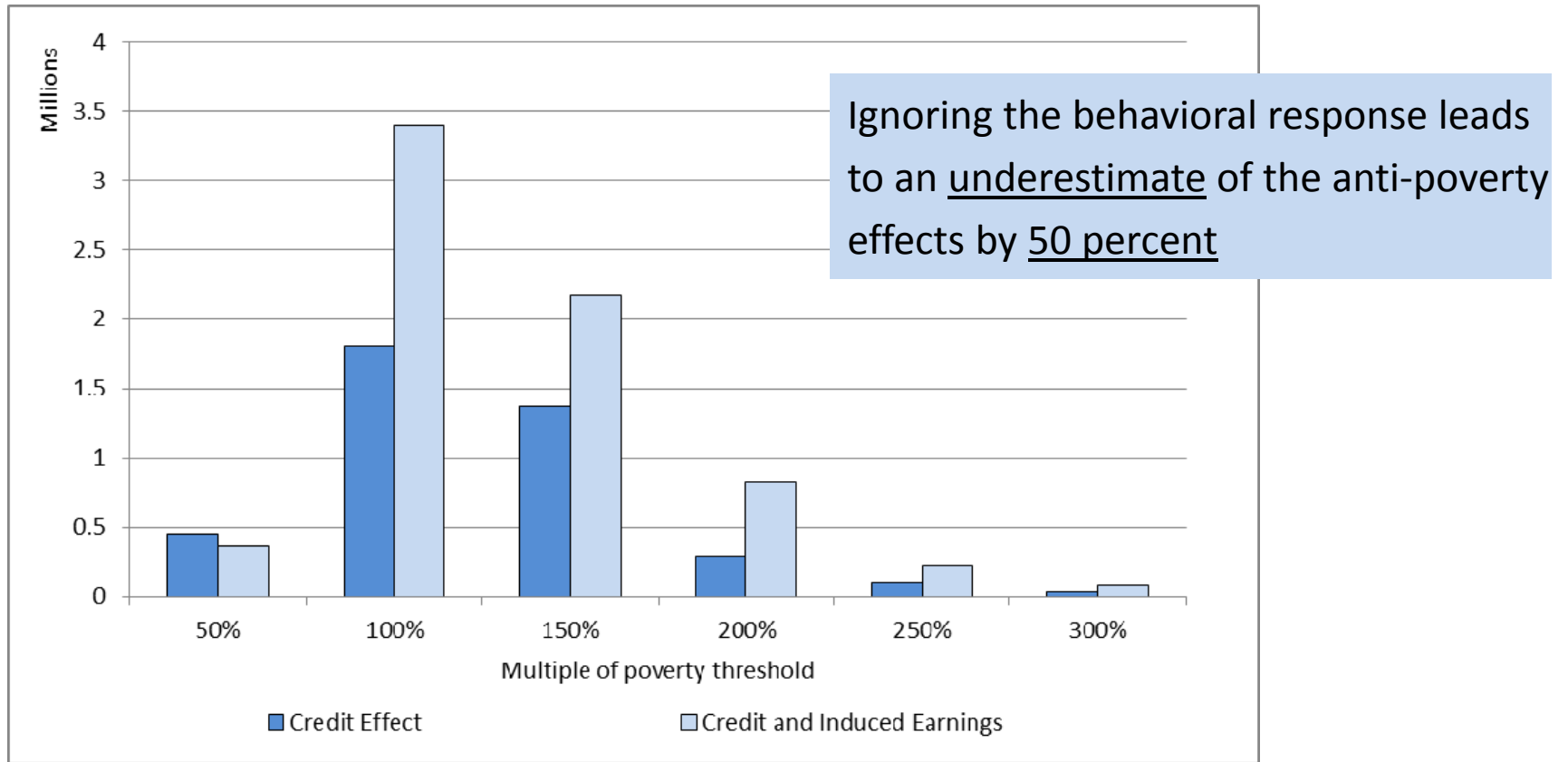
Estimating the effect of the EITC on the distribution of income



Source: Hoynes and Patel (2015). "Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income"

Static versus Dynamic Calculations of Anti-Poverty Effects

Simulated number of children raised above income-to-poverty cutoffs



Source: Hoynes and Patel (2015). "Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income"

Thoughts for the discussion

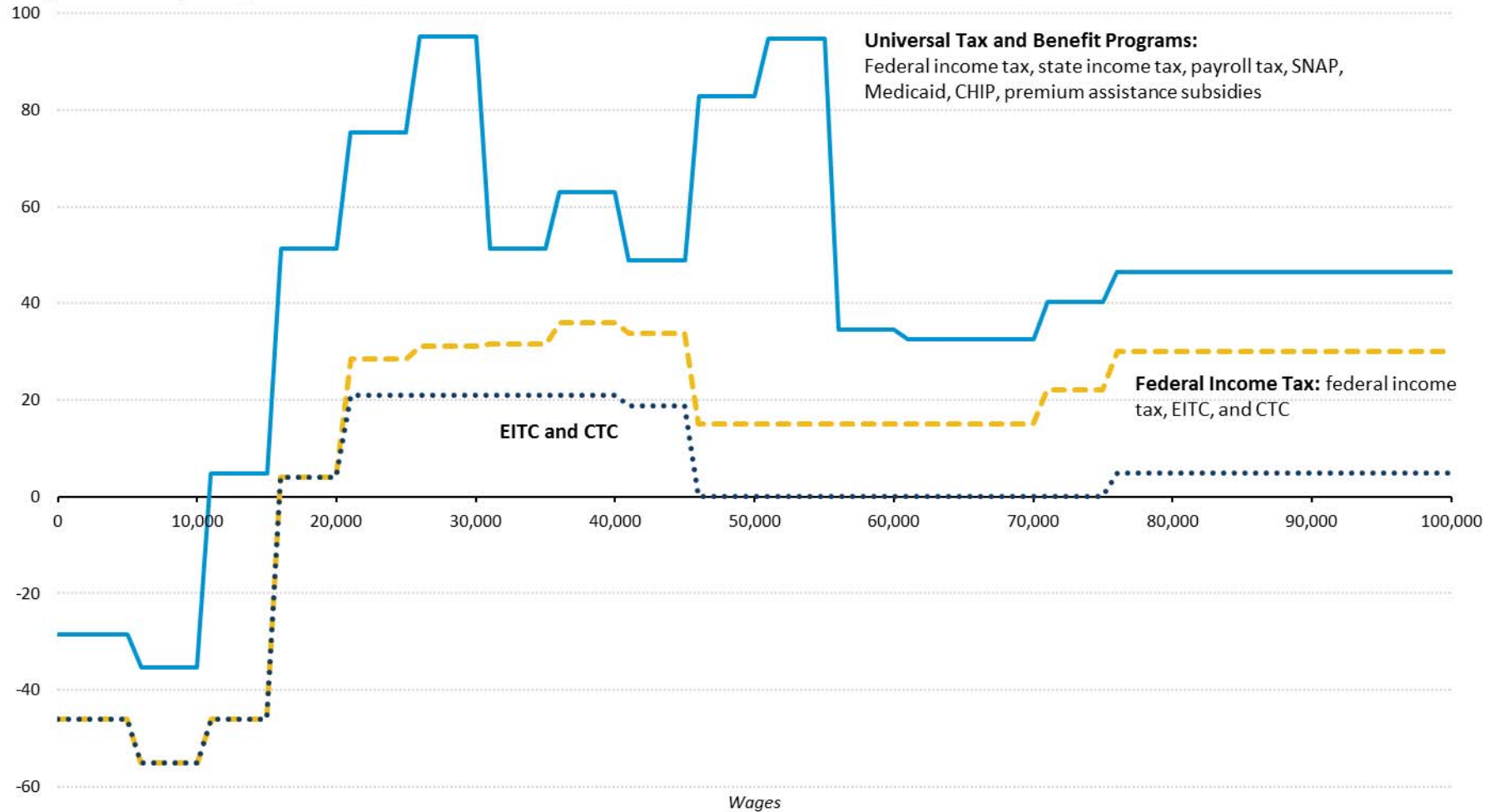
- We need more work on general equilibrium effects
- Are there limits to loading benefits onto in-work programs?
- To what extent will the increases in minimum wages mitigate the GE effects on wages?
- Convert Child Tax Credit to universal child benefit (Canada)
- Is UBI the answer? (probably not)

BONUS SLIDES

Effective Marginal Tax Rates

Single adult with two children, 2015

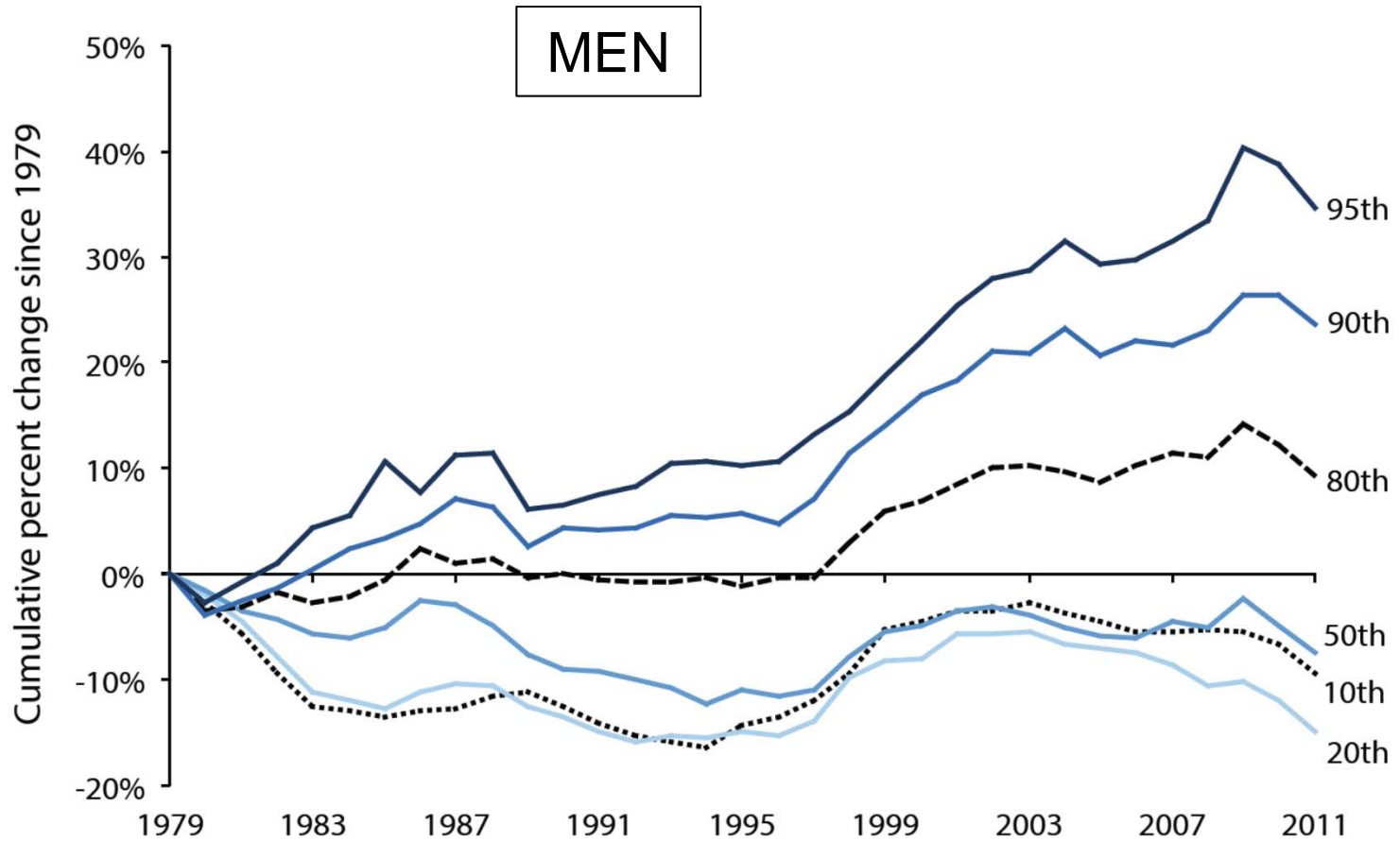
Marginal Tax Rate per \$5,000



Source: C. Eugene Steuerle and Caleb Quakenbush. Urban Institute. 2015.

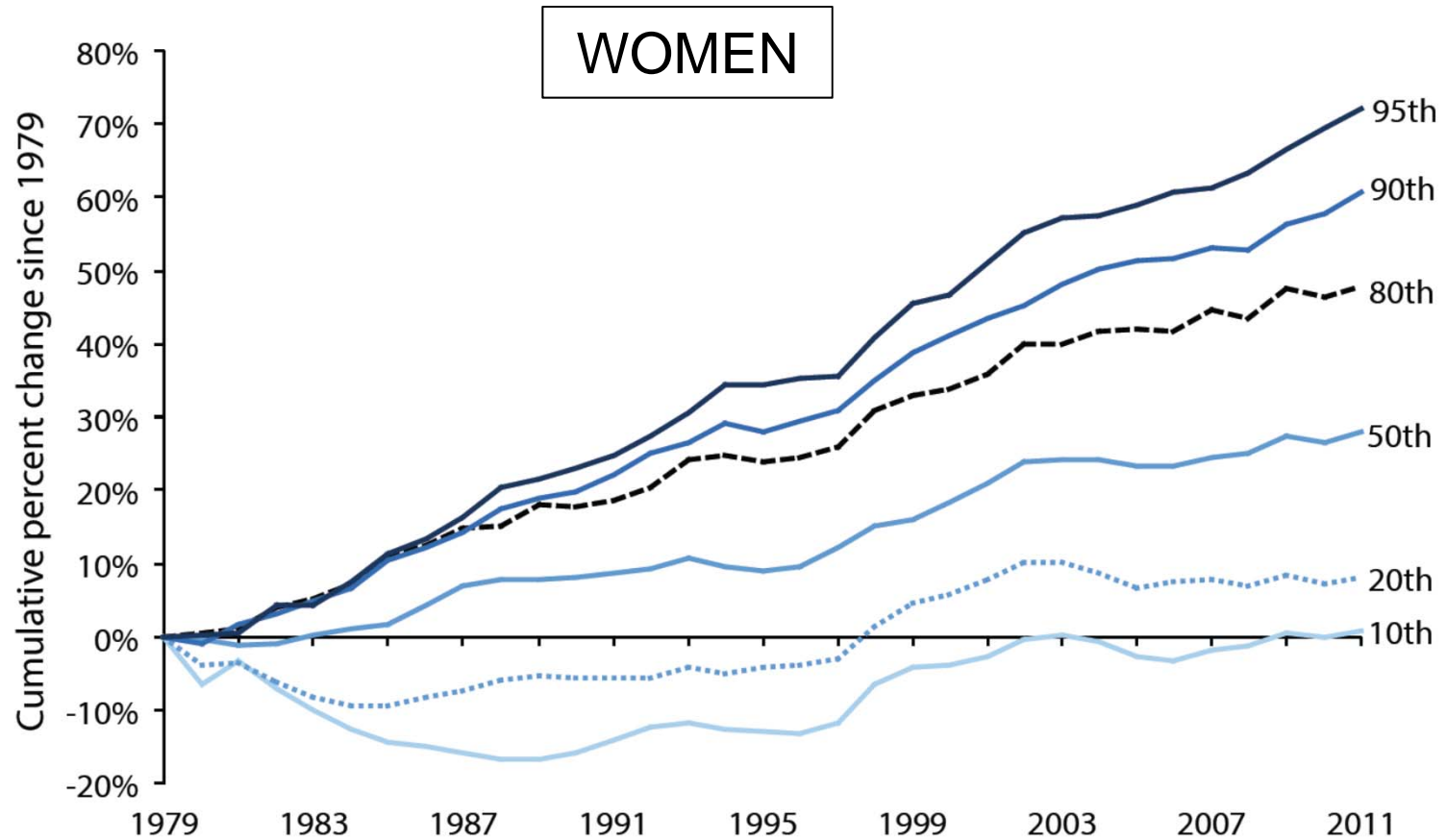
Notes: Average effective marginal tax rates facing a single parent with two children living in Colorado. The effective marginal rate is the marginal tax rate is calculated using changes in net income after taxes and transfers given changes in total compensation, which includes employee wages and the employer share of payroll taxes. The tax rate is then smoothed in \$5,000 increments.

Figure 4C Cumulative change in real hourly wages of men, by wage percentile, 1979–2011



Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata

Figure 4D Cumulative change in real hourly wages of women, by wage percentile, 1979–2011

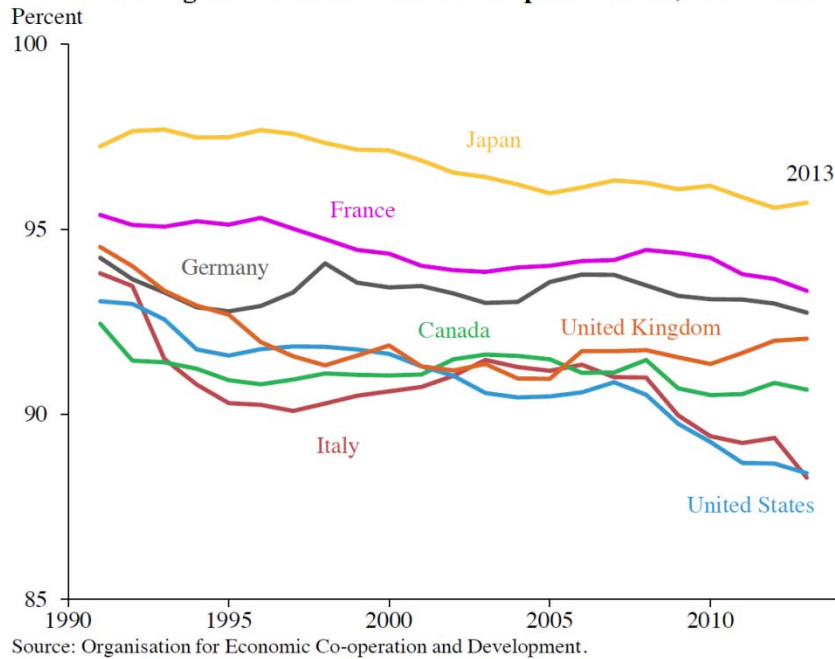


Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata

Declining male labor force participation rate

Figure 1-9

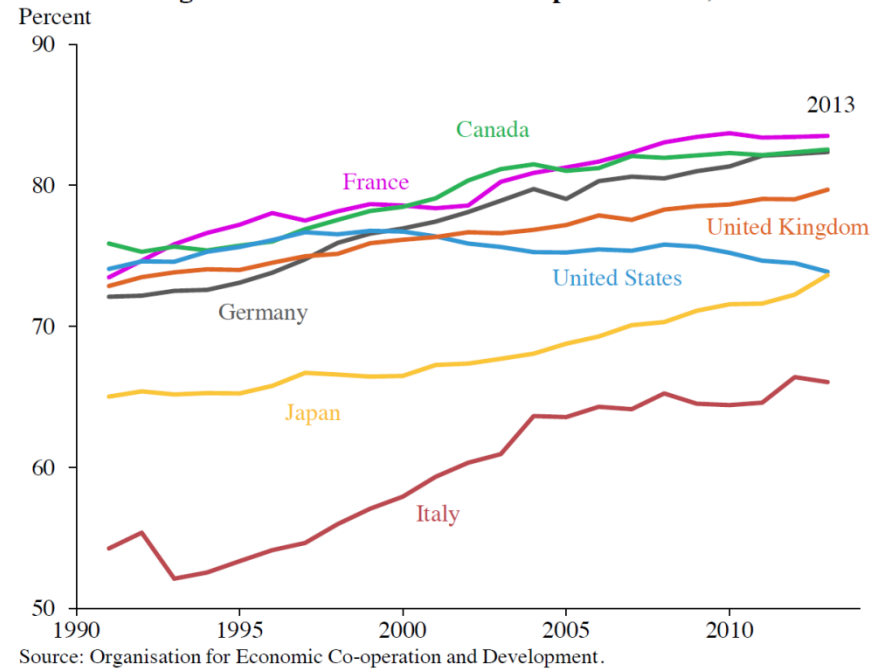
Prime-Age Male Labor Force Participation Rates, 1991–2013



MEN

Figure 1-10

Prime-Age Female Labor Force Participation Rates, 1991–2013



WOMEN

The result: Little gain in family incomes below median

Broadly Shared Prosperity Ended in the Early 1970s, and a Generation of Widening Inequality Began

